

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

RELIABILITY OF THE FY 1995 FINANCIAL
STATEMENTS FOR THE DEFENSE LOGISTICS AGENCY
GENERAL FUND

Report No. 97-073

January 15, 1997

Department of Defense

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Acronyms

DBMS	Defense Business Management System
DFAS	Defense Finance and Accounting Service
DLA	Defense Logistics Agency



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January 15, 1997

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Audit Report on the Reliability of the FY 1995 Financial Statements for
the Defense Logistics Agency General Fund (Report No. 97-073)

We are providing this audit report for information and use. This report is one in a series of reports on our assessment of the internal controls and the compliance of the Defense Logistics Agency and the Defense Finance and Accounting Service with laws and regulations relating to financial management at the Defense Logistics Agency. We have issued two final reports, one on the General Fund Trial Balance of the Defense Logistics Agency at September 30, 1995, and another on the General Fund Equipment Account of the Defense Logistics Agency. Management comments on a draft of this report were considered in preparing the final report.

Comments from the Defense Finance and Accounting Service conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Garry A. Hopper, Audit Project Manager, at (703) 604-9612 (DSN 664-9612). See Appendix F for the report distribution. The audit team members are listed inside the back cover.

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Report No. 97-073
(Project No. 6LA-2005)

January 15, 1997

Reliability of the FY 1995 Financial Statements for the Defense Logistics Agency General Fund

Executive Summary

Introduction. The audit was performed in support of the Inspector General, DoD, audit of the FY 1996 DoD-wide financial statements required by the Federal Financial Management Act of 1994 (Public Law 103-356). The FY 1996 DoD-wide financial statements will include the FY 1996 financial statements for the Defense Logistics Agency (DLA) General Fund. For FY 1995, the Department of Treasury (Treasury) required DoD to prepare and submit preclosing adjusted trial balances and supporting notes at the Treasury appropriation and fund group level. The consolidated DoD preclosing adjusted trial balances and supporting notes for FY 1995 included the preclosing adjusted trial balances and supporting notes for the DLA General Fund (hereinafter referred to as the FY 1995 financial statements for the DLA General Fund).

The DLA, as a combat support agency, is tasked to provide worldwide logistics support to DoD. In FY 1995, DLA received about \$1,904.3 million from eight General Fund appropriations. The Defense Finance and Accounting Service (DFAS)-Columbus Center prepared the FY 1995 financial statements for those appropriations. We reviewed the FY 1995 financial statements for three of the eight DLA General Fund appropriations, representing about 95 percent of the DLA General Fund appropriations in FY 1995. Specifically, we reviewed the FY 1995 financial statements for DLA General Fund appropriations 97*0100.51 (Operation and Maintenance), 97*0300.51 (Procurement), and 97*0400.51 (Research, Development, Test, and Evaluation). As of September 30, 1995, the FY 1995 financial statements for the three DLA General Fund appropriations reported a consolidated balance of about \$6,874.2 million for assets, liabilities, equity, revenue, and expenses.

Audit Objectives. The overall audit objective was to assess internal controls and the DLA and DFAS compliance with laws and regulations relating to DLA financial management. The specific audit objective of this report was to determine whether the DFAS-Columbus Center established and implemented adequate management controls to ensure that the process for preparing financial statements for the DLA General Fund was consistent and provided accurate, complete, and reliable statements. We also reviewed the DFAS-Columbus Center management control program applicable to the process for preparing financial statements. Inspector General, DoD, reports on the DLA General Fund Trial Balance and the DLA General Fund Equipment Account discussed other portions of the overall audit objective related to DLA financial management.

Audit Results. The DFAS-Columbus Center did not prepare reliable FY 1995 financial statements for three DLA General Fund appropriations. Specifically,

- o supporting notes to the statements did not disclose that, for asset account 1010 (Fund Balance With Treasury), the funds disbursed and collected per reports to Treasury differed from the funds disbursed and collected per the DLA General Ledger accounts by about \$210.4 million;

- o budget execution reports used as data sources for the statements provided amounts that materially differed from the DLA General Ledger accounts by about \$219.4 million for asset account 1310 (Accounts Receivable), \$428.5 million for liability account 2110 (Accounts Payable), and \$12.2 million for revenue account 5200 (Revenue From Services Provided); and

- o equity account 3310 (Cumulative Results of Operations) and expense accounts 6100 (Operating and Program Expenses), 6400 (Benefit Program Expenses), and 6900 (Other Expenses) contained recording errors.

Until the causes of the unreliable statements are corrected, financial reports for the three DLA General Fund appropriations will be of limited value and use for financial management purposes and their deficiencies may adversely affect the reliability and auditability of the consolidated DoD-wide financial statements to be prepared starting in FY 1996.

Because we identified a material weakness applicable to the DFAS-Columbus Center process for preparing DLA General Fund statements, the management control program for the DFAS-Columbus Center could be improved. In addition, implementing the recommendations will improve the DFAS-Columbus Center ability to prepare reliable and useful annual financial statements for the DLA, beginning with those prepared in FY 1996.

Summary of Recommendations. We recommend that the Director, DFAS-Columbus Center, disclose material differences between the summary disbursement and collection reports to Treasury and the DLA General Ledger accounts. We also recommend that the Director, DFAS-Columbus Center, use general ledger accounts as data sources for annual financial statements and fully and clearly disclose adjustments to the account balances. We further recommend that the Director, DFAS-Columbus Center, perform quality control reviews of the annual financial statements.

Management Comments. The DFAS concurred with all report recommendations and estimated that corrective actions will be completed by September 30, 1997. DFAS stated that footnotes to the financial statements are being made to disclose cash reconciliations. In addition, DFAS will use general ledger account balances where feasible for preparation of annual financial statements. Also, DFAS-Columbus Center will establish procedures to ensure that adjustments made to reconcile general ledger account balances with the budget execution report amounts are disclosed in the footnotes to the annual financial statements. DFAS further stated that completed financial statements have quality checks and may be randomly selected for detailed reviews by the Chief, Agency Reporting Division within the DFAS-Columbus Center Directorate of Accounting. See Part I for a summary of management comments and Part III for the complete text of management comments.

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Part I - Audit Results

Audit Background

Requirement for Financial Statements. The audit was performed in support of the Inspector General, DoD, audit of the FY 1996 DoD-wide financial statements. Starting with FY 1996 and for each succeeding year, the Office of Management and Budget will require DoD and other Federal Government agencies to prepare and submit consolidated financial statements in accordance with the Chief Financial Officers Act of 1990 (Public Law 101-576) and the Federal Financial Management Act of 1994 (Public Law 103-356). The consolidated DoD-wide financial statements for FY 1996 will include the financial statements for the Defense Logistics Agency (DLA) General Fund.

Defense Logistics Agency. The DLA, as a combat support agency, is tasked to provide worldwide logistics support to DoD. In FY 1995, DLA received about \$1,904.3 million for eight General Fund appropriations. The Defense Contract Management Command, a DLA component that provides DoD contract administration services, received the majority of the General Fund appropriations. Table 1 shows the eight DLA General Fund appropriations and related appropriated amounts.

General Fund Appropriations		Appropriated Amounts
Number	Title	(millions)
9750100.51	Operation and Maintenance	\$1,662.3
9750300.51	Procurement	17.6
9750400.51	Research, Development, Test, and Evaluation	129.4
9750500.51	Military Construction	17.8
97X0510.16A6	Base Realignment and Closure	71.7
9750706.51	Family Housing, Operation and Maintenance	1.5
9750790.51	Family Housing, Construction	0.0
9750819.2051	Humanitarian Assistance	4.0
Total		\$1,904.3

DLA Financial Reporting Requirements. Annually, DLA is required to report the financial position and the operating results of its General Fund in financial statements that are consolidated with other DoD financial statements for submission to the Department of Treasury (Treasury). Treasury uses the DoD financial statements to prepare the consolidated U.S. Government financial statements.

For FY 1995, Treasury required DoD and other Federal Government agencies to prepare and submit preclosing adjusted trial balances and supporting notes at the Treasury appropriation and fund group level. The preclosing adjusted trial balances contained U.S. Government Standard General Ledger account numbers and their preclosing balances for assets, liabilities, equity, revenue, and expenses, as of fiscal yearend. The preclosing account balances included all the adjusting entries needed at yearend, and the sum of the accounts with debit

balances equaled the sum of the accounts with credit balances. The supporting notes for the preclosing adjusted trial balances contained textual information and balances needed to present a complete financial picture of the reporting entity.

The consolidated DoD preclosing adjusted trial balances and supporting notes for FY 1995 included the preclosing adjusted trial balances and supporting notes for the DLA General Fund (hereinafter referred to as the FY 1995 financial statements for the DLA General Fund).

DLA Financial Reporting Responsibilities. The preparation of the financial statements needed to meet the DLA financial reporting requirements is a responsibility of the Defense Finance and Accounting Service (DFAS)-Columbus Center. As the entity providing accounting support to DLA, the DFAS-Columbus Center is also responsible for maintaining the DLA General Ledger accounts that support the DLA financial statements. The Agency Reporting Division within the DFAS-Columbus Center Directorate of Accounting prepared the FY 1995 financial statements for eight DLA General Fund appropriations, and the DLA Accounting Division within the same directorate maintained the DLA General Ledger accounts that supported the statements. The DFAS-Columbus Center used the Defense Business Management System (DBMS), an automated financial accounting system, to record; classify; accumulate; analyze; summarize; and report financial information for the DLA General Fund. The DFAS-Columbus Center also used the Model 204 system, an automated data base application, to consolidate and report financial information for the DLA General Fund. Appendix C discusses the improvements needed for the DBMS and the Model 204 system.

Audit Objectives

The overall audit objective was to assess internal controls and the DLA and the DFAS compliance with laws and regulations relating to the DLA financial management. The specific audit objective of this report was to determine whether the DFAS-Columbus Center established and implemented adequate management controls to ensure that the process for preparing financial statements for the DLA General Fund was consistent and provided accurate, complete, and reliable statements. We also reviewed the DFAS-Columbus Center management control program applicable to the process for preparing financial statements. Appendix A discusses the scope and methodology and the review of the DFAS-Columbus Center management control program. Appendix B provides a summary of prior audits and other reviews.

Reliability of the FY 1995 Financial Statements for the DLA General Fund

The DFAS-Columbus Center did not prepare reliable FY 1995 financial statements for three DLA General Fund appropriations. Specifically,

- o supporting notes to the statements did not disclose that, for asset account 1010 (Fund Balance With Treasury), the funds disbursed and collected per reports to Treasury differed from the funds disbursed and collected per the DLA General Ledger accounts by about \$210.4 million;

- o budget execution reports used as data sources for the statements provided amounts that materially differed from the DLA General Ledger accounts by about \$219.4 million for asset account 1310 (Accounts Receivable), \$428.5 million for liability account 2110 (Accounts Payable), and \$12.2 million for revenue account 5200 (Revenue From Services Provided); and

- o equity account 3310 (Cumulative Results of Operations) and expense accounts 6100 (Operating and Program Expenses), 6400 (Benefit Program Expenses), and 6900 (Other Expenses) contained recording errors.

Unreliable statements were prepared because the DFAS-Columbus Center did not comply with Treasury financial reporting guidance and fully disclose the reconciliation of the fund balance per Treasury to the fund balance per agency for asset account 1010, comply with DoD financial reporting guidance and use general ledger accounts instead of budget execution reports as data sources for the statements, and perform quality control reviews to confirm the accuracy of the statements. Until the causes of the unreliable statements are corrected, financial reports for the three DLA General Fund appropriations will be of limited value and use for financial management purposes and their deficiencies may adversely affect the reliability and auditability of the consolidated DoD-wide financial statements to be prepared starting in FY 1996.

Treasury Financial Reporting Guidance

Treasury Financial Manual, volume 1, part 2, chapter 4000, "Federal Agencies' Centralized Trial-Balance System (FACTS)," August 1995, requires the preparation and submission of timely and reliable financial statements that fully disclose the financial results of the reporting agency. It also requires that the statements be prepared using the U.S. Government Standard General Ledger, which is the uniform chart of accounts used by Federal Government agencies. The manual further states that the U.S. Government Standard General Ledger data on the Treasury financial statements must be the same data that are used to

prepare the final audited financial statements due to the Office of Management and Budget. Agencies that do not have the U.S. Government Standard General Ledger installed will crosswalk (or convert) their general ledger accounts to the U.S. Government Standard General Ledger accounts.

DoD Financial Reporting Guidance

DoD Regulation 7000.14, "DoD Financial Management Regulation," (the DoD Financial Regulation), volume 1, "General Financial Management Information, Systems, and Requirements," chapters 2 and 3, May 1993, prescribes the accounting principles and requirements that DoD accounting systems¹ must follow to meet their objective to provide reliable and useful information for financial management purposes. It also provides specific rules governing accounting and financial reporting that facilitate compliance with the accounting principles and requirements.

Accounting Principles. The accounting principles for usefulness, timeliness, reliability, consistency, comparability, and completeness are directly applicable to DoD financial reporting. Essentially, the principles require that, for financial statements to be reliable and useful, they must provide information that users need, be promptly and accurately prepared on a comparable and consistent basis, and completely present material financial information and relevant disclosure information for the reported period.

Accounting Requirements. Of the 13 key accounting requirements, 1 and 7 are directly applicable to DoD financial reporting.

Requirement 1. Requirement 1, "General Ledger Control and Financial Reporting," requires, in part, that the financial statements produced from the DoD accounting systems provide adequate financial information and full financial disclosure for management purposes and for external reporting to Treasury and the Office of Management and Budget.

Requirement 7. Requirement 7, "System Controls (Fund and Internal)," requires, in part, that DoD accounting systems have adequate internal controls to prevent, detect, and correct errors and irregularities that may occur throughout the system. For example, DoD accounting systems should include procedures to perform quality control reviews on financial statements after preparation to confirm that the reported amounts agree with the official accounting records and are mathematically correct, obvious errors or omissions are identified and corrected, and that interdependent relationships between reported amounts within a financial statement and from one financial statement to another are consistent and correct.

¹DoD accounting systems encompass the functional operations, procedures, and processes from the point a transaction is authorized through processing the data, either manually or automatically, to issuing financial statements.

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Rules Governing Accounting and Financial Reporting. To facilitate compliance with the accounting principles and requirements that are directly applicable to DoD financial reporting, the DoD Financial Regulation provides specific rules governing accounting and financial reporting. For example, it states that DoD accounting systems must provide maximum control and consistency through the use of the DoD Standard General Ledger and use the general ledger accounts as data sources to prepare required annual financial statements (see Appendix D).

Reliability of the DLA General Fund Statements

The DFAS-Columbus Center did not prepare reliable FY 1995 financial statements for DLA General Fund appropriations 97*0100.51 (Operation and Maintenance), 97*0300.51 (Procurement), and 97*0400.51 (Research, Development, Test, and Evaluation). Specifically, the supporting notes to the financial statements did not provide full disclosure for one asset account, three account balances were questionable, and four account balances contained recording errors. Table 2 shows the conditions relating to the reliability of the three DLA General Fund statements.

Table 2. Conditions Relating to the Reliability of the Three DLA General Fund Statements

	Funds Disbursed and Collected Per Reports to Treasury (millions)	DLA General Ledger (millions)	Difference (millions)
<u>Inadequate Disclosure</u>¹			
Asset Account 1010, Fund Balance With Treasury	\$9,295.7	\$9,085.3	\$210.4
<u>Questionable Account Balances</u>²			
	Report on Budget Execution (millions)	DLA General Ledger (millions)	Difference (millions)
Asset Account 1310, Accounts Receivable	\$626.4	\$407.0	\$219.4
Liability Account 2110, Accounts Payable	534.0	105.5	428.5
Revenue Account 5200, Revenue From Services Provided	248.9	261.1	12.2
<u>Recording Errors</u>³			
	Actual Entry (millions)	Proper Entry (millions)	Effect on Statements (millions)
Equity Account 3310, Cumulative Results of Operations	\$ 0.0	\$ 0.2	\$ 0.2 U ⁴
Expense Account 6100, Operating and Program Expenses	1.3	159.6	158.3 U ⁵
Expense Account 6400, Benefit Program Expenses	155.1	0.0	155.1 O ⁶
Expense Account 6900, Other Expenses	3.4	0.0	3.4 O

¹See Part I of this report, "Compliance With Treasury Financial Reporting Guidance."
²See Part I of this report, "Compliance With DoD Financial Reporting Guidance."
³See Part I of this report, "Quality Control Reviews of DLA General Fund Statements."
⁴Understatement.
⁵\$158.3 equals \$155.1 million minus \$215,000 plus \$3.4 million.
⁶Overstatement.

Compliance With Treasury Financial Reporting Guidance

For asset account 1010 (Fund Balance With Treasury), the DFAS-Columbus Center did not fully comply with Treasury financial reporting guidance and disclose differences between summary disbursement and collection reports to Treasury and the DLA General Ledger accounts in the supporting notes to the three DLA General Fund statements. The Treasury Financial Manual requires that, for asset account 1010, the supporting notes to the financial statements disclose the reconciliation of the fund balance per Treasury to the fund balance per agency. In addition, the manual requires that the notes include an explanation of the adjustments made to reconcile the balances. However, the supporting notes to the three DLA General Fund statements did not disclose that there were differences between the summary disbursement and collection reports to Treasury and the DLA General Ledger accounts. Table 3 shows the missing disclosures, by DLA General Fund statement, for asset account 1010 that we, along with DFAS-Columbus Center assistance, identified.

<u>Balance per reports to Treasury</u>	97*0100.51 ¹ <u>(millions)</u>	97*0300.51 ² <u>(millions)</u>	97*0400.51 ^{3,4} <u>(millions)</u>	Total <u>(millions)</u>
Funds disbursed	\$11,011.3	\$906.3	\$299.2	\$12,216.8
Funds collected	2,343.9	523.1	54.1	2,921.1
Net outlays	\$ 8,667.4	\$383.2	\$245.1	\$ 9,295.7
<u>Balance per DLA General Ledger accounts</u>				
Funds disbursed	\$10,871.2	\$817.5	\$269.0	\$11,957.7
Funds collected	2,302.7	514.1	55.6	2,872.4
Net outlays	\$ 8,568.5	\$303.4	\$213.4	\$ 9,085.3
Difference	\$ 98.9	\$ 79.8	\$ 31.7	\$ 210.4

¹Operation and Maintenance (97*0100.51).
²Procurement (97*0300.51).
³Research, Development, Test, and Evaluation (97*0400.51).
⁴Excludes FYs 1987 and 1988.

Compliance With DoD Financial Reporting Guidance

The DFAS-Columbus Center did not comply with DoD financial reporting guidance and improperly used budget execution reports as data sources for three account balances reported on the three DLA General Fund statements. DoD financial reporting guidance requires that general ledger accounts be used as data sources for account balances reported on annual financial statements. However, the DFAS-Columbus Center managers believed certain DLA General Ledger accounts were unreliable and approved using Defense Department Form 1176 (DD Form 1176), "Report on Budget Execution," as a data source for the account balances reported on the DLA General Fund statements. They further stated that the DBMS prevented DFAS-Columbus Center accountants

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from readily identifying and correcting imbalances between equivalent budgetary and proprietary accounts in the DLA General Ledger. Inspector General, DoD, Report No. 97-024, "General Fund Trial Balance of the Defense Logistics Agency at September 30, 1995," November 15, 1996 (see Appendix B), discusses the DBMS and the ability of the DFAS-Columbus Center accountants to identify and correct account imbalances. We agree that certain DLA General Ledger accounts may be unreliable; however, DoD financial reporting guidance requires the consistent use of general ledger accounts as data sources for account balances reported on annual financial statements. Guidance also requires that financial statements provide full disclosure, for example, fully disclosing and explaining adjustments to the reported account balances when the balances are perceived to be unreliable. In addition, DD Form 1176 was an improper data source for the DLA General Fund statements because it provided questionable data and it was not intended as a data source for account balances reported on annual financial statements.

Questionable Data. The DD Form 1176 provided questionable data for asset account 1310 (Accounts Receivable), liability account 2110 (Accounts Payable), and revenue account 5200 (Revenue From Services Provided) (see Appendix E). We, with DFAS-Columbus Center assistance, identified differences between the amounts the DD Form 1176 provided and the amounts recorded in the corresponding DLA General Ledger accounts. For example, there was a \$219.4 million difference for asset account 1310, a \$428.5 million difference for liability account 2110, and a \$12.2 million difference for revenue account 5200. The DFAS-Columbus Center could not fully explain the differences between the amounts the DD Form 1176 provided and the amounts recorded in the corresponding DLA General Ledger accounts. DFAS-Columbus Center personnel stated that they made adjustments to data on the DD Form 1176 because of reporting errors made by accounting organizations supporting DLA before DFAS-Columbus Center assumed responsibility. However, DFAS-Columbus Center personnel did not develop and retain supporting source documentation for the adjustments.

The balance for an account on a financial statement should agree with the balance for the corresponding general ledger account or accounts in the reporting entity's trial balances, as required by DoD financial reporting guidance. When the balance for the corresponding general ledger account or accounts are perceived to be unreliable and require a material adjustment, the supporting notes to the financial statements should disclose and explain the adjustment so that the statements are fully informative for effective management decisions.

Intended Use for the DD Form 1176. The DD Form 1176 was not intended as a data source for annual financial statements that report proprietary information, such as the preclosing balances for asset, liability, equity, revenue, and expense accounts. DoD Manual 7220.9, "DoD Accounting Manual," chapter 93, amended September 18, 1989, states, in part, that DD Form 1176 is designed to show the status of budgetary resources and the financial information related to them and is intended for use in the review of apportionments and the U.S. Government's budgetary program.

Quality Control Reviews of DLA General Fund Statements

The DFAS-Columbus Center did not perform quality control reviews of the three DLA General Fund statements to confirm the accuracy of the reported account balances. DoD financial reporting guidance requires that DoD accounting systems have adequate internal controls to prevent, detect, and correct errors and irregularities. In addition, the guidance requires that, for financial statements to be reliable and useful, they must be accurately prepared on a comparable and consistent basis. However, the DFAS-Columbus Center managers did not establish and require quality control reviews (an internal control procedure) of the DLA General Fund statements. Consequently, the DFAS-Columbus Center did not detect recording errors. Specifically, the DFAS-Columbus Center did not detect that, out of the three DLA General Fund statements, the statements for appropriations 97*0100.51 (Operation and Maintenance) and 97*0400.51 (Research, Development, Test, and Evaluation) included erroneously reported expense accounts and erroneous manual entries.

Accuracy of Reported Expense Accounts. On the statement for the DLA General Fund Operation and Maintenance appropriation, the DFAS-Columbus Center erroneously reported expense accounts 6100 (Operating and Program Expenses) and 6400 (Benefit Program Expenses). Specifically, the DFAS-Columbus Center erroneously excluded the required financial information from expense account 6100 and included the information in expense account 6400. Volume 1, chapter 7, of the DoD Financial Regulation states that expense account 6100 is a summary account for all operational and program costs incurred throughout the year, including the costs for DoD civilian benefits. The DoD Financial Regulation also states that expense account 6400 is used only to record payments made from the Military Retirement Trust Fund and the DoD Education Benefits Trust Fund. However, the DFAS-Columbus Center erroneously excluded the costs for DoD civilian benefits from expense account 6100, and included the costs in expense account 6400. As a result, the DLA General Fund statement understated expense account 6100 and overstated expense account 6400 by about \$155.1 million.

Accuracy of Manual Entries. On the statements for the DLA General Fund Operation and Maintenance appropriation and the Research, Development, Test, and Evaluation appropriation, the DFAS-Columbus Center made erroneous manual entries² to record the accrued liability for unfunded annual leave in equity account 3310 (Cumulative Results of Operations) and expense account 6100. DoD Financial Regulation, volume 4, "Accounting Policy and Procedures," January 1995, states, in part, that the accrued liability for unfunded annual leave should be recorded in liability account 2220 (Accrued

²Manual entries are necessary to record the accrued liability for unfunded annual leave on the DLA General Fund statements because the account structure that DBMS uses does not follow the approved DoD account structure (see Appendix C). Accordingly, the DBMS does not generate both the credit entry and corresponding debit entry necessary to record the accrued liability for unfunded annual leave.

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Unfunded Annual Leave), equity account 3310, and expense account 6100. Table 4 shows the accounting entry that should have been made to properly record the accrued liability for unfunded annual leave, in accordance with DoD Financial Regulation, volume 4.

Table 4. Accounting Entry to Record the Accrued Liability for Unfunded Annual Leave	
Debit, Equity Account 3310, "Cumulative Results of Operations"	
Debit, Expense Account 6100, "Operating and Program Expenses"	
Credit, Liability Account 2220, "Accrued Unfunded Annual Leave"	

Equity account 3310 should record the accumulation of the net difference between revenue and expenses (gains and losses from normal operations and other directed adjustments) from inception of an organization to the beginning of a fiscal year, including the expense for annual leave earned by DLA employees. Specifically, it should record the expense for annual leave DLA employees earned from the inception of DLA to the beginning of a fiscal year. Expense account 6100 should record all the operational and program costs incurred throughout the year, including the expense for annual leave DLA employees earned during a fiscal year. Liability account 2220 should record the estimated liability at the end of a fiscal year for earned but unpaid and unfunded employee annual leave for DLA employees. However, on the statements for the DLA General Fund Operation and Maintenance appropriation and the Research, Development, Test, and Evaluation appropriation, the DFAS-Columbus Center made erroneous manual entries to record the accrued liability for unfunded annual leave.

Equity Account 3310. On the statement for the DLA General Fund Research, Development, Test, and Evaluation appropriation, the DFAS-Columbus Center made an erroneous manual entry by not recording the accrued liability for unfunded annual leave in equity account 3310. Table 5 shows the accounting entry.

Table 5. Manual Accounting Entry on the Statement for the DLA General Fund Research, Development, Test, and Evaluation Appropriation	
	<u>Amount (millions)</u>
Debit, Expense Account 6100, "Operating and Program Expenses"	\$1.3
Credit, Liability Account 2220, "Accrued Unfunded Annual Leave"	\$1.3

The DFAS-Columbus Center did not record, in equity account 3310, the expense for annual leave earned by DLA employees from inception of DLA to the beginning of FY 1995. Instead, the DFAS-Columbus Center recorded, in expense account 6100, both the expense for annual leave earned by DLA employees from the inception of DLA to the beginning of FY 1995, and the

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expense for annual leave earned by DLA employees during FY 1995. As a result, the DLA General Fund statement understated the equity account 3310 and overstated the expense account 6100 by about \$215,000.

Expense Account 6100. On the statement for the DLA General Fund Operation and Maintenance appropriation, the DFAS-Columbus Center made an erroneous manual entry by not recording the accrued liability for unfunded annual leave in expense account 6100. Table 6 shows the accounting entry.

Table 6. Manual Accounting Entry on the Statement for the DLA General Fund Operation and Maintenance Appropriation

	<u>Amount</u> <u>(millions)</u>
Debit, Equity Account 3310, "Cumulative Results of Operations"	\$64.5
Debit, Expense Account 6900, "Other Expenses"	\$ 3.4
Credit, Liability Account 2220, "Accrued Unfunded Annual Leave"	\$67.9

The DFAS-Columbus Center did record, in equity account 3310, the expense for annual leave DLA employees earned from inception of DLA to the beginning of FY 1995. However, the DFAS-Columbus Center did not record, in expense account 6100, the expense for annual leave that DLA employees earned during FY 1995. Instead, the DFAS-Columbus Center recorded the expense in expense account 6900 (Other Expenses). As a result, the DLA General Fund statement understated expense account 6100 and overstated expense account 6900 by about \$3.4 million.

Materiality and Impact on the DLA General Fund Statements

Until the causes of the unreliable statements are corrected, financial reports for the three DLA General Fund appropriations will be of limited value and use for financial management purposes. In addition, their deficiencies may adversely affect the reliability and auditability of the consolidated DoD-wide financial statements to be prepared starting in FY 1996.

The DoD Financial Regulation, volume 1, chapter 3, prescribes the methodology for determining whether DoD accounting systems are operated in reasonable compliance with the Comptroller General, Office of Management and Budget, Treasury, and DoD accounting policies, principles, and standards. The DoD Financial Regulation provides 13 key accounting requirements that represent a composite of all the policies, principles, and standards. It also provides specific examples to use as criteria when determining whether departures from key accounting requirements are material deficiencies in DoD accounting systems.

Reliability of the FY 1995 Financial Statements for the DLA General Fund

Accounting Requirements. DoD managers use the 13 key accounting requirements as criteria to review accounting systems for compliance. Of the 13 key accounting requirements, 1 and 7 are directly applicable to DoD financial reporting (see Part I of this report, "DoD Financial Reporting Guidance.").

Material Deficiency. The DoD Financial Regulation states that a departure from a key accounting requirement is considered a material deficiency if it results in the:

- o loss of control of over 5 percent or more of the measurable resources. For example, if more than 5 percent of the disbursements were undistributed.

- o impairment of the DoD mission. For example, maintaining memorandum records because official records cannot be relied upon, or using excessive overrides and work arounds to make the system work.

The DFAS-Columbus Center did not prepare reliable FY 1995 financial statements for three DLA General Fund appropriations. Specifically,

- o supporting notes to the financial statements did not disclose that \$210.4 million (34 percent) of the \$622.9 million reported for asset account 1010 represented an adjustment to reconcile the differences between summary disbursement and collection reports to Treasury and the DLA General Ledger accounts and

- o \$219.4 million (13 percent) of the \$1,663.6 million reported for assets, \$428.5 million (66 percent) of the \$647.0 million reported for liabilities, and \$12.2 million (5 percent) of the \$248.9 million reported for revenue were questionable.

The DFAS-Columbus Center needs to improve its accounting system, including its control structure for preparing financial statements so that reliable and useful financial information is provided.

Both DoD and DLA require reliable and useful financial information to effectively assess their financial operating results and exercise proper stewardship over their resources. We reported on the DFAS-Columbus Center process for preparing the DLA General Fund statements so that the DFAS-Columbus Center can improve its ability to prepare reliable and useful annual financial statements for DLA, beginning with those prepared in FY 1996.

Recommendations and Management Comments

We recommend that the Director, Defense Finance and Accounting Service, Columbus Center:

1. Disclose the reconciliation of the fund balance per Treasury to the fund balance per agency for asset account 1010 and fully and clearly explain adjustments made to reconcile the balances, as required by Treasury Financial Manual, volume 1, part 2, chapter 4000, "Federal Agencies' Centralized Trial-Balance System (FACTS)," August 1995.

Management Comments. The DFAS concurred, stating that cash reconciliations are being performed as required and footnotes to the DLA General Fund statements are being made to disclose adjustments to Treasury balances and to agency balances as a direct result of the reconciliations completed. The DFAS-Columbus Center established a cash reconciliation branch within the agency reporting section that provides the necessary details and explanations for the adjustments.

2. Use the Defense Logistics Agency General Ledger accounts instead of budget execution reports as data sources for account balances reported on annual financial statements, as required by DoD Regulation 7000.14, "DoD Financial Management Regulation," volume 1, chapters 2 and 3, May 1993; and fully and clearly disclose adjustments to the account balances.

Management Comments. The DFAS concurred and stated that it will use general ledger account balances where feasible for preparation of annual financial statements. In addition, DFAS stated that it would direct the DFAS-Columbus Center to establish procedures to ensure that general ledger account balances agree with the budget execution report amounts, that adjustments made to reconcile general ledger account balances with the budget execution report amounts are supported by appropriate documentation, and that adjustments made from the reconciliation process are fully and clearly disclosed in the footnotes to the annual financial statements. The planned completion date is September 30, 1997.

3. Perform quality control reviews of the financial statements after preparing them to confirm the accuracy of the statements.

Management Comments. The DFAS concurred, stating that completed financial statements are randomly selected for detailed reviews by the Chief, Agency Reporting Division within the DFAS-Columbus Center Directorate of Accounting. In addition, DFAS stated that all financial statements have some quality control checks performed and, based on the requirements built into the spreadsheets used to prepare the statements, reconciliations are performed on all account balances.

Part II - Additional Information

Appendix A. Audit Process

Scope and Methodology

Scope. We reviewed the DFAS-Columbus Center process for preparing the FY 1995 preclosing adjusted trial balances and supporting notes¹ for three DLA General Fund appropriations to determine whether the DFAS-Columbus Center established and implemented adequate management controls to provide consistent, accurate, complete, and reliable financial information. The three DLA General Fund appropriations represented about 95 percent of the \$1,904.3 million in appropriations that DLA received in FY 1995. Table A shows the three DLA General Fund appropriations and their reported balances for assets, liabilities, equity, revenue, and expenses.

General Fund Number	Appropriations Title	Reported Balances for				
		Assets (millions)	Liabilities (millions)	Equity (millions)	Revenue (millions)	Expenses (millions)
97*0100.51	O&M	\$1,260.8	\$ 636.7	\$2,083.8	\$ 231.7	\$1,695.1
97*0300.51	Procurement	297.9	6.4	338.1	<17.7>	29.0
97*0400.51	RDT&E	104.9	3.9	117.4	34.9	51.3
Total		\$1,663.6	\$ 647.0	\$2,539.3	\$ 248.9	\$1,775.4

** O&M Operation and Maintenance
RDT&E Research, Development, Test, and Evaluation

Limitations to Scope. We limited the scope of our review as follows.

- o We excluded DLA General Fund appropriations 97X0510.16A6 (Base Realignment and Closure) and 97*0819.2051 (Humanitarian Assistance) from our review because the financial statements for those appropriations will be included in the consolidated financial statements for the Washington Headquarters Services instead of DLA. The two appropriations represented about 4 percent of the DLA General Fund appropriations in FY 1995.

- o We excluded General Fund appropriations 97*0500.51 (Military Construction), 97*0706.51 (Family Housing, Operation and Maintenance), and 97*0790.51 (Family Housing, Construction) from our review because the three appropriations represented about 1 percent of the DLA General Fund appropriations in FY 1995.

¹The FY 1995 preclosing adjusted trial balances and supporting notes for the DLA General Fund are referred to in Part I of the report as the FY 1995 financial statements for the DLA General Fund.

o We did not evaluate the computer-processed payroll report², the computer-processed trial balances³, and the budget execution report⁴ used as data sources to prepare the DLA General Fund statements for accuracy, completeness, or reliability. However, the Inspector General, DoD, Report No. 97-024, "General Fund Trial Balance of the Defense Logistics Agency at September 30, 1995," November 15, 1996 (see Appendix B), discussed the reliability of the computer-processed trial balances produced to support the FY 1995 financial statements and budget execution reports.

Methodology. To determine whether the DFAS-Columbus Center established and implemented adequate management controls over the process for preparing the DLA General Fund statements, we:

o interviewed responsible personnel to identify financial accounting and reporting responsibilities for the DLA General Fund;

o interviewed responsible personnel to determine the specific methods (for example, procedures, rules, and techniques) used to obtain, consolidate, and report financial information for the DLA General Fund;

o obtained and reviewed the written operating procedures that responsible personnel used to prepare the DLA General Fund statements;

o obtained and reviewed the data sources, including the computer-processed reports and the budget execution reports, used to prepare the DLA General Fund statements;

o compared the methods (for example, written operating procedures and data sources) that the DFAS-Columbus Center used to prepare the DLA General Fund statements with the methods prescribed in DoD guidance;

o reconstructed the DLA General Fund statements based on the interviews, written operating procedures, and data sources to verify that the DFAS-Columbus Center methods were consistently used to prepare the statements;

o prepared a portion of the DLA General Fund statements based on DoD guidance and using data from the computer-processed payroll reports and the appropriate general ledger accounts contained in the computer-processed trial balances;

²DBMS Report No. UPAE170B, "Annual Leave Liability Report."

³Model 204 System Report Numbers H3721190 and H3721180, "Agency Level Trial Balances."

⁴The Defense Department Form 1176, "Report on Budget Execution."

Appendix A. Audit Process

o compared the financial statements that the DFAS-Columbus Center prepared with the financial statements that the auditor prepared to determine the effects that the DFAS-Columbus Center methods had on specific account balances contained in the DLA General Fund statements;

o discussed the validity of the DFAS-Columbus Center methods with personnel responsible for accounting and reporting the DLA General Fund; and

o presented our results, conclusions, and methodology to DFAS-Columbus Center officials for their review and comment.

Use of Computer-Processed Data. To achieve the audit objective concerning the manual process for preparing financial statements, we relied on computer-processed data contained in reports produced from the DBMS and the Model 204 system. We did not test the data for reliability due to the audit scope limitations. Although we did not test data reliability, we believe the audit results and conclusions in this report are valid.

Audit Period and Standards. We performed this financial related audit from September 1995 through August 1996 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls considered necessary.

Organizations and Individuals Visited or Contacted

Contacts During the Audit. We visited or contacted individuals and organizations within DoD and the Department of Treasury. Further details are available on request.

Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987,* requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

*DoD Directive 5010.38 has been revised as "Management Control Program," August 26, 1996. The audit was performed under the April 1987 version of the Directive.

Scope of Review of Management Control Program. We reviewed the DFAS-Columbus Center FY 1995 management control program applicable to the process for preparing financial statements. Specifically, we reviewed the:

- o methods that DFAS-Columbus Center managers used to ensure that the process for preparing the DLA General Fund statements was consistent and provided accurate, complete, and reliable statements; and

- o DFAS-Columbus Center self-evaluation process to determine whether, within the past 5 years, DFAS-Columbus Center managers identified and reported management control weaknesses related to their process for preparing financial statements.

Adequacy of Management Controls. We identified material management control weaknesses as defined by DoD Directive 5010.38. The DFAS-Columbus Center managers within the DFAS-Columbus Center Directorate of Accounting did not establish and implement adequate management controls to ensure that the process for preparing the DLA General Fund statements was consistent and provided reliable statements. Specifically, the DFAS-Columbus Center managers did not comply with Treasury financial reporting guidance and disclose material differences between summary disbursement and collection reports to Treasury and the DLA General Ledger accounts within the supporting notes to the three DLA General Fund statements. In addition, the DFAS-Columbus Center managers did not comply with DoD financial reporting guidance and improperly approved using budget execution reports instead of general ledger accounts as data sources for the three DLA General Fund statements. Finally, the DFAS-Columbus Center managers did not establish and require quality control reviews of the DLA General Fund statements after preparation to confirm the accuracy of the statements. Recommendations 1., 2., and 3., if implemented, will improve the reliability and usefulness of the three DLA General Fund statements, starting with FY 1996 and for each succeeding year. A copy of the report will be provided to the senior official responsible for management controls within the DFAS-Columbus Center.

Adequacy of Management's Self-Evaluation. The DFAS-Columbus Center managers did not identify the financial statements that DoD organizations are required to prepare for submission to Treasury as an assessable unit. However, the managers did identify the financial statements that DoD organizations are required to prepare for submission to the Office of Management and Budget under Public Law 101-576 as an assessable unit and, in our opinion, correctly identified the risk associated with the assessable unit as high. In their evaluation, DFAS-Columbus Center managers did not identify the same management control weaknesses identified by the audit because the DFAS-Columbus Center evaluation covered only the financial statements for Defense Business Operations Fund organizations.

Appendix B. Summary of Prior Audits and Other Reviews

During the last 5 years, the Office of the Inspector General, DoD, issued two reports relating to financial management for the DLA General Fund. Also, the Richmond Detachment, DFAS, issued a report that discussed the Appropriated Accounting Sub-System of the DBMS and its use of the DoD Standard General Ledger.

Inspector General, DoD

Inspector General, DoD, Report No. 97-039, "Defense Logistics Agency General Fund Equipment Account," December 5, 1996, states that the DFAS-Columbus Center erroneously reported the general fund account on the FY 1995 adjusted trial balances. As a result, the reported \$411 million DLA general fund equipment account balance at yearend FY 1995 was materially misstated. In addition, the DFAS-Columbus Center did not perform periodic comparisons of the DLA general fund equipment account and custodial records as required by General Accounting Office standards for internal controls in the Federal Government and the DoD Financial Regulation. As a result, the DLA general fund equipment account balance was not reliable and was not readily auditable.

The report recommended that the Director, DFAS-Columbus Center, adjust the DLA General Fund Equipment account balance to delete the Defense Business Operations Fund equipment accounts. It also recommended that the Directors, DFAS-Columbus Center and DLA, provide equipment account balances to general fund organizations for annual reconciliations with actual custodial records.

The DFAS concurred with the recommendation to adjust the general fund equipment account balance. DFAS stated that a working group audited the Capital Asset/Equipment balances on various non-Defense Business Operations Fund trial balances, and determined that the balances were erroneously reflected. It also stated that journal vouchers were prepared and processed before the end of FY 1996.

DFAS also concurred with the recommendation to provide the proprietary equipment account balances to the general fund organizations. DFAS stated that the Defense Property Accounting System records were used to validate accounting records to equipment on hand per the activities' custodial equipment records. Journal vouchers were prepared and processed before the end of FY 1996. DFAS also stated that it provided the general fund organizations copies of the account balances.

The DLA concurred with the recommendation to annually reconcile its custodial records with the proprietary equipment account balance in the Defense Property

Appendix B. Summary of Prior Audits and Other Reviews

Accounting System and estimated the completion by January 31, 1997. DLA also stated that the management control weakness would be reported in its Annual Statement of Assurance.

Inspector General, DoD, Report No. 97-024, "General Fund Trial Balance of the Defense Logistics Agency at September 30, 1995," November 15, 1996, states that the DBMS prevented DFAS-Columbus Center accountants from readily identifying and correcting imbalances in the DLA General Ledger accounts. Specifically, the system did not allow reconciliations of equivalent proprietary and budgetary accounts at the agency organizational level and did not provide an adequate audit trail to determine the causes of out-of-balance conditions. Consequently, the DLA Accounting Division, DFAS-Columbus Center, did not reconcile imbalances in the DLA General Ledger accounts before preparing and certifying the DLA trial balances. As a result, certain account balances included within the trial balances were not reliable.

The report recommended that the Director, DFAS-Columbus Center, accelerate the implementation of accounting system changes needed to readily identify and correct account imbalances and perform needed reconciliations to ensure that the DLA FY 1996 financial statements will be more reliable. DFAS concurred with the recommendations, stating that software would be installed to implement the DoD Standard General Ledger and allow segregation of proprietary accounts.

Richmond Detachment, DFAS

The Richmond Detachment, DFAS, issued an "Evaluation of the Appropriated Accounting Sub-System of the Defense Business Management System (DBMS) at the Defense Finance and Accounting Service, Columbus Center, Columbus, Ohio," on April 15, 1994. The report stated that the DBMS Appropriated Accounting Sub-System did not conform to the principles, standards, and related requirements of the General Accounting Office, Office of Management and Budget, and DoD. In summary, internal controls were insufficient, additional training was required, large backlogs existed in some areas, no single source of data entry existed, the DBMS did not use a standard general ledger, and the DFAS-Columbus Center expended a great deal of resources to manually record data in DBMS. DFAS concurred and identified planned corrective actions and estimated completion of the actions by January 1998.

Appendix C. Improvements Needed for Automated Systems

Automated Systems

The DBMS and the Model 204 system do not comply with key accounting requirement 1 and inappropriately use an account structure that does not follow the account structure that DoD approved. Consequently, the systems do not provide financial information that conforms with Treasury requirements. Specifically, the automated systems generate reports containing balances for general ledger account numbers and titles that do not conform with the U.S. Government Standard General Ledger account numbers and titles contained within required Treasury financial statements. The Agency Reporting Division, DFAS-Columbus Center, must manually convert financial information to prepare the financial statements for the DLA General Fund. To manually prepare the DLA General Fund statements, DFAS-Columbus Center personnel used written operating procedures that provided instructions to crosswalk (or convert) financial information from the DLA trial balances, budget execution reports, and annual leave liability reports to the U.S. Government Standard General Ledger accounts included within the statements.

Key accounting requirement 1 requires that systems maintain an appropriate account structure approved by DoD. The DoD Financial Regulation, volume 1, chapter 7, provides the approved account structure and identifies it as the basic structure of the DoD Standard General Ledger. The DoD Financial Regulation further states that the DoD Standard General Ledger is based on the U.S. Government Standard General Ledger. Accordingly, systems that maintain the account structure approved by DoD will provide financial information that conforms with Treasury requirements and will not require extraneous manual processes to prepare required Treasury financial statements.

Until the automated systems provide financial information that conforms with Treasury requirements, manual conversions of financial information will be required to prepare the DLA General Fund statements. When financial statements result from manual manipulations, the risk of error; bias; or misleading presentation is greater and special precautions are required to reduce the risks.

Actions Taken to Modify or Replace the Automated Systems

Modification of DBMS. In FY 1996, DFAS began corrective actions to modify the DBMS to accommodate the account structure for the DoD Standard

Appendix C. Improvements Needed for Automated Systems

General Ledger. The corrective actions were based on the results from reviews conducted annually by system managers and users and on detailed evaluations conducted cyclically by the DFAS Headquarter's evaluation teams. The DFAS, Financial Systems Activity, Columbus, Ohio, is designing and developing the system modifications. DFAS plans to complete the modifications in phases and estimates that the modifications will be completed by January 1998. As of July 1996, DFAS had completed expanding the general ledger account code field within the system from 6 positions to 10 positions, as required, to accommodate the standard DoD account structure.

Replacement for Model 204 System. In FY 1997, DFAS plans to replace the Model 204 system. As of July 1996, DFAS decided to replace the Model 204 system with an existing application, the Central Data Bank. Replacing the Model 204 system with the Central Data Bank application is a viable corrective action because the Central Data Bank uses the account structure for the DoD Standard General Ledger, consolidates financial information from various automated systems, and automatically generates financial statements needed to meet DoD financial reporting requirements. Accordingly, because the application eliminates extraneous manual processes, DFAS accountants will be able to perform in-depth reviews on the statements to identify, research, and correct abnormal account balances and unusual trends or variances.

Appendix D. DoD Standard General Ledger

The DoD Financial Regulation, volume 1, chapter 7, establishes the DoD Standard General Ledger* and provides the DoD Uniform Chart of Accounts as the basic account structure for the ledger.

The DoD Uniform Chart of Accounts is applicable to all DoD accounting systems for all appropriations and funds. It provides uniform proprietary control accounts and budget execution control accounts that are intended as the minimum accounts required to achieve consistent treatment of similar transactions throughout DoD. The DoD Uniform Chart of Accounts shall be used to record all of the series of events that occur from the time an appropriation is received until the resources acquired are used or disposed. Table D shows the basic structure for the DoD Uniform Chart of Accounts.

Proprietary Control Accounts		Budget Execution Control Accounts	
<u>Series</u>	<u>Classification</u>	<u>Series</u>	<u>Classification</u>
1000	Assets	4000	Budgetary
2000	Liabilities		
3000	Equity of the U.S. Government		
5000	Revenue		
6000	Expenses		
7000	Gains, Losses, Extraordinary Items, etc.		

Proprietary Control Accounts. The proprietary control accounts from the DoD Uniform Chart of Accounts provide continuous accounting control over financial resources provided to DoD from the time an appropriation is received until the applicable resource is consumed (expensed), sold, or transferred to a non-DoD organization. For example, proprietary asset and liability accounts cover the receipt of funds in the Treasury; the proper classification of assets (such as receivables, prepayments, inventory and fixed assets); and the recognition and proper classification of liabilities. Proprietary revenue and expense accounts measure the realization of revenue from the sale of goods and services, and the recognition of costs through the use and consumption of assets.

Proprietary control accounts are used primarily as data sources for annual financial statements prepared for submission to the Treasury and the Office of Management and Budget. Treasury Financial Manual, volume 1, part 2, chapter 4000, and Office of Management and Budget Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993, identify the specific proprietary control accounts that DoD components should use as data sources to prepare the annual financial statements. The annual financial statements should fully disclose a reporting entity's financial position

*The DoD Standard General Ledger is based on the U.S. Government Standard General Ledger.

and results of operations, and provide information for the effective allocation of resources and information with which Congress, entity managers, and the public can assess management performance and stewardship. Those statements are different than the reports prepared to monitor and control the obligation and expenditure of budgetary resources in that they contain proprietary information and footnote disclosures not found in budget execution reports.

Budget Execution Control Accounts. The budget execution control accounts from the DoD Uniform Chart of Accounts provide accountants with the ability to identify possible violations of the Antideficiency Act. For example, the budget execution control accounts cover the appropriation, apportionment, allocation, commitment, obligation and expenditure process.

The budget execution control accounts are used primarily as data sources for required reports on the status of DoD appropriations and funds. DoD Manual 7220.9, chapter 93, identifies the specific budget execution control accounts that DoD components should use as data sources to prepare the required reports. The reports should show the status of budgetary resources and the financial information related to them and are intended for use in the review of apportionments and the U.S. Government's budgetary program. Those reports are different than the annual financial statements prepared to report an entity's financial position and results of operations to the Treasury and the Office of Management and Budget.

Appendix E. Questionable Data That the Defense Department Form 1176, Report on Budget Execution, Provided

	97*0100.51 (millions)	97*0300.51 (millions)	97*0400.51 (millions)	Total (millions)
<u>Asset Account 1310, Accounts Receivable</u>				
Balance per DD Form 1176 ¹	\$500.8	\$114.7	\$10.9	\$626.4
Balance per DLA General Ledger account ²	322.8	74.3	9.9	407.0
Difference ⁴	\$178.0	\$ 40.4	\$ 1.0 ₃	\$219.4
<u>Liability Account 2110, Accounts Payable</u>				
Balance per DD Form 1176 ⁵	\$526.2	\$ 6.4	\$ 1.4	\$534.0
Balance per DLA General Ledger account ⁶	200.6	<82.6>	<12.5>	105.5
Difference ⁴	\$325.6	\$89.0	\$13.9 ₇	\$428.5
<u>Revenue Account 5200, Revenue From Services Provided</u>				
Balance per DD Form 1176	\$231.7	<\$17.7>	\$34.9	\$248.9
Balance per DLA General Ledger account	231.7	<5.5>	34.9	261.1
Difference ⁴	\$ 0.0	\$12.2	\$ 0.0	\$ 12.2

¹Includes the funds collected per reports to Treasury instead of the funds collected per the DLA General Ledger accounts.

²Adjusted the balance to reflect the difference between the funds collected per reports to Treasury and the funds collected per the DLA General Ledger accounts.

	97*0100.51 (millions)	97*0300.51 (millions)	97*0400.51** (millions)	Total (millions)
Funds Collected per Reports to Treasury	\$2,343.9	\$523.1	\$54.1	\$2,921.1
Funds Collected per DLA General Ledger accounts	2,302.7	514.1	55.6	2,872.4
Difference	\$ 41.2	\$ 9.0	<\$ 1.5>	\$ 48.7

**Excludes FYs 1987 and 1988.

³Difference may be overstated because the adjustment made to the balance per DLA General Ledger accounts excluded the funds collected for FYs 1987 and 1988. (see Note 2)

⁴The difference is attributable to DFAS-Columbus Center adjustments.

⁵Includes the funds disbursed per reports to Treasury instead of the funds disbursed per the DLA General Ledger accounts.

⁶Adjusted the balance to reflect the difference between the funds disbursed per reports to Treasury and the funds disbursed per the DLA General Ledger accounts.

	97*0100.51 (millions)	97*0300.51 (millions)	97*0400.51** (millions)	Total (millions)
Funds Disbursed per Reports to Treasury	\$11,011.3	\$906.3	\$299.2	\$12,216.8
Funds Disbursed per DLA General Ledger accounts	10,871.2	817.5	269.0	11,957.7
Difference	\$ 140.1	\$ 88.8	\$ 30.2	\$ 259.1

**Excludes FYs 1987 and 1988.

⁷Difference may be overstated because the adjustment made to the balance per DLA General Ledger accounts excluded the funds disbursed for FYs 1987 and 1988. (see Note 6)

Appendix F. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Assistant to the Secretary of Defense (Public Affairs)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
General Accounting Office
National Security and International Affairs Division
Technical Information Center

Appendix F. Report Distribution

Non-Defense Federal Organizations and Individuals (cont'd)

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

- Senate Committee on Appropriations
- Senate Subcommittee on Defense, Committee on Appropriations
- Senate Committee on Armed Services
- Senate Committee on Governmental Affairs
- House Committee on Appropriations
- House Subcommittee on National Security, Committee on Appropriations
- House Committee on Government Reform and Oversight
- House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight
- House Committee on National Security

Part III - Management Comments

Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE
1931 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22240-5291

DFAS-HQ/AFB

DEC 19 1990

MEMORANDUM FOR DIRECTOR, LOGISTICS SUPPORT DIRECTORATE,
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF
DEFENSE

SUBJECT: Audit Report on the Reliability of the FY 1995
Financial Statements for the Defense Logistics Agency
General Fund (Project No. 6LA-2005)

DFAS has reviewed the draft audit report findings and
recommendations. Attached is our response to the recommendations
and comments.

If you have any questions, my point of contact on this audit
is Mr. Thomas Tresslar, (703) 607-1120.

A handwritten signature in black ink, appearing to read "Tom McCarty".

Thomas F. McCarty
Deputy Director for
Accounting

Attachment

cc:
DFAS-HQ/PA
DFAS-CO/A
DFAS-CO/DI

Audit Report on the Reliability of the FY 1995 Financial
Statements for the Defense Logistics Agency General Fund
(Project No. 6LA-2005)

Recommendation 1:

We recommend that the Director, Defense Finance and Accounting Service, Columbus Center disclose the reconciliation of the fund balance per Treasury to the fund balance per agency for asset account 1010 and fully and clearly explain adjustments to the account balance, as required by Treasury Financial Manual, volume 1, part 2, chapter 4000, "Federal Agencies' Centralized Trial-Balance System (FACTS)," August 1995.

DFAS Response to Recommendation 1: Concur.

When specific cash transactions can be identified, they will be identified on the fund balance reconciliation. Currently, variances are identified as undistributed collections and disbursements and are disclosed as such in the footnotes for the Budget Execution Report. DFAS will identify the requirements for a standard cash accountability reporting system. This initiative will improve cash accounting and reporting to Treasury.

Defense Finance and Accounting Service - Columbus Center, Directorate of Accounting, has established a Cash Reconciliation Branch within the Agency Reporting Section that will focus on cash reconciliation. This branch will provide necessary details and explanations for adjustments to accounts and to Treasury balances as a direct result of the reconciliations completed. Reconciliations are currently being performed as required and footnotes to the statements are being made.

ESTIMATED COMPLETION DATE: Completed.

Recommendation 2:

We recommend that the Director, Defense Finance and Accounting Service, Columbus Center use the Defense Logistics Agency General Ledger accounts instead of budget execution reports as data sources for account balances reported on annual financial statements, as required by DoD Regulation 7000.14, "DoD Financial Management Regulation," volume 1, Chapters 2 and 3, May 1993; and fully and clearly disclose adjustments to the account balances.

DFAS Response to Recommendation 2: Concur.

Current policy is that DoD use general ledger account balances where feasible for preparation of all reports, including annual financial statements. However, a long-standing requirement is that the DD Form 1176/SF 133 Report on Budget Execution disbursement and collection amounts agree with the official Treasury trial balance amounts. Adjustments to these balances also require offsetting adjustments to receivables, payables, and undistributed disbursements and collections.

Until the DoD can eliminate undistributed disbursements and collections, DFAS will continue the current practice. In order to ensure general ledger account balances and DD Form 1176/SF 133 amounts are in agreement, DFAS-Headquarters will direct the DFAS-Columbus (DFAS-CO) Center to establish procedures to ensure that adjustments made to the DD Form 1176/SF 133 and to corresponding general ledger accounts be supported by journal vouchers or other appropriate documentation and that adjustments made from the reconciliation process are clearly and fully disclosed in the footnotes used to prepare supporting DoD Chief Financial Officers Act statements and in the FACTS reported by DFAS-CO.

ESTIMATED COMPLETION DATE: September 30, 1997.

Recommendation 3:

We recommend that the Director, Defense Finance and Accounting Service, Columbus Center perform quality control reviews of the financial statements after preparing them to confirm the accuracy of the statements.

DFAS Response to Recommendation 3: Concur.

All financial statements and reports prepared by DFAS have quality control checks performed. In addition, financial statements prepared by DFAS-CO are randomly selected for detailed reviews by the Chief of Agency Reporting in the Accounting Directorate of DFAS-CO. Additionally, trial balance reconciliations are performed on all accounts based upon the requirements built into the spreadsheets used to prepare the statements. This internal control satisfies the accuracy requirements in the DoD Financial Management Regulation, DoD 7000.14-R, Volume 1, Chapter 2, paragraph 020206.

ESTIMATED COMPLETION DATE: Completed.

DFAS Management Comments to Appendix A, page 19, Adequacy of Management's Self-Evaluation:

First sentence: "The DFAS-Columbus Center managers did not identify the financial statements that DoD organizations are required to prepare for submission to Treasury as an assessable unit."

DFAS Comments:

The draft audit report stated that the DBOF financial statements were identified as an assessable unit. An additional risk assessment will be scheduled for non-DBOF financial statements.

Audit Team Members

This report was prepared by the Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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