

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**MARINE CORPS RESERVE FINANCIAL REPORTS
ON THE NATIONAL GUARD AND RESERVE
EQUIPMENT APPROPRIATION**

Report No. 97-153

June 9, 1997

Department of Defense

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Acronyms

DFAS
NGREA

Defense Finance and Accounting Service
National Guard and Reserve Equipment Appropriation



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884



June 9, 1997

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Audit Report on the Marine Corps Reserve Financial Reports on the
National Guard and Reserve Equipment Appropriation
(Report No. 97-153)

We are providing this audit report for information and use. We performed the audit in response to the Chief Financial Officers Act of 1990 and the Federal Financial Management Act of 1994. We considered comments on a draft of this report in preparing the final report.

Comments on the draft of this report 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 Ms. Mary Lu Ugone, Audit Program Director, at (703) 604-9426 (DSN 664-9426) or Ms. Dianna J. Pearson, Audit Project Manager, at (703) 604-9424 (DSN 664-9424). See Appendix B for the report distribution. The audit team members are listed inside the back cover.

A handwritten signature in black ink that reads "Robert J. Lieberman".

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 97-153
(Project No. 7RE-2002.00)

June 9, 1997

Marine Corps Reserve Financial Reports on the National Guard and Reserve Equipment Appropriation

Executive Summary

Introduction. The audit was performed in compliance with the Chief Financial Officers Act of 1990 (Public Law 101-576) and the Federal Financial Management Act of 1994 (Public Law 103-356). Public Law 103-356 requires DoD and other Government agencies to prepare consolidated financial statements for FY 1996 and each succeeding year. On June 6, 1995, the DoD Deputy Chief Financial Officer advised the DoD Components of the requirement to prepare and submit financial statements in accordance with the Federal Financial Management Act of 1994.

In 1981, Congress established the National Guard and Reserve Equipment Appropriation to provide the equipment needed to maintain the readiness of the National Guard and Reserve units. In FY 1996, the Marine Corps Reserve received a total of \$100 million (\$44 million for miscellaneous equipment and \$56 million for aircraft). The \$100 million is 13 percent of the total \$766 million of National Guard and Reserve Equipment Appropriation funds allocated to the six National Guard and Reserve components in FY 1996.

Audit Objectives. Our objective was to evaluate the financial information reported for the FY 1996 Marine Corps Reserve trial balance for the National Guard and Reserve Equipment Appropriation. We also determined the effect of any noncompliant actions on the FY 1997 financial statements. In addition, we assessed compliance with laws and regulations and the management control program as it relates to the overall objective.

Audit Results. The FY 1996 Marine Corps Reserve trial balance for the National Guard and Reserve Appropriation is misstated. As a result, the Fund Balance with Treasury account is overstated by \$8.4 million and the Appropriated Capital account is overstated by \$8.6 million on the FY 1996 Marine Corps Reserve trial balance.

Summary of Recommendations. We recommend that the Director, Defense Finance and Accounting Service Cleveland Center, establish management controls to ensure that certified Marine Corps Reserve report on budget execution data are used to prepare the trial balance and report on budget execution and make appropriate disclosures when certified Marine Corps Reserve report on budget execution data are not used.

Management Comments. The Defense Finance and Accounting Service partially concurred with the recommendation to establish management controls to ensure that certified Marine Corps Reserve report on budget execution data are used. Both the Defense Finance and Accounting Service Cleveland Center and the Defense Finance and Accounting Service Kansas City Center are establishing management controls and have initiated corrective measures to ensure that certified yearend reports are used. The Defense Finance and Accounting Service agreed to make appropriate disclosures when uncertified data are used to prepare final reports. Additionally, both the Defense

Finance and Accounting Service Cleveland Center and the Defense Finance and Accounting Service Kansas City Center will establish an accounting review requirement of all footnotes to ensure that proper disclosures are made. See Part I for a summary of management comments and Part III for the complete text of the comments.

Audit Response. The Defense Finance and Accounting Service comments are fully responsive. No additional comments are required.

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Part I - Audit Results

Audit Background

We performed the audit in response to the Chief Financial Officers Act of 1990 (Public Law 101-576), which established requirements for Federal organizations to submit audited financial statements to the Director, Office of Management and Budget. Public Law 103-356, "The Federal Financial Management Act of 1994," requires DoD and other Government agencies to prepare consolidated financial statements for FY 1996 and each succeeding year. The consolidated DoD financial statements for FY 1996 included the financial statement for a reporting entity entitled Other Defense Organizations. The Other Defense Organizations entity includes the financial statement for that portion of the Department 97¹ funds, including the National Guard and Reserve Equipment Appropriation (NGREA), allocated to the Military Departments.

NGREA Function. Congress established the NGREA in 1981 to provide the equipment needed to maintain the readiness of the National Guard and Reserve units. The Office of the Under Secretary of Defense (Comptroller) allocates the NGREA to National Guard and Reserve components. The NGREA is a multi-year appropriation, normally available for obligation for 3 fiscal years. The following six components comprise the National Guard and Reserve:

- o Army National Guard,
- o Air National Guard,
- o Army Reserve,
- o Navy Reserve,
- o Air Force Reserve, and
- o Marine Corps Reserve.

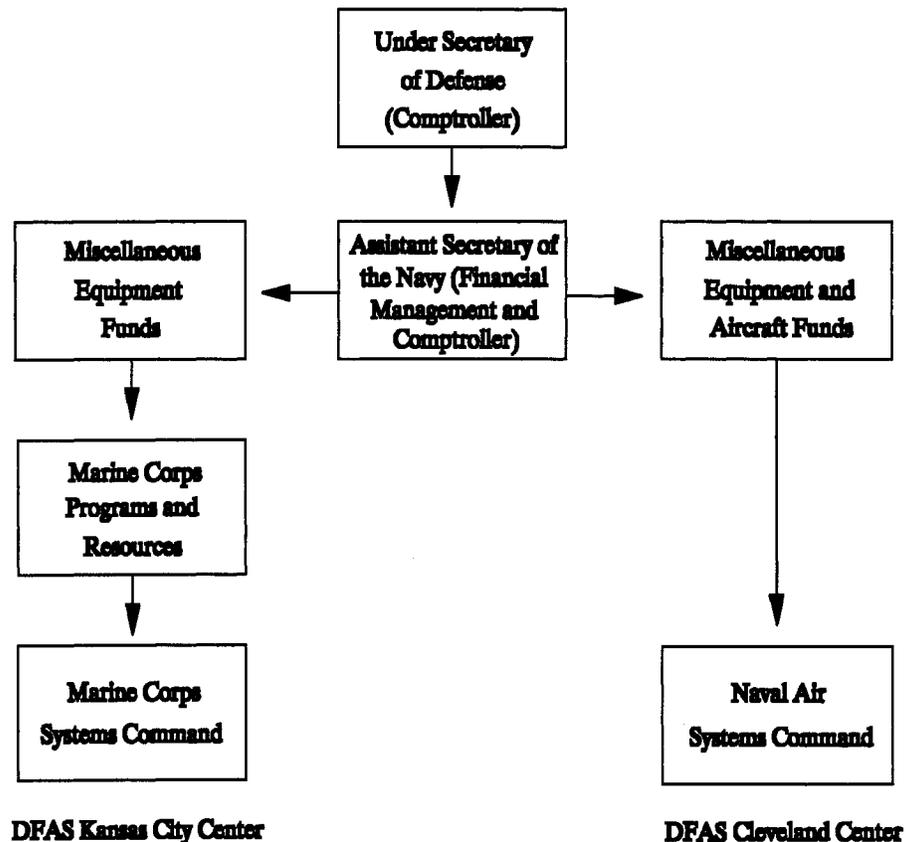
In FY 1996, the Marine Corps Reserve received a total of \$100 million (\$44 million for miscellaneous equipment and \$56 million for aircraft). The \$100 million is 13 percent of the total \$766 million NGREA funds allocated to the six National Guard and Reserve components in FY 1996.

Flow of Funds for the Marine Corps NGREA. The Office of the Under Secretary of Defense (Comptroller) allocates all the Marine Corps Reserve NGREA to the Assistant Secretary of the Navy (Financial Management and Comptroller). The Assistant Secretary of the Navy (Financial Management and Comptroller) then allocates funds for miscellaneous equipment to the Marine Corps Systems Command through the Marine Corps Programs and Resources office and allocates miscellaneous equipment and aircraft funds to the Naval Air Systems Command.

DoD 7000.14-R, "DoD Financial Management Regulation," volume 1, "General Financial Management Information, Systems, and Requirements,"

¹The Department of the Treasury uses department code "97" to identify appropriations for the Office of the Secretary of Defense. The Military Departments receive Department 97 appropriations, including the National Guard and Reserve and Equipment Appropriation.

May 1993, assigns the Defense Finance and Accounting Service (DFAS) as the accounting entity for DoD. The DFAS Kansas City Center accounts for the miscellaneous equipment funds allocated to the Marine Corps Systems Command. The DFAS Cleveland Center accounts for the remaining miscellaneous equipment and aircraft funds allocated to the Naval Air Systems Command. The graph below shows the flow of Marine Corps Reserve NGREA funding and the DFAS center responsible for financial accounting support and reporting.



Flow of Funds for the Marine Corps Reserve NGREA

The Report on Budget Execution. Office of Management and Budget Circular A-34 requires Government agencies to submit reports on the budgetary status and related financial data. The DD Form 1176, Report on Budget Execution, is a monthly report designed to show, on a consistent basis and in practicable detail, the status of budgetary resources and related financial

Audit Results

data. The DFAS centers prepare the report on budget execution for all appropriated funds. The report on budget execution reflects the current status of funds for each appropriation.

Financial Reporting for the Marine Corps Reserves NAREA. The DFAS Kansas City Center prepares reports on budget execution for the Marine Corps Systems Command. The DFAS Kansas City Center submits its reports on budget execution to the DFAS Cleveland Center. The DFAS Cleveland Center uses manual spreadsheets and system inquiries to determine the Marine Corps Reserve transactions for the miscellaneous equipment and aircraft funds allocated to the Naval Air Systems Command. The DFAS Cleveland Center combines the DFAS Kansas City reports on budget execution and the DFAS Cleveland Marine Corps Reserve transactions to prepare the Marine Corps Reserve NAREA report on budget execution.

Trial Balance. The DFAS Cleveland Center submits to the DFAS Indianapolis Center monthly trial balances using the DoD uniform chart of accounts. Before the DFAS Cleveland Center submits the trial balance to the DFAS Indianapolis Center, the DFAS Cleveland Center ensures that the report on budget execution crosswalks² to the trial balance. The DFAS Indianapolis Center will use the September 30, 1996, Marine Corps Reserve NAREA trial balance to report the FY 1996 NAREA adjusted trial balance to the Department of the Treasury through the Federal Agency Centralized Trial Balance System.

Audit Objectives

The audit objective was to evaluate the financial information reported for the FY 1996 Marine Corps Reserve trial balance for the NAREA. We also determined the effect of any noncompliant actions on FY 1997 financial statements. In addition, we assessed compliance with laws and regulations and the management control program as it relates to the overall objective. See Appendix A for a discussion of the audit scope and methodology and the review of the management control program.

²A method that uses formulas to verify and adjust, if necessary, trial balance accounts to the yearend report on budget execution.

Marine Corps Reserve Trial Balance for the National Guard and Reserve Equipment Appropriation

The FY 1996 Marine Corps Reserve trial balance for the NGREA is misstated. The trial balance is misstated because the DFAS Cleveland Center used the uncertified rather than the certified report on budget execution from the DFAS Kansas City Center to crosswalk to the trial balance. As a result, the Fund Balance with Treasury account is overstated by \$8.4 million and the Appropriated Capital account is overstated by \$8.6 million on the FY 1996 Marine Corps Reserve trial balance.

Financial Reporting Requirements

The DFAS Indianapolis Center issues yearend reporting instructions to the DFAS centers for financial reporting. The DFAS Indianapolis Center Instruction, "FY 1996 Year-End Accounting Instruction - Treasury Index 97," July 24, 1996, requires that the report on budget execution be certified as accurate and complete as of the date of certification. The Instruction also requires that the report on budget execution be submitted to the DFAS Indianapolis Center by the close of business on the 15th workday of the month.

Financial Reporting Process

Use of Report on Budget Execution Data. The DFAS Cleveland Center uses report on budget execution data to verify the Marine Corps Reserve trial balance because supporting accounting systems are not complete general ledger accounting control systems. The need for complete general ledger accounting control systems is discussed further in Inspector General, DoD, Audit Report No. 97-017, "Consolidated FY 1995 Financial Report on Defense Organizations Receiving Department 97 Appropriations," October 31, 1996.

Marine Corps Reserve Trial Balance for the National Guard and Reserve Equipment Appropriation

The Marine Corps Systems Command Report on Budget Execution. The DFAS Kansas City Center prepared a report on budget execution that reflects the status of miscellaneous equipment funds the Marine Corps Systems Command spends. The DFAS Kansas City Center prepared the report on budget execution based on data in the:

- o Status of Fund Authorization reports (Navy Comptroller Form 2025) from the DFAS Kansas City Center Defense Accounting Offices,
- o Assistant Secretary of the Navy (Financial Management and Comptroller) Authority for Allocation reports (Form 2058), and
- o Centralized Expenditures and Reimbursements Processing System reports from the DFAS Cleveland Center.

The Naval Air Systems Command Marine Corps Reserve Transactions. The DFAS Cleveland Center uses manual spreadsheets and computer system inquiries to determine reportable Marine Corps Reserve transactions for the aircraft funds and the miscellaneous equipment funds allocated to the Naval Air Systems Command. However, the DFAS Cleveland Center does not prepare a report on budget execution to show the status of the Marine Corps Reserve funds at the Naval Air Systems Command.

Marine Corps Reserve NAREA Financial Reports. The DFAS Cleveland Center prepared the Marine Corps Reserve report on budget execution for the NAREA based on:

- o the report on budget execution for the Marine Corps Systems Command that the DFAS Kansas City Center submitted, and
- o the manual spreadsheets and system inquiries for the Naval Air Systems Command.

The DFAS Cleveland Center also prepared the Marine Corps Reserve trial balance for the NAREA. The DFAS Cleveland Center uses formulas to verify and adjust, if necessary, trial balance accounts to the yearend report on budget execution.

The Report on Budget Execution

Due Date Requirements. To meet the DFAS Indianapolis Center deadline of the 15th workday of the month, the DFAS Cleveland Center established the 13th workday as the due date for the report on budget execution from the DFAS Kansas City Center. The DFAS Cleveland Center inappropriately used the uncertified report on budget execution received from the DFAS Kansas City Center to prepare the Marine Corps Reserve NAREA report on budget execution because the DFAS Kansas City Center did not provide the certified

**Marine Corps Reserve Trial Balance for the National Guard
and Reserve Equipment Appropriation**

report on budget execution by the due date. As shown in Table 1, the DFAS Cleveland Center submitted the report on budget execution to the DFAS Indianapolis Center before the DFAS Kansas City Center submitted the certified report on budget execution.

Table 1. FY 1996 Submission of the Report on Budget Execution

Action	Date Due	Date Provided
Uncertified DFAS-KC ¹ DD Form 1176 to DFAS-CL ²	10/18/1996	10/17/1996
DFAS-CL DD Form 1176 to DFAS-IN ³	10/22/1996	10/22/1996
Certified DFAS-KC DD Form 1176 to DFAS-CL	10/18/1996	10/30/1996

¹DFAS Kansas City Center.

²DFAS Cleveland Center.

³DFAS Indianapolis Center.

Supplemental Financial Information to Financial Reports

DoD 7000.14-R, "DoD Financial Management Regulation," volume 1, "General Financial Management Information, Systems, and Requirements," May 1993, contains 13 key accounting requirements with which an accounting system must reasonably comply. Key Accounting Requirement 1, General Ledger Control and Financial Reporting, states that full financial disclosure, accountability, adequate financial information, and reports must be provided for management purposes and for necessary external reporting to the Office of Management and Budget and the Department of the Treasury. Volume 6 of the Regulation, "Reporting Policy and Procedures," February 1996, states that reports are end products of the accounting process and must be accurate and timely and must provide full disclosure to users. In addition, the Regulation states that if circumstances warrant additional disclosures not specifically provided for in a report, DoD Components are responsible for assuring that all appropriate disclosures considered necessary for fair presentation of a Component's financial position are included in any financial report. Further, the Regulation states that the notes to the principal statements should contain all disclosures necessary to make the financial statement fully informative and to avoid misinterpretations.

The DFAS Cleveland Center had not established the management controls needed to ensure the disclosure of the use of uncertified data. Therefore, the DFAS Cleveland Center did not include footnotes in the report on budget execution to show that the FY 1996 Marine Corps Reserve NGREA report on

Marine Corps Reserve Trial Balance for the National Guard and Reserve Equipment Appropriation

budget execution and the trial balance contained uncertified information, which conflicts with requirements in Key Accounting Requirement 1. Without adequate disclosure, the FY 1996 Marine Corps Reserve NGREA financial reports are unreliable.

Effects on the Asset and Equity Trial Balance Accounts

For FY 1996, the Fund Balance with Treasury account reported for the Marine Corps Reserve showed a balance of \$363.9 million. However, the Fund Balance with Treasury account for FY 1996 should have been reported as \$355.5 million. Similarly, the Appropriated Capital account showed a balance of \$293.1 million, but should have been reported as \$284.5 million. Because the DFAS Cleveland Center used the uncertified report on budget execution from the DFAS Kansas City Center rather than the certified report on budget execution, the Fund Balance with Treasury account is overstated by \$8.4 million and the Appropriated Capital account is overstated by \$8.6 million on the trial balance. Table 2 shows the effects on the asset and equity trial balance accounts.

Table 2. Comparison of Data on Uncertified and Certified Reports on Budget Execution
(Dollars in millions)

<u>Account</u>	<u>Uncertified Report on Budget Execution</u>	<u>Certified Report on Budget Execution</u>	<u>Difference</u>
1010 - Fund Balance with Treasury	\$363.9	\$355.5	\$8.4
3100 - Appropriated Capital	293.1	284.5	8.6

Conclusion

Accurate and timely reporting is essential and even more critical at year's end. The DFAS centers are responsible for accurate submissions of financial data by the due dates. However, if circumstances warrant using the best available data, the reporting activity must make appropriate disclosures about the data used. The reporting DFAS center must make the disclosures to prevent unreliable financial reports. The DFAS Cleveland Center will continue to use report on budget execution data to verify the trial balance until a general ledger

Marine Corps Reserve Trial Balance for the National Guard and Reserve Equipment Appropriation

accounting control system is established. However, the DFAS Cleveland Center must use certified report on budget execution data or disclose in that report that the data are not certified.

Recommendations, Management Comments, and Audit Response

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

1. Establish management controls to ensure that certified Marine Corps Reserve report on budget execution data are used to prepare the trial balance and report on budget execution.

2. Make appropriate disclosures, as required by Key Accounting Requirement 1, General Ledger Control and Financial Reporting, when certified Marine Corps Reserve report on budget execution data are not used.

Management Comments. The DFAS partially concurred with the recommendation to establish management controls to ensure that certified Marine Corps Reserve report on budget execution data are used. Both the DFAS Cleveland Center and the DFAS Kansas City Center are establishing management controls and have initiated corrective measures to ensure that certified yearend reports are used. The DFAS agreed to make appropriate disclosures when uncertified data are used to prepare final reports. Additionally, both DFAS centers will establish an accounting review requirement of all footnotes to ensure proper disclosures are made.

Audit Response. Although the DFAS Cleveland Center partially concurred with the recommendation to ensure that certified Marine Corps Reserve report on budget execution data are used, the comments are fully responsive to the intent of the recommendation. Therefore, no additional comments are required.

Part II - Additional Information

Appendix A. Audit Process

Scope and Methodology

Scope. We reviewed the FY 1996 Marine Corps Reserve trial balance for the National Guard and Reserve Equipment Appropriation (NGREA). We performed the audit in response to the Chief Financial Officers Act of 1990 (Public Law 101-576), which established requirements for Federal organizations to submit audited financial statements to the Director, Office of Management and Budget.

Methodology. We reviewed the process the DFAS Cleveland Center used to prepare the trial balance for the Marine Corps Reserve portion of the NGREA. Specifically, we tracked the FY 1996 Marine Corps Reserve trial balance for the NGREA to the FY 1996 Marine Corps Reserve report on budget execution for the NGREA. In addition, we looked at the process the DFAS Cleveland Center used to prepare the Marine Corps Reserve report on budget execution for the NGREA.

Use of Computer-Processed Data. We relied on computer-processed data but did not test the reliability of the data. We did not test the reliability of the data because we evaluated the process the DFAS Cleveland Center used to crosswalk the FY 1996 Marine Corps Reserve trial balance for the NGREA to the FY 1996 Marine Corps Reserve report on budget execution for the NGREA. Therefore, not establishing the reliability of the financial data did not materially affect the results of our audit.

Prior Audits and Other Reviews. In the last 5 years, no prior audits or other reviews on the financial data have been completed for the Marine Corps Reserve NGREA.

Contacts During the Audit. We visited or contacted individuals and organizations within the DoD. Further details are available upon request.

Audit Period and Standards. We performed this financial-related audit from October 1996 through February 1997 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Accordingly, we included such tests of management controls considered necessary.

Management Control Program

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, 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 controls.

Scope of Review of the Management Control Program. We reviewed the management controls over the process the DFAS Cleveland Center used to prepare the Marine Corps Reserve NGREA report on budget execution and trial balance. Specifically, we reviewed the process the DFAS Cleveland Center used to verify the FY 1996 Marine Corps Reserve NGREA trial balance to the report on budget execution. We reviewed management's self-evaluation applicable to those controls.

Adequacy of Management Controls. We identified a material management control weakness, as defined by DoD Directive 5010.38, for the DFAS Cleveland Center. The DFAS Cleveland Center management controls for the preparation of the report on budget execution and the trial balance had not been established to ensure appropriate disclosures of financial information. The DFAS Cleveland Center did not make any disclosure that the financial reports contained inaccurate financial information. Recommendation 1, if implemented, will correct the deficiency. We will provide a copy of this report to the senior official in charge of management controls for the DFAS Cleveland Center.

Adequacy of Management's Self-Evaluation. The DFAS Cleveland Center identified accounting and reporting for the NGREA as part of an assessable unit. However, the DFAS Cleveland Center did not perform the required evaluation of the applicable management controls and, as a result, did not identify the material management control weakness identified by the audit. DFAS Cleveland Center officials stated they did not perform the required evaluation due to multiple reorganizations occurring within the DFAS Cleveland Center. For FY 1997, the DFAS Cleveland Center has scheduled a management control review to be completed by the end of June 1997.

Appendix B. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Assistant Secretary of Defense (Public Affairs)
Assistant Secretary of Defense (Reserve Affairs)
Director, Defense Logistics Studies Information Exchange

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
Naval Air Systems Command

Department of the Air Force

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

U.S. Marine Corps

Assistant Deputy Chief of Staff for Manpower and Reserve Affairs
Deputy Chief of Staff for Programs and Resources
Marine Corps Systems Command

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

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

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

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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 Governmental Reform and Oversight
House Subcommittee on Government Management, Information and Technology,
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

MAY 28 1997

MEMORANDUM FOR DIRECTOR, READINESS AND OPERATIONAL SUPPORT,
OFFICE OF THE INSPECTOR GENERAL,
DEPARTMENT OF DEFENSE

SUBJECT: Audit Report on the Marine Corps Reserve
Financial Reports on the National Guard and Reserve
Equipment Appropriation (Project No. 7RE-2002.00)

Our management comments on the subject draft audit are attached. The audit discloses that the FY 1996 Marine Corps Reserve trial balance for the National Guard and Reserve Appropriation, 9760350, is misstated. The misstatement occurred because uncertified Marine Corps Reserve reports were used, but not disclosed in the Marine Corps Reserve trial balance. This results in overstating the general ledger accounts, Fund Balance with Treasury and Appropriated Capital, by \$8.4 million and \$8.6 million.

The point of contact is Ms. Hettye Kirkland,
(703) 607-5104.


for Edward A. Harris
Deputy Director for
Accounting

Attachment:
As stated

cc:
DFAS-CL\PI
DFAS-KC\PI
DFAS-IN\PI

SUBJECT: Audit Report on the Marine Corps Reserve
Financial Reports on the National Guard and Reserve
Equipment Appropriation (Project No. 7RE-2002.00)

RECOMMENDATION 1: Establish management controls to ensure that certified Marine Corps Reserve report on Budget execution data are used to prepare the trial balance and report on budget execution.

DFAS COMMENTS: Partially Concur. Both the Defense Finance and Accounting Service (DFAS) Centers, Cleveland (DFAS-CL) and Kansas City (DFAS-KC), are working to establish management controls. Corrective measures have been initiated to preclude the recurrence of the reporting problem addressed by the audit. A joint meeting held by the centers in February 1997 resulted in revisions to the DFAS-KC reporting procedures. This will enable them to supply DFAS-CL with certified year-end reports by the established due date. Also, DFAS-CL will follow-up with DFAS-KC during July 1997 to ensure the report production schedules have been revised. Estimated Completion Date: September 30, 1997.

RECOMMENDATION 2: Make appropriate disclosures, as required by Key Accounting Requirement 1, General Ledger Control and Financial Reporting, when certified Marine Corps Reserve reports on budget execution data are not used.

DFAS COMMENTS: Concur. The DFAS agrees that appropriate disclosures should have been provided on the Marine Corps Reserve trial balance for the National Guard Reserve Equipment Appropriation (NGREA) to DFAS-Indianapolis. To preclude a recurrence of nondisclosure, DFAS-CL will issue instructions to ensure that all personnel are aware of Key Accounting Requirement 1 and disclose the use of uncertified data to produce final reports. Additionally, both DFAS-CL and DFAS-KC accounting operations will establish an accounting review requirement of all footnotes to ensure that proper disclosures are made. Estimated Completion Date: September 30, 1997.

Audit Team Members

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

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