

Evaluation



Report

OFFICE OF THE INSPECTOR GENERAL

**EVALUATION REPORT ON MANAGEMENT CONTROLS
AT THE DISBURSING OFFICE,
NAVAL SURFACE WARFARE CENTER,
DAHLGREN, VIRGINIA**

Report No. 97-194

July 23, 1997

DEPARTMENT OF DEFENSE

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Acronyms

CDT	Cash Deposit Ticket
DCIS	Defense Criminal Investigative Service
DFAS	Defense Finance and Accounting Service
DO	Disbursing Officer
FRB	Federal Reserve Bank
NRFC	Naval Regional Finance Center
NSWC	Naval Surface Warfare Center
SODA	Schedule of Deposit Activity



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



July 23, 1997

**MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE**

**SUBJECT: Evaluation of Management Controls at the Disbursing Office, Naval
Surface Warfare Center, Dahlgren, Virginia (Report No. 97-194)**

We are providing this evaluation report for your information and use. We conducted the evaluation in response to a request for assistance from the Defense Criminal Investigative Service.

Because the report contains no findings or recommendations, written comments were not required. However, we received comments from Headquarters, Defense Finance and Accounting Service, and the Defense Finance and Accounting Service Cleveland Center. A summary of the management comments is in Part I and the complete text of the comments is in Part III.

We appreciate the courtesies extended to the evaluation staff. Questions on the evaluation should be directed to Mr. Christian Hendricks, Program Director, at (703) 604-9140 (DSN 664-9140 or CHendricks@DODIG.OSD.MIL) or Mr. Carl F. Zielke, Project Manager, at (703) 604-9147 (DSN 664-9147 or CZielke@DODIG.OSD.MIL). See Appendix B for the report distribution. The evaluation 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

Inspector General, DoD

Report No. 97-194
(Project No. 7FG-5005)

July 23, 1997

Evaluation of Management Controls at the Disbursing Office, Naval Surface Warfare Center, Dahlgren, Virginia

Executive Summary

Introduction. On September 19, 1996, the Defense Criminal Investigative Service requested assistance from the Assistant Inspector General for Auditing, DoD, in an investigation at the Naval Surface Warfare Center, Dahlgren, Virginia. The investigation was initiated due to a potential loss of over \$140,000 at the Dahlgren Disbursing Office. This report gives the results of our review of the management controls used for cash management at the Disbursing Office. The Defense Finance and Accounting Service (DFAS) Cleveland Center, Cleveland, Ohio, had oversight responsibility for the Dahlgren Disbursing Office.

Evaluation Objectives. The primary evaluation objective was to assist the Defense Criminal Investigative Service in an investigation of a potential loss of funds at the Disbursing Office, Naval Surface Warfare Center, Dahlgren, Virginia. We were tasked to document the receipt and subsequent loss of funds and create an audit trail for each loss; identify missing records; locate additional evidence; identify patterns in employee attendance during specific time periods; and identify types of funds lost. Although the investigation is ongoing, we are reporting on the lack of management controls that may have contributed to a loss of funds to identify lessons learned.

Evaluation Results. We identified material management control weaknesses for cash management; as a result of these weaknesses, over \$140,000 in deposits was not received at the Federal Reserve Bank in Richmond, Virginia. Management control weaknesses included the lack of separation of duties, which resulted in improper delegation of authority, noncompliance with dual control procedures, and failure to verify cash on hand. Deposits were not reconciled and management had limited oversight of the disbursing office, increasing the potential for error or risk of loss. Other control deficiencies resulted in excessive cash balances and the untimely recording and reconciliation of transactions, causing inaccuracies in the financial records. The Dahlgren Disbursing Office closed in June 1996, and its function was moved to the DFAS Operating Location at Charleston, South Carolina. However, these control weaknesses may exist at other disbursing offices. Because of the loss of funds, DFAS Cleveland Center personnel prepared situation reports to monitor and inform management of the status of the investigation. As a result, the DFAS Cleveland Center, Internal Review Office, is auditing the Deposit-in-Transit reconciliation and reporting system for all disbursing station symbol numbers that the DFAS Cleveland Center is responsible for reconciling. The results of that review will be sent to Headquarters, DFAS, to determine whether further action is needed. Because of the proposed actions by DFAS, no recommendations were made in our report. We will review the results of DFAS actions as a followup matter.

Management Comments. Although management comments were not required, the Headquarters, Defense Finance and Accounting Service, and the Defense Finance and

Accounting Service Cleveland Center commented on a draft of this report. A summary of the management comments is in Part I. Management generally agreed with the report, requesting minor changes. We revised the report where appropriate. The complete text of the comments is in Part III.

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Part I - Evaluation Results

Evaluation Background

On May 24, 1995, the Defense Finance and Accounting Service (DFAS) Cleveland Center requested that the Defense Criminal Investigative Service (DCIS) investigate a potential loss of funds at the Dahlgren Disbursing Office. On September 19, 1996, the DCIS requested assistance from the Assistant Inspector General for Auditing, DoD, in investigating a potential loss of funds from 1988 through 1995 at the Disbursing Office, Naval Surface Warfare Center (NSWC), Dahlgren, Virginia.

The Dahlgren Disbursing Office was closed in June 1996, and its function was moved to the DFAS Operating Location, Charleston, South Carolina. The Dahlgren Disbursing Office was consolidated under the DFAS Cleveland Center in March 1993, and a DFAS on-site manager was assigned to coordinate the transition. Before 1993, the Dahlgren Disbursing Office reported to the Navy Regional Finance Center, Washington Office, Arlington, Virginia.

During the period when the loss of funds occurred, the Dahlgren Disbursing Office responsibilities included cash and check payments to vendors, preparing travel advance checks, and providing cash advances. Collection responsibilities included the receipt of cash and checks from the dining facility and reimbursements to the Government for travel debts. Disbursement and collection transactions were posted daily in the Cash Book Register (Navy Comptroller Form 425). Reporting responsibilities included preparing and validating Cash Deposit Tickets (Standard Form 215), which are sent to the Federal Reserve Bank (FRB) in Richmond, Virginia; preparing the Daily Balance Sheet (Navy Comptroller Form 379); and preparing and reconciling the monthly Schedule of Deposit Activity (SODA) report and the Statement of Accountability (Standard Form 1219), which are sent to the DFAS Cleveland Center. Although the Dahlgren Disbursing Office was consolidated by DFAS in 1993 and closed in 1996, personnel continued to follow the "Navy Comptroller Manual," volume 4, chapter 3, "Keeping and Safeguarding Public Funds," January 1991, for documenting and mailing deposits to the FRB. The "Navy Comptroller Manual" states,

Deposits to FRBs and branches (whether by mail or in person) will be made no later than the morning of the business day following accumulation of sufficient funds to warrant a deposit. . . . The least preferred method of depositing cash is by registered mail. Cash deposits by mail may be made only to an FRB or branch. The cash should be double wrapped or placed in an inner and outer container.

DoD 7000.14-R, the "DoD Financial Management Regulation," volume 5, "Disbursing Policy and Procedures," May 1996, also provides for the deposit of cash and checks in the Federal Reserve System by using registered or certified mail. DoD 7000.14-R states,

Disbursing Officers shall separate cash from checks and prepare a separate Cash Deposit Ticket, Standard Form 215, for each when

depositing with a[n] Federal Reserve Bank. . . . Cash deposits by mail shall be made only to an FRB or branch. . . . Public funds may be shipped by certified or registered mail. . . depending upon availability of means. . . . In the case of coin or currency lost en route to a depository, accountability rests with the DO who made the shipment for deposit.

The DFAS Cleveland Center has overall responsibility for managing and overseeing finance, accounting, and disbursing functions and associated reporting functions for the Department of the Navy and other DoD customers. Specifically, the DFAS Cleveland Center reconciled deposit reports received from the Dahlgren Disbursing Office to deposits posted to the Federal Reserve System by the FRB, Richmond, Virginia. Reconciliation of deposits includes review and analysis of the Deposit-in-Transit report. The Deposit-in-Transit report is generated when deposits posted to the monthly SODA report and those reported by the FRB do not agree with those reported to the Federal Reserve System of the Department of the Treasury. DFAS Cleveland Center personnel use the Deposit-in-Transit report to monitor the reconciliation of deposits from the disbursing office to the FRB and to request documentation for reconciliations.

At Headquarters, DFAS, the Crisis Coordination Center of the Plans and Management Deputate receives, logs, and forwards situation reports to the appropriate Headquarters office. Situation reports notify Headquarters, DFAS, of management control weaknesses, investigations of fraud, and other matters occurring in the field. The appropriate office at Headquarters, DFAS, ensures that the reported issue is fully researched and resolved. The Crisis Coordination Center may prepare and distribute situation reports to the DFAS Centers on matters requiring their attention.

Evaluation Objectives

The primary evaluation objective was to assist the DCIS in an investigation of a potential loss of funds at the Disbursing Office, NSWC, Dahlgren, Virginia. We were tasked to document the receipt and subsequent loss of funds and create an audit trail for each loss; identify missing records; locate additional evidence; identify patterns in employee attendance during specific time periods; and identify types of funds lost. Although the investigation is ongoing, we are reporting on the lack of management controls that may have contributed to a loss of funds. Appendix A describes the scope and methodology used in the evaluation.

Management Controls Over Cash Management

The Dahlgren Disbursing Office did not have sufficient cash management controls to reduce the potential for error and loss of funds. Material management control weaknesses included lack of separation of duties, improper delegation of authority, noncompliance with dual control procedures, failure to verify cash on hand, and failure to perform reconciliations between the Federal Reserve Bank and monthly reports of the Dahlgren Disbursing Office, excessive cash balances, and untimely posting and reconciliation of transactions. As a result of these weaknesses an apparent loss of funds occurred.

Separation of Duties

Accountability over cash was lost due to the lack of separation of duties over the cash management cycle, which consists of the receipt, disbursement, and deposit of funds; the recording and reporting of transactions; the stewardship of funds; and the verification of cash on hand. Weaknesses in management controls related to the lack of separation of duties resulted from the failure to effectively delegate authority, to comply with dual control procedures, and to independently verify cash on hand.

Delegation of Authority. Position descriptions did not properly delegate authority, responsibility, and accountability to ensure that no individual could control all the events of the cash management cycle. Because there was no clearly written delegation of authority, personnel performed duties outside the authority normally given to individuals performing the cash function. DoD 7000.14-R, volume 5, states,

Effective IMC [Internal Management Control] procedures depend largely on eliminating opportunities to conceal errors or irregularities. This, in turn, depends on assigning work so that no one individual controls all phases of a transaction. Separation of duties creates a situation that should preclude errors or attempts at fraud or embezzlement from going undetected.

The lack of delegation allowed the cashiers in the disbursing office to individually receive and disburse funds, maintain their own cash on hand, record transactions in the cash book and daily balance sheet that document the current cash balance, and prepare the cash deposit slips for deposit. Because the disbursing officer had not delegated tasks to separate employees (the cash receipt and disbursement function was not separate from the recording function) and had not defined those duties in writing, the accountability and the integrity of transactions processed during the period under review were subject to compromise.

Management Controls Over Cash Management

For cash deposits, cashiers, without supervision or independent verification, determined how much they deposited from their cash drawers, created their own cash deposit tickets for deposited funds, and placed the funds and the deposit ticket in an open envelope. The open envelope was then given to the disbursing officer for verifying and mailing to the FRB. The disbursing officer, independently and without witnesses:

- o verified the amount of cash,
- o prepared the Shipment of Funds document (Standard Form 165) that accounts for the various denominations of currency and ensures that the correct amount is posted on the cash deposit ticket,
- o sealed the envelope containing the cash and the deposit tickets, and
- o completed the registered mail log for the U.S. Postal Service to forward the funds to the FRB.

Because the disbursing officer worked independently, the risk of loss or error was significantly increased, and the disbursing officer was accountable for the results. DoD 7000.14-R states, "DOs are held personally and pecuniarily accountable for their disbursing acts and for the legal expenditure of the funds placed under their control." The Regulation also states, "DOs are accountable for illegal, improper, or incorrect payments or for errors in their accounts even though they may have relied on deputies, agents, and cashiers and the errors were caused by the deputies, agents, and cashiers." The disbursing officer is responsible for ensuring that funds are safeguarded and losses are kept to a minimum. Most important, disbursing officers are in positions of trust and must ensure that standards and procedures are followed.

Disbursing officers should provide clear written criteria for the delegation of authority, defining responsibility and accountability and implementing management controls to reduce the likelihood of loss or misuse of funds. When duties cannot be separated due to a lack of resources, dual controls should be put in place to minimize the risk of potential loss.

Dual Controls. Dual control procedures were not implemented to ensure proper accountability and control of funds. Dual control procedures ensure that theft can occur only if there is collusion among employees, and reduces the likelihood that a loss of funds could occur. For example, at the Dahlgren Disbursing Office, deposits of funds were compromised when signatures were allegedly forged to comply with the requirement for dual signatures. DoD 7000.14-R requires that two employees sign the Shipment of Funds document to verify the amount being deposited. However, the Dahlgren disbursing officer did not comply with this requirement, but signed for the deputy disbursing officer. Although the deputy disbursing officer stated that she was aware that her signature was being used, a formal complaint was never made, and no corrective action was taken. This lack of compliance with the dual control procedures may have contributed to the potential loss of funds.

Management Controls Over Cash Management

Cash Counts. DFAS did not perform cash counts, nor did the cash counts performed before the transfer to DFAS provide adequate oversight to ensure that the controls were operating as intended. Before the Dahlgren Disbursing Office was consolidated under the DFAS Cleveland Center in March 1993, the Naval Surface Warfare Center (NSWC) Command Evaluation Office performed surprise cash counts each quarter. However, the cash counts were usually conducted during the last week of the quarter, which allowed the disbursing office to prepare for them. Consequently, the cash counts did not provide an effective control. The July 1993 cash count was the last count performed by the NSWC Command Evaluation Office.

When the Dahlgren Disbursing Office was consolidated under the DFAS Cleveland Center, an on-site DFAS manager was assigned to oversee the transition from the Navy Defense Accounting Office to the DFAS consolidated system. The DFAS on-site manager neither required nor performed an independent cash count before the disbursing office closed in June 1996. The DFAS on-site manager's responsibilities should have included independent cash counts and a review to determine whether management controls were working as intended. A review would have shown that the staff did not have written position descriptions, controls over dual control procedures did not exist, and cash counts were not verified.

Reconciliation of Deposits

The disbursing officer did not completely reconcile deposits recorded on the SODA report to deposits recorded by the FRB. DoD 7000.14-R requires the disbursing officer to prepare a monthly report that outlines deposits made and deposits confirmed and provides a detailed list of unconfirmed deposits. The reports were required to be sent to the Navy Regional Finance Center (NRFC), Washington Office, until March 1993, when the disbursing office was consolidated under the DFAS Cleveland Center. For cash management activities, a key indicator of the potential loss of funds is a lack of bank reconciliations. This fact should have caused concern at the NRFC and the DFAS Cleveland Center.

The disbursing officer is responsible for reconciling deposits reported on the balance sheet and the SODA report with confirmed deposit slips from the FRB. When confirmed copies of deposits were received from the FRB, the Dahlgren disbursing officer was responsible for reconciling those confirmed deposits to the copy maintained by the disbursing office. When a confirmed deposit slip was not received, the disbursing officer was responsible for contacting the FRB to obtain a confirmed copy. When the reconciliation was completed, the disbursing officer was to list on the SODA report those deposits in transit and those from the previous month's SODA report that had since been confirmed. However, the Dahlgren disbursing officer did not reconcile those deposits outstanding from the previous month's SODA report to the current report so that confirmations of outstanding deposits could be requested from the FRB in Richmond, Virginia.

Management Controls Over Cash Management

DFAS Cleveland Center Oversight. The disbursing officer did not respond promptly to requests from the DFAS Cleveland Center for assistance in reconciling outstanding deposits. Using the Deposit-in-Transit report, DFAS Cleveland Center personnel noted that from June 1988 through November 1995, 69 deposits totaling over \$140,000 could not be reconciled from the Dahlgren Disbursing Office SODA report. On 10 occasions from May 1993 through February 1995, the DFAS Cleveland Center requested assistance from the disbursing officer in reconciling cash deposits that the FRB had not received. The Dahlgren disbursing officer did not provide the missing information until DFAS Cleveland Center elevated the request to the DFAS on-site manager at the Dahlgren Disbursing Office in early February 1995. On February 21, 1995, the disbursing officer provided information, but because of obvious errors, DFAS Cleveland Center personnel questioned its validity.

Because of the questionable validity of the information provided by the disbursing officer, on April 18, 1995, the DFAS Cleveland Center Accounting Deputate requested that the DFAS Cleveland Center Internal Review Office determine why the deposits could not be reconciled. On April 26, 1995, a team from the Internal Review Office, DFAS Cleveland Center, counted the cash on hand at the Dahlgren Disbursing Office, reviewed the stock of checks, and reviewed operating policies for the Dahlgren Disbursing Office. On May 25, 1995, the team returned to the Dahlgren Disbursing Office and relieved the disbursing officer and the two cashiers of their duties because of the potential loss of funds. On that date, \$150 was missing from the cash drawer of one of the employees.

From the first indication of problems, 2 years passed until DFAS Cleveland Center Accounting personnel prepared a situation report and requested that the Internal Review Office determine whether a loss had occurred. We contacted the DFAS Cleveland Center Accounting Deputate to determine why 2 years had passed before a situation report was generated. Accounting personnel stated that the reconciliation of the Deposit-in-Transit report had just been transferred to the DFAS Cleveland Center when the Dahlgren Disbursing Office was consolidated in March 1993. Accounting personnel stated that before consolidation, the Navy Regional Finance Center, Washington Office, had not reconciled the Deposit-in-Transit report for over 8 months. Consequently, DFAS Cleveland Center personnel needed several months to learn the reconciliation function, update the Deposit-in-Transit reporting system, and notify disbursing officers of outstanding deposits. However, when notified by letter on 10 occasions, the Dahlgren Disbursing Officer did not respond promptly to requests for information so that DFAS Cleveland Center personnel could validate deposits reported and reconcile the Deposit-in-Transit report.

Other Control Weaknesses

We also noted other control weaknesses that increased the potential for a loss of funds. Controls over the amount of cash on hand were inadequate, and the recording and reconciliation of transactions was not always timely.

Management Controls Over Cash Management

Excessive Cash Balance. The Dahlgren Disbursing Office kept a cash balance that exceeded the cash needed at the facility. The Dahlgren Disbursing Office had the authority to maintain a balance of \$8,000 for cash requirements. Cash deposits were not made daily; they were made when it was determined that a cash deposit would exceed \$1,000. A review of cash counts performed by the NSWC Command Evaluation Office from June 1987 through July 1993 showed that the average balance of cash on hand was \$9,086. DoD 7000.14-R states,

In considering their cash requirements for disbursing and accommodation transactions, DOs shall consider daily cash collections over a representative period of time and average the results. If daily cash collections exceed disbursement and accommodation needs, no further computation is necessary.

We analyzed the cash collections and cash disbursements from January 1992 through May 1995 and determined that the average of cash receipts per month was \$8,710.40. However, the average of cash disbursements per month was \$1,079.80. The Dahlgren Disbursing Office maintained a higher cash balance than was necessary to conduct business. We found no documentation to show that the balance of cash on hand was assessed. Cash requirements should be evaluated periodically to ensure that an adequate amount of cash is maintained.

Timely Recording and Reconciliation of Transactions. The lack of timely recording and reconciliation of daily cash transactions caused inaccurate postings in the cash books. The Dahlgren Disbursing Office did not always record transactions on the dates they occurred, which resulted in inaccurate financial reports. For example, the daily transaction log for the dining facility showed that on January 26, 1992, the dining facility received \$520.30 and submitted the same amount for deposit at the disbursing office. However, that amount was not posted to the cash book and the daily balance sheet until January 29, 1992, 3 work days later.

We did not identify any periodic reconciliation of the daily cash books and balance sheets. We found 15 uncorrected posting errors. For example, \$498.29 was received on April 28, 1995, but the records did not show the correct balance until the interim disbursing officer corrected the daily balance sheet on May 26, 1995. Inaccurate recordkeeping increases the risk of fraud because employees can alter records, fail to record funds received, or record them inaccurately. Transactions must be posted promptly, properly classified, and accounted for to ensure accurate and timely reports and reliable financial records.

Subsequent Events. When the disbursing officer was relieved on May 25, 1995, an interim disbursing officer was assigned at the Dahlgren Disbursing Office. With the assignment of the interim disbursing officer, cash deposits were made daily, dual control procedures were performed in the presence of a witness, and the cash balance was maintained below the authorized balance. During the period June 1995 through June 1996, DFAS Cleveland Center personnel determined that no cash deposits were lost. The Dahlgren Disbursing Office closed on June 28, 1996.

Management Controls Over Cash Management

DFAS Cleveland Center personnel prepared situation reports from April 1995 through September 1996, informing Headquarters, DFAS, of the potential loss of funds and status of the investigation. Headquarters, DFAS, uses situation reports to monitor and track significant issues reported by the DFAS Centers so that they are fully researched and resolved. Also, because other disbursing offices may have problems with deposits in transit, we discussed with the Director, Internal Review Office, DFAS Cleveland Center, the need for a review of the Deposit-in-Transit process throughout the disbursing network of the DFAS Cleveland Center. The Director, Internal Review Office, stated that he would begin a review during the third quarter of FY 1997.

Summary

This evaluation report outlines material management control weaknesses at the Disbursing Office, Naval Surface Warfare Center, Dahlgren, Virginia. Management control weaknesses included the lack of separation of duties, noncompliance with dual control procedures, failure to verify cash on hand, excessive cash balances, incomplete reconciliation of deposits, and untimely recording and reconciliation of transactions. Management oversight was limited, which increased the potential for error or risk of loss. The Dahlgren Disbursing Office closed in June 1996, but the same management control weaknesses could exist at any disbursing activity.

Headquarters, DFAS, has provided the DFAS General Counsel with the situation reports generated by DFAS Cleveland Center personnel. The DFAS General Counsel is monitoring the investigation and is supporting DCIS in pursuing the potential loss of funds.

Personnel at Headquarters, DFAS, and the Internal Review Office, DFAS Cleveland Center, are aware of the management control weaknesses discussed in this report. To determine whether timely and accurate reconciliations are being performed, they are reviewing the Deposit-in-Transit process for the disbursing station symbol numbers that the DFAS Cleveland Center is responsible for reconciling. When that review is completed, additional reviews may be needed at other DFAS locations to ensure that management controls for cash management are working as intended. The results of that review will be forwarded to Headquarters, DFAS, to determine whether further action is needed. Management actions are responsive, and we will review the results during the evaluation followup process.

Management Comments and Evaluation Response

Management Comments. Although comments were not required, Headquarters, DFAS, and the DFAS Cleveland Center commented on the draft report. The management comments were identical, except that the DFAS

Management Controls Over Cash Management

Cleveland Center stated that they are currently conducting the requested audit of the Deposit-in-Transit system for all the disbursing station symbol numbers that they are responsible for reconciling. Both management responses noted stated that the host command was responsible for performing quarterly cash verifications and that the DFAS on-site manager was not responsible for conducting cash counts, but was responsible for ensuring that management controls were working as intended. Both DFAS management responses also stated that the inability to substantiate potential losses because DFAS records were not available for 1988 through portions of 1990 should be attributed to the Navy and not to DFAS.

Evaluation Response. The report was revised where appropriate based on management comments.

Part II - Additional Information

Appendix A. Evaluation Process

Scope and Methodology

Work Performed. The scope of this evaluation included the review of 95 cartons containing balance sheets, records of cash and check disbursements, cash books, and related supporting records for the period March 1990 through May 1995, received from the DFAS Operating Location, Charleston.

This financial-related evaluation was performed from October 1996 through April 1997 in accordance with standards implemented by the Inspector General, DoD. Field work was conducted at the Dahlgren Disbursing Office from October 1996 through January 1997. The evaluation did not rely on computer-processed data or statistical sampling procedures.

Limitations to Evaluation Scope. We determined that supporting documentation for the July and August 1993 balance sheets was missing. Also, we were unable to document all potential losses because accounting records were not available for 1988 through portions of 1990.

Contacts During the Evaluation. We visited or contacted individuals and organizations within DoD and the U.S. Department of Justice, Eastern District of Virginia. Further details are available on request.

Summary of Prior Coverage

IG, DoD, Report No. 95-291, "Consolidated Report on the Cash Accountability in the Department of Defense, Disbursing, Imprest, and Change Funds," was issued on August 8, 1995. The objectives of the audit were to verify accountability for cash and related assets; to evaluate the adequacy of procedures and determine the accuracy of records used to support cash accountability at DoD accounting offices and organizations with imprest funds; to assess compliance with applicable laws and regulations; and to evaluate the management control program as it pertained to the audit objectives.

DoD had adequate accountability over cash at the 13 locations that were audited. However, cash management and verification reviews were not adequately or regularly performed. As a result, excess cash balances of \$15.3 million were maintained. This amount was not needed for operational requirements and could cost the U.S. Treasury \$2 million in unnecessary interest expense during the 6-year Future Years Defense Program.

The Deputy Director for Finance, DFAS, concurred with recommendations to conduct periodic cash management reviews, assess cashless alternatives, and review cash verification reports. Management nonconcurred with our recommendation to base the frequency of cash certifications on the degree of financial risk involved. The Deputy Director for Finance stated that quarterly cash verifications are required by the "Treasury Financial Manual." The comments on the report were responsive and left no unresolved issues.

Appendix B. Report Distribution

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Part III - Management Comments

Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE

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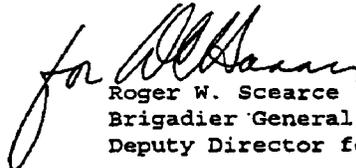
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MEMORANDUM FOR DEPUTY DIRECTOR, AUDIT FOLLOW-UP, OFFICE OF THE
INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: DoDIG Draft Report, "Evaluation of Management Controls
at the Disbursing Office, Naval Surface Warfare Center,
(NWS), Dahlgren, Virginia," dated May 29, 1997
(Project No. 7FG-5005)

We completed our review of the draft report. Although no
other action is required, we recommend that you make the attached
changes.

If you have any questions, please call Ms. Pat Cristiano,
DFAS-HQ/FCD, at (703) 607-5039 or Mr. Nick Shirilla, DFAS-CL/PI,
at (216) 522-5177.


Roger W. Searce
Brigadier General, USA
Deputy Director for Finance

Attachment:
As stated

cc: DFAS-CL/P

RECOMMENDED CHANGES TO
DoDIG DRAFT REPORT
PROJECT NO. 7FG-5005

- Executive Summary, Evaluation Results. "As a result, the DFAS Cleveland Center, Internal Review Office, plans to review the disbursing and Deposit-in-Transit system in the third quarter of FY 1997." This sentence should be replaced with: "As a result, the DFAS Cleveland Center, Internal Review Office, is to conduct an audit of the Deposit-in-Transit (DITS) reconciliation process, including the DITS reporting system, for all disbursing station symbol numbers (DSSNs) for which the Cleveland Center maintains reconciliation responsibilities."

Currently there are no plans to expand the scope of this audit to include a full scale review of the disbursing operations of these DSSNs. This audit will focus on timely and accurate reconciliation between the Federal Reserve Bank and Disbursing Officers' reporting of check and cash deposits.

- Page 7, Cash Counts, both paragraphs. "DFAS did not perform cash counts ... and cash counts were not verified."

Revisions are needed to the two paragraphs explaining the cash counts. There appears to have been some miscommunication to the DoDIG staff concerning the responsibility for cash counts at the Dahlgren Disbursing Office. It is true that the DFAS Cleveland Center staff did not visit the Dahlgren Disbursing Office to perform cash counts. Typically, it was the responsibility of the host command where the disbursing office resided or of a nearby DFAS organization to perform quarterly cash verifications. The Cleveland Center has been unable to confirm the reason that the Naval Surface Warfare Command Evaluation Office stopped performing cash counts after July 1993 or the reason an alternative nearby DFAS organization was not designated with responsibility for quarterly verifications at the Dahlgren Disbursing Office.

It should also be noted that the DFAS on-site manager was not delegated the responsibility to conduct cash counts because the on-site manager would not be considered independent of the disbursing function. However, it was the responsibility of the on-site manager to ensure that management controls were working as intended within the disbursing office. A review of controls

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in the Disbursing Office would have disclosed that written position descriptions, dual control procedures, and quarterly cash counts did not exist.

- Summary, Page 11. "They stated that they would review the Deposit-in-Transit process to determine whether other DFAS locations may have unreconciled deposits." This sentence should be replaced with: "They stated that they would review the Deposit-in-Transit process for the disbursing station symbol numbers for which the Cleveland Center maintains reconciliation responsibility to determine whether timely and accurate reconciliations are being performed."

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- Scope and Methodology, Page 14, Scope Limitations. "Also we were unable to document all potential losses because DFAS records were not available for 1988 through portions of 1990." The term "DFAS records in this sentence should be replaced with Navy records".

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Defense Finance and Accounting Service Comments



(DFAS-CL/PI)

DEFENSE FINANCE AND ACCOUNTING SERVICE
CLEVELAND CENTER
1240 EAST NINTH STREET
CLEVELAND, OH 44199-2055

JUN 26 1997

MEMORANDUM FOR DIRECTOR, CUSTOMER SERVICE AND PERFORMANCE
ASSESSMENT DEPUTATE
(ATTN: DFAS-HQ/PA, MR. DENNIS SCHILCHER)

Subject: Evaluation of Management Controls at the
Disbursing Office, Naval Surface Warfare Center,
Dahlgren, Virginia (Project No. 7FG-5005)

The Defense Finance and Accounting Service-Cleveland Center (DFAS-CL) has reviewed the subject report. The following corrections or clarifications are requested to the subject draft report, which was provided to the Cleveland Center for written comments on June 10, 1997.

CHANGE → - Executive Summary, Evaluation Results. "As a result, the DFAS Cleveland Center, Internal Review Office, plans to review the disbursing and Deposit-in-Transit system in the third quarter of FY 1997." This sentence should be replaced with: As a result, the DFAS Cleveland Center, Internal Review Office, is conducting an audit of the Deposit-in-Transit (DITS) reconciliation process, including the DITS reporting system, for all disbursing station symbol numbers (DSSNs) for which the Cleveland Center maintains reconciliation responsibilities.

Currently there are no plans to expand the scope of this audit to include a full scale review of the disbursing operations of these DSSNs. This audit will focus on timely and accurate reconciliation between the Federal Reserve Bank and Disbursing Officers' reporting of check and cash deposits.

- Page 7, Cash Counts, both paragraphs. "DFAS did not perform cash counts ... and cash counts were not verified."

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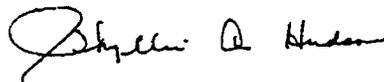
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The Cleveland Center wishes to express our thanks to the Department of Defense Inspector General staff for the assistance they have provided in support of the investigation of potential loss of funds at the Dahlgren Disbursing Office.



Phyllis A. Hudson
Director

Evaluation Team Members

This report was produced by the Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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