

**A**udit



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INTERNAL CONTROLS AND COMPLIANCE WITH LAWS  
AND REGULATIONS FOR THE DEFENSE FINANCE  
AND ACCOUNTING SERVICE WORKING CAPITAL FUND  
FINANCIAL STATEMENTS FOR FY 1997

Report No. 98-151

June 12, 1998

Office of the Inspector General  
Department of Defense

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### **Acronyms**

CFO	Chief Financial Officers
DBMS	Defense Business Management System
DBOF	Defense Business Operations Fund
DFAS	Defense Finance and Accounting Service
DPAS	Defense Property Accountability System
IG	Inspector General
OMB	Office of Management and Budget



INSPECTOR GENERAL  
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June 12, 1998

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER) AND CHIEF  
FINANCIAL OFFICER  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Audit Report on Internal Controls and Compliance With Laws and Regulations for the  
Defense Finance and Accounting Service Working Capital Fund Financial Statements  
for FY 1997 (Report No. 98-151)

We are providing this audit report for review and comment. The Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, requires financial statement audits by the Inspector General and prescribes the responsibility of management and the auditors for the financial statements, internal controls, and compliance with laws and regulations.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Defense Finance and Accounting Service did not comment on the draft of this report. Therefore, we request that the Director, Defense Finance and Accounting Service, provide comments on the final report by July 13, 1998.

The audit was conducted to express an opinion on the financial statements and to report on internal controls and compliance with laws and regulations. On February 27, 1998, we issued a disclaimer of opinion on the Defense Finance and Accounting Service Working Capital Fund Financial Statements for FYs 1997 and 1996. Part II, Appendix C, contains the financial statements and our disclaimer of opinion. We identified internal control weaknesses and instances of noncompliance with laws and regulations that merit management's attention. Part I discusses material weaknesses in internal controls and noncompliance with laws and regulations. Part II provides relevant information for management's use.

Questions on the audit should be directed to Mr. David F. Vincent, at (703) 604-9110 (DSN 664-9110), e-mail [dvincent@DODIG.OSD.MIL](mailto:dvincent@DODIG.OSD.MIL) or Mr. Thomas J. Winter, at (703) 604-9134 (DSN 664-9134), e-mail [twinter@DODIG.OSD.MIL](mailto:twinter@DODIG.OSD.MIL). See Appendix F for the report distribution. A list of audit team members is on the inside back cover.

A handwritten signature in black ink, reading "Robert J. Lieberman", is positioned above the typed name.

Robert J. Lieberman  
Assistant Inspector General  
for Auditing

## Office of the Inspector General, DoD

Report No. 98-151  
(Project No. 7FH-2038.01)

June 12, 1998

### Internal Controls and Compliance With Laws and Regulations for the Defense Finance and Accounting Service Working Capital Fund Financial Statements for FY 1997

#### Executive Summary

**Introduction.** The Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, requires financial statement audits by the Inspectors General and prescribes the responsibilities of management and auditors for financial statements, internal controls, and compliance with laws and regulations. The Director, Defense Finance and Accounting Service (DFAS), the fund manager, is responsible for establishing and maintaining adequate internal controls and for complying with applicable laws and regulations. Our responsibility is to express an opinion on the financial statements and to determine whether internal controls were adequate and whether management complied with applicable laws and regulations.

Before FY 1992, DoD operated a significant number of commercial and industrial facilities under a revolving fund concept. In FY 1992, the revolving funds were consolidated to form the Defense Business Operations Fund (DBOF). The Inspector General, DoD, was responsible for auditing and rendering an opinion on the DBOF consolidated financial statements. In December 1996, the Under Secretary of Defense (Comptroller) restructured the DBOF into separate working capital funds. The DFAS Working Capital Fund provides centralized finance and accounting services and systems support for all DoD Components. In FY 1997, the DFAS Working Capital Fund reported assets of \$735 million and liabilities of \$597 million.

**Audit Objectives.** The overall objective of our audit was to determine whether the DFAS Working Capital Fund Financial Statements for FY 1997 were presented fairly and in accordance with Office of Management and Budget Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993, as modified by Office of Management and Budget Bulletin No. 97-01, "Form and Content of Agency Financial Statements," October 16, 1996. We also assessed selected internal controls and compliance with laws and regulations.

**Disclaimer of Opinion.** We were unable to render an opinion on the DFAS Working Capital Fund Financial Statements for FY 1997 because of deficiencies in accounting systems and control procedures. We did not audit the accompanying financial statements for the year ended September 30, 1996;<sup>1</sup> therefore, we could not express an opinion on them. Our disclaimer of opinion was included in the financial statements transmitted by the Under Secretary of Defense (Comptroller) to the Office of Management and Budget. See Part II, Appendix C, for the financial statements and our disclaimer of opinion.

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<sup>1</sup> For FY 1996, we audited the consolidated financial statements for the former DBOF, not individual business areas such as DFAS.

**Internal Controls.** The DFAS Working Capital Fund needed to strengthen internal controls over the accounting for fixed assets and revenue and over the preparation of financial statements. Specifically, \$280 million of the \$655 million of fixed assets recorded in the general ledgers was not recorded in the subsidiary ledgers, revenue was not consistently reported for the same month as when work was performed, and financial statements were not accurately prepared. Also, significant portions of the Fund Balance With Treasury account, accounts receivable, and accounts payable were unverifiable. As a result, we were unable to attest to the reliability of the financial statements. Part I.A. contains our report on internal controls.

**Compliance With Laws and Regulations.** DFAS needed to improve compliance with laws and regulations concerning disclosure in financial statements, charging agencies for work performed, and requirements for accounting systems. DFAS did not disclose all significant information in the principal statements, as required by Office of Management and Budget Bulletin No. 94-01. As a result, the principal statements were not fully informative and were sometimes misleading. Also, DFAS performed services for other DoD agencies without customer orders, contrary to DoD 7000.14-R, the "DoD Financial Management Regulation." As a result, DFAS must recoup the unbilled costs from other customers. In addition, DFAS accounting systems did not comply with Office of Management and Budget requirements for financial management systems or with key accounting requirements of the DoD Financial Management Regulation. As a result, account balances were unverifiable. Part I.B. contains our report on compliance with laws and regulations. Part II, Appendix E, lists the laws and regulations tested.

**Summary of Recommendations.** To improve internal controls, we recommend that the Director, DFAS, require the recording, reconciling, and summarizing of fixed assets; the consistent reporting of revenue; and the accurate preparation of financial statements. To improve compliance with laws and regulations, we recommend that the Director, DFAS, require the disclosing of all necessary information in footnotes to the principal statements; require the performing of services only after customer orders are received and accepted; and select an accounting system that best complies with statutory and regulatory requirements.

**Management Comments.** The Director, DFAS, did not respond to a draft of this report issued on April 20, 1998. We request that the Director, DFAS, provide comments in response to the final report by July 13, 1998.

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## **Part I - Audit Results**

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## Audit Background

**Introduction.** This audit was performed as part of the requirement of Public Law 101-576, the "Chief Financial Officers (CFO) Act of 1990," as amended by Public Law 103-356, the "Federal Financial Management Act of 1994." The legislation requires financial statement audits by the Inspectors General and prescribes the responsibility of management and the auditors with respect to the financial statements, internal controls, and compliance with laws and regulations. Management is responsible for establishing and maintaining an internal control structure and for complying with laws and regulations applicable to DoD financial accounting and reporting. Our responsibility is to render an opinion on the financial statements and to determine whether internal controls are adequate and whether the entity complied with laws and regulations.

**Accounting Policies.** The DFAS Working Capital Fund Financial Statements for FYs 1997 and 1996 were to be prepared in accordance with the Office of Management and Budget (OMB) Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993, as supplemented by OMB Bulletin No. 97-01, "Form and Content of Agency Financial Statements," October 16, 1996. Footnote 1 of the DFAS financial statements discusses the significant accounting policies that DFAS stated it used in preparing the financial statements.

**Disclaimer of Opinion.** On February 27, 1998, we disclaimed an opinion on the DFAS Working Capital Fund Financial Statements for FY 1997 because of deficiencies in accounting systems and control procedures. We did not audit the accompanying financial statements for the year ended September 30, 1996, and did not express an opinion on them. Our disclaimer of opinion memorandum was included in the published financial statements of the DFAS Working Capital Fund. See Part II, Appendix C, for the financial statements and the disclaimer of opinion.

**Working Capital Funds.** A working capital fund is a revolving fund that operates as an accounting entity. Within each working capital fund, there are business areas that are financed through customer reimbursement rather than direct appropriations. Assets of each business area are capitalized under the working capital fund and most income is derived from collections from fund operations.

Before FY 1992, DoD operated a significant number of commercial and industrial facilities under a revolving fund concept. In FY 1992, the revolving funds were consolidated to form the Defense Business Operations Fund (DBOF). The Inspector General (IG), DoD, was responsible for auditing and rendering an opinion on the DBOF consolidated financial statements. In December 1996, the Under Secretary of Defense (Comptroller) restructured the DBOF into separate working capital funds.

**DFAS Working Capital Fund.** The DFAS Working Capital Fund consists of two business areas: Financial Operations and Information Services (performed by the Financial Systems Organization). The business areas provide centralized finance and accounting services and systems support for all DoD Components.

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In FY 1997, the DFAS Working Capital Fund reported assets of \$735 million, liabilities of \$597 million, and revenue of \$1.9 billion. The Director, DFAS, is the fund manager for the DFAS Working Capital Fund.

## **Audit Objectives**

The overall objective of our audit was to determine whether the DFAS Financial Statements for FY 1997 were presented fairly and in accordance with OMB Bulletin No. 94-01, as modified by OMB Bulletin No. 97-01. We also assessed internal controls and compliance with laws and regulations as they relate to the financial statements. Part II, Appendix A, gives the audit scope and methodology, auditing standards, and accounting principles.

## **Part I.A. - Review of Internal Controls**

## **Introduction**

**Audit Responsibilities.** The audit objective was to determine whether controls over transactions supporting the accounts in the FY 1997 Financial Statements of the DFAS Working Capital Fund were adequate to ensure that the accounts were free of material error. In planning and performing our audit, we evaluated certain aspects of the internal controls established for the DFAS Working Capital Fund. We performed this evaluation to render an opinion on the financial statements and to determine whether internal controls had been established.

**Management Responsibilities.** DFAS management is responsible for establishing and maintaining internal controls over the DFAS Working Capital Fund. The objectives of internal controls are to provide management with reasonable but not absolute assurance that:

- transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets;
- funds, property, and other assets are safeguarded against waste, loss, unauthorized use, and misappropriation; and
- transactions that could have a direct and material effect on the consolidating statements, including those related to obligations and costs, are executed in compliance with laws and regulations directly related to the statements and with any laws and regulations that the OMB, DFAS management, or the IG, DoD, have identified as being significant and for which compliance can be objectively measured and evaluated.

**Internal Control Elements.** The purpose of our review of internal controls was to render an opinion on the financial statements. The three elements of internal controls are the control environment, accounting and related systems, and control procedures. The control environment is the collective effort of various factors on establishing, enhancing, or mitigating the effectiveness of specific policies and procedures. Such factors include management's philosophy and operating style, the entity's organizational structure, and personnel policies and practices. The control environment reflects the overall attitude, awareness, and actions of management concerning the importance of controls and the emphasis placed on them by the entity. Accounting and related systems are the methods and records established to identify, assemble, analyze, classify, record, and report on the entity's transactions and to maintain accountability for the related assets and liabilities. Control procedures are the policies and procedures, in addition to the control environment and the accounting and related systems, which management has established to provide reasonable assurance that specific objectives will be achieved.

## Reportable Conditions

Reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of internal controls that, in our judgment, could adversely affect the organization's ability to effectively control and manage its resources and to ensure reliable and accurate financial information for use in managing and evaluating operational performance. A material weakness is a reportable condition in which the design or operation of internal controls does not reduce to a relatively low level the risk that errors or irregularities could occur. Such errors would be in amounts that would be material to the statements being audited, or material to a performance measure or aggregation of related performance measures, and not detected in a timely period by employees in the normal course of performing their functions.

**DFAS Working Capital Fund Reportable Conditions.** Our work disclosed reportable conditions in the accounting for Fund Balance With Treasury account, accounts receivable, accounts payable, fixed assets, and revenue and in the preparation of the financial statements. We consider the reportable conditions in the accounting for fixed assets, the accounting for revenue, and the preparation of the financial statements to be material weaknesses.

**Management Acknowledgment of Reportable Conditions.** We received a management representation letter from the Deputy Director for Resource Management, DFAS, dated January 27, 1998, regarding the DFAS Financial Statements for FY 1997. The management representation letter states that DFAS cannot provide reasonable assurance that the accounting and non-accounting systems used to produce the financial statements are reliable because not all of the systems meet DoD and OMB standards. The management representation letter also states that the DFAS Working Capital Fund account balances are affected by deficiencies in financial reporting practices. Part II, Appendix D contains the management and the legal representation letters.

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## Finding A. Accounting for Fixed Assets

Material differences existed between the amounts recorded for fixed assets in the general ledger trial balances produced by the Defense Business Management System (DBMS) and in the subsidiary ledger trial balances produced by the Defense Property Accountability System (DPAS). We determined that DPAS did not account for about \$280 million (43 percent) of the \$655 million of fixed assets (89 percent of total assets)<sup>1</sup> recorded in DBMS because of inadequate systems interfaces and reconciliations. Most of the \$280 million related to construction in progress and equipment not in use. As a result, we were unable to attest to the reliability of the amounts reported for fixed assets in the DFAS Financial Statements for FY 1997.

**Property, Plant, and Equipment.** DPAS did not account for \$230 million (38 percent) of the \$597 million of property, plant, and equipment (81 percent of total assets) recorded in DBMS.

**Construction in Progress.** Of the \$230 million of property, plant, and equipment not recorded in DPAS, \$229 million (almost 100 percent) was for construction in progress. Although DPAS includes an account for construction in progress, the DPAS trial balances for the DFAS Working Capital Fund did not include any of the \$229 million of construction in progress recorded in DBMS as of September 30, 1997. Construction in progress was not recorded in DPAS because the DBMS Deputy Project Officer decided not to interface DBMS with DPAS for that account. Further, only assets that had been received and entered in DBMS were manually entered in DPAS.

**Reported Amount.** The Consolidated Statement of Financial Position showed property, plant, and equipment as \$593 million, compared to the \$597 million recorded in DBMS. In addition, Note 1.M, "Significant Accounting Policies: Property and Equipment," and Note 15, "Property, Plant, and Equipment, Net," to the principal statements also showed \$593 million. We determined that the \$4 million difference related to Financial Operations, specifically, about \$3 million for automated data processing software and about \$1 million for equipment. The discrepancies were caused by unsupported adjustments to the "Report of Operations," accounting report 1307, for Financial Operations. We informed DFAS of the discrepancies, which subsequently disclosed in Note 15 the \$3 million discrepancy but not the \$1 million discrepancy.

**Equipment Not in Use.**<sup>2</sup> DPAS did not account for almost \$50 million (86 percent) of the \$58 million of the equipment not in use (8 percent of total assets) recorded in DBMS. The Agency Accounting Branch was aware of the significant difference between the systems but could not explain why it existed and suggested we ask the accountable property officer at the DFAS Columbus Center. The accountable property officer stated that the differences were caused by

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<sup>1</sup> Fixed assets (\$655 million) includes property, plant, and equipment (\$597 million); and equipment not in use (\$58 million). Total assets were reported as \$735 million.

<sup>2</sup> The Consolidated Statement of Financial Position classifies property held but not in use as other entity assets.

misclassifications of software development modifications in DBMS. He added that the modifications should have been classified as assets awaiting capitalization rather than equipment not in use.

**Reconciliations.** Reconciliations between DBMS and DPAS were not completely or consistently prepared and did not identify the reasons for differences in account balances.

**Completeness and Consistency.** Accounting technicians in the Agency Accounting Branch, Accounting Directorate, DFAS Columbus Center, prepared 19 reconciliations, one for each DFAS center and activity in the DFAS Working Capital Fund. The reconciliations reflected different formats and listed different account codes. Also, 10 reconciliations excluded amounts for construction in progress, 5 reconciliations excluded amounts for equipment not in use, and 4 reconciliations improperly showed accumulated depreciation as a positive amount. The inconsistencies occurred because the Agency Accounting Branch did not require the reconciliations for the consolidated Fund to be standardized or summarized for the DFAS Working Capital Fund. The lack of standardized forms and lack of consistent entry of account balances makes an accurate summarization for the consolidated entity impracticable.

**Identifying Reasons for Differences.** Although the Agency Accounting Branch required resolution of interface variances between DBMS and DPAS, it did not require the reasons for the differences between the accounts in the trial balances of the two systems to be identified and resolved. The only exception was that, for the DFAS Denver Center, the Agency Accounting Branch adjusted DBMS balances to DPAS balances because it considered the DPAS records for Denver to be more reliable than those of DBMS. However, the adjustment to DPAS and the clearing of only interface variances were contrary to the DFAS accounting policy as stated in Note 1.M., "Significant Accounting Policies: Property and Equipment," to the principal statements. Note 1.M. states that DPAS was balanced and reconciled to the certified trial balances for FY 1997. The use of standardized forms, the review for consistent preparation of reconciliations, and the consistent application of accounting policy are internal controls that need to be strengthened for fixed assets.

## **Recommendations for Corrective Action**

A.1. We recommend that the Director, Defense Finance and Accounting Service, require construction in progress to be recorded in the Defense Property Accountability System.

A.2. We recommend that the Director, Defense Finance and Accounting Service, require property, plant, and equipment, including equipment not in use, recorded in the Defense Business Management System to be reconciled with the Defense Property Accountability System.

A.3. We recommend that the Director, Defense Finance and Accounting Service, require reconciliations between the Defense Business Management System and the Defense Property Accountability System to be standardized and summarized.

## **Management Comments Required**

The Director, Defense Finance and Accounting Service, did not comment on a draft of this report. We request that the Director provide comments on this final report.

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## Finding B. Accounting for Revenue

Revenue was not consistently reported for the same month as when work was performed. DoD 7000.14-R, the "DoD Financial Management Regulation" requires that revenue and associated costs be recognized in the same accounting period. Four of the five DFAS centers reported work load counts<sup>3</sup> late for some outputs. Also, the centers reported work load counts inconsistently. The inconsistent reporting occurred because different systems were used to produce work load counts and some counts were produced manually instead of automatically. As a result, the \$1.78 billion of intragovernmental revenue reported in the DFAS Consolidated Statement of Operations and Changes in Net Position did not fully represent work performed in the 12 months ending September 30, 1997.

**Timeliness of Reporting.** The DFAS centers at Indianapolis, Cleveland, Denver, and Kansas City reported work load counts for some outputs a month after the associated work was performed. Also, the work load counts that were reported late represented different outputs at different DFAS centers. The untimely reporting and inconsistencies occurred because different systems were used to perform work load counts at different DFAS centers. Further, some work load counts were performed manually and therefore took longer than the counts that were produced automatically. The DFAS Columbus Center was the only DFAS center that reported work load counts for all outputs in the same month in which the associated work was performed. The timely reporting occurred because the DFAS Columbus Center used the Defense Disbursing Analysis Reporting System to generate work load counts for most of its outputs.

**Consistency of Reporting.** The DFAS Cleveland Center reported most work load counts timely (about 85 percent) but some late (about 15 percent) for the same output, namely, commercial invoices paid. According to the management analyst for revenue at that location, the inconsistent reporting of the output occurred because different systems were used to accumulate the work load counts. Specifically, the management analyst indicated that the Standard Accounting and Reporting System (One Bill Pay Module) generated the timely work load counts and that other systems generated the late counts. In addition, the DFAS Kansas City Center reported all outputs late and did not report September 1997 estimates. Those inconsistencies occurred because the revenue technician at that location reported all outputs for a given month at the same time to be consistent within that center, resulting in all outputs being reported a month late.

**Accounting Period.** As a result of untimely and inconsistent reporting, the revenue reported in the DFAS Consolidated Statement of Operations did not fully represent work performed in the 12 months ending September 30, 1997. In many cases, the revenue reported for outputs represented work performed in the 12 months ending August 31, 1997. However, we did not quantify the effect of the misstatement on the financial statements because we considered it impracticable.

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<sup>3</sup> A work load count is a tally of an output produced by a DFAS activity (for example, the number of trial balances prepared), which is used to determine reimbursements earned and to charge customers.

## **Recommendation for Corrective Action**

B. We recommend that the Director, Defense Finance and Accounting Service develop procedures for consistent reporting of revenue among Defense Finance and Accounting Service centers.

## **Management Comments Required**

The Director, Defense Finance and Accounting Service, did not comment on a draft of this report. We request that the Director provide comments on this final report.

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## Finding C. Preparation of Financial Statements

Financial statements were not accurately prepared because of inadequate systems and procedures. Because of systems limitations, the financial statements did not always reflect the account balances in the general ledger. Also, procedures were inadequate to ensure that personnel entered data correctly in spreadsheets used to prepare the financial statements and entered only adjustments that had been recorded in DBMS. Further, no documentation existed that showed how the data flowed within and between the spreadsheets or that showed the linkage between related accounts. The deficiencies resulted in errors, unrecorded adjustments, and omissions in the “Report of Operations,” which were reflected in early versions of the CFO financial statements.

**“Report of Operations.”** Each month, DFAS prepares a set of financial statements for Financial Operations and the Financial Systems Organization, called the “Report of Operations” (accounting report 1307). The Report of Operations includes financial data for the beginning of the fiscal year through the reporting month. The Agency Reporting Branch, Accounting Directorate, DFAS Columbus Center, prepares the Report of Operations and consolidates the September Report of Operations to prepare the annual CFO financial statements. The Agency Reporting Branch and DFAS Headquarters jointly prepare the CFO financial statements.

**Crosswalk.** The DoD Financial Management Regulation requires working capital funds to use proprietary (financial) accounts from the DoD Standard General Ledger to prepare the Report of Operations. Instead, the Agency Reporting Branch used a crosswalk that included budgetary accounts and other sources besides proprietary accounts. Further, the accounts used in the crosswalk pertained to the DBMS general ledger. Because of DBMS limitations, the use of other sources was sometimes unavoidable, for example, for undistributed collections (negative \$18 million) and disbursements (\$174 million). Part I.A., Finding D, “Verification of Account Balances,” explains the effects of undistributed collections and disbursements.

**Electronic Spreadsheets.** The process for ensuring that the Report of Operations accurately reflected data from the sources in the crosswalk was not effective. The process mainly consisted of personnel entering data in linked electronic spreadsheets used to prepare the Report of Operations, budgetary reports, and the CFO financial statements. However, no controls existed to ensure that the personnel entered the data correctly or entered adjustments only after they had been recorded in DBMS. Further, no documentation existed that showed how the data flowed within and between the spreadsheets or that showed the linkage between related accounts. Without such controls, no effective review or valid certification of the Report of Operations can be made.

**Reported Amounts.** The combination of the nonstandard crosswalk and the ineffective spreadsheet process resulted in errors, unrecorded adjustments, and omissions in the Report of Operations, which were reflected in early versions of the CFO financial statements. For example, the Fund Balance With Treasury

## **Finding C. Preparation of Financial Statements**

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account was understated by \$20 million because of errors; property, plant, and equipment was understated by \$3.8 million because of unrecorded adjustments; and \$.4 million of expenses was understated because of omissions. After we discussed these matters with DFAS management and staff, they corrected or disclosed many of the discrepancies in later versions of the CFO financial statements.

### **Recommendation for Corrective Action**

C. We recommend that the Director, Defense Finance and Accounting Service develop procedures for accurate and reliable preparation of the "Report of Operations," accounting report 1307. The procedures should include controls to ensure that:

1. personnel enter data correctly in the spreadsheets used to prepare the financial statements,
2. personnel enter only adjustments that have been recorded in the Defense Business Management System, and
3. documentation exists that shows how data flows within and between the spreadsheets and that shows the linkage between related accounts.

### **Management Comments Required**

The Director, Defense Finance and Accounting Service, did not comment on a draft of this report. We request that the Director provide comments on this final report.

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## Finding D. Verification of Account Balances

Undistributed collections and disbursements comprised significant portions of the Fund Balance With Treasury account (7 percent of total assets), accounts receivable (4 percent of total assets), and accounts payable (75 percent of total liabilities). Because deficiencies in accounting systems prevented tracing of the undistributed amounts to supporting transactions, the account balances for Fund Balance With Treasury, accounts receivable, and accounts payable were unverifiable. Also, because of deficiencies in control procedures, Fund Balance With Treasury was understated by \$20 million in the financial statements.

**Fund Balance With Treasury.** Fund Balance With Treasury, reported as \$53 million in the financial statements, was unauditible because the collections and disbursements that comprised the balance originated from the financial network and could not be reconciled to accounting records or traced to supporting transactions. Further, the \$53 million balance should have been reported as \$73 million. We previously identified the unauditible condition in IG, DoD, Report No. 98-100, "Fund Balance With Treasury Account in the FY 1996 Financial Statements of the Defense Business Operations Fund," April 2, 1998. Part II, Appendix B, summarizes the report.

**Recording Undistributed Amounts.** Fund Balance With Treasury should reflect the amounts in an entity's accounting records adjusted for undistributed collections and disbursements. However, DBMS did not have account codes to record the undistributed amounts. According to the DBMS Deputy Project Officer, the account codes will become available when the DoD Standard General Ledger is implemented for DBMS.<sup>4</sup> However, DFAS has minimized funding for upgrades pending a decision on whether to keep or replace DBMS. Until DFAS decides on a future system, adjustments for undistributed collections and disbursements cannot be recorded and therefore must be made in the Report of Operations.

**Reporting Fund Balance With Treasury.** The Consolidated Statement of Financial Position showed Fund Balance With Treasury as \$53 million rather than \$73 million per Treasury records (financial network). The \$20 million difference occurred because of entry and procedural errors made within the spreadsheet used to prepare the Report of Operations. We informed DFAS of the discrepancy and the need to disclose the source of the reported Fund Balance With Treasury. Subsequently, DFAS disclosed in Note 2 of the financial statements how Fund Balance With Treasury was calculated and why the reported amount was different from the amount per Treasury and the accounting records.

**Accounts Receivable.** Accounts receivable was unauditible because \$17.6 million (59 percent) of the \$29.8 million reported in the Consolidated Statement of Financial Position resulted from undistributed collections. The undistributed collections could not be traced to individual transactions.

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<sup>4</sup> DBMS uses a chart of accounts that does not comply with either the U.S. Government Standard General Ledger or the DoD Standard General Ledger (see Finding G).

## **Finding D. Verifying Account Balances**

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**Abnormal Balance.** Undistributed collections had a \$17.6 million abnormal (credit) balance, which increased the balance in accounts receivable.<sup>5</sup> According to the Agency Reporting Branch, the abnormal balance occurred because undistributed collections included amounts that should have been posted in prior years. Also, the Agency Reporting Branch expressed the opinion that improper posting in FY 1992 contributed to the abnormal balance and stated it was researching the discrepancies.

**Disclosure.** We informed DFAS that the financial statements should disclose how undistributed collections were determined, the amount of the increase in accounts receivable due to undistributed collections, and the reason for the abnormal balance in undistributed collections. DFAS disclosed the information in Note 5 to the principal statements, except for the reason for the abnormal balance.

**Accounts Payable.** Accounts payable was unauditible because \$174 million (27 percent) of the \$655 million balance in the general ledgers (for Financial Operations and the Financial Systems Organization) represented undistributed disbursements, which could not be traced to individual transactions. The Consolidated Statement of Financial Position showed accounts payable as \$450 million, which was decreased for the \$174 million in undistributed disbursements and \$31 million of intrafund eliminations. (See Note 29, "Intrafund Eliminations," to the principal statements.) Although we proposed that DFAS disclose the amount of the decrease in accounts payable due to undistributed disbursements, DFAS did not disclose the information.

**Corrective Actions.** Part I.A., Recommendation C., should correct the procedural deficiencies in preparing the Report of Operations. Part I.B., Recommendation G., should correct the systems deficiencies in the accounting for and the recording of undistributed collections and disbursements. The recommendations made in IG, DoD, Report No. 98-100, "Fund Balance With Treasury Account in the FY 1996 Financial Statements of the Defense Business Operations Fund," April 2, 1998, should correct the deficiencies in the accounting systems for reconciling and tracing undistributed collections and disbursements.

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<sup>5</sup> Undistributed collections normally have a debit balance, which, when closed out (credited) to accounts receivable, decreases the balance in accounts receivable.

## **Part I.B. - Review of Compliance with Laws and Regulations**

## **Introduction**

We audited selected financial data included in the DFAS Working Capital Fund financial statements for material instances of noncompliance with laws and regulations for the year ended September 30, 1997. Our purpose was not to provide an opinion on overall compliance with laws and regulations. The Deputy Under Secretary of Defense (Comptroller) and the Director, DFAS, are responsible for ensuring compliance with laws and regulations applicable to the DFAS Working Capital Fund. As part of obtaining reasonable assurance on whether the financial statements are free of material misstatements, we tested compliance with laws and regulations listed in Appendix E. Such tests are required by the CFO Act of 1990, as amended by the Federal Financial Management Act of 1994. We did not accomplish all tests necessary to determine whether the DFAS Working Capital Fund fully complied with all applicable laws and regulations. Therefore, we could not determine the range and magnitude of noncompliance with laws and regulations that may affect the reliability of the DFAS Financial statements. However, we were able to identify instances of material noncompliance with laws and regulations.

## **Material Noncompliance**

Material instances of noncompliance are failures to follow requirements, laws, or regulations that would cause us to conclude that the aggregation of the misstatements resulting from those failures is either material to the financial statements or that the sensitivity of the matter would cause others to perceive it as significant.

**Title 31, United States Code, section 3512, “Federal Financial Management Improvement Act of 1996.”** On September 9, 1997, OMB issued a memorandum, “Implementation Guidance for the Federal Financial Management Improvement Act of 1996” (the Act). The Act requires Federal agencies to implement and maintain financial management systems that comply substantially with Federal requirements for financial management systems, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. The Act also requires that we report on agency compliance with those requirements.

Those requirements, Federal financial management system requirements, applicable Federal accounting standards, and use of the U.S. Government Standard General Ledger at the transaction level are already well-established in Federal policy documents, including:

- OMB Circular No. A-127, “Financial Management Systems,” July 23, 1993, establishes Government policy for developing, evaluating, and reporting on financial management systems. It requires financial management systems to provide complete, reliable, consistent, timely, and useful financial management information. To achieve this goal, DoD and other Federal agencies must establish and maintain a single, integrated financial management system, using the U.S. Government Standard General Ledger.

- OMB Circular No. A-134, “Financial Accounting Principles and Standards,” May 20, 1993; establishes policies and procedures for approving and publishing financial accounting principles and standards. It also establishes the policies to be followed by Executive Branch agencies and OMB in seeking and providing interpretations and other advice related to the standards.
- Joint Financial Management Improvement Program (the Program) is a cooperative undertaking of the OMB, the Department of the Treasury, and the Office of Personnel Management, working in cooperation with each other and with operating agencies to improve financial management practices throughout the government. The Program has published a series of financial management system requirement documents called the “Federal Financial Management System Requirements.”
- The “Core Financial System Requirements,” September 1995, which are a part of the Program’s Federal Financial Management System Requirements, establishes standard requirements for the “backbone” modules of an agency’s integrated financial management system. These requirements state that a financial management system must support the partnership between program and financial managers and assure the integrity of information for decision making and measuring performance.

To obtain reasonable assurance about whether the FY 1997 DFAS Working Capital Fund Financial Statements were free of material misstatement, we performed tests of their compliance with certain provisions of laws and regulations when noncompliance with these laws and regulations could have a direct and material effect on the determination amounts in the financial statements. We also tested compliance with certain other laws and regulations specified in OMB Bulletin 93-06, as supplemented. In planning and performing our tests of compliance, we considered the implementation guidance issued by OMB on September 9, 1997, relating to the Act.

**DFAS Working Capital Fund Compliance Issues.** DFAS needed to improve compliance with laws and regulations concerning disclosure in financial statements, charging agencies for work performed, and requirements for accounting systems. DFAS did not disclose all significant information in the financial statements, as required by OMB Bulletin No. 94-01. As a result, the financial statements were not fully informative and were sometimes misleading (see Finding E). Also, DFAS performed services for other DoD agencies without customer orders, contrary to the DoD Financial Management Regulation. As a result, DFAS must recoup the unbilled costs from other customers (see Finding F). In addition, DFAS accounting systems did not comply with OMB requirements or with key accounting requirements of the DoD Financial Management Regulation. As a result, account balances were unverifiable (see Finding G).

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## Finding E. Disclosure in Financial Statements

DFAS did not disclose in the financial statements all significant information on undistributed collections and disbursements, and on property and equipment. The nondisclosure occurred because DFAS considered the information unnecessary for most readers to understand the financial statements. As a result, the financial statements were not fully informative about undistributed collections and disbursements and were misleading about property recording, reconciliation, and cost thresholds.

**Guidance and Discussions.** OMB Bulletin No. 94-01 states that the notes to the financial statements shall provide disclosures to make the statements fully informative and not misleading. During January 1998 discussions with the Accounting Directorate, DFAS Columbus Center, and the Directorate for Resource Management, DFAS Headquarters, we proposed that several items be disclosed and several errors be corrected in the final version of the financial statements.

**Undistributed Collections and Disbursements.** In a draft version of the financial statements, the Accounting Directorate incorporated all the significant disclosures we proposed and included many of them in Note 31, "Other Disclosures," to the principal statements. However, in the final version of the financial statements, DFAS deleted the explanation in Note 31 for the \$18 million abnormal balance in undistributed collections. DFAS also deleted the explanation that, because of undistributed disbursements, the accounts payable reported in the Consolidated Statement of Financial Position was \$174 million less than the amount recorded in DBMS. The Director, Defense Working Capital Fund Reporting Division, DFAS, explained that the items were deleted because they were unnecessary for most readers to understand the financial statements. As a result, the principal statements were not fully informative about the abnormal effect of negative undistributed collections on accounts receivable and the magnitude of undistributed disbursements that affected accounts payable.

**Property and Equipment.** Note 1.M., "Significant Accounting Policies: Property and Equipment," to the principal statements states that all DFAS property, plant, and equipment was recorded in DPAS and that DPAS was balanced and reconciled to the certified trial balances for FY 1997. However, we found that \$280 million of assets was not recorded in DPAS and that DPAS was not reconciled with DBMS. We informed DFAS in January 1998 that material differences may exist between the two systems and that we were determining the amount of the differences. We also informed DFAS that Note 1.M. incorrectly stated that the FY 1996 cost threshold for capital assets was \$50,000 (rather than \$100,000) and did not mention FY 1997, for which the threshold was \$100,000. As a result, the

principal statements were misleading about the recording of DFAS assets in DPAS, the reconciliation of DPAS with DBMS, and the cost threshold for capital assets for FYs 1996 and 1997.

### **Recommendation for Corrective Action**

E. We recommend that the Director, Defense Finance and Accounting Service, require that the Defense Finance and Accounting Service Working Capital Fund disclose all information necessary to make the principal statements fully informative and not misleading.

### **Management Comments Required**

The Director, Defense Finance and Accounting Service, did not comment on a draft of this report. We request that the Director provide comments on this final report.

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## **Finding F. Accounting for Unbillable Costs**

DFAS performed services costing \$2.35 million for other DoD agencies without customer orders. A DFAS official explained that the work was performed because it was for civilian pay and, therefore, DFAS was legally obligated to perform those services. As a result, when DFAS does not charge the agencies for which services are performed, it must adjust future billing rates to replenish working capital and thereby unfairly recoup the costs from other customers.

**Charging for Services.** Title 10, United States Code, section 2216a, "Defense Business Operations Fund," states that charges for goods and services provided through the fund shall include amounts necessary to recover the full cost of the operation of DFAS. Also, the DoD Financial Management Regulation states that, for DBOF (working capital fund) activities, financial resources to replenish the initial working capital and to permit continuing operations are generated by accepting customer orders.

**Work Performed Without Customer Orders.** DFAS performed services costing \$2.35 million for other DoD agencies without customer orders. Of that amount, \$1.65 million represented work performed for the Defense Information Services Agency, Western Hemisphere Field Command. During our meeting with DFAS management on January 30, 1998, the Assistant Deputy Director, Resource Management Deputate, DFAS, explained that the work performed for the Defense Information Services Agency was for civilian pay; consequently, DFAS was legally obligated to perform those services, even without a customer order. However, DFAS did not provide support for the explanation. Further, we calculated that 53 percent of the work performed for the Defense Information Services Agency was for preparing trial balances and only 20 percent was for civilian pay. When DFAS does not charge the agencies for which services are performed, it must adjust future billing rates to replenish working capital and thereby unfairly recoup the costs from other customers.

### **Recommendation for Corrective Action**

F. We recommend that the Director, Defense Finance and Accounting Service, require that the Defense Finance and Accounting Service Working Capital Fund perform services only for agencies from which a customer order has been received and accepted.

### **Management Comments Required**

The Director, Defense Finance and Accounting Service, did not comment on a draft of this report. We request that the Director provide comments on this final report.

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## Finding G. Defense Business Management System

DBMS does not meet the requirements of OMB Circular A-127 for financial management systems or for the U.S. Government Standard General Ledger at the transaction level. Also, DBMS does not meet key accounting requirements of the DoD Financial Management Regulation for general ledger control, financial reporting, and audit trails. DBMS did not comply because it was not designed or sufficiently modified to meet the requirements. As a result, major account balances were unverifiable. In its management representation letter, DFAS acknowledged that not all the accounting and non-accounting systems used to prepare the DFAS Working Capital Fund financial statements meet OMB and DoD standards.

**Financial Management Systems Requirements.** DBMS does not comply with Federal financial management system requirements since it is not the source of all information used to prepare the annual financial statements. For example, the DoD financial network is the source of undistributed collections and disbursements, which comprise a significant part of Fund Balance With Treasury. Also, DBMS uses a chart of accounts that does not comply with either the U.S. Government Standard General Ledger or the DoD Standard General Ledger. Because DBMS does not contain accounts for recording undistributed collections and disbursements, the general ledger did not support the Fund Balance With Treasury reported in the financial statements.

**Key Accounting Requirements.** DBMS did not comply with key accounting requirements of the DoD Financial Management Regulation for general ledger control, financial reporting, property accounting, and audit trails.

**Account Structure.** Key Accounting Requirement No. 1, "General Ledger Control and Financial Reporting," requires that the system maintain an appropriate account structure approved by DoD. However, DBMS does not use the DoD Standard General Ledger but instead uses a nonstandard account structure that requires a crosswalk to the DoD Standard General Ledger.

**Disclosure.** Key Accounting Requirement No. 1 also requires full financial disclosure, adequate financial information, and reports for management information. However, the CFO financial statements did not disclose all information necessary to make the principal statements fully informative and not misleading.

**Property Accounting.** Key Accounting Requirement No. 2, "Property and Inventory Accounting," requires subsidiary property records to be reconciled periodically to general ledger accounts. However, DPAS was not reconciled to DBMS.

**Audit Trails.** Key Accounting Requirement No. 8, "Audit Trails," requires that all transactions must be traceable to individual source records. However, we could not trace undistributed collections and disbursements to supporting transactions for Fund Balance With Treasury. Further, we could not trace transactions for expenses to supporting transactions because accounting

## **Finding G. Defense Business Management System**

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transactions that had been disbursed and finalized were purged from DBMS on a quarterly basis. Once those transactions had been purged, the detailed transactions could not be restored. As a result, the account balances were unverifiable.

**Alternatives.** In FY 1997, DFAS contracted for an analysis of alternatives study to identify a migratory system strategy to replace existing working capital fund financial systems, including DBMS. Pending a decision on a standard migratory strategy, DFAS minimized funding to upgrade the existing systems. In a March 6, 1998, briefing to the Acting Director, Systems Integration Directorate, DFAS, the contractor recommended the Oracle Government Financials, a commercial off-the-shelf system, to replace DBMS and three other migratory accounting systems. However, DFAS has not decided on a standard migratory strategy.

### **Recommendation for Corrective Action**

G. We recommend that the Director, Defense Finance and Accounting Service, select an accounting system for the Defense Finance and Accounting Service Working Capital Fund that best complies with Office of Management and Budget Circular A-127 and the DoD Financial Management Regulation for producing auditable financial statements.

### **Management Comments Required**

The Director, Defense Finance and Accounting Service, did not comment on a draft of this report. We request that the Director provide comments on this final report.

## **Part II - Additional Information**

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# Appendix A. Audit Process

## Scope

**Statements Reviewed.** We performed a limited scope audit of the DFAS Financial Statements for FY 1997 that consisted of determining whether amounts reported for major accounts were verifiable, reviewing management disclosures made in the financial statements and annual statements of assurance, and evaluating DFAS financial systems for compliance with Federal accounting requirements. The DFAS financial statements included the Consolidated Operations Overview, the Consolidated Operations Principal Statements and the Footnotes to the Consolidated Operations Principal Statements. The Consolidated Operations Principal Statements included:

- the Consolidated Statement of Financial Position,
- the Consolidated Statement of Operations and Changes in Net Position,
- the Consolidated Statement of Cash Flows,
- the Consolidating Statement of Financial Position,
- the Consolidating Statement of Operations and Changes in Net Position, and
- the Consolidating Statement of Cash Flows.

For the Statement of Financial Position, we evaluated the DFAS process for reconciling and reporting the Fund Balance With Treasury account; recording and disclosing undistributed collections and disbursements; and accounting for property, plant equipment, and other entity assets. For the Statement of Operations and Changes in Net Position, we reviewed how the DFAS centers accounted for revenue and charged for services provided to other agencies, and assessed whether audit trails were adequate to identify all FY 1997 expense transactions. We also reviewed the Footnotes to the Consolidated Operations Principal Statements for consistency with the Principal Statements and for disclosure of essential information. We did not audit the Statement of Cash Flows.

**Scope Limitations.** Because of deficiencies in accounting systems and control procedures, we determined that it was not feasible for us to plan and perform a complete financial statement audit, as defined by Government Auditing Standards. Also, the final version of the financial statements and the management representation letter were not available in time to consider in rendering our opinion. Further, the DFAS Financial Statements for FY 1997 presented figures from portions of the FY 1996 DBOF Consolidated Financial Statements for comparative purposes. We did not audit the FY 1996 data. We conducted audit work on the financial transactions for the FY 1996 DBOF Consolidated Financial Statements to attempt to render an opinion on the DBOF financial statements as a

whole. However, the work did not include a sufficient review of financial transactions reported for the FY 1996 DFAS activities in the DFAS Financial Statements for FY 1997.

**Accounting Principles.** Accounting principles and standards for the Federal Government are under development. The Federal Accounting Standards Advisory Board was established to recommend Federal accounting standards to three officials for approval. Those three officials are the Director, OMB; the Secretary of the Treasury; and the Comptroller General of the United States. The Director, OMB, and the Comptroller General issue standards agreed on by the three officials. To date, seven accounting standards and two accounting concepts have been published in final form. Another accounting standard (No. 8) has been approved by the Federal Accounting Standards Advisory Board, but it must be reviewed before it is issued by OMB. In addition, the Federal Accounting Standards Advisory Board issued an exposure draft, "Amendments to Accounting for Property, Plant, and Equipment," February 13, 1998, proposing amendments to Standards No. 6 and No. 8. Those standards and concepts constitute generally accepted accounting principles for the Federal Government. OMB Bulletin No. 94-01, as supplemented by OMB Bulletin No. 97-01, incorporates these standards and concepts and should be used by Federal agencies to prepare financial statements. The table on the following page lists the "Statements of Federal Financial Accounting Standards and Concepts."

Through FY 1997, agencies were required to follow the hierarchy of accounting principles outlined in OMB Bulletin No. 94-01, as supplemented by OMB Bulletin No. 97-01. A summary of the FY 1997 hierarchy follows:

- standards agreed to and published by the Director, OMB; the Secretary of the Treasury; and the Comptroller General of the United States;
- requirement for form and content in OMB Bulletin No. 94-01;
- accounting standards contained in agency accounting policy, procedures, or other guidance as of March 29, 1991; and
- accounting principles published by other authoritative sources.

<b>Statements of Federal Financial Accounting Standards and Concepts</b>			
<u>Accounting Standards and Concepts</u>	<u>Title</u>	<u>Status</u>	<u>Fiscal Year Effective</u>
Standard No. 1	Accounting for Selected Assets and Liabilities, March 30, 1993	Final	1994
Standard No. 2	Accounting for Direct Loans and Loan Guarantees, August 23, 1993	Final	1994
Standard No. 3	Accounting for Inventory and Related Property, October 27, 1993	Final	1994
Standard No. 4	Managerial Cost Accounting Concepts and Standards, July 31, 1995	Final	1998
Standard No. 5	Accounting for Liabilities of the Federal Government, December 20, 1995	Final	1997
Standard No. 6	Accounting for Property, Plant, and Equipment, November 30, 1995	Final*	1998
Standard No. 7	Accounting for Revenue and Other Financing Sources, May 10, 1996	Final	1998
Standard No. 8	Supplementary Stewardship Reporting, June 11, 1996	Approved*	
Concept No. 1	Objectives of Federal Financial Reporting, September 2, 1993	Final	
Concept No. 2	Entity and Display, June 6, 1995	Final	

\*The Federal Accounting Standards Advisory Board has issued an exposure draft, "Amendments to Accounting for Property, Plant, and Equipment," February 13, 1998. The exposure draft contains proposed amendments to Standards No. 6 and No. 8.

**Review of Internal Controls.** An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in financial statements, including the accompanying notes. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the statements. We reviewed aspects of internal controls of the DFAS Working Capital Fund and obtained an understanding of the internal control policies and procedures (related to accounting systems; the Fund Balance With Treasury account; accounts receivable; accounts payable; property, plant, and equipment; revenue; and over the preparation of the financial statements. Our consideration of internal controls would not necessarily disclose all matters in internal controls that might be reportable conditions and would not necessarily disclose all reportable conditions that are also considered material weaknesses.

**Review of Compliance with Laws and Regulations.** DFAS managers are responsible for compliance with laws and regulations. To obtain reasonable assurance that the DFAS Working Capital Fund consolidated financial statements were free of material misstatements, we reviewed compliance with laws and

regulations that may directly affect the financial statements and also reviewed other laws and regulations designated by OMB and DoD. See Appendix E for a list of laws and regulations reviewed.

### Methodology

**Auditing Standards.** We conducted this financial audit in accordance with generally accepted Government auditing standards issued by the Comptroller General of the United States, as implemented by the IG, DoD, and OMB Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatements. We relied on the guidelines suggested by the General Accounting Office and on our professional judgment in assessing the materiality of matters affecting the fair presentation of the financial statements, related internal controls, and compliance with laws and regulations.

**Computer-Processed Data.** To achieve our audit objective, we relied on computer-processed data without testing the general and application controls. We compared the data on the Report of Operations, as of September 30, 1997, to the general ledger trial balances produced by DBMS and the subsidiary ledger trial balances produced by DPAS. No projections were made from the data. Not evaluating the controls did not affect the results of the audit.

**Audit Period and Locations.** The audit was conducted from June 1997 through March 1998 at the DFAS Headquarters, Arlington, Virginia; the DFAS Cleveland Center, Cleveland, Ohio; the DFAS Columbus Center, Columbus, Ohio; the DFAS Denver Center, Denver, Colorado; the DFAS Indianapolis Center, Indianapolis, Indiana; and the DFAS Kansas City Center, Kansas City, Missouri.

**Representation Letters.** We received a management representation letter from the Deputy Director for Resource Management, DFAS, dated January 27, 1998, regarding the DFAS Financial Statements for FY 1997. The management representation letter stated that DFAS could not provide reasonable assurance that the accounting and non-accounting systems used to produce the financial statements were reliable because not all of the systems met DoD and OMB standards. The management representation letter also stated that the DFAS Working Capital Fund account balances were affected by deficiencies in financial reporting practices. We also received a legal representation letter from the DFAS General Counsel, dated January 20, 1998. The legal representation letter stated that there were no known or pending legal matters affecting the DFAS Working Capital Fund. Part II, Appendix D contains the management and the legal representation letters.

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

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## Appendix B. Prior Audit Reports

During the last 5 years, the IG, DoD, performed one audit designed to render an opinion on the financial statements of DFAS. In addition, the IG, DoD, has issued audit reports that identified internal control deficiencies pertaining to selected DFAS accounts.

**IG, DoD, Report No. 98-100, "Fund Balance With Treasury Account in the FY 1996 Financial Statements of the Defense Business Operations Fund," April 2, 1998.** The report cites that the DBOF general ledger did not support the \$73.5 billion in funds collected, \$74.7 billion in funds disbursed, \$5.3 billion in funds with Treasury, or the net \$4.1 billion Fund Balance With Treasury account balance as reported in the monthly Report of Operations for FY 1996 and the financial statements for the fiscal year ended September 30, 1996. As a result, DoD used the balances provided by the Department of the Treasury as the amounts reported for the Fund Balance With Treasury account. Also, the DFAS centers did not disclose the dollar amount of undistributed collections closed out to accounts receivable or the dollar amount of undistributed disbursements closed out to accounts payable in the FY 1996 financial statements for any component of DBOF. As a result, without full disclosure, the financial statements for each DBOF component did not adequately show the effect of adjustments made to accounts receivable and accounts payable due to undistributed amounts. We recommended that the Under Secretary of Defense (Comptroller) update the annual DoD guidance on form and content for preparing financial statements to include a disclosure requirement for reporting material undistributed amounts. We also recommended that the Director, DFAS, issue standard operating procedures to the DFAS center for the reporting of undistributed balances in the monthly Report of Operations. The Under Secretary of Defense (Comptroller) concurred with the recommendation but the Director, DFAS, did not respond.

**IG, DoD, Report No. 97-178, "Internal Controls and Compliance With Laws and Regulations for the Defense Business Operations Fund Consolidated Financial Statements for FY 1996," June 26, 1997.** The report states that sound internal controls have not been established. Material weaknesses included inadequate accounting systems and lack of policy and procedures. Noncompliance with laws and regulations continued to affect the reliability of the DBOF financial statements. Noncompliance with the DoD Financial Management Regulation was identified in areas such as property, plant, and equipment; accounts payable; depreciation; and revenue recognition. No recommendations were made in this report because the issues were reported in other reports.

**IG, DoD, Report No. 93-110, "Consolidating Financial Statements of the Defense Finance and Accounting Service Revolving Fund of the Defense Business Operations Fund - FY 1992, June 11, 1993.** The report states that we were unable to render an opinion on the financial statements. DFAS had not completed a physical inventory of property, plant, and equipment in FYs 1991 or 1992 to support the September 30, 1992, closing balance of \$112 million. Further, reliable evidence to support the cost of property, plant, and equipment acquired prior to January 1991 was no longer available. In addition, we reported that material internal control weaknesses existed. There were no procedures for reconciling the Fund Balance With Treasury account, which caused an unreconciled difference of \$15.8 million between the cash book of the Treasury

## **Appendix B. Prior Audit Reports**

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and the general ledger. Moreover, we reported several instances of noncompliance with laws and regulations. DFAS did not comply with requirements to reconcile the Fund Balance With Treasury account, match financial records to accounting records for capital assets, develop depreciation schedules for capital assets, record the transfer of assets, or make required financial disclosures. No recommendations were made in this report. Therefore, management comments were not required and none were received.

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## **Appendix C. Financial Statements and Auditor Opinion**

This appendix (a total of 41 pages) consists of the FY 1997 DFAS Working Capital Fund Consolidated Principal Statements, Footnotes to the Principal Statements, and the auditor opinion. A complete set of the "Defense Finance and Accounting Service Working Capital Fund Chief Financial Officer Annual Financial Statement FY 1997," February 27, 1998, is available at the following internet address: <http://www.dtic.mil/comptroller/97afs>.

***DEFENSE FINANCE  
AND  
ACCOUNTING SERVICE***

***WORKING CAPITAL  
FUND***

***CONSOLIDATED  
PRINCIPAL STATEMENTS***



# Principal Statements

**Department of Defense  
 Defense Finance and Accounting Service - Working Capital Fund - Consolidated  
 Statement of Financial Position  
 As of September 30, 1997  
 (Thousands)**

ASSETS	<u>1997</u>	<u>1996</u>
<b>1. Entity Assets:</b>		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$53,395	(\$92,316)
(2) Investments, Net (Note 4)	0	0
(3) Accounts Receivable, Net (Note 5)	29,775	55,060
(4) Interest Receivable	0	0
(5) Advances and Prepayments	0	0
(6) Other Federal (Intragovernmental) (Note 6)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)	0	0
(2) Accounts Receivable, Net (Note 5)	126	37
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	0	0
(4) Interest Receivable, Net	0	0
(5) Advances and Prepayments	690	1,036
(6) Other Non-Federal (Governmental) (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Inventory, Net (Note 8)	0	0
e. Work in Process (Note 9)	0	0
f. Operating Materials/Supplies, Net (Note 10)	0	0
g. Stockpile Materials, Net (Note 11)	0	0
h. Seized Property (Note 12)	0	0
i. Forfeited Property, Net (Note 13)	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0	0
k. Property, Plant and Equipment, Net (Note 15)	593,106	517,025
l. War Reserves	0	0
m. Other Entity Assets	57,720	8,456
<b>n. Total Entity Assets</b>	<u>\$734,812</u>	<u>\$489,298</u>
<b>2. Non-Entity Assets:</b>		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$0	\$0
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Interest Receivable, Net	0	0
(4) Other (Note 6)	0	0

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The accompanying notes are an integral part of these statements.

# Principal Statements

**Department of Defense**  
**Defense Finance and Accounting Service - Working Capital Fund - Consolidated**  
**Statement of Financial Position**  
**As of September 30, 1997**  
**(Thousands)**

<b>LIABILITIES, Continued</b>	<u><b>1997</b></u>	<u><b>1996</b></u>
<b>5. Liabilities Not Covered by Budgetary Resources:</b>		
<b>a. Transactions with Federal (Intragovernmental) Entities:</b>		
(1) Accounts Payable	\$0	\$0
(2) Debt (Note 16)	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
<b>b. Transactions with Non-Federal (Governmental) Entities:</b>		
(1) Accounts Payable	0	0
(2) Debt (Note 16)	0	0
(3) Lease Liabilities (Note 18)	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	82,985	0
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	54,927	55,757
<b>c. Total Liabilities Not Covered by Budgetary Resources</b>	<b>\$137,912</b>	<b>\$55,757</b>
<b>6. Total Liabilities</b>	<b>\$596,505</b>	<b>\$523,839</b>
<b>NET POSITION (Note 20)</b>		
<b>Balances:</b>		
a. Unexpended Appropriations	\$0	\$0
b. Invested Capital	95,136	(35,077)
c. Cumulative Results of Operations	181,083	56,293
d. Other	0	0
e. Future Funding Requirements	(137,912)	(55,757)
<b>f. Total Net Position</b>	<b>\$138,307</b>	<b>(\$34,541)</b>
<b>8. Total Liabilities and Net Position</b>	<b>\$734,812</b>	<b>\$489,298</b>

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The accompanying notes are an integral part of these statements.

# Principal Statements

Department of Defense  
 Defense Finance and Accounting Service - Working Capital Fund - Consolidated  
 Statement of Financial Position  
 As of September 30, 1997  
 (Thousands)

ASSETS, Continued	<u>1997</u>	<u>1996</u>
<b>2. Non-Entity Assets:</b>		
<b>b. Transactions with Non-Federal (Governmental) Entities:</b>		
(1) Accounts Receivable, Net (Note 5)	\$0	\$0
(2) Interest Receivable, Net	0	0
(3) Other (Note 6)	0	0
<b>c. Cash and Other Monetary Assets (Note 3)</b>	0	0
<b>d. Other Non-Entity Assets</b>	0	0
<b>e. Total Non-Entity Assets</b>	<u>\$0</u>	<u>\$0</u>
<b>3. Total Assets</b>	<u>\$734,812</u>	<u>\$489,298</u>
<b>LIABILITIES</b>		
<b>4. Liabilities Covered by Budgetary Resources:</b>		
<b>a. Transactions with Federal (Intragovernmental) Entities:</b>		
(1) Accounts Payable	\$163,733	175,178
(2) Interest Payable	0	0
(3) Debt (Note 16)	0	0
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
<b>b. Transactions with Non-Federal (Governmental) Entities:</b>		
(1) Accounts Payable	286,253	288,590
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	8,223	3,680
(b) Annual Accrued Leave	384	384
(c) Severance Pay and Separation Allowance	0	0
(3) Interest Payable	0	250
(4) Liabilities for Loan Guarantees (Note 7)	0	0
(5) Lease Liabilities (Note 18)	0	0
(6) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
<b>c. Total Liabilities Covered by Budgetary Resources:</b>	<u>\$458,593</u>	<u>\$468,082</u>

The accompanying notes are an integral part of these statements.

# Principal Statements

## Department of Defense

### Defense Finance and Accounting Service - Working Capital Fund - Consolidated

#### Statement of Operations and Changes in Net Position

For the Period Ended September 30, 1997

(Thousands)

	<u>1997</u>	<u>1996</u>
<b>REVENUES AND FINANCING SOURCES</b>		
1. Appropriated Capital Used	\$0	\$0
2. Revenues from Sales of Goods and Services		
a. To the Public	329	0
b. Intragovernmental	1,782,830	1,631,285
3. Interest and Penalties, Non-Federal	0	0
4. Interest, Federal	0	0
5. Taxes (Note 21)	0	0
6. Other Revenues and Financing Sources (Note 22)	74,897	33,961
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	0	0
8. <b>Total Revenues and Financing Sources</b>	<u>\$1,858,056</u>	<u>\$1,665,246</u>
<b>EXPENSES</b>		
9. Program or Operating Expenses (Note 23)	\$0	\$0
10. Cost of Goods Sold (Note 24)		
a. To the Public	0	0
b. Intragovernmental	1,511,021	1,534,924
11. Depreciation and Amortization	144,632	120,673
12. Bad Debts and Writeoffs	0	0
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	0	0
b. Federal Securities	0	0
c. Other	0	0
14. Other Expenses (Note 25)	74,897	384
15. <b>Total Expenses</b>	<u>\$1,730,550</u>	<u>\$1,655,981</u>
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	\$127,506	\$9,265
17. Plus (Minus) Extraordinary Items (Note 26)	0	0
18. <b>Excess (Shortage) of Revenues and     Financing Sources Over Total Expenses</b>	<u>\$127,506</u>	<u>\$9,265</u>

The accompanying notes are an integral part of these statements.

## Principal Statements

### Department of Defense

### Defense Finance and Accounting Service - Working Capital Fund - Consolidated

### Statement of Operations and Changes in Net Position

For the Period Ended September 30, 1997

(Thousands)

	<u>1997</u>	<u>1996</u>
<b>EXPENSES, Continued</b>		
19. Net Position, Beginning Balance, as Previously Stated	(\$34,541)	\$298,507
20. Adjustments (Note 27)	0	33
21. Net Position, Beginning Balance, as Restated	<u>(\$34,541)</u>	<u>\$298,540</u>
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	127,506	9,265
23. Plus (Minus) Non Operating Changes (Note 28)	<u>45,342</u>	<u>(342,346)</u>
24. Net Position, Ending Balance	<u><u>\$138,307</u></u>	<u><u>(\$34,541)</u></u>

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The accompanying notes are an integral part of these statements.

# Principal Statements

**Department of Defense  
 Defense Finance and Accounting Service - Working Capital Fund - Consolidated  
 Statement of Cash Flows  
 For the Period Ended September 30, 1997  
 (Thousands)**

	<u>1997</u>	<u>1996</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>\$127,506</u>	<u>\$9,265</u>
Adjustments Affecting Cash Flow:		
2. Appropriated Capital Used	0	0
3. Decrease (Increase) in Accounts Receivable	28,679	(38,442)
4. Decrease (Increase) in Other Assets	345	(207)
5. Increase (Decrease) in Accounts Payable	(17,567)	57,574
6. Increase (Decrease) in Other Liabilities	4,930	(6,105)
7. Depreciation and Amortization	144,632	120,672
8. Other Unfunded Expenses	420	0
9. Other Adjustments	(3,291)	250
10. Total Adjustments	<u>\$158,148</u>	<u>\$133,742</u>
11. Net Cash Provided (Used) by Operating Activities	<u>\$285,654</u>	<u>\$143,007</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
12. Sale of Property, Plant and Equipment	\$0	\$0
13. Purchase of Property, Plant and Equipment	(232,259)	(235,323)
14. Sale of Securities	0	0
15. Purchase of Securities	0	0
16. Collection of Loans Receivable	0	0
17. Creation of Loans Receivable	0	0
18. Other Investing Cash Provided (Used)	<u>0</u>	<u>0</u>
19. Net Cash Provided (Used) by Investing Activities	<u>(\$232,259)</u>	<u>(\$235,323)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
20. Appropriations (Current Warrants)	\$0	\$0
21. Add:		
a. Restorations	0	0
b. Transfers of Cash from Others	0	0
22. Deduct:		
a. Withdrawals	0	0
b. Transfers of Cash to Others	(92,316)	319,456
23. Net Appropriations	<u>\$92,316</u>	<u>(\$319,456)</u>

The accompanying notes are an integral part of these statements.

# Principal Statements

**Department of Defense**  
**Defense Finance and Accounting Service - Working Capital Fund - Consolidated**  
**Statement of Cash Flows**  
**For the Period Ended September 30, 1997**  
**(Thousands)**

	<u>1997</u>	<u>1996</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES, Continued</b>		
24. Borrowing from the Public	\$0	\$0
25. Repayments on Loans to the Public	0	0
26. Borrowing from the Treasury and the Federal Financing Bank	0	0
27. Repayments on Loans from the Treasury and the Federal Financing Bank	0	0
28. Other Borrowings and Repayments	0	0
	<hr/>	<hr/>
29. Net Cash Provided (Used) by Financing Activities	\$92,316	(\$319,456)
	<hr/>	<hr/>
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	\$145,711	(\$411,772)
	<hr/>	<hr/>
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	(92,316)	\$319,456
	<hr/>	<hr/>
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	\$53,395	(\$92,316)
	<hr/> <hr/>	<hr/> <hr/>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
	<u>1997</u>	<u>1996</u>
33. Total Interest Paid	\$437	\$1,955
<b>Supplemental Schedule of Financing and Investing Activity:</b>		
	<u>1997</u>	<u>1996</u>
34. Property and Equipment Acquired Under Capital Lease Obligations	\$0	\$0
35. Property Acquired Under Long-Term Financing Arrangements	\$0	\$0
36. Other Exchanges of Non-cash Assets or Liabilities	\$0	\$0

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The accompanying notes are an integral part of these statements.

# Principal Statements

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**The accompanying notes are an integral part of these statements.**

# Principal Statements

**Department of Defense**  
**Defense Finance and Accounting Service - Working Capital Fund - Consolidating**  
**Statement of Financial Position**  
**As of September 30, 1997**  
**(Thousands)**

ASSETS	<u>Fin. Oper.</u>	<u>FSO</u>	<u>Eliminations</u>	<u>FY 1997</u> <u>Grand Total</u>
<b>1. Entity Assets:</b>				
a. Transactions with Federal (Intragovernmental) Entities:				
(1) Fund Balance with Treasury (Note 2)	\$65,227	(\$11,832)	\$0	\$53,395
(2) Investments, Net (Note 4)	0	0	0	0
(3) Accounts Receivable, Net (Note 5)	27,428	33,764	(31,417)	29,775
(4) Interest Receivable	0	0	0	0
(5) Advances and Prepayments	0	0	0	0
(6) Other Federal (Intragovernmental) (Note 6)	0	0	0	0
b. Transactions with Non-Federal (Governmental) Entities:				
(1) Investments (Note 4)	0	0	0	0
(2) Accounts Receivable, Net (Note 5)	118	8	0	126
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	0	0	0	0
(4) Interest Receivable, Net	0	0	0	0
(5) Advances and Prepayments	692	(2)	0	690
(6) Other Non-Federal (Governmental) (Note 6)	0	0	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0	0	0
d. Inventory, Net (Note 8)	0	0	0	0
e. Work in Process (Note 9)	0	0	0	0
f. Operating Materials/Supplies, Net (Note 10)	0	0	0	0
g. Stockpile Materials, Net (Note 11)	0	0	0	0
h. Seized Property (Note 12)	0	0	0	0
i. Forfeited Property, Net (Note 13)	0	0	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0	0	0	0
k. Property, Plant and Equipment, Net (Note 15)	571,371	21,735	0	593,106
l. War Reserves	0	0	0	0
m. Other Entity Assets	37,539	20,181	0	57,720
<b>n. Total Entity Assets</b>	<b>\$702,375</b>	<b>\$63,854</b>	<b>(\$31,417)</b>	<b>\$734,812</b>
<b>2. Non-Entity Assets:</b>				
a. Transactions With Federal (Intragovernmental) Entities:				
(1) Fund Balance with Treasury (Note 2)	\$0	\$0	\$0	\$0
(2) Accounts Receivable, Net (Note 5)	0	0	0	0
(3) Interest Receivable, Net	0	0	0	0
(4) Other (Note 6)	0	0	0	0

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The accompanying notes are an integral part of these statements.

# Principal Statements

Department of Defense  
 Defense Finance and Accounting Service - Working Capital Fund - Consolidating  
 Statement of Financial Position  
 As of September 30, 1997  
 (Thousands)

	FY 1997			
ASSETS, Continued	<u>Fin. Oper.</u>	<u>FSO</u>	<u>Eliminations</u>	<u>Grand Total</u>
<b>2. Non-Entity Assets:</b>				
b. Transactions with Non-Federal (Governmental) Entities:				
(1) Accounts Receivable, Net (Note 5)	\$0	\$0	\$0	\$0
(2) Interest Receivable, Net	0	0	0	0
(3) Other (Note 6)	0	0	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0	0	0
d. Other Non-Entity Assets	0	0	0	0
e. Total Non-Entity Assets	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b>3. Total Assets</b>	<u>\$702,375</u>	<u>\$63,854</u>	<u>(\$31,417)</u>	<u>\$734,812</u>
<b>LIABILITIES</b>				
<b>4. Liabilities Covered by Budgetary Resources:</b>				
a. Transactions with Federal (Intragovernmental) Entities:				
(1) Accounts Payable	\$185,276	\$9,874	(\$31,417)	\$163,733
(2) Interest Payable	0	0	0	0
(3) Debt (Note 16)	0	0	0	0
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0	0	0
b. Transactions with Non-Federal (Governmental) Entities:				
(1) Accounts Payable	257,860	28,393	0	286,253
(2) Accrued Payroll and Benefits				
(a) Salaries and Wages	7,570	653	0	8,223
(b) Annual Accrued Leave	384	0	0	384
(c) Severance Pay and Separation Allowance	0	0	0	0
(3) Interest Payable	0	0	0	0
(4) Liabilities for Loan Guarantees (Note 7)	0	0	0	0
(5) Lease Liabilities (Note 18)	0	0	0	0
(6) Pensions and Other Actuarial Liabilities (Note 19)	0	0	0	0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0	0	0
c. Total Liabilities Covered by Budgetary Resources:	<u>\$451,090</u>	<u>\$38,920</u>	<u>(\$31,417)</u>	<u>\$458,593</u>

The accompanying notes are an integral part of these statements.

# Principal Statements

**Department of Defense  
 Defense Finance and Accounting Service - Working Capital Fund - Consolidating  
 Statement of Financial Position  
 As of September 30, 1997  
 (Thousands)**

<b>LIABILITIES, Continued</b>	<b><u>Fin. Oper.</u></b>	<b><u>FSO</u></b>	<b><u>Eliminations</u></b>	<b><u>FY 1997 Grand Total</u></b>
<b>5. Liabilities Not Covered by Budgetary Resources:</b>				
a. Transactions with Federal (Intragovernmental) Entities:				
(1) Accounts Payable	\$0	\$0	\$0	\$0
(2) Debt (Note 16)	0	0	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0	0	0
b. Transactions with Non-Federal (Governmental) Entities:				
(1) Accounts Payable	0	0	0	0
(2) Debt (Note 16)	0	0	0	0
(3) Lease Liabilities (Note 18)	0	0	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	0	0	82,985	82,985
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	48,843	6,084	0	54,927
<b>c. Total Liabilities Not Covered by Budgetary Resources</b>	<b>\$48,843</b>	<b>\$6,084</b>	<b>\$82,985</b>	<b>\$137,912</b>
<b>6. Total Liabilities</b>	<b>\$499,933</b>	<b>\$45,004</b>	<b>\$51,568</b>	<b>\$596,505</b>
<b>NET POSITION (Note 20)</b>				
<b>7. Balances:</b>				
a. Unexpended Appropriations	\$0	\$0	\$0	\$0
b. Invested Capital	66,228	28,908	0	95,136
c. Cumulative Results of Operations	185,057	(3,974)	0	181,083
d. Other	0	0	0	0
e. Future Funding Requirements	(48,843)	(6,084)	(82,985)	(137,912)
<b>f. Total Net Position</b>	<b>\$202,442</b>	<b>\$18,850</b>	<b>(\$82,985)</b>	<b>\$138,307</b>
<b>8. Total Liabilities and Net Position</b>	<b>\$702,375</b>	<b>\$63,854</b>	<b>(\$31,417)</b>	<b>\$734,812</b>

**The accompanying notes are an integral part of these statements.**

# Principal Statements

**Department of Defense**  
**Defense Finance and Accounting Service - Working Capital Fund - Consolidating**  
**Statement of Operations and Changes in Net Position**  
**For the Period Ended September 30, 1997**  
(Thousands)

	<u>Fin. Oper.</u>	<u>FSO</u>	<u>Eliminations</u>	<u>FY 1997</u> <u>Grand Total</u>
<b>REVENUES AND FINANCING SOURCES</b>				
1. Appropriated Capital Used	\$0	\$0	\$0	\$0
2. Revenues from Sales of Goods and Services				
a. To the Public	329	0	0	329
b. Intragovernmental	1,769,620	204,138	(190,928)	1,782,830
3. Interest and Penalties, Non-Federal	0	0	0	0
4. Interest, Federal	0	0	0	0
5. Taxes (Note 21)	0	0	0	0
6. Other Revenues and Financing Sources (Note 22)	0	0	74,897	74,897
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	0	0	0	0
<b>8. Total Revenues and Financing Sources</b>	<b>\$1,769,949</b>	<b>\$204,138</b>	<b>(\$116,031)</b>	<b>\$1,858,056</b>
<b>EXPENSES</b>				
9. Program or Operating Expenses (Note 23)	\$0	\$0	\$0	\$0
10. Cost of Goods Sold (Note 24)				
a. To the Public	0	0	0	0
b. Intragovernmental	1,507,944	194,005	(190,928)	1,511,021
11. Depreciation and Amortization	137,466	7,166	0	144,632
12. Bad Debts and Writeoffs	0	0	0	0
13. Interest				
a. Federal Financing Bank/Treasury Borrowing	0	0	0	0
b. Federal Securities	0	0	0	0
c. Other	0	0	0	0
14. Other Expenses (Note 25)	0	0	74,897	74,897
<b>15. Total Expenses</b>	<b>\$1,645,410</b>	<b>\$201,171</b>	<b>(\$116,031)</b>	<b>\$1,730,550</b>
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	\$124,539	\$2,967	\$0	\$127,506
17. Plus (Minus) Extraordinary Items (Note 26)	0	0	0	0
<b>18. Excess (Shortage) of Revenues and     Financing Sources Over Total Expenses</b>	<b>\$124,539</b>	<b>\$2,967</b>	<b>\$0</b>	<b>\$127,506</b>

The accompanying notes are an integral part of these statements.

# Principal Statements

Department of Defense  
Defense Finance and Accounting Service - Working Capital Fund - Consolidating  
Statement of Operations and Changes in Net Position  
For the Period Ended September 30, 1997  
(Thousands)

	<u>Fin. Oper.</u>	<u>FSO</u>	<u>Eliminations</u>	<u>FY 1997</u> <u>Grand Total</u>
<b>EXPENSES, Continued</b>				
19. Net Position, Beginning Balance, as Previously Stated	(\$19,117)	(\$15,424)	\$0	(\$34,541)
20. Adjustments (Note 27)	0	0	0	0
21. Net Position, Beginning Balance, as Restated	(\$19,117)	(\$15,424)	\$0	(\$34,541)
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	124,539	2,967	0	127,506
23. Plus (Minus) Non Operating Changes (Note 28)	97,020	31,307	(82,985)	45,342
24. Net Position, Ending Balance	<u>\$202,442</u>	<u>\$18,850</u>	<u>(\$82,985)</u>	<u>\$138,307</u>

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The accompanying notes are an integral part of these statements.

# Principal Statements

**Department of Defense**  
**Defense Finance and Accounting Service - Working Capital Fund - Consolidating**  
**Statement of Cash Flows**  
**For the Period Ended September 30, 1997**  
**(Thousands)**

	<u>Fin. Oper.</u>	<u>FSO</u>	<u>Eliminations</u>	<u>FY 1997</u> <u>Grand Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	\$124,539	\$2,967	\$0	\$127,506
Adjustments Affecting Cash Flow:				
2. Appropriated Capital Used	0	0	0	0
3. Decrease (Increase) in Accounts Receivable	26,131	2,548	0	28,679
4. Decrease (Increase) in Other Assets	343	2	0	345
5. Increase (Decrease) in Accounts Payable	(14,638)	(2,929)	0	(17,567)
6. Increase (Decrease) in Other Liabilities	4,597	333	0	4,930
7. Depreciation and Amortization	137,466	7,166	0	144,632
8. Other Unfunded Expenses	420	0	0	420
9. Other Adjustments	2,472	(5,763)	0	(3,291)
10. Total Adjustments	\$156,791	\$1,357	\$0	\$158,148
11. Net Cash Provided (Used) by Operating Activities	\$281,330	\$4,324	\$0	\$285,654
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
12. Sale of Property, Plant and Equipment	\$0	\$0	\$0	\$0
13. Purchase of Property, Plant and Equipment	(216,103)	(16,156)	0	(232,259)
14. Sale of Securities	0	0	0	0
15. Purchase of Securities	0	0	0	0
16. Collection of Loans Receivable	0	0	0	0
17. Creation of Loans Receivable	0	0	0	0
18. Other Investing Cash Provided (Used)	0	0	0	0
19. Net Cash Provided (Used) by Investing Activities	(\$216,103)	(\$16,156)	\$0	(\$232,259)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
20. Appropriations (Current Warrants)	\$0	\$0	\$0	\$0
21. Add:				
a. Restorations	0	0	0	0
b. Transfers of Cash from Others	0	0	0	0
22. Deduct:				
a. Withdrawals	0	0	0	0
b. Transfers of Cash to Others	(57,647)	(34,669)	0	(92,316)
23. Net Appropriations	\$57,647	\$34,669	\$0	\$92,316

**The accompanying notes are an integral part of these statements.**

# Principal Statements

**Department of Defense  
Defense Finance and Accounting Service - Working Capital Fund - Consolidating  
Statement of Cash Flows  
For the Period Ended September 30, 1997  
(Thousands)**

	<u>Fin. Oper.</u>	<u>FSO</u>	<u>Eliminations</u>	<u>FY 1997 Grand Total</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES, Continued</b>				
24. Borrowing from the Public	\$0	\$0	\$0	\$0
25. Repayments on Loans to the Public	0	0	0	0
26. Borrowing from the Treasury and the Federal Financing Bank	0	0	0	0
27. Repayments on Loans from the Treasury and the Federal Financing Bank	0	0	0	0
28. Other Borrowings and Repayments	0	0	0	0
29. Net Cash Provided (Used) by Financing Activities	<u>\$57,647</u>	<u>\$34,669</u>	<u>\$0</u>	<u>\$92,316</u>
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	\$122,874	\$22,837	\$0	\$145,711
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	<u>(57,647)</u>	<u>(34,669)</u>	<u>0</u>	<u>(92,316)</u>
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	<u>\$65,227</u>	<u>(\$11,832)</u>	<u>\$0</u>	<u>\$53,395</u>

	<u>Fin. Oper.</u>	<u>FSO</u>	<u>Eliminations</u>	<u>FY 1997 Grand Total</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>				
33. Total Interest Paid	\$437	\$0	\$0	\$437

	<u>Fin. Oper.</u>	<u>FSO</u>	<u>Eliminations</u>	<u>FY 1997 Grand Total</u>
<b>Supplemental Schedule of Financing and Investing Activity:</b>				
34. Property and Equipment Acquired Under Capital Lease Obligations	\$0	\$0	\$0	\$0
35. Property Acquired Under Long-Term Financing Arrangements	\$0	\$0	\$0	\$0
36. Other Exchanges of Non-cash Assets or Liabilities	\$0	\$0	\$0	\$0

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**The accompanying notes are an integral part of these statements.**

# Principal Statements

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**The accompanying notes are an integral part of these statements.**

***DEFENSE FINANCE  
AND  
ACCOUNTING SERVICE***

***WORKING CAPITAL  
FUND***

***CONSOLIDATED OPERATIONS***

***FOOTNOTES  
TO THE  
PRINCIPAL STATEMENTS***



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**DEPARTMENT OF DEFENSE  
DEFENSE FINANCE AND ACCOUNTING SERVICE  
DEFENSE WORKING CAPITAL FUND  
CONSOLIDATED OPERATIONS  
NOTES TO THE PRINCIPAL STATEMENTS  
AS OF SEPTEMBER 30, 1997**

**Note 1. Significant Accounting Policies**

**A. Basis of Presentation:**

These financial statements have been prepared to report the financial position and results of operations of the Department of Defense (DoD), as required by the Chief Financial Officers Act of 1990. They have been prepared from the books and records of the Department in accordance with DoD Guidance on Form and Content of Financial Statements For FY 1997 Financial Activity (as adopted from FMR, Volume 6, Chapter 6 issued January 1998, "Form and Content of Audited Financial Statements") and DoD's accounting policies which are summarized in this note. These statements, therefore, are different from the financial reports, also prepared by the DoD pursuant to OMB directive, that are used to monitor and control DoD's use of budgetary resources.

**B. Reporting Entity:**

The Department of Defense (DoD) was created on September 18, 1947 by the National Security Act of 1947. The overall mission of the Department is to organize, train, and equip forces to deter aggression and, if necessary, defeat aggressors of the United States and its allies.

On November 26, 1990, DoD Directive 5118.5, Defense Finance and Accounting Service established the Defense Finance and Accounting Service (DFAS) as an Agency of the Department of Defense (DoD) with responsibilities, functions, authorities, and relationships. The DFAS was established as an Agency of the DoD under the direction, authority and control of the Comptroller of the DoD. The primary responsibilities and functions included (1) DFAS shall direct finance and accounting requirements, systems, and functions for all appropriated, nonappropriated, working capital, revolving, and trust fund activities, including security assistance, (2) DFAS shall provide finance and accounting services for DoD Components and other Federal activities, as designated by the Comptroller, DoD, (3) DFAS shall execute statutory and regulatory financial reporting requirements and render financial statements, and (4) DFAS shall perform other functions as the Secretary of Defense, Deputy Secretary of Defense, or the Comptroller, DoD, may prescribe.

## Footnotes

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Fiscal Year 1997 represents the sixth full operational year for DFAS. Thus, these financial statements represent the sixth year that DFAS has prepared financial statements as required by the Chief Financial Officers (CFO) Act. The CFO Act requires that the Defense Finance and Accounting Service prepare and have audited three consolidated financial statements: (1) Statement of Financial Position, (2) Statement of Operations, and (3) Statement of Cash Flows. The audited financial statements are presented on the accrual basis of accounting as required by General Accounting Office's Title 2, of the Policy and Procedures Manual for Guidance of Federal Agencies.

The Defense Business Management System (DBMS), an automated management information system, is used by the Agency to develop the financial and other managerial information. DBMS was designated as the migratory system for the Defense Working Capital Fund.

### **C. Budgets and Budgetary Accounting:**

The Department expanded the use of professional financial management practices through the establishment of the Defense Working Capital Fund (formerly Defense Business Operations Fund) on October 1, 1991. The Fund operates with financial principles that provide improved cost visibility and accountability to enhance business management and improve the decision-making process. The Fund builds on the revolving fund principles previously used for industrial and commercial-type activities.

The Agency's major budget activity is the financial operations business area operating under the Working Capital Fund (Account Symbol 97X4930.5L), a revolving fund.

The DFAS Financial Services Organization's (FSO) major budget activity is the financial operations business area operating under the Working Capital Fund (Account Symbol 97X4930.5F40), a revolving fund.

### **D. Basis of Accounting:**

Transactions are recorded on an accrual accounting basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Also, when costs are incurred on a relatively uniform basis over the life of an order, revenue may be recognized as a percentage of incurred costs to total projected costs. At a minimum, the customer shall be billed and revenue recognized at the end of each fiscal year quarter. In summary the Fund shall operate under financial policies and responsibilities currently in effect for stock and industrial funds, except as modified by DoD Comptroller policy documents.

### **E. Revenues and Other Financing Sources:**

Revenue is earned and recognized when services are completed and billed or on a percentage of completion method.

For financial reporting purposes under accrual accounting, operating expenses are recognized in the period incurred. Expenditures for capital and other long-term assets are received then capitalized when purchased, but are not depreciated until they are put into operation by the Department.

Prior to FY97, due to inadequate system support, the annual leave liability was treated as an unfunded liability and future funding requirements on the Statement of Financial Position. In FY97, it was determined that any increase to the annual leave account (GLAC 2300.000) between the FY96 and FY97 ending balances would be recorded on the Statement of Operations and Changes in Net Position as an expense and as a funded liability on the Statement of Financial Position. If the change in the FY97 and FY96 ending balances results in a decrease, the unfunded liability and future funding requirement on the Statement of Financial Position would be adjusted accordingly.

**F. Accounting for Intra-governmental Activities:**

DFAS, as the Department's accountant, and the FSO, as DFAS' systems development provider, interacts with the other DoD Components in a typical business manner, i.e. provides accounting service to the Program Managers and DoD Comptroller. Our service includes the accounting and finance service for approximately 300 fund accounts. Therefore, these financial statements do not reflect the results of all financial decisions applicable to the Department or the Working Capital Fund. These statements reflect the Financial Operations and Financial Systems Organization business portion of the Working Capital Fund.

Like the other DoD Components, the DFAS employees participate in the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS), while assigned military personnel are covered by the Military Retirement System (MRS). Additionally, employees and personnel covered by FERS and MRS are also covered by Social Security.

**G. Funds with the U.S. Treasury and Cash:**

The Agency's fund resources as part of the Working Capital Fund are maintained in the Treasury account. The Fund's cash receipts and disbursements are processed by the Treasury, and the balance with the Treasury represents the aggregate of all unexpended balances at the summary level.

**H. Foreign Currency:**

Not Applicable.

## Footnotes

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### **I. Accounts Receivable:**

As presented in the Statement of Financial Position, accounts receivable includes accounts, claims and refunds receivable, advance payments to other entities and eliminating entries (See Note 29). Allowances for uncollectible accounts were established in FY 1994. Allowances for Bad Debts were determined in accordance with DoD 7220.9M and DFAS guidance. The total amount was recorded in the Allowance for Bad Debts account pending final write-off approval.

### **J. Loans Receivable:**

Not Applicable.

### **K. Inventories:**

Not Applicable.

### **L. Investments in U.S. Government Securities:**

Not Applicable.

### **M. Property and Equipment:**

All Defense Finance and Accounting Service property, plant and equipment is recorded in the Defense Property Accountability System (DPAS). The capital assets include, but are not limited to, physical plant and property, (including government owned facilities, property acquired under a capital lease or an operating lease), equipment and software. The assets were purchased with capital funds. For assets purchased with Fiscal Year 1992 and 1993 capital funds, the original purchase price (including installation and transportation costs) exceeded \$15,000. For assets purchased with Fiscal Year 1994 capital funds, the original purchase price exceeded \$25,000. For assets purchased with Fiscal Year 1995 and Fiscal Year 1996 capital funds, the original purchase price exceeded \$50,000.

DPAS was balanced and reconciled to the certified trial balances for fiscal year 1997. The largest component of property, plant, and equipment is ADP software with a Net Book Value of \$296,830. The Net Book Value for Fixed Assets (In-Use) is \$593,106.

Routine maintenance and repair costs are expensed when incurred. Depreciation of property and equipment is calculated on a straight line basis. Defense Finance and Accounting Service (DFAS) expensed \$144,632 in depreciation for this fiscal year and expensed \$440,742 in depreciation from inception of the Defense Working Capital Fund. The accumulated depreciation which includes depreciation on assets transferred-in, from inception is \$513,398 (See Note 15 for the Book Value of DFAS's depreciated assets).

The General Accounting Office (GAO) has determined that real property used by the DWCF, but under the jurisdiction of the Military Departments, represents an asset of the DWCF

and such property should be reported on the financial statements as an entity asset to show the full costs of all resources and assets used in DWCF operations.

**N. Prepaid and Deferred Charges:**

Not Applicable.

**O. Leases:**

Not Applicable.

**P. Contingencies:**

Not Applicable.

**Q. Accrued Leave:**

Civilian employee annual leave and military leave are accrued as earned and the accrued amounts are reduced as leave is taken. The balances for the civilian annual leave and military leave at the end of the fiscal year reflect current pay rates for the leave that is earned but not taken. Sick and other types of nonvested leave are expensed as taken. Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. DFAS has \$54,928 in Accrued Annual Leave that is reported as a liability not covered by current budgetary resources.

**R. Equity:**

Equity consists of invested capital, cumulative result of operations, and future funding requirements. Invested capital, as presented in the Statement of Financial Position, represents the net value of the capital asset transferred to or from the DFAS-Financial Operations and Financial Systems organization from or to other organizations.

Cumulative results of operations represents the excess of revenues over total expenses since the inception of the reporting entity, less refunds to customers and returns to the U. S. Treasury.

**S. Aircraft/Ship Crashes:**

Not Applicable.

**T. Treaties for Use of Foreign Bases:**

Not Applicable.

## Footnotes

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### U. Comparative Data [for use by reporting entities preparing CFO financial statements for the first time]:

Not Applicable.

### W. Undelivered Orders:

All DoD Components are obligated for goods and services which have been ordered but not yet received (undelivered orders) as of September 30, 1997. Aggregate undelivered orders amounted to \$54,517 as of September 30, 1997.

### Note 2. Fund Balances with Treasury

#### A. Working Capital Fund (USD(C)) and All Other Funds and Accounts:

Not Applicable.

#### B. Working Capital Fund Activities Below (USD(C)) Level:

	Entity Assets	
	<u>Funds Collected</u>	<u>Funds Disbursed</u>
Beginning Balance	1,761,618	(1,887,895)
Transfers of Cash to Others	(1,761,618)	
Transfers of Cash from Others		1,887,895
Funds Collected	2,008,231	
Funds Disbursed		(1,954,836)
Ending Balance	<u>2,008,231</u>	<u>(1,954,836)</u>

#### C. All Funds and Accounts:

Not Applicable.

#### D. Other Information:

Cash collections and disbursements data for the financial statements is obtained from the finance network/Cash Outlay System Report and Service listings. The difference between cash collections in the finance network/Cash Outlay System Report and the general ledger amounted to \$3,451. This amount is reported as an increase in accounts receivable. The difference between cash disbursements in the finance network/Cash Outlay System Report and the general ledger amounted to \$70,387. This amount is reported as an increase in accounts payable.

For Financial Operations, the current year undistributed amount for reimbursements was incorrectly reported as an increase to the trial balance amount. This amount should have been a decrease to the trial balance. The total collections should be \$1,795,035.

The disbursement amount should have read \$1,733,699. The difference between what was reported on the financial statements for disbursements and what should have been reported, was due to using the Cash Listing vs. the Cash Outlay System. The Cash Outlay was unavailable at the time of producing these reports.

With the above changes, the total Fund Balance with Treasury amount should be \$73,170. Due to the timing in discovering these discrepancies, the adjustments were not made to the FY97 statements, but will be made on the FY98 statements.

**Note 3. Cash, Foreign Currency and Other Monetary Assets**

Not Applicable.

**Note 4. Investments**

Not Applicable.

**Note 5. Accounts Receivable, Net**

	(1) Allowance Amount <u>Due</u>	(2) Allowance For Estimated <u>Uncollectibles</u>	(3) Method <u>Used</u>	(4) Amount <u>Due</u>
<b>A. Entity Receivables:</b>				
Intragovernmental	29,662	(113)		29,775
Governmental	126			126
Total	29,788	(113)		29,901
<b>B. Non-Entity Receivables:</b>				
Intragovernmental				
Governmental				

**C. Other Information:** The consolidated line on the financial statements also includes Intrafund Elimination entries of \$31,417 (see Note 29).

The Accounts Receivable Intragovernmental was increased by \$17,638 due to undistributed collections. Undistributed dollars are the difference between cash collections in the finance network/Cash Outlay System Report and the general ledger. The allowance for Accounts Receivables is for Refunds Receivable.

## Footnotes

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Accounts Receivable may also include numerous over-aged and negative transactions. These transactions are currently under investigation for system and processing deficiencies. See Note 31 for detail on the amounts of these transactions at year-end.

### **Note 6. Other Federal (Intragovernmental) and Non-Federal (Governmental) Assets**

Not Applicable.

### **Note 7. Loans and Loan Guarantees, Non-Federal Borrowers**

Not Applicable.

### **Note 8. Inventory, Net**

Not Applicable.

### **Note 9. Work in Process**

Not Applicable.

### **Note 10. Operating Materials and Supplies (OM&S), Net**

Not Applicable.

### **Note 11. Stockpile Materials Net**

Not Applicable.

### **Note 12. Seized Property**

Not Applicable.

### **Note 13. Forfeited Property, Net**

Not Applicable.

### **Note 14. Goods Held Under Price Support and Stabilization Programs, Net**

Not Applicable.

**Note 15. Property, Plant, and Equipment, Net**

	(1) Depreci- ation Method	(2) Service Life	(3) Acquisition Value	(4) Accumulated Depreciation	(5) Net Book Value
<u>Classes of Fixed Assets</u>					
A. Land					
B. Structures, Facilities, & Leasehold Improvements	S/L	11-20	7,166	4,028	3,138
C. Military Equipment	S/L	1-5	3,489		3,489
D. ADP Software	S/L	1-5	694,510	397,679	296,831
E. Equipment	S/L	1-5	145,987	88,983	57,004
F. Assets Under Capital Lease	S/L	1-5			
G. Other	S/L	1-5	26,046	22,708	3,338
H. Natural Resources					
I. Construction-in-Progress			229,306		229,306
Total			1,106,504	513,398	593,106

**\*Keys:**

<u>Depreciation Methods</u>	<u>Range of Service Life</u>	
SL - Straight Line	1-5	1 to 5 years
DD - Double-Declining Balance	6-10	6 to 10 years
SY - Sum of the Years' Digits	11-20	11 to 20 years
IN - Interest (sinking fund)	>20	Over 20 years
PR - Production (activity or use method)		
OT - Other (describe)		

**J. Other Information:**

For Financial Operations (5L), ADP Software, Net is incorrectly understated by \$2,852. The correction for this error will be made on the FY98 financial statements.

**Note 16. Debt**

Not Applicable.

**Note 17. Other Liabilities****A. Other Liabilities Covered by Budgetary Resources:**

Not Applicable.

## Footnotes

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### B. Other Information:

Not Applicable.

### C. Other Liabilities Not Covered by Budgetary Resources:

	Non-Current <u>Liability</u>	Current <u>Liability</u>	<u>Total</u>
1. Intragovernmental			
(1) Accrued Annual Leave	54,927		54,927
Total	<u>54,927</u>		<u>54,927</u>

#### Note 18. Leases

Not Applicable.

#### Note 19. Pensions and Other Actuarial Liabilities

Major Program Activities	Actuarial Present Value of Projected Plan Benefits	Assumed Interest Rate (%)	Assets Available to Pay Benefits	Unfunded Actuarial Liability
A. Pension and Health Plans				
B. Insurance/Annuity				
C. Other				
Workers Compensation				82,985
Total				<u>82,985</u>

Future workers' compensation figures are provided by the Department of Labor. The liability for future workers' compensation (FWC) benefits includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's, June 10, 1997 economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

<u>1997</u>
6.27% in year 1
5.82% in year 2
5.60% in year 3
5.45% in year 4
5.40% in year 5 and thereafter

**Note 20. Net Position**

	<u>Revolving Funds</u>	<u>Trust Funds</u>	<u>Appropriated Funds</u>	<u>Total</u>
<b>A. Unexpended Appropriations:</b>				
(1) Unobligated,				
a. Available				
b. Unavailable				
(2) Undelivered Orders				
<b>B. Invested Capital</b>	95,136			95,136
<b>C. Cumulative Results of Operations</b>	181,083			181,083
<b>D. Other</b>				
<b>E. Future Funding Requirements</b>	<u>(137,912)</u>			<u>(137,912)</u>
<b>F. Total</b>	<u>138,307</u>			<u>138,307</u>

**Note 21. Taxes**

Not Applicable.

**Note 22. Other Revenues and Financing Sources**

Imputed Pension and Other Retirement Benefits (ORB)	
CSRS/FERS Retirement	\$52,635
Health	22,195
Life Insurance	<u>67</u>
	<u>\$74,897</u>

The \$74,897 represents the imputed financing for pensions and other retirement benefits. The Office of Personnel management (OPM) is the administrative entity for pensions and other retirement benefits (ORB). OPM accounts for and reports the pension liability in the financial statements while the employer discloses the imputed financing. OPM actuaries provide the normal cost rates which are used to calculate the imputed financing.

**Note 23. Program or Operating Expenses**

Not Applicable.

## Footnotes

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### Note 24. Cost of Goods Sold Do A, B, or C as appropriate.

#### A. Cost of Services Sold:

(1) Beginning Work-in-Process	\$0
(2) Plus: Operating Expenses	
(a) Personal Services and Benefits	966,948
(b) Travel and Transportation	38,514
(c) Rental, Communication and Utilities	95,573
(d) Printing and Reproduction	19,128
(e) Contractual Services	525,744
(f) Supplies and Materials	19,279
(g) Equipment not Capitalized	34,265
(h) Grants, Subsidies and Contributions	1,631
(i) Insurance Claims and Indemnities	
(j) Other (describe):	
(1) Interest Expense	447
(2) Real Property Maintenance	396
(3) Bad Debts	24
(4) Eliminating Entries*	(190,928)
(j) Total Expenses by Object Class	1,511,021
(3) Minus: Ending Work-in-Process	
(4) Minus: Completed Work for Activity Retention	
Cost of Services Sold	<u>1,511,021</u>

#### Other Information:

\*See Note 29 for Eliminating Entries.

### Note 25. Other Expenses

	<u>1996/7</u>	<u>1995/6</u>
<b>A. Other Expenses:</b>		
(1) Accrued Annual Leave		384
(2) Pensions/Other Retirement Benefits	<u>74,897</u>	
Total	<u>74,897</u>	<u>384</u>

#### B. Other Information:

Imputed Pension and Other Retirement Benefits (ORB)	
CSRS/FERS Retirement	\$52,635
Health	22,195
Life Insurance	<u>67</u>
	<u>\$74,897</u>

The \$74,897 represents the imputed expense for pensions and other retirement benefits. The Office of Personnel management (OPM) is the administrative entity for pension sand other retirement benefits (ORB). OPM accounts for and reports the pension liability in the financial statements while the employer discloses the imputed expenses. OPM actuaries provide the normal cost rates which are used to calculate the imputed expenses.

**Note 26. Extraordinary Items**

Not Applicable.

**Note 27. Prior Period Adjustments**

Not Applicable.

**Note 28. Non-Operating Changes - (Transfers and Donations)**

	<u>1996/7</u>	<u>1995/6</u>
<b>A. Increases:</b>		
(1) Transfers-In:		
(a) Prior Year Cash Balance	(92,346)	(300,370)
(b) Capital Assets 9/30/97	135,761	(84,912)
(2) Unexpended Appropriations		
(3) Donations Received		
(4) Other Increases		
(5) Total Increases	43,415	(385,282)
	<u>1996/7</u>	<u>1995/6</u>
<b>B. Decreases:</b>		
(1) Transfers-Out:		
(a) Capital Assets 9/30/96	(84,912)	(42,936)
(2) Donations		
(3) Other Decreases		
Unfunded Liability-Workers Compensation	82,985	
(4) Total Decreases	(1,927)	(42,936)
<b>C. Net Non-Operating Changes (Transfers):</b>	45,342	(\$342,346)

The \$74,897 represents the imputed expense for pensions and other retirement benefits. The Office of Personnel management (OPM) is the administrative entity for pension sand other retirement benefits (ORB). OPM accounts for and reports the pension liability in the financial statements while the employer discloses the imputed expenses. OPM actuaries provide the normal cost rates which are used to calculate the imputed expenses.

**Note 26. Extraordinary Items**

Not Applicable.

**Note 27. Prior Period Adjustments**

Not Applicable.

**Note 28. Non-Operating Changes - (Transfers and Donations)**

	<u>1996/7</u>	<u>1995/6</u>
<b>A. Increases:</b>		
(1) Transfers-In:		
(a) Prior Year Cash Balance	(92,346)	(300,370)
(b) Capital Assets 9/30/97	135,761	(84,912)
(2) Unexpended Appropriations		
(3) Donations Received		
(4) Other Increases		
(5) Total Increases	<u>43,415</u>	<u>(385,282)</u>
	<u>1996/7</u>	<u>1995/6</u>
<b>B. Decreases:</b>		
(1) Transfers-Out:		
(a) Capital Assets 9/30/96	(84,912)	(42,936)
(2) Donations		
(3) Other Decreases		
Unfunded Liability-Workers Compensation	82,985	
(4) Total Decreases	<u>(1,927)</u>	<u>(42,936)</u>
<b>C. Net Non-Operating Changes (Transfers):</b>	<u>45,342</u>	<u>(\$342,346)</u>

## Footnotes

### Note 29. Intrafund Eliminations

#### Schedule B: Eliminating Entries

Selling Activity:	<u>Column A</u> Accounts Receivable	<u>Column B</u> Revenue	<u>Column C</u> Unearned Revenue	<u>Column D</u> Collections
Defense Finance and Accounting Service	31,417	190,928	0.00	194,510
<b>TOTAL</b>	<b>31,417</b>	<b>190,928</b>	<b>0.00</b>	<b>194,510</b>

Customer Activity:	<u>Column A</u> Accounts Payable	<u>Column B</u> Expenses	<u>Column C</u> Advances	<u>Column D</u> Disbursements
(SRC/CD)				
100.00 Intra DLA Support	0.00	0.00	0.00	0.00
417.00 DFAS (Oth than 418) Btwn DFAS	31,417	190,928	0.00	194,510
418.00 Intra-DLA (Def Stock Fd or Indus Fd)	0.00	0.00	0.00	0.00
<b>TOTAL</b>	<b>31,417</b>	<b>190,928</b>	<b>0.00</b>	<b>194,510</b>

#### Schedule C: Eliminating Entries

Selling Activity:	<u>Column A</u> Accounts Receivable	<u>Column B</u> Revenue	<u>Column C</u> Unearned Revenue	<u>Column D</u> Collections
Defense Finance and Accounting Service	10,646	1,737,854	0.00	1,754,757
<b>TOTAL</b>	<b>10,646</b>	<b>1,737,854</b>	<b>0.00</b>	<b>1,754,757</b>

Customer Activity:	<u>Column A</u> Accounts Payable	<u>Column B</u> Expenses	<u>Column C</u> Advances	<u>Column D</u> Disbursements
(SRC/CD)				
411.00 Navy, Marine Corps	4,146	531,116	0.00	540,227
412.00 Army	3,870	675,757	0.00	687,272
416.00 Air Force	1,768	357,011	0.00	363,158
414.00 DLA (Oth than 418)	457	92,149	0.00	93,700
417.00 Other Defense Agencies	405	81,821	0.00	83,230
<b>TOTAL</b>	<b>10,646</b>	<b>1,737,854</b>	<b>0.00</b>	<b>1,754,757</b>

**Schedule D: Eliminating Entries**

<b>Selling Activity:</b>	<u>Column A</u> Accounts Receivable	<u>Column B</u> Revenue	<u>Column C</u> Unearned Revenue	<u>Column D</u> Collections
Defense Finance and Accounting Service	19,129	44,975	0.00	46,965
<b>TOTAL</b>	<b>19,129</b>	<b>44,975</b>	<b>0.00</b>	<b>46,965</b>
<b>Customer Activity:</b>	<u>Column A</u> Accounts Payable	<u>Column B</u> Expenses	<u>Column C</u> Advances	<u>Column D</u> Disbursements
(SRC/CD)				
300.00 Off Budget Federal Entities	0.00	0.00	0.00	0.00
600.00 Foreign Military Sales	1,315	44,630	0.00	43,724
822.00 All Others	141	345	0.00	273
Other	17,673	N/A	N/A	2,968
<b>TOTAL</b>	<b>19,129</b>	<b>44,975</b>	<b>0.00</b>	<b>46,965</b>

Earnings were given at a detail level, thus, allowing DFAS-CO to show Expenses at the lowest Customer Activity level as shown above. However, Accounts Receivable and Collections are not reflected in the Trial a Balance using the same detail level source code, therefore, detail Accounts Payable and Disbursements had to be computed using a percentage of Earnings in order to be shown at the same Customer Activity level.

**Note 30. Contingencies:**

Not Applicable.

**Note 31. Other Disclosures:****A. Annual Leave**

Prior to FY97, due to inadequate system support, the annual leave liability was treated as an unfunded liability and future funding requirements on the Statement of Financial Position. In FY97, it was determined that any increase to the annual leave account (GLAC 2300.000) between the FY96 and FY97 ending balances would be recorded on the Statement of Operations and Changes in Net Position as an expense and as a funded liability on the Statement of Financial Position. If the change in the FY97 and FY96 ending balances results in a decrease, the unfunded liability and future funding requirement on the Statement of Financial Position would be adjusted accordingly.

## Footnotes

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### **B. Unmatched Disbursements (UMDs), Negative Unliquidated Obligations (NULO), and Aged in-Transit Disbursements:**

Treasury Index 97 DFAS	September 1996	September 1997	Change	Percent Change
Unmatched Disbursements	90,416	100,689	10,273	11.36% (Increase)
Negative Unliquidated Obligations	3,723	3,367	356	9.56% (Decrease)
Totals	94,139	104,056	9,917	10.53% (Increase)

***DEFENSE FINANCE  
AND  
ACCOUNTING SERVICE***

***WORKING CAPITAL  
FUND***

***AUDIT OPINION***





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

February 27, 1998

**MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER) AND  
CHIEF FINANCIAL OFFICER  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE**

**SUBJECT: Disclaimer of Opinion on the Defense Finance and Accounting Service Working  
Capital Fund Financial Statements for FY 1997 (Project No. 7FH 2038)**

The Chief Financial Officers (CFO) Act of 1990, as amended by the Federal Financial Management Act of 1994, requires financial statement audits by the Inspectors General and prescribes the responsibilities of management and auditors for financial statements, internal controls, and compliance with laws and regulations. Management is responsible for establishing and maintaining an internal control structure and for complying with laws and regulations applicable to DoD financial accounting and reporting. Our responsibility is to render an opinion on the financial statements, and to determine whether internal controls are adequate and whether the entity complied with laws and regulations.

Before FY 1992, the DoD operated a significant number of commercial and industrial facilities under a revolving fund concept. In FY 1992, the revolving funds were consolidated to form the Defense Business Operations Fund (DBOF). The Inspector General, DoD, was responsible for auditing and rendering an opinion on the DBOF consolidated financial statements. In December 1996, the Under Secretary of Defense (Comptroller) restructured the DBOF into separate working capital funds. The Inspector General, DoD, is responsible for auditing and rendering an opinion on the financial statements, for FY 1997 and subsequent years, of the working capital fund reporting entities formerly reported under the DBOF.

**Disclaimer of Opinion.** We were unable to render an opinion as to whether the DFAS Working Capital Fund Financial Statements for FYs 1997 and 1996 presented fairly, in all material respects, the financial position and results of operations of the DFAS Working Capital Fund in accordance with generally accepted Government accounting principles.

Because of deficiencies in accounting systems, the DFAS Working Capital Fund had substantial undistributed collections and disbursements, and we could not verify balances for expenses. The undistributed amounts materially affected the reported balances for Fund Balance With Treasury (7 percent of total assets), Accounts Receivable (4 percent of total assets), and Accounts Payable (88 percent of total liabilities). As a result, significant portions of the balances were unverifiable. We could not verify balances for expenses because accounting transactions that had been disbursed and finalized were purged on a quarterly basis. After these transactions were purged from the general ledger accounting system (the Defense Business Management System), they could not be restored.

Deficiencies in accounting systems and control procedures resulted in misreported Property, Plant, and Equipment (81 percent of total assets). Balances reported for Property, Plant, and Equipment did not match either the general ledger trial balances produced by the Defense Business Management System, or the subsidiary ledger trial balances produced by the

Defense Property Accountability System. Deficiencies in accounting systems and control procedures also resulted in unrecorded adjustments to the financial statements, which prevented the verification of reported balances.

**Accounting Principles.** The DFAS Working Capital Fund Financial Statements for FY 1997 were to be prepared in accordance with Office of Management and Budget (OMB) Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993, as supplemented by OMB Bulletin No. 97-01, "Form and Content of Agency Financial Statements," October 16, 1996. These bulletins incorporate the Statements of Federal Financial Accounting Concepts and Standards recommended by the Federal Accounting Standards Advisory Board, which are approved by the Secretary of the Treasury; the Director, OMB; and the Comptroller General of the United States. Footnote 1 of the DFAS Working Capital Fund Financial Statements for FY 1997 discusses the significant accounting policies that DFAS stated it followed in preparing the financial statements.

**Internal Controls.** We reviewed aspects of the internal control structure of the DFAS Working Capital Fund and obtained an understanding of the internal control policies and procedures. The internal control structure consists of the overall control environment, accounting systems, and control procedures that provide reasonable assurance that accounting data are accumulated, recorded, and reported properly by management and that assets are safeguarded. In addition, we performed a limited review of the implementation of the management control program by the Fund's managers. We performed applicable tests of the internal control structure to determine whether the controls were effective and working as designed.

The internal control structure needed improvements in accounting for and managing resources, ensuring compliance with laws and regulations, and ensuring that the financial statements are free of material misstatements. Specifically, management needs to strengthen internal controls over the accounting for Fund Balance With Treasury; Accounts Receivable; Accounts Payable; Property, Plant, and Equipment; Revenues; and over the preparation of the financial statements.

The FY 1997 Annual Statement of Assurance for DFAS identified as repeat material weaknesses within DoD many of the reportable conditions we found in the DFAS Working Capital Fund, such as inadequate financial accounting processes and deficiencies in systems. The Annual Statement of Assurance reported as a new material weakness that work performed by the DFAS Working Capital Fund (specifically, the Financial Systems Organization) was not always funded. Further, in FYs 1997 and 1996, the Accounting Directorate, DFAS Columbus Center, reported a material weakness in accounting for the Fund's undistributed collections and disbursements for Fund Balance With Treasury. However, the weakness was not included in the DFAS Columbus Center's Annual Statement of Assurance for FYs 1997 or 1996.

**Compliance With Laws and Regulations.** We assessed compliance with laws and regulations related to the financial statements. Noncompliance with laws and regulations is a reportable condition if the noncompliance could result in material misstatements in the financial statements, or if the sensitivity of the matter would cause anyone to perceive the noncompliance as significant.

Management needed to improve compliance with laws and regulations for the preparation and review of accounting reports, disclosure in financial statements, and accounting for revenue and the unbillable costs of services performed for other DoD agencies without customer orders. Also, under the Federal Financial Management Improvement Act of 1996 and OMB Bulletin No. 93-06, Addendum 1, "Audit Requirements for Federal Financial Statements," January 16, 1998, our work disclosed that financial management systems did not

comply with Federal financial management system requirements; applicable Federal accounting standards; and the United States Government Standard General Ledger at the transaction level. Further, the Defense Business Management System did not comply with key accounting requirements of DoD 7000.14-R, the "DoD Financial Management Regulation," for general ledger control, financial reporting, and audit trails.

*David K. Steensma*

David K. Steensma  
Deputy Assistant Inspector General  
for Auditing

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## **Appendix D. Management and Legal Representation Letters**

This appendix (a total of 4 pages) consists of the management and legal representation letters for the DFAS Working Capital Fund Financial Statements for FY 1997.



## DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY  
ARLINGTON, VA 22240-5291

JAN 27 1998

DFAS-HQ/CX

MEMORANDUM FOR THE ASSISTANT INSPECTOR GENERAL FOR AUDITING

SUBJECT: Management Assurance concerning FY 1997 Financial Statements of the Defense Finance and Accounting Service Working Capital Fund

This is in regard to your audit of the FY 1997 Financial Statements of the Defense Finance and Accounting Service Working Capital Fund (Project No. 7FH-2038). For the purpose of expressing an opinion as to whether the financial statements are presented fairly in accordance with the other comprehensive basis of accounting described in Office of Management and Budget (OMB) Bulletin No. 94-01, "Form and Content of Agency Financial Statements, "November 16, 1993, and applicable portions of OMB Bulletin No. 97-01, Form and Content of Agency Statements, "October 16, 1996, we confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

- 1) We are responsible for the fair presentation of the FY 1997 Financial Statements of the Defense Finance and Accounting Service Working Capital Fund in accordance with OMB Bulletin No. 94-01 and applicable portions of OMB Bulletin No. 97-01.
- 2) We have made available to you all financial records and related data.
- 3) We cannot provide reasonable assurance that the accounting and non-accounting systems used to produce the financial statements are reliable because not all those systems meet DoD and OMB system standards.
- 4) We have no plans or intentions, other than those previously disclosed to you, that may materially affect the carrying value or classification of assets and liabilities.



## DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY  
ARLINGTON, VA 22240-5291

JAN 27 1998

DFAS-HQ/CX

MEMORANDUM FOR THE ASSISTANT INSPECTOR GENERAL FOR AUDITING

SUBJECT: Management Assurance concerning FY 1997 Financial Statements of the Defense Finance and Accounting Service Working Capital Fund

This is in regard to your audit of the FY 1997 Financial Statements of the Defense Finance and Accounting Service Working Capital Fund (Project No. 7FH-2038). For the purpose of expressing an opinion as to whether the financial statements are presented fairly in accordance with the other comprehensive basis of accounting described in Office of Management and Budget (OMB) Bulletin No. 94-01, "Form and Content of Agency Financial Statements, "November 16, 1993, and applicable portions of OMB Bulletin No. 97-01, Form and Content of Agency Statements, "October 16, 1996, we confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

- 1) We are responsible for the fair presentation of the FY 1997 Financial Statements of the Defense Finance and Accounting Service Working Capital Fund in accordance with OMB Bulletin No. 94-01 and applicable portions of OMB Bulletin No. 97-01.
- 2) We have made available to you all financial records and related data.
- 3) We cannot provide reasonable assurance that the accounting and non-accounting systems used to produce the financial statements are reliable because not all those systems meet DoD and OMB system standards.
- 4) We have no plans or intentions, other than those previously disclosed to you, that may materially affect the carrying value or classification of assets and liabilities.

- 5) There have been no irregularities involving management or employees who have significant roles in the internal control structure.
- 6) No other employee has been involved in irregularities that could materially affect the financial statements.
- 7) We have received reports from other auditors concerning the non-compliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements. These reports clearly affect the account balances in the current financial statements.
- 8) There is no violation or possible violation of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording loss contingency.
- 9) There is no other material liability or gain or loss contingency that is required to be accrued or disclosed by Statement of Federal Financial Accounting Standard (SFFAS) No. 5, "Accounting for Contingencies," December 1995.
- 10) There is no unasserted claim or assessment that our legal representatives have advised us must be disclosed in accordance with SFFAS No. 5.
- 11) There is no material transaction that has not been properly recorded in the accounting records and reflected in the financial statements.
- 12) The Department of Defense has satisfactory title to all assets, and there is no lien or encumbrance on such assets, nor has any asset been pledged.
- 13) No event has occurred after the balance sheet date that would require adjustments to, or disclosure in, the financial statements.
- 14) We can attest that the various account balances used by us to prepare the financial statements, with the exception of the Fund Balance with

Treasury, Accounts Receivable and Accounts Payable, are fairly presented.

- 15) All adjustments made to account balances by our activity are fully documented and were made in accordance with the applicable accounting standards.

If you have questions, my point of contact is Mr. Wayne Ebaugh, at (703) 602-5511.

A handwritten signature in cursive script that reads "Bruce M. Carnes".

Bruce M. Carnes  
Deputy Director for  
Resource Management



DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY  
ARLINGTON, VA 22240-5291

JAN 20 1998

DFAS-HQ-G

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING,  
DEPARTMENT OF DEFENSE (DoD)  
DEPUTY GENERAL COUNSEL (FISCAL), DoD

SUBJECT: Audit of the FY 1997 Financial Statements of the  
Defense Finance and Accounting Service Working Capital  
Fund (Project No. 7FH-2038)

In response to your memorandum dated January 6, 1998, this office, including all lawyers over whom this office exercises supervision, is not aware of any pending or threatened litigation, claims, and assessments or unasserted claims and assessments, involving the Defense Finance and Accounting Service for the period September 30, 1997, through February 27, 1998, that are in amounts material to the fund.

  
John S. Mester  
General Counsel

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## **Appendix E. Laws and Regulations Reviewed**

Public Law 101-576, "Chief Financial Officers Act of 1990," November 15, 1990

Public Law 103-356, "Government Management Reform Act of 1994,"  
October 13, 1994 (Federal Financial Management Act of 1994)

Federal Managers Financial Integrity Act of 1982

Federal Financial Management Improvement Act of 1996

OMB Bulletin No. 94-01, "Form and Content of Agency Financial Statements,"  
November 16, 1993

OMB Bulletin No. 97-01, "Form and Content of Agency Financial Statements,"  
October 16, 1996

OMB Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements,"  
January 8, 1993

OMB Circular No. A-127, "Financial Management Systems," as revised  
July 23, 1993

Joint Financial Management Improvement Program Core Financial System  
Requirements, Federal Financial Management System Requirements - 1,  
September 1995

DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 1,  
"General Financial Management Information, Systems, and Requirements,"  
May 1993

DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 6,  
"Reporting Policy and Procedures," February 1996

DoD Regulation 7000.14-R, "DoD Financial Management Regulation,"  
Volume 11B, "Reimbursable Operations, Policy and procedures - Defense  
Business Operations Fund," December 1994

DoD Directive 5010.38, "Management Control Program," August 26, 1996

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## **Appendix F. 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)  
Director, Administration and Management  
Director, Defense Logistics Studies Information Exchange

### **Department of the Army**

Assistant Secretary of the Army (Financial Management and Comptroller)  
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  
Technical Information Center, National Security and International Affairs Division,  
General Accounting Office  
Inspector General, U.S. Department of Education

## **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 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

## **Audit Team Members**

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

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