Audit Report

JOURNAL VOUCHER ADJUSTMENTS AND PROCESSING OF DATA FOR THE FY 1998 NAVY GENERAL FUND FINANCIAL STATEMENTS

Report Number 99-180 June 7, 1999

Office of the Inspector General
Department of Defense

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Acronyms

CFO	Chief Financial Officer
DFAS	Defense Finance and Accounting Service
NHFS	Navy Headquarters Financial System
STARS-FDR	Standard Accounting and Reporting System-Financial and Departmental Reporting
USGSGL	United States Government Standard General

INSPECTOR GENERAL
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June 7, 1999

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE CLEVELAND CENTER

SUBJECT: Audit Report on Journal Voucher Adjustments and Processing of Data for the FY 1998 Navy General Fund Financial Statements (Report No. 99-180)

We are providing this report for review and comments. This audit was performed in response to the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994.

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 Cleveland Center, provide comments by August 6, 1999.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Brian M. Flynn at (703) 604-9145 (DSN 664-9145) (bflynn@dodig.osd.mil) or Ms. Linda A. Pierce at (216) 522-6091, extension 234 (DSN 580-6091) (lap@dodig.osd.mil). See Appendix E for the report distribution. The audit team members are listed inside the back cover.

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Office of the Inspector General, DoD

Report No. 99-180 **June 7, 1999**
(Project No. 8FC-2030.01)

Journal Voucher Adjustments and Processing of Data for the FY 1998 Navy General Fund Financial Statements

Executive Summary

Introduction. This is the second report on the Department of the Navy General Fund financial statements. Inspector General, DoD, Report No. 99-092, "Oversight of the Naval Audit Service Audit of the Navy General Fund Financial Statements for FY 1998," March 1, 1999, addressed our oversight of the financial statement audit conducted by the Naval Audit Service, and endorsed the disclaimer of opinion issued by the Naval Audit Service.

The Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, requires the Inspector General, DoD, to audit the financial statements of DoD organizations in accordance with generally accepted Government auditing standards, but allows for the delegation of audit work. The Inspector General, DoD, delegated the audit of the FY 1998 Navy General Fund financial statements to the Naval Audit Service. We performed audit work on the compilation of the FY 1998 Navy General Fund financial statements at the Defense Finance and Accounting Service Cleveland Center, Cleveland, Ohio, where the Navy accounting records are maintained and financial statements are prepared. For FY 1998, the Navy General Fund reported assets of $104.6 billion and liabilities of $8.8 billion. The Navy also reported a net cost of operations of $73.4 billion and total outlays of $78.8 billion.

Audit Objective. Our objective was to determine whether the Defense Finance and Accounting Service Cleveland Center and the Defense Finance and Accounting Service Kansas City Center, Kansas City, Missouri, consistently and accurately compiled financial data from field activities and other sources for the FY 1998 Navy General Fund Financial Statements. We reviewed internal controls and compliance with laws and regulations related to the objective.

Audit Results. The Defense Finance and Accounting Service Cleveland Center processed unsupported adjustments of $880 billion to the Navy budgetary and proprietary general ledgers. In an attempt to balance the Navy budgetary general ledger, the DFAS Cleveland Center made those adjustments; however, the adjustments did not correct the errors that caused the budgetary general ledger to be out of balance. As a result, financial data reported on the FY 1998 Navy General Fund financial statements were unsupported, and sources of data that did not meet financial statement

reporting requirements were used to compile the Navy financial statements. For further details of the audit results, see the Finding section of the report. For a discussion of the internal control weakness identified, see Appendix A.

Summary of Recommendations. We recommend that the Director, Defense Finance and Accounting Service Cleveland Center, reverse the unsupported and inappropriate adjustments, correct erroneous data in the budgetary general ledger, and establish adequate controls over the adjustment process. We also recommend that action to correct errors in the Standard Accounting and Reporting System-Financial and Departmental Reporting be completed.

Management Comments. The draft report was issued on April 2, 1999. No comments were received. We request that the Director, Defense Finance and Accounting Service Cleveland Center, comment on this report by August 6, 1999.

Table of Contents

Executive Summary i

Introduction

Background 1
Objective 2

Finding

Adjustments to Budgetary Data Supporting Navy General Fund Financial Statements 3

Appendixes

A. Audit Process
Scope and Methodology 11
Management Control Program 13
B. Summary of Prior Coverage 14
C. Absolute Value of Financial Data Transferred Between the Proprietary and Budgetary General Ledgers by Appropriation 16
D. One-Sided Adjustments 17
E. Report Distribution 18

Background

Chief Financial Officers Act. This audit was performed in response to Public Law 101-576, the "Chief Financial Officers [CFO] Act of 1990," November 15, 1990, as amended by Public Law 103-356, the "Federal Financial Management Act of 1994," October 13, 1994. The CFO Act requires the annual preparation and audit of financial statements for trust funds, revolving funds, and substantial commercial activities of Executive departments and agencies, as well as Government corporations. The CFO Act also requires the Inspector General (IG) to audit financial statements in accordance with generally accepted Government auditing standards and other standards established by the Office of Management and Budget.

Audit of the FY 1998 Department of the Navy General Fund Financial Statements. We delegated the FY 1998 audit of the Department of the Navy (Navy) General Fund financial statements to the Naval Audit Service. We also performed audit work on the processes used to compile the FY 1998 Navy General Fund financial statements at the Defense Finance and Accounting Service (DFAS) Cleveland Center, Cleveland, Ohio, and the DFAS Kansas City Center, Kansas City, Missouri.

Role of the DFAS Cleveland and Kansas City Centers. The DFAS Cleveland and Kansas City Centers provide finance and accounting support to the Navy and Marine Corps. The Centers maintain departmental accounting records and prepare financial statements using data from field organizations. The DFAS Cleveland Center prepared the FY 1998 Navy General Fund financial statements, which included data produced by the DFAS Kansas City Center.

DFAS Cleveland Accounting Systems. Until January 1998, the DFAS Cleveland Center used the Navy Headquarters Financial System (NHFS) to compile accounting data from multiple feeder systems. This system was a legacy[1] system that had been used since 1987. In 1997, the DFAS Cleveland Center began developing the Standard Accounting and Reporting System-Financial and Departmental Reporting (STARS-FDR), an interim migratory[2] computer system, to replace the NHFS. The DFAS Cleveland Center began using STARS-FDR for Navy General Fund departmental reporting in March 1998.

FY 1998 Navy General Fund Financial Statements. The FY 1998 Navy General Fund financial statements consisted of the Consolidated Balance Sheet, Consolidating and Consolidated Statement of Net Cost, Consolidating and Consolidated Statement of Changes in Net Position, Combined Statement of Budgetary Resources, and Combined Statement of Financing, along with the

[1]An existing system that will be maintained only until replaced by a migratory or interim migratory accounting system.

[2]An existing or planned and approved automated information system that has been designed to support a functional process on a DoD-wide basis.

supporting footnotes, supplementary schedules, and a management overview. The FY 1998 Navy General Fund financial statements reported the following information.

- The Balance Sheet reported assets of $104.6 billion and liabilities of $8.8 billion.
- The Statement of Net Cost reported a net cost of operations of $73.4 billion.
- The Statement of Changes in Net position reported an end-of-period net position of $95.8 billion.
- The Statement of Budgetary Resources reported total outlays of $78.8 billion.
- The Statement of Financing reported financing sources yet to be provided of $437 million.

Objective

Our objective was to determine whether the DFAS Cleveland and Kansas City Centers consistently and accurately compiled financial data from field activities and other sources for the FY 1998 Navy General Fund financial statements. We reviewed internal controls and compliance with laws and regulations related to the objective.

Appendix A discusses the audit scope and methodology, the DFAS Cleveland Center management control program, and the internal control weaknesses found during the audit. See Appendix B for a list of prior audits related to the audit objectives.

Adjustments to Budgetary Data Supporting the Navy General Fund Financial Statements

The DFAS Cleveland Center processed 1,595 unsupported adjustments with an absolute value of $880 billion[3] to the Navy budgetary and proprietary general ledgers. The DFAS Cleveland Center made the adjustments in an attempt to force the Navy budgetary general ledger to balance. The Navy budgetary general ledger accounts were out of balance because of the following:

- The DFAS Cleveland Center entered unbalanced financial data from the former NHFS into STARS-FDR.
- The DFAS Cleveland Center processed one-sided and unbalanced adjustments in the Navy budgetary general ledger.
- STARS-FDR did not accurately post subsidiary general ledger accounts into summary general ledger accounts.

The DFAS Cleveland Center made significant adjustments to the Navy budgetary general ledger; however, the adjustments did not correct the errors that caused the budgetary general ledger to be out of balance. As a result, financial data reported on the FY 1998 Navy General Fund financial statements were unsupported, and sources of data that did not meet financial statement reporting requirements were used to compile the Navy financial statements.

Accounting Principles

Accounting controls are essential to ensure that financial data are recorded accurately. Two types of accounting controls needed by every entity are double-entry accounting and a standard general ledger.

Double-Entry Accounting. Basic accounting methods require that equal increases and decreases in the general ledger be recorded for each occurrence or event, using a two-sided entry with debits equaling credits. This method is known as double-entry accounting. Using double-entry accounting, accountants verify that debits equal credits within the general ledger at the end of the

[3]The absolute value of $880 billion is a revised amount resulting from additional audit analysis. Unsupported adjustments with an absolute value of $773 billion for the Navy General Fund were previously reported in IG, DoD, Report No. 99-097, "Internal Controls and Compliance With Laws and Regulations for DoD Agency-Wide Financial Statements for FY 1998," March 1, 1999.

accounting period. This is accomplished by preparing a trial balance. If the debit and credit totals of the trial balance do not equal, the reason for the discrepancy must be found and the error corrected before preparing the financial statements.

United States Government Standard General Ledger. Public Law 104-208, the "Federal Financial Management Improvement Act of 1996," September 30, 1996, requires that agencies use the United States Government Standard General Ledger (USGSGL) to accumulate and report standard financial data. The USGSGL provides a uniform chart of accounts to be used in standardizing Federal accounting. The USGSGL contains two separate general ledgers instead of the single general ledger used in commercial practice. The 4000 series accounts of the USGSGL constitute the budgetary general ledger. All other accounts (excluding the 9000 series of memorandum accounts) constitute the proprietary general ledger. The budgetary general ledger records the activity for the Navy budget. The proprietary general ledger records the activity for Navy assets, liabilities, and net position. Debits and credits should equal within each of the separate general ledgers.

Entries to both budgetary and proprietary general ledger accounts may be required to record a given transaction. However, the debits and credits must be equal within each of the general ledgers. For example, an amount should not be debited to a budgetary account with the corresponding credit to a proprietary account. Such entries mix general ledgers and cause them to be out of balance. A debit and a corresponding credit are required in both general ledgers to maintain a proper balance.

Adjustments to Move Data Between Budgetary and Proprietary General Ledgers

In an attempt to balance the budgetary trial balance, the DFAS Cleveland Center processed 1,595 unsupported adjustments that moved approximately $880 billion between budgetary and proprietary general ledgers. The adjustments used a combination of the following general ledger accounts:

- 3328.9999 - Net Operating Results General Fund (Adjustment Account)
- 3999.9999 - Equity Adjustment
- 7000.9999 - General Fund (Adjustment Account)
- 4999.9999 - Budgetary Adjustment Account

The first three accounts listed above are proprietary accounts. The fourth account listed is a budgetary account. All four accounts are adjustment accounts that normally have credit balances. Table 1 shows two adjustments for appropriation 1453, Military Personnel, Navy.

Table 1. Adjustments to Appropriation 1453, Military Personnel, Navy			
	Account No.	Amount of Adjustment	Effect of Adjustment
Adjustment 1	3328.9999	$57,543,115,065.26	Credit (increase)
	3999.9999	$(46,945,483,391.26)	Debit (decrease)
	4999.9999	$(22,229,557,413.50)	Debit (decrease)
	7000.9999	$11,631,925,739.50	Credit (increase)
Adjustment 2	3328.9999	$42,438,968,338.22	Credit (increase)
	3999.9999	$(6,322,715,608.69)	Debit (decrease)
	4999.9999	$ 7,330,546,905.51	Credit (increase)
	7000.9999	$(93,446,799,635.04)	Debit (decrease)

In the examples above, the budgetary and proprietary general ledgers were inappropriately mixed together, balancing budgetary accounts against proprietary accounts. The comments provided with the adjustments stated that the adjustments were made only to balance the trial balance. The first adjustment shows a debit (decrease) to budgetary account 4999.9999 by $22 billion, with no corresponding credit (increase) to another budgetary account. The proprietary accounts had both debits and credits, but did not balance. The effect of each adjustment is shown in Tables 2 and 3.

Table 2. Effect of Adjustment 1	
Budgetary Accounts	Proprietary Accounts
$(22,229,557,413.50)	$57,543,115,065.26
	(46,945,483,391.26)
	11,631,925,739.50
$(22,229,557,413.50)	$22,229,557,413.50

Debits and credits were equal for the adjustment, but the debit balance of the budgetary account was balanced against the credit balance of the proprietary accounts. This adjustment caused more than $22.2 billion to be moved out of the budgetary general ledger and into the proprietary general ledger.

Table 3. Effect of Adjustment 2	
Budgetary Accounts	Proprietary Accounts
$57,330,546,905.51	$42,438,968,338.22
	(6,322,715,608.69)
	(93,446,799,635.04)
$57,330,546,905.51	$(57,330,546,905.51)

Adjustment 2 also mixed budgetary and proprietary accounts, but in the opposite direction. In this example, the budgetary account was increased by $57.3 billion. Again, debits equal credits for the adjustment, but the credit balance of the budgetary account was balanced against the debit balance of the proprietary accounts. This adjustment caused $57.3 billion to be moved into the budgetary general ledger from the proprietary general ledger.

These are two examples of adjustments in one Navy General Fund appropriation. Similar adjustments were processed in all but two Navy General Fund appropriations from September through November 1998. Appendix C shows the value of the data moved in each appropriation. Adjustments to move data between the budgetary and proprietary general ledgers did not correct the errors that caused the Navy budgetary general ledger to be out of balance. Therefore, the adjustments were invalid and should be reversed and the errors researched to allow corrections to be made as necessary.

Out-of-Balance Condition in the Budgetary General Ledger

The DFAS Cleveland Center initiated unsupported adjustments in an attempt to balance the Navy budgetary general ledger within STARS-FDR. Although the adjustments balanced some of the budgetary accounts, the adjustments did not correct the errors that caused the budgetary accounts to be out of balance. Errors from the NHFS, inappropriate adjustments made by the DFAS Cleveland Center, and errors in STARS-FDR all contributed to the out-of-balance condition that caused the adjustments discussed in this report.

Navy Headquarters Financial System. The NHFS data entered into STARS-FDR contributed to the out-of-balance condition within the Navy budgetary general ledger. NHFS used one-sided entries to track budget execution instead of using double-entry accounting. NHFS did not post balanced transactions to budgetary accounts. Because NHFS data were one-sided, an out-of-balance condition was created in STARS-FDR.

The DFAS Cleveland Center did not research the NHFS data to make appropriate adjustments that would correct the out-of-balance conditions. The DFAS Cleveland Center stated that because data from NHFS represented approximately 10 years of financial information, it was not possible to make the appropriate corrections. Appropriate adjustments should be made to Navy budgetary general ledger accounts in an effort to balance the former NHFS data in STARS-FDR.

DFAS Cleveland Center Adjustments. The DFAS Cleveland Center processed two types of adjustments that caused the accounts to be out of balance within the Navy budgetary general ledger. The adjustments include one-sided adjustments and unbalanced adjustments.

One-Sided Adjustments. The DFAS Cleveland Center processed approximately 3,100 one-sided adjustments to FY 1998 data in STARS-FDR. There was either a debit or a credit to a general ledger account, but not both. "A Guide to Federal Requirements for Financial Management Systems," prepared by the Systems Integration Directorate, DFAS Headquarters, requires systems to ensure that total debits equal total credits for a single journal entry. One-sided adjustments violate this requirement.

The one-sided adjustments might have caused the general ledger to be out of balance by as much as $300 billion (net value). See Appendix D for the net adjustment for each appropriation. Most of the one-sided adjustments did not include comments or any document trail. It was impossible to determine whether the one-sided adjustments were reversals of prior adjustments, corrections of out-of-balance conditions from NHFS, duplications of prior adjustments, or new out-of-balance conditions. Inappropriate one-sided adjustments should be reversed in an effort to balance the Navy budgetary general ledger. One-sided adjustments should only be made if an error has been identified that requires an additional one-sided adjustment to correct the error. The adjustments must be supported by valid documentation.

Unbalanced Adjustments. STARS-FDR did not ensure that budgetary accounts balanced within an adjustment. The system allowed adjustments that mixed general ledgers, with a debit to a budgetary account and the corresponding credit to a proprietary account (and vice versa). Such entries resulted in out-of-balance conditions in both the budgetary and proprietary general ledgers.

The adjustment shown in Table 4 was processed at the end of the year to record information from data calls in STARS-FDR for appropriation 1804, Operations and Maintenance, Navy.

Table 4. Unbalanced Adjustment for Appropriation 1804, Operations and Maintenance, Navy

	Account No.	Adjustment Amount	Comments Provided
Debit	1750.4000	$13,407,000	FY 1998 Property, Plant, and Equipment
Credit	4910.5500	$13,407,000	FY 1998 Property, Plant, and Equipment

In this example, the proprietary account 1750.4000 – Other Equipment was increased by $13,407,000. The budgetary account 4910.5500 – Accrued Expenditures – Unpaid was also increased by $13,407,000. Although the adjustment consisted of an equal debit and credit and consequently appeared in balance, it caused both the budgetary general ledger and the proprietary general ledger to be out of balance by $13,407,000. Unbalanced adjustments should be reversed, and correct, balanced adjustments should be entered if necessary.

Future unbalanced adjustments that mix the budgetary and proprietary general ledgers should not be allowed. Controls should be established to ensure that all adjustments balance within each general ledger.

STARS-FDR. The DFAS Cleveland Center determined that STARS-FDR did not always add the subsidiary account balances into the summary account correctly. For example, summary account number 4255.0000, "Reimbursements earned-collected-undistributed-unidentified," should equal the total of subsidiary accounts 4255.8000 and 4255.9000. However, the September 30, 1998, year-to-date balance of 4255.0000 was $2,801,764,860, and the year-to-date balance of the above subsidiary accounts as of September 30, 1998, was $1,887,338,957, a difference of $914,425,903. This condition caused the debit and credit balances of the budgetary general ledger to differ by $13.9 billion. The STARS–FDR project office at the DFAS Cleveland Center is working to improve the accuracy of the data in STARS-FDR.

Ability to Support Financial Data

Management's ability to support the data reported on the FY 1998 Navy General Fund financial statements was impaired because errors causing the out-of-balance condition in the $2.7 trillion Navy budgetary general ledger were not corrected. The DFAS Cleveland Center made adjustments to the accounting records in both the budgetary and proprietary general ledgers; however, only accounting data from the budgetary general ledger were used to prepare budgetary reports. The DFAS Cleveland Center then used financial data from budgetary reports to record amounts for selected line items in the FY 1998 Navy General Fund financial statements. The DFAS Cleveland Center gathered financial data manually from budgetary reports, data calls, and other sources to prepare the FY 1998 Navy General Fund financial statements. Therefore, STARS-FDR was used to produce budgetary departmental reports that indirectly recorded amounts for financial statement line items. The data and procedures used by the DFAS Cleveland Center did not meet the requirements of the Federal Financial Management Improvement Act of 1996 for preparing and reporting financial data.

Table 5 presents the absolute value of selected financial statement line item amounts recorded from budgetary reports produced from STARS-FDR.

Table 5. STARS-FDR Financial Data Reported on FY 1998 Navy General Fund Financial Statements	
Statements	**Rounded Amount (Billions)**
Balance Sheet (Assets)	$61.0
Statement of Net Cost	4.3
Statement of Changes in Net Position	78.2
Statement of Budgetary Resources	289.3
Statement of Financing	98.2
Total	**$531.0**

The uncorrected errors in the Navy budgetary general ledger impaired the supportability of STARS-FDR data in budgetary departmental reports totaling at least $531 billion that were used in preparing the FY 1998 Navy General Fund financial statements.

Conclusion

The DFAS Cleveland Center used data from budget reports to prepare financial statements, and was not in compliance with requirements to use an integrated standard general ledger accounting system to produce the FY 1998 Navy General Fund financial statements. We understand that many of the unsupported journal voucher adjustments were caused by erroneous accounting data that the DFAS Cleveland Center received from others for processing, and that the correction of such data is a labor-intensive process that required staff members who were assigned to other tasks. A balanced trial balance does not ensure that a general ledger is error-free; however, an unbalanced trial balance raises questions about the accuracy of the general ledger and indicates that errors must be corrected. The Navy budgetary trial balance did not balance before or after the DFAS Cleveland Center processed $880 billion (absolute value) of unsupported adjustments to move data between the budgetary and proprietary general ledgers. The adjustments only made the errors less visible. As a result, management's ability to support the financial data used to prepare the FY 1998 Navy General Fund financial statements was impaired

Recommendations

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

1. Reverse the adjusting journal entries made to force debits to equal credits within the Navy budgetary general ledger, to allow for necessary research and corrections.

2. Research and correct the out-of-balance condition caused by unbalanced data from the Navy Headquarters Financial System.

3. Reverse inappropriate one-sided and unbalanced adjustments.

4. Establish adequate controls over the adjustment process to:

   a. Prohibit unsupported and inappropriate one-sided adjustments.

   b. Require budgetary accounts to balance within each adjustment.

5. Correct errors in the Standard Accounting and Reporting System-Financial and Departmental Reporting for the posting of subsidiary account balances to summary accounts.

Management Comments Required

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

Appendix A. Audit Process

Scope and Methodology

Work Performed. We examined the processes that the DFAS Cleveland Center used to consolidate financial data. The data compiled by the DFAS Cleveland Center were used to prepare the initial version of the FY 1998 Navy General Fund financial statements, submitted to auditors on January 5, 1999. The DFAS Cleveland Center prepared the five required financial statements and the related footnotes. The FY 1998 Navy General Fund financial statements reported the following information.

- The Balance Sheet reported assets of $104.6 billion and liabilities of $8.8 billion.
- The Statement of Net Cost reported a net cost of operations of $73.4 billion.
- The Statement of Changes in Net position reported an end-of-period net position of $95.8 billion.
- The Statement of Budgetary Resources reported total outlays of $78.8 billion.
- The Statement of Financing reported financing sources yet to be provided of $437 million.

We performed a limited review of the compilation processes used by the DFAS Cleveland and Kansas City Centers. Both Centers used a complex, predominantly manual process to transfer data from accounting systems to FY 1998 Navy General Fund financial statements, similar to the processes used to prepare the FY 1997 Navy General Fund financial statements. Inspector General, DoD, Report No. 98-217, "Compilation of the FY 1997 Navy General Fund Financial Statements at the DFAS Cleveland Center," September 30, 1998, reported that the compilation process was inadequate. Therefore, additional review of the process used to compile the FY 1998 Navy General Fund financial statements was not necessary.

In FY 1998, the DFAS Cleveland Center implemented the new accounting module, STARS-FDR, to improve accounting for the Department of the Navy and perform functions formerly accomplished by NHFS. The DFAS Cleveland Center used STARS-FDR to prepare monthly and year-end departmental reports. The departmental reports, such as the SF 133, "Report on Budget Execution" or the DD 725, "Report on Reimbursements," were the DFAS Cleveland Center source of financial data for selected line items on the financial statements. The departmental reports were prepared using financial data from the Navy budgetary general ledger. Financial data from proprietary

general ledger accounts were not used in preparing the FY 1998 Navy General Fund financial statements. Therefore, we reviewed the accuracy of budgetary data in STARS-FDR. Specifically, we reviewed:

- the controls over the preparation of departmental reports using budgetary data;
- adjustments made to budgetary data in STARS-FDR; and
- budgetary data used to compile the FY 1998 Navy General Fund financial statements.

DoD-Wide Corporate-Level Government Performance and Results Act Goals. In response to the Government Performance and Results Act, the Department of Defense has established 6 DoD-wide corporate-level performance objectives and 14 goals for meeting these objectives. This report pertains to the achievement of the following objectives and goals.

> **Objective:** Fundamentally reengineer the Department and achieve a 21st century infrastructure. **Goal:** Reduce costs while maintaining required military capabilities across all DoD mission areas. **(DoD-6)**

DoD Functional Area Reform Goals. Most major DoD functional areas have also established objectives and goals for performance improvement reform. This report pertains to the achievement of the following functional area objective and goal.

> **Financial Management Area. Objective:** Strengthen internal controls. **Goal:** Improve compliance with the Federal Managers' Financial Integrity Act. **(FM-5.3)**

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the Department of Defense. This report provides coverage of the Defense Financial Management high-risk area.

Audit Period and Standards. We performed this financial-related audit from September 22, 1998, through March 12, 1999, in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the IG, DoD.

Computer-Processed Data. We relied on computer-processed data from STARS-FDR to conduct the audit at the DFAS Cleveland Center. We relied on computer-processed data without performing tests of the system's general and application controls because we performed alternative tests and assessments to confirm the reliability of the data. We concluded that the data were sufficiently reliable to meet the audit objective. Not evaluating the controls did not affect the results of the audit.

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

Management Control Program

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We evaluated management controls over the DFAS Cleveland Center processes and procedures for consolidating financial data from field activities and other sources for preparation of the FY 1998 Navy General Fund financial statements. We included tests of management controls considered necessary. Specifically, we reviewed the controls used to process financial data in the Navy budgetary general ledger. We reviewed management's self-evaluation applicable to those controls.

Adequacy of Management Controls. We identified material management control weaknesses at the DFAS Cleveland Center, as defined by DoD Directive 5010.38. The DFAS Cleveland Center management controls for adjustments made to the Navy budgetary general ledger were not adequate. The DFAS Cleveland Center did not ensure that adjustments were appropriate and correct, that data in the Navy budgetary general ledger were error-free, and that the Navy budgetary general ledger accounting system correctly posted subsidiary general ledger accounts. Recommendations 1. through 5., if implemented, will improve the data in the DFAS Cleveland Center budgetary general ledger. A copy of the report will be provided to the senior official responsible for management controls at the DFAS Cleveland Center.

Adequacy of Management's Self-Evaluation. Managers at the DFAS Cleveland Center did not identify STARS-FDR and the Navy budgetary general ledger as assessable units; therefore, they did not identify or report the material management control weaknesses identified by the audit.

Appendix B. Summary of Prior Coverage

General Accounting Office*

GAO Report No. AIMD-99-19 (OSD Case No. 1642), "Problems in Accounting for Navy Transactions Impair Funds Control and Financial Reporting," January 1999.

GAO Report No. AIMD-98-56 (OSD Case No. 1548), "CFO Act Financial Audits - Programmatic and Budgetary Implications of Navy Financial Data Deficiencies," March 1998.

GAO Report No. AIMD-96-7 (OSD Case No. 1050), "CFO Act Financial Audits - Increased Attention Must Be Given to Preparing Navy Financial Reports," March 1996.

Inspector General, DoD*

IG, DoD, Report No. 99-097, "Internal Controls and Compliance With Laws and Regulations for DoD Agency-Wide Financial Statements for FY 1998," March 1, 1999.

IG, DoD, Report No. 99-092, "Inspector General, DoD, Oversight of the Naval Audit Service Audit of the Navy General Fund Financial Statements for FY 1998," March 1, 1999.

IG, DoD, Report No. 98-217, "Compilation of the FY 1997 Navy General Fund Financial Statements at the Defense Finance and Accounting Service Cleveland Center," September 30, 1998.

IG, DoD, Report No. 98-073, "Defense Finance and Accounting Service Work on the Navy General Fund FY 1996 Financial Statements," February 12, 1998.

IG, DoD Report No. 97-027, "Defense Finance and Accounting Service Work on the Navy Defense Business Operations Fund FY 1995 Financial Statements," November 22, 1996.

*The General Accounting Office reports can be accessed on the Internet at http://www.gao.gov. Inspector General reports can be accessed on the Internet at http://www.dodig.osd.mil.

Naval Audit Service

Naval Audit Service Report No. 046-98, "Department of the Navy Principal Statements for Fiscal Years 1997 and 1996: Financial Statement Preparation, Presentation, and Disclosure," September 28, 1998.

Naval Audit Service Report No. 047-98, "Department of the Navy Principal Statements for Fiscal Years 1997 and 1996: Accounts Receivable," September 18, 1998.

Naval Audit Service Report No. 025-98, "Department of the Navy Principal Statements for Fiscal Years 1997 and 1996: Report on Auditor's Opinion," February 27, 1998.

Appendix C. Absolute Value of Financial Data Transferred Between the Proprietary and Budgetary General Ledgers by Appropriation

Appropriation	Absolute Value
0380	$ 429,529,041.42
0703	1,602,027,089.01
0810	Not applicable
1105	721,790,914.72
1106	24,514,767,490.70
1107	7,414,322.60
1108	285,399,573.28
1109	2,547,686,826.06
1205	6,551,232,343.54
1235	256,578,614.18
1236	43,648,806.55
1319	53,224,787,500.13
1405	6,821,465,516.10
1453	53,599,567,212.57
1506	194,380,491,915.10
1507	18,089,627,844.96
1508	124,798,264,041.92
1611	48,665,870,687.69
1804	308,047,242,036.30
1806	14,198,256,237.54
1810	14,732,052,596.79
3980	326,575,117.56
4557	5,937,359,762.52
8008	1,885,197.85
8423	189,985,548.63
8716	26,248,686.20
8723	319,376,448.92
8730	3,236,112.78
8733	14,249,471.56
5095	403,632.66
5185	207,236,545.79
5185	Not applicable
Total	**$880,544,257,135.63**

Appendix D. One-Sided Adjustments

Appropriation	Total Adjustments	Total Number of One-sided Adjustments	Total Net Value of One-Sided Adjustments	Total Net Value of One-Sided Adjustments to Budgetary Accounts
0380	47	8	$ (363,955,937.61)	$(363,955,937.61)
0703	557	129	(314,927,009.05)	(773,280,589.64)
0810	2	0	Not applicable	Not applicable
1105	866	144	(9,552,788,542.08)	,853,468,825.91)
1106	1324	219	3,244,947,662.14	3,237,092,662.14
1107	1597	197	15,037,123.71	15,037,123.71
1108	630	86	(347,909,772.30)	(348,200,772.30)
1109	1997	274	(265,922,358,322.62)	(265,884,468,322.62)
1205	1047	186	(28,884,945.79)	(331,597,814.83)
1235	315	45	(8,241,607.81)	(35,727,949.70)
1236	85	4	(1,201,000,000.10)	(1,201,000,000.10)
1319	1302	155	45,357,549.90	45,357,549.90
1405	823	359	(2,078,190,872.99)	(2,078,190,872.99)
1453	1896	82	2,763,740,366.31	2,662,875,363.25
1506	1205	298	(51,344,008,287.07)	(51,344,610,962.48)
1507	1173	36	172,200,961.16	255,611,776.00
1508	953	67	(205,611,146.00)	(205,611,146.00)
1611	2052	250	686,121,929.48	686,121,929.48
1804	3978	338	26,414,179,329.73	25,559,649,206.50
1806	759	134	(739,925,521.29)	(740,538,062.64)
1810	1436	72	(419,032,000.03)	(419,032,000.03)
3980	44	0	Not applicable	Not applicable
4557	186	10	1,399,378,427.70	293,659,028.60
8008	112	4	0	0
8423	35	0	Not applicable	Not applicable
8716	66	0	Not applicable	Not Applicable
8723	52	5	3,445,242.19	3,445,242.19
8730	88	4	0	0
8733	111	4	0	0
5095	141	3	(60,541.57)	(60,541.57)
5185	74	3	36,288,760.38	36,288,768.88
5429	23	0	Not applicable	Not applicable
Total	**24,976**	**3096**	**$(297,746,197,153.61)**	**$(300,784,605,147.77)**

Appendix E. 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, Defense Logistics Studies Information Exchange

Department of the Army

Auditor General, Department of the Army

Department of the Navy

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

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 Logistics Agency
Director, National Security Agency
  Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency
Director, Defense Finance and Accounting Service
  Director, Defense Finance and Accounting Service Cleveland Center
  Director, Defense Finance and Accounting Service Kansas City Center

Non-Defense Federal Organizations

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

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

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 Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Management, Information, and Technology, Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform

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