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Adequacy of Procedures for Reconciling Fund
Balance with Treasury at the National
Geospatial-Intelligence Agency

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Acronyms

CMR	Cash Management Report
DFAS	Defense Finance and Accounting Service
DoD IG	DoD Inspector General
FBWT	Fund Balance with Treasury
O&M	Operation and Maintenance
PDW	Procurement, Defense-Wide
RDT&E	Research, Development, Test, and Evaluation
TBO	Transactions-by-Others



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January 31, 2008

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
DIRECTOR, NATIONAL GEOSPATIAL-INTELLIGENCE
AGENCY

SUBJECT: Report on Adequacy of Procedures for Reconciling Fund Balance with Treasury
at the National Geospatial-Intelligence Agency
(Report No. D-2008-044)

We are providing this report for information and use. We considered management comments on a draft of this report in preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Marvin L. Peek at (703) 601-5948 (DSN 329-5948) or Ms. Jennifer R. Siwula at (703) 601-5914 (DSN 329-5914). The team members are listed inside the back cover. See Appendix B for the report distribution.

By direction of the Deputy Inspector General for Auditing:

Patricia A. Marsh
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Department of Defense Office of Inspector General

Report No. D-2008-044

January 31, 2008

(Project No. D2007-D000FA-0093.000)

Adequacy of Procedures for Reconciling Fund Balance with Treasury at the National Geospatial-Intelligence Agency

Executive Summary

Who Should Read This Report and Why? National Geospatial-Intelligence Agency (NGA) and Defense Finance and Accounting Service accounting personnel responsible for the accounting, reporting, and reconciling processes that affect transactions posted to the NGA Fund Balance with Treasury (FBWT) general ledger account should read this report. This report identifies accounting, reporting, and reconciling process deficiencies and discusses improvements needed to strengthen controls over the FBWT reconciliation process.

Background. FBWT is an asset account that reflects the available budgetary spending authority of a Federal agency. The reconciliation of the FBWT account is a key internal control process. The U.S. Treasury requires that agencies reconcile their FBWT accounts on a regular basis to ensure the integrity and accuracy of financial report data. Agencies are required to explain any discrepancies between the FBWT in their general ledger accounts and their FBWT balance in the U.S. Treasury accounts. The reported FY 2006 NGA FBWT represented 84 percent of its total assets on the balance sheet.

NGA is a member of the DoD financial reporting entity known as “Other Defense Organizations.” The Defense Finance and Accounting Service Indianapolis uses a series of codes to track disbursement and collection transactions posted to the U.S. Treasury accounts by the various disbursing offices supporting the Other Defense Organizations. For each month, the Defense Finance and Accounting Service Indianapolis summarizes the Other Defense Organizations disbursement and collection transactions on the Cash Management Report. A separate document known as the Detail Pile Report identifies the detail transactions supporting the summary-level data that is on the Cash Management Report. NGA reconciles its FBWT general ledger accounts using the Cash Management and Detail Pile Reports.

Results. During FY 2007, NGA hired additional personnel to assist with the FBWT reconciliation process. However, NGA continues to experience difficulties reconciling all transactions posted to the FBWT general ledger account. These difficulties persist largely because of deficiencies throughout the accounting, reporting, and reconciling processes. Specifically, the Defense Finance and Accounting Service:

- had not established adequate procedures to identify and record in-transit disbursement and collection transactions; and
- could not provide complete information, including disbursement voucher numbers, for transactions included on the Cash Management Report and Detail Pile Report.

NGA used a manual process to perform its FBWT reconciliation. This prevented accounting personnel from thoroughly reviewing and fully reconciling all transactions posted to the FBWT general ledger account. In order to improve the reconciliation process, the Defense Finance and Accounting Service should assist NGA in developing procedures to ensure that disbursement and collection transactions can be effectively and efficiently identified through all phases of processing, and provide more detailed information supporting summary amounts reported on the Cash Management Report. In addition, NGA should disclose any material unsupported amounts included in its FBWT account in the footnotes to its financial statements. Ineffective FBWT reconciliation procedures compromise the integrity of the FBWT reported on the NGA financial statements and increase the risk that material errors will not be detected.

Management Comments and Audit Response. The Director, Defense Finance and Accounting Service Omaha concurred with the recommendation and stated that the Defense Finance and Accounting Service Omaha is now providing monthly reports to NGA that show original disbursement voucher numbers.

The Director, Defense Finance and Accounting Service Indianapolis concurred with the recommendation and agreed to perform the recommended actions to assist in the reconciliation of the NGA FBWT general ledger account.

The Director, NGA partially concurred with the recommendation to disclose unsupported amounts included in FBWT in the footnotes to the financial statement. He stated that NGA will disclose only the material undistributed adjustments on its future financial statements. He also stated that NGA is unable to disclose the amount of its unsupported, undistributed adjustments because the detail reconciliations are performed after the undistributed adjustments are posted to the accounting records. We consider his comments responsive to the intent of our recommendation and agree that delays in receiving the supporting documentation prevent NGA staff from fully reconciling the FBWT general ledger account before they post the undistributed disbursements to the general ledger. However, we expect NGA to disclose in the footnotes to the financial statements that the undistributed adjustment is not based completely on detailed reconciliations and, therefore, is partially unsupported. See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

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Background

National Geospatial-Intelligence Agency. The National Geospatial-Intelligence Agency (NGA) mission is to provide timely, relevant, and accurate geospatial intelligence in support of national security. NGA is a member of the U.S. Intelligence Community and a DoD combat support agency. Established in 1996 and headquartered in Bethesda, Maryland, NGA operates major facilities in the Washington, D.C. and St. Louis, Missouri areas, as well as support and liaison offices worldwide.

Fund Balance with Treasury. Fund Balance with Treasury (FBWT) is an asset account that reflects the available budgetary spending authority of a Federal agency. At the agency level, FBWT is an accumulation of the transactions recorded in the U.S. Government Standard General Ledger Account 1010, "Fund Balance with Treasury," and any related subaccounts. The following are typical transactions that affect an agency's FBWT general ledger account:

- Appropriations increase FBWT and are the statutory authority to incur obligations and to make payments out of the U.S. Treasury. They are subject to limitations that restrict the period of availability of the funds.
- Collections increase FBWT. There are three types of collections: receipts, reimbursements, and refunds.
- Disbursements reduce FBWT. Disbursements are payments to individuals or organizations for goods furnished or services rendered. They can also be made to transfer funds from one appropriation or fund to another.

The FY 2006 NGA FBWT represents 84 percent of the total assets on the balance sheet. Consequently, adequate internal controls over the FBWT general ledger account, including reconciliation processes, must be implemented if NGA is to produce reliable financial statements.

FBWT Reconciliation Requirements. The reconciliation of the FBWT account is a key internal control process. The U.S. Treasury requires that agencies reconcile their FBWT accounts on a regular basis to ensure the integrity and accuracy of financial report data. Agencies are required to explain any discrepancies between the FBWT in their general ledger accounts and the corresponding balance in the U.S. Treasury's accounts. However, agencies are not permitted to arbitrarily adjust their FBWT accounts. When resolving differences, agencies should maintain detailed reconciliation worksheets that, if needed, can be reviewed by agency management, internal and external auditors, or the U.S. Treasury.

Other Defense Organizations. NGA is a member of the DoD financial reporting entity known as the Other Defense Organizations¹ (ODO). Therefore, NGA shares a U.S. Treasury symbol with the other organizations comprising ODO. As a result, NGA fund balances in the U.S. Treasury accounts are indistinguishable from the fund balances of other ODO organizations. The Defense Finance and Accounting Service (DFAS) Indianapolis uses a series of codes to track disbursement and collection transactions posted to the U.S. Treasury accounts by the various disbursing offices supporting the ODO organizations. For each month, DFAS Indianapolis summarizes ODO disbursement and collection transactions on a document known as the Cash Management Report (CMR). The ODO organizations, including NGA, reconcile their FBWT general ledger accounts with balances reported on the CMR.

Undistributed Disbursements and Collections. DoD Regulation 7000.14-R, “Financial Management Regulation,” volume 6B, chapter 10, defines undistributed disbursements and collections as the difference between transactions reported in the accounting records and transactions reported by the U.S. Treasury. The regulation requires agencies to explain any discrepancies between FBWT in their general ledger accounts and the corresponding balance in the U.S. Treasury's accounts.

In-Transit Disbursements. In-transit disbursements are disbursements that have been reported by a disbursing office, through a disbursing center, to the U.S. Treasury and charged against the Department’s fund balance, but have not been received or processed by the applicable accounting office. There are two types of in-transit disbursements:

- **Within-Center Disbursements.** A within-center disbursement is created when a disbursing office makes a payment on behalf of an accounting office that reports to the same DFAS center as the disbursing office, but the accounting office and the disbursing office do not share the same database. An example of a within-center disbursement is when the DFAS Dayton disbursing office disburses on behalf of a DFAS Omaha accounting office. Both locations report to the DFAS Denver Center; however, they do not share the same database.
- **Cross-Disbursements.** A cross-disbursement is created when a disbursing office makes a payment on behalf of an accounting office that reports to a different DFAS center than the center to which the disbursing office reports. An example of a cross-disbursement is when a DFAS Cleveland disbursing office makes a disbursement for a DFAS Denver accounting office. Cross-disbursements are also created when a non-DoD Federal agency, such as the Department of State, makes a payment charged to a DoD account.

¹The financial reporting entity, Other Defense Organizations, represents a consolidation of financial information from the Defense organizations and funds that use the Treasury Index 97 account. The financial information for the Other Defense Organizations is reported on a consolidating balance sheet that is part of the DoD Agency-Wide Financial Statements.

Roles and Responsibilities. DFAS, operating under the control and direction of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, is responsible for processing financial and budgetary information from DoD organizations, including NGA, into accounting systems. DFAS accounting personnel in Omaha, Nebraska are responsible for processing and posting NGA disbursements. NGA accounting personnel are responsible for reconciling the FBWT general ledger account; posting undistributed disbursements and collections to the general ledger; and researching unreconciled amounts.

Objectives

Our overall audit objective was to evaluate the effectiveness of the policies and procedures for reconciling the NGA FBWT to information available at DFAS and the Department of the Treasury. We determined how the reconciliation procedures affected the accuracy and reliability of amounts reported on the NGA financial statements. See Appendix A for a discussion of scope and methodology and for prior coverage related to the objectives.

Review of Internal Controls

We identified an internal control weakness over the reconciliation of the NGA FBWT general ledger account. DoD Instruction 5010.40, "Managers' Internal Control (MIC) Program Procedures," January 4, 2006, defines a material weakness in internal controls over financial reporting as a reportable condition, or combination of reportable conditions, that results in more than a remote likelihood that a material misstatement of the financial statements, or other significant financial reports, will not be prevented or detected. We believe that deficiencies in the accounting, reporting, and reconciling processes for the NGA FBWT general ledger account are a material internal control weakness.

Reconciling Fund Balance with Treasury at NGA

During FY 2007, NGA hired additional personnel to assist with the FBWT reconciliation process. However, NGA continued to experience difficulties reconciling all transactions posted to the FBWT general ledger account. These difficulties persisted largely because of deficiencies throughout the accounting, reporting, and reconciling processes. Specifically, DFAS:

- had not established adequate procedures to identify and record in-transit disbursement and collection transactions; and
- had not provided complete information, including disbursement voucher numbers, for transactions included on the Cash Management Report (CMR) and Detail Pile Report.

In addition, NGA used a manual FBWT reconciliation process. This prevented accounting personnel from thoroughly reviewing and fully reconciling all transactions posted to the FBWT general ledger account. NGA needed to make additional footnote disclosures to ensure that the financial statements accurately describe the status of the FBWT general ledger account. Ineffective FBWT reconciliation procedures compromised the integrity of FBWT reported on the NGA financial statements and increased the risk that material errors would not be detected.

FBWT Processes

DoD and U.S. State Department disbursing offices worldwide process disbursement and collection transactions on behalf of NGA. The following summaries describe the accounting, reporting, and reconciling processes for NGA disbursement and collection transactions.

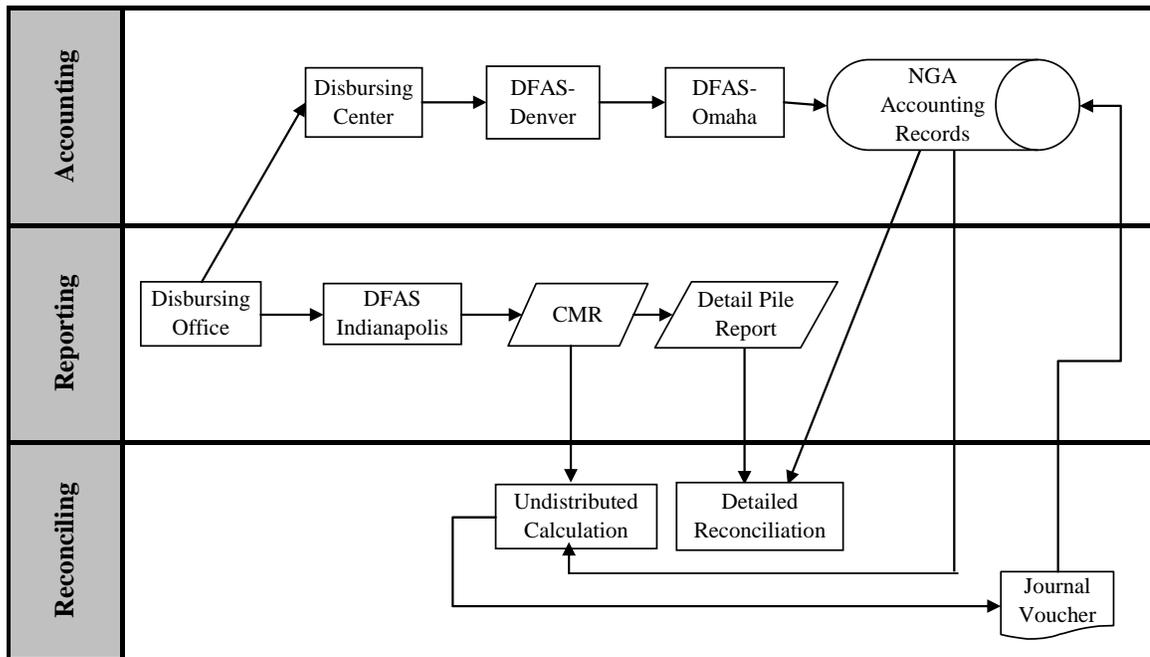
- **Accounting.** Disbursing offices report NGA disbursement and collection transactions through disbursing and accounting centers. The disbursing center is determined by which disbursing office processes the disbursement or collection transaction. DFAS Denver is the accounting center for DFAS Omaha. After DFAS Denver reports the disbursement and collection transactions to DFAS Omaha, DFAS Omaha accounting personnel record the transactions in the NGA accounting records.
- **Reporting.** In addition to reporting the disbursement and collection transactions to the appropriate disbursing center, the disbursing offices also report the transactions to DFAS Indianapolis. DFAS Indianapolis then summarizes the disbursement and collection transactions reported by the disbursing offices on the CMR. The CMR provides a summary of disbursement and collection data for each basic symbol and fiscal year

combination. One month after DFAS Indianapolis initially prepares the CMR, it compiles a separate document known as the Detail Pile Report that contains the transactions² supporting the summary-level data on the CMR. A timing difference occurs because DFAS Indianapolis is unable to process all detail transactions before the CMR is generated.

- Reconciling.** On a monthly basis, NGA accounting personnel calculate the total dollar value of undistributed disbursement and collection transactions by comparing the total disbursements and collections reported on the CMR to the disbursements and collections recorded in the NGA accounting records. NGA accounting personnel then prepare a journal voucher to post the undistributed disbursement and collection transactions to the accounting records. When the Detail Pile Report is available, NGA accounting personnel compare the transactions recorded in the accounting records to transactions reported on the Detail Pile Report to perform a transaction-level reconciliation of the undistributed amounts.

The following flow chart illustrates the accounting, reporting, and reconciling processes for the NGA FBWT general ledger account.

Figure 1. NGA FBWT Accounting, Reporting and Reconciling Processes



²The Detail Pile Report does not fully duplicate the detailed voucher-level transactions that are maintained at the field accounting offices.

Process Deficiencies

NGA accounting personnel were unable to fully reconcile all transactions posted to the FBWT general ledger account for the FY 2006 Operation and Maintenance (O&M); Procurement, Defense-Wide (PDW); and Research, Development, Test, and Evaluation (RDT&E) appropriations because of deficiencies throughout the accounting, reporting, and reconciling processes.

Deficiencies in the Accounting Process

DFAS has not established effective procedures to identify NGA in-transit disbursement and collection transactions. In addition, DFAS Omaha accounting personnel did not always maintain original disbursement voucher numbers when posting transactions to the NGA accounting records.

Identifying In-transit Transactions. Throughout the accounting process, disbursement and collection transactions are considered “in-transit” until accounting personnel record the transactions in the accounting records. In-transit transactions cause amounts reported on the CMR to differ from amounts recorded in the accounting records. Therefore, in-transit disbursement and collection transactions directly affect the undistributed amounts calculated and reconciled by NGA accounting personnel.

On a monthly basis, DFAS Omaha provides NGA with a listing of the in-transit transactions that have not been posted to the accounting records. Ideally, the in-transit listing should explain the majority of undistributed disbursement and collection transactions, thereby reducing the amount of time needed to reconcile the FBWT general ledger account. However, the NGA in-transit listings did not contain a complete and accurate record of all NGA in-transit disbursement and collection transactions. The listings were incomplete and inaccurate because DFAS Omaha accounting personnel responsible for producing the in-transit listings did not have access to complete information for some of the in-transit transactions in the accounting process. Although NGA accounting personnel have made significant progress in identifying other sources of information to compensate for the unreliable in-transit listings, the alternative procedures increased the amount of time needed to reconcile the FBWT general ledger account. We are making no recommendations related to the identification of in-transit transactions because DFAS Omaha is scheduled to stop providing accounting support to NGA in February 2008. See the Other Matters of Interest section of this audit report for additional information on the DFAS Omaha closure.

Posting In-transit Transactions. DoD Regulation 7000.14-R, volume 5, chapter 11, “Disbursements,” requires that all disbursements be supported by formal disbursement vouchers. The regulation also requires that disbursement vouchers be assigned sequentially-issued identifying voucher numbers. The disbursement voucher numbers should remain the same throughout the disbursing process to ensure that transactions can be traced to originating documents. However, DFAS Omaha accounting personnel did not always use the original disbursement voucher numbers when posting transactions to the NGA accounting records.

DFAS Denver typically reports NGA in-transit disbursement and collection transactions to DFAS Omaha on a document known as a “Transactions-by-Others (TBO) register.” A system interface allows transactions on TBO registers to be automatically posted to the NGA accounting records. When disbursements are successfully processed through the system interface, the original disbursement voucher numbers are not posted to the NGA accounting records. Instead, the disbursements are recorded using a number that identifies the TBO register on which the transactions were reported. Recording transactions under the TBO register number allows Air Force accounting officials to confirm that all transactions on a TBO register have been posted to the accounting records.³ However, differences between the disbursement voucher numbers on the Detail Pile Report and the disbursement voucher numbers in the accounting records significantly increase the effort needed to reconcile the NGA FBWT general ledger account.

In response to a discussion draft of this audit report, DFAS Omaha stated that the automatic system interface prevented them from maintaining original disbursement numbers when posting disbursements from TBO registers to the NGA accounting records. In addition, DFAS Omaha stated that NGA could obtain the original disbursement voucher numbers from the systems that processed the disbursements. However, NGA accounting personnel did not know how to obtain this information. DFAS Omaha should assist NGA in developing procedures to effectively and efficiently identify the original disbursement voucher numbers for all disbursements posted to the NGA accounting records.

Deficiencies in the Reporting Process

We confirmed that summary amounts reported on the NGA Detail Pile Report properly matched the summary amounts reported on the CMR. However, we were unable to confirm that the CMR and Detail Pile Report contained a complete record of all disbursing offices that process NGA disbursement and collection transactions. In addition, the Detail Pile Report did not always contain complete and accurate information on disbursement voucher numbers or sufficient information for NGA to reconcile disbursement and collection transactions reported by Air Force disbursing offices.

Disbursing Offices. In order to obtain a complete list of the disbursing offices that supported NGA, we contacted personnel at DFAS Indianapolis, DFAS Denver, and NGA. The lists that we received from the two DFAS locations and NGA were very inconsistent. The three lists included a total of 47 disbursing offices, but only 10 disbursing offices were on all three lists. NGA accounting personnel stated that disbursing was not an NGA function and that they could only identify the disbursing offices that were reported on the CMR. DFAS personnel suggested that some disbursing offices may have been consolidated, while others could have closed entirely. In response to a discussion draft of this report, DFAS personnel stated that they could not identify all the disbursing offices that process NGA disbursement and collection transactions because the disbursing offices supporting NGA constantly change. Differences in the

³ NGA uses Air Force accounting systems and processes; however, NGA is not included in the Air Force fund accountability process.

disbursing office listings do not necessarily indicate that the CMR and Detail Pile Report were incomplete or inaccurate. However, the constant changes in supporting disbursing offices would make it difficult for an independent public accounting firm auditing the NGA financial statements to verify that all disbursing offices processing NGA transactions were included on the NGA CMR and Detail Pile Report.

Disbursement Voucher Numbers. The Detail Pile Report did not contain complete and accurate disbursement voucher numbers for all disbursement and collection transactions, as required by DoD Regulation 7000.14-R. As a result, NGA reconciliation procedures were dependent upon other data elements, such as basic symbols and dollar amounts, which were not always unique to a specific transaction. Disbursement voucher numbers were incomplete and inaccurate because DFAS Indianapolis did not implement system controls to prevent disbursing offices from reporting NGA disbursement and collections transactions without disbursement voucher numbers. DFAS Indianapolis accounting personnel initially stated that system edit tables could be modified to make the disbursement voucher number a mandatory reporting field. However, they subsequently reported that the system change may not be cost effective. As an interim solution, DFAS Indianapolis agreed to assist NGA accounting personnel in identifying other detailed sources of information for disbursement voucher numbers that NGA can use to reconcile the FBWT general ledger account.

Air Force-Processed Transactions. As shown in the table below, disbursement transactions processed by the Air Force disbursing offices supporting NGA represent 86 percent of the total disbursement transactions reported on the CMR for FY 2006 funds (as of March 31, 2007).

Table 1. Disbursements Processed by Air Force Disbursing Offices
(\$ in millions)

Appropriation	Amount Disbursed	Percent of Total Disbursements
O&M	\$1101.4	83%
PDW	\$63.48	81%
RDT&E	\$405.5	97%
Total	\$1,570.2	86%

The Detail Pile Report did not contain sufficient information for NGA accounting personnel to reconcile disbursement and collection transactions reported by the Air Force disbursing offices to the NGA accounting records. DFAS Indianapolis accounting personnel initially stated that the Detail Pile Report did not contain a listing of the transactions supporting the Air Force CMR totals because the Air Force had not provided the information, and our attempts to obtain the transactions from Air Force accounting officials were unsuccessful. When notified of the difficulties we were experiencing, DFAS Indianapolis extracted sufficient detail information from its systems to allow us to reconcile some of the amounts reported on the CMR for Air Force disbursing offices to the NGA

accounting records. DFAS Indianapolis, in conjunction with DFAS Denver,⁴ should provide NGA accounting personnel with all available detail information supporting the summary amounts reported on the CMR for Air Force disbursing offices.

Deficiencies in the Reconciling Process

During FY 2007, NGA hired additional personnel to assist with the FBWT reconciliation process. However, the NGA manual FBWT reconciliation process prevented accounting personnel from thoroughly reviewing and fully reconciling all transactions posted to the FBWT general ledger account.

Consistency of Reconciliations. The reconciliation of the NGA FBWT general ledger account is a labor-intensive, manual process that is very inefficient. NGA accounting personnel stated that prior to FY 2006, the FBWT general ledger account was not consistently reconciled because of other competing accounting requirements, such as the preparation of quarterly financial statements. During the second quarter of FY 2007, NGA hired two additional accountants who worked full-time on the reconciliation of the FBWT general ledger account. Although these additional personnel resources will not necessarily correct deficiencies related to the accounting and reporting processes discussed earlier in this report, they should allow NGA accounting personnel to perform more thorough reviews of the transactions posted to the accounting records.

Transaction-Level Reconciliations. NGA accounting personnel documented the reconciliation of the FBWT general ledger account on reconciliation worksheets that were logically organized, appropriately labeled, and adequately cross-referenced to supporting documentation. However, NGA accounting personnel did not fully reconcile all transactions posted to the FBWT general ledger account. Instead, they performed transaction-level reconciliations for only the NGA undistributed disbursement and collection amounts.

NGA accounting personnel calculated the undistributed disbursements and collections by comparing the total disbursement and collection transactions reported on the CMR to the disbursement and collection totals recorded in the NGA accounting records. They then performed transaction-level reconciliations for the differences. For example, if the CMR reported disbursements totaling \$2 million, and DFAS Omaha recorded only \$1.5 million in disbursements in the NGA accounting records, NGA undistributed disbursements would be \$0.5 million. NGA accounting personnel would then use the Detail Pile Report and other documents to attempt to identify the transactions that comprised the \$0.5 million in undistributed disbursements. NGA assumed that the remaining \$1.5 million in disbursements were correctly posted to the accounting system.

NGA accounting personnel were able to demonstrate that the FBWT general ledger account transactions for the FY 2006 PDW and RDT&E appropriations were properly accounted for, despite the lack of a complete reconciliation. However, they could not provide a similar confirmation for the high volume of

⁴DFAS Denver is the disbursing center for Air Force disbursing offices.

transactions associated with the O&M appropriation. They acknowledged that transactions that are incorrectly posted or erroneously charged to NGA may go undetected. Neither we nor NGA anticipate that the additional personnel hired to assist with the FBWT reconciliation process would be able to perform a complete review of all disbursement and collection transactions posted to the accounting records. Ultimately, NGA will not be able to completely reconcile the FBWT general ledger account until disbursement and collection transactions can be effectively and efficiently traced through all phases of processing. DFAS implementation of the recommendations in this report should improve controls over all NGA FBWT processes.

Financial Statement Disclosures. NGA accounting personnel prepared monthly journal vouchers to post undistributed disbursement and collection transactions to the FBWT general ledger account. We confirmed that amounts reported on the monthly journal vouchers were consistent with amounts shown on the FBWT reconciliation worksheets. However, NGA accounting personnel were unable to fully support the monthly journal vouchers until the corresponding Detail Pile Reports were published, which was a month after the journal vouchers were initially posted to the accounting records. We do not consider this timing difference to be a significant risk, because NGA accounting personnel consistently ensured that the journal vouchers were sufficiently supported in the following month. Although NGA accounting personnel properly disclosed that the adjustment was made, they did not disclose the amount of the adjustment or the percentage of the adjustment that was unsupported at the time the financial statements were prepared. For example, NGA accounting personnel posted a \$17.2 million journal voucher to reduce the FBWT general ledger account for the March 2007 undistributed disbursements and collections. However, NGA accounting personnel were unable to fully support \$0.4 million of the undistributed adjustment.⁵ NGA accounting personnel should provide these additional disclosures to ensure that the financial statements accurately describe the status of the FBWT general ledger account.

Reliability of Reported FBWT

Deficiencies in accounting, reporting, and reconciling processes prevented NGA accounting personnel from reconciling all disbursement and collection transactions posted to the FBWT general ledger account. Although NGA accounting personnel ensured that differences between the NGA accounting records and the CMR were adequately documented and generally supported, they were unable to thoroughly review transactions posted to the accounting records because existing systems did not provide the necessary data.

Ineffective reconciliation procedures compromise the integrity of FBWT reported on the NGA financial statements and increase the risk, particularly for the O&M appropriation, that material errors will not be detected. A complete reconciliation is unlikely until disbursement and collection transactions can be effectively and

⁵ The unsupported amount is based on an NGA accounting personnel analysis of the FBWT reconciliations. We did not confirm the accuracy of all amounts included in the analysis.

efficiently traced through all phases of processing. Expedient implementation of the recommendations in this report should improve the processes affecting the FBWT general ledger account and move NGA closer to obtaining a favorable financial statement audit opinion.

Other Matters of Interest

DFAS Omaha is scheduled to cease operations in February 2008 as part of the most recent Base Realignment and Closure. DFAS plans to transfer the NGA classified accounting function from DFAS Omaha to DFAS Indianapolis. However, the Director of National Intelligence recently issued an auditability plan that requires NGA to implement a new accounting system and abandon DFAS as a service provider, thereby making the future of NGA accounting operations, including the reconciliation of the FBWT general ledger account, highly uncertain.⁶ NGA accounting officials are currently meeting with other members of the U.S. Intelligence Community to discuss the possibility of establishing a service-provider agreement with another Intelligence Community agency. We will continue to monitor NGA actions to implement the auditability plan set forth by the Director of National Intelligence.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Director, Defense Finance and Accounting Service Omaha assist NGA accounting personnel in developing procedures to effectively and efficiently identify the original disbursement voucher numbers for all disbursements posted to the NGA accounting records.

Management Comments. The Director, DFAS Omaha concurred with the recommendation. He stated that DFAS Omaha now provides monthly reports which show original disbursement voucher numbers.

Audit Response. The Director, DFAS Omaha comments were fully responsive to the recommendation.

2. We recommend that the Director, Defense Finance and Accounting Service Indianapolis:

a. Assist NGA accounting personnel in identifying other detailed sources of information for disbursement voucher numbers that can be used to reconcile the Fund Balance with Treasury general ledger account.

⁶ Office of the Director of National Intelligence issued the "Financial Statement Auditability Plan Report to the Senate Select Committee on Intelligence," on April 15, 2007

b. In conjunction with the Defense Finance and Accounting Service Denver, provide NGA accounting personnel with all available detail information supporting the summary amounts reported on the Cash Management Report for Air Force disbursing offices.

Management Comments. The Director, DFAS Indianapolis concurred with the recommendation. He stated that DFAS Indianapolis will perform the recommended actions to assist in the reconciliation of the NGA FBWT general ledger account.

Audit Response. The Director, DFAS Indianapolis comments were fully responsive to the recommendation.

3. We recommend that the Director, National Geospatial-Intelligence Agency disclose in the footnotes to the financial statements any undistributed amounts posted to the Fund Balance with Treasury general ledger account, including the amounts that are unsupported.

Management Comments. The Director, NGA partially concurred with the recommendation. He stated that NGA will disclose material undistributed adjustments on its future financial statements. However, he stated that NGA is unable to disclose the amount of its unsupported undistributed adjustments because the detail reconciliations are performed after the undistributed amounts are posted to the accounting records.

Audit Response. Although the Director, NGA agreed to disclose only material adjustments affecting the FBWT general ledger account, we consider his comments responsive to the intent of our recommendation. We agree that delays in receiving all supporting documentation prevent NGA accounting personnel from fully reconciling the FBWT general ledger account before they post the undistributed disbursements to the general ledger. However, NGA must ensure that the footnotes to the financial statements properly disclose that the undistributed adjustment is not based completely on detailed reconciliations and therefore is partially unsupported.

Appendix A. Scope and Methodology

We conducted this financial audit from December 2006 through October 2007 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives. Evidence was obtained through the following tasks:

- We reviewed DoD, U.S. Treasury, and NGA guidance related to the reconciliation of the Fund Balance with Treasury (FBWT) general ledger account.
- We obtained a universe of 2,353 funding transactions. Total funding for NGA is classified. We judgmentally selected for review a total sample of 21 transactions. We obtained and reviewed the supporting documentation for the 21 transactions selected for review.
- We also obtained the FBWT reconciliation worksheets prepared by NGA accounting personnel to reconcile the FY 2006 Operation and Maintenance; Procurement, Defense-Wide; and Research, Development, Test, and Evaluation appropriations. Limiting our review to the FY 2006 appropriations allowed us to observe and assess the current reconciliation procedures without the effect of past reconciliation practices.
- We selected a judgmental sample of 27 reconciliation worksheets prepared by NGA accounting personnel from July 2006 through March 2007. We obtained all applicable supporting documentation for the worksheets, including: the Cash Management Report; Detail Pile Report; in-transit listings; DD 1176, Reports on Budget Execution; and select transaction histories from the NGA accounting records. We identified minor typographical errors made by NGA accounting personnel when transferring disbursement voucher numbers and dollar amounts to the FBWT reconciliation worksheets. NGA accounting personnel corrected the identified errors and provided copies of the revised worksheets. Judgmental sampling cannot be statistically projected to the universe.
- We interviewed NGA accounting personnel to gain an understanding of the FBWT reconciliation process. We met with accounting personnel at DFAS Indianapolis to discuss the procedures used to generate the Cash Management Report. Finally, we traveled to DFAS Omaha to learn how disbursement and collection transactions are entered into the NGA accounting records.
- We developed a set of standardized review sheets that allowed us to determine whether amounts on the NGA FBWT reconciliation worksheets were properly supported and accurately entered into the

accounting records. We also used the standardized review sheets to confirm that NGA accounting personnel properly carried amounts on the FBWT reconciliation worksheet forward to the monthly undistributed journal vouchers that they posted to the FBWT general ledger account.

Use of Computer-Processed Data. We obtained information on NGA disbursement and collection transactions recorded in the NGA accounting records maintained in its General Accounting and Finance System. We did not confirm the reliability of the computer-processed data, because the FY 2006 DoD Performance and Accountability Report described the lack of reliable, accurate, and timely financial information as a material management control deficiency. The lack of reliable information did not adversely affect our analysis.

Government Accountability Office High-Risk Area. The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage on one aspect of the financial management high-risk area.

Prior Coverage

During the last 5 years, the Department of Defense Inspector General (DoD IG) has issued four reports discussing controls related to FBWT. All of these reports are classified SECRET. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>.

DoD IG Report No. D-2006-057, "Corrective Actions for Previously Identified Deficiencies Related to the National Geospatial-Intelligence Agency Financial Statements (U)," February 28, 2006.

DoD IG Report No. D-2005-056, "Reliability of the FY 2004 Financial Statements for the National Geospatial-Intelligence Agency (U)," April 29, 2005.

DoD IG Report No. D-2004-075, "Reliability of the FY 2003 Financial Statements for the National Geospatial-Intelligence Agency (U)," April 23, 2004.

DoD IG Report No. D-2003-073, "Reliability of the FY 2002 National Imagery and Mapping Agency Financial Statements and Adequacy of Related Procedures and Controls (U)," April 2, 2003.

Appendix B. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Director, Program Analysis and Evaluation
Under Secretary of Defense for Intelligence
Assistant to the Secretary of Defense for Intelligence Oversight

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Auditor General, Department of the Air Force

Combatant Command

Inspector General, U.S. Joint Force Command

Other Defense Organizations

Director, National Geospatial-Intelligence Agency
Inspector General, National Geospatial-Intelligence Agency
Director, National Security Agency
Director, Defense Intelligence Agency
Director, Defense Finance and Accounting Service
Director, Defense Finance and Accounting Service Denver
Director, Defense Finance and Accounting Service Indianapolis
Director, Defense Finance and Accounting Service Omaha

Non-Defense Federal Organizations

Office of the Director of National Intelligence
Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Homeland Security and Governmental Affairs
Senate Select Committee on Intelligence
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Oversight and Government Reform
House Subcommittee on Government Management, Organization, and Procurement,
Committee on Oversight and Government Reform
House Subcommittee on National Security and Foreign Affairs,
Committee on Oversight and Government Reform
House Permanent Select Committee on Intelligence

National Geospatial-Intelligence Agency Comments



NATIONAL GEOSPATIAL-INTELLIGENCE AGENCY

4600 Sangamore Road
Bethesda, Maryland 20816-5003

U-2007-3796

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDITING,
INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on Adequacy of Procedures for Reconciling Fund
Balance with Treasury at the National Geospatial-Intelligence
Agency (Project No. D2007-D000FA-0093.000)

REFERENCE: Department of Defense (DoD) Inspector General (IG)
memorandum, 16 October 2007, subject as above

1. The National Geospatial-Intelligence Agency (NGA) has reviewed the subject draft report. We appreciate the opportunity to respond to the finding and recommendation.
2. The enclosure contains NGA's comments to the finding and recommendation. Our response, prepared in conformance with the requirements of DoD Directive 7650.3, includes corrective actions taken and planned. NGA is requesting the DoD IG review the response and, if sufficient, close the recommendation.
3. Should you or your staff have any questions regarding our response, please direct them to Ms. Phyllis B. Shepphard, NGA External Audit Liaison, NGA Office of Inspector General, at 301-227-0710.

A handwritten signature in blue ink, appearing to read "R. B. Murrett".

ROBERT B. MURRETT
Vice Admiral, U.S. Navy
Director

Enclosure:
NGA Response to DoD IG Draft Report,
DoD IG Project No. D2007-D000FA-0093.000

**Response to Department of Defense (DoD) Inspector General (IG) Draft Report on
Adequacy of Procedures for Reconciling Fund Balance with Treasury at the
National Geospatial-Intelligence Agency (NGA)
(Project No. D2007-D000FA-0093.000)**

General Comments

NGA is pleased to see the recommendation for detailed transaction listings related to United State Air Force submitted disbursements and collections. This will allow NGA to reconcile those transactions and view Treasury adjustments recorded by the Defense Finance and Accounting Service (DFAS)-Omaha location. Over the past four years, NGA has made numerous requests for assistance in gaining insight to this information. Specifically, NGA worked with DFAS-Denver to implement the Air Force cash reconciliation process to improve accountability over in-transit disbursements and collections. Despite these efforts, DFAS has failed to implement the cash reconciliation process.

NGA also believes complete information on in-transit disbursements will be critical to further improve the fund balance with Treasury (FBWT) reconciliation process, eliminate manual effort, and streamline available data. It is a DFAS responsibility to monitor disbursements and collections, process those transactions into the accounting system, and provide NGA accurate in-transit listings on a monthly basis. To date, NGA has not received a complete and accurate in-transit listing from DFAS.

Comments on the Material Internal Control Weakness, Page 3

The report identifies a material internal control weakness over the reconciliation of the NGA FBWT general ledger account, caused by the deficiencies in the accounting, reporting, and reconciling processes. The report states there is more than a remote likelihood that a material misstatement of the financial statements or other significant financial reports will not be prevented or detected. As part of NGA's reconciliation procedures, NGA calculates the amount of "unsupported undistributed" amounts on a monthly basis. NGA's "unsupported" values are less than 0.01% of the total FBWT amount on the financial statements. NGA believes our reconciliation procedures are a mitigating control over weaknesses identified in the report.

Comments to Recommendation, Page 12

3. DoD IG recommends that Director, National Geospatial-Intelligence Agency disclose in the footnotes to the financial statements any undistributed amounts posted to the Fund Balance with Treasury general ledger account, including the amounts that are unsupported.

NGA Financial Management Directorate Comment: Concur with comments. NGA rationale for the comments is as follows:

Enclosure

1

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- As identified in the section titled *Financial Statement Disclosures*, Detail Pile Reports are not available until after the journal voucher recording the undistributed values is posted to the accounting records. Therefore, NGA will not know the amount of undistributed values that will be classified as unsupported and will not be able to make the disclosure.
 - Monthly amounts recorded for undistributed adjustments during Fiscal Year 2007 were consistently 0.13 percent (or less) of the total FBWT balance, which did not materially impact the FBWT account.

NGA agrees that any material adjustments to the FBWT account for undistributed disbursements and collections should be disclosed in the footnotes. NGA will disclose material undistributed adjustments (1 percent or more of the line item) on future financial statements.

Enclosure
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Defense Finance and Accounting Service Comments



DFAS-JBI/IN

DEFENSE FINANCE AND ACCOUNTING SERVICE
8899 EAST 56 TH STREET
INDIANAPOLIS, INDIANA 46249

NOV 16 2007

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Adequacy of Procedures for Reconciling Fund Balance with Treasury at the
National Geospatial-Intelligence Agency (Project No. D2007-D000FA-0093.000)

Indianapolis Operations is providing management comments to the following
recommendation:

Recommendation 1: We recommend that the Director, Defense Finance and Accounting Service Omaha assist NGA accounting personnel in developing procedures to effectively and efficiently identify the original disbursement voucher numbers for all disbursements posted to the NGA accounting records.

Management Comments: Stakeholder: David Randall, 402-232-3484. Concur. DFAS Omaha agrees to assist NGA accounting personnel in developing procedures to effectively and efficiently identify the original disbursement voucher numbers for all disbursements posted to the NGA accounting records. DFAS Omaha is now providing a monthly report that shows the original voucher number with the by-others cycle information that NGA can use to cross-reference the data for posted transactions. Based upon completed actions, DFAS Omaha has fulfilled recommendation 1. Available information will be provided to NGA as needed.

Completion Date: November 5, 2007

Recommendation 2.a: We recommend that the Director, Defense Finance and Accounting Service Indianapolis, assist NGA accounting personnel in identifying other detailed sources of information for disbursement voucher numbers that can be used to reconcile the Fund Balance with Treasury general ledger account

Management Comments: Stakeholder: Tony Hullinger, 317-510-4618. Concur. DFAS Indianapolis agrees to assist NGA accounting personnel in identifying other detailed sources of information for disbursement voucher numbers that can be used to reconcile the Fund Balance with Treasury general ledger account. Although DFAS Indianapolis agrees with the recommendation we would like to have it noted that the unsupported undistributed balance for NGA is less than 3% and therefore should not be considered as material to the FBWT reconciliation. Based upon completed actions, DFAS Indianapolis has fulfilled recommendation 2a. Available information will be provided to NGA as needed.

Completion Date: November 5, 2007

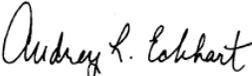
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Recommendation 2.b: We recommend that the Director, Defense Finance and Accounting Service Indianapolis, in conjunction with the Defense Finance and Accounting Service Denver, provide NGA accounting personnel with all available detail information supporting the summary amounts reported on the Cash Management Report for Air Force disbursing offices.

Management Comments: Stakeholders: Tony Hullinger, 317-510-4618 and Nat Ciano, 303-676-7764. Concur. DFAS Indianapolis, in conjunction with the DFAS Denver, agree to provide NGA accounting personnel with all available detail information supporting the summary amounts reported on the Cash Management Report for Air Force disbursing offices when identified and requested. Based upon completed actions, DFAS Indianapolis and Denver have fulfilled recommendation 2b.

Completion Date: November 5, 2007

My point of contact is Dorothy Ferguson, 317-510-3153.


Steve R. Bonta
Director, Indianapolis Operations

Team Members

The Department of Defense Office of the Deputy Inspector General for Auditing, Defense Financial Auditing Service, prepared this report. Personnel of the Department of Defense Office of Inspector General who contributed to the report are listed below.

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Inspector General Department of Defense

