

September 25, 2006



# Financial Management

Budget Execution Reporting at  
Defense Finance and Accounting  
Service Indianapolis  
(D-2006-114)

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### **Acronyms**

AFS	Audited Financial Statements
AGF	Army General Fund
AWCF	Army Working Capital Fund
DDRS	Defense Departmental Reporting System
DFAS	Defense Finance and Accounting Service
FACTS II	Federal Agencies' Centralized Trial-Balance System II
HQARS	Headquarters Accounting and Reporting System
MAF	Master Account File
OMB	Office of Management and Budget
SF	Standard Form
TAFS	Treasury Appropriation Fund Symbols



INSPECTOR GENERAL  
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September 25, 2006

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE  
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Report on Budget Execution Reporting at Defense Finance and Accounting  
Service Indianapolis (Report No. D-2006-114)

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

DoD Directive 7650.3 requires that all recommendations be resolved promptly. Comments provided by the Director of the Defense Finance and Accounting Service Indianapolis were nonresponsive. We request additional comments from the Director of the Defense Finance and Accounting Service Indianapolis on Recommendations 1.a, 1.b, 1.c, and 1.d by December 31, 2006.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to AudDFS@dodig.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Jack L. Armstrong at (317) 510-4801, ext. 274 (DSN 699-4801) or Mr. Paul C. Wenzel at (317) 510-4801, ext. 267 (DSN 699-4801). See Appendix C for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

A handwritten signature in black ink, reading "Paul J. Granetto", is written over a horizontal line.

Paul J. Granetto, CPA  
Assistant Inspector General  
Defense Financial Auditing  
Service

## Department of Defense Office of Inspector General

Report No. D-2006-114

September 25, 2006

(Project No. D2006-D000FI-0028.000)

### Budget Execution Reporting at Defense Finance and Accounting Service Indianapolis

#### Executive Summary

**Who Should Read This Report and Why?** DoD and Army personnel responsible for preparing Army budget execution reports and the Statement of Budgetary Resources should read this report. This is the first in a series of reports related to Army budget execution operations. This report identifies an internal control weakness regarding the reporting of Army budget execution data.

**Background.** The Defense Finance and Accounting Service (DFAS) Indianapolis provides finance and accounting support to the Army and Defense agencies. This support includes preparing the Army financial statements, including the Army General Fund and Army Working Capital Fund Statements of Budgetary Resources and related footnotes. The Army financial statements are consolidated into the annual DoD Performance and Accountability Report, which is submitted to the President, Congress, and the Office of Management and Budget. The Office of Management and Budget prepares the Government-wide report on Budget Execution (Standard Form [SF] 133), which contains budgetary resources, obligations, and disbursements. DFAS Indianapolis also prepares budget execution reports using financial data submitted by DoD field accounting activities and other sources. Budget execution reports prepared by DFAS Indianapolis include the monthly Army SF 133, which is provided to Congress, the Congressional Budget Office, Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, Army Budget Office, and DFAS Arlington. DFAS Indianapolis also submits quarterly budget execution data to the Department of the Treasury. The Office of Management and Budget uses the data submitted to the Department of the Treasury to prepare the Government-wide SF 133.

**Results.** The Army budget execution data reported to the Department of the Treasury for the Office of Management and Budget SF 133 did not agree with the data reported on the Army financial statements. The differences between the amounts reported on the Office of Management and Budget SF 133 and the Army Statements of Budgetary Resources totaled \$149.6 billion for fourth quarter FY 2005 and \$12.5 billion for first quarter FY 2006. As a result, DFAS Indianapolis used one set of budget execution data to manage Army funds, but provided the Department of the Treasury a different set of budget execution data for the Office of Management and Budget's use. DFAS Indianapolis reported inaccurate, misleading budget execution data on the Army SF 133, Army Statements of Budgetary Resources and related footnotes, and to the Department of the Treasury for the Office of Management and Budget SF 133. DFAS Indianapolis also risked perpetuating material differences in a newly-fielded accounting system.

The Director of DFAS Indianapolis should develop and execute a standard operating procedure that requires:

- recording and reporting obligations consistent with apportionment category codes;
- adjusting the amounts submitted through Federal Agencies' Centralized Trial-Balance System II and on the Army SF 133 to reflect adjustments made as part of the compilation of the Army Statement of Budgetary Resources; and
- performing a quarterly reconciliation among the amounts reported on the Army SF 133, submitted through Federal Agencies' Centralized Trial-Balance System II for the Army, reported on the Office of Management and Budget SF 133, and reported on the Army Statements of Budgetary Resources and related footnotes.

In addition, the Assistant Secretary of the Army (Financial Management and Comptroller) should disclose the existence of material unreconciled differences in budget execution data in Army financial statement footnotes.

**Management Comments and Audit Response.** The Director of DFAS Indianapolis responded to the draft report and stated that the findings and recommendations for Army have an impact on the entire DoD network. The Director stated that the concurrence and implementation of these recommendations will be dependent on the analysis and discussion performed by all DoD entities. The Director also stated that once that decision has been finalized, their complete position will be provided to the DoD Office of Inspector General on December 31, 2006. The comments provided by the Director did not indicate concurrence or nonconcurrence with the finding and recommendations. As a result, the comments were not responsive. However, we will accept additional comments from the Director no later than December 31, 2006.

The Assistant Secretary of the Army (Financial Management and Comptroller) concurred with the recommendation directed to the Army and stated that the Financial Reporting Directorate will coordinate with DFAS Indianapolis to disclose the existence of material unreconciled differences in budget execution data as part of Army's footnote to the Army financial statements. In addition, the Army will include actions to address these issues in the "Internal Controls over Financial Reporting" (Office of Management and Budget Circular A-123, Appendix A) documentation and the "Chief Financial Officer's Strategic Plan." These actions are targeted to be completed by first quarter 2007.

See the Finding section for a discussion of management comments and the Management Comments section for the complete text of the comments.

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## Background

This is the first in a series of reports related to Army budget execution operations. This report discusses the transmission of Army budget execution data by the Defense Finance and Accounting Service (DFAS) Indianapolis to various accounting systems and the Department of the Treasury.

**Defense Finance and Accounting Service Indianapolis.** DFAS Indianapolis provides finance and accounting support to the Army and Defense agencies. DFAS Indianapolis's Departmental Budget Execution Operations is primarily responsible for compiling accurate and timely budget execution reports in compliance with DoD financial management regulations. To compile these reports, Departmental Budget Execution Operations uses financial data submitted by DoD field accounting activities and other sources.

**Office of Management and Budget Report on Budget Execution and Budgetary Resources.** Office of Management and Budget (OMB) uses the financial data submitted through the Department of the Treasury's Federal Agencies' Centralized Trial-Balance System II (FACTS II) to compile the quarterly Government-wide Report on Budget Execution and Budgetary Resources (Standard Form [SF] 133). The SF 133 displays budgetary resources, status of those resources, obligations, and outlays. OMB prepares an SF 133 for each appropriation established by Congress to assist Federal agencies, OMB, and the Department of the Treasury in budgetary reporting and oversight. OMB puts the OMB SF 133 on the Internet for Federal agencies to review and to facilitate communication among accounting, budget, and audit staff.

**Army Report on Budget Execution and Budgetary Resources.** One report compiled by Budget Execution Operations is the monthly Army Report on Budget Execution and Budgetary Resources (SF 133). The Army SF 133 allows for the monitoring of the status of funds apportioned on the Apportionment and Reapportionment Schedule (SF 132), which is used by OMB to distribute funds. In addition, the sum of the Army SF 133s makes up the Army's Statement of Budgetary Resources. DFAS Indianapolis submits the Army SF 133 to Congress, the Congressional Budget Office, Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, Army Budget Office, and DFAS Arlington. Departmental Budget Execution Operations also submits quarterly Army SF 133 budget execution data through FACTS II. FACTS II is also used to submit financial data for the Financial Management Service Year-End Closing Statement and much of the information included in the President's Budget.

**Statement of Budgetary Resources.** DFAS Indianapolis prepares the Army financial statements. The Army financial statements include a separate Statement of Budgetary Resources for the Army General Fund (AGF) and for the Army Working Capital Fund (AWCF). The Statement of Budgetary Resources and related disclosures provide information on how budgetary resources are made available, as well as their status at the end of the period. The Army financial statements are consolidated into the annual DoD Performance and Accountability

Report, which is submitted to the President, Congress, and OMB. Table 1 shows the amount of total budgetary resources, obligations, and disbursements reported on the FY 2005 AGF and AWCF Statements of Budgetary Resources.

<b>Table 1. Selected Lines from Fourth Quarter FY 2005 Statement of Budgetary Resources for AGF and AWCF</b>		
<b>(Amounts in Billions)</b>		
<b>Line</b>	<b>Army General Fund</b>	<b>Army Working Capital Fund</b>
Total Budgetary Resources	\$215.1	\$18.0
Obligations Incurred – Subtotal	199.6	16.8
Disbursements	173.5	14.0

**Accounting Systems.** To receive, validate, and consolidate budget execution data from field accounting offices, DFAS Indianapolis uses the Headquarters Accounting and Reporting System (HQARS). HQARS is a legacy reporting system that does not meet Federal system requirements. DFAS Indianapolis generates the Army SF 133 from a consolidation of budget execution data submitted by the field accounting offices and other sources. DFAS Indianapolis is replacing HQARS with the Defense Departmental Reporting System (DDRS) Budgetary Module (Budgetary), a general ledger based reporting system. DDRS Budgetary is designed to standardize the DoD departmental reporting process and produce monthly departmental reports based on the United States Standard General Ledger and standard attributes. HQARS uses Report Data Types, which are non-standard transaction codes. DDRS Audited Financial Statements (AFS) is used to prepare the DoD financial statements. Currently, HQARS and DDRS Budgetary are running simultaneously as DDRS Budgetary is in the testing phase of development.

**Budget Execution Reporting Requirements.** OMB has established specific criteria for the reporting of budget execution data. OMB Circular No. A-136, “Financial Reporting Requirements,” August 23, 2005, (Circular A-136), incorporated and updated OMB Bulletin 01-09, “Form and Content of Agency Financial Statements,” which required that information on the Statement of Budgetary Resources be consistent with budget execution information reported on the SF 133. Circular A-136 became effective for year-end FY 2005 financial statement preparation and requires that information reported on the Statement of Budgetary Resources be consistent with and reconciled to the budget execution information reported on the SF 133. Circular A-136 specifically states that agencies should ensure that the budgetary information used to prepare the Statement of Budgetary Resources be consistent with the budgetary information reported to the FACTS II during the fourth quarter of the fiscal year.

Circular A-136 also requires a financial statement footnote disclosure of the amounts of direct and reimbursable obligations incurred against amounts apportioned under Categories A, B, and C. This disclosure shall agree with the aggregate of the related information as reported on the agency’s year-end SF 133 and direct and reimbursable obligations incurred on the Statement of Budgetary Resources. OMB uses Category A apportionments to distribute budgetary resources by fiscal quarters and uses Category B apportionments to distribute budgetary resources by activities, projects, objects, or a combination of the three.

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OMB uses Category C apportionments for multi-year and no-year Treasury Appropriation Fund Symbols (TAFS) to apportion funds into future fiscal years.

## Objectives

The overall audit objective was to determine whether internal controls over budget execution operations at Defense Finance and Accounting Service Indianapolis are adequate to ensure accurate managerial and budget execution reports. We also evaluated the effectiveness of management's assessment of internal controls as it related to the audit objective. See Appendix A for a discussion of the scope and methodology related to the objectives.

## Managers' Internal Control Program

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require 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.<sup>1</sup>

**Scope of the Review of the Management Control Program.** We evaluated the DFAS Indianapolis internal controls over budget execution operations. Specifically, our review focused on the Budget Execution Operations of the Directorate for Departmental Accounting. We also reviewed the adequacy of management's self-evaluation of those controls.

**Adequacy of Management Controls.** We identified a material management control weakness for DFAS Indianapolis, as defined by DoD Instruction 5010.40. DFAS Indianapolis management controls were not effective to correct differences among budget execution data reported on the Statement of Budgetary Resources, Army SF 133, and submitted through FACTS II. Recommendations 1 and 2, if implemented, will correct the identified weakness. A copy of the report will be provided to the senior official responsible for management controls in DFAS Indianapolis.

**Adequacy of Management's Self-Evaluation.** DFAS Indianapolis officials identified the preparation of Army budget execution reports as part of an assessable unit. However, the DFAS Indianapolis self-evaluation was not effective in identifying the management control weakness addressed by the audit because DFAS officials did not validate that reconciliations were performed.

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<sup>1</sup> Our review of internal controls was done under the auspices of DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996. DoD Directive 5010.38 was canceled on April 3, 2006. DoD Instruction 5010.40, "Managers' Internal Control (MIC) Program Procedures," was reissued on January 4, 2006.

# Budget Execution Data Internal Controls

Army budget execution data reported to the Department of the Treasury did not agree with the data reported on the Army financial statements. The differences between the amounts reported on the OMB SF 133 and the Army Statements of Budgetary Resources totaled \$149.6 billion for fourth quarter FY 2005 and \$12.5 billion for first quarter FY 2006. This occurred because DFAS Indianapolis did not perform an effective reconciliation among FACTS II data, Army Statements of Budgetary Resources, and the Army SF 133. As a result, DFAS Indianapolis used one set of budget execution data to manage Army funds, but provided the Department of the Treasury a different set of budget execution data for OMB's use. Also, DFAS Indianapolis reported inaccurate and misleading budget execution data on the Army SF 133, Army Statements of Budgetary Resources and related footnote, and to the Department of the Treasury for the OMB SF 133. In addition, DFAS Indianapolis will perpetuate the material differences in the newly-fielded accounting system if the differences are not corrected.

## Budget Execution Data Differences

DFAS Indianapolis reported different Army budget execution data to the Department of the Treasury than what was included on the Army financial statements. DFAS Indianapolis did not correct material differences between the Army budget execution data reported for the OMB SF 133 and Army Statement of Budgetary Resources and related footnotes. Table 2 shows a summary of the differences for five quarters ending December 31, 2005.

<b>Table 2. Sum of Differences Between OMB SF 133 and the Statements of Budgetary Resources and Related Footnote for AGF and AWCF</b> (Amounts in Millions)				
<b>Qtr</b>	<b>Army General Fund</b>		<b>Army Working Capital Fund</b>	
	<b>Net</b>	<b>Absolute<sup>1</sup></b>	<b>Net</b>	<b>Absolute</b>
1st Qtr FY 2005	\$(560,388.7)	\$575,588.4	\$(66,861.3)	\$84,728.7
2nd Qtr FY 2005	(20.2)	50,287.5	(70.0)	5,564.1
3rd Qtr FY 2005	(19.4)	87,544.6	(1.7)	25,748.1
<b>4th Qtr FY 2005<sup>2</sup></b>	<b>(274.3)</b>	<b>115,904.0</b>	<b>(79.7)</b>	<b>33,724.7</b>
1st Qtr FY 2006	316.1	1,136.2	(31.5)	11,378.5

<sup>1</sup>When computing absolute value, negative numbers are converted to positive before summation. An absolute value total provides an aggregate total that may more accurately reflect the amount of dollars involved than a "net" total, where negative and positive numbers cancel each other out and potentially understate the magnitude of the differences.

<sup>2</sup>Appendix B shows how the differences were calculated by line for the fourth quarter FY 2005 AGF and AWCF.

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The differences in the budget execution data reported on the OMB SF 133, Army SF 133, and Statement of Budgetary Resources were caused by the following.

- OMB did not correctly post Army budget execution data.
- DFAS Indianapolis did not report Army obligations using correct apportionment categories.<sup>2</sup>
- DFAS Indianapolis made incorrect accounting adjustments to DDRS AFS data used to prepare the Statement of Budgetary Resources and did not post accounting adjustments to Army budget execution data provided to the Department of the Treasury.

**Posted Amounts.** OMB did not correctly post the first quarter FY 2005 Army budget execution data that DFAS Indianapolis submitted. The first quarter FY 2005 OMB SF 133 differed from the Army Statements of Budgetary Resources by \$575,588.4 million absolute for the AGF and \$84,728.7 million absolute for the AWCF. DFAS Indianapolis submitted AWCF budget execution data; however, the OMB SF 133 did not report any first quarter FY 2005 amounts. In addition, OMB did not post all of the AGF budget execution data that DFAS Indianapolis submitted. For example, DFAS Indianapolis submitted amounts for the AGF FY 2004 and FY 2005 Operation and Maintenance appropriation (21-0405-2020). However, the OMB SF 133 did not report any first quarter FY 2005 amounts for 21-0405-2020. A DFAS Indianapolis reconciliation of the OMB SF 133 would have identified that the Army budget execution data that were submitted were incorrectly presented on the OMB SF 133. DFAS Indianapolis should notify the Department of the Treasury when the OMB SF 133 is not accurate.

**Apportionments.** DFAS Indianapolis did not report AGF obligations on the Army SF 133 and on the AGF financial statement Note 20 using the same apportionment category codes as on the SF 132 for the Army. In addition, DFAS Indianapolis did not report AWCF obligations on the Army SF 133 and to the Department of the Treasury using the same apportionment category codes as on the SF 132 for the Army. The differences between the OMB SF 133 and the Army Statements of Budgetary Resources for the second quarter FY 2005 through the first quarter FY 2006 ranged from \$1,136.2 million to \$115,904.0 million for the AGF and \$5,564.1 million to \$33,724.7 million for the AWCF. AGF and AWCF differences for the second quarter FY 2005 through the first quarter FY 2006 primarily occurred in OMB SF 133 Segment 8,<sup>3</sup> Obligations Incurred.

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<sup>2</sup>OMB uses apportionment categories to distribute budgetary resources by fiscal quarters; activities, projects, objects, or a combination of these categories; or to apportion funds into future fiscal years.

<sup>3</sup>Segment 8 refers to OMB SF 133 lines 8A1 - Category A, Direct; 8A2 - Category B, Direct; 8A3 - Category C, Exempt from Apportionment; 8B1 - Category A, Reimbursable; 8B2 - Category B, Reimbursable; and 8B3 - Category C, Exempt from Apportionment, Reimbursable.

Obligations submitted to FACTS II are summarized into the following categories on the OMB SF 133:

- Direct, Category A;
- Direct, All Category B projects;
- Direct, Category C, exempt from apportionment;
- Reimbursable, Category A;
- Reimbursable, All Category B projects; and
- Reimbursable, Category C, exempt from apportionment.

Circular A-136 requires that similar information be presented as a financial statement footnote disclosure. Table 3 identifies the fourth quarter FY 2005 Segment 8 amounts for the AGF and illustrates the inconsistency among the Army budget execution data on the OMB SF 133, Army SF 133, and reported on Note 20 of the fourth quarter FY 2005 AGF financial statements.

<b>Table 3. Army General Fund Line 8 Amounts for Fourth Quarter FY 2005</b> (Amounts in Millions)			
<b>SF 133 Lines</b>	<b>OMB SF 133</b>	<b>Army SF 133</b>	<b>4<sup>th</sup> Qtr FY 2005 AGF Note 20</b>
8A1 - Category A, Direct Obligations	\$135,366.1	\$170,987.1	\$174,100.0
8A2 - Category B, Direct Obligations	39,642.3	4,013.9	945.3
<b>Total</b>	<b>175,008.4</b>	<b>175,001.0</b>	<b>175,045.3</b>
8B1 - Category A, Reimbursable Obligations	1,290.8	20,156.9	20,200.0
8B2 - Category B, Reimbursable Obligations	23,214.2	4,345.7	4,300.0
<b>Total</b>	<b>\$ 24,505.0</b>	<b>\$ 24,502.6</b>	<b>\$ 24,500.0</b>

Table 4 identifies the first quarter FY 2006 Segment 8 amounts for the AWCF and illustrates the inconsistency among the Army budget execution data on the OMB SF 133, Army SF 133, and reported on Note 20 of the first quarter FY 2006 AWCF financial statements.

<b>Table 4. Army Working Capital Fund Line 8 Amounts for 1st Qtr FY 2006 (Amounts in Millions)</b>			
<b>SF 133 Lines</b>	<b>OMB SF 133</b>	<b>Army SF 133</b>	<b>1st Qtr FY 2006 AWCF Note 20</b>
8B1 - Category A, Reimbursable Obligations	\$5,631.5		
8B2 - Category B, Reimbursable Obligations		\$5,631.5	\$3,700.0
8B3 - Category C, Exempt from Apportionment, Reimbursable			1,900.0
<b>Total</b>	<b>\$5,631.5</b>	<b>\$5,631.5</b>	<b>\$5,600.0</b>

Although the obligations reported at the total direct and total reimbursable levels for the AGF and the AWCF are somewhat consistent across the various reports, obligations should be reported consistently on an apportionment category code basis. OMB distributes budgetary resources on the SF 132 by apportionment category codes. One of the main purposes of the Army SF 133 is to monitor the use of funds apportioned on the SF 132 for the Army. Therefore, DFAS Indianapolis should be reporting obligations incurred that are consistent with the apportionment categories used on the SF 132 for the Army. DFAS Indianapolis, the Army, and other users of the Army SF 133 are not able to adequately monitor the use of funds apportioned when inconsistent category codes are used.

**Journal Vouchers.** DFAS Indianapolis made accounting adjustments to DDRS AFS report data that created differences between the fourth quarter FY 2005 and first quarter FY 2006 Army budget execution data on the OMB SF 133 and the AGF and AWCF Statements of Budgetary Resources. The fourth quarter FY 2005 AGF amount reported on the OMB SF 133 for line 14C, Obligated Balance, End of Period, Undelivered Orders was \$112.2 million more than the amount reported on the AGF Statement of Budgetary Resources. The fourth quarter FY 2005 AGF amount reported on the OMB SF 133 for line 14D, Obligated Balance, End of Period, Accounts Payable was \$187.5 million less than the amount reported on the AGF Statement of Budgetary Resources. These differences were caused by 15 journal vouchers prepared by DFAS Indianapolis. DFAS Indianapolis incorrectly prepared 1 adjustment voucher and did not post 14 adjustment vouchers to the budget execution data submitted to the Department of the Treasury.

**Incorrect Journal Voucher.** DFAS Indianapolis processed an adjustment voucher as part of the preparation of the fourth quarter FY 2005 AGF financial statements that debited the wrong general ledger account for \$75.3 million. This error caused \$301.3 million in absolute value differences between the Army budget execution data on the OMB SF 133 and the fourth quarter FY 2005 AGF Statement of Budgetary Resources. DFAS Indianapolis carried forward the incorrect ending balances from the fourth quarter FY 2005 AGF Statement of Budgetary Resources to the first quarter FY 2006 AGF

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Statement of Budgetary Resources. Erroneous beginning balances then resulted in differences on other lines on the first quarter FY 2006 AGF Statement of Budgetary Resources. For example, the Unobligated Balance Brought Forward on October 1 line impacted the Total Budgetary Resources line. The erroneous journal voucher created \$572.1 million in absolute value differences that affected eight lines on the first quarter FY 2006 AGF Statement of Budgetary Resources. DFAS Indianapolis personnel stated that they expected the differences caused by the incorrect journal voucher to affect future quarters.

**Journal Voucher Posting.** Even if DFAS Indianapolis had posted this journal voucher correctly during the fourth quarter FY 2005, the amount on OMB SF 133 line 14C, Obligated Balance, End of Period, Undelivered Orders would have been \$187.5 million more than the fourth quarter FY 2005 AGF Statement of Budgetary Resources. In addition, the amount on OMB SF 133 line 14D, Obligated Balance, End of Period, Accounts Payable would have been \$187.5 million less than the fourth quarter FY 2005 AGF Statement of Budgetary Resources. DFAS Indianapolis caused these differences by processing 14 journal vouchers while preparing the AGF Statement of Budgetary Resources. These journal vouchers include adjustments based on data call information received by DFAS Indianapolis to record transactions that are not recorded accurately in Army accounting systems. DFAS Indianapolis posted these journal vouchers to the AGF Statement of Budgetary Resources, but did not process a corresponding adjustment to the Army budget execution data submitted to FACTS II. In addition, DFAS Indianapolis did not adjust the Army budget execution data reported on the Army SF 133 to reflect the journal voucher adjustments. DFAS Indianapolis also makes adjustments of this type as part of the preparation of the AWCf Statement of Budgetary Resources, without making corresponding adjustments to the FACTS II submission or to the Army SF 133.

DFAS Indianapolis should include accounting adjustments made to DDRS AFS report data in the data submitted to the Department of the Treasury and on the Army SF 133. Otherwise, the Army Statements of Budgetary Resources will not be consistent with the Army budget execution data provided to the Department of the Treasury and with the Army SF 133.

## **Budget Execution Data Reconciliation**

DFAS Indianapolis did not identify and correct the errors that caused these differences because it did not perform an effective reconciliation among the FACTS II data, Army SF 133, and the Army Statements of Budgetary Resources. DFAS Indianapolis did not have adequate written procedures for the reconciliation of budget execution data. Written procedures are necessary so differences can be identified and corrected. Specifically, DFAS Indianapolis did not fully execute the reconciliation processes contained in the DDRS AFS and the Just the Facts System.

**DDRS Audited Financial Statements Module.** The DDRS AFS contains a reconciliation process that can be used to identify differences between the Army SF 133 and the Army Statements of Budgetary Resources. DFAS financial statement preparation guidance required DFAS Indianapolis to complete the reconciliation and explain all differences between the Army SF 133 and the Army

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Statements of Budgetary Resources. The fourth quarter FY 2005 DDRS AFS reconciliation for the AGF included 25 comparisons between the Army SF 133 and the Statement of Budgetary Resources. The reconciliation identified differences for 16 of the 25 comparisons. DFAS Indianapolis included explanations on the reconciliation for 9 of the 16 differences that identified that the variance was still being researched. However, differences in Army budget execution data should be identified, researched, and corrected prior to the publication of the Statement of Budgetary Resources. Incomplete and untimely reconciliations lead to one quarter's erroneous ending balances being perpetuated as erroneous beginning balances in the next quarter, as discussed in the section on journal vouchers.

In addition, the reconciliation in DDRS AFS was only between the budget execution data reported on the Army SF 133 and the Army Statement of Budgetary Resources. The reconciliation did not include the data in the financial statement footnote related to the Statement of Budgetary Resources, actually submitted for the Army through FACTS II, or appearing on the OMB SF 133. Although the fourth quarter FY 2005 DDRS AFS reconciliation had three separate comparisons involving SF 133 Segment 8, none of the reconciliations compared the obligated amounts by apportionment category code in the Army SF 133 to the obligations by apportionment category code reported in Note 20 of the financial statements. The reconciliation performed by DFAS Indianapolis should include the Army budget execution data actually submitted to the Department of the Treasury, as this data can differ from the amounts reported on the Army SF 133. A proper reconciliation should also include the Army budget execution data on the OMB SF 133 to verify that the amounts reported on the OMB SF 133 match what DFAS Indianapolis submitted through FACTS II and what was reported on the Army SF 133 and on the Army Statements of Budgetary Resources and related footnote.

**Just the Facts System.** DFAS Indianapolis's budget execution data reconciliation procedures also included a reconciliation contained in the Just the Facts System, an automated system used to prepare the Army FACTS II submission. DFAS Indianapolis used this reconciliation to compare the Army SF 133 budget execution data to intermediate Army budget execution data used as part of the computation of the FACTS II submission. Because the comparison used intermediate Army budget execution data prior to its conversion based on the Master Account File (MAF), the reconciliation did not accurately identify the differences that existed between the Army SF 133 and the Army budget execution data actually submitted to the Department of the Treasury. For example, the fourth quarter FY 2005 reconciliation of line 08A-Category A, Direct Obligations for the AGF FY 2005 and FY 2006 Research, Development, Test, and Evaluation appropriation (21-0506-2040) shows identical amounts and no differences between the Army SF 133 and the FACTS II budget execution data. However, the Army SF 133 reported obligations against Category A, but the FACTS II submission actually reported obligations against Category B. In addition, the Just the Facts reconciliation for obligations incurred against reimbursable authority used a single 08D - Reimbursable Obligations line, regardless of apportionment category code. A proper reconciliation would include a comparison to the actual Army budget execution data submitted through FACTS II. The reconciliation would also include a comparison of obligations incurred at the apportionment

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category code level. Obligations are presented at that level on the Army SF 133, the OMB SF 133, and in the footnote related to the Statement of Budgetary Resources.

## **Difference Effects**

Because DFAS Indianapolis did not identify and correct material differences that existed between different budget execution reports, it used one set of budget execution data to manage Army funds, but provided the Department of the Treasury a different set of budget execution data for OMB's use. In addition, DFAS Indianapolis reported inaccurate, misleading budget execution data on the Army SF 133, Army Statements of Budgetary Resources and related footnote, and to the Department of the Treasury for the OMB SF 133. Consistent accurate reporting of Army budget execution data is necessary in order to be able to adequately monitor the status of Army funds.

Inaccurate budget execution data increases the potential for Antideficiency Act violations. Section 1517, title 31, United States Code (31 U.S.C. 1517) states that (a) An officer or employee of the United States Government or of the District of Columbia Government may not make or authorize an expenditure or obligation exceeding an apportionment. Obligating funds against unfunded apportionment categories on the SF 132 can cause Antideficiency Act violations. In order to avoid the possibility of an Antideficiency Act violation, DFAS Indianapolis should record and report obligations on the Army SF 133, the financial statements, and to the Department of the Treasury in a manner consistent with the apportionment categories used on the SF 132 for the Army.

If effective reconciliation procedures between budget execution reports are not implemented, DFAS Indianapolis risks perpetuating material differences in DDRS Budgetary. Although DDRS Budgetary will modify the process by which DFAS Indianapolis compiles and reports Army budget execution data, the requirement to report Army budget execution data consistently and accurately on the Army SF 133, to the Department of the Treasury, and on the Army Statement of Budgetary Resources will remain. If DFAS Indianapolis procedures to reconcile Army budget execution data are not improved, inaccurate and misleading budget execution data reported on the Statement of Budgetary Resources could make the AGF financial statements unable to earn an unqualified audit opinion. If the differences cannot be reconciled and corrected, material differences should be disclosed in the footnotes to the Army financial statements.

## **Recommendations and Management Comments**

**1. We recommend that the Director of the Defense Finance and Accounting Service Center Indianapolis develop and execute standard operating procedures to:**

**a. Record and report obligations incurred against category codes that are consistent with the apportionment category codes used on the Apportionment and Reapportionment Schedule (SF 132).**

---

**b. Adjust the amounts submitted to the Department of the Treasury and reported on the Army Report on Budget Execution and Budgetary Resources (SF 133) to reflect adjustments done to budget execution data as part of the compilation of the Army Statements of Budgetary Resources.**

**c. Perform a quarterly reconciliation among the amounts reported on the Army Report on Budget Execution and Budgetary Resources (SF 133), submitted through FACTS II for the Army, reported on the Office of Management and Budget Report on Budget Execution and Budgetary Resources (SF 133), and reported on the Army Statements of Budgetary Resources and related footnotes.**

**d. Notify the Department of the Treasury when amounts on the Office of Management and Budget Report on Budget Execution and Budgetary Resources (SF 133) are not accurate.**

**Management Comments.** The Director of DFAS Indianapolis responded to the draft report and stated that the DoD Office of Inspector General's findings and recommendations for Army have an impact on the entire DoD network. The Director stated that the concurrence and implementation of these recommendations will be dependent on the analysis and discussion performed by all DoD entities. The Director also stated that once that decision has been finalized, their complete position will be presented to the DoD Office of Inspector General. December 31, 2006 was identified by the Director as the estimated completion date.

**Audit Response.** The comments provided by the Director of DFAS Indianapolis were nonresponsive and did not comply with DoD Directive 7650.3. Management comments should indicate concurrence or nonconcurrence with the finding and each applicable recommendation. However, we will accept additional comments from the Director no later than December 31, 2006.

**2. We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) disclose the existence of material unreconciled differences in budget execution data as part of the footnote disclosures to the Army financial statements.**

**Management Comments.** The Assistant Secretary of the Army (Financial Management and Comptroller) concurred and stated that the Financial Reporting Directorate will coordinate with DFAS Indianapolis to disclose the existence of material unreconciled differences in budget execution data as part of Army's footnote to the Army financial statements. In addition, they will include actions to address these issues in the "Internal Controls over Financial Reporting" (OMB Circular A-123, Appendix A) documentation and the "CFO Strategic Plan." These actions are targeted to be completed by first quarter 2007.

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## Appendix A. Scope and Methodology

We reviewed the DFAS Indianapolis processes for the preparation of Army managerial and budget execution reports, including the operating procedures for detecting, researching, and correcting differences between budget execution reports. Our review included reports compiled during FY 2005 and first quarter FY 2006. We reviewed amounts on the Army SF 133, Army Statements of Budgetary Resources and related footnote, Army FACTS II submission, and OMB SF 133. We compared the amounts reported on the Army budget execution reports to the requirements found in OMB Circular No. A-136, "Financial Reporting Requirements," August 23, 2005. We also interviewed personnel responsible for processing budget execution data and preparing managerial reports and financial statements.

We performed the audit from November 2005 through June 2006 in accordance with generally accepted government auditing standards.

**Use of Computer-Processed Data.** We used reports generated by accounting systems within DFAS Indianapolis and DFAS field accounting activities to perform this audit. We did not test the reliability of the data in accounting systems used by DFAS Indianapolis and DFAS field accounting activities to prepare the Army budget execution reports. Our review of DFAS Indianapolis controls over the preparation of budget execution reports shows that the accounting data used to prepare the reports were unreliable. However, the lack of reliable budget execution information did not affect our analysis. Recommendation 1 in this report, if implemented, will improve the reliability of the data.

**Government Accountability Office High-Risk Area.** The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage of the Defense Financial Management high-risk area.

### Prior Coverage

We did not identify any reports issued during the last 5 years that addressed budget execution reporting.

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## **Appendix B. Fourth Quarter FY 2005 AGF and AWCF Differences**

### **Army General Fund**

The following table identifies the lines that contained differences between the fourth quarter FY 2005 AGF budget execution data on the OMB SF 133 and the AGF Statement of Budgetary Resources. In some cases, the budget execution data were reported on the Statement of Budgetary Resources with less detail than was used on the OMB SF 133. For example, the OMB SF 133 reports amounts for line 6A, Cancellations of Expired and No-year Accounts, and line 6B, Enacted Reductions; whereas the Statement of Budgetary Resources reports a single Permanently Not Available line.

The most significant differences occurred in Segment 8, Obligations Incurred. DFAS Indianapolis did not report AGF obligations incurred on the Army SF 133 and on the AGF financial statement Note 20 using the same apportionment category codes as were used on the SF 132 for the Army. For example, the FY 2005 SF 132 for the AGF FY 2005 Operation and Maintenance appropriation (21-05-2020) identifies the apportionment of Category B Reimbursable amounts. DFAS Indianapolis reported obligations incurred against Category A Reimbursable apportionments on the Army SF 133 for the period ending September 30, 2005, and used Category A Reimbursable apportionments for fourth quarter FY 2005 financial statement reporting purposes. The Department of the Treasury provides DFAS Indianapolis with a MAF containing the TAFS that it expects to be reported through FACTS II. The MAF file includes the expected Apportionment Category Codes for those TAFS. The MAF file identifies Category B Reimbursable for the AGF FY 2005 Operation and Maintenance appropriation (21-05-2020). DFAS Indianapolis used the MAF file to convert the obligations incurred for the AGF FY 2005 Operation and Maintenance appropriation (21-05-2020) from the Category A Reimbursable amounts used on the Army SF 133 and financial statements to Category B Reimbursable amounts for reporting to the Department of the Treasury. The OMB SF 133 then presented the obligations as Category B. This resulted in the OMB SF 133 presenting obligations consistent with apportionment category codes on the SF 132 for the Army, but the Army SF 133 and Note 20 of the AGF financial statements reporting obligations that were not consistent with the SF 132 for the Army.

<b>Differences Between OMB SF 133 and Fourth Quarter FY 2005 AGF Statement of Budgetary Resources and Related Footnote</b> (Amounts in Thousands)					
<b>SF 133 Line No.</b>	<b>SF 133 Line Title</b>	<b>Amount from OMB SF 133</b>	<b>Amount from AGF SBR</b>	<b>Net Difference</b>	<b>Absolute Difference</b>
1A	Appropriation	\$149,846,917	\$149,846,916	\$ 1	\$ 1
2A	Unobligated Balance, Brought Forward October 1	22,878,054	22,882,181	(4,127)	4,127
3A1	Offsetting Collections, Earned, Collected	20,948,338	20,948,339	(1)	1
3A2	Offsetting Collections, Earned, Receivable From Federal Sources	(415,100)	(415,099)	(1)	1
3B1	Change in Unfilled Customer Orders, Advance Received	77,737	77,733	4	4
3X	Orders\ Receivables\ Collections Subtotal	22,770,914	22,770,912	2	2
4A	Recoveries of Prior Year Obligations, Actual	17,033,440	17,033,447	(7)	7
6A	Cancellations of Expired and No-year Accounts	(555,080)	(877,523)	(4)	4
6B	Enacted Reductions	(322,447)			
7	Total Budgetary Resources	215,067,569	215,071,692	(4,123)	4,123
8A1	Category A, Direct Obligations	135,366,105	174,100,000	(38,733,895)	38,733,895
8A2	Category B, Direct Obligations	39,642,275	945,300	38,696,975	38,696,975
Direct Obligations Subtotal included on the Statement of Budgetary Resources, but not on OMB SF 133		175,008,380	175,086,215	(77,835)	77,835
8B1	Category A, Reimbursable Obligations	1,290,847	20,200,000	(18,909,153)	18,909,153
8B2	Category B, Reimbursable Obligations	23,214,213	4,300,000	18,914,213	18,914,213

<b>Differences Between OMB SF 133 and Fourth Quarter FY 2005 AGF Statement of Budgetary Resources and Related Footnote</b> (Amounts in Thousands)					
<b>SF 133 Line No.</b>	<b>SF 133 Line Title</b>	<b>Amount from OMB SF 133</b>	<b>Amount from AGF SBR</b>	<b>Net Difference</b>	<b>Absolute Difference</b>
	Reimbursable Obligations Subtotal included on Statement of Budgetary Resources, but not on OMB SF 133	24,505,060	24,506,660	(1,600)	1,600
8X	Obligations Subtotal	199,513,440	199,592,875	(79,435)	79,435
9A1	Unobligated Balance, Apportioned, Currently Available	13,752,742			
9A2	Unobligated Balance, Apportioned, Subsequent Periods	0	13,666,977	85,765	85,765
9A3	Unobligated Balance, Apportioned, Anticipated	0			
9B	Unobligated Balance, Exempt From Apportionment	0	11,980	(11,980)	11,980
9C	Unobligated Balance, Other Available	0	2	(2)	2
10A	Unobligated Balance, Not Available, Apportioned for Subsequent Periods	0			
10B	Unobligated Balance, Not Available, Deferred	0	1,799,858	1,523	1,523
10C	Unobligated Balance, Not Available, Withheld Pending Rescission	1,801,381			
11	Total Status of Budgetary Resources	215,067,569	215,071,692	(4,123)	4,123
12	Obligated Balance, Net as of October 1	57,026,514	57,022,399	4,115	4,115

<b>Differences Between OMB SF 133 and Fourth Quarter FY 2005 AGF Statement of Budgetary Resources and Related Footnote</b> (Amounts in Thousands)					
<b>SF 133 Line No.</b>	<b>SF 133 Line Title</b>	<b>Amount from OMB SF 133</b>	<b>Amount from AGF SBR</b>	<b>Net Difference</b>	<b>Absolute Difference</b>
14A	Obligated Balance, End of Period, Accounts Receivable	(1,478,347)	(1,478,349)	2	2
14B	Obligated Balance, End of Period, Unfilled Customer Orders, Federal Sources	(14,873,105)	(14,873,109)	4	4
14C	Obligated Balance, End of Period, Undelivered Orders	66,884,491	66,772,263	112,228	112,228
14D	Obligated Balance, End of Period, Accounts Payable	13,761,077	13,948,617	(187,540)	187,540
14X	Obligated Balance Subtotal	64,294,116	64,369,422	(75,306)	75,306
15A	Disbursements	173,467,567	173,467,566	1	1
15B	Collections	(21,026,079)	(21,026,072)	(7)	7
15X	Net Outlays	152,441,488	152,441,494	(6)	6
<b>Total</b>				<b>\$ (274,312)</b>	<b>\$115,903,978</b>

## Army Working Capital Fund

The AWCF also had large Segment 8 differences for the second quarter FY 2005 through the first quarter FY 2006 that were due to DFAS Indianapolis not reporting obligations consistent with the apportionment category codes on the SF 132 for the Army. For example, DFAS Indianapolis submitted first quarter FY 2006 AWCF obligations through FACTS II for the OMB SF 133 using Category A, but reported obligations using Category B on the Army SF 133 and Categories B and C on Note 20 of the first quarter FY 2006 AWCF financial statements. Based on the SF 132 for the AWCF and the AWCF Approved Operating Budget document issued by the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, the correct presentation of the obligations used Categories B and C as they appeared in Note 20 of the AWCF financial statements. DFAS Indianapolis did not correctly report AWCF obligations on the Army SF 133 and to the Department of the Treasury for the OMB SF 133. The apportionment categories used did not align to the SF 132 for the AWCF.

<b>Differences Between OMB SF 133 and Fourth Quarter FY 2005 AWCf Statement of Budgetary Resources and Related Footnote</b> (Amounts in Thousands)					
<b>SF 133 Line No.</b>	<b>SF 133 Line Title</b>	<b>Amount from OMB SF 133</b>	<b>Amount from AWCf SBR</b>	<b>Net Difference</b>	<b>Absolute Difference</b>
1C	Contract Authority	\$ 10,951,904	\$ 10,951,904	\$ 0	\$ 0
2A	Unobligated Balance, Brought Forward October 1	1,529,786	1,530,242	(456)	456
2B	Unobligated Balance, Net Transfers, Actual	(515,944)	(515,944)	0	0
3A1	Offsetting Collections, Earned, Collected	14,180,280	14,180,280	0	0
3A2	Offsetting Collections, Earned, Receivable From Federal Sources	(29,369)	(29,369)	0	0
3B1	Change in Unfilled Customer Orders, Advance Received	19,271	19,271	0	0
3B2	Change in Unfilled Customer Orders, Without Advance	(774,164)	(774,190)	26	26
3X	Orders\ Receivables\ Collections Subtotal	13,396,018	13,395,992	26	26
4A	Recoveries of Prior Year Obligations, Actual	1,435,592	1,435,592	0	0
6A	Cancellations of Expired and No-year Accounts	(8,798,841)	(8,798,841)	0	0
6B	Enacted Reductions	0			
7	Total Budgetary Resources	17,998,515	17,998,945	(430)	430
8B1	Category A, Reimbursable Obligations	16,822,012	0	16,822,012	16,822,012
8B2	Category B, Reimbursable Obligations	0	11,900,000	(11,900,000)	11,900,000
8B3	Exempt from Apportionment, Reimbursable Obligations	0	5,000,000	(5,000,000)	5,000,000

<b>Differences Between OMB SF 133 and Fourth Quarter FY 2005 AWCF Statement of Budgetary Resources and Related Footnote</b> (Amounts in Thousands)					
<b>SF 133 Line No.</b>	<b>SF 133 Line Title</b>	<b>Amount from OMB SF 133</b>	<b>Amount from AWCF SBR</b>	<b>Net Difference</b>	<b>Absolute Difference</b>
	Reimbursable Obligations Subtotal included on Statement of Budgetary Resources, but not on OMB SF 133	16,822,012	16,822,445	(433)	433
8X	Obligations Subtotal	16,822,012	16,822,445	(433)	433
9A1	Unobligated Balance, Apportioned, Currently Available	1,176,502			
9A2	Unobligated Balance, Apportioned, Subsequent Periods	0	1,176,499	3	3
9A3	Unobligated Balance, Apportioned, Anticipated	0			
9C	Unobligated Balance, Other Available	0	1	(1)	1
11	Total Status of Budgetary Resources	17,998,515	17,998,945	(430)	430
12	Obligated Balance, Net as of October 1	3,968,535	3,968,080	455	455
14A	Obligated Balance, End of Period, Accounts Receivable	(433,233)	(433,233)	0	0
14B	Obligated Balance, End of Period, Unfilled Customer Orders, Federal Sources	(3,748,523)	(3,748,523)	0	0
14C	Obligated Balance, End of Period, Undelivered Orders	9,775,648	9,775,648	0	0
14D	Obligated Balance, End of Period, Accounts Payable	555,858	555,861	(3)	3
14X	Obligated Balance Subtotal	6,149,750	6,149,753	(3)	3

**Differences Between OMB SF 133 and Fourth Quarter FY 2005 AWCF Statement of Budgetary Resources and Related Footnote**  
(Amounts in Thousands)

<b>SF 133 Line No.</b>	<b>SF 133 Line Title</b>	<b>Amount from OMB SF 133</b>	<b>Amount from AWCF SBR</b>	<b>Net Difference</b>	<b>Absolute Difference</b>
15A	Disbursements	14,008,740	14,008,740	0	0
15B	Collections	(14,199,551)	(14,199,551)	0	0
15X	Net Outlays	(190,811)	(190,811)	0	0
<b>Total</b>				<b>\$ (79,667)</b>	<b>\$ 33,724,711</b>

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## **Appendix C. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense (Comptroller)/Chief Financial Officer  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)

### **Department of the Army**

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

### **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

### **Other Defense Organizations**

Director, Defense Finance and Accounting Service

### **Non-Defense Federal Organization**

Office of Management and Budget

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## **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 Homeland Security and 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, Finance, and Accountability,  
Committee on Government Reform  
House Subcommittee on National Security, Emerging Threats, and International  
Relations, Committee on Government Reform



# Department of the Army Comments



REPLY TO  
ATTENTION OF

**DEPARTMENT OF THE ARMY**  
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY  
FINANCIAL MANAGEMENT AND COMPTROLLER  
109 ARMY PENTAGON  
WASHINGTON DC 20310-0109  
SEP 1 2006

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDITING,  
DEPARTMENT OF DEFENSE OFFICE OF INSPECTOR GENERAL, 400 ARMY NAVY  
DRIVE, ARLINGTON, VIRGINIA 22202-4704

SUBJECT: Report on Budget Execution Reporting at Defense Finance and Accounting  
Service Indianapolis (Project No: D2006-D000FI-0028.000)

1. References:

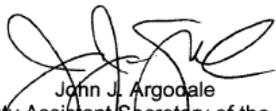
a. DODIG memorandum, July 11, 2006.

b. Draft Audit Report: D2006-D000FI-0028.000, July 11, 2006, subject: Budget  
Execution Reporting at Defense Finance and Accounting Service Indianapolis.

2. Recommendation 2: We recommend that the Assistant Secretary of the Army  
(Financial Management and Comptroller) disclose the existence of material  
unreconciled differences in budget execution data as part of the footnote disclosures to  
the Army Financial Statements.

Army concurs with the recommendation and the Financial Reporting Directorate  
will coordinate with Defense Finance and Accounting Service Center Indianapolis to  
disclose the existence of material unreconciled differences in budget execution data as  
part of Army's footnote to the Army Financial Statements. In addition, we will include  
actions to address these issues in our Internal Controls over Financial Reporting (OMB  
Circular A-123, Appendix A ) documentation and the CFO Strategic Plan. The target  
completion date for this action is 1<sup>st</sup> Quarter 2007.

3. Point of contact for this action is Mr. Imtiaz Badar, (703) 693-2687, DSN 223-2687,  
Email: imtiaz.badar@hqda.army.mil.

  
John J. Argodale  
Deputy Assistant Secretary of the Army  
(Financial Operations)

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# Defense Finance and Accounting Service Center Indianapolis Comments



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

DFAS-ADL/IN

AUG 29 2006

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Report on Budget Execution Reporting at Defense Finance and Accounting Service Indianapolis (Project No. D2006-D000FI-0028.00)

Indianapolis Operations is providing management comments to the following recommendation:

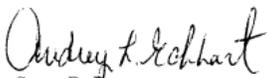
**Recommendation 1:** We recommend that the Director of the Defense Finance and Accounting Service Center Indianapolis develop and execute standard operating procedures to:

- a. Record and report obligations incurred against category codes that are consistent with the apportionment category codes used on the apportionment and Reapportionment Schedule (SF 132).
- b. Adjust the amounts submitted to the Department of the Treasury and reported on the Army Report on Budget Execution and Budgetary Resources (SF 133) to reflect adjustments done to budget execution data as part of the compilation of the Army Statements of Budgetary Resources.
- c. Perform a quarterly reconciliation among the amounts reported on the Army Report on Budgetary Resources (SF 133), submitted through FACTS II for the Army, reported on the Office of Management and Budget Report on Budget Execution and Budgetary Resources (SF 133), and reported on the Army Statements of Budgetary resources and related footnotes.
- d. Notify the Department of the Treasury when amounts on the Office of Management and Budget Report on Budget Execution and Budgetary Resources (SF 133) are not accurate.

**Comment:** Stakeholder: Sam Graham, 317-510-3153. The DoD IG's findings and recommendations for Army have an impact on the entire DoD network. The concurrence and implementation of these recommendations will be dependant on the analysis and discussion performed by all DoD entities. Once that decision has been finalized, Army will present their complete position to the DoD IG.

**Estimated Completion Date:** December 31, 2006

My point of contact is Sam Graham, 317-510-3153.

  
for Steve R. Bonta  
Director, Indianapolis Operations

[www.dfas.mil](http://www.dfas.mil)  
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## **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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