Report No. D-2007-088 April 27, 2007

Inspector General
United States Department of Defense

Special Army Reports Prepared by Defense Finance and Accounting Service Indianapolis Operations

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Acronyms

AGF	Army General Fund
AWCF	Army Working Capital Fund
DFAS	Defense Finance and Accounting Service
HQARS	Headquarters Accounting and Reporting System
OPM	Office of Personnel Management
RPPOOL	Report on Personnel and Payroll Outlays by Operating Location

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202–4704

April 27, 2007

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

SUBJECT: Report on Special Army Reports Prepared by Defense Finance and Accounting Service Indianapolis Operations (Report No. D-2007-088)

We are providing this report for your 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. 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:

Paul J. Granetto, CPA
Assistant Inspector General and Director
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Department of Defense Office of Inspector General

Report No. D-2007-088 **April 27, 2007**
(Project No. D2006-D000FI-0028.001)

Special Army Reports Prepared by Defense Finance and Accounting Service Indianapolis Operations

Executive Summary

Who Should Read This Report and Why? DoD and Army personnel responsible for preparing and using special Army reports should read this report. This is the second in a series of reports related to Army budget execution operations. The first report discussed the transmission of Army budget execution data by the Defense Finance and Accounting Service (DFAS) Indianapolis Operations to various accounting systems and the Department of the Treasury. This report discusses special Army reports prepared by DFAS Indianapolis Operations.

Background. DFAS Indianapolis Operations provides finance and accounting support to the Army and Defense agencies. This support includes preparation of 14 recurring special Army reports that provide financial and other information to DFAS customers. The special Army reports are either requested by the report user or are required by regulation and cover areas such as:

- proceeds and expenses associated with agriculture, grazing, and forestry;
- receivables for Army and Defense; and
- foreign currency and unit exchange information.

DFAS Indianapolis Operations prepares the special Army reports based on budget execution data and data call information submitted by DoD field accounting activities and other sources.

Results. Of the 14 special Army reports we reviewed, 5 were incorrect, 1 was unnecessary, and 1 report had no known users. As a result, recipients of special Army reports were not receiving the information they needed and DFAS Indianapolis Operations was not using resources effectively. DFAS Indianapolis Operations management controls were not effective to ensure correct preparation of special Army reports. The Director of DFAS Indianapolis Operations should revise the standard operating procedures to ensure that special Army reports are accurate, supervisors review and approve the reports, and unneeded reports are not prepared. (See the Finding section of the report for the detailed recommendations.)

Management Comments. The Director of DFAS Indianapolis Operations concurred with the recommendations; therefore, no further comments are required. 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

This is the second in a series of reports related to Army budget execution operations. The first report discussed the transmission of Army budget execution data by the Defense Finance and Accounting Service Indianapolis Operations (hereafter referred to as DFAS Indianapolis Operations) to various accounting systems and the Department of the Treasury. This report discusses the preparation of special Army reports by DFAS Indianapolis Operations based on budget execution data and data call information submitted by DoD field accounting activities and other sources.

Defense Finance and Accounting Service Indianapolis Operations. DFAS Indianapolis Operations provides finance and accounting support to the Army and Defense agencies. DFAS Indianapolis Operations is responsible for preparing special Army reports. To compile these reports, DFAS Indianapolis Operations uses financial data submitted by DoD field accounting activities and other sources. Special Army reports are recurring reports that present financial and operational information on a specific area and are either requested by the report user or are required by regulation. Special Army reports prepared by DFAS Indianapolis Operations are:

- Agriculture and Grazing Report,
- Army Report on Personnel and Payroll Outlays by Operating Location (RPPOOL),
- Federal Aid to States Report,
- Foreign Currency Fluctuation Report,
- Forestry Report,
- Health Services Command Report,
- Investment Status Report,
- L-Account Report,*
- Monthly Receivable Reports-Department of the Army and Office of the Secretary of Defense-Army Allocation,
- Morale Welfare and Recreation Report,
- Report of Costs in Support of Secret Service for Protective Assistance (RCS DD-COMP [SA] 1466),

* L-Accounts are used to record obligations related to the Morale, Welfare, and Recreation and Family Program funds.

- Report on Work Years and Personnel Costs-Office of Personnel Management (OPM) 0197,
- Treasury Reports on Receivables-Department of the Army and Office of the Secretary of Defense-Army Allocation, and
- Unit Exchange Report.

See Appendix B for the more information on the source data, purpose, frequency, and recipients of special Army reports.

Accounting Systems. DFAS Indianapolis Operations uses the Headquarters Accounting and Reporting System (HQARS) to receive, validate, and consolidate budget execution data from field accounting offices. HQARS is a legacy reporting system that does not meet Federal system requirements. DFAS Indianapolis Operations generates the special Army reports from a consolidation of budget execution data and data call information submitted by the field accounting offices and other sources.

Objectives

The overall audit objective was to determine whether internal controls over budget execution operations at Defense Finance and Accounting Service Indianapolis Operations 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.

Review of Internal Control

DoD Instruction 5010.40, "Management Control (MC) Program Procedures," January 4, 2006, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. We evaluated the DFAS Indianapolis Operations 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 Operations, as defined by DoD Instruction 5010.40. DFAS Indianapolis Operations management controls were not effective to ensure correct preparation of special Army reports.

Recommendations 1., 2., 3., 4., 5., and 6., 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 Operations.

Adequacy of Management's Self-Evaluation. DFAS Indianapolis Operations officials identified the preparation of special Army reports as part of an assessable unit. However, the DFAS Indianapolis Operations self-evaluation was not effective in identifying the management control weakness addressed by the audit.

Special Army Reports

DFAS Indianapolis Operations prepared five special Army reports that were incorrect, one report that was unnecessary, and one report that had no known users. DFAS Indianapolis Operations managers did not provide adequate oversight over the preparation of the special Army reports, and the standard operating procedures on report preparation were not adequate. As a result, recipients of special Army reports were not receiving the information they needed and DFAS Indianapolis Operations was not making effective use of resources.

Preparation of Special Army Reports

DFAS Indianapolis Operations prepares 14 special Army reports. We examined the 14 special Army reports and determined that the following 5 special Army reports were incorrect:

- Army Report on Personnel and Payroll Outlays by Operating Location,
- Health Services Command Report,
- Foreign Currency Fluctuation Report,
- Report on Work Years and Personnel Costs - OPM 0197, and
- Morale, Welfare, and Recreation Report.

In addition, the Report of Costs in Support of Secret Service for Protective Assistance (RCS DD-COMP [SA] 1466) was unnecessary, and the Unit Exchange Report was prepared even though there were no known users.

Army Report on Personnel and Payroll Outlays by Operating Location

DFAS Indianapolis Operations reported inaccurate and incomplete data on the FY 2005 Army RPPOOL Report. The FY 2005 Army RPPOOL was made up of 24,340 records that reported data by operating locations. Of the 24,340 records, 9,045 reported an amount for either military strength or military pay, or both, as identified in Table 1. The remaining 15,295 records reported data other than military strength or military pay. Of the 9,045 records, 8,129 reported zero military strength, but reported military pay of $8.25 billion. Another 314 records reported 196,702 military strength, but a zero amount for the military pay. The remaining 602 records contained amounts in both the military strength column and the military pay column. Although both columns were populated for these

602 records, many of the records included unrealistic data, such as where a single person was earning millions of dollars, and in one case, earning $1.0 billion.

Table 1. FY 2005 Army Report on Personnel and Payroll Outlays By Operating Location			
Category	**Records**	**Military Strength**	**Military Payments (billions)**
No Military Strength, but Payments	8,129	0	$ 8.25
Military Strength, but no Payments	314	196,702	$0
Military Strength and Payments	602	298,855	18.08
Total	**9,045**	**495,557**	**26.33**

DFAS Indianapolis Operations provides the Army RPPOOL report to the Defense Manpower Data Center. We contacted the report recipient, and he stated that the Army RPPOOL reports prepared by DFAS Indianapolis Operations are so unreliable that the Defense Manpower Data Center is unable to use them. The customer said that since FY 2000, DFAS Indianapolis Operations has not prepared an accurate Army RPPOOL report. When asked if the report should be discontinued, the customer stated that he would definitely use the report if it were accurately prepared.

The DFAS Indianapolis Operations standard operating procedure on report preparation requires a quality check on the Army RPPOOL to ensure that the data are not out of alignment with the prior year's report. However, it is not enough to simply check whether the data is in alignment with the prior year's report. The data reported in the Army RPPOOL also needs to be correctly aligned by operating location. Large military payroll outlays at operating locations with no military personnel and operating locations with large military personnel numbers and no military payroll outlays should be researched and corrected. Special Army reports that are so inaccurate that they cannot be used are a waste of DFAS resources. According to the preparer, this report requires an estimated 40 hours per year to prepare. DFAS Indianapolis Operations should require a review of the Army RPPOOL to ensure that data are correctly aligned at the operating location level.

Health Services Command Report

DFAS Indianapolis Operations prepared incomplete Health Services Command Reports from February 2006 through July 2006. DFAS Indianapolis Operations erroneously omitted a total of 108,012 records for the Department of Defense-Veterans Affairs Health Care Sharing Incentive Fund (97-X-0165), Defense Health Program (97-*-0130), and the Defense Health Program, Global HIV/AIDS

Initiative Transfer Account (97-X-1030) appropriations from the February 2006 through July 2006 Health Services Command Reports. The 108,012 omitted records had a net total of $43.8 billion and an absolute value total of $61.62 billion. Table 2 identifies the records that were missing from the February 2006 through July 2006 Health Services Command Reports.

Table 2. Data Excluded from February 2006 to July 2006 Health Services Command Report

Month	Missing Records	Appropriation	Net Total	Absolute Total
February 2006	54	97-X-0165	$ 20,108,697	$ 23,428,331
March 2006	77	97-X-0165	24,746,682	31,652,706
April 2006	77	97-X-0165	24,148,581	33,119,024
May 2006	95	97-X-0165	24,676,977	39,579,949
June 2006	85	97-X-0165	24,724,600	32,983,906
July 2006	107,624	97-X-0165 97-*-0130 97-X-1030	43,682,813,054	61,460,733,837
Total	**108,012**		**$43,801,218,591**	**$61,621,497,753**

We asked the DFAS Indianapolis Operations report preparer why the July 2006 report did not contain any data for 97-X-0165. Afterwards, he prepared a revised July 2006 Health Services Command Report that included the missing 107,624 lines of data.

The DFAS Indianapolis Operations standard operating procedure on preparation of the Health Services Command Report did not require a quality review of the completed report prior to submission to the report user. The DFAS Indianapolis Operations report preparer should review the Health Services Command Report for completeness prior to submission to the report user. Omitted records in reports that present large amounts of data, such as the Health Services Command Report, may not be readily apparent and can lead to decisions based on incorrect information being made by report users. According to the preparer, this report requires an estimated 2 hours of work per month, or 24 hours annually.

Foreign Currency Fluctuation Report

DFAS Indianapolis Operations reported amounts on the September 2005 through June 2006 Foreign Currency Fluctuation Report, DD COMP (M) 1761 that were inaccurate and inconsistent with the amounts DFAS Indianapolis Operations reported on the Foreign Currency Fluctuation line of the Appropriation Status by Fiscal Year Program and Subaccounts, also called the 1002 report. The 1002

report summarizes the status of Army appropriations and includes a Foreign Currency Fluctuation line that identifies the foreign currency fluctuation amount for certain appropriations. DFAS Indianapolis Operations prepares both the 1761 and the 1002 report from budget execution data in HQARS. We identified variances for appropriations 21-0509-2050, 21-0509-0720, 97-0610-0500.5108, 21-06-0725, and 21-0610-0720. Table 3 identifies examples of the variances between the 1761 and the 1002 report.

Table 3. Examples of Variances Between 1761 and 1002
(Dollars in Thousands)

Month	Appropriation	1761	1002	Variance	Percentage Variance
September 2005	21-0509-2050	$ 58,021	$55,089	$ 2,932	5.3
September 2005	21-0509-0720	11,442	11,228	214	1.9
November 2005	97-0610-0500.5108	0	141	141	100.0
January 2006	21-06-0725	86,376	18,969	67,407	355.4
February 2006	21-0610-0720	5,284	4,331	953	22.0
March 2006	21-06-0725	128,807	25,082	103,725	413.5
June 2006	21-0610-0720	9,896	9,565	331	3.5

The DFAS Indianapolis Operations standard operating procedure on preparing the 1761 required that a comparison be done between the 1761 and the 1002 report. However, the standard operating procedure required that the accrued variance on the worksheets used to prepare the 1761 be compared to the disbursements in the foreign currency Army Management Structure section of the 1002 reports. This instruction was incorrect, as the 1002 report does not present any information comparable to the accrued variances reported on the 1761 and report preparation worksheets. Instead, the realized variances reported on the 1761 should match the gross disbursements in current fiscal year reported on the Foreign Currency Fluctuation line of the 1002 report. A correct comparison between the two reports would have identified the following.

- Amounts reported on the 1761 were not reported in the correct columns. For example, the amounts reported for Foreign Currency Liquidated Obligations (Budget Rate) on the 1761 report were actually the Realized Variance Amounts.

- The automated process used by DFAS Indianapolis Operations to generate the 1761 was not picking up the same foreign currency amounts that were used for the 1002 reports.

- In one instance, DFAS Indianapolis Operations caused a variance between the 1761 report and the 1002 report by posting a 1761 report on the DFAS Indianapolis Operations website with different amounts than were on the 1761 report that was available on the DFAS Indianapolis Operations internal computer network.

DFAS Indianapolis Operations should report amounts on the 1761 that are consistent with the amounts on the Foreign Currency Fluctuation line of the 1002 report. Inaccurate and inconsistent data decreases the usefulness of the 1761. DFAS Indianapolis Operations should require the preparer of the 1761 to compare the realized variance amounts on the 1761 to the gross disbursements reported on the foreign currency fluctuation line of 1002 report. The report preparer should research and reconcile discrepancies between the two reports. According to the preparer, preparation of the foreign currency reports require an estimated 24 hours of work per month.

Report on Work Years and Personnel Costs - Office of Personnel Management 0197

DFAS Indianapolis Operations reported amounts on the FY 2004 and FY 2005 OPM 0197 for Army General Fund (AGF) and Army Working Capital Fund (AWCF) that were inaccurate and inconsistent with amounts reported on the OP-8, Department of the Army, Civilian Personnel Costs. OPM report preparation guidance for the OPM 0197 requires that agencies reconcile their Fiscal Year Work Years and Personnel Costs data with corresponding Object Class Data in the actual column of the President's Budget. To achieve this reconciliation, OPM schedules the Work Years and Personnel Costs reporting after agencies have transmitted final Object Class Data for the President's Budget. Agencies should establish appropriate internal coordination procedures to ensure that the data are reconciled. The DFAS Indianapolis Operations standard operating procedure on report preparation also contains reconciliation requirements and defines large discrepancies as those five percent or greater.

DFAS Indianapolis Operations uses a worksheet to compare amounts pulled from HQARS for the OPM 0197 report to the actual amounts from the President's Budget, as contained in the OP-8, Department of the Army, Civilian Personnel Costs. The worksheet used by DFAS Indianapolis Operations to prepare the FY 2004 OPM 0197 identified large differences between the HQARS amounts and the OP-8, Department of the Army, Civilian Personnel Costs. For example, general schedule total basic payroll was identified as $9.3 billion from HQARS, but as $8.6 billion on the OP-8, Department of the Army, Civilian Personnel Costs. The difference is $659 million, or 7.08 percent. The report preparer stated that DFAS Indianapolis Operations issued the FY 2004 OPM 0197 using the data from HQARS without reconciling the differences between amounts from HQARS and the OP-8, Department of the Army, Civilian Personnel Costs.

The worksheet used by DFAS Indianapolis Operations to prepare the FY 2005 OPM 0197 also contained amounts from HQARS and the OP-8, Department of the Army, Civilian Personnel Costs. The OP-8, Department of the Army, Civilian Personnel Costs amounts on the worksheet for FY 2005 were exactly the same as the OP-8, Department of the Army, Civilian Personnel Costs amounts on the FY 2004 worksheet. The DFAS Indianapolis Operations report preparer did not obtain the FY 2005 actual amounts and perform a reconciliation as part of the preparation of the FY 2005 OPM 0197 report.

We obtained the OP-8, Department of the Army, Civilian Personnel Costs containing the FY 2005 actual amounts and compared them to the amounts used by DFAS Indianapolis Operations on the FY 2005 OPM 0197 report. We were able to perform a total of 48 comparisons between the OPM 0197 data and the amounts on the OP-8, Department of the Army, Civilian Personnel Costs. Of the 48 comparisons, 22 identified variances that exceeded the 5 percent variance level defined in the DFAS Indianapolis Operations standard operating procedure as a large discrepancy. In addition, the OPM 0197 report included amounts for Wage Employees-Panama Canal and a pay system category of Other, which were not directly comparable to the amounts reported on the OP-8, Department of the Army, Civilian Personnel Costs. Table 4 contains examples where the personnel compensation reported in the OPM 0197 varied from the OP-8, Department of the Army, Civilian Personnel Costs.

Table 4. Personnel Compensation – FY 2005 OPM 0197 versus OP-8 (Dollars in Thousands)

Record	OPM 0197	OP-8	Variance	Percentage Variance
Department of the Army, Agency Total-Sum of All Pay Systems, Total Payroll	$10,087,411	$10,984,977	$897,566	8.90
Department of the Army, General Schedule, Total Premium Pay	434,888	496,231	61,343	14.11
Department of the Army, Senior Executive Service, Total Premium Pay	166	3,789	3,623	2,182.53

Variances also existed between work year amounts reported on the FY 2005 OPM 0197 and the OP-8, Department of the Army, Civilian Personnel Costs. Table 5 contains examples of the variance between the Work Years Reported in the OPM 0197 and the OP-8, Department of the Army, Civilian Personnel Costs.

Table 5. Work Years - FY 2005 OPM 0197 versus OP-8				
Record	**OPM 0197**	**CABS OP-8**	**Variance**	**Percentage Variance**
Department of the Army, Agency Total-Sum of All Pay Systems	182,509	205,041	22,532	12.35
Department of the Army, Working Capital Fund, Agency Total-Sum of All Pay Systems	23,848	25,678	1,830	7.67
Department of the Army, Working Capital Fund, General Schedule	9,518	10,923	1,405	14.76

Our review of the FY 2004 and FY 2005 OPM 0197 reports also identified inconsistencies between the amounts in the preparation worksheets and the OPM 0197 report; lines on the OPM 0197 report where the subtotals did not match the overall totals; and missing explanations for Other Premium Pay amounts that are required by the OPM preparation instructions. The inconsistencies included the following.

- The $426,264,000 Total Premium Pay, $126,644,000 Cash Awards, and $126,644,000 Other Awards subtotal reported on the FY 2005 OPM 0197 for the General Schedule pay system category differ from the $434,888,000, $135,268,000, and $135,268,000 appearing in the preparation worksheet. Each difference is $8,624,000.

- The FY 2005 OPM 0197 Agency Total Sheet reports $147,364,000 for Cash Awards, but the sub-bullets under Cash Awards only sum to $140,283,000. The difference is $7,081,000.

- The OPM preparation guidance requires the separate identification of any forms of premium pay included in Code 212-Other Premium Pay that are equal to $100,000 or more. The FY 2005 OPM 0197 Agency Total Sheet reported Code 212-Other Premium Pay of $47,395,000 but it did not contain an explanation as to what the other premium pay was.

Because DFAS Indianapolis Operations did not reconcile amounts reported on the OPM 0197 to the Object Class Data in the actual year column of the President's Budget, the Office of Management and Budget was provided one set of data and OPM was provided a different set of data. DFAS Indianapolis Operations did not

follow the preparation instructions when preparing the OPM 0197 report. This includes comparing the amounts reported on the OPM 0197 to the President's Actual amounts and reconciling differences. DFAS Indianapolis Operations should also review the OPM 0197 for errors such as inconsistencies with the preparation worksheets. According to the preparer, this report requires an estimated 40 hours of work per year.

Morale, Welfare, and Recreation Report

DFAS Indianapolis Operations prepared the March 2006 Morale, Welfare, and Recreation Report with inaccurate amounts in the form of unreconciled abnormal conditions. The DFAS Indianapolis Operations standard operating procedure on the Morale, Welfare, and Recreation Report requires that the report preparer produce the report at the operating agency level and check it for illogical and omitted data. The report preparer is required to contact field activities about any concerns and the problems are to be corrected before the report is issued. The DFAS Indianapolis Operations standard operating procedure identifies abnormal conditions as wages and no benefits or benefits and no wages. The DFAS Indianapolis Operations report preparer also acknowledged that benefits that exceed wages is also an abnormal condition.

The March 2006 Morale, Welfare, and Recreation Report at the operating agency level contained five abnormal conditions, where benefits, totaling $636,610, exceeded reported wages of $340,612, as identified in Table 6. In addition, the report contained two abnormal conditions, where benefits, totaling $1,047, were reported without any wage amounts.

Table 6. March 2006 Morale, Welfare, and Recreation Report Operating Agency Level

Category	Benefits Exceed Wages	Benefits and No Wages
Total Benefits	$636,610	$1,047
Total Wages	340,612	0

The Morale, Welfare, and Recreation Report is also prepared at the departmental level. The report sums balances at the operating agency level. Abnormal conditions were also visible at the departmental level. For example, DoD-Level, Category B-Basic community Support Activities, Arts and Crafts reported a total of $395,586 in wages and $636,652 in benefits.

The DFAS Indianapolis Operations report preparer should review the completed Morale, Welfare, and Recreation report for abnormal conditions such as where benefits are reported with no wages, wages are reported with no benefits, and where benefits exceed wages. The report preparer should research and correct abnormal conditions in the Morale, Welfare, and Recreation report so that report recipients receive accurate data. According to the preparer, this report requires an estimated 4 to 6 weeks per year to prepare.

Report of Costs in Support of Secret Service for Protective Assistance (RCS DD-COMP [SA] 1466) (Secret Service Report)

The Secret Service Report prepared by DFAS Indianapolis Operations is unnecessary. On July 12, 2006, we contacted the sole report recipient at the Defense Manpower Data Center. The report recipient stated that this report is no longer required to be submitted as they no longer prepare a consolidated DoD report. A followup conversation with Defense Manpower Data Center personnel confirmed that they no longer want the Secret Service Report.

Preparation of the Secret Service Report expends resources at DFAS Indianapolis Operations and at numerous field activities that are required to submit feeder reports to DFAS Indianapolis Operations. Resources are not used effectively when unnecessary reports are prepared. DFAS Indianapolis Operations should review the Secret Service Report preparation requirements and, if unable to find any other user for the report, stop preparing the report and have field activities stop submitting their data to DFAS Indianapolis Operations.

Unit Exchange Report

The Unit Exchange Report prepared by DFAS Indianapolis Operations has no known users. The DFAS Indianapolis Operations standard operating procedure on report preparation states that the completed report is mailed to the "Deputy Director, Accounting, Defense Finance and Accounting Service, ATTN: DFAS-HQ/ADA." DFAS Indianapolis Operations files contained address labels for the completed report with an address in the Pentagon. DFAS Indianapolis Operations files also contained the names of several personnel who were identified as DFAS Headquarters points of contact for the report. However, we were unsuccessful in our attempts to contact them, and it appeared that they no longer worked for DFAS. We requested that DFAS Indianapolis Operations assist us in identifying a user of the Unit Exchange Report, but DFAS Indianapolis Operations personnel were unable to track down who is receiving the report and stated that no one seems to know what this report is used for or who gets it.

As with the Secret Service Report, preparation of the Unit Exchange Report expends resources at DFAS Indianapolis Operations and at numerous field activities that are required to submit feeder reports to DFAS Indianapolis Operations. Resources are not used effectively when unnecessary reports are prepared. DFAS Indianapolis Operations should review Unit Exchange Report preparation requirements and, if unable to identify a user for the report, stop preparing the report and have field activities stop submitting their data to DFAS Indianapolis Operations.

Management Oversight

Supervisory review of the preparation of the five special Army reports would have identified the report inaccuracies. Supervisory review of the special Army reports program would have also identified the deficiencies in the standard operating procedures. None of the five inaccurate special Army reports had effective supervisory review and approval. The standard operating procedures were not only inadequate, they did not provide for report quality assurance like supervisory review and approval. As a result, DFAS Indianapolis Operations provided decision makers with reports that were inaccurate, and in one case, unusable.

In addition, DFAS Indianapolis Operations prepared one report that was unnecessary and another report for no known users. The preparers did not take action to ensure that special Army reports were needed prior to preparation. This resulted because the standard operating procedures did not require that need be validated, and the supervisors did not adequately review the work of the preparers. DFAS Indianapolis Operations personnel should not be expanding efforts to prepare special Army reports that are not required.

Recommendations, Management Comments, and Audit Response

We recommend that the Director of the Defense Finance and Accounting Service Indianapolis Operations revise the standard operating procedures on special Army report preparation. At a minimum, the standard operating procedures should require that the Defense Finance and Accounting Service Indianapolis Operations:

1. Review the Army Report on Personnel and Payroll Outlays by Operating Location to ensure that data are correctly aligned at the operating location level.

Management Comments. The Director of DFAS Indianapolis Operations concurred and stated DFAS Indianapolis Operations has incorporated reviews of the report by operating location as an extra control to identify any questionable data submissions. The completion date was February 16, 2007.

2. Review the Health Services Command Report for completeness prior to submission to the customer.

Management Comments. The Director of DFAS Indianapolis Operations concurred with the recommendation. The Director stated that DFAS Indianapolis Operations put control total balancing into the Standard Operating Procedures and also added end of file marker requirements to prevent future occurrences. The completion date was January 31, 2007.

3. Reconcile the Foreign Currency Fluctuation Report (DD COMP (M) 1761) and the Appropriation Status by Fiscal Year Program and Subaccounts 1002 report and resolve any variances.

Management Comments. The Director of DFAS Indianapolis Operations concurred and stated that DFAS Indianapolis Operations has added an internal control check to verify that the foreign currency amounts balance to the 1002 report and match to the expenditure balance forward reports. The Director also stated that the amounts on the 1761 Report are reported in the correct columns in accordance with the Department of Defense Financial Management Regulation, volume 6A, chapter 7, and that the program correctly calculates the Realized Variance amounts and places the amount in the Realized Variance column. The program also displays the Foreign Currency Liquidated Obligations (Budget Rate) correctly. The completion date was January 31, 2007.

Audit Response. We consider the Director of DFAS Indianapolis Operations comments responsive. However, DFAS Indianapolis Operations personnel were unable to explain inconsistencies in the presentation of foreign currency data.

4. Review and approve special Army reports at the supervisory level for accuracy and adherence to the standard operating procedures, and correct any discrepancies found in the reports.

5. Review special Army reports annually to determine whether the reports are required prior to preparation of the reports.

6. Retain the documentation of the supervisory reviews and the annual review of the need for special Army reports.

Management Comments. The Director of DFAS Indianapolis Operations concurred with Recommendations 4, 5, and 6. The Director stated that DFAS Indianapolis Operations personnel would work with field personnel to resolve and correct discrepancies found in the Morale, Welfare, and Recreation report. The Director also stated that DFAS Indianapolis Operations would perform an annual review of all reports for necessity and maintain documentation of that review. These management actions were completed January 31, 2007.

Appendix A. Scope and Methodology

We reviewed the DFAS Indianapolis Operations processes for the preparation of special Army reports. Our review included special Army reports prepared during FY 2005 and FY 2006. We compared the special Army reports to the report preparation requirements found in DoD Directives, DoD Instructions, the DoD Financial Management Regulation, DFAS Indianapolis Operations standard operating procedures, and preparation instructions provided by report requesters. We compared the amounts reported on special Army reports to source documentation used by DFAS Indianapolis Operations to prepare the reports. This source documentation included automated financial reports submitted by field accounting entities, the SF 1002 Report, and documents such as DD 1131 Cash Collection Vouchers. We conducted interviews with DFAS personnel responsible for preparing the special Army reports. We also sent questionnaires to the users of the special Army reports and conducted followup interviews with selected report users.

We performed this audit from March 2006 through November 2006 in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data. We used reports generated by accounting systems within DFAS Indianapolis Operations 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 Operations and DFAS field accounting activities to prepare special Army reports. Our review of DFAS Indianapolis Operations controls over the preparation of special Army 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 or conclusions as discussed in the finding.

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 the preparation of Army special reports by DFAS Indianapolis Operations.

Appendix B. Special Army Reports

DFAS Indianapolis's Departmental Budget Execution Operations prepares the following 14 special Army reports.

Agriculture and Grazing Report. The Agriculture and Grazing Report presents expenses and proceeds related to the Agricultural and Grazing Lease Program. DFAS Indianapolis Operations compiles the quarterly Agriculture and Grazing amounts based on data in HQARS and data submitted by the field activities. DFAS Indianapolis Operations enters the data into the U.S. Army Environmental Center Reimbursable Programs Tracking System where U.S. Army Environmental Center personnel access the report and use it to manage the proceeds derived from the Agriculture and Grazing Lease Program.

Army Report on Personnel and Payroll Outlays by Operating Location. The preparation of the Army RPPOOL is mandated by Department of Defense Instruction Number 7710.3, "Reporting of Personnel and Payroll Outlays by Operating Location," January 12, 1987. The Army RPPOOL reports personnel and payroll outlays data for geographic locations where DoD personnel are assigned. Specifically, for each operating location, it includes the number of active duty military personnel, active duty military pay, Reserve and/or National Guard pay, and retired military pay. DFAS Indianapolis Operations prepares the Army RPPOOL on an annual basis, based on data call submissions. DFAS Indianapolis Operations provides the RPPOOL to the Defense Manpower Data Center, where it is consolidated with reports from other DoD Components and used to prepare the Consolidated Federal Funds Report and the DoD Atlas.

Federal Aid to States Report. The Federal Aid to States Report presents Department of the Army expenditures for grants to state and local governments by state and U.S. Outlying Area. DFAS Indianapolis Operations prepares the annual Federal Aid to States Report based on the amounts reported on the Army Appropriation Status by Fiscal Year Program and Subaccounts, 1002 Reports. DFAS Indianapolis Operations provides the completed Federal Aid to States Report to the U.S. Census Bureau, where it is consolidated with data from other agencies into a Government-wide Federal Aid to States Report.

Foreign Currency Report for Department of the Army. Preparation of the Foreign Currency Report is required by DoD Financial Management Regulation volume 6A, chapter 7, January 2001. The Foreign Currency Report provides information related to obligations incurred in a foreign currency, including foreign currency unliquidated obligations (budget rate), accrued variances, and realized variances. DFAS Indianapolis Operations prepares the monthly Foreign Currency Report based on HQARS data and submits them to users at DFAS Indianapolis Operations, Washington Headquarters Service, and the Army. DFAS Indianapolis Operations also posts the monthly Foreign Currency Report on the DFAS website, where is can be accessed by report users.

Forestry Report. The Forestry Report presents expenses, collections, and state entitlements related to the forestry program. DFAS Indianapolis Operations prepares the quarterly report based on data from HQARS, data submitted by field

sites, and data obtained by querying the Operational Data Store system. DFAS Indianapolis Operations enters the data into the U.S. Army Environmental Center Reimbursable Programs Tracking System where U.S. Army Environmental Center personnel access the report and use it to manage the proceeds derived from the forestry program.

Health Services Command Report. The Health Services Command Report provides selected budget execution data for Defense Health Program appropriations. Using budget execution data from HQARS, DFAS Indianapolis Operations prepares the Health Services Command Report monthly and submits it to the Navy. There, it is consolidated with data from other DoD Components and then provided to Tricare Management Activity to populate a website used by financial personnel to track obligations.

Investment Status Report. The Investment Status Report ("Gift Fund") presents investment activity associated with each gift fund. DFAS Indianapolis Operations prepares this report based on Treasury data, field activity submissions, and data from the Program Budget Accounting System. DFAS Indianapolis Operations makes investments on behalf of fund holders and is required to provide fund holders with reports on each gift fund's balance and earnings on a quarterly basis. This allows fund holders to monitor their funds and determine when it is time to reinvest funds.

L-Account Report. The L-Account Report presents obligations related to the Morale, Welfare, and Recreation and Family Program funds. DFAS Indianapolis Operations prepares the monthly L-Account Report based on HQARS data and sends it to the Army Community Services representative, who uses it to monitor execution of Morale, Welfare, and Recreation and Family Program funds.

Monthly Receivable Reports-Department of the Army and Office of the Secretary of Defense-Army Allocation. The Monthly Receivable Reports present account receivable data for Department of the Army and the Office of the Secretary of Defense-Army Allocation. DFAS Indianapolis Operations prepares the Monthly Receivable Reports from HQARS data and data call submissions from field activities. The completed reports are placed on the e-portal, where DFAS Arlington personnel combine the data with reports prepared by other sites to produce a DoD-wide report. The DoD-wide report is provided to the Office of the Secretary of Defense and allows DoD to keep track of accounts receivable.

Morale, Welfare, and Recreation Report. The Morale, Welfare, and Recreation Report provides data on fund execution for morale, welfare, and recreation for current fiscal year appropriations. DFAS Indianapolis Operations prepares a semi-annual Morale, Welfare, and Recreation Report based on budget execution data retrieved from HQARS and submits it to the U.S. Army Community and Family Support Center, where it is used for analysis and reporting to the Army, Office of the Secretary of Defense, and Congress.

Report of Costs in Support of Secret Service for Protective Assistance (RCS DD-COMP [SA] 1466) (Secret Service Report). The preparation of the Secret Service Report is mandated by DoD Directive No. 3025.13, "Employment of Department of Defense Resources in Support of the United States Secret

Service," September 13, 1985. The Secret Service Report provides costs incurred by DoD Components in support of the U.S. Secret Service for protective assistance. DFAS Indianapolis Operations Regulation 37-1, chapter 28, "Accounting Reports," March 2005, requires that accounting activities prepare semi-annual reports on the costs incurred and submit them to DFAS Indianapolis Operations. From these reports, DFAS Indianapolis Operations prepares a consolidated Secret Service Report and submits it to the Defense Manpower Data Center.

Report on Work Years and Personnel Costs - OPM 0197. Each year, the Office of Personnel Management requests a Work Years and Personnel Costs Report from agencies to assist them and the Office of Management and Budget in addressing policy issues having major budgetary impact. The data are used in estimating the cost of proposed Federal pay increases, evaluating the financial effects of proposed legislation relating to personnel compensation and benefits, and analyzing comparability of pay and personnel benefits with the non-Federal sector. Using accounting data retrieved from HQARS and data call information received from field sites, DFAS Indianapolis Operations prepares separate OPM 0197 Reports for AGF and AWCF. These are submitted to OPM.

Treasury Reports on Receivables – Department of the Army and Office of the Secretary of Defense-Army Allocation. The quarterly preparation of the Treasury Reports on Receivables is required by the Department of the Treasury and is prepared for the Department of the Army and Office of the Secretary of Defense-Army Allocation. The Treasury Reports on Receivables report on the status of receivables, delinquent debt, debt eligible for referral to the Department of the Treasury for offset and cross-servicing, collections, and debt disposition. DFAS Indianapolis Operations prepares the Treasury Reports on Receivables based on amounts extracted from HQARS and from amounts reported on the Monthly Receivable Reports. DFAS Indianapolis Operations submits the Treasury Reports on Receivables to a user at DFAS Indianapolis Operations, where they are consolidated and submitted to the Department of the Treasury.

Unit Exchange Report. The Unit Exchange Report tracks the costs and dates for training or other services provided by the U.S. Army to another country or received by the U.S. Army from another country. Field activities are required to submit data or provide a negative report to DFAS Indianapolis Operations by December 1 of each year. DFAS Indianapolis Operations consolidates the data received from the various units, establishes reimbursables or receivables accordingly, and provides the annual Unit Exchange Report to DFAS Arlington, where it is consolidated with input from other Military Departments and provided to Congress.

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

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

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 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

Defense Finance and Accounting Service Indianapolis Operations Comments

DEFENSE FINANCE AND ACCOUNTING SERVICE
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INDIANAPOLIS, INDIANA 46249

FEB 2 7 2007

DFAS-JBI/IN

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Special Army Reports Prepared by Defense Finance and Accounting Service, Indianapolis Operations, Project No. D2006-D000FI-0028.001, Recommendations 1 - 6

OVERVIEW COMMENTS: This audit report reviewed 14 management reports currently being prepared by DFAS-IN Departmental Reporting. Although we did not identify these problem areas prior to the audit, we had previously self-initiated a review of all 47 management reports being produced in anticipation of implementation of the BEIS/DDRS-B system. Our Plan of Action and Milestones (POAM) for the BEIS/DDRS-B implementation included action items for a thorough review of all management reports. The management plan was to review the reports for necessity, map the required reports into ASK-FM, and then develop revised Standard Operating Procedures (SOPs) according to the new process. During August 2006, we also completed an annual review of all Departmental Reporting SOPs to determine the SOPs requiring updating. We identified these management reports as requiring SOP updates but decided to wait to fully develop revised SOPs following the upcoming BEIS/DDRS-B implementation. While we agree the internal controls can be improved in this area, it is our plan to accomplish this in accordance with the BEIS/DDRS-B environment. In the interim, we have taken actions to strengthen the controls in the current environment.

Indianapolis Operations is providing management comments to the following recommendations:

We recommend that the Director of the Defense Finance and Accounting Service Indianapolis Operations revise the standard operating procedures on special Army report preparation. At a minimum, the standard operating procedures should require that the Defense Finance and Accounting Service Indianapolis Operations:

Recommendation 1: Review the Army Report on Personnel and Payroll Outlays by Operating Location to ensure that data are correctly aligned at the operating location level.

Management Comments: Stakeholder: Brook Avey, 317-510- 7132. Concur. The Army Report on Personnel and Payroll Outlays by Operating Location is prepared annually based on data calls from the Army Human Resources Command (AHRC). We are reviewing the report against the prior submission but have now incorporated the extra control to review by operating location to identify any questionable data submissions.

Completion Date: February 16, 2007

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Recommendation 2: Review the Health Services Command Report for completeness prior to submission to the customer.

Management Comments: Stakeholder: Brook Avey, 317-510- 7132. Concur. The July 2006 Health Service Command report did not properly report data for appropriation 97X0165. A systems problem occurred causing the program used to create the report to end prematurely before all the records properly loaded. Subsequently, we've put in control total balancing into the Standard Operating Procedures (SOPs) and added end of file marker requirements to prevent future occurrences. Also, this report is in the process of final mapping to ASK-FM where it will be automatically generated without manual intervention.

Completion Date: January 31, 2007

Recommendation 3: Reconcile the Foreign Currency Fluctuation Report (DD COMP (M) 1761) and the Appropriation Status by Fiscal Year Program and Sub-Accounts, 1002 Report and resolve any variances.

Management Comments: Stakeholder: Brook Avey, 317-510- 7132. Concur. The amounts on the 1761 report are reported in the correct columns per the DoD FMR Volume 6A, Chapter 7. The program correctly calculates the Realized Variance amounts and places the amount in the Realized Variance column. The program also displays the Foreign Currency Liquidated Obligations (Budget Rate) correctly. However, we do agree the automated process to generate the 1761 foreign currency amounts uses the obligation year based on the Allotment Serial Number (ASN) rather than the appropriation cited on the 1002. We added this internal control check to verify the foreign currency amounts balance to the 1002 and match to the expenditure balance forward reports to our procedures in January 2007. We also agree that in one instance the report loaded to the web site did not match the final report. The correct report was uploaded the same day in August 2006 once identified during the audit field work.

Completion Date: January 31, 2007

Recommendation 4: Review and approve special Army reports at the supervisory level for accuracy and adherence to the standard operating procedures, and correct any discrepancies found in the reports.

Management Comments: Stakeholder: Brook Avey, 317-510- 7132. Concur with comments. The amounts reported on the Work Years and Personnel Costs – Office of Personnel Management 0197 report did contain discrepancies. This report is in the process of final mapping to ASK-FM where it will be automatically generated without manual intervention. However, we disagree with the audit comments indicating DFAS-IN report preparer should correct abnormal conditions on the Morale, Welfare and Recreation report. The majority of issues associated with this report are a result of incorrect Functional Cost Accounts setup on abbreviated lines of accounting. In these situations, we review the report and work with the customers and field site activities to resolve and make the appropriate corrections within the source system.

Completion Date: January 31, 2007

Recommendation 5: Review special Army reports annually to determine whether the reports are required prior to preparation of the reports.

Management Comments: Stakeholder: Brook Avey, 317-510-7132. Concur. We were in the process of reviewing all management reports to determine what reports were required as part of our conversion to BEIS/DDRS-B. We firmly believe this process would have revealed the Secret Service and Unit Exchange reports were no longer necessary. We also feel this approach will reveal additional reports that may be terminated upon customer notification, but we have also put into place an annual review of all reports.

Completion Date: January 31, 2007

Recommendation 6: Retain the documentation of the supervisory reviews and the annual review of the need for special Army reports.

Management Comments: Stakeholder: Brook Avey, 317-510-7132. Concur. We are reviewing all 47 management reports as part of our BEIS/DDRS-B system implementation to determine which reports are required in the future. The supervisor assigned the team leader the responsibility to perform the annual review for the necessity of special Army management reports. The team leader will notify the supervisor of the results and maintain documentation of this effort.

Completion Date: January 31, 2007

My point of contact, for these recommendations, is Sam Graham, Director, Departmental Accounting, 317-510-3153.

Audrey L. Eckhart
for Steve R. Bonta
Director, Indianapolis Operations

Team Members

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