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FINANCIAL REPORTING AT THE
WASHINGTON HEADQUARTERS SERVICES

Report No. D-2001-081

March 15, 2001

Office of the Inspector General
Department of Defense

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Acronyms

DFAS	Defense Finance and Accounting Service
ODC	Obligation Data Code
WAAS	WHS Allotment Accounting System
WHS	Washington Headquarters Services



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March 15, 2001

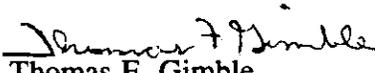
MEMORANDUM FOR DIRECTOR, WASHINGTON HEADQUARTERS
SERVICES

SUBJECT: Audit Report on Financial Reporting at the Washington Headquarters
Services (Report No. D-2001-081)

We are providing this report for your information and use. This audit was performed in response to the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994. We considered management comments on a draft of this report when preparing the final report.

The Washington Headquarters Services comments conformed to the requirements of DoD Directive 7650.3; therefore, additional comments are not required. As a result of management comments, we revised Recommendation 3.a. and deleted Recommendation 4.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Charles J. Richardson at (703) 604-9582 (DSN 664-9582) (crichardson@dodig.osd.mil) or Ms. Sandra L. Fissel at (703) 604-9485 (DSN 664-9485) (sfissel@dodig.osd.mil). See Appendix D for the report distribution. The audit team members are listed inside the back cover.


Thomas F. Gimble
Acting
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. D-2001-081

March 15, 2001

(Project No. D2000FA-0146.002)

Financial Reporting at the Washington Headquarters Services

Executive Summary

Introduction. This report is the third, and last, in this series addressing the underlying financial reporting processes that cause abnormal balances on the trial balances of Other Defense Organizations. An account balance is abnormal when the reported balance does not comply with the normal debit or credit balance established in the general ledger chart of accounts. We performed the audit in response to the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, which requires DoD and other Government agencies to prepare consolidated financial statements. The DoD Agency-Wide financial statements include a reporting entity entitled "Other Defense Organizations-General Funds." This entity represents a consolidation of financial information from various Defense organizations and funds that use the Treasury Index 97 symbol. The Washington Headquarters Services is one of these Defense agencies. The Washington Headquarters Services maintains the official accounting records for funds that it receives, and also provides accounting support to various funds allocated to the Office of the Secretary of Defense, the United States Court of Appeals for the Armed Forces, the Pentagon Reservation Maintenance Revolving Fund, and the Building Maintenance Fund. Preceding reports addressed financial reporting by the Defense Finance and Accounting Service-Indianapolis and Defense Finance and Accounting Service-Cleveland.

Objectives. The audit objective was to determine the accuracy and completeness of the data that the Washington Headquarters Services submitted to the Defense Finance and Accounting Service-Indianapolis (Sustaining Forces) for inclusion in the FY 2000 Other Defense Organizations financial statements. In addition, we reviewed the management controls related to our objective.

Results. Trial balances prepared from accounting records that the Washington Headquarters Services maintained included \$74.9 million of net abnormal balances. We examined 95 percent of the abnormal balances included in trial balances dated March 31, 2000, and found that:

- prior fiscal year ending account balances were not transferred to subsequent fiscal years and caused \$51.8 million of net abnormal balances in FY 2000;
- accruals and corresponding disbursements were not consistently recorded as either Government or non-Government transactions and caused \$13.7 million of net abnormal balances; and

- the Washington Headquarters Services Allotment Accounting System posted expense adjustments for prior reporting periods to the incorrect general ledger expense accounts in the current year rather than to a prior period adjustments account and caused \$5.6 million of net abnormal balances.

The Washington Headquarters Services took effective action to reduce deficiencies identified during the audit, thereby reducing reported year-end total net abnormal balances from \$159.2 million as of September 30, 1999, to \$4.6 million as of September 30, 2000.

Until abnormal balances and control deficiencies are corrected, FY 2001 and future financial statements prepared for the Other Defense Organizations will be misstated. Additionally, financial statement preparers will not be able to properly eliminate intra-DoD transactions on the Defense Agency-Wide financial statements. For details of the audit results, see the Finding section of the report. See Appendix A for details on the management control program.

Summary of Recommendations. We recommend that the Director, Washington Headquarters Services, review all accruals and disbursements and correct related transactions that are not consistently recorded as Government or non-Government transactions. We also recommend that the Washington Headquarters Services Allotment Accounting System be modified to post adjustments affecting prior periods to the Prior Period Adjustments account, and that query interfaces for transaction research be developed for each general ledger account. Further, we recommend that the system user's manual be revised to provide detailed guidance to system users on how to research details supporting account balances, to identify obvious errors and implement corrective actions, and to describe the types of data and formulas used to calculate account balances.

Management Comments. The Director, Washington Headquarters Services, concurred with the finding and recommendations, stating that a separate recommendation outlining detailed elements of written guidance was not needed because the intent of the recommendation was already included in the recommendation to revise the system user's manual. Washington Headquarters Services is currently completing modifications to the accounting system and estimates completion of all actions by December 31, 2001. See the Finding section for a discussion of management comments, and the Management Comments section for the text of the comments.

Audit Response. Management comments were responsive to the recommendations. Based on comments, we made minor wording changes to clarify the finding and recommendations. We also modified the recommendation to revise the system user's manual to include detailed guidance on how to identify obvious errors in account balances and to implement corrective actions. We deleted from the final report the recommendation outlining detailed elements of written guidance. No additional comments to the report are required.

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Background

Other Defense Organizations. The audit was performed as part of the continuing audit work of the Inspector General, DoD, in support of the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994. Specifically, the DoD Agency-Wide financial statements include a reporting entity entitled “Other Defense Organizations-General Funds.” This entity represents a consolidation of financial information from various Defense organizations and funds that use the Treasury Index Symbol 97 (also referred to as Department 97). The Washington Headquarters Services (WHS) is one of these Defense organizations.

Washington Headquarters Services. WHS provides accounting support to specified DoD organizations, and system support for the WHS Allotment Accounting System (WAAS), an accounting system used for a majority of the individual organizations and funds. WHS maintains the official accounting records for funds that it receives, and also provides accounting support to various funds allocated to the Office of the Secretary of Defense, the United States Court of Appeals for the Armed Forces, the Pentagon Reservation Maintenance Revolving Fund, and the Pentagon Building Maintenance Fund. As part of the overall quality control process, WHS personnel are required to prepare trial balances on a quarterly basis to identify deficiencies when they occur and correct those deficiencies before preparing the year-end financial statements. Inspector General, DoD, Report No. D-2000-153, “Compilation of the FY 1999 Financial Statements for Other Defense Organizations-General Funds,” June 23, 2000, states that WHS reported \$159.2 million of total net abnormal balances that were included in the year-end trial balances. An account balance is abnormal when the reported balance does not comply with the normal debit or credit balance established in the general ledger chart of accounts.

WHS Allotment Accounting System. WHS uses the WAAS to perform general ledger accounting. The WAAS is an automated, transaction-driven accounting system using DoD standard general ledger accounts. The WAAS is also able to produce trial balances by fiscal year and by appropriation. WHS owns the WAAS; however, WHS is not the only user of the accounting system. See Appendix B for a list of the other organizations in the DoD that also use the WAAS to perform general ledger accounting and to produce trial balances. DoD adopted the U.S. Government Standard General Ledger as the DoD standard in FY 1999. However, since the WAAS is a DoD legacy system, its general ledger accounts were not changed and, therefore, do not fully match the U.S. Government Standard General Ledger. According to the DoD Financial Management Improvement Plan, Volume II, September 2000, consolidation of the WAAS into the Defense Joint Accounting System is scheduled for October 2004; however, development of the new system is unfunded.

Objectives

The audit objective was to determine the accuracy and completeness of the data WHS submitted to the Defense Finance and Accounting Service (DFAS) Center for Sustaining Forces-Indianapolis, for inclusion in the FY 2000 Other Defense Organizations financial statements. Specifically, we determined why WHS was submitting large abnormal balances in its trial balances. In addition, we reviewed WHS management controls related to our objectives. See Appendix A for a discussion of the audit scope, methodology, review of the management control program, and prior coverage related to the audit objectives.

Accuracy of Trial Balances

Trial balances prepared from accounting records that WHS maintained included \$74.9 million of net abnormal balances. We examined 95 percent of the abnormal balances on the March 31, 2000, trial balances and found that:

- WHS did not transfer prior fiscal year-ending account balances to the beginning balances in subsequent fiscal years and caused \$51.8 million of net abnormal balances in FY 2000;
- WHS did not ensure that accruals and corresponding disbursements were both recorded as either Government or non-Government transactions and caused \$13.7 million of net abnormal balances; and
- the WAAS, as configured, did not properly identify accrual adjustments for expenses affecting prior reporting periods and, therefore, did not post those transactions to the correct general ledger accounts, and caused \$5.6 million of net abnormal balances.

The condition also occurred because WHS did not have adequate written procedures to review trial balances and to disclose abnormal conditions. Also, without direct WHS intervention, the WAAS did not provide all the requisite query interfaces for accountants to effectively research and correct deficiencies, and the WAAS program manuals did not provide detailed instructions on how to research account balances, obtain supporting details at the transaction level, and correct identified problems.

WHS took action to correct deficiencies and improve the accuracy of the trial balance data for FY 2000. However, until control deficiencies are fully corrected, the FY 2001 and future financial statements prepared for the Other Defense Organizations likely will be misstated. Additionally, financial statement preparers will not be able to properly eliminate intra-DoD transactions on the Defense Agency-Wide financial statements.

Mid-Year Trial Balances

The March 31, 2000, trial balances prepared from accounting records that WHS maintained reported \$74.9 million of net abnormal balances in 25 general ledger accounts. See Appendix C for a list of the general ledger accounts with abnormal balances. We reviewed nine general ledger accounts that reported the largest net abnormal balances, which totaled \$71.1 million and represented 95.1 percent of the total abnormal balances, as shown in Table 1.

Table 1. Nine General Ledger Accounts With the Largest Net Abnormal Balances as of March 31, 2000

<u>Account Title</u>	<u>General Ledger Account</u>	<u>Abnormal Balances (millions)</u>	<u>Percent of Total Net Abnormal Balance</u>
Fund Balance With Treasury	1013	\$13.0	17.4
Allotments Received	4580	13.0	17.4
Uncommitted/Unobligated Allotments-Direct Program-Current Period	4611	13.0	17.4
Appropriated Capital	3100	12.8	17.1
Accounts Payable-Government-Current	2111	10.2	13.6
Accounts Payable-Public-Current	2113	3.5	4.7
Appropriated Capital Used	5700	2.7	3.6
Printing and Reproduction Expense	6119	1.7	2.3
Other Services Expense	6120	<u>1.2</u>	<u>1.6</u>
Total		\$71.1	95.1

An account balance is abnormal when the reported balance does not comply with the normal debit or credit balance established in the general ledger chart of accounts. Although some abnormal balances may be appropriate, the accounting office submitting the abnormal balances should explain the cause of the abnormal balance in footnotes to the trial balances.

Balance Transfers Between Fiscal Years. Of the \$74.9 million in net abnormal balances, \$51.8 million occurred because WHS did not correctly transfer funding balances for “X”¹ year appropriation 0510, Base Realignment and Closure, from one fiscal year to the subsequent fiscal year beginning in 1998 and continuing through FY 2000. As a result, four general ledger accounts reported abnormal balances, as shown in Table 2.

¹An “X” year appropriation is an appropriation that has an indefinite period of availability for obligation. The appropriation remains open for an indefinite amount of time.

Table 2. Abnormal Balances Created by Fund Balances Not Transferred to Subsequent Fiscal Years		
<u>Account Title</u>	<u>General Ledger Account</u>	<u>Net Abnormal Balances (millions)</u>
Fund Balance With Treasury	1013	\$13.0
Appropriated Capital	3100	12.8
Allotments Received	4580	13.0
Uncommitted/Unobligated Allotments-Direct Program-Current Period	4611	<u>13.0</u>
Total		\$51.8

The abnormal conditions were not discovered because WHS had not performed thorough reviews of the trial balances. During the audit, we notified WHS of the abnormal balances. In response, WHS took action to transfer the funding balances and clear the abnormal balances.

Matching Accruals and Disbursements. Of the \$74.9 million in net abnormal balances, \$13.7 million was reported in two accounts because accruals and corresponding disbursements were not consistently recorded as either Government or non-Government transactions, as shown in Table 3.

Table 3. Abnormal Balances Created by Unmatched Accruals and Disbursements		
<u>Account Title</u>	<u>General Ledger Account</u>	<u>Net Abnormal Balances (millions)</u>
Accounts Payable-Government-Current	2111	\$10.2
Accounts Payable-Public-Current	2113	<u>3.5</u>
Total		\$13.7

We judgmentally selected and reviewed accrual and disbursement transactions valued at \$13.4 million and \$4.2 million, respectively. The abnormal balances were created in the two accounts because accounting personnel did not ensure that

accruals and corresponding disbursements were both recorded as either Government or non-Government transactions, which created a mismatch between related accruals and disbursements.

Classification as Government and Non-Government. Each obligation, accrual, and disbursement transaction recorded in the WAAS is assigned an obligation data code (ODC), commonly referred to as the Government indicator code, that classifies the transaction as either occurring with other Government agencies, represented by a “G,” or with non-Government entities, represented by an “N.” Based on the ODC, the WAAS posts transactions to the Government and non-Government general ledger accounts. Government accruals and disbursements are posted to Accounts Payable-Government-Current (general ledger account 2111), and non-Government accruals and disbursements are posted to Accounts Payable-Public-Current (general ledger account 2113). The accrual and related disbursement must have the same ODC for the transactions to be matched and posted to the correct general ledger account, as shown in Table 4.

Table 4. ODC Classifications and General Ledger Accounts Used to Report Government and Non-Government Transactions			
<u>Type of Transaction</u>	<u>ODC for Accruals</u>	<u>ODC for Disbursements</u>	<u>General Ledger Account Number and Title</u>
Government	G	G	2111, Accounts Payable-Government-Current
Non-Government	N	N	2113, Accounts Payable-Public-Current

Recording Accruals and Disbursements. For related transactions where both the accruals and disbursements should have been recorded with the same ODC, accounting personnel recorded at least \$11.4 million and \$1.4 million of transactions with different ODCs for general ledger accounts 2111 and 2113, respectively. Additionally, when accounting personnel adjusted accruals and disbursements, they did not record the adjusting entry with the same ODC as recorded for the original entry. Table 5 summarizes the transactions with unmatched ODCs.

Table 5. Related Transactions With Unmatched ODCs (millions)		
<u>Category of Transactions</u>	<u>Account 2111</u>	<u>Account 2113</u>
Accruals and disbursements	\$11.40	\$1.43
Original accruals and accrual adjustments	2.03	2.74
Original disbursement and disbursement adjustment	<u>.08</u>	<u>0</u>
Total	\$13.51	\$4.17

Impact on the Financial Statements and Elimination Process. If the abnormal balances are not corrected, those balances, when transferred to the Other Defense Organizations financial statements, will cause the amounts reported for “Intragovernmental Accounts Payable” and for “Accounts Payable (to the public)” to be misstated on the consolidated Balance Sheet. Additionally, when the Other Defense Organizations are compiled into the Defense Agency-Wide financial statements, transactions with other DoD entities cannot be properly eliminated because those transactions are reported as being with the public.² WHS has already demonstrated laudable efforts in correcting existing transactions. To prevent a recurrence of these deficiencies in future fiscal years, WHS should create and implement written procedures to record related transactions with the same ODC.

Multiple Reporting Periods. Of the \$74.9 million in net abnormal balances, \$5.6 million was reported in three accounts because the WAAS, as configured, did not properly differentiate between accrual adjustments affecting multiple reporting periods and, therefore, did not post those transactions to the correct general ledger accounts, as shown in Table 6.

²When financial statements for multiple entities are consolidated into a single financial statement, transactions between those entities must be eliminated. Only the transactions with external entities are to be reported.

Table 6. Abnormal Balances Created by Not Identifying Prior Reporting Periods		
<u>Account Title</u>	<u>General Ledger Account</u>	<u>Net Abnormal Balances (millions)</u>
Appropriated Capital Used	5700	\$2.7
Printing and Reproduction Expense	6119	1.7
Other Services Expense	6120	<u>1.2</u>
Total		\$5.6

The WAAS uses a combination of accruals and other transaction data to calculate the balance for the capital and expense accounts. During the current reporting period, accounting personnel adjusted accruals recorded in multiple reporting periods and the WAAS incorrectly posted all of those adjustments to the current year capital and expense accounts. General ledger accounts 5700, 6119, and 6120 are primarily intended to report adjustments for transactions recorded in the current reporting period. Adjustments affecting prior periods should be posted to Prior Period Adjustments (general ledger account 7400).

WAAS Reconfiguration. WHS has agreed to reconfigure the WAAS during FY 2001 so that prior period adjustments should be correctly posted to general ledger account 7400. By modifying the system, WHS, and all other WAAS users, should be able to substantially reduce the abnormal balances reported in current year capital and expense accounts and directly improve the reliability of the Other Defense Organizations financial statements. This system modification should benefit all WAAS users. However, for FY 2000, the abnormal balances, when transferred to the Other Defense Organizations financial statements, will cause the amounts reported as “Other Appropriations Used” on the Statement of Changes in Net Position and as “Program Costs” on the Statement of Net Cost to be misstated. Further, future Other Defense Organizations financial statements will continue to be misstated until the WAAS is reconfigured.

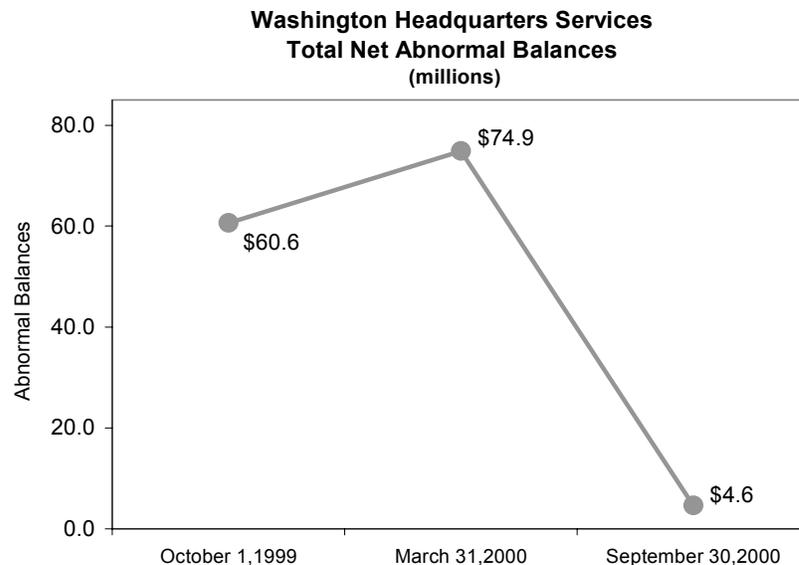
Procedures for Reviewing and Preparing Trial Balances

Review Procedures. OMB Circular No. A-123, “Management Accountability and Control,” June 21, 1995, requires Federal agencies to promptly record, properly classify, and correctly account for transactions to prepare timely and reliable financial reports. To effectively accomplish those responsibilities, Federal agencies are required to prepare written procedures. In the past, WHS partially reviewed trial balances to ensure total debits equaled total credits and performed other limited analytical procedures. However, the abnormal balances

on the March 31, 2000, trial balances were not discovered because WHS did not have adequate written procedures in place for conducting trial balance reviews. To avoid a recurrence of large abnormal balances in FY 2001, WHS should develop written procedures which specifically:

- define an abnormal balance,
- describe specific procedures to compare reported balances to the normal balances required by the chart of accounts,
- demonstrate how to compare account balances for multiple reporting periods to identify unusual trends,
- enumerate the sequential electronic steps to query the WAAS to identify detailed transactions supporting account balances, and
- describe specific actions to correct problems.

Corrective Actions. During the audit, we demonstrated the use of the Trial Balance Analyzer³ to WHS officials, who used the analyzer to review the September 30, 2000, year-end trial balances. WHS identified the abnormal balances, corrected the majority of those balances, and successfully reduced the total net abnormal balances from \$74.9 million reported on the March 31, 2000, trial balances to \$4.6 million reported on the September 30, 2000, trial balances, as shown in the graph below.⁴



Based on prior year trends and the \$159.2 million of year-end total net abnormal balances as of September 30, 1999, WHS was likely to incur another large

³The Trial Balance Analyzer is an electronic database tool developed by the Inspector General, DoD, for analyzing trial balances and identifying abnormal balances.

⁴In the graph, \$60.6 million of net abnormal balances as of October 1, 1999, represents the portion of the \$159.2 million of year-end total net abnormal balances as of September 30, 1999, that were transferred as beginning balances to FY 2000.

abnormal balance condition. However, WHS took action on our concerns and used the trial balance analyzer to reduce abnormal balances for FY 2000 and future years' trial balances.

Explanatory Footnotes. DFAS Memorandum titled "Year-End Instructions for Defense Agencies," June 16, 2000, requires accounting offices submitting trial balances for inclusion in the Other Defense Organizations financial statements to prepare footnotes explaining abnormal balances. Accounting offices are to properly footnote, with a detailed explanation, all abnormal balances or conditions and include a written explanation stating the source, the circumstances involved, actions underway to resolve the condition, and an estimated completion date. The DFAS Memorandum titled "Supplement to Fiscal Year-End 2000 Instructions for Defense Agencies," August 1, 2000, provides detailed instructions for preparing footnotes. WHS has not prepared trial balance footnotes in the past and should develop written procedures for accounting personnel to use when preparing footnotes for future trial balances.

WAAS System Capabilities

Query Interfaces. Although the WAAS contained predefined standard queries for conducting detailed research on account balances, those queries were not available in an executable format for accounting personnel. For each of the accounts we reviewed, WHS personnel modified the query interface and made the queries available in an executable format for the accountants to use. The lack of standard queries in an executable format impedes the ability of WHS, and other accounting offices which use the WAAS, to perform detailed research on account balances.⁵ For all WAAS users to properly conduct trial balance reviews, WHS should develop query interfaces for each of the accounts reported on the trial balance and make those queries accessible to personnel responsible for performing reviews.

System Manuals. WHS published a WAAS Design Manual and a WAAS User's Manual to assist users in operating the system. Updating the manuals to address trial balance reviews could substantially increase the usefulness of both manuals. The WAAS Design Manual should provide a detailed description of the queries available to research general ledger account balances, and of the mapping process used to transfer transactions to general ledger accounts. The WAAS User's Manual should provide specific instructions on executing queries and interpreting the results.

⁵Inspector General, DoD, Report No. D-2001-048, "Financial Reporting for Other Defense Organizations at the Defense Agency Financial Services Accounting Office," February 9, 2001, states that the Defense Agency Financial Services accounting office, located at DFAS-Indianapolis (Sustaining Forces), could not effectively research details supporting account balances because the WAAS did not have predefined queries available in an executable format.

Management Comments on the Finding and Audit Response

WHS Comments. The Director, WHS Budget and Finance, provided general comments on the wording of the Executive Summary, Background, and Finding sections of the report, and suggested omitting a sentence in the report on the background of the WAAS.

Audit Response. For clarification, we made minor word modifications to, but did not remove, sections of the report.

Recommendations, Management Comments and Audit Response

Deleted Recommendation. As a result of management comments, we modified draft Recommendation 3.a. and deleted draft Recommendation 4.

We recommend that the Director, Washington Headquarters Services:

1. Review all disbursement and accrual transactions that are not recorded with the same obligation data code, identify which transactions are entered properly, and correct the corresponding entries.

Management Comments. WHS concurred. The estimated completion date is September 30, 2001.

2. Modify the Washington Headquarters Services Allotment Accounting System as follows:

a. Reconfigure the system to correctly post adjustments recorded in the current year that affect prior periods to Prior Period Adjustments (general ledger account 7400), and

b. Develop query interfaces for each general ledger account that can be used to research detailed transactions supporting account balances.

Management Comments. WHS concurred and stated that this has been completed for the WHS and Defense Finance and Accounting Service Indianapolis (Sustaining Forces) versions of the WAAS. WHS also stated that the estimated completion date for the Defense Information Systems Agency and Department of Defense Education Agency versions of the WAAS is June 30, 2001.

3. Revise the Washington Headquarters Services Allotment Accounting System User's Manual as follows:

a. Explain how accountants can research the details supporting account balances, identify obvious errors, and implement corrective actions; and

b. Describe the types of data and formulas used to calculate account balances.

Management Comments. WHS concurred. The estimated completion date is December 31, 2001.

Audit Response. Recommendation 3.a. was revised to include the intent of draft Recommendation 4., which was deleted based on management's comments to the draft report.

Appendix A. Audit Process

Scope

Financial Information, Procedures, and Controls Reviewed. We reviewed the procedures and related controls used by WHS to prepare financial reports. We narrowed our scope to focus on the preparation of trial balances and the supporting transactions. We reviewed detailed transactions totaling \$77.8 million in 9 general ledger accounts from 82 trial balances prepared by WHS as of March 31, 2000. We also performed a limited review of the WHS trial balance as of September 30, 2000. We reviewed written standard operating procedures, disbursing documents, reports on budget execution [SF-133], and trial balances for the FY 1999 and FY 2000 reporting periods. We also interviewed personnel to determine how information is obtained, recorded, and reported in the trial balance financial reports.

DoD-Wide Corporate-Level Government Performance and Results Act Goals. In response to the Government Performance and Results Act, the Secretary of Defense annually establishes DoD-wide corporate-level goals, subordinate performance goals, and performance metrics. This report pertains to achievement of the following goal, subordinate performance goal, and performance measures:

- **FY 2001 Corporate-Level Goal 2:** Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. **(01-DoD-2)**
- **FY 2001 Subordinate Performance Goal 2.5:** Improve DoD financial and information management. **(01-DoD-2.5)**
- **FY 2001 Performance Measure 2.5.1:** Reduce the number of noncompliant accounting and financial systems. **(01-DoD-2.5.1)**
- **FY 2001 Performance Measure 2.5.2:** Achieve unqualified opinions on financial statements. **(01-DoD-2.5.2)**

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

- **Financial Management Functional Area. Objective:** Reengineer DoD business practices. **Goal:** Improve data standardization of finance and accounting data items. **(FM-4.4)**

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

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

Methodology

Review of Abnormal Balances. We identified 25 general ledger accounts with total net abnormal balances of \$74.9 million in 82 trial balances prepared by WHS as of March 31, 2000. We then identified general ledger accounts with net abnormal balances greater than \$1 million, and performed detailed reviews of related transactions totaling \$77.8 million within the nine general ledger accounts with the largest net abnormal balances. We also did a limited review of the trial balances prepared by WHS as of September 30, 2000, to identify the total net abnormal balances at fiscal year-end.

Use of Computer-Processed Data. We relied on computer-processed data contained in the WAAS. We obtained information on obligations, disbursements, and accruals from the WAAS. We performed limited testing on the system by reviewing transactions supporting the trial balances. Our limited assessments of the system showed that, as configured, the WAAS was posting transactions to the incorrect reporting period. However, the lack of reliable information did not adversely affect our analysis and, when the data were reviewed in context with other available evidence, we believe that the opinions, conclusions, and recommendations in this report are valid.

Audit Types, Dates, and Standards. We performed this financial-related audit from June through December 2000 according to auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls considered necessary.

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

Management Control Program Review

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.

Scope of the Review of the Management Control Program. We reviewed the adequacy of the WHS management controls over the trial balance reporting process. Specifically, we reviewed the controls over preparing and reviewing trial balances submitted to the DFAS Center for Sustaining Forces-Indianapolis. We reviewed management's self-evaluation applicable to those controls.

Adequacy of Management Controls. We identified a material management control weakness for the WHS as defined by DoD Instruction 5010.40. WHS controls over the preparation and reporting of trial balances were not adequate to ensure that trial balances were accurate and reliable. The weakness is material to both the trial balances prepared by the WHS and to the financial statements prepared for the Other Defense Organizations-General Funds. The recommendations, if implemented, should correct the control weakness. A copy of the report will be provided to the senior official in charge of management controls for the WHS.

Adequacy of Management's Self-Evaluation. WHS officials did not identify the review of trial balances for abnormal balances as an assessable unit and, therefore, did not identify or report the material management control weakness identified by the audit.

Prior Coverage

Inspector General, DoD

Inspector General, DoD, Report No. D-2000-153, "Compilation of the FY 1999 Financial Statements for Other Defense Organizations-General Funds," June 23, 2000

Inspector General, DoD, Report No. D-2000-104, "Controls Over Obligations at Washington Headquarters Services," March 22, 2000

Inspector General, DoD, Report No. 98-058, "Payroll Expenses Reported in FY 1996 for the Office of the Secretary of Defense," February 2, 1998

Inspector General, DoD, Report No. 96-194, "Capitalization of Washington Headquarters Services Military Equipment," July 16, 1996

Inspector General, DoD, Report No. 96-080, "Annual Reviews of User Accounting Controls for the Washington Headquarters Services Allotment Accounting System," February 29, 1996

Appendix B. WHS Allotment Accounting System (WAAS) Users

The following DoD organizations use the WAAS to perform general ledger accounting and to produce trial balances:

<u>Reporting Accounting Office</u>	<u>Defense Organization</u>
1. Washington Headquarters Services	Office of the Secretary of Defense Pentagon Building Maintenance Fund Pentagon Reservation Maintenance Revolving Fund U.S. Court of Appeals for the Armed Forces Washington Headquarters Services
2. DFAS Indianapolis (Sustaining Forces)	American Forces Information Service Armed Forces Radio and Television Service Civilian Health and Medical Programs-Uniformed Services Defense Advanced Research Projects Agency Defense Legal Services Agency Defense Prisoner of War/Missing in Action Office Defense Security Cooperative Agency (Appropriated Funds) Defense Visual Information Center Foreign Cooperative Testing Joint Staff Office of Economic Adjustment Office of the Inspector General, DoD Program Management Instrumentation Target Threat Simulation Television Audiovisual Services Agency Tricare Management Office
3. Defense Information Systems Agency	Defense Information Systems Agency Test Facility Defense Information Systems Agency-Defense Provisioning Information Center Defense Information Systems Agency-Headquarters Defense Information Systems Agency-U.S. Atlantic Command Defense Information Systems Agency-U.S. Central Command and Special Operations Command Defense Information Systems Agency-U.S. European Command Defense Information Systems Agency-U.S. Pacific Command Defense Information Systems Agency-U.S. Southern Command Defense Information Systems Agency-U.S. Space Command Defense Information Systems Agency-U.S. Strategic Command Defense Information Systems Agency-U.S. Transportation Command DFAS Pensacola Joint Spectrum Center
4. DoD Dependents Education Activity	DoD Dependents Education Activity-Headquarters
5. Defense Security Cooperative Agency	Defense Security Cooperative Agency-Foreign Military Sales

Appendix C. General Ledger Accounts With Net Abnormal Balances

<u>General Ledger Account Title</u>	<u>General Ledger Account Number</u>	<u>Net Abnormal Balance</u>
Funds with Treasury	1013	\$12,969,434.83
Uncommitted/Unobligated Allotments-Direct Program-Current Period	4611	12,969,434.83
Allotments Received	4580	12,968,934.83
Appropriated Capital	3100	12,761,299.01
Accounts Payable-Government-Current	2111	10,188,512.95
Accounts Payable-Public-Current	2113	3,517,861.57
Appropriated Capital Used	5700	2,734,525.55
Printing and Reproduction	6119	1,690,790.55
Other Services	6120	1,202,374.24
Accrued Expenditures-Paid-Direct Program	4931	1,114,603.32
Funds Disbursed	1012	1,032,760.87
Travel and Transportation of Persons	6116	361,664.55
Accrued Expenditures-Paid-Reimbursable	4941	281,928.34
Miscellaneous Reimbursements	5910	219,053.16
Supplies and Materials	6121	172,679.64
Personnel Compensation-Civilian	6111	169,031.71
Unfilled Customer Order without Advance- Specific Apportionment	4232	142,750.10
Transportation of Things	6117	138,806.49
Reimbursements Earned-Collected-Specific Apportionment	4254	73,611.08
Funds Collected	1011	73,611.08
Equipment (Not Capitalized)	6122	60,140.09
Personal Benefits-Civilian	6113	25,854.41
Customer Orders Accepted-Specific Apportionment	4222	14,162.54
Accrued Expenditures-Unpaid-Direct Program	4910	7,521.70
Rent, Communication and Utilities	6118	5,341.30
Total		\$74,896,688.74

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer

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

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

Other Defense Organizations

Director, Defense Finance and Accounting Service
Director, Washington Headquarters Services

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 Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member (cont'd)

House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform
House Subcommittee on Technology and Procurement Policy, Committee on Government Reform

Washington Headquarters Services Comments



DEPARTMENT OF DEFENSE
WASHINGTON HEADQUARTERS SERVICES
1155 DEFENSE PENTAGON
WASHINGTON, DC 20301-1155

Budget and Finance)

March 1, 2001

MEMORANDUM FOR DoD INSPECTOR GENERAL
DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE

SUBJECT: Financial Reporting at the Washington Headquarters Services
(Project No. D2000FA-0146.002)

The subject draft audit report has been reviewed and the following comments are provided per your request.

General Comments:

Page i, Results – The first sentence states that "..., none of which were explained in footnotes." This was not a requirement for the March 2000 submission, and DFAS-IN had not issued any detailed reporting requirements for the footnotes. Footnotes were prepared for all abnormal balances as of the 30 September 2000 reporting date per the guidance issued by DFAS-IN in August 2000. Suggest that "none of which were explained in footnotes" be eliminated as it suggests that something required was not done, when in fact it was not a requirement at that time, and no reporting guidance had been issued.

Page i, first bullet – The \$51.8 million in abnormal balances resulted from one transaction totaling \$12,950,000. This was a funding transaction for an "X" year appropriation that was not transferred to the new current year database established for fiscal year 2000. Since WAAS is a double entry accounting system that has both budgetary and proprietary accounts, this amount was proliferated four times to arrive at the referenced \$51.8 million. It is important to note that this abnormal balance was corrected before the meeting ended that discussed this particular entry, and that this one error represented 65% of the total dollar amount of abnormal balances for WHS.

Page ii, first bullet – Suggest this be reworded to "Expense adjustments incurred during the current reporting period for prior year appropriations incorrectly posted to the current year expense accounts rather than to the prior period adjustments account. This error caused \$5.6 million in abnormal balances".

Page 1, 3rd paragraph, 7th sentence – States that WAAS has not changed to the U.S. Government Standard General Ledger. Since WAAS is a legacy system, it is not required to convert to the U.S. Government Standard General Ledger. It is important to note that the type of general ledger system used would have no bearing on the presence of abnormal balances. This sentence is irrelevant to the issue and should be deleted.



Page 3, 2nd paragraph, 2nd sentence – Incorrectly states “Also, the WAAS did not provide the requisite query interfaces for accountants to effectively research” The WAAS has numerous query programs that are used to research and obtain detailed transactions that support the primary budgetary and proprietary accounts used in WAAS. Recommend deletion of this sentence.

Page 4, 1st paragraph – After the first sentence that defines an abnormal balance, it would be beneficial to acknowledge the existence of “legitimate” abnormal balances. It is possible that an abnormal balance does not require any corrective action since it is valid and supported by accounting transactions. These legitimate abnormal balances would need to be footnoted, but no corrective action would be required.

Responses to Recommendations:

Recommendation 1. Review all disbursement and accrual transactions that are not recorded with the same obligation data code, identify which transactions are entered properly, and correct the corresponding entries.

WHS Management Comments. Concur.

Estimated completion Date. September 30, 2001.

Recommendation 2. Modify the Washington Headquarters Services Allotment Accounting System as follows:

- a. Reconfigure the system to correctly post adjustments for prior periods to Prior Period Adjustments (general ledger account 7400), and
- b. Develop query interfaces for each general ledger account that can be used to research detailed transactions supporting account balances.

WHS Management Comments. Concur. However, suggest recommendation 2a be reworded to “Reconfigure the system to correctly post expense adjustments recorded in the current reporting period for prior year appropriations to general ledger account 7400 – Prior Period Adjustments.”

Estimated Completion Date. This has been completed for the WHS version of WAAS as of 30 September 00, and for the DFAS-IN version of WAAS as of 31 December 00. This also will be completed for the DISA and DoDEA versions of WAAS by 30 June 2001.

Recommendation 3. Revise the Washington Headquarters Allotment Accounting System User’s Manual as follows:

- a. Explain how accountants can research the details supporting account balances; and,

Revised

- b. Describe the types of data and formulas used to calculate account balances.

WHS Management Comments. Concur.

Estimated Completion Date. 31 December 2001.

Recommendation 4. Prepare formal procedures that:

- a. Define abnormal balances,
- b. Describe specific procedures to compare reported balances to chart of accounts required normal balances,
- c. Describe how to compare account balances for multiple reporting periods to identify unusual trends,
- d. Enumerate the sequential electronic steps to query the Washington Headquarters Allotment Accounting System to identify detailed transactions supporting account balances,
- e. Outline specific actions to take to correct deficiencies, and
- f. Describe how to prepare trial balance footnotes to explain abnormal balances reported on the trial balance.

WHS Management Comments. We concur with the intent of recommendation 4a, however we believe the substance of this recommendation is already addressed in recommendation 3a. Request that recommendation 4a be deleted.

Please call Mr. William Bader at 703-614-0971 with any questions.

We appreciate the opportunity to provide these comments.


Joe Friedl
Director

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Audit Team Members

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report. Personnel of the Office of the Inspector General, DoD, who contributed to the report are listed below.

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