

September 28, 2004



Financial Management

Army General Fund Controls Over Abnormal Balances For Field Accounting Activities (D-2004-118)

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Acronyms

DFAS	Defense Finance and Accounting Service
FMR	Financial Management Regulation
IG DoD	Inspector General of the Department of Defense



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September 28, 2004

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE
(COMPTROLLER/CHIEF FINANCIAL OFFICER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Report on Army General Fund Controls Over Abnormal Balances for Field
Accounting Activities (Report No. D-2004-118)

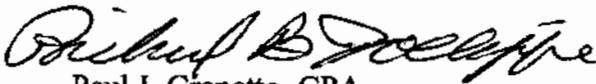
We are providing this report for review and comment. We considered management comments on a draft of this report in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Defense Finance and Accounting Service Center Indianapolis comments were partially responsive. We request that the Director, Defense Finance and Accounting Service Indianapolis Center provide additional comments on Recommendation 2.b(iii) by October 29, 2004.

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

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Marvin L. Peek at (703) 325-5777 (DSN 221-5777) or Mr. Jack A. Armstrong at (317) 510-3846 (DSN 699-3846). See Appendix C for the report distribution. The audit team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:


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

Office of the Inspector General of the Department of Defense

Report No. D-2004-118

September 28, 2004

(Project No. D2004FI-0121)

Army General Fund Controls Over Abnormal Balances for Field Accounting Activities

Executive Summary

Who Should Read This Report and Why? DoD and Army management responsible for promoting proper financial management and preparing financial statements should read this report. The report identifies a control weakness regarding abnormal balances in Army General Fund trial balance data, which led to material uncertainties in the First Quarter FY 2004 Army General Fund Financial Statements.

Background. The audit was performed in support of the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994. This report is a result of work performed in support of the audit of the Army General Fund Financial Statements.

The Defense Finance and Accounting Service (DFAS) Indianapolis provides finance and accounting support to the Army and Defense agencies. Support includes maintaining accounting records at the Department of the Army or Defense agency level (departmental accounting records). DFAS Indianapolis also prepares financial statements using general ledger trial balances and financial data on the status of appropriations submitted by DoD field accounting activities and other sources. A general ledger 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. For example, Accounts Receivable normally has a debit balance; therefore, a credit balance is an abnormal balance. An abnormal general ledger account balance is an accounting irregularity caused by the incorrect posting of transactions or by an operational issue such as over-obligation. Because amounts posted in general ledger accounts are used to prepare financial statements, an abnormal balance will cause financial statement misstatements.

Results. DFAS Indianapolis did not effectively detect, report, and correct abnormal balances in the Army General Fund accounting records. The First Quarter FY 2004 trial balance data for the Army General Fund included 236 general ledger accounts with \$884.4 billion of unresolved abnormal balances. The First Quarter FY 2004 Army General Fund Financial Statements did not disclose unresolved abnormal balances. As a result, the footnote disclosures in the First Quarter FY 2004 Army General Fund Financial Statements were inaccurate and misleading, and the financial statements are at risk for material misstatement. The errors causing abnormal balances may also be perpetuated in Defense Departmental Reporting System-Budgetary Module. The Under Secretary of Defense (Comptroller) should revise DoD Regulation 7000.14-R to require financial statement footnote disclosure of the amounts of unresolved abnormal balances. The Director of DFAS Indianapolis should require that the accounting activities identify and correct trial balance abnormal balances prior to the monthly submission of the trial balance data to DFAS Indianapolis and compile an Army General Fund Chart of

Accounts that identifies the normal balances of general ledger accounts. The Assistant Secretary of the Army (Financial Management and Comptroller) should require serviced Army activities to work with DFAS field accounting activities to identify, research, and correct abnormal balances in trial balance data. (See the Finding section of the report for the detailed recommendations.)

Management Comments and Audit Response. The Deputy Chief Financial Officer of DoD concurred and stated that her office will update the DoD Financial Management Regulation to require the disclosure of unresolved abnormal balances for all proprietary and budgetary general ledger accounts in the footnotes to the financial statements. The Director of DFAS Accounting Services–Army concurred with the recommendations and stated that procedures and guidance have been published to improve general reporting relative to material abnormal proprietary balances. The Director will also require field accounting activities to identify, research, and correct abnormal balances prior to submissions to the Departmental Accounting Directorate and will require field sites to provide explanations of abnormal proprietary balances material to the Army’s financial statements. Implementation of the recommendations will be directed at the business processes that are material to the Army’s financial statements and will exclude budgetary accounts. We consider the Director’s comments partially responsive. We request that the Director provide comments by October 29, 2004, on the researching of abnormal balances and on the procedures that will be implemented as part of the Defense Departmental Reporting System-Budgetary Module to detect and correct *all* abnormal balances (including abnormal balances in budgetary accounts.). The Assistant Secretary of the Army (Financial Management and Comptroller) concurred with the recommendation directed to the Army and stated that the Army’s serviced activities will continue to work with DFAS field accounting activities to correct abnormal balances. 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

We performed this audit in support of Public Law 101-576, the “Chief Financial Officers Act of 1990,” November 15, 1990, as amended by Public Law 103-356, the “Federal Financial Management Act of 1994,” October 13, 1994. The Inspector General of the Department of Defense (IG DoD) is required to audit the annual financial statements of the Department of Defense. This report is a result of work performed in support of the audit of the Army General Fund Financial Statements.

Army General Fund Financial Statements. The First Quarter FY 2004 Army General Fund Financial Statements consisted of the consolidated balance sheet, consolidated statements of net cost and changes in net position, combined statements of budgetary resources and financing, statement of custodial activity, and supporting footnotes. The First Quarter FY 2004 Army General Fund Financial Statements reported total assets of \$318.4 billion, total liabilities of \$59.7 billion, and budgetary resources of \$156.8 billion.

Defense Finance and Accounting Service, Indianapolis. The Defense Finance and Accounting Service (DFAS) Indianapolis provides finance and accounting support to the Army. Support includes maintaining accounting records at the Department of the Army level (departmental accounting records). DFAS Indianapolis also prepares financial statements using general ledger trial balances and financial data on the status of appropriations submitted by DoD field accounting activities and other sources.

Field Accounting Activities. Field accounting activities are responsible for recording, summarizing, verifying, and reporting accounting transactions submitted by serviced Army activities. The field accounting activities are responsible for submitting the monthly general ledger trial balance data (trial balance data) to DFAS Indianapolis.

General Ledger Accounts. A chart of accounts identifies the accounts used by field accounting systems. It includes the account number, account title, and the normal balance (debit or credit) for both proprietary and budgetary accounts. The field accounting systems use an aberration of the obsolete DoD account numbers and are not compliant with U.S. Government Standard General Ledger requirements. Proprietary accounts are used to track the balances of assets, liabilities, net position, revenues, and expenses. Budgetary accounts are used to track the effect of financial events on the sources and uses of budgetary resources, commonly referred to as budget execution.

Abnormal Balance Definition. A general ledger 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. For example, Accounts Receivable normally has a debit balance; therefore, a credit balance is an abnormal balance. An abnormal general ledger account balance is an accounting irregularity caused by the incorrect posting of transactions or by an

operational issue such as over-obligation. Because amounts posted in general ledger accounts are used to prepare financial statements, an abnormal balance will cause financial statement misstatements.

Abnormal Balance Reconciliation and Reporting Requirements. DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” (FMR), volume 6A, requires the research and resolution, if possible, of abnormal balances. The FMR, volume 6B, requires financial statement footnote disclosure of abnormal balances in accounts receivable due to the allocation of undistributed collections, abnormal balances that affect the Statement of Budgetary Resources, and all accounting entries to eliminate abnormal balances made at any level during the financial accounting and reporting process if: (a) the line item or account, which contains the abnormal balance is material to the financial statements, (b) the aggregate total of such entries made to all line items or accounts on an individual financial statements is material, (c) the DoD accounting site was unable to resolve the abnormal balance, or (d) the DoD accounting site was unable to determine that the potential impact of the abnormal balance would be immaterial.

DFAS Indianapolis Regulation 37-1, (Regulation 37-1) “Finance and Accounting Policy Implementation,” Chapter 27, March 2002, requires reconciling subsidiary records to the general ledger. These reconciliations should include researching differences and erroneous values, and correcting them promptly by processing transactions in the books of original entry. Abnormal balances or questionable account balances are to be reported to the serviced activity and assistance in resolving the abnormalities requested as appropriate.

Defense Departmental Reporting System-Budgetary Module. The Defense Departmental Reporting System-Budgetary Module (Budgetary Module) is designed to standardize the DoD departmental reporting process and produce the monthly departmental reports based on the United States Standard General Ledger and standard attributes. The Budgetary Module application is designed to replace the current legacy departmental budgetary reporting systems. Implementation of the Budgetary Module for the Army General Fund is scheduled for February 2005.

Objectives

The overall audit objective was to determine if DFAS Indianapolis had adequate controls for detecting and correcting abnormal balances reported by field accounting activities for Army General Fund accounts. We also evaluated the management control program as it related to the audit objective. See Appendix A for a discussion of the scope and methodology, our review of the management control program, and prior coverage related to the objectives.

Abnormal Balances

DFAS Indianapolis did not effectively detect, report, and correct abnormal balances included in the Army General Fund accounting records. The First Quarter FY 2004 trial balance data for the Army General Fund included 236 general ledger accounts with \$884.4 billion of unresolved abnormal balances. The First Quarter FY 2004 Army General Fund Financial Statements did not adequately disclose unresolved abnormal balances. These conditions occurred because DFAS Indianapolis procedures were not adequate to detect and correct abnormal balances. Specifically, DFAS Indianapolis personnel did not:

- require that field accounting activities review their trial balances for abnormal balances prior to submission to DFAS Indianapolis,
- review trial balances submitted by accounting activities and identify abnormal balances,
- notify the accounting activities of abnormal balances and require appropriate corrective action, and
- maintain a current Army General Fund chart of accounts that identifies the normal balances for general ledger accounts.

In addition, the FMR did not require sufficient financial statement disclosure of unresolved abnormal balances. As a result, the footnote disclosures in the First Quarter FY 2004 Army General Fund Financial Statements were inaccurate and misleading, and the financial statements are at risk for material misstatement. There is also the potential for the errors causing abnormal balances to be perpetuated in the Defense Departmental Reporting System-Budgetary Module (Budgetary Module).

Detecting, Reporting, and Correcting Abnormal Balances

Trial Balances with Abnormal Balances. We reviewed the First Quarter FY 2004 trial balance data submitted by field accounting activities. The trial balance data contained 420 general ledger accounts with recorded transactions. There were 236 (or 56 percent) of the 420 general ledger accounts with abnormal balances that were not effectively detected, reported, and corrected. The 236 general ledger accounts contained \$884.4 billion of abnormal balances. Of those accounts, 83 were budgetary accounts. These 83 general ledger accounts contained \$775.2 billion in abnormal balances. The remaining \$109.2 billion in abnormal balances was reported for 153 proprietary general ledger accounts. Of the 236 general ledger accounts with abnormal balances, six contained abnormal

balances exceeding \$10.0 billion, as shown in Table 1. Appendix B contains a complete list of the 236 general ledger accounts with abnormal balances in the First Quarter FY 2004 trial balance data.

Table 1. Abnormal Balances Exceeding \$10 Billion.		
Account	Title	Abnormal Balance Amount
456100	Unallotted Allocation-Direct Program-Current Period	\$ 376,248,475,582.44
445000	Authority Available for Apportionment	329,397,831,487.83
331800	Cumulative Results of Operations-Other Appropriations	55,651,083,800.87
453000	Allocation from Others	24,041,294,454.96
332800	Net Results of Operations-Other Appropriations	19,272,790,014.61
101500	Undistributed Disbursements	12,289,534,196.41

Abnormal Balances not only distort the Army General Fund financial statements, but also indicate internal control and operational deficiencies. The existence of abnormal balances may conceal instances of fraud. The following examples of abnormal balances indicate internal control and operational deficiencies:

- **Accounts Payable-Government-Current (211100).** This Accounts Payable account represents amounts owed to Federal agencies for goods and services received by the Army. The field accounting activities reported \$988.8 million in abnormal balances. Abnormal balances in Accounts Payable indicate disbursements in excess of accruals, or in the absence of disbursements, negative accruals. These can be caused by erroneous duplicate payments or erroneous accounting entries.
- **Appropriated Capital (310000).** This Appropriated Capital account represents amounts appropriated by Congress minus disbursements. The field accounting activities reported \$3.3 billion in abnormal balances. Abnormal balances in Appropriated Capital indicate that the Army General Fund has spent more funds than appropriated by Congress. This can be caused by improper classifications of transactions and it may indicate violations of the Antideficiency Act.
- **Uncommitted/Unobligated Allotment-Direct Authority-Current Period (461100).** The Uncommitted/Unobligated Allotment-Direct Authority-Current Period account represents the value of direct program obligation authority not yet committed or obligated. The field accounting activities reported \$3.6 billion in abnormal balances. Abnormal balances in the Uncommitted/Unobligated Allotment-Direct Authority-Current

Period account indicate that the Army General Fund has committed more funds than were allotted. This can be caused by erroneous accounting entries, and it may indicate violations of the Antideficiency Act.

- **Other Services-Nongovernment (612000).** This Other Services-Nongovernment account represents the cumulative fiscal year-to-date expenses for contracts that are not properly chargeable to another expense account. The field accounting activities reported \$1.5 billion in abnormal balances. Abnormal balances in Other Services-Nongovernment indicate the illogical situation of the Army General Fund using someone's services and the provider of those services is paying the Army General Fund to do so. Abnormal Balances in Other Services-Nongovernment can be caused by erroneous accounting entries.

Financial Statement Disclosure of Abnormal Balances. The First Quarter FY 2004 Army General Fund Financial Statements did not adequately disclose the existence of unresolved abnormal balances in the trial balance data. The only abnormal balance identified and explained in the First Quarter FY 2004 Army General Fund Financial Statements was an abnormal balance in the amount of \$1,751,000 that was reported as part of Other Liabilities. Note 1 of the First Quarter FY 2004 Army General Fund Financial Statements states, "The Army is unable to fully implement all elements of Federal Generally Accepted Accounting Principles and Office of Management and Budget Bulletin No. 01-09 due to limitations of its financial and non-financial management processes and systems." This disclosure is not sufficient to notify the reader of the extent of abnormal balances in the trial balance data, or of the financial statement lines and footnotes that those abnormal balances affect. Since the DFAS Indianapolis compilation procedures mask large numbers of abnormal balances, full disclosure is especially important.

DFAS Indianapolis Procedures

Abnormal balances should be researched and corrected so that DFAS Indianapolis can use the trial balance data reported by field accounting activities when compiling the Army General Fund financial statements. However, the procedures and processes that DFAS Indianapolis used to compile the Army General Fund Financial Statements concealed the presence of abnormal balances. DFAS Indianapolis personnel consolidated the trial balance data received from all field accounting activities at the appropriation level. The normal balance amounts reported in the trial balance data exceeded the abnormal balance amounts resulting in a net normal balance for 193 of the 236 general ledger accounts. DFAS Indianapolis used other compilation procedures to conceal the remaining 43 general ledger accounts that had a net abnormal balance.

The trial balance data reports budgetary account information; however, DFAS Indianapolis did not use the budgetary account information contained in the trial balance data to compile the financial statements. Instead, DFAS Indianapolis used budgetary status of appropriation data as the source of budgetary account information for the financial statements. In addition, the proprietary accounts in

the trial balance data are adjusted to match the budgetary status of appropriation data. Both the budgetary and proprietary account information contained in the trial balance data and the status of appropriation data come from the same source transactions at field accounting activities, and should be reconcilable. However, DFAS Indianapolis forces the general ledger data to agree with budgetary status of appropriation data without reconciling the differences or determining which data source is correct. DFAS Indianapolis should:

- require that field accounting activities review their trial balances for abnormal balances,
- review trial balances submitted by accounting activities and identify abnormal balances,
- notify the field accounting activities of abnormal balances and require corrective action, and
- maintain a current Army General Fund chart of accounts that identifies the normal balances for general ledger accounts.

Field Accounting Activity Standard Operating Procedures. We contacted 11 field accounting activities and obtained their standard operating procedures for reviewing the general ledger for abnormal balances prior to their monthly submission of the trial balance data to DFAS Indianapolis. We selected these particular field accounting activities because of the significant level of abnormal balances contained in their trial balance data. The First Quarter FY 2004 trial balance data submitted by these field accounting activities contained \$285.4 billion of abnormal balances. Only 1 of the 11 field accounting activities had procedures to review the trial balance data for abnormal balances prior to submission to DFAS Indianapolis. While most of the field accounting activities had standard operating procedures that stated that abnormal balances identified by DFAS Indianapolis should be researched, 10 of the 11 field accounting activities did not have standard operating procedures that took a proactive approach to identify and correct abnormal balances in the trial balance data prior to the submission to DFAS Indianapolis. Because the transactional accounting data underlying the abnormal balances is maintained at the serviced Army activities, their help is essential to identify, research, and correct abnormal balances. Field accounting activities should be required to review the trial balance data for abnormal balances prior to submitting it to DFAS Indianapolis; and serviced Army activities should be actively involved in identifying, researching, and correcting abnormal balances.

DFAS Indianapolis Trial Balance Review. DFAS Indianapolis did not adequately review trial balances submitted by field accounting activities for abnormal balances. DFAS Indianapolis used a FoxPro* database program to query for abnormal balances in the monthly trial balance data submitted by the accounting activities. This program was designed to search for abnormal balances in 125 general ledger accounts. However, we identified a design error in

* FoxPro is a Microsoft database management system.

the program that prevented the identification of abnormal balances in 15 general ledger accounts used to record liabilities. The First Quarter FY 2004 trial balance data contained \$2.3 billion in abnormal balances for 7 of the 15 of the unidentified general ledger accounts. Table 2 identifies the seven general ledger accounts and the abnormal balance amount in the First Quarter FY 2004 trial balance data.

Table 2. Abnormal Balances in Liability Accounts Excluded From DFAS Indianapolis Query		
Account	Title	Abnormal Balance in Trial Balance Data
221100	Accrued Payroll – Civilian	\$ 40,536,906.52
221200	Accrued Payroll-Military	1,874,690,465.38
221300	Accrued Payroll-Civilian-Employer Share-Fringe Benefits	16,145,298.83
221400	Accrued Payroll-Military-Employer Share-Fringe Benefits	155,444,653.83
222100	Accrued Annual Leave-Civilian-Unfunded	877,825.16
292000	Contingent Liabilities-Non Government-Unfunded-Non Current	231,363,440.00
299000	Other Liabilities	1,750,884.24
Total		\$ 2,320,809,473.96

The FoxPro query only checked trial balance data for abnormal balances in 110 general ledger accounts. Only 65 of the 110 general ledger accounts checked by the FoxPro query appeared among the 420 general ledger accounts. DFAS Indianapolis did not check for abnormal balances reported for 355 general ledger accounts contained in the First Quarter FY 2004 trial balance data. In order to adequately check the monthly trial balance data submitted by accounting activities, the FoxPro query should check for abnormal balances in all of the accounts used in Army General Fund trial balance submissions.

Notifying Accounting Activities of Abnormal Balances. DFAS Indianapolis personnel stated that the responsibility for notifying accounting activities that their trial balance data contained abnormal balances was divided among four personnel. Each of the personnel was to review the abnormal balances identified by the FoxPro query, identify abnormal balances submitted by the accounting activities they were responsible for, and notify the responsible accounting activities that their trial balance data contained abnormal balances. We determined that for the First Quarter FY 2004 trial balance data, all four DFAS Indianapolis personnel should have sent out notifications of abnormal balances to the accounting activities. However, we were only able to verify that one of the four DFAS Indianapolis personnel sent notification to the accounting activities.

The notification should have identified 142 abnormal balances requiring resolution; however, only 111 abnormal balances were forwarded to the accounting activities for correction. In addition, while DFAS Indianapolis requested that accounting activities take corrective action, DFAS Indianapolis did not request that the accounting activities notify DFAS Indianapolis of the corrective action taken.

DFAS Indianapolis should not accept accounting activity trial balance data that contain abnormal balances. Preparing financial statements based on trial balance data that contain abnormal balances places the financial statements at risk for material misstatement. DFAS Indianapolis should notify accounting activities of abnormal balances in their trial balance data, request the accounting activities to research and take the appropriate corrective action, and require that the accounting activity notify DFAS Indianapolis of the corrective action taken or of the inability of the accounting activity to reconcile the abnormal balance.

Army General Fund Chart of Accounts. DFAS Indianapolis did not have a chart of accounts that identified the account code, account title, and normal balance for the general ledger accounts used for the Army General Fund. DFAS Indianapolis personnel were able to provide an archived section of Regulation 37-1 that contained the DoD chart of accounts. However, this DoD chart of accounts was not contained in the current version of Regulation 37-1. We were unable to use Regulation 37-1 to identify all of the account titles and normal balances of the accounts contained in the First Quarter FY 2004 trial balance data. A current chart of accounts that identifies the normal balances of the general ledger accounts is necessary for DFAS Indianapolis to determine if the accounting activities are submitting trial balances with abnormal balances. As additional general ledger accounts are defined and used for the Army General Fund, the Army General Fund chart of accounts should be updated to reflect the use and to identify the normal balance for those accounts.

Abnormal Balance Disclosure Requirements

Although the FMR requires the financial statement footnote disclosure of certain accounting entries to eliminate abnormal balances, it does not require the footnote disclosure of unresolved abnormal balances that are not eliminated by an accounting entry. As part of the Army General Fund Financial Statement compilation process, the Army General Fund trial balance data submitted by the accounting activities are consolidated at the appropriation level. Unresolved abnormal balances can “disappear” simply by the process of combining smaller abnormal balances reported for a general ledger account with larger normal balances reported for the same general ledger account. However, this “disappearance” does not mean that the abnormal balances were resolved. Federal Accounting Standards Advisory Board Statement of Federal Financial Accounting Concepts No. 1, states that financial reporting should be reliable; that is, the information presented should be verifiable and free from bias and should accurately report what it purports to represent. To be reliable, financial reporting needs to be comprehensive. Nothing material should be omitted from the information necessary to accurately report the underlying events and conditions.

In order for the Army General Fund Financial Statements to be reliable and accurately report what they purport to represent, the FMR should require the financial statement disclosure of unresolved abnormal balances appearing in the trial balance data, regardless of whether an actual accounting entry was done to eliminate the abnormal balance or if the abnormal balance simply “disappeared” as the result of the Army General Fund Financial Statement compilation process.

Conclusion

There is the potential for errors causing abnormal balances to be perpetuated in the Budgetary Module when it is implemented. Existing Army General Fund finance and accounting systems will act as feeder systems to the Budgetary Module and will provide trial balance data. If DFAS procedures to report, detect, and correct abnormal balances in the Army General Fund trial balance data are not improved, trial balance data with abnormal balances could be provided to the Budgetary Module, which could render the Army General Fund Financial Statements unable to earn an unqualified audit opinion.

Recommendations, Management Comments, and Audit Response.

1. We recommend that the Under Secretary of Defense (Comptroller) revise DoD Financial Management Regulation, DoD Regulation 7000.14-R to require the disclosure of the amounts of unresolved abnormal balances for all financial statement lines impacted in the Notes to the Principal Statements.

Management Comments. The Deputy Chief Financial Officer in the Office of the Under Secretary of Defense (Comptroller/Chief Financial Officer) concurred, stating that her office will update the DoD Financial Management Regulation to require the disclosure of unresolved abnormal balances for all proprietary and budgetary general ledger accounts in the footnotes to the financial statements. The estimated completion date is September 30, 2004. The Under Secretary will also require the Army to include unresolved abnormal balances in field accounting data in the Army Mid-Range Improvement Plan as a financial statement deficiency requiring correction.

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

a. Update the Foxpro query used to detect abnormal balances so that it will check all general ledger accounts used by the Army General Fund.

Management Comments. The Director of DFAS Accounting Services–Army concurred, stating DFAS has taken action to update the program. The estimated completion date is October 31, 2004.

b. Update DFAS Indianapolis Regulation 37-1, “Finance and Accounting Policy Implementation,” to establish and implement detailed procedures that require field accounting activities to identify and correct abnormal balances, review the monthly trial balances submitted for Army General Fund, and notify accounting offices of abnormal balances.

(i) Require that field accounting activities work with serviced Army activities to identify, research, and correct abnormal balances in trial balance data prior to the monthly submission of the trial balance data to DFAS Indianapolis.

Management Comments. The Director of DFAS Accounting Services–Army concurred with requiring field activities to identify, research, and correct abnormal balances prior to submissions to the Departmental Accounting Directorate. The estimated completion date is October 31, 2004.

(ii) Use the updated query to check the accounting activities’ monthly trial balances for abnormal balances.

Management Comments. The Director of DFAS Accounting Services–Army stated that DFAS concurs with the IG DoD finding related to the Foxpro abnormal balance query and has taken action to update the program. The estimated completion date is October 31, 2004.

(iii) Notify the accounting activities of abnormal balances contained in their monthly trial balances and require explanations of the corrective actions taken by accounting activities to resolve the abnormal balances.

Management Comments. The Director of DFAS Accounting Services–Army stated that DFAS will only require field accounting sites to provide explanations of abnormal proprietary balances material to the Army’s financial statements. Abnormal balances related to budgetary accounts included on the general ledgers of field activities will be excluded from review because DFAS does not use that information to support the financial statements. Instead, DFAS uses information from budgetary status reports. Approximately 88 percent of the abnormal balances identified in the report relate to budgetary accounts.

Audit Response. The Director’s comments are partially responsive to the recommendation. DFAS Indianapolis Regulation 37-1, “Finance and Accounting Policy Implementation,” was updated in July 2004 to require DFAS Indianapolis to notify accounting activities of targeted abnormal proprietary balances contained in their monthly trial balances and require explanations of the corrective actions taken. Accounting activities are required to submit an explanation to DFAS Indianapolis of the corrective actions taken to resolve abnormal proprietary balances targeted by DFAS Indianapolis as material to the Army’s financial statements.

DFAS Indianapolis is directing its recommendation implementation efforts at abnormal proprietary balances material to the Army’s financial statements. Both the budgetary and proprietary account information contained in the trial balance

data and the status of appropriation data come from the same source transactions at field accounting activities, and should be reconcilable. However, DFAS Indianapolis forces the general ledger data to agree with budgetary status of appropriation data without reconciling the differences or determining which data source is correct. Also, the Budgetary Module will use trial balance data to prepare FY 2005 reports for the Army. Therefore, it is imperative that the problems causing all abnormal balances are corrected. In addition, the size of the abnormal balance does not identify whether the abnormal balance is being caused by an error that is overstating or understating the general ledger account balance by a material amount. Identifying and researching all abnormal balances is required in order to determine if an abnormal balance caused a material misstatement to an account. We request that the Director of DFAS Accounting Services–Army provide additional comments on whether all abnormal balances will be identified and researched in order to determine if they are material to the Army statements. In addition, the comments should address whether the abnormal balances in aggregate cause a material misstatement.

The DFAS Indianapolis Budget Execution Reports Division, an area separate from Army Audited Financial Statements Division, is performing abnormal balance reviews of the budgetary account balances used for the Army General Fund financial statements. This process will continue until implementation of the Budgetary Module, which is scheduled to occur after the start of calendar year 2005. Once the Budgetary Module is implemented, different controls from those currently used will be required to detect abnormal balances in the budgetary accounts used for the Army General Fund. The Audited Financial Statements and Budget Execution Reports Divisions should coordinate and ensure that the problems causing abnormal balances are corrected prior to the implementation of the Budgetary Module. Otherwise, the Budgetary Module will receive incorrect data. We request that DFAS Indianapolis provide additional comments that specifically identify (1) the procedures that will be implemented as part of the Budgetary Module to detect and correct abnormal balances, (2) the specific organization responsible for implementation of the abnormal balance detection and correction procedures, and (3) the completion date of the corrective action.

(iv) Compile, and update as necessary, an Army General Fund Chart of Accounts that identifies the normal balances of the general ledger accounts currently used for the Army General Fund.

Management Comments. The Director of DFAS Accounting Services–Army stated that DFAS has published the chart of accounts used by the various field-level systems in DFAS Indianapolis Regulation 37-1. The chart of accounts was published July 2004.

3. We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) require serviced Army activities to work with DFAS field accounting activities to identify, research, and correct abnormal balances in trial balance data.

Management Comments. The Assistant Secretary of the Army (Financial Management and Comptroller) concurred and stated that the Army’s serviced activities will continue to work with DFAS field accounting activities to correct

abnormal balances. The Assistant Secretary of the Army (Financial Management and Comptroller) stated that the Joint Reconciliation Process will continue to emphasize the identification and correction of all abnormal balances.

Appendix A. Scope and Methodology

We reviewed the DFAS Indianapolis processes for detecting, reporting, and correcting abnormal balances contained in the Army General Fund trial balance data. Our review included analyzing standard operating procedures used by field accounting activities and interviews with DFAS Indianapolis personnel to obtain an understanding of the abnormal balance detection and correction process. We reviewed the adequacy of the DFAS Indianapolis Foxpro program used to detect abnormal balances. We also reviewed DoD guidance on financial statement disclosure of abnormal balances. We examined the First Quarter, FY 2004 Army General Fund trial balance data and compared the amounts it reported to the normal balances of general ledger accounts used for the Army General Fund. There were 420 general ledger accounts with recorded transactions in the trial balance data. We determined the normal balances for Army General Fund general ledger accounts through review of DoD general ledger guidance and through discussions with DFAS Indianapolis personnel.

We performed this audit from March 2004 through May 2004 in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data. We used reports generated by accounting systems within DFAS Indianapolis and DFAS field accounting activities to perform this audit. We did not review the accounting systems used by DFAS Indianapolis and DFAS field accounting activities to prepare the Army General Fund trial balance data. Our review of DFAS Indianapolis controls over abnormal balances in the trial balance data casts doubts over the data's validity. However, the lack of reliable trial balance information did not adversely affect our analysis.

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

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 DFAS Indianapolis management controls over abnormal balances in the Army General Fund trial balance data. We also reviewed the adequacy of management's self-evaluation of those controls.

Adequacy of Management Controls. We identified a material management control weakness for DFAS Indianapolis, as defined by DoD Instruction 5010.40.

DFAS Indianapolis management controls were not effective to detect, correct, and report abnormal balances in the Army General Fund trial balance data. Recommendations 1, 2.a., 2.b, and 3, if implemented, will correct the identified weakness. A copy of the report will be provided to the senior official responsible for management controls in DFAS Indianapolis.

Adequacy of Management’s Self-Evaluation. DFAS Indianapolis officials identified the correction of abnormal balances in a timely manner as part of an assessable unit. However, the DFAS Indianapolis self-evaluation was not effective in identifying the management control weakness addressed by the audit.

Prior Coverage

During the last 5 years, the Inspector General of the Department of Defense (IG DoD) and the U.S. Army Audit Agency have issued two reports related to Army General Fund abnormal balances.

IG DoD

IG DoD Report No. D-2001-180, “Financial Information Compiled by DoD Field Accounting Sites,” September 13, 2001.

U.S. Army Audit Agency

U.S. Army Audit Agency Audit Report AA 01-329, “Army’s General Fund Principal Financial Statements for Fiscal Year 2000: Adjustments to Financial Information at Defense Finance and Accounting Service-St. Louis,” June 29, 2001.

Appendix B. Abnormal Balances

The First Quarter FY 2004 trial balance data for the Army General Fund included the following 236 general ledger accounts with \$884.4 billion of abnormal balances.

Account Number*	Account Title	Amount (\$)
101011	Funds Collected	40,110,532.67
101014	Funds Collected-Advances Received	51,533,504.71
101021	Funds Disbursed	3,742,477.11
101031	Funds With Treasury	7,409,985.04
101034	Fund Balance With Treasury-Advances Received	152,989.90
101041	Undistributed Collections	27,059,993.57
101042	Operating-Disbursed-By Others	6,491.34
101048	Operating-Disbursed-Payroll	8,795.19
101051	Undistributed Disbursements	38,873,424.21
101100	Funds Collected	2,368,154,532.16
101200	Funds Disbursed	2,963,359,262.75
101300	Funds With Treasury	3,008,000,282.58
101400	Undistributed Collections	373,708,163.06
101500	Undistributed Disbursements	12,289,534,196.41
120000	Foreign Currency	3,465,493.64
131013	Accounts Receivable-Non Corps-Other-DoD-Current	587,443.69
131014	Accounts Receivable-Government Non-DoD-Current	60,035.84
131035	Accounts Receivable-Public-Current	90,579.79
131051	Work in Process-Intra-District	4,732,703.19
131052	Work in Process-Other-Corps	233,322.57
131053	Work in Process-Non Corps-Other-DoD	7,285,924.86
131054	Work in Process-Government Non-DoD-Current	1,002,015.91
131055	Work in Process-Public	53,600.24
131100	Accounts Receivable-Government-Current	13,448,050.26
131300	Accounts Receivable-Public-Current	28,463,279.06
131500	Refunds Receivable-Government	138,727.66

*The Headquarters Accounting and Reporting System uses six place account numbers that are an aberration of the obsolete DoD chart of accounts.

Account Number	Account Title	Amount (\$)
131600	Refunds Receivable-Public	263,755.34
131920	Allowance for Loss on Accounts Receivable-Public	138.00
141100	Travel Advances	1,539,329.37
141200	Advances to Contractors and Suppliers	5,333,483.06
141400	Advances-All Others-Public	93,467,856.80
145300	Progress Payments Made to Others	42,399,822.51
152130	Inventory Held for Sale-On Hand	70,939.39
158200	Work In Process-Contractor	15,566,189.94
172010	Construction in Process-In House	247,489.04
172012	Construction in Process-Contractor	2,452,499.26
172200	Construction in Process-Contractor	41,956,414.00
175010	Equipment in Use	4,543,103.99
176300	Equipment with Contractors, Testing Agencies, Defense Industrial Facilities	1,388,503.00
177000	Equipment in Transit	1,422,696.00
211012	Accounts Payable-Other-Corps-Current	2,010.39
211013	Accounts Payable-Non Corps-Other DoD-Current	14,691.00
211030	Accounts Payable-Public-Current	5,060.00
211035	Accounts Payable-Public-Current	27,875.03
211090	Accounts Payable-Receipt Accrual	13,496,922.40
211100	Accounts Payable-Government-Current	988,833,978.49
211200	Accounts Payable-Government-Noncurrent	44.48
211300	Accounts Payable-Public-Current	87,626,351.86
213000	Contract Holdback-Nongovernment-Funded	1,876,550.29
221012	Accrued Incentive Awards	125.52
221100	Accrued Payroll-Civilian	40,536,906.52
221200	Accrued Payroll-Military	1,874,690,465.38
221300	Accrued Payroll-Civilian-Employer Share-Fringe Benefits	16,145,298.83
221400	Accrued Payroll-Military-Employer Share-Fringe Benefits	155,444,653.83
222100	Accrued Annual Leave-Civilian-Unfunded	877,825.16
231012	Unearned Revenue-Advances-Other Corps	52,587.70
231013	Unearned Revenue-Advances-Non Corps-Other-DoD	723,114.78

Account Number	Account Title	Amount (\$)
231014	Unearned Revenue-Advances-Government-Non DoD	607,878.48
231035	Unearned Revenue Advances-Public	558,943.73
231100	Unearned Revenue-Advances from Government Agencies and Funds	5,631,605.03
231200	Unearned Revenue-Advances from the Public	82,895.81
240011	Deposit Fund, Clearing Accounts-Liabilities	12,755,283.58
241100	Deposit Fund Liabilities	326,112,372.82
292000	Contingent Liabilities-Non Government-Unfunded-Non Current	231,363,440.00
296001	Account Payable Canceled-Nongovernment-Unfunded	5,378,797.45
296011	Account Payable Canceled-Government-Unfunded	276,636.26
298024	Collected Custodial Liability-Government-Non DoD	8,000.00
298025	Collected Custodial Liability-Public	78,101.78
299000	Other Liabilities	1,750,884.24
310000	Appropriated Capital	3,308,602,104.28
310005	Appropriated Capital Funding Canceled Payable	82,092.30
310100	Unexpended Appropriations-Appropriations Received	70,780,026.87
310700	Unexpended Appropriations Used	581,418,111.56
321300	Capital Investments-Special Defense Acquisition Trust Fund	38,247,789.47
322000	Transfers-In from Others Without Reimbursement	209,290,530.98
323100	Transfers-Out to Government Agencies Without Reimbursement	575,831,274.65
323200	Transfers-Out to All Others Without Reimbursement	79,827,045.00
331000	Cumulative Results of Operations	727,099,640.01
331010	Cumulative Results of Operations-Capital Investments	86,794,113.44
331020	Cumulative Results of Operations-Non Capital Investments	19,301,915.90
331040	Cumulative Results of Operations-Revolving Fund Unexpended	.02
331200	Cumulative Results of Operations-Other Revolving Funds	48,401,000.00

Account Number	Account Title	Amount (\$)
331300	Cumulative Results of Operations-Special Defense Acquisitions Trust Fund	32,842.50
331800	Cumulative Results of Operations-Other Appropriations	55,651,083,800.87
332300	Net Results of Operations-Special Defense Acquisition Trust Funds	354,538.51
332800	Net Results of Operations-Other Appropriations	19,272,790,014.61
350100	Future Funding Requirements	231,363,440.00
361000	Uncollected Revenue-General Fund-Miscellaneous Receipts	2,627,638.69
362000	Funds Returned to General Fund-Miscellaneous Receipts	552,239.65
420100	Total Actual Resources-Collected	172,764.00
421010	Customer Orders Accepted-Automatic Apportionment	8,397,335,402.47
421020	Customer Orders Accepted-Specific Apportionment	32,828,109.78
422100	Customer Orders Accepted-Automatic Apportionment	10,401,845.44
422200	Customer Orders Accepted-Specific Apportionment-Funded	643,160.12
422210	Unfilled Customer Orders with Advance-Automatic	1,303,411.44
423100	Unfilled Customer Orders-Without Advance-Automatic Apportionment	56,936,481.80
423200	Unfilled Customer Orders-Without Advance-Specific Apportionment-Funded	5,849,998.53
423300	Unfilled Customer Orders-With Advance-Automatic Apportionment	27,425.61
423400	Unfilled Customer Orders-With Advance-Specific Apportionment-Funded	17,035.33
425100	Reimbursements Earned-Uncollected-Automatic Apportionment	14,000,124.84
425110	Reimbursements and Other Income Earned-Receiveable-Uncollected-Automatic	1,225,782.61
425120	Reimbursements and Other Income Earned-Receiveable-Uncollected-Specific	15,653.40
425200	Reimbursements Earned-Uncollected-Specific Apportionment-Funded	24,318,114.33
425210	Reimbursements and Other Income Earned-Collected-Automatic	424,287.70

Account Number	Account Title	Amount (\$)
425300	Reimbursements Earned-Collected-Automatic Apportionment	16,331,991.08
425400	Reimbursements Earned-Collected-Specific Apportionment-Funded	2,543,482.32
431010	Anticipated Recoveries of Prior Year Obligations-Direct	21,053,593.17
431020	Anticipated Recoveries of Prior Year Obligations-Reimbursable Program	1,426,084.71
432100	Actual Recoveries of Prior Year Obligation-Direct	655,864,837.05
432200	Actual Recoveries of Prior Year Obligation-Reimbursable	32,618.54
433000	Funds Generated from Recoveries/Deobligations of Prior Year Funds	5,420,577,972.18
444000	Revolving Funds Available for Apportionment	2,142,750,124.00
445000	Authority Available for Apportionment	329,397,831,487.83
451000	Apportionments	1,000.00
451100	Unallocated Apportionment-Direct Authority-Current Period	529,424,957.57
451200	Unallocated Apportionment-Direct Authority-Subsequent Period	14,635,000.00
451700	Unallocated Apportionment-Reserve for Other Anticipated Resources	8,179,491,331.00
453000	Allocation From Others	24,041,294,454.96
454100	Allocations Issued-Direct Authority-Current Period	84.77
455000	Internal Fund Distributions Received	6,424,182.19
456100	Unallotted Allocation-Direct Program-Current Period	376,248,475,582.44
456200	Unallotted Allocation-Direct Program-Subsequent Period	1,636,220,702.92
456300	Unallotted Allocation-Reimbursable Program-Current Period	4,523,149,293.02
457100	Allotments Issued-Direct Program-Current Period	169,605,631.90
457300	Allotments Issued-Reimbursable Program-Current Period	91,800.58
458010	Allotted Direct Authority-Current Period	2,251,104,144.02
458100	Automatic Reimbursement Authority	20,954,506.03

Account Number	Account Title	Amount (\$)
459100	Allotted Reimbursable Program-Current Period	2,354,393,304.12
459200	Allotted Reimbursable Program-Subsequent Period	12,435.66
461000	Allotments-Realized Resources	1,640.57
461010	Allotments-Realized Resources-Direct-Current Period	13,418,791.54
461019	Allotment-Realized Resources-Direct-One Percent-Current	98,245.86
461040	Allotments-Realized Resources-Reimbursable-Current Period	16,663,829.94
461100	Uncommitted/Unobligated Allotment-Direct Authority-Current Period	3,627,977,620.46
461200	Uncommitted/Unobligated Allotment-Direct Authority-Subsequent Period	6,097,794.03
461400	Uncommitted/Unobligated Allotment-Reimbursable-Current Period	26,619,651.03
462021	Unobligated Funds Not Subject To Apportionment-Reimbursable-Automatic	6,101,512.85
462100	Program Annual Anticipated Rest of Year-Automatic	13,818,203.08
463200	Funded Reimbursement Authority Reserved for Receipt of Orders	54,037.80
465010	Allotments-Expired Authority-Direct	111,486.97
470000	Commitments	184,056.74
471000	Commitments Outstanding-Direct	5,633,700.46
472000	Commitments Outstanding-Reimbursable	5,501.48
480110	Undelivered Orders-Unpaid-Reimbursable	332,477,648.26
480119	Unexpended Obligations-Unpaid-Direct-One Percent	17,525.36
480120	Undelivered Orders-Unpaid-Direct-Category A	35,081,415.84
480121	Unexpended Obligations-Unpaid-Reimbursable-Without Advance	27.93
480122	Unexpended Obligations-Unpaid-Reimbursable-With Advance	14,070,658.19
480210	Undelivered Orders-Paid-Reimbursable	1,829,442,654.66
480220	Undelivered Orders-Paid-Direct-Category A	64,886.71
481100	Undelivered Orders without Advance-Direct Program	55,552,557.20

Account Number	Account Title	Amount (\$)
481200	Undelivered Orders with Advance-Direct Program	1,391.25
482100	Undelivered Orders without Advance-Reimbursable Program	141,831.10
482200	Undelivered Orders with Advance-Reimbursable Program	13,940.15
487100	Downward Adjustments of Prior-Year Unpaid Unexpended Obligations	12,435.66
490100	Expended Authority-Unpaid-Direct-Not Subject to Apportionment	491.00
490110	Expended Authority-Unpaid-Reimbursable	5,401,384.55
490111	Expended Authority-Unpaid-Direct Basic	20,971.44
490120	Expended Authority-Unpaid-Category A	867,437.18
490121	Expended Authority-Unpaid-Reimbursable	1,717,615.21
490210	Expended Authority-Paid-Reimbursable	4,563.21
490211	Expended Authority-Paid-Direct-Basic	924,878.82
490220	Expended Authority-Paid-Direct-Category A	87,304.52
490230	Expended Authority-Paid-Direct-Category B	254.04
490231	Expended Authority-Paid-Reimbursable	17,861.27
491000	Accrued Expenditures-Unpaid-Direct	2,772,382,444.79
492000	Accrued Expenditures-Unpaid-Reimbursable	11,681,168.73
492100	Accrued Expenditures-Unpaid-Reimbursable	6,738,833.28
493100	Accrued Expenditures-Paid-Direct	164,184,941.24
493200	Accrued Expenditures-Paid-Refunds Due-Direct	34,818.02
494100	Accrued Expenditures-Paid-Reimbursable	47,591,421.65
494200	Accrued Expenditures-Paid-Refunds Due-Reimbursable	731.38
510010	Revenue for Goods Sold-Public	3,706,172.12
510020	Revenue From Goods Sold-Intragovernmental	8,630,586.33
510035	Revenue From Goods Sold-Public	198.21
510042	Revenue From Goods Sold-Other Corps	19,878.40
510043	Revenue From Goods Sold-Non Corps-Other DoD	73,403.42
520010	Revenue From Services Provided-Public	1,171,317.89
520020	Revenue From Services Provided-Intragovernmental	3,861,746.64
520035	Revenue From Services Provided-Public	378.56
520041	Revenue From Services Provided-Intra District	488.51

Account Number	Account Title	Amount (\$)
520042	Revenue From Services Provided-Other Corps	46,794.96
520043	Revenue From Services Provided-Non Corps-Other DoD	43,355.57
520044	Revenue From Services Provided-Government Non DoD	59,184.20
531035	Interest Revenue-Public	13,559.84
532035	Penalties, Fines, & Administrative Fees Revenue	10,649.16
570000	Appropriated Capital Used	627,023,451.81
570010	Expended Appropriations Used	14,130,867.95
572012	Transfers-In Without Reimbursement-Other Corps	95,402.50
573013	Transfers-Out Without Reimbursement-Non Corps-Other DoD	1,656,190.65
590035	Other Revenue-Public	77,281.05
590044	Other Revenue-Government-Non DoD	6,980.00
590910	Contra Revenue for Other Revenue-Government-Exchange	391,845.08
599035	Collections For Others-Public	78,101.78
599044	Collections For Others-Government-Non DoD	8,000.00
599135	Accrued Collections For Others-Public	21,990.49
599144	Accrued Collections For Others-Government-Non DoD	22,200.00
610000	Operating Expenses/Program Costs	477,541.18
610011	Personnel Compensation-Civilian	558,491.08
610015	Annual Leave	56,294.77
610017	Applied Overhead	341,167.15
610021	Travel and Transportation of Persons	24,729.56
610022	Transportation of Things	17,889.47
610023	Rent, Communications and Utilities	93,343.15
610024	Printing and Reproduction	1,682.49
610031	Supplies and Materials	41,424,039.37
610032	Equipment (Not Capitalized)	436.60
610050	Other Services	3,652.18
610051	Other Services-Intra District	3,632,341.74
610052	Other Services-Other Corps	172,378.07
610053	Other Services-Non Corps-Other DoD	1,048,438.60
610054	Other Services-Government Non DoD	3,752,963.95
610055	Other Services-Public	51,019.05

Account Number	Account Title	Amount (\$)
610060	Cost of Goods Sold-Public	521.45
610072	Cost of Goods Sold-Customer Orders-DoD	82,365.28
610082	Cost of Goods Sold-Customer Orders-Government-Non DoD	59,184.20
611100	Personnel Compensation-Civilian	84,903,237.88
611200	Personnel Compensation-Military	49,700,324.76
611300	Personnel Benefits-Civilian	5,879,106.39
611400	Personnel Benefits-Military	532,173.20
611500	Benefits for Former Personnel	804,357.37
611600	Travel and Transportation of Persons	31,234,020.11
611700	Transportation of Things	4,731,940.07
611800	Rent, Communications and Utilities	9,710,521.01
611900	Printing and Reproduction	1,167,642.08
612000	Other Services-Nongovernment	1,475,841,616.93
612100	Supplies and Materials	598,159,853.88
612200	Equipment (Not Capitalized)	13,663,697.38
612400	Insurance, Claims and Indemnities	6,314.00
613000	Annual Leave	35,493,270.43
633000	Other Interest Expenses	17,194.22
640051	Personnel Benefits-Civilian	96,133.80
650010	Cost of Goods Sold-Public	10,214,051.78
650020	Cost of Goods Sold-Intragovernmental	33,117,127.02
672001	Bad Debt Expense Related to Uncollectible Non Credit Reform Receivables-Non Government	138.00
719100	Inventory Gains	38,217,510.99
Total		884,392,256,589.93

Appendix C. Report Distribution

Office of the Secretary of Defense

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

Department of the Army

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

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Finance and Accounting Service
Director, Defense Finance and Accounting Service Indianapolis

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
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform

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

House Subcommittee on National Security, Emerging Threats, and International
Relations, Committee on Government Reform

House Subcommittee on Technology, Information Policy, Intergovernmental Relations,
and the Census, Committee on Government Reform

Under Secretary of Defense (Comptroller) Comments



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCIAL AUDITING SERVICE,
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT
OF DEFENSE

SUBJECT: Report on Army General Fund Controls Over Abnormal Balances for Field
Accounting Activities (Project No. D2004FI-0121)

This is in response to your memorandum of May 28, 2004, forwarding the subject proposed draft audit report to this office for review and comment. Abnormal balances may be the result of an error in recording a transaction; however, in the case of an abnormal balance in the availability of funds, an Antideficiency Act violation may have occurred. In that case, an abnormal balance is justified and represents the proper posting of a transaction.

This office concurs with Recommendation 1 to require the disclosure of unresolved abnormal balances for all financial statement lines impacted in the Notes to the Principal Statements. I have directed the Assistant Secretary of the Army (Financial Management and Comptroller) to include "unresolved abnormal balances in field accounting data" as a financial statement deficiency requiring correction in the Army Mid-Range Improvement Plan. Detailed comments are at the Attachment.

My point of contact is Mr. Oscar G. Covell. He may be reached by e-mail: oscar.covell@osd.mil or by telephone at (703) 697-6149.

A handwritten signature in cursive script that reads "JoAnn Boutelle".

JoAnn Boutelle
Deputy Chief Financial Officer

Attachment:
As stated

cc:
Director, DFAS

**Inspector General Department of Defense (IG, DOD)
Draft Report Dated May 28, 2004; (Project No. D-2004FI-0121)
“Army General Fund Controls Over Abnormal Balances for Field Accounting Activities”**

Department of Defense (DoD) Comments

Recommendation A.1. We recommend that the Under Secretary of Defense (Comptroller) revise DoD Financial Management Regulation, DoD Regulation 7000.14-R to require the disclosure of the amounts of unresolved abnormal balances for all financial statement lines impacted in the Notes to the Principal Statements.

DoD Response. Concur. The Department will update the DoD Financial Management Regulation to require the disclosure of unresolved abnormal balances for all proprietary and budgetary general ledger accounts in the footnotes to the financial statements. Estimated completion date is September 30, 2004. In addition, the Department has directed the Assistant Secretary of the Army (Financial Management and Comptroller) to include “unresolved abnormal balances in field accounting data” as a financial statement deficiency requiring correction in the Army Mid-Range Improvement Plan.

Additional Comments on the Draft Audit Report

1. Under "Background" on page 1, the paragraph identified as “General Ledger Accounts” states that the Army field accounting systems use the obsolete DoD six place account numbers. The DoD general ledger accounts had only 4 digits. For example, the general ledger account for Undistributed Disbursements was 1015, not 101500 and 101051 as shown on Appendix B Abnormal Balances. Funds With Treasury was 1013, not 1013 and 101031. The chart of accounts in Appendix B appears to be an aberration of the obsolete DoD Chart of Accounts.

Attachment

Defense Finance and Accounting Service Center Indianapolis Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE
INDIANAPOLIS CENTER
INDIANAPOLIS, IN 46249

JUL 21 2004

DFAS-ADIC/TN

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Report on Army General Fund Controls Over Abnormal Balances for Field Accounting Activities (Project No. D2004FI-0121)

Accounting Services, Army is providing management comments to DoD Audit Project No. D2004FI-0121, recommendations 2a and 2b, directed to DFAS-Indianapolis. Recommendation 1 is directed to the Under Secretary of Defense (Comptroller), requesting revision of the DoD FMR Regulation 7000.14-R. Recommendation 3 is directed to the Assistant Secretary of the Army (Financial Management and Comptroller) requiring serviced Army activities to work with DFAS field accounting activities to correct abnormal balances in trial balance data.

Accounting Services, Army has reviewed the subject audit report and has the following comments. The audit identifies needed improvements and controls related to general ledger reporting. Implementation of the recommendations will be directed at the business processes that are material to the Army's financial statements. Reporting processes where we have alternate business practices to report balances will be excluded from the changes. For example, approximately 88% of the abnormal balances identified in the report relate to budgetary accounts where we derive the financial statement general ledgers from status data via our FACTS II process. Therefore, field level general ledger balances are not used in the reporting process.

The Defense Departmental Reporting System - Budgetary initiative will significantly reduce the deficiencies identified in the audit. Long-term solutions (General Fund Enterprise Business System and Logistics Modernization Program) are progressing and will be the final solution to resolve the issues identified. The improvements in controls for general ledger trial balance reporting will be incorporated into procedures for the replacement accounting systems.

Recommendation 2: We recommend that the Director of the Defense Finance and Accounting Service Center Indianapolis:

- a. Update Foxpro queries used to detect abnormal balances so that it will check all general ledger accounts used by the Army General Fund.
- b. Update DFAS Indianapolis Regulation 37-1, (Regulation 37-1) "Finance and Accounting Policy Implementation," to establish and implement detail procedures that require field accounting activities to identify and correct abnormal balances, review the monthly trial balances submitted for Army General Fund, and notify accounting offices of abnormal balances.

-
- (i) Require that field accounting activities work with serviced Army activities to identify, research, and correct abnormal balances in trial balance data prior to the monthly submission of the trial balance data to DFAS Indianapolis.
 - (ii) Use the updated query to check the accounting activities' monthly trial balances for abnormal balances.
 - (iii) Notify the accounting activities of abnormal balances contained in their monthly trial balances and require explanations of the corrective actions taken by accounting activities to resolve the abnormal balance.
 - (iv) Compile, and update as necessary, an Army General Fund Chart of Accounts that identifies the normal balances of the general ledger accounts currently used for the Army General Fund.

Management Comments: Concur - We concur with the DoDIG finding related to the Foxpro abnormal balance query and have taken action to update the program. We also concur with requiring field activities to identify, research, and correct abnormal balances prior to submissions to the Departmental Accounting Directorate. We will only require field sites to provide explanations of abnormal proprietary balances material to the Army's financial statements. We have published the chart of accounts used by the various field-level systems in DFAS-IN 37-1, and will improve general reporting guidance relative to material abnormal proprietary balances.

Estimated Completion Date: October 31, 2004

My point of contact is Gerald Davenport, Audited Financial Statements Division, (317) 510-7132.


Steve R. Bonta
Director, Accounting Services
Army

Department of the Army Comments



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
FINANCIAL MANAGEMENT AND COMPTROLLER
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WASHINGTON DC 20310-0109



July 22, 2004

MEMORANDUM FOR THE ASSISTANT INSPECTOR GENERAL FOR
AUDITING, DoDIG, 400 ARMY NAVY DRIVE, (ROOM 801), ARLINGTON, VA 22202-
4704

SUBJECT: DoDIG Draft of a Proposed Report, Army General Fund Controls Over
Abnormal Balances for Field Accounting Activities (Project No. D2004FI-0121), dated
May 28, 2004

We concur with recommendation 3. Our comments are attached.

Point of contact for this action is Mr. Peter Langevin who can be reached at (703)
693-2688 or email: Peter.langevin@us.army.mil.


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

Attachment

**DRAFT OF A
PROPOSED REPORT**

**Army General Fund Controls Over Abnormal Balances
for Field Accounting Activities**

Project No. D2004FI-0121

May 28, 2004

FINDING:

Abnormal Balances

Recommendations

3. We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) require serviced Army activities to work with DFAS field accounting activities to identify, research, and correct abnormal balances in trial balance data.

Assistant Secretary of the Army (Financial Management & Comptroller) (ASA (FM&C)) COMMENTS: Concur. The Army's serviced activities will continue to work with DFAS field accounting activities to correct abnormal balances. The Joint Reconciliation Process will continue to emphasize the identification and correction of all abnormal balances.

Team Members

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

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