

# Inspector General

United States  
Department of Defense



Internal Controls Over Navy General Fund,  
Cash and Other Monetary Assets Held Outside  
of the Continental United States

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## Acronyms and Abbreviations

BHD	Bahraini Dinar
COMA	Cash and Other Monetary Assets
DCAS	Defense Cash Accountability System
DD	Defense Department
DO	Disbursing Officer
DoD FMR	DoD Financial Management Regulation
DoD IG	DoD Office of Inspector General
DoN	Department of the Navy
DFAS	Defense Finance and Accounting Service
DSSN	Disbursing Station Symbol Number
LDA	Limited Depository Account
OCONUS	Outside of the Continental United States
NAMRU-3	Navy Medical Research Unit 3
NCIS	Naval Criminal Investigative Service
NSA	Naval Support Activity
PSA	Personnel Support Activity
PSD	Personnel Support Detachment
SOA	Statement of Accountability
SF	Standard Form
U.S.C.	United States Code



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
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ARLINGTON, VIRGINIA 22202-4704

August 26, 2008

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF  
FINANCIAL OFFICER  
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL  
MANAGEMENT AND COMPTROLLER)  
DIRECTOR DEFENSE FINANCE AND ACCOUNTING SERVICE  
NAVY INSPECTOR GENERAL

SUBJECT: Report on Internal Controls Over Navy General Fund, Cash and Other Monetary Assets  
Held Outside of the Continental United States (Report No. D-2008-123)

We are providing this report for review and comment. We considered comments from the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer and the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) Financial Management Office when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The comments from the Acting Deputy Chief Financial Officer, Office of the Under Secretary of Defense were partially responsive. We request additional comments on Recommendation B.2 and D.1 by September 26, 2008. Comments from the Director, Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) Financial Management Office, were responsive.

Please provide comments that conform to the requirements of DoD Directive 7650.3. If possible, send client comments in electronic format (Adobe Acrobat file only) to [AUDDFS@dodig.mil](mailto:AUDDFS@dodig.mil). Copies of the client comments must have the actual signature of the authorizing official for your organization. We cannot accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to Mr. Edward A. Blair at (216) 706-0074, extension 226, or Mr. Eric T. Thacker at (216) 706-0074, extension 234. The team members are listed inside the back cover.

*Patricia A. Marsh*  
Patricia A. Marsh, CPA  
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# Results in Brief: Internal Controls Over Navy General Fund, Cash and Other Monetary Assets Held Outside of the Continental United States

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## What We Did

We evaluated internal controls over Department of the Navy (DoN) General Fund Cash and Other Monetary Assets (COMA) to determine whether they were effectively designed and operating to safeguard, record, account for, and report COMA held outside of the continental United States.

## What We Found

DoN lacked effective internal controls over COMA held outside of the continental United States in several areas. Specific issues include the following:

- Standard operating procedures inappropriately instructed accountants to classify the total amount of disbursing officer accountability as COMA for financial statement reporting purposes.
- DoN did not consistently apply internal controls over disbursing appointments, operational COMA security, physical COMA security, Limited Depository Account reconciliations, and unannounced cash verifications.
- The Naval Support Activity-Bahrain paid more than \$93,000 in excess exchange costs because the disbursing officer did not solicit financial institutions for the most beneficial exchange rate.
- The Personnel Support Detachment-Naples provided check-cashing and Euro-conversion services that duplicated services offered by on-base banks.

## What We Recommend

- Improve procedures for appointment letters, cash verifications, and Limited Depository Account reconciliations.
- Incorporate requirements for personnel protection, security equipment testing, and periodic security reviews into documented security programs.
- Designate an independent examining organization to perform unannounced disbursing examinations of African operations.
- Determine whether other DoD disbursing operations are duplicating services available by banking facilities.
- Eliminate banking services offered by Personnel Support Detachment-Naples disbursing personnel.

## Client Comments and Our Responses

The Acting Deputy Chief Financial Officer, Office of the Under Secretary of Defense partially concurred with our recommendations. We considered corrective actions to be fully responsive to the intent of one recommendation, but partially responsive to another. We request additional comments from the Office of the Under Secretary of Defense by September 26, 2008. The Director, Office of Assistant Secretary of the Navy (Financial Management and Comptroller) Financial Management Office, concurred with our recommendations. Please see the Recommendations Table on the following page.

## Recommendations Table

<b>Client</b>	<b>Recommendations Requiring Comment</b>	<b>No Additional Comments Required</b>
Under Secretary of Defense (Comptroller)/Chief Financial Officer	B.2., D.1.	
Assistant Secretary of the Navy (Financial Management and Comptroller)		B.1.a, B.1.b, B.1.c.
Commander, Naval Support Activity–Bahrain		C.
Commander, Personnel Support Detachment–Naples		D.2.

**Please provide comments by September 26, 2008.**

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# Introduction

## Objectives

This audit is one of a series of reports addressing internal controls over DoD Cash and Other Monetary Assets (COMA). Our overall audit objective was to evaluate whether internal controls for Department of the Navy General Fund, Cash and Other Monetary Assets held outside of the continental United States (OCONUS) were effectively designed and operating to safeguard, record, account for, and report COMA. See Appendix A for a discussion of the scope and methodology.

## Background

In 2006, the DoD Office of Inspector General (DoD IG) performed the audit, “Controls Over Army Cash and Other Monetary Assets” for the U.S. Army. This audit led the DoD IG to conclude that similar audits of Navy, Air Force, and Marine Corps COMA would be advantageous. This report discusses the adequacy of internal controls over Department of the Navy (DoN) COMA held at disbursing offices located OCONUS.

The Statement of Federal Financial Accounting Concepts No. 2, section 84, paragraph 3, “Balance Sheet,” defines COMA as coins, paper currency and readily negotiable instruments (such as money orders, checks, and bank drafts on hand or in transit for deposit), amounts on demand deposit with banks or other financial institutions, cash held in imprest funds, and foreign currencies.

DoD 7000.14-R, “DoD Financial Management Regulation,” (DoD FMR) provides further guidance for controlling, recording, and reporting COMA. DoD FMR, volume 6B, chapter 4, also defines “cash” as coins, paper currency, and readily negotiable instruments (such as money orders, checks, and bank drafts on hand or in transit for deposit), and amounts on demand deposit with banks or other financial institutions, including foreign currencies. “Other monetary assets” include gold, special drawing rights, and U.S. Reserves in the International Monetary Fund.

Each DoD disbursing office has a unique disbursing station symbol number (DSSN). Disbursing offices process payment and collection transactions. Disbursing officers (DOs) supervise all personnel holding cash, and are accountable for maintaining appropriate accounting and internal controls over the assets. This responsibility includes ensuring the legality, propriety, and correctness of all disbursements and collections of public funds. The function of regularly receiving and maintaining custody of public funds is generally performed by DOs and their appointed agents, such as deputy DOs, disbursing agents, and cashiers.

DOs are accountable to the U.S. Treasury for the COMA in their possession. The Statement of Accountability (SOA), Standard Form (SF) 1219, is the DO’s official monthly record of COMA accountability. The DO’s daily accountability is maintained on the Daily SOA, SF 2657. Disbursement and collection transactions are reported on both the monthly and Daily SOAs. COMA in the possession of DOs should be reconciled daily, using the Daily SOA as the permanent written record. Documents representing cash for which the DO remains accountable, such as receipts for advances to disbursing agents, should be kept in the DO’s safe or vault and accounted for daily on the forms described above.

The DoD FMR states that the Daily Agent Accountability Summary, DD Form 2665, is the daily accountability document for agents. Preparation of the DD Form 2665 includes a physical count of all cash and negotiable instruments in the possession of the agents. Agents should use the Statement of Agent Officer's Account, DD Form 1081, as a summary of cash transactions and receipt for cash or to close agent accounts. Collection and disbursement vouchers and any remaining cash must be turned in to the DO, along with the DD Form 1081, which is prepared to account for cash and vouchers returned to the DO. The DO or deputy DO should balance all agents' COMA daily, using the Daily Agent Accountability Summary.

DoN reported approximately \$176 million in COMA on its FY 2006 financial statements. Of this amount, \$74.4 million (42 percent) was located at DoN disbursing locations outside of the continental United States (OCONUS), in the Europe, Pacific, and Southwest Asia theaters.

## **Finding A. Reporting of Cash and Other Monetary Assets**

The Department of the Navy (DoN) Consolidated General Fund Balance Sheet incorrectly included items that were not cash or other monetary assets on the Cash and Other Monetary Assets (COMA) line. Specifically, the balance sheet inappropriately classified items such as losses of funds and receivables as COMA. This occurred because the DFAS standard operating procedures for reporting COMA instruct accountants to record the total amount of disbursing officer accountability as COMA for financial statement reporting purposes. These procedures were inaccurate because the Department of Defense Financial Management Regulation had not defined which items should be classified as COMA. As of September 30, 2007, DoN had overstated the Consolidated General Fund Balance Sheet by more than \$2.4 million.

### **Journal Voucher Process**

DFAS uses a journal voucher to post to the COMA line at the close of each fiscal quarter. DOs support these journal vouchers with statements of accountability. The “Total Disbursing Officer Accountability” line of the Statement of Accountability includes such items as “Cash on Deposit in Designated Depository,” “Losses of Funds,” and “Receivables-Dishonored Checks.”

Losses of funds result from acts of nature (floods, earthquakes), bank failure, and wrongful conduct such as theft, robbery and burglary. Accountability for dishonored checks falls within one of three categories: checks accepted from base organizations that routinely collect funds (such as commissary and housing); checks accepted in satisfaction of an obligation due the United States (such as military pay and travel pay); or checks received as accommodation-exchange transactions. Other accountability items include unresolved deficiencies in the account of a former DO, which cannot be classified as check-issue overdrafts or losses of funds.

### **Definition of COMA**

The Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standard No. 1, “Accounting for Selected Assets and Liabilities,” March 30, 1993, defines cash as: (a) coins, paper currency and readily negotiable instruments, such as money orders, checks, and bank drafts on hand or in transit for deposit; (b) amounts on demand deposit with banks or other financial institutions; and (c) foreign currencies, which, for accounting purposes, should be translated into U.S. dollars at the exchange rate on the financial statement date.

Cash is classified as either entity cash or nonentity cash, and these are reported separately on Federal financial statements. Entity cash is the amount of cash that the reporting entity holds and is authorized by law to spend. Nonentity cash is collected and held by the reporting entity on behalf of another Federal entity or the U.S. Government, and these funds are not available for use by the reporting entity. In some circumstances, the entity deposits cash in its accounts in a fiduciary capacity for the Department of the Treasury or other entities. Nonentity cash should be reported separately from entity cash.

Restrictions are usually imposed on cash deposits by law, regulation, or agreement. Nonentity cash is always restricted cash. Entity cash may be restricted for specific purposes. Such cash may be in escrow or other special accounts. Financial reports should disclose the reasons for and nature of restrictions.

Office of Management and Budget Circular A136, "Financial Reporting Requirements," June 2007, defines other monetary assets as gold, special drawing rights, and U.S. Reserves in the International Monetary Fund. The Department of the Treasury uses both cash and other monetary assets definitions to identify COMA.

### **Posting Cash on the Balance Sheet**

The DoD FMR, volume 6b, chapter 4, "Balance Sheet," January 2006, states that DO cash reported on the SF 1219, "Statement of Accountability," is also reported on the COMA line of an entity's balance sheet. DoD FMR volume 5, chapter 6 states that physical losses (whether major or minor) are recorded on DD Form 2657 by increasing line 7.3 or 9.3, "Loss of Funds," and decreasing the cash on hand. DFAS Cleveland DoN General Fund Audited Financial Statements Branch Operating Manual (December 2005, as modified January 31, 2006) prescribes the procedures for posting DoN DO accountability from the DoN monthly consolidated SF 1219 to the financial reporting system, Defense Departmental Reporting System. Specifically, the manual instructed accountants to post all monthly consolidated SF 1219 account balances to the COMA line item.

DFAS Cleveland used internal guidance for posting DO cash journal vouchers to the Defense Departmental Reporting System. Specifically, DFAS Cleveland's DoN General Fund Audited Financial Statement Branch Operating Manual instructed accountants to include total DO accountability when posting to the COMA account balance. As such, COMA account balances included non-COMA items such as advances to contractors, deferred vouchers receivable, check overdraft receivables, dishonored checks receivable, and losses of funds. These items from the monthly consolidated SF 1219 do not meet the DoD FMR's definition of COMA. By posting non-COMA items for reporting COMA on the DoN's General Fund balance sheet, DFAS Cleveland overstated the value of this balance sheet line. DFAS Cleveland guidance was incorrect because the DoD FMR did not define which items should be classified as COMA.

The following table breaks out the monthly consolidated SF 1219 accounts used to report COMA. As of September 30, 2007, DFAS Cleveland overstated COMA by more than \$2.4 million dollars.

**Table 1. COMA Calculation**

Monthly Consolidated SF 1219 as of September 30, 2007			Auditor Calculations			
Line	Line Title	FY 2007 Cash Reported	Actual COMA by Definition	Overstatement of Cash on the Financial Statements		
6.1	Designated Depository	\$31,303,367.03	\$31,303,367.03	\$0.00		0.00%
6.2	Cash on Hand	44,913,704.06	44,913,704.06	0.00		0.00%
6.3	Undeposited Collections	694,865.57	694,865.57	0.00		0.00%
6.4	Custody or Contingency Cash	3,269,257.49	3,269,257.49	0.00		0.00%
6.5	Cash in Custody of Govt. Cashiers	57,561,471.18	57,561,471.18	0.00		0.00%
6.6	Advances to Contractors	228,679.04	0.00	228,679.04	*	.16%
6.7	Cash in Transit	1,343,075.00	1,343,075.00	0.00		0.00%
6.8	Payroll Cash	1,465,353.94	1,465,353.94	0.00		0.00%
6.9	Other Cash Items	(11,988.43)	0.00	(11,988.43)	*	(-.01%)
7.1	Deferred Charges-Vouchered Items	981,654.33	0.00	981,654.33	*	.69%
7.2	Receivables-Checks Overdrafts	4,727.95	0.00	4,727.95	*	0.00%
7.3	Losses of Funds	128,056.98	0.00	128,056.98	*	.09%
7.4	Receivables-Dishonored Checks	50,503.95	0.00	50,503.95	*	.04%
9.2	Receivables-Check Overdrafts	1,974.38	0.00	1,974.38		0.00%
9.3	Losses of Funds	1,002,504.30	0.00	1,002,504.30	*	.70%
9.4	Other Accountability	34,106.30	0.00	34,106.30		.02%
<b>TOTAL:</b>		<b>\$142,971,313.07</b>	<b>\$140,551,094.27</b>	<b>\$2,420,218.80</b>	<b>*</b>	<b>1.69%</b>

\* Overstatement of Reported Cash and Other Monetary Assets on the DoN Balance Sheet was determined by subtracting non-COMA items (Lines 6.6, 6.9, 7.1, 7.3, 7.4, 9.2, 9.3 and 9.4) from the amount reported as COMA.

## Recommendation

This report is one in a series leading up to an agency-level review of DoD Cash and Other Monetary Assets reporting. Assets that are incorrectly classified as Cash and Other Monetary Assets affect not only the reporting Component's balance sheet, but also the DoD balance sheet. We will make recommendations on this finding in the report, "Internal Controls Over DoD Cash and Other Monetary Assets."

## **Client Comments on the Finding and Our Response**

Although not required to comment, the Director, Defense Finance and Accounting Service Cleveland provided the following comments on the finding. For the full text of the Defense Finance and Accounting Comments, see the Client Comments section of the report.

**Defense Finance and Accounting Service Comments:** The Director, Defense Finance and Accounting Cleveland did not fully agree with the finding, stating that the Department of the Navy balance sheet, taken as a whole, was not overstated by \$2.4 million at fiscal-year end 2007. The Director stated that the \$2.4 million was simply a misclassification and that guidance issued in FY 2008 dictates how lines from the SF 1219 should be recorded on the balance sheet.

**Audit Response:** We acknowledge the Director's comments, and agree that taken as a whole, the Department of the Navy balance sheet was not overstated by \$2.4 million at fiscal-year end 2007. Even so, the Department of the Navy did overstate the cash and other monetary assets line.

## **Finding B. Internal Controls Over Cash and Other Monetary Assets**

The Department of the Navy did not consistently apply internal controls over COMA outside of the continental U.S. Specifically, management lacked effective internal controls in the following areas:

- proper appointment of disbursing officials,
- cash verifications,
- physical security over COMA, and
- unannounced examinations.

This occurred because DoD and DoN did not effectively implement established policy and guidance. As a result, insufficient internal controls increased DoN vulnerability to fraud and risk for potential misstatement of COMA on the DoN General Fund balance sheet.

### **Criteria for Internal Controls Over COMA**

Title 10, Section 2773 of the United States Code (10 U.S.C.) sets forth requirements for the accountability and responsibility for disbursing officials, including the designation, powers, and accountability of deputy disbursing officials. Under section 2773a 10 U.S.C, “Any such designation shall be in writing.” Any designated employee or member may be referred to as a “departmental accountable official.” Additionally, the Secretary of Defense may subject any civilian employee of the Department of Defense or member of the armed forces under the Secretary’s jurisdiction as an employee or member who, in addition to any other potential accountability, may be held accountable through personal monetary liability for an illegal, improper, or incorrect payment made by the Department of Defense, as described in section 2773a(c) 10 U.S.C.

Volume 5 of the DoD FMR provides for the use, procedures, and security for COMA throughout the DoD. Chapter 2, “Disbursing Offices, Officers, and Agents,” provides guidance for the establishment of a disbursing office, the appointment of disbursing officials, and general disbursing operation guidance. Chapter 3, “Keeping and Safeguarding Public Funds,” establishes operating criteria for daily disbursing cash operations, including: cash review requirements; safeguarding funds and related documents; and advancing funds to disbursing agents. DoD FMR, volume 5, appendix A, “Cash Verification,” provides cash verification procedures to be used by members of cash-verification teams. Appendix D, “Navy Disbursing Operations,” provides guidance for Navy disbursing officials for collections, disbursements, afloat foreign currency transactions, and unannounced disbursing examinations. DoN is responsible for implementing these provisions consistently throughout the Navy and Marine Corps.

## **Preparation of Appointment Letters**

Appointment letters for disbursing personnel did not contain all the information required by the DoD FMR. A deficient appointment letter could allow an individual to avoid pecuniary liability under 10 U.S.C. Section 2773a. Of the eight locations examined during this audit, the following five did not have appointment letters that complied with DoD FMR requirements:

- DSSN 5792, Personnel Support Detachment-Rota, Spain;
- DSSN 6879, Personnel Support Activity, Far East-Yokosuka, Japan (PSA-Far East);
- DSSN 7339, Navy Medical Research Unit 3-Cairo, Egypt (NAMRU-3);
- DSSN 7668, Personnel Support Detachment (PSD)-Naples, Italy (PSD-Naples); and
- DSSN 8069, Naval Support Activity (NSA)-Manama, Bahrain (NSA-Bahrain).

Specifically, the appointment letters did not include appointee duties or a statement specifying individual pecuniary liability. Three letters did not include statements confirming the counseling of appointees with regard to pecuniary liability or that they were given written operating instructions.

DoD FMR volume 5, chapter 2, “Disbursing Officers, Officers, and Agents,” dated October 2006, requires that the authorities who approve the establishment of DO, deputy DO, and cashier positions should issue the required appointment letter to these individuals. The DoD FMR further requires that appointment letters include the statement: “I acknowledge that I am strictly liable to the United States for all public funds under my control,” in addition to a statement confirming the counseling of appointees with regard to pecuniary liability and that they have been given written operating instructions. Appointees must acknowledge acceptance of the appointment with an original signature on all copies of the letter of appointment. Title 10 U.S.C. section 2773a states that a designated accountable official may be held accountable through personal monetary liability for an illegal, improper, or incorrect payment.

The disbursing personnel appointment letters for the five DSSNs mentioned above were defective because they lacked each individual’s specific acknowledgement and acceptance of his or her pecuniary liability. Title 10 U.S.C. section 2773a specifically requires that the designation of officials to be in writing. Therefore, supervisors of individuals who have appointment letters that do not meet the requirements of DoD FMR volume 5, chapter 2 should have those appointment letters revised and reissued or relieve those individuals from performing disbursing duties.

## **Cash Verifications**

At all nine locations visited, DoN personnel did not perform cash verifications in accordance with the DoD FMR. Volume 5, chapter 3, section 030301 and appendix A require cash verifications to be performed quarterly and include, among other elements:

- physical cash counts;
- blank check stock verification;
- cash-holding authority documentation;
- limited depository account verification; and
- reporting requirements.

Cash verification teams did not perform physical cash counts at two DoN disbursing locations because command management did not appoint any individuals to verification teams. DoD FMR volume 5, appendix A, section A.1 requires that, at least once each quarter, the cash verification team conduct a surprise verification of the cash and other assets under the cash accountability of the DO.

Independent cash verification teams did not perform a physical cash count of \$47,500 at the Naval Criminal Investigative Service (NCIS) Far East Field Office in Yokosuka, Japan, which serves as a collection agent for Personnel Support Activity-Far East. No instructions or procedures existed to grant an independent cash verification team access to PSA-Far East's cash. Instead, NCIS personnel internally prepared a cash verification report and submitted it to the DO on a quarterly basis. As a result, the DO at PSA-Far East had no independent verification of physical controls over the funds.

NAMRU-3 Command neither appointed an independent cash verification team nor completed cash verifications. During our visit, we found that NAMRU-3 misclassified accounts receivable items as cash on hand. Independent cash verifications would have shown that the DO consistently reported more cash on hand than was actually available. Although accounts receivable values change daily, the transactions represented \$419,783.84 of the \$1,065,007.14 cash on hand (approximately 39 percent) reported on September 18, 2007. As a result, NAMRU-3 Command lacked the ability to monitor the actual amount of cash on hand available to support the NAMRU-3 disbursing mission.

Cash verification teams did not verify blank check stock at two disbursing locations examined, as required by DoD FMR volume 5, appendix A. Both locations, Naval Support Activity - Bahrain and NAMRU-3, maintain blank limited depository account (LDA) checks and U.S. Treasury checks.<sup>1</sup> However, commanders did not appoint cash verification teams at these two locations, and blank check stock was not verified. We performed verifications of the blank check stock at both locations during our audit fieldwork and found no discrepancies. However, failure to periodically review blank check stock increases the potential for fraud to occur, because individual checks could be improperly withdrawn from the check stock and negotiated for significant amounts of money without justification.

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<sup>1</sup> LDAs are checking accounts maintained by DOs to conduct business in a foreign currency.

Disbursing officials at two DoN disbursing locations exceeded their cash-holding authority. DoD FMR, volume 5, chapter 3, "Request for Approval," section 030104, dated October 2006, requires DOs to request authorization to hold cash, which is done at their personal risk. The approving authority is responsible for ensuring that the cash-holding request complies with the DoD FMR and that controls exist to ensure that cash requirements are reviewed.

The DO and deputy DO at NSA-Bahrain exceeded their cash-holding authority by as much as \$10.5 million. On October 30, 2006 the DO had \$5 million transferred into her LDA. This caused her to exceed her \$3 million in LDA cash-holding authority by approximately \$2 million. Between September 2006 and August 2007, the DO also had deposits transferred into the deputy DO's LDA, where 9 of 22 deposits caused him to exceed his \$1.5 million in LDA cash-holding authority by as much as \$10.5 million.

Cash maintained at PSD-Naples caused a deputy DO to exceed his LDA cash-holding authority limitation by as much as \$1.6 million. During May 2007, we examined 11 business days' transactions and found that the deputy DO exceeded his cash-holding authorization by amounts ranging from \$388,000 to \$1.6 million, and a disbursing agent had exceeded his authorization by as much as \$133,000.

Approving authorities did not perform periodic reviews of cash-holding requirements and did not provide oversight of the disbursing function, as required by the DoD FMR. As a result, DoN disbursing officials exceeded their authorized cash-holding authority, increasing their potential vulnerability to fraud.

Cash verification teams did not verify LDAs at NSA-Bahrain and NAMRU-3 on a quarterly basis, as required by the DoD FMR, volume 5, appendix A. Commanders at these locations had not established cash verification teams or appointed members to perform the LDA verifications. As a result, the potential exists for improper or fraudulent transactions to be processed through the account without being reviewed.

In addition, NAMRU-3 personnel did not reconcile the LDA on a monthly basis, as required by DoD FMR, volume 5, chapter 14. LDA reconciliations are performed by completing the Statement of Designated Depository Account (SF 1149). The DO at NAMRU-3 stated that the monthly reconciliations of the LDA account were not performed because of delays in receiving the LDA bank statements and because he lacked the staff necessary to perform the reconciliations. As a result, the DO could not attest to the safeguarding and accounting of funds. Also, without monthly reconciliations, the DO would not be able to determine whether improper or fraudulent transactions were processed through the LDA.

The following six disbursing locations' cash verification reports were missing information required by the DoD FMR:

- DSSN 5792, Personnel Support Detachment-Rota, Spain;
- DSSN 5895, Personnel Support Activity-Chinhae, South Korea;

- DSSN 6160, 3rd Force Services Support Group Disbursing-Okinawa, Japan;
- DSSN 7475, Personnel Support Detachment-Sigonella, Italy;
- DSSN 7668, Personnel Support Detachment-Naples, Italy; and
- DSSN 8814, Personnel Support Detachment-Manama, Bahrain

The DoD FMR volume 5, appendix A, section A.2.g, “Report Verification,” dated October 2003, requires that cash verification reports include:

- the date of the preceding cash verification report;
- a statement as to whether the DO is in compliance with DoD FMR requirements;
- details regarding cash held under the DO’s cash accountability that has not been verified by actual count (include the identity of each agent, amount of cash held, and method agents used to reported their cash—indicate whether the DO’s verified cash accountability agreed with the agent’s reports);
- a detailed list of undeposited checks; and
- a statement as to whether the DO has resolved debit vouchers, check-issue discrepancies, check-issue reporting gaps, duplicate payments, reissue of limited payability check cancellations, and forgery recoveries in a timely manner.

In each instance, cash verification teams did not include all or at least one of these report elements in the cash verification reports because they did not closely follow the DoD FMR guidance. As a result, the cash verification team did not provide complete results to command and disbursing officials, potentially impairing management’s ability to monitor the security of COMA.

### **Physical Security Over Cash and Other Monetary Assets**

The commanders, DOs, and accountable disbursing personnel at four locations did not meet the DoD FMR requirement for security of COMA. DoD FMR volume 5, chapter 3, section 030302 lists several responsibilities required by the commander and DO to ensure the safety of the accountable assets. However, the commanders, DOs, and agents did not fulfill at least one of the following responsibilities:

- develop a COMA security program;
- conduct semiannual inspections of office security measures; and
- maintain strict security over the disbursing area.

DoN disbursing officials at NAMRU-3, PSD-Naples, NSA-Bahrain, and Customer Support Desk-Chinhae, did not properly follow DoD FMR physical security requirements. Disbursing officials at these locations either did not maintain security programs or did not perform semiannual inspections. The security program should provide personnel protection, periodic reviews of security, security equipment testing, and security measures that are capable of protecting the maximum amount of public funds authorized by the DOs' cash-holding authority. Also, the DoD FMR requires the DO to personally review the office security measures at least semiannually and maintain a record of such inspections.

We observed incidents at three disbursing sites that compromised the physical security of COMA and the disbursing staff, including:

- NAMRU-3 disbursing staff allowed an individual who appeared to be an acquaintance to enter the secured area, despite the fact that the disbursing area has an "Authorized Personnel Only" sign on the door.
- Security forces at both PSD-Bahrain and its subordinate disbursing office at Camp Lemonier, Djibouti, Africa failed to respond to surprise alarm tests. NSA-Bahrain is the host organization and is required to provide security protection for PSD-Bahrain's disbursing office. There is no specific security force responsible for providing security for the disbursing operation at Camp Lemonier. We discussed these situations with security representatives at both locations and concluded that the individuals or units assigned the responsibility for providing physical security were inattentive to their duties.

Physical security over COMA at these locations does not appear to be adequate. Although disbursing officials implemented steps to secure COMA, security procedures were bypassed at NAMRU-3, and security forces providing security were not effective at PSD-Bahrain and Camp Lemonier. As a result, the potential exists for security to be breached, exposing disbursing officials to a potential loss of funds for which disbursing officials at NAMRU-3, PSD-Bahrain, and Camp Lemonier are pecuniary liable.

## **Unannounced Disbursing Examinations**

DoN did not perform unannounced disbursing examinations for two disbursing operations on the African continent. These examinations did not occur because the Assistant Secretary of the Navy (Financial Management and Comptroller), who was responsible for administering the Navy Administrative Examination Program, did not include the Africa locations. As a result, DoN management does not have assurance that disbursing operations in Africa are in compliance with established laws and regulations and that COMA is properly safeguarded there.

The DoD FMR, volume 5, appendix D, section F, “Unannounced Disbursing Examinations,” governs the performance of annual, on-site, unannounced disbursing examinations at all Navy disbursing offices every 18 months. Specifically, the disbursing examinations are designed to:

- uncover errors as quickly as possible;
- initiate corrective action with the least possible delay;
- offer recommendations for strengthened controls to prevent reoccurrence;
- determine the accuracy of financial returns and the current status of DO accountability; and
- offer guidance and assistance to DOs in the proper interpretation and application of governing regulations.

The DoD FMR, volume 5, appendix D, section F also stipulates that the Assistant Secretary of the Navy (Financial Management and Comptroller) is responsible for the Navy Administrative Examination Program, including the development and implementation of Navy-wide technical procedural instructions for the guidance and compliance of on-site examination staff. The Assistant Secretary of the Navy (Financial Management and Comptroller) also determines which Military Pay and Personnel Field Examination Group will be responsible for the examinations, along with its respective Personnel Support Activity Network/Geographic Region of Responsibility. However, the 2002 revision of appendix D did not include DoN disbursing locations in Africa. As a result, the Military Pay and Personnel Field Examination Group did not perform unannounced disbursing examinations at NAMRU-3 in Cairo, Egypt and at the Personnel Support Detachment at Camp Lemonier in Djibouti, Africa. Therefore, DoN management has only limited assurance that disbursing operations were performed in compliance with established laws and regulations and that COMA were properly safeguarded.

## **Recommendations, Client Comments, and Our Response**

**B.1. We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) improve disbursing operations by strengthening existing procedures for the issuance of appointment letters, security over cash and other monetary assets, and unannounced examinations. Specifically, the Assistant Secretary of the Navy (Financial Management and Comptroller) should:**

- a. Improve procedures for the preparation and issuance of appointment letters to ensure that appointment letters include the appointee’s duties and a statement confirming the counseling of appointees with regard to pecuniary liability and that appointees were given written operating instructions.**
- b. Strengthen procedures to ensure that cash verifications include: the performance of physical cash counts; the verification of blank check stock; the review of cash-holding authorizations; and the reconciliation and verification of limited depository**

**accounts at all Department of the Navy disbursing offices. In addition, we recommend that procedures be strengthened to ensure that cash verification reports contain all required elements stipulated by the DoD Financial Management Regulation volume 5, appendix A.**

**c. Improve physical security procedures at Department of the Navy disbursing offices. Specifically, we recommend the development and documentation of security programs that incorporate requirements for personnel protection, periodic reviews of security, testing security equipment, and for security measures that are capable of protecting the maximum amount of public funds authorized by the disbursing officials' cash-holding authority.**

**Client Comments.** The Director, Office of Assistant Secretary of the Navy (Financial Management and Comptroller) Financial Management Office, concurred and stated that the parties responsible for the Department of the Navy disbursing functions will align these operations with Department of Defense disbursing policy. The Director estimated that such policy implementation will be completed October 1, 2008.

**Audit Response.** Comments from the Director, Financial Management Office, are responsive and no additional comments are required.

**B.2. We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer update the DoD Financial Management Regulation volume 5, appendix D to designate an examining organization to perform unannounced disbursing examinations of all current and future operations in Africa, including those of Camp Lemonier in Djibouti, Africa and the Naval Medical Research Unit Number 3 in Cairo, Egypt.**

**Under Secretary of Defense (Comptroller) Comments.** The Acting Deputy Chief Financial Officer, Office of the Under Secretary of Defense, partially concurred, stating that DoD Financial Management Regulation volume 5, appendix D, is a Navy-specific standard operating procedure which reiterates guidance located in other chapters of volume 5. Chapter 3, section 0302, "Cash Review Requirements," and the checklist located in appendix A reiterate quarterly cash verification regulations. The Acting Deputy Chief Financial Officer further stated that the Office of the Under Secretary of Defense (Comptroller) and the Department of the Navy are currently in discussions to eliminate appendix D from the DoD Financial Management Regulation.

**Audit Response.** We consider the Acting Deputy's comments to be partially responsive. Until DoD Financial Management Regulation, volume 5, appendix D is removed, the requirements are applicable. Additionally, volume 5, chapter 3, section 0302, "Cash Review Requirements," and the quarterly checklist found in volume 5, appendix A, do not relate to unannounced disbursing examinations but to quarterly cash verifications. These are independent reviews that provide necessary internal control oversight to properly safeguard cash and other monetary assets. Therefore, we ask that the Under Secretary of Defense (Comptroller) provide the date when volume 5, appendix D will be removed from the DoD Financial Management Regulation.

Additionally, address whether the unannounced disbursing examinations will still be a requirement and if so, under what guidance.

**Defense Finance and Accounting Service Comments:** Although not required to comment, the Director, Defense Finance and Accounting Service Cleveland disagreed, stating that the lack of adherence to the DoD Financial Management Regulation does not dictate that the Financial Management Regulation be changed.



## **Finding C. Currency Exchange Rate**

The Naval Support Activity-Bahrain DO did not obtain the most beneficial exchange rate for the currency exchange of U.S. dollars to Bahraini dinars (BHD). The DO did not comply with the DoD policy requiring periodic solicitations from financial institutions to obtain most beneficial exchange rate. As a result, in FY 2007 NSA-Bahrain paid more than \$93,000 in excess exchange costs to convert U.S. dollars to BHD.

### **NSA-Bahrain**

NSA-Bahrain, located in the Middle East, supports the Commander, U.S. Fifth Fleet, deployed assets, military and DoD civilian personnel assigned to Bahrain. NSA Bahrain personnel provide services and support to ships at sea, remote sites throughout the region, and military and civilian personnel living in Bahrain. The NSA-Bahrain disbursing office uses a limited depository account to pay commercial bills incurred due to the cost of base operations.

### **Limited Depository Accounts**

NSA-Bahrain did not seek the most beneficial exchange rate. The DoD FMR, volume 5, chapter 14, "Limited Depository Checking," section 140307.B, dated June 2008, requires that "(a)t least every 3 years, for each account, the DO shall determine if it may be cost effective to solicit competitive proposals from all American owned and leading financial institutions in the area to secure the most beneficial banking agreement." Generally, the DO should obtain at least three bids to determine the best rate available.

The DO currently uses an LDA maintained at a bank in Manama, Bahrain. The DO funds this LDA by requesting U.S. currency from a military banking facility in Germany, which transfers the funds to the bank in Bahrain. The bank then exchanges the U.S. currency into BHD at a rate of .375 BHD to \$1. From October 2006 through August 2007, the NSA-Bahrain disbursing office exchanged more than \$35 million into BHD.

### **Soliciting Financial Institutions**

The DO did not solicit financial institutions to obtain the most beneficial exchange rate. The DoD FMR, volume 5, chapter 13, requires DOs to obtain foreign currency through Military Banking Facilities or Government sources whenever possible. When Military Banking Facilities or Government sources are not available, a DO is responsible to solicit for the best available exchange rate. It is beneficial to have the greatest possible exchange rate when converting from the U.S. dollar to the BHD.

NSA-Bahrain hosts an exchange service as a tenant activity, to provide exchange services for personnel on base. The exchange service has offered a constant exchange rate of .376 BHD to \$1 since last year.

On December 8, 2004, NSA-Bahrain's DO did not use the exchange service but instead solicited with a local Bahrain bank. The constant bank rate of exchange, .375 BHD to \$1, was one-tenth of a percent (.001) lower than what the exchange service offered.

Table 2 compares the amount of unrealized savings between October 2006 and August 2007, based on total deposits of \$35.1 million.

**Table 2. Exchange Rate Differences**

Month	Deposits in U.S. Dollars (millions)	Conversion into BHD		Savings in BHD at .376	Savings in U.S. Dollars
		.375	.376		
October 2006	\$7.5	2,812,500	2,820,000	7,500	\$19,947
December 2006	1.2	450,000	451,200	1,200	3,191
January 2007	5.5	2,062,500	2,068,000	5,500	14,628
February 2007	4.5	1,687,500	1,692,000	4,500	11,968
March 2007	1.5	562,500	564,000	1,500	3,989
April 2007	4.0	1,500,000	1,504,000	4,000	10,638
May 2007	3.2	1,200,000	1,203,200	3,200	8,511
June 2007	3.5	1,312,500	1,316,000	3,500	9,309
July 2007	2.0	750,000	752,000	2,000	5,319
August 2007	2.2	825,000	827,200	2,200	5,851
<b>Totals:</b>	<b>\$35.1</b>			<b>35,100</b>	<b>\$93,351</b>

As a result, NSA-Bahrain and the Navy paid excess costs to convert U.S. dollars to BHD. Had the DO used the exchange service to convert U.S. dollars into BHD over these 10 months, NSA-Bahrain would have received an additional \$93,351. The DO needs to perform periodic solicitations routinely, because the savings could be considerable. For example, if NSA-Bahrain maintains its current level of operation, the estimated savings calculated using the .376 rate over a 6-year period (2008 through 2013) would be approximately \$560,000.

## **Recommendation, Client Comments, and Our Response**

**C. We recommend that the Commander, Naval Support Activity-Bahrain, establish procedures to ensure that the DO obtain the most beneficial exchange rate when exchanging U.S. dollars for Bahraini dinars.**

**Client Comments.** The Director, Office of Assistant Secretary of the Navy (Financial Management and Comptroller) Financial Management Office, concurred in principle. Naval Support Activity Bahrain agrees to establish procedures to ensure that the disbursing officer obtains the most beneficial exchange rate when exchanging U.S. dollars for Bahraini dinars, noting that the procedures must be consistent with the Status of Force Agreement or memorandum of agreement with the Government of Bahrain.

Naval Support Activity-Bahrain projected that these procedures will be complete August 31, 2008.

**Audit Response.** Although the Director, Financial Management concurred only in principle, we consider these comments to be responsive to the intent of the recommendation.



## **Finding D. Duplication of Banking Services**

Personnel Support Detachment-Naples unnecessarily provided check-cashing and Euro-conversion services. Personnel Support Detachment-Naples did not effectively implement DoD Financial Management Regulation provisions prohibiting the duplication of banking services. As a result, Personnel Support Detachment-Naples inappropriately used personnel to provide the same check-cashing and Euro-conversion services provided by on-base commercial banks.

### **On-Base Commercial Banking Services**

DoD FMR, volume 5, chapter 4, paragraph 040101A, authorizes DOs to provide check-cashing services only when satisfactory banking facilities are not available.

DoD contracted with a commercial bank to operate on-base military banking facilities at its overseas installations. The objective for establishing military banking facilities is to provide convenient banking services for active military, DoD civilians, contractors, and foreign nationals working for the DoD at overseas installations, with improved customer service at reduced cost. Military banking facilities provide services such as checking accounts, savings accounts, certified deposits, automated teller machines, check cards, check-cashing services, and foreign currency exchange services. Commercial military banking facilities provide banking services to the DoD at more than 80 locations throughout the world. Such locations include, but are not limited to, England, Germany, Italy, Japan, and Korea.

### **PSD-Naples Check-cashing and Conversion Services**

A military banking facility and Personnel Support Detachment-Naples (PSD-Naples) both reside at NSA-Capodichino, Italy. PSD-Naples offered check-cashing and Euro-conversion services from its cash cage. The PSD-Naples disbursing office continued to provide these services even when a commercial, on-base military banking facility provided similar services. PSD-Naples employed two military members to provide these services.

### **Duplication of Services**

In April 2007, the commercial military banking facility began operating at PSD-Naples, offering the full range of military banking services. In accordance with the provisions of the DoD FMR, PSD-Naples should have promptly discontinued its check-cashing and Euro-conversion services. However, when management attempted to terminate the services, customers complained that they were not properly informed that these services would be discontinued. As a result, management reestablished the services to allow ample time to inform service personnel. As of July, 2007, PSD-Naples still maintained the duplicate services, with no established date to discontinue them. By not discontinuing the duplication of services in a timely manner, PSD-Naples ineffectively used PSD personnel and incurred unnecessary personnel costs.

## **PSD-Naples Resources**

PSD-Naples did not effectively use its resources. In addition to check-cashing and Euro-conversion services, PSD-Naples personnel also provided pay, administration, and transportation support to authorized military, civilian and dependent personnel in the European theater. As of July 2007, PSD-Naples had filled 19 of 27 authorized military billets to perform its operation, leaving 8 vacant positions.

Two of the 19 personnel provided the check-cashing and Euro-exchange services. PSD-Naples incurred \$135,709 in annual personnel costs for these services. If PSD-Naples continued to provide check-cashing and Euro-conversion services through FY 2014, the DoN could incur personnel costs of over \$814,254. PSD-Naples can help DoN operate more efficiently by eliminating these unnecessary services and putting personnel resources to better use. With only 19 of 27 authorized billets filled, the Navy could easily reassign these military personnel to 2 of the 8 vacancies.

## **Management Actions**

Command, PSD-Naples took action to communicate to the Naples Military community that check-cashing and Euro-conversion services would no longer be available in its disbursing office. Specifically, Command took the following actions.

- On September 12, 2007, PSD-Naples reduced customer service hours from 5 days a week to 3 days a week.
- On December 1, 2007, PSD-Naples stopped performing Euro-conversion services.
- In early 2008, PSD-Naples ceased all check-cashing services.

PSD-Naples advertised each of these actions via weekly information e-mails, the base newspaper, and monthly command meetings. Such actions effectively communicated the termination of these services to the Naples military community.

## **Military Banking Facilities at Overseas DoD locations**

PSD-Naples command appropriately took corrective actions by developing and executing a plan to terminate the check-cashing and Euro-conversion services its disbursing office provided. PSD-Naples is only one of the many DoD locations colocated with military banking facilities throughout the world. Given the potential for reduction of resources, the DoD could realize significant savings if it eliminated duplicate services between disbursing offices and military banking facilities at its overseas locations.

The following table shows the worldwide commercial military banking locations identified in the DoD military banking facilities contract. The table also shows disbursing offices that are colocated with the banking locations that potentially provide duplication of services. With the identification and eventual elimination of duplicate banking services, DoD can operate more efficiently and put its resources to better use.

**Table 3. DoD OCONUS Military Banking Facilities and Colocated Services**

<b>Service Branch</b>	<b>Disbursing Office Location</b>	<b>Full-Service Banking Facility Locations</b>
<b>U.S. Navy</b>	Yokosuka Naval Base	Yokosuka, Japan
<b>U.S. Marine Corps</b>	Camp Foster	Okinawa, Japan
<b>U.S. Air Force</b>	Kunsan Air Base	Kunsan City, South Korea
	Osan Air Base	Osan, South Korea
	Kadena Air Base	Kadena, Japan
	Misawa Air Base	Misawa City, Japan
	Yokota Air Base	Yokota, Japan
	Spangdahlem Air Base	Spangdahlem, Germany
	Ramstein Air Base	Ramstein, Germany
	Royal Air Force Lakenheath	Lakenheath, UK
	Royal Air Force Mildenhall	Mildenhall, UK
<b>U.S. Army</b>	US Army Garrison - Hessen	Hanau, Germany
	US Army Garrison - Baumholder	Baumholder, Germany
	Campbell Barracks	Heidelberg, Germany
	US Army Garrison - Kaiserslautern	Kaiserslautern, Germany
	Coleman Barracks	Mannheim, Germany
	Camp Ederle	Vicenza, Italy
	Camp Humphreys	Pyongtaek, Korea
	US Army Garrison - Yongsan	Seoul, Korea
	US Army Garrison - Taegu	Taegu, Korea
	Camp Casey	Tongduchon, Korea

## **Recommendations, Client Comments, and Our Response**

**D.1. We recommend that the Under Secretary of Defense (Comptroller), in conjunction with the Defense Finance and Accounting Service, perform an analysis to determine whether duplication of services inappropriately exists between DoD disbursing operations and military banking facilities overseas, with the intent to eliminate duplicate services. Once the analysis is completed, the Under Secretary of Defense (Comptroller) should provide the potential benefits from resources redirected to better use.**

**Under Secretary of Defense (Comptroller) Comments.** The Acting Deputy Chief Financial Officer partially concurred, stating that installation commanders are responsible for enforcing DoD Financial Management Regulation volume 5, chapter 4, paragraph 040101.A guidance prohibiting collocation of accommodation exchange services with other financial or exchange facilities. The Acting Deputy Chief Financial Officer further stated that the Military Services have consequently been directed by memorandum to review the overseas locations where disbursing offices are colocated with military banking facilities. The direction memorandum requires the Military Services to provide a

plan of action to eliminate the duplicate service or provide justification for continuance no later than June 30, 2008.

**Audit Response.** Although the Acting Deputy Chief Financial Officer partially concurred, we consider these comments to be responsive to the intent of the recommendation. We request the Acting Deputy provide the results of the action plan developed to eliminate the duplicate service.

**Defense Finance and Accounting Service Comments.** Although not required to comment, the Director, Defense Finance and Accounting Service Cleveland disagreed, stating that the DoD Financial Management Regulation volume 5, chapter 4, paragraph 040101.C specifically prohibits providing accommodation exchange services when another banking or exchange facility provides the same service. The Director stated that it is therefore unnecessary to conduct a study to determine whether the Services' overseas disbursing offices are providing check-cashing operations on military installations that include a military banking facility.

**D.2. We recommend that the Commander, Personnel Support Detachment-Naples, complete the elimination of duplicate banking services at the earliest possible date.**

**Client Comments.** The Director, Office of Assistant Secretary of the Navy (Financial Management and Comptroller) Financial Management Office concurred, stating that the Capodichino cash cage under Personal Support Detachment Naples, Italy was closed February 15, 2008.

**Audit Response.** Comments from the Director, Office of Assistant Secretary of the Navy (Financial Management and Comptroller) Financial Management Office are responsive, and no additional comments are required.

## Appendix A. Scope and Methodology

We conducted this performance audit from February 2007 through February 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We obtained evidence through the following tasks:

- We reviewed DoD, U.S. Treasury, and Department of the Navy (DoN) guidance related to the internal controls over cash and other monetary assets (COMA).
- We coordinated with DoN and other agencies to obtain information regarding prior and ongoing audits or investigations relating to our audit, including:
  - Assistant Secretary of the Navy, Financial Management and Comptroller,
  - Defense Criminal Investigative Service,
  - Naval Criminal Investigative Service,
  - Norfolk Field Examination Group,
  - Naval Audit Service, and
  - Defense Finance and Accounting Service Cleveland.
- We acquired necessary documentation and records from DFAS, including service-level points of contact. The points of contact completed internal control questionnaires and provided us with accountability reports.
- We obtained a universe of 46 total Disbursing Station Symbol Numbers (DSSN) throughout the DoN as of February 2007. Of the universe, 19 DSSNs represented ashore DoN disbursing offices located outside of the continental U.S. (OCONUS).
- We judgmentally selected a sample that included 8 of the 19 ashore OCONUS DSSNs, defining the parameters of our scope within the Pacific, Europe, and Central Commands, as follows:
  - DSSN 5792: Personnel Support Detachment-Rota, Spain,
  - DSSN 5895: Personnel Support Activity-Chinhae, South Korea,
  - DSSN 6160: 3rd Force Services Support Group Disbursing-Okinawa, Japan,
  - DSSN 6879: Personnel Support Activity, Far East-Yokosuka, Japan,
  - DSSN 7339: Navy Medical Research Unit 3-Cairo, Egypt,
  - DSSN 7475: Personnel Support Detachment-Sigonella, Italy,
  - DSSN 7668: Personnel Support Detachment-Naples, Italy, and

- DSSN 8814: Personnel Support Detachment-Manama, Bahrain.
- We also planned a limited review of Naval Support Activity-Manama, Bahrain (DSSN 8069) because it is located at the same base as Personnel Support Detachment–Manama, Bahrain (DSSN 8814).
- We evaluated internal controls over COMA at each DSSN, as required by the DoD Federal Management Regulation. To determine whether controls were effective and adequate, we assessed management’s operating procedures and implementation of the DoD FMR in the following areas:
  - disbursing, deputy disbursing, and agents,
  - cash verifications,
  - cash security,
  - payments and collections,
  - statements of accountability,
  - foreign currencies, and
  - limited depository accounts.

## **Review of Internal Controls**

We identified internal control weaknesses that we consider to be material. DoD Instruction 5010.40, “Managers’ Internal Control (MIC) Program Procedures,” January 4, 2006, states that a material weakness is a reportable condition that the head of the DoD Component determines to be significant enough to be reported to the next level of management. Internal controls are the organization, policies, and procedures that help program and financial managers achieve results and safeguard the integrity of their programs. Internal and physical controls overall were not effective to ensure that COMA was properly recorded, reported, and safeguarded (see Finding B). Implementing Recommendations B.1.a., B.1.b., and B.1.c., will improve the internal control structure at DoN disbursing offices. The finding section discusses the details of the internal control weaknesses identified during the audit. A copy of the final report will be provided to the senior official responsible for internal controls in the Office of the Assistant Secretary of the Navy, Financial Management and Comptroller.

## **Use of Computer-Processed Data**

To achieve the audit objective, we relied upon computer-processed data extracted directly from the Defense Cash Accountability System (DCAS). DCAS is the single cash accountability system used throughout DoD for cash accountability and reporting of General Funds, Defense Working Capital Fund, and Security Assistance funds. Specifically, we relied upon DCAS output that included DoN disbursing officers’ Standard Form 1219 (monthly Statement of Accountability) and Department of Defense Form 2657 (Daily Statement of Accountability).

We did not perform a formal reliability assessment of the computer-processed data, such as general or application controls evaluations. However, we did not find significant errors between the computer-processed data and DoN disbursing source documents that

would preclude use of the DCAS-processed data to meet the audit objective or that would change the conclusions in this report.

## **Prior Coverage**

During the last 5 years, the Department of Defense Inspector General (DoD IG) and the Naval Audit Service have issued 5 reports discussing internal controls over COMA within DoD components. Unrestricted DoD IG reports can be accessed at [www.dodig.mil/audit/reports](http://www.dodig.mil/audit/reports). Unrestricted Naval Audit Service reports can be accessed at [www.hq.navy.mil/NavalAudit](http://www.hq.navy.mil/NavalAudit).

### ***DoD IG***

DoD IG Report No. D-2007-028, “Controls Over Army Cash and Other Monetary Assets,” November 24, 2006

DoD IG Report No. D-2006-01, “Report on the Foreign Military Sales Trust Fund Cash Management,” November 7, 2005

### ***Naval Audit Service***

Naval Audit Service Report No. N2007-0050, “Navy Disbursing Officers’ Accountability,” August 29, 2007

Naval Audit Service Report No. N2007-0046, “Internal Controls Over Disbursing Office Operations in Bahrain,” July 23, 2007

Naval Audit Service Report No. N2006-0047, “Cash Accountability of Department of the Navy Disbursing Offices for Hurricane Katrina Relief Fund,” September 22, 2006



## Appendix B. Potential Monetary Benefits

Recommendation Reference	Description of Benefits	Amount and/or type of Benefit
C.	Economy and Efficiency: Avoiding excessive payments for the exchange of foreign currency.	Funds put to better use: Approximately \$560,000 of U.S. Treasury funds.
D.2.	Economy and Efficiency: Effective utilization of military personnel.	Funds put to better use: Approximately \$814,000 of appropriated funds for military pay.



# Under Secretary of Defense (Comptroller)/ Chief Financial Officer Comments



COMPTROLLER

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

JUN 02 2008

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

SUBJECT: Comments to Draft Audit Report, "Internal Controls Over Navy, General  
Fund, Cash and Other Monetary Assets Held Outside of the Continental  
United States," (Project No. D2007-D000FN-0142.000)

This memorandum forwards the Under Secretary of Defense (Comptroller)  
response to the subject draft DoD Inspector General report, dated May 2, 2008.  
A copy of the response is attached.

We appreciate the opportunity to respond to your draft audit report. My point of  
contact is Ms. Audrey Clark. She can be reached by telephone at 703-602-0370 or  
email at [audrey.clark@osd.mil](mailto:audrey.clark@osd.mil).

A handwritten signature in cursive script, appearing to read "D. Smith".

David P. Smith  
Acting Deputy Chief Financial Officer

Attachment:  
As stated

DOD OIG DRAFT REPORT DATED MAY 2, 2008  
PROJECT NO. D2007-D000FN-0142.000

“INTERNAL CONTROLS OVER NAVY, GENERAL FUND, CASH AND OTHER  
MONETARY ASSETS HELD OUTSIDE OF THE UNITED STATES”

OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER)  
(OUSD)(C) COMMENTS TO THE DOD OIG RECOMMENDATIONS

**RECOMMENDATION B.2:** We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD(C) update the Department of Defense Financial Management Regulation (“DoDFMR”), Volume 5, Appendix D to designate an examining organization to perform unannounced disbursing examinations of all current and future operations in Africa, including those of Camp Lemonier in Djibouti and the Naval Medical Research Unit Number 3 in Cairo, Egypt.

**OUSD(C) RESPONSE:** Partially concur. The DoDFMR, Volume 5, Appendix D is a Standard Operating Procedures document intended for use by the Department of Navy, which addresses unique Navy disbursing processing requirements and procedures. Information in Appendix D is a reiteration of information already in Volume 5. We are in discussion with the Department of Navy to remove this Appendix from the DoDFMR. Volume 5, Chapter 3, Section 0302, “Cash Review Requirements”, states that Quarterly Cash Verification Teams are appointed by the installation commanders. These teams conduct quarterly ‘audits’ utilizing the checklist that can be found in the DoDFMR, Volume 5, Appendix A.

**RECOMMENDATION D.1.** We recommend that the USD(C), in conjunction with the Defense Finance and Accounting Service, perform an analysis to determine whether duplication of services inappropriately exists between DoD disbursing operations and military banking facilities overseas, with the intent to eliminate duplicate services. Once the analysis is completed, the USD(C) should provide the potential benefits from resources redirected to better use.

**OUSD(C) RESPONSE:** Partially concur. The DoDFMR, Volume 5, Chapter 4, para. 040101. A. specifically prohibits a disbursing officer from providing accommodation exchange services when a military banking facility, other financial institution or base exchange provides this service. Installation commanders are responsible for enforcing this policy. Therefore, the Military Services must be required to perform the necessary analysis. A memorandum was sent to the Military Services directing them to review those overseas locations where disbursing offices are collocated with military banking facilities. The Military Service must provide a plan of action to eliminate the duplicate service or provide justification for continuance no later than June 30, 2008.

Attachment  
Page 1 of 1

# Assistant Secretary of the Navy (Financial Management and Comptroller) Comments

JUN 20 2008



THE ASSISTANT SECRETARY OF THE NAVY  
(FINANCIAL MANAGEMENT AND COMPTROLLER)  
1000 NAVY PENTAGON  
WASHINGTON DC 20350-1000

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on Internal Controls over Navy, General Fund, Cash and Other Monetary Assets Held Outside of the Continental United States (Project No. D2007-D000FN-0142.000)

The attached contains the responses to recommendations addressed to the Assistant Secretary of the Navy (Financial Management and Comptroller) and other Navy disbursing operational organizations. Recommendations directed to organizations outside of the Department of the Navy replied directly to the Office of the Inspector General under separate cover.

My points of contact for this issue are Mr. Dean Hunstad, dean.hunstad@navy.mil, (202) 685-6734 and Mr. Donald Chewning, donald.chewning.ctr@navy.mil, (202) 685-6709.

  
Mark E. Easton  
By direction

Attachments:  
As stated

cc:  
OUSD(C)  
DFAS-CL  
CFFC  
COMNAVSUPSYSCOM  
CNIC

**ASSISTANT SECRETARY OF THE NAVY  
(FINANCIAL MANAGEMENT AND COMPTROLLER)  
RESPONSE TO  
DODIG DRAFT AUDIT REPORT ON INTERNAL  
CONTROLS OVER NAVY, GENERAL FUND, CASH AND  
OTHER MONETARY ASSETS HELD OUTSIDE OF THE  
CONTINENTAL UNITED STATES  
(PROJECT NO. D2007-D000FN-0142.000)**

**Finding B. Internal Controls Over Cash**

**Recommendation B.1:** We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) improve disbursing operations by strengthening existing procedures for the issuance of appointment letters, security over cash and other monetary assets, and unannounced examinations. Specifically, the Assistant Secretary of the Navy (Financial Management and Comptroller) should:

**Recommendation B.1.a:** Improve procedures for the preparation and issuance of appointment letters to ensure that appointment letters include the appointee's duties and a statement confirming the counseling of appointees with regard to pecuniary liability and that appointees were given written operating instructions.

**ASN(FM&C) Response:** Concur. The organizations with responsibility for disbursing functions in the Department of the Navy (DoN) will bring their operations into compliance with Department of Defense (DoD) policy for disbursing.

Target completion date: October 1, 2008

**Recommendation B.1.b:** Strengthen procedures to ensure that cash verifications include: the performance of physical cash counts; the verification of blank check stock; the review of cash-holding authorizations; and the reconciliation and verification of limited depository accounts at all Department of the Navy disbursing offices. In addition, we recommend that procedures be strengthened to ensure that cash verification reports contain all required elements stipulated by the DoD Financial Management Regulation volume 5, appendix A.

**ASN(FM&C) Response:** Concur. The organizations with responsibility for disbursing functions in the DoN will bring their operations into compliance with DoD policy for disbursing.

Target completion date: October 1, 2008

**ASSISTANT SECRETARY OF THE NAVY  
(FINANCIAL MANAGEMENT AND COMPTROLLER)  
RESPONSE TO  
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**Recommendation B.1.c:** Improve physical security procedures at Department of the Navy disbursing offices. Specifically, we recommend the development and documentation of security programs that incorporate requirements for personnel protection, periodic reviews of security, testing security equipment, and for security measures that are capable of protecting the maximum amount of public funds authorized by the disbursing officials' cash-holding authority.

**ASN(FM&C) Response:** Concur. The organizations with responsibility for disbursing functions in the DoN will bring their operations into compliance with DoD policy for disbursing.

Target completion date: October 1, 2008

**Finding C. Currency Exchange Rate**

**Recommendation C:** We recommend that the Commander, Naval Support Activity-Bahrain, establish procedures to ensure that the DO obtain the most beneficial exchange rate when exchanging U.S. dollars for Bahraini Dinar.

**CNIC Response:** Concur in Principal. NSA Bahrain agrees to establish procedures to ensure that the DO obtain the most beneficial exchange rate when exchanging U. S. dollars for Bahraini Dinar and is consistent with the Status of Force Agreement or memorandum of agreement with the Government of Bahrain.

Target completion date: August 31, 2008

**Finding D. Duplication of Banking Services**

**Recommendation D.2:** We recommend that the Commander, Personnel Support Detachment Naples, complete the elimination of duplicate banking services at the earliest possible date.

**CNIC Response:** Concur. The Capodichino cash cage under PSD Naples, Italy was closed on February 15, 2008.

Completion date: February 15, 2008



# Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE  
1240 EAST NINTH STREET  
CLEVELAND OHIO 44199

DFAS-JBB/CL

JUN 04 2008

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCIAL AUDITING SERVICE,  
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF  
DEFENSE (ATTN: MR. EDWARD A. BLAIR)

SUBJECT: Office of the Inspector General Draft Report, Project No. D2007-D000FN-0142.000,  
"Internal Controls Over Navy, General Fund, Cash and Other Monetary Assets Held  
Outside of the Continental United States," dated May 8, 2008

The Defense Finance and Accounting Service is providing the attached response to  
Finding A and Recommendations B.2 and D.1 of the subject draft audit report in Attachment 1.

The point of contact is Mr. Stanley Koch. Mr. Koch can be reached at 216-204-7066 or  
DSN 580-5628.

  
Martha J. Smith  
Director, DFAS Cleveland

Attachment:  
As stated

cc:  
DFAS-HIP/IN  
USD(C)/CFO  
ASN(FM&C)

**DFAS Comments to DoD IG Draft Report, Project No. D2007-D000FN-0142.000,  
“Internal Controls Over Navy, General Fund, Cash and Other Monetary Assets  
Held Outside of the Continental United States,” dated May 8, 2008.**

**Finding A. Reporting of Cash and Other Monetary Assets – Statement Page 3.**

The Department of the Navy (DoN) Consolidated General Fund Balance Sheet incorrectly included items that were not cash or other monetary assets on the cash and other monetary assets line. Specifically, the balance sheet inappropriately classified items such as losses of funds and receivables as cash and other monetary assets. This occurred because the DFAS standard operating procedures for reporting cash and other monetary assets instruct accountants to record the total amount of disbursing officer accountability as cash and other monetary assets for financial statement reporting purposes. These procedures were inaccurate because the Department of Defense Financial Management Regulation did not define which items should be classified as cash as other monetary assets. As of September 30, 2007, DoN had overstated the Consolidated General Fund Balance Sheet by more than \$2.4 million.

**Recommendation – Statement Page 5.**

This report is one in a series leading up to an agency-level review of DoD Cash and Other Monetary Assets reporting. Assets that are incorrectly classified as Cash and Other Monetary Assets not only affect the reporting component’s balance sheet, but also the DoD balance sheet. We will make recommendations on this finding in the report, “Internal Controls over DoD Accountability Statements and Financial Reporting of DoD Cash and Other Monetary Assets.

**General Management Comments to Statements in Finding A and Recommendation.** DFAS Partially Concur. As of September 30, 2007, the balance sheet, taken as a whole, was not overstated by \$2.4 million. The \$2.4 million from the Disbursing Officers Accountability Report (SF 1219) was simply misclassified due to the fact that DFAS Cleveland accountants recorded disbursing officer cash according to Department of Defense Financial Management Regulation Volume 6B Chapter 4. This FMR regulation is vague and has since been clarified by the Office of Secretary of Defense with additional Fiscal Year 2008, 2<sup>nd</sup> Quarter, Audited Financial Statement guidance. Specifically, “Financial Reporting Guidance” OUSD Attachment 205 – Disbursing Officers Accountability Report (SF 1219) now dictates how the line items on the SF 1219 are to be recorded on the balance sheet.

**Finding B. Internal Controls over Cash.**

**Recommendation B.2.** We recommend that the Under Secretary of Defense (Comptroller)/ Chief Financial Officer update the DoD Financial Management Regulation volume 5, appendix D to designate an examining organization to perform unannounced disbursing examinations of all current and future operations in Africa, including those of Camp Lemonier in Djibouti and the Naval Medical Research Unit Number 3 in Cairo, Egypt.

**DFAS Comments to DoD IG Draft Report, Project No. D2007-D000FN-0142.000,  
“Internal Controls Over Navy, General Fund, Cash and Other Monetary Assets  
Held Outside of the Continental United States,” dated May 8, 2008.**

**Management Comments.** Non-Concur. Non-compliance with the DoD Financial Management Regulation does not require that the FMR be changed.

**Completion Date.** Not Applicable.

**Finding D. Duplication of Banking Service.**

**Recommendation D.1.** We recommend that the Under Secretary of Defense (Comptroller), in conjunction with the Defense Finance and Accounting Service, perform an analysis to determine whether duplication of services inappropriately exists between DoD disbursing operations and military banking facilities overseas, with the intent to eliminate duplicate services. Once the analysis is completed, the Under Secretary of Defense (Comptroller) should provide the potential benefits from resources redirected to better use.

**Management Comments.** Non-Concur. DoD Financial Management Regulation Volume 5 Chapter 4 paragraph 040101.C specifically prohibits a disbursing officer from providing accommodation exchange services when a military banking facility, other financial institution or base exchange provides this service. There is no need to conduct a study to determine whether the Services’ overseas disbursing offices are providing check cashing operations on military installations that include a military banking facility.

**Completion Date.** Not Applicable.



## **Team Members**

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

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# Inspector General Department of Defense

