



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
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April 6, 2012

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE  
DIRECTOR, FINANCIAL IMPROVEMENT AND AUDIT  
READINESS, UNDER SECRETARY OF DEFENSE  
(COMPTROLLER)

SUBJECT: Inspector General of the Department of Defense Report No. D-2011-098, "Defense Finance and Accounting Service Needs to Improve Controls Over the Completeness and Accuracy of the Cash Management Report," August 15, 2011.

We are revising specific pages in the subject report to address a rounding error identified after publishing. The revisions are minor and do not affect the overall findings, conclusions, and recommendations presented in the original report. We are incorporating the following updates to the subject report that is located on our Web site at <http://www.dodig.mil/Audit/reports/index.html>.

We are revising the first bullet "\$9.04 billion in variances..." on the Finding page. The variance is now \$9.03 billion. However, this does not affect our overall finding that the Cash Management Report did not attribute approximately \$10.5 billion in transactions to the Other Defense Organizations responsible for reconciling and accounting for the transactions. We are also changing the \$9.04 billion to \$9.03 billion in the second paragraph of page 7 as well as the second paragraph of page 9. Please reference the attached pages as replacement pages for any copies of the subject report in your possession. We have revised only the pages indicated and no other information in the report has been modified. You can also access a complete revised version on our Web site as indicated in the previous paragraph.

We did not request comment in the original transmittal of this report, and since the revisions made are minor in nature, we do not request comments on these revisions.

If you have any questions on the revisions, please contact me at (703) 604-8905.

A handwritten signature in cursive script, reading "Amy J. Frontz".

Amy J. Frontz  
Principal Assistant Inspector General  
for Auditing

Attachment:

As stated

## **Finding. The Cash Management Report was Incomplete and Inaccurate**

The Cash Management Report (CMR) was not complete or accurate. Specifically, the CMR did not attribute approximately \$10.5 billion in transactions to the Other Defense Organizations (ODOs) responsible for reconciling and accounting for the transactions. The \$10.5 billion consisted of:

- \$9.03 billion in variances between the amounts reported on the CMR and the amounts reported by the U.S. Treasury, of which \$517 million existed prior to October 2004,
- \$704.5 million in disbursements and collections reported on the CMR that were not charged to the specific ODOs that were responsible for the transactions, and
- \$749.1 million in disbursement and collection transactions that Defense Finance and Accounting Service (DFAS) Indianapolis did not include on the CMR because the transactions were being held in suspense accounts as a result of not having the necessary information to properly record the transactions.

These deficiencies occurred because DFAS Indianapolis did not establish processes, as required by the U.S. Treasury, to properly research and resolve amounts that the CMR did not charge to a specific ODO on a regular and recurring basis; ODO submitters did not report transactions to DFAS Indianapolis with valid Lines of Accounting (LOAs), which are necessary to accurately charge the ODO responsible for reconciling and accounting for the transactions; and DFAS Indianapolis did not establish a process for communicating with ODO submitters to resolve outstanding and emerging issues in the reporting process. Because the ODOs use the amounts on the CMR as a control total for reconciling to the U.S. Treasury, these unresolved variances undermine the reliability of the CMR as a Fund Balance with Treasury (FBWT) reconciliation tool. In addition, FBWT is the largest line item on the ODO General Fund financial statements. Therefore, until adequate compensating controls are implemented, these deficiencies will also have a significant negative effect on an ODO's ability to obtain a favorable financial statement audit opinion.

### **Effect of an Incomplete and Inaccurate Cash Management Report**

The transactions for the 54 ODOs are commingled in the U.S. Treasury Index (TI) 97 account. As a result, the ODOs cannot reconcile their FBWT general ledger accounts directly to amounts reported by the U.S. Treasury. DFAS Indianapolis developed the CMR to allocate the U.S. Treasury totals to the individual ODOs. The ODOs then use the amounts on the CMR as a control total for reconciling to the U.S. Treasury. However, when added together, the amounts reported on the CMR for the 54 ODOs do not match the amounts reported by the U.S. Treasury. This means that some transactions reported to the U.S. Treasury were not reported on the CMR. Because the U.S. Treasury does not track which ODO is responsible for the transactions recorded in the TI 97 account, it is impossible to determine which ODO's CMR amounts are incomplete or inaccurate. As a result, even if an ODO was able to reconcile its FBWT general ledger account to the CMR at the transaction-level, there is still a risk that the reconciliation did not

include material amounts that should have been charged to their agency. An incomplete or inaccurate FBWT reconciliation prevents unauthorized transactions from being detected, which increases the risk of fraud, waste, and mismanagement.

## U.S. Treasury Variances Need to be Reconciled

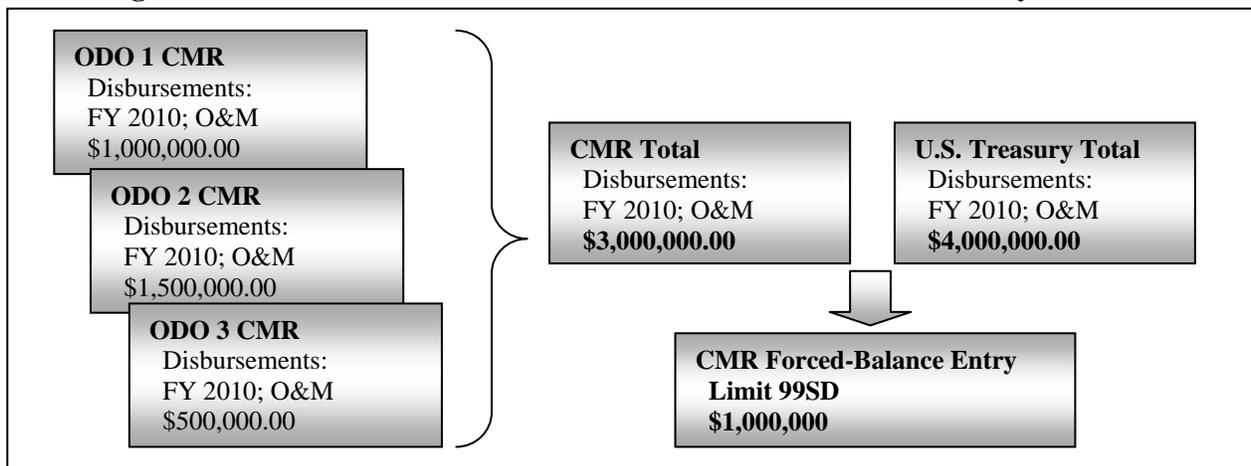
The CMR was not complete because DFAS Indianapolis did not establish adequate procedures to reconcile and resolve approximately \$9.03 billion in variances between amounts reported on the CMR and amounts reported by the U.S. Treasury. Instead, DFAS Indianapolis posted adjustments to the CMR to force the report to balance to amounts reported by the U.S. Treasury. However, DFAS Indianapolis could not provide adequate reconciliations to identify the causes of the variances or support the adjustments made to the CMR.

### *Forced-Balance Entries Required to Match U.S. Treasury*

DFAS Indianapolis posts forced-balance entries to the CMR to bring the totals reported on the CMR into agreement with the totals reported by the U.S. Treasury. The Headquarters Accounting and Reporting System (HQARS) systematically totals the disbursement transactions reported on the CMR for all ODOs to calculate the total disbursement transactions for each appropriation at the fiscal year, basic symbol level. HQARS performs a similar calculation for collection and funding transactions. HQARS then compares the CMR totals to the total amounts reported by the U.S. Treasury. DFAS Indianapolis eliminates any calculated variances by posting forced-balance entries to the CMR.<sup>5</sup> Figure 4 shows how HQARS calculates a CMR forced-balance entry to bring the total disbursements reported on the CMR for the FY 2010, Operation and Maintenance (O&M) appropriation into agreement with the amount reported by the U.S. Treasury.

*DFAS Indianapolis eliminates any calculated variances by posting forced-balance entries to the CMR.*

**Figure 4. Calculation of the Limit 99SD CMR Forced-Balance Entry**



<sup>5</sup>The forced-balance entries are reported in the following limits on the CMR: 99SD for disbursement variances; 99SC for collection variances; 99UF for funding variances; and 99SA for disbursement, collection, and funding variances from prior to October 2004.

to the amounts charged to it on the CMR may be reconciling to incomplete amounts and inaccurately adjusting its FBWT accounts.

### ***Old U.S. Treasury Variances Have Not Been Resolved***

In addition to the variances reported in limits 99SD, 99SC, and 99UF, the CMR reported a \$517 million variance in limit 99SA. Prior to October 2004, HQARS consolidated disbursement, collection, and funding variances into one account, limit 99SA. DFAS personnel stated that the variances in limit 99SA were inherited from former FBWT processes and have remained unchanged. However, the variances, even if unchanged, represent a material amount of the difference between the CMR and the U.S. Treasury (\$517 million of the \$9.03 billion). In addition, the majority of the variances in limit 99SA are “no-year funds” which do not expire. Therefore, there is no definitive time when these variances would cease to negatively impact the reliability of the ODO FBWT accounts and the reliability of the CMR. DFAS Indianapolis personnel stated that researching and resolving the variances reported in limit 99SA would be extremely difficult because the variances were inherited from former processes and do not expire. However, a proper reconciliation of limit 99SA may potentially identify funding that could be available for future spending. If DFAS Indianapolis cannot charge the variances in limit 99SA to the responsible ODO, DFAS Indianapolis should coordinate with the Director, Financial Improvement and Audit Readiness, Office of the Under Secretary of Defense (Comptroller) to develop a comprehensive plan for remediating the variances reported in limit 99SA.

*DFAS Indianapolis personnel stated that researching and resolving the variances reported in limit 99SA would be extremely difficult because the variances were inherited from former processes and do not expire.*

### **Transactions Need to be Charged to an Other Defense Organization**

The CMR was not accurate because DFAS Indianapolis did not establish adequate procedures to reconcile and resolve \$704.5 million of disbursement and collection transactions reported in the undistributed limits. Undistributed limits are used to record transactions that do not have all of the information necessary for HQARS to charge the transactions to one of the 54 ODOs on the CMR. The transactions will remain in the undistributed accounts until they can be researched, resolved, and charged to the ODO responsible for accounting for the transactions. Transactions in the undistributed limits undermine the integrity of the CMR and the reliability of any attempts to reconcile the FBWT general ledger accounts to the CMR. DFAS Indianapolis personnel stated that the primary cause of the undistributed limits was that submitters reported transactions to DFAS Indianapolis with invalid or unfunded LOAs.

### ***Negative Effect of Undistributed Limits on the CMR***

Transactions in the undistributed limits resulted in misstatements of the amounts reported on the CMR. The December 2009 CMR reported \$704.5 million of disbursement and collection