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March 10, 2006

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# Financial Management

## Report on Internal Controls Over Departmental Expenditure Operations at Defense Finance and Accounting Service Indianapolis (D-2006-063)

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Department of Defense  
Office of Inspector General

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### **Acronyms**

DCAS	Defense Cash Accountability System
DFAS	Defense Finance and Accounting Service
DFAS-IN	Defense Finance and Accounting Service Indianapolis
FMR	Financial Management Regulation
HQARS	Headquarters Accounting and Reporting System
SOT	Statement of Transactions
TBO	Transactions by Others
TFO	Transactions for Others
TI	Treasury Index
UMD	Unmatched Disbursement



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March 10, 2006

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE

SUBJECT: Report on Internal Controls Over Departmental Expenditure Operations  
at Defense Finance and Accounting Service Indianapolis  
(Report No. D-2006-063)

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

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the staff. Questions should be directed to Carmelo G. Ventimiglia at (317) 510-3855 (DSN 699-3855) or Mr. Stephen C. Borushko at (317) 510-3848 (DSN 699-3848). For the report distribution, see Appendix E. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

A handwritten signature in black ink, reading "Paul J. Granetto", is positioned above the typed name.

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

## Department of Defense Office of Inspector General

Report No. D-2006-063

March 10, 2006

(Project No. D2005-D000FI-0195.000)

### Internal Controls Over Departmental Expenditure Operations at Defense Finance and Accounting Service Indianapolis

#### Executive Summary

**Who Should Read This Report and Why?** DoD and Army financial management personnel responsible for promoting proper financial management and preparing financial statements, other DoD personnel responsible for fund control, and Defense Finance and Accounting Service Indianapolis personnel responsible for expenditure reporting operations should read this report. The report discusses the adequacy of internal controls over departmental expenditure operations at the Defense Finance and Accounting Service Indianapolis.

**Background.** The Defense Finance and Accounting Service provides finance and accounting support for DoD. The Defense Finance and Accounting Service Indianapolis, Expenditure and Reporting Division collects, adjusts, and compiles financial data for all collections and disbursements made by disbursing stations in the Defense Finance and Accounting Service Indianapolis network. Disbursement and collection processes include Cross Disbursing In, Cross Disbursing Out, Transactions by Others, and Transactions for Others.

**Results.** Defense Finance and Accounting Service Indianapolis did not fully adhere to DoD policy for clearing unresolved transactions and did not ensure the proper resolution of disbursement transactions more than 6 months old. Until Defense Finance and Accounting Service Indianapolis corrects identified problems, the risks of fraudulent or illegitimate transactions going undetected and inaccurate or incomplete accountability over unobligated balances for Treasury Index 21 appropriations are increased. The Director of Defense Finance and Accounting Service Indianapolis should improve internal controls over clearing departmental expenditure transactions by enforcing DoD Financial Management Regulation policies, separating expenditure functions for both Army and Defense agencies, establishing performance metrics with monthly reviews of uncleared transactions, and updating the Internal Control Program self-evaluation for the Expenditure and Reporting Division. (See the Finding section for the detailed recommendations.)

**Management Comments.** The Defense Finance and Accounting Service Director for Indianapolis Operations concurred with the recommendations. The Director for Indianapolis Operations stated that additional expenditure functions were transferred to Defense Agencies Indianapolis Operations. The Director also stated that field accounting sites will be monitored on compliance with overaged disbursement policy, alternative clearance actions will be performed when necessary, and the self-evaluation of the Cross Disbursing In Branch assessable unit will be reviewed and updated. 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

The Defense Finance and Accounting Service (DFAS) provides finance and accounting support for DoD and its entities. The Expenditure and Reporting Division in the Directorate for Departmental Accounting, DFAS Indianapolis (DFAS-IN) is responsible for performing centralized expenditure accounting, reporting, analysis, reconciliation, and reporting of funds for Department of Treasury. Disbursement and collection processes include Cross Disbursing In, Cross Disbursing Out, Transactions by Others (TBO), and Transactions for Others (TFO). See Appendix B for a glossary of terms used in this report.

For May 2005, the Expenditure and Reporting Division processed disbursement transactions totaling approximately \$16.2 billion. Approximately \$12.7 billion of the \$16.2 billion pertained to Army (Treasury Index [TI] 21) appropriations. The Expenditure and Reporting Division also processed Army collection transactions totaling \$1.8 billion.

## Departmental Expenditure Operations

Within the DFAS-IN network, departmental expenditure operations apply specifically to Army General Fund financial reporting. TI 21 appropriations are relevant to the Army General Fund financial statements. The DFAS-IN network also processes Office of the Secretary of Defense (TI 97) appropriations that are reported on the DoD agency-wide financial statements. See Appendix C for further discussion on expenditure transactions and how DFAS-IN clears expenditure transactions. Appendix D discusses the effect of departmental expenditure operations on the reporting of Fund Balance with Treasury on the Army General Fund financial statements.

## Criteria

**DoD Financial Management Regulation.** DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” (FMR), volume 3, chapter 11, “Unmatched Disbursements, Negative Unliquidated Obligations, In-Transit Disbursements, and Suspense Accounts,” January 2001, prescribes standards and requirements to establish and maintain financial control over disbursements, collections, and adjustments affecting fund balances with the Treasury and cash resources not part of Fund Balance with Treasury. The DoD FMR also sets requirements for researching and correcting in-transit disbursements and managing and establishing obligations for unmatched disbursements (UMDs) and negative unliquidated obligations.

**DFAS Indianapolis Regulation.** DFAS-IN Regulation 37-1, “Finance and Accounting Policy Implementation,” implements DoD FMR policy and other higher-level criteria, as it pertains to the DFAS-IN network.

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**Chapter 19, “In-Transit Disbursements,” March 2003.** Chapter 19 identifies DFAS-IN responsibilities regarding the control of cross-disbursements and TBO/TFO transactions until clearance. Specifically, chapter 19 establishes requirements for:

- processing, managing, and clearing TBO/TFO transactions;
- processing cross-disbursements;
- processing chargebacks; and
- discontinuing research for in-transit transactions.

**Chapter 27, “TBO/TFO Transaction Reviews,” March 2002.** Chapter 27 discusses the various analyses, reviews, and reconciliations that are necessary to maintain the accuracy and integrity of the accounting process. Section 2711 requires accounting stations to reconcile all cross-disbursing and TBO/TFO transmittals and transactions using accounting system output. The reconciliations should include the analysis of prior month errors and the monitoring and clearing of suspended TBO transactions.

## Objective

Our audit objective was to evaluate the adequacy of internal controls over departmental expenditure operations at DFAS-IN. We also reviewed the managers’ internal control program as it related to the audit objective. See Appendix A for a discussion of the scope and methodology and for prior coverage related to the objective.

## Managers’ Internal Control Program

DoD Directive 5010.38, “Management Control 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 (internal) controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

We evaluated the DFAS-IN internal controls over departmental expenditure operations. Specifically, our review focused on the Analysis and Reconciliation and the Expenditure and Reporting Divisions within the Directorate for Departmental Accounting. We reviewed the adequacy of management’s self-evaluation of controls over adhering to DoD policy for clearing disbursement transactions and ensuring the proper resolution of disbursement transactions.

The Cross Disbursing In Branch in the Expenditure and Reporting Division manages and reconciles the Statement of Transactions (SOT) and detail-level information from other DoD offices and non-DoD agencies. The Cross

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Disbursing In Branch assessable unit's self-evaluation did not identify or report its failure to fully adhere to DoD policy for clearing unresolved transactions or for ensuring the proper resolution of disbursement transactions more than 6 months old. Although this may not be a material internal control weakness as defined by DoD Instruction 5010.40, the policy requires accurate self-evaluations. Recommendations 1, 2, and 3, when implemented, will correct the internal control weakness. Recommendation 4 provides for more accurate assessment and reporting of internal controls within the Cross Disbursing In Branch. The Finding section of this report discusses the details of the weakness and the adequacy of management's self-evaluation process.

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## Internal Controls Over Departmental Expenditure Transaction Clearances

DFAS-IN did not fully adhere to DoD policy for clearing unresolved transactions and did not ensure the proper resolution of disbursement transactions more than 6 months old. This occurred because DFAS-IN did not establish the internal control structure needed to ensure that Army departmental expenditure transactions were cleared in accordance with prescribed policy. In addition, the failure to separate the Army General Fund expenditure function from the Defense agency expenditure function unnecessarily complicated the management, control, and clearance of disbursement transactions. Until DFAS-IN corrects these problems, the risks of fraudulent or illegitimate transactions going undetected and inaccurate or incomplete accountability over unobligated balances for TI 21 appropriations are increased. The Fund Balance with Treasury line on the Balance Sheet and the required note disclosures may also be misstated.

### Uncleared Transactions

**Clearance Policy.** The DoD FMR requires that a disbursement be matched to its corresponding detail-level obligation and recorded in the accounting records as promptly as current systems and business practices reasonably permit. TBO/TFO transactions generally should be cleared by 6 months after the disbursement date. Cross-disbursing transactions should be cleared by 8 months after the disbursement date. DFAS policy allows an additional 2 months for the submitting DFAS Accounting Centralized Field Site (also referred to as a DFAS Center) to provide supporting documentation for cross-disbursing transactions. Therefore, the DFAS Accounting Centralized Field Site should take alternative clearance actions after 6 months for TBO/TFO transactions and 8 months for cross-disbursing transactions. See Appendix C for additional information on how DFAS-IN clears expenditure transactions.

**Transaction Files.** DFAS-IN maintained separate local data files for uncleared cross-disbursing and TBO/TFO transactions. The files included the C5BS file for cross-disbursing transactions more than 8 months old and the Uncleared File for all uncleared TBO/TFO transactions. The data files were not used for external reporting. The data files contained:

- TI 21 transactions submitted by accounting stations within the DFAS-IN network,
- TI 21 transactions submitted by accounting stations outside the DFAS-IN network,

- TI 97 transactions submitted by accounting stations within the DFAS-IN network that only affected TI 97 Defense agencies, and
- TI 97 transactions submitted by accounting stations outside the DFAS-IN network that only affected TI 97 Defense agencies.

The May 2005 cross-disbursing and TBO/TFO data files contained 22,536 TI 21 and TI 97 transactions that had not cleared within 6 months of the disbursement date. Some transactions dated back to FY 1995. See Table 1 for additional information on uncleared transactions citing TI 21 and TI 97 appropriations. The responsibility for clearing these transactions falls under both DFAS-IN and DFAS Columbus.

<b>Table 1. Uncleared Transactions Citing TI 21 and TI 97 Appropriations</b>			
		<b>Summary to Detail Variance</b>	
<b>Type of Transaction</b>	<b>Number of Transactions</b>	<b>Net Value (\$ millions)<sup>1</sup></b>	<b>Absolute Value (\$ millions)</b>
Not Allocated to the Army <sup>2</sup>	5,924	\$( 1,933.7)	\$ 41,731.0
Air Force <sup>3</sup>	2,742	(1.4)	1,886.1
Navy <sup>3</sup>	9,610	102.5	1,777.5
State Department <sup>4</sup>	2,093	2.8	464.9
Treasury <sup>4</sup>	79	1.8	1,642.8
Central Disbursing Services, Indianapolis <sup>5</sup>	564	9.9	11.3
Defense Agencies <sup>6</sup>	344	(16.9)	25.8
Other <sup>7</sup>	1,180	(21.6)	68.9
<b>Total</b>	<b>22,536</b>	<b>\$( 1,856.6)</b>	<b>\$ 47,608.3</b>
<sup>1</sup> Dollar values in parentheses indicate that the value of total clearing records exceeds the value of total charge records for a particular type of transaction. <sup>2</sup> Transactions under the accounting control of DFAS Denver or DFAS Cleveland that were reported to DFAS-IN for the sole purpose of keeping the Army departmental books current. DFAS-IN only had to post transactions to the accounting records. <sup>3</sup> Cross-disbursing transactions paid by DFAS Denver and DFAS Cleveland, and then submitted to DFAS-IN. <sup>4</sup> The State Department and Treasury submit transactions directly to DFAS-IN. <sup>5</sup> Central Disbursing Services, Indianapolis, submits transactions on behalf of the accounting stations it services. <sup>6</sup> Transactions for Defense agencies that were not under the accounting control of DFAS-IN. The Expenditure and Reporting Division did not have the responsibility for clearing these transactions. DFAS Columbus had responsibility for clearing these transactions. <sup>7</sup> Disbursing stations within the DFAS-IN network not aligned with Central Disbursing Services, Indianapolis.			

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## Internal Control Procedures

DFAS-IN did not ensure that all TBO/TFO transactions cleared within 6 months of the disbursement dates and that all cross-disbursing transactions cleared within 8 months of the disbursement dates. This occurred because DFAS-IN failed to perform the corrective actions for transactions not clearing through automated processes. Specifically, DFAS-IN did not have the internal controls necessary to ensure that all expenditure transactions were cleared in a timely manner. The lack of a separate expenditure operations function for the Army General Fund also unnecessarily complicated the management, control, and clearance of TBO/TFO and cross-disbursing transactions. In addition, DFAS-IN did not take advantage of other alternative clearing actions when transactions were not cleared through established automated procedures or by SOT-to-detail variance reconciliations.

**Reconciliations.** DFAS-IN did not adequately reconcile monthly SOT-to-detail variances on cross-disbursing transactions as required and did not perform the research needed to match SOT-to-detail variances. Reconciliations of SOT-to-detail variance-level transaction data in accordance with the DoD FMR and DFAS-IN Regulation 37-1 would have reduced or eliminated uncleared transactions. DFAS-IN had not placed sufficient emphasis on reconciling SOT-to-detail variances. As a result, SOT and detail information for disbursements made before November 2001 lost its identity when automatically transferred from the cited appropriation to a suspense account. This action made reconciling disbursements that had been made before November 2001 more difficult and time-consuming.

The timely completion of SOT-to-detail variance reconciliations should often be sufficient to clear expenditure transactions not cleared through normal automated processes. By not performing complete reconciliations in a timely manner, DFAS-IN:

- allowed its cross-disbursing data file to expand to a level that required a significant amount of effort to clear the transactions,
- was unable to determine which expenditure transactions could not be cleared,
- was unable to perform clearance actions that may have affected the unobligated balance of some Army appropriations, and
- increased the risk of causing future Antideficiency Act violations in affected appropriations.

Uncleared TBO/TFO transactions older than 6 months and cross-disbursing transactions older than 8 months indicated that designed reconciliation processes did not work and alternative clearing actions were necessary. DFAS-IN should perform a monthly review and reconciliation of all uncleared transactions and ensure the appropriate resolution of expenditure transactions more than 6 months old.

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**Responsibility for Clearing Cross-Disbursing Transactions.** The dual responsibility for clearing TI 97 transactions submitted by accounting stations outside the DFAS-IN network unnecessarily complicated DFAS-IN efforts to clear TI 21 expenditure transactions. DFAS-IN had the dual responsibility for managing and clearing both TI 21 and TI 97 cross-disbursing transactions. Managing and clearing TI 97 transactions should be the responsibility of the DFAS Director of Accounting Services for Defense Agencies. To assist in the timely clearance of both TI 21 and TI 97 expenditure transactions, DFAS-IN should coordinate with the Director of Accounting Services for Defense Agencies to establish and maintain separate expenditure functions for Army departmental expenditure operations and Defense agency expenditure operations.

**Use of Alternative Clearance Actions.** DFAS-IN did not take appropriate alternative clearance actions to resolve TBO/TFO transactions more than 6 months old and cross-disbursing transactions more than 8 months old. Transactions not cleared through established automated procedures or by reconciling SOT-to-detail variances must be cleared in another manner. As provided in the DoD FMR and DFAS-IN Regulation 37-1, alternate clearance actions available to DFAS-IN included establishing obligations of overaged UMDs, using chargebacks, and discontinuing research when adequately justified. As of May 31, 2005, DFAS-IN had not performed alternative clearing actions or transferred accounting responsibility for 15,583 of the 22,536 transactions.<sup>1</sup> We identified 1,571 transactions that could have been resolved through specific alternative clearance actions. DFAS-IN should determine the appropriate alternative clearance action for each of the remaining 14,012 transactions based on which accounting station submitted the transaction, when the transaction was submitted, what the transaction pertains to, and what actions have already been taken to clear the transaction. Submitting uncleared transactions as part of a discontinued research package should only be considered when all other available clearance actions are unsuccessful. See Table 2 for a further breakdown of the number of uncleared transactions requiring alternative clearance actions.

<b>Table 2. Uncleared Transactions Requiring Alternative Clearance Actions as of May 31, 2005</b>	
<b>Alternative Action</b>	<b>Number of Transactions</b>
Establishing Obligations for UMDs	79
Chargebacks	1,492
Potential Discontinued Research	14,012
<b>Total</b>	<b>15,583</b>

The proper use of alternative clearance actions would clear transactions from the data files and reduce or eliminate the need for the C5BS file. The use of

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<sup>1</sup>The 15,583 transactions were subject to alternative clearance actions. DFAS-IN could not have taken alternative clearance actions for the other 6,953 transactions (5,924 transactions that were not allocated to the Army and 344 that originated from Defense agencies). The total also does not include 685 Foreign Military Sales transactions not subject to chargeback or discontinued research requirements.

alternative clearance actions can also help prevent future Antideficiency Act violations in affected TI 21 appropriations by the proper recording of transactions affecting the unobligated account balances.

**Establishing Obligations for Overaged Unmatched Disbursements.** DFAS-IN did not establish obligations for 79 UMDs more than 6 months old, affecting 22 TI 21 appropriations. Table 3 identifies the number and net dollar value of overaged UMDs for which DFAS-IN had not established obligations.

<b>Table 3. Unmatched Disbursements</b>		
<b>Appropriation (TI FY Symbol)</b>	<b>Number of Transactions</b>	<b>Net Value<sup>1</sup></b>
21-0-2020	6	\$ 24,184.00
21-0-2033	1	(32.00)
21-0-2035	4	6,482.01
21-0-2040	1	24,365.00
21-1-2020	1	14,820.47
21-1-2040	2	(57,079.06)
21-1-2065	4	4,485.03
21-2-2033	1	(49,428.76)
21-2-2040	1	166,295.16
21-2-2050	2	10,407.17
21-2-2065	3	15,363.05
21-2-2085	3	(365,094.49)
21-2-2086	1	9,964.00
21-3-2020	9	56,216.30
21-3-2040	4	46,240.20
21-3-2060	1	2,344.89
21-3-2065	8	(17,063.74)
21-3-2085	1	39,402.00
21-4-1081	2	(842.44)
21-4-2020	12	66,295.36
21-4-2060	1	(3,824.35)
21-4-2065	11	(217,114.28)
<b>Total</b>	<b>79</b>	<b>\$(223,614.48)</b>
<sup>1</sup> Dollar values in parentheses indicate that the unobligated balance would be adjusted upward once all transactions have been posted. Dollar values not in parentheses indicate that the unobligated balance would be adjusted downward once all transactions have been posted. Obligations should be established for all transactions at the appropriation level, regardless of the net value.		

Because these UMDs were not established as obligations in the charged appropriations, as required in the DoD FMR, the unobligated balances of the appropriations were misstated by the amounts that should have been obligated. DFAS-IN should establish obligations for all overaged UMDs.

**Use of Chargebacks.** DFAS-IN did not charge back eligible uncleared disbursements made before September 1, 2004. As of May 31, 2005, DFAS-IN had not charged back 1,059 eligible TI 21 transactions originally submitted by DFAS Denver and DFAS Cleveland, some of which dated back to FY 1995. DFAS-IN also had not charged back 433 TI 97 transactions submitted by DFAS Denver and DFAS Cleveland with Army appropriation limits, some of which dated back to FY 1995. See Table 4 for information on the TI 21 and TI 97 transactions that should have been charged back to Air Force and Navy disbursing stations.

<b>Table 4. TI 21 and TI 97 Transactions Not Charged Back</b>				
<b>Submitter</b>	<b>Treasury Index</b>	<b>Number of Transactions</b>	<b>SOT-to-Detail Variance</b>	
			<b>Net Value (\$ thousands)</b>	<b>Absolute Value (\$ thousands)</b>
Air Force	21	177	\$( 79.4)	\$107,186.1
Air Force	97	25	(200.9)	908.6
Navy	21	882	7,463.2	133,042.2
Navy	97	408	(6,989.9)	53,718.4
<b>Total</b>		<b>1,492</b>	<b>\$ 193.0</b>	<b>\$294,855.4</b>

By not charging these transactions back to the submitting Air Force and Navy disbursing stations in accordance with the DoD FMR, DFAS-IN risks inaccurate and incomplete reporting of the unobligated balance for each appropriation. DFAS-IN should charge back all eligible transactions to the submitter.

**Use of Discontinued Research Packages.** DFAS-IN did not request authority from the Assistant Secretary of the Army (Financial Management and Comptroller) or from the funded budget office to discontinue research on as many as 14,012 transactions, with a net value of approximately \$99.9 million, that could not first be cleared in any other manner. In FY 2005, DFAS-IN prepared one discontinued research package that covered multiple F3880 (Check Cancellations and Overpayments) appropriations. This package cleared 765 transactions dated from FY 1990 through FY 2004, netting approximately \$487,000. The Deputy Assistant Secretary of the Army (Financial Operations) approved the package on September 30, 2005. DFAS-IN should identify all transactions that cannot be cleared by other means, prepare additional discontinued research packages for Army-funded appropriations, and request approval to discontinue research on these transactions.

**Tracking Progress.** DFAS-IN had not effectively monitored the use of alternative clearance methods. The existence of uncleared transactions more than 6 months old raises questions about the legitimacy of disbursements previously reported on the SOT and allows for the possibility of fraudulent transactions going undetected. It also increases the risk of multiple disbursements being made for the same obligation, resulting in an increased risk of negative unliquidated obligations and potential Antideficiency Act violations in TI 21 appropriations. Compliance with the DoD FMR is crucial to ensuring that expenditure transactions are properly cleared and to minimizing the potentially adverse effect

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that uncleared transactions have on Army General Fund financial reporting. DFAS-IN should establish and use a performance metric to monitor compliance with policy regarding the clearance of expenditure transactions more than 6 months old.

## **Adequacy of Management's Self-Evaluation**

The assessable unit manager in the Cross Disbursing In Branch did not accurately complete the FY 2005 program evaluation matrix related to two major functions required to validate and certify established internal controls. The Cross Disbursing In Branch was one of the three assessable units in the Expenditure and Reporting Division. The evaluation matrix provides a structured tool to identify control objectives, control techniques, associated risks, and evaluation frequencies for each business process and function. Although the self-evaluation of the Cross Disbursing In Branch assessable unit identified the control objective of reconciling summary SOT-to-detail transactions, the self-evaluation did not report the failure to complete the reconciliations. The self-evaluation of the Cross Disbursing In Branch assessable unit showed the following information.

Major Function Number 2, "Reconcile summary Statement of Transactions extracts to detail transactions," Goal (C) stated that the Branch will initiate a chargeback when detail to summary differences are not resolved within the established time frame and that risks of non-compliance are misstated cash, erroneous charges, and loss of funds. The evaluation of the Control Standards and Evaluation Method stated, "No material weakness found."

Major Function Number 3, "Initiate corrective action and follow up resolution of missing, erroneous, suspense, and rejected cross disbursement transactions," had five relevant self-evaluation goals. They were: (A) Research missing, erroneous, and rejected cross-disbursing transactions promptly; (B) Determine the validity of the missing, erroneous, and rejected transactions; (C) Initiate a chargeback when not resolved within established time frames; (D) Analyze rejected cross disbursement transactions; and (E) Ensure follow-up actions are monitored and resolved promptly. The evaluation of the Control Standards and Evaluation Method for each goal stated, "No material weakness found."

In FY 2005, the Cross Disbursing In Branch assessable unit should have appropriately recognized its failure to identify and fully adhere to DoD policy for clearing unresolved transactions. Based on the audit results, the potential of material misstatement of cash and loss of funds and the impact on Fund Balance with Treasury was not fully considered. DFAS-IN should update the self-evaluation of the Cross Disbursing In Branch assessable unit to reflect these conditions. DFAS-IN should also evaluate these conditions to determine whether they meet the criteria for a material weakness as stated in DoD Instruction 5010.40, "Management Control (MC) Program Procedures,"

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August 28, 1996. If the conditions meet the criteria, then DFAS-IN should report it in its Annual Statement of Assurance.

## Process Improvements

**DFAS-IN Actions.** During the audit, the DFAS-IN Expenditure and Reporting Division initiated process improvements to correct some of the problems in processing departmental expenditure transactions. Specifically, since May 31, 2005, the Division has:

- placed stronger emphasis on reconciling cross-disbursing transactions more than 8 months old,
- begun reconciling aged cross-disbursement transactions and removing those transactions from the cross-disbursing data files,
- begun taking steps to remove any cross-disbursing transactions not allocated to the Army from the cross-disbursing data files,
- established stronger working relationships with accounting personnel in the State Department,
- assigned additional personnel to assist in clearing transactions citing TI 97 appropriations, and
- obligated aged Foreign Military Sales transactions transacted prior to April 1994 against FY 2005 appropriations and removed them from the TBO/TFO Uncleared File.

**TBO/TFO and Cross-Disbursing Data Files.** The number and dollar value of uncleared TBO/TFO and cross-disbursing transactions decreased since the May 2005 processing cycle. From May through October 2005, the number of uncleared transactions (records) in the TBO/TFO Uncleared and C5BS files decreased from 22,536 to 15,861. Specifically:

- From May through October 2005, the total number of records in the TBO/TFO Uncleared File decreased from 9,718 to 8,656, approximately 11 percent. The absolute value of the differences between the charge records and the clearance records decreased from \$288.5 million to \$187.0 million, approximately 35 percent. The October file also indicated a reduction of 16 overaged Foreign Military Sales transactions transacted prior to April 1994, with an absolute value of approximately \$618,000.
- Total records in the C5BS file decreased from 12,818 in May 2005 to 7,205 in October 2005, approximately 44 percent. The absolute value of the SOT-to-detail difference also decreased from \$47.3 billion to \$26.9 billion, approximately 43 percent.

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**Defense Cash Accountability System.** In addition, the Defense Cash Accountability System (DCAS) Work-in-Process Team, within the Expenditure and Reporting Division, has proposed revising the DCAS Standard Operating Procedure. The revision would allow a DFAS Accounting Centralized Field Site to initiate a chargeback for summary out-of-balance cross-disbursing transactions between 4 and 12 months old. A DFAS Accounting Centralized Field Site must now wait until the transactions are between 6 and 12 months old to initiate a chargeback. The effect would be to reduce the likelihood of transactions being placed in the unreconciled cross-disbursing data file for transactions more than 8 months old.

## Summary

The Expenditure and Reporting Division did not clear transactions that ultimately affect the Fund Balance with Treasury account balance on the financial statements in accordance with prescribed policy. By not properly clearing unresolved disbursement transactions within prescribed timeframes, DFAS-IN subjected the unobligated balances of Army appropriations to misstatement and possible Antideficiency Act violations, increased the risk of fraudulent or illegitimate transactions going undetected, and potentially subjected the Fund Balance with Treasury line on the financial statements to material misstatement. DFAS-IN has initiated actions to correct problems with uncleared expenditure transactions. However, additional work needs to be done in order to clear all expenditure transactions more than 6 months old and to develop internal controls that ensure all future expenditure transactions are cleared in accordance with the DoD FMR and DFAS-IN Regulation 37-1. Additionally, DFAS needs to address the weakness in the self-evaluation of the Cross Disbursing In Branch assessable unit of the DFAS managers' internal control program.

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## Recommendations and Management Comments

**We recommend that the Director of Defense Finance and Accounting Service Indianapolis:**

**1. In conjunction with the Director of Accounting Services for Defense Agencies, establish and maintain separate expenditure functions for Army General Fund expenditure operations and Defense agency expenditure operations.**

**Management Comments.** The Defense Finance and Accounting Service Director for Indianapolis Operations concurred and stated that the Transactions by Others and Transactions for Others functions were transferred to the Fund Balance With Treasury Division in FY 2004, and the Army Expenditure Division transferred additional expenditure functions to the Defense Agencies Indianapolis Operations beginning in January 2006.

**2. Perform a monthly review and reconciliation of uncleared transactions and ensure the appropriate resolution of Transactions by Others and Transactions for Others more than 6 months old and cross-disbursing transactions more than 8 months old. Specifically, enforce the DoD Financial Management Regulation policy to:**

**a. Establish obligations for overaged unmatched disbursements.**

**b. Charge back all disbursement transactions to submitters who have not provided sufficient information to clear transactions.**

**c. Request approval from the proper authority to discontinue research on all transactions that cannot be cleared in any other manner.**

**Management Comments.** The Defense Finance and Accounting Service Director for Indianapolis Operations concurred and stated that the Director of Accounting Operations will monitor the field site accounting offices to ensure that they establish obligations for overaged disbursements. The Defense Finance and Accounting Service Director for Indianapolis Operations stated that the Directorate for Departmental Accounting will take all necessary actions to process overaged disbursements and will request approval from the proper authority to discontinue research on all transactions that cannot be obligated or cleared in any other manner. The Director also stated that the Defense Finance and Accounting Service Indianapolis has become more aggressive in processing chargebacks to submitters in accordance with regulatory guidance and is progressing toward completing the current backlog. The estimated completion date is December 31, 2006.

**3. Establish and use management performance metrics to monitor compliance with the DoD Financial Management Regulation and Defense Finance and Accounting Service Regulation Indianapolis 37-1 applicable to clearing disbursement transactions more than 6 months old.**

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**Management Comments.** The Defense Finance and Accounting Service Director for Indianapolis Operations concurred and stated that the Director of Accounting Operations uses the Office of the Secretary of Defense problem disbursement performance metric to measure and manage the clearing of disbursements more than 6 months old. The Director for Indianapolis Operations also stated that the Expenditure Division has developed additional management oversight tools to strengthen the monitoring of uncleared transactions, including a report of all uncleared disbursements more than 120 days old and a report of cross-disbursing transactions by age category.

**4. Update the self-evaluation of the Cross Disbursing In Branch assessable unit in the Expenditure and Reporting Division to reflect the conditions described in this finding. Determine whether the conditions meet the criteria for a material weakness as stated in DoD Directive 5010.38, “Management Control Program,” August 26, 1996, and DoD Instruction 5010.40, “Management Control (MC) Program Procedures,” August 28, 1996. If the conditions meet the criteria for a material weakness, report it in the Annual Statement of Assurance.**

**Management Comments.** The Defense Finance and Accounting Service Director for Indianapolis Operations concurred and stated that the self-evaluation of the Cross Disbursing In Branch assessable unit will be reviewed and updated to reflect the remaining conditions. The estimated completion date is May 31, 2006.

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## Appendix A. Scope and Methodology

DFAS-IN expenditure operations occur on a monthly cycle. We used expenditure data generated during the May 2005 monthly cycle to test the internal control structure surrounding cross-disbursing and TBO/TFO operations. However, because we did not review the processes used by DFAS field accounting stations to accumulate, process, and report monthly expenditure data to DFAS-IN, we were unable to draw any conclusions regarding the quality and reliability of the May 2005 data submitted to DFAS-IN for consolidation and reporting. We also did not review any of the processes regarding interfund reporting within DFAS-IN.

We examined the DFAS-IN processes used to accumulate and process Army departmental cross-disbursing and TBO/TFO transactions. We examined how cross-disbursing and TBO/TFO transactions were cleared and the DFAS-IN actions taken to clear previously unresolved transactions. We reviewed the May 2005 “C5AS” and “C5BS” data files and the “TBO/TFO Uncleared File” for cross-disbursing and TBO/TFO expenditure transactions not processed within the timeframes prescribed by DoD and DFAS policy. We examined how cross-disbursing and TBO/TFO transaction data were used in required problem disbursement reporting and their effect on overall Fund Balance with Treasury reporting on the Army General Fund financial statements.

We performed this audit from May through December 2005 in accordance with generally accepted government auditing standards.

**Computer-Processed Data.** There are two streams of data feeding the cross-disbursing and TBO/TFO processes: the Headquarters Accounting and Reporting System (HQARS) and the Defense Cash Accountability System (DCAS). Disbursing stations and accounting stations electronically submit expenditure data to DFAS-IN. Expenditure data are entered into the HQARS expenditure processing modules where the data undergoes a series of internal edits. DCAS is the DoD-wide system for processing cross disbursements and collections. The system is designed to establish a transaction-level database for use in reconciling balances between DFAS field organizations and the Treasury. Treasury reporting information, such as that reported on the SOT, flows through HQARS. Detailed transactional support for the disbursement process, such as obligation documents, flows through DCAS.

The Department of Defense Inspector General (DoD IG) has reported, and DoD has acknowledged, that complex, long-standing, and pervasive financial management system weaknesses prevent DoD from receiving an unqualified opinion on its financial statements. Because of the acknowledged unreliability of DoD financial management systems, we did not test the reliability of the expenditure accounting data submitted from field sites to HQARS or from field sites into DCAS. This type of examination would have required reconciling the data submitted to detail records that are only available at the submitting field sites. Therefore, we did not perform any specific tests regarding data reliability, and we

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did not place any reliability on the dollar values of data submitted from DoD field accounting stations. Because we reviewed the processes DFAS-IN used and not the reliability of the data, this did not affect our overall audit conclusions.

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

## **Prior Coverage**

During the last 5 years, the DoD IG issued one report on expenditure operations at DFAS-IN. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>.

## **DoD IG**

DoD IG Report No. D-2005-087, "Departmental Expenditure Reporting at Defense Finance and Accounting Service Indianapolis," June 27, 2005

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## Appendix B. Glossary of Terms

**Accounting Station.** An entity responsible for maintaining the accounting records of assigned fundholders.

**Appropriations.** Statutory authorities to incur obligations and make payments from the U. S. Treasury for specified purposes.

**Budget Clearing Account.** An account that is used as a holding account for various transactions. Such an account is sometimes shown as an “F3875” account.

**C5AS File.** Listing of every TI 21 and TI 97 transaction received through the DFAS-IN Cross Disbursing In Branch up to 8 months old, whether or not they have been reconciled.

**C5BS File.** A listing of every unreconciled transaction received through the DFAS-IN Cross Disbursing In Branch more than 8 months old where the values reported to the Treasury Department did not match the values reported to the DFAS-IN Cross Disbursing In Branch.

**Chargeback.** The transfer of accountability for unsupported disbursements or collections from the accounting station to the disbursing station, using the departmental budget clearing account (F3875) of the disbursing station.

**Collection.** A receipt of funds not resulting from the enactment of an appropriation by Congress.

**Cross-Disbursement.** Disbursements and collections of funds of one DoD Component performed by a station associated with another DoD Component.

**Cross Disbursing In.** Disbursements and collections made by stations not affiliated with DFAS-IN citing TI 21 appropriations and TI 97 appropriations with Army limits.

**Cross Disbursing Out.** Disbursements and collections made by stations affiliated with DFAS-IN citing non-TI 21 appropriations and non-TI 97 appropriations with Army limits.

**Defense Cash Accountability System.** The system developed by DFAS to handle the flow of all cash transactions between disbursing/entitlement stations and accounting centers/stations that record the transactions in accounting records.

**DFAS-IN Network.** Accounting stations and disbursing stations that fall under the accounting control of DFAS-IN. DFAS-IN is one of five DFAS Accounting Centralized Field Sites (Centers).

**Disbursement.** Payment of a legal liability of the U.S. Government that decreases the accountability of the disbursing station making the disbursement.

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**Disbursing Station.** An activity making disbursements and collections for another DoD Component.

**Expenditure.** A payment by check or equivalent action that constitutes a charge against the appropriation cited.

**Fund Balance with Treasury.** The appropriation-level balance of funds reported on the Army General Fund financial statements.

**In-Transit Disbursements.** Disbursements that have been reported by a disbursing station, through a paying center, to the Treasury Department and charged against the Department's fund balances, but have not yet been received or processed by the applicable accounting station for recording against the applicable corresponding obligation.

**Negative Unliquidated Obligations.** Transactions posted to the accounting database which create the following conditions: disbursements greater than obligations, stand-alone disbursements, or credit obligations.

**Reject.** A disbursement or collection transaction that is returned to the disbursing station without a transfer of accountability.

**Statement of Transactions.** Reports that provide the detailed backup information for disbursement transactions. Accounting stations prepare these reports monthly for submission to DFAS.

**Suspense Account.** A temporary account in which entries of credits or charges are made until their proper disposition can be determined.

**TI 21.** The code designated by the Treasury to denote funds made available to the Department of the Army.

**TI 97.** The code designated by the Treasury to denote funds that have been made available to Defense agencies and activities.

**Transactions by Others (TBO)/Transactions for Others (TFO).** TBO is the term used by an activity describing disbursements or collections processed by another activity. TFO is used by an activity indicating collections or disbursements of funds processed for another activity.

**Unmatched Disbursement.** A disbursement that an accounting station has received for which it has sufficient information to allow it to attempt to match the disbursement with an existing obligation in its accounting records, but is unable to do so. An overaged unmatched disbursement is a disbursement that has not been matched with an existing obligation within 180 days.

**Uncleared File.** An internal DFAS-IN data file containing a cumulative listing of TBO/TFO transactions that have not yet cleared. This file is used by the affected parties to research why a record has not yet cleared.

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## Appendix C. Expenditure Transaction Processing

### Expenditure Transactions

There are two primary forms of expenditure transactions: cross-disbursing and TBO/TFO. Each has a separate data flow.

**Cross-Disbursing.** A cross-disbursement occurs when a disbursing office makes a payment for an accounting station that reports to a DFAS center other than the center to which the disbursing office reports or when a non-DoD Federal agency makes a payment charged to a DoD account. For example, DFAS-IN cross-disbursement expenditure transactions originate within the DFAS Denver and DFAS Cleveland networks, or in non-DoD agencies such as the State Department and the U.S. Treasury.

Cross Disbursing Out transactions are disbursements or collections made by stations affiliated with DFAS-IN citing appropriations other than TI 21 and TI 97 appropriations with Army limits. The DFAS-IN Expenditure and Reporting Division, Cross Disbursing Out Branch, manages the Unreconciled Input Difference Report and the Transmittal Letters for Army cross-disbursements. The Cross Disbursing Out Branch performs administrative actions pertaining to Army disbursing stations and serves as the DCAS liaison.

Cross Disbursing In transactions are disbursements or collections made by stations not affiliated with DFAS-IN, citing TI 21 appropriations and TI 97 appropriations with Army limits. The DFAS-IN Expenditure and Reporting Division, Cross Disbursing In Branch, monitors and processes transactions made from other Services to the Army. The branch manages statement of transactions (SOT) and detail-level information from other DoD offices and non-DoD agencies, performs SOT-to-detail reconciliations, and provides cross-disbursement reports used for other purposes.

Once a station outside of the DFAS-IN network makes a disbursement or collection, the summary disbursement or collection information is forwarded to DFAS-IN through the monthly SOT prepared and submitted by the station's parent DFAS Center. DFAS Cleveland, DFAS Denver, and the State Department each provide DFAS-IN with a file containing the SOT information relevant to TI 21 for that month. This information matches information already provided to the Treasury in the Treasury reporting process for that DFAS Center. The SOT information is then loaded into the expenditure modules of HQARS for further processing. DFAS-IN loads detail information not loaded into DCAS by the disbursing station.

Cross-disbursing transaction data are stored primarily in the "C5AS" file and the "C5BS" file. The C5AS file contains all SOT and detail information up to 8 months old received by the Cross Disbursing In Branch. The information consists of reconciled and unreconciled transactions for both TI 21 and TI 97. The C5BS file is a cumulative list of only unreconciled TI 21 and TI 97 transactions more than 8 months old where the SOT and the detail information do

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not agree at the appropriation, limit, reimbursement designator, other service, or disbursing date levels. The C5BS file identifies transactions that remain unresolved longer than the DoD Financial Management Regulation (DoD FMR) allows.

**TBO/TFO.** A TBO/TFO disbursement occurs entirely within the DFAS-IN network when a disbursing station makes a disbursement using TI 21 funds under the accounting control of an accounting station in the DFAS-IN network. The Analysis and Reconciliation Directorate, Operational/Network Analysis Branch, is responsible for managing and clearing these TI 21 transactions originating within the DFAS-IN network.

DFAS-IN reports disbursements on the monthly SOT. DFAS-IN controls the data files containing this information within HQARS. Detail information is loaded through the 304 reporting process, outside of DCAS. DFAS-IN uses the 304 reporting process to clear TBO/TFO transactions.

The “TBO/TFO Uncleared File,” holds TBO/TFO transactions prior to clearing. The Uncleared File is a cumulative list of transactions not yet completely matched to detail information. The file contains departmental expenditure transactions within the DFAS-IN network and Cross Disbursing Out chargebacks. It also contains transactions from Defense agencies, which are not departmental expenditure transactions.

## Transaction Clearing

**Policy.** The DoD FMR requires that a disbursement be matched to its corresponding detail-level obligation and be recorded as promptly as current systems and business practices reasonably permit. Disbursements are considered “in-transit” when they have been recorded by the disbursing office, routed through a paying center to the Treasury, and charged against the department’s fund balances, but:

- have not yet been received by the applicable accounting station, or
- have been received by the applicable accounting station but not yet processed against the accounting station’s database, or
- it has been determined that there is insufficient information to process.

A disbursement transaction received and accepted by an accounting station but not matched to the correct detail obligation is an unmatched disbursement (UMD). A disbursement that has been matched to the cited detail obligation, but the disbursement amount exceeds the amount of the obligation, is considered a negative unliquidated obligation.

**Transaction Clearing.** A transaction is considered “cleared” when the summary information from the monthly SOT exactly matches the detail obligation information (line of accounting and amount) from DCAS. The matching of summary information to detail information is primarily automated for both

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processes, unless research is required to clear the transaction. However, data file reconciliations are sometimes necessary. If matching does not occur, in whole or in part, then the unmatched portion remains uncleared and needs to be resolved in accordance with prescribed policy.

## Clearance Actions

**Reconciliations.** DFAS-IN procedures require the reconciliation of disbursement transactions with monthly SOT data citing Army funds that are reported to Treasury. The performance of required reconciliations serves as a means to clear transactions unresolved through normal automated processes. However, DFAS-IN acknowledged it had not performed cross-disbursing reconciliations in accordance with DoD guidance. The DFAS-IN Expenditure and Reporting Division should institute procedures to ensure it performs reconciliations of expenditure transactions on a monthly basis.

**Clearing Actions.** The DoD FMR provides alternate clearing actions for transactions that do not clear through normal automated procedures.

**Chargebacks.** A chargeback is the transfer of accountability for unsupported disbursements or collections, from the accounting station to the disbursing station, using the disbursing station's budget clearing account. Chargebacks are reversed out of the appropriation originally cited and recorded in the disbursing officer's budget clearing account. However, certain types of transactions are not eligible for chargeback, such as:

- transactions originating outside of DoD;
- transactions aged 120 days, if from a pay station collocated with the disbursing station, or aged 180 days, if from a pay station not collocated with the disbursing station, identified as either a UMD or a negative unliquidated obligation;
- transactions less than \$2,500, if originating in FY 2001 and beyond, citing an accounting station's TI, appropriation, and station unless they pertain to travel advances and settlements, civilian or military pay entitlements, and Foreign Military Sales transactions;
- transactions less than \$250 originating between FY 1997 and FY 2000;
- suspected fraudulent transactions, until declared legally fraudulent by the Defense Criminal Investigative Service;
- rejected TBO/TFO transactions;

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- summary to detail differences originating prior to July 2001; and
  - transactions within 30 days of a legitimate written request for documentation.

**Establish Obligations.** The establishment of obligations is applicable to transactions identified as UMDs. The appropriation or fund holder must establish a matching obligation within 10 calendar days after notification of a UMD and efforts to correct the condition have failed. The DoD FMR, volume 3, chapter 11, requires the accounting station to record an obligation if the appropriation manager/fund holder does not establish an obligation.

**Discontinued Research.** The accounting station must continue to research and correct uncleared transactions that cannot be charged back to the submitter. For these transactions, a written request to discontinue research efforts can be submitted. Research must continue until written approval is provided. Requests to discontinue further research efforts may be prepared when research steps cannot be completed because:

- there is missing or insufficient documentation,
- steps to request or obtain the missing documentation or clarification of the insufficient documentation were taken but have not produced results, and
- further efforts appear fruitless and not cost-effective.

The Assistant Secretary of the Army (Financial Management and Comptroller) approves requests to discontinue research efforts for transactions greater than \$2,500. The funded budget office approves requests to discontinue further research for transactions less than \$2,500. This action occurs once transactions have been validated and other procedural actions have been taken. It does not apply to Foreign Military Sales transactions, transfer accounts, or an appropriation not allocated to the Department of the Army.

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## Appendix D. Fund Balance With Treasury

Disbursements and collections accounted for during the monthly expenditure operations cycle play a significant role in the Fund Balance with Treasury account balance presented on the Army General Fund financial statements, as well as required note disclosures related to Fund Balance with Treasury and problem disbursements.

**Fund Balance With Treasury.** DFAS-IN uses the results of the monthly expenditure operations cycle, combined with other processes in the monthly budget execution cycle, as a tool to reconcile the departmental books with the Treasury Trial Balance. Expenditure and budget execution data make up the departmental books. Because the Treasury does not have an independent source of data, the Treasury Trial Balance is an appropriation-level summary of the SOT provided by field accounting stations. At fiscal year-end, the Fund Balance with Treasury account balance derived from the departmental books and reported on the Balance Sheet must equal the Treasury Trial Balance. Differences are disclosed in Note 3.A, “Fund Balance with Treasury,” as a net adjustment for unsupported undistributed disbursements and collections to bring the Fund Balance reported by Army into agreement with Treasury.

**Problem Disbursements.** Portions of the cross-disbursing and TBO/TFO files are also used to generate problem disbursement reports. Note 3.A to the financial statements lists three categories of problem disbursements generated, in part, from data files used in departmental expenditure operations: Absolute Unmatched Disbursements, Negative Unliquidated Obligations, and Net In-Transit Disbursements. The note values are taken entirely from summarized spreadsheets that the Expenditure and Reporting Division provides to the Directorate for Departmental Accounting, Audited Financial Statements Division. For FY 2004, the note value presented for Absolute Unmatched Disbursements for September 2004 did not match the value provided by the Expenditure and Reporting Division. The Audited Financial Statements Division understated the value by approximately \$58 million because the wrong value was used from the spreadsheet. The Audited Financial Statements Division later acknowledged that an error was made in the FY 2004 note. The FY 2005 note reflected the correct amount and an explanation of the FY 2004 error.

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## **Appendix E. Report Distribution**

### **Office of the Secretary of Defense**

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

### **Department of the Army**

Auditor General, Department of the Army

### **Department of the Navy**

Auditor General, Department of the Navy

### **Department of the Air Force**

Auditor General, Department of the Air Force

### **Other Defense Organization**

Director, Defense Finance and Accounting Service

### **Non-Defense Federal Organization**

Office of Management and Budget

### **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Homeland Security and Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services

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

House Committee on Government Reform

House Subcommittee on Government Management, Finance, and Accountability,  
Committee on Government Reform

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



# Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE  
8899 EAST 56TH STREET  
INDIANAPOLIS, INDIANA 46249

DFAS-ADL/IN

FEB 16 2006

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Report on Internal Controls over Departmental Expenditure Operations at Defense Finance and Accounting Service Indianapolis (Project No. D2005-D000FI-0195.000)

Indianapolis Operations is providing management comments to the following recommendations:

**Recommendation 1:** In conjunction with the Director of Accounting Services for Defense Agencies, establish and maintain separate expenditure functions for Army General Fund expenditure operations and Defense Agency expenditure operations.

**Comment:** Stakeholder: Jan Crews, 317-510-6340 and Debbie Poole 317-510-2674. Concur. Director of Accounting Operations (DOA) (TI21 & TI97) has complied with the DoDIG recommendation number one. The Transactions By Others/Transactions For Others function was transferred to the Fund Balance With Treasury Division in FY 2004 when the Defense Agency group was separate from Army. Beginning January 2006, the Army Expenditure Division transferred the following expenditure functions to the Defense Agencies Indianapolis Operations: The cumulative error listing for Statement of Transactions (SOT) records for Navy and Air Force and all TI 97 appropriations; the Treasury Trial Balance Variance/Reconciliation function; loading of State Department files SOT to detail; the Tricare journal voucher function; suspense account report maintenance, the daily transmittal listing error file; and file maintenance of C5BS and CSAS.

**Estimated Completion Date:** Completed

**Recommendation 2:** Perform a monthly review and reconciliation of uncleared transactions and ensure the appropriate resolution of Transactions by Others and Transactions for Others more than 6 months old and cross-disbursing transactions more than 8 months old. Specifically, enforce the DoD Financial Management Regulation policy to:

a. Establish obligations for over-aged unmatched disbursements.

**Comment:** Stakeholder: Jan Crews, 317-510-6340. Concur. The field site accounting office should establish obligations for over-aged disbursements. Director of Accounting Operations will monitor the field sites to ensure they are following this policy. Departmental Accounting does not have the authority to establish obligations, but will take all necessary actions to process over-aged disbursements and will request approval from the proper authority to discontinue research on all transactions that cannot be obligated nor cleared in any other manner.

**Estimated Completion Date:** December 31, 2006

b. Charge back all disbursement transactions to submitters who have not provided sufficient information to clear transactions.

[www.dfas.mil](http://www.dfas.mil)  
Your Financial Partner @ Work

**Comment:** Stakeholder: Jan Crews, 317-510-6340. Concur. We have become more aggressive processing chargebacks to submitters in accordance with regulatory guidance. We are progressing towards completion of the current backlog of older months.

**Estimated Completion Date:** December 31, 2006

c. Request approval from the proper authority to discontinue research on all transactions that cannot be cleared in any other manner.

**Comment:** Stakeholder: Jan Crews, 317-510-6340. Concur. DFAS-IN will take all necessary actions to process over-aged disbursements and will request approval from the proper authority to discontinue research on all transactions that cannot be cleared in any other manner.

**Estimated Completion Date:** December 31, 2006

**Recommendation 3:** Establish and use management performance metrics to monitor compliance with the DoD Financial Management Regulation and Defense Finance and Accounting Service Regulation 37-1 applicable to clearing disbursement transactions more than 6 months old.

**Comment:** Stakeholder: Jan Crews, 317-510-6340. Concur. DOA uses the OSD problem disbursement performance metrics to measure and manage the clearing of disbursements more than 6 months old. The Expenditure Division has developed additional management oversight tools to strengthen our monitoring. These include a report of all uncleared disbursements over 120 days old and a report of cross disbursing transactions by age category.

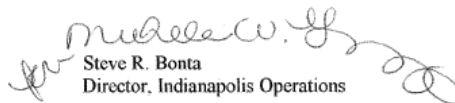
**Estimated Completion Date:** Completed

**Recommendation 4:** Update the self-evaluation of the Cross Disbursing In Branch assessable unit in the Expenditure and Reporting Division to reflect the conditions described in this finding. Determine whether the conditions meet the criteria for a material weakness as stated in DoD Directive 5010.38, "Management Control Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996. If the conditions meet the criteria for a material weakness, report it in the Annual Statement of Assurance.

**Comment:** Stakeholder: Jan Crews, 317-510-6340. Concur. The self-evaluation assessable unit of the Cross Disbursing-In Branch will be reviewed and updated to reflect the remaining conditions.

**Estimated Completion Date:** May 31, 2006

My point of contact is Jan Crews 317- 510-6340.

  
Steve R. Bonta  
Director, Indianapolis Operations

## **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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