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March 17, 2006

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# Financial Management

## Appropriated Funds Distribution Within the Program Budget Accounting System (D2006-064)

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Department of Defense  
Office of Inspector General

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### **Acronyms**

DCD	Defense Finance and Accounting Service Corporate Database
DCW	Defense Finance and Accounting Service Corporate Warehouse
DFAS	Defense Finance and Accounting Service
FAD	Funding Authorization Document
OA/ASN	Operating Agency/Allotment Serial Number
PBAS-FD	Program Budget Accounting System Funds Distribution Module



INSPECTOR GENERAL  
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400 ARMY NAVY DRIVE  
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March 17, 2006

MEMORANDUM FOR DEPUTY ASSISTANT SECRETARY OF THE ARMY  
(BUDGET)  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE

SUBJECT: Report on Appropriated Funds Distribution Within the Program Budget  
Accounting System (Report No. D-2006-064)

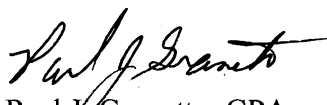
We are providing this report for review and comment. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Deputy Assistant Secretary of the Army (Budget) comments were partially responsive. We request additional comments on Recommendation B.1. by April 17, 2005.

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

We appreciate the courtesies extended to the staff. Questions should be directed to Jack L. Armstrong at (317) 510-3846 (DSN 699-3846) or Mr. Paul C. Wenzel at (317) 510-3859 (DSN 699-3859). See Appendix B for the report distribution. The audit team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

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

## Department of Defense Office of Inspector General

Report No. D-2006-064

March 17, 2006

(Project No. D2005-D000FI-0065)

### Appropriated Funds Distribution Within the Program Budget Accounting System

#### Executive Summary

**Who Should Read This Report and Why?** DoD personnel responsible for distributing, controlling, and accounting for DoD funding authority using the Program Budget Accounting System Funds Distribution Module (PBAS-FD) should read this report. The report identifies an internal control weakness regarding the use of PBAS-FD.

**Background.** We performed this audit at the request of Defense Finance and Accounting Service Indianapolis. Defense Finance and Accounting Service Indianapolis provides finance and accounting support to the Army. This support includes responsibility for establishing internal control procedures for the distribution of funding authority. The Army uses PBAS-FD to control and account for the distribution of DoD funding authority. More than 2,400 Army organizations receive funding through the module. During 2005, DoD managers used PBAS-FD to distribute \$149 billion in FY 2005 Army appropriations.

During our audit, the Defense Finance and Accounting Service Indianapolis organization responsible for the design, operation, and maintenance of PBAS-FD was called the Program Funds Accounting Systems Division, Directorate for Accounting Systems. After the audit, this organization was renamed the PBAS Office and subordinated to the Defense Finance and Accounting Service Director for Information and Technology/Chief Information Officer.

**Results.** Fund distribution data within PBAS-FD accurately and completely reflected the financial limits and boundaries set forth in the Army portion of the FY 2005 Department of Defense Appropriations Act. However, Army financial managers could not use funds distribution data accumulated in PBAS-FD records effectively. As a result, managers could not exercise timely, effective oversight of funds distribution (finding A).

Controls over funds distribution performed through PBAS-FD need improvement. Army organizations issued funding authorization documents without adequate review and approval, and Defense Finance and Accounting Service Indianapolis did not adequately control access to PBAS-FD edit tables. As a result, Army funds may be distributed incorrectly or to unauthorized recipients (finding B).

The Director of Defense Finance and Accounting Service Indianapolis should modify PBAS-FD and the Defense Finance and Accounting Service Corporate Database to record funds distribution information at the transaction level. The Director, Army Budget should require that funding authorization documents be reviewed and approved by appropriate personnel. In addition, the Director of the Defense Finance and Accounting Service should establish user access controls to PBAS-FD by requiring

responsible officials to authorize changes to the PBAS-FD edit tables and to ensure that the PBAS-FD edit tables are made and kept current. Also, the Director of Defense Finance and Accounting Service Indianapolis should require that user access to PBAS-FD be reported as a material internal control weakness in the Annual Statement of Assurance until corrective actions have been taken and verified. (See the Finding section of the report for the detailed recommendations.)

**Management Comments and Audit Response.** The Director, Information and Technology, Defense Finance and Accounting Service, concurred with two recommendations and nonconcurred with the recommendation to report user access to PBAS-FD as a material internal control weakness in the Annual Statement of Assurance until corrective actions have been taken and verified. The Director, Information and Technology stated that the internal control deficiencies identified were not material but has agreed to correct the identified deficiencies by June 30, 2006. Because the other two recommendations will be implemented before the end of the fiscal year, we consider the Director's comments to be responsive; therefore, no further comments are required. The Director of Management and Control, Office of the Assistant Secretary of the Army (Financial Management and Comptroller) concurred with the recommendation on funding distribution controls but did not agree to take corrective action or specify a completion date. We request that the Director of Management and Control provide comments on the final report by May 17, 2006. See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

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## Background

We performed this audit at the request of Defense Finance and Accounting Service (DFAS) Indianapolis.

**Defense Finance and Accounting Service Indianapolis.** DFAS Indianapolis provides finance and accounting support to the Army, including the maintenance of the Army's accounting records and accounting systems. DFAS Indianapolis's Directorate for Accounting Systems and Procedures is responsible for the design, operation, and maintenance of several automated accounting systems used by Army organizations. The Directorate's Program Funds Accounting Systems Division was responsible for the design, operation, and maintenance of Program Budget Accounting System (PBAS) Funds Distribution (FD), the official fund distribution and control system. After the audit this organization was renamed the PBAS Office and subordinated to the Defense Finance and Accounting Service, Director, Information and Technology/Chief Information Officer.

**PBAS-FD.** DFAS Indianapolis Regulation 37-1, "Finance and Accounting Policy Implementation," chapter 3, May 2004, states that the Program Budget Accounting System (PBAS) is the vehicle for controlling distribution of funds within the Army. The Army uses PBAS-FD to control and account for the distribution of DoD funding authority. More than 2,200 Army organizations receive funding through PBAS-FD.

**The Army Accounting System.** DFAS Indianapolis is currently completing the development of a new Army accounting system. The DFAS Corporate Database (DCD) receives transactional data from various Army accounting systems such as PBAS-FD, translates the data into a standard format, and prepares general ledger entries which are then stored in the collection of electronic files known as the DFAS Corporate Warehouse (DCW). In effect, DCD and DCW, operating together, form the Army's general journal. Although DCD/DCW are not yet completely operational, PBAS-FD provides DCD/DCW with daily and monthly summaries of fund distribution transactions, such as Funding Authorization Documents (FADs) and reprogramming actions.

**FY 2005 Appropriation Acts.** During FY 2005, Army managers used PBAS-FD to distribute \$149 billion in FY 2005 Army appropriations contained in the Army portions of four congressional appropriation acts (FY 2005 Army Appropriations Acts):

- Public Law 108-287, FY DoD Appropriations Act, August 5, 2004;
- Public Law 108-324, Military Construction Appropriations and Emergency Hurricane Supplemental Appropriations Act, 2005, October 13, 2004;
- Public Law 108-447, Consolidated Appropriations Act, 2005, December 8, 2004; and

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- Public Law 109-13, Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Tsunami Relief, 2005, May 11, 2005.

**Funds Distribution.** Two levels of Army organizations use PBAS-FD to distribute funding authority: the Army Budget Office and Army command operating agencies. The Army Budget Office uses PBAS-FD to distribute funding authority in the form of FADs to operating agencies controlled by major Army commands. FADs also specify the purpose for the funds distributed. Operating agencies use PBAS-FD to further distribute funding authority to subordinate organizations known as allotment holders. Allotment holders can commit, obligate, expend, and disburse financial resources.

The Army Budget Office can reprogram (move) funds from one organization to another. However, the Army Budget Office can move funds from one appropriation or program to another only to the extent established by Congress in negotiations with the Office of the Under Secretary of Defense (Comptroller/Chief Financial Officer). Operating agencies may move funds subject to the same restrictions as the Army Budget Office, plus additional constraints established by Army managers. Congress establishes the maximum amount of transfers between appropriations available to DoD in each annual DoD appropriations act. Congress set this limit at \$3 billion for FY 2005. Congress also set limits for each supplemental appropriations act issued during FY 2005. If reprogramming requires moving funds among appropriations or exceeds the amounts negotiated by Congress and the Office of the Under Secretary of Defense (Comptroller/Chief Financial Officer), the Army Budget Office must obtain prior congressional approval.\*

## Other Matters of Interest

During the audit, the DFAS Indianapolis organization responsible for the design, operation, and maintenance of PBAS-FD was the Program Funds Accounting Systems Division, Directorate for Accounting Systems. After the audit this organization was renamed the PBAS Office and subordinated to the Defense Finance and Accounting Service, Director, Information and Technology/Chief Information Officer.

## Objective

Our overall objective was to determine whether fund distribution within PBAS accurately and completely reflected the financial limits and boundaries set forth in the annual Department of Defense appropriations act. In addition, we evaluated

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\* This paragraph was revised based on comments on the draft report received from the Director of Management and Control, Office of the Assistant Secretary of the Army (Financial Management and Controller).



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the effectiveness of the management control program as it related to the audit objective. See Appendix A for a discussion of the scope and methodology.

## **Managers' Internal Control Program**

We identified a material internal control weakness for DFAS as defined by DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996. Internal controls did not include adequate safeguards over access to funds receipt and approval of funds distribution in PBAS. Recommendation B.1., when implemented, will correct the identified weakness and result in a more secure operating environment. In addition, the PBAS Project Management Office did not identify user access as an internal control weakness in its FY 2005 Annual Statement of Assurance. Finding B of this report discusses the details of the internal control weakness and the adequacy of DFAS management's self-evaluation process. A copy of the report will be provided to the senior official responsible for the Management Control Program at DFAS.

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## A. Funds Distribution Data

Funds distribution data within PBAS-FD accurately and completely reflected the financial limits and boundaries set forth in the FY 2005 Army Appropriations Acts. However, managers could not use funds distribution data accumulated in PBAS-FD records effectively because DFAS Indianapolis did not fully integrate PBAS-FD into the Army accounting system and managers did not have other efficient means to access fund distribution information. As a result, Army financial managers could not exercise timely, effective oversight of funds distribution.

### Funds Distribution

Fund distribution data within PBAS-FD accurately and completely reflected the financial limits and boundaries set forth in the Army Appropriations Acts as of July 31, 2005. In addition, the amounts recorded in PBAS-FD as funds distributed or available to be distributed did not exceed the amounts allowed by law.

### Use of Funds Distribution Data

**Accounting System Integration.** DFAS did not fully integrate PBAS-FD into the Army accounting system. Each day, automated processes within PBAS-FD prepared a summary of fund distribution transactions, such as FADs and reprogramming actions, that had occurred that day and were stored in the PBAS-FD data files. DFAS personnel then transmitted the summary to DCD. Because PBAS-FD summarized the transactions, the files transmitted to DCD did not contain transaction-level details, and the funds distribution recorded in DCW did not include a complete audit trail. The incomplete transaction-level information did not allow managers and auditors to examine how major commands distributed funds allotted by the Army Budget Office. If DCD/DCW is implemented in January 2006 without such detailed data, audit trails will not exist to support Army financial reports and managers will lack effective oversight of funds distribution.

**Funding Transactions.** PBAS-FD data files maintained records of all Army FADs issued since November 1999. However, managers could review these funding documents using PBAS-FD for only 45 days after the documents were issued. After the FADs were no longer available on PBAS-FD, managers outside of DFAS had to request that PBAS-FD personnel provide them a copy of the funding document. After 13 months, managers no longer had access to detailed transactional data and could obtain only summary data. Financial managers have the same level of access to information on funds management transactions other than FADs, such as reprogramming actions below the threshold established by the current DoD annual appropriations act. PBAS-FD created documents similar to FADs for reprogramming transactions below the threshold, and, although they

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were stored in PBAS-FD, DFAS managers could view them without assistance only for 45 days. As a result, Army managers used spreadsheets or other automated methods to track reprogramming transactions. For example, Army Budget Office officials told us they did not know the viewing system existed and were developing plans to enhance another system to monitor “below the threshold” reprogramming actions. Managers will be able to retrieve and review FADs as necessary if PBAS-FD provides DCD with daily records of funds management activity (FADs and reprogramming actions) at the transaction level.

**Oversight of Funds Distribution.** As a result of the restricted access to the funds distribution data, Army financial managers could not exercise timely, effective oversight of funds distribution. DFAS Indianapolis should modify the interface between PBAS-FD and DCD so that PBAS-FD provides DCD with daily records of funds management activity at the transaction level. The funds management activity would then be recorded in DCW as general ledger transactions in accordance with the U.S. Government Standard General Ledger, and managers could retrieve and review all reprogramming actions regardless of when they occurred.

## Management Comments on the Finding and Audit Response

Although not required to comment, the Director of Management and Control, Office of the Assistant Secretary of the Army (Financial Management and Comptroller) provided the following comments on this finding. For the full text of the comments, see the Management Comments section of the report.

**Army Comments on the Centralized Oversight of Fund Distribution.** The Director of Management and Control stated there were some factual errors in the draft report. The Army informal comments addressed the discussion of “Fund Distribution” in the draft report (page 2 of the report). The Director of Management and Control also made a clear distinction between distribution and control of funds and program execution. Director of Management and Control stated that PBAS-FD was designed to provide controls over the availability and distribution of program authority, budget authority, and funds with Treasury and not to provide a fully integrated distribution, control, and execution system.

**Audit Response.** We made changes to the discussion on “Fund Distribution” that were informally suggested by the Director of Management and Control in December 2005. We agree that PBAS-FD is not intended to be a “fully integrated distribution, control, and execution system.” However, as the finding stated, PBAS-FD did not provide the remainder of the Army’s accounting systems with the information necessary to record funds distribution activity at the individual transaction level. Although some managers may have access to physical copies of some FADs for extended periods of time, other managers not located at the site where the physical copies are stored would not have access to them. All Army managers should have automated access to detailed fund distribution information. However, PBAS does not provide automated access to these records after 13 months.

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## **Recommendation and Management Comments**

**A. We recommend that the Director of Defense Finance and Accounting Service modify Program Budget Accounting System Funds Distribution and the Defense Finance and Accounting Service Corporate Database to record funds distribution information at the transaction level.**

**Management Comments.** The Defense Finance and Accounting Service Director, Information and Technology concurred and estimated that the recommended action would be completed by December 31, 2006.

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## B. Funds Distribution Controls

Controls over funds distribution performed through PBAS-FD needed improvement. Army organizations issued FADs without adequate review and approval, and the PBAS Office did not adequately control access to PBAS-FD. These two conditions occurred because existing controls over both FAD approval practices and access to PBAS-FD were incomplete and ineffective. As a result, Army funds may be distributed incorrectly or to unauthorized recipients.

### Control Requirements

Both DoD and DFAS have established specific criteria for the control of funds distribution.

**DoD Guidance.** DoD 7000.14-R, “DoD Financial Management Regulation, volume 14, Appendix A, “Procedures for the Administrative Control of Funds,” August 1995, states that the Under Secretary of Defense (Comptroller) or designee will make allocations of apportioned amounts, in writing, to the heads of DoD Components. The Secretary of the Army, or designee, must make further allocations of apportioned amounts, in writing, to the heads of operating agencies. DoD guidance also states that:

- The original signed document or an authenticated copy bearing a signature or an electronic equivalent of a signature must be forwarded to the recipient of the allocation. This does not preclude the use of an automated system to communicate and record fund subdivisions as long as a confirmation copy bearing an authenticated signature or an electronic equivalent of a signature is available to the recipient through the automated system.
- The use of an electronically reproduced equivalent of an original signature is considered an acceptable implementation of the requirement for a document containing an authenticated signature. However, in accomplishing electronic transmission of funds, internal controls for electronically transmitted allocations and suballocations must provide validation of fund authorities by use of access codes and lockout techniques. The authentication, signature element, and symbol must be included as part of electronically produced funding documents.

**DFAS Guidance.** DFAS Indianapolis Regulation 37-1, “Finance and Accounting Policy Implementation,” chapter 3, “Program and Budget Authority,” May 2004, requires the Director of DFAS Indianapolis to:

- establish internal control procedures; and
- design, operate, and maintain the official fund distribution and control system (PBAS).

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DFAS Indianapolis Regulation 37-1, “Finance and Accounting Policy Implementation,” chapter 3, “Program and Budget Authority,” May 2004, also requires the Deputy Assistant Secretary of the Army (Budget) to ensure that proper administrative and statutory controls are maintained on funding documents in conjunction with appropriation/fund managers and sponsors.

**Information Assurance Policy.** DoD Instruction 8500.2, “Information Assurance (IA) Implementation,” February 6, 2003, implements policy, assigns responsibilities, and prescribes procedures for the protection of DoD information systems. DoD Instruction 8500.2 requires that information assurance personnel establish and manage authorized-user accounts for DoD information systems. This requirement includes deactivating user accounts when access to DoD information systems is no longer needed.

## **Funding Authorization Documents**

Army organizations issued FADs without adequate review and approval. Existing controls over FAD approval practices were incomplete and ineffective. We visited four Army organizations that issue FADs. Managers at three of the organizations told us that they did not review or approve the FADs. Instead, the FADs were issued as prepared but without review. At one major command that controlled several operating agencies, the authorizing official responsible for some appropriations did personally review and approve FADs. However, other officials of the same major command responsible for other appropriations did not personally review or approve FADs. Some provision should be made for authorizing officials to review and approve the documents. DFAS Indianapolis should develop procedures requiring the personal review of high dollar value FADs and selective review of smaller dollar value FADs.

## **Access Control**

**Edit Tables.** Audit trails did not exist for requests to make changes in the PBAS-FD edit tables. Only operating agencies and allotment holders listed in the PBAS-FD edit tables could receive or distribute funds. The PBAS Office should add operating agencies and allotment holders to the edit tables only when needed and properly authorized. DFAS Indianapolis personnel informed us that they added new operating agencies and allotment holders to the PBAS-FD edit table based on telephone or e-mail requests but did not ensure that the individuals requesting the additions were authorized to do so. DFAS Indianapolis personnel did not maintain a record of these requests or a list of officials authorized to request changes to the PBAS-FD edit tables. Without appropriate controls, an unauthorized operating agency or allotment holder could be added to the PBAS-FD edit tables. The PBAS Office should first conduct a one-time examination of the PBAS-FD edit tables to ensure the tables include only those operating agencies and allotment holders authorized to receive or distribute funds. The PBAS Office should then establish controls that ensure that the PBAS-FD edit tables are kept current.

**Operating Agencies and Allotment Holders.** The PBAS Office did not ensure that the PBAS-FD edit tables included only operating agencies and allotment holders that needed to receive or distribute funds. The PBAS-FD edit tables also included many inactive operating agencies and allotment holders. The PBAS Office personnel provided us with a list of operating agencies and their associated allotment holders in the PBAS-FD edit tables (PBAS-FD Operating Agency/Allotment Serial Number [OA/ASN] List) as of September 7, 2005. We compared this list to the operating agencies identified in the summary funds distribution data PBAS-FD provided to the Army accounting system for July 2005 and those identified in DFAS Indianapolis Regulation 37-100-2005, "The Army Financial Management Structure for FY 2005," June 2005. Table 1 displays the detailed results of that comparison.

<b>Table 1. Comparison of Operating Agencies in PBAS-FD OA/ASN List DFAS Indianapolis Regulation 37-100-2005 PBAS-FD Fund Distribution Data</b>	
	Operating Agencies
In all three data sources	69
In PBAS-FD OA/ASN List and Regulation but not Fund Distribution Data (Inactive)	18
In Fund Distribution Data and Regulation but not PBAS-FD OA/ASN List	3
In Fund Distribution Data Only	3*
Total Operating Agencies	93
*These operating agencies were used only for Departmental operations at DFAS Indianapolis.	

We also compared PBAS-FD OA/ASN List to the allotment holders identified in the summary funds distribution data PBAS-FD provided to the Army accounting system for July 2005. Table 2 displays the detailed results of that comparison.

<b>Table 2. Comparison of Allotment Holders in PBAS-FD OA/ASN List PBAS-FD Fund Distribution Data</b>	
	Allotment Holders
In both data sources	2,112
In PBAS-FD OA/ASN List Only (Inactive)	127
In Fund Distribution Data Only	74
Total Allotment Holders	2,313

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Only 74.2 percent (69 of 93) of the Army's operating agencies and only 91.3 percent (2,112 of 2,313) of the Army's allotment holders were in all data sources. Approximately 19.3 percent (18 of 93) of the operating agencies and 5.5 percent (127 of 2,313) of the allotment holders were inactive.

Comparison of information provided by selected major Army commands to the PBAS-FD OA/ASN List confirmed that the operating agencies and allotment holders actually used for receipt and distribution of funds did not match those listed in the PBAS-FD OA/ASN List.

- **Army Materiel Command.** The PBAS-FD OA/ASN List identified 22 operating agencies and 446 allotment holders as controlled by the Army Materiel Command. Army Materiel Command personnel informed us that they used only 12 of the operating agencies and 170 of the allotment holders.
- **Army Training and Doctrine Command.** The PBAS-FD OA/ASN List identified 4 operating agencies and 119 allotment holders as controlled by the Army Training and Doctrine Command. The Army Training and Doctrine Command personnel informed us that they used all 4 of the operating agencies, but only 67 of the allotment holders.
- **Army Corps of Engineers.** The PBAS-FD OA/ASN List identified 1 operating agency and 76 allotment holders as controlled by the Army Corps of Engineers. Army Corps of Engineers personnel informed us that they used only 65 of the allotment holders.
- **Installation Management Activity.** The PBAS-FD OA/ASN List identified 1 operating agency and 248 allotment holders as controlled by the Installation Management Activity. Installation Management Activity personnel informed us that they actually used only 213 of the allotment holders.

Operating agencies and allotment holders that no longer receive or distribute funds should be removed from the edit tables to reduce the risk of unauthorized funds distribution transactions. The PBAS Office should conduct a one-time examination of the PBAS-FD edit tables to ensure the tables include only those operating agencies and allotment holders needed to receive or distribute funds. The PBAS Office should then establish controls that ensure that the PBAS-FD edit tables are kept current.

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

The FY 2005 self-evaluation of internal controls prepared by the PBAS Office did not identify and report the problems we identified with FAD authorizations and user access as an internal control weakness. DFAS Indianapolis had identified the PBAS Office as the assessable unit.



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Because the PBAS Office was the assessable unit, it had responsibility for reporting problems with FAD approval and PBAS-FD user access as a material weakness. However, the Director of DFAS Indianapolis had the regulatory responsibility for management controls over funds distribution. Until the recommendations in this report have been implemented and the internal control weakness has been corrected, DFAS should report FAD approval and PBAS-FD access as a material internal control weakness in the Annual Statement of Assurance.

## **Recommendations, Management Comments, and Audit Response**

**B.1 We recommend that the Deputy Undersecretary of the Army (Budget) require personal review and approval of Funding Authorization Documents by appropriate officials.**

**Management Comments.** The Director of Management and Control, Office of the Assistant Secretary of the Army (Financial Management and Comptroller) concurred with the recommendation but stated that funding authorizations were subject to extensive controls prior to processing through PBAS-FD. The Director of Management and Control acknowledged that the audit revealed that there is no uniformity at the operating agency level with respect to senior level review and oversight of funding authorizations prior to release to subordinate organizations. However, the Director of Management and Control stated that other procedures compensate for this deficiency and additional guidance may be issued to the operating agencies at an unspecified date.

**Audit Response.** The Director of Management and Control's comments are partially responsive. The controls described by the Director of Management and Control do not ensure that the funding authorizations issued through PBAS-FD actually implement the planned issuance of funds. Also, the Director of Management and Control did not intend to distribute the additional guidance to the Army Budget Office. We request the Director of Management and Control reconsider his position and provide comments on the final report.

**B.2 We recommend that the Director of Defense Finance and Accounting Service**

**a. Establish effective internal controls over the Program Budget Accounting System Funds Distribution Module and related funds distribution information. At a minimum,**

**(1) Require responsible officials to authorize additions and deletions to the Program Budget Accounting System Funds Distribution Module edit tables and maintain records of all such changes.**

**Management Comments.** The DFAS Director, Information and Technology concurred, stating that the PBAS-FD team will validate the authority of individuals requesting additions and deletions to the PBAS-FD edit tables and

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maintain records of requested changes. The Director estimated that the procedures would be established by March 1, 2006.

**(2) Conduct a one-time examination of the Program Budget Accounting System Funds Distribution Module edit tables to ensure the tables include only those operating agencies and allotment holders that need to receive or distribute funds.**

**Management Comments.** The DFAS Director, Information and Technology concurred and stated that after identifying inactive organizations, the PBAS-FD team would remove the necessary edit table entries by May 31, 2006.

**(3) Establish controls that ensure that the Program Budget Accounting System Funds Distribution Module edit tables are kept current.**

**Management Comments.** The DFAS Director of Information and Technology concurred and estimated that the procedures would be established by June 30, 2006.

**b. Report user access to Program Budget Accounting System Funds Distribution as a material internal control weakness in the Annual Statement of Assurance until Recommendation B.2.a. has been implemented and it has been independently verified that the weakness has been corrected.**

**Management Comments.** The DFAS Director, Information and Technology nonconcurred, stating that although the recommended actions would be completed, the deficiencies identified by the audit did not rise to the level of a material weakness.

**Audit Response.** The deficiencies identified in the report did constitute a material weakness in controls over PBAS-FD. Army managers used PBAS-FD to distribute \$149 billion in FY 2005 appropriations. Army funds are vulnerable to incorrect distribution or distribution to unauthorized recipients. The DFAS Director, Information and Technology has agreed to implement Recommendation B.2.a. prior to the next annual statement of assurance. No additional comments are requested. We will perform a followup review after June 30, 2006, as part of our internal control work on the FY 2006 Army General Fund Financial Statement to determine if DFAS has implemented Recommendation B.2.a.

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## Appendix A. Scope and Methodology

We reviewed the PBAS-FD system. Specifically, we reviewed funds distribution information accumulated by PBAS-FD and transmitted to Army departmental accounting systems for all Army funds. We also reviewed the implementation of the requirements of the DoD Appropriations Acts for FY 2005 as it related to the Army. Specifically, we determined whether the amount appropriated by Congress, and all applicable rescissions and restrictions, had been correctly recorded in PBAS-FD and accurately passed to the Army Accounting System.

We interviewed DoD personnel at the Army Budget Office, the U.S. Army Finance Command, and at each of the installations we visited during the field work.

We selected Army installations to visit based on the amount of funds operating agencies or allotment holders at those installations received in the Operations and Maintenance appropriations. We visited:

- U.S. Army Materiel Command, Fort Belvoir, Virginia; and Aberdeen Proving Grounds, Maryland.
- U.S. Army Installation Management Agency, Alexandria, Virginia.
- Training and Doctrine Command, Fort Monroe, Virginia; and Fort Eustis, Virginia.

We examined a limited judgmental selection of FADs that had been distributed by the Army Budget Office to the operating agencies located at the installations we visited. We verified that the respective operating agencies received the FADs in our sample. We observed PBAS users at each installation processing FADs and further distributing funds to allotment holders using PBAS-FD. We reviewed copies of relevant and significant documents and working papers created by the organizations visited, including management reports that incorporated funds distributed using PBAS-FD.

We contacted the U.S. Army Corps of Engineers Finance Center in Millington, Tennessee, to identify the allotment holders used for fund receipt and distribution by the Army Corps of Engineers. At DFAS Indianapolis, we interviewed personnel of the PBAS Office, the Directorate for Departmental Accounting, and the DCD Project Management Office.

We performed the audit from December 2004 through October 2005 in accordance with generally accepted government auditing standards.

**Use of Computer-Processed Data.** We used the monthly computer-generated data files (HFBD1a and HFPD1a) to determine whether the funds distribution information recorded by PBAS-FD accurately transmitted the data in the Army portion of the FY 2005 DoD Appropriation Act. We tested the reliability of the file data by comparing the data in the files to the DoD Appropriations Acts for FY 2005 as they related to the Army and related documents such as U.S. Treasury

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warrants and Office of Management and Budget allocation documents. We also used the data in the files to determine if operating agencies and allotment holders were inactive. Nothing came to our attention as a result of the specific procedures we performed that caused us to doubt the reliability of the computer-processed data.

**Management Control Program.** DoD Directive 5010.38, “Management Control (MC) Program,” August 26, 1996, and DoD Instruction 5010.40, 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 PBAS Office internal controls over funds distribution. Specifically, we reviewed procedures that the PBAS Office established over the review of funds distribution and the procedures used to assign access responsibilities to users and to deactivate users who no longer require access to PBAS-FD. We also reviewed the adequacy of management’s self-evaluation of those controls.

**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

We did not identify any prior reports issued during the last 5 years that addressed PBAS-FD.

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## **Appendix B. 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**

Naval Inspector General  
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

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## **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  
House Committee on Government Reform  
House Subcommittee on Criminal Justice, Drug Policy and Human Resources,  
Committee on Government Reform  
House Subcommittee on Energy and Resources, Committee on Government Reform  
House Subcommittee on Federalism and the Census, Committee on Government Reform  
House Subcommittee on Federal Workforce and Agency Organization, 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  
House Subcommittee on Regulatory Affairs, Committee on Government Reform

# Department of the Army Comments

Final Report  
Reference



DEPARTMENT OF THE ARMY  
OFFICE OF THE ASSISTANT SECRETARY  
FINANCIAL MANAGEMENT AND COMPTROLLER  
100 ARMY PENTAGON  
WASHINGTON, D.C. 20310-0109



February 15, 2006

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDITING,  
INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Report on Appropriated Funds Distribution Within the Program Budget  
Accounting System (Project No. D2005-D000FI-0065.000)

We appreciate the opportunity to comment on the Program Budget Accounting System (PBAS) audit report and provide a response to recommendation B1 which was addressed to this office.

In our review of the draft audit report, several factual errors became apparent which we informally identified to your staff in late December. Among these were some misstatements regarding: the reprogramming capabilities and authorities available to Headquarters, Department of the Army (HQDA) and subordinate elements; the visibility and oversight of funds distribution available to Army financial managers; and the availability of Funding Authorization Documents (FADs) after a certain amount of time. There was also a tendency in the draft report to meld together the distribution and control function with oversight of program execution after funds were distributed. We make a clear distinction between distribution and control of funds and program execution. PBAS was designed to do the former due to constraints during development and was meant to provide a data interface with accounting systems; not to provide a fully integrated distribution, control, and execution system which the audit appears to believe it should be.

The Army Budget Office looks to PBAS to provide controls over the availability and distribution of program authority, budget authority, and funds with Treasury. Army accounting systems provide visibility of program commitments, obligations, and disbursements. The seamless interface of data between these systems is an ongoing effort by Defense Finance and Accounting Service.

Recommendation B1: We recommend that the Director, Army Budget require personal review and approval of Funding Authorization Documents by appropriate officials.

Army Budget Office Comments: Concur with Comment. Within the headquarters, Department of the Army, there is a lengthy review of all appropriated funds prior to their release within PBAS. Most of the review/control process takes

Background  
Section  
“Fund  
Distribution”  
revised.

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place long before PBAS transactions take place. For example, the Operation and Maintenance, Army (OMA) appropriation sponsor sends out a "funding letter" to all major Army commands (MACOMS) which lists in a detailed fashion exactly what funding level they can expect to receive during a fiscal year. The funding letter levels are approved by senior Army leadership and used by the OMA appropriation sponsor and staff as the basis for funds distribution and entry in the Army's internal Funds Control System (FCS). Similar processes are used by other appropriations before requesting release of funds through FCS and PBAS.

Prior to release of funds through PBAS, Army Budget Office PBAS analysts within SAFM-BUC-E must have an approved Funding Authorization Document (FAD) request from the appropriation staff submitted via FCS. These analysts report to the Department of the Army Funds Control Officer, their GM-15 Division Chief and have been delegated the authority to release FADs. This process ensures that checks and balances are in place to separate the functions of the staff requesting distribution of the funds from the actual distribution of funds. Copies of the released FADs are emailed to the affected MACOM and the requestor. This process provides adequate coordination and internal controls

The audit revealed that there is no uniformity at MACOM and below with respect to senior level oversight and review of FADs prior to release to subordinate organizations. While this can be viewed as a weakness in oversight, there are reasons why it may not be as severe as it appears. After the initial release, MACOMs essentially perpetuate the HQDA guidance on the FAD. In addition, MACOMs have also gone through their own funding letter process and have identified where their funding will go. At the point when a FAD is received from HQDA, distribution decisions have mostly been made and the people releasing the FAD or FAS (Funds Allowance Document) to subordinate activities are following predetermined guidance. As is the case with HQDA, when a high value or high interest FAD is being released, MACOM leadership is highly involved. Nonetheless, Army Budget Office is considering issuing a reminder (Attachment 1) to all MACOMs to reiterate the need to have a system of management oversight and review of high value FAD releases.



Wesley C. Miller  
Director of Management and Control

Attachment



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#### Leadership Oversight and Review of FADs

Army resource management offices are reminded that one of the critical functions of resource managers is to maintain effective internal controls with respect to the receipt and distribution of Army appropriations.

In order to assure that there is uniform oversight over the distribution of funds in PBAS at MACOM level and below, command/activity resource managers will implement the following procedures:

1. The senior civilian resource manager or their designee will be notified of the receipt of any FAD with a value over \$100 million or which funds a command program with high visibility.
2. The senior civilian resource manager or their designee will provide guidance on the distribution of any FAD with a value over \$100 million or which funds a command program with high visibility.
3. Each activity will designate an official to spot check FADs to assure that funds are being distributed in accordance with both HQDA and command/activity guidance.
4. All PBAS operators will be fully trained in the operation of PBAS. Inexperienced or novice operators will not be allowed to process FADs without review of final FADs by a team leader/supervisor before release.
5. All requests for distribution of PBAS FADs will contain approval for release by an authorized resource management official.

Attachment 1

# Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE  
ARLINGTON  
1851 SOUTH BELL STREET  
ARLINGTON, VA 22240-5291

FEB 13 2006

DFAS-T

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: DoDIG Draft Report, "Appropriated Funds Distribution Within the Program Budget Accounting System" (Project No. D2005-D000FI-0065), Recommendations A and B2

Accounting Services, Army is providing current management comments to recommendations A and B2 as follows:

**Recommendation A:** We recommend that the Director of Defense Finance and Accounting Service modify Program Budget Accounting System Funds Distribution and the Defense Finance and Accounting Service Corporate Database to record funds distribution information at the transaction level.

**Current Comments:** Stakeholder: Ed Roth, 317-510-4256. Concur. Working with the DFAS Corporate Database/DFAS Corporate Warehouse (DCD/DCW) team, the PBAS-FD team will modify the PBAS-FD interface with DCD/DCW to provide the recommended transaction level data.

**Current Estimated Completion Date:** December 31, 2006. DFAS will place a high priority on providing DCD/DCW with the recommended transaction level data. While the specifics of providing the data are unknown at this time, it is possible that the data may be provided prior to December 31, 2006.

**Recommendation B2:** We recommend that the Director of Defense Finance and Accounting Service:

a. (1). Require responsible officials to authorize additions and deletions to the Program Budget Accounting System Funds Distribution edit tables and maintain records of all such changes.

**Current Comments:** Stakeholder: Ed Roth, 317-510-4256. Concur. The PBAS-FD team will validate the authority of individuals requesting additions and deletions to PBAS edit tables by verifying their name and user specific information against information contained in the PBAS-FD valid user database, and will maintain a record of all such changes.

**Current Estimated Completion Date:** March 1, 2006.

a. (2). Conduct a one-time examination of the Program Budget Accounting System Funds Distribution edit tables to ensure the tables include only those operating agencies and allotment holders that need to receive or distribute funds.

**Current Comments:** Stakeholder: Ed Roth, 317-510-4256. Concur. After conferring with issuing entities and identifying all inactive organizations, the PBAS-FD team will remove those edit table records necessary to prevent distribution to unauthorized organizations.

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

**a. (3).** Establish controls that ensure that the Program Budget Accounting System Funds Distribution edit tables are kept current.

**Current Comments:** Stakeholder: Ed Roth, 317-510-4256. Concur. DFAS will include a requirement in the FMR for all PBAS-FD users to inform the PBAS-FD team in writing, of any necessary changes to the PBAS-FD edit tables.

**Current Estimated Completion Date:** June 30, 2006.

**b.** Report user access to the Program Budget Accounting System Funds Distribution as a material internal control weakness in the Annual Statement of Assurance until Recommendation B.2.a. has been implemented and it has been independently verified that the weakness has been corrected.

**Current Comments:** Non-concur. While we have agreed to implement all related DoDIG recommendations, current management controls ensure there is little, if any, incentive or opportunity to misappropriate assets (cash) or misstate management reports or financial statements. Indeed, the recommendations offer little real improvement for discouraging or detecting either misappropriation, or misstatement.

Misappropriation of assets would require fraudulent collusion among several knowledgeable and strategically placed individuals in funds distribution and contracting, and such individuals would not be significantly impeded by implementation of the DoDIG recommendations. Misstatement of management reports and financial statements confer little, if any, benefit, and is therefore very unlikely to occur. If misstatement does occur it is as likely to be detected with current controls as with the recommendations.

**Current Estimated Completion Date:** N/A.

My point of contact for these recommendations is Ed Roth, System Manager-PBAS-FD, Accounting and Disbursing Systems Branch, 317-510-4256.



Audrey Y. Davis  
Director, Information and Technology

## **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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