

March 31, 2006



# Financial Management

## Implementation of the Business Enterprise Information Services for the Army General Fund (D2006-068)

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### **Acronyms**

|        |  |
|--------|--|
| BEIS   | Business Enterprise Information Services                   |
| DCD    | Defense Finance and Accounting Service Corporate Database  |
| DCW    | Defense Finance and Accounting Service Corporate Warehouse |
| DDRS   | Defense Departmental Reporting System                      |
| DFAS   | Defense Finance and Accounting Service                     |
| DoD IG | Department of Defense Inspector General                    |
| FMR    | Financial Management Regulation                            |
| GAO    | Government Accountability Office                           |
| HQARS  | Headquarters Accounting and Reporting System               |
| SFIS   | Standard Financial Information Structure                   |
| USSGL  | U.S. Standard General Ledger                               |



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-4704

March 31, 2006

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE

SUBJECT: Report on Implementation of the Business Enterprise Information Services  
for the Army General Fund (Report No. D-2006-068)

We are providing this report for your information and use. We considered management comments on a draft of this report in preparing the final report. The 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 Jack L. Armstrong at (317) 510-4801 (DSN 699-4801) or Mark A. Ives at (317) 510-4801 (DSN 699-4801). See Appendix D for the report distribution. 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-2006-068

March 31, 2006

(Project No. D2005-D000FI-0052.001)

### Implementation of the Business Enterprise Information Services for the Army General Fund

#### Executive Summary

**Who Should Read This Report and Why?** This report should be read by all Defense Finance and Accounting Service (DFAS) personnel with Army General Fund financial reporting responsibilities and by personnel assigned to the Business Enterprise Information Services, Project Management Office. The report discusses the establishment of beginning account balances in the DoD Business Enterprise Information Services.

**Background.** This report addresses the implementation of the DoD Business Enterprise Information Services. This is the second in a series of reports related to the audit of the process used to compile Army General Fund financial reports and statements. The Business Enterprise Information Services initiative is designed to standardize the departmental reporting process and to produce the monthly reports based on the U.S. Standard General Ledger. The Business Enterprise Information Services will process and standardize financial information received from legacy accounting systems. DFAS Accounting Services Army<sup>1</sup> planned to use the Business Enterprise Information Services to process information for compiling the FY 2005 Army General Fund financial reports and statements. The Business Enterprise Information Services will replace the Headquarters Accounting and Reporting System and associated processes. The Headquarters Accounting and Reporting System is the legacy system currently used to compile Army General Fund information for financial reports and statements. For FY 2005, the Army General Fund reported Total Assets of \$252.2 billion, Total Liabilities of \$62.3 billion, Net Cost of Operations of \$146.4 billion, and Total Budgetary Resources of \$215.1 billion.

**Results.** DFAS Accounting Services Army did not take sufficient actions to ensure that the Business Enterprise Information Services could be used to prepare the year-end FY 2005 Army General Fund financial statements and reports. DFAS Accounting Services Army did not reconcile the \$1 trillion (absolute value) in differences between the FY 2004 ending account balances in the Defense Departmental Reporting System-Audited Financial Statements and the FY 2005 beginning account balances in the Business Enterprise Information Services. As a result, DFAS and the Army did not realize the potential \$2.7 million annual cost savings associated with implementing the Business Enterprise Information Services and eliminating the Headquarters Accounting and Reporting System. In addition, DFAS Accounting Services Army did not correct two material internal control weaknesses (abnormal account balances and unsupported ending balance adjustments) in Army General Fund financial reporting.

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<sup>1</sup> Now called the DFAS Indianapolis Operations.

The Director of DFAS should establish standard operating procedures that will provide guidance on recording and reconciling beginning account balances in the Business Enterprise Information Services. The Director should also report problems with recording beginning account balances and abnormal account balances as material internal control weaknesses in the Annual Statement of Assurance and change the completion dates for correcting unsupported ending balance adjustments. In addition, the Director should adjust the beginning account balances in the Business Enterprise Information Services to agree with the prior-year ending account balances. (See the Finding section for detailed recommendations.)

**Management Comments.** The DFAS Director, Indianapolis Operations, concurred with the recommendations stating that they will ensure that the FY 2006 Business Enterprise Information Services beginning account balances agree with budgetary balances. DFAS will reconcile the Business Enterprise Information Services beginning balances with the prior-year ending balances using the U.S. Standard General Ledger and will retain all supporting documentation and certifications of review and approval. The FY 2006 Annual Statement of Assurance will accurately reflect the status of the implementation of the Business Enterprise Information Services and the status of the proprietary-to-budgetary adjustment.<sup>2</sup> DFAS will adjust the Business Enterprise Information Services beginning account balances to agree with the prior-year ending account balances. (See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.)

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<sup>2</sup> This is an adjustment to force the general ledger accounts to agree with the status of appropriation information.

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## Background

This report addresses the implementation of the DoD Business Enterprise Information Services (BEIS). This is the second in a series of reports related to the audit of the process used to compile the Army General Fund financial reports and statements. The first report addressed an internal control weakness for accessing information in BEIS. The Defense Finance and Accounting Service (DFAS) Accounting Services Army<sup>1</sup> had planned to use BEIS for compiling the FY 2005 Army General Fund financial reports and statements. However, the planned implementation slipped to FY 2006.

**DoD Business Enterprise Information Services.** The BEIS initiative includes the DFAS Corporate Database (DCD), the DFAS Corporate Warehouse (DCW), and the Defense Departmental Reporting System (DDRS). BEIS builds upon existing infrastructure to provide timely, accurate, and reliable business information from across DoD and to support auditable financial statements. BEIS provides the following benefits.

- All accounting entries are auditable to source systems and data (audit trails are incorporated into the system).
- All transactions use the Standard Financial Information Structure (SFIS) for consistency and are compliant with the U.S. Standard General Ledger (USSGL).<sup>2</sup>
- A single trial balance for each organization will be automatically produced from transaction-level data.
- All budget and execution reports and financial statements will be produced from the same trial balance, eliminating the possibility of discrepancies.

**Business Enterprise Information Services Information Flow.** BEIS will expand on existing DCD functionality to interface, standardize, and share data between other financial information systems. This central repository of transaction-level data will then flow to DCW, which will provide a single point for enterprise-wide financial management reporting and information analysis. Field accounting activities submit Army General Fund accounting transactions to DCD through data files generated from legacy accounting systems. Transactions from these legacy accounting systems are in a “nonstandard” format. One of the functions of DCD is to create Standard Financial Information Structure (SFIS) accounting transactions from the nonstandard data submitted by the field accounting activities.<sup>3</sup> The DCD then posts these SFIS transactions to the USSGL

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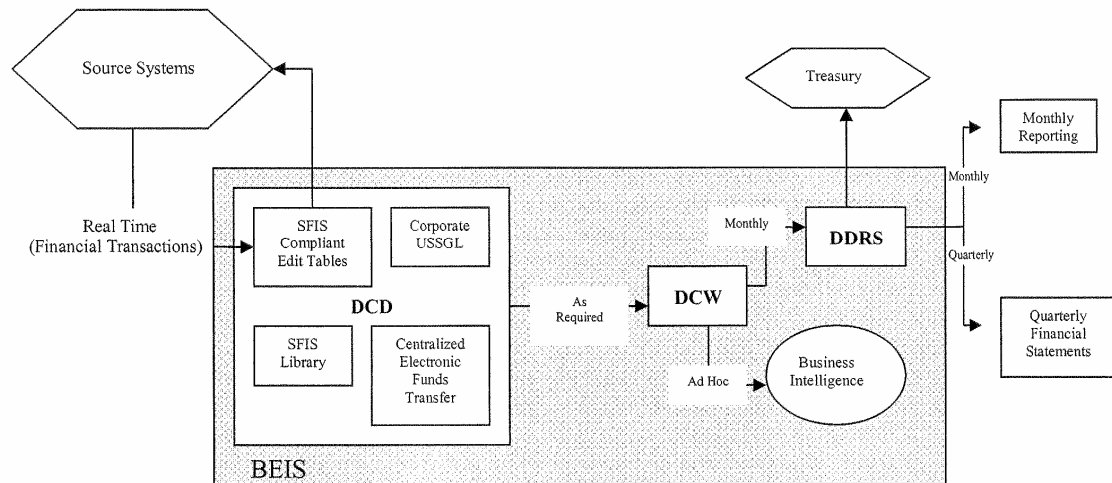
<sup>1</sup> Now called the DFAS Indianapolis Operations.

<sup>2</sup> The USSGL identifies the accounting codes used in the accounting systems of the Federal agencies. It includes account number, account title, and the normal balance (debit or credit) of the accounts.

<sup>3</sup> Transactions from legacy systems that use accounting and transaction codes other than those transaction codes specified by SFIS are nonstandard data.

accounts. Approximately 80 percent of the financial information processed in BEIS originated from feeder systems,<sup>4</sup> and the remainder originated from DFAS systems. The following figure shows the flow of data through BEIS.

### BEIS Data Flow



DDRS will be incorporated into a single solution that will summarize transaction-level information from DCW to produce DoD financial statements and mandatory budgetary reports. DCD will eliminate multiple databases and the reconciliation inefficiencies that can result when data are passed back and forth between information systems.

**Current Army General Fund Financial Reporting.** BEIS will replace the Headquarters Accounting and Reconciliation System (HQARS). DFAS Accounting Services Army has compiled Army General Fund financial reports and statements from financial information processed by HQARS since 1991. HQARS is a legacy accounting system that does not meet Federal system requirements. At the end of each accounting period, DFAS Accounting Services Army transfers trial balance data into the general ledger. DFAS Accounting Services Army adjusts the general ledger accounts by making large unsupported adjustments to force the general ledger accounts to agree with the status of appropriation information. It then transfers the general ledger account information to the DDRS-Audited Financial Statements module. DFAS Accounting Services Army uses the DDRS-Audited Financial Statements module to prepare the actual financial statements. For FY 2005, the Army General Fund reported Total Assets of \$252.2 billion, Total Liabilities of \$62.3 billion, Net Cost of Operations of \$146.4 billion, and Total Budgetary Resources of \$215.1 billion.

<sup>4</sup> Feeder systems are information systems, such as the Standard Finance System and the Standard Operation Maintenance Army Research and Development System, which transfer accounting data into DCD from field accounting activities.



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**Financial Management Regulation.** DoD Financial Management Regulation (FMR) 7000.14-R, volume 1, chapter 3, prescribes the procedures for determining whether DoD accounting systems are designed, documented, and operated in accordance with applicable regulations. Volume 1, chapter 3, states that audit trails are a key accounting requirement as financial transactions must be adequately supported and traceable to individual source records. Audit trails facilitate the tracing of a transaction from its source to the resulting record or report, and from the resulting record or report back to the source. Volume 1, chapter 3, also requires that subsidiary records<sup>5</sup> be reconciled with the account balances to validate amounts recorded in the general ledger.

## Objective

The overall audit objective was to determine whether the internal controls over the financial information processed by BEIS were adequate for Army General Fund financial reporting. This report discusses the planned use of BEIS to compile Army General Fund financial reports and statements. See Appendix A for a discussion of the scope and methodology and for prior coverage related to the objective.

## Managers' Internal Control Program

We identified a material internal control weakness for DFAS Accounting Services Army as defined by DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996. DFAS Accounting Services Army internal controls were not adequate to ensure that FY 2005 beginning account balances for the Army General Fund were accurately recorded in BEIS. Recommendations 1 and 3, when implemented, will correct the identified weaknesses and allow DFAS Accounting Services Army to use BEIS for Army General Fund accounting and reporting. In addition, DFAS Accounting Services Army did not identify its inability to record accurate beginning account balances in BEIS as an internal control weakness in its FY 2005 Annual Statement of Assurance (Annual Statement), dated June 24, 2005. The Finding section of this report discusses the details of the internal control weaknesses and the adequacy of management's self-evaluation process. A copy of the report will be provided to the senior official responsible for the Internal Control Program at DFAS.

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<sup>5</sup> A subsidiary record supports an amount recorded in the general ledger.

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## Controls Over Establishing the Beginning Account Balances

DFAS Accounting Services Army did not take sufficient actions to ensure that BEIS could be used to prepare the year-end FY 2005 Army General Fund financial statements and reports. This occurred because DFAS Accounting Services Army did not have adequate internal controls to ensure that the FY 2005 beginning account balances were properly recorded in BEIS. Specifically, DFAS Accounting Services Army did not perform an adequate reconciliation of the \$1 trillion (absolute value) in differences between the FY 2004 ending account balances in DDFS-Audited Financial Statements and the FY 2005 beginning account balances in BEIS. DFAS Accounting Services Army used unreliable financial information from HQARS to establish beginning account balances, and did not transfer the FY 2004 general ledger balances and year-end accounting adjustments to BEIS. In addition, DFAS Accounting Services Army did not have adequate procedures for recording and reconciling the beginning account balances in BEIS. As a result, DFAS and the Army did not realize the potential \$2.7 million annual cost savings associated with implementing BEIS and eliminating HQARS. DFAS Accounting Services Army was also not able to correct two material internal control weaknesses (abnormal account balances and unsupported ending balance adjustments) in Army General Fund financial reporting.

### Recording Beginning Account Balances

As of August 17, 2005, the difference between the FY 2004 ending account balances in the trial balance in DDFS-Audited Financial Statements and the FY 2005 beginning account balances recorded in BEIS was over \$1 trillion (absolute value). See Appendix B for a detailed comparison of the two trial balances. The following are examples of account balance differences and indications of potential budget and financial statement impacts if the beginning account balances are not corrected<sup>6</sup> before BEIS is implemented.

- **Fund Balance with Treasury (general ledger account 1010).** This account represents the aggregate amount of funds on deposit with Treasury, excluding seized cash deposited. DFAS Accounting Services Army overstated the beginning balance in BEIS by \$2.7 billion. In effect, DFAS Accounting Services Army overstated the balance in the Army's checking account.
- **Accounts Payable (general ledger account 2110).** This account represents amounts owed to other Federal or non-Federal entities for goods and other property ordered and received, and for services rendered by other than employees. DFAS Accounting Services Army

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<sup>6</sup> In this context, correct means that the beginning account balance agrees with the prior-year ending account balance.

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understated the beginning balance in BEIS by \$1.2 billion. This understates the amount of current debt owed to Army creditors.

- **Unexpended Appropriations - Cumulative (general ledger account 3100).** This account represents amounts appropriated by Congress less disbursements. DFAS Accounting Services Army understated the beginning balance in BEIS by \$11.5 billion. The Army had more appropriated funds available to cover planned disbursements than was shown in the BEIS beginning account balance.
- **Total Actual Resources - Collected (general ledger account 4201).** This account is used at year-end closing to consolidate the total amount of actual resources collected from all sources. DFAS Accounting Services Army overstated the beginning balance of resources collected from all sources by \$6.4 billion.
- **Commitments - Programs Subject to Apportionment (general ledger account 4700).** This account represents the amount of allotment or lower-level authority committed in anticipation of obligation for programs subject to apportionment. An apportionment is a plan, approved by the Office of Management and Budget, to spend resources provided by law. DFAS Accounting Services Army overstated the beginning balance of this account in BEIS by \$19.5 billion.

In order to implement BEIS and prepare the Army General Fund financial reports, DFAS Accounting Services Army needed to establish beginning account balances. Beginning account balances are the account balances at the start of an accounting period and are derived from the ending account balances of the previous period.<sup>7</sup> However, DFAS Accounting Services Army did not have adequate internal controls to ensure that the FY 2005 beginning account balances for the Army General Fund were properly recorded in BEIS.

## Reconciliation of Account Balances

DFAS Accounting Services Army personnel were not able to reconcile the FY 2004 ending account balances in DDRS-Audited Financial Statements with the FY 2005 beginning account balances in BEIS. In June 2005, we compared the FY 2005 beginning account balances from BEIS with the FY 2004 post-closing ending account balances from DDRS-Audited Financial Statements and identified a difference of \$4.7 trillion (absolute value). As of August 17, 2005, the difference had been reduced to \$1 trillion (absolute value). DFAS Accounting Services Army was unable to reconcile the balances in time to compile the

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<sup>7</sup> At the end of an accounting period, typically a fiscal year, the closing process occurs. This is when the nominal account balances are transferred to permanent accounts. For example, revenue and expense accounts are closed to the equity accounts and the nominal budgetary accounts are closed to permanent budgetary accounts. The nominal accounts begin each fiscal year with a balance of zero while the permanent accounts can begin a fiscal year with a balance.

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FY 2005 year-end Army General Fund financial reports and statements. DFAS Accounting Services Army reconciliation efforts focused on comparing Army budget reports to nonstandard transactions rather than performing the reconciliations at the appropriation level using general ledger accounting.

The amounts in the BEIS beginning account balances were incomplete. Information transferred from HQARS was incorrect. In addition, BEIS did not include all the financial information that was recorded in DDRS-Audited Financial Statements. Specifically, BEIS did not contain the:

- FY 2004 general ledger ending account balances, and
- FY 2004 accounting adjustments made at year end.

DFAS Accounting Services Army did not establish standard operating procedures before it attempted to establish the beginning balances in BEIS. Standard operating procedures would have provided guidance on the proper way to establish beginning balances and to document the process used to record and reconcile beginning account balances.

**Inaccurate Headquarters Accounting and Reporting System Information.**

The financial information transferred from HQARS and used to establish the BEIS beginning balances was not correct. To establish a beginning account balance in BEIS, DFAS Accounting Services Army created data files from information in HQARS and transferred these data files to BEIS. The information transferred into BEIS should have equaled the FY 2004 ending account balances in DDRS-Audited Financial Statements less year-end accounting adjustments. Table 1 contains examples of the differences between the unadjusted DDRS-Audited Financial Statements account balances and the BEIS beginning account balances. Appendix C shows how the unadjusted DDRS-Audited Financial Statements account balances were calculated.

| <b>Table 1. Differences Between Account Balance Amounts</b><br>(in millions) |  |  |                   |
|--|--|--|-------------------|
| <u>General Ledger Account</u>  | <u>Unadjusted<br/>DDRS-Audited<br/>Financial Statements<br/>Account Balances</u> | <u>BEIS<br/>Beginning<br/>Balances</u> | <u>Difference</u> |
| 1010-Fund Balance with Treasury  | \$ 88,159  | \$ 92,291                              | \$ 4,132          |
| 1310-Accounts Receivable   | 2,221  | 1,893                                  | (327)*            |
| 2110-Accounts Payable  | (7,744)  | (11,223)                               | (3,479)           |
| 4510-Appportionments   | (14,865)   | (16,302)                               | (1,437)           |
| 4700-Commitments-<br>Programs Subject to<br>Appportionments                  | (1,362)  | (20,859)                               | (19,496)*         |
| 4801-Undelivered Orders-<br>Unpaid   | (56,557)   | (60,457)                               | (3,900)           |
| * Difference due to rounding.  |  |  |                   |

**Ending Account Balances Transfer.** Financial activity that occurred during FY 2004 was in the year-end trial balance, but was not transferred into BEIS. For example, the BEIS beginning balances did not include:

- \$37.6 billion from the 1500 series of general ledger accounts for Inventory and Operating Materials and Supplies;
- \$112.8 billion from the 1700 series of general ledger accounts for Property, Plant, and Equipment and related accumulated depreciation; and
- \$43.1 billion from the 2900 series of general ledger accounts for Other Liabilities.

**Year-End Accounting Adjustments.** DFAS Accounting Services Army did not transfer the FY 2004 year-end accounting adjustments made in DDRS-Audited Financial Statements to BEIS. At the end of FY 2004, DFAS Accounting Services Army prepared accounting adjustments to correct accounting errors, add additional accounting information, and force general ledger balances to agree with other sources of information. DFAS Accounting Services Army made over

\$313 billion in adjusting entries at the end of FY 2004 that were not transferred to the beginning account balances in BEIS. Table 2 shows the dollar value of adjustments made to selected general ledger accounts.

| <b>Table 2. Accounting Adjustments Made to Selected General Ledger Accounts</b> |   |
|---|---|
| <u>General Ledger Account</u>   | <u>Amount of Accounting Adjustments (in millions)</u> |
| 1010-Fund Balance with Treasury   | \$ 1,389  |
| 1759-Accumulated Depreciation on Equipment                                      | 6,146   |
| 2310-Advances from Others   | 1,523   |
| 3100-Unexpended Appropriations-Cumulative                                       | 57,101  |
| 4802-Undelivered Orders-Obligations, Prepaid/Advanced                           | 3,507   |

**Standard Operating Procedures.** DFAS Accounting Services Army did not establish standard operating procedures or have documentation that described what processes were used to record and reconcile the beginning account balances. Operating procedures should have described how the beginning account balances were to be recorded and reconciled, and who was to perform supervisory reviews and approvals of the beginning account balances.

**Recording the Beginning Balances.** DFAS Accounting Services Army did not have a standard operating procedure for recording beginning account balances that would have described how to transfer year-end general ledger balances and accounting adjustments. DFAS Accounting Services Army should have manually transferred the amounts of the year-end accounting adjustments made to the general ledger to set up the beginning account balances in BEIS for the new fiscal year. Unless these year-end accounting entries are brought forward, the accounts supporting Army General Fund financial reports and statements will be misstated. BEIS has a manual adjustment capability. However, the accounting adjustments made in DDRS-Audited Financial Statements do not always identify the appropriations. The appropriation that relates to the transactions must be known in order to prepare budget reports. DFAS Accounting Services Army should develop a procedure for bringing forward accounting adjustments made in DDRS-Audited Financial Statements, by appropriation, to BEIS.

**Reconciliations.** DFAS Accounting Services Army did not have standard operating procedures for reconciling the FY 2005 beginning account balances in

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BEIS with the FY 2004 ending account balances in DDRS-Audited Financial Statements. A proper reconciliation would have identified the differences between the beginning and ending account balances and required that reasons be identified for the differences. DFAS Accounting Services Army personnel stated that they attempted to reconcile the FY 2005 beginning account balances with the FY 2004 ending account balances; however, they could not provide us with adequate documentation that identified the reasons for the differences. The standard operating procedure should address the reconciliation processes and require that:

- current year beginning account balances be reconciled with the prior year ending balances by general ledger account,
- all differences between the beginning and ending balances be researched and corrected, and
- documentation supporting all reconciliations be retained.

**Supervisory Review and Approval.** DoD FMR 7000.14-R, volume 1, chapter 3 states that financial transactions must be adequately supported and traceable to individual source records. For example, the Director, Accounting Services Army is required to review and approve all accounting adjustments over \$1 billion for supporting documentation and propriety. DFAS should require the Director or Deputy Director of Accounting Services Army to review and approve the reconciliations and account balances transferred if the amount of the transfer is over \$1 billion.

## Benefits of Implementing BEIS

BEIS implementation for Army General Fund accounting and reporting did not meet the January 2005 implementation date, therefore delaying the benefits used to justify the project. On October 20, 2003, the Under Secretary of Defense (Comptroller)/Chief Financial Officer signed a system change request that approved the establishment of interfaces between field-level accounting systems and BEIS. The use of BEIS for Army General Fund accounting and reporting was to begin in January 2005. The system change request indicated that the implementation of BEIS for Army General Fund accounting and reporting would cost \$1.13 million and result in annual savings of \$2.7 million. The annual savings were based on the elimination of 11 full-time equivalents (positions) and the elimination of HQARS. In addition to replacing HQARS, BEIS was to correct two material internal control weaknesses in Army General Fund financial reporting. These two weaknesses related to abnormal balances in the general ledger accounts and unsupported accounting adjustments, known as ending balance adjustments.

**Abnormal Balances.** Department of Defense Inspector General (DoD IG) Report No. D-2004-118, "Army General Fund Controls Over Abnormal Balances for Field Accounting Activities," September 28, 2004, states that the first quarter FY 2004 trial balance data for the Army General Fund included 236 general

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ledger accounts with \$884.4 billion of unresolved abnormal balances. An abnormal balance occurs when the reported balance does not agree with the normal debit or credit balance established in the general ledger chart of accounts. For example, Accounts Payable normally has a credit balance; therefore, a debit balance is an abnormal balance. An abnormal general ledger account balance is an accounting irregularity caused by incorrectly posting transactions or by operational issues such as over-obligations. In its November 23, 2004, comments to the report, DFAS stated that queries would be developed and procedures modified to identify abnormal conditions once DDRS-Budgetary (part of BEIS) was implemented. The estimated completion date was September 30, 2005. Because BEIS did not meet the milestone, the abnormal balance weakness has not been corrected. The FY 2005 trial balance for the Army General Fund contained \$1.2 trillion of abnormal balances.

**Unsupported Accounting Adjustments.** Since FY 1991, DFAS Accounting Services Army has made unsupported accounting adjustments, known as ending balance adjustments, to force the general ledger balances to agree with the status of appropriations balances at fiscal year-end. The ending balance adjustments totaled \$72.2 billion for FY 2005. DFAS Accounting Services Army has consistently identified these unsupported adjustments as a material internal control weakness since 1991. The FY 2005 Annual Statement, June 24, 2005, prepared by the Director of Accounting Services Army, stated that the problem of ending balance adjustments identified during prior periods remains an uncorrected material weakness. The correction of this material weakness is dependent upon implementing BEIS. The targeted correction date in the FY 2004 Annual Statement was second quarter of FY 2005; however, this has slipped because BEIS has not been implemented.

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

The DFAS Accounting Services Army FY 2005 self-evaluation of internal controls was incomplete. The FY 2005 Annual Statement included incorrect information related to the status of events required to correct the ending balance adjustments material weakness. It also did not report material weaknesses related to beginning account balances and abnormal balances.

**Ending Balance Adjustments.** The DFAS Accounting Services Army FY 2005 Annual Statement stated that the material weakness related to ending balance adjustments remained uncorrected. The FY 2005 Annual Statement indicated that the implementation of BEIS for financial reporting would eliminate the need for ending balance adjustments and correct the material weakness by October 2005. Validation of the beginning balances is one of the events necessary for implementing BEIS. This validation had not occurred as of November 2005, yet the DFAS Accounting Services Army FY 2005 Annual Statement incorrectly stated that it had occurred in June 2005. The failure to record and validate the FY 2005 beginning account balances in BEIS delayed the implementation of BEIS for Army General Fund reporting at least one year. The FY 2005 Annual Statement did not accurately reflect this failure to correct the ending balance adjustments weakness.



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**Analysis and Review of Internal Controls.** The DFAS Accounting Services Army analysis and review of internal controls were incomplete. DFAS Accounting Services Army did not include beginning account balances and abnormal balances as major functions in the management control matrix or the self-evaluation. As a result, the DFAS Accounting Services Army did not report these two material internal control weaknesses in the FY 2005 Annual Statement.

If these material weaknesses are not corrected at the time the FY 2006 Annual Statement is prepared, DFAS Accounting Services Army should report them as material weaknesses. DFAS Accounting Services Army should also report the correct milestone dates for corrective actions. In addition, corrective actions should be validated before the material weaknesses are cleared from the Annual Statement.

## **Conclusion**

The procedures used by DFAS Accounting Services Army to transfer Army accounting data from HQARS did not establish accurate beginning account balances in BEIS. A standard operating procedure that provides instructions for transferring and reconciling the data would ensure that the beginning account balances in BEIS accurately reflect the accounting activity previously recorded in both HQARS and DDFS-Audited Financial Statements. Accurate beginning balances in BEIS in the first year of operation will provide a baseline that can be used to verify the accuracy of the data processed in BEIS. In addition, an accurate baseline is needed to ensure that budget reports produced from the general ledger are consistent with prior year budget reports. DFAS Accounting Services Army should establish the beginning general ledger account balances in BEIS by using adjusting entries to transfer the prior year-end general ledger account balances from DDFS-Audited Financial Statements. The detail supporting the beginning account balances in BEIS should contain sufficient information to post the accounting adjustments by appropriation.

## **Recommendations and Management Comments**

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

**1. Establish a standard operating procedure that provides guidance how to record and reconcile the beginning account balances in the Business Enterprise Information Services. The standard operating procedure should require and address the need to:**

**a. Record prior year-end Defense Departmental Reporting System - Audited Financial Statements accounting adjustments manually in the Business Enterprise Information Services at the beginning of the fiscal year.**

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**b. Reconcile current year beginning balances with the prior-year ending balances and research and correct any differences by U.S. Standard General Ledger account codes.**

**c. Retain documentation of all reconciliations and supporting documentation.**

**d. Prepare written certifications that the reconciliations and account balance transfers have been reviewed and approved by the Director or Deputy Director of Accounting Services Army.**

**Management Comments.** The DFAS Director, Indianapolis Operations, concurred with the recommendations and stated that DFAS will ensure that the FY 2006 BEIS beginning account balances agree with budgetary balances, will reconcile the BEIS beginning balances with the prior-year ending balances using the USSGL, and will retain all supporting documentation and certifications of review and approval. The management action will be completed May 30, 2006.

**2. Report complete and accurate information in the FY 2006 Annual Statements of Assurance. Specifically:**

**a. Report the existence of abnormal balances and the failure to reconcile beginning account balances with prior year-end balances as material internal control weaknesses until it has been independently verified that these two weaknesses have been corrected.**

**b. Report the correct progress completion dates for the internal control weakness on the ending balance adjustment.**

**Management Comments.** The DFAS Director, Indianapolis Operations, concurred with the recommendations and stated that the FY 2006 Annual Statements of Assurance will accurately reflect the status of the implementation of the BEIS and the status of the proprietary to budgetary adjustment. The management action will be completed October 30, 2006.

**3. Adjust the FY 2006 beginning account balances in the Business Enterprise Information Services to agree with the prior year-end account balances at the appropriation level using the general ledger account balances from the Defense Departmental Reporting System-Audited Financial Statements.**

**Management Comments.** The DFAS Director, Indianapolis Operations, concurred with the recommendations and stated that this will be the final process of the balancing and reconciliation process. The management action will be completed May 30, 2006.

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## Appendix A. Scope and Methodology

We reviewed the internal controls for recording the FY 2005 beginning account balances in BEIS. Specifically, we reviewed the process for transferring the accounting data from HQARS to BEIS. In June 2005, DFAS Accounting Services Army provided us with the September 2004 ending trial balance from BEIS. We compared the ending trial balance from BEIS with the FY 2004 ending trial balance from DDRS-Audited Financial Statements, which was used to prepare the FY 2004 Army General Fund Financial Statements. In August 2005, after DFAS Accounting Services Army personnel had worked to reconcile differences in the balances, we obtained the September 2004 ending trial balance from BEIS and compared it with the FY 2004 ending trial balance from DDRS-Audited Financial Statements. We analyzed the trial balances to determine the causes for the differences. In addition, we reviewed DoD and DFAS procedures related to the recording of beginning account balances.

We conducted interviews with DFAS personnel in DFAS Accounting Services Army and the BEIS Project Management Office. On August 19, 2005, we requested that DFAS Accounting Services Army provide explanations for the significant differences between the trial balances. The explanations provided by DFAS Accounting Services Army personnel were based on their reconciliations of budgetary accounts with status data and not on reconciliations of the general ledger accounts.

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

**Use of Computer-Processed Data.** We used computer-processed data from DDRS-Audited Financial Statements and BEIS to identify discrepancies in the trial balances. The data contained in the DDRS-Audited Financial Statements came from HQARS, which does not comply with Federal financial management system requirements. We did not attempt to confirm the accuracy of the FY 2004 ending trial balances in DDRS-Audited Financial Statements. The reliability of the computer-processed data did not affect our audit conclusions because we were determining whether the FY 2005 beginning account balances in BEIS agreed with the FY 2004 ending account balances in DDRS-Audited Financial Statements.

**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 controls over the recording of the FY 2005 beginning account balances in BEIS. In addition, we reviewed the adequacy of management's self-evaluation of those controls and reporting of prior material internal control weaknesses related to the implementation of BEIS. Specifically, we reviewed how DFAS Accounting Services Army reviewed and reported known issues with large unsupported accounting adjustments, known as the ending balance adjustments, and abnormal balances contained in the general ledger data of the Army General Fund.

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

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## **Prior Coverage**

During the last 5 years, the GAO and the DoD IG have issued three reports discussing BEIS. Unrestricted Government Accountability Office reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>.

### **GAO**

GAO-03-465, "DoD Business System Modernization, Continued Investment in Key Accounting Systems Needs to be Justified," March 28, 2003

### **DoD IG**

DoD IG Report No. D-2006-033, "Defense Finance and Accounting Service Corporate Database User Access Controls," December 7, 2005

DoD IG Report No. D-2002-014, "Development of Defense Finance and Accounting Service Corporate Database and Other Financial Management Systems," November 7, 2001

## Appendix B. Comparison of Trial Balances

The following table shows differences between the FY 2004 post-closing ending account balances from DDRS and the FY 2005 beginning account balances in BEIS.

| General Ledger Account  | Account Balances<br>(in thousands) |               | Absolute<br>Difference<br>(in thousands)* |
|---|------------------------------------|---------------|---|
|   | DDRS                               | BEIS          |   |
| 1010 - Fund Balance with Treasury   | \$ 89,548,609                      | \$ 92,291,072 | \$ 2,742,463                              |
| 1110 - Undeposited Collections  | 226                                | 0             | 226                                       |
| 1190 - Other Cash   | 1,168,466                          | 0             | 1,168,466                                 |
| 1200 - Foreign Currency   | 356,398                            | 0             | 356,398                                   |
| 1310 - Accounts Receivable  | 2,344,502                          | 1,893,407     | 451,096*                                  |
| 1319 - Allowance for Loss on Accounts Receivable                              | (136,540)                          | 0             | 136,540                                   |
| 1340 - Interest Receivable  | 49,848                             | 0             | 49,848                                    |
| 1410 - Advances to Others   | 1,284,970                          | 567,743       | 717,227                                   |
| 1450 - Prepayments  | 2,789,090                          | 0             | 2,789,090                                 |
| 1511 - Operating Materials and Supplies Held for Use                          | 32,443,015                         | 0             | 32,443,015                                |
| 1512 - Operating Materials and Supplies Held in Reserve for Future            | 5,000,000                          | 0             | 5,000,000                                 |
| 1513 - Operating Materials and Supplies - Excess, Obsolete, and Unserviceable | 980,073                            | 0             | 980,073                                   |
| 1519 - Operating Materials and Supplies - Allowance                           | (980,073)                          | 0             | 980,073                                   |
| 1521 - Inventory Purchased for Resale   | 20,470                             | 0             | 20,470                                    |
| 1524 - Inventory - Excess, Obsolete, and Unserviceable                        | 13,006                             | 0             | 13,006                                    |
| 1526 - Inventory - Work in Process  | 191,939                            | 0             | 191,939                                   |

| General Ledger Account  | Account Balances<br>(in thousands) |          | Absolute<br>Difference<br>(in thousands)* |
|---|------------------------------------|----------|---|
|   | DDRS                               | BEIS     |   |
| 1529 - Inventory - Allowance  | (20,708)                           | 0        | 20,708                                    |
| 1610 - Investments in U.S. Treasury Securities Issued by the Bureau of the Public Debt                          | 1,490                              | 0        | 1,490                                     |
| 1611 - Discount on U.S. Treasury Securities Issued by the Bureau of the Public Debt                             | (3)                                | 0        | 3   |
| 1612 - Premium on U.S. Treasury Securities Issued by the Bureau of the Public Debt                              | 6                                  | 0        | 6   |
| 1613 - Amortization of Discount and Premium on U.S. Treasury Securities Issued by the Bureau of the Public Debt | (1)                                | 0        | 1   |
| 1620 - Investments in Securities Other Than the Bureau of the Public Debt Securities                            | 1                                  | 0        | 1   |
| 1711 - Land and Land Rights   | 464,254                            | 0        | 464,254                                   |
| 1720 - Construction in Progress   | 5,495,062                          | (14,364) | 5,509,426                                 |
| 1730 - Buildings, Improvements, and Renovations   | 31,071,085                         | 0        | 31,071,085                                |
| 1739 - Accumulated Depreciation on Buildings, Improvements, and Renovations                                     | (17,097,154)                       | 0        | 17,097,154                                |
| 1740 - Other Structures and Facilities  | 11,173,038                         | 0        | 11,173,038                                |
| 1749 - Accumulated Depreciation on Other Structures and Facilities  | (9,550,332)                        | 0        | 9,550,332                                 |
| 1750 - Equipment  | 385,892,225                        | 0        | 385,892,225                               |
| 1759 - Accumulated Depreciation on Equipment  | (294,685,619)                      | 0        | 294,685,619                               |
| 1810 - Assets Under Capital Lease   | 166,071                            | 0        | 166,071                                   |
| 1819 - Accumulated Depreciation on Assets Under Capital Lease   | (130,074)                          | 0        | 130,074                                   |

| General Ledger Account                                    | Account Balances<br>(in thousands) |              | Absolute<br>Difference<br>(in thousands)* |
|---|------------------------------------|--------------|---|
|   | DDRS                               | BEIS         |   |
| 1820 - Leasehold Improvements                             | 11,455                             | 0            | 11,455                                    |
| 1829 - Accumulated Amortization on Leasehold Improvements | (9,311)                            | 0            | 9,311                                     |
| 1830 - Internal-Use Software                              | 391,865                            | 0            | 391,865                                   |
| 1839 - Accumulated Amortization on Internal-Use Software  | (99,801)                           | 0            | 99,801                                    |
| 1840 - Other Natural Resources                            | 18,808                             | 0            | 18,808                                    |
| 2110 - Accounts Payable                                   | (12,373,426)                       | (11,223,067) | 1,150,359                                 |
| 2120 - Disbursements in Transit                           | (12,239)                           | 0            | 12,239                                    |
| 2130 - Contract Holdbacks                                 | (343,010)                          | 0            | 343,010                                   |
| 2140 - Accrued Interest Payable                           | (169)                              | (3,547)      | 3,378                                     |
| 2170 - Subsidy Payable to the Financing Account           | (10,869)                           | 0            | 10,869                                    |
| 2180 - Loan Guarantee Liability                           | (12,293)                           | 0            | 12,293                                    |
| 2190 - Other Accrued Liabilities                          | (2,863)                            | 0            | 2,863                                     |
| 2210 - Accrued Funded Payroll and Leave                   | (2,083,447)                        | (2,644,368)  | 560,921                                   |
| 2211 - Withholdings Payable                               | 0                                  | (1,267,211)  | 1,267,211                                 |
| 2213 - Employer Contributions to Payroll Taxes Payable    | (363,490)                          | 0            | 363,490                                   |
| 2220 - Unfunded Leave                                     | (2,656,508)                        | (2,567,346)  | 89,162                                    |
| 2225 - Unfunded FECA Liability                            | (281,613)                          | 0            | 281,613                                   |
| 2290 - Other Unfunded Employment Related Liability        | (133,628)                          | 0            | 133,628                                   |
| 2310 - Advances from Others                               | (2,537,119)                        | (1,012,023)  | 1,525,096                                 |

| General Ledger Account  | Account Balances<br>(in thousands) |              | Absolute<br>Difference<br>(in thousands)* |
|---|------------------------------------|--------------|---|
|   | DDRS                               | BEIS         |   |
| 2400 - Liabilities for Deposit Funds, Clearing Accounts and Undeposited Collections | (137,806)                          | (2,552,730)  | 2,414,924                                 |
| 2650 - Actuarial FECA Liability   | (1,632,843)                        | 0            | 1,632,843                                 |
| 2920 - Contingent Liabilities   | (1,011,845)                        | 0            | 1,011,845                                 |
| 2940 - Capital Lease Liability  | (59,397)                           | 0            | 59,397                                    |
| 2960 - Accounts Payable From Canceled Appropriations                                | (73,766)                           | 0            | 73,766                                    |
| 2980 - Custodial Liability  | (209,123)                          | 0            | 209,123                                   |
| 2990 - Other Liabilities  | (1,418,423)                        | 0            | 1,418,423                                 |
| 2995 - Estimated Cleanup Cost Liability   | (40,366,172)                       | 0            | 40,366,172                                |
| 3100 - Unexpended Appropriations - Cumulative                                       | (73,238,304)                       | (61,695,619) | 11,542,685                                |
| 3310 - Cumulative Results of Operations   | (109,208,001)                      | (11,771,948) | 97,436,053                                |
| 4201 - Total Actual Resources - Collected   | 82,966,611                         | 89,321,509   | 6,354,898                                 |
| 4221 - Unfilled Customer Orders without Advance                                     | 12,713,170                         | 12,713,170   | 0   |
| 4222 - Unfilled Customer Orders with Advance  | 1,012,028                          | 1,012,023    | 5   |
| 4251 - Reimbursements and Other Income Earned - Receivable                          | 1,893,447                          | 1,893,407    | 40  |
| 4450 - Unapportioned Authority  | (265)                              | 3,190        | 3,454*                                    |
| 4510 - Apportionments   | (14,864,595)                       | (16,301,861) | 1,437,267*                                |
| 4610 - Allotments - Realized Resources  | (5,233,035)                        | (6,438,863)  | 1,205,827*                                |
| 4620 - Unobligated Funds Exempt from Apportionment                                  | (13,411)                           | (1,236,503)  | 1,223,092                                 |



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| General Ledger Account                                    | Account Balances<br>(in thousands) |              | Absolute<br>Difference<br>(in thousands)* |
|---|------------------------------------|--------------|---|
|   | DDRS                               | BEIS         |   |
| 4650 - Allotments - Expired Authority                     | (1,408,440)                        | 16,062,000   | 17,470,440                                |
| 4700 - Commitments - Programs Subject to Apportionment    | (1,362,436)                        | (20,858,900) | 19,496,464                                |
| 4801 - Undelivered Orders - Obligations, Unpaid           | (56,509,574)                       | (60,456,529) | 3,946,955                                 |
| 4802 - Undelivered Orders - Obligations, Prepaid/Advanced | (4,074,059)                        | (567,743)    | 3,506,316                                 |
| 4901 - Delivered Orders - Obligations, Unpaid             | (15,119,442)                       | (15,144,900) | 25,458                                    |
| <b>Total</b>  |                                    |              | <b>\$1,020,924,236</b>                    |
| * Difference due to rounding.                             |                                    |              |   |

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## Appendix C. Calculation of Unadjusted FY 2004 Year-End Balances

The following table shows how we calculated the FY 2004 unadjusted year-end balances for the six general ledger accounts in Table 1. To arrive at the unadjusted balances, we subtracted the accounting adjustments made at year-end from the FY 2004 ending trial balances.

| <b>General Ledger Account</b>                          | <b>DDRS FY 2004<br/>Ending Balances<br/>(in thousands)</b> | <b>Less FY 2004<br/>Year-End<br/>Adjustments<br/>(in thousands)</b> | <b>Unadjusted<br/>FY 2004 Year-End<br/>Balances<br/>(in thousands)</b> |
|--|--|---|--|
| 1010-Fund Balance with Treasury                        | \$ 89,548,609  | \$ 1,389,482  | \$ 88,159,127  |
| 1310-Accounts Receivable                               | 2,344,502  | 123,719   | 2,220,784  |
| 2110-Accounts Payable                                  | (12,373,426)   | (4,629,571)   | (7,743,855)  |
| 4510-Appportionments                                   | (14,864,595)   | 0   | (14,864,595)   |
| 4700-Commitments-Programs<br>Subject to Apportionments | (1,362,436)  | 0   | (1,362,436)  |
| 4801-Undelivered Orders-<br>Obligations Unpaid         | (57,363,040)   | 47,190  | (57,410,230)   |

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## **Appendix D. Report Distribution**

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

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

### **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

### **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 Efficiency and Financial Management, Committee on Government Reform

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

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

# Defense Finance and Accounting Service Comments



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

MAR 03 2006

DFAS-ADL/IN

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Report on Implementation of the Business Enterprise Information Services for the Army General Fund (Project No. D2005-D000FI-0052.001)

Indianapolis Operations is providing management comments to the following recommendations:

**Recommendation 1:** Establish a standard operating procedure that provides guidance how to record and reconcile the beginning account balances in the Business Enterprise Information Services. The standard operating procedure should require and address the need to:

a. Record prior year-end Defense Departmental Reporting System Audited Financial Statements accounting adjustments manually in the Business enterprise Information services at the beginning of the fiscal year.

**Comment:** Stakeholder: Sam Graham, 317-510-3153. Concur. We ensure that the proprietary balances in BEIS are in agreement with the budgetary balances for FY 06 beginning balances. This will be accomplished after the budgetary account balances are established. Input of the prior years data call adjustments that are not a component of the monthly budgetary reports is going to occur in a later phase.

**Estimated Completion Date:** May 30 2006

b. Reconcile current year beginning balances with the prior year ending balances and research and correct any differences by U.S. Government Standard General Ledger account codes.

**Comment:** Stakeholder: Sam Graham, 317-510-3153. Concur. This will be done as part of recommendation 1a. Budgetary will be complete by March 30, 2006 and proprietary complete by May 30, 2006

**Estimated Completion Date:** May 30 2006

c. Retain documentation of all reconciliations and supporting documentation.

**Comment:** Stakeholder: Sam Graham, 317-510-3153. Concur. Reconciliations will be done using the USSGL. In addition, we will reconcile at a detailed line of accounting within the USSGL.

**Estimated Completion Date:** May 30 2006

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d. Prepare written certifications that the reconciliations and account balance transfers have been reviewed and approved by the Director or Deputy Director of Accounting Services Army.

**Comment:** Stakeholder: Sam Graham, 317-510-3153. Concur. Documentation will be maintained by individual accountants and on network shared drives established for that purpose.

**Estimated Completion Date:** May 30 2006

**Recommendation 2:** Report complete and accurate information in the FY 2006 Annual statements of Assurance. Specifically:

a. Report the existence of abnormal balances and the failure to reconcile beginning account balances with prior year-end balances as material internal control weaknesses until it has been independently verified that these two weaknesses have been corrected.

**Comment:** Stakeholder: Sam Graham, 317-510-3153. Concur. The FY 06 Annual Statement of Assurance will accurately reflect the condition of the BEIS System at the time the statement is prepared.

**Estimated Completion Date:** October 30, 2006

b. Report the correct progress completion dates for the internal control weakness on the ending balance adjustment.

**Comment:** Stakeholder: Sam Graham, 317-510-3153. Concur. The FY 06 Annual Audited Financial Statements will reflect the status of the proprietary to budgetary adjustment (formerly called the ending balance adjustment).

**Estimated Completion Date:** October 30, 2006

**Recommendation 4:** Adjust the FY 2006 beginning account balances in the Business Enterprise Information Services to agree with the prior year-end account balances at the appropriation level using the general ledger account balances from the Defense Departmental Reporting system-audited financial Statements.

**Comment:** Stakeholder: Sam Graham, 317-510-3153. Concur. This will be the final process of the balancing and reconciliation process. This step will adjust the proprietary account balances to agree with the budgetary account balances. Input of the prior years data call adjustments that are not a component of the monthly budgetary reports is going to occur in a later phase.

**Estimated Completion Date:** May 30 2006

My point of contact is Sam Graham, 317-510-3153.



Steve R. Bonta  
Director, Indianapolis Operations

Recommend  
-ation 3.

## **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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