

October 10, 2006



# Financial Management

Internal Controls Over the Army  
General Fund, Note 3, "Fund Balance  
With Treasury," Disclosures  
(D-2007-003)

Department of Defense  
Office of Inspector General

Constitution of  
the United States

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Article I, Section 9

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## Acronyms

AGF	Army General Fund
DFAS	Defense Finance and Accounting Service
FBWT	Fund Balance With Treasury
FMR	Financial Management Regulation
FMS	Financial Management Service
IPAC	Intra-Governmental and Payment Collection
OMB	Office of Management and Budget
OPAC	On-Line Payment and Collection System
OUS(D)/CFO	Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer
SF	Standard Form
SFFAS	Statement of Federal Financial Accounting Standards
SOP	Standard Operating Procedure



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

October 10, 2006

**MEMORANDUM FOR UNDER SECRETARY OF DEFENSE  
(COMPTROLLER)/CHIEF FINANCIAL OFFICER  
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL  
MANAGEMENT AND COMPTROLLER)  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE INDIANAPOLIS**

**SUBJECT: Report on Internal Controls over the Army General Fund, Note 3, "Fund  
Balance With Treasury," Disclosures (Report No. D-2007-003)**

We are providing this report for review and comment. We considered management comments from the Director, Defense Finance and Accounting Service Indianapolis on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Office of the Under Secretary of Defense Comptroller/(Chief Financial Officer) did not provide comments on the draft report. Therefore, we request comments by November 9, 2006. The Director, Defense Finance and Accounting Service Indianapolis comments were partially responsive on Recommendations A.2.a-f., and D.1., and not responsive on Recommendations C.1.i. and D.2.e. Therefore, we request additional comments by November 9, 2006.

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 Mr. Douglas Neville at (703) 428-1061 (DSN 328-1061) or Mr. Mark Henricks at (703) 428-1270 (DSN 328-1270). See Appendix H 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", written over a horizontal line.

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

## Department of Defense Office of Inspector General

Report No. D-2007-003

October 10, 2006

(Project No. D2005-D000FP-0248.001)

### Internal Controls over the Army General Fund, Note 3, "Fund Balance With Treasury," Disclosures

#### Executive Summary

**Who Should Read This Report and Why?** Defense Finance and Accounting Service (DFAS) personnel involved with the accounting and reporting of the Fund Balance With Treasury (FBWT) account should read this report. This report contains guidance that DFAS can use to assist in its reporting of Note 3, "Fund Balance With Treasury," disclosures.

**Background.** We performed this audit in support of Public Law 101-576, the "Chief Financial Officers Act of 1990," November 15, 1990, as amended by Public Law 103-356, the "Federal Financial Management Act of 1994," October 13, 1994, and Public Law 104-208, the "Federal Financial Management Improvement Act of 1996," September 30, 1996.

The Army reported \$130.7 billion in its FBWT account and \$290.6 billion in total assets on its General Fund Balance Sheet as of June 30, 2005. The Army General Fund FBWT account represented 31.0 percent of the FBWT account reported on the DoD Agency-Wide Balance Sheet as of June 30, 2005.

**Results.** We reviewed Note 3, "Fund Balance With Treasury," disclosures on the June 30, 2005, Army General Fund Notes to the Financial Statements. DFAS Indianapolis needs to strengthen its controls and improve its process for reporting Note 3, "Fund Balance With Treasury." DFAS Indianapolis did not properly compute Line 2.A., "Fund Balance per Treasury," in Note 3, "Fund Balance With Treasury," on the June 30, 2005, Army General Fund Notes to the Financial Statements. As a result, DFAS Indianapolis understated Line 2.A, "Fund Balance per Treasury," and Reconciling Amount in Note 3, "Fund Balance With Treasury," by \$102.5 million (Finding A).

DFAS Indianapolis needs to strengthen its controls over Note 3, "Fund Balance With Treasury," disclosures for check issue differences. DFAS Indianapolis did not accurately disclose check issue differences in Note 3, "Fund Balance With Treasury," on the June 30, 2005, Army General Fund Notes to the Financial Statements. Also, DFAS Indianapolis did not disclose that May 2005 check issue differences information was used instead of June 2005 information in Note 3, "Fund Balance With Treasury." Finally, DFAS Indianapolis did not provide an explanation for the check issue differences in Note 3, "Fund Balance With Treasury." As a result, DFAS Indianapolis understated the amount of check issue differences between its records and Treasury records by \$9.0 million in Note 3, "Fund Balance With Treasury," and did not provide required information to financial statement users (Finding B).

DFAS Indianapolis needs to strengthen its controls over Note 3, “Fund Balance With Treasury,” disclosures for deposit and intragovernmental payment and collection differences. DFAS Indianapolis did not disclose the net and absolute amount of deposit and intragovernmental payment and collection differences on the June 30, 2005, Army General Fund Note 3, “Fund Balance With Treasury.” As a result, DFAS Indianapolis did not disclose deposit differences of \$308.5 million (absolute amount \$506.4 million), and intragovernmental and payment collection differences of \$5.8 million (absolute amount \$5.8 million) (Finding C).

DFAS Indianapolis needs to improve its controls over Note 3, “Fund Balance With Treasury,” disclosures for suspense and budget clearing accounts. DFAS Indianapolis did not properly disclose the suspense and budget clearing accounts in Note 3, “Fund Balance With Treasury.” In addition, DFAS Indianapolis did not follow the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, 1st Quarter Guidance for reporting suspense and clearing accounts in Note 3, “Fund Balance With Treasury.” As a result, DFAS Indianapolis understated its suspense and budget clearing amount in Note 3, “Fund Balance With Treasury,” by \$1.9 million on the June 30, 2005, Army General Fund Notes to the Financial Statements (Finding D).

The DoD Financial Management Regulation, volume 6B, chapter 10, Note 3, “Fund Balance With Treasury,” January 2006, does not provide adequate controls for ensuring that Note 3, “Fund Balance With Treasury,” disclosures are properly supported and accurate. Specifically, the DoD Financial Management Regulation incorrectly includes “receipts that are unavailable” in the calculation of Line 2.A., eliminates the required disclosures in Note 3, “Fund Balance With Treasury,” and incorrectly requires the suspense and budget clearing account balance to agree with the Treasury Financial Management Service FMS 6653, “Undistributed Appropriation Account Ledger.” As a result, DoD reporting entities will continue to misstate Note 3, “Fund Balance With Treasury,” disclosures (Finding E).

**Management Comments and Audit Response.** The Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer did not provide any management comments. The Director, DFAS Indianapolis concurred with 42 recommendations. He stated that they are working closer with customers (Army and Defense Agencies) on reviewing footnotes prior to releasing reports, updating their standard operating procedures to include footnote requirements, and reviewing all their internal and management controls to ensure that they are in compliance with FMFIA requirements. However, the Director, DFAS Indianapolis nonconcurred with Recommendation C.1.i. and D.2.e. For Recommendation C.1.i., he stated that the DoD Financial Management Regulation does not require the amount and age of intragovernmental payments and collections or deposit differences to be disclosed. However, auditing standards and the Office of Management and Budget require agencies to explain any discrepancies between the FBWT account balance in their general ledger and the balance in the Treasury accounts. For Recommendation D.2.e., he stated that only eight clearing accounts are aged for the Suspense Account Report. However, aging all suspense and budget clearing accounts will provide a more detailed picture of disbursements and collections in suspense. We request that the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer and the Director, DFAS Indianapolis provide comments on the final report by November 9, 2006. See the Finding sections of the report for a discussion of management comments and the Management Comments section of the report for the complete text of comments.

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## Background

We performed this audit in support of Public Law 101-576, the “Chief Financial Officers Act of 1990,” November 15, 1990, as amended by Public Law 103-356, the “Federal Financial Management Act of 1994,” October 13, 1994, and Public Law 104-208, the “Federal Financial Management Improvement Act of 1996,” September 30, 1996.

**Fund Balance With Treasury.** Fund Balance With Treasury (FBWT) is an asset account that represents a material line item on the June 30, 2005, Army General Fund (AGF) Balance Sheet and the DoD Agency-Wide Consolidated Balance Sheet. Table 1 shows the AGF and DoD FBWT account as a percentage of the AGF and DoD total assets. Table 1 also shows the AGF FBWT account as a percentage of the DoD FBWT account and AGF total assets as a percentage of DoD total assets.

	<u>AGF</u>	<u>DoD Agency-Wide</u>	<u>AGF as a Percentage of DoD Agency-Wide</u>
FBWT	\$ 130.7 billion	\$ 420.9 billion	31.0 percent
Total Assets	290.6 billion	1,389.7 billion	20.9 percent
FBWT as a Percentage of Total Assets	45.0 percent	30.3 percent	

Statement of Federal Financial Accounting Standards (SFFAS) No. 1, “Accounting for Selected Assets and Liabilities,” March 30, 1993, defines an entity’s FBWT as “. . .the aggregate amount of funds in the entity’s accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities.” See Appendix C for more information on FBWT. See Appendix D for a glossary of FBWT terminology.

**Notes to the Financial Statements.** Notes are an integral part of the financial statements. Notes to the financial statements present information about how the financial statements were prepared and the specific accounting policies selected and applied for significant transactions and events. Notes also provide further detail about the amounts reported on the statements. In addition, notes disclose information that is not presented elsewhere in the financial statements but which is required by the SFFASs.

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**DoD Reporting of Receipts and Disbursements to Treasury.** Disbursing officers and agencies report their accountability and transactions on the following standard forms (SF):

- SF 1219: Statement of Accountability and
- SF 1220: Statement of Transactions.

The SF 1219 summarizes collection and disbursement activity for the month. The SF 1220 shows a detailed account classification of the collections and disbursements processed in disbursing officers' accounts for the current accounting period. Agencies must identify each receipt or disbursement accounting transaction with the appropriate Treasury fund account symbol. The Department of Treasury (Treasury) uses agencies' reporting of receipts and disbursements to update its record of agencies' FBWT account balances.

**Treasury Financial Management Service Reports.** Treasury Financial Management Service (FMS) records the disbursement and collection data from the Statements of Transactions in the FBWT account maintained for each expenditure and receipt account in the Treasury's accounting and reporting system. The Treasury FMS then prepares five FBWT reports, two for expenditure accounts and three for receipt accounts. See Appendix E for a discussion of the Treasury reports for FBWT.

**Defense Finance and Accounting Service Indianapolis.** The Defense Finance and Accounting Service (DFAS) Indianapolis provides finance and accounting support to the Department of the Army. Support includes maintaining the Army accounting records. DFAS Indianapolis also prepares the Army financial statements using general ledger trial balances and the status of appropriation data submitted by DoD field activities and other sources. DFAS Indianapolis is also responsible for ensuring the accuracy of the FBWT reported on the AGF Balance Sheet and Notes to the Financial Statements. Specifically, DFAS Indianapolis is responsible for establishing procedures to ensure that:

- the process for preparing financial reports is consistent, timely, and auditable;
- the controls are in place to ensure the accuracy of the reports;
- the amounts reported agree with the appropriate general ledger balance; and
- a complete and documented audit trail is maintained to support the reports it prepares.

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## Criteria

**Office of Management and Budget.** Office of Management and Budget Bulletin No. 01-09, “Form and Content of Agency Financial Statements,” September 25, 2001, (OMB Bulletin 01-09) provides guidance for preparing agency financial statements. It defines the form and content for agency financial statements, which must then be submitted to the Director of OMB and Congress. The format and instructions provide a framework for agencies to provide information useful to agency managers, Congress, and the public.

**DoD Financial Management Regulation.** DoD Regulation 7000.14-R, Financial Management Regulation, volume 6B, chapter 10, “Notes to the Financial Statements,” January 2002, (DoD FMR, volume 6b, chapter 10) provides guidance on the presentation of Note 3, “Fund Balance With Treasury,” (Note 3). DoD FMR, volume 6b, chapter 10, January 2002, also provides guidance on the presentation of Note 21.B, “Disclosures Related to Problem Disbursements, In-transit Disbursements, and Suspense and Budget Clearing Accounts.”

**Guidance Issued Subsequent to June 30, 2005.** Office of Management and Budget Circular No. A-136, “Financial Reporting Requirements,” August 23, 2005, (OMB Circular A-136) supersedes, incorporates, and updates OMB Bulletin 01-09. The provisions of OMB Circular A-136 in its entirety are effective for the preparation of the September 30, 2005, financial statements.

The Office of the Under Secretary of Defense, (Comptroller)/Chief Financial Officer, (OUSD[C]/CFO) revised DoD FMR, volume 6B, chapter 10 in January 2006. The new regulation revised Note 3 and incorporated information from Note 21.B. “Disclosures Related to Problem Disbursements, In-transit Disbursements, and Suspense and Budget Clearing Accounts.”

**Interim Guidance.** The OUSD(C)/CFO issues quarterly guidance to assist in the preparation of financial statements. This quarterly interim guidance supplements the DoD FMR, volume 6B, “Form and Content of the Department of Defense Audited Financial Statements.”

## Objectives

Our overall audit objective was to assess the internal controls over the Army General Fund Note 3, “Fund Balance With Treasury,” disclosures as of June 30, 2005. We also reviewed the management control program as it related to the overall objective. See Appendix A for scope and methodology and Appendix B for prior coverage related to the objectives.

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## Review of Internal Controls

DoD Directive 5010.38, “Management Control Program,” August 26, 1996, and DoD Instruction 5010.40, “Management Control Program Procedures,” August 28, 1996,<sup>1</sup> require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

**Scope of the Review of the Management Control Program.** We reviewed the adequacy of DFAS Indianapolis internal controls over the reporting of the June 30, 2005, AGF, Note 3 disclosures. We also reviewed management’s self-evaluation applicable to those controls.

**Adequacy of Management Controls.** Material management control weaknesses existed at the OUSD(C)/CFO and DFAS Indianapolis as defined by DoD Instruction 5010.40. DFAS Indianapolis internal controls were not adequate to ensure that:

- Line 2.A. was properly calculated and disclosed in the AGF, Note 3 (Finding A). Recommendation A., if implemented, will improve the procedures for calculating and disclosing Line 2.A. at DFAS Indianapolis.
- check issue differences were properly disclosed in the AGF, Note 3 (Finding B). Recommendation B., if implemented, will improve the procedures for disclosing check issue differences at DFAS Indianapolis.
- deposit and intragovernmental payment and collection (IPAC) differences were properly disclosed in AGF, Note 3 (Finding C). Recommendation C., if implemented, will improve the procedures for disclosing deposit and IPAC differences at DFAS Indianapolis.
- suspense and budget clearing accounts and amounts were properly disclosed in Note 3 (Finding D). Recommendation D., if implemented, will improve the procedures for disclosing suspense and budget clearing accounts and amounts at DFAS Indianapolis.

In addition, OUSD(C)/CFO controls over Note 3 disclosures were not adequate to ensure that calculation of Line 2.A is accurate and that required disclosures are properly communicated in the AGF, Note 3 (Finding E). Recommendation E.1 and E.2., if implemented, will improve the process for calculating Line 2.A. and

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<sup>1</sup> Office of Management and Budget Circular No. A-123, “Management’s Responsibility for Internal Control,” December 21, 2004, provides updated internal control standards and new requirements for conducting management’s assessment of internal control over financial reporting. Revised OMB Circular No. A-123 became effective in FY 2006. Subsequently, DoD canceled DoD Instruction 5010.40 and issued DoD Instruction 5010.40, “Managers’ Internal Control Program Procedures,” January 4, 2006. See Appendix G for a discussion of how the revised guidance impacts our reporting on the DFAS Indianapolis management control program.

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disclosing check issue, deposit, and IPAC differences; and disclosing all suspense and budget clearing accounts in Note 3 for all applicable DoD Components.

**Adequacy of Management’s Self-Evaluation.** DFAS Indianapolis did not have controls for calculating Line 2.A.; disclosing check issue, deposit, and IPAC differences; and disclosing suspense and budget clearing accounts within its assessable units and, therefore, did not discover or report the material management control weaknesses. We will provide a copy of the report to the senior officials responsible for management controls in the office of the Assistant Secretary of the Army (Financial Management and Comptroller) and DFAS Indianapolis.

## **Other Matters of Interest**

DFAS Indianapolis is required to disclose a wide range of financial information in the AGF Notes to the Financial Statements, Note 3, “Fund Balance With Treasury.” Material deficiencies exist in the following areas: Line 2.A., “Fund Balance per Treasury,” (Line 2.A.) check issues, deposit and IPAC differences, and suspense and budget clearing accounts. There were no material issues with in-transit disbursements, unmatched disbursements, and negative unliquidated obligations. Specifically, DFAS Indianapolis properly disclosed in-transits and problem disbursements in Note 3 on the June 30, 2005, AGF, Notes to the Financial Statements and had supporting documentation. However, DFAS Indianapolis Standard Operating Procedure (SOP), “Problem Disbursement Reports,” April 12, 2005, needs improvements to ensure the accuracy of in-transits and problem disbursements that are presented in Note 3. See Appendix F for a discussion on how to improve SOP 3011.

## A. Calculation of Line 2.A., “Fund Balance per Treasury”

DFAS Indianapolis needs to strengthen its controls and improve its process for preparing Note 3. DFAS Indianapolis did not properly compute Line 2.A. in Note 3 on the June 30, 2005, AGF, Notes to the Financial Statements because it did not follow the OUSD(C)/CFO FY 2005 3rd Quarter Guidance and did not have standard operating procedures for calculating Line 2.A. As a result, DFAS Indianapolis understated Line 2.A. and the reconciling amount in Note 3 by \$102.5 million.

### Line 2.A., “Fund Balance per Treasury” Requirements

**DoD Financial Management Regulations.** DoD FMR, volume 6b, chapter 10, January 2002, provides guidance on the presentation of Note 3. See Table 2 for the format and presentation of Note 3.

<b>Table 2. DoD FMR Sample Format</b>		
<b>Note 3. Fund Balance With Treasury</b>		
As of September 30, 20XX	Current FY	Prior FY
<b>1. Fund Balances:</b>		
A. Appropriated Funds	\$XXX	\$XXX
B. Revolving Funds	XXX	XXX
C. Trust Funds	XXX	XXX
D. Other Fund Types	XXX	XXX
E. Total Fund Balances	<u>\$XXX</u>	<u>\$XXX</u>
<b>2. Fund Balance Per Treasury Versus Agency:</b>		
A. Fund Balance per Treasury	\$XXX	\$XXX
B. Fund Balance per [Reporting Entity]	XXX	XXX
C. Reconciling Amount	<u>\$XXX</u>	<u>\$XXX</u>
<b>3. Explanation of Reconciliation Amount:</b>		
<b>4. Other Information Related to FBWT:</b>		

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DoD FMR requires the following discussion for Lines 3 and 4 of Note 3.

- Line 3 should contain an explanation of the cause of any differences in reconciling amounts. Discrepancies caused by time lags and errors should add up to Line 2.C.
- Line 4 should contain an explanation of the reason for material changes (greater than 10 percent) in the entity’s FBWT amount from the prior period and disclose instances where the reporting entity does not meet accounting standards.

**Quarterly Guidance.** The OUSD(C)/CFO FY 2005 3rd Quarter Guidance Attachment 2, “Significant Changes,” (3<sup>rd</sup> Quarter Guidance) provides guidance to DoD reporting entities for calculating Line 2.A. in Note 3. The 3rd Quarter Guidance states that Line 2.A. should reflect the Treasury FMS 6654, “Undisbursed Appropriation Account Trial Balance,” (FMS 6654) closing balance; plus the Treasury FMS 6655, “Receipt Account Trial Balance,” (FMS 6655); less any duplicate fund symbols on FMS 6654 and FMS 6655. All differences between the FBWT and Line 2.A. must be disclosed in Note 3.<sup>2</sup>

## Line 2.A., “Fund Balance per Treasury” Reporting

DFAS Indianapolis needs to improve its process for preparing Note 3. DFAS Indianapolis did not properly compute Line 2.A. in Note 3 on the June 30, 2005, AGF Notes to the Financial Statement. DFAS Indianapolis reported a balance of \$130,629,525,717 for Line 2.A. when it should have reported a balance of \$130,731,986,172. This resulted in an understatement of Line 2.A. and Line 3, the reconciling amount, by \$102.5 million in Note 3 on the June 30, 2005, AGF, Notes to the Financial Statements. See Table 3 for the calculation of Line 2.A. using the 3rd Quarter Guidance.

**Table 3. Calculation of Line 2.A., “Fund Balance per Treasury”**

FMS 6654, Closing Balance	\$130,618,459,665
	<u>125,566,162</u>
<b>Plus FMS 6655, Year to Date Total</b>	
<b>Subtotal</b>	<b>\$130,744,025,827</b>
<b>Less Duplicate Fund Symbols on FMS 6654 and FMS 6655</b>	<u>12,039,655</u>
<b>Total</b>	<b>\$130,731,986,172</b>

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<sup>2</sup> The OUSD(C)/CFO recently incorporated Line 2.A. guidance from the OUSD(C)/CFO 3rd Quarter Guidance into the revised DoD FMR, volume 6B, chapter 10, January 2006. Finding E discusses the adequacy of the Line 2.A. guidance.

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DFAS Indianapolis did not follow 3rd Quarter Guidance for calculating Line 2.A. Moreover, DFAS Indianapolis did not have documentation explaining or supporting its methodology for calculating Line 2.A. or the other notes to the financial statements. Specifically, DFAS Indianapolis did not have procedures:

- providing the methodology for retrieving the FMS 6654,
- explaining the process for calculating Line 2.A,
- requiring the verification of both the amount reported on Line 2.A., and the calculation against supporting documentation,
- designating a position at DFAS Indianapolis that is responsible for the Line 2.A. calculation and maintaining custody of supporting documentation, and
- establishing a retention period for supporting documentation that is in accordance with DoD retention policies.

Because it has not established standard operating procedures, DFAS Indianapolis does not have adequate controls to ensure compliance with the DoD FMR and the accuracy of Line 2.A in Note 3.

## **Conclusion**

DFAS Indianapolis presented inaccurate information in the Note 3 of AGF Notes to the Financial Statements by understating Line 2.A. and the reconciling amount by \$102.5 million. Note disclosures are an integral part of the AGF financial statements. DFAS Indianapolis needs to ensure compliance with OUSD(C)/CFO quarterly guidance for calculating Line 2.A. DFAS Indianapolis should establish SOPs for preparing notes to the financial statements. DFAS Indianapolis should also perform a periodic review of the DoD Financial Management Regulation to ensure that established standard operating procedures for calculating Line 2.A. are consistent. Following OUSD(C)/CFO quarterly guidance and developing SOPs will help ensure that Line 2.A. and the reconciling amount are accurately reported. Performing periodic reviews will monitor controls to ensure that the information reported in Note 3 is accurate.

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## **Actions in Progress**

DFAS Indianapolis personnel developed a new unofficial process to ensure that proper amounts are presented on the financial statements and notes. The new process requires DFAS Indianapolis personnel to:

- trace the note back to source documents to validate that balances are presented correctly and
- review the note disclosure to ensure that fluctuations are explained, and that all schedules balance.

Because this process is unofficial, there is no requirement that DFAS Indianapolis personnel follow it. DFAS Indianapolis needs to develop official procedures that provide guidance on how to calculate Line 2.A in Note 3.

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

**A. We recommend that the Director, Defense Finance and Accounting Service Indianapolis improve the process for calculating Line 2.A., “Fund Balance per Treasury,” by:**

**1. Following the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer quarterly guidance for calculating Line 2.A., “Fund Balance per Treasury.”**

**Management Comments.** The Director, DFAS Indianapolis concurred. The Director, DFAS Indianapolis agreed to follow the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer quarterly guidance for calculating Line 2.A., “Fund Balance per Treasury.”

**2. Establishing standard operating procedures for preparing Note 3, “Fund Balance With Treasury,” and calculating Line 2.A., “Fund Balance per Treasury,” that:**

**(a) Provide a methodology for retrieving the Treasury FMS 6654, “Undisbursed Appropriation Account Trial Balance,” from Treasury.**

**(b) Outline the process for how to calculate Line 2.A., “Fund Balance per Treasury.”**

**(c) Require the verification of Line 2.A., “Fund Balance per Treasury,” calculation against the supporting documentation.**

**(d) Require the verification of Line 2.A., “Fund Balance per Treasury,” amount against supporting documentation.**

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**(e) Designate a position at Defense Finance and Accounting Service, Indianapolis to be responsible for calculating Line 2.A., “Fund Balance per Treasury,” and maintaining custody of supporting documentation.**

**(f) Establish a retention period for supporting documentation that is in accordance with DoD retention policies.**

**Management Comments.** The Director, DFAS Indianapolis concurred with the recommendations. He agreed that procedures should be articulated on how to prepare Note 3, “Fund Balance with Treasury,” and calculate Line 2.A., “Fund Balance per Treasury.” The Director, DFAS Indianapolis also agreed that this documentation should be part of the official processes used to prepare financial statements, provide documentation to auditors, and train new individuals. However, this documentation will be contained in the Fund Balance With Treasury Assertion Packet.

**Audit Response.** Although the Director, DFAS Indianapolis concurred with the recommendations, we consider the comments partially responsive. Including documentation in the Fund Balance With Treasury Assertion Packet is not adequate because this documentation does not represent formal standard operating procedures. DoD Financial Management Regulation, volume 6A, chapter 2, “Financial Reports Roles and Responsibilities,” requires DFAS to establish procedures to ensure that the process for preparing financial reports is consistent, timely, auditable, and that controls are in place to provide for the accuracy of the reports. In addition, it could be several years before DFAS Indianapolis formally asserts and approves the Army General Fund, Fund Balance With Treasury account for external assessment or audit. DFAS Indianapolis should develop formal standard operating procedures and have the procedures signed by the Director, DFAS Indianapolis. We request that the Director, DFAS Indianapolis reconsider his position not to develop formal standard operating procedures and provide comments on the final report.

**3. Performing periodic reviews of the DoD Financial Management Regulations to ensure that standard operating procedures Defense Finance and Accounting Service Indianapolis follows for calculating Line 2.A, “Fund Balance per Treasury,” are consistent with the DoD Financial Management Regulations.**

**Management Comments.** The Director, DFAS Indianapolis concurred with the recommendation. He agreed to perform a review of the DoD Financial Management Regulation and the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer guidance on a quarterly basis to ensure that all procedures are being properly implemented for financial statement presentation.

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## B. Check Issue Differences

DFAS Indianapolis needs to strengthen its controls over Note 3 disclosures for check issue differences. Specifically, DFAS Indianapolis did not:

- accurately disclose check issue differences,
- disclose that May 2005 check issue differences information was used instead of June 2005, and
- provide an explanation for the check issue differences in Note 3 on the June 30, 2005, AGF, Notes to the Financial Statements.

Note 3 was not accurate because DFAS Indianapolis did not have adequate SOPs for disclosing check issue differences. DFAS Indianapolis also did not have procedures in place to obtain Treasury's "Comparison of Checks Issue" report promptly. As a result, DFAS Indianapolis understated the amount of check issue differences between its records and Treasury records by \$9.0 million in Note 3 and did not provide required information to financial statement users.

### Check Issue Process

DoD disbursing stations submit their check issue amounts on the SF 1219 "Statement of Accountability," (SF 1219). DoD disbursing stations submit check issue details to the DFAS Denver Defense Check Reconciliation Module system.<sup>3</sup> The check issue details include the date, amount, and check serial number. DoD then uses the Defense Check Reconciliation Module system to submit the check issue details to the Treasury Check Payment and Reconciliation System. Treasury uses the Check Payment and Reconciliation system to record all U.S. Treasury checks issued and negotiated.

Treasury then compares, by issue month, the dollar amount of checks issued (as reported on DoD disbursing stations' SF 1219s) with the dollar amount of the checks issued as recorded in the Check Payment and Reconciliation system. When a check issue monthly total does not balance, the totals from each reporting system (SF 1219 and Check Payment and Reconciliation system) and the difference will be shown on the Treasury's "Comparison of Checks Issue" report.

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<sup>3</sup> The Defense Check Reconciliation Module system is administered and maintained by DFAS Denver and serves as a management control and reporting system for U.S. Treasury checks issued by DoD.

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## Check Issue Difference Requirements

**Federal Accounting Standards Advisory Board.** SFFAS No. 1 states that an agency should explain any discrepancies between FBWT in its general ledger accounts and the balance in the Treasury's accounts, and explain the causes of the discrepancies in notes to the financial statements.

**Office of Management and Budget.** OMB Bulletin 01-09 requires agencies to, ". . .explain any discrepancies between fund balance with Treasury, as reflected in the entity's general ledger, and the balance in the Treasury accounts. Disclose any other information necessary for understanding the fund balances."

**DoD Financial Management Regulation.** DoD FMR, volume 6b, chapter 10, January 2002, provides a sample paragraph of what an entity might disclose for check issue discrepancies. Specifically, the sample states:

The [Reporting Entity] is in the process of collecting information for all check issue discrepancy data that are unsupported because (1) records have been lost during deactivation of disbursing offices, (2) the Department of the Treasury may not assist in research efforts for transactions over 1-year old, or (3) corrections were processed for transactions that the Treasury had removed from the check comparison report. Transactions that have no supporting documentation due to one of the preceding situations shall be provided to the Treasury with a request to remove them from the Treasury Check Comparison Report. The vast majority of the remaining check issue discrepancies are a result of timing differences between the [Reporting Entity] and the Department of the Treasury for processing checks. The Department plans to request that the Department of the Treasury remove [enter total amount requested to be removed] from the check issue comparison report.

The DoD FMR, volume 6b, chapter 10, January 2002, also requires entities to list material differences reported for check issue discrepancies on the Treasury's "Comparison of Checks Issue" report. A material difference is defined as an amount greater than 10 percent of the entity's total fund balance. Treasury's "Comparison of Checks Issue" report discloses check issue discrepancies by disbursing station, the check issue month, and amount. If material differences exist, the net and absolute differences should be aged according to the number of days outstanding as follows: 0-30 days, 31-60 days, 61-90 days, and greater than 90 days.

**Standard Operating Procedures.** DFAS Indianapolis SOP 2009, "Treasury Check Discrepancies, Procedures for Monitoring Check Differences," April 11, 2005, (SOP 2009), provides guidance for monitoring check issue discrepancies.

## DFAS Indianapolis Check Issue Differences

DFAS Indianapolis did not accurately disclose check issue differences in Note 3 on the June 30, 2005, AGF, Notes to the Financial Statements. Also, DFAS Indianapolis reported check issue differences for May 2005, instead of June 2005, without properly disclosing this information in Note 3. In addition, DFAS Indianapolis did not provide an explanation for the check issue differences in Note 3.

**Disclosure of Check Issue Differences.** DFAS Indianapolis reported check issue differences of \$31.9 million in Note 3 on the June 30, 2005, AGF, Notes to the Financial Statements. However, Treasury reported check issue differences of \$40.9 million on the May 2005 “Comparisons of Checks Issue” report for AGF. This is an understatement of \$9.0 million. DFAS Indianapolis inadvertently omitted check issue difference information from five Army disbursing stations. DFAS Indianapolis identified the mistake, although not before Note 3 was issued. See Table 4 for the age categories and the amount of difference between Note 3 and the Treasury’s “Comparison of Checks Issue” report.

	<u>0-60 Days</u>	<u>61-180 Days</u>	<u>&gt; 180 Days</u>	<u>Total</u>
Note 3	\$33.8	\$3.6	\$(5.6)	\$31.9
Treasury's “Comparison of Checks Issued” Report	42.8	3.6	(5.6)	40.9
Difference	\$(9.0)	0	0	\$(9.0)

**Month Reported for Check Issue Differences.** DFAS Indianapolis reported May 2005 data on the June 30, 2005, AGF Note 3 because it did not receive the Treasury’s June 2005 “Comparison of Checks Issue” report in time for financial reporting. DoD FMR, volume 6B, chapter 1, “Introduction and Summary,” August 2003, states that when a substitution is made for the requirements, an explanation for the noncompliance should be provided. DFAS Indianapolis did not provide the necessary information to financial statement users.

**Explanation of the Causes of Check Issue Difference.** DFAS Indianapolis did not provide an explanation of the causes for check issue differences on the June 30, 2005, AGF, Note 3. Both OMB 01-09 and DoD FMR, volume 6b, chapter 10, January 2002, require the DoD reporting entities to explain the reason for check issue discrepancies. Including an explanation of the causes of check issue differences will enhance the reader’s understanding of FBWT issues.

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## Adequacy of Criteria for Reporting Check Issue Differences

DFAS Indianapolis did not have adequate controls to ensure the accuracy of check issue difference disclosures. In addition, DFAS Indianapolis did not have procedures in place to obtain check issue differences from the Treasury's "Comparison of Checks Issue" report promptly.

**Standard Operating Procedures.** DFAS Indianapolis SOP 2009 did not provide DFAS Indianapolis personnel with all the procedures necessary for properly disclosing check issue differences in Note 3. Specifically, DFAS Indianapolis SOP 2009 did not:

- state from whom and how the Treasury documents are obtained,
- define the various types of check issue differences,
- require DFAS accountants to determine the cause of the check issue differences and disclose it in Note 3, "Fund Balance With Treasury,"
- require DFAS accountants to calculate the net and absolute amounts of the check issue differences,
- require DFAS accountants to analyze the impact on the accuracy of the AGF FBWT account,
- require that DFAS accountants compare the check issues in Treasury's "Comparison of Checks Issue" report to the DFAS spreadsheet of differences,
- require that DFAS accountants review the check issue differences and verify that data calls are supported,
- provide an example of the data call, Treasury's "Comparison of Checks Issue" report, and check issue difference spreadsheet,
- state the position/title of the DFAS employee who receives the data call,
- require that the net and absolute amounts of check differences be disclosed in Note 3, "Fund Balance With Treasury," by the age of check issue differences,
- require that DFAS accountants use current check issue differences or disclose which month's amounts was used if current differences cannot be used, and
- require a DFAS accountant to compare the check issue differences amount reported in Note 3 to the DFAS Indianapolis spreadsheet.

**Treasury's "Comparison of Checks Issue" Report.** On the June 30, 2005, AGF Note 3, DFAS Indianapolis disclosed check issue differences based on the

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Treasury's May 2005 "Comparison of Checks Issue" report. DFAS Indianapolis did not properly coordinate with Treasury to obtain the Treasury's June 2005 "Comparison of Checks Issue" report in time to include these check issue differences in Note 3.

## **Actions in Progress**

As a result of our audit, DFAS Indianapolis revised SOP 2009. The revised procedures, dated November 16, 2005:

- state who the data call is to be submitted to;
- state what Treasury documents DFAS accountants use to prepare the data call; and
- include an example of the data call, Treasury's "Comparison of Checks Issue" report, and check issue difference spreadsheet.

Although this revision is a positive step, the SOP 2009 needs to include more information to address the deficiencies presented in this finding.

## **Recommendations and Management Comments**

**B. We recommend that the Director, Defense Finance and Accounting Service Indianapolis:**

**1. Revise standard operating procedures 2009, "Treasury Check Discrepancies, Procedures for Monitoring Check Differences," November 16, 2005, to:**

- (a) state from who and how the Treasury documents are obtained.
- (b) define the various types of check issue differences.
- (c) require Defense Finance and Accounting Service accountants to determine the cause of the check issue differences and disclose it in Note 3, "Fund Balance With Treasury."
- (d) require that Defense Finance and Accounting Service accountants calculate the net and absolute amounts of the check issue differences.
- (e) require that Defense Finance and Accounting Service accountants analyze of the impact on the accuracy of the Army General Fund, Fund Balance With Treasury account.

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(f) require that Defense Finance and Accounting Service accountants compare the check issues in Treasury's "Comparison of Checks Issue" report to the DFAS spreadsheet of differences.

(g) require that Defense Finance and Accounting Service accountants review the check issue differences and verify that data calls are supported.

(h) state the position/title of the Defense Finance and Accounting employee who receives the data call.

(i) require that Defense Finance and Accounting Service accountants disclose the net and absolute amounts of check differences in Note 3, "Fund Balance With Treasury," by the age of check issue differences.

(j) require that Defense Finance and Accounting Service accountants use current check issue differences or disclose what month's amounts was used if current differences cannot be used.

(k) require a Defense Finance and Accounting Service accountant to compare the check issue differences amount reported in Note 3 to the Defense Finance and Accounting Service spreadsheet.

**Management Comments.** The Director, DFAS Indianapolis concurred with the recommendations. The Director, DFAS Indianapolis stated that standard operating procedures 2009, "Treasury Check Discrepancies, Procedures for Monitoring Check Differences," November 16, 2005, has already been updated.

**2. Coordinate with Treasury to obtain the Treasury's "Comparison of Checks Issue" report promptly.**

**Management Comments.** The Director, DFAS Indianapolis concurred with the recommendation to obtain the "Comparison of Checks Issue" report promptly.

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## C. Deposit and IPAC Differences

DFAS Indianapolis needs to strengthen its controls over Note 3 disclosures for deposit and intragovernmental payment and collection differences.<sup>4</sup> DFAS Indianapolis did not disclose the net and absolute amounts of deposit and intragovernmental payment and collection differences in Note 3 on the June 30, 2005, AGF Notes to the Financial Statements. This lack of disclosure occurred because the DoD Financial Management Regulation and DFAS Indianapolis standard operating procedures are inadequate. As a result, DFAS Indianapolis did not disclose:

- deposit differences of \$308.5 million (absolute amount \$506.4 million) and
- intragovernmental payment and collection differences of \$5.8 million (absolute amount \$5.8 million).

### Deposit and IPAC Process

DoD disbursing stations report the amount of their deposits and debit vouchers and intragovernmental payments and collections (IPAC) monthly on the SF 1219. DoD disbursing stations also submit a detailed list of the deposit and debit voucher activity to Treasury. Treasury then compares the amount of the deposit and debit voucher activity reported on the SF 1219 to the amount of deposit and debit vouchers reported through the banking system. Any differences are reported on FMS 6652, "Statement of Differences-Deposits." Treasury also compares the amount of IPAC reported on the SF 1219 with the total amount reported in the IPAC system. Any differences are reported on the FMS 6652, "Statement of Differences-Disbursements."

### Deposit and IPAC Difference Requirements

**Federal Accounting Standards Advisory Board.** SFFAS No. 1 states that an agency should explain any discrepancies between FBWT in its general ledger accounts and the balance in the Treasury's accounts and explain the causes of the discrepancies in footnotes to the financial statements.

**Office of Management and Budget.** The OMB Bulletin 01-09 requires agencies to ". . . explain any discrepancies between fund balance with Treasury, as reflected in the entity's general ledger, and the balance in the Treasury accounts. Disclose any other information necessary for understanding the fund balances."

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<sup>4</sup> IPAC differences were previously called on-line payment and collection differences (OPAC).

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**DoD Financial Management Regulation.** DoD FMR, volume 6b, chapter 10, January 2002, provides sample paragraphs of what an entity might disclose for deposit and IPAC differences. The sample deposit difference paragraph states:

The deposit differences are reconcilable differences that represent amounts reported by the Treasury or the organization. As of September 30, [current FY] and [prior FY], there were \$XXX thousand and \$XXX thousands, respectively, of deposit differences greater than 180 days old.

The sample IPAC difference paragraph states:

The On-Line Payment and Collection (OPAC) differences are reconcilable differences that represent amounts reported by an organization but not reported by its trading partner. As of September 30, [Current FY] and [Prior FY], there was \$XXX thousand and \$XXX thousand, respectively, of OPAC differences greater than 180-days old. A majority of the differences represent internal DoD transactions and therefore do not affect the FBWT at the DoD consolidated level. For individual entity level statements, however, these differences would affect the amount reported for the FBWT. The Department is working with the DFAS sites, the Treasury, and a Treasury Department contractor to develop an automated tool to aid in reconciling the Treasury's Statement of Differences. The accounting and paying centers established metrics and implemented monthly reporting requirements for FY 2001. These actions will aid the [Reporting Entity] in clearing many of the old balances and establishing better internal controls over the OPAC process.

The DoD FMR, volume 6b, chapter 10, January 2002, also requires that deposit and IPAC differences older than 180 days be disclosed on Note 3. In addition, the DoD FMR, chapter 10, January 2002, requires entities to list material differences reported for deposit and IPAC differences. A material difference is defined as an amount greater than 10 percent of the entity's total fund balance. If a material difference exists, the net and absolute differences should be aged as follows: 0-30 days, 31-60 days, 61-90 days, and greater than 90 days.

**Standard Operating Procedures.** DFAS Indianapolis SOP 2006, "Deposits in Transit," September 12, 2005, (SOP 2006) provides guidance on processing and monitoring deposit ticket and debit voucher data. DFAS Indianapolis SOP 2416, "Reporting OPAC vs. SF 1219, Line 2.80, Differences to the Stations," May 5, 2000, (SOP 2416), provides guidance on monitoring and processing OPAC (now termed "IPAC") transactions.

## DFAS Indianapolis Deposit and IPAC Differences

DFAS Indianapolis needs to strengthen its controls over deposit and IPAC differences. DFAS Indianapolis did not disclose the net and absolute amount of deposit and IPAC differences in Note 3 on the June 30, 2005, AGF, Notes to the Financial Statements. As a result, DFAS Indianapolis did not disclose:

- deposit differences of \$308.5 million (absolute amount of \$506.40 million) and
- IPAC differences of \$5.8 million (absolute amount \$5.8 million).

Tables 5 and 6 show the amount and age of deposit and IPAC differences disclosed in Note 3 and the FMS 6652 Statement of Differences – Deposits and Statement of Differences – Disbursements respectively.

<b>Table 5. Deposit Differences</b>				
(in millions)				
	<u>0-60 Days</u>	<u>61-180 Days</u>	<u>&gt; 180 Days</u>	<u>Total</u>
Note 3	Not Disclosed	Not Disclosed	\$0	\$0
Statement of Differences – Deposits	\$326.4	\$(17.5)	\$(0.4)	\$308.5

<b>Table 6. IPAC Differences</b>				
(in millions)				
	<u>0-60 Days</u>	<u>61-180 Days</u>	<u>&gt; 180 Days</u>	<u>Total</u>
Note 3	Not Disclosed	Not Disclosed	\$0	\$0
Statement of Differences – Disbursements	\$5.8	\$0	\$0	\$5.8

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## Adequacy of Criteria for Reporting Deposit and IPAC Differences

DFAS Indianapolis did not disclose the net and absolute amounts of deposit and IPAC differences because the following guidance was inadequate:

- DoD FMR, volume 6B, chapter 10, January 2002;
- DFAS Indianapolis SOP 2006; and
- DFAS Indianapolis SOP 2416.

**DoD Financial Management Regulation.** DFAS Indianapolis did not disclose deposit and IPAC differences because DoD FMR, volume 6b, chapter 10, January 2002, did not meet the requirements of SFFAS No. 1 and OMB Bulletin 01-09 to explain any discrepancies between FBWT in general ledger accounts and the balance in the Treasury's accounts. The criteria also require agencies to explain the causes of the discrepancies in the notes to the financial statements. Also, if DFAS Indianapolis only reported differences greater than 10 percent of the AGF, Line 1.E., "Total Fund Balances," as required by the DoD FMR, volume 6b chapter 10, January 2002, it would only have to report deposit or IPAC differences greater than \$13.7 billion. The recommendation concerning this issue is in Finding E.

**DFAS Indianapolis Standard Operating Procedures.** DFAS Indianapolis SOP 2006 and SOP 2416 did not provide DFAS Indianapolis personnel the procedures necessary for properly disclosing deposit and IPAC differences in Note 3. The SOPs did not:

- define the various types of deposit and IPAC differences,
- require DFAS accountants to determine the causes of the deposit and IPAC differences and disclose them in Note 3, "Fund Balance with Treasury,"
- require DFAS accountants to calculate the net and absolute amount for deposit and IPAC differences and include the results in data calls,
- require DFAS accountants to analyze the impact on the accuracy of the AGF FBWT,
- require DFAS accountants to compare the FMS 6652 Statement of Differences—Deposits and Statement of Differences—Disbursements to the spreadsheet of differences,
- require DFAS accountants to review the deposit and IPAC differences and verify that data calls are supported,
- provide an example of the FMS 6652 Statement of Differences—Deposits and Statement of Differences—Disbursements,

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- state the position/title of the DFAS employee who receives the data call,
  - require DFAS accountants to disclose the net and absolute amounts of deposit and IPAC differences in Note 3 by the age of the differences,
  - require DFAS accountants to use current deposit and IPAC differences or disclose which month's amounts were used if current differences cannot be used, and
  - require DFAS accountants to compare the deposit and IPAC differences in Note 3 to the spreadsheet.

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

**C. We recommend that the Director, Defense Finance and Accounting Service Indianapolis:**

**1. Revise SOP 2006, "Deposits In-Transit," September 12, 2005, and SOP 2416, "Reporting OPAC vs. SF 1219, Line 2.80, Differences the Stations," May 2000, to:**

**(a) Define the various types of deposit and intragovernmental payment and collection differences.**

**(b) Require that Defense Finance and Accounting Service accountants determine the causes of the deposit and intragovernmental payment and collection differences and disclose them in Note 3, "Fund Balance With Treasury."**

**(c) Require that Defense Finance and Accounting Service accountants calculate the net and absolute amount for deposit and Intragovernmental Payments and Collections differences, and include the results in data calls.**

**(d) Require that Defense Finance and Accounting Service accountants analyze the impact on the accuracy of the Army General Fund, Fund Balance With Treasury.**

**(e) Compare the Treasury FMS 6652 Statement of Differences- Deposits and Statement of Differences-Disbursements to the spreadsheet of differences.**

**(f) Require Defense Finance and Accounting Service accountants to review the deposit and intragovernmental payment and collection differences and verify that data calls are supported.**

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**(g) Provide an example of Treasury FMS 6652 Statement of Differences-Deposits and Statement of Differences-Disbursements.**

**(h) State the position title of the Defense Finance and Accounting Service employee who receives the data call.**

**(i) Require that Defense Finance and Accounting Service accountants disclose the net and absolute amounts of deposit and intragovernmental payment and collection differences in Note 3, “Fund Balance With Treasury,” by the age of the differences.**

**(j) Require that Defense Finance and Accounting Service accountants use current deposit and intragovernmental payment and collection differences, or disclose which month’s amount they used.**

**(k) Require that a Defense Finance and Accounting Service accountant compare the deposit and intragovernmental payment and collection differences in Note 3, “Fund Balance With Treasury,” to the spreadsheet.**

**Management Comments.** The Director, DFAS Indianapolis concurred with all the recommendations except for Recommendation C.1.i. He stated there is no requirement in DoD Financial Management Regulations or Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer guidance requiring the amount and age of intragovernmental payments and collections or deposit differences be disclosed in Note 3, “Fund Balance With Treasury.”

**Audit Response.** The Director, DFAS Indianapolis comments on Recommendations C.1.a.-h. and j.-k. are responsive. The Director, DFAS Indianapolis comments on Recommendation C.1.i. are not responsive. We agree that the current version of the DoD Financial Management Regulations does not require the amount and age of intragovernmental payments and collections or deposit differences be disclosed in Note 3, “Fund Balance With Treasury.” However, SFFAS No. 1, “Accounting for Selected Assets and Liabilities,” March 30, 1993; and both OMB Bulletin No. 01-09, “Form and Content of Agency Financial Statements,” September 25, 2001; and OMB Circular No. A-136, “Financial Reporting Requirements,” August 23, 2005, require agencies to explain any discrepancies between the FBWT account balance in their general ledger and the balance in the Treasury accounts. Also, any other information necessary for understanding the FBWT account balances should be disclosed. In addition, Recommendation E.1.a.(2) recommends that the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer revise DoD Regulation 7000.14-R, DoD Financial Management Regulation, volume 6B, “Format of DoD Audited Financial Statements,” chapter 10, “Notes to the Financial Statements,” January 2006, to require that the net, absolute amount, and age of intragovernmental payments and collections and deposit differences be disclosed in Note 3, “Fund Balance With Treasury.” We request that the Director, DFAS Indianapolis reconsider his position not to disclose the amount and age of intragovernmental payments and collections and deposit differences in Note 3, “Fund Balance With Treasury,” and provide comments on the final report.

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## D. Suspense and Budget Clearing Accounts

DFAS Indianapolis needs to improve its controls over Note 3 disclosures for suspense and budget clearing accounts. Specifically, DFAS Indianapolis did not properly disclose the suspense and budget clearing accounts in Note 3. This occurred because the DoD FMR guidance and DFAS Indianapolis standard operating procedures are inadequate. In addition, DFAS Indianapolis did not follow OUSD(C)/CFO 1st Quarter Guidance, Attachment 21, “Fund Balance With Treasury Issues,” (1<sup>st</sup> Quarter Guidance) for reporting suspense and clearing accounts in Note 3. As a result, DFAS Indianapolis understated its suspense and budget clearing amount in Note 3 by \$1.9 million on the June 30, 2005, AGF Notes to the Financial Statements.

### Suspense and Budget Clearing Account Requirements

**DoD Financial Management Regulation.** DoD FMR, volume 6B, chapter 10, January 2002, requires Components to disclose suspense account balances and list any material suspense accounts separately.

**Quarterly Guidance.** The 1st Quarter Guidance states “. . . amounts populated in the Note 3 schedule for suspense and clearing accounts must be in agreement with the balances reported on the Treasury FMS 6654 for all reporting entities.”

**DFAS Indianapolis Standard Operating Procedures.** DFAS Indianapolis SOP 2007, “Suspense Accounts Report Monitoring and Reconciliation,” May 2005, (SOP 2007), provides standard operating procedures for monitoring the field-submitted Suspense Account Report for accuracy and aged balances, providing feedback to the field sites, consolidating field-submitted reports, and submitting the monthly Suspense Account Report to DFAS Arlington. In addition, it provides detailed instructions relating to reconciling and monitoring suspense transactions.

### DFAS Indianapolis Suspense and Budget Clearing Accounts

DFAS Indianapolis needs to improve its controls over Note 3 disclosure for suspense and budget clearing accounts. DFAS Indianapolis understated its suspense and budget clearing amount in Note 3 by \$1.9 million on the June 30, 2005, AGF Notes to the Financial Statements. DFAS Indianapolis uses FMS 6654 to calculate the amount of suspense and budget clearing accounts. However, DFAS Indianapolis did not include clearing account F3845, “Proceeds of Sales, Personal Property,” in its suspense and budget clearing amount even though the 1st Quarter Guidance states that the amounts populated in the Note 3 schedule for deposit and suspense and budget clearing accounts must agree with the balances reported in the FMS 6654 for all reporting entities. As of June 30, 2005, FMS 6654 reported a suspense and budget clearing accounts balance of \$86.7 million, and Note 3 reported a balance of \$84.8 million for a

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difference of \$1.9 million. The difference of \$1.9 million represents suspense and budget clearing account F3845.

## **Adequacy of DoD FMR and DFAS Indianapolis SOP and Compliance with Quarterly Guidance**

DFAS Indianapolis understated its suspense and budget clearing amount because the DoD FMR, volume 6b, chapter 10, January 2002, was inadequate. In addition, DFAS Indianapolis did not have sufficient SOPs to ensure that suspense and budget clearing accounts were accurately disclosed in Note 3. Furthermore, DFAS Indianapolis did not follow 1st Quarter Guidance for reporting suspense and budget clearing accounts in Note 3. As a result, DFAS Indianapolis understated total disclosures for suspense/clearing accounts by \$1.9 million in Note 3 on the June 30, 2005, AGF Notes to the Financial Statements.

**DoD Financial Management Regulation.** The DoD FMR, volume 6b, chapter 10, January 2002, required the Components to disclose suspense account balances and list material suspense accounts separately. However, it did not specifically require that amounts populated in the Note 3 disclosure for suspense and budget clearing accounts be in agreement with the balances reported on the FMS 6654 for all reporting entities.

**DFAS Standard Operating Procedures.** SOP 2007 did not provide DFAS Indianapolis personnel adequate procedures to ensure suspense and budget clearing accounts were accurately disclosed in Note 3. Specifically, SOP 2007 did not:

- state what Treasury supporting documents DFAS accountants should use when preparing the data call,
- state from whom and how DFAS accountants should obtain the Treasury documents,
- define the various types of suspense and budget clearing accounts,
- require that DFAS accountants determine the cause of the suspense and budget clearing amount and disclose it in Note 3,
- require that DFAS accountants include all suspense and budget clearing accounts with the data call by the age of the amounts,
- specify whether the Suspense Account Report should be used as the data call,
- provide an example of the format of the data call,
- state the position/title of the DFAS employee who receives the data call,

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- require that DFAS accountants review suspense and budget clearing accounts, and verify that data calls are supported, and
  - require that DFAS accountants use the current suspense and budget clearing amounts or disclose which month's amounts were used if current amount cannot be used.

**Quarterly Guidance.** The 1st Quarter Guidance clearly states that the amounts populated in the Note 3 schedule for suspense and budget clearing accounts must be in agreement with the balances reported on the FMS 6654 for all Components' reporting entities. However, DFAS Indianapolis did not follow 1st Quarter Guidance to ensure that the Note 3 schedule for suspense and budget clearing accounts was in agreement with the balances reported on the FMS 6654.

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

**D. We recommend that the Director, Defense Finance and Accounting Service Indianapolis:**

**1. Establish procedures in compliance with the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer 1st Quarter Guidance to ensure that the suspense and budget clearing amount reported on Note 3 agrees with the amounts reported on the Treasury FMS 6654.**

**Management Comments.** The Director, DFAS Indianapolis concurred with the recommendation. The Director, DFAS Indianapolis stated that they worked with DDRS-AFS personnel to allow all suspense and budget clearing accounts in Note 3, "Fund Balance With Treasury," to be reported.

**Audit Response.** Although the Director, DFAS Indianapolis concurred with the recommendation, we consider the comments partially responsive. DFAS Indianapolis should also establish procedures to ensure that the suspense and budget clearing amounts reported in Note 3, "Fund Balance With Treasury," agree with the amounts reported in the FMS 6654. We request that the Director, DFAS Indianapolis reconsider his position not to establish procedures and provide comments on the final report.

**2. Revise the Defense Finance and Accounting Service, Indianapolis Standard Operating Procedure No. 2007, "Suspense Accounts Report Monitoring and Reconciliation," May 2005, to include additional guidelines to ensure accuracy of Note 3 disclosures. Specifically, the standard operating procedure should:**

**(a) State what Treasury supporting documents DFAS accountants should use when preparing the data call.**

**(b) State from whom and how the Treasury documents are obtained.**

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(c) Define the various types of suspense and budget clearing accounts.

(d) Require that Defense Finance and Accounting Service accountants determine the cause of the suspense and budget clearing amount and disclose it in Note 3.

(e) Require that Defense Finance and Accounting Service accountants include all suspense and budget clearing accounts with the data call, by the age of the amounts.

(f) Specify whether the suspense account report is used as the data call.

(g) Provide an example of the format of the data call.

(h) State the position title of the Defense Finance and Accounting Service employee who receives the data call.

(i) Require that Defense Finance and Accounting Service accountants review suspense and budget clearing accounts and verify that data calls are supported.

(j) Require that Defense Finance and Accounting Service accountants use the current suspense and budget clearing amount, or disclose which month's amount was used if current amount cannot be used.

**Management Comments.** The Director, DFAS Indianapolis partially concurred with the recommendations and stated that only eight clearing accounts are aged for the Suspense Account Report and that they report a net unaged figure for all others. DFAS further stated that the specific accounts that are aged versus unaged will be identified in the revised SOP. SOP 2007 is being updated to incorporate these recommendations.

**Audit Response.** The Director, DFAS Indianapolis comments on Recommendations D.2.a.-d. and f.-j. are responsive. The Director, DFAS Indianapolis comments on Recommendation D.2.e. are not responsive. Aging all suspense and budget clearing accounts will provide a more accurate picture of DFAS Indianapolis disbursements and collections in suspense. SFFAS No. 1, "Accounting for Selected Assets and Liabilities," March 30, 1993; and OMB Bulletin No. 01-09, "Form and Content of Agency Financial Statements," September 25, 2001; and OMB Circular No. A-136, "Financial Reporting Requirements," August 23, 2005, require agencies to explain any discrepancies between the FBWT account balance in their general ledger and the balance in the Treasury accounts. The criteria also require agencies to explain the causes of the discrepancies in the notes to the financial statements. We request that the Director, DFAS Indianapolis reconsider his position not to age all suspense accounts and provide comments on the final report.

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## E. Revised DoD Financial Management Regulation

The DoD FMR, volume 6B, chapter 10, Note 3, “Fund Balance With Treasury,” January 2006, does not provide adequate controls for ensuring that Note 3 disclosures are properly supported and accurate. The DoD FMR:

- incorrectly includes receipts that are unavailable in the calculation of Line 2.A.;
- eliminates the disclosure check issue, deposit, and intragovernmental payment and collection differences in Note 3;
- eliminates the disclosure of all suspense and budget clearing accounts in Note 3; and
- incorrectly requires the suspense and budget clearing account balance to agree with the FMS 6653, “Undistributed Appropriation Account Ledger,” (FMS 6653).

Controls were inadequate because OUSD(C)/CFO issued the revision without first formally coordinating it with the DoD IG. In addition, OUSD(C)/CFO misinterpreted OMB guidance and omitted the disclosure requirements. As a result, DoD reporting entities will continue to misstate Note 3 disclosures.

### Disclosure Requirements

**Federal Accounting Standards Advisory Board.** SFFAS No. 1 states that agencies should explain any discrepancies between FBWT in its general ledger accounts and the balance in the Treasury’s accounts and explain the causes of the discrepancies in footnotes to the financial statements.

**Office of Management and Budget.** OMB Circular A-136 requires agencies to “. . . explain any discrepancies between fund balance with Treasury, as reflected in the entity’s general ledger, and the balance in the Treasury accounts.” OMB Circular A-136 also requires disclosure of any other information necessary for understanding the fund balances.

**DoD Financial Management Regulations.** DoD FMR, volume 6B, chapter 10, January 2006, provides guidance on the presentation and disclosures in Note 3.

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## Adequacy of the Revised DoD Financial Management Regulation

DoD FMR, volume 6b, chapter 10, January 2006, does not provide adequate controls for Note 3 disclosures. The DoD FMR:

- incorrectly includes receipts that are unavailable for making expenditures and paying liabilities in the calculation of Line 2.A.;
- eliminates the disclosure check issue, deposit, and intragovernmental payment and collection differences in Note 3;
- eliminates the disclosure of all suspense and budget clearing accounts in Note 3; and
- incorrectly requires the suspense and budget clearing account balance to agree with the FMS 6653.

**Line 2.A., “Fund Balance per Treasury” Requirements.** DoD FMR, volume 6b, chapter 10, January 2006, incorrectly requires entities to include receipts that are unavailable for making expenditures and paying liabilities in the calculation of Line 2.A. However, SFFAS No. 1 defines FBWT as the aggregate amount of the entity’s accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. Therefore, DoD reporting entities should not include unavailable receipts in Line 2.A. because these funds are not available for expenditure and payment of liabilities. DoD FMR, volume 6b, chapter 10, January 2006, correctly excludes available receipt accounts because these receipts would have already been made available to the AGF by Treasury through an invisible warrant. Thus, DoD reporting entities should report their closing balances on the FMS 6654 less any duplicate available receipt accounts reported on the FMS 6655 for Line 2.A.

**Check Issue, Deposit, and IPAC Requirements.** DoD FMR, volume 6b, chapter 10, January 2006, does not require check issue, deposit, and IPAC differences to be disclosed even though SFFAS No. 1, states agencies should explain any discrepancies between FBWT in their general ledger accounts and the balance in the Treasury’s accounts. SFFAS No. 1 also requires agencies to explain the causes of the discrepancies in footnotes to the financial statements. In addition, OMB Bulletin 01-09 and OMB Circular A-136 require an agency to “explain any discrepancies between fund balance with Treasury, as reflected in the entity’s general ledger, and the balance in the Treasury accounts.” OMB Bulletin 01-09 and OMB Circular A-136 also require agencies to disclose any other information necessary for understanding the fund balances. Thus, reporting entities must disclose check issue, deposit, and IPAC differences in Note 3.

**Suspense and Budget Clearing Requirements.** The DoD FMR, volume 6b, chapter 10, January 2006, incorrectly eliminates the requirement for DoD reporting entities to include all suspense and budget clearing accounts in Note 3. In addition, the revised DoD FMR chapter 10, January 2006, incorrectly states that a reporting entity’s suspense and budget clearing account must agree with the

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FMS 6653. However, the FMS 6653 is only issued for accounts with transactions during the month. By requiring that reporting entities' accounts agree with the FMS 6653, the DoD FMR may mistakenly lead reporting entities to not include all suspense and budget clearing accounts in Note 3. Instead, the DoD FMR should require DoD reporting entities' suspense and budget clearing accounts to agree with the FMS 6654 because this report includes all accounts.

## **Coordination of Revised DoD FMR and Interpretation of OMB Guidance**

OUSD(C)/CFO did not formally coordinate the revised DoD FMR, volume 6b, chapter 10, January 2006, with the appropriate organizations before issuing the revision. In addition, OUSD(C)/CFO misinterpreted OMB guidance and eliminated the requirement to disclose check issue, deposit, and IPAC differences and suspense and budgeting clearing accounts.

**Coordination of Revised DoD Financial Management Regulation.** The OUSD(C)/CFO reissued DoD FMR, volume 6b, chapter 10, January 2006, without proper coordination with appropriate organizations, including the DoD Inspector General. DoD Directive 5025.1, "DoD Directives System," July 14, 2004, states that proposed DoD issuances,<sup>5</sup> including changes, reissuances, and cancellations of these documents should be formally coordinated to solicit views of the Heads of the DoD Components. Specifically, DoD Directive 5025.1 states that all DoD issuances must be coordinated with the DoD Inspector General. If the revised DoD FMR chapter 10, January 2006, had been coordinated properly with the DoD Inspector General, the inadequacies with Line 2.A, check issue, deposit, and IPAC differences and suspense and budget clearing disclosure requirements could have been prevented.

**Interpretation of OMB guidance.** DoD FMR, chapter 10, January 2006, eliminated the requirement to disclose check issue, deposit, and IPAC differences and all suspense and budget clearing accounts in Note 3. The OUSD(C)/CFO misinterpreted OMB Circular A-136 and eliminated the requirement to disclose check issue, deposit, and IPAC differences and all suspense and budget clearing accounts. However, OMB Circular A-136, specifically, requires agencies to explain any discrepancies between fund balance with Treasury, as reflected in the entity's general ledger, and the balance in the Treasury accounts. In addition, SFFAS No. 1 states agencies should explain any discrepancies between FBWT in their general ledger accounts and the balance in the Treasury's accounts and explain the causes of the discrepancies in the notes to the financial statements. Thus, DoD reporting entities should be required to disclose check issue, deposit, and IPAC differences and suspense and budget clearing accounts in Note 3.

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<sup>5</sup> DoD issuances include directives, instructions, and publications. Publications consist of regulations, manuals, and all other DoD issuances that are not DoD directives and instructions.

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## Conclusion

Note disclosures are an integral part of AGF financial statements. OUSD(C)/CFO should revise the DoD FMR to delete the requirement to include unavailable receipt accounts in the Line 2.A. calculation. OUSD(C)/CFO also needs to revise the DoD FMR to require DoD reporting entities to disclose check issue, deposits, and IPAC differences and all suspense and budget clearing accounts in Note 3. In addition, OUSD(C)/CFO should add a requirement to the DoD FMR to provide an explanation for any differences between the DoD reporting entity's suspense and budget clearing account balance and the FMS 6654. Revising the DoD FMR will assist the OUSD(C)/CFO in ensuring that Note 3 is properly disclosed and presented in Note 3. In addition, the revisions to the DoD FMR will ensure that a consistent process is used by DoD reporting entities to disclose financial information in Note 3. Until revisions are made, OUSD(C)/CFO should implement interim guidance that includes recommendations listed in this finding. OUSD(C)/CFO should also formally coordinate revisions to the DoD FMR prior to issue so that any discrepancies can be resolved. Thus, the OUSD(C)/CFO should revise the DoD FMR to improve the controls for Note 3, resolve the inadequacies, and ensure that future Note 3 disclosures are reliable, accurate, and properly presented. Finally, DFAS Indianapolis should follow interim guidance for Note 3 disclosures and comply with the recommended revisions to the DoD FMR.

## Recommendations and Management Comments

**E.1. We recommend that the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer improve the controls over Note 3 disclosures by:**

**a. Revising the DoD Regulation 7000.14-R, DoD Financial Management Regulation, volume 6B, "Format of DoD Audited Financial Statements," chapter 10, "Notes to the Financial Statements," January 2006 to:**

**(1) Delete the requirement to include the Treasury FMS 6655, "Receipt Account Trial Balance," in the calculation of Line 2.A., "Fund Balance per Treasury."**

**(2) Include a requirement to disclose check issue, deposit, and intragovernmental payment and collection differences in Note 3, "Fund Balance With Treasury," by disclosing the net and absolute amount of the differences, the age of the differences, and an explanation for the differences.**

**(3) Add the requirement for DoD reporting entities to include all suspense and budget clearing accounts in Note 3, "Fund Balance With Treasury."**

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(4) Add a requirement that states that when the reporting entity's suspense and budget clearing account balance does not agree with the Treasury FMS 6654, "Undisbursed Appropriation Account Trial Balance," the entity must include a disclosure explaining the difference.

b. Coordinating the revisions to the DoD Regulation 7000.14-R, "DoD Financial Management Regulation, volume 6B, "Format of DoD Audited Financial Statements," chapter 10, "Notes to the Financial Statements," January 2006 with the Heads of DoD Components including DoD IG.

c. Issuing interim guidance that requires DoD reporting entities to follow Recommendation E.1.a (1)-(4).

## Management Comments Required

The Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer did not comment on a draft of this report. We request that the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer provide comments on the final report.

**E.2. We recommend that the Director, Defense Finance and Accounting Service Indianapolis:**

a. Establish procedures to ensure compliance with the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer interim guidance established by Recommendation E.1.c.

b. Comply with the recommended revisions to the DoD Financial Management Regulation, volume 6B, chapter 10, Note 3, "Fund Balance With Treasury," January 2006.

**Management Comments.** The Director, DFAS Indianapolis concurred with the recommendations. The Director, DFAS Indianapolis agreed to establish procedures to ensure compliance with interim guidance when issued and to comply with any revisions to DoD Financial Management Regulations. The Director, DFAS Indianapolis stated that their actions are contingent upon the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer concurring with the recommendations addressed to them.

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## Appendix A. Scope and Methodology

We reviewed the internal controls over the AGF, Note 3 disclosures on the June 30, 2005 financial statements. We also reviewed the criteria related to the accounting for and reporting FBWT. We reviewed the following guidance:

- SFFAS No. 1, “Accounting for Selected Assets and Liabilities,” March 30, 1993,
- OMB Bulletin 01-09, “Form and Content of Agency Financial Statements,” September 25, 2001,
- OMB Circular A-136, “Financial Reporting Requirements,” August 23, 2005,
- DoD FMR Regulation 7000.14-R, volume 6B, “Format of DoD Audited Financial Statements,” chapter 10, “Notes to the Financial Statements,” January 2002 and 2006, and
- OUSD(C)/CFO FY 2005, 1st Quarter and 3rd Quarter Guidance.

In addition, we reviewed DFAS Indianapolis SOPs to determine whether adequate procedures existed for reporting Note 3 disclosures. Additionally, we determined whether supporting documentation existed for the following Note 3 disclosures: Line 2.A., “Fund Balance per Treasury;” check issue, deposit, and IPAC differences; suspense and budget clearing accounts; and in-transits, unmatched disbursements, and negative unliquidated liquidated obligations. However, we did not determine whether the supporting documentation was accurate. We just determined whether supporting documentation existed.

We performed this audit from July 2005 through July 2006 in accordance with generally accepted government auditing standards.

**Use of Computer-Processed Data.** We relied on computer-processed data from Treasury accounting and reporting systems obtained through the Government On-Line Accounting Link Information Access System II (GOALS II). Specifically, we relied on the following June 30, 2005, Treasury reports for our review of AGF Note 3 disclosures:

- Treasury FMS 6652, “Statement of Differences – Deposits,”
- Treasury FMS 6652, “Statement of Differences – Disbursements,”
- Treasury FMS 6654, “Undisbursed Appropriation Account Trial Balance,” and
- Treasury FMS 6655, “Receipt Account Trial Balance.”

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We did not perform a formal reliability assessment of computer-processed financial data because GOALS II is a Treasury system.

We relied on data from Defense Departmental Reporting System-Audited Financial Statements. Specifically, we relied on the June 30, 2005, Defense Departmental Reporting System-Audited Financial Statements AGF and DoD Agency-Wide Balance Sheets and Note 3. We relied on these Balance Sheets to calculate the AGF FBWT account and total assets as a percentage of the DoD Agency-Wide FBWT account and total assets. In addition, we calculated the AGF and DoD Agency-Wide FBWT account percentage of the AGF and DoD Agency-Wide total assets. Additionally, we used the June 30, 2005, Defense Departmental Reporting System-Audited Financial Statements Balance Sheet and Note 3 to determine whether the AGF FBWT amount reported on the AGF Balance Sheet agreed with the AGF FBWT amount reported in Note 3. We did not perform a formal reliability assessment of computer-processed data because we were only determining whether DFAS Indianapolis could provide support for the data presented in Note 3. We did not find errors that would preclude the use of the computer-processed data to meet the audit objectives or that would change the conclusions in the report.

We also relied on information queried from the FoxPro database regarding unmatched disbursements, negative unliquidated obligations, and in-transits. We did not perform a formal reliability assessment of computer-processed data because we were only determining whether DFAS Indianapolis could support the data presented in Note 3. We did not find errors that would preclude the use of the computer-processed data to meet the audit objectives or that would change the conclusions in the report.

**Use of Technical Assistance.** We did not use technical assistance to perform this audit.

**Government Accountability Office High-Risk Area.** The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage of the Financial Management high-risk area. GAO considered DoD Financial Management a high risk because DoD's financial management deficiencies represent the single largest obstacle to achieving an unqualified opinion on the U.S. Government's consolidated financial statements. DoD continues to face financial management problems that are pervasive, complex, long-standing, and deeply rooted in virtually all its business operations. DoD financial management deficiencies adversely affect the Department's ability to:

- control costs and claims on the budget;
- measure performance;
- maintain funds control, prevent fraud; and
- address pressing management issues.

GAO first designated this area as high risk in 1995, and it remains so today.

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## **Appendix B. Prior Coverage**

During the last 5 years, the Government Accountability Office (GAO), the Department of Defense Inspector General (DoD IG), the US Army Audit Agency (AAA), and the Air Force Audit Agency (AFAA) have issued 14 reports discussing FBWT account issues. Unrestricted GAO 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>. Unrestricted AAA reports can be accessed at <https://www.aaa.army.mil/reports.htm>. Unrestricted AFAA reports can be accessed at <https://www.afaahq.af.mil/afck/plansreports/reports.shtml>.

### **GAO**

GAO Report No. GAO-05-521, “DoD Problem Disbursements: Long-standing Accounting Weaknesses Result in Inaccurate Records and Substantial Write-offs,” June 2, 2005

### **DoD IG**

DoD IG Report No. D-2006-039, “Internal Controls Over the Compilation of the Air Force, General Fund, FBWT for FY 2004,” December 22, 2005

DoD IG Report No. D-2005-026, “Reliability of U.S. Army Corps of Engineers, Civil Works, Fund Balance With Treasury and Unexpended Appropriations,” December 28, 2004

DoD IG Report No. D2004-106, “Selected Controls Over the Army FBWT at DFAS Indianapolis,” August 5, 2004

DoD IG Report No. D-2003-034, “Adjustments to the Intergovernmental Payments Account,” December 10, 2002

DoD IG Report No. D-2002-019, “Checks Issued Differences for Deactivated Disbursing Stations,” November 28, 2001

### **Army**

AAA Report No. A-2005-0136-ALW, “Attestation Examination of Selected Army Chief Financial Officers Strategic Plan Tasks, Fund Balance With Treasury,” March 18, 2005

AAA Report No. A-2005-0127-ALW, “Validation of the Army’s Fund Balance with Treasury,” March 10, 2005

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AAA Report No. A-2004-0431-AMW “Validation of the Army’s Fund Balance With Treasury, Defense Finance and Accounting Service Columbus Center,” August 3, 2004

AAA Report No. A-2004-0369-AMW, “Obligations for Requisitions, Standard Operations and Maintenance Army Research and Development System (SOMARDS),” June 30, 2004

AAA Report No. A-2004-0006-FFG, “General Fund Followup Issues,” October 29, 2003

AAA Report No. AA02-142, “FY 01 Financial Statements - U.S. Army Corps of Engineers, Civil Works,” February 8, 2002

## **Navy**

NAS Report No. N2005-0005, “Department of the Navy’s Fund Balance With Treasury Account,” October 19, 2004

## **Air Force**

AFAA Report No. F2005-0001-FB3000, “Fund Balance With Treasury for Air Force General and Working Capital Funds,” June 21, 2005

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## Appendix C. Fund Balance With Treasury

### **Accounting Standards and Criteria for Fund Balance With Treasury.**

Statement of Federal Financial Accounting Standards No. 1, "Accounting for Selected Assets and Liabilities," March 30, 1993, \* defines an agency's Fund Balance With Treasury as the aggregate amount of funds in the agency's accounts with Treasury for which the agency is authorized to make expenditures and pay liabilities. Fund Balance With Treasury is an intragovernmental item. From the reporting agency's perspective, Fund Balance With Treasury is an asset because it represents the agency's claim to Federal Government resources. However, from the perspective of the Federal Government as a whole, it is not an asset; and while it represents a commitment to make resources available to Federal departments, agencies, programs, and other entities, it is not a liability.

A Federal entity's Fund Balance With Treasury includes clearing account balances. An entity's Fund Balance With Treasury is increased by:

- receiving appropriations, reappropriations, continuing resolutions, appropriation restorations, and allocations received;
- transfers and reimbursements received from other agencies; and
- collections and credits to appropriation or fund accounts that the entity is authorized to spend or use to offset its expenditures.

An entity's Fund Balance With Treasury is reduced by disbursements made to pay liabilities or to purchase assets, goods and services, investments in U.S. securities, cancellation of expired appropriations, transfers and reimbursements to other entities or to the Treasury, and sequestration or rescission of appropriations.

Agencies should disclose the two parts of the Fund Balance With Treasury balance: the obligated balance not yet disbursed and the unobligated balance. In addition, agencies should explain any discrepancies between Fund Balance With Treasury in their general ledger accounts and the balance in the Treasury's accounts and explain the causes of the discrepancies in footnotes to the financial statements.

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\*The Federal Accounting Standards Advisory Board (the Board) issues Statements of Federal Financial Accounting Standards. In October 1990, the Secretary of the Treasury, the Director of the Office of Management and Budget, and the Comptroller General of the United States established the Board to develop accounting standards and principles for the United States Government. In October 1999, the American Institute of Certified Public Accountants recognized the Board as the organization that promulgates generally accepted accounting principles for Federal entities.

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## Appendix D. Glossary

**Check Issue Differences.** These represent differences that occur when the dollar amount of checks reported by DoD disbursing stations do not agree with the dollar amount of checks recorded by Treasury.

**Clearing Account.** Treasury establishes clearing accounts to temporarily hold unidentified general, special, or trust collections that belong to the Federal Government until they are classified to the proper receipt or expenditure account by the Federal entity. An “F” preceding the last 4 digits of the fund account symbol identifies these accounts. Clearing accounts consist of the “3800” series fund group.

**Data Calls.** In this report we refer to information compiled by DFAS employees and provided to the Army General Funds Branch for the purpose of disclosing this information in Note 3 as data calls.

**Defense Departmental Reporting System – Audited Financial Statements.** Defense Departmental Reporting System – Audited Financial Statements is a DoD application that facilitates the preparation and audit of DoD financial statements, and required supplementary information.

**Deposit Differences.** These represent differences that occur when the amount of deposits and debit vouchers recorded by DoD disbursing stations does not agree with Treasury records. The differences are reported on the Treasury FMS 6652, “Statement of Differences-Deposits.”

**Fund Balance With Treasury (FBWT).** This is the aggregate amount of funds in the agency’s accounts with Treasury for which the agency is authorized to make expenditures and pay liabilities. Fund Balance With Treasury is an intragovernmental item. From the reporting agency’s perspective, Fund Balance With Treasury is an asset because it represents the agency’s claim to Federal Government resources. However, from the perspective of the Federal Government as a whole, it is not an asset; and while it represents a commitment to make resources available to Federal departments, agencies, programs, and other entities, it is not a liability.

**Government On-Line Accounting Link Information Access System II (GOALS II).** This is the system that allows Treasury to receive agency accounting data and distribute agency accounting reports. The system includes many different subsystems for different financial accounting and reporting purposes.

**Intra-governmental Payment and Collection System (IPAC).** The IPAC application’s primary purpose is to provide an automated, standardized, interagency funds expenditure transfer mechanism for Federal Program Agencies. It facilitates intragovernmental Federal e-commerce by transferring funds, with related descriptive data, from one Federal Program Agency to another on a real-time basis.

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**IPAC Differences.** These represent differences that occur when the amount recorded on the SF 1219, “Statement of Accountability,” does not agree with the IPAC system. Any differences are reported on the Treasury FMS 6652, “Statement of Differences-Disbursements.”

**In-Transits.** These represent the net value of disbursements and collections made by a DoD disbursing activity on behalf of an accountable activity, but not yet posted in an accounting system.

**Invisible Warrant.** Treasury transfers the funds from available receipt accounts to expenditure accounts through their internal processes. These actions take place without hard copy document.

**SF (Standard Form) 1219, “Statement of Accountability.** Each DoD disbursing station is required to prepare the Statement of Accountability monthly. The Statement of Accountability reports information to the Treasury on deposits, interagency transfers, and checks issued. The Statement of Accountability also reports net disbursements—the sum of deposits, interagency transfers, and checks issued that month.

**SF 1220, “Statement of Transactions.”** Each DoD disbursing station is required to prepare the Statement of Transactions monthly. The Statement of Transactions reports the disbursements shown on the Statement of Accountability by appropriations. Treasury requires that the net disbursements reported on the Statement of Transactions agree with the net disbursements reported on the Statement of Accountability.

**Suspense Account.** This is an account that temporarily holds unidentifiable special or trust fund collections that belong to the Federal Government until they are classified to the proper receipt or expenditure account by the Federal entity.

**Treasury Financial Management Service (FMS) 6652, “Statement of Differences (SOD).”** The Treasury FMS 6652 reports both deposits and disbursements. Differences resulting from deposits indicate there is a discrepancy between the monthly totals submitted through the banking system and the totals provided by the agency on the SF 1219 (section I, line 4.2). The SOD for disbursements reveals discrepancies between monthly totals reported by the DoD disbursing station and/or through IPAC and totals in agency reports on the SF 1219 section I, (line 2.80).

**Treasury FMS 6654, “Undisbursed Appropriation Account Trial Balance.** The Treasury FMS 6654 provides agencies with summary data about their expenditure accounts. This data is summarized for each appropriation and fund account at the departmental level and at the bureau level for certain executive departments. The data reveal the balance forwarded at the beginning of the fiscal year, cumulative warrants, nonexpenditure transactions, net disbursements to date and closing balances at month end. Federal agencies must reconcile their FBWT accounts to the closing balance shown in the report.

**Treasury FMS 6655, “Receipt Account Trial Balance.”** The FMS 6655 shows receipt balances by fund account symbol and department. This includes year to

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date and current month receipt totals. Federal agencies must reconcile their current month and year to date current activity to the balances disclosed in the FMS 6655.

**Unavailable Receipt Accounts.** These are receipts, that at the time of collection, are not appropriated and not immediately available for expenditure.

**Unmatched Disbursements.** These occur when the accounting office receives and accepts disbursement transactions, but has not matched them to the correct detail obligation. This includes transactions that the accounting office rejected back to the paying office or central disbursement clearing organization.

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## Appendix E. Treasury Reports for Fund Balance With Treasury

Treasury prepares five Fund Balance With Treasury reports. The five include three Fund Balance With Treasury reports for receipt accounts and two Fund Balance With Treasury reports for expenditure accounts.

**Treasury Reports for Receipt Accounts.** The three FBWT reports for receipt accounts provide the current month receipts and fiscal year-to-date FBWT. The Treasury reports follow.

- Treasury FMS 6655, “Receipt Account Trial Balance,” reports receipt accounts every month for each applicable account, including accounts with no transactions during the month.
- Treasury FMS 6655, “Receipt Account Ledger,” reports accounts with transactions during the month, but does not list accounts that had no transactions during the month.
- Treasury FMS 6655, “Report of Unavailable Receipt Transactions” reports only unavailable receipt accounts for accounts with transactions during the month, but does not list accounts that had no transactions during the month.

**Treasury Reports for Expenditure Accounts.** The two FBWT reports for expenditure accounts include the following.

- Treasury FMS 6654, “Undisbursed Appropriation Account Trial Balance,” reports expenditure accounts with and without transactions during the month and
- Treasury FMS 6653, “Undisbursed Appropriation Account Ledger,” reports expenditure accounts that had transactions during the month, but does not list accounts that had no transactions during the month.

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## Appendix F. SOPs for Problem Disbursements and Financial Reporting

**Standard Operating Procedures for Problem Disbursements.** DFAS Indianapolis properly disclosed amounts for in-transits, unmatched disbursements, and negative unliquidated obligations on the June 30, 2005, AGF financial statements, Note 3. However, the DFAS Indianapolis SOP 3011, “Problem Disbursement Reports,” April 21, 2005, (SOP 3011) needs improvement to ensure reliability of Note 3 disclosures.

SOP 3011 provides guidance on how to prepare Problem Disbursement Reports. Specifically, SOP 3011 outlines the SOPs for consolidating, reviewing, analyzing and reporting problem disbursements. However, SOP 3011 does not include all procedures necessary to ensure proper disclosure of problem disbursements in Note 3. Specifically, SOP 3011 does not:

- state what supporting documentation to use when preparing the data call,
- state from whom and how the supporting documentation is obtained,
- provide an example of the format for problem disbursements data calls,
- state the position title of the DFAS employee who receives the data call,
- define the various types of problem disbursement issues,
- provide an example of Treasury reports used,
- require that DFAS accountants prepare a spreadsheet of DFAS Indianapolis problem disbursements,
- require that DFAS accountants compare the Treasury report to the spreadsheet,
- require that DFAS accountants calculate the net and absolute amount for problem disbursements and include the amounts in data calls,
- require that DFAS accountants determine and disclose the cause of the problem disbursement,
- require that DFAS accountants analyze the impact on the accuracy of the AGF FBWT,
- require that DFAS accountants review the problem disbursement and verify that data calls are supported,

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- require that DFAS accountants disclose the net and absolute amounts of problem disbursement in Note 3 by the age of the differences, and
  - require that DFAS accountants compare the problem disbursements in Note 3 to the spreadsheet.

**Standard Operating Procedures for Financial Reporting.** The DFAS Indianapolis Financial Reporting Branch does not have SOPs in place to ensure that proper amounts and required disclosures are made in Note 3. Specifically, DFAS Indianapolis does not have an SOP to verify information in data calls to supporting documentation before reporting the information in Note 3. However, DFAS Indianapolis personnel stated that SOPs are being put in place for future fiscal year quarters. In addition, DFAS Indianapolis has assigned a staff member from the Audit Liaison Office to review note disclosures and compare disclosures to supporting documentation. Additionally, DFAS Indianapolis personnel stated that they will conduct a review of note disclosures for explanation of fluctuations and ensure that all schedules balance. Further, DFAS Indianapolis will assign an employee as the audit point of contact and hold that employee responsible for participating in note reviews and develop a document to determine how to audit major segments of FBWT. DFAS Indianapolis personnel stated that developing and implementing an SOP will provide an additional control. DFAS Indianapolis should take action and incorporate these procedures and other procedures into a formal SOP.

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## Appendix G. Office of Management and Budget Circular A-123

OMB recently revised OMB Circular A-123, “Management Accountability and Control,” June 21, 1995. The new OMB A-123, “Management’s Responsibility for Internal Control,” became effective FY 2006 and superseded all previous versions.

**Requirements.** OMB Circular A-123 provides updated internal control standards and new specific requirements for conducting management’s assessment of the effectiveness of internal control over financial reporting. Additionally, OMB Circular A-123 provides guidance to DoD managers on improving the accountability and effectiveness of DoD programs and operations by establishing, assessing, correcting, and reporting on internal control.

OMB Circular A-123 also requires DoD to take systematic and proactive measures to,

- (i) develop and implement appropriate, cost-effective internal control for results-oriented management;
- (ii) assess the adequacy of internal control in Federal programs and operations;
- (iii) separately assess and document internal control over financial reporting consistent with the process defined in Appendix A, ‘Internal Control over Financial Reporting,’
- (iv) identify needed improvements;
- (v) take corresponding corrective action; and
- (vi) report annually on internal control through management assurance statements.

Additionally, OMB Circular A-123 states, “. . .when assessing the effectiveness of internal control over financial reporting and compliance with financial-related laws and regulations, management must follow the assessment process contained in Appendix A, ‘Internal Control Over Financial Reporting.’” Appendix A, “Internal Control Over Financial Reporting,” provides a methodology for agency management to assess, document, and report on the internal controls over financial reporting.

**Reliability of Financial Reporting.** OMB Circular A-123, Appendix A, also states, “internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting.” Reliability of financial reporting means that management can reasonably make the following assertions.

- All reported transactions actually occurred during the reporting period and all assets and liabilities exist as of the reporting date (existence and occurrence).
- All assets, liabilities, and transactions that should be reported have been included, and no unauthorized transactions or balances are included (completeness).

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- All assets are legally owned by the agency, and all liabilities are legal obligations of the agency (rights and obligations).
  - All assets and liabilities have been properly valued and, where applicable, all costs have been properly allocated (valuation).
  - The financial report is presented in the proper form, and any required disclosures are present (presentation and disclosure).
  - The transactions comply with laws and regulations (compliance).
  - All assets have been safeguarded against fraud and abuse.
  - Documentation for internal control, all transactions, and other significant events is readily available for examination.

**Definitions of Deficiencies.** OMB Circular A-123 organizes deficiencies into the following categories:

**Control Deficiency.** A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A design deficiency exists when a control necessary to meet the control objective is missing or an existing control is not properly designed, so that even if the control operates as designed the control objective is not always met. An operation deficiency exists when a properly designed control does not operate as designed or when the person performing the control is not qualified or properly skilled to perform the control effectively.

**Reportable Condition.** A reportable condition is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report external financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements, or other significant financial reports, that is more than inconsequential will not be prevented or detected.

**Material Weakness.** A material weakness in internal control is a reportable condition, or combination of reportable conditions, that results in more than a remote likelihood that a material misstatement of the financial statements, or other significant financial reports, will not be prevented or detected.

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The definitions of a control deficiency, reportable condition, and material weakness in OMB Circular A-123 relative to financial reporting are based on Auditing Standard No. 2, “An Audit of Internal Control Over Financial Reporting Performed in Conjunction with An Audit of Financial Statements,” issued by the Public Company Accounting Oversight Board. Public Company Accounting Oversight Board Auditing Standard No. 2 states, “. . .the same concept of materiality that applies to financial reporting applies to information on internal control over financial reporting, including the relevance of both quantitative and qualitative considerations.”

**Impact of Audit Results on the Reliability of Financial Reporting.** Based on the revised OMB Circular A-123, we consider the findings we identified material. While individually these issues may not be material, taken as a whole, they are a material weakness. We based our decision on quantitative and qualitative considerations. OMB Circular A-123 states that reliability of financial reporting means that management can make the following assertions:

- the financial report is presented in proper form and any required disclosures are present (presentation and disclosure) and
- documentation for internal control, all transactions, and other significant events is readily available for examination.

DFAS Indianapolis internal controls over the calculation of Line 2.A. were not adequate to ensure the proper amount was calculated and disclosed. Additionally, DFAS Indianapolis internal controls were not adequate to ensure that check issue differences, deposit differences, IPAC differences, and suspense/clearing accounts were properly disclosed in the June 30, 2005, AGF, Note 3.

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## **Appendix H. Report Distribution**

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

Under Secretary of Defense (Comptroller)/Chief Financial Officer  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)  
Director, Program Analysis and Evaluation

### **Department of the Army**

Assistant Secretary of the Army (Financial Management and Comptroller)  
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

### **Combatant Command**

Inspector General, U.S. Joint Forces Command

### **Other Defense Organizations**

Director, Defense Contract Audit Agency  
Director, Defense Contract Management Agency  
Director, Defense Finance and Accounting Service  
Director, Defense Intelligence Agency  
Director, Defense Logistics Agency  
Director, National Security Agency  
President, Defense Systems Management College

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

Office of Management and Budget

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

Senate Committee on Appropriations

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



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# Defense Finance and Accounting Service Comments

COVER BRIEF

TO: DIRECTOR, INDIANAPOLIS OPERATIONS *ale*

FROM: CHIEF, ACCOUNTING AND PROCEDURES *MBF 8/30/06*

SUBJECT: Internal Controls Over the Army General Fund, Note 3, "Fund Balance With Treasury," Disclosures (Project No. D2005-D000FP-0248)

PURPOSE: To provide management comments for Recommendations A1, A2, A3, B1, a,b,c,d,e,f,g,h,i,j,k, B2, C1, a,b,c,d,e,f,g,h,i,j,k, D1, D2, a,b,c,d,e,f,g,h,i,j, E1, E2.

DISCUSSION: Indianapolis Operations, is providing management comments to the recommendations of the DoDIG audit on Internal Controls Over the Army General Fund, Note 3, "Fund Balance With Treasury," Disclosures

**Recommendation A:** We recommend that the Director, Defense Finance and Accounting Service Indianapolis improve the process for calculating Line 2.A., "Fund Balance per Treasury"

1. Following the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer quarterly guidance for calculating Line 2.A.
2. Establishing standard operating procedures for preparing Note 3, "Fund Balance With Treasury" and calculating Line 2.A., "Fund Balance per Treasury,"
3. Performing periodic reviews of the DoD Financial Management Regulations to ensure that standard operating procedures DFAS Indianapolis follows for calculating Line 2.A, "Fund Balance per Treasury," are consistent with the DoD Financial Management Regulations.

**Recommendation B:** We recommend that the Director, Defense Finance and Accounting Service Indianapolis:

1. Revise standard operating procedures 2009, "Treasury Check Discrepancies, Procedures for Monitoring Check Differences," November 16, 2005
2. Coordinate with Treasury to obtain the Treasury's "Comparison of Checks Issued" Report promptly.

**Recommendation C:** We recommend that the Director, Defense Finance and Accounting Service Indianapolis:

1. Revise SOP 2006, "Deposits In Transit," September 12, 2005, and SOP 2416, "Reporting OPAC vs. SF 1219, Line 2.80, Differences the Stations," May 2000

**Recommendation D:** We recommend that the Director, Defense Finance and Accounting Service Indianapolis:

1. Establish procedures to ensure compliance with the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer 1st quarter guidance to ensure that the suspense and budget clearing amount reported on Note 3 agrees with the amounts reported on the Treasury FMS 6654.

2. Revise the Defense Finance and Accounting Service, Indianapolis Standard Operating Procedure No. 2007, "Suspense Accounts Report Monitoring and Reconciliation," May 2005 to include additional guidelines to ensure accuracy of Note 3 disclosures.

**Recommendation E.1:** We recommend that the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer improve the controls over Note 3 disclosures

**Recommendation E.2:** We recommend that the Director, Defense Finance and Accounting Service Indianapolis:

- a. Establish procedures to ensure compliance with the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer interim guidance established by recommendation E.1.c.
- b. Comply with the recommended revisions to the DoD Financial Management Regulation, volume 6B, chapter 10, Note 3, "Fund Balance With Treasury," January 2006.

COORDINATION:        Anthony Hullinger, Chief, Expenditure Division  
       Sam Graham, Director, Departmental Accounting TI21  
       Barbara Frankl, Departmental Accounting TI21  
       Michele Gomez, Director, Accounting Operations

Attachments:  
As stated

Prepared by: Joan Keim, 317-510-5918



**DEFENSE FINANCE AND ACCOUNTING SERVICE**  
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INDIANAPOLIS, INDIANA 46249

DFAS-ADL/IN

AUG 31 2006

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Internal Controls Over the Army General Fund, Note 3, "Fund Balance With Treasury," Disclosures (Project No. D2005-D000FP-0248)

**Management Comments -- Overview**

Specific management comments and ECD's from DFAS-IN are shown below under each audit recommendation. This audit has approximately 45 separate recommendations, with 38 involving requirements for updating SOPs. We are currently in the process of updating all Departmental Accounting SOPs. Where applicable, the SOP recommendations in this audit report will be included in our SOP updates.

We highly recommend that the auditors consolidate the recommendations to reduce the number of individual actions that would require tracking.

We are taking actions to strengthen our management controls. We are working closer with customers (Army and Defense Agencies) on reviewing footnotes prior to releasing reports. Our reviews include both Expenditure Division and Budget Execution Division personnel within Departmental Accounting. We are strengthening our management controls by updating our SOPs to include footnote requirements. We are also reviewing all of our current internal and management controls to ensure that we are in compliance with FMFIA requirements.

Indianapolis Operations is providing management comments to the following recommendations:

**Recommendation A:** We recommend that the Director, Defense Finance and Accounting Service Indianapolis improve the process for calculating Line 2.A., "Fund Balance per Treasury" by

1. Following the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer quarterly guidance for calculating Line 2.A.

**Management Comment:** Stakeholder: Brook Avey, 317-510-7132. Concur. DFAS does and will follow the Office of the Under Secretary of Defenses quarterly guidance for calculating line 2A.

**Completion Date:** Completed

2. Establishing standard operating procedures for preparing Note 3, "Fund Balance With Treasury" and calculating Line 2.A., "Fund Balance per Treasury," that:

(a) Provide a methodology for retrieving the Treasury FMS 6654, "Undisbursed Appropriation Account Trial Balance" from Treasury.

(b) Outline the process for how to calculate Line 2.A., "Fund Balance per Treasury."

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- (c) Require the verification of Line 2.A., "Fund Balance per Treasury," calculation against the supporting documentation.
- (d) Require the verification of Line 2.A., "Fund Balance per Treasury," amount against supporting documentation.
- (e) Designate a position at Defense Finance and Accounting Service, Indianapolis to be responsible for calculating Line 2.A., "Fund Balance per Treasury," and maintaining custody of supporting documentation.
- (f) Establish a retention period for supporting documentation that is in accordance with DoD retention policies.

**Management Comment:** Stakeholder: Brook Avey, 317-510-7132. Concur. DFAS agrees that procedures should be articulated on how to prepare Note 3 and the calculation of line 2.A. DFAS also agrees that this documentation should be part of the official processes used to prepare financial statements, provide documentation to auditors, and to train new individuals. However, DFAS has determined that this official documentation will be contained in the Fund Balance with Treasury Assertion Packet as one of the audit folders. Before assertion is made, the assertion packet is provided to all levels of management for approval. In the assertion packet, the methodology for retrieving the Treasury documents, process for calculating line 2A, verification of process, position of individuals, and retention of supporting documentation is articulated. In summary, DFAS does have official documentation of the Note 3 and Line 2A calculation processes which were provided to the DoD IG as part of their audit documentation.

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

3. Performing periodic reviews of the DoD Financial Management Regulations to ensure that standard operating procedures DFAS Indianapolis follows for calculating Line 2.A, "Fund Balance per Treasury," are consistent with the DoD Financial Management Regulations.

**Management Comment:** Stakeholder: Brook Avey, 317-510-7132. Concur. DFAS reviews FMR and the Office of the Under Secretary of Defenses on a quarterly basis to ensure that all procedures are being properly implemented for financial statement presentation

**Completion Date:** Completed

**Recommendation B:** We recommend that the Director, Defense Finance and Accounting Service Indianapolis:

1. Revise standard operating procedures 2009, "Treasury Check Discrepancies, Procedures for Monitoring Check Differences," November 16, 2005, to:
  - (a) state from who and how the Treasury documents are obtained.
  - (b) define the various types of check issue differences.
  - (c) require DFAS accountants to determine the cause of the check issue differences and disclose it in Note 3, "Fund Balance With Treasury."
  - (d) require that DFAS accountants calculate the net and absolute amounts of the check issue differences.
  - (e) require that DFAS accountants analyze of the impact on the accuracy of the Army General Fund Fund Balance With Treasury account.
  - (f) require that DFAS accountants compare the check issues in Treasury's "Comparison of Checks Issued" Report to the DFAS IN spreadsheet of differences.
  - (g) require that DFAS accountants review the check issue differences and verify that data calls are supported.

- (h) state the position/title of the Defense Finance and Accounting Indianapolis employee who receives the data call.
- (i) require that DFAS accountants disclose the net and absolute amounts of check differences in Note 3, "Fund Balance With Treasury," by the age of check issue differences.
- (j) require that DFAS accountants use current check issue differences or disclose what month's amounts was used if current differences cannot be used.
- (k) require a DFAS accountant to compare the check issue differences amount reported in Note 3 to the DFAS Indianapolis spreadsheet.

**Management Comment:** Stakeholder: Don Grubb, 317-510-5445. Concur. SOP 2009 has been updated to incorporate these recommendations (note: for items B1(i), B1(j), and B1(k), the materiality of the check differences will be evaluated).

**Completion Date:** August 30, 2006

- 2. Coordinate with Treasury to obtain the Treasury's "Comparison of Checks Issued" Report promptly.

**Management Comment:** Stakeholder: Don Grubb, 317-510-5445. Concur.

**Completion Date:** August 30, 2006

**Recommendation C:** We recommend that the Director, Defense Finance and Accounting Service Indianapolis:

- 1. Revise SOP 2006, "Deposits In Transit," September 12, 2005, and SOP 2416, "Reporting OPAC vs. SF 1219, Line 2.80, Differences the Stations," May 2000, to:
  - (a) Define the various types of deposit and intragovernmental payment and collection differences.
  - (b) Require that DFAS accountants determine the causes of the deposit and intragovernmental payment and collection differences and disclose them in Note 3, "Fund Balance With Treasury."
  - (c) Require that DFAS accountants calculate the net and absolute amount for deposit and IPAC differences, and include the results in data calls.
  - (d) Require that DFAS accountants analyze the impact on the accuracy of the Army General Fund, Fund balance with Treasury.
  - (e) Compare the Treasury FMS 6652 Statement of Differences—Deposits and Statement of Differences—Disbursements to the spreadsheet.
  - (f) Require DFAS Accountants to review the deposit and intragovernmental payment and collection differences and verify that data calls are supported.
  - (g) Provide an example of Treasury FMS 6652 Statement of Differences—Deposits and Statement of Differences—Disbursements.
  - (h) State the position title of the Defense Finance and Accounting Service, Indianapolis employee who receives the data call.
  - (i) Require that DFAS accountants disclose the net and absolute amounts of deposit and intragovernmental payment and collection differences in Note 3, "Fund Balance With Treasury," by the age of the differences.
  - (j) Require that DFAS accountants use current deposit and intragovernmental payment and collection differences, or disclose which month's amount they used.
  - (k) Require that a DFAS accountant compare the deposit and intragovernmental payment and collection differences in Note 3, "Fund Balance With Treasury," to the spreadsheet.

**Management Comment:** Stakeholder: Don Grubb, 317-510-5445. Concur, with exception of item C1(i): There is no requirement in the DOD FMR or OSD guidance to disclose the aging of IPAC or Deposit differences in Note 3. (note: SOP 2416 is obsolete and has been incorporated into SOP 2006).

**Completion Date:** August 30, 2006

**Recommendation D:** We recommend that the Director, Defense Finance and Accounting Service Indianapolis:

1. Establish procedures to ensure compliance with the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer 1st quarter guidance to ensure that the suspense and budget clearing amount reported on Note 3 agrees with the amounts reported on the Treasury FMS 6654.

**Management Comment:** Stakeholders: Brook Avey, 317-510-7132 and Don Grubb, 317-510-5445. Concur. DFAS currently follows the Office of the Secretary of Defense's guidance to report suspense and budget clearing amounts in Note 3. DFAS worked with DDRS-AFS to allow the functionality to report all suspense and budget clearing accounts on Note 3.

**Completion Date:** August 30, 2006

2. Revise the Defense Finance and Accounting Service, Indianapolis Standard Operating Procedure No. 2007, "Suspense Accounts Report Monitoring and Reconciliation," May 2005, to include additional guidelines to ensure accuracy of Note 3 disclosures. Specifically, the standard operating procedure should:

- (a) State what Treasury supporting documents DFAS accountants should use when preparing the data call.
- (b) State from whom and how the Treasury documents are obtained.
- (c) Define the various types of suspense and budget clearing accounts.
- (d) Require that DFAS accountants determine the cause of the suspense and budget clearing amount and disclose it in Note 3.
- (e) Require that DFAS accountants include all suspense and budget clearing accounts with the data call, by the age of the amounts.
- (f) Specify whether the suspense account report is used as the data call.
- (g) Provide an example of the format of the data call.
- (h) State the position title of the Defense Finance and Accounting Service Indianapolis employee who receives the data call.
- (i) Require that DFAS accountants review suspense and budget clearing accounts and verify that data calls are supported.
- (j) Require that DFAS accountants use the current suspense and budget clearing amount, or disclose which month's amount was used if current amount cannot be used.

**Management Comment:** Stakeholder: Don Grubb, 317-510-5445. Concur, with exception of item D2(e): Only 8 clearing accounts are aged for the SAR report; we report a net unaged figure for all others. The specific accounts that are aged vs. unaged will be identified in the revised SOP. SOP 2007 is being updated to incorporate these recommendations.

**Completion Date:** August 30, 2006

**Recommendation E.1:** We recommend that the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer improve the controls over Note 3 disclosures by:

a. Revising the DoD Regulation 7000.14-R, DoD Financial Management Regulation, volume 6B, "Format of DoD Audited Financial Statements," chapter 10, "Notes to the Financial Statements," January 2006 to:

(1) Delete the requirement to include the Treasury FMS 6655, "Receipt Account Trial Balance," in the calculation of Line 2.A., "Fund Balance per Treasury."

(2) Include a requirement to disclose check issue, deposit, and intragovernmental payment and collection differences in Note 3, "Fund Balance With Treasury," by disclosing the net and absolute amount of the differences, the age of the differences, and an explanation for the differences.

(3) Add the requirement for DoD reporting entities to include all suspense and budget clearing accounts in Note 3, "Fund Balance With Treasury."

(4) Add a requirement that states that when the reporting entity's suspense and budget clearing account balance does not agree with the Treasury FMS 6654, "Undisbursed Appropriation Account Trial Balance," the entity must include a disclosure explaining the difference.

b. Coordinating the revisions to the DoD Regulation 7000.14-R, "DoD Financial Management Regulation, volume 6B, "Format of DoD Audited Financial Statements," chapter 10, "Notes to the Financial Statements," January 2006 with the Heads of DoD Components including DoD IG.

c. Issuing interim guidance that requires DoD reporting entities to follow recommendation E.1.a (1)-(4).

**Management Comment:** This response must come from OSD, not DFAS-IN.

**Recommendation E.2:** We recommend that the Director, Defense Finance and Accounting Service Indianapolis:

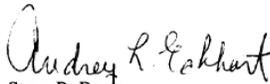
a. Establish procedures to ensure compliance with the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer interim guidance established by recommendation E.1.c.

b. Comply with the recommended revisions to the DoD Financial Management Regulation, volume 6B, chapter 10, Note 3, "Fund Balance With Treasury," January 2006.

**Management Comment:** Stakeholder: Brook Avey, 317-510-7132. Concur, contingent upon the IG's recommendations in E1 being approved and issued by the OUSD Comptroller.

**Estimated Completion Date:** Contingent upon the IG's recommendations in E1 being approved and issued by the OUSD Comptroller.

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

  
Steve R. Bonta  
Director, Indianapolis Operations

## **Team Members**

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