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### **Acronyms**

|             |   |
|-------------|---|
| AGF         | Army General Fund   |
| CLRS-AFS    | Chief Financial Officer Load and Reconciliation System-Audited Financial Statements |
| CLRS-FE     | Chief Financial Officer Load and Reconciliation System-Front End                    |
| DDRS-AFS    | Defense Departmental Reporting System-Audited Financial Statements                  |
| DFAS        | Defense Finance and Accounting Service  |
| FBWT        | Fund Balance With Treasury  |
| FMR         | Financial Management Regulations  |
| JV          | Journal Voucher   |
| OMB         | Office of Management and Budget   |
| OUS(DC)/CFO | Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer      |
| SOP         | Standard Operating Procedures   |



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

February 8, 2007

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY (FINANCIAL  
MANAGEMENT AND COMPTROLLER)  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE

SUBJECT: Report on the Controls over the Army General Fund, Fund Balance With  
Treasury Journal Voucher Adjustments (Report No. D-2007-058)

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

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

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Douglas Neville at (703) 428-1061 (DSN 328-1061) or Ms. Amy L. Mathews at (703) 325-6115 (DSN 221-6115). For the report distribution, see Appendix E. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

A handwritten signature in black ink, reading "Paul J. Granetto".

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

## Department of Defense Office of Inspector General

Report No. D2007-058

February 8, 2007

(Project No. D2005-D000FP-0248.002)

### Controls over the Army, General Fund, Fund Balance With Treasury Journal Voucher Adjustments

#### Executive Summary

**Who Should Read This Report and Why?** Civilians and uniformed officers who are involved in the Army General Fund, Fund Balance With Treasury decision-making process should read this report. It identifies issues related to the compilation process used by the Defense Finance and Accounting Service (DFAS), Indianapolis to manage the Army General Fund, Fund Balance With Treasury journal voucher adjustments.

**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, “Federal Financial Management Improvement Act of 1996,” September 30, 1996.

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

**Results.** We reviewed the 24 journal voucher adjustments made by DFAS Indianapolis to the Army General Fund, Fund Balance With Treasury account as of June 30, 2005. DFAS Indianapolis did not correctly process the 24 journal voucher adjustments made to the Army General Fund, Fund Balance With Treasury account for the period ending June 30, 2005. Specifically, DFAS Indianapolis did not select the appropriate category on 5 journal voucher adjustments, include detailed explanations to support the purpose for 21 journal voucher adjustments, include the appropriate supported or unsupported statement in the description field for 6 journal voucher adjustments, and provide detailed documentation to support the 24 journal voucher adjustments. As a result, DFAS Indianapolis cannot provide reasonable assurance that the journal voucher adjustments are accurate and valid and will correct the errors made to the Army General Fund, Fund Balance With Treasury account as of June 30, 2005 (finding A).

DFAS Indianapolis did not provide adequate coordination and oversight over the Army General Fund, Fund Balance With Treasury journal voucher adjustment process. Specifically, DFAS Indianapolis did not properly coordinate journal vouchers of \$1 billion with the appropriate officials before processing, conduct journal voucher reviews to ensure that the approval thresholds were met, review a sample of journal voucher adjustments of less than \$500 million to determine whether supporting documentation was present and adequate, and assess the controls over the journal voucher process and procedures. As a result, the oversight authority may be unaware of

certain journal voucher adjustments that require attention, and therefore, journal vouchers may not receive the proper oversight required to minimize risks associated with the journal voucher adjustments (finding B).

We also reviewed the DFAS Indianapolis management control program as it related to the Army General Fund, Fund Balance With Treasury journal voucher adjustments process. See the Finding sections of the report for detailed recommendations and corrective actions taken by DFAS Indianapolis.

**Management Actions.** As a result of our audit, DFAS Indianapolis consolidated its branch-level standard operating procedures and issued departmental accounting standard operating procedures for journal vouchers. Although the departmental accounting standard operating procedures for journal vouchers is a positive step, the standard operating procedures should include information addressing the requirements of the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer quarterly guidance. In addition, DFAS Indianapolis should amend Standard Operating Procedure 1114 to ensure that its procedures are in accordance with the departmental accounting standard operating procedures for journal vouchers and adequately address the proper coordination of journal vouchers of more than \$1 billion.

**Management Comments.** The Director, DFAS Indianapolis did not agree with either finding A or Recommendation A. The Director, DFAS Indianapolis disagreed with the audit team's interpretation of what was required to have an adequate explanation and supporting documentation for journal vouchers. Notwithstanding this disagreement, the Director, DFAS Indianapolis agreed to implement the substance of Recommendation A. The Director, DFAS Indianapolis concurred with Recommendation B.

The Acting Deputy Chief Financial Officer provided unsolicited comments to the draft report in which he agreed with the recommendations to the DFAS Indianapolis. In addition, the Acting Deputy Chief Financial Officer commented on the status of revisions to the DoD Financial Management Regulation and the Defense Departmental Reporting System-Audited Financial Statements. See 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, “Federal Financial Management Improvement Act of 1996,” September 30, 1996.

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

| <b>Table 1. June 30, 2005, Consolidated Balance Sheet Extracts</b> |                 |                                  |   |
|--|-----------------|----------------------------------|---|
|  | <u>AGF</u>      | <u>DoD</u><br><u>Agency-Wide</u> | <u>AGF as</u><br><u>Percentage of</u><br><u>DoD Agency-Wide</u> |
| FBWT   | \$130.7 billion | \$ 420.9 billion                 | 31.0%   |
| Total Assets   | 290.6 billion   | 1,389.7 billion                  | 20.9%   |
| FBWT as a<br>Percentage of Total<br>Assets                         | 45.0%           | 30.3%                            |   |

**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 by using general ledger trial balances and the status of appropriation data submitted by Army field activities and other sources. DFAS Indianapolis is 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;
- controls are in place to ensure the accuracy of the reports;
- amounts reported agree with appropriate general ledger balance; and
- it maintains a complete and documented audit trail to support the reports it prepares.

**Journal Voucher Adjustments.** Journal voucher (JV) adjustments are primarily used during the preparation of the financial statements to adjust errors identified during the financial reports review process; to record those accounting entries that, due to system limitations or timing differences, have not been otherwise

recorded; and for month-/year-end closing purposes. DFAS Indianapolis uses three financial reporting systems to compile the AGF financial statements. These systems consist of the Defense Departmental Reporting System-Audited Financial Statements (DDRS-AFS), the Chief Financial Officer Load and Reconciliation System-Audited Financial Statements (CLRS-AFS), and the Chief Financial Officer Load and Reconciliation System-Front End (CLRS-FE).

For the period ending June 30, 2005, DFAS Indianapolis made 24 JV adjustments to the AGF FBWT account. Table 2 shows the number of JV adjustments and the net and absolute amount of the AGF, FBWT portion of the JV adjustments by system.

| <b>Table 2. JV Adjustments to the AGF FBWT</b> |                       |   |  |
|--|-----------------------|---|--|
| <u>Accounting System</u>                       | <u>JV Adjustments</u> | <u>Net Amount of FBWT portion of JV Adjustments<sup>1</sup></u> | <u>Absolute Amount of FBWT portion of JV Adjustments<sup>2</sup></u> |
| DDRS-AFS                                       | 9                     | \$ (690,485,778.45)   | \$ 3,085,468,768.63  |
| CLRS-AFS                                       | 14                    | (532,387,947.35)  | 2,441,099,879.49   |
| CLRS-FE  | 1                     | (31,351,151,244.83)   | 31,597,728,999.71  |
| <b>Total</b>                                   | <b>24</b>             | <b>\$(32,574,024,970.63)</b>                                    | <b>\$37,124,297,647.83</b>   |

<sup>1</sup>The net effect on the AGF FBWT account is determined by subtracting the credit amount from the debit amount (debit-credit) for the AGF FBWT portion of each JV adjustment.

<sup>2</sup>The absolute effect on the AGF FBWT account is determined by adding the absolute value of the debit and credit amounts for the AGF FBWT portion of each JV adjustment.

## Criteria

**Office of Management and Budget.** Office of Management and Budget (OMB) Bulletin No. 01-09, "Form and Content of Agency Financial Statements," September 25, 2001, provides guidance for preparing agency financial statements. It defines the form and content for agency financials that are required to 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.

**OMB Circular A-136.** OMB Circular A-136, "Financial Reporting Requirements," August 23, 2005, supersedes, incorporates, and updates OMB Bulletin No. 01-09. The provisions of OMB Circular A-136 are effective for the preparation of the September 30, 2005, financial statements; however, OMB Bulletin No. 01-09 was the presiding guidance for the period we reviewed.

**DoD Financial Management Regulation.** DoD Regulation 7000.14-R, DoD Financial Management Regulation (FMR), volume 6A, chapter 2, "Financial



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Reports Roles and Responsibilities,” March 2002, defines the roles and responsibilities of DFAS regarding the proper and consistent preparation of financial reports at all levels.

**DFAS Indianapolis Standard Operating Procedure.** DFAS Indianapolis Standard Operating Procedure (SOP) 1114, “Journal Voucher Process,” May 24, 2005, provides procedures for preparing, processing, controlling, maintaining, reviewing, and approving all JV adjustments from DDRS-AFS, CLRS-AFS, and CLRS-FE.

## Objectives

The overall objective of this audit was to assess the internal controls over the AGF FBWT account JV adjustments for the period ending June 30, 2005. We also reviewed the management control program as it relates to the overall objective. See Appendix A for scope and methodology and Appendix B for prior coverage related to the objective.

## Review of Internal Control

DoD Directive 5010.38, “Management Control (MC) Program,” August 26, 1996, and DoD Instruction 5010.40, “Management Control (MC) 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 the internal controls over the AGF FBWT JV adjustments for the period ending June 30, 2005. We also reviewed management’s assessable units and self-evaluation applicable to those controls.

**Adequacy of Management Controls.** Material management control weaknesses existed for AGF FBWT JV adjustments for the period ending June 30, 2005, as defined by DoD Instruction 5010.40. DFAS Indianapolis internal controls were not adequate to ensure that:

- JV adjustments included the appropriate categories, included detailed explanations, included the appropriate supported or unsupported statement in the description field, and provided detailed support

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<sup>1</sup> OMB 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. The 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 C for a discussion of how the revised guidance impacts our reporting on the DFAS Indianapolis management control program.

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documentation (finding A). The corrective actions taken and Recommendation A., if implemented, will improve the procedures for processing journal vouchers at DFAS Indianapolis.

- DFAS Indianapolis management and internal review complied with DoD FMR, volume 6A, chapter 2, coordination and oversight requirements (finding B). The corrective actions taken and Recommendation B., if implemented, will improve the coordination and oversight processes at DFAS Indianapolis.

**Adequacy of Management's Self-Evaluation.** DFAS Indianapolis did not conduct a self evaluation of its journal voucher preparation process and coordination and oversight requirements, and, therefore, did not discover or report the material management control weaknesses identified by the audit. We will provide a copy of this report to the senior official responsible for management controls in the Office of the Assistant Secretary of the Army for Financial Management and Comptroller and Director, DFAS Indianapolis.

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## A. Journal Voucher Adjustments

DFAS Indianapolis did not correctly process the 24 JV adjustments made to the Army General Fund, Fund Balance With Treasury account for the period ending June 30, 2005. Specifically, DFAS Indianapolis did not:

- select the appropriate category on 5 JV adjustments with an absolute value of \$4.3 billion,
- include detailed explanations to support the purpose for 21 JV adjustments with an absolute value of \$34.9 billion,
- include the appropriate supported or unsupported statement in the description field for 6 JV adjustments with an absolute value of \$34.9 billion, and
- provide detailed documentation to support the 24 JV adjustments with an absolute value of \$37.1 billion.

The JVs were not accurately processed because DFAS Indianapolis did not establish procedures to ensure adherence to the DoD FMR, volume 6A, chapter 2; Office of the Under Secretary Defense (Comptroller)/Chief Financial Officer 3rd Quarter Guidance; and DFAS Indianapolis Standard Operating Procedures 1114. As a result, DFAS Indianapolis cannot provide reasonable assurance that the JV adjustments are accurate and valid and will correct the errors or conditions made to the Army General Fund, Fund Balance With Treasury account as of June 30, 2005.

### JV Adjustment Process

The DFAS Indianapolis JV adjustment process includes procedures for preparing, reviewing, and approving JV adjustments. After determining the need for a JV adjustment, DFAS Indianapolis is required to:

- select the category that is applicable to the purpose of the JV;
- provide the necessary support documentation, including explanations of errors and calculations that support the JV adjustments;
- provide documentation that would allow external users and reviewers, including auditors, to understand the purpose of the JV adjustment, extract the data, and trace it back to source documentation independently;
- complete the JV checklist to confirm that the JV is properly and accurately prepared; and

- 
- provide the necessary annotations (tick marks) throughout the supporting document that would allow an external user to understand the trail of the support documentation.

The approver is responsible for reviewing the checklist, the JV, and the supporting documentation to determine whether the JV is valid, accurate, and properly supported before approving the JV.

## JV Adjustment Requirements

**Treasury Financial Manual.** Treasury Financial Manual, volume 1, part 2, chapter 5100, Supplement, “Fund Balance With Treasury Reconciliation Procedures,” November 1999, provides the following guidance regarding JV adjustment explanations:

An agency may not arbitrarily adjust its FBWT account. Only after clearly establishing the causes of errors and properly documenting those errors, should an agency adjust its FBWT account balance. If an agency must make material adjustments, the agency must maintain supporting documentation. This will allow correct interpretation of the error and its corresponding adjustment.

**DoD Financial Management Requirement.** DoD FMR, volume 6A, chapter 2, states that operational internal controls are required to ensure the proper recording of JVs. DoD FMR, volume 6A, chapter 2, states that all JVs should be:

- categorized by each of the applicable ten specific categories listed in the guidance,
- adequately documented to support the validity and the amount of the JV transaction,
- authorized and approved at the appropriate level of management, and
- maintained in a central location either in a hard copy or in an electronic form.

**Quarterly Guidance.** Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, FY 2005 3rd Quarter Guidance (OUSD[C]/CFO 3rd Quarter Guidance), “Attachment 6C: Journal Voucher Category Identification Codes and Metric Reporting,” requires DoD Reporting Entities to select the appropriate categories for JV adjustments from the category selection provided in DDRS. OUSD(C)/CFO 3rd Quarter Guidance also requires DoD Reporting Entities to classify JV adjustments as supported or unsupported. This information is part of the accounting adjustments metric that Components must report quarterly after the completion of financial statements.

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**DFAS Standard Operating Procedures.** DFAS Indianapolis SOP 1114 requires the JV preparers to accumulate the necessary support for the JV. The following support is required:

- a JV facts page describing the purpose, background, and sources for the JV;
- a calculation page or spreadsheet that contains the name of the provider and the date provided; and
- data sources such as e-mails, Data Collection Module printouts, reports, and data extracts. If not apparent, the name of the provider and the date provided must also be included.

## **Adequacy of the JV Adjustments**

DFAS Indianapolis needs to strengthen controls over the JV adjustment process. Specifically, DFAS Indianapolis did not select the appropriate category of JVs, include detailed explanations for JVs, include the appropriate supported or unsupported statement on JVs, and provide detailed documentation to support JVs. See Appendix D for a list of the issues identified with the JV adjustments.

**JV Categories.** DFAS Indianapolis did not select the appropriate category on 5 of 24 JV adjustments. Categories identify the purpose and documentation needed to support the JV adjustment. DoD FMR, volume 6A, chapter 2; OUSD(C)/CFO 3rd Quarter Guidance; and DFAS SOP 1114 require DFAS Indianapolis to select a category that is applicable to the JV adjustment. The category for two of the five JVs was identified as code E “Reconciliation of Trial Balance and Budget Execution” when it should have been a code H “Identified Errors and Reasonableness Check.” One JV was identified as code B “Data Call” when it should have been a code J “Other Accruals.” The remaining two JVs were also categorized as a code E when another category would have been more appropriate. For two of the five JV adjustments, DFAS Indianapolis agreed that they did not select the most appropriate category; however, they will make an effort to be more aware of this issue in the future.

**JV Explanations.** DFAS Indianapolis did not include detailed explanations to support the purpose for 21 of the 24 JV adjustments. Specifically, DFAS Indianapolis did not identify the actual cause of the errors that created the need for 19 JV adjustments to the FBWT account. Also, for 2 of the 21 JV adjustments, DFAS Indianapolis did not describe how it was known that the original JV adjustment was incorrect and why the correcting JV adjustment was accurate or more accurate. Treasury Financial Manual, chapter 5100, Supplement, states that agencies may not arbitrarily adjust their FBWT account without clearly identifying the causes of the errors and properly documenting the errors. DoD FMR, volume 6A, chapter 2, further requires correcting entry JV adjustments to contain the documentation supporting the correct amount and a narrative explaining how it is known that the original entry was incorrect and why the correcting entry was accurate or more accurate.

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For example, JV Reference Number 3053000ZZZ (5098) provided the following explanation:

The Army's Fund Balance with Treasury (FBWT) is reported to DFAS via two streams of data, expenditure and general ledger, and must agree with the cash balance reported by Treasury. The expenditure data is used in reporting to Treasury, and must pass a series of edits, which can create differences between the general ledger and Treasury. This JV will bring the general ledger into agreement with the Treasury Trial Balance.

DFAS Indianapolis personnel stated that in many cases, they could not provide a specific explanation of the reason for the JV adjustment because they did not know the exact reason for the discrepancies. As a result, DFAS Indianapolis can not provide assurance that the JV adjustment actually corrected the problem nor can it prevent the errors or mistakes from reoccurring.

**JV Description Field.** DFAS Indianapolis did not include the appropriate supported or unsupported statement in the description field for six JV adjustments. For three JV adjustments, DFAS Indianapolis did not include a supported or unsupported statement in the description field. DFAS Indianapolis incorrectly classified two of the six JV adjustments as supported even though the JV adjustments lack the necessary documentation required by OUSD(C)/CFO 3rd Quarter Guidance. DFAS Indianapolis also incorrectly classified a JV as unsupported even though it contained the documentation required by OUSD(C)/CFO 3rd Quarter Guidance. OUSD(C)/CFO 3rd Quarter Guidance requires all JV adjustments to state whether the JV is supported or unsupported in the description field. OUSD(C)/CFO 3rd Quarter Guidance also provides guidance on how to determine whether the JV adjustments are supported or unsupported. In addition, the guidance acknowledges that the method to determine whether a JV adjustment is supported or unsupported may not pass audit scrutiny. The selection of an appropriate supported or unsupported statement is important because OUSD(C)/CFO uses this information to report metrics related to its material weaknesses. As a result, DFAS Indianapolis may have distorted the JV adjustment classifications reported in the quarterly OUSD(C)/CFO accounting adjustments metric.

**JV Support Documentation.** DFAS Indianapolis did not provide detailed documentation to support 24 JV adjustments totaling \$37.1 billion. Specifically, DFAS Indianapolis did not:

- include a logical audit trail for the 24 JV adjustments that would allow an external reviewer to determine the source of the documentation or independently obtain or reproduce the support,
- provide appropriate annotations throughout the documentation that would allow an external reviewer to validate and easily understand the reason for 15 JV adjustment, and
- provide adequate documentation to support the FBWT amount reported on 19 JV adjustments.

DoD FMR, volume 6A, chapter 2, states that sufficient and proper documentation is necessary to support all JVs and allow external reviewers, such as auditors, to clearly understand the reason for the JV and be able to determine whether it is proper and accurate. The guidance also requires that DFAS Indianapolis provide sufficient and detailed written documentation as support for adjustments to provide an audit trail to the source transactions. The guidance further states that calculations that support the amount of the JV adjustment should be readily identifiable. Table 3 shows the number and absolute value amount of each of the deficient areas by accounting system.

| <b>Table 3. JV Adjustment Support Documentation</b><br>(\$ in Billions) |                        |                |                        |                |                          |                |
|---|------------------------|----------------|------------------------|----------------|--------------------------|----------------|
| Accounting System   | Inadequate Audit Trail |                | Inadequate Annotations |                | Inadequate Documentation |                |
|   | JV Adjustments         | Amount         | JV Adjustments         | Amount         | JV Adjustments           | Amount         |
| DDRS-AFS  | 9                      | \$ 3.1         | 5                      | \$ 3.1         | 5                        | \$ 3.1         |
| CLRS-AFS  | 14                     | 2.4            | 9                      | 0.8            | 13                       | 2.3            |
| CLRS-FE   | 1                      | 31.6           | 1                      | 31.6           | 1                        | 31.6           |
| <b>Total</b>  | <b>24</b>              | <b>\$ 37.1</b> | <b>15</b>              | <b>\$ 35.5</b> | <b>19</b>                | <b>\$ 37.0</b> |

Thus, DFAS Indianapolis did not have an effective audit trail that would allow an external reviewer to clearly understand the reason for the JV adjustment, determine the source transactions, and conclude whether the JV adjustment is proper and accurate.

## Compliance with JV Adjustments Requirements

DFAS Indianapolis did not follow the requirements of the DoD FMR, volume 6A, chapter 2; OUSD(C)/CFO 3rd Quarter Guidance; and DFAS Indianapolis SOP 1114. Specifically, DFAS Indianapolis did not follow established policies and procedures to ensure that JV adjustments were properly prepared, justified, supported, and traceable.

**DoD Financial Management Regulation.** DFAS Indianapolis did not follow the requirements of the DoD FMR, volume 6A, chapter 2, in selecting the appropriate categories for the JV adjustments. DFAS Indianapolis did not follow the requirements of the DoD FMR because OUSD(C)/CFO 3rd Quarter Guidance did not provide accurate information regarding the selection of the appropriate categories. OUSD(C)/CFO 3rd Quarter Guidance requires DoD reporting entities to select the appropriate category based on categories listed in DDRS. DDRS is a system used primarily for financial reporting, not guidance; DoD reporting

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entities should not select categories based on information presented in DDRS. Thus, DFAS Indianapolis should follow the requirements described in DoD FMR, volume 6A, chapter 2, for selecting JV categories.

DFAS Indianapolis did not include detailed explanations to support the purpose of the JV as required by DoD FMR, volume 6A, chapter 2. DFAS Indianapolis did not follow the requirements of the DoD FMR, volume 6A, chapter 2, because it misinterpreted the use of the supported or unsupported statement required by OUSD(C)/CFO 3rd Quarter Guidance. OUSD(C)/CFO 3rd Quarter Guidance requires all JV adjustments to state whether the JV is supported or unsupported in the description field. The guidance states that OUSD(C)/CFO uses this information to report its material weaknesses for all DoD reporting entities. DFAS Indianapolis personnel stated that they felt they were disclosing their inability to identify specific causes of the error creating the need for the JV when they labeled the JV adjustment “unsupported.”

**OUSD(C)/CFO Quarterly Guidance.** DFAS Indianapolis personnel did not include the appropriate supported/unsupported statement in the description field as required by OUSD(C)/CFO 3rd Quarter Guidance. OUSD(C)/CFO 3rd Quarter Guidance states that the last sentence within the description field of all JVs will state whether the JV adjustment is supported or unsupported. DFAS Indianapolis stated that the supported or unsupported statement in the description field was a new requirement. The JV adjustments reviewed during the audit were for the period ending June 30, 2005, thereby leaving little time for DFAS Indianapolis to implement the guidance into its operating procedures.

**DFAS Indianapolis SOP 1114.** DFAS Indianapolis did not ensure that the JV adjustments were properly prepared, justified, supported, and traceable. DFAS Indianapolis SOP 1114 states that the JV approvers must ensure that the peer reviewers and preparers of JV adjustments appropriately carried out their responsibilities in the JV adjustment approval process. JV approvers did not conduct adequate reviews of the JV adjustment to ensure that the preparation of the JV adjustments complied with the requirements of DFAS SOP 1114. In addition, DFAS Indianapolis did not provide detailed procedures in its SOP 1114 to ensure that the JV approvers complied with the SOP. DFAS Indianapolis agreed that an effective audit trail did not exist and that perhaps they work too closely to the data to determine objectively the amount of documentation needed to support each JV.

## Conclusion

In the absence of ensuring compliance with relevant criteria, DFAS Indianapolis cannot provide a reasonable assurance that JV adjustments result in an accurate representation of the AGF FBWT account. DFAS Indianapolis uses JV adjustments during the preparation of the financial statements to adjust errors identified during the financial reports review process, to record those accounting entries resulting from system limitations or timing differences, and for month-/year-end closing purposes. DFAS Indianapolis needs to improve its internal controls to ensure that the JV adjustments record and report accurate and reliable information for the AGF financial statements.



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## Corrective Actions Taken

As a result of our audit, DFAS Indianapolis consolidated its branch-level standard operating procedures for JVs and issued departmental accounting standard operating procedures for JVs. The procedures, if implemented, will ensure that adequate controls exist for preparing JVs. The procedures, dated March 2006:

- briefly describe each of the ten categories and identify the documentation necessary to support each category;
- require that JVs include an explanation of why the adjustment was required, what caused the error, and what the effects would be if not adjusted;
- require that the explanation entered on the JV be sufficient to withstand audit scrutiny by someone who is not intimately familiar with current business processes or systems;
- require that supporting documents clearly indicate how the amounts are computed;
- require that any JV affecting Treasury Balances be coordinated with and reviewed by a supervisor of the Treasury Support Branch;
- require the completion of the JV approval checklist to ensure that the JV meets the requirements of internal control procedures and the DoD FMR 7000.14-R; and
- require that approving officials provide an explanation to the JV preparer for why the JV was rejected, information required to obtain approval, and applicable authoritative guidance.

Although this departmental SOP is a positive step, the SOP needs to include information addressing the requirements of the OUSD(C)/CFO quarterly guidance. In addition, DFAS Indianapolis needs to amend SOP 1114 to ensure that its procedures are in accordance with the departmental SOP procedures.

## Management Comments on Finding and Audit Response

**DFAS Indianapolis Comments.** The Director, DFAS Indianapolis did not agree with the finding. Specifically, the Director, DFAS Indianapolis disagreed that DFAS Indianapolis did not provide detailed explanations on 21 JVs with an absolute value of \$34.9 billion or documentation on 24 JVs with an absolute value of \$37.1 billion. The Director, DFAS Indianapolis stated, “While some journal vouchers were not adequately addressed and have since been corrected, the numbers provided by the audits appear to be overstating and sensationalizing the issue.” The Director, DFAS Indianapolis also stated that their inability to identify the exact causes of the differences is a separate issue.

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**Audit Response.** We do not agree with the Director, DFAS Indianapolis that the numbers presented in this report are overstating or sensationalizing the issue. The identification of the exact causes of errors justifies the correcting entries on the subsequent JVs. Without researching and identifying the exact causes there is no assurance that the subsequent JVs correct the perceived errors or exacerbate them.

Although not required to comment, the Deputy Chief Financial Officer of OUSD(C) provided the following comments on the finding. For the full text of the OUSD(C) comments, see the Management Comments section of the report.

**OUSD(C) Comments.** The Deputy Chief Financial Officer of the OUSD(C) stated that DDRS-AFS and the DoD FMR used the same categories for JVs but used different identifiers for those JV categories. The Deputy Chief Financial Officer of OUSD(C) explained that the JV category identifiers in the DoD FMR were being modified to agree with those in the DDRS-AFS. The Deputy Chief Financial Officer of the OUSD(C) was considering revising the DDRS-AFS to require users to determine if the JV was supported or unsupported before the JV could be saved in DDRS-AFS.

**Audit Response.** The comments by the Deputy Chief Financial Officer of the OUSD(C) were useful in that they concurred with the recommendation made to DFAS Indianapolis and noted that they were revising current guidance to alleviate the problem.

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

**A. We recommend that the Director, Defense Finance and Accounting Service Indianapolis improve the JV adjustment process by establishing policies to ensure compliance with all applicable updated guidance, for example, OUSD quarterly guidance.**

**Management Comments.** The Director, DFAS Indianapolis did not concur with the recommendation. However the Director, DFAS Indianapolis agreed to implement the substance of the recommendation.

**Audit Response.** Because the Director, DFAS Indianapolis agreed to implement the substance of the recommendation, no further comments are required.

**OUSD(C) Comments.** Although not required to comment, the Deputy Chief Financial Officer of OUSD(C) agreed with our recommendation requiring Defense Finance and Accounting Service to establish policies in compliance with OUSD(C) guidance.

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## B. Coordination and Oversight Requirements

DFAS Indianapolis did not provide adequate coordination and oversight of the Army General Fund, Fund Balance With Treasury JV adjustment process. Specifically, DFAS Indianapolis did not:

- properly coordinate JVs of \$1 billion with the appropriate officials before processing,
- conduct JV reviews to ensure that the approval thresholds were met,
- review a sample of JV adjustments of less than \$500 million to determine whether supporting documentation was present and adequate, and
- perform an assessment of the controls over the JV process and procedures as required by the DoD FMR, volume 6A, chapter 2.

Inadequate coordination and oversight occurred because DFAS Indianapolis did not follow established policies and procedures identified in the DoD FMR, volume 6A, chapter 2. Additionally, DFAS Indianapolis personnel did not understand that the assessment of the organization's JV adjustments was mandatory. As a result, the oversight authority may be unaware of certain JV adjustments that require attention, and JVs may not receive the proper oversight required to minimize risks associated with the JV adjustments.

### Criteria for Coordination and Oversight of JV Adjustments

DoD FMR, volume 6A, chapter 2, includes five<sup>2</sup> oversight requirements that relate to customer and auditor coordination, Director of Accounting review, and internal review of JV adjustments. DoD FMR, volume 6A, chapter 2, requires all JVs of more than \$1 billion to be approved by the Director of the reporting entity and coordinated with the customer and auditors before processing the proposed adjustment.

DoD FMR, volume 6A, chapter 2, also states that adequate managerial internal controls are required to be maintained at each level of management to ensure

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<sup>2</sup> The DoD FMR, volume 6A, chapter 2, oversight requirement for the review of reversing JV adjustments did not apply to our review because the JV adjustments that we reviewed did not include any reversing JV adjustments.

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proper oversight of JV preparation. As a minimum, such managerial internal controls should include the following actions. DoD FMR, volume 6A, chapter 2, states:

- Within no more than 10 work days after financial reports are prepared, the entity's Director for Accounting (or the equivalent) shall review all journal vouchers to determine if approval thresholds were met, and if not, obtain such approvals.
- Within no more than 10 work days after financial statements are prepared, the entity's Director for Accounting (or the equivalent) shall review a selected sample of journal vouchers under \$500 million to determine if supporting documentation is present and adequate. If adequate supporting documentation is not present, the journal voucher shall be returned to the preparer with a request that adequate documentation be provided.
- Within no more than 10 work days after financial statements are prepared, the entity's Director for Accounting (or the equivalent) shall review a selected sample of reversing journal voucher entries under \$500 million to determine if they are correctly prepared, documented, reviewed, processed, and approved. If not, the Director for Accounting shall take appropriate actions to ensure that not only reversing journal voucher entries, but all journal vouchers entries, are properly processed in the future.

In addition, the DoD FMR, volume 6A, chapter 2, requires the entity's internal review office to include an assessment of its organization's JV processing procedures in its annual internal control procedures (Statement of Assurance).

## **Coordination and Oversight of JV Adjustments**

DFAS Indianapolis did not provide adequate coordination and oversight over the JV adjustment process. DFAS Indianapolis did not properly coordinate JVs of more than \$1 billion with the appropriate official before processing, conduct JV reviews to ensure that the approval thresholds were satisfied, review a sample of JV adjustments of less than \$500 million to determine whether support documentation was present and adequate, and perform an assessment of the controls over of the JV process and procedures as required by DoD FMR volume 6A, chapter 2. See Appendix D for a list of the issues with JV adjustments.

**Coordination Requirements.** DoD FMR, volume 6A, chapter 2, requires that all JVs of more than \$1 billion be coordinated with the customer and auditors before processing the JV. DFAS Indianapolis did coordinate with the Assistant Secretary of the Army (Financial Management and Comptroller) and DoD Office

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of the Inspector General after the JV adjustments were processed. DFAS Indianapolis stated that due to time constraints, it was unable to coordinate with the appropriate official before the JV adjustment. Without proper coordination, the appropriate officials may not be aware of adjustment amounts, which may have a significant impact on the AGF FBWT account.

**Approval Threshold Review Requirements.** The DoD FMR, volume 6A, chapter 2, requires review of all JV adjustments to determine whether appropriate approval was obtained based on approval thresholds. The Director of Accounting, DFAS Indianapolis did not conduct or designate any reviews to determine whether the appropriate approval was obtained. Without a review by the Director of Accounting, DFAS Indianapolis cannot provide reasonable assurance that the thresholds are met.

**Supporting Documentation Review Requirements.** The DoD FMR, volume 6A, chapter 2, requires that a review be conducted for a selected sample of JVs of less than \$500 million to determine whether supporting documentation is present and adequate. The Director of Accounting, DFAS Indianapolis did not conduct or designate any reviews for the 18 of the 24 JV adjustments to determine whether supporting documentation was present and adequate. As a result, DFAS Indianapolis cannot ensure that the JV adjustments of less than \$500 million are properly supported.

**Assessment of JV Adjustments.** The DoD FMR, volume 6A, chapter 2, states that the entity internal review office should include an assessment of its JV processing procedures in its annual internal control procedures (Statement of Assurance). DFAS Indianapolis implemented an internal accounting and administrative control system that performs monthly, quarterly, and ongoing evaluations on its assessable units. However, DFAS Indianapolis did not conduct a self-assessment that identified and evaluated risks associated with the JV adjustment process. As a result, DFAS Indianapolis is unable to provide reasonable assurance regarding the adequacy of internal controls and reliability of the AGF FBWT account.

## **Rationale for Noncompliance with the DoD FMR**

DFAS Indianapolis did not follow established policies and procedures identified in DoD FMR, volume 6A, chapter 2, for coordination, JV review, and oversight. DFAS Indianapolis personnel stated that the coordination and oversight were not completed because the current timeframes associated with the financial statement preparation do not allow for the multiple reviews required by DoD FMR, volume 6A, chapter 2. DFAS Indianapolis personnel also stated that the coordination requirement was not practical under our current business practices. Additionally, DFAS Indianapolis personnel stated they thought that an assessment by the DFAS Indianapolis Internal Review Office was a decision made by management. Because there was no initiation of the review from management, the internal review personnel did not think that an assessment of the JV preparation and approval process was their responsibility.

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## Conclusion

Oversight authority may be unaware of certain JV adjustments; therefore, JVs may not receive the oversight required to minimize risk associated with the adjustment made to FBWT account. To reduce the risk, DFAS Indianapolis must make improvements to its internal control procedures to ensure that it conducts reviews and assessments and coordinates adjustments of more than \$1 billion with the required oversight authority.

## Corrective Actions Taken by the DFAS Indianapolis

Before the completion of our audit, DFAS Indianapolis addressed some of the issues presented in this report through new policies and procedures. The Departmental SOP establishes guidance for providing oversight of the JV adjustment process. For example, it requires the Director for Accounting Operation to:

- review all JVs to determine whether proper approvals were obtained based on approval thresholds and if not, obtain proper approvals;
- review a selected sample of JVs of less than \$500 million to determine whether supporting documentation is present and adequate; and
- review a selected sample of reversing JV entries of less than \$500 million to determine whether they were correctly prepared, documented, reviewed, processed, and approved.

The Departmental SOP does not adequately address the proper coordination of JVs more than \$1 billion.

## Recommendations

**B. We recommend that the Director of the Defense Finance and Accounting Service Indianapolis implement procedures to ensure that the coordination requirements outlined in the Financial Management Regulation, volume 6A, chapter 2, “Financial Reports Roles and Responsibilities,” March 2002 are accomplished.**

**Management Comments.** The Director, DFAS Indianapolis concurred with the recommendation stating that all journal vouchers will be coordinated with the DoD Office of the Inspector General and customer prior to completing the final draft of the financial statements.

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## Appendix A. Scope and Methodology

We reviewed procedures and analyzed the 24 JV adjustments made by DFAS Indianapolis to the AGF FBWT account for the period ending June 30, 2005. Specifically, we reviewed whether DFAS Indianapolis provided adequate controls over the JV adjustments process and effective oversight to ensure that the JV adjustments corrected the errors made to the AGF FBWT account. The 24 JV adjustments reviewed were generated from the DDRS-AFS, CLRS-AFS, and CLRS-FE. We also reviewed the management control program as it related to the overall objective.

We performed this audit from July 2005 through August 2006 in accordance with generally accepted government auditing standards. We interviewed and made inquiries of DFAS Indianapolis personnel as a part of our review.

**Use of Computer-Processed Data.** We relied on computer-processed data from CLRS-FE, CLRS-AFS, and DDRS-AFS. For all three systems, we relied on the JV adjustments to the AGF FBWT account for the period ending June 30, 2005, and the supporting documentation to determine whether each JV adjustment was adequately supported. In addition, for CLRS-AFS, we relied on the AGF FBWT trial balance for the period ending June 30, 2005, to determine the universe of JV adjustments entered into CLRS-AFS for the period ending June 30, 2005. Also, for DDRS-AFS, we relied on the June 30, 2005, AGF Balance Sheet and AGF Note 3, "Fund Balance With Treasury," and the June 30, 2005, DoD Agency-Wide Balance Sheet and DoD Agency-Wide Note 3, "Fund Balance With Treasury" to calculate various ratios involving the FBWT account.

We did not perform a formal reliability assessment of computer-processed financial data. We did not test the computer-processed data for reliability because we used it only for background information and to determine whether DFAS Indianapolis could adequately support the JV adjustments. We were not determining the accuracy of the data. We determined the existence of the data. 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 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 Army Audit Agency (AAA), the Naval Audit Service (NAS), the Air Force Audit Agency (AFAA), and the DFAS Internal Review (DFAS IR) have issued 19 reports that discuss Army General Fund, Fund Balance With Treasury account issues. Unrestricted reports can be accessed over the Internet at <http://www.gao.gov> (GAO), <http://www.dodig.mil/audit/reports> (DoD IG), <https://www.aaa.army.mil/reports.htm> (AAA), <http://www.hq.navy.mil/NavalAudit/> (NAS), and <https://www.afaa.hq.af.mil/afck/plansreports/reports.shtml> (AFAA).

### 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

GAO Report No. GAO-04-910R, “Financial Management: Further Actions Are Needed to Establish Framework to Guide Audit Opinion and Business Management Improvement Efforts at DoD,” September 20, 2004

GAO Report No. GAO-02-747, “Canceled DoD Appropriations: Improvements Made but More Corrective Actions Are Needed,” July 31, 2002

### 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-2005-087, “Departmental Expenditure Reporting at DFAS Indianapolis,” June 27, 2005

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

DoD IG Report No. D-2004-106, “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



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## **Army**

AAA Report No. A-2005-0216-ALW, "Followup of Audit Report AA 00-399 Compilation of Selected Army Working Capital Fund FY 99 Financial Statements," July 1, 2005

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

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

AAA Memorandum A-2002-0348-FFC, "Audit of the U.S. Army Corps of Engineers FY 01 Financial Statements, Civil Works," August 23, 2002)

AAA Report No. A-2002-0365-AMW, "Compilation of Army Working Capital Fund FY 01 1307 Accounting Report," May 13, 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," 21, June 2005

## **DFAS IR**

Report No. KC03PAA048DFAS, "Fund Balance With Treasury-Material Weaknesses and Audit Obstacles," April 29, 2005

Report No. KC03PAA004DFAS, "Review of the Journal Voucher Process," August 26, 2003

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## Appendix C. Office of Management and Budget Circular No. A-123

OMB recently revised OMB Circular A-123, “Management Accountability and Control,” June 21, 1995. The revised 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 measures that are systematic and proactive 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 and 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 are comply with laws and regulations (compliance);
  - all assets have been safeguarded against fraud and abuse; and
  - 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.

The definition of a control deficiency, reportable condition, and material weakness in OMB Circular A-123 relative to financial reporting is 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

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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 transactions are in compliance with applicable laws and regulations (compliance); and
- documentation for internal control, all transactions, and other significant events is readily available for examination.

DFAS Indianapolis internal controls over the JV process were not adequate to ensure that JVs were accurately processed. Additionally, DFAS Indianapolis internal controls did not provide adequate coordination and oversight of the Army General Fund, Fund Balance With Treasury JV adjustment process.

## Appendix D. Issues Identified with JV Adjustments

The following table provides in detail the issues identified with the JV adjustments described in finding A and finding B for each JV reviewed. Each “X” indicates where a deficiency was identified.

| JV Control<br>or Reference<br>Number | Inappropriate<br>Category | Insufficient<br>Purpose<br>Explanation | Missing<br>Support/Unsupport<br>Statement | Insufficient<br>Support<br>Documentation | Coordination of<br>\$1 Billion JVs | No Approval<br>Threshold<br>Review | No Supporting<br>Documentation<br>Review |
|--------------------------------------|---------------------------|--|---|--|------------------------------------|------------------------------------|--|
| 33012                                |                           | X                                      |   | X  |                                    | X                                  | X  |
| 33013                                |                           | X                                      |   | X  |                                    | X                                  | X  |
| 33147                                | X                         |  | X   | X  | X                                  | X                                  |  |
| 33226                                |                           | X                                      |   | X  |                                    | X                                  | X  |
| 33359                                | X                         | X                                      | X   | X  |                                    | X                                  |  |
| 33541                                |                           |  |   | X  |                                    | X                                  | X  |
| 33724                                |                           |  |   | X  |                                    | X                                  | X  |
| 33820                                |                           | X                                      | X   | X  |                                    | X                                  | X  |
| 33821                                |                           | X                                      | X   | X  |                                    | X                                  | X  |
| 3053000ZZZ (1096)                    |                           | X                                      |   | X  | X                                  | X                                  |  |
| 3053000ZZZ (2089)                    |                           | X                                      |   | X  |                                    | X                                  | X  |
| 3053000ZZZ (2090)                    |                           | X                                      |   | X  |                                    | X                                  | X  |
| 3053000ZZZ (5095)                    |                           | X                                      |   | X  |                                    | X                                  | X  |
| 3053000ZZZ (5098)                    |                           | X                                      |   | X  |                                    | X                                  | X  |
| 3053000ZZZ (5194)                    |                           | X                                      |   | X  |                                    | X                                  | X  |
| 3053000ZZZ (5285)                    |                           | X                                      |   | X  |                                    | X                                  | X  |
| 3053000ZZZ (5286)                    |                           | X                                      |   | X  |                                    | X                                  | X  |
| 3053000ZZZ (8063)                    |                           | X                                      |   | X  |                                    | X                                  | X  |
| 3053000ZZZ (8927)                    |                           | X                                      |   | X  |                                    | X                                  | X  |
| 3053026RJT (2089)                    | X                         | X                                      |   | X  |                                    | X                                  | X  |
| DEPOS305PK                           | X                         | X                                      |   | X  |                                    | X                                  | X  |
| MAF305NJM                            |                           | X                                      |   | X  | X                                  | X                                  |  |
| SUSP305SDP                           | X                         | X                                      | X   | X  | X                                  | X                                  |  |
| 0653003HSC                           |                           | X                                      | X   | X  | X                                  | X                                  |  |
| <b>Total</b>                         | <b>5</b>                  | <b>21</b>                              | <b>6</b>                                  | <b>24</b>                                | <b>5</b>                           | <b>24</b>                          | <b>18</b>                                |

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## **Appendix E. Report Distribution**

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

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

### **Department of the Army**

Assistant Secretary of the Army (Financial Management and Comptroller)  
Auditor General, Department of the Army

### **Other Defense Organizations**

Director, Defense Finance and Accounting Service  
Director, Defense Financial and Accounting Service, Indianapolis

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

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Oversight and Government Reform  
House Subcommittee on Government Management, Organization, and Procurement,  
Committee on Oversight and Government Reform  
House Subcommittee on National Security and Foreign Affairs, Committee on Oversight  
and Government Reform  
House Subcommittee on Information Policy, Census, and National Archives, Committee  
on Oversight and Government Reform

# Office of the Under Secretary of Defense Comments



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100

NOV 30 2006

MEMORANDUM FOR PROGRAM DIRECTOR, FINANCIAL RESOURCES  
DIVISION, OFFICE OF INSPECTOR GENERAL,  
DEPARTMENT OF DEFENSE

SUBJECT: Draft Report Entitled "Controls over the Army General Fund, Fund Balance  
With Treasury Journal Voucher Adjustments"  
(Project No. D2005-D000FP-0248.002)

This memorandum is in response to the subject report dated November 3, 2006,  
provided to this office for review and comment.

No recommendations were addressed to the Office of Under Secretary of Defense  
(Comptroller) (OUSD(C)) in the audit report. We concur with the recommendations  
addressed to the Defense Accounting and Finance Service requiring them to establish  
policies in compliance with OUSD(C) guidance. However, we have two comments  
relating to journal voucher categories and the designation of supported and unsupported  
journal vouchers, which are found in the attachment.

My point of contact for this matter is Ms. Maryla Engelking. She may be reached  
by e-mail at [maryla.engelking@osd.mil](mailto:maryla.engelking@osd.mil) or by telephone at (703) 697-3192.

A handwritten signature in black ink, appearing to read "Robert McNamara", is positioned above the printed name.

Robert McNamara  
Acting Deputy Chief Financial Officer

Attachment:  
As stated

**DoD OIG DRAFT REPORT DATED NOVEMBER 3, 2006**  
**DoD OIG D2005-D000FP-0248.002**

**REPORT ON THE CONTROLS OVER THE ARMY GENERAL FUND, FUND  
BALANCE WITH TREASURY JOURNAL VOUCHER ADJUSTMENTS**

**COMPLIANCE WITH JV ADJUSTMENT REQUIREMENTS (PAGE 9-10)**

**A. DoD Financial Management Regulation.** The Department of Defense (DoD) Office of Inspector General (OIG) states that DoD reporting entities should not select journal voucher categories based on information presented in the Defense Departmental Reporting System – Audited Financial Statements (DDRS-AFS) as directed in quarterly guidance. Reporting entities are directed to use the categories presented in DoD Financial Management Regulations (FMR) Volume 6A, Chapter 2.

**DoD COMMENT:** Journal voucher categories are the same within both DDRS-AFS and Volume 6A, Chapter 2. Only the identifier is different. For example, "Identified Errors and Reasonableness Checks" is Item H in DDRS-AFS and Item A in Volume 6A, Chapter 2. The FMR chapter is currently being rewritten to adjust the identifiers to match those in DDRS-AFS.

**COMPLIANCE WITH JV ADJUSTMENT REQUIREMENTS (PAGE 9-10)**

**B. OUSD(C)/CFO Quarterly Guidance.** The OIG stated that the Defense Finance and Accounting Service (DFAS) Indianapolis did not include the appropriate supported/unsupported statement in the journal voucher description as required by quarterly guidance.

**DoD COMMENT:** The DDRS-AFS has been updated to include a radio button that should be chosen when the journal voucher is deemed to be unsupported. Currently, the journal voucher is defaulted to be supported unless the radio button is used. We are currently investigating the possibility of adding a second radio button to be used when a journal voucher is deemed supported. Reporting entities will then be required to choose one of the radio buttons before the journal voucher can be saved within DDRS-AFS.

Attachment  
Page 1 of 1



# Defense Finance and Accounting Service Comments



DFAS-JBI/IN

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

DEC 15 2006

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Report on the Controls over the Army General Fund, Fund Balance with Treasury  
Journal Voucher Adjustments (Project No. D2005-D000FP-0248.002)

**Recommendation A:** We recommend that the Director, Defense Finance and Accounting Service Indianapolis improve the JV adjustment process by establishing policies to ensure compliance with all applicable updated guidance, for example, OUSD quarterly guidance.

**Current Management Comment:** Stakeholder: Brook Avey, 317-510-7132. Non-concur with comment. We agree that the JV adjustment process should be in compliance with all applicable OUSD guidance. However, we do not agree with all of the findings as discussed in this audit report. Based on memorandums documenting the specific issues with each journal voucher and corresponding conversations with the auditors on what they deem is required, we do not agree that we did not provide detailed explanations on 21 JVs with an absolute value of \$34.9 billion or documentation on 24 JVs with an absolute value of \$37.1 billion. While there were some journal vouchers that were not adequately addressed and have since been corrected, the numbers provided by the auditors appear to be overstating and sensationalizing the issue. Currently, DFAS has reported a material weakness as we are unable to reconcile the differences between the budgetary and proprietary balances for Army General Fund. The exact cause of these differences has not been fully identified, therefore these journal vouchers are deemed unsupported. However, in the explanation of these journal vouchers we clearly articulate this situation and the general causes of the situation. The documentation clearly identifies the audit trail of how adjustments are calculated. In our opinion, the fact that we cannot identify the exact causes of the differences is a separate issue and documented by the reported material weakness. We have received confirmation from the DoDIG that for the assertion on the FBWT we can use alternative audit procedures to compensate for the material weakness and obtain an opinion on the accuracy of the figure reported on the FBWT line item. Although, the current plan is to correct the majority of the material weakness by 2nd Quarter, FY 2007.

DFAS will update the various SOPs and assertion packages as indicated by the DoDIG to ensure that our internal operating procedures agree with OUSD(C)/CFO guidance. However, our interpretation of what is inadequate explanations and documentation is different than what is indicated in the above audit report.

**Estimated Completion Date:** July 1, 2007

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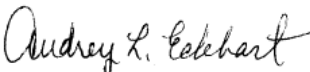
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**Recommendation B:** We recommend that the Director of the Defense Finance and Accounting Service Indianapolis implement procedures to ensure that the coordination requirements outlined in the Financial Management Regulation, volume 6A, chapter 2, "Financial Reports Roles and Responsibilities," March 2002 are accomplished.

**Current Management Comment:** Stakeholder: Brook Avey, 317-510-7132. Concur. We agree to ensure that all journal vouchers be coordinated with the DoDIG and customer prior to completing the final draft of the financial statements. DFAS has always coordinated all JVs above \$150 million with the DoDIG for the 2nd, 3rd, and 4th quarters of each fiscal year and will continue this process. In addition, DFAS has developed and implemented a plan beginning 2nd Quarter, FY 2006 that the DoDIG agrees was fulfilling the policies and procedures to coordinate all JVs above \$1 billion with the customer, Army Financial Management Office.

**Estimated Completion Date:** Completed

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

  
for Steve R. Bonta  
Director, Indianapolis Operations

## **Team Members**

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# Inspector General Department of Defense