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Controls Over Military Personnel, Army
Appropriation Permanent Change of Station
Travel Advances and Suspense Accounts

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Acronyms

DFAS	Defense Finance and Accounting Service
DFAS-IN	Defense Finance and Accounting Service Indianapolis
EOR	Element of Resource
FMR	Financial Management Regulation
MPA	Military Personnel, Army
MPAD	Military Pay Accounting Division
ODS	Operational Data Store
PCS	Permanent Change of Station
STANFINS	Standard Finance System



INSPECTOR GENERAL
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400 ARMY NAVY DRIVE
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May 16, 2007

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE INDIANAPOLIS OPERATIONS

SUBJECT: Report on Controls Over Military Personnel, Army Appropriation Permanent
Change of Station Travel Advances and Suspense Accounts
(Report No. D-2007-097)

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

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Defense Finance and Accounting Service comments on Recommendation A.1. were partially responsive. We request that the Director, Defense Finance and Accounting Service Indianapolis Operations provide additional comments by June 16, 2007.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to 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. Carmelo G. Ventimiglia at (317) 510-4801, ext. 275 (DSN 699-4801) or Mr. Robert J. Ringwald at (317) 510-4801, ext. 272 (DSN 699-4801). See Appendix D for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

A handwritten signature in black ink, appearing to read "Paul J. Granetto", written over a horizontal line.

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

Department of Defense Office of Inspector General

Report No. D-2007-097

May 16, 2007

(Project No. D2005-D000FI-0268.001)

Controls Over Military Personnel, Army Appropriation Permanent Change of Station Travel Advances and Suspense Accounts

Executive Summary

Who Should Read This Report and Why? Army management and Defense Finance and Accounting Service (DFAS) officials who are responsible for the accounting and reporting of the Military Personnel, Army (MPA) appropriation should read this report. This report discusses control weaknesses over the accounting for travel advances paid from the MPA appropriation for permanent change of station moves and MPA appropriation suspense accounts.

Background. This is the second of two audit reports evaluating the processes and controls over managing and accounting for the MPA appropriation. Specifically, this report addresses the effectiveness of controls over accounting for permanent change of station travel advances and suspense accounts. The MPA appropriation is a centrally managed, single-year appropriation that funds soldiers' pay and allowances and other related personnel costs, including permanent change of station travel advances. Thirty-two DFAS and Army travel pay offices processed travel advances and travel claims. For FY 2006, direct obligation authority for permanent change of station moves totaled \$1.4 billion. The Military Pay Accounting Division at DFAS Indianapolis is responsible for the accounting and reporting of the MPA appropriation. As of June 30, 2006, the division reported 16 non-tax suspense accounts, with balances totaling about \$212.2 million.

Results. DFAS Indianapolis did not maintain adequate controls over researching and collecting permanent change of station travel advances paid from the MPA appropriation. As a result, DFAS Indianapolis did not collect approximately \$3 million owed by Army soldiers for permanent change of station travel advances made in FYs 2001 through 2004. In addition, the Army will likely incur significant additional write-offs¹ of travel advances paid from the MPA appropriation. DFAS Indianapolis should work with the Office of the Assistant Secretary of the Army (Financial Management and Comptroller) to develop a cost-effective strategy for researching and collecting FYs 2002 and 2003 travel advances. DFAS Indianapolis should also assign responsibility for collecting the permanent change of station travel debts to a specific organization and establish procedures to track and monitor the cost-effectiveness of researching and collecting the FYs 2002 and 2003 unsettled travel advances. In addition, DFAS Indianapolis should provide the Military Pay Accounting Division with the resources required to promptly

¹ A write-off is a removal or clearance of differences from DoD accounting records. A write-off is not necessarily a loss of funds resulting from an overpayment or an erroneous payment. Uncleared transactions in the MPA appropriation travel advance accounts are often the result of accounting errors.

research, reconcile, and clear all unsettled advances in the FYs 2004 through 2006 permanent change of station travel advance accounts, and the Military Pay Accounting Division should develop a management report to provide increased visibility and oversight over the travel debt collection process. Further, DFAS Indianapolis should analyze the results of researching and clearing the travel advance accounts and collecting travel debts to identify the root causes for uncleared travel advance transactions and erroneous data (finding A). Finally, DFAS Indianapolis needs to collect the \$3 million owed by Army soldiers. (See Appendix C for a summary of the potential monetary benefits.)

The Military Pay Accounting Division did not maintain effective controls over reconciling, clearing, and reporting the MPA appropriation suspense accounts. Unresolved transactions in suspense accounts can conceal problem disbursements and erroneous payments. The Military Pay Accounting Division should reconcile differences between reported summary suspense account balances; train personnel on procedures for reconciling account balances; establish procedures for researching and clearing suspended transactions; and update procedures for preparing the monthly Suspense Account Report. The Military Pay Accounting Division should also update the Plan of Actions and Milestones for improving control over MPA appropriation suspense accounts, and DFAS Indianapolis should dedicate adequate staff to ensure that accounts are properly maintained (finding B). See the Findings section for more detailed recommendations.

Management Comments and Audit Response. The Director, DFAS Indianapolis Operations concurred with all of the recommendations. The Director stated that DFAS has been working with the Army for the last two years on a cost-effective strategy for researching and collecting FYs 2002 and 2003 travel advances. The Director also stated that DFAS does not believe that further research will be cost-beneficial to the Army. The Director's comments are only partially responsive. The Director did not indicate that DFAS prepared a documented cost-benefit analysis to support that it would not be cost-effective to research and collect outstanding permanent change of station travel advances. Once such analysis is prepared, DFAS needs to coordinate the strategy with the Army and minimize the write-offs of travel advances paid from the FYs 2002 and 2003 MPA appropriations.

The Director, DFAS Indianapolis Operations agreed to assign responsibilities for collecting verified travel debts and to establish procedures to track and monitor the cost-effectiveness of researching and collecting FYs 2002 and 2003 unsettled travel advances. The Director stated that DFAS has not yet been able to validate any debts to collect, but that DFAS will continue to research and determine the validity of any debts. He also stated that the Military Pay Accounting Division received authorizations for additional resources, and the division will develop a monthly management report and standard procedures to analyze and track root causes related to uncleared travel advances. The Military Pay Accounting Division will also improve controls over reconciling, clearing, and reporting the MPA suspense accounts.

We request that the Director, DFAS Indianapolis Operations provide additional comments on the final report by June 16, 2007. See the Findings section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

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Background

The Military Personnel, Army (MPA) appropriation is a centrally managed, single-year appropriation that funds soldiers' pay and allowances and other related personnel costs, including permanent change of station (PCS) travel advances. For FY 2006, direct obligation authority for the MPA appropriation totaled \$40.8 billion. The Military Pay Accounting Division (MPAD), located at Defense Finance and Accounting Service Indianapolis (DFAS-IN), is responsible for the accounting and financial reporting of the MPA appropriation.

DoD military personnel are authorized to receive an advance payment for travel and lodging costs associated with a PCS move. For FY 2006, total direct obligation authority for Army PCS moves totaled \$1.4 billion. Thirty-two DFAS and Army travel pay offices processed PCS advances and travel claims:

- DFAS-IN Travel Pay Operations²
- 17 non-consolidated Defense Military Pay Offices
- 14 Army Finance Battalions

MPAD is responsible for monitoring, researching, and clearing travel advance transactions recorded in the accounting records, and collecting travel debts when an account receivable is recorded for the balance of an outstanding travel advance.

Suspense accounts are used to temporarily hold disbursements and collections until they are cleared to the proper appropriation account. DoD Financial Management Regulation (FMR), volume 12, chapter 1, "Funds," March 2006, identifies two types of accounts that DoD Components can use to temporarily hold collections and disbursements:

- Clearing accounts are used to temporarily hold collections or unidentified disbursements pending clearance to the proper receipt or expenditure account. DoD Components use clearing accounts to hold collections and disbursements that belong to the U.S. Government. Clearing accounts are reported as liabilities on the General Ledger Trial Balance.
- Deposit fund accounts are used to account for collections and withholdings held temporarily and later refunded or paid upon legal or administrative determination. Deposit fund accounts are liabilities of the U.S. Government.

² Travel Pay Operations, located at DFAS-IN, processed travel advances and travel claim vouchers on behalf of 27 Defense Military Pay Offices located at numerous Army installations. We examined the procedures for processing PCS advances and travel claims at DFAS-IN Travel Pay Operations.

On the June 30, 2006 Suspense Account Report, MPAD reported 16 non-tax suspense accounts with a total balance of about \$212.2 million.

Objective

Our overall audit objective was to evaluate whether processes and controls were in place to ensure accurate and timely recording of the Army's military pay and benefits cost data. Specifically, we reviewed the effectiveness of the controls over the accounting for PCS advances and suspense accounts. We also reviewed the Managers' Internal Control Program as it related to the overall objective. This is the second of two audit reports that discuss the processes and controls over managing and accounting for the MPA appropriation. DoD Inspector General Report No. D-2006-112, "Selected Controls Over the Military Personnel, Army Appropriation," September 22, 2006, discusses Army management of the MPA appropriation, and its joint responsibilities with DFAS-IN to account for and report the appropriation. See Appendix A for a discussion of the scope and methodology. See Appendix B for prior coverage related to the objective.

Review of Internal Controls

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996,³ require DoD organizations to implement a comprehensive system of management controls to provide reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Managers' Internal Control Program Review. We evaluated the adequacy of DFAS-IN's internal controls over the accounting for the MPA appropriation PCS travel advances and suspense accounts. We also assessed management's self-evaluation of those controls.

Adequacy of Management Controls. Using guidance defined by DoD Instruction 5010.40, we identified a material internal control weakness. Internal controls did not ensure that PCS travel advances recorded in the accounting records were researched and that travel debts were collected (finding A). This systemic internal control weakness resulted in DFAS-IN writing off net balances totaling \$19.9 million in travel advances when it closed the FYs 1997 through 1999 MPA appropriations. Recommendations A.1., A.3., A.4., A.5., and A.6., when implemented, will correct the material internal control weakness. Recommendation A.2., when implemented, will result in potential monetary benefits (see Appendix C). In addition, internal controls over suspense accounts were not adequate. Internal controls did not ensure that MPAD properly

³ Our review of internal controls was done under the auspices of DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996. DoD Directive 5010.38 was canceled on April 3, 2006. DoD Instruction 5010.40, "Managers' Internal Control (MIC) Program Procedures," was reissued on January 4, 2006.

reconciled, researched, and reported the MPA appropriation suspense accounts (finding B). Recommendations B.1. through B.7., when implemented, will correct the internal control weakness. A copy of this report will be provided to the senior official responsible for management controls in DFAS-IN.

Adequacy of Management's Self-Evaluation. MPAD assessable unit managers conducted self-evaluations using locally developed matrices to assess internal controls over major functions performed by the division. Managers identified PCS travel advances as a major function and reported monitoring of PCS travel advances as a non-material weakness. The Director of DFAS-IN included its monitoring of PCS travel advances as a non-material weakness in the FY 2006 Annual Statement of Assurance. MPAD assessable unit managers identified suspense accounts as a major function and concluded that adequate internal controls were in place. Although MPAD management's self-evaluation did not identify and report controls over suspense accounts as an internal control weakness, MPAD developed, but did not effectively implement, a Plan of Actions and Milestones to improve controls over reconciling and reporting suspense accounts.

A. Permanent Change of Station Travel Advances

DFAS-IN did not maintain effective controls over researching and collecting outstanding PCS travel advances paid from the MPA appropriation. This occurred because DFAS-IN did not:

- develop a cost-effective strategy to research the FYs 2000 through 2003 travel advance accounts and collect verified travel debts,
- provide the resources needed to research and clear unsettled travel advances issued after FY 2003,
- implement procedures to monitor and maintain visibility over collecting travel debts, and
- establish a process to evaluate the effectiveness of its Plan of Actions and Milestones to improve control over travel advances.

As a result, DFAS-IN did not collect about \$3 million owed by Army soldiers related to PCS travel advances made in FYs 2001 through 2004. In addition, the Army will likely incur significant additional write-offs of travel advances paid from the MPA appropriation.

Responsibility for Travel Advances

Before FY 2004, the Army managed the MPA appropriation as an open allotment. Under an open allotment, obligations, disbursements, and collections citing the MPA appropriation were charged to one nonspecific, “nominal” fiscal station number. DFAS-IN and Army travel pay offices had responsibility for making and monitoring PCS travel advances and ensuring recovery of any outstanding advances upon completion of travel by the soldier. However, under an open allotment, DFAS did not record obligations, disbursements, and collections related to PCS travel advances and travel claims in the Standard Finance System (STANFINS), the installation-level accounting system. Rather, DFAS-IN recorded and reported obligations, disbursements, and collections meeting established criteria at the summary account level in its Headquarters Accounting and Reporting System using a “nominal” fiscal station number. Although individual PCS travel transactions were recorded in the Headquarters Accounting and Reporting System, they were not identified and tracked by a standard document reference number, and no accounting office was assigned responsibility for monitoring the PCS travel advance account.

Starting in FY 2004, the MPA appropriation changed from an open allotment to a specific allotment, with accounting and financial reporting performed by MPAD at DFAS-IN. Under the specific allotment, travel pay offices remain responsible

for monitoring outstanding advances and ensuring that travelers submit a final travel settlement claim upon completion of a PCS move. Travel pay offices are also responsible for establishing an account receivable for the uncollected advance balance remaining after settlement of the final travel claim. However, under the specific allotment, MPAD is responsible for monitoring the PCS travel advances recorded in STANFINS's accounting records to ensure that travel pay offices recover all travel advances and that transactions recorded in the account are reconciled and cleared. In addition, for PCS advances issued after FY 2003, MPAD is responsible for debt collection when an account receivable is established for the balance of an unliquidated travel advance.

When it closed the MPA appropriations for FYs 1997 through 1999, DFAS-IN wrote off travel advance accounts with a net balance⁴ of \$19.9 million. As of September 30, 2004, DFAS-IN reported that the net balances of the travel advance account for FYs 2000 through 2004 totaled \$36.4 million.⁵ Table 1 contains a breakout of the \$36.4 million by fiscal year and the corresponding closing fiscal year of the appropriation.

Table 1. Net Travel Advance Account Balances (as of September 30, 2004)		
Appropriation Fiscal Year	Appropriation Closing Year	Dollars (in millions)
2000	2005	\$7.2
2001	2006	(\$1.4)
2002	2007	\$13.7
2003	2008	\$3.7
2004	2009	\$13.2

In January 2005, DFAS-IN initiated a project to research and collect outstanding PCS travel advances made in FYs 2000 through 2003. In June 2005, DFAS-IN and the Army signed a memorandum of understanding for DFAS-IN to research, reconcile, and clear travel advances recorded in the FYs 2000 through 2004 MPA and Operation and Maintenance, Army appropriation accounts. The MPA appropriation and Operation and Maintenance, Army appropriation open allotment accounts are managed by the Office of the Deputy Chief of Staff for Personnel. The Army and DFAS-IN also developed a Plan of Actions and

⁴ When net amounts are reported, collections and adjustments are netted against disbursements. When absolute amounts are reported, collections and adjustments are added to disbursements. Reporting net amounts can significantly understate the magnitude and impact of errors.

⁵ The \$36.4 million balance included \$30.8 million in the FYs 2000 through 2004 MPA appropriation accounts and \$5.6 million in the FYs 2002 through 2004 Operation and Maintenance, Army appropriation open allotment accounts. The audit focused on the PCS travel advances paid from the MPA appropriation.

Milestones to improve accountability and control over travel advances. DFAS-IN assigned the responsibility for researching and clearing travel advances recorded in the FYs 2000 through 2004 allotment accounts to the Army Managerial Accounting Division.

Criteria

Authorized Advances. The DoD FMR, volume 9, chapter 5, “Temporary Duty Travel (TDY) - Nondefense Travel System,” September 2005, authorizes travelers to receive an advance payment of generally up to 80 percent of the travel and lodging costs authorized for a PCS move. The travel pay offices processing advances are to cite the MPA appropriation and element of resource⁶ (EOR) 4120, “PCS Travel Advance.” The DoD FMR also requires that travel pay offices monitor outstanding travel advances to ensure that travelers file a travel claim within 10 working days of arrival at the permanent duty station or immediately upon cancellation of the travel orders. Travel pay offices are required to establish controls to follow up by letter if the traveler does not submit the travel claim within 15 days of completion of travel. If a claim is not received within 31 days of the follow-up letter, the travel office should establish an account receivable for the debt amount due the U.S. Government by citing EOR 4610, “Accounts Receivable Travel Related,” and liquidating the outstanding advance recorded in EOR 4120. DFAS-IN Regulation 37-1, chapter 11, “Accounting for Advances, Prepayments, and Progress Payments,” November 2004, states that travel advances normally will not be outstanding for more than 90 days. DFAS-IN Regulation 37-1, Appendix P, “Reconciling Outstanding Travel Advances,” January 2000, states that control over outstanding advances is a joint responsibility of travel and accounting operations.

Debt Collection. The DoD FMR, volume 5, chapter 28, “General Provisions on Indebtedness,” August 2003, requires that the DoD Components establish and maintain a debt management program to identify and collect debts owed to the Component and to the U.S. Government. The debt management program should achieve the maximum recovery of debt within acceptable costs. DoD Components are required to evaluate the cost effectiveness of alternative collection techniques and establish minimum debt amounts below which collection efforts need not be taken. For soldiers who are still in the military, DFAS-IN Regulation 37-1, chapter 11, requires that debts pursued must exceed \$10. For individuals who are no longer in the military, DoD FMR, volume 5, chapter 29, “Collection of Individual Out-of-Services Debts,” August 2003, requires that debts pursued must exceed \$225.

Researching and Collecting Older PCS Travel Advances

DFAS-IN did not develop a cost-effective strategy to accomplish the project started in January 2005 to research and collect outstanding PCS travel advances

⁶ The EOR is a four-digit code which identifies the type of resource employed or consumed.

made in FYs 2000 through 2003. Uncleared transactions in the PCS travel advance accounts are often the result of accounting errors caused by travel pay offices citing an erroneous standard document reference number or EOR. In other cases, the travel pay office processing the final travel settlement claim may not have collected the outstanding travel advance or established an account receivable for the balance owed by the traveler. DFAS-IN officials determined that they lacked a complete audit trail to research most of the travel advances in FYs 2000 and 2001. In addition, DFAS-IN had not developed a cost-effective strategy for completing research of the travel advance accounts for FYs 2002 and 2003 and collecting any related travel debts.

FYs 2000 and 2001 Advances. DFAS-IN did not have a complete audit trail for the accounting and travel records needed to research most of the outstanding travel advances for FYs 2000 and 2001. DFAS-IN uses the Operational Data Store (ODS) system to interface information from various entitlement, disbursing, and accounting systems. The Army Managerial Accounting Division queried the accounting and travel tables in ODS to identify the voucher number and standard document reference number of PCS travel advance transactions recorded in EOR 4120.

For FYs 2000 and 2001, the Army Managerial Accounting Division reported that it had identified few PCS travel advance transactions with complete lines of accounting in ODS. During this time period, most transactions contained a zero-filled standard document reference number, and Army travel offices located overseas did not interface with ODS. In addition, DFAS travel pay offices had purged all FY 2001 and prior records in the Integrated Automated Travel System, which is used to process travel advances and travel claims. As result, at the end of FY 2005, DFAS-IN Departmental Accounting wrote off the \$7.1 million net balance remaining in the FY 2000 MPA appropriation travel advance account by obligating and expensing costs to other travel EORs. In addition, at the end of FY 2006, Departmental Accounting wrote off the \$1.7 million credit balance⁷ remaining in the FY 2001 travel advance account by increasing unliquidated obligations recorded in other travel EORs.

FYs 2002 and 2003 Advances. Upon completing research and determining that PCS travel advances had not been collected, DFAS-IN did not collect travel debts. The Army Managerial Accounting Division used ODS to research and clear transactions recorded in the FYs 2002 and 2003 travel advance accounts. In February 2006, the division forwarded a list of outstanding advances to DFAS-IN Travel Pay Operations for audit and collection. In April 2006, Travel Pay Operations reported that its audit had identified about \$3 million⁸ of open advances for which either the travel settlement claims were not processed or, when processed, the outstanding travel advances were not collected. These outstanding advances included payments of \$225 and less to out-of-service

⁷ The PCS travel advances account (EOR 4120) normally has a debit account balance. A credit balance occurs when aggregate collections exceed disbursements. Research and reconciliation of transactions by traveler and travel order are required to properly clear the account balance.

⁸ The \$3 million included smaller debts related to FYs 2001 and 2004 PCS travel advances and temporary duty travel. See Appendix C for a breakout of the \$3 million by appropriation and fiscal year.

soldiers. Travel Pay Operations also reported finding travel vouchers that were incorrectly computed. In other cases, Travel Pay Operations could not determine the status of the outstanding advance because the travel voucher was missing. As of July 2, 2006, the Army Managerial Accounting Division reported that it had researched and cleared 77,000 lines of accounting⁹ with an absolute value of \$89.9 million.

Officials in both Travel Pay Operations and the Army Managerial Accounting Division stated that they were not responsible for collecting the travel debts. However, DFAS-IN Regulation 37-1 states that both accounting and travel operations will work toward the timely recoupment of advances. Because the two offices had not coordinated responsibility for collecting PCS travel debts, DFAS-IN had not collected \$3 million of travel debts as of July 5, 2006. DFAS-IN should assign responsibility for collecting and collect the \$3 million owed by Army soldiers and other verified travel debts.

Cost-Effectiveness of Researching Advances. DFAS-IN did not develop a cost-effective strategy for completing the project to research and collect outstanding PCS travel advances for FYs 2002 and 2003. As of July 2006, the Army Managerial Accounting Division reported uncleared travel advance transactions with an absolute value of about \$79.7 million¹⁰ and a net value of about \$8.3 million. The \$79.7 million included the \$3 million of travel debts identified by Travel Pay Operations and about \$5.4 million in unsettled travel advances and advances requiring additional documentation or awaiting debt verification. The Army Managerial Accounting Division had not completed preliminary research for about 6,000 travel advance cases and about 46,000 lines of accounting that were missing a document reference number.

The Army Managerial Accounting Division reported to the Army that it had expended about \$442,000 from January 2005 through June 2006 to research the travel advance accounts for FYs 2000 through 2003. This estimated expense was based on direct labor costs of personnel performing the research, not on the standard rate of \$63.25 per hour that DFAS-IN charged the Army for accounting services in FY 2006. Division personnel estimated that it could take 49,000 additional labor hours to research and clear the remaining 6,000 travel advance cases and the 46,000 lines of accounting that lacked a document reference number. Based on the standard hourly rate of \$63.25, we estimate that DFAS-IN would charge the Army about \$3 million to complete research of the remaining cases and lines of accounting. Additional costs would be incurred by DFAS and Army travel pay offices to assist in researching travel records and collecting the verified travel debts.

⁹ The line of accounting is a collection of data elements used to identify financial transactions. Lines of accounting are cleared by matching, based on the standard document reference number, travel advance disbursements to the offsetting collections. Without the standard document reference number, accounting personnel must research each line of accounting to identify the transactions associated with each traveler.

¹⁰ This amount included \$72.9 million of transactions citing the FYs 2001 to 2003 MPA appropriations. The remaining \$6.8 million cited the Operation and Maintenance, Army appropriation; Defense Emergency Response Fund appropriation; or the FY 2004 MPA appropriation.

DFAS-IN needs to develop a cost-effective strategy for completing research of the FYs 2002 and 2003 travel advance accounts and collecting the verified travel debts. This strategy should consider factors such as dollar value of the travel advance, availability of the supporting documentation, and whether the traveler is on active duty or is out of military service. The analysis should also consider the costs incurred by travel pay offices to assist in researching travel records, recomputing travel claims, and collecting the verified travel debts. In addition, DFAS-IN needs to assign responsibility for collecting the verified travel debts and establish procedures to track and monitor the cost-effectiveness of the research and collection process. DFAS-IN should coordinate with the Office of the Assistant Secretary of the Army (Financial Management and Comptroller) to agree on a strategy for completing research of FYs 2002 and 2003 travel advance accounts and collecting travel debts from soldiers.

Researching PCS Travel Advances Issued After FY 2003

DFAS-IN did not devote the resources required to research, reconcile, and clear PCS travel advances issued after FY 2003. MPAD became responsible for the accounting and financial reporting of the MPA appropriation upon its conversion to a specific allotment in FY 2004. This responsibility included researching, reconciling, and clearing transactions recorded in the PCS travel advance account (EOR 4120) and establishing an account receivable for the verified travel debts. Although MPAD established procedures to research, reconcile, and clear the travel advance account, it assigned only one person to perform the function. As a result, MPAD had reported minimal progress in clearing the FYs 2004 and 2005 travel advance accounts to DFAS-IN and Army management. Table 2 shows the consolidated status of the travel advance accounts for FYs 2004 and 2005 from December 31, 2005, through July 31, 2006.

As of Date	Uncleared Lines Of Accounting	Net Value (in millions)	Absolute Value (in millions)
December 31, 2005	92,697	\$5.5	\$104.8
March 31, 2006	91,355	\$3.8	\$103.8
July 31, 2006	89,654	\$3.0	\$101.8

Delays in researching, reconciling, and clearing the PCS travel advance account make it more difficult to research transactions and obtain supporting documentation. In addition, soldiers with a travel debt may leave military service, thereby increasing the cost to collect the debt and reducing the amount of debt recovered. DFAS-IN needs to determine and devote the resources necessary to ensure that MPAD researches, reconciles, and clears the outstanding advances recorded in the PCS travel advance account within 90 days.

During FY 2006, DFAS-IN and the Army took actions to improve controls over outstanding travel advances. These actions included providing additional training to all employees, modifying the Integrated Automated Travel System to reject zero-filled document reference numbers, and establishing Army Management Structure Codes for advances issued to officers and enlisted personnel. However, these actions primarily affected travel advances made after FY 2005. If effectively implemented, these actions should reduce the number and dollar amounts of aged, uncleared transactions reported in the EOR 4120 account, as well as the number of personnel required to research and clear the account.

Collecting Travel Debts

DFAS-IN did not develop a management report to effectively monitor and maintain visibility over the debt management program to ensure maximum recovery of travel advance debts owed the Army. Upon settlement of the final travel claim, the travel pay offices were responsible for establishing an account receivable citing EOR 4610 for the travel advance amount owed by the traveler. Starting in FY 2004, MPAD was responsible for the debt collection process, to include notifying the soldier of the amount owed and establishing a repayment plan. In July 2005, MPAD established a debt management tool to track accounts receivable through the debt collection process. However, the debt management tool did not provide upper management visibility and oversight over the debt collection process. Table 3 shows the status of accounts receivable based on our analysis of data recorded in the debt management tool as of July 31, 2006.

Table 3. Status of Accounts Receivable in the Debt Collection Process					
Case Status	Fiscal Year of Outstanding Advance				Total
	2004	2005	2006	Not Identified	
Open	\$ 91,540	\$ 949,731	\$2,453,783	\$372,650	\$3,867,614
Pending Information	603,329	517,483	35,961	86,861	1,243,634
Collection Started	251,918	1,412,162	1,323,083	35,314	3,022,477
Total	\$946,787	\$2,879,376	\$3,812,827	\$494,825	\$8,133,815

Normally, an account receivable is reported in the “open” status for 30 days after issuing the debt notification letter to the soldier. If the soldier does not respond to the debt notification letter after 30 days, MPAD should start the process of collecting the debt from the soldier’s pay. If the soldier responds and considers the debt to be invalid, the receivable is placed in “pending information” status. The receivable will remain in the pending information status, where it awaits documentation from the soldier or further research by MPAD accounting personnel. We found that travel debts remained in open and pending information status for more than 2 years. Without a management report to show the account receivable by case status and the age of PCS travel advances in the backlog, DFAS-IN lacked essential information to effectively manage the collection of PCS travel advance debts. Delays in starting the debt collection process makes it more likely that the soldier will leave military service before the debt is collected. Waiting to collect PCS travel advance debts from out-of-service soldiers increases the cost to collect the debt and reduces the amount of debt recovered.

Plan of Actions and Milestones

DFAS-IN did not develop a formal process to evaluate the effectiveness of the Plan of Actions and Milestones to improve accountability and control over travel advances. The plan, developed by DFAS-IN and the Army in June 2005, included the following actions:

- provide additional training to travel pay office personnel on processing advances and settlement claims,
- modify the Integrated Automated Travel System to reject zero-filled document reference numbers,
- modify the Integrated Automated Travel System to generate a “pop-up screen” to assist technicians when entering the EOR, and
- establish Army Management Structure Codes to better account for PCS travel advances issued to officers and enlisted personnel.

Most corrective actions were implemented during FY 2006 or were ongoing as of July 31, 2006. However, DFAS-IN had not established a formal process to evaluate the effectiveness of the Plan of Actions and Milestones to improve control and accountability over travel advances. While researching and clearing travel advance accounts and collecting travel debts, MPAD should analyze the data to identify the root causes for uncleared travel advance transactions and erroneous data. DFAS-IN should use this information to evaluate the effectiveness of the Plan of Actions and Milestones and identify actions to improve control over PCS travel advances and the debt collection process.

Summary

DFAS-IN did not have effective controls in place to account for, research, and collect PCS travel advances paid from the MPA appropriation. This lack of effective processes and controls resulted in write-offs of outstanding travel advances and in uncollected travel debts. DFAS-IN needs to develop a cost-effective strategy for completing research and collection of the FYs 2002 and 2003 travel advance accounts, and identify and devote the resources to research and reconcile the FYs 2004 and later travel advance accounts. DFAS-IN also needs to maintain visibility over the travel debt collection process and implement procedures to evaluate the effectiveness of the Plan of Actions and Milestones and identify needed improvements. DFAS-IN should take these actions in coordination with the Army in order to avoid future year write-offs of outstanding PCS travel advances.

Recommendations, Management Comments, and Audit Response

A. We recommend that the Director, Defense Finance and Accounting Service Indianapolis Operations:

1. Develop, in coordination with the Office of the Assistant Secretary of the Army (Financial Management and Comptroller), a cost-effective strategy for researching and collecting FYs 2002 and 2003 unsettled permanent change of station travel advances. The strategy should consider factors such as dollar value of the travel advance, availability of documentation, duty status of the traveler, and the costs incurred by Travel Pay Operations and other Army and Defense Finance and Accounting Service organizations to assist in researching travel records and collecting the verified travel debts.

Management Comments. The Director, DFAS-IN Operations concurred with comment and stated that DFAS has worked with the Army for the last two years on a cost-effective strategy for researching and collecting PCS travel advances. However, DFAS is unable to resolve the remaining outstanding FYs 2002 and 2003 PCS travel transactions due to missing information within the line of accounting. The Director stated that the majority of FY 2002 outstanding transactions are missing document reference numbers and, as a result, cannot be tracked and researched through the automated systems. In addition, DFAS does not have a quick and efficient way to retrieve the necessary hard copy documents because travel orders and travel payments originate and are stored at various locations. The Director also stated the Army Managerial Accounting Division has identified and resolved the obvious problem transactions, and the remaining outstanding advances require more time-consuming research and review by subject matter experts within Travel Pay Operations and MPAD. Based on the estimated cost to complete and collect any verified travel debt, the Director does not believe that further research of FYs 2002 and 2003 PCS travel transactions will be cost-beneficial to the Army.

Audit Response. Management comments are partially responsive. The Director, DFAS-IN Operations stated that further research of FYs 2002 and 2003 unsettled PCS advances would not be cost-effective. However, the Director did not indicate that DFAS prepared a documented cost-benefit analysis to support that it would not be cost-effective to research and collect outstanding travel advances. As of July 2006, the Army Managerial Accounting Division reported uncleared travel advance transactions with an absolute value of about \$79.7 million and a net value of about \$8.3 million. The \$79.7 million included about \$5.4 million that the Army Managerial Accounting Division, based on preliminary review, had classified and reported to the Army as unsettled advances and advances requiring additional documentation or awaiting debt verification. A documented cost-benefit analysis is needed to develop a cost-effective strategy for researching and collecting FYs 2002 and 2003 unsettled PCS travel advances. Once such an analysis is prepared, DFAS-IN needs to coordinate with the Office of the Assistant Secretary of the Army (Financial Management and Comptroller) to agree on the strategy and minimize the write-offs of travel advances paid from the FYs 2002 and 2003 MPA appropriations. We request that the Director, DFAS-IN Operations provide additional comments in response to the final report.

2. Assign responsibility for collecting verified permanent change of station travel debts that occurred during the open allotment time period. Collect the \$3 million owed by Army soldiers and other verified travel debts.

Management Comments. The Director, DFAS-IN Operations concurred with comment and stated that any valid debts identified by Travel Pay Operations would be turned over to the MPAD for debt collection. The Director stated that Travel Pay Operations has not yet validated any debt for the reasons identified in management's response to Recommendation A.1. DFAS-IN will continue to research and determine the validity of debts. The Director stated that the amount of monetary savings cannot be determined until further research is completed. The estimated completion date is December 31, 2007.

Audit Response. Management comments are responsive. The MPAD should take action to collect the \$3 million of travel debts identified by Travel Pay Operations. In addition, the MPAD should take appropriate collection actions on the \$5.4 million of probable overpayments of PCS travel advances after the Army Managerial Accounting Division and Travel Pay Operations complete research and determine the validity of any debts.

3. Establish procedures to track and monitor the cost-effectiveness of researching and collecting FYs 2002 and 2003 unsettled travel advances.

Management Comments. The Director, DFAS-IN Operations concurred with comment and stated that procedures will be put in place by December 31, 2007, to monitor and track the cost-effectiveness of pursuing collections of valid debts.

Audit Response. Management comments are responsive. The Director, DFAS-IN Operations should establish procedures to track and monitor the cost-effectiveness of researching and collecting advances before completing the

collection of verified travel debts. The Director provided the same estimated completion date for both actions.

4. Provide the Military Pay Accounting Division with the resources required to promptly research, reconcile, and clear all unsettled advances in the FYs 2004 through 2006 permanent change of station travel advance accounts.

Management Comments. The Director, DFAS-IN Operations concurred and stated that in April 2006 the MPAD received authorizations for an additional 29 spaces to accomplish the accounting workload for the MPA appropriation, to include debt management and PCS travel advances.

5. Develop a management report to provide increased visibility and oversight over the travel debt collection process.

Management Comments. The Director, DFAS-IN Operations concurred and stated that the MPAD will develop a monthly management report that ages PCS travel advances by fiscal year. In addition, the division will develop a Plan of Actions and Milestones to research and clear PCS travel advances issued after the MPA appropriation converted to a specific allotment in FY 2004.

6. Establish procedures to analyze the results of researching and clearing the travel advance accounts and collecting travel debts. Identify and track the root causes for uncleared travel advance transactions and erroneous data in the management debt tool. Use this information to assess the effectiveness of the Plan of Actions and Milestones and to identify needed improvements.

Management Comments. The Director, DFAS-IN Operations concurred and stated that by May 30, 2007, the MPAD will establish standard procedures to analyze and track the root causes for uncleared PCS travel advances.

B. Suspense Accounts

MPAD did not implement effective controls over the MPA appropriation suspense accounts. Specifically, MPAD did not:

- reconcile suspense account balances recorded in the STANFINS to the account balances reported to the Department of Treasury,
- research and clear the detailed transactions posted to the suspense accounts in a timely manner, and
- submit an accurate and complete monthly Suspense Account Report.

MPAD did not properly research, reconcile, clear, and report suspense accounts because it did not develop adequate standard operating procedures, provide sufficient training to personnel, and ensure timely and effective implementation of its Plan of Actions and Milestones. As a result, the suspense account balances reflected in the MPA appropriation accounting reports and monthly Suspense Account Report were not reliable and accurate. In addition, unresolved transactions residing in suspense accounts can conceal problem disbursements and erroneous payments.¹¹

Criteria

Using Suspense Accounts. Suspense accounts are used to temporarily hold disbursements and collections until they are cleared to the proper appropriation account. The Suspense Account Report is submitted monthly to DFAS-IN Departmental Accounting. As of June 30, 2006, MPAD reported 16 non-tax suspense accounts with balances totaling about \$212.2 million on its monthly Suspense Account Report.

Researching and Clearing Suspense Accounts. DoD FMR, volume 12, chapter 1, requires the DoD Components to minimize the balance in clearing accounts by expeditiously transferring disbursements and collections to their proper accounts. DoD FMR, volume 3, chapter 11, “Unmatched Disbursements, Negative Unliquidated Obligations, In-transit Disbursements and Suspense Accounts,” January 2001, requires that accounting offices and disbursing offices clear disbursement transactions recorded in “Budget Clearing Account - F3875”

¹¹For this report, we define problem disbursements as transactions that contain errors, missing information or other problems that prevent the accounting office from properly accounting for them.

within 60 days of initially recording a charge in the clearing account.¹² If the accounting office lacks documentation to clear the suspended disbursement transaction within 60 days, it should reject the transaction back to the responsible disbursing office. The DoD FMR also requires that DFAS establish procedures for aging, monitoring, and reporting transactions recorded in suspense accounts. In addition, DFAS-IN Regulation 37-1, chapter 18, “Deposit Fund, Suspense, and General Fund Clearing Accounts,” May 2004, requires accounting procedures to ensure that all amounts in the clearing and deposit fund accounts are properly documented, supported, and cleared. The accounting office is required to clear transactions within 60 days, unless the transaction is recorded in an account which is identified as exempt on the monthly Suspense Account Report.

Reporting and Reconciling Suspense Accounts. DFAS-IN Regulation 37-1, chapter 28, “Accounting Reports,” March 2005, requires accounting offices to report the status of transactions in the clearing and deposit fund accounts in the monthly Suspense Account Report. The report should reflect the account balances reported to the Department of Treasury and show the number of transactions by age, net value, and absolute value for each account. The report should include an explanation for all suspense accounts and the planned course of action for clearing the accounts. In addition, DFAS-IN Regulation 37-1, chapter 27, “Analysis, Review, and Reconciliation,” July 2004, requires that accounting offices ensure that subsidiary records agree with the suspense account balances reported to DFAS-IN Departmental Accounting and the Department of Treasury. As the accounting office responsible for the accounting and financial reporting of the MPA appropriation, MPAD should use the following four reports to reconcile and validate the data included in the Suspense Account Report:

Unapplied Disbursing Officer’s Deposit Report. This report is produced by STANFINS, the installation-level accounting system, and shows the accounting office’s month-end suspense account balances. The report summarizes the expenditure data (disbursements and collections) submitted to DFAS-IN Departmental Accounting for serviced organizations.

General Ledger Trial Balance. This report shows the month-end balances of the accounting office’s STANFINS General Ledger for the serviced fiscal stations. As required by the DoD FMR, volume 4, chapter 12, clearing accounts and deposit fund accounts are reported as liabilities on the General Ledger Trial Balance.

Non-Stock Fund Orders and Payables Listing. This report identifies, by document reference number, the disbursement, collection, and adjustment transactions affecting each suspense account. Suspense account balances reported in the Non-Stock Fund Orders and Payables Listing should reconcile to the balances reported in the accounting office’s Unapplied Disbursing Officer’s Deposit Report and the General Ledger Trial Balance.

¹²MPAD used clearing account 21F3875.5104, “Miscellaneous Transactions,” and specific accounting processing codes to record 10 categories of miscellaneous disbursement and collection transactions, including in-transit disbursements. In-transit disbursements are disbursements that disbursing offices have reported to the Department of Treasury but have not yet been received by the responsible accounting offices or matched to the corresponding obligations.

Disbursing Officer's Fund Activity Report. This report is produced by the DFAS-IN Headquarters Accounting and Reporting System and shows the month-end balances for all clearing and deposit fund accounts for each reporting accounting office. Accounting offices should use the Disbursing Officer's Fund Activity Report, along with other reports identified in DFAS-IN Regulation 37-1, to reconcile suspense account balances reported in its Unapplied Disbursing Officer's Deposit Report to the balances reported to the Department of Treasury by DFAS-IN Departmental Accounting.

Reconciling Reported Account Balances

MPAD did not reconcile variances between the summary suspense account balances reflected in the Unapplied Disbursing Officer's Deposit Report and other accounting reports produced by STANFINS and the information reported on the monthly Suspense Account Reports. In addition, MPAD did not reconcile the suspense account balances reported on its Unapplied Disbursing Officer's Deposit Report to the balances reported to the Department of Treasury by DFAS-IN Departmental Accounting. Variances between reported summary suspense account balances create an uncertainty regarding the accuracy and reliability of data contained in the MPA appropriation financial reports.

Reconciling Standard Finance System Reports. MPAD did not effectively reconcile suspense account details reported in the different reports within the accounting system.

General Ledger Trial Balance. MPAD did not completely reconcile the suspense account balances on the Unapplied Disbursing Officer's Deposit Report with the account balances recorded in the General Ledger Trial Balance. MPAD reported the account balances shown in the Unapplied Disbursing Officer's Deposit Report on the monthly Suspense Account Report submitted to DFAS-IN Departmental Accounting, and it identified the accounts which did not reconcile with the General Ledger Trial Balance. The June 2006 Suspense Account Report identified 16 non-tax suspense accounts with balances totaling about \$212.2 million. The report certification stated that three suspense accounts in the General Ledger Trial Balance did not agree with the balances reported to DFAS-IN Departmental Accounting on the Unapplied Disbursing Officer's Deposit Report, and that accounting personnel were in the process of researching and reconciling the accounts. However, the three suspense accounts had remained in an out-of-balance condition for at least 6 months. This occurred because MPAD officials did not provide effective oversight to ensure that the responsible accountants reconciled the reported out-of-balance conditions in a timely manner.

Non-Stock Fund Orders and Payables Listing. MPAD also did not reconcile the suspense account balances reported in the Unapplied Disbursing Officer's Deposit Report and General Ledger Trial Balance with the balances in the Non-Stock Fund Orders and Payables Listing. For example, the June 2006 Unapplied Disbursing Officer's Deposit Report showed a net balance of about

\$528,000 in the Unavailable Check Cancellations clearing account.¹³ However, the General Ledger Trial Balance reported a net balance of about \$4.2 million and the Non-Stock Fund Orders and Payables Report showed a net balance of about \$9 million for the same clearing account. MPAD had not established procedures requiring accountants to reconcile the suspense account balances contained in the three accounting reports. In addition, MPAD had not effectively trained personnel on the procedures to reconcile differences in reported account balances by researching and clearing the detailed accounting transactions. Personnel that we interviewed stated that they had not received adequate training and were not aware of the different reports in STANFINS needed for reconciliation purposes, such as the Non-Stock Fund Orders and Payables Listing. A complete reconciliation of suspense account balances reflected in the different accounting reports is a key internal control to ensure the accuracy and completeness of the reported balances.

Clearing Closed Suspense Accounts. MPAD did not complete the reconciliation by clearing closed accounts reported in the General Ledger Trial Balance and the Non-Stock Fund Orders and Payables Report. The June 2006 General Ledger Trial Balance included 9 closed suspense accounts with balances totaling about \$1.4 billion, and the Non-Stock Fund Orders and Payables Report included 33 closed accounts with balances totaling about \$2.8 billion. DFAS-IN Departmental Accounting neither reported these closed accounts to the Department of Treasury nor included them in the Army's departmental-level financial statements. However, MPAD continued to report the closed suspense accounts in its General Ledger Trial Balance and Non-Stock Fund Orders and Payables Report because it did not have procedures requiring accountants to research and clear the detailed accounting transactions from the STANFINS records when the accounts were closed. As a result, the STANFINS accounting reports used by DFAS accountants and Army officials to monitor and assess the status of MPA appropriation contained erroneous and misleading data.

Reconciling to DFAS-IN Departmental Accounting Records. MPAD did not follow the process outlined in DFAS-IN Regulation 37-1 for reconciling suspense account balances reported in its Unapplied Disbursing Officer's Deposit Report to the balances reported to the Department of Treasury by DFAS-IN Departmental Accounting. As a result, MPAD reported the account balances shown in its Unapplied Disbursing Officer's Deposit Report on the monthly Suspense Account Report, rather than balances reported to the Department of Treasury by DFAS-IN Departmental Accounting. Four of the 16 non-tax accounts reported on the June 2006 Suspense Account Report had unreconciled differences between balances reported in the Unapplied Disbursing Officer's Deposit Report and balances reported to the Department of Treasury. For example, MPAD reported a balance

¹³The unavailable check cancellations clearing account is used to hold credit and charge-back transactions received from the Department of Treasury for recertified and limited payability check cancellations. The Department of Treasury will issue a credit for checks reported as lost or stolen. Disbursing offices use the credit to issue a recertified or replacement check. Treasury also issues a credit for checks not negotiated within 1 year of issuance. A charge-back is a reversal of a previously issued credit for a check cancellation.

of \$103.8 million in the Army Member Savings Deposit account¹⁴ while the Department of Treasury reported an account balance of \$110.7 million. MPAD did not identify the \$6.9 million discrepancy because its standard operating procedures did not include the process outlined in DFAS-IN Regulation 37-1 for reconciling differences between its Unapplied Disbursing Officer's Deposit Reports and balances reported to the Department of Treasury by DFAS-IN Departmental Accounting. Reconciling suspense account balances reported by the accounting offices to balances reported by DFAS-IN Departmental Accounting is an essential internal control to ensure the integrity of accounting data.

Researching and Clearing Suspense Accounts

MPAD did not research and clear the detailed transactions temporarily recorded in three of four MPA appropriation suspense accounts we reviewed in a timely manner. DFAS-IN Military Pay Operations maintained the detailed records of soldiers owed for re-credited checks (non-negotiated checks returned to the disbursing office), and it properly researched and provided MPAD the necessary information required to clear the Canceled and Re-credited Checks suspense account. However, MPAD did not research and clear three other MPA appropriation suspense accounts in a timely manner. Specifically, MPAD personnel did not research and promptly clear the detailed transactions recorded in the Miscellaneous Transactions and the Unavailable Check Cancellations clearing accounts, which were classified as non-exempt accounts on the Suspense Account Report. In addition, MPAD did not have a process in place to research and clear soldiers' deposits and loan payments recorded in the Thrift Savings Plan suspense account.

Miscellaneous Transactions. MPAD did not research and clear in-transit disbursements recorded in the Miscellaneous Transactions budget clearing account in a timely manner. DoD FMR, volume 3, chapter 11, requires that the accounting office clear in-transit transactions within 60 days or reject the transactions to the responsible disbursing office, if there is a lack of required documentation. The March 2006 Miscellaneous Transactions account included 481 in-transit transactions, with a net value of \$2.4 million and a total absolute value of \$3.9 million. Of these 481 transactions, 385 transactions with a net value of \$2.5 million and a total absolute value of \$3.7 million were more than 60 days old. The responsible accountant did not clear the older transactions because he lacked documentation to identify the corresponding obligations, and MPAD had not established procedures to reject the transactions to the responsible disbursing offices.

¹⁴Deposit fund account "21X6010 - Army Member Savings Deposit" is used to record savings deposits, cash contributions, and payroll deductions made by service members stationed in Southwest Asia and the Persian Gulf Region.

Recertified Checks. MPAD did not research and clear recertified check transactions in the Unavailable Check Cancellations clearing account.¹⁵ DFAS-IN Regulation 37-1, chapter 18, requires that accounting offices research and transfer the credits and charge-backs to the appropriation originally charged for the payment within 30 days. The March 2006 Unavailable Check Cancellations account included 1,449 recertified check transactions with a net value about \$771,000 and a total absolute value of about \$33.8 million. Of the 1,449 transactions, 1,358 transactions with a net value of about \$570,000 and a total absolute value of about \$28.2 million were more than a year old. This occurred because MPAD did not establish procedures to research and transfer within 30 days all credit and charge-back transactions to the appropriation originally charged for the payment.

Thrift Savings Plan. MPAD had not completed actions it planned to take in response to a KPMG LLP audit that identified and reported an internal control weakness over the process of reconciling the amounts deposited in and withdrawn from the Thrift Savings Plan suspense account.¹⁶ MPAD planned to implement a process to reconcile Thrift Savings Plan contributions and loan payments submitted to the National Finance Center¹⁷ to amounts recorded in the Thrift Savings Plan suspense account. However, as of November 2006, MPAD had not completely identified the process to reconcile Thrift Savings Plan contributions and loan payments. These planned actions, if effectively implemented, should provide a process for researching and clearing the detailed transactions in the Thrift Savings Plan suspense account.

Reporting Suspense Accounts

MPAD did not prepare and submit an accurate and complete Suspense Account Report to DFAS-IN Departmental Accounting. DFAS-IN Regulation 37-1, chapter 28, requires accounting offices to report to DFAS-IN Departmental Accounting, by limit, the balance of each clearing and fund deposit account that they reported to the Department of Treasury. As discussed on page 18, 4 of the 16 non-tax suspense accounts in the June 2006 Suspense Account Report had balances different from those reported to the Department of Treasury. In addition, the Suspense Account Report did not accurately reflect the status of each of the MPA appropriation clearing and deposit fund accounts. Specifically, MPAD reported:

¹⁵MPAD recorded recertified check cancellation transactions in account limit 21F3880.1 and limited payability check cancellation transactions in account limit 21F3880.2. A recertified check is issued to military personnel when the original check is lost or destroyed within 1 year of the date of the original check.

¹⁶KPMG LLP Draft Report, "Employee Benefits Security Administration: Review of the Thrifts Savings Plan Operations Related to the United States Army," July 21, 2006. KPMG LLP was under contract with the U.S. Department Of Labor.

¹⁷The National Finance Center is the Thrift Savings Plan record keeper for the Federal Retirement Thrift Investment Board.

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- the number of transactions recorded during the month, rather than the total number of uncleared transactions in the account;
 - all transactions in the 0-30 day age category, rather than the age of transactions based on the disbursement date; and
 - the net balance for each account, but not the absolute dollar amount.

MPAD standard operating procedures contained erroneous instructions. The procedures required accountants to report only the number of transactions for the current month and to include all transactions within the 0-30 day age category, rather than actual age of transactions. For example, 385 of the 481 in-transit transactions recorded in the “Miscellaneous Transactions” account were more than 60 days old. In addition, MPAD standard operating procedures did not describe the process for calculating the absolute dollar amount. As a result, DFAS management lacked the essential and accurate data needed to monitor and assess the status of the suspense accounts.

Implementing the Plan of Actions and Milestones

MPAD did not implement the Plan of Actions and Milestones it developed to improve control over reconciling and reporting suspense accounts. In September 2004, MPAD identified problems in reconciling and reporting suspense accounts, and it prepared a plan of corrective actions with target milestone dates aimed at improving the reconciliation and reporting of suspense accounts. Identified problems included:

- the Disbursing Officer’s Deposit Account Report did not agree with account balances reported in the General Ledger Trial Balance;
- the Non-Stock Fund Orders and Payables Listing did not agree with the Disbursing Officer’s Deposit Account Report and the General Ledger Trial Balance, and it included inactive Department of Treasury appropriations; and
- the Suspense Account Report did not accurately report the age of transactions in the suspense accounts.

In October 2005, MPAD personnel concluded that the same problems still existed and established revised target milestone dates. However, the Plan of Actions and Milestones was not comprehensive because it did not prescribe specific and measurable steps, including assigning dedicated staffing, to accomplish the plan objectives. In addition, MPAD did not report the revised Plan of Actions and Milestones or the status of corrective actions to the Director of Accounting Operations. An MPAD official attributed the delay in implementing corrective action to insufficient staff. MPAD needs to develop a comprehensive Plan of Actions and Milestones to correct previously identified problems and the deficiencies discussed in this report. It should also give the DFAS-IN Director of

Accounting Operations quarterly reports on the status of corrective actions taken. In addition, DFAS-IN should dedicate adequate staffing to ensure that MPAD effectively implements the Plan of Actions and Milestones.

Summary

MPAD did not have effective controls in place to reconcile, research, clear, and report the MPA appropriation suspense accounts. This lack of effective controls resulted in unreliable and inaccurate reporting of suspense account balances. In addition, unresolved transactions residing in suspense accounts can conceal problem disbursements and improper payments. MPAD had developed a Plan of Actions and Milestones to improve control over suspense accounts but had not effectively implemented it. MPAD needs to develop detailed standard operating procedures, train personnel, improve management oversight, and ensure that the Plan of Actions and Milestones is effectively implemented.

Recommendations and Management Comments

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

1. Reconcile differences between reported summary suspense account balances. Specifically, implement procedures for:

a. Providing effective oversight to ensure that accounting personnel reconcile out-of-balance suspense accounts in a timely manner.

b. Reconciling monthly the suspense account balances reported in the Unapplied Disbursing Officer's Deposit Report, General Ledger Trial Balance, and the Non-Stock Fund Orders and Payables Listing.

c. Researching and clearing suspense accounts recorded in the Standard Finance System when the accounts are formally closed.

d. Reconciling suspense account balances reported in the Unapplied Disbursing Officer's Deposit Report to the balances reported to Department of Treasury by Departmental Accounting, Defense Finance and Accounting Service Indianapolis.

Management Comments. The Director, DFAS-IN Operations concurred and stated that standard operating procedures are being updated and an aggressive plan of action is being developed to reconcile all suspense accounts. The plan will involve more personnel in the complete reconciliation process. The target date for completion is May 30, 2007. The Director also stated that internal controls are now in place to complete weekly reconciliations of all suspense accounts.

2. Train personnel on the proper procedures for reconciling differences in reported account balances by researching and clearing the detailed accounting transactions.

Management Comments. The Director, DFAS-IN Operations concurred and stated that MPAD personnel were being trained and cross-trained on how to research and clear lines from the Non-Stock Fund Orders and Payables Listing and reconcile to the summary balance in the Unapplied Disbursing Officer's Deposit Report.

3. Implement procedures to clear within 60 days all in-transit disbursements recorded in the Miscellaneous Transactions budget clearing account or to reject the transactions back to the responsible disbursing office due to lack of required documentation.

Management Comments. The Director, DFAS-IN Operations concurred and stated that MPAD implemented procedures in November 2006 to either clear in-transit disbursements recorded in the Miscellaneous Transactions budget clearing account or reject the transactions to the responsible disbursing office.

4. Establish procedures to research the Unavailable Check Cancellations clearing account and to transfer within 30 days all credit and charge-back transactions to the appropriation originally charged for the payment.

Management Comments. The Director, DFAS-IN Operations concurred and stated that MPAD implemented procedures in November 2006 to research the Unavailable Check Cancellation clearing account and to transfer all credit and charge-back transactions to the appropriation originally charged within 30 days.

5. Update the standard operating procedures for preparing the monthly Suspense Account Report to:

a. Report the total number of uncleared transactions, rather than the number of transactions recorded during the reporting month;

b. Report transactions by age category based on the disbursement date, rather than consolidating all transactions in the 0-30 day category; and

c. Describe the process for calculating and reporting the absolute dollar amount for each account.

Management Comments. The Director, DFAS-IN Operations concurred and stated that MPAD revised standard operating procedures for preparing the monthly Suspense Account Report in November 2006.

6. Develop a comprehensive Plan of Actions and Milestones for improving control over Military Personnel, Army appropriation suspense accounts. The plan should include specific and measurable steps to correct

previously identified problems and the deficiencies identified in this report, and the Director, Military Pay Accounting Division should report the status of corrective actions taken to the Director of Accounting Operations on a quarterly basis.

Management Comments. The Director, DFAS-IN Operations concurred and stated that MPAD revised the Plan of Actions and Milestones in November 2006 to include steps to address report recommendations.

7. Dedicate adequate staffing in the Military Pay Accounting Division to ensure that it implements the Plan of Actions and Milestones.

Management Comments. The Director, DFAS-IN Operations concurred and stated that adequate staffing was provided in November 2006 to implement the revised Plan of Actions and Milestones.

Appendix A. Scope and Methodology

We reviewed DFAS-IN processes and controls for researching, clearing, and monitoring PCS travel advances paid from the MPA appropriation. We interviewed DFAS-IN personnel to determine procedures used to research and collect FYs 2000 through 2003 PCS travel advances. We reviewed information to support the write-offs of the FYs 2000 and 2001 PCS travel advance accounts. We analyzed data supporting progress made in researching and clearing the FYs 2002 and 2003 PCS travel advances and reviewed the DFAS-IN strategy for completing the project. We reviewed reports on the status of researching PCS advances issued after FY 2003 and evaluated the resources devoted to the research. We analyzed data recorded in the MPAD travel debt management tool to determine the status of the debt collection process. We also reviewed and evaluated the Plan of Actions and Milestones developed by DFAS-IN and the Army to improve accountability and control over travel advances.

We obtained and reviewed the spreadsheet from the Army Managerial Accounting Division and Travel Pay Operations for verified travel debts that had not been collected as of July 5, 2006. We did not verify the travel debts in the spreadsheet. Our review of travel pay office processes was limited to DFAS-IN Travel Pay Operations.

We examined and evaluated the procedures MPAD used to research, reconcile, and report the MPA appropriation suspense accounts. We limited the scope of the review to the 16 non-tax suspense accounts reported in the June 2006 Suspense Account Report. The suspense accounts related to taxes were not reviewed because we proposed an audit of the Defense Joint Military Pay System tax withholdings and related Army military pay suspense accounts. We compared summary suspense account balances reflected in the accounting reports produced by STANFINS and the DFAS-IN Headquarters Accounting and Reporting System and evaluated procedures for reconciling variances in the reported balances. We reviewed procedures and analyzed the timeliness of researching and clearing transactions recorded in 4 of the 16 non-tax MPA appropriation suspense accounts. We analyzed the accuracy and completeness of data included in the monthly Suspense Account Report. We also reviewed and evaluated the Plan of Actions and Milestones developed by MPAD to improve control over reconciling and reporting suspense accounts.

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

Use of Computer-Processed Data. We used travel and accounting data and reports generated by DFAS payroll, travel, and accounting systems, and the DFAS and Army travel pay offices, to perform this audit. Systems used to process and account for the MPA appropriation financial data include the Defense Joint Military Pay System, STANFINS, ODS, and the Headquarters Accounting and Reporting System. The DoD Inspector General (IG) has reported, and DoD has acknowledged, deficiencies in the adequacy of general and application

controls in at least two of these systems. DoD IG Report No. D-2005-059, “Report on Standard Finance System Controls Placed in Operation and Tests of Operating Effectiveness for the Period October 1, 2004, through March 31, 2005,” April 30, 2005, identified numerous system and application control deficiencies. DoD IG Report No. D-2001-052, “Controls Over the Defense Joint Military Pay System,” February 15, 2001, reported that there were also significant system and application control deficiencies with the pay system. Because of the acknowledged unreliability of DoD financial management systems, we did not perform additional tests regarding data reliability.

Our review of DFAS-IN controls over PCS travel advances and suspense accounts identified potential problems with the validity of data in accounting records. As discussed in Finding A, accounting records contained erroneous and incomplete data on PCS travel advances. As discussed in Finding B, variances existed in the suspense account data reflected in different accounting reports. However, we did not find errors that would preclude the use of the computer-processed data to meet the audit objective or that would change the conclusions in the report.

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

Appendix B. Prior Coverage

During the last 5 years, GAO, DoD IG, and the U.S. Army Audit Agency (USAAA) have issued nine reports discussing military personnel costs. 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>. USAAA reports are restricted to military domains and GAO. They can be accessed at <https://www.aaa.army.mil/reports.htm>.

GAO

GAO Report No. 05-021, "DoD Problem Disbursements: Long-standing Accounting Weaknesses Result in Inaccurate Records and Substantial Write-offs," June 2, 2005

GAO Report No. 04-89, "Military Pay: Army National Guard Personnel Mobilized to Active Duty Experienced Significant Pay Problems," November 13, 2003

GAO Report No. 03-100, "Federal Pensions: DOL Oversight and Thrift Savings Plan Accountability," April 23, 2003

DoD IG

DoD IG Report No. D-2007-2003, "Internal Controls Over the Army General Fund, Note 3, Fund Balance With Treasury," October 10, 2006

DoD IG Report No. D-2006-112, "Selected Controls Over the Military Personnel, Army Appropriation," September 22, 2006

DoD IG Report No. D-2005-059, "Report on Standard Finance System Controls Placed in Operation and Tests of Operating Effectiveness for the Period October 1, 2004 through March 31, 2005," April 30, 2005

DoD IG Report No. D-2004-106, "Selected Controls Over the Army Fund Balance With Treasury at Defense Finance and Accounting Service Indianapolis," August 5, 2004

USAAA

USAAA Report No. A-2005-0127-ALW, "Validation of the Army's Fund Balance with Treasury," March 10, 2005

USAAA Report No. A-2002-0452-FFG, "Military Pay and Benefits: The Army's Contribution to the Military Retirement Trust Fund," August 14, 2002

Appendix C. Summary of Potential Monetary Benefits Associated with Recommendation A.2.

Type of Benefit	Amount of Potential Monetary Benefits	Appropriation Accounts
Army Military Personnel funds put to better use.	\$2.4 million for FY 2002 \$0.4 million for FY 2003 \$21,000 for FY 2004 Approximately \$2.8 million.	21X2010, Military Personnel, Army
Army Operation and Maintenance funds put to better use.	\$7,000 for FY 2002 \$59,000 for FY 2003 \$97,000 for FY 2004 Approximately \$163,000.	21X2020, Operation and Maintenance, Army
	Approximate total of \$3 million.*	

* Excludes about \$10,000 of FY 2001 Military Personnel, Army appropriation funds that were longer available for obligation or expenditure for any purpose after the appropriation account closed on September 30, 2006.

Appendix D. Report Distribution

Office of the Secretary of Defense

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

Department of the Army

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

Other Defense Organization

Director, Defense Finance and Accounting Service

Non-Defense Federal Organization

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

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

Defense Finance and Accounting Service Indianapolis Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE
8898 EAST 56TH STREET
INDIANAPOLIS, INDIANA 46249

MAR 13 2007

DFAS-JBU/IN

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Selected Controls Over the Military Personnel, Army Appropriation Project No. D2005-D000F1-0268.001

Indianapolis Operations is providing management comments to the following recommendations:

Recommendation A1: Develop, in coordination with the Office of the Assistant Secretary of the Army (Financial Management and Comptroller), a cost-effective strategy for researching and collection FYs 2002 and 2003 unsettled permanent change of station travel advances. The strategy should consider factors such as dollar value of the travel advance, availability of documentation, duty status of the traveler, and the costs incurred by Travel Pay Operations and other Army and Defense Finance and Accounting Service organizations to assist in researching travel records and collecting the verified travel debts.

Management Comment: Stakeholder: Becky Crane (317) 510-3344. Concur with comment. DFAS has been working with Army for the last 2 years on a cost effective strategy. However, based on the research and analysis performed on FY 2 and FY 3 transactions to date, we can not resolve any more of these transactions due to missing information within the source accounting line. The majority of the remaining outstanding advances belonging to FY 2 lack or is missing the document reference number. The document reference number is the key item for a sufficient audit trail. These transactions can not be tracked through the appropriate systems due to incompleteness of data within the systems. We do not have a quick and efficient way to retrieve the necessary documents due to the various locations of where the documents originated and where it might be stored, and in many cases, the source documents do not exist. Army Managerial Accounting Division (AMAD) has identified and resolved all of the obvious problem transactions. The remaining advances require much more time consuming research and subject matter experts in Travel and Military Pay Accounting to review and determine course of action. AMAD has estimated that it could take 49,000 hours for them to research the remaining advances (noted in DoDIG report). Based on the standard hourly rate, the cost chargeable to the Army would be approximately \$3 million to complete their research. This does not include the cost incurred by Travel Pay Operations or other Army and DFAS organizations who would also be involved in the research and collection of any verified travel debt. The estimated cost of their efforts is expected to equal or exceed the AMAD's estimated cost. We do not believe that further research of these transactions will be cost beneficial to the Army.

Estimated Completion Date: September 30, 2007

Recommendation A2: Assign responsibility for collecting verified permanent change of station travel debts that occurred during the open allotment time period. Collect the \$3.0 million owed by soldiers and other verified travel debts.

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Management Comment: Stakeholder: Becky Crane (317) 510-3344. Concur with comment. DFAS-IN has previously assigned AMAD to research the travel advances. They identified approximately \$3 million as potential debt candidates and gave them to the DFAS-IN Travel Office to determine any valid debts. Any valid debts identified would then be turned over to the Military Pay Accounting Office for due processing. To date, DFAS-IN Travel Office has not been able to validate any debt per the reasons identified in A1. DFAS-IN will continue to research and determine the validity of any debts. The amount of monetary savings can not be determined until further research is completed.

Estimated Completion Date: December 31, 2007

Recommendation A3: Establish procedures to track and monitor the cost-effectiveness of researching and collecting FYs 2002 and 2003 unsettled travel advances.

Management Comment: Stakeholder: Becky Crane (317) 510-3344. Concur with comment. Based on the results of A2, procedures will be put in place to monitor and track the cost-effectiveness of pursuing collections of valid debts.

Estimated Completion Date: December 31, 2007

Recommendation A4: Provide the Military Pay Accounting Division with the resources required to promptly research, reconcile and clear all unsettled advances in the FYs 2004 through 2006 permanent change of station travel advance accounts.

Management Comment: Stakeholder: Karen Hunsberger (317) 510-1489. Concur. In April 2006, Military Pay Accounting Division received authorizations for an additional 29 spaces to accomplish the accounting workload for the whole MPA account, to include Debt Management and the PCS advances. Complete.

Recommendation A5: Develop a management report to provide increased visibility and oversight over the travel debt collection process.

Management Comment: Stakeholder: Karen Hunsberger (317) 510-1489. Concur. Military Pay Accounting will develop a monthly management report that ages PCS advances by fiscal year for Specific Allotment. In addition, a Plan of Actions and Milestones specific to researching and clearing PCS advances for Specific Allotment prior years will be developed.

Estimated Completion Date: April 30, 2007

Recommendation A6: Establish procedures to analyze the results of researching and clearing the travel advance accounts and collection travel debts. Identify and track the root causes for uncleared travel advance transactions and erroneous data in the management debt tool. This information will be used to assess the effectiveness of the Plan of Actions and Milestones and to identify needed improvements.

Management Comment: Stakeholder: Karen Hunsberger (317) 510-1489. Concur. Military Pay Accounting will establish standard procedures to analyze and track root causes related to uncleared PCS (travel) advances.

Estimated Completion Date: May 30, 2007

Recommendation B1: Reconcile differences between reported summary suspense account balances. Specifically, implement procedures: (a-d) Providing effective oversight to ensure the accounting personnel reconcile out-of-balance suspense accounts in a timely manner. Reconcile monthly suspense accounts balances reported in the Unapplied Disbursing Officer's Deposit Report, General Ledger Trial Balance, and Non-Stock Fund Orders and Payable Listing. Researching and clearing suspense accounts recorded in the Standard Finance System when the accounts are formally closed. Reconciling suspense account balances reported in the Unapplied Disbursing Officer's Deposit report to the balances reported to Department of Treasury by Department Accounting, Defense Finance and Accounting Service Indianapolis.

Management Comment: Stakeholder: Patricia Bey (317) 510-5719. Concur. SOPs are being updated along with an aggressive plan of action to reconcile all suspense accounts involving more personnel in the complete process. Internal controls are now in place for all future reconciliation of our suspense accounts with complete reviews on a weekly basis rather than monthly.

Estimated Completion Date: May 30, 2007

Recommendation B2: Train personnel on the proper procedures for reconciling differences in reported account balances by researching and clearing the detailed accounting transactions.

Management Comment: Stakeholder: Patricia Bey (317) 510-5719. Concur. Personnel are currently being trained and cross trained on how to research and clear lines from the non-stock funds orders and payable to reconciling back to the AVK075 (Unapplied D.O. Deposit Report). Corrective actions completed.

Recommendation B3: Implement procedures to clear within 60 days all in-transit disbursements recorded in the Miscellaneous Transactions budget clearing account or to reject the transactions back to the responsible disbursing office due to lack of required documentation.

Management Comment: Stakeholder: Patricia Bey (317) 510-5719. Concur. Corrective actions completed November 2006.

Recommendation B4: Establish procedures to research the Unavailable Check Cancellations clearing account and to transfer within 30 days all credit and charge-back transactions to the appropriation originally charged for the payment.

Management Comment: Stakeholder: Patricia Bey (317) 510-5719. Concur. Corrective actions completed November 2006.

Recommendation B5: Update the standard operating procedures for preparing the monthly Suspense Account Report to: (a-c) Report the total number of uncleared transactions, rather than the number of transactions recorded during the reporting month. Report transactions by age category based on the disbursement date, rather than consolidating all transactions in the 0-30 day category. Describe the process for calculating and reporting the absolute dollar amount for each account.

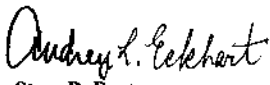
Management Comment: Stakeholder: Patricia Bey (317) 510-5719. Concur. Revision of our SOP and internal controls will correct this action. Corrective actions completed November 2006.

Recommendation B6: Develop a comprehensive Plan of Actions and Milestones for improving control over Military Personnel Army Appropriation suspense accounts. The plan should include specific and measurable steps to correct previously identified problems and the deficiencies identified in this report, and the Director, Military Pay Accounting Division should report the status of corrective actions taken to the Director of Accounting Operations on a quarterly basis.

Management Comment: Stakeholder: Patricia Bey (317) 510-5719. Concur. A plan of action is being revised to be more inclusive of all recommendations. Corrective action completed November 2006.

Recommendation B7: Dedicate adequate staffing in the Military Pay Accounting Division to ensure that it implements the Plan of actions and Milestones.

Management Comment: Stakeholder: Patricia Bey (317) 510-5719. Concur. Corrective action completed November 2006.


for Steve R. Honta
Director, Indianapolis Operations

Team Members

The Department of Defense Office of the Deputy Inspector General for Auditing, Defense Financial Auditing Service prepared this report. Personnel of the Department of Defense Office of Inspector General who contributed to the report are listed below.

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Inspector General
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