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Acronyms

DFAS	Defense Finance and Accounting Service
DIA	Defense Intelligence Agency
FBWT	Fund Balance with Treasury



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

October 16, 2007

MEMORANDUM FOR DIRECTOR, DEFENSE INTELLIGENCE AGENCY

SUBJECT: Auditability Assessment of the Defense Intelligence Agency Fund Balance with Treasury and Appropriations Received (Report No. D-2008-003)

We are providing this report for information and use. This audit was performed in support of the requirement by the Senate Select Committee on Intelligence that the Defense Intelligence Agency must prepare financial statements capable of withstanding a comprehensive audit. We considered management comments on a draft of this report when preparing the final report.

The Defense Intelligence Agency and Defense Finance and Accounting Service Indianapolis Operations comments generally conformed to the requirements of DoD Directive 7650.3; therefore, additional comments on the final report are not required.

We provided oversight to Urbach Kahn & Werlin LLP, Certified Public Accountants, an independent public accounting firm that the Defense Intelligence Agency contracted with to perform an auditability assessment of its Fund Balance with Treasury and Appropriations Received. We performed our oversight in accordance with the requirements in the Government Accountability Office/President's Council on Integrity and Efficiency Financial Audit Manual, Section 650. We concur with and fully support the findings, conclusions, and recommendations in this report, and we will followup on these recommendations as part of our normal followup procedures for our reports.

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Marvin L. Peek at (703) 325-5777 (DSN 221-5777). See Appendix B 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 cursive script, reading "Paul J. Granetto", is positioned above the printed name.

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

Department of Defense Office of Inspector General

Report No. D-2008-003

October 16, 2007

(Project No. D2006-D000FA-0263.000)

Auditability Assessment of the Defense Intelligence Agency Fund Balance with Treasury and Appropriations Received

Executive Summary

Who Should Read This Report and Why? Financial management officials at the Defense Intelligence Agency (DIA) and the Defense Finance and Accounting Service (DFAS) who establish policy and compile the annual financial statements should read this report. It shows areas where DIA and DFAS can improve the reliability, and future auditability, of the DIA annual financial statements.

Background. This audit supports the requirements of the Senate Select Committee on Intelligence Report 107-63, "Authorizing Appropriations for Fiscal Year 2002 for Intelligence and Intelligence-Related Activities of the United States Government," September 14, 2001, which required DIA to receive an audit of its financial statements by the Department of Defense Inspector General or a qualified Independent Public Accounting firm under the direction of the Department of Defense Inspector General. This report is one of several audit reports issued to assist DIA in identifying deficiencies that need to be corrected in order to achieve more effective internal controls and a favorable audit opinion.

To further assist DIA in preparing for a comprehensive audit of its financial statements, DIA contracted with Urbach Kahn & Werlin LLP, Certified Public Accountants, to perform an auditability assessment of its Fund Balance with Treasury (FBWT) and Appropriations Received line items. We provided comprehensive oversight of this assessment and concur and fully support the findings, conclusions, and recommendations included in this report.

Results. The auditability assessment found several critical impediments during its assessment of internal controls and testing of the DIA FBWT and Appropriation Received line items. The impediments included the inability to identify the DIA share of DoD undistributed disbursements and collections; the materiality of the undistributed balance for DIA at the suballotment level; and no established process to ensure all DIA limits are captured in DFAS monthly reports and the Cash Management Report process. In addition, DIA did not report funding authorization documents in the proper accounting period; the DFAS accounting and reporting system did not contain complete voucher data for reconciliation purposes; and the DFAS plan of actions and milestones and the service level agreement with DIA were not specific enough to meet DIA needs.

DIA in collaboration with DFAS can improve the reliability of the DIA FBWT and Appropriations Received line items by establishing an Integrated Process Team to coordinate corrective actions related to the auditability impediments. In addition, DIA should limit the number of disbursing stations with authority to disburse DIA funds; initiate a direct feed from DFAS systems to the DIA accounting system to facilitate the

reconciliation and reporting of the FBWT line item; develop policies and procedures for reconciling FBWT and receiving timely information; and ensure personnel involved in the reconciliations receive training. Also, DFAS should reprogram the Cash Management Analysis Report 4B and continue coordinating with the Business Transformation Agency by actively participating on the Business Enterprise Information Service's Cash Capability requirements team, and notify DIA and other applicable Defense agencies of any potential impact on their FBWT reconciliation processes for planning purposes. Finally, DIA should update its service level agreement with DFAS to outline each organization's specific responsibilities.

Management Comments and Audit Response. The Director of the Defense Finance and Accounting Service Indianapolis Operations and the Defense Intelligence Agency Deputy Chief Financial Executive for Financial Management (Comptroller) concurred with the findings and most of the recommendations and plans to take actions to correct the problems identified. We accept the responses and encourage both organizations to continue their aggressive actions to correct the impediments to a successful audit. See the Findings and Recommendations section of Appendix A for a discussion of management comments and the Management Comments section of Appendix A for a complete text of the comments.

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**Appendix A. Fund Balance with Treasury and
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Report**

**UNITED STATES
DEPARTMENT OF DEFENSE**

DEFENSE INTELLIGENCE AGENCY



**FUND BALANCE WITH TREASURY AND
APPROPRIATIONS RECEIVED
AUDITABILITY ASSESSMENT
FINAL REPORT**

SEPTEMBER 2007

UK
&W Urbach Kahn & Werlin LLP
CERTIFIED PUBLIC ACCOUNTANTS

Acronyms

APR	Appropriations Received
CMR	Cash Management Report
DFAS	Defense Finance and Accounting Service
DIA	Defense Intelligence Agency
DoD OIG	Department of Defense Office of Inspector General
FAD	Funding Authorization Document
FAM	Financial Audit Manual
FBWT	Fund Balance with Treasury
FE	DIA Chief Financial Executive
FE-ACO	Financial Executive Accounting Operations and Financial Reporting Division
FMR	Financial Management Regulation
FSN	Fiscal Station Number
GF	General Fund
HQARS	Headquarters Accounting Reporting System
ODO	Other Defense Organization
OUSDC	Office of Under Secretary of Defense (Comptroller)
POAM	Plan of Actions and Milestones
SBR	Statement of Budgetary Resources
SLA	Service Level Agreement
TI	Treasury Index
UKW	Urbach Kahn and Werlin LLP

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Executive Summary

Despite the major improvements made in financial management throughout the Federal Government over the last fifteen years, the Defense Intelligence Agency (DIA) continues to face financial management problems that are long standing and deeply rooted in its business operations. The Department of Defense Office of Inspector General (DoD OIG) has conducted several audits and assessments of DIA's financial management in prior years and has reported numerous control weaknesses and deficiencies. Management previously made only limited progress in addressing these issues, partly because of system issues not in DIA's direct control. We have noted improvements in DIA's financial management, primarily related to increased management attention to internal control weaknesses.

DIA contracted Urbach Kahn & Werlin LLP (UKW) to perform an auditability assessment on the readiness for audit of its Fund Balance with Treasury (FBWT) and Appropriations Received (APR) line items. We prepared an assessment program, including testing procedures to determine the extent internal controls could be relied upon. We performed various tests related to the FBWT and APR line items to determine what internal control weaknesses existed in relation to the scope of work performed on each line item.

Results

We have grouped the findings into one of three categories based upon the impact the finding had on the auditability of the DIA FBWT and APR line items. The categories, in order of severity are:

- I. **Material Weakness** is a significant deficiency, or combination of significant deficiencies, that results in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected.
- A. **Undistributed Amounts, Which Could be Attributable to DIA, Continue to be Material at the General Fund Other Defense Organization Level;**
- B. **Undistributed Amounts Continue to be Material at the DIA Suballotment Level;**

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- C. Capturing of all DIA Suballotments in Monthly Reporting Process and Increased Coordination Between DIA and DFAS-Indianapolis is Needed; and**
- D. Funding Authorization Documents were Not Reported on the Financial Statements in the Proper Accounting Period.**
- II. Significant Deficiency** is a deficiency that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.
 - E. The DFAS Headquarters Accounting Reporting System does not Contain Complete Voucher Data for Reconciliation Purposes; and**
 - F. The DFAS-Indianapolis FBWT Plan of Actions and Milestones is not Specific Enough in Nature Related to DIA.**
- III. Management Letter Comment** is a finding that would not necessarily result in a significant deficiency, if not addressed, could become a significant internal control weakness.
 - G. The Service Level Agreement between DIA and DFAS-Indianapolis is not Specific Enough in Nature Related to DIA.**

Management Comments and Audit Response

DIA Management Comments: The DIA Deputy Chief Financial Executive for Financial Management (Comptroller) concurred with all of our findings and most recommendations made in the report. DIA stated they are committed to improving the auditability of DIA's Fund Balance with Treasury line item on the Balance Sheet, and the Appropriations Received line item on the Statement of Budgetary Resources. The only recommendation DIA didn't concur with was our recommendation related to DIA promptly notifying DFAS-Indianapolis of newly created limits to ensure they are captured in the FBWT financial reporting systems. DIA stated that DFAS approves new limits requested by the DIA program office and maintains the master table of DoD limits. They believe this recommendation should be redirected to DFAS-Indianapolis.

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DFAS Management Comments: The Director, DFAS Indianapolis Operations concurred with all of our findings and recommendations made in the report. They stated that DFAS-Indianapolis is now communicating with DIA a minimum of two times per week regarding their undistributed balances and has increased research efforts to assist with the reduction of DIA's undistributed balances.

Audit Response: All comments provided by DIA and DFAS-Indianapolis management are considered responsive to the recommendations. Therefore, no further response is required.

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Background

Defense Intelligence Agency History and Mission

DIA became operational on October 1, 1961, as the nation's primary producer of foreign military intelligence. DIA filled a critically important need for a central intelligence manager for the DoD to support the requirements of the Secretary of Defense, the Joint Chiefs of Staff, and the warfighter. Today, DIA continues to build on its proud traditions as this Country's preeminent military intelligence organization and remains "Committed to Excellence in Defense of the Nation."

The mission of DIA is to provide timely, objective, and cogent military intelligence to warfighters, defense planners, and defense and national security policymakers.

Size, Location, and Organization

DIA is headquartered at the Pentagon in Arlington, VA with its major operations centered at the Defense Intelligence Analysis Center at Bolling Air Force Base in Washington DC, the Armed Forces Medical Intelligence Center in Frederick, MD and the Missile and Space Intelligence Center in Huntsville, Alabama. DIA's nearly 7,000 personnel also serve as defense attaches, liaison officers, analysts, administrative staff and logistics personnel at United States (U.S.) embassies, combatant commands, intelligence production centers, and intelligence Community offices around the world.

The Director is responsible for providing all-source intelligence analysis and collection management to support the Secretary of Defense and Chairman of the Joint Chiefs of Staff and serves as an advisor on military intelligence issues. The Director also serves as Program Director for the General Defense Intelligence Program and the Joint Reserve Intelligence Program and operates human intelligence and coordinates measurement and signature intelligence activities. DIA maintains a major Directorate for each major activity.

Despite the major improvements in financial management being made throughout the Federal Government over the last 15 years, DIA continues to face financial management problems that are long standing and deeply rooted in its business operations. The DoD OIG has conducted several audits and assessments of DIA's financial management in prior years and has reported numerous control weaknesses and deficiencies. Management previously made only limited progress in addressing these issues, partly because of system issues

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not in DIA's direct control. We have noted improvements in DIA's financial management, primarily related to increased management attention to internal control weaknesses.

Fund Balance with Treasury

Fund Balance with Treasury (FBWT) is an asset account representing the amount of DIA funds that are available to spend for authorized transactions and to record disbursement and collection activity. The U.S. Treasury has delegated authority to DoD to disburse and collect funds for DoD entities. DoD has delegated the authority to disburse funds for all DoD entities to the Defense Finance and Accounting Service (DFAS). As an intelligence agency, DIA also uses the National Security Agency and the State Department to collect and disburse its funds. DFAS has the centralized responsibility for reporting all DIA activity to the U.S. Treasury. DIA is responsible for manually posting the individual transactions in Rosedust¹ and reconciling the balances with amounts recorded by the U.S. Treasury, with the help of DFAS-Indianapolis.

DIA and several other Defense organizations are appropriated funds under the DoD-Wide fund citation identified by the U.S. Treasury as Treasury Index (TI) 97. All DoD Components are assigned Fiscal Station Numbers (FSN)s. DoD Components may have one or many FSN(s). FSNs are the accounting stations assigned to each of the DoD Components that use TI97 funding. DoD Components that use TI 97 funds can identify specific transactions by FSN and limit.² All TI 97 agencies are in one fund at the U.S. Treasury, not by specific agency. DFAS-Indianapolis reconciles the TI 97 FBWT line item to the U.S. Treasury at the summary level for all Other Defense Organizations (ODOs). DFAS-Indianapolis then identifies the specific detail transactions for each agency based on FSN and Limit. It is each agency's responsibility to reconcile its accounting records to DFAS-Indianapolis' totals for that agency. These responsibilities should be described in detail in the Service Level Agreement (SLA) between the two agencies, such as DFAS-Indianapolis and DIA.

DFAS-Indianapolis uses a legacy system called the Headquarters Accounting Reporting System (HQARS) and a database application called FoxPro, to collect and reconcile the TI97 fund transactions at both summary and detail levels. HQARS validates the data and compiles the SF 1219, "Statement of

¹ Rosedust is the accounting system used by DIA, but owned by the National Security Agency.

² The "limit" is a 4 digit field within the line of accounting that can identify the allocation holder and the organization receiving the sub allocation.

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Accountability"; SF 1329, "Statement of Transactions;" and SF 1400M, "Statement of Interfund" for TI97 funds. DFAS-Indianapolis sends these reports at the appropriation level to the U.S. Treasury.

DFAS generates the Cash Management Report (CMR) to compute the FBWT at the limit level for TI97. FBWT is computed by adding funding authorizations plus collections minus disbursements. DFAS extracts the TI97 SF 1329, SF 1400M, and expenditure edit data (collections and disbursements) from the HQARS system and the Program Budget Accounting System to create the CMR. The DFAS-Indianapolis Budget Execution and Reporting Division retrieves the CMR cash disbursement and collection data from the DFAS FBWT Division and from the Report on Budget Execution (SF 133/1176) submitted from the field accounting offices such as DIA. DFAS compares CMR reported disbursements and collections at limit level to the collections and disbursements reported on the SF 133. DFAS then makes adjustments to bring the balances on the SF 133 into agreement with the CMR. These adjustments are known as CMR adjustments or Undistributed Adjustments. The limit level data is rolled up to the appropriation level.

Upon receipt of the Treasury Trial Balance, DFAS compares collections and disbursements from the Treasury Trial Balance to the field-adjusted disbursements and collections at appropriation level. Field data is required to balance to Treasury Trial Balance data at the appropriation level. The Budget Execution and Reporting Division also generates CMR Analysis Reports - 4, 4a, and 4b - that are forwarded to the DFAS Centers and field sites to assist in reconciliations and corrections. In addition to providing DIA with the CMR and CMR analysis reports, DFAS-Indianapolis also provides agencies the Pile-Up Report, which contains DIA transactions that DFAS-Indianapolis reported to the U.S. Treasury.

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Appropriations Received

DIA receives funds through two major processes - APR and collections. APR is based on the DIA budget authority for the fiscal year while collections come from reimbursable activity throughout the fiscal year. Both types of receipts increase DIA's FBWT account. Below, is the APR process flow:

- Once the budget is passed and enacted into law, the DIA Chief Financial Executive Office (CFE) receives notification of its annual appropriations from the Office of the Undersecretary of Defense Comptroller [OUSD(C)] in the form of Funding Authorization Documents (FADs).
- FE-2A receives the FADs and adjusts previously recorded budget estimates in Rosedust to reflect actual FAD values. DIA Budget Analysts provide copies of the FADs from OUSD(C), to DFAS-Indianapolis and FE-ACO.
- FE-ACO enters the FAD in Rosedust to reflect the receipt of funds and establishes funding limits at the appropriation and fiscal year level. Recessions and reductions are entered in the same way as allocation – using a negative dollar amount to reduce the total allocation. Continuing Resolutions are entered in the same manner as an allotment, but are identified as Continuing Resolution entries into the system. This ensures that a debit is recorded to the general ledger account 109000, Fund Balance with Treasury under Continuing Resolution.
- FE-ACO verifies that entries in Rosedust match the FAD. If there is a discrepancy, corrections are made to the Rosedust entries. If the FAD and Rosedust match, the FAD is filed.
- The amounts entered into Rosedust are used to populate the APR line item on the DIA Statement of Budgetary Resources (SBR).
- After recording the APR into Rosedust, FE-2A personnel send copies of all FADs to DFAS-Indianapolis.
- DFAS-Indianapolis reconciles the FADs from FE-2A to the funding documents provided by OUSD(C) to ensure that they match.
- If the funding documents do not match, DFAS-Indianapolis contacts OUSD(C) and FE-2A to resolve the discrepancy.

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Task Objectives

The objective of our evaluation was to assess the auditability of DIA's FBWT line item on the Balance Sheet and the APR line item on the SBR to and provide a written report on the outcome of the assessment.

We performed this assessment in accordance with applicable Government Accountability Office and Office of Management and Budget guidance. The DoD OIG performed oversight of the assessment in accordance with the Financial Audit Manual (FAM) Section 650 and the DoD OIG Audit Handbook.

The purpose of conducting the auditability assessment was not to issue an opinion on FBWT and APR, but rather to determine the root causes of those critical impediments that would be faced by an independent auditor in assessing internal controls and testing FBWT and APR during the performance of a financial statement audit of DIA. To accomplish our objectives, we analyzed and tested the significant business processes used by DIA and DFAS-Indianapolis that form the foundation of financial statement information for FBWT and APR.

While conducting the auditability assessment, we attempted to identify impediments to a successful audit. However, ultimately, DIA management should determine when its FBWT and APR line items are ready for audit. If an audit of a particular financial statement line item is sought, the outcome of that audit cannot be considered to directly correlate to the assessment conclusions and recommendations made in this report, because facts, circumstances, and environments may change from the time when the assessment is performed and the time when the audit is conducted.

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Scope

For the testing performed on the FBWT line item, we met with DFAS-Indianapolis and DIA staff, and obtained detail files for review. For the testing performed on the APR line item, we met with DIA personnel, and obtained FADs from DIA to determine if the amounts were properly supported, authorized, and balanced to the SBR. The assessment scope was limited to the FBWT and APR line items as of December 31, 2006.

At the suggestion of DIA management, we focused our assessment procedures only on DFAS-Indianapolis's FBWT processes including:

- the methodology used to develop the DIA FBWT balance at DFAS-Indianapolis, including establishing the DIA balance and reconciling with the U.S. Treasury; and
- the methodology used by DFAS-Indianapolis to identify and transfer collection and disbursement data to DIA.

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Approach / Methodology

The assessment process included the following phases:

Survey Phase

We performed a survey on the FBWT and APR line items to determine if the line items could be assessed or not. If it was determined that either line item could not be assessed, we would have provided a formal report detailing the reasons why an assessment could not be performed.

During the survey phase, we visited DFAS-Indianapolis to document the following:

- the DIA FBWT reconciliation process performed by DFAS-Indianapolis and any separate reconciliation procedures performed for classified agencies, and
- the amount of undistributed disbursements and collections at the DIA limit levels and for the related appropriations at the General Fund (GF) ODO level.

We presented a survey debrief to DIA management on March 30, 2007, indicating that we believed that the auditability of the FBWT and APR line items could be assessed.

Planning Phase

Upon completion of the survey phase and determination that an assessment could be performed for each line item, we prepared the following:

- an assessment program with proposed approach and time schedule for all assessment phases, including milestones and due dates.
- applicable planning documentation as required by the Financial Audit Manual.
- data request list for additional items required for the Testing Phase, and follow-up interviews with DIA and DFAS-Indianapolis personnel.

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Testing Phase

We prepared a test plan with specific testing procedures to determine the extent that we could rely on internal controls. We performed testing related to the FBWT and APR line items to determine what internal control weaknesses existed related to the scope of work performed on each line item.

Our testing procedures were designed to answer the following questions related to the reporting of the FBWT and APR line items:

- Is the CMR complete and accurate?
- Is the Pile-Up Report complete, and can it be reconciled to the CMR?
- Why is DFAS-Indianapolis not providing document numbers for all submitted transactions on the Pile-Up Report?
- Is there a detailed aging of unsupported undistributed balances?
- How are the undistributed items monitored and resolved?
- Are the undistributed items permanent or timing differences?
- Will DFAS-Indianapolis management be able to provide a representation that the unsupported undistributed balances at the appropriation levels are immaterial to DIA's financial statements?
- How are the DFAS-Indianapolis network reports protecting DIA's classified data?
- Is the amount reported for APR supported by properly authorized FAD's?

Reporting Phase

We performed the following tasks during the Reporting Phase:

- assessed results of all procedures and testing;
- prepared summary memorandum documenting our assessment as to whether the internal controls are operating and effective, and the results of the testing performed;
- provided auditability assessment recommendations;
- prepared working papers, which will be reviewed by the DoD-OIG; and
- prepared a draft report.

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Standards and Independence

Our procedures were performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Also, engagement personnel involved with this assessment were independent of DIA both in appearance and in fact.

Our results related to the assessment procedures are detailed on the following pages.

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Findings / Recommendations

The categories of findings, in order of severity, are:

- I. **Material Weakness** – A Material Weakness according to Office of Management and Budget Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*, is a significant deficiency, or combination of significant deficiencies, that results in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected. This definition of material weakness aligns with the definition of the same term used by management to prepare an agency's Federal Managers' Financial Integrity Act assurance statement.
- II. **Significant Deficiency** - A deficiency in internal control, or a combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report 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 that is more than inconsequential will not be prevented or detected.
- III. **Management Letter Comment** – Finding would not necessarily result in a significant deficiency, but the finding demonstrates a matter that, if not addressed, could become a significant internal control weakness.

Our results related to the assessment procedures are detailed on the following pages. Appendix C provides a bibliography of references used during our assessment.

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Material Weaknesses

Finding A: Undistributed Amounts, Which Could be Attributable to DIA, Continue to be Material at the General Fund Other Defense Organization Level

DFAS-Indianapolis records all disbursements and collections that cannot be attributed to specific GF ODOs to limit 9999. As of December 2006, DFAS charged \$244 million and \$15 million respectively, to limit 9999 for the cumulative disbursements and collections that it could not distribute to specific entities. DFAS-Indianapolis considers undistributed amounts to be immaterial when compared to FBWT at the GF ODO level, because the undistributed amounts are below three percent of the GF ODO FBWT. DFAS-Indianapolis could not segregate the specific balances which pertained to DIA. Therefore, in order to exclude amounts that were not related to DIA³, we excluded appropriations and limits that could not belong to DIA because DIA does not use those appropriations. The remaining undistributed disbursements and collections at the GF ODO level for the 9999 limit were approximately \$183 million and \$2 million, respectively, for appropriations that DIA used. This is a material amount that could be attributable to DIA.

Therefore, DFAS-Indianapolis could not provide a management assertion to certify that the 9999 undistributed amounts at the GF ODO level did not contain material undistributed balances related to DIA as of December 2006. For other agencies, DFAS-Indianapolis has been able to provide a certification letter covering the unsupported undistributed amounts at the ODO level by doing a detail review of the individual transactions that make up the amount related to that agency. DFAS-Indianapolis uses certain review criteria to exclude transactions at a more detailed level than appropriation level such as disbursing stations for those transactions, which can eliminate them from potentially belonging to DIA. After DFAS-Indianapolis reviews each transaction, it may be able to certify that the limit 9999 undistributed balance could not materially impact DIA. This certification would give auditors a level of comfort over what would originally be a material undistributed amount that potentially could have belonged to DIA.

³DIA uses appropriations; 0100, 0300, 0400, 0500, 0512, 0706, 0765, and 0833 in the operations of their business. We excluded any transactions that did not use these appropriations.

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According to DFAS-Indianapolis, it would be a very intensive and time consuming process to provide a management assertion that the undistributed balances at the GF ODO level would not materially affect DIA's financial statements, because of the cumbersome process of reviewing all prior-year transactions for the 9999 limit. However, once the initial review is completed, the process will become less difficult and time consuming because DFAS-Indianapolis would only need to review and provide a certification on the current year data.

For the GF ODO-level undistributed amounts for the 9999 limit, DFAS-Indianapolis was not able to provide detailed documentation to support the balances because most of the balances for the 9999 limit were the result of transactions that failed system edit checks because of incorrect or non-existent limits used, or other errors. However, in December 2005, DFAS-Indianapolis developed a report—"Status of CMR Adjustments"—that provides the current year undistributed balances for the 9999 limit identifying the original limits that caused the 9999 balances. The report presents the prior year's cumulative balances for the 9999 limit as a total single amount without the original limit detail. This report would be beneficial, in identifying what portion of the balance in the 9999 limit is related to DIA based on the original limit detail. However, the report is not available for the 9999 limit prior to December 2005. Therefore, DFAS-Indianapolis could not provide detailed information on the cumulative prior year's balances for the 9999 limit with the original limit detail information before December 2005. This restricts DFAS-Indianapolis's ability to identify and assert the overall impact of undistributed amounts in the 9999 limit on DIA's financial statements.

The inability to identify the amount of undistributed disbursements and collections in the 9999 limit related to DIA precludes auditors from performing procedures to assess whether the DIA FBWT line item is complete and accurate.

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RECOMMENDATIONS

A.1. We recommend that the Director, Defense Intelligence Agency:

- a. Gain access to the 9999 limit reports that provide the original limit identification and designate personnel to work with DFAS-Indianapolis to identify these original limit generated 9999 limit balances that pertain to DIA. Coordinate with DFAS-Indianapolis to research and reconcile the transactions shown in the 9999 limit to resolve or write-off the items that pertain to DIA.
- b. Request DFAS-Indianapolis to begin immediately the specific identification of the General Fund Other Defense Organizations level undistributed balances that may pertain to DIA.

MANAGEMENT COMMENTS AND AUDIT RESPONSE

DIA Management Comments: DIA concurs with recommendation A.1. DIA agrees that to improve reconciliation of DFAS and DIA records, it is essential to have cleared resources at DFAS working to support DIA. DIA has begun the process to put local, cleared contract personnel at DFAS-Indianapolis to research and reconcile transactions in the 9999 limit that relate to DIA. DIA is also working with DFAS to get them to provide dedicated government resources to support DIA and will reimburse them for this additional service. Due to the security clearance constraints, getting cleared personnel into the DFAS to begin supporting DIA requirements may not be completed before 2nd quarter of FY 2008. The way DFAS handles its undistributed has been a long-standing issue for DIA, just as it has been for most Defense Agencies. By November 15, 2007, DIA will send a formal request to DFAS-Indianapolis to obtain specific identification of the General Fund Other Defense Organizations level undistributed balances that pertain to DIA. Also, the dedicated personnel located at DFAS-Indianapolis will work to help identify the DIA-owned piece of the undistributed balances.

Audit Response: DIA's comments are considered responsive to the recommendations. Therefore, no further response is required.

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**Finding B: Undistributed Amounts Continue to be Material at the
DIA Suballotment Level**

The DIA "agency level" undistributed amounts are the difference between transactions that the U.S. Treasury charged to the Department's fund balance and the transactions that the DIA accounting office posted to the accounting records. There are many reasons that can cause the difference such as disbursements in transit, unmatched disbursements and collections, erroneous postings at the accounting offices, incorrect/invalid appropriations and limits, unfunded appropriations, delay or non-posting of transactions at the accounting offices, etc. Undistributed amounts are divided into two categories: "supported" and "unsupported." An example of a supported undistributed amount is a transaction that is in transit because of timing differences in when the transactions are posted. DFAS-Indianapolis has reported that collections reported erroneously as negative disbursements are also a significant cause of agency level undistributed amounts for ODOs.

DFAS-Indianapolis provided us with the CMR and various CMR Analysis Reports as of December 2006. These reports pertain to the undistributed disbursements and collections for the differences between the CMR (Treasury) and DIA's general ledger. Based on our review of Report 4A and application of our assessment procedures, the DIA agency level undistributed amounts are material. The total absolute value of the undistributed disbursements and collections amounts at the DIA limit level were approximately \$322 million and \$70 million, respectively, as of December 2006. Unlike the undistributed amounts discussed in Finding A that cannot be identified to any specific agency, these undistributed amounts are specifically identifiable to DIA.

CMR Analysis Report 4B breaks down the undistributed balances between supported and unsupported undistributed categories. DIA uses Report 4B to assist in the reconciliation of the unsupported undistributed amounts. However, the unsupported undistributed balance as of December 2006 on Report 4B was not correct. According to the DFAS-Indianapolis FBWT Division, the CMR Analysis Report 4B needed reprogramming because the current files that populate the report are inaccurate. Also, the transactions do not support the numbers because different data used to generate the Report 4B columns than the data used to create the CMR and the Pile-Up Report⁴. This caused the amount for unsupported undistributed balances on Report 4B to be incorrect.

⁴ Pile-Up Report contains all DIA transactions that DFAS-Indianapolis reported to the U.S. Treasury for DIA.

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The total agency level undistributed balance (supported + unsupported) remained correct. The DFAS-Indianapolis FBWT Division submitted a system reprogramming request to the Budget Execution/Reporting Division to reprogram Report 4B in April 2007. However, as of August 2007, the correction had not been made. Correction of the Report 4B would provide a more accurate analysis tool and also assist DIA in the reconciliation of its undistributed amounts by allowing DIA to reconcile their transactions to the supported undistributed columns on Report 4B.

Additionally, DIA is supported by more than 100 disbursing stations across the world that have the authority to disburse DIA funds. DIA is also supported by DFAS disbursing offices located at four DFAS sites. This contributes to the significant errors in posting of DIA disbursements to the general ledger.

Currently, DIA reports all disbursements and collections through its accounting system (Rosedust) at the two position rolled up limit level, and carries the burden of clearing the Services undistributed balances. The DFAS systems currently do not send information directly into Rosedust. DIA manually updates disbursements and collections into the Rosedust system after receiving reports from DFAS-Indianapolis.

The inability to identify and reconcile the DIA agency-level undistributed disbursements and collections that could have a material effect on FBWT and other accounts preclude an auditor from verifying the completeness and accuracy of DIA's assets and expenses incurred during an accounting period.

RECOMMENDATIONS

B.1. We recommend that the Director, Defense Intelligence Agency, in conjunction with the Director, Defense Finance and Accounting Service, Indianapolis Operations, collaborate on performing a trend analysis of the DIA undistributed balances each month, to determine which balances have fully stabilized (not changing over the years or remain relevantly constant), and what balances remain unsupported. For unsupported balances, DIA and DFAS-Indianapolis should determine the aging of the data and write-off of aged balances as necessary.

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B.2. We recommend that the Director, Defense Intelligence Agency:

- a. Limit the number of disbursing stations that have the authority to disburse DIA funds in order to reduce potential significant undistributed balances.
- b. Initiate a direct feed from the DFAS systems to the new DIA accounting system⁵, to facilitate the reconciliation and reporting of the DIA Fund Balance with Treasury line item.
- c. Require the limits for unclassified sub-allotments to flow through normal channels to DFAS and process the Cash Management Report adjustments at the four position limit level instead of the two position level, to shift the burden of reconciling undistributed disbursements and collections from DIA to the Services.

B.3. We recommend that the Director, Defense Finance and Accounting Service Indianapolis Operations reprogram the Cash Management Analysis Report 4B as soon as possible.

MANAGEMENT COMMENTS AND AUDIT RESPONSE

DIA Management Comments: DIA concurs with recommendation B.1 and states that DFAS-Indianapolis currently provides trend analysis for problem disbursements to include aging. DIA personnel will work with DFAS-Indianapolis to perform trend analysis of the DIA undistributed balances each month, to determine which balances have fully stabilized and what balances remain unsupported. This will include an aging of the data and a determination of the likelihood of finding the original source disbursement records. DIA will then determine what balances should be written-off. During the first quarter of FY 2008, discussions will be held with DFAS-Indianapolis to determine how to perform the trend analysis and the timing of the write-offs. DIA partially concurred with recommendation B.2 and stated that DIA has established procedures where contracts written by DIA contracting officers use NSA as the paying station. Also, contracts written on behalf of DIA are requested to use NSA as the paying station. DIA has limited control over other disbursing stations that also disburse funds because the Services and DFAS control those disbursements. DIA will look to reduce the amount of outgoing MIPRs that have

⁵ DIA plans to begin using a new accounting system-- Financial Accounting and Corporate Tracking System-- in October 2007. This is a commercial accounting system modified for use by DIA and the National Security Agency.

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funds disbursed by DFAS and will work with DFAS to find ways to consolidate the number of disbursing stations that disburse DIA funds. Currently, there is an interface between DFAS and NSA. DFAS sends a file directly to NSA where transactions are automatically posted. Any errors are researched at DIA and manually posted. A direct feed is not possible until DFAS-Indianapolis has the capacity for processing classified transactions. Because DIA is responsible for accounting for its funding, including funds sub-allocated to the Services; DIA does not believe that it is feasible to rely on the Services to perform their reconciliation. However, they will work with DFAS to determine alternatives by second quarter 2008.

DFAS Management Comments: DFAS-Indianapolis concurs with recommendations B.1 and B.3, and states they are communicating with DIA a minimum two times per week regarding their undistributed balances and have increased research efforts to assist with reduction of DIA's undistributed amounts. Indianapolis Operations is also trending the results of research efforts by monitoring reduction of undistributed balances monthly. The reprogramming of the Cash Management Analysis Report 4B is in final testing.

Audit Response: DIA's and DFAS' comments are considered responsive to the recommendations. Therefore, no further response is required.

Finding C: Capturing of all DIA Suballotments in the Monthly Reporting Process and Increased Coordination Between DIA and DFAS-Indianapolis is Needed

DIA had not established a process to ensure all its limits were captured in the DFAS monthly reports and the CMR process. This condition occurred primarily because DIA did not promptly notify DFAS-Indianapolis when DIA created new limits for use by the Combatant Commands. Without updating these new limits into the DFAS Headquarters Accounting Reporting System (HQARS) and the FoxPro database system, transactions with these new limits fail edit checks and are included as undistributed balances in the 9999 limit. After DIA creates a new limit, DFAS-Indianapolis then programs its systems and reporting modules to include these newly created limits to ensure all new limits are properly and timely reported when preparing the CMR or the DIA monthly reports.

DFAS-Indianapolis and DIA need to establish regular and frequent dialogue regarding DIA's FBWT reconciliation to discuss matters such as establishing, communicating, monitoring, and updating standard policies and procedures,

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particularly related to material undistributed balances. The current DFAS-Indianapolis FBWT Plan of Actions and Milestones (POAM) is not specific enough to meet DIA's needs (see Finding F below for further detail). Currently, there are material unsupported, undistributed disbursement and collection balances at both the DIA agency-level and GF ODO 9999 limit level. However, DIA and DFAS-Indianapolis were not working together to focus on understanding, monitoring, researching, and resolving the DIA undistributed balances.

Neither DFAS-Indianapolis nor DIA coordinated and communicated the full list of all DIA limits being used. DIA established and used new limits without informing DFAS-Indianapolis, which caused these limits to fail system edit checks at DFAS-Indianapolis and be reported as 9999 limits. DFAS-Indianapolis and DIA management have not established a communication protocol regarding the DIA FBWT reconciliation process. Such a protocol would include establishing, communicating, monitoring, and updating standard policies and procedures, because both agencies were independently focusing on corrective actions, instead of coordinating on resolving the issues. Without continued and frequent communication, a collaborative review process between DIA and DFAS-Indianapolis, ongoing training, and standard formal documented procedures, there is the potential for similar type of errors to occur in the future that impact the accuracy of the DIA financial reports. Having a DIA presence directly at DFAS-Indianapolis would greatly facilitate the communication among the agencies, as well as allow DIA to facilitate its oversight over the work performed by DFAS-Indianapolis on its behalf.

RECOMMENDATIONS

C.1. We recommend that the Director, Defense Intelligence Agency, in conjunction with the Director, Defense Finance and Accounting Service, Indianapolis Operations:

- a. Create an Integrated Process Team to coordinate on corrective actions related to auditability impediments for the DIA's Fund Balance with Treasury line item.
- b. Develop and communicate standard policies and procedures to be used by both DFAS-Indianapolis and DIA personnel related to the reconciliation processes for Fund Balance with Treasury, including the maintenance and reconciliation of classified data.

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- c. Ensure that DIA or its contractor personnel involved in the Fund Balance with Treasury reconciliation process receive detailed training by DFAS-Indianapolis personnel related to the use of DFAS-Indianapolis reports in the reconciliation process.

C.2. We recommend that the Director, Defense Intelligence Agency:

- a. Include at least one individual (government or contractor) at DFAS-Indianapolis to focus on understanding, monitoring, researching, and resolving the DIA undistributed balances, as well as to help identify and resolve Other Defense Organization General Fund-level undistributed balances related to DIA.
- b. Develop and implement procedures to ensure that the DIA Financial Executive Accounting Operations and Financial Reporting Division receive timely information when DIA program offices create new DIA limits.
- c. Promptly notify DFAS-Indianapolis to ensure newly created limits are captured in the DFAS-Indianapolis Fund Balance with Treasury systems for financial reporting purposes.

MANAGEMENT COMMENTS AND AUDIT RESPONSE

DIA Management Comments: DIA concurs with recommendation C.1 and states that DIA has established an Integrated Process Team to address FBWT issues. The team meets biweekly. By the end of first quarter of FY 2008, DIA will incorporate DFAS-Indianapolis into the biweekly meetings. DIA will work with DFAS-Indianapolis to standardize policies and procedures relating to the reconciliation process for FBWT. DIA will work with DFAS on scheduling training during FY 2008. DIA concurs with recommendations C.2.a and C.2.b, however non-concurs with recommendation C.2.c and states that DIA has begun the process to put local, cleared personnel at DFAS-Indianapolis to focus on understanding, monitoring, researching, and resolving the DIA undistributed balances, as well as help identify and resolve Other Defense Organization General Fund-level undistributed balances related to DIA. Due to security clearance constraints, this task may be accomplished before the second quarter of FY 2008. DIA has procedures to include new limits in the Fiscal Code. The Fiscal Code for FY 2008 is currently in draft form and will be distributed once finalized. Expected completion date is first quarter of FY 2008. However, per DIA, DFAS approves new limits requested by DIA program offices and maintains the master table of DoD limits. DIA believes this last recommendation should be

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redirected to DFAS to ensure that once the master table of DoD limits is updated then the DFAS reporting systems should be updated.

DFAS Management Comments: DFAS-Indianapolis concurs with recommendation C.1 and states they are communicating with DIA a minimum two times per week regarding their undistributed balances and has increased research efforts to assist with reduction of DIA's undistributed amounts. All efforts are fully coordinated with DIA. Based on increased communication and coordination between DIA and DFAS-Indianapolis Operations, this recommendation should be considered closed. However, an effective date will be determined based on coordination with DIA.

Audit Response: DIA's and DFAS' comments are considered responsive to the recommendations. Therefore, no further response is required.

**Finding D: Funding Authorization Documents were Not Reported
on the Financial Statements in the Proper Accounting
Period**

DIA understated the APR line item on the SBR for the first quarter FY 2007 financial statements because DIA FE-ACO did not promptly enter two FADs in the correct reporting period. DIA received three FADs for the first quarter for one of its appropriations; however, the APR line item included only the amount for one of the FADs, significantly understating APR. The SBR was then prepared with the incorrect amount from the general ledger, causing the APR line item to be understated. This indicated a lack of adequate DIA management supervisory review.

The DIA budget office did not provide the unposted FADs to FE-ACO by the general ledger closing cut-off date, and the FADs were then posted in the second quarter accounting period. The lack of communication with the budget office also helped cause the problem.

The inability to timely and properly record FADs in the correct accounting period, or prepare adjustments for those items to the financial statements, caused the financial statements to be misstated.

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RECOMMENDATIONS

D.1. We recommend that the Director, Defense Intelligence Agency:

- a. Increase coordination between the FE-ACO and the DIA budget office to ensure FE-ACO is receiving Funding Authorization Documents in a timely manner. At a minimum, the DIA budget office should send a quarterly certification to FE-ACO before the general ledger is closed for the period, certifying that total funding for that quarter is supported by a complete listing of approved Funding Authorization Documents.
- b. Provide adequate supervisory review over Funding Authorization Documents posted to the general ledger to reduce the risk of misstatements. Also, ensure that an adequate reconciliation is performed on a monthly basis of the general ledger data to the source documents before the close of the system for the accounting period.
- c. Develop policies and procedures for posting adjustments to correct the financial statements upon discovery of errors or changes to the general ledger data after the close of the accounting system for the reporting period.

MANAGEMENT COMMENTS AND AUDIT RESPONSE

DIA Management Comments: DIA concurs with recommendation D.1 and states that during the first quarter FY 2008, FE-ACO and the DIA budget office will develop policies and procedures on sending a statement to FE-ACO certifying that total funding for that period is supported by a complete listing of approved Funding Authorization Documents. Supervisory review over Funding Authorization Documents posted to the general ledger and reconciliation procedures will be conducted by the close of the system for the accounting period. Policies and procedures will be in place by the end of the FY 2008.

Audit Response: DIA's comments are considered responsive to the recommendations. Therefore, no further response is required.

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Significant Deficiencies

Finding E: The DFAS Headquarters Accounting Reporting System does not Contain Complete Voucher Data for Reconciliation Purposes

The DFAS HQARS does not include document numbers or voucher numbers for U.S. Treasury adjustments or certain other transactions. In addition, HQARS does not allow for more than six positions for voucher numbers at the transaction level. When transactions have voucher numbers more than six digits long, HQARS truncates the numbers. The lack of complete voucher numbers makes research more difficult when DIA uses files sent by DFAS-Indianapolis such as the Pile-Up reports to research the cause of undistributed amounts. DFAS-Indianapolis does maintain a stand-alone application from HQARS which captures voucher information as a workaround. From this application, DFAS-Indianapolis provides reports such as the cleared and uncleared Transactions by Others and Transactions for Others reports to DIA, which contains more detailed voucher information to assist in reconciliation. The DIA FBWT reconciliation team has agreed to use these workaround reports.

Other resources from which additional voucher number level detail can be identified are the Defense Cash Accountability System, Operational Data Store, and the DFAS-Indianapolis File Transfer Protocol server. However, without a fully integrated system, performing these reconciliations and using workarounds is still costly to agencies such as DIA. These issues are barriers for DIA and increase the costs in performing their undistributed reconciliation. The system deficiency is a contributor to DIA's material agency level undistributed amounts. In discussions with DIA, they expressed willingness to consider the need to increase the current funding level provided to DFAS-Indianapolis if that funding would result in a significant improvement in DIA's ability to reconcile its FBWT.

HQARS is a legacy system developed over 30 years ago. According to DFAS, being able to track detail transactions to the original voucher number or Treasury Adjustments to the voucher number in HQARS is not feasible. It would be a major undertaking to change the programs in HQARS along with many feeder systems to allow the tracking of transactions to the voucher number. Because HQARS is considered a legacy system, there is no funding to cover enhancements to the system. HQARS is tentatively scheduled to be replaced by the Business Enterprise Information Services Cash Capability, currently the

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Defense Cash Accountability System, in the year 2009, according to the Business Transformation Agency. The new system falls under the control of the Business Transformation Agency which is unable to provide DFAS-Indianapolis with a more exact date for the system change. DFAS-Indianapolis does have a requirements team whose function is to work with their customers, to ascertain the needs of those agencies and ensure that the Business Transformation Agency incorporates those requirements into the new system during implementation.

The lack of complete voucher-level detail in the system and using workarounds prevents both DFAS-Indianapolis and DIA from effectively performing the GF ODO and agency-level reconciliations of undistributed transactions. The additional research caused by this deficiency is both time-consuming and costly. DIA has spent and continues to spend a significant amount of funding on contractors to assist in the undistributed reconciliation process due to these system deficiencies. The inability to identify and reconcile the DIA agency undistributed balances will prevent auditors from performing procedures to provide assurance that the DIA FBWT line item is free from material misstatement.

RECOMMENDATIONS

E.1. We recommend that the Director, Defense Intelligence Agency ensure that all of the necessary DIA personnel gain access to Defense Cash Accountability System, Operational Data Store, and the DFAS-Indianapolis File Transfer Protocol server from which additional voucher number level detail can be identified to help reconcile and resolve the 9999 limit and other undistributed transactions, as well as using the workaround reports such as the cleared/uncleared Transactions By Others/Transactions For Others reports provided by DFAS-Indianapolis.

E.2. We recommend that the Director, Defense Finance and Accounting Service, Indianapolis Operations continues coordinating with the Business Transformation Agency by actively participating on the Business Enterprise Information Service's Cash Capability's requirements team, and notify DIA and other applicable Defense Agencies of any potential impact on their FBWT reconciliation processes for planning purposes.

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MANAGEMENT COMMENTS AND AUDIT RESPONSE

DIA Management Comments: DIA concurs with recommendation E.1 and states that DIA is in the process of obtaining access to the Defense Cash Accountability System and Operation Data Store; however, security concerns at DIA require testing of the products. Every time a version is cleared for upload, a new version comes out and testing must be done again. DIA received the latest version in August 2007 and is in the process of going through security testing. DIA personnel have access to the DFAS-Indianapolis File Transfer Protocol server. During the first quarter of FY 2008, DIA personnel will work with DFAS-Indianapolis to identify how to better use the directories on the server to assist in resolving the 9999 limit and other undistributed transactions. The cleared/uncleared Transactions By Others/Transactions For Others reports still have truncated voucher numbers and is not a workaround. DIA personnel are using those reports for research purposes only.

DFAS Management Comments: DFAS-Indianapolis concurs with recommendation E.2 and states that they will continue coordinating with the Business Transformation Agency by actively participating on the Business Enterprise Information Service's Cash Capability's requirements team, and will notify DIA and other applicable Defense Agencies of the potential impact on their FBWT reconciliation process as new developments near testing and implementation.

Audit Response: DIA's and DFAS' comments are considered responsive to the recommendations. Therefore, no further response is required.

Finding F: The DFAS-Indianapolis FBWT Plan of Actions and Milestones is not Specific Enough in Nature Related to DIA

We reviewed the most recent DFAS-Indianapolis FBWT POAM for corrective actions that impact the GF ODO FBWT reconciliation processes to determine if the proposed resolution dates for applicable items are reasonable in reference to DIA's auditability goals.

The POAM was not specific enough to meet DIA's needs, and it did not contain updated information for tracking DFAS' progress related to FBWT corrective actions because DFAS-Indianapolis no longer uses that POAM as a tracking tool. Other intelligence agencies have agency specific POAMs coordinated with

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DFAS-Indianapolis; however, DIA does not. We noticed an increase in communication between the two agencies, primarily related to DFAS-Indianapolis identifying the "classified" agencies as a major contributor to the unsupported undistributed balances.

An active and workable DFAS-Indianapolis POAM that constantly monitors and tracks issues and progress would help DIA to reach its auditability goals on a targeted time frame. Key elements that may be considered as part of the DIA specific POAM are: developing a complete list of DIA limits, reducing undistributed balances at the DIA and GF ODO level, performing trend analysis of undistributed amounts, obtaining DFAS-Indianapolis certification over GF ODO level undistributed amounts, developing formal standard policies and procedures to sustain the auditability of the DIA FBWT line item, training needs, etc.

RECOMMENDATIONS

F.1. We recommend that the Director, Defense Intelligence Agency in conjunction with the Director, Defense Finance and Accounting Service, Indianapolis Operations:

- a. Collaborate to create a DIA specific Plan of Actions and Milestones for Fund Balance with Treasury and update it on a continual basis with clearly delineated responsibilities and action items.
- b. The DFAS-Indianapolis and DIA Integrated Process Team establish frequent meeting schedules for communication and monitoring progress and to ensure that established objectives are achieved timely.

MANAGEMENT COMMENTS AND AUDIT RESPONSE

DIA Management Comments: DIA concurs with recommendation F.1 and states that DIA and DFAS-Indianapolis have created a DIA specific POAM for FBWT. The POAM is currently being reviewed for completed and new action items. DIA has established an Integrated Process Team to address FBWT issues. The team meets biweekly. By the end of the first quarter of the FY 2008, DIA will incorporate DFAS-Indianapolis in the biweekly meetings.

DFAS Management Comments: DFAS-Indianapolis concurs with recommendation F.1 and states a POAM now exists and is being updated with DIA. More efficient communication and coordination has already been implemented among both organizations. DFAS-Indianapolis will work with the DIA Integrated Process Team to establish frequent meeting schedules for

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communication and monitoring progress and to ensure that established objectives are achieved timely.

Audit Response: DIA's and DFAS' comments are considered responsive to the recommendations. Therefore, no further response is required.

Management Letter Comment

Finding G: The Service Level Agreement between DIA and DFAS-Indianapolis is not Specific Enough in Nature Related to DIA

The Service Level Agreement (SLA) is the agreement between DIA and DFAS-Indianapolis which describes the services that will be performed and responsibilities of each agency. The last SLA between DIA and DFAS-Indianapolis was signed in 2002. This agreement is outdated and very general in terms. It also contains items not relevant to DIA, as it covers not only General Fund, but Working Capital Fund reports.

Neither DIA nor DFAS-Indianapolis has placed a priority on updating the SLA since 2002. As DIA works towards its goals of auditability, the agency will need more support from DFAS-Indianapolis. DIA will be better able to ensure it receives this support if it is specifically delineated with clear responsibilities in an updated SLA with DFAS-Indianapolis.

The outdated and general SLA between DFAS-Indianapolis and DIA causes each agency to be unsure of specific requirements and responsibilities that are performed by each agency. The required support and responsibilities of each agency are not contained in the current SLA.

RECOMMENDATION

G.1. We recommend that the Director, Defense Intelligence Agency in conjunction with the Director, Defense Finance and Accounting Service, Indianapolis Operations update the Service Level Agreement to ensure agreement regarding specific responsibilities to be performed by DIA and DFAS-Indianapolis. The agreement should include specific support duties and responsibilities needed to be provided by DIA and DFAS-Indianapolis to meet

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DIA's auditability goals, including specific areas related to the DIA Fund Balance with Treasury reconciliation process.

MANAGEMENT COMMENTS AND AUDIT RESPONSE

DIA Management Comments: DIA concurs with recommendation G.1 and states that DIA will work with DFAS-Indianapolis to update the Service Level Agreement to include specific support duties and responsibilities needed to meet DIA's auditability goals. This process will begin in the second quarter of FY 2008 and will be updated on an annual basis.

DFAS Management Comments: DFAS-Indianapolis concurs with recommendation G.1 and states they will update the Service Level Agreement to ensure agreement regarding specific responsibilities to be preformed including support duties and responsibilities needed to be preformed by DIA and DFAS-Indianapolis Operations to meet DIA's auditability goals, including specific areas related to the DIA Fund Balance with Treasury reconciliation process.

Audit Response: DIA's and DFAS' comments are considered responsive to the recommendations. Therefore, no further response is required.

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Appendix A - DIA Management Comments



DEFENSE INTELLIGENCE AGENCY
WASHINGTON, DC 20340-5100



To: Urbach Kahn & Werlin LLP
Attn: Roger Von Elm, CPA, CGFM
1030 Fifteenth Street, NW, Ste 1250
Washington, DC 20005

SEP 12 2007

Subject: Assessment of Fund Balance with Treasury and Appropriations Received Line Items (DoD-OIG Project No. D2006-D000FA-0263.000)

Reference: Your letter August 24, 2007, subject as above

1. The Defense Intelligence Agency (DIA) has reviewed the subject draft report and concurs with the findings and partially concurs with the recommendations. The detailed response is found in the enclosure.
2. DIA is committed to improving the auditability of DIA's Fund Balance with Treasury line item on the Balance Sheet, and the Appropriations Received line item on the DIA Statement of Budgetary Resources.
3. My point of contact is Mr. Ken Murphy, (703) 695-2294, FAX (703) 692-4855 and NIPRNet e-mail kenneth.murphy@dia.mil. Please address all correspondence to DIA/FE-2C (Attn: Ken Murphy), 200 MacDill Blvd, Washington, DC 20340-5100.

Tim Soltis
Deputy Chief Financial Executive for Financial
Management (Comptroller)

Enclosure

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DEFENSE INTELLIGENCE AGENCY FUND BALANCE WITH TREASURY AND APPROPRIATIONS RECEIVED AUDITABILITY ASSESSMENT REPORT

Management Response to the draft Assessment of Fund Balance with Treasury and Appropriations Received Line Items

General Comments

The DIA management concurs with the findings and most recommendations contained in the draft report. DIA is committed to improving the auditability of DIA's Fund Balance with Treasury line item on the Balance Sheet, and the Appropriations Received line item on the DIA Statement of Budgetary Resources.

Our responses to detailed recommendations are provided below.

Clarifications to the Background

Background, page 6: The bullets explaining the appropriations received process is confusing the way it is currently written. Please revise as stated below:

- Once the budget is passed and enacted into law, the DIA Chief Financial Executives Office (CFE) receives notification of its annual appropriations from the Office of the Undersecretary of Defense Comptroller [OUSDC] in the form of Funding Authorization Documents (FADs).
- FE-2A receives the FADs and adjusts previously recorded budget estimates in Rosedust to reflect actual FAD values). DIA Budget Analysts provide copies of the FADs from OUSDC to DFAS-Indianapolis and FE-ACO.
- FE-ACO enters the FAD in Rosedust to reflect the receipt of funds and establishes funding limits at the appropriation and fiscal year level. Rescissions and reductions are entered in the same way as the allocation - using a negative dollar amount to reduce the total allocation. CRAs are entered in the same manner as an allotment, but are identified as CRA entries in the system. This ensures that a debit is recorded to general ledger account 109000, Fund Balance With Treasury under a Continuing Resolution.
- FE-ACO verifies that entries in Rosedust match the FAD. If there is a discrepancy, corrections are made to the Rosedust entries. If the FAD and Rosedust match, the FAD is filed.
- The amounts entered into Rosedust are used to populate the APR line item on the DIA Statement of Budgetary Resources (SBR).
- After recording the APR into Rosedust, FE-2A sends copies of all FADs to DFAS-Indianapolis.
- DFAS-Indianapolis reconciles the FADs from FE-2A to the funding documents provided by OUSDC to ensure that they match.
- If the funding documents do not match, DFAS-Indianapolis contacts OUSDC and FE-2A to resolve the discrepancy.

Responses to Recommendations

1

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Recommendation A.1.

We recommend that the Director, Defense Intelligence Agency:

- a. Gain access to the 9999 limit reports that provide the original limit identification, and designate personnel to work with DFAS-Indianapolis to identify these original limit generated 9999 limit balances that pertain to DIA. Coordinate with DFAS-Indianapolis to research and reconcile the transactions shown in the 9999 limit to resolve or write-off the items that pertain to DIA.
- b. Request DFAS-Indianapolis to immediately begin the specific identification of the General Fund Other Defense Organizations level undistributed balances that may pertain to DIA.

DIA Response to recommendation A.1.a. Concur. We agree that to improve reconciliation of DFAS and DIA records, it is essential to have cleared resources at DFAS working to support DIA. DIA has begun the process to put local, cleared contract personnel out at DFAS-Indianapolis to research and reconcile transactions in the 9999 limit that relate to DIA. We are also working with DFAS to get them to provide dedicated government resources to support DIA and we will reimburse them for this additional service. Due to security clearance constraints, getting cleared personnel into DFAS to begin supporting DIA requirements may not be completed before the 2nd quarter of FY 2008.

DIA Response to Recommendation A.1.b. Concur. The way DFAS handles its undistributed balances has been a long-standing issue for DIA, just as it has been for most Defense Agencies. By November 15, 2007, DIA will send a formal request to DFAS-Indianapolis to obtain specific identification of the General Fund Other Defense Organizations level undistributed balances that pertain to DIA. Also, the dedicated personnel located at DFAS-Indianapolis will work to help identify the DIA-owned piece of the undistributed balances.

Recommendations B.1

We recommend that the Director, Defense Intelligence Agency, in conjunction with the Director, Defense Finance and Accounting Service, Indianapolis Operations, collaborate on performing a trend analysis of the DIA undistributed balances each month, to determine which balances have fully stabilized (not changing over the years or remain relevantly constant), and what balances remain unsupported. For unsupported balances, DIA and DFAS-Indianapolis should determine the aging of the data and write-off of aged balances as necessary.

DIA Response to Recommendation B.1 Concur. DFAS-Indianapolis currently provides trend analysis for problem disbursements to include aging. DIA personnel will work with DFAS-Indianapolis to perform trend analysis of the DIA undistributed

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balances each month, to determine which balances have fully stabilized and what balances remain unsupported. This will include an aging of the data and a determination of the likelihood of finding the original source disbursement records. DIA will then determine what aged balances should be written-off. During the first quarter of FY 2008, discussions will be held with DFAS-Indianapolis to determine how to perform the trend analysis and the timing of the writeoffs.

Recommendation B.2

We recommend that the Director, Defense Intelligence Agency:

- a. Limit the number of disbursing stations that have the authority to disburse DIA funds in order to reduce potential significant undistributed balances.
- b. Initiate a direct feed from the DFAS systems to the new DIA accounting system, to facilitate the reconciliation and reporting of the DIA Fund Balance with Treasury line item.
- c. Require the limits for unclassified sub-allotments to flow through normal channels to DFAS and process the Cash Management Report adjustments at the four position limit level instead of the two position level, to shift the burden of reconciling undistributed disbursements and collections from DIA to the Services.

DIA Response to Recommendation B.2.a. Partially Concur. DIA has established procedures where contracts written by DIA contracting officers use NSA as the paying station. Also, contracts written on behalf of DIA are requested to use NSA as the paying station. DIA has limited control over other disbursing stations that also disburse funds because the Services and DFAS control those disbursements. DIA will look to reduce the amount of outgoing MIPRs that have funds disbursed by DFAS and work with DFAS to find ways to consolidate the number of disbursing stations that disburse DIA funds.

DIA Response to Recommendation B.2.b. Partially Concur. Currently, there is an interface between DFAS and NSA. DFAS sends a file directly to NSA where transactions are automatically posted. Any error are researched at DIA and manually posted. A direct feed is not possible until DFAS-Indianapolis has the capability for processing classified transactions.

DIA Response to Recommendation B.2.c. Partially Concur. Because DIA is responsible for accounting for its funding, including funds suballocated to the Services; we do not believe that it is feasible to rely on the Services to perform our reconciliation. However, we will work with DFAS to determine alternatives by second quarter 2008.

Recommendation C.1.a.

We recommend that the Director, Defense Intelligence Agency, in conjunction with the Director, Defense Finance and Accounting Service, Indianapolis Operations:

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- a. Create an Integrated Process Team to coordinate on corrective actions related to auditability impediments for the DIA's Fund Balance with Treasury line item.
- b. Develop and communicate standard policies and procedures to be used by both DFAS-Indianapolis and DIA personnel related to the reconciliation processes for Fund Balance with Treasury, including the maintenance and reconciliation of classified data.
- c. Ensure that DIA or its contractor personnel involved in the Fund Balance with Treasury reconciliation process receive detailed training by DFAS-Indianapolis personnel related to the use of DFAS-Indianapolis reports in the reconciliation process.

DIA Response to Recommendation C.1.a. Concur. DIA has established an Integrated Process Team to address Fund Balance with Treasury issues. The team meets weekly. By the end of the first quarter of FY 2008, DIA will incorporate DFAS-Indianapolis into the biweekly meetings.

DIA Response to Recommendation C.1.b. Concur. DIA will work with DFAS-Indianapolis to standardize policies and procedures relating to the reconciliation process for Fund Balance with Treasury.

DIA Response to Recommendation C.1.c. Concur. DIA will work with DFAS on scheduling the training during FY 2008.

Recommendation C.2

We recommend that the Director, Defense Intelligence Agency:

- a. Include at least one individual (government or contractor) at DFAS-Indianapolis to focus on understanding, monitoring, researching, and resolving the DIA undistributed balances, as well as to help identify and resolve Other Defense Organization General Fund-level undistributed balances related to DIA.
- b. Develop and implement procedures to ensure that the DIA Financial Executive Accounting Operations and Financial Reporting Division receive timely information when DIA program offices create new DIA limits.
- c. Promptly notify DFAS-Indianapolis to ensure newly created limits are captured in the DFAS-Indianapolis Fund Balance with Treasury systems for financial reporting purposes.

DIA Response to Recommendation C.2.a. Concur. DIA has begun the process to get local, cleared personnel at DFAS-Indianapolis to focus on understanding, monitoring, researching, and resolving the DIA undistributed balances, as well as to help identify and

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resolve Other Defense Organization General Fund-level undistributed balances related to DIA. Due to security clearance constraints, this task may be accomplished before the second quarter of FY 2008.

DIA Response to Recommendation C.2.b. Concur. DIA has procedures to include new limits in the Fiscal Code. The Fiscal Code for FY 2008 is currently in draft form and will be distributed once finalized. Expected completion date is first quarter of FY 2008.

DIA Response to Recommendation C.2.c. Non-Concur. DFAS approves new limits requested by DIA program offices and maintains the master table of DoD limits. We believe this recommendation should be redirected to DFAS to ensure that once the master table of DoD limits is updated then the DFAS reporting systems should be updated.

Recommendation D.1

We recommend that the Director, Defense Intelligence Agency:

- a. Increase coordination between the FE-ACO and the DIA budget office to ensure FE-ACO is receiving Funding Authorization Documents in a timely manner. At a minimum, the DIA budget office should send a quarterly certification to FE-ACO before the general ledger is closed for the period, certifying that total funding for that quarter is supported by a complete listing of approved Funding Authorization Documents.
- b. Provide adequate supervisory review over Funding Authorization Documents posted to the general ledger to reduce the risk of misstatements. Also, ensure that an adequate reconciliation is performed on a monthly basis of the general ledger data to the source documents before the close of the system for the accounting period.
- c. Develop policies and procedures for posting adjustments to correct the financial statements upon discovery of errors or changes to the general ledger data after the close of the accounting system for the reporting period.

DIA Response to Recommendation D.1.a. Concur. During first quarter FY 2008, FE-ACO and the DIA budget office will develop policies and procedures on sending a statement to FE-ACO certifying that total funding for that period is supported by a complete listing of approved Funding Authorization Documents.

DIA Response to Recommendation D.1.b. Concur. Supervisory review over Funding Authorization Documents posted to the general ledger and reconciliation procedures will be conducted by the close of the system for the accounting period.

DIA Response to Recommendation D.1.c. Concur. Policies and procedures will be in place by the end of FY 2008.

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Recommendation E.1

We recommend that the Director, Defense Intelligence Agency ensure that all of the necessary DIA personnel gain access to Defense Cash Accountability System, Operational Data Store, and the DFAS-Indianapolis File Transfer Protocol server from which additional voucher number level detail can be identified to help reconcile and resolve the 9999 limit and other undistributed transactions, as well as using the workaround reports such as the cleared/uncleared Transactions By Others/Transactions For Others reports provided by DFAS-Indianapolis.

DIA Response to Recommendation E.1. Concur. DIA is in the process of obtaining access to Defense Cash Accountability System and Operational Data Store; however, security concerns at DIA require testing of the products. Every time a version is cleared for upload, a new version comes out and testing must be done again. DIA received the latest version in August 2007 and is in the process of going through security testing.

DIA personnel have access to the DFAS-Indianapolis File Transfer Protocol server. During the first quarter of FY 2008, DIA personnel will work with DFAS-Indianapolis to identify how to better use the directories on the server to assist in resolving the 9999 limit and other undistributed transactions.

The cleared/uncleared Transactions By Others/Transactions For Others reports still have truncated voucher numbers and is not a workaround. DIA personnel are using those reports for research purposes only.

Recommendation F.1

We recommend that the Director, Defense Intelligence Agency in conjunction with the Director, Defense Finance and Accounting Service, Indianapolis Operations:

- a. Collaborate to create a DIA specific Plan of Actions and Milestones for Fund Balance with Treasury and update it on a continual basis with clearly delineated responsibilities and action items.
- b. The DFAS-Indianapolis and DIA Integrated Process Team establish frequent meeting schedules for communication and monitoring progress and to ensure that established objectives are achieved timely.

DIA Response to Recommendation F.1.a. Concur. DIA and DFAS-Indianapolis have created a DIA specific Plan of Actions and Milestones (POAM) for Fund Balance with Treasury. The POAM is currently being reviewed for completed and new action items.

DIA Response to Recommendation F.1.b. Concur. DIA has established an Integrated Process Team to address Fund Balance with Treasury issues. The team meets weekly. By

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the end of the first quarter of FY 2008, DIA will incorporate DFAS-Indianapolis into the biweekly meetings.

Recommendation G.1

We recommend that the Director, Defense Intelligence Agency in conjunction with the Director, Defense Finance and Accounting Service, Indianapolis Operations update the Service Level Agreement to ensure agreement regarding specific responsibilities to be performed by DIA and DFAS-Indianapolis. The agreement should include specific support duties and responsibilities needed to be provided by DIA and DFAS-Indianapolis to meet DIA's auditability goals, including specific areas related to the DIA Fund Balance with Treasury reconciliation process.

DIA Response to Recommendation G.1. Concur. DIA will work with DFAS-Indianapolis to update the Service Level Agreement to include specific support duties and responsibilities needed to meet DIA's auditability goals. This process will begin in the second quarter of FY 2008 and will be updated on an annual basis.

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Appendix B - DFAS-Indianapolis Management Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE
8899 EAST 86TH STREET
INDIANAPOLIS, INDIANA 46249

SEP 10 2007

DFAS-JBI/IN

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL, DEFENSE FINANCIAL
AUDITING SERVICE, DEPARTMENT OF DEFENSE OFFICE OF THE INSPECTOR
GENERAL

SUBJECT: Defense Intelligence Agency Fund Balance With Treasury And Appropriations
Received Auditability Assessment (Audit Project No. D2006-D000FA-0263.000)

Indianapolis Operations is providing management comments to the following
recommendation:

Recommendation B.1. We recommend that the Director, Defense Intelligence Agency, in
conjunction with the Director, Defense Finance and Accounting Service, Indianapolis
Operations, collaborate on performing a trend analysis of the DIA undistributed balances each
month, to determine which balances have fully stabilized (not changing over the years or remain
relevantly constant), and what balances remain unsupported. For unsupported balances, DIA and
DFAS-Indianapolis should determine the aging of the data and write-off of aged balances as
necessary.

Current Management Comments: Stakeholder: Jan Crews, 317-510-6340. Concur.
Indianapolis Operations is communicating with Defense Intelligence Agency (DIA) a minimum
of two times per week regarding their undistributed balances and have increased research efforts
to assist with reduction of DIA's undistributed amounts. Indianapolis Operations is also trending
the results of our research efforts by monitoring reduction of undistributed balances monthly.

Estimated Completion Date: To be determined based on coordination with the DIA.

Recommendation B.3. We recommend that the Director, Defense Finance and Accounting
Service Indianapolis Operations reprogram the Cash Management Analysis Report 4B as soon as
possible.

Current Management Comments: Stakeholder: Jan Crews, 317-510-6340. Concur.
Reprogramming of the Cash Management Analysis Report 4B is in final testing.

Estimated Completion Date: January 31, 2008

Recommendation C.1. We recommend that the Director, Defense Intelligence Agency, in
conjunction with the Director, Defense Finance and Accounting Service, Indianapolis
Operations:

- a. Create an Integrated Process Team to coordinate on corrective actions related to
auditability impediments for the DIA's Fund Balance with Treasury line item.

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- b. Develop and communicate standard policies and procedures to be used by both DFAS-Indianapolis and DIA personnel related to the reconciliation processes for Fund Balance with Treasury, including the maintenance and reconciliation of classified data.
- c. Ensure that DIA or its contractor personnel involved in the Fund Balance with Treasury reconciliation process receive detailed training by DFAS-Indianapolis personnel related to the use of DFAS-Indianapolis reports in the reconciliation process.

Current Management Comments: Stakeholder: Jan Crews, 317-510-6340. Concur. Indianapolis Operations is communicating with DIA a minimum of two times per week regarding their undistributed balances and has increased research efforts to assist with reduction of DIA's undistributed. All efforts are fully coordinated with DIA. Based on increased communication and coordination between DIA and Indianapolis Operations, this recommendation should be considered closed. However, an effective date will be determined based on coordination with the DIA.

Estimated Completion Date: To be determined based on coordination with the DIA.

Recommendation E.2. We recommend that the Director, Defense Finance and Accounting Service, Indianapolis Operations continues coordinating with the Business Transformation Agency by actively participating on the Business Enterprise Information Service's Cash Capability's requirements team, and notify DIA and other applicable Defense Agencies of any potential impact on their FBWT reconciliation processes for planning purposes.

Current Management Comments: Stakeholder: Jan Crews, 317-510-6340. Concur. Indianapolis Operations will continue coordinating with the Business Transformation Agency by actively participating on the Business Enterprise Information Service's Cash Capability's requirements team and notify DIA and other Defense Agencies of potential impact on their FBWT reconciliation processes as new developments near testing and implementation.

Completion Date: September 7, 2007

Recommendation F.1. We recommend that the Director, Defense Intelligence Agency in conjunction with the Director, Defense Finance and Accounting Service, Indianapolis Operations:

- a. Collaborate to create a DIA specific Plan of Actions and Milestones for Fund Balance with Treasury and update it on a continual basis with clearly delineated responsibilities and action items.
- b. The DFAS-Indianapolis and DIA Integrated Process Team establish frequent meeting schedules for communication and monitoring progress and to ensure that established objectives are achieved timely.

Current Management Comments: Stakeholder: Jan Crews, 317-510-6340. Concur. A Plan of Actions and Milestones exists and is being updated with DIA. More efficient communication and coordination has already been implemented among both organizations. Indianapolis

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Operations will work with DIA Integrated Process Team to establish frequent meeting schedules for communication and monitoring progress and to ensure that established objectives are achieved timely.

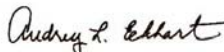
Estimated Completion Date: To be determined based on coordination with the DIA.

Recommendation G.1. We recommend that the Director, Defense Intelligence Agency in conjunction with the Director, Defense Finance and Accounting Service, Indianapolis Operations update the Service Level Agreement to ensure agreement regarding specific responsibilities to be performed by DIA and DFAS-Indianapolis. The agreement should include specific support duties and responsibilities needed to be provided by DIA and DFAS-Indianapolis to meet DIA's auditability goals, including specific areas related to the DIA Fund Balance with Treasury reconciliation process.

Current Management Comments: Stakeholder: Joe Suarez, 317-510-4119. Concur. Indianapolis Operations will update the Service Level Agreement to ensure agreement regarding specific responsibilities to be performed. The agreement will include specific support duties and responsibilities needed to be provided by DIA and Indianapolis Operations to meet DIA's auditability goals, including specific areas related to the DIA Fund Balance with Treasury reconciliation process.

Estimated Completion Date: To be determined based on coordination with the DIA.

My point of contact is Tony Hullinger, 317-510-4618.


for Steve R. Bonta
Director, Indianapolis Operations

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Appendix C - Bibliography

1. DoD Regulation 7000.14-R, Financial Management Regulation, Volume 4, Chapter 2 states,
Federal entities should explain any discrepancies between Fund Balance with Treasury in their general ledger accounts and the balance in the Treasury's accounts and explain the causes.

2. Treasury Financial Manual, Volume 1, Part 2, Chapter 5100, states,
Agencies must perform timely reconciliation and implement effective and efficient reconciliation processes...Agencies should document their reconciliations and make them available to agency management, auditors, and Treasury, if requested...Agencies also should ensure that all adjustments are researched and traceable to supporting documents.

3. Statement of Federal Financial Accounting Standards Number 1, Accounting for Selected Assets and Liabilities, states,
Federal entities should explain any discrepancies between fund balance with Treasury in their general ledger accounts and the balance in the Treasury's accounts and explain the causes of the discrepancies in footnotes to financial statements. (Discrepancies due to time lag should be reconciled and discrepancies due to error should be corrected when financial reports are prepared.)

4. Government Accountability Office's Standards for Internal Controls in the Federal Government, states,
Control should be installed at an application's interfaces with other systems to ensure that all inputs are received and are valid and outputs are correct and properly distributed. An example is computerized edit checks built into the system to review the format, existence, and reasonableness of data.

General and application controls over computer systems are interrelated. General control supports the functioning of application control, and both are needed to ensure complete and accurate information processing. If the general control is inadequate, the application control is unlikely to function properly and could be overridden. Because information technology changes rapidly, controls must evolve to remain effective. Changes in technology and its application to electronic commerce and expanding Internet applications will change the specific control activities that may be employed and how they are implemented, but the basic

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requirements of control will not have changed. As more powerful computers place more responsibility for data processing in the hands of the end users, the needed controls should be identified and implemented.

5. DoD Regulation 7000.14-R, Volume 6A, Chapter 2, states,

DoD Components shall ensure that audit trails are maintained in sufficient detail to permit tracing of transactions with a unique identity from its source to its transmission to the DFAS. This is necessary to demonstrate the accuracy, completeness, and timeliness of a transaction; as well as to provide documentary support, if required, for all data generated by the DoD Component and submitted to the DFAS for recording in the accounting systems and use in financial reports.

DoD Components are responsible for: 1. Ensuring the accuracy, completeness, timeliness and documentary support for all data generated by the customer and input electronically into finance and accounting systems or submitted to the DFAS for input and/or recording in the finance and accounting systems and inclusion in financial reports. 2. Establishing appropriate internal controls to assure the accuracy of data provided to the DFAS. 3. Reviewing all reports provided by the DFAS to assess the accuracy of the financial information being reported. 4. Performing program and management analysis on the information contained in financial reports. 5. Ensuring that the amounts in the financial reports are consistent and reconcilable with the same data included in management reports prepared by the DoD Component customer...

The preparation and issuance of Department of Defense (DoD) Component financial reports, for which accounting support is provided by the Defense Finance and Accounting Service (DFAS), is a joint responsibility of the DFAS and the applicable DoD Component. Both the DFAS and DoD Component customers of the DFAS are responsible for reviewing financial reports to assess the accuracy of the reported financial information and for taking corrective actions, as needed, to improve the timeliness and quality of those financial reports.

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6. OMB Circular A-127, *Financial Management Systems*, states,

The agency financial management system shall be able to provide financial information in a timely and useful fashion to (1) support management's fiduciary role; (2) support the legal, regulatory and other special management requirements of the agency; (3) support budget formulation and execution functions; (4) support fiscal management of program delivery and program decision making; (5) comply with internal and external reporting requirements, including, as necessary, the requirements for financial statements prepared in accordance with the form and content prescribed by OMB and reporting requirements prescribed by Treasury; and (6) monitor the financial management system to ensure the integrity of financial data.

7. OMB Bulletin No 06-03, *Audit Requirements for Federal Financial Statements*, states,

Material Weakness – *A significant deficiency, or combination of significant deficiencies, that results in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected. This definition of material weakness aligns with the definition of the same term used by management to prepare an agency's Federal Managers' Financial Integrity Act assurance statement.*

Significant Deficiency - *A deficiency in internal control, or a combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report 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 that is more than inconsequential will not be prevented or detected.*

Appendix B. Report Distribution

Office of the Secretary of Defense

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

Department of the Navy

Auditor General, Department of the Navy

Department of the Air Force

Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Finance and Accounting Service
Director, Defense Intelligence Agency
Inspector General, Defense Intelligence Agency
Director, National Security Agency
Director, National Geospatial-Intelligence Agency

Non-Defense Federal Organizations

Office of Management and Budget
Office of the Director of National Intelligence
Office of the Inspector General, Office of the Director of National Intelligence

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
Senate Select Committee on Intelligence
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services

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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 Permanent Select Committee on Intelligence

Team Members

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Inspector General Department of Defense