

Inspector General

United States
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Defense Finance and Accounting
Service Columbus Processes for
Consolidating and Compiling
Other Defense Organizations
Financial Data

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Acronyms

DBMS	Defense Business Management System
DDRS-B	Defense Departmental Reporting System-Budgetary
DCAA	Defense Contract Audit Agency
DCMA	Defense Contract Management Agency
DeCA	Defense Commissary Agency
DFAS	Defense Finance and Accounting Service
DHRA	Defense Human Resource Activity
DLA	Defense Logistics Agency
DTIC	Defense Technical Information Center
FBWT	Fund Balance with Treasury
GLAC	General Ledger Account Code
JV	Journal Voucher
NDSTF	National Defense Stockpile Transaction Fund
ODOs	Other Defense Organizations
SOPs	Standard Operating Procedures
USSGL	United States Standard General Ledger



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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October 30, 2007

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/
CHIEF FINANCIAL OFFICER
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE COLUMBUS

SUBJECT: Report on Defense Finance and Accounting Service Columbus Processes for
Consolidating and Compiling Other Defense Organizations Financial Data
(Report No. D-2008-008)

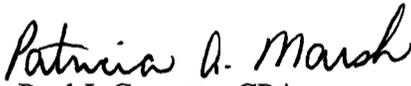
We are providing this report for review and comment. We considered management comments on a draft when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. Office of Under Secretary of Defense (Comptroller)/Chief Financial Officer and Defense Finance and Accounting Service comments were not responsive. Therefore, we request that the Under Secretary of Defense (Comptroller)/Chief Financial Officer provide additional comments to Recommendation 1. and the Director, Defense Finance and Accounting Service Columbus provide additional comments to Recommendation 2. by December 31, 2007.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to Auddfs@dodig.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Marvin (Leon) Peek at (703) 325-5777 (DSN 221-5777) or Mr. Scott S. Brittingham at (703) 325-6104 (DSN 221-6104). See Appendix C for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:


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

Department of Defense Office of Inspector General

Report No. D-2008-008

October 30, 2007

(Project No. D2006-D000FA-0098.000)

Defense Finance and Accounting Service Columbus Processes for Consolidating and Compiling Other Defense Organizations Financial Data

Executive Summary

Who Should Read This Report and Why? Personnel at Defense Finance and Accounting Service (DFAS) and accounting offices supporting the Other Defense Organizations (ODOs), and users of the DoD agency-wide financial statements can benefit from the results of this audit. Process improvements will increase the accountability, reliability, and auditability of the financial statements for the ODOs.

Background. The ODOs include the activities funded with Treasury Index 97 funds. The ODO financial information is consolidated into ODO General and Working Capital Funds. The Financial Reporting Division of DFAS Columbus provides financial reporting support for eight ODOs. DFAS Columbus compiles and consolidates financial data for the ODOs and submits the financial information to DFAS Indianapolis for inclusion in DoD agency-wide statements.

Results. DFAS Columbus did not have adequate controls over its processes to adjust ODO financial data and did not always have audit trails necessary to verify the validity and accuracy of financial data adjustments. As a result, DFAS Columbus made \$8.6 billion (absolute value) in adjustments to U. S. Standard General Ledger accounts for FY 2006 that were not documented and approved or substantiated by an audit trail. DFAS Columbus also prepared and approved \$535 million (absolute value) in journal vouchers for FY 2006 that were not posted to U. S. Standard General Ledger accounts or could not be substantiated by an audit trail. These discrepancies caused a \$7.6 billion (absolute value) difference between the actual account balances used in preparing the ODO financial statements and the journal voucher-derived account balances. Without effective controls to ensure that adjustments to financial data were valid, accurate, and approved, there was increased risk of material misstatement to the financial statements.

The Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer should revise and clarify DoD Regulation 7000.14-R and DoD Quarterly Guidance, Attachment 6C to require DoD to document, approve, and report financial data crosswalk adjustments. DFAS Columbus should develop and implement SOPs to ensure that: adjustments are documented and approved; all prepared and approved journal vouchers are recorded in the proper posting accounts; and the adjusted ending trial balances are reconciled to journal voucher-derived account balances. We also reviewed the DFAS Columbus managers' internal control program as it related to the compilation and consolidation of ODO financial data and determined that DFAS Columbus should expand the scope of its managers' internal control program to ensure all adjustments to financial data are processed and properly approved. See the Finding section of the report for the detailed recommendations.

Management Comments and Audit Response. The Acting Deputy Chief Financial Officer nonconcurred with the recommendation to revise the DoD Financial Management Regulation 7000.14-R and DoD Quarterly Guidance to require DoD to document the crosswalk of financial data from noncompliant financial systems to the U. S. Standard General Ledger and to prepare journal vouchers for those adjustments.

The DoD Regulation 7000.14-R and DoD Quarterly Guidance are vague when addressing the crosswalk of financial data. However, in our opinion, the guidance requires that documentation and information. We made the recommendation based on the published guidance and discussions with personnel from the Office of the Deputy Chief Financial Officer concerning the intent of that guidance. Accounting system documentation must be readily available and sufficient to demonstrate to auditors the conceptual processes and procedures describing corrections for deviations from Federal Accounting Requirements.

The Deputy Director, DFAS Columbus nonconcurred with the finding and the recommendation to develop and implement standard operating procedures for crosswalking financial data, documenting and supporting adjustments with an approved journal voucher, preparing journal vouchers in accordance with DoD Financial Regulation 7000.14-R, and reconciling adjusted ending trial balances to journal voucher-derived account balances. In addition, the Deputy Director nonconcurred with the recommendation to expand the scope of the DFAS Columbus managers' internal control program and self-evaluation process. The Deputy Director stated that the recommendations have been overcome by events resulting from continuous enhancements to the DFAS Columbus management control program and the implementation of the Defense Departmental Reporting System-Budgetary.

Deputy Director DFAS Columbus strong disagreements give the appearance of an internal control environment where verbal assurances and experience are more important than written documentation. We understand DFAS Columbus reluctance to provide extensive documentation and standard operating procedures for a process that is scheduled to be replaced. However, management's strong contention that it already has adequate trails and documentation for its existing processes suggests that emphasis may not be placed on documenting the new processes when the Defense Departmental Reporting System-Budgetary (DDRS-B) is fully implemented. We did not review the capabilities of DDRS-B because it had not been fully implemented during the audit. We recognize that the report is being issued 9 months after we initially discussed the problems pertaining to the first quarter of FY 2006. However, our efforts to respond fairly to DFAS opposition to our conclusions have taken considerable time. After DDRS-B is fully implemented and the existing Excel workbooks have been replaced would be an opportune time for us to revisit the DFAS Columbus controls and its control environment. We hope that DFAS Columbus will focus the energy that was directed at minimizing the significance of the problems identified, to develop robust, documented and supportable internal controls and audit trails and a control environment that welcomes a critical look at controls over the compilation process.

We request that the Under Secretary of Defense (Comptroller)/Chief Financial Officer and the Director, Defense Finance and Accounting Service Columbus comment on this report by December 31, 2007. See the Finding section of the report and Appendix D for a discussion of management comments. See the Management Comments section of the report for the complete text of comments.

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Background

Other Defense Organizations. Other Defense Organizations (ODOs) are the activities funded with Treasury Index 97 funds (also referred to as Department 97). The ODO financial information is consolidated into the ODO General and Working Capital Funds. The Office of Management and Budget does not require DoD to prepare stand-alone audited financial statements for the ODO General and Working Capital Funds. However, ODO General and Working Capital Funds represent 2 of the 11 reporting entities in the DoD agency-wide financial statements required by Office of Management and Budget.

Defense Finance and Accounting Service Columbus Reporting Division. The Financial Reporting Division, Defense Finance and Accounting Service (DFAS) Columbus is responsible for providing financial reporting support for eight of the ODOs through the preparation of monthly and quarterly reports. DFAS Columbus submits the financial information to DFAS Indianapolis for inclusion in the DoD agency-wide statements. DFAS Columbus is responsible for compiling and consolidating financial data for the following eight ODOs.

- Defense Commissary Agency (DeCA)
- Defense Contract Audit Agency (DCAA)
- Defense Contract Management Agency (DCMA)
- Defense Finance and Accounting Service (DFAS)
- Defense Human Resources Activity (DHRA)
- Defense Logistics Agency (DLA)
- Defense Technical Information Center (DTIC)
- National Defense Stockpile Transaction Fund (NDSTF)

DFAS Columbus accountants use both United States Standard General Ledger (USSGL) -compliant and -noncompliant trial balances. The trial balances are generated from a variety of systems to compile and consolidate financial information for each of the eight ODOs. The Federal Financial Management Improvement Act of 1996 requires that Federal agencies' accounting systems comply with the USSGL at the transaction level. Financial data must be consistent with the USSGL, and transactions must be recorded consistently with USSGL rules. To be USSGL-compliant, the general ledger account structure should conform to the four-digit proprietary and budgetary account structure established by the Department of Treasury.¹ To generate proprietary and

¹ Proprietary accounts record changes in the basic accounting equation: Assets = Liabilities + Equity. Budgetary accounts track and control budgetary resources and the status of those resources in the basic budgetary equation: budgetary resources = status of budgetary resources.

budgetary accounts DFAS Columbus accountants create Excel workbooks to crosswalk² USSGL-noncompliant source trial balance data to the USSGL account structure.

Financial Statements. Preparation of the financial statements is the joint responsibility of the DoD accounting activity preparing the financial statements and the DoD Component for which those financial reports are prepared. DoD Components and reporting entities are required to prepare a comparative Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Custodial Activity, if applicable. Generally, DoD accounting systems do not comply with the USSGL. Therefore, preparers of financial statements and notes crosswalk their unique general ledger accounts to USSGL accounts.

Audit Trails and Journal Voucher Preparation. DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 6A, chapter 2, “Financial Reports Roles and Responsibilities,” March 2002, requires that DFAS maintain a complete and documented audit trail to support the financial reports it prepares. DFAS, DFAS customers, and DoD Components are responsible for properly preparing and adequately supporting each journal voucher (JV). Each of these entities should take due care and diligence to fully comply with JV preparation responsibilities outlined in DoD Regulation 7000.14-R. The responsibilities pertain to: internal controls, the uses of JVs, supporting documentation, approval thresholds, and managerial oversight and review for JVs prepared, reviewed, approved, or processed by their activities.

Quarterly Guidance for the Journal Voucher Metric. The Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer Quarterly Financial Reporting Guidance, Attachment 6C – “Journal Voucher Category Identification Codes and Metric Reporting,” (hereafter referred to as “Quarterly Guidance”) states that DoD should incorporate internal controls to ensure the proper and complete recording of JVs. The Quarterly Guidance established a quarterly metric and requires all DoD accounting centers to report the dollar value and quantity of adjustments made to source data. The guidance requires that all JVs made in preparation of the monthly, quarterly, and annual reports be reported on the quarterly JV metric. The metric considers only the accounting adjustments made at the accounting centers from the receipt of source trial balances through the preparation of the financial statements. The metric does not assess supportability of underlying data before trial balances are received at the accounting centers. When reporting unsupported adjustments, accounting centers must include explanations detailing the root cause(s) necessitating the adjustments, corrective actions, and an expected date that corrections will be completed.

² Crosswalk is a process used by DFAS Columbus to convert account data from USSGL-noncompliant source trial balances into the USSGL-compliant account structure.

Objectives

Our overall audit objective was to evaluate the processes used by DFAS Columbus for consolidating and compiling financial data for ODO General Funds. We did not determine the accuracy of the financial data used to prepare the Financial Statements. We also reviewed the management control program as it related to the overall objective. See Appendix A for discussion of the audit scope and methodology.

Review of Internal Controls

We identified internal control weaknesses that we consider to be material. DoD Instruction 5010.40, "Managers' Internal Control (MIC) Program Procedures," January 4, 2006, states that a material weakness is a reportable condition that the Head of the DoD Component determines to be significant enough to be reported to the next higher level. Internal controls are the organization, policies, and procedures that help program and financial managers achieve results and safeguard the integrity of their programs. DFAS Columbus controls over the process for adjusting ODO financial data were not effective. The control weaknesses identified and our recommendations for improvements are discussed in the Finding section. Our recommendations, if implemented, will improve internal controls over the adjustment process. A copy of the report will be provided to senior officials responsible for managers' internal controls at DFAS Columbus.

Controls Over Adjustments to Financial Data for Other Defense Organizations

DFAS Columbus did not have adequate controls over the processes to adjust ODO financial data and did not always have audit trails necessary to verify the validity and accuracy of financial data adjustments because DFAS Columbus did not:

- document the process to develop USSGL account balances from data that is not USSGL-compliant;
- document and approve all adjustments;
- prepare and document JVs in accordance with DoD Regulation 7000.14-R and the Quarterly Guidance; and
- clearly define the scope and applicability of all JVs and verify that all JVs were posted to the proper USSGL accounts.

In addition, DFAS Columbus did not identify control objectives and activities in its Managers' Internal Control Program to help it ensure that all adjustments to financial data were valid, accurate, and approved.

As a result of ineffective controls, \$8.6 billion (absolute value) in adjustments DFAS Columbus made to USSGL accounts for FY 2006 were not documented and approved or substantiated by an audit trail. Further, DFAS Columbus prepared and approved \$535 million (absolute value) in JVs for FY 2006 that were not posted to USSGL accounts or could not be substantiated by an audit trail. These discrepancies caused a \$7.6 billion (absolute value) difference between account balances derived from JVs and the actual ending balances used in preparing the ODO financial statements. Without effective controls to ensure that adjustments to financial data were valid, accurate, and approved, there was increased risk of material misstatement to the financial statements.

Financial Data Crosswalks

DFAS Columbus receives and uses USSGL-noncompliant trial balances to compile ODO financial data. Therefore, DFAS Columbus must crosswalk the data into the USSGL account structure. An audit trail should exist to allow transactions to be traced from initiation through processing to final reports so that amounts can be efficiently recomputed, verified, and approved.

Audit Trails. DFAS Columbus did not establish an audit trail or define how accountants were to crosswalk financial data. Audit trails permit reviewers and auditors to trace transactions through a system to ensure that transactions are properly accumulated and correctly classified, coded, and recorded in all affected

accounts. Because seven³ of the nine source trial balances that DFAS Columbus used to compile ODO financial data were not USSGL compliant, DFAS Columbus made adjustments to crosswalk the financial data to make the data compatible with the USSGL proprietary and budgetary accounts. DFAS Columbus accountants use Excel workbooks (an Excel file consisting of multiple Excel spreadsheets) to perform the crosswalks to the USSGL accounts. However, the DFAS Columbus workbooks did not describe the relationships between the source trial balances, other sources of data, and the crosswalk adjustments used to build the initial USSGL account balances. DFAS Columbus accountants stated that they did not have, or were unaware of, any written standard operating procedures (SOPs) or guidance that identified how they were to complete crosswalk adjustments. DFAS Columbus accountants relied on pre-existing relationships built within the workbooks to crosswalk the financial data.

For example, DFAS Columbus computed an initial USSGL account balance for the DHRA Fund Balance with Treasury (FBWT) of \$298.2 million. The DHRA workbook contained 39 individual spreadsheets that were linked by complex formulas used to look up account information from several other spreadsheets. To determine how DFAS Columbus computed the FBWT USSGL account balance, we deconstructed formulas in the workbook and traced the amounts through multiple spreadsheets back to the source trial balances. Many of the formulas included amounts that did not originate from the source trial balances. DFAS Columbus did not provide the source of the adjustments or the reason for deviating from the source trial balance. As such, an audit trail did not exist to allow for efficient re-computation of the initial USSGL account balances.

Further, accountants did not consistently crosswalk financial data from source trial balances to build USSGL account balances. For example, five of the nine initial trial balances were generated from the Defense Business Management System (DBMS), which produced USSGL-noncompliant trial balances using only noncompliant budgetary data. As a result, DFAS Columbus accountants had to crosswalk the financial data to build USSGL account balances. Table 1 shows the DFAS Columbus inconsistent use of General Ledger Account Codes (GLACs) to build USSGL account 1010 FBWT for the five ODOs.

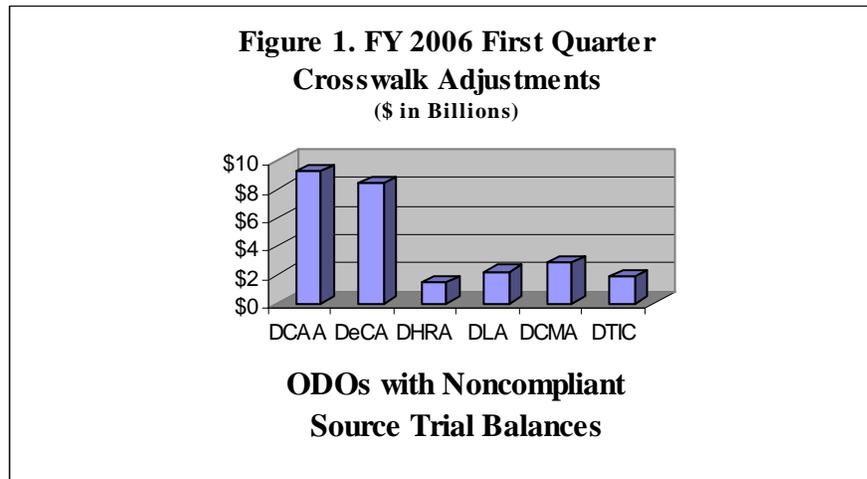
³ The Defense Working Capital Accounting System and Electronic Business Trial Balances, used by the NDSTF and the DFAS- General Fund respectively, are USSGL compliant; therefore, the financial data did not need to be crosswalked. DFAS Columbus used nine source trial balances because DeCA financial data were derived from trial balances generated by the Defense Business Management System and the Standard Financial System.

DBMS GLAC	Account Description	DeCA	DHRA	DLA	DCMA	DTIC
4010	Allotted Direct	*	X	X	X	X
4110	Accrued Expenditures-Paid	*	*	*	*	X
4710	Undistributed Disbursements	*	*	X	*	*
4712	Undistributed Disbursements	X	X	*	X	X
4713	Undistributed Disbursement-Prior Year	X	X	*	X	X
4720	Undistributed Collections	*	*	X	*	*
4721	Undistributed Collections-Debit	X	X	*	X	*
4723	Undistributed Collections-Credit-Prior Year	X	X	*	X	X
4550	Operating Reimbursements Earned-Uncollected	*	X	*		*
4560	Operating Reimbursements	*	*	*	*	X
4931	Delivered Orders-Obligations Transferred/Unpaid		X			
	Other source Information		X		X	X
<p>“X” indicates that DFAS Columbus used the DBMS GLAC to build the ODO beginning account balance for FBWT “*” indicates that the ODO source trial balance(s) had a balance for the DBMS GLAC, but DFAS Columbus did not use the amount to build the beginning balance for FBWT</p>						

DFAS Columbus accountants did not crosswalk ODO financial data in a consistent manner. DFAS Columbus did not establish SOPs to show the accountants how to crosswalk financial data. For example, as shown in Table 1, the accountants used GLAC 4710 to build DLA’s FBWT; however, the accountants did not use GLAC 4710 to build DHRA’s FBWT although the account contained a net total of \$1.3 billion. Preparing and using SOPs that describe the crosswalk of ODO financial data should ensure that accountants consistently and accurately crosswalk the source trial balance financial data DFAS Columbus receives to USSGL-compliant trial balances and should provide the rationale for any crosswalk inconsistencies.

Journal Vouchers. DFAS Columbus crosswalked a total of \$26.0 billion (absolute value) from the six USSGL-noncompliant source trial balances and

However, DFAS Columbus did not prepare JVs to support crosswalk adjustments totaling \$25.9 billion (absolute value). Figure 1 shows DFAS Columbus adjustments for the six (of eight) ODOs with noncompliant source trial balance data.



DoD Regulation 7000.14-R states that when accounting systems are unable to provide data at the required level of detail for financial statement presentation, a correcting JV should be prepared to crosswalk data from installation-level accounts to the USSGL account structure. The Quarterly Guidance also recognizes that crosswalks of noncompliant source data are adjustments that require a JV and disclosure in the JV quarterly metric. However, DFAS Columbus did not document the crosswalk of financial data with an approved JV or report financial data crosswalks because it did not consider crosswalks to be adjustments. Further, DFAS Columbus did not believe that DoD Regulation 7000.14-R or the Quarterly Guidance required it to do so.

A key test of an audit trail is the ability to trace transactions forward from source documentation or back from the resulting report to permit verification of the amount recorded or reported. All transactions must be traceable to individual source records. SOPs should indicate how USSGL-noncompliant accounts are used to create USSGL-compliant accounts, and JVs should be prepared and approved to conform to those procedures. Without documentation to support crosswalk adjustments and without approved JVs to substantiate the adjustments, we were unable to verify the validity of the amounts that DFAS Columbus used to build USSGL account balances.

Documenting and Approving Adjustments

DFAS Columbus did not document and approve all adjustments to ODO financial data. DoD Regulation 7000.14-R requires that DFAS Columbus support adjustments with detailed written documentation that provides an audit trail to source transactions that require the adjustment. The Quarterly Guidance requires DFAS to approve and report any adjustments made to source data in any reporting system or through manual processes. DFAS Columbus made adjustments with an

absolute value of \$26.6 billion to ODO financial data posted to USSGL accounts. Of the \$26.6 billion, we could not substantiate that DFAS Columbus documented and approved \$8.6 billion (absolute value) in adjustments to USSGL accounts.

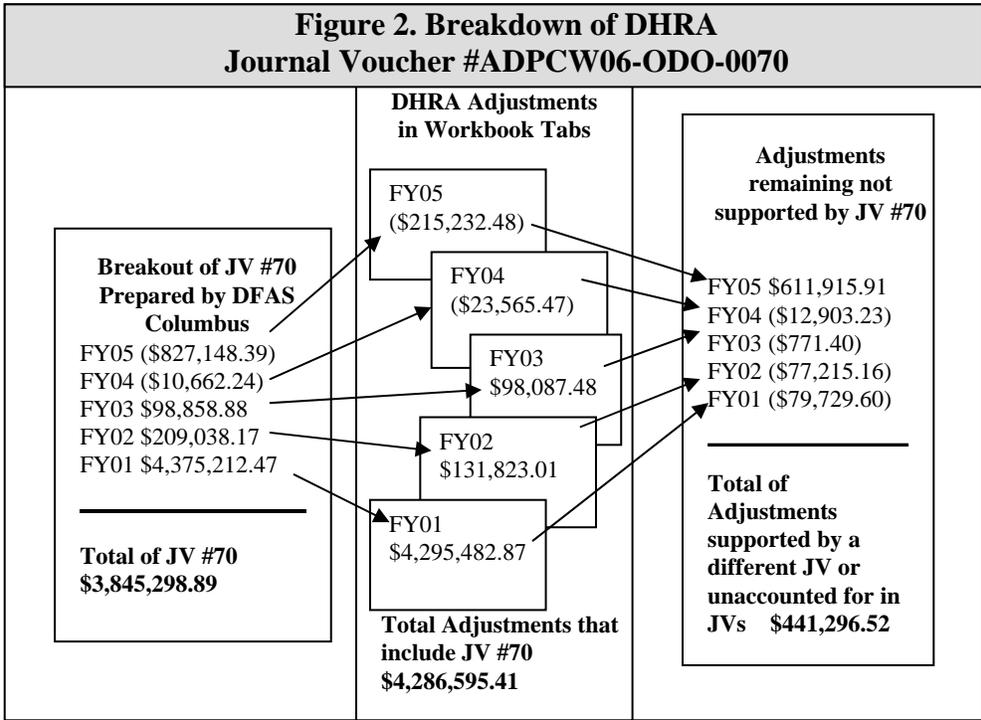
Overall, DFAS Columbus did not approve or maintain an audit trail to show that it approved 32.1 percent of the total adjustments made to ODO financial data. Table 2 shows the adjustments DFAS Columbus made for each of the eight ODOs.

Table 2. FY 2006 Adjustments to ODO Financial Data (absolute \$ value in millions)			
ODO	Adjustments not Substantiated	Total Adjustments	Percent not Substantiated
DeCA	\$5,318.6*	\$5,418.7	98.2*
DCAA	670.4	10,166.9	6.6
DCMA	782.6	2,452.8	31.9
DFAS	6.4	24.5	26.2
DHRA	517.3	2,280.0	22.7
DLA	62.0	2,021.3	3.1
DTIC	329.7	2,732.8	12.1
NDSTF	867.8	1,523.3	57.0
Total	\$8,554.8	\$26,620.3	32.1
*Includes prior year adjustments applied to adjust the current year source trial balance data.			

For example, DFAS Columbus made adjustments with an absolute value of \$2.3 billion to DHRA's financial data. Of the \$2.3 billion, we could not substantiate that DFAS Columbus documented and approved \$517.3 million in adjustments posted in the workbooks with the corresponding JVs.

For DHRA, DFAS Columbus used eight separate trial balances and prepared eight spreadsheets broken out by appropriation fiscal year to compile and adjust financial data. DFAS Columbus then used a separate spreadsheet to combine the individual spreadsheets and made additional adjustments to the financial data. In some cases, DFAS Columbus made multiple adjustments to the same USSGL account within the same appropriation fiscal year. Because the adjustment amounts were added together, visibility of the individual adjustment amounts was reduced.

We worked with DFAS Columbus to perform an exhaustive reconciliation between adjustments and JVs. Of the \$517.3 million in adjustments that we could not substantiate, \$4.8 million (absolute value) was attributable to the FBWT 1010 account. In response to our analysis of matching adjustments with JVs, DFAS Columbus prepared a supplemental spreadsheet to illustrate how a single JV amount could be divided into several different amounts that supported, or in some cases only partially supported, multiple adjustments within the FBWT account. According to DFAS Columbus, the remaining amounts for the adjustments could then be supported by other JVs or were partially unaccounted for in JVs. For example, DFAS Columbus prepared JV number ADPCW06-ODO-0070 (JV 70) to record prior-year undistributed disbursements resulting in a \$3.8 million increase to FBWT. The JV represented the net amount for all affected appropriations. However, the JV and supporting documentation did not specify which amounts were used to compile the net adjustment amount, or the sum found on the JV. As a result, we could not determine which JV(s) supported the adjustments DFAS Columbus posted to the DHRA workbook. Figure 2 depicts the supplemental breakdown DFAS Columbus provided for JV 70 to explain how the JV should be applied to the actual workbook adjustments.



As shown in Figure 2, the relationship between the JV amount of \$3.8 million and the actual workbook adjustments is not clear even after DFAS Columbus provided a supplemental explanation. Amounts still remained unaccounted for after we reconciled DHRA FBWT adjustments and JVs with DFAS Columbus. DFAS Columbus stated these discrepancies occurred because:

- adjustments were only partially documented and approved in JVs,
- JVs were partially posted as adjustments,

-
- JVs did not list required accounts,
 - JVs listed incorrect accounts, and
 - adjustments and JVs were prepared in reverse (one a debit, one a credit).

DFAS Columbus believed that only an absolute value of \$1.2 million, instead of \$4.8 million, in adjustments to DHRA's FBWT were not documented and not approved in JVs. However, for us to consider the additional \$3.6 million as adjustments approved by JVs, we would have to rely on DFAS Columbus accountants' extensive explanations and supplemental spreadsheets that did not reconcile. The original workbooks and JV supporting documentation were not sufficiently detailed to provide an audit trail as required by DoD Regulation 7000.14-R. DFAS Columbus personnel agreed that they made adjustments that could not be substantiated based on their documentation and that lacked an audit trail. DFAS Columbus needs to develop and maintain an audit trail, which aligns adjustments and JVs, and implement procedures to ensure that all adjustments are documented and supported with an approved JV.

Requirements for Consistent and Compliant JVs

DFAS Columbus did not ensure that accountants prepared JVs in accordance with DoD Regulation 7000.14-R and the Quarterly Guidance. JVs are necessary to control changes to financial data and to substantiate the accuracy and validity of the entries. DoD Regulation 7000.14-R requires specific operational internal controls to be in place to ensure that JVs are properly recorded. All JVs are specifically required to be:

- categorized into 1 of 10 categories (see Appendix B for descriptions of JV categories), and
- adequately documented to support the validity and amount of JV transactions.

As shown in Table 3, DFAS Columbus did not always assign the appropriate category for JVs or document the validity and amount of JV transactions.

Table 3. FY 2006 Journal Vouchers Prepared by DFAS Columbus				
ODO	# of JVs Reviewed	Non-Conforming JVs	JVs not Properly Categorized	No Source Indicated on Attached Documentation
DeCA	21	21	16	21
DCAA	49	49	32	26
DCMA	199	194	120	136
DFAS	30	30	8	27
DHRA	62	62	22	47
DLA	41	40	22	31
DTIC	29	29	9	14
NDSTF	21	18	8	16
Totals	452	443	237	318

The Quarterly Guidance requires DFAS to determine whether a JV is supported or unsupported and report its JV statistics to Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer on a quarterly basis. The guidance requires all DoD accounting centers to report the dollar value and quantity of adjustments made to source data in the quarterly metric.

JV Categories. DFAS Columbus did not always assign the appropriate category for JVs or provide sufficient documentation to validate the JV category. DoD Regulation 7000.14-R describes JV categories that specify the purpose of the JV entry and establish the documentation necessary to support the JV based on the category.

Of the 452 JVs that we reviewed, 237 JVs either were assigned to an incorrect category or did not contain sufficient documentation to substantiate that the JV category was appropriate. For example, of the 120 DCMA JVs that were not properly categorized, DFAS Columbus accountants categorized 22 JVs as Category I, "Adjustment to Balance Reports Internally." DoD Regulation 7000.14-R and the Quarterly Guidance both state that Category I JVs are created when reconciliation of data supporting two different reports cannot be performed, thus requiring that the data be forced to balance. An example is an adjustment to force balance budgetary and proprietary data from different reports. However, DFAS Columbus did not attach documentation to substantiate that it

was balancing multiple reports. Therefore, the documentation did not support the assigned JV category, and it was unclear why the accountants chose Category I for the JVs.

DFAS Columbus personnel did not consistently apply the requirements of DoD Regulation 7000.14-R. Some DFAS Columbus personnel stated that they did not follow guidance; they relied on their past experience. Other DFAS Columbus personnel stated that they used a “cheat sheet” that indicated the type of JV, the appropriate category, and whether it was supported or unsupported. However, the “cheat sheet” did not conform to JV requirements in the DoD Regulation 7000.14-R. DFAS Columbus gave us four different documents used as guides to prepare JVs. Without consistent guidance one cannot expect the proper documentation to support JVs.

JV Support Documentation. DFAS Columbus did not support the validity and amounts of JV transactions with the required documentation. DoD Regulation 7000.14-R states that proper preparation and adequate support for JVs are important to ensure JVs accurately record a financial event and a detailed audit trail exists. DoD Regulation 7000.14-R requires that JV supporting documentation be sufficient for the JV approving officials and auditors to clearly understand the reason the accountant prepared the JV. DFAS Columbus did not provide documentation required by DoD Regulation 7000.14-R to support the validity and accuracy for 443 of the 452 JVs we reviewed. DFAS Columbus also did not attribute the source of the documentation used as support for 318 of the 452 JVs.

For example, of the 194 non-conforming JVs for DCMA, DFAS Columbus approved 61 JVs with an absolute value of \$124.5 million to record DCMA’s undistributed disbursements and collections. DFAS Columbus did not provide adequate documentation to support the JV entries even though it classified them as supported. To be considered supported, DoD Regulation 7000.14-R requires documentation for these types of JVs to include identifiable amounts that are in-transit from other sources. However, in most cases, the accountants provided only print-outs from their Excel workbooks as supporting documents for the JV entries. The printouts were not sufficient to support the JV entries because they did not contain detailed information on how the JV amounts were determined.

DFAS Columbus did not measure and report adjustments to ODO financial data in accordance with the Quarterly Guidance. The guidance requires that all JVs made to prepare monthly, quarterly, and annual reports be accounted for in the quarterly metric and shown as either supported or unsupported. DFAS Columbus reported in its FY 2006 First Quarter metric that 95 percent of its approved JVs were supported. However, JVs and attached documentation did not substantiate the validity and the amounts of the JVs. For example, DFAS Columbus reported that all of DTIC’s approved JVs for the quarter were supported. However, as shown in Table 3, none of the 29 JVs we reviewed for DTIC contained the supporting documentation required by DoD Regulation 7000.14-R. DFAS Columbus should establish and implement SOPs to ensure that accountants categorize and prepare JVs in accordance with the DoD guidance.

Verifying the Proper Posting of Approved JVs

DFAS Columbus did not clearly define the scope and applicability of prepared JVs and did not verify that it posted JVs to the proper USSGL posting accounts. In addition, DFAS Columbus did not establish effective managerial oversight or supervision of JV preparation as required by DoD Regulation 7000.14-R. The Regulation requires that JVs be sequentially numbered by reporting unit and reflected in a JV log to maintain the integrity of JV entries. The JV preparation and approval process should serve as a primary control to ensure that only appropriate and valid changes are made to source data, clearly annotating the scope and applicability of each prepared JV.

JV Scope and Applicability. DFAS Columbus did not consistently post JVs to prepare the quarterly reports. Specifically, DFAS Columbus did not post monthly JVs in a consistent manner nor did they have guidance to indicate the applicability of the JVs to the reports. For example, in some cases DFAS Columbus accountants:

- prepared and posted monthly JVs to both monthly and quarterly reports, or
- prepared monthly JVs applicable to only the monthly reports, or
- prepared and posted a portion of monthly JVs to the quarterly reports.

DFAS Columbus did not always document the scope and applicability of the JVs it prepared. For example, DFAS Columbus prepared monthly JVs for DCAA that contained entries to both proprietary and budgetary accounts. According to DFAS Columbus, the auditors should have considered only the budgetary entries authorized, approved, and applicable to the quarterly financial statements, although the JVs included entries to the proprietary accounts. The scope and applicability were not self-evident. Without documentation to specify the applicability of the JVs or reasons for inconsistent application of JVs, the validity of the postings could not be verified.

JV Posting. DFAS Columbus approved JVs that were not posted as adjustments or were not posted correctly. DFAS Columbus approved JVs with an absolute value of \$535 million that we could not trace to posting accounts in DFAS Columbus workbooks. We could not substantiate that the JVs were posted because DFAS Columbus did not prepare the JVs correctly, post the JVs correctly, or clearly define the scope and application of the JVs.

DFAS Columbus JV approving officials did not conduct supervisory reviews necessary to ensure that all prepared and approved JVs were recorded in the accounts identified in the workbooks. For example, DFAS Columbus accountants made a manual adjustment of \$78.4 million in DTIC's workbook with a debit to USSGL account 3100 (Unexpended Appropriations) and a credit to 5700 (Expended Appropriations). However, the JV for the adjustment showed a credit to account 3100 and debit to account 5700. The supervisor approved the JV, although the JV did not agree with the posted adjustment in the workbook.

DoD Regulation 7000.14-R states that DFAS centers are to establish operational internal controls to ensure that they review JVs to verify the proper recording of entries to accounts. Because DFAS Columbus did not align the process of preparing JVs with the process of adjusting financial data, it should have developed compensating controls to ensure proper oversight of JV preparation and posting to USSGL accounts. DFAS Columbus should develop and establish procedures and controls to ensure that accountants clearly define the scope and applicability of JVs and that supervisors ensure that JVs are properly prepared and posted to the correct accounts.

Managers' Internal Control Program

DFAS Columbus did not identify the most effective control objectives and activities in its Managers' Internal Control Program to help it ensure that all adjustments to financial data were valid, accurate, and approved. In fact, DFAS Columbus did not identify accurate, valid, and approved adjustments to financial source data as a control objective. Instead, DFAS Columbus identified the proper authorization and accounting for JVs as a control objective. The self-evaluation process required a quarterly review of:

- 100 percent of the JVs identified in the JV log to verify existence and signature, and
- statistically selected JVs to assess whether JVs were prepared in accordance with DoD Regulation 7000.14-R.

This approach was limited because it assumed that JVs constitute the universe of all adjustments to financial data. As a result, DFAS Columbus personnel did not determine whether approved JVs agreed with the total adjustments recorded in the USSGL accounts or whether manually created adjustments were documented and approved as JVs.

DFAS Columbus developed a JV review checklist as a guide for the quarterly review of the JVs that included a determination of whether the JV was categorized correctly and whether the documentation supported the validity of the JV transaction. DFAS Columbus personnel acknowledged that they had only recently formalized the quarterly review process and were working to enhance it.

Inadequate controls over DFAS Columbus's adjustments process increased the likelihood that ODO financial data used to prepare financial statements may be materially misstated. DFAS Columbus should expand its control objective to include the actual adjustments to the financial data and evaluate the effectiveness of the controls over adjustments in the workbooks.

Reconciling Ending Balances and JV-Computed Balances

As a result of differences between actual adjustments and approved JVs, there was a \$7.6 billion difference (absolute value) between the actual account balances used in preparing the ODO financial statements and the expected ending balances based on the JVs. DFAS Columbus accountants did not perform reconciliations between JV-computed balances and the actual final reported balances.

DoD Regulation 7000.14-R, volume 1, chapter 3 states that a key test of the adequacy of an audit trail is to trace transactions forward from the source or back from the results to permit verification of the amount recorded or reported. The prepared and approved JVs should document and identify differences between source financial amounts and the final report amounts. Because DFAS Columbus manually processed adjustments and JVs, accountants could make adjustments in the workbooks without an approved JV and prepare JVs without necessarily ensuring that JVs agreed with the posted adjustments.

The magnitude of adjustments and the total value of approved JVs required to compile ODO financial data highlight the need for reconciliation. Had DFAS Columbus personnel performed a reconciliation they would have determined that problems existed in its control structure. Reconciliations are necessary to identify discrepancies between actual adjustments and JVs and to ensure the validity of adjustments to financial data. At a minimum, DFAS Columbus should reconcile all approved JVs to ending balances to ensure that JVs are prepared for all adjustments and that JVs are correctly posted.

Management Comments on the Finding and Audit Response

Management comments and audit responses are discussed in greater detail in Appendix D.

DFAS Columbus General Comments. The Deputy Director, DFAS Columbus did not agree with the DoD OIG interpretation of the DoD Regulation 7000.14-R. The Deputy Director also stated that DFAS Columbus strongly disagreed that it made \$25.9 billion in adjustments. DFAS Columbus determined that the crosswalk of non USSGL-compliant accounts to USSGL accounts was a one-for-one mapping and stated that mapping does not constitute an adjustment. In addition, he stated that the process used to crosswalk the non USSGL accounts was documented in the DFAS Columbus workbooks.

The Deputy Director further disagreed with the dollar value of the adjustments that were not fully substantiated. He stated that DFAS Columbus reviewed \$6.5 billion of the \$8.6 billion identified and determined \$5.9 billion was substantiated. He stated that the DoD OIG disregarded \$5.9 billion because the DoD OIG deemed it was not “sufficiently visible” in the workbooks. DFAS Columbus determined all adjustments to be valid and necessary.

Audit Response. Deputy Director, DFAS Columbus' strong disagreements give the appearance of an internal control environment where verbal assurances and experience are more important than written documentation. During the audit, DFAS Columbus personnel agreed that certain procedures and computations were not fully documented, and the auditors needed verbal explanations from DFAS Columbus to reach the same conclusions. We disagree that the DFAS Columbus crosswalk is a one-for-one mapping and question how DFAS Columbus could have made such a determination. The audit results and our review of the workbooks lead us to conclude that multiple non USSGL-compliant accounts and non trial balance data were used to build USSGL accounts. We were not provided verifiable documentation to support \$5.9 billion that DFAS Columbus determined substantiated. We maintain that for adjustments to source trial balance data to be considered substantiated there must be a discernable audit trail that enables the matching of posted adjustments with documented and approved JVs. We do not believe this includes verbal reconciliation as to what should and should not have been posted to prepared JVs.

We understand DFAS Columbus' reluctance to provide extensive documentation and SOPs for a process that is scheduled to be replaced. However, in January 2007, DFAS Columbus personnel stated that the current process would continue to serve as the audit trail and the backup to DDRS-B. Management's strong contention that it already has adequate trails and documentation for its existing processes suggests that emphasis may not be placed on documenting the new processes when DDRS-B is fully implemented.

Recommendations, Management Comments, and Audit Response

DFAS Columbus General Comments. The Deputy Director, DFAS Columbus nonconcurred with all recommendations (as detailed in the following responses), stating that the recommendations have been overcome by events resulting from continuous enhancements to the DFAS Columbus management control program and the implementation of DDRS-B.

Audit Response. DFAS Columbus may well have implemented numerous enhancements after the first quarter of FY 2006. However, the DFAS response did not discuss how these enhancements affect the conditions the recommendations addressed. We did not review the capabilities of DDRS-B because it had not been fully implemented during the audit. We recognize that the report is being issued 9 months after we initially discussed the problems pertaining to the first quarter of FY 2006. However, our efforts to respond fairly to DFAS opposition to our conclusions have taken considerable time. After DDRS-B is fully implemented and the existing Excel workbooks have been replaced would be an opportune time for us to revisit the DFAS Columbus controls and its control environment. We hope that DFAS Columbus will focus the energy that was directed at minimizing the significance of the problems identified, to develop robust, documented and supportable internal controls and audit trails and a control environment that welcomes a critical look at controls over the compilation process.

1. We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer revise and add clarifying language to the DoD Financial Management Regulation 7000.14-R and DoD Quarterly Guidance, Attachment 6C, to explicitly require the Defense Finance and Accounting Service and other DoD Components to:

a. Document the crosswalk of financial data from noncompliant financial systems to the United States Standard General Ledger.

Office of the Under Secretary of Defense (Comptroller) Comments. The Acting Deputy Chief Financial Officer nonconcurred. His office agreed that the current DFAS Columbus process is complex and difficult to follow, and that SOPs documenting the current crosswalk processes should have been in place; however, the cost of preparing the documentation at this time outweighs the benefits of such documentation. He stated that his staff reviewed the processes and spreadsheets DFAS Columbus used to crosswalk financial data from noncompliant systems into USSGL format. The Office of the Deputy Chief Financial Officer is satisfied that the Excel spreadsheets are supported by the underlying source trial balances and journal vouchers, and that it yields a valid USSGL trial balance.

DFAS Columbus Comments. Although not required to comment, the Deputy Director DFAS Columbus stated that DFAS Columbus uses the Excel workbooks to document the crosswalk process from legacy noncompliant systems. He stated that there were adequate controls over the processes to validate adjustments. He acknowledged that the re-computation of the audit trail is very complex, cumbersome, and complicated, but the existence of an audit trail is evident. With the implementation of DDRS-B, the audit trail is deemed more efficient and simplified. DDRS-B should be completed for the ODO General Funds reported by DFAS Columbus in FY 2008.

Audit Response. We consider the Acting Deputy Chief Financial Officer comments nonresponsive. We did not question the validity of the actual USSGL balances yielded but the documentation defining the process to yield the USSGL balances. Documentary evidence should exist to enable a reviewer or auditor to trace from original transactions forward to related records and reports. Accounting system documentation must be sufficient to demonstrate readily to auditors the conceptual processes and procedures describing corrections for deviations from Federal Accounting Requirements.

While the Office of the Deputy Chief Financial Officer and DFAS Columbus maintain the audit trail exists in the workbooks, an audit trail extends beyond linking cells across spreadsheets. It should be supplemented by, for example, process flows and SOPs, as well as JVs that reconcile to those SOPs. Documentation should enable an auditor to trace forward from source data and not just vouch back from the final report to determine the different “hits” to the source trial balance. The structure at the time of our audit did not allow the auditor to ascertain which noncompliant accounts should be rolled forward (and which ones should not) to build the USSGL nor did it convey the ability to determine the completeness of that data. While tracing the transaction from the source can be completed with due time, without SOPs it is unclear how to

facilitate replication of the transaction from the source to the final report. Regardless of the vehicle, workbooks or an integrated system, documentation should exist outside of the system that describes the process and explains the rationale for accounts used and not used, and allows a reviewer to calculate expected outputs based on authorized inputs.

While we recognize that a cost-benefit determination should be considered, DFAS Columbus should have documented the crosswalk process concurrently with the development and implementation of DDRS-B to ensure that actual outputs agree with expected outputs. The Acting Deputy Chief Financial Officer agreed that DFAS Columbus should have documented its process. We request that the Deputy Chief Financial Officer provide additional comments and clarify his position for all of DoD for documenting the crosswalk of noncompliant trial balances to create U.S. Standard General Ledger accounts.

b. Prepare journal vouchers for all crosswalk adjustments and include those adjustments in the quarterly metric.

Office of the Under Secretary of Defense (Comptroller) Comments. The Acting Deputy Chief Financial Officer nonconcurred, stating that DoD Regulation 7000.14-R only requires a correcting journal voucher to crosswalk data from installation-level accounts to U.S. Government Standard General Ledger. He stated that his office reviewed the crosswalks and believes that the crosswalk simply represents a remapping of balances which does not constitute an adjustment and, therefore, does not require a journal voucher.

DFAS Columbus Comments. Although not required to comment, the Deputy Director DFAS Columbus stated that a requirement for JVs would have no additional reporting value and would merely be a duplication of effort. Further, the duly authorized official determined that the DFAS Columbus legacy non USSGL-compliant systems do provide sufficient detail for the financial statements since a “one-for-one” mapping of non USSGL accounts to USSGL accounts exists.

Audit Response. We consider the Acting Deputy Chief Financial Officer comments nonresponsive. He stated that his office reviewed the workbooks; however, it is not clear how the DCFO and DFAS Columbus made a determination that the crosswalk simply represents remapping of balances or how the duly authorized official concluded that a one-for-one mapping exists. For example, DFAS Columbus used:

- seven different noncompliant budgetary accounts and a non trial balance amount to build the DHRA Fund Balance with Treasury.
- six different noncompliant budgetary accounts and a non trial balance amount to build the DTIC Fund Balance with Treasury.

-
- six different noncompliant budgetary accounts and a non trial balance amount to build the DLA Unexpended Appropriations - Cumulative
 - nine different noncompliant budgetary accounts and a non trial balance amount to build the DCMA Allotments - Realized Resources

We consider, for example, use of seven noncompliant budgetary accounts and non trial balance data to build the FBWT to be a crosswalk necessary for financial statement presentation. In accordance with DoD 7000.14-R, DFAS Columbus should have prepared a JV. The aforementioned crosswalks were not documented but instead embedded in the workbooks. To further compound this, DFAS Columbus used as many as eight different trial balances for one agency.

We do not agree with the Acting Deputy's conclusion that this is "simply a remapping of balances" or the implication that it is "one-for-one." The workbooks did not describe the crosswalk or explain why particular non USSGL-compliant budgetary accounts were used to create the USSGL accounts and why others were not. It is not clear how the Acting Deputy can state in his response to Recommendation 1.a. that the crosswalk is complex and difficult to follow, and then conclude that it is a simple remapping. The DoD Regulation 7000.14-R and DoD Quarterly Guidance are vague when addressing the crosswalk of financial data. However, in our opinion the DoD Regulation 7000.14-R requires the information, and initial conversations with the Office of the Deputy Chief Financial Officer indicated that they agreed with this interpretation. Further, the Quarterly Guidance considers a one-for-one crosswalk to be an adjustment. It states that, for example, an entry to create budgetary accounts receivable by matching proprietary accounts receivable would be considered a supported adjustment.

We made the recommendation based on published guidance and discussions with personnel from the Office of the Deputy Chief Financial Officer concerning the intent of that guidance. We request that the Deputy Chief Financial Officer provide additional comments and specifically address the scenarios identified and specifically state, for the record, his position on the preparation and reporting of JVs for crosswalks.

In response to the Deputy Director, DFAS Columbus comments, it is not clear how preparing a JV is merely a duplication of effort because an approved JV is a primary control to ensure adjustments to source financial data are documented and approved. DFAS Columbus was unable to provide approved procedures for the methodology used to crosswalk the financial data in its workbooks or a method used to verify the completeness of the data crosswalked.

2. We recommend that the Director, Defense Finance and Accounting Service Columbus:

a. Develop and implement standard operating procedures to:

(1) Ensure that accountants crosswalk source trial balance data in a consistent manner and that crosswalk adjustments are authorized and approved.

DFAS Columbus Comments. The Deputy Director DFAS Columbus nonconcurred, stating that written SOPs are not required because the crosswalk process is already documented in the workbooks and is consistent with the DDRS-B implementation. The use of summary accounts or detailed accounts did not affect the reports or financial statements and inconsistent crosswalks do not constitute different financial data.

Audit Response. We consider the Deputy Director DFAS Columbus comments nonresponsive. We agree that a process is occurring within the workbooks; however, this does not necessarily equate to documenting the process. Further, DFAS Columbus did not address how it ensures that the crosswalk adjustments are authorized and approved. The process is not documented in such a way to enable auditors to efficiently re-compute initial USSGL balances, determine the completeness of data rolled forward from source trial balances, and whether the adjustments are authorized and approved. We believe that it is reasonable to expect external documentation that describes the source trial balance accounts used, and justification for accounts not used, or the documentation to determine the methodology used to construct the USSGL accounts. If DDRS-B is the ultimate system which will map the crosswalk from noncompliant systems to USSGL, then documentation should have been prepared to support the mapping. Without such documentation, it is not clear how expected outputs of the mapping can be derived and then, validated for accuracy. We do not understand why DFAS Columbus would object to defining the processes it uses to crosswalk noncompliant financial data, considering it should have made such determinations for the automated mapping in DDRS-Budgetary. We request the Deputy Director DFAS Columbus reconsider his position and provide comments in response to the final report.

(2) Ensure that all adjustments are documented and supported with an approved journal voucher.

DFAS Columbus Comments. The Deputy Director DFAS Columbus nonconcurred, stating that an SOP does not ensure that all adjustments are documented and supported with an approved JV. DFAS Columbus believes that its management control program does provide a level of assurance that the vouchers are documented, supported, and authorized. The Deputy Director stated that with the full implementation of DDRS-B, all adjustments and prior year balances will be documented in the system, which is consistent with its current Excel workbooks.

Audit Response. We consider the Deputy Director DFAS Columbus comments partially responsive. We agree that an SOP, in and of itself, does not ensure that all adjustments are documented and supported with an approved JV. The processes for adjusting financial data and creating and approving the JVs were not integrated. For example, DFAS Columbus hard-keyed or linked to hard-keyed amounts most of the adjustments in the DHRA workbook. DFAS Columbus did not provide an explanation or reference in the workbooks to facilitate a match between the posted adjustments and JV amounts. In addition, the posted adjustment amounts did not necessarily correspond to debits and credits entered in JVs. As such, we had to compare all JVs to all adjustments to determine if we could find a “suitable” match. An SOP should compensate for the lack of integration and ensure that adjustments are approved with JVs. Based on our review, there was no requirement for the accountants to present the actual workbook adjustments for approval.

We request that the Deputy Director DFAS Columbus provide comments on the final report detailing how DFAS Columbus will ensure that posted adjustments, whether manually or in DDRS-B, are documented and supported with an approved JV and provide the estimated date of completion.

(3) Ensure that journal vouchers are categorized (category type and whether supported or unsupported) and prepared in accordance with DoD Financial Management Regulation 7000.14-R and DoD Quarterly Guidance, Attachment 6C, and clearly define the scope and applicability of journal vouchers and verify that all prepared and approved journal vouchers are recorded to the proper posting accounts.

DFAS Columbus Comments. The Deputy Director DFAS Columbus nonconcurred, stating that an SOP would be a duplication of Quarterly Guidance, attachment 6C and DoD Regulation 7000.14-R. He stated that DFAS Columbus JV review procedures already document the requirements as well. Concerning the scope and applicability of JVs, DFAS Columbus stated that the cited example was unique to DCAA and that the DCAA JVs were clearly defined.

Audit Response. We consider the Deputy Director DFAS Columbus comments nonresponsive. DoD guidance does not define the control procedures to ensure that accountants prepare JVs in accordance with the guidance, or stipulate the necessary documentation to support JVs prepared by each DFAS Center or DoD Component. DFAS Columbus should develop and approve standard implementing guidance based on the types of JVs it prepares; defining the required documentation, JV descriptions, and documentation references, necessary to comply with DoD JV requirements.

We do not agree that DCAA JVs were clearly defined. In lieu of written documentation that did not exist, DFAS Columbus personnel initially told us that all monthly JVs for distributed, advances, refunds receivable, negative accounts payable, anticipated, and apportioned for subsequent periods should be matched to adjustments made to prepare the quarterly financial statements. We tested this assertion and determined that monthly JVs affected only the budgetary accounts.

budgetary entries authorized, approved, and applicable to the quarterly financial statements, even though the monthly JV included entries to the proprietary

While DCAA JVs were used as a specific example within the report, the scope and applicability of JVs for other ODOs was also not clearly defined. We requested guidance on the application for all agencies which we never received. For example, while working with DFAS Columbus to reconcile DHRA adjustments and JVs, we were initially instructed to apply parts of JVs to parts of adjustments. After applying the crosswalk, monthly, and AFS JVs to specific adjustments based on DFAS Columbus instruction, we were later told that monthly and crosswalk JVs are applied differently among the ODOs. DFAS Columbus explained that some accountants prepare monthly JVs for their monthly reports and then crosswalk JVs for the quarterly reports. However, in other cases, an accountant might prepare a monthly JV for the monthly reports and then use that same monthly JV for the quarterly reports instead of duplicating JVs by preparing a crosswalk JV. We were ultimately told that monthly JVs should be considered on a case-by-case basis. As such, we were dependent on DFAS Columbus to tell us which monthly JVs should be considered in the preparation of the quarterly financial statements.

We request that the Deputy Director, DFAS Columbus reconsider his position and provide comments to the final report.

(4) Reconcile the adjusted ending trial balances to journal voucher-derived account balances to ensure adjustments are not made without journal vouchers and journal vouchers are correctly posted.

DFAS Columbus Comments. The Deputy Director DFAS Columbus nonconcurred, stating that a written SOP is not necessary because the reconciliation process is already embedded and documented in the management control program. He stated that certain JVs did not agree with the posted adjustment in the workbook because of a formula error in the Excel program that resulted in reverse signs to the face page of the manual JVs. However, DFAS Columbus stated the actual entry was correct.

Audit Response. We consider DFAS Columbus comments nonresponsive. It is not clear how the process is embedded in the management control program so as to address the recommendation. When we briefed DFAS Columbus on our preliminary results in January 2007 and discussed any procedures used to ensure that JVs are being posted as adjustments in the workbooks, DFAS Columbus personnel stated that there was no ultimate check but agreed that it may need to perform some type of reconciliation. However, DFAS Columbus said that with the implementation of DDRS-B there should be no manual upload and everything will be automated.

We do not question that there were errors or that there were reasons for those errors. However, if the approved JV was in error, we question the ability of DFAS Columbus to control changes to the data and the value placed on the prepared and signed JV which is, as stated in the DoD Regulation 7000.14-R, a primary internal control. DFAS Columbus maintains that all adjustments are

valid and necessary but based on the “documented” control process, it is not clear how it could expect an auditor to reach that same conclusion. The cited example shows that the JVs do not control accountant-initiated adjustments because supervisors did not ensure that the JV entry matched the posted workbook entry.

We request that the Deputy Director, DFAS Columbus provide additional comments that specify exactly how DFAS Columbus is ensuring or will ensure that JVs reconcile to adjustments made to source financial data.

b. Expand the scope of the managers’ internal control program and self-evaluation process to ensure all adjustments to financial data are processed and approved in accordance with DoD Financial Management Regulation 7000.14-R and DoD Quarterly Guidance, Attachment 6C.

DFAS Columbus Comments. The Deputy Director, DFAS Columbus nonconcurred, stating that all adjustments were valid and necessary. DFAS Columbus implemented three journal voucher reviews that consist of using the JV log for 100 percent verification of existence and a statistical selection of JVs for compliance with DoD Regulation 7000.14-R. In addition, it implemented a crosswalk review that consists of footing, cross-footing, verifying back to raw source trial balances, journal vouchers, or supporting adjustments, and comparing crosswalk amounts to the input data in DDRS.

Audit Response. We consider DFAS Columbus comments nonresponsive. Our report noted the DFAS Columbus JV review. However, the review was dependent on a prepared JV. Our review of the control objectives determined that the review was limited to prepared journal vouchers instead of adjustments actually posted in the workbooks. If all adjustments were valid and necessary, as suggested, then this reinforces the need to implement the recommendation - the JV process is not working as intended and did not control manual adjustments made in the workbook because not all adjustments were approved or correctly approved in a JV. In order to accomplish this, DFAS Columbus would need to define a process to review posted adjustments not just prepared JVs. While DFAS Columbus stated that it implemented a crosswalk review, it did not address the recommendation. DFAS Columbus did not state whether the managers’ internal control program was updated to reflect that adjustments to financial data are processed and approved in accordance with DoD 7000.14-R. In response to the final report, we request that the Deputy Director DFAS Columbus describe how the control objectives and self-evaluation process have been updated in the managers’ internal control program to provide a level of assurance that the actual posted adjustment is not only approved, but correctly approved in accordance with DoD 7000.14-R.

Appendix A. Scope and Methodology

We performed this audit from January 2006 through March 2007 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

We reviewed and evaluated the DFAS Columbus processes for compiling and consolidating quarterly financial data for the following eight ODOs:

- Defense Commissary Agency
- Defense Contract Audit Agency
- Defense Contract Management Agency
- Defense Finance and Accounting Service
- Defense Human Resources Activity
- Defense Logistics Agency
- Defense Technical Information Center
- National Defense Stockpile Transaction Fund

Our review included an evaluation of the controls over the process for compiling and consolidating financial data for the Operation and Maintenance Appropriation. However, because DTIC does not have Operation and Maintenance appropriation, we used its Research, Development, Test, and Evaluation Appropriation information for our review. We identified SOPs established by DFAS Columbus. We interviewed DFAS Columbus personnel to understand their procedures for preparing trial balances from the eight ODOs, as well as other supporting financial information from various sources, needed to prepare the quarterly financial statements. We identified the following guidance for adjustments to financial data: DoD Regulation 7000.14-R, volume 6A, chapter 2, "Financial Reports Roles and Responsibilities," March 2002 and the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, FY 2006 First Quarter Guidance, "Attachment 6C-Journal Voucher Category Identification Codes and Metric Reporting." In addition, we reviewed the first quarter FY 2006 ODO source trial balance data for seven of the ODOs with the exception of DLA for which we reviewed its second quarter data. We reviewed DLA's second quarter financial data because DFAS Columbus used the CFO Load and Reconciliation System to compile DLA's first quarter financial data and used an excel workbook to compile DLA's second quarter financial data. We focused primarily on the validity of all adjustments made by DFAS Columbus personnel to ODO source trial balances.

Use of Computer-Processed Data. We used ODO trial balances generated by the following accounting systems:

- Defense Business Management System,
- Defense Working Capital Accounting System,
- Electronic Business System, and
- Standard Army Financial Information System.

In addition, we used ODO financial information contained in the Defense Departmental Reporting System.

We used the trial balances to determine whether DFAS Columbus adjustments to the financial data were supported by journal vouchers. We determined differences between financial data submitted in trial balance submissions and amounts reported in Defense Departmental Reporting System. The accuracy or inaccuracy of the trial balances did not impact the results of review. Therefore, we did not rely on computer-processed data or the validity or accuracy of the computer processed data in the performance of this audit.

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

Prior Coverage

No prior coverage has been conducted on the subject during the last 5 years.

Appendix B. Journal Voucher Categories

Category	Name	Purpose	Typical Supporting Documentation
A	Reversing Entries for Prior Reporting Period	To reverse monthly or yearly accruals or correcting entries made for reporting purposes	Documentation on the original accrual entry and an explicit statement that the entry is a reversing entry
B	Data Call Entry	To record source-entry information provided by data calls where the data are not recorded on a detailed transaction basis	Data from an identified independent source such as the DoD Actuary or Department of Labor
C	Balancing Entries for Eliminations	To reconcile internal financial data with data from buyers or sellers	Summary narrative and detailed worksheets supporting the calculated adjustment
D	Recognition of Undistributed Collections & Disbursements	To account for undistributed disbursements and collections not recognized in the accounting records	Summarized transmittal amounts from other sources such as a DFAS Center or Federal agency
E	Reconciliation of Trial Balance and Budget Execution Reports	To match field accounting site trial balances with DoD Component budget execution reports	Source data and related analysis to determine whether field site or Component data are correct
F	Supply Management Inventory	To adjust inventory values for supply management activities	Clear explanation of criteria and methods used to calculate the adjustment
G	Reclassification of Accounts	To compensate for accounting system inabilities to provide data at the level needed for financial statement preparation	Narrative to explain why the reclassification is necessary and why the system cannot provide the required level of detail
H	Identified Errors and Reasonableness Checks	To correct errors identified through analysis or other quality control procedures	Detailed listing of identified errors and a narrative providing the rationale, analysis, and data sources supporting the adjustment
I	Adjustment to Balance Reports Internally	To reconcile data between internal reports	Documentation of reconciliation efforts made before determining the reports cannot be reconciled
J	Other Accruals	To reverse month-end or year-end accruals	Narrative explaining the basis for the accrual and any subsequent reversal

Appendix C. Report Distribution

Office of the Secretary of Defense

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

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Commissary Agency
Director, Defense Contract Audit Agency
Director, Defense Contract Management Agency
Director, Defense Finance and Accounting Service
Director, Defense Finance and Accounting Service Columbus Center
Director, Defense Human Resources Activity
Director, Defense Logistics Agency
Director, Defense Technical Information Center

Non-Defense Federal Organization

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Homeland Security and Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Oversight and Government Reform

**Congressional Committees and Subcommittees, Chairman and
Ranking Minority Member (cont'd)**

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

Appendix D. Management Comments on the Finding and Audit Responses

DFAS Columbus Comments on Table 1, “DBMS GLACs used to Build Beginning Balances for FBWT.”

- The formula in the drill down of the DTIC excel worksheet traced back to GLAC 4712 not 4110.
- Did not locate the use of GLAC 4550 to build the DHRA FBWT beginning balances.
- DeCA does not use GLAC 4010 because it does not have an appropriation because they are funded by 5 percent of DeCA Resale.
- Although DLA used summary GLAC 4720 instead of the detailed accounts used by other accountants, the impact to the financial data is the same.

Audit Response. Both GLAC 4110 and 4712 were used to calculate the DTIC FBWT USSGL balance. For the FY 2006 appropriation, the 4110 account was used to compute USSGL 4902 Delivered Orders Paid. DFAS Columbus used the 4902 to compute part of the FBWT for the FY 2006 appropriation and used 4712 in the computation of the FBWT for the FY 2005 appropriation.

DHRA consisted of eight different trial balances and eight different spreadsheets that covered limits, 7301 and 7302. GLAC 4550 was used to compile FBWT for limit 7302 only.

The report recognizes that DFAS Columbus did not use GLAC 4010 to create DeCA FBWT. The intent was not that GLAC 4010 should have been used but that a balance exists in the account. While DFAS Columbus may not use amounts reported in GLAC 4010 to compile FBWT, DeCA reported amounts in GLAC 4010 on the source trial balance. DFAS Columbus comments further magnify the need to describe the crosswalk to establish completeness. SOPs and other documentation would facilitate an understanding of what should be included and excluded and why. We recognize that using summary GLACs instead of detailed GLACs for DLA does not invalidate the financial data. However, we believe that documentation should exist to describe and justify the methodology used to crosswalk the data.

DFAS Columbus Comments on Table 2, “FY 2006 Adjustments to ODO Financial Data.” DFAS Columbus stated that, based on limited information provided by the auditors, only \$6.5 billion could be reviewed as the remaining \$2.1 billion detailed analysis was not provided. DFAS Columbus stated that of the \$6.5 billion reviewed, it substantiated \$5.9 billion in the review process but was disregarded by the auditors because it was not “sufficiently visible” in the

workbooks. DFAS Columbus contended that audit trails exist for DeCA as the manual Excel workbooks contained summarized and categorized tabs that are used for the DeCA financial statement audit. The tabs provided a simplified and clearly-defined audit trail but DoD OIG auditors did not use them as instructed.

Audit Response. The DoD OIG has provided all analysis requested by DFAS Columbus. We worked with DFAS Columbus to reconcile adjustments and JVs for two ODOs. DFAS Columbus has minimized the importance of the lack of an audit trail by stating that it was disregarded because it was not sufficiently visible. DFAS Columbus management apparently is not aware of the exhaustive efforts that its own staff had to undertake to explain why we could not reconcile adjustments and JVs. DFAS Columbus owns the process; it should not have taken as long as it did. DFAS Columbus believed that if a JV was prepared that should have included a workbook entry and didn't, that we should have considered the workbook entry approved by a JV. DFAS Columbus agreed that there were JVs and adjustments that we could not match without verbal explanation. To categorically state that all entries are valid and necessary is not sufficient support to substantiate the validity and necessity of those adjustments.

We are aware of the spreadsheet that DFAS Columbus prepares specifically for the DeCA financial statement audit. We noted errors in the spreadsheet. For example, posted amounts were supposed to tie to individual amounts listed in the comments inserted in the cell. However, amounts did not reconcile. In addition, posted USSGL amounts did not agree with referenced GLAC amounts. However, the spreadsheet was prepared after the accountant compiled the data to import into the financial statements. We used the actual worksheets that the accountant used to compile the financial statements for our analysis, not the spreadsheet prepared for the financial statement auditors.

DFAS Columbus Comments on JV Categories. DFAS Columbus stated that the categorization of JVs continues to be based on interpretation of the guidance. DFAS Columbus suggested that categorization could be based on the accountant's interpretation of DoD Regulation 7000.14-R and the nature of the JV, that a JV could be classified in more than one JV Category.

Audit Response. We did not just determine those JVs that were categorized incorrectly, but those in which a determination could not be made because sufficient documentation was not included to support the category. The Quarterly Guidance and DoD Regulation 7000.14-R discuss the types of documentation that should be included for each category to be considered supported. If there is an expectation based on the category that, for example, DFAS Columbus used multiple reports to reconcile an amount, we would expect to see multiple reports attached or specifically referenced in the JV.

DFAS Columbus Comments on JV Supporting Documentation. DFAS Columbus stated that additional supporting documentation did exist for various JVs which it believed would have supported, for example, its undistributed calculation and had the documentation been requested, DFAS Columbus could have provided it.

Audit Response. We are not questioning whether JVs could ultimately be supported. However, when reviewing the JVs, we only considered the attached documentation, as well as written explanations in determining whether the JV conformed to DoD guidance. DoD Regulation 7000.14-R clearly states that proper documentation is necessary to support journal voucher entries and should be attached to the journal voucher. If the supporting documentation is too voluminous, then specific and detailed information summarizing the content, and identifying the location of the supporting documentation should be attached to the voucher.

Under Secretary of Defense (Comptroller)/Chief Financial Officer Comments



COMPTROLLER

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

MEMORANDUM FOR PROGRAM DIRECTOR, DEFENSE FINANCIAL AUDITING
SERVICE, OFFICE OF INSPECTOR GENERAL,
DEPARTMENT OF DEFENSE

SUBJECT: Response to Draft Report: "Defense Finance and Accounting Service
Columbus Processes for Consolidating and Compiling Other Defense Organizations
Financial Data." (Project No. D2006-D000FA-0098.000)

This memorandum is in response to recommendations to the Under Secretary of
Defense (Comptroller)/Chief Financial Officer in the subject May 30, 2007, draft report
provided to this office for review and comment.

Recommendation 1. We recommend that the Under Secretary of Defense
(Comptroller)/Chief Financial Officer revise and add clarifying language to the DoD
Financial Management Regulation 7000.14-R and DoD Quarterly Guidance, Attachment
6C, to explicitly require the Defense Finance and Accounting Service and other DoD
Components to:

- a. Document the crosswalk of financial data from noncompliant financial
systems to the United States Standard General Ledger (USSGL).
- b. Prepare journal vouchers for all crosswalk adjustments and include those
adjustments in the quarterly metric.

OUSD(C) Comments:

1a. Nonconcur. My staff has reviewed the processes and spreadsheets Columbus
uses to crosswalk financial data from noncompliant systems into USSGL format. We are
satisfied that the Excel spreadsheets are supported by the underlying source trial balances
and journal vouchers, and that it yields a valid USSGL trial balance. While we agree that
the current process is complex and difficult to follow, and that standard operating
procedures documenting the current crosswalk processes should have been in place, the
cost of preparing the documentation at this time outweighs the benefit of such
documentation. Columbus is in the process of completing implementation of Defense
Departmental Reporting System – Budgetary (DDRS-B) for all components serviced by
the Columbus Center. It is anticipated that the DDRS-B stand-up will be completed by
October 1, 2007, for all customers except the Defense Commissary Agency (DeCA).

Negotiations with DeCA auditors are ongoing, and it is anticipated that DeCA will be stood-up during fiscal year (FY) 2008. We feel Columbus' resources would be much better devoted to completing the DDRS-B implementation, which will render the manual Excel crosswalks obsolete.

1b. Nonconcur. According to DoD FMR Volume 6A, Chapter 2, Section 020208, D.1.e., "When the duly authorized official has determined that the accounting systems are unable to provide data at the required level of detail for financial statement and footnote presentation, a correcting journal voucher shall be prepared to crosswalk data from installation level accounts to the U.S. Government Standard General Ledger." My staff has reviewed the crosswalk spreadsheets used by Columbus to remap the noncompliant balances to USSGL accounts. We are satisfied that a sufficient level of detail exists to support the crosswalk of data, and that the crosswalk simply represents remapping of balances. Mapping data does not constitute an adjustment; therefore, a journal voucher is not required to be prepared or reported in the quarterly metric. We also concur with the process used by Columbus of carrying-forward prior year journal vouchers and ledgers, and do not consider that new journal vouchers should be prepared for this prior-year data, or that the balances should be reported in the quarterly metric.

We appreciate the opportunity to respond to your draft audit report and look forward to resolving the cited issues. My point of contact is Ms. Kathy Sherrill. She can be contacted by telephone at 703-614-7524 or e-mail at Kathy.Sherrill@osd.mil.


Robert McNamara
Acting Deputy Chief Financial Officer

cc:
DFAS

Defense Finance and Accounting Service Columbus Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE
P.O. BOX 182317
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DFAS-JBI/CO

AUG 6 2007

MEMORANDUM FOR DIRECTOR, DEPARTMENT OF DEFENSE INSPECTOR GENERAL

SUBJECT: Management Comments on DoDIG Draft Audit Report, "Defense Finance Accounting Service Columbus Processes for Consolidating and Compiling Other Defense Organizations Financial Data," Project Number D2006-D000FA-0098.000, dated May 30, 2007

In accordance with the subject audit, DFAS Columbus management comments are provided to the draft audit report. Recommendations 1a and 1b belong to the Office of UnderSecretary of Defense (Comptroller) of which DFAS Columbus is also commenting.

DFAS Columbus strongly disagrees with the \$25.9 billion (ABS) in adjustments related to recommendations 1a and 1b and the \$8.6 billion (ABS) in adjustments related to recommendation 2a2. DFAS Columbus contends that mapping does not constitute an adjustment. DFAS Columbus does not agree with the DoDIG's interpretation of the Financial Management Regulation, which is the basis for these recommendations.

The management comments are based on the timeframe of the audit. As such, DFAS Columbus non-concurs with all recommendations. The recommendations presented in the draft audit report have been overcome by events resulting from continuous enhancements to the DFAS Columbus management control program and the implementation of a new system.

My point of contact for additional information is Ms. Sharon Esmont, DFAS-JBI/CO, at DSN 869-0331 or 614-693-0331.

Carlton E. Francis
Deputy Director, DFAS Columbus

Attachment:
As stated

www.dfas.mil
Your Financial Partner @ Work

**Management Comments on DoDIG Draft Audit Report,
“Defense Finance and Accounting Service Columbus Processes for Consolidating and
Compiling Other Defense Organizations Financial Data,”
Project Number D-2006-D000FA-0098, dated May 30, 2007**

Recommendation 1: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer revise and add clarifying language to the DoD Financial Management Regulation 7000.14-R and DoD Quarterly Guidance, Attachment 6c, to explicitly require the Defense Finance and Accounting Service and other DoD Components to:

- a. Document the crosswalk of financial data from noncompliant financial systems to the United States Standard General Ledger (USSGL).

Management Comments: Non-concur. The documentation already exists in our crosswalk workbooks to crosswalk data from non USSGL accounts to USSGL accounts and is documented in eight separate workbooks. The Excel workbooks are used to document the crosswalk process from legacy non compliant systems to USSGL. The DoDIG conducted the audit based on the manual Excel workbooks used to create the December 2005 quarterly statements. The audit report stated that DFAS Columbus lacked efficient audit trails. An audit trail exists however, due to the complexity of the process to crosswalk non USSGL accounts, and limited on-site fieldwork; DoDIG may not have established a full understanding of the process. Complexity of the Excel workbooks required DFAS Columbus accountants to explain and walk several of the auditors through the process of tracing formulas to separate worksheets. DFAS Columbus contends there were adequate controls over the processes to validate adjustments made to financial statements and the adjustments could be traced back to the source documents to create an audit trail. DFAS Columbus acknowledges the re-computation of the audit trail is very complex, cumbersome, and complicated, but the existence of an audit trail is evident.

Furthermore, during the Entrance Briefing, DFAS Columbus explained to the auditors that this manual process was being automated at DFAS Columbus with the full implementation of Defense Departmental Reporting System- Budgetary (DDRS-B). Full implementation of DDRS-B consists of the following phases:

- Phase I – Implementation to DDRS-B monthly process (FY06)
- Phase II – Exporting from DDRS-B to AFS; eliminating manual workbooks (FY07)

The audit trail is deemed to be more efficient and simplified with the full implementation of DDRS-B where the USSGL account balances can be drilled down to the detailed level including JVs. The Other Defense Organizations (ODO) Working Capital Funds (WCFs) reported by DFAS Columbus have fully implemented a direct export from DDRS-B to DDRS-AFS, which eliminated the Excel workbooks. The ODO General Funds (GFs) reported by DFAS Columbus are implementing DDRS-B Phase II and should be completed in FY 2007 as previously planned. The Defense Commissary Agency (DeCA) WCF and GF are in the process of coordinating a full DDRS-B implementation plan for FY 2008.

Estimated Completed Date: This recommendation is considered closed.

- b. Prepare journal vouchers for all crosswalk adjustments and include those adjustments in the quarterly metric.

Management Comments: Non-concur. DFAS Columbus contends that mapping data does not constitute an adjustment, therefore, a JV is neither required nor reported in the quarterly JV metric. Furthermore, we contend that a requirement for such JVs would have no additional reporting value and would merely be a duplication of effort.

The report stated DFAS Columbus did not prepare JVs to support crosswalk adjustments totaling \$25.9 billion (ABS). Currently, DFAS Columbus does not prepare formal JVs to document the crosswalk of non USSGL accounts to USSGL accounts.

DFAS Columbus disagrees with the DoDIG's interpretation of the DoD FMR. According to DoD FMR Volume 6A, Chapter 2, Section 020208, D.1.e., "When the duly authorized official has determined that the accounting systems are unable to provide data at the required level of detail for financial statement and footnote presentation, a correcting journal voucher shall be prepared to crosswalk data from installation level accounts to the U.S. Government Standard General Ledger. The supporting documentation shall include a narrative that explains the reason the reclassification is necessary and the reason the systems are unable to provide the data at the required level of detail." The DFAS Columbus duly authorized official has determined that the DFAS Columbus Legacy non USSGL compliant systems do provide sufficient detail for the financial statements since a one for one mapping of non USSGL accounts to USSGL accounts exists.

Estimated Completion Date: This recommendation is considered closed.

Recommendation 2: We recommend that the Director, Defense Finance and Accounting Service Columbus:

- a. Develop and implement standard operation procedures to:
 - 1) Ensure that accountants crosswalk source trial balance data in a consistent manner and that crosswalk adjustments are authorized and approved.

Management Comments: Non-concur. DFAS Columbus contends that written SOPs are not required because the process is already documented in the crosswalk workbooks and is consistent with the DDRS-B implementation.

The report states that DFAS Columbus accountants did not crosswalk non USSGL accounts consistently. The report indicated one accountant used a summary account to derive the account

balance and another accountant used a detailed account to derive the account balance. The example cited was of DBMS GLAC 4710 vs. 4712 and 4713 in the computation of FBWT (USSGL 1010). GLAC 4710 is the summary GLAC in DBMS for 4712 and 4713. GLAC 4710 contains all disbursements, current year (GLAC 4712) and prior year (GLAC 4713). There was no effect or impact on the reports or financial statements. Furthermore, inconsistent crosswalks do not constitute different financial data.

In addition, DFAS Columbus found the following errors in Table 1, "DBMS GLACs used to build beginning balance for FBWT", page 6:

1. The audit report cited Defense Technical Information Center (DTIC) used GLAC 4110 to build the FBWT beginning balance. However, the formula in the drill down of the Excel worksheet was traced back to GLAC 4712 from the source trial balance.
2. The audit report cited Defense Human Resources Agency (DHRA) used GLAC 4550 to build the FBWT beginning balance. However, Columbus was unable to locate a case on the Excel spreadsheets where DHRA used GLAC 4550 for FBWT.
3. DeCA (limit 8164) does not have an Appropriation Received as they are funded by 5 percent of DeCA Resale. Therefore, DeCA would not use GLAC 4010 to build the FBWT balance as they do not receive funding via an appropriation.
4. Defense Logistics Agency (DLA) used the summary GLAC 4720 for collections whereas the other accountants used the detailed accounts to derive the account balance. The method used to derive the account balance was different, but impact to the financial data is the same.

Estimated Completion Date: This recommendation is considered closed.

- 2) Ensure that all adjustments are documented and supported with an approved journal voucher.

Management Comments: Non-concur. DFAS Columbus contends that an SOP does not ensure that all adjustments are documented and supported with an approved JV. Furthermore our management control program does provide a level of assurance that our vouchers are documented, supported and authorized.

As illustrated in Table 2, "FY 2006 Adjustments to ODO Financial Data (absolute \$ value in millions)", page 8, the report stated that DFAS Columbus did not document and approve all adjustments. It was stated that \$8.6 billion (ABS) in adjustments to USSGLs were unsubstantiated. Based on the limited information provided by the auditors, only \$6.5 billion could be reviewed (DHRA, DCAA, DeCA, and DFAS) as the remaining \$2.1 billion detailed analysis was not provided as repeatedly discussed with the DoDIG. Of the \$6.5 billion reviewed, \$5.9 billion was actually substantiated in the review process but disregarded by the auditors because it was not "sufficiently visible" in the workbooks.

For example, DeCA represents \$5.3 billion of the total finding. DFAS Columbus contends that audit trails exist as the manual Excel workbooks contain summarized and categorized tabs that are used for the financial statement audit. The tabs provide a simplified and clearly defined audit trail but were not used by the DoDIG auditors as instructed. Of the \$5.3 billion, \$4.1 billion can be traced to prior year trial balances. The remaining \$1.2 billion can be traced to JVs and current trial balances. The DoDIG only requested December 2005 trial balances and JVs, but several adjustments in the Excel workbooks cited as unsubstantiated were a result of prior year ledgers or JVs.

All of the entries totaling \$6.5 billion were determined to be valid and necessary, and ultimately substantiated, for the 1st Quarter, FY 2006 financial statements prepared for December 2005. These entries did contain an audit trail and were necessary based on the limitations of the non USSGL compliant systems being used. Again with the full implementation of DDRS-B, all adjustments and prior year balances will be documented in the system which is consistent with our current excel workbooks.

Estimated Completion Date: This recommendation is considered closed.

- 3) Ensure that journal vouchers are categorized (category type and whether supported or unsupported) and prepared in accordance with DoD Quarterly Guidance, Attachment 6C, and clearly define the scope and applicability of journal vouchers and verify that all prepared and approved journal vouchers are recorded to the proper posting accounts.

Management Comments: Non-concur. DFAS Columbus contends that an SOP would be a duplication of Quarterly Guidance, attachment 6C and the FMR. In addition, DFAS Columbus JV review procedures already document the requirements as well.

The report stated that DFAS Columbus did not always assign the appropriate category for JVs. DFAS Columbus was not able to review the specific detail supporting the findings concerning the categorization of JVs and cannot address all 452 JVs cited in the report Table 3, "FY 2006 Journal Vouchers Prepared by DFAS Columbus", page 11. DFAS Columbus reviewed the sample of JVs received from the DoDIG and determined they were properly categorized and had sufficient documentation. The categorization of JVs continues to be based on interpretation of the guidance. It is possible, based on accountant's interpretation of the DoD FMR and the nature of the JV, that a JV could be classified in more than one JV Category.

The report quoted DFAS Columbus personnel as stating they did not follow guidance and used a "cheat sheet" to prepare JVs. Both comments were taken out of context as quoted in the report. DFAS Columbus personnel follow the mandated requirements for preparation of the monthly and quarterly JVs. The "cheat sheet" is actually called a JV Category Cheat Sheet and is used as a quick reference in the preparation of JVs. It's based on the FMR and quarterly guidance.

The report stated that DFAS Columbus did not support the validity and amounts of JV transactions with the required documentation. The example cited in the report was of JVs to

record Defense Contract Management Agency's (DCMA) undistributed disbursements and collections. Attached to DCMA's JVs for supporting documentation was a schedule or chart showing the calculation of the undistributed. The schedule included two columns, Treasury and the DMBS GLAC 47**. If requested, the treasury source (monthly CMR) and the Trial Balance source (monthly DBMS GLAC) could have been provided. Furthermore, supported undistributed information is maintained in the Columbus Cash Accountability System (CCAS) module, which was briefed to the DoDIG. There is also an independent reconciliation each month to ensure the posted undistributed matched the CCAS undistributed. CCAS contains all the support for the undistributed as the amounts can be traced back to the transaction level. This access is provided to all auditors to validate DFAS Columbus undistributed information.

The report also stated that DFAS Columbus did not document the scope and applicability of the JVs it prepared. The example cited in the report is unique only to DCAA. The scope for the DCAA JVs was clearly defined. DCAA is not required to map budgetary accounts to establish proprietary account balances like the other ODO entities.

Estimated Completion Date: This recommendation is considered closed.

- 4) Reconcile the adjusted ending trial balances to journal voucher-derived account balances to ensure adjustments are not made without journal vouchers and journal vouchers are correctly posted.

Management Comments: Non-concur. A written SOP is not necessary because the reconciliation process is already embedded and documented in our management control program as stated below in 2b.

The report stated that DFAS Columbus approved JVs that were not posted as adjustments or were not posted correctly. The DoDIG stated that \$535 million (ABS) in JVs weren't posted to USSGLs. DFAS Columbus only reviewed \$223 million (ABS) as we were provided analysis information for four (DHRA, DCAA, DeCA, and DFAS) of the eight entities. The DTIC example cited in the report (\$157 million ABS), in which the JV did not agree with the posted adjustment in the workbook, was due to a formula error in the Excel program resulting in reverse signs to the face page of the manual JVs. However, the entry was imported correctly into DDARS-AFS based on the crosswalk in the workbook. In addition, \$48.9 million (ABS) was due to monthly JVs which were not relevant to crosswalk to the financial statements as cited by the DoDIG.

Estimated Completion Date: This recommendation is considered closed.

- 2b. Expand the scope of the managers' internal control program and self-evaluation process to ensure all adjustments to financial data are processed and approved in accordance with DoD Financial Management Regulation 7000.14-R and Quarterly Guidance, Attachment 6C.

accordance with DoD Financial Management 7000.14-R and Quarterly Guidance, Attachment 6C.

The report stated that DFAS Columbus did not identify the most effective control objectives to help ensure adjustments were valid, accurate, and approved. All adjustments were valid and necessary for the December 2005, 1st Quarter, FY 2006 financial statements.

The report does not mention all process reviews that were in place during the period of the audit. The Financial Reporting Division, with new strategic direction from Executive Management, began implementing a formalized review process during FY 2004 as part of the internal control program. Additional quarterly control review processes were enhanced as part of the required test A-123 Appendix A and financial improvement plan initiatives. In addition, DFAS Columbus also implemented three journal voucher reviews that consist of using the JV log for 100 percent verification of existence and proper signature, abnormal balances, and a statistical selection of JVs for compliance with DoD Regulation 7000.14-R. Also, a crosswalk review was implemented that consists of footing, cross-footing, verifying data back to raw source trial balances, journal vouchers, or supporting adjustments, and comparing crosswalk amounts to the input data in DDRS.

Estimated Completion Date: This recommendation is considered closed.

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