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Journal Vouchers Processed by the
Defense Finance and Accounting
Service for the Navy Working
Capital Fund

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Acronyms

CDB	Central Database
CGSM	Cost of Goods Sold Model
DDRS-AFS	Defense Departmental Reporting System - Audited Financial Statements
DDRS-B	Defense Departmental Reporting System - Budgetary
DFAS	Defense Finance and Accounting Service
DFAS CL	Defense Finance and Accounting Service Cleveland
DFAS KC	Defense Finance and Accounting Service Kansas City
DON	Department of the Navy
FMR	Financial Management Regulation
GAO	Government Accountability Office
NWCF	Navy Working Capital Fund
OUS(DC)/CFO	Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer
SOP	Standard Operating Procedures
USSGL	U.S. Standard General Ledger



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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April 25, 2008

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

SUBJECT: Report on Journal Vouchers Processed by the Defense Finance and
Accounting Service for the Navy Working Capital Fund (Report
No. D-2008-084)

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

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

We appreciate the courtesies extended to the staff. Questions should be directed
to Mr. Edward A. Blair at (216) 706-0074, extension 226 or Ms. Laura J.S. Croniger at
(216) 706-0074, extension 227. The team members are listed inside the back cover.

Patricia A. Marsh
Patricia A. Marsh, CPA
Assistant Inspector General
Defense Financial Auditing Service

Department of Defense Office of Inspector General

Report No. D-2008-084

April 25, 2008

(Project No. D2006-D000FC-0185.000)

Journal Vouchers Processed by the Defense Finance and Accounting Service for the Navy Working Capital Fund

Executive Summary

Who Should Read This Report and Why? Department of the Navy personnel responsible for financial management, and Defense Finance and Accounting Service (DFAS) personnel responsible for processing journal voucher adjustments for the Department of the Navy Working Capital Fund should read this report. This report discusses the reliability and auditability of the journal voucher adjustments processed by DFAS Cleveland for the Department of the Navy Working Capital Fund.

Background. DFAS provides finance and accounting services for the Department of the Navy. DFAS Cleveland and DFAS Kansas City are jointly responsible for the finance and accounting operations of the Navy and the U.S. Marine Corps, collectively referred to as the Department of the Navy. DFAS Cleveland is responsible for all of the financial reporting for the Department of the Navy. DFAS Kansas City is responsible for the U.S. Marine Corps financial information consolidated into the Navy financial information at DFAS Cleveland. The Department of the Navy Working Capital Fund reported total assets of \$19 billion and total liabilities of \$6.9 billion for the second quarter of FY 2006. Journal voucher adjustments are an important step in the financial reporting process. Journal voucher adjustments should be processed in accordance with applicable regulations, which require adequate supporting documentation for each transaction.

Results. We audited a sample of 160 journal vouchers processed by DFAS. We identified 37 journal vouchers with a net value of \$4.1 billion as unsupported. We also identified 110 of these journal vouchers with operational control deficiencies. As a result, we estimate that DFAS processed 220 unsupported journal vouchers and 682 journal vouchers with operational control deficiencies. The Director of Defense Finance and Accounting Service Cleveland should enforce the existing policy requiring supported journal voucher adjustments. Further, the Director of Defense Finance and Accounting Service Cleveland should develop or improve standard operating procedures to ensure compliance with Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer journal voucher guidance. (See the Finding section of the report for detailed recommendations.)

DFAS Cleveland's internal controls were not adequate. We detected weaknesses in the Managers' Internal Control Program: DFAS Cleveland did not identify any issues regarding the review of the standard operating procedures to ensure compliance with current published guidance. DFAS managers perform quarterly reviews of their system of internal accounting controls to comply with management control program

requirements; however, management did not identify the determination of whether a journal voucher was “supported” or “unsupported” as a specific control.

Management Comments and Audit Response. The Director, Defense Finance and Accounting Service Cleveland concurred with all recommendations. The Director listed the following corrective actions taken.

- DFAS and the Office of the Secretary of Defense added the metric regarding unsupported journal adjustments starting in FY 2007.
- The Working Capital Fund branch added two process control points to improve operational control procedures.
- Both Departmental Reporting System-Audited Financial Statements, and Defense Departmental Reporting System-Budgetary, now include the supported or unsupported in the journal voucher explanation. The Central Data Base identifies the journal voucher as supported or unsupported on the cover sheet.

We reviewed the above information and confirmed appropriate guidance was developed and journal voucher adjustments are identified as supported or unsupported. Management comments were responsive and corrective actions taken meet the intent of the recommendations. (See the Finding sections for discussion of management comments and the Management Comments section for the complete text of the comments.)

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Background

This audit focused on the Department of Navy Working Capital Fund (NWCF) journal vouchers processed in the Central Data Base (CDB), Defense Departmental Reporting System-Budgetary (DDRS-B), and Defense Departmental Reporting System-Audited Financial Statements (DDRS-AFS) by Defense Finance and Accounting Service (DFAS). DFAS provides finance and accounting services for the Department of the Navy (DON). DFAS Cleveland (DFAS CL) and DFAS Kansas City (DFAS KC) are jointly responsible for the finance and accounting operations of the Navy and the U.S. Marine Corps, collectively referred to as the DON. DFAS CL is responsible for all of the financial reporting for the DON. DFAS KC is responsible for the U.S. Marine Corps financial data that consolidates into DON financial data at DFAS CL. For FY 2006, second quarter, the NWCF reported total assets of \$19 billion and total liabilities of \$6.9 billion.

DDRS-AFS standardizes the DoD departmental reporting processes and produces annual and quarterly departmental reports based on the U.S. Standard General Ledger (USSGL) using standard attributes. It is a Web-based system that replaced the client-based systems. DDRS-AFS is revised periodically to incorporate updated Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer (OUSD[C]/CFO) financial reporting requirements. DDRS-AFS includes the reconciliations OUSD(C)/CFO requires within and between reports.

DDRS-B standardizes DoD departmental reporting processes and produces monthly departmental reports based on the USSGL and other standard attributes. It is a Web-based application that replaced many of the legacy¹ departmental budgetary reporting systems. DDRS-B incorporates reporting requirements from the Office of Management and Budget, the Department of the Treasury, and the OUSD(C)/CFO. DDRS-B includes required reconciliations within and between various reports. However, DDRS-B is strictly a reporting system and not an accounting system. It produces budgetary reports but does not determine whether the correct accounting rules and principles were used when recording transactions and producing reports.

The CDB is a legacy departmental budgetary system employed by Navy Supply Management. The CDB posts data streams and journal vouchers from Navy Supply Management in Mechanicsburg, Pennsylvania. The data are uploaded to the Cost of Goods Sold Model (CGSM) and processed, and then the CDB creates a trial balance to upload to DDRS-B.

Public Law Requirements. Public Law 104-208, “Federal Financial Management Improvement Act of 1996,” September 30, 1996, requires that agencies use the USSGL to accumulate and report standard financial data. The USSGL contains two sets of general ledger accounts: budgetary and proprietary.

¹ DoD Directive 8190.1, “DoD Logistics Use of Electronic Data Interchange (EDI) Standards, Enclosure 1,” issued May 5, 2000, defines legacy systems as “Information systems currently performing a logistics function. These systems may be candidates for phase-out, upgrade, or replacement.”

The USSGL account structure provides a self-balancing set of budgetary accounts to record the transactions for the Navy budget, the appropriation, appointment, allocation, commitment, obligation, and expenditure process. Proprietary asset and liability accounts record transactions for Navy assets and liabilities, including the receipt of funds in the U.S. Treasury, the proper classification of the assets, and the recognition and proper classification of liabilities.

Transactions may require entries to both budgetary and proprietary general ledger accounts. However, both the budgetary and proprietary accounts must stand alone. For example, a debit to a budgetary account will have a corresponding credit to a budgetary account. Entries that mix budgetary and proprietary general ledger accounts are improper and cause an imbalance in the general ledger.

DoD Financial Management Regulation. Journal voucher adjustments are an important step in the financial reporting process. Journal voucher adjustments should comply with applicable regulations, which require adequate supporting documentation for each transaction. DoD Regulation 7000.14-R, DoD Financial Management Regulation (FMR), volume 6A, chapter 2, “Financial Reports Roles and Responsibilities,” March 2002, provides guidance on the primary uses and proper preparation of journal vouchers. It also establishes operational controls to ensure journal vouchers are processed timely and accurately with proper approval and review processes. Interim guidance is also provided by the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer: FY 2006 1st Quarter Guidance (hereafter referred to as 1st Quarter Guidance), “Attachment 6C: Journal Voucher Category Identification Codes and Metric Reporting.” This guidance establishes the 10 journal voucher category identification codes used in the journal voucher process. In addition, all accounting centers are required to report all journal vouchers in any reporting system (or processed through offline manual processes) as either supported or unsupported. The guidance defines a supported journal voucher as an entry that has detailed transaction-level documentation in support of the journal voucher amount. When it is not practical to attach supporting documentation to a journal voucher, sufficient information should be included so that it can be easily and quickly located.

DFAS CL Standard Operating Procedures. DFAS CL Standard Operating Procedures (SOP) 7310.21, “Journal Voucher Guidance,” February 8, 2002, provides guidance on the use, preparation, and internal controls necessary to ensure proper recording of source-entry journal vouchers and correcting-entry journal vouchers for DFAS CL. In addition, DFAS CL Standard Operating Procedures, “AFS–WCF Operating Manual,” November 2005, provides guidance on the adequacy of supporting documentation to support the validity and amount of journal vouchers.

Objectives

Our overall audit objective was to determine journal vouchers’ reliability, effect on financial reporting, and the overall management by DFAS. Specifically, we reviewed whether the procedures for recording journal vouchers to adjust the

Navy Working Capital Fund financial records are in accordance with established laws, regulations, and guidance. We also reviewed the management control program as it related to the overall objective. See Appendix A for a discussion of the scope and methodology related to the objectives.

Review of Internal Controls

DoD Directive 5010.38, “Management Control Program,” and DoD Instruction 5010.40, “Management Control Program Procedures,” require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.”²

Scope of the Review of the Managers’ Internal Control Program. We assessed the adequacy of DFAS management controls over the processing and recording of adjusting journal vouchers within the CDB, DDRS-B, and DDRS-AFS. Specifically, we analyzed DFAS management controls established for both correcting-entry and source-entry journal vouchers and the supporting documentation. Additionally, we assessed management’s self-evaluation applicable to those controls.

Adequacy of Managers’ Internal Controls. We detected weaknesses in the DFAS control program as defined by DoD Instruction 5010.40. DFAS CL did not identify any issues regarding the review of SOP 7310.21 to ensure compliance with current published guidance. For example, DFAS CL SOP 7310.21 provides examples of sufficient supporting documentation for each type of journal voucher. However, management did not implement these procedures. Recommendation 1., if implemented, will correct this weakness.

Adequacy of Managers’ Self-Evaluation. DFAS managers perform quarterly reviews of their system of internal administrative and accounting controls to comply with the management control requirements. They use a quarterly matrix “Management Control Program, Assessable Unit Summary” report to evaluate journal vouchers in each of the following assessable units: Working Capital Fund Audited Financial Statements, Navy Supply Management, Navy Industrial Fund, and Defense Information Systems Agency-Monthly Budget Execution Reports. Quarterly certification statements reflect the results noted during the reviews of the respective assessable unit. In the self-evaluations, management did not identify the determination of whether a journal voucher was supported or unsupported as a specific control. Therefore, managers did not identify or report journal voucher processing as a weakness during the self-evaluation processes.

² Our review of internal controls was done under the auspices of DoD Directive 5010.38, “Management Control (MC) Program,” August 26, 1996, and DoD Instruction 5010.40, “Management Control (MC) Program Procedures,” August 28, 1996, because we reviewed journal vouchers processed before DoD Directive 5010.38 was canceled on April 3, 2006. DoD Instruction 5010.40, “Managers’ Internal Control (MIC) Program Procedures,” was reissued on January 4, 2006.

Material weaknesses still exist with DFAS processing of journal vouchers. Therefore, DFAS is required to report journal vouchers as a weakness in the Annual State of Assurance. Recommendation 2.b., if implemented, will correct this weakness.

The DFAS internal control program is extensive, but not complete. DFAS did not consider controls addressing risk areas related to unsupported journal vouchers reported as supported. Specifically, management did not adequately establish the necessary corrective actions needed to resolve this weakness. Implementing our recommendations will improve the reliability of the journal vouchers to support financial statements. A copy of this report was provided to the senior official in charge of internal controls at DFAS Cleveland.

Single Journal Voucher Adjustments

DFAS processed 37 unsupported journal vouchers in our sample with a net value of \$4.1 billion. DFAS also did not use adequate operational controls over the processing of 110 journal vouchers in our sample. Journal vouchers compensate for financial system deficiencies that continue to exist. The 37 journal vouchers were unsupported because DFAS did not ensure sufficient documentation existed, and operational controls were not adequate because DFAS did not follow the DoD FMR requirements. As a result, we estimate DFAS processed 220 unsupported journal vouchers and 682 journal vouchers with an operational control deficiency, negatively affecting the reliability of financial data supporting financial statements.

Ability To Support Journal Voucher Adjustments

We reviewed 160 journal vouchers with a net value of \$6.2 billion recorded in DDRS-AFS, DDRS-B, and the CDB during the second quarter FY 2006. We determined that DFAS had processed 37 unsupported journal vouchers with a net value of \$4.1 billion to balance the Department of the Navy Working Capital Fund budgetary and proprietary general ledgers. DFAS identified 20 journal vouchers entered in DDRS-AFS as unsupported. The remaining 17 journal vouchers were reported as supported by DFAS CL and DFAS KC, but we identified them as unsupported.

We identified the 17 journal vouchers as unsupported because DFAS did not comply with DoD FMR and 1st Quarter Guidance requirements for determining supported journal voucher amounts. Guidance requires that all journal vouchers include supporting documentation or indicate where the supporting data are located. We identified unsupported journal vouchers in each of the three reporting systems audited. The table below shows each system and the number of sample items tested, with the dollar value. It also shows the number of unsupported journal vouchers identified in each system and the corresponding dollar value.

Value of Sample and Value of Unsupported Journal Vouchers (in billions)					
System	Number of Sample Items	Net Value of Journal Vouchers Sampled	Net Value of Unsupported Journal Vouchers	Number of Unsupported Journal Vouchers	Number of Unsupported Journal Vouchers Identified by DFAS
DDRS-AFS	50	\$2.8	\$1.5	20	20
DDRS-B	50	\$5.8	\$5.7	10	0
CDB	60	\$(2.4)	\$(3.1)	7	0
Consolidated	160	\$6.2	\$4.1	37	20

DDRS-AFS Journal Vouchers. Our DDRS-AFS sample of 50 included 32 journal vouchers processed by DFAS CL and 18 journal vouchers processed by DFAS KC. DFAS CL and DFAS KC appropriately identified 20 of these journal vouchers as unsupported as required by 1st Quarter Guidance. We did not identify any additional unsupported journal vouchers during our audit.

DDRS-B Journal Vouchers. Our audit sample consisted of 50 journal vouchers processed within the DDRS-B system. We identified 10 unsupported journal vouchers processed in DDRS-B. Nine of these journal vouchers were to adjust accounts at the activity level to reflect the spending authority at the business area. These adjustments are necessary because of system limitations secondary to the Navy Industrial Fund Special Process in DDRS-B. There is no supporting detail-level information for these journal vouchers. At the time of our audit, DFAS CL identified these journal vouchers as supported. DFAS CL is currently identifying these types of journal vouchers as unsupported. The remaining one unsupported journal voucher was to correct a prior year error, and it was not material.

When we began our audit, DFAS was not identifying journal vouchers as supported or unsupported in the DDRS-B system. In fact, the DDRS-B system did not provide a data field in which the preparer could identify the journal voucher as supported or unsupported. However, after our audit, DFAS began to identify unsupported journal vouchers by making a notation in the “Reason” section of the DDRS-B journal voucher form.

CDB Journal Vouchers. We identified seven unsupported journal vouchers processed in the CDB system. The system generated and posted six unsupported journal vouchers related to inventory accounts. Although we did not review adjustments calculated by the Cost of Goods Sold Model (CGSM) used by DFAS to value inventory, the population of CDB journal vouchers included journal vouchers posted by the CDB that used CGSM calculations and were, therefore, part of our sample. The only documentation DFAS could provide for these six journal vouchers was the result of calculations made in CGSM. Because other DoD-wide audit efforts³ are currently addressing the use of CGSM in determining inventory valuation, we did not review this area. Although DFAS supports the adjustments with data from CGSM, we consider these six journal vouchers unsupported because current DFAS procedures do not value inventory at historical cost as required by generally accepted accounting principles.

DFAS CL identified the remaining unsupported CDB journal voucher with a net value of negative \$8.5 million as having originated with Navy personnel. The journal voucher was posted to account numbers 4221.1 “Unfilled Orders-Without Advance-Federal” and 4201.1 “Total Actual Resources-Collected-Automatic-Appropriation.” DFAS did not obtain or provide supporting documentation for this journal voucher.

Consolidated Journal Vouchers Projections. Our audit results indicate 37 unsupported journal vouchers were identified with a net value of \$4.1 billion. Based on these sample results of overall testing, we project 220 unsupported

³ DoD OIG Audit Report No. D-2003-039, “Naval Supply Systems Command Revaluation of Inventory to Latest Acquisition Cost,” December 31, 2002.

journal vouchers out of 1,023 journal vouchers processed by DFAS. For additional information regarding our projections, see Appendix B.

Operational Controls

We tested other operational (internal) controls over the journal voucher process as established in DoD FMR, volume 6A, chapter 2, “Financial Reports Roles and Responsibilities,” March 2002. These tests included reviewing approvals and peer review, verifying calculations, testing adequacy of criteria to support the journal voucher adjustment, and checking the journal voucher category. Our sample results indicate that 110 journal vouchers had a deficiency in one or more of the operational controls identified in DoD FMR, volume 6A. In some cases, the preparer or reviewer did not properly complete the “journal voucher signature form” by including name, title, and office symbol. In addition, we could not determine whether journal vouchers processed in DDRS-AFS and DDRS-B were reviewed or by whom. Further, several DDRS-AFS journal vouchers processed by DFAS KC did not provide sufficient documentation to show that the approver had authorization to sign as the acting Branch Chief. Based on our sample projections, we estimate 682 journal vouchers have some kind of operational control deficiency. For additional information regarding our projections, see Appendix B.

Impact on Financial Statements

If unsupported amounts are material, they will impede verification of key financial statement assertions. Further, if systems do not accurately reconcile budgetary and proprietary general ledgers, imbalances will continue to exist that require adjustments to align both general ledgers. These factors increase the risk that errors can occur when preparing financial statements and, therefore, lessen the auditability of those financial statements.

Generally accepted government auditing standards require the auditor to consider audit risk and materiality in planning an audit, designing audit procedures, and evaluating whether the financial statements taken as a whole are presented fairly. The Government Accountability Office (GAO) Financial Audit Manual establishes a 3-percent planning materiality⁴ with a design materiality⁵ and test materiality⁶ of one-third (1 percent) of the planning materiality. We calculated a

⁴ Planning materiality is a preliminary estimate of materiality, in relation to the financial statements taken as a whole, used to determine the nature, timing, and extent of substantive audit procedures and to identify significant laws and regulations for compliance testing. See GAO Financial Audit Manual, pages 230-232.

⁵ Design materiality is the portion of planning materiality that has been allocated to items or accounts. This amount is the same for all line items or accounts (except for certain offsetting balances as discussed in paragraph 230.10). See GAO Financial Audit Manual, pages 230-232.

⁶ Test materiality is the materiality used by the auditor in testing a specific line item or account. Based on the auditor’s judgment, test materiality can be equal to or less than design materiality, as discussed in paragraph 230.13. See GAO Financial Audit Manual, pages 230-232.

planning materiality of \$.05 billion. We audited 160 journal vouchers with a net value of \$6.2 billion and identified 37 journal vouchers totaling approximately \$4.1 billion as unsupported. Because the value of the unsupported journal vouchers exceeds the planning materiality of \$0.5 billion, these journal vouchers have a material effect on the NWCF financial statements. When journal vouchers are unsupported, the key management assertion of existence, completeness, and valuation cannot be verified. Although NWCF financial statements are not ready for audit, unsupported journal vouchers must be reduced to a level that does not materially affect the financial statements. In addition, strengthening the operational controls over journal vouchers will improve the internal control environment.

Recommendations, Management Comments, and Audit Response

1. **We recommend that the Director, Defense Finance and Accounting Service Cleveland enforce the applicable guidance periodically issued by the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer regarding journal voucher category identification codes and metric reporting. Specifically, Defense Finance and Accounting Service should ensure that journal vouchers have supporting documentation attached or include sufficient information so it can be easily and quickly located. DFAS CL should coordinate with the Navy to support all adjustments, regardless of the organization that enters the journal voucher.**

Management Comments. The Defense Finance and Accounting Service Cleveland, Director concurred in principle and stated that this policy is being enforced, in that the Defense Finance and Accounting Service and the Office of the Secretary of Defense have added a metric regarding unsupported adjustments starting with the FY 2007 reporting period.

Audit Response. The comments provided by the Director, DFAS Cleveland are responsive, and no further comments are required. We reviewed the metric and the journal vouchers processed in DDRS-AFS, DDRS-B, and CDB to confirm that the journal vouchers are being identified and reported as supported or unsupported.

2. **We recommend that the Director, Defense Finance and Accounting Service Cleveland:**
 - a. **Develop or improve procedures to ensure that the operational controls established in DoD FMR volume 6A, chapter 2 are followed by accounting personnel posting journal vouchers into various systems.**

Management Comments. The Director, Defense Finance and Accounting Service Cleveland concurred in principle and stated that procedures were developed to resolve this issue. The Working Capital

Fund branch had six journal voucher-related process control points in the second quarter FY 2006. Since then, DFAS has added two process control points related to the journal voucher adjustments. The two additional control points have improved the operational control procedures.

Audit Response. The comments provided by the Director, DFAS Cleveland are responsive, and no further comments are required. We reviewed the self-assessment report for the fourth quarter of FY 2007 and the first quarter of FY 2008. The Working Capital Fund branch added two additional control points.

b. Include the journal voucher status of “Unsupported” or “Supported” as a specific control in the self-assessment processes.

Management Comments. The Director, Defense Finance and Accounting Service Cleveland concurred in principle and stated that both DDRS-AFS and DDRS-B now include the supported or unsupported statement in the journal voucher explanation. The CDB journal voucher coversheet identifies the journal voucher as supported or unsupported.

Audit Response. The comments provided by the Director, DFAS Cleveland are responsive, and no further comments are required. We reviewed journal vouchers processed in DDRS-AFS, DDRS-B, and CDB to confirm that the journal vouchers are being identified and reported as supported or unsupported.

Appendix A. Scope and Methodology

We conducted this performance audit from May 2006 through January 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 based on our audit objectives.

We performed this audit to establish whether DFAS properly supported NWCF vouchers used to make adjustments. We focused the audit on journal vouchers used to adjust accounts to balance them and on the regularity with which DFAS properly identified these journal vouchers as supported or unsupported. Additionally, we evaluated the propriety of approvals, appropriate supporting documentation, and reasons for entering the journal voucher.

In order to accomplish the audit objectives, we obtained the journal voucher logs containing 275 DDRS-AFS journal vouchers, 276 DDRS-B journal vouchers, and 472 CDB journal vouchers processed in the first and second quarters of FY 2006. These journal voucher logs represented 1,023 journal vouchers processed by DFAS-CL in the first half of FY 2006. However, the DDRS-AFS journal voucher log included 70 journal vouchers processed by DFAS KC for the U.S. Marine Corps. These journal vouchers consolidate into the DON financial data. We coordinated with the Quantitative Methods Directorate (QMD), DoD Office of the Inspector General in developing a statistical sample design. QMD selected a sample of 160 journal vouchers: 50 from DDRS-AFS, 50 from DDRS-B, and 60 from CDB. We tested the sample transactions against established audit criteria. See Appendix B for a discussion of the statistical sampling methodology.

Our testing plan included a determination of whether the journal vouchers were supported or unsupported journal voucher adjustments and properly identified as supported or unsupported. Additionally, our test plan included a determination of whether proper approvals, appropriate supporting documentation, and reasonable explanations for the journal vouchers were documented. To accomplish our audit objective, we compared the journal voucher supporting documentation to the DoD FMR, the OUSD(C)/CFO quarterly reporting guidance, and internal SOP for each of the 160 sampled journal vouchers. Available supporting documentation was obtained from DFAS CL and DFAS KC NWCF representatives.

Use of Computer-Processed Data. We relied on computer-processed data from DDRS-AFS, DDRS-B, and CDB systems to perform our review of the journal vouchers. We did not perform a reliability assessment of computer-processed financial data because we determined only whether DFAS could adequately support the journal voucher adjustments. We did not find errors that would preclude the use of computer-processed data to meet the audit objectives or that would change the conclusions in the report.

Use of Technical Assistance. QMD analysts provided technical assistance in developing a sample design and selecting a sample of journal vouchers.

Specifically, QMD provided a statistically selected sample of 160 journal vouchers that we analyzed and tested to achieve the objectives of the audit. See Appendix B for a discussion of the statistical sampling methodology.

Government Accountability Office High-Risk Area. The GAO has identified several high-risk areas in DoD. This report provides coverage of the Financial Management high-risk area. The GAO considered DoD Financial Management a high risk because DoD financial management deficiencies represent the single largest obstacle to achieving an unqualified opinion on the U.S. Government's consolidated financial statements. DoD continues to face financial management problems that are pervasive, complex, long-standing, and deeply rooted in virtually all its business operations. DoD's financial management deficiencies adversely affect the Department's ability to control costs and claims on the budget, measure performance, maintain funds control, prevent fraud, and address pressing management issues. GAO first designated this area as high risk in 1995, and it remains so today.

Prior Coverage

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

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Appendix B. Statistical Sampling Methodology

Sampling Plan

Sampling Purpose. We used a stratified statistical sampling design to estimate the number of errors associated with selected types of controls. The results of our sample testing allowed us to estimate the number of unsupported journal vouchers entered and the total number of journal vouchers entered without sufficient operating controls.

Sample Design. We applied statistical sampling to data from three systems used by DFAS to process journal vouchers. We designed a stratified sample plan with three strata corresponding to the three systems. We developed tests that applied to all three systems and drew a random sample from each of the three systems. We used statistical sampling to project audit results to the three systems combined. The table below identifies the three systems and the number of randomly selected sample items tested.

Journal Vouchers Statistically Sampled			
Stratum	System	Population	Sample Size
1	DDRS-AFS	275	50
2	DDRS-B	276	50
3	CDB	<u>472</u>	<u>60</u>
Consolidated		1,023	160

Sample Results

Unsupported Journal Vouchers. With 90-percent confidence, the statistical estimate of the number of unsupported journal vouchers processed by DFAS in these three systems during the first half of FY 2006 falls within the range of 163 to 277 journal vouchers. Using the midpoint of this range, we project that 220 out of 1,023 journal vouchers processed by DFAS in all three systems combined for this period are unsupported.

Insufficient Operational Controls. Also with 90-percent confidence, the statistical estimate of the number of weaknesses identified in the operational controls of journal vouchers processed by DFAS in these three systems during the first half of FY 2006 falls within the range of 618 to 745 journal vouchers. Using the midpoint of this range, we project that 682 out of 1,023 journal vouchers processed by DFAS in all three systems combined for this period have weaknesses in the operational control procedures.

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

Assistant Secretary of the Navy (Financial Management and Comptroller)
Naval Inspector General
Auditor General, Department of the Navy

Other Defense Organizations

Director, Defense Finance and Accounting Service
Cleveland Center
Director, Defense Finance and Accounting Service
Kansas City 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 Government Reform
House Subcommittee on Government Management, Finance, and Accountability
Committee on Government Reform
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform

Defense Finance and Accounting Service Cleveland Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE
1240 EAST NINTH STREET
CLEVELAND OHIO 44199

FEB 21 2008

DFAS-JBB/CL

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCIAL AUDITING SERVICE,
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF
DEFENSE (ATTN: MR. EDWARD A. BLAIR)

SUBJECT: Office of the Inspector General Draft Report, Project No. D2006-D000FC-0185.000,
"Journal Vouchers Processed by the Defense Finance and Accounting Service for
the Navy Working Capital Fund," dated January 25, 2008

The Defense Finance and Accounting Service is providing the attached response to
Recommendations 1, 2.a, and 2.b of the subject draft audit report in Attachment 1.

The point of contact is Mr. Stanley Koch. Mr. Koch can be reached at 216-204-7066 or
DSN 580-5628.

A handwritten signature in cursive script, reading "Martha J. Smith".

Martha J. Smith
Director, DFAS Cleveland

Attachment:
As stated

cc:
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**DFAS Comments to DoD IG Draft Report, Project No. D2006-D000FC-0185.000,
“Journal Vouchers Processed by the Defense Finance and Accounting Service
for the Navy Working Capital Fund,”
Dated January 25, 2008.**

Recommendation 1. We recommend that the Director, Defense Finance and Accounting Service Cleveland enforce the applicable guidance periodically issued by the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer regarding journal voucher category identification codes and metric reporting. Specifically, Defense Finance and Accounting Service should ensure that journal vouchers have supporting documentation attached or include sufficient information so it can be easily and quickly located. DFAS CL should coordinate with the Navy to support all adjustments, regardless of the organization that enters the journal voucher.

Management Comments. Concur in Principal. The Director already enforces this policy, as DFAS and OSD have added a metric regarding Unsupported Adjustments starting with FY 2007 reporting.

Completion Date. February 4, 2008. This recommendation is considered closed.

Recommendation 2.a. We recommend that the Director of Defense Finance and Accounting Service, Cleveland develop or improve procedures to ensure that the operational controls established in DoD FMR volume 6A, chapter 2 are followed by accounting personnel posting journal vouchers into various systems.

Management Comments. Concur in Principal. Procedures have been developed and were effective second Quarter FY 2006. This issue has been resolved. The Working Capital Fund branch had six JV related process Control Points in our Assessable Unit review two years ago, when this audit was announced, and now we have eight process Control Points related to journal voucher adjustments, two added to improve operational control procedures.

Completion Date. February 4, 2008. This recommendation is considered closed.

Recommendation 2.b. We recommend that the Director of Defense Finance and Accounting Service, Cleveland include the journal voucher status of “Unsupported” or “Supported” as a specific control in the self-assessment processes.

Management Comments. Concur in Principal. This is no longer an issue. Both DDRS-AFS and DDRS-B now includes the supported or unsupported in the JV explanation. The CDB JVs are identified as supported or unsupported on the CDB JV cover sheet.

Completion Date. February 4, 2008. This recommendation is considered closed.

Team Members

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

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