

Inspector General

United States
Department of Defense



Internal Controls
for Air Force General Fund
Cash and Other Monetary Assets

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Acronyms and Abbreviations

AFAA	Air Force Audit Agency
CAR	Cash Authority Request
COMA	Cash and Other Monetary Assets
CONUS	Continental United States
DFAS	Defense Finance and Accounting Service
DO	Disbursing Officer
DoD FMR	DoD Financial Management Regulation 7000.14-R
DoD IG	Department of Defense Inspector General
DSSN	Disbursing Station Symbol Number
EFT	Electronic Funds Transfer
OCONUS	Outside the Continental United States
OMB	Office of Management and Budget
SOA	Statement of Accountability



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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August 18, 2008

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

SUBJECT: Report on Internal Controls for Air Force General Fund Cash and Other Monetary
Assets (Report No. D-2008-121)

We are providing this report for review and comment. We considered comments from the
Defense Finance and Accounting Service Denver Director when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The comments
from the Defense Finance and Accounting Service Denver Director were fully responsive.
However, we did not receive management comments from the Assistant Secretary of the Air Force
(Financial Management and Comptroller). Therefore, we request additional comments on
Recommendations C.1.a. and C.1.b. by September 18, 2008.

Please provide comments that conform to the requirements of DoD Directive 7650.3. If possible,
send management comments in electronic format (Adobe Acrobat file only) to
AUDDFS@dodig.mil. Copies of the management comments must have the actual signature of the
authorizing official for your organization. We are unable to accept the / Signed / symbol in place
of the actual signature. If you arrange to send classified comments electronically, you must send
them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to our staff. Please direct questions to Ms. Amy J. Frontz at
(303) 676-7392 or Mr. M. James Herbic at (303) 676-3280. If you desire, we will provide a
formal briefing on the results.

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



Results in Brief: Internal Controls for Air Force General Fund Cash and Other Monetary Assets

What We Did

Our objective was to determine whether internal controls were effectively designed and operating to adequately safeguard, account for, and report Air Force General Fund Cash and Other Monetary Assets.

What We Found

Physical controls for safeguarding Cash and Other Monetary Assets were effective. Air Force financial managers and Defense Finance and Accounting Service personnel have designed effective internal controls. However, there are deficiencies in the application of those controls. Until Air Force corrects these deficiencies, it cannot ensure that cash held outside of the U.S. Treasury is justified or that it properly accounts for and reports Cash and Other Monetary Asset balances. Specifically:

- The Air Force deputy disbursing officer responsible for the Japan custody account allowed a material reporting error to occur and remain undetected. As a result, the deputy disbursing officer understated Cash and Other Monetary Assets by \$9.8 million on the date of our visit. When informed, the disbursing officer at Defense Finance and Accounting Service Denver took immediate action and corrected the internal control weakness.
- Defense Finance and Accounting Service Denver accountants improperly classified certain amounts as Cash and Other Monetary Assets, creating an overstatement of \$6.4 million in the Air Force General Fund Balance Sheet as of September 30, 2007.
- The Air Force is not effectively applying existing internal controls to prevent excess cash on hand. Reducing the level of cash on hand at one Air Force base we visited could annually save as much as \$320,000 in borrowing costs.

What We Recommend

We recommend that the Air Force require base comptrollers to review and approve local cash authority requests. In addition, we recommend that the disbursing officer at Defense Finance and Accounting Service Denver improve compliance with existing policies and procedures for monitoring and minimizing cash held outside of the U.S. Treasury by the Air Force.

Client Comments and Our Response

The Director, Defense Finance and Accounting Service concurred with our recommendations. Existing cash authority request policies and procedures were updated. The Disbursing Officer, Defense Finance and Accounting Service Denver, issued written instructions stating that cash authority requests without complete supporting documentation would not be approved. The improved policies and procedures will help limit the amount of cash held outside the U.S. Treasury. The Director's comments were fully responsive to our recommendations.

The Assistant Secretary of the Air Force (Financial Management and Comptroller) did not provide management comments on the draft report; therefore we request management comments in response to the final report.

Recommendations Table

Client	Recommendations Requiring Comment	No Additional Comments Required
Assistant Secretary of the Air Force (Financial Management and Comptroller)	C.1.a., and C.1.b.	
Director, Defense Finance and Accounting Service Denver		C.2.a., and C.2.b.

Please provide comments by September 18, 2008.

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Introduction

Objective

Our objective was to determine whether internal controls were designed and operating to effectively safeguard, account for, and report Air Force General Fund Cash and Other Monetary Assets (COMA). See Appendix A for a discussion of the scope and methodology. See Appendix B for references to prior audit coverage directly related to our audit objective.

Background

Congress has authorized the Department of Defense to make disbursements on its own behalf. The Treasury establishes expenditure accounts for funds appropriated by Congress. Appointed disbursing officers, as agents of the Treasury, perform DoD disbursing functions using assigned Treasury checking accounts which are identified by Disbursing Station Symbol Number (DSSN). The Disbursing Officer (DO) at the Defense Finance and Accounting Service (DFAS) Denver and the DO at the Office of the Assistant Secretary of the Air Force for Financial Management are accountable for all COMA held by the Air Force.

The Air Force conducts operations throughout the world. The Defense Finance and Accounting Service disbursing offices, as well as finance offices on Air Force installations, make Air Force collections and disbursements. The DFAS Denver DO appoints deputy disbursing officers to enable the Air Force to meet its local disbursing needs. Each deputy DO balances their activity and prepares a Daily Statement of Accountability (SOA) for the DO. Most Air Force collections and disbursements occur by electronic funds transfer, Treasury check, and intra-governmental transfers. When needed, Air Force DOs or deputy DOs may obtain cash by negotiating a U.S. Treasury check at a commercial bank or with another DoD service branch disbursing office. They require cash to conduct a variety of transactions related to normal operations, as well as to supply special needs from time to time, including:

- miscellaneous cash payments,
- making change,
- check-cashing,
- local currency exchange in foreign countries,
- payments to foreign vendors,
- support of military banking facilities on foreign Air Force bases,
- replenishment of automated teller machines, and
- emergencies and contingencies.

In addition to disbursing officers, the Air Force uses agents, who are authorized to carry out cash transactions for completing missions. These agents fill the positions of disbursing agent, cashier, paying agent, imprest fund custodian, change fund custodian, and collection agent. Appendix D provides a detailed description of these positions. Individuals in these positions generally receive cash from a DO or deputy DO but may also receive Treasury checks made payable to themselves that they cash for funds to complete their duties. Each of these positions has limited cash responsibilities and reports all disbursement and collection activity to a DO or deputy DO.

Disbursing officers are responsible for determining their own cash requirements. They consider their disbursing and cash accommodation needs, as well as those of the other accountable individuals for whom they have accountability. Maintaining cash on hand at a minimum commensurate with justifiable needs is mandatory. Semiannually, each deputy DO submits a cash authority request for their accountable station. The DO consolidates these requests into an overall cash authority request for the DSSN. DOs, deputy DOs, and other accountable individuals have pecuniary responsibility for any COMA they hold.

The COMA transaction activity for each DO, deputy DO, and their agents affects their accountability balances. DOs and deputy DOs report COMA, which includes cash on hand, funds outstanding with agents, cash in transit, foreign currency on hand, limited depository account balances, custody or contingency cash, undeposited collections, dishonored checks, deferred vouchers, and losses of funds. As of September 30, 2007, the Air Force Balance Sheet reported COMA of \$107.9 million, held at 81 accountable stations.

The Federal Managers' Financial Integrity Act of 1982 establishes overall requirements for internal control and requires management to design and maintain effective internal controls. Effective internal controls provide assurance that significant weaknesses in the design or operation of internal controls that could adversely affect the agency's ability to meet its objectives would be prevented or detected in a timely manner. Well-designed and operating internal controls ensure the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Each of these objectives encompasses the need to safeguard assets.

Finding A. Internal Controls for Reporting the Japan Custody Account

Air Force and DFAS Denver finance and disbursing personnel did not prevent or detect a misstatement of the Japan custody account balance and of the total accountability of the responsible deputy disbursing officer. The responsible deputy disbursing officer understated the Japan U.S. dollar custody account and, consequently, total accountability by \$9.8 million on the daily reporting form dated June 7, 2007. We informed the disbursing officer at DFAS Denver of this weakness, and the disbursing officer took immediate action to:

- provide training to the deputy disbursing officer to ensure that the deputy disbursing officer records account activity in a timely manner and reconciles the account daily, and
- improve existing monitoring controls to detect an incorrect account balance reported by the deputy disbursing officer.

Japan Custody Account Operations

The Department of Defense operates military bases throughout the world. It provides contractor-operated military banking facilities on many bases to enable its personnel to conduct financial transactions. DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 05, chapter 12.0103, describes custody accounts as “...arrangements approved by the Department of the Treasury whereby safety stocks of U.S. currency on the books of overseas military central funding officers are held physically in the government’s contractor-operated military banking facilities.”

The Air Force established a custody account with the military banking facility contractor to provide the U.S. currency necessary to support the operations of military banking facilities in the Pacific theater. A deputy DO is responsible for the activity of the Japan Custody Account and reports its activity and balance on the SOA.

The military banking facility contractor e-mails daily activity statements of the Japan custody account to the responsible deputy DO. The daily U.S. currency activity of the bank affects the custody account balance. The deputy DO executes the appropriate transaction to report the accountability increases or decreases and adjusts the Japan custody account balance on the Daily SOA to report the new balance to the DO.

Internal Control Environment

Office of Management and Budget (OMB) Circular A-123 states that management is responsible for developing and maintaining a system of internal controls to achieve effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. This system is comprised of the following elements:

- the control environment, defined as “the organizational structure and culture by management and employees to sustain organization support for effective internal controls;”
- control activities, defined as “policies, procedures and mechanisms in place to help ensure that agency objectives are met;” and
- monitoring, defined as “a process that assesses the quality of an organization’s internal control, evaluates the design and operation of controls on a timely basis and takes corrective actions as necessary.”

In an effective control environment, all personnel need to possess and maintain a level of expertise that allows them to accomplish their assigned duties. OMB Circular A-123 acknowledges that management needs to identify appropriate knowledge and skills needed for various jobs and provide these to the personnel through proper training and counseling.

The Government Accountability Office published “Standards for Internal Control for the Federal Government” in November 1999. It describes a wide range of control activities, to include approvals, authorizations, verifications, reconciliations, and documentation of controls and their operation. These types of controls should be common to all DoD component finance and disbursing operations. Effective control activities ensure the complete and accurate recording of transactions on a timely basis. OMB Circular A-123 requires management to develop and maintain monitoring duties. Monitoring should be included in regular management activities and the actions personnel take in performing their duties. Such activities include management reviews and approvals, analytical procedures, comparisons of control totals, and account reconciliations.

Review of Internal Controls Over the Japan Custody Account

The deputy DO misstated the balance of the U.S. dollar Japan custody account and, consequently, the total accountability on the Daily SOA for June 7, 2007. Internal controls for this account were not operating effectively. The DO at DFAS Denver did not provide the responsible deputy DO with the prerequisite training to understand and properly record the account’s activity. Specifically, the deputy DO did not receive training to: (1) reconcile the custody account balance reported for accountability purposes with the source records available and (2) recognize the importance of recording account activity on a timely basis.

We attempted to verify the Japan custody account balance reported on the deputy DO’s Daily SOA for June 7, 2007. That balance did not agree with the balance reported by the military banking facility contract’s e-mail notifications for that day. The deputy DO did

not prepare a daily reconciliation of these balances and had not prepared any prior daily reconciliations. We partially reconciled the account by identifying daily increases and decreases in the custody account balance prior to June 7, 2007, that had not been recorded by the deputy DO. We reported the unreconciled difference in these balances to the DO at DFAS Denver for resolution.

Client Actions

The DO took immediate action to reconcile the account and review the operations of the responsible deputy DO in August 2007. The DO's reconciliation identified additional errors. Table 1 below provides details of the reconciliation of the custody account balance.

Table 1.		
Reconciliation of Japan Custody Account on June 7, 2007		
Description	Amount in thousands	
Balance reported by deputy DO on Daily SOA		\$ 13,369
Prior daily activity not recorded by June 7, 2007		
May 21, 2007	\$ 289	
May 22, 2007	807	
May 23, 2007	2,110	
May 25, 2007	382	
May 29, 2007	804	
May 30, 2007	2,976	
June 1, 2007	363	
June 5, 2007	1,042	
June 6, 2007	2,606	
Subtotal	11,379	
Other errors found in August DFAS reconciliation	(1,588)	
Understatement of custody account balance		9,791
Correct custody account balance		\$ 23,160

As shown in Table 1, the deputy DO understated the Japan custody account balance and the deputy DO total accountability by \$9.791 million on the June 7, 2007, Daily SOA. This occurred because the deputy DO did not record account activity for the days shown and, as of June 7, had not discovered the errors subsequently found in the reconciliation completed by DFAS in August. The Air Force had prepared quarterly financial statements as of June 30, 2007. The balance of COMA reported in the consolidated

balance sheet at that date was understated by \$7.6 million because of continuing errors in unrecorded account activity and the other errors found in the DFAS reconciliation. Although the DO took immediate action and properly reconciled the Japan custody account, the DO could have prevented this misstatement by ensuring that the responsible deputy DO received the appropriate training and by effectively monitoring the deputy DO Daily SOA. Appropriate training should include written policies and procedures regarding the custody account to provide guidance for the responsible deputy DO and an appropriate continuing reference for each successive deputy DO. Training for the deputy DO should emphasize the importance of recording the custody account activity on a timely basis. Also, the DO could have detected the misstatement and corrected it sooner by regularly comparing the balance reported by the responsible deputy DO and the balance reported by the military banking facility contractor.

The DO took additional action subsequent to reconciling the account in August 2007. The Chief of Treasury Operations (Chief) at DFAS Denver made site visits in November 2007 and January 2008 to provide instruction and training to the deputy DO responsible for the Japan custody account. In addition, the Chief implemented written policies and procedures related to the responsibility, accounting, and reporting for the custody account. These written procedures help ensure proper reporting of the account and serve as a reference for current and successive deputy DOs. Disbursing personnel at DFAS Denver now perform a daily review of the custody account reporting and reconciliation and receive copies of source documents to verify the reconciliation. Because the DO took appropriate action to correct the misstatement of the Japan custody account and implemented effective internal controls for its accounting and reporting, we are not making a recommendation for this finding.

Finding B. Financial Reporting of Cash and Other Monetary Assets

The Air Force General Fund Consolidated Balance Sheet as of September 30, 2007 inappropriately included noncash items in the Cash and Other Monetary Assets (COMA) line. Specifically, the balance sheet misclassified deferred charges, losses of funds and receivables as COMA. The overstatement occurred because the applicable DFAS Denver standard operating procedures instructed accountants to record the total amount of disbursing officer accountability as COMA for financial statement reporting purposes. These procedures were inaccurate, because the DoD Financial Management Regulation (DoD FMR) does not specifically define COMA to exclude such items from disbursing officer accountability. As of September 30, 2007, the Air Force overstated its General Fund Balance Sheet by \$6.4 million.

Reporting Air Force Cash and Other Monetary Assets

COMA is a line-item classification reported on the Air Force General Fund Balance Sheet. Quarterly, accountants at DFAS Denver prepare Air Force financial statements reporting the balance of disbursing officer accountability for this classification.

DFAS accountants use a journal voucher to post to the COMA line at the close of each fiscal quarter. They use SOA submitted by disbursing officers to prepare these journal vouchers. The “Total Disbursing Officer Accountability” line of the SOA includes such items as “Cash on Deposit in Designated Depository,” “Losses of Funds,” and “Receivables-Dishonored Checks.”

Losses of funds result from acts of nature, bank failure, and wrongful conduct such as theft, robbery, and burglary. Accountability for dishonored checks falls within one of three categories: checks accepted from base organizations that routinely collect funds (commissary and housing, for example), checks accepted in satisfaction of a debt due the United States, or checks received as accommodation-exchange transactions. Another accountability item would be unresolved deficiencies in the account of a former DO that are not classified as check-issue overdrafts or losses of funds.

Definition of Cash and Other Monetary Assets

According to the Statement of Federal Financial Accounting Standard No. 1, “Accounting for Selected Assets and Liabilities,” March 30, 1993, cash, including imprest funds, should be recognized as an asset. Cash is defined as:

- coins, paper currency and readily negotiable instruments, such as money orders, checks, and bank drafts on hand or in transit for deposit;
- amounts on demand deposit with banks or other financial institutions; and
- foreign currencies, which for accounting purposes, should be translated into U.S. dollars at the exchange rate on the financial statement date.

Both the Office of Management and Budget guidance; and the DoD FMR follow the Statement of Federal Financial Accounting Standards definition for COMA assets. In addition, OMB Circular A-136, “Financial Reporting Requirements,” June 2007, defines

other monetary assets as gold, special drawing rights, and U.S. Reserves in the International Monetary Fund. The U.S. Treasury primarily uses this definition. In addition, Circular A-136 also states that the components of COMA must be disclosed in the notes to the financial statements. The DoD FMR, Volume 6b, Chapter 4, "Balance Sheet," January 2006, also provides specific instructions for preparing each balance sheet line, including COMA.

Posting Cash on the Balance Sheet

The Air Force General Fund balance sheet inappropriately included noncash items in the COMA line. As shown in Table 2, the balance sheet included such items as deferred charges, losses of funds, and receivables. As of September 30, 2007, DFAS Denver overstated COMA on the Air Force General Fund Consolidated Balance Sheet by \$6.4 million dollars.

<u>Item Description</u>	<u>Amount in thousands</u>	<u>Overstated Amount in thousands</u>
Cash in Custody of Government Cashiers	\$ 41,277	
Cash on Hand	30,186	
Custody Account Cash	22,652	
Deferred Charges - Vouchered Items	6,372	\$ 6,372
Cash in Transit	5,009	
Cash in Designated Depository	2,299	
Cash - Undeposited Collections	68	
Losses of Funds	36	36
Receivables - Dishonored Checks	8	8
Receivables - Check Overdrafts	1	1
Total	\$ 107,908	\$ 6,417

The overstated items in Table 2 do not meet the Federal Accounting Standards Advisory Board definition of COMA as implemented by the DoD FMR. For example, the DoD FMR states that "Receivables-Dishonored Checks" should be used to record any dishonored checks that are to be retained in DO accountability. However, such funds do not meet the definition of COMA because they are an account receivable from the issuer of the check. Similarly, "Losses of Funds" represent physical losses of cash. Additionally, "Deferred Charges-Vouchered Items" consists of paid vouchers not yet entered into the accounting and disbursing systems. These funds are not in the possession of the Air Force and should not be recorded on the balance sheet.

DFAS Denver accountants used inaccurate guidance for posting DO cash journal vouchers to the Defense Departmental Reporting System. The DoD FMR states that DO

cash from the SOA is included when posting to the COMA account balance. However, DFAS Denver accountants incorrectly included noncash items such as deferred vouchers, check overdraft receivables, dishonored checks receivable, and losses of funds from the SOA when posting to the COMA account balance. The DoD FMR definition of COMA does not specifically exclude these noncash items.

Recommendation

This report is one in a series leading up to an agency-level review of DoD Cash and Other Monetary Assets reporting. Assets that are incorrectly classified as Cash and Other Monetary Assets affect not only the reporting Component's balance sheet, but also the DoD balance sheet. We will make recommendations on this finding in the report, "Internal Controls Over DoD Cash and Other Monetary Assets."

Finding C. Internal Controls to Minimize Cash Held Outside of the U.S. Treasury

Cash and Other Monetary Assets held by Air Force deputy disbursing officers and other accountable individuals was in excess of actual needs. Excess cash held outside of the U.S. Treasury by Air Force deputy disbursing officers increases the inherent risk of losses and results in unnecessary interest expenses to the U.S. Treasury. One Air Force location held approximately \$8 million of excess cash on hand without justification. The Air Force could save the Treasury as much as \$320,000 in annual borrowing costs by reducing its level of excess cash. The Air Force should improve existing policies and procedures to ensure that local comptrollers review and approve deputy disbursing officer justifications to hold cash and allow the disbursing officer at DFAS Denver to disapprove unjustified requests from deputy disbursing officers to hold excess cash balances.

Cash Held Outside of the U.S. Treasury by the Air Force

The Air Force accountability for cash held outside of the Treasury was \$107.9 million, as of September 30, 2007. It has been reducing this accountability annually, as shown in Table 3.

Total Accountability of Cash and Other Monetary Assets				
Fiscal Years	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Amounts in thousands	\$ 163,543	\$ 151,844	\$ 114,779	\$ 107,908
Decrease since 2004	N/A	7.15%	29.82%	34.02%

It has reduced the cash needs of its deputy DOs during these years primarily by increasing its use of a U.S. Treasury system, ITS.gov. The Treasury provides this system and allows agreements between the Air Force and suitable payees, enabling Treasury to transmit Air Force payments directly to banks worldwide. We commend the Air Force for the significant reduction shown in Table 3. The Air Force can further reduce its current level of cash held by improving its internal controls over the process of approving cash authority for each deputy DO.

Cash Authority Request Process

The DO for DFAS Denver is responsible for disbursing operations at Air Force bases. The DO appoints deputy DOs and entrusts funds for official use to their custody to carry out daily operations. Deputy DOs maintain cash on hand to accommodate necessary cash transactions. Although electronic funds transfer (EFT) and U.S. Treasury checks are the preferred methods of payment, cash disbursements may be necessary when EFT is not available, or when recipients are unable to negotiate U.S. Treasury checks. Cash may also be necessary to provide paying agents the necessary funds for special missions, as well as for contingency operations such as emergency alerts and deployments of Air Force personnel.

Semiannually, deputy DOs at Air Force bases submit a cash authority request (CAR) memorandum to the DO at DFAS Denver for approval. The approved request establishes the maximum amount of cash authority for each deputy DO. The DO, as approving authority, is responsible for ensuring that the CAR amount is within the guidelines set forth in the DoD FMR and that management controls exist to ensure management makes routine reviews of cash requirements.

Guidance for Cash Authority Requests

The DoD FMR, volume 5, chapter 3, section 030101.C states that electronic fund transfers and U.S. Treasury checks are the preferred methods of payment. Section 030103 states that when cash transactions are necessary, cash on hand must be the minimum necessary to meet normal requirements and that the approving authority must review each request to ensure that it is in line with total nonpayroll requirements.

The DoD FMR, volume 5, chapter 3, section 030104, excludes amounts held by authorized imprest fund cashiers and authorized change fund custodians from the CAR. Imprest funds and change funds receive separate approval. In addition, this section requires that CARs include a description of the payments and transactions requiring the use of cash, as well as a breakdown of cash held, by accountable position.

The DFAS Denver DO provides deputy DOs with a memorandum, “Summarization of DO/DDO Cash Authority Requests,” along with instructions for completing CARs. This guidance instructs deputy DOs to use historical data from any consecutive 3-month period of the previous 6 months to determine the maximum amount of operating cash that deputy DOs may hold. It also requires that deputy DOs completely explain and justify cash requirements identified as “Other” on the CARs.

Review of Internal Controls Over Cash Authority Requests

CARs are a key control by which a DO can reduce the inherent risk of holding cash and reduce the interest expense of the Treasury. The current internal controls over Air Force deputy DO CARs can be strengthened to improve this key control. We reviewed CARs submitted by 24 deputy DOs for approval by the DO at DFAS Denver for the semiannual periods effective April 1, 2007; October 1, 2006; and April 1, 2006. Of the 24 CARs reviewed, 1 deputy DO did not request to hold cash and was not included in the analysis.

Deputy DOs at 13 of 23 sites produced a CAR requesting the identical total cash authority as the previous CAR submitted. CARs submitted by 6 of 23 deputy DOs were identical for all 3 semiannual periods reviewed. When deputy DOs just duplicate the data from previous CARs, they may not have evaluated their cash needs properly. Requests using improper data from prior periods may result in too little or too much cash held.

CARs submitted by 4 of 23 deputy DOs did not comply with the DoD FMR and included amounts for imprest fund, and change fund activities. There is a separate approval process for imprest and change funds, and they should not be included in deputy DO authority requests.

The CARs submitted by 14 of 23 deputy DOs did not comply with guidance provided by the DO at DFAS Denver because they did not use historical data from a consecutive 3-month period within the previous 6 months to compute their operating cash requirements. Each of the deputy DOs used incorrect historical data for at least one of the periods reviewed. Two deputy DOs submitted CARs with incorrect historical data for two consecutive periods, and three deputy DOs provided incorrect historical data for all three periods reviewed.

Deputy DOs requested cash authority of approximately \$112 million for the semiannual period effective April 1, 2007. As part of this total, they requested authority for approximately \$108 million for needs classified as “Other”. “Other” needs are not associated with the daily cash operations of an Air Force disbursing office. The CARs submitted by all deputy DOs did not provide any documentation supporting the Other amounts requested. In some cases, the deputy DOs provided short narrative descriptions for the Other amounts, such as:

- “contingencies,”
- “alerts and deployments (paying agents),”
- “natural disaster relief,”
- “limited depository accounts,”
- “disbursing agent operations.”

We requested documentation for the Other amounts from all of the deputy DOs during our site visits. They did not provide any analyses, worksheets, or other documents beyond the CAR descriptions to support the Other amounts requested. The deputy DOs generally carried forward the amounts from prior CARs. As an example, at one Air Force base, an “Other” request for \$8 million had been carried forward since 2002. The contingency operation for which a deputy DO made the original request expired in 2003. In response to our request for documentation, the current deputy DO concluded that the related cash on hand was excess. The deputy DO will potentially save the U.S. Treasury \$320,000 annually in unnecessary interest expense by returning this excess cash on hand to the Treasury.[†]

Improving Cash Authority Requests

Cash Authority Requests are an important internal control to prevent excess cash on hand yet enable deputy DOs to hold cash necessary for Air Force base disbursing operations. CARs reduce the inherent risk in holding excess cash and reduce the unnecessary interest expense incurred by the Treasury. Deputy DOs submitted CARs to the DO at DFAS Denver that did not comply with written guidance provided by the DO. Deputy DOs did not completely explain and justify requests to hold large sums of cash for purposes described as “Other,” which comprised more than 95 percent of the total authority requested in the CARs. Deputy DOs should be able to provide a complete justification and analysis of current operations to support the necessary amounts of cash kept on hand. Air Force base comptrollers can provide operating and other information for determining reasonable cash on hand needs. Their review and approval of cash authority requests prior to submitting them to an approving DO would increase the effectiveness of the CAR process.

* One deputy DO did not request funds for the Other category, and one deputy DO was reviewed for a classified Imprest Fund only.

[†] Based on U.S. Treasury borrowing rate.

An improved control environment would emphasize the importance of maintaining cash on hand at the minimum amount necessary for efficient operations. Stronger monitoring controls would improve Deputy DO compliance in preparing CARs and determining their necessary cash needs.

Recommendations, Client Comments, and Our Response

C.1. We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller) improve compliance with existing policies and procedures to:

a. Emphasize the importance of minimizing cash balances held by deputy disbursing officers and other accountable individuals.

Management Comments Required. The Assistant Secretary of the Air Force (Financial Management and Comptroller) did not comment on the recommendation. We request that the Assistant Secretary of the Air Force (Financial Management and Comptroller) provide comments in response to the final report.

b. Require Air Force comptrollers to review and approve all semiannual cash authority requests for accuracy, supporting documentation, and relevance to current mission requirements prior to deputy disbursing officers submitting them for approval.

Management Comments Required. The Assistant Secretary of the Air Force (Financial Management and Comptroller) did not comment on the recommendation. We request that the Assistant Secretary of the Air Force (Financial Management and Comptroller) provide comments in response to the final report.

C.2. We recommend that the disbursing officer at Defense Finance Accounting Service Denver:

a. **Disapprove cash authority requests that do not include current supporting documentation and calculations for each amount requested to reduce excess cash held by deputy disbursing officers.**

Management Comments. Defense Finance and Accounting Service Denver concurred with the recommendation. The Director stated cash authorities were reviewed by the Disbursing Officer to ensure that correct documentation and calculations were used by deputy disbursing officers. The Director further stated that instructions were sent with each approved cash authorization to ensure cash was not held on hand until actually needed.

Audit Response. Management comments are fully responsive. We commend Defense Financial Accounting Service Denver for the exceptional response to the recommendation to reduce excess cash held by deputy disbursing officers. As a result of management's actions, instructions for cash authority requests clearly state that such requests will be disapproved without complete and appropriate documentation. Current requests are reviewed for adequate documentation and calculations to ensure cash on hand does not exceed actual need.

b. Update disbursing officer guidance to provide detailed instructions incorporating the written policies and procedures issued by the Assistant Secretary of the Air Force (Financial Management and Comptroller) in response to Recommendation C.1. above.

Managements Comments. Defense Finance and Accounting Service Denver concurred with the recommendation. The Director stated that the Disbursing Officer guidance to deputy disbursing officers has been revised.

Audit Response. Management comments are fully responsive. We commend Defense Financial Accounting Service Denver for the timely response to the recommendation by updating the Disbursing Officer guidance provided to the deputy disbursing officers. The new guidance should strengthen internal controls over the semiannual cash authority requests and help ensure that cash on hand is justified.

Appendix A. Scope and Methodology

We conducted this financial audit from March 2007 through March 2008 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.

The objective of the audit was to determine whether internal controls for Air Force General Fund Cash and Other Monetary Assets are effectively designed and operating to adequately safeguard, account for, and report Cash and Other Monetary Assets. The Air Force General Fund FY 2007 Financial Statements reported Cash and Other Monetary Assets of \$107.9 million, based on the reports of two disbursing officers (DO) responsible for four Treasury checking accounts. The DO at DFAS Denver is accountable for \$106.9 million (99 percent) of this amount.

We obtained a listing of all accountable stations reporting to the DO at DFAS Denver on February 28, 2007. We identified 81 accountable stations reporting COMA balances. We sorted these to separate Continental United States (CONUS) and Outside the Continental United States (OCONUS) locations and ranked their reported balances from largest to smallest. We assessed the accountable stations with the largest reported COMA balances to determine who represented the highest risk for cash held outside of the Treasury. We compared their COMA balances with those reported in prior periods to verify their continuing significance. We also reviewed prior audit coverage and identified accountable stations with previously reported control deficiencies. We judgmentally selected 12 CONUS and 12 OCONUS accountable stations for audit field work. The stations selected reported COMA balances of \$98.2 million (98 percent of the February 28, 2007 total).

We visited each of the accountable stations selected above to review their internal controls. We made visits to the CONUS accountable stations in March and April 2007. We made visits to the OCONUS accountable stations in June and July 2007. We performed a verification of Cash and Other Monetary Assets for one day of accountability during our visit. We reviewed compliance with DoD FMR requirements for each accountable individual at each station visited and for each classification of Cash and Other Monetary Assets reported on DD Form 2657 Daily Statement of Accountability. These requirements included physical security for the assets, procedures for agents, procedures and documentation for appointment of deputy DOs and agents, authorization and amount of cash and other monetary assets held, limited depository accounts, imprest funds, and foreign currency accounting. We performed our review by interviewing accountable individuals, examining internal control documentation, performing walk-throughs of operating procedures, and examining various documents to determine whether internal controls were in effect.

The scope of our audit was limited because we did not physically verify Cash and Other Monetary Assets held by paying agents in remote locations. The deputy DOs at the accountable stations we visited report the amounts advanced to paying agents on their Daily Statement of Accountability. These agents support Air Force mission assignments throughout the world in locations where regular banking or other finance facilities are not available. Deputy DOs reported having \$41 million in the hands of paying agents as of September 30, 2007, including \$37 million with agents in the Southwest Asia area of operations.

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 level of management. Internal controls are the organization, policies, and procedures that help program and financial managers achieve results and safeguard the integrity of their programs. The physical controls for safeguarding Cash and Other Monetary Assets were effective. Additionally, Air Force financial managers and Defense Finance and Accounting Service personnel have designed effective internal controls and are in substantial compliance with the DoD Financial Management Regulation. However, Air Force can make improvements in operating compliance with certain controls over COMA. The control weaknesses identified and our recommendations for improvements are discussed in the Finding sections. Our recommendations, if implemented, will improve internal controls over accounting for and reporting Air Force General Fund Cash and Other Monetary Assets on the balance sheet.

Use of Computer-Processed Data

We did not test the general and application controls for computer systems used at accountable stations to determine the validity of the related computer-processed data. We relied on the output data from those systems (where applicable) in verifying the operation of certain internal controls. Nothing came to our attention as a result of our procedures that caused us to doubt the reliability of the computer-processed data.

Use of Technical Assistance

Personnel from the Quantitative Methods Directorate, Office of the Deputy Inspector General for Policy and Oversight assisted in the process of selecting accountable stations for review.

Appendix B. Prior Coverage

During the last 5 years, the Department of Defense Inspector General (DoD IG) and the Air Force Audit Agency (AFAA) have issued 15 reports discussing internal controls for Air Force General Fund Cash and other Monetary Assets. Unrestricted DoD IG reports can be accessed at www.dodig.mil/audit/reports. Unrestricted Air Force Audit Agency reports can be accessed at www.afaa.hq.af.mil/afck/plansreports/reports.shtml.

DoD IG

DOD IG Report No. D-2007-064, "Implementation of the Commanders' Emergency Response Program in Afghanistan," February 28, 2007

DOD IG Report No. D-2007-028. "Controls Over Army Cash and Other Monetary Assets," November 24, 2006

Air Force Audit Agency

AFAA Audit Report No. F2006-0006-FD3000, "Central Command Air Forces Deployed Locations Cash Management," August 3, 2006

AFAA Installation Report of Audit No. F2006-0043-FDE000, "Cash Holding Authority 435th Air Base Wing, Ramstein AB Germany," June 19, 2006

AFAA Installation Report of Audit No. F2006-0041-FDE000, "Cash Management 376th Air Expeditionary Wing, Manas AB, Kyrgyzstan," May 31, 2006

AFAA Installation Report of Audit No. F2006-0038-FDE000, "Cash Management 332nd Air Expeditionary Wing, Balad AB, Iraq," May 23, 2006

AFAA Installation Report of Audit No. F2006-0035-FDE000, "Cash Management 407th Air Expeditionary Group, Ali Air Base, Iraq," April 24, 2006

AFAA Installation Report of Audit No. F2006-0036-FDE000, "Cash Management 447th Air Expeditionary Group, Baghdad International Airport, Iraq," April 23, 2006

AFAA Installation Report of Audit No. F2006-0034-FDE000, "Cash Management 379th Air Expeditionary Wing, Al Udeid AB, Qatar," April 17, 2006

AFAA Installation Report of Audit No. F2006-0028-FDE000, "Cash Management 386th Air Expeditionary Wing, Ali Al Salem AB, Kuwait," March 9, 2006

AFAA Installation Report of Audit No. F2005-0034-FDE000, "Cash Operations and Accountability 39th Air Base Wing, Incirlik AB, Turkey," March 8, 2005

AFAA Installation Report of Audit No. F2005-0014-FBP000, "Air Force General Fund Cash and Other Monetary Assets 18th Wing, Kadena AB Japan," February 15, 2005

AFAA Installation Report of Audit No. F2004-0063-FDE000, "General Fund Cash and Other Monetary Assets 435th Air Base Wing Ramstein AB, Germany," July 12, 2004

AFAA Installation Report of Audit No. F2004-0056-FBN000, "Air Force General Fund Cash and Other Monetary Assets, 92d Air Refueling Wing, Fairchild AFB WA," June 7, 2004

AFAA Audit Report No. F2002-0007-B05400, "Follow-up Audit, Controls Over Air Force Cash," June 20, 2002

Appendix C. Cash and Other Monetary Assets Operating Procedures

The Air Force reported Cash and Other Monetary Assets of \$107.9 million in its General Fund Balance Sheet as of September 30, 2007. The Department of Defense Financial Management Regulation 7000.14-R, Volume 6B, Chapter 4, defines this financial statement classification. Cash consists of coins, paper currency, and readily negotiable instruments, such as money orders, checks, and bank drafts on hand or in transit for deposit. Cash also consists of amounts on demand deposit with banks or other financial institutions and foreign currencies translated into U. S. dollars at the exchange rate on the financial statement date. The Other Monetary Assets classification includes gold, special drawing rights, and U.S. Reserves in the International Monetary Fund.

Disbursing officers (DO) in the Department of Defense are authorized in 31 United States Code 3321 to disburse public money available for expenditure by the agency. The Treasury assigns appointed DOs checking accounts to perform disbursing functions. DOs appoint deputy DOs as appropriate to support the disbursing activity at each Air Force location. Disbursing officers obtain cash for use in their official duties by cashing a Treasury check drawn on their Treasury checking accounts. They use cash for:

- miscellaneous cash payments,
- making change,
- check-cashing,
- local currency exchange in foreign countries,
- payments to vendors in foreign currency,
- support of military banking facilities on foreign Air Force bases,
- replenishment of automated teller machines, and
- Emergencies and contingencies.

In addition to disbursing officers, the Air Force uses accountable individuals to carry out cash transactions in completing its mission. Accountable individuals may fill the positions of disbursing agent, cashier, paying agent, custodians of imprest and change funds, and collection agent. The Glossary of Terms in Appendix D provides a detailed description of these accountable positions. DOs and deputy DOs generally provide funds to these individuals. They may also issue Treasury checks payable to these individuals to cash for funds to complete their duties. Each of these positions has limited cash responsibilities and reports its activity to a DO or deputy DO. Each business day, disbursing officers and deputy disbursing officers report their accountability on a Daily Statement of Accountability (DD 2657). They must balance the two parts within the DD 2657 daily and each deputy DO must provide the form to their respective DO. The first part of the form reports a continuing balance of accountability by beginning with the balance from the immediately preceding report, listing all disbursement and collection activity for the current day, and calculating the ending balance of accountability. The second part of the form lists detail line items of accountability. Their total must agree with the ending balance of accountability in the first part of the form. These line items include:

- Line 6.10 Cash on Deposit in Designated Depository,
- Line 6.20 Cash on Hand,
- Line 6.30 Cash – Undeposited Collections,
- Line 6.40 Custody or Contingency Cash,

- Line 6.50 Cash in Custody of Government Cashiers (and paying agents),
- Line 6.70 Cash in Transit,
- Line 7.10 Deferred Changes – Vouchered items,
- Line 7.30 Losses of Funds,
- Line 7.40 Receivables – Dishonored Checks.

Disbursing officers and deputy disbursing officers are required to verify the amount for each detail line item by performing a physical count of cash and examining the supporting documentation for cash not in their possession (for example, cash in the custody of paying agents) and for each noncash item. DOs are responsible for the internal controls for physical safekeeping, processing, and reporting for each item of Cash and Other Monetary Assets included in their accountability. Disbursing officers and their agents have pecuniary responsibility for the cash and other monetary assets for which they are accountable. Each DO combines all month-end DD 2657 forms for each of their Treasury checking accounts and completes an SF 1219 Statement of Accountability. DFAS Denver accountants combine the monthly SF 1219 totals and prepare the Treasury Consolidated Statement of Accountability Report. They use these totals in the quarterly process to report the Cash and Other Monetary Assets line item in the Air Force General Funds Consolidated Balance Sheet.

An approving official grants authority to DOs to hold cash and other monetary assets. DOs determine their cash requirements for disbursing and cash-accommodation needs, including those of deputy DOs and other accountable individuals for which they have accountability. The deputy DO at each accountable station provides the DO at DFAS Denver a request for cash authority semiannually to support the DO's cash authority request to the Director at DFAS Denver. They submit a cash authority request (CAR) memorandum for approval. The memorandum includes a description of the safekeeping facilities for the cash requested, the estimated time for cash replenishment from the nearest source, and the current cash authority for the accountable station. The deputy DO provides historical cash requirement information for three consecutive months during the prior six months. These historical cash requirements are Average Daily Operating Cash (excluding military paydays), Average Payday Operating Cash, Average Daily Accommodation Cash (excluding military paydays), and Average Payday Accommodation Cash. The deputy DO requests itemized cash authority for Operating Cash, Accommodation Exchange Cash, Payday Operating Cash, Payday Accommodation Cash, Cash Held for Delivery to Other DOs/deputy DOs, and Other. The DO ensures that the CAR amount is within the guidelines set forth in the FMR and that local management makes routine reviews of cash requirements. Deputy DOs should not maintain cash on hand in excess of their cash authority.

Appendix D. Glossary of Terms

Accommodation Exchange or Service. The exchange of U.S. Treasury checks or U.S. dollar instruments for U.S. dollars. Also, the exchange of U.S. dollars or dollar instruments for foreign currency for the convenience of authorized personnel, or, where permitted, the exchange of foreign currencies for U.S. dollars or dollar instruments.

Accountable Individual. A person, whether military or civilian, who is appointed to collect or disburse funds (or in some cases, to cause the disbursement of funds). Accountable individuals may include disbursing officers, deputy disbursing officers, agents, cashiers, and other employees who by virtue of their employment are responsible for or have custody of government funds. Accountable individuals have pecuniary liability for the funds for which they are responsible.

Agent (of a Disbursing Officer). An individual who is acting under a formal letter of appointment from a disbursing officer. Agents are not authorized to sign U. S. Treasury checks. The duties of an agent usually consist of making cash payments and collections, performing check-cashing services, and preparation of financial documents.

Cashier. A cashier can be a military member or DoD civilian employee designated by the disbursing officer to perform duties involving the handling of public funds. The recruitment, screening, and selection of persons for cashier positions should be accomplished with primary regard to the sensitive nature of the position.

Change Fund Custodian. A change fund custodian operates from an appropriated fund sales activity (for example dining hall, hospital, and commissary) and is responsible for safeguarding the funds provided. A change fund custodian may be held pecuniary liable for any loss of the change fund.

Coin. Metallic form of cash representing either U.S. dollars and foreign currency units, fractional amounts, or multiples thereof.

Collection Agent. An individual who has been designated to perform duties relating to the collection of official funds, including funds held as safekeeping deposits, at a point other than a disbursing office. The individual designated as a collection agent must perform the collection duties under the general supervision of and as prescribed by the appointing officer. A collection agent is appointed by the local commander.

Collections. All acquisitions of U.S. and foreign currencies, except those acquired by the United States through purchase with dollars or accommodation exchange transactions.

Contingency. As designated by the Chairman, Joint Chiefs of Staff, an emergency involving military force caused by natural disasters, terrorists, subversions, or by required military operations. Due to the uncertainty of the situation, contingencies require plans, rapid response, and special procedures to ensure the safety and readiness of personnel, installations, and equipment.

Currency. Paper money in the form of U.S. dollars and foreign banknotes.

DD 2657, “Daily Statement of Accountability.” A DoD standard form used by Disbursing Officers and Deputy Disbursing Officers to report their daily accountability for cash held outside of the U.S. Treasury. This form provides an accounting of beginning accountability, daily activity, and ending accountability. It also provides a listing of all amounts held by the DO or deputy DO that comprise their total accountability, including all cash and non cash items.

Deputy Disbursing Officer. An individual appointed by the disbursing officer to act in the name of and for that disbursing officer to perform any and all acts relating to the receipt, disbursement, custody, and accounting for public funds. The disbursing officer making the appointment may restrict the acts a deputy is authorized to perform. All deputy disbursing officer appointees must be U.S. citizens.

Disbursing Agent. An agent of a disbursing officer that has not been appointed as a deputy disbursing officer. Generally, a disbursing agent operates a permanently located disbursing office of considerable size that is geographically separated from the disbursing officer's office; however the use of disbursing agents is not restricted to geographic separation from the DO.

Disbursing Office. An office whose principal function consists of the disbursement, collection and reporting of public funds. The term “disbursing office” includes both tactical and nontactical disbursing activities. Each disbursing office will have a disbursing officer and should have at least one deputy position which is under the direct cognizance and control of the disbursing officer. Disbursing offices within DoD formerly were referred to as Finance and Accounting Offices, Accounting and Finance Offices, and Finance Offices.

Disbursing Officer (DO). A military member or a civilian employee of a DoD Component designated to disburse monies and render accounts according to laws and regulations governing the disbursement of public monies. All DO appointees must be U.S. citizens.

Exchange-for-Cash Check. A check issued by a disbursing officer to obtain cash funds for disbursements or in exchange for cash for official or accommodation purposes.

Imprest Fund. A cash fund of a fixed amount established by an advance of funds, with or without charge to an appropriation, from a disbursing officer to a duly appointed cashier, for disbursement as needed in making cash payments for relatively small purchases.

Limited Depository Account. A checking account in a foreign currency maintained in a limited depository by a disbursing officer. Limited depository accounts also may be referred to as operating accounts.

Paying Agent. A military member or DoD civilian employee appointed by the commander to make specific payments, currency conversions, or check-cashing transactions from funds temporarily advanced to the agent by the disbursing officer. Paying agents are individuals whose regular duties do not involve disbursing functions and who are not organizationally located in the disbursing office. They are appointed to the position of paying agent as a collateral duty and are under the exclusive supervision of the disbursing officer in all matters concerning custody and disposition of funds advanced to them. Funds advanced to a paying agent are held at personal risk by the paying agent and must be accounted for to the disbursing officer immediately upon completion of the duties for which advanced.

SF (Standard Form) 1219, “Statement of Accountability.” Each DoD disbursing station is required to prepare the Statement of Accountability monthly. The Statement of Accountability reports information to the Treasury on deposits, interagency transfers, and checks issued. The Statement of Accountability also reports net disbursements—the sum of the deposits, interagency transfers, and checks issued that month.

Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE
4760 E. IRVINGTON PLACE
DENVER COLORADO 80273-3603

MAY 29 2008

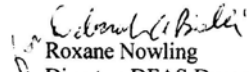
DFAS-JB/DE

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

SUBJECT: Management Comments to Draft Audit Report "DoDIG Draft Report Internal
Controls for Air Force General Funds Cash and Other Monetary Assets
(Project No. D2007-D000FD-0145.000)"

Attached are management comments to Recommendations C.2.a and C.2.b of
subject audit.

Questions your staff may have concerning the audit may be directed to Mr.
Charlie Kullhem DFAS-JBBB/DE/303-676-7253.


Roxane Nowling
Director, DFAS Denver

Attachment:
As stated

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COMMENTS

Recommendation C.2.a Disapprove Cash Authority Requests that do not include current supporting documentation and calculations for each amount requested to reduce excess cash held by Deputy Disbursing Officers.

Prior Management Comments. Concur. Cash authorities will be further reviewed for the correct documentation and calculations used by the DDOs.

Current Management Comments. Concur. Cash authorities were reviewed by DO, ensuring correct documentation and calculations were used by DDOs. Instructions were sent with approved authorities to ensure cash was not held on hand until actual need.

Estimated Completion or Completed Date: April 30, 2008

Point of Contact: Ms. Martha May, DFAS-JD/DE, 303-676-6094

Recommendation C.2.b Update the Disbursing Officer Guidance to provide detailed instructions incorporating the written policies and procedures issued by the Assistant Secretary of the Air Force (Financial Management and Comptroller) in response to Recommendation C.1.

Prior Management Comments. Concur. We are currently revising the Disbursing Officer guidance provided by the DO and will have this accomplished by the ECD.

Current Management Comments. Concur. We have revised the Disbursing Officer guidance provided by the DO. A copy of the updated guidance is attached herein.

Estimated Completion or Completed Date: 28 May 2008

Point of Contact: Ms. Martha May, DFAS-JD/DE, 303-676-6094

The updated guidance was omitted from this report

Team Members

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