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Disbursing Operations Directorate
at Defense Finance and Accounting Service
Indianapolis Operations

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Acronyms

DFAS	Defense Finance and Accounting Service
DoD FMR	DoD Financial Management Regulation
GSA	General Services Administration
IPAC	Intra-Governmental Payment and Collection System
SOD-Deposits	Statement of Differences-Deposits
SRD1	Standard Finance System Redesign 1



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

February 19, 2008

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Disbursing Operations Directorate at Defense Finance and Accounting
Service Indianapolis Operations (Report No. D-2008-052)

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. Jack Armstrong at (317) 510-4801, ext. 274 (DSN 699-4801). See Appendix B for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

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

Department of Defense Office of Inspector General

Report No. D-2008-052

February 19, 2008

(Project No. D2007-D000FL-0119.000)

Disbursing Operations Directorate at Defense Finance and Accounting Service Indianapolis Operations

Executive Summary

Who Should Read This Report and Why? DoD personnel responsible for processing Intra-Governmental Payment and Collection System (IPAC) transactions, reporting IPAC suspense account balances, and reconciling statements-of-deposit differences should read this report. It is the first in a series of reports related to Defense Finance and Accounting Service Indianapolis Operations (referred to as “DFAS Indianapolis”) disbursing operations. This report discusses internal control weaknesses regarding the processing of IPAC transactions, adjustments to IPAC suspense accounts, and the reconciliation of the “Statement of Differences-Deposits” report.

Background. DFAS Indianapolis provides finance and accounting support to the Army and other Defense agencies. DFAS Indianapolis Disbursing Operations Directorate performs a full range of disbursing operations for all organizations receiving departmental accounting support from DFAS Indianapolis. Significant Disbursing Operations Directorate accounting activities include processing transactions through IPAC and expenditure reporting, including reconciliation of the “Statement of Differences-Deposits.” From November 2006 through March 2007, the Disbursing Operations Directorate processed 13.6 million disbursements totaling \$44.1 billion.

Results. The Disbursing Operations Directorate did not process IPAC transactions in a timely manner. As a result, Federal agencies that provide goods and services to DoD were denied use of funds until payment was received (Finding A).

The Disbursing Operations Directorate reported incorrect suspense account balances and used journal vouchers to improperly reduce suspense account balances for unprocessed IPAC transactions. As a result, inaccurate amounts were reported to the U.S. Treasury; on the Army and other Defense agencies’ financial statements; and on monthly suspense account reports (Finding B).

The Disbursing Operations Directorate did not reconcile the “Statement of Differences-Deposits” within 2 months and did not report unreconciled differences older than 2 months as a loss or overage of funds. As a result, there was a risk that actual losses of funds would not be identified in a timely manner and agency managers could overspend or overobligate because they did not have current and accurate information on amounts in their Fund Balance with Treasury accounts. Also, unreconciled differences could impact Fund Balance with Treasury amounts reported in the financial statements (Finding C).

The Director of DFAS Indianapolis should develop model standard operating procedures that include time frames for processing transactions and that require documentation of when invoices are received. These procedures should be coordinated with the Assistant

Secretary of the Army (Financial Management and Comptroller) and Director of Accounting Operations. The Director of DFAS Indianapolis should implement procedures to monitor IPAC bills-entered transactions for timeliness (including mandatory population of the invoice date field) and determine why DFAS field accounting sites did not use accurate invoice dates when inputting transactions into IPAC. The Director of DFAS Indianapolis should enforce current regulations, which require posting unprocessed IPAC transactions to suspense accounts, and stop using journal vouchers to improperly reduce IPAC suspense account balances. In addition, the Director of DFAS Indianapolis should revise standard operating procedures to require reconciliation of differences on the "Statement of Differences-Deposits" within 2 months. See the Findings section of the report for detailed recommendations.

Management Comments and Audit Response. The Director of DFAS Indianapolis Operations concurred with five recommendations and nonconcurred with the recommendation to enforce DFAS 7230.1-I, "Intra-Governmental Payment and Collection System," March 2002, which requires posting unprocessed Intra-Governmental Payment and Collection System transactions into suspense accounts. The Director of DFAS Indianapolis stated that because limited time exists between IPAC cut-off and when official reports must be closed for the month, a \$50 million threshold was established as a means to not only reduce suspense accounts, but also to align the source charge to the correct appropriation in the current accounting period. As an alternative solution, the Director of DFAS Indianapolis Operations proposed that a lower threshold be incrementally phased in, with a goal of completely eliminating the flow of IPAC transactions into suspense accounts by March 1, 2009. We consider the Director's comments and alternative solution to be responsive; therefore, no further comments are required. DFAS Rome provided unsolicited comments to the draft report and agreed with the recommendations in Finding A to DFAS Indianapolis. See the Findings section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

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Background

This is the first in a series of reports related to Defense Finance and Accounting Service Indianapolis Operations (referred to as “DFAS Indianapolis”) disbursing operations. It discusses timeliness of Intra-Governmental Payment and Collection System (IPAC) transactions, adjustments to IPAC suspense accounts, and reconciliation of the “Statement of Differences-Deposits” (SOD-Deposits).

Defense Finance and Accounting Service Indianapolis Operations. DFAS Indianapolis provides finance and accounting support to the Army and other Defense agencies. The DFAS Indianapolis Disbursing Operations Directorate performs a full range of disbursing operations for all organizations receiving departmental accounting support from DFAS Indianapolis. Significant Disbursing Operations Directorate accounting activities include processing transactions through IPAC and expenditure reporting, including reconciliation of the SOD-Deposits. During November 2006 through March 2007, the Disbursing Operations Directorate processed 13.6 million disbursements totaling \$44.1 billion.

Intra-Governmental Payment and Collection System. IPAC is an automated U.S. Treasury system used for the intragovernmental transfer of funds and is the primary system to process intragovernmental exchange transactions.

IPAC Transactions. IPAC transactions can be either “bills-charged” or “bills-entered.” Bills-charged transactions are initiated in IPAC by another Federal agency. Bills-entered transactions originate in IPAC at DFAS field accounting sites or at the Disbursing Operations Directorate. Both bills-charged transactions and bills-entered transactions may be either a disbursement or a collection to the transaction originator.

Intra-Governmental Payment and Collection System Wizard. The “IPAC Wizard” is a Microsoft Access-based system developed by the Disbursing Operations Directorate to process and reconcile IPAC and Standard Finance System Redesign 1 (SRD1) transactions. Versions of the Wizard are used by the Disbursing Operations Directorate (“Central Site Wizard”) and DFAS field accounting sites (“Field Site Wizard”).

Disbursing Operations Directorate IPAC Responsibilities. The Disbursing Operations Directorate downloads daily bills-charged transactions from IPAC and loads them into the “IPAC Wizard,” a Microsoft Access program that sorts transactions according to the field accounting site responsible for processing them. The Disbursing Operations Directorate returns transactions to the submitting Federal agency if they do not contain sufficient data to identify the field accounting site. The Disbursing Operations Directorate also uploads transactions into IPAC and SRD1 that are received from field accounting sites. These transactions consist of bills-charged transactions that have been accepted by the field accounting site and bills-entered transactions.

Standard Finance System Redesign 1. SRD1 is an online, interactive entitlements and disbursing database system used by the Disbursing Operations Directorate. SRD1 incorporates military pay, travel, accounts payable, accounting, civilian pay and disbursing functions.

Field Accounting Site IPAC Responsibilities. Field accounting sites are responsible for preparing and certifying data for bills-entered transactions, which are processed into the IPAC Wizard Access database and SRD1. The field accounting site ensures that all pertinent information is in the appropriate fields, to include the accounting classification. The field site also verifies obligations and enters appropriate SRD1 data for bills-charged transactions. Field accounting sites receive invoices for bills-entered transactions directly from the billing agency and from Army and other Defense agencies.

Objectives

The audit objective was to determine whether the Disbursing Operations Directorate at DFAS Indianapolis was efficient, effective, and subject to adequate internal controls. We were also to determine whether non-centralized DFAS disbursing operations should be consolidated into the DFAS Indianapolis Disbursing Operations Directorate. We did not perform sufficient work to determine whether non-centralized DFAS disbursing operations should be consolidated into the DFAS Indianapolis Disbursing Operations Directorate, but we intend to review DFAS plans to consolidate disbursing operations in a future audit. The objective of this report is to discuss the processing of IPAC transactions, the use of IPAC suspense accounts, and the reconciliation of SOD-Deposits. See Appendix A for a discussion of the scope and methodology related to the objectives.

Review of Internal Controls

We identified internal control weaknesses for DFAS Indianapolis as defined by DoD Instruction 5010.40, "Managers' Internal Control (MIC) Program Procedures," January 4, 2006. DFAS Indianapolis did not have effective internal controls for monitoring bills-entered IPAC transactions to ensure that transactions were processed in a timely manner. DFAS Indianapolis did not have effective internal controls to ensure that suspense account balances used for unprocessed IPAC transactions were properly reported at the end of the month. In addition, DFAS Indianapolis did not have effective internal controls to ensure that the SOD-Deposits report was reconciled in a timely manner. Implementing Recommendations A.1, A.2, A.3, A.4, B, and C will improve the timeliness of IPAC transaction processing, the accuracy of month-end reporting, and the timeliness of reconciliation of the SOD-Deposits. We will provide a copy of the report to the DFAS official responsible for management controls.

A. Intra-Governmental Payment and Collection System Transactions

The Disbursing Operations Directorate did not process IPAC transactions in a timely manner. There were no procedures that required accounting sites to document when invoices were received or specified time frames to process IPAC transactions. In addition, the Disbursing Operations Directorate did not monitor bills-entered transactions submitted by DFAS field accounting sites to identify the transactions that were not processed in a timely manner. As a result, Federal agencies that provided goods and services to DoD were denied use of funds until payment was received.

Processing IPAC Transactions

Timely Processing of IPAC Transactions. The Disbursing Operations Directorate did not promptly process IPAC transactions. DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” (DoD FMR), volume 10, chapter 10, June 1997; and DFAS Indianapolis Regulation 37-1, “Finance and Accounting Policy Implementation,” Chapter 9 and Appendix E, January 2000, require that interagency bills be paid within 15 days of receipt of the bill. The DoD FMR volume 10, chapter 10, June 1997, requires payment within 30 days of the billing date for General Services Administration (GSA) Motor Pool transactions. Because IPAC transactions include both disbursements and collections, the dollar value of the transactions is presented in absolute value terms.¹ Table 1 shows the number of days between the invoice date and disbursing date in IPAC for the November 2006 through March 2007 transactions. Of the 68,628 IPAC transactions processed:

- 10,345 transactions for \$88.5 million (absolute value) were more than 30 days old,
- 7,904 transactions for \$661 million (absolute value) were 15 days old or less, and
- 33,798 transactions for \$1.5 billion (absolute value) had no invoice date.

¹ When computing absolute value, collections which appear in IPAC as negative numbers are converted to positive before being added to disbursement amounts, which appear in IPAC as positive numbers. An absolute value total provides an aggregate total that may more accurately reflect the amount of dollars involved than a “net” total, where negative and positive numbers cancel each other out and potentially understate the dollar value of transactions processed.

Table 1. Difference Between Invoice Date and Date Disbursed For Bills-Entered Transactions* (Dollars in Millions)								
Month	Number of Transactions	Bills-Entered w/o Invoice Date	Bills-Entered w/ Invoice Date	Difference Between Invoice Date and Disbursement Date (days)				
	Absolute Value			0 – 15	16 – 30	31 – 60	61 – 90	> 90
Nov 2006	Transactions	6,165	4,073	1,351	1,640	848	60	174
	Absolute Value	\$278.4	\$73.6	\$56.3	\$9.4	\$3.1	\$1.8	\$3.0
Dec 2006	Transactions	6,699	7,644	1,611	3,487	1,888	425	233
	Absolute Value	\$265.8	\$176.6	\$155.2	\$9.3	\$4.0	\$4.9	\$3.3
Jan 2007	Transactions	6,337	7,771	1,230	3,025	2,858	407	251
	Absolute Value	\$390.0	\$130.8	\$87.0	\$9.2	\$8.3	\$2.8	\$23.7
Feb 2007	Transactions	7,390	7,866	2,011	3,848	906	268	833
	Absolute Value	\$338.1	\$184.9	\$150.7	\$15.7	\$6.4	\$3.9	\$8.2
Mar 2007	Transactions	7,207	7,476	1,701	4,581	444	178	572
	Absolute Value	\$276.8	\$246.5	\$211.8	\$19.5	\$5.7	\$2.2	\$7.2
Totals	Transactions	33,798	34,830	7,904	16,581	6,944	1,338	2,063
	Absolute Value	\$1,549.1	\$812.4	\$661.0	\$63.1	\$27.5	\$15.6	\$45.4

*Bills-entered transactions include both disbursements and collections.

Transactions Aged More Than 30 Days. We selected 178 transactions totaling \$43.3 million (absolute value) from the IPAC transactions where the difference between the invoice date and disbursement date in IPAC was more than 30 days. For these 178 transactions, we obtained the invoice and other supporting documentation used by the DFAS field accounting site to enter the transaction into IPAC. The invoice and other supporting documentation for the 178 IPAC transactions showed that they were not processed in a timely manner. The invoice dates in IPAC were generally consistent with the actual invoice dates on the invoice and other supporting documentation. In addition, the supporting documentation we obtained for the transactions included third-demand letters, notices that services were being suspended until payment was made, and e-mails stating that payments were delinquent. When a transaction is entered into IPAC,

supporting documentation is maintained by the DFAS field accounting site and is not forwarded to the Disbursing Operations Directorate. Invoice and transaction support included the following examples.

- Support for Treasury Document Number 773B0445 included a GSA third-delinquency notice dated January 28, 2007, that requested payment in the amount of \$662,161 for an invoice dated September 28, 2006. A GSA log indicated that the first-delinquency notice was sent on November 24, 2006, and the second-delinquency notice was sent on January 3, 2007. The DFAS field accounting site entered the transaction into IPAC on March 7, 2007. There were 161 days between the invoice date and the March 8, 2007 disbursement date.
- Support for Treasury Document Number 77396863 included a Standard Form 1080, "Voucher for Transfers Between Appropriations and/or Funds" from the Department of Justice, Federal Bureau of Investigation, dated May 23, 2005, that requested payment in the amount of \$178.80. On October 16, 2006, the Federal Bureau of Investigation sent a final-delinquency notice stating that the bill was more than 180 days overdue. The DFAS field accounting site entered the transaction into IPAC on January 10, 2007. There were 599 days between the invoice date and the January 12, 2007 disbursement date.
- Support for Treasury Document Number 77389814 included a November 14, 2006 "Notice of Dunning" from the Library of Congress that identified a \$243,087.03 overdue bill that was originally dated August 8, 2006. The DFAS field accounting site entered the transaction into IPAC on December 7, 2006. There were 122 days between the invoice date and the December 8, 2006 disbursement date.

Transactions Aged 0 to 15 Days. We selected a sample of 72 transactions totaling \$29.1 million (absolute value) where there were up to 15 days between the invoice date and disbursement date in IPAC. Of the 72 transactions, 64 transactions with an absolute value of \$27.2 million (absolute value) had more than 15 days between the invoice date and disbursing date. For these 64 transactions, the DFAS field accounting site had entered a date into IPAC other than the actual invoice date on the invoice. In most cases, the date the transaction was entered into IPAC was used as the invoice date. Invoice and transaction support included the following examples.

- Support for Treasury Document Number 77396814 included a GSA invoice dated September 21, 2006, for \$371.22. GSA sent a delinquency notice dated November 17, 2006, requesting payment of the invoice. The DFAS field accounting site entered the \$371.22 disbursement into IPAC on January 9, 2007, and used January 9, 2007, as the invoice date. Although IPAC showed 2 days between the invoice date and disbursement date, there were actually 112 days between the invoice date and the disbursement date.
- Support for Treasury Document Number 773A2347 included a GSA invoice dated October 25, 2006, for \$4,255.28. An e-mail from GSA dated February 6, 2007, stated that delinquency notices were sent on January 3, 2007, and January 29, 2007. The DFAS field accounting site entered the \$4,255.28 disbursement into IPAC on February 7,

2007 with an invoice date of February 7, 2007. Although IPAC showed 2 days between the invoice date and disbursement date, there were 107 days between the actual October 25, 2006 invoice date and the disbursing date.

No Invoice Date in IPAC. We selected a third sample of 96 transactions totaling \$2.2 million (absolute value), where no invoice date appeared in IPAC. The invoice date field is not a U.S. Treasury-mandated field for processing an IPAC transaction, and the Disbursing Operations Directorate did not require that it be populated. We obtained the invoice and other supporting documentation used by the DFAS field accounting site to input the transaction into IPAC. Of the 96 transactions, 84 with a total of \$2.1 million (absolute value) had greater than 15 days between the invoice date and the disbursing date. Invoice and transaction support included the following examples.

- Support for Treasury Document Number 773A4390 included an invoice from GSA dated October 21, 2006, for \$6,564.25. An e-mail dated February 13, 2007, stated that GSA identified the bill as delinquent. The DFAS field accounting site entered the \$6,564.25 disbursement into IPAC on February 14, 2007 and did not include an invoice date. There were 118 days between the October 21, 2006, invoice date and the disbursing date.
- Support for Treasury Document Number 77399485 included a “Dunning Notice to Debtor” from the U.S. Department of Agriculture, Forest Service, dated July 3, 2006, requesting payment of \$2,327.02 and identifying the due date of the original invoice as May 3, 2006. The DFAS field accounting site entered the \$2,327.02 disbursement into IPAC on January 22, 2007, and did not populate the invoice date field. There were 266 days between the original due date identified on the dunning notice and the disbursing date.

Of the 346 invoice packages totaling \$74.6 million (absolute value), 70 totaling \$1.4 million (absolute value) were for GSA motor vehicle leases. The DoD FMR volume 10, chapter 10, June 1997, requires payment within 30 days of the billing date for GSA Motor Pool transactions. Of the 70 invoices, 59 totaling \$1.3 million (absolute value) had more than 30 days between the invoice date and the disbursing date.

Processing IPAC Transactions

DFAS Rome, Army, and other Defense agencies did not have effective controls over IPAC transactions to ensure that they were promptly processed. Invoices were not date-stamped when received, and these organizations did not address timely processing procedures in their standard operating procedures.

DFAS Rome Processing of IPAC Transactions. DFAS Rome was the DFAS field accounting site that input 90.8 percent of the IPAC transactions where the difference between the invoice date and disbursement date exceeded 15 days. We visited DFAS Rome and reviewed their procedures for receiving, processing,

inputting, and monitoring IPAC transactions. We obtained 142 invoices totaling \$40.3 million (absolute value) that were processed into IPAC by DFAS Rome. Of the 142 invoices, 124 totaling \$38.6 million (absolute value) had more than 30 days in IPAC between the invoice date and the disbursing date; 14 totaling \$1.6 million (absolute value) did not have an invoice date in IPAC, but the invoice date on the invoice identified that the transaction was not processed in a timely manner; and 4 invoices totaling \$10,015 (absolute value) did not have an invoice date in IPAC, but the invoice supported that the transaction was processed in a timely manner.

The DFAS Rome IPAC process involved receiving intragovernmental invoices, identifying a line of accounting for the transaction, and inputting the invoices into IPAC. DFAS Rome had different offices determining the line of accounting to be used and inputting the transaction into IPAC. DFAS Rome personnel estimated that they received 75 percent of the IPAC invoices by mail. Per DFAS Indianapolis Regulation 37-1, the IPAC payment is due 15 days after a bill is received. However, DFAS Rome did not date-stamp invoices or use any other method to log in invoices when they received them. Without date-stamping invoices or logging them in, it is difficult to track how long it takes to process invoices and monitor whether they are being processed in a timely manner.

DFAS Rome did not have standard operating procedures or other local written procedures that specified the number of days allowed, once an invoice is received, to process it and enter the transaction into IPAC. In addition, the Disbursing Operations Directorate IPAC processing procedures, which addressed DFAS field accounting site IPAC responsibilities, did not include processing time frames for bills-entered transactions. Although intragovernmental payment standards are identified in the DoD FMR and DFAS Indianapolis Regulation 37-1, standard operating procedures for specific job positions help ensure that personnel performing those specific functions are aware of the performance expectations associated with their jobs and that those performance expectations are relayed to new personnel. The Disbursing Operations Directorate should develop model standard operating procedures for DFAS field accounting sites that include time frames for processing transactions and that require documenting when invoices are received.

Army and Other Defense Agency Processing of IPAC Transactions. Billing agencies send invoices either directly to DFAS field accounting sites or to Army and other Defense agencies, who certify the invoices and then submit them to DFAS field accounting sites. Army and other Defense agencies who received invoices from a billing agency included Washington Headquarters Services, Military Entrance Processing Command, and Installation Management Command. We visited these three organizations and reviewed their procedures for receiving, certifying, and submitting invoices to the appropriate DFAS site for IPAC input. None of the three activities used date-stamping or logged in invoices to document when they were received. Also, they did not have standard operating procedures or other written documents that specified how long they had to certify an invoice and submit it to a DFAS IPAC input area. The Disbursing Operations Directorate should coordinate model standard operating procedures with the Assistant Secretary of Army (Financial Management and Comptroller) and Director of Accounting Operations so that appropriate time frames for certifying invoices and submitting them to DFAS field accounting sites may be established.

Monitoring IPAC Transactions

Disbursing Operations Directorate Monitoring of IPAC Transactions. Bills-entered transactions entered at DFAS field accounting sites into the Field Site IPAC Wizard are transferred to the Disbursing Operations Directorate for upload into the U.S. Treasury IPAC. Therefore, the Disbursing Operations Directorate has access to detailed transaction data for all of the bills-entered transactions that are entered by the DFAS field accounting sites. When DFAS field accounting sites correctly populate the invoice date field in IPAC, the Disbursing Operations Directorate is able to monitor the timeliness of IPAC transactions. Monitoring IPAC transactions can identify the causes of late transactions and enable corrective action to be taken. However, the Disbursing Operations Directorate did not monitor bills-entered transactions submitted by DFAS field accounting sites and did not identify transactions that were not processed in a timely manner. Although the Disbursing Operations Directorate had procedures in place to monitor bills-charged transactions that had been sent to a field accounting site and not processed timely, these procedures did not include tracking bills-entered transactions. In addition, procedures issued by the Disbursing Operations Directorate that outlined field accounting site responsibilities and instructions for processing IPAC transactions did not include timeliness standards for bills-entered processing. The Disbursing Operations Directorate should require the DFAS field accounting sites to populate the invoice date field in IPAC so that it can be used to monitor whether transactions are processed in a timely manner. The Disbursing Operations Directorate should also determine why DFAS field accounting sites did not use accurate invoice dates when inputting transactions into IPAC.

DFAS Rome Monitoring of IPAC Transactions. DFAS Rome did not have controls to monitor how many days it took to process an invoice and enter it into IPAC. In order to ensure that IPAC transactions are processed in a timely manner, DFAS Rome and other field accounting sites should monitor how long it takes to process invoices and enter them into IPAC.

Army and Other Defense Agency Monitoring of IPAC Transactions. The Army and other Defense agencies did not have controls to monitor how long it took to certify an invoice and transmit it to a DFAS field accounting site.

Impact of Incorrect Payments. The Disbursing Operations Directorate was not monitoring IPAC bills-entered transactions for timeliness. If Disbursing Operations Directorate personnel had been monitoring IPAC bills-entered transactions, they would have noticed that transactions were not being processed in a timely manner. Intragovernmental transactions that are not processed in a timely manner deprive agencies of the use of funds. Many of the IPAC transactions that were not processed timely were payments to the GSA, which uses revolving funds that depend on timely payments from customers in order to continue operations. As stated in a GSA third-delinquency notice:

GSA revolving funds depend on the prompt payment by other agencies to provide cash flow for purchasing additional goods and services.

Please assist us in obtaining payment of these delinquent invoices so that we may continue to provide services through the Public Buildings Services Rent Program.

The Disbursing Operations Directorate has access to detailed transaction data for IPAC bills-entered transactions and should take the lead in developing an overall plan to monitor transactions and ensure that transactions are processed in a timely manner.

Recommendations, Management Comments, and Audit Response

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

1. Develop model standard operating procedures for Defense Finance and Accounting Service field accounting sites that include time frames for processing transactions and that require documenting when invoices are received.

2. Coordinate the model standard operating procedures with the Assistant Secretary of Army (Financial Management and Comptroller) and Director of Accounting Operations.

3. Implement procedures to monitor Intra-Governmental Payment and Collection System bills-entered transactions for timeliness, to include requiring the Defense Finance and Accounting Service field accounting sites to correctly populate the invoice date field.

4. Determine why Defense Finance and Accounting Service field accounting sites did not use accurate invoice dates when inputting transactions into the Intra-Governmental Payment and Collection System.

Management Comments. The Director of DFAS Indianapolis Operations concurred and stated that the Standards and Compliance office is leading a Lean6 project on the standardization of IPAC processing for all DFAS centers.² The Director of DFAS Indianapolis Operations stated that the Lean6 project team has started to draft an IPAC standard operating procedure for all DFAS centers and, once the standard operating procedure is complete, it will be coordinated with the Assistant Secretary of the Army (Financial Management and Comptroller) and the Director of Accounting Operations. The Director of DFAS Indianapolis Operations also stated that the requirement to populate the invoice date field and the method and responsibility for monitoring IPAC transaction activity will be addressed in the standard operating procedure. The estimated completion date is October 1, 2008.

DFAS Rome Comments. DFAS Rome provided unsolicited comments and agreed with our recommendations. DFAS Rome stated that its standard operating

² Lean6 is a method to reduce process variation, streamline operations, and create more efficient and cost-effective capabilities.

procedures were updated to include time frames, that all incoming documentation into the IPAC Section will be date-stamped, and that an IPAC log was created to track all IPAC payments.

Audit Response. Management's comments are responsive to the recommendations and no further comments are required.

B. IPAC Suspense Accounts

The Disbursing Operations Directorate reported incorrect suspense account balances for unprocessed IPAC transactions. Specifically, the Disbursing Operations Directorate used journal vouchers to improperly reduce the suspense account balances by \$286.1 million. The Disbursing Operations Directorate did not follow DFAS instructions for recording unprocessed IPAC transactions, and, consequently, the U.S. Treasury and users of Army and other Defense agencies' financial statements and of the monthly suspense account report did not have accurate information.

Unprocessed IPAC Transaction Procedures

The Disbursing Operations Directorate reported incorrect suspense account balances for unprocessed IPAC transactions. DFAS 7230.1-I, "Intra-Governmental Payment and Collection System," March 2002, requires that all unprocessed IPAC transactions be placed in the appropriate F3885.007 suspense account at the end of each month. The transactions that are placed in account F3885.007 at the end of each month must be processed against the proper appropriation in the subsequent month.

The Disbursing Operations Directorate uses its report, "Treasury Docs With Unclear Amounts," to monitor unprocessed IPAC transactions at the end of each month. This report identifies IPAC transactions that have been received by the Disbursing Operations Directorate from the U.S. Treasury but that have not yet been recorded in SRD1. Uncleared transactions are bills-charged transactions that have not yet been accepted by the fiscal station and transactions that are received after the monthly cut-off for IPAC processing. The Disbursing Operations Directorate initially recorded the unprocessed transactions at the end of the month into the appropriate F3885.007 suspense accounts, as required by the DFAS instruction. However, Disbursing Operations Directorate personnel stated that in months where the balance of F3885.007 exceeded \$50 million, the Disbursing Operations Directorate processed a journal voucher to remove transactions from the F3885.007 suspense accounts and post them to the appropriations that would have been used, had the transactions been completely processed. The following month, the Disbursing Operations Directorate processed the IPAC transactions as normal and prepared a second journal voucher to reverse the effects of the original journal voucher. The original journal vouchers and the reversal journal vouchers contained signatures of the preparer, the reviewer, and of six other financial managers located in the Disbursing Operations Directorate and in other areas of DFAS Indianapolis.

Journal Voucher Adjustments

The Disbursing Operations Directorate processed \$286.1 million in journal adjustments to reduce the November 2006 through March 2007 suspense account balances for unprocessed IPAC transactions. See Table 2.

Table 2. Adjustments to IPAC Suspense Accounts (Dollars in Millions)					
Suspense Account	November 2006	December 2006	January 2007	February 2007	March 2007
97 F 3885	\$0	\$91.2	\$96.4	\$90.7	\$0
21 F 3885	0	2.3	3.3	2.4	0
Total	\$0	\$93.5	\$99.7	\$93.1	\$0

Disbursing Operations Directorate personnel stated that the journal voucher adjustments were done so that the U.S. Treasury would not call them and question the size of the balances in the F3885.007 suspense accounts. However, unprocessed transactions should be posted to and remain in the F3885.007 suspense accounts until they are properly cleared, as required by current DFAS guidance. Disbursing Operations Directorate personnel should not process journal vouchers to improperly reduce IPAC suspense account balances.

Reported Suspense Account Information

The Disbursing Operations Directorate included the improperly reduced suspense accounts balances as part of its monthly reporting process to the U.S. Treasury. In addition, the Disbursing Operations Directorate included the reduced suspense account balances on the monthly suspense account report, and DFAS also reported the reduced suspense account balances in the footnotes of the Army and other Defense agencies' financial statements. Users of these reports did not have accurate information on the dollar value of IPAC transactions that were actually unprocessed.

Recommendation, Management Comments, and Audit Response

B. We recommend that the Director, Defense Finance and Accounting Service Indianapolis Operations enforce DFAS 7230.1-I, "Intra-Governmental Payment and Collection System," March 2002, which requires posting unprocessed Intra-Governmental Payment and Collection System

transactions into suspense accounts, and stop processing journal vouchers to improperly reduce Intra-Governmental Payment and Collection System suspense account balances.

Management Comments. The Director of DFAS Indianapolis Operations nonconcurrent with the recommendation and stated that the March 2002 DFAS regulation 7230.1-I on IPAC needs to be updated to reflect the new Treasury Financial Manual guidance to discontinue use of suspense accounts. The Director of DFAS Indianapolis Operations stated that as a result of the new Treasury Financial Manual guidance, DFAS is participating with OSD and the Services and Defense Agencies in an effort to implement a planned strategy to eliminate all inflow of transactions to suspense accounts. The Director stated that the plan is to incrementally phase in a lower threshold, with the goal of completely eliminating the inflow to suspense accounts for this purpose. The estimated completion date is March 1, 2009.

Audit Response. Although DFAS Indianapolis Operations nonconcurrent, we consider the alternative solution proposed by DFAS Indianapolis Operations to be responsive to our recommendation. The Disbursing Operations Directorate practice of using journal vouchers to remove transactions from the suspense accounts when the suspense account balance exceeded \$50 million resulted in inconsistent treatment for similar IPAC transactions. The Disbursing Operations Directorate did not remove transactions from the suspense accounts when the suspense account balances were less than \$50 million, and in the months that journal voucher adjustments were done, not all of the transactions in the suspense accounts were removed and matched to the correct appropriations. The alternative action proposed by DFAS Indianapolis Operations to incrementally lower the adjustment threshold from \$50 million, with the goal of completely eliminating the inflow of IPAC transactions to suspense accounts by posting the transactions to the correct known appropriations, will result in more consistent reporting of unprocessed IPAC transactions. No further comments are required.

C. Statement of Differences-Deposits

The Disbursing Operations Directorate did not reconcile the “Statement of Differences-Deposits” (SOD-Deposits) within 2 months and did not report unreconciled differences older than 2 months as a loss or overage of funds. The Disbursing Operations Directorate procedures did not require reconciling differences within 2 months, as required by the DoD Regulation 7000.14-R, “DoD Financial Management Regulation.” As a result, there was a risk that:

- actual losses of funds would not be identified in a timely manner,
- agency managers could overspend or overobligate because they did not have current and accurate information on amounts in their Fund Balance with Treasury accounts, and
- unreconciled differences could impact the Fund Balance with Treasury amounts reported in the financial statements.

Reconciling the Statement of Differences-Deposits

Disbursing Operations Directorate expenditure reporting responsibilities include the reconciliation of the SOD-Deposits. The SOD-Deposits is a monthly report provided by the U.S. Treasury that identifies differences between disbursing organizations’ FMS 1219 “Statement of Accountability” and the information submitted by commercial banks or the Federal Reserve Bank through the CASHLINK II system. The FMS 1219 “Statement of Accountability” is a monthly report submitted to the U.S. Treasury by Federal agencies that have their own disbursing operations. It establishes disbursing officer accountability for funds by reporting deposits, checks issued, and disbursements. CASHLINK II is a financial information system used to manage the collection of U.S. government funds and to provide deposit information to Federal agencies. DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” (FMR), volume 5, chapter 5 requires that all deposit differences be reconciled within 2 months or be considered a loss or overage of funds. Table 3 shows \$458,839,014 in unreconciled differences that were more than 2 months old on the October 2006 through May 2007 SOD-Deposits.

Table 3. Unreconciled Differences on the Statement of Differences-Deposits Greater Than 2 Months Old			
Month/Year	Agency Reports	Treasury Reports	Net Amount
October 2006	\$10,683,067,397	\$10,682,978,475	\$88,922
November 2006	\$18,070,008,523	\$18,069,013,176	\$995,347
December 2006	\$22,971,648,453	\$22,971,366,215	\$282,238
January 2007	\$11,296,755,506	\$11,296,178,456	\$577,050
February 2007	\$18,664,062,649	\$18,683,459,782	\$(19,397,133)
March 2007	\$23,634,595,854	\$23,634,570,589	\$25,265
April 2007	\$24,282,932,447	\$23,806,610,478	\$476,321,969
May 2007	\$26,261,228,795	\$26,261,283,440	\$(54,645)
Total	\$155,864,299,624	\$155,405,460,611	\$458,839,013

Disbursing Operations Directorate Procedures.

The Disbursing Operations Directorate had procedures in place for correcting differences on the SOD-Deposits. These procedures were documented in its standard operating procedure, "Reconciling the Analysis of Unmatched Transactions (AUTs)," March 2003. However, Disbursing Operations Directorate procedures required reconciliation of the SOD-Deposits within 6 months. The Disbursing Operations Directorate should revise and implement the standard operating procedure, "Reconciling the Analysis of Unmatched Transactions (AUTs)," to require reconciliation of differences within 2 months, as required by the DoD FMR.

Reasons for Reconciliation of Statement of Differences.

Reconciling the SOD-Deposits in a timely manner will allow the Disbursing Operations Directorate to be alert to indicators of fraud and will facilitate prompt identification of actual losses. Agency managers run the risk of overspending or overobligating if they do not have current and accurate information on amounts in their Fund Balance with Treasury accounts. Timely reconciliation of differences by the Disbursing Operations Directorate will reduce the risk of differences not being corrected before the end of the fiscal year, when financial statement reporting of Fund Balances with Treasury is done.

Recommendation, Management Comments, and Audit Response

- C. We recommend that the Director, Defense Finance and Accounting Service Indianapolis Operations revise and implement the standard operating procedure titled "Reconciling the Analysis of Unmatched Transactions (AUTs)" to require reconciliation of differences on the Statement of Differences-Deposits within 2 months.**

Management Comments. The Director of DFAS Indianapolis Operations concurred and stated that the standard operating procedure titled “Reconciling the Analysis of Unmatched Transactions (AUTs)” was updated to require reconciliation of differences on the Statement of Differences-Deposits within 2 months. The completion date was November 30, 2007.

Audit Response. Management’s comments are responsive to the recommendation and no further comments are required.

Appendix A. Scope and Methodology

We conducted this performance audit from January 2007 through October 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 reviewed the DFAS Indianapolis Disbursing Operations Directorate process for processing Intra-Governmental Payment and Collection System (IPAC) transactions. We obtained and reviewed the IPAC payments and collections processed by the Disbursing Operations Directorate from November 2006 through March 2007. We identified the bills-entered transactions with an invoice date in IPAC and isolated the transactions that were not related to duplicate reversals, military pay accruals, or transactions related to certain suspense accounts. We then compared the invoice date in IPAC to the date when the transaction was identified as processed in IPAC. We selected and reviewed 346 invoices packages totaling \$20.7 million (net) and \$74.6 million (absolute value). We obtained and reviewed journal vouchers used by the Disbursing Operations Directorate to reduce balances in IPAC suspense accounts.

We visited DFAS Rome and reviewed its process of receiving and inputting transactions into IPAC. We also visited Washington Headquarters Services, Military Entrance Processing Command, and Installation Management Command and reviewed their processes for receiving, processing, and transmitting invoices to DFAS field accounting sites for payment. We conducted interviews with DFAS, Army, and other Defense agency personnel responsible for processing IPAC payments.

We reviewed the October 2006 through May 2007 “Statement of Differences-Deposits” for the Disbursing Operations Directorate. We conducted interviews with DFAS personnel responsible for reconciling the “Statement of Differences-Deposits.”

Use of Computer-Processed Data. We used computer-processed data obtained from the U.S. Treasury IPAC to perform this audit. We did not perform a formal reliability assessment of the computer-processed data. However, we examined additional supporting documentation available from DFAS field accounting sites to verify the existence of intragovernmental invoices and to verify the accuracy of the data in IPAC. As discussed in Finding A, we found some discrepancies in the IPAC data. We addressed the discrepancies in this report. Our results were not affected by not performing a complete reliability assessment of IPAC.

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

Prior Coverage

During the last 5 years, the U.S. Army Audit Agency (USAAA) has issued 3 reports discussing DFAS Indianapolis Disbursing Operations Directorate. USAAA reports are available on a website that is restricted to military domains and GAO. They can be accessed at <https://www.aaa.army.mil/reports.htm>.

USAAA

USAAA Report No. A-2006-0186-ALR, "Follow-up Audit of Disbursing Station Expenditure Operations: DoD Disbursing Station 5570, Accounting Services, Army," August 22, 2006

USAAA Report No. A-2005-0104-ALW, "Disbursing Station Expenditure Operations: DoD Disbursing Station Number 5570," February 14, 2005

USAAA Report No. A-2004-0006-FFG, "General Fund Follow-up Issues," October 29, 2003

Appendix B. Report Distribution

Office of the Secretary of Defense

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

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Finance and Accounting Service

Non-Defense Federal Organization

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

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

Defense Finance and Accounting Service Indianapolis Operations Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE
8899 EAST 56TH STREET
INDIANAPOLIS, INDIANA 46249

DFAS-JB/IN

NOV 30 2007

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Disbursing Operations Directorate at Defense Finance and Accounting Service Indianapolis Operations, Project No. D2007-D000FL-0119.000

Indianapolis Operations is providing management comments to the draft report.

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

1. Develop model standard operating procedures for Defense Finance and Accounting Service field accounting sites that include timeframes for processing transactions and that require documenting when invoices are received.

Comment: Concur. Standards and Compliance office is leading the Lean6 project on the standardization of IPAC for all DFAS Centers. The Lean6 Project Team concluded that all DFAS Centers basically process IPAC in the same manner. The variance is in what each center does to work with the different accounting systems and the different customers. The Lean6 Project Team has taken the basic charts agreed to by all project participants and started to draft an IPAC SOP for the DFAS sites.

Estimated Completion Date: October 1, 2008

2. Coordinate the model standard operating procedures with the Assistant Secretary of Army (Financial Management and Comptroller) and Director of Accounting Operations.

Comment: Concur. Standards and Compliance office is leading the Lean6 project on the standardization of IPAC for all DFAS Centers. Once the SOP is complete, it will be coordinated with ASA(FM&C) and the Director of Accounting Operations.

Estimated Completion Date: October 1, 2008

3. Implement procedures to monitor Intra-governmental Payment and Collection System bills-entered transactions for timeliness, to include requiring the Defense Finance and Accounting Service field accounting sites to correctly populate the invoice date field.

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Comment: Concur. Standards and Compliance office is leading the Lean6 project on the standardization of IPAC for all DFAS Centers. The requirement to populate the invoice data field will be addressed in the standard SOP.

Estimated Completion Date: October 1, 2008

4. Determine why Defense Finance and Accounting Service field accounting sites did not use accurate invoice dates when inputting transactions into the Intra-governmental Payment and Collection System.

Comment: Concur. Standards and Compliance office is leading the Lean6 project on the standardization of IPAC for all DFAS Centers. The responsibility for monitoring IPAC transaction activity and how that will be achieved will be addressed in the standard SOP.

Estimated Completion Date: October 1, 2008

Recommendation B: We recommend that the Director, Defense Finance and Accounting Service Indianapolis Operations enforce DFAS 7230.1-I, "Intra-Governmental Payment and Collection System," March 2002, which requires posting unprocessed Intra-governmental Payment and Collection System transactions into suspense accounts, and cease processing journal vouchers to improperly reduce Intra-Governmental Payment and Collection System suspense account balances.

Comment: Nonconcur. We believe the March 2002 DFAS regulation 7230.1-I on IPAC needs to be updated to reflect the new TFM guidance to discontinue use of suspense accounts. As a result of the new TFM guidance, DFAS is participating with OSD and the Services and Defense Agencies in an effort to implement a planned strategy to eliminate all inflow of transactions into suspense accounts. Further, we believe proper accounting principles would match these charges to the correct known appropriations during the current accounting period and not place these transactions into suspense accounts. Since limited time exists between IPAC cutoff and when official reports must be closed for the month, the \$50 million threshold was established as means to not only reduce suspense accounts, but more importantly, properly align the source charge to the correct appropriation during the current accounting period. Our plan is to incrementally phase in a lower threshold with the goal of completely eliminating the inflow to suspense accounts for this purpose. The official date from Treasury for complete elimination of suspense accounts is February 2009.

Estimated Completion Date: March 1, 2009

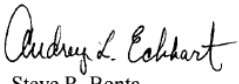
Recommendation C: We recommend that the Director, Defense Finance and Accounting Service Indianapolis Operations revise and implement the standard operating procedure titled "Reconciling the Analysis of Unmatched Transactions (AUT's)" to require reconciliation of differences on the Statement of Differences-Deposits within 2 months.

Comment: Concur. Central Disbursing Operations, Indianapolis concurs with the recommendation. The standard operating procedure titled "Reconciling the Analysis of

Unmatched Transactions (AUTs)” was updated November 2007 to require reconciliation of differences on the Statement of Differences-Deposits within 2 months.

Completed Date: November 30, 2007

My point of contact is Dorothy Ferguson, 317-510-5594.


for Steve R. Bonta
Director, Indianapolis Operations

Defense Finance and Accounting Service Rome Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE
8899 EAST 56TH STREET
INDIANAPOLIS, INDIANA 46249

DFAS-JB/IN

DEC 07 2007

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Disbursing Operations Directorate at Defense Finance and Accounting Service Indianapolis Operations, Project No. D2007-D000FL-0119.000

Indianapolis Operations is providing additional management comments from DFAS-Rome to the draft report for Recommendation A.

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

1. Develop model standard operating procedures for Defense Finance and Accounting Service field accounting sites that include timeframes for processing transactions and that require documenting when invoices are received.

Comment: Concur. DFAS Rome IR Team reviewed the Standard Operational Procedure (SOP) to ensure the following clause was included: "All payments must be processed within 15 days per the DoD Regulation 7000.14-R, "DoD financial Management Regulations," (FMR), volume 10, chapter 10, June 1997 and DFAS Indianapolis Regulation 37-1, "Finance and Accounting Policy Implementation," Chapter 9, and Appendix E, January 2000. The DoD FMR volume 10, chapter 10, June 1998, requires payment within 30 days of the billing date from General Services Administration (GSA) Motor Pool transactions."

Completion Date: November 30, 2007

2. Coordinate the model standard operating procedures with the Assistant Secretary of Army (Financial Management and Comptroller) and Director of Accounting Operations.

Comment: Concur. DFAS Rome IR Team has incorporated IPAC new procedure to be included on the Federal Managers' Financial Integrity Act of 1982 (FMFIA). This new procedure will be tested during the month of February 2008.

Completion Date: November 30, 2007

3. Implement procedures to monitor Intra-governmental Payment and Collection System bills-entered transactions for timeliness, to include requiring the Defense Finance and Accounting Service field accounting sites to correctly populate the invoice date field.

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Comment: Concur. All incoming documentation into the IPAC Section will be date stamped. IPAC bill(s) received without an invoice date or the invoice date can not be determined, DFAS Rome IPAC Team will use the date stamp as the invoice date.

An IPAC Log was created and the following data is annotated when a bill is received:

1. Invoice Date
2. Invoice number
3. Invoice dollar amount
4. Date bill was received
5. Date bill(s) sent to other areas and to whom
6. Date bill(s) returned from other areas
7. Date bill(s) processed

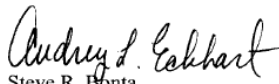
Completion Date: November 30, 2007

4. Determine why Defense Finance and Accounting Service field accounting sites did not use accurate invoice dates when inputting transactions into the Intra-governmental Payment and Collection System.

Comment: Concur. There previously were no controls in place. Currently DFAS Rome has implemented new procedures including: updating their SOP to include time frames in reference to DoD FMR 37-100; date stamp all incoming documentation; created a log to track all IPAC Payments; and trained DFAS Employees of the new procedures.

Completion Date: November 30, 2007

My point of contact is Patricia Earl, 315-709-6360.


for Steve R. Bonta
Director, Indianapolis Operations

Team Members

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

Paul J. Granetto
Patricia A. Marsh
Jack L. Armstrong
Paul C. Wenzel
Andrew D. Gum
Claudia L. Clouser
Joseph A. Baer
Chad A. Maroska
Shane A. Griffin
Ellen Kleiman-Redden



Inspector General Department of Defense

