

Inspector General

United States
Department of Defense



Controls Over Collections and Returned Checks
at Defense Finance and Accounting Service,
Indianapolis Operations

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Acronyms and Abbreviations

DFAS	Defense Finance and Accounting Service
DoD FMR	DoD Financial Management Regulation
FRB	Federal Reserve Bank
OBIS	OnBase Information System
ODO	Other Defense Organizations
PCC OTC	Paper Check Conversion Over the Counter
QMD	Quantitative Methods Directorate
RCB	Returned Check and Bond System
TFM	Treasury Financial Manual
USD(C)/DoD CFO	Under Secretary of Defense/DoD Chief Financial Officer



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

February 27, 2009

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

SUBJECT: Controls Over Collections and Returned Checks at Defense Finance and Accounting Service, Indianapolis Operations (Report No. D-2009-057)

We are providing this report for your information and use. We considered comments from the Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer and the Director, Defense Finance and Accounting Service when preparing the final report. The complete text of the comments is in the Client Comments section of the report.

DoD Directive 7650.3 requires that all issues be resolved promptly. The Director, Defense Finance and Accounting Service did not comment on potential monetary benefits. Therefore, we request that the Director, Defense Finance and Accounting Service provide comments on potential monetary benefits by March 27, 2009.

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

We appreciate the courtesies extended to the staff. Questions should be directed to me at (703) 601-5868.

Patricia A. Marsh

Patricia A. Marsh, CPA
Assistant Inspector General
Defense Business Operations



Results in Brief: Controls Over Collections and Returned Checks at Defense Finance and Accounting Service, Indianapolis Operations

What We Did

We assessed whether Defense Finance and Accounting Service, Indianapolis Operations (DFAS Indianapolis) had internal controls to ensure that DoD collections and returned checks were properly safeguarded and accurately recorded. DFAS Indianapolis processed 26,624 collections for \$316.8 million in FY 2007 and 4,898 returned U.S. Treasury checks for \$43.5 million during the period of October 6, 2006, through February 29, 2008. We examined supporting documentation to determine when these collections were deposited and the location of the deposit. We also reviewed U.S. Treasury checks returned to the Disbursing Operations Directorate during FY 2007.

What We Found

DFAS Indianapolis did not have adequate internal controls to ensure that collections and returned U.S. Treasury checks were properly recorded and safeguarded. As a result, the Government unnecessarily incurred an estimated \$201,738 in interest costs on debt or other obligations. In addition, checks improperly returned to debtors totaled \$7.5 million in FY 2007. Also, the lack of internal controls increased the risk that collections and returned U.S. Treasury checks could be lost or stolen. DFAS Indianapolis deposited U.S. Treasury checks into an unauthorized deposit facility.

What We Recommend

The Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer

should revise DoD Financial Management Regulation, 7000.14-R, to be consistent with U.S. Treasury Financial Manual (TFM) I 4-7000 (Transmittal Letter 640), which requires cancellation of returned U.S. Treasury checks within 3 workdays of receipt.

The Director of DFAS Indianapolis should ensure that DFAS:

- deposits all collections within U.S. Treasury timeframes;
- includes undeposited negotiable instruments in the quarterly cash verifications for Disbursing Station Symbol Number 5570;
- deposits U.S. Treasury checks in a Federal Reserve Bank;
- improves and consolidates collection functions and processing;
- fully implements the Paper Check Conversion Over the Counter system for deposit of all collections; and
- cancels returned U.S. Treasury checks within 3 workdays.

Client Comments and Our Response

Management comments from the Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer and the Director, Defense Finance and Accounting Service were responsive to recommendations. However, the Director did not comment on the Potential Monetary Benefits. See Potential Monetary Benefits, Client Comments, Audit Response for details. See the recommendations table on page ii.

Recommendations Table

Client	Recommendations Requiring Comment	No Additional Comments Required
Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer		B.1.
Director, Defense Finance and Accounting Service		A.1., A.2., A.3., A.4., A.5.a., A.5.b., A.5.c., A.5.d., B.2.a., B.2.b., and B.2.c.

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Introduction

Objectives

The audit objective was to determine whether Defense Finance and Accounting Service, Indianapolis Operations (DFAS Indianapolis) had internal controls to ensure that all returned checks and collections were properly safeguarded and accurately recorded. See Appendix A for a discussion of the scope and methodology and prior coverage. Appendix B contains statistical sampling methodology and analysis.

Background

This is the second in a series of reports related to DFAS Indianapolis disbursing operations. The first, Report No. D-2008-52, “Disbursing Operations Directorate at Defense Finance and Accounting Service, Indianapolis Operations,” February 19, 2008, discussed timeliness of Intragovernmental Payment and Collection System transactions, adjustments to Intragovernmental Payment and Collection System suspense accounts, and reconciliation of the “Statement of Differences-Deposits.” This report discusses the processing of collections and returned checks.

DFAS Indianapolis

DFAS Indianapolis provides finance and accounting support to the Army and other Defense agencies. The Disbursing Operations Directorate performs a full range of disbursing operations for all organizations that receive departmental accounting support from DFAS Indianapolis. Disbursing Operations Directorate accounting activities include making disbursements, processing collections and making deposits, and processing returned checks. The Accounts Receivable Directorate, Debt Claims Branch 1-Army (Accounts Receivable Directorate-Army), and Accounts Receivable Directorate, Debt Claims Branch 1-Other Defense Organizations (Accounts Receivable Directorate-ODO),¹ also process collections and make deposits. In FY 2007, DFAS Indianapolis processed 26,624 collections, totaling \$316.8 million.

DFAS Indianapolis Collections Responsibilities

DFAS Indianapolis collects cash, money orders, and checks for payments for goods and services received and to reimburse the Government for overpayments. The Disbursing Operations and Accounts Receivable Directorates all receive mail containing collections. The Accounts Receivable Directorate-Army receives mail containing its own collections, as well as collections on behalf of Accounts Receivable Directorate-ODO.

The directorates separately and independently record each collection in a log, try to identify the proper account to credit, prepare the deposit ticket, and then deposit the

¹ The Accounts Receivable Directorate, Debt Claims Branch 1-Army was formerly known as the Directorate of Network Operations, and the Debt Claims Branch 1-Other Defense Organizations was formerly known as the Defense Agency Financial Services Directorate.

collection in the Finance Center Federal Credit Union. After making the deposit, DFAS Indianapolis records the collection in Standard Finance System Redesign 1.

DFAS Indianapolis Returned U.S. Treasury Check Responsibilities

Disbursements made by the Disbursing Operations Directorate include payments to vendors, civilians, and military members. Disbursements are made by electronic funds transfer, cash, and check. The U.S. Postal Service returns undeliverable checks to the Disbursing Operations Directorate. Also, payees sometimes return checks that they believe they are not entitled to. Disbursing Operations Directorate procedures require that returned checks be manually recorded in a log and entered into the DFAS Returned Check and Bond System (RCB) upon receipt. The Disbursing Operations Directorate uses the RCB to record and report the status of checks returned to DFAS Indianapolis. The organization that initially authorized a payment is responsible for reviewing the returned check and correcting the payee address in RCB. When the correct address can be determined, the Disbursing Operations Directorate sends the check back to the payee. If a correct address cannot be determined within 60 days after the end of the month that the organization issues the check, the Disbursing Operations Directorate cancels the check.²

Review of Internal Controls

We determined that a material internal control weakness existed for DFAS Indianapolis as defined by DoD Instruction 5010.40, “Managers’ Internal Control Program Procedures,” January 4, 2006. DFAS Indianapolis did not have effective internal controls over processing collections and safeguarding returned U.S. Treasury checks. Implementing Recommendations A and B will improve collection processing and improve safeguards over returned U.S. Treasury checks. We will provide a copy of this report to the senior Army official responsible for internal controls in the Department of the Army. The Accounts Receivable Directorate should revise its Risk Assessment and Control documents to address the risks of processing negotiable instruments.

² For example, a check issued on November 15, the 60-day period begins on December 1.

Finding A. Recording and Safeguarding Collections

DFAS Indianapolis did not have adequate controls to ensure that \$316.8 million in collections were properly recorded and safeguarded. Specifically, DFAS:

- did not deposit collections on time,
- returned collections to the sender rather than depositing and researching them,
- did not have collection records that provided an audit trail or allowed monitoring of deposit timeliness,
- did not perform complete cash verifications,
- deposited U.S. Treasury checks in a Treasury General Account depository instead of in a Federal Reserve Bank, and
- did not report its accountability for undeposited negotiable instruments.

DFAS Indianapolis did not enforce existing guidance on collection processing, nor did it have effective processes for receiving and processing collections and making timely deposits. As a result, in FY 2007, the Government unnecessarily incurred an estimated \$201,783 in interest on debt or other obligations; had \$15.8 million in collections that lacked deposit evidence; and improperly returned \$7.5 million in checks to debtors.³ The risk that collections could be lost or stolen was increased. DFAS Indianapolis did not comply with U.S. Treasury requirements by depositing U.S. Treasury checks into an unauthorized deposit facility.

Depositing Collections

DFAS Indianapolis did not promptly deposit all collections. U.S. Treasury Financial Manual (TFM) 6-8000 requires that Federal agencies deposit collections totaling \$5,000 or more on the date of receipt, if received prior to the deposit cutoff time. Collections received too late in the day to meet the deposit cutoff time are to be deposited on the following business day. Collections totaling less than \$5,000 may be accumulated and deposited when the total reaches \$5,000. However, DoD is required to make deposits by Thursday of each week, regardless of the amount accumulated.

We reviewed three separate areas within DFAS Indianapolis that processed \$316.8 million in collections during FY 2007: Disbursing Operations Directorate,

³ The \$201,783 estimated interest cost is the sum of \$187,422 in projected interest cost for the Accounts Receivable Directorate-Army log, \$8,184 actual interest costs for the Disbursing Operations Directorate log, and \$6,177 in actual interest cost from the Accounts Receivable Directorate-ODO log.

Accounts Receivable Directorate-Army, and Accounts Receivable Directorate-ODO. Each of these areas maintained its own separate log to record collections received.

Disbursing Operations Directorate

- The Disbursing Operations Directorate collection log contained 6,622 collections totaling \$28.5 million. We reviewed 3,146 collections, totaling \$13.7 million, for which Disbursing Operations Directorate personnel had included deposit information in the collection log. Our analysis found that:
- 2,861 collections, totaling \$13.4 million, were deposited an average of 14 days after the U.S. Treasury definition of a timely deposit, and
- 285 collections, totaling \$290,797, were correctly deposited within U.S. Treasury time frames.

Accounts Receivable Directorate-Army

The Accounts Receivable Directorate-Army collection log contained 17,770 collections, totaling \$252.2 million. We selected a statistical sample of 328 collections from the collection log (see Appendix B). We then reviewed supporting documentation that identified when Accounts Receivable Directorate-Army deposited these 328 collections. Based on our sample, we project that:

- 15,677 collections (a projected \$204.2 million) were deposited after the U.S. Treasury requirements for timely deposit,⁴ and
- \$2.7 million in actual collections were deposited within U.S. Treasury timeframes.

Accounts Receivable Directorate-ODO

The Accounts Receivable Directorate-ODO collection log contained 2,232 collections, totaling \$36.1 million. We reviewed supporting documentation for each collection to determine the date of deposit. We found that:

- 998 collections, totaling \$15.4 million, were deposited an average of 3 days after the U.S. Treasury requirement for timely deposit, and
- 1,234 collections, totaling \$20.7 million, were deposited within U.S. Treasury time frames.

⁴ The projection of the average days late for collections not deposited on time was between 5.6 and 8.06, with a point estimate of 6.83.

Collections Processed by Multiple Areas

Because there were three collection-processing areas within DFAS Indianapolis, the checks were transferred among these areas rather than being promptly deposited. In addition, the processing areas used inconsistent standards. For example, the Disbursing Operations Directorate recorded 6,622 collections totaling \$28.5 million in the collection log, and of these, 699 collections totaling \$10.2 million also appeared on either the Accounts Receivable Directorate-Army or the Accounts Receivable Directorate-ODO log an average of 11.8 days later. Although the U.S. Treasury and DoD FMR require same-day or next-day deposit for collections greater than \$5,000, the Accounts Receivable Directorate-Army procedures allowed up to 10 days after receipt to make deposits. Transferring collections among multiple processing areas instead of depositing the collections also increased the possibility for loss or theft of checks.

The U.S. Treasury designed its regulations on deposit of funds to reduce processing float. Float is the average amount of time between the initial receipt of payments in an agency's mailroom and the receipt of those funds by the depository. Timely deposit of collections reduces float and increases the funds available for Government operations, which decreases the funds that the Government must borrow. We used the average FY 2007 U.S. Treasury 1-Month Bill rate of 4.79 percent to estimate a total interest cost of \$201,783 to the Federal Government for deposits not made on time by the Disbursing Operations Directorate, Accounts Receivable Directorate-Army, and Accounts Receivable Directorate-ODO. Ensuring timely deposits also reduces the possibility of loss or theft of checks.

Researching Collections

DFAS Indianapolis often returned checks to the sender rather than depositing them. We identified 560 checks, totaling \$7.5 million, which DFAS Indianapolis returned to the sender rather than depositing DFAS Indianapolis attempts to identify the correct account to credit prior to depositing a collection. However, DFAS Indianapolis was unable to identify the proper account to credit for these 560 collections. Instead of depositing the checks without further research, DFAS Indianapolis returned the checks to their senders, along with a request for more information about why the sender sent the check. The DoD FMR requires that the disbursing officer accept and account for any collection received, even when the reason for payment cannot be determined. The disbursing officer should account for such collections in F3875, Budget Clearing Account (Suspense). The disbursing officer should ensure that lines in this suspense account are reclassified to the correct line of accounting and properly reported in the accounting system within 60 days. DFAS Indianapolis should deposit all collections upon receipt. If the disbursing officer needs more information to determine the purpose of the payment, the disbursing officer can provide a copy of the check to the sender.

Collection Logs

All three collection-processing areas recorded the date the collection was received in their collection logs. Only the Disbursing Operations Directorate log included deposit ticket and deposit date information for some collections, but this log did not contain deposit

information for all of them. Because the Accounts Receivable Directorate-Army log did not contain deposit ticket information, DFAS Indianapolis could not provide information for 25 collections, totaling \$5 million, from our statistical sample. Based on the sample, we estimate that there is no audit trail for 1,431 collections, totaling \$15.8 million. As a result, we were unable to verify if or when these collections were deposited. A complete audit trail for all collections is required to ensure accountability. Deposit information in the collections logs is necessary for a complete audit trail and for DFAS Indianapolis to ensure that collections are properly deposited and not lost or stolen.

Cash Verifications

DoD FMR Volume 5, Chapter 3, October 2006, requires quarterly cash verifications as part of safeguarding public funds. A quarterly cash verification is a physical count of cash, negotiable instruments (checks and money orders), and other assets that comprise a disbursing officer's total accountability. Procedures for this include verifying that the disbursing officer is depositing cash, checks, and money orders on time. The Disbursing Operations Directorate provided us with cash verification reports from March 2007 through March 2008, but the reports were incomplete. They did not include a review of negotiable instruments in the Accounts Receivable Directorate-Army or the Accounts Receivable Directorate-ODO. These instruments are part of the accountability of the Disbursing Officer for Disbursing Station Symbol Number 5570 of the Disbursing Operations Directorate. The Disbursing Operations Directorate should ensure complete cash verification reports, which includes reviewing all negotiable instruments.

U.S. Treasury Check Deposits

DFAS Indianapolis deposited 340 U.S. Treasury checks totaling \$25.6 million in an unauthorized deposit facility instead of in a Federal Reserve Bank (FRB). Agencies write U.S. Treasury checks to DFAS Indianapolis as reimbursements, to return unused funds, and to make restitution payments. U.S. Treasury TFM 5-2000 and the DoD FMR, volume 5, chapter 5, require that DoD deposit checks that are drawn on the U.S. Treasury in a FRB. There were 830 U.S. Treasury checks, totaling \$27.2 million, in the three collection logs. We obtained deposit documentation for 340 checks, totaling \$25.6 million, and determined that all of them were deposited in the Finance Center Federal Credit Union.

- The Accounts Receivable Directorate-ODO deposited 244 checks, totaling \$14.1 million.
- The Disbursing Operations Directorate deposited 71 checks, totaling \$9.3 million.
- The Accounts Receivable Directorate-Army deposited 25 checks, totaling \$2.2 million.

The Finance Center Federal Credit Union is a Treasury General Account depository. Treasury General Account depositories may be used to deposit collections, but Federal agencies may not use Treasury General Account depositories for U.S. Treasury checks.

U.S. Treasury regulations state that, without exception, agencies must deposit all U.S. Treasury checks into the nearest FRB. DoD FMR reiterates this requirement.

The standard operating procedures require the Accounts Receivable Directorate-ODO to deposit checks drawn on U.S. financial institutions in the Finance Center Federal Credit Union. This is not consistent with U.S. Treasury requirements. In addition, Disbursing Operations Directorate personnel told us that they started depositing U.S. Treasury checks into the Finance Center Federal Credit Union because it took the FRB 2 to 3 weeks to post deposits into CASHLINK II.⁵ Accounts Receivable Directorate-Army personnel said that they had previously sent U.S. Treasury checks to the FRB by registered mail but stopped because the FRB lost some checks. This required a stop-pay order to be issued, and the customer had to reissue the check. In addition, they stated that the FRB was sometimes slow in recording deposits in CASHLINK II. Disbursing Operations Directorate can correct these issues by using Paper Check Conversion Over the Counter (PCC OTC), which will be discussed.

Accountability for Negotiable Instruments

DoD FMR volume 5, chapter 19, requires that a disbursing officer report undeposited negotiable instruments, such as money orders and checks, on a Statement of Accountability. We reviewed Statements of Accountability for Disbursing Station Symbol Number 5570 from the Disbursing Operations Directorate. We found that the Disbursing Operations Directorate did not report undeposited negotiable instruments. Properly reporting undeposited negotiable instruments ensures accountability for these instruments and improves the accuracy of the Statement of Accountability. The Disbursing Operations Directorate should report all undeposited negotiable instruments on its Statement of Accountability.

Improve the Collection Process

DFAS Indianapolis did not follow the procedures in the U.S. Treasury Financial Manual and DoD FMR. DFAS Indianapolis currently receives, logs, and processes collections in three areas. It often transfers collections among these areas for resolution or returns collections to the senders rather than depositing and then researching them. As a result, DFAS Indianapolis processes were complicated and contributed to the internal control weaknesses discussed in this finding. We were not able to verify that all collections were received and that accountability was maintained. DFAS Indianapolis processes for receiving and processing collections need to be improved.

DFAS Indianapolis should consolidate the receipt and deposit of all collections in one secure location. The Disbursing Operations Directorate already has the required vault area. The Disbursing Operations Directorate should also maintain only one consolidated collection log that contains the receipt and deposit dates for the collections and facilitates

⁵ CASHLINK II is an electronic cash concentration, financial information, and data warehouse system used to manage the collection of U.S. Government funds and to provide deposit information to Federal agencies.

tracking the collections to actual deposits. In addition, DFAS Indianapolis should use the PCC OTC system for deposit of all collections drawn on U.S. financial institutions.

Paper Check Conversion Over the Counter

PCC OTC speeds the deposit and collection process. Since November 2005, DFAS Columbus has used PCC OTC to process checks received from vendors. PCC OTC converts paper checks into electronic funds and transmits them to the FRB of Cleveland. The FRB electronically debits the check-writer's account and credits the agency's account in CASHLINK II. CASHLINK II prepares deposit tickets and debit vouchers, and these are available the next business day. PCC OTC can also deposit U.S. Treasury checks into an FRB. The only expense to Federal agencies is for the check-scanning equipment.

Although DFAS Indianapolis Disbursing Operations Directorate had used PCC OTC to deposit returned check cancellations, it was never used to deposit collections. However, DFAS Indianapolis Disbursing Operations Directorate stopped using PCC OTC when the equipment broke.

DFAS Lean 6

DFAS Indianapolis has a Lean 6 team as part of its continuous improvement process. Lean 6 is an approach that DFAS uses to deliver the best value to its customers.⁶ Lean 6 analyzes business operations to reduce process time to create uniform outputs and to improve quality. Improving the DFAS collection process appears to be an excellent candidate for Lean 6 analysis. By improving its collection process and its internal controls, DFAS Indianapolis would gain process efficiencies for the Government that could result in monetary benefits.

Improving the collection process would:

- increase the efficiency and effectiveness of personnel;
- reduce the risk of lost or stolen checks;
- reduce the estimated interest cost by \$201,783 annually,⁷ or \$1.2 million during the Future Years Defense Program,⁸ paid by the Federal Government; and
- increase collections by properly depositing, recording, and researching them.

⁶ DFAS Lean 6 combines Lean process improvement and Six Sigma process variation reduction methodologies.

⁷ We could not trace collections to specific appropriations because our review relates to DFAS-Indianapolis cash management. Collections are included in the Fund Balance with Treasury, the asset account used by Treasury to record all funds of the Federal Government.

⁸ The Future Years Defense Program is the program and financial plan for the Department of Defense as approved by the Secretary of Defense.

Potential Monetary Benefits, Client Comments, and Our Response

Client Comments. The Director, DFAS Indianapolis provided comments to the draft report on November 14, 2008. The Director's comments did not address the potential monetary benefits.

Audit Response. The Director, DFAS Indianapolis should provide comments on the potential monetary benefits addressed in this report. The comments should indicate agreement or disagreement with the amount or any portion of the amount. The report identified \$1.2 million interest that the Federal government could avoid during the Future Years Defense Program.

Recommendations, Client Comments, and Our Response

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

1. Deposit all collections within U.S. Treasury timeframes.

Client Comments. The Director, Defense Finance and Accounting Service, Indianapolis Operations agreed. The Director initiated a Lean6 Blackbelt project in November 2008 to determine the best method for resolving this issue.

Our Response. We consider the comments of the Director, Defense Finance and Accounting Service, Indianapolis Operations, to be responsive.

2. Report all undeposited negotiable instruments in its cash verification reports.

Client Comments. The Director, Defense Finance and Accounting Service, Indianapolis Operations agreed. The Internal Control Cash Verification team will begin including all collections in the Cash Verification report when the Lean6 project is completed.

Our Response. We consider the comments of the Director, Defense Finance and Accounting Service, Indianapolis Operations, to be responsive.

3. Deposit U.S. Treasury checks in a Federal Reserve Bank.

Client Comments. The Director, Defense Finance and Accounting Service, Indianapolis Operations agreed. The Disbursing Directorate will deposit all U.S. Treasury checks from Agency Location Code 5570 directly to the Federal Reserve Bank.

Our Response. We consider the comments of the Director, Defense Finance and Accounting Service, Indianapolis Operations, to be responsive.

4. Ensure that the cash verification reports for Disbursing Station Symbol Number 5570 are complete by reporting undeposited negotiable instruments on the Statement of Accountability.

Client Comments. The Director, Defense Finance and Accounting Service, Indianapolis Operations agreed. Undeposited negotiable instruments will be included on the Statement of Accountability and verified by the Internal Control Cash Verification Team in the Cash Verification report.

Our Response. We consider the comments of the Director, Defense Finance and Accounting Service, Indianapolis Operations, to be responsive.

5. Improve the collection process.

a. Consolidate the collection process into a single, secured location in the DFAS Indianapolis Disbursing Operations Directorate.

Client Comments. The Director, Defense Finance and Accounting Service, Indianapolis Operations did not agree with the recommendation. The Director proposed an alternative approach that included locating the Collections team with the Accounts Receivable Case Management/Mailroom personnel. Accounts Receivable will ensure security for negotiable instruments, in compliance with DoD FMR volume 5, chapter 3, section 0303. Additionally, Accounts Receivable will update its Risk Assessment and Control documents accordingly.

Our Response. The responses of the Director, Defense Finance and Accounting Service, Indianapolis Operations are responsive to the intent of the recommendation.

b. Maintain a consolidated collection log that contains the date each collection was received and deposited.

Client Comments. The Director, Defense Finance and Accounting Service, Indianapolis Operations agreed. The Director initiated a Lean6 Blackbelt project in November 2008 to determine the best method for resolving this issue.

Our Response. We consider the comments of the Director, Defense Finance and Accounting Service, Indianapolis Operations, to be responsive.

c. Perform a daily review of the consolidated collection log to ensure accuracy and that deposits are being made on time.

Client Comments. The Director, Defense Finance and Accounting Service, Indianapolis Operations agreed. The Director initiated a Lean6 Blackbelt project in November 2008 to determine the best method for resolving this issue.

Our Response. We consider the comments of the Director, Defense Finance and Accounting Service, Indianapolis Operations, to be responsive.

d. Implement the Paper Check Conversion Over the Counter system for deposit of all collections drawn on U.S. financial institutions.

Client Comments. The Director, Defense Finance and Accounting Service, Indianapolis Operations agreed, with comment. The Disbursing Operations implemented PCC OTC in April 2008. Disbursing will continue to using PCC OTC as recommended by the DoD OIG. However, there will continue to be situations where disbursing will make deposits at the Federal Center Federal Credit Union, such as when cash is received. The use of the credit union will be on an exception-basis. Accounts Receivable will need to obtain the PCC OTC equipment and software.

Our Response. We consider the comments of the Director, Defense Finance and Accounting Service, Indianapolis Operations, to be responsive.

Finding B. Returned U.S. Treasury Checks

DFAS Indianapolis, Disbursing Operations Directorate controls were not adequate to record and safeguard returned U.S. Treasury checks. Specifically:

- returned U.S. Treasury checks were not canceled on time,
- inconsistencies existed between the Disbursing Operations Directorate returned check log and the Returned Check and Bond System, and
- the inventory of returned checks was not consistent with the returned checks identified in the Returned Check and Bond System.

These conditions existed because the DoD FMR and DFAS Indianapolis guidance were not consistent with U.S. Treasury regulations, and because DFAS Indianapolis was not adequately reconciling and verifying U.S. Treasury checks and check records. As a result, returned U.S. Treasury checks were at risk for being lost or stolen.

Processing Returned U.S. Treasury Checks

The Disbursing Operations Directorate did not cancel returned U.S. Treasury checks on time. U.S. Treasury Financial Manual (TFM) I 4-7000 (Transmittal Letter 640) requires that returned, held,⁹ undeliverable, or mutilated U.S. Treasury checks that are in the possession of a non-Treasury disbursing office be canceled within 3 workdays of receipt by the disbursing office. The Disbursing Operations Directorate received 4,898 returned U.S. Treasury checks totaling \$43.5 million from October 6, 2006, through February 29, 2008, that were entered into the Returned Check and Bond System (RCB).¹⁰ Of these, Disbursing Operations Directorate did not cancel or remail 3,602 totaling \$11.7 million within 3 workdays of receipt. In addition, Disbursing Operations Directorate did not cancel or remail 176 returned U.S. Treasury checks totaling \$825,689 within 60 days of the end of month of check-issue. Table 1 shows the results of our review of the October 6, 2006, through February 29, 2008, RCB data.

Table 1. RCB data for October 6, 2006 through February 29, 2008

Returned checks not canceled on time	3,602	\$11,732,313
Returned checks canceled on time	1,296	\$31,755,751
Total returned U.S. Treasury checks	4,898	\$43,488,064

The “Returned Checks and Bonds Open Cases Aging Report” runs at the close of business each week. This report provides point-in-time information for returned checks that the Disbursing Operations Directorate has not canceled or remailed. It also includes

⁹ A held check is a check not released by an agency that has statutory disbursing authority at the request of the agency that submitted the payment request.

¹⁰ The Disbursing Operations Directorate uses RCB for returned checks only.

the age of the returned checks. We obtained this report for five different dates during calendar year 2007 and examined the ages of the U.S. Treasury checks. These five reports showed that the majority of returned checks on hand at the close of business each week were not canceled within 3 workdays of receipt. Table 2 summarizes the checks in these five reports.

Table 2. Open Cases Aging Report

	Total Returned Checks		Uncanceled Returned Checks More Than 3 Workdays Old		Returned Checks Older Than 60 Days After Month of Issue	
March 9, 2007	189	\$568,206	154	\$548,444	0	\$0
August 10, 2007	345	\$507,734	319	\$495,330	0	\$0
October 26, 2007	350	\$1,290,161	282	\$1,215,030	55	\$39,906
November 2, 2007	393	\$1,273,307	329	\$1,220,408	61	\$50,861
November 16, 2007	347	\$529,225	316	\$322,771	86	\$64,142

The DoD FMR and Disbursing Operations Directorate guidance required that returned U.S. Treasury checks be canceled within 60 days after the end of the month of issue. The 60-day guidance in the DoD FMR is not consistent with the Treasury Financial Manual, which requires Federal organizations to cancel returned U.S. Treasury checks within 3 workdays of receipt. Returned U.S. Treasury checks that are not canceled on time are also at increased risk for loss or theft. DoD guidance on processing returned U.S. Treasury checks should be consistent with U.S. Treasury requirements.

Reconciliations and Cash Verifications

The Disbursing Operations Directorate Procedures Manual requires personnel to reconcile the returned checks inventory to returned checks identified in RCB on a monthly basis. The Disbursing Operations Directorate is not performing adequate reconciliations. Further, the quarterly cash verification mandated by the DoD FMR must include an inventory of undelivered checks to ensure that none is missing, none exceeds the time limit for holding, and all are properly safeguarded. The cash verification reports provided to us by the Disbursing Operations Directorate did not contain a complete inventory of returned checks. The Disbursing Operations Directorate should complete an inventory of returned checks and report it in the cash verification report each quarter.

Check Log

The Disbursing Operations Directorate used a log to record returned U.S. Treasury checks when they were received. The Disbursing Operations Directorate then gave the returned checks to an accounting technician for entry into RCB and to remail or cancel the checks. Returned checks were stored in a secure filing cabinet. We compared the returned U.S. Treasury checks listed on the October 6, 2006, through November 27, 2007, Disbursing Operations Directorate returned check log to the checks that Disbursing Operations Directorate recorded in the RCB. The Disbursing Operations Directorate

returned check log contained 4,179 checks totaling \$41.9 million for this period. Our analysis found that:

- 11 returned checks totaling \$75,568 were in the Disbursing Operations Directorate returned check log but did not appear in RCB, and
- 54 returned checks totaling \$608,294 were input into RCB but did not appear in the Disbursing Operations returned check log.

Returned Check Inventory

We also compared the uncanceled returned checks inventory, which was stored in a filing cabinet, to the uncanceled returned checks identified on the November 16, 2007, RCB “Returned Checks and Bonds Open Cases Aging Report.” Our comparison determined that:

- two returned uncanceled checks totaling \$309.08 in the filing cabinet had not been input into RCB, and
- five returned checks totaling \$4,966.58 that had been input into RCB were not in the filing cabinet. DFAS Indianapolis personnel incorrectly recorded three of the checks in the RCB, returned and canceled one check, and returned one check.

Disbursing Operations Directorate personnel used a returned check log to record returned checks at the time they were received. However, they did not perform an effective comparison between the returned checks entered into the log and the checks later entered into RCB. Further, they did not fully compare uncanceled returned checks inventory to the RCB “Returned Checks and Bonds Open Cases Aging Report.” To ensure that Disbursing Operations Directorate actually enters returned checks that arrive in the building into RCB for processing and control, two processes should occur:

- compare the Disbursing Operations Directorate returned check log to the checks actually entered into RCB, and
- compare the uncanceled returned checks inventory to the uncanceled returned checks identified in RCB.

Conclusion

Disbursing Operations Directorate should control returned U.S. Treasury checks similarly to cash. When Disbursing Operations Directorate does not cancel returned checks on time, it increases the possibility that the check can be lost or stolen. The Disbursing Operations Directorate had uncanceled returned checks in its possession for as long as 5 months. These included returned checks that the payees were unaware they were due. These types of checks are at an increased risk for improper negotiation. Not reconciling the returned checks recorded in the returned check log with the RCB and not comparing the returned checks inventory with RCB increases the risk that returned checks will be

lost or stolen. Timely cancellation of returned checks would reduce the number of checks in the inventory and allow for easier reconciliations between returned checks in inventory with the RCB records.

Management Actions

The DoD FMR is not consistent with U.S. Treasury regulations. DoD FMR guidance requires cancellation of returned U.S. Treasury checks within 60 days after the end of the month of issue. As stated in the finding, U.S. Treasury regulations require that the disbursing office cancel returned, held, undeliverable, or mutilated U.S. Treasury checks within 3 workdays of receipt. In October 2007, we discussed this discrepancy with the DFAS Policy and Performance Management Directorate. In October 2008, the Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer published a change to DoD FMR, volume 5, chapter 8 updating the chapter to reflect the requirement of the Treasury Financial Manual, Part I, Chapter 4, Section 7030.

Recommendations, Client Comments, and Our Response

B.1. We recommend that the Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer revise DoD Financial Management Regulation, DoD Regulation 7000.14-R, to comply with U.S. Treasury I TFM 4-7000 (Transmittal Letter 640) and require cancellation of returned U.S. Treasury checks within 3 workdays of receipt.

Client Comments. The Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer agreed. The DoD FMR volume 5, chapter 8, “Check Distribution, Disposition, and Cancellation,” was revised and posted to the Office of the Undersecretary of Defense (Comptroller)/DoD Chief Financial Officer Web site on October 15, 2008, to comply with the requirements of the Treasury Financial Manual, Part 1, Chapter 4, Section 7000, that available checks be canceled within 3 workdays of receipt.

Our Response. We consider the comments of the Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer to be responsive.

B.2. We recommend that the Director, Defense Finance and Accounting Service, Indianapolis Operations:

a. Cancel returned U.S. Treasury checks within 3 workdays of receipt as required by U.S. Treasury guidance.

Client Comments. The Director, Defense Finance and Accounting Service, Indianapolis Operations agreed. Disbursing Operations Directorate is canceling returned U.S. Treasury checks within 3 workdays of receipt as required by U.S. Treasury guidance.

Our Response. We consider the comments of the Director, Defense Finance and Accounting Service, Indianapolis Operations, to be responsive.

b. Compare the Defense Finance and Accounting Service, Indianapolis Operations returned check log to the returned checks entered into Returned Check and Bond System, compare the returned checks inventory to the returned checks identified in each weekly Returned Check and Bond System “Returned Checks and Bonds Open Cases Aging Report,” and reconcile any discrepancies.

Client Comments. The Director, Defense Finance and Accounting Service, Indianapolis Operations agreed. Verifications will begin immediately.

Our Response. We consider the comments of the Director, Defense Finance and Accounting Service, Indianapolis Operations, to be responsive.

c. Inventory and report all returned checks in the cash verification reports.

Client Comments. The Director, Defense Finance and Accounting Service, Indianapolis Operations agreed. Each cash verification will include a 100-percent inventory of returned checks. Any discrepancies will be noted in the report.

Our Response. We consider the comments of the Director, Defense Finance and Accounting Service, Indianapolis Operations, to be responsive.

Appendix A. Scope and Methodology

We conducted this performance audit from October 2007 through September 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.

We reviewed the Disbursing Operations Directorate, Accounts Receivable Directorate-Army, and Accounts Receivable Directorate-ODO processes for receiving, controlling, and processing collections at DFAS Indianapolis. We obtained and reviewed the collection logs used by these three areas to record collections received during FY 2007. We used the collection logs and documentation from Electronic Data Access,¹ OnBase Information System (OBIS),² and the U.S. Treasury CASHLINK II³ to identify when collections on the Disbursing Operations Directorate and Accounts Receivable Directorate-ODO collection logs were deposited and calculated how long it took DFAS Indianapolis to deposit them. The Quantitative Methods Directorate (QMD), Office of the Deputy Inspector General for Auditing, provided a statistical sample of collections from the Accounts Receivable Directorate-Army collections log. We obtained the deposit information for the collections from Electronic Data Access, OBIS, and CASHLINK II. See Appendix B for a discussion of the methodology used to select the sampled collections. We also conducted interviews with DFAS Indianapolis personnel responsible for processing collections.

We reviewed the DFAS Indianapolis, Disbursing Operations Directorate process for returned U.S. Treasury checks. We obtained and reviewed the FY 2007 log used by the Disbursing Operations Directorate to record returned U.S. Treasury checks, as well as a database of all returned U.S. Treasury checks entered into Returned Checks and Bonds System (RCB) from October 6, 2006, to February 29, 2008. We performed a count of the returned checks in the possession of the Disbursing Operations Directorate on November 16, 2007. We conducted interviews with DFAS Indianapolis personnel responsible for processing returned U.S. Treasury checks.

Use of Computer-Processed Data

We used computer-processed data obtained from Electronic Data Access, the U.S. Treasury CASHLINK II, OBIS, and RCB to perform this audit. We examined returned U.S. Treasury checks in the possession of the Disbursing Operations Directorate and recorded in the returned check log to verify the accuracy of the data in RCB. As discussed in Finding B, we found some discrepancies in the RCB data, which we

¹ The Electronic Data Access is a Web-based system that provides secure online access, storage, and retrieval of vouchers.

² The OnBase Information System provides integrated document and records management.

³ CASHLINK II provides Federal agencies with information to verify deposits.

addressed in the report. Our results were not affected by not performing a complete reliability assessment of Electronic Data Access, CA\$HLINK II, OBIS, or RCB.

Use of Technical Assistance

Office of the Deputy Inspector General for Auditing, Quantitative Methods Directorate, provided technical assistance throughout the sample selection and projection process. QMD provided a sample of collections from the Accounts Receivable Directorate-Army collection log to test for deposit timeliness. QMD also provided a projection of untimely deposits based on the results of the completed sample. See Appendix B for a detailed description of the assistance provided by QMD.

Prior Coverage

During the last 5 years, the U.S. Army Audit Agency (USAAA) has issued the following three reports discussing the DFAS Indianapolis Disbursing Operations Directorate. USAAA reports are available on a Web site that is restricted to military domains and GAO. To access these reports go to www.aaa.army.mil/reports.htm.

USAAA Report No. A-2006-0186-ALR, "Follow-up Audit of Disbursing Stations 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. Statistical Sampling Methodology and Analysis

Quantitative Plan

Objective. We used statistical sampling to estimate the number of collections deposited on time, not deposited on time, and collections that DFAS Indianapolis was unable to provide supporting documentation for. We also estimated the dollar amount associated with each of the measures.

Population. The population consisted of 17,770 collections between \$0.04 and \$11,181,121 with a total value of \$252,177,330. There were 23 collections with values greater than or equal to \$1 million.

Measures. The measures were the dollar value and the number of collections deposited on time, not deposited on time, and collections that DFAS Indianapolis was unable to provide supporting documentation for.

Parameters. We used a 95-percent confidence level for the statistical estimate.

Sample Plan

We used a stratified sample design by dollar collections and kept all the records greater than or equal to \$1 million in the census stratum. We determined the appropriate sample sizes for each stratum based on our “what-if analysis” and our professional judgment. We drew the samples without replacement from each stratum using Statistical Analysis System programming tools and provided the selected items to the audit team. A total of 328 collections were selected for audit, as shown in the table below.

Table B-1. Population and Sample Breakdown

Stratum Collections	Stratum Population Size	Stratum Population Sum	Stratum Sample Size	Stratum Sample Sum
≥ \$1M(census)	23	\$ 46,314,070	23	\$46,314,070
≥ 50K to < \$1M	912	167,784,183	140	22,425,370
≥ 1K to < \$50K	4,519	33,879,163	90	524,670
< 1K	12,316	4,199,915	75	23,662
Total	17,770	\$252,177,331	328	\$69,287,772

STATISTICAL PROJECTIONS AND INTERPRETATION

The planned analysis included making projections of the number and the dollar value of each type of error. We projected the results of the sample using the stratified sampling design.

The results for these projections have been calculated at the 95-percent confidence level and are reported below:*

Table B-2. Collections Deposited on Time

	Lower Bound	Point Estimate	Upper Bound
Dollar Value	\$570,178	\$2,653,531	\$4,736,884

Based on the sample results, we project at the 95-percent confidence level that the dollar value of collections deposited on time was between \$570,178 and \$4,736,884, with the point estimate of \$2,653,531.

Table B-3. Collections Not Deposited on Time

	Lower Bound	Point Estimate	Upper Bound
Rate	81.74%	88.22%	94.70%
Number	14,524	15,677	16,829
Dollar Value	\$183,664,939	\$204,172,498	\$224,680,056
Average Days Late	5.60	6.83	8.06

Based on the sample results, we project at the 95-percent confidence level that the number of collections not deposited on time was between 14,524 and 16,829, with the point estimate of 15,677. The corresponding projection for dollar value of collections not deposited on time was between \$183,664,939 and \$224,680,056, with a point estimate of \$204,172,498. The corresponding projection of the average days late for collections not deposited on time was between 5.60 and 8.06, with the point estimate of 6.83.

* The formulae used in the projections are derived from the basic formulae given in "Sampling Techniques" by William G. Cochran, 3rd edition, pp. 56-58, 91-95, and 107-108.

Table B-4. DFAS Unable to Provide Documentation on Whether Collection Was Deposited On Time or Not

	Lower Bound	Point Estimate	Upper Bound
Rate	2.39%	8.05%	13.71%
Number	425	1,431	2,436
Dollar Value	\$8,001,583	\$15,803,203	\$23,604,823

Based on the sample results, we project at the 95-percent confidence level that the number of collections DFAS was unable to provide documentation for that would enable us to determine whether they were deposited in a timely manner was between 425 and 2,436, with the point estimate of 1,431. The corresponding projection for dollar value of collections was between \$8,001,583 and \$23,604,823, with a point estimate of \$15,803,203.

Table B-5. Interest Cost to the Government for Collections Not Deposited on Time

	Lower Bound	Point Estimate	Upper Bound
Dollar Value	\$159,783	\$187,421	\$215,060

Based on the sample results, we project at the 95-percent confidence level that the interest cost to the Government for collections not deposited on time was between \$159,783 and \$215,060, with the point estimate of \$187,421.

Office of the Undersecretary of Defense (Comptroller)/DoD Chief Financial Officer Comments



COMPTROLLER

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

OCT 23 2008

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

SUBJECT: Comments to Draft Audit Report, "Controls Over Collections and Returned
Checks at Defense Finance and Accounting Service, Indianapolis
Operations" (Project No. D2007-D000FL-0119.001)

This memorandum forwards the Under Secretary of Defense (Comptroller)
response to the subject draft DoD Inspector General report, dated September 30, 2008.
A copy of the response is attached.

We appreciate the opportunity to respond to your draft audit report. My point of
contact is Ms. Audrey Clark. She can be reached by telephone at 703-602-0370 or
email at audrey.clark@osd.mil.

A handwritten signature in black ink, appearing to read "D. Smith".

David P. Smith
Acting Deputy Chief Financial Officer

Attachment:
As stated

DOD OIG DRAFT REPORT DATED SEPTEMBER 30, 2008
PROJECT NO. D2007-D000FL-0119.001

“CONTROLS OVER COLLECTIONS AND RETURNED CHECKS AT DEFENSE
FINANCE AND ACCOUNTING SERVICE, INDIANAPOLIS OPERATIONS”

OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER)
(OUSD)(C) COMMENTS TO THE DOD OIG RECOMMENDATIONS

RECOMMENDATION B.1: We recommend that the Under Secretary of Defense (Comptroller) revise DoD Financial Management Regulation (DoDFMR), DoD Regulation 7000.14-R to comply with U.S. Treasury I TFM 4-7000 (Transmittal Letter 640) and require cancellation of returned U.S. Treasury checks within 3 workdays of receipt.

OUSD(C) RESPONSE: Concur. The DoDFMR, Volume 5, Chapter 8, “Check Distribution, Disposition, and Cancellation” was revised and posted to the OUSD(C) DoDFMR website on October 15, 2008 to comply with the requirements of the Treasury Financial Manual, Part I, Chapter 4, Section 7000 (I TFM 4-7000) that available checks shall be canceled within 3 workdays of receipt.

Attachment
Page 1 of 1

Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE
8999 EAST 56TH STREET
INDIANAPOLIS, INDIANA 46249

NOV 26 2008

DFAS-JB/IN

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Controls Over Collections and Returned Checks at Defense Finance and Accounting Service, Indianapolis Operations, Project No. D2007-D000FL-0119.001

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. Deposit all collections within U.S. Treasury timeframes.

Comments: Concur. A Lean6 BlackBelt project was initiated in November 2008 to determine the best method for resolving this issue.

Estimated Completion Date: April 30, 2009

2. Report all undeposited negotiable instruments in its cash verification reports.

Comments: Concur. Internal Control Cash Verification Team will begin including all collections in the Cash Verification report when the Lean6 project is completed.

Estimated Completion Date: April 30, 2009

3. Deposit U.S. Treasury checks in a Federal Reserve Bank.

Comments: Concur. All U.S. Treasury checks deposited from the Disbursing Operations Directorate into ALC 5570 will be made directly to the Federal Reserve Bank.

Completion Date: November 7, 2008

4. Ensure that the cash verification reports for Disbursing Station Symbol Number 5570 are complete by reporting undeposited negotiable instruments on the Statement of Accountability.

Comments: Concur. Undeposited negotiable instruments will be included on the Statement of Accountability and verified by the Internal Control Cash Verification Team in the Cash Verification report.

Estimated Completion Date: January 30, 2009

Your Financial Partner @ Work

5. Improve the collection process.

a. Consolidate the collection process into a single, secured location in the DFAS Indianapolis Disbursing Operations Directorate.

Comments: Non-Concur. Accounts Receivable has a majority of checks, and two of the three areas discussed. In November 2008, through facilities moves, the Collections team will be co-located with the Accounts Receivable Case Management/Mailroom. This will allow for consolidation of the collections to one location for Accounts Receivable. Further enhancements will be made through the Lean 6 project for this area, i.e. process flow and standard collection log for Accounts Receivable and Disbursing. Accounts Receivable will ensure security for negotiable instruments is in compliance with DoD FMR Volume 5, Chapter 3, Section 0303. A/R will also update its Risk Assessment and Control documents accordingly. The outcome of the Lean 6 BlackBelt project to consolidate the collection log books is a proposed alternative.

Estimated Completion Date: April 30, 2009

b. Maintain a consolidated collection log that contains the date each collection was received and deposited.

Comments: Concur. A Lean6 BlackBelt project was initiated in November 2008 to determine the best method for resolving this issue.

Estimated Completion Date: April 30, 2009

c. Perform a daily review of the consolidated collection log to ensure accuracy and that deposits are being made on time.

Comments: Concur. A Lean6 BlackBelt project was initiated in November 2008 to determine the best method for resolving this issue.

Estimated Completion Date: April 30, 2009

d. Implement the Paper Check Conversion Over the Counter system for deposit of all collections drawn on U.S. financial institutions.

Comments: Concur with comment. PCC was implemented in Disbursing Operations in April 2008. Disbursing will continue using PCC as recommended by the DoDIG. However, there will continue to be situations where disbursing will make deposits at the Financial Center Federal Credit Union, such as, when cash is received. The use of the FCFCU will be on an exception basis. Accounts Receivable will need to obtain the PCC equipment/software.

Estimated Completion Date: April 30, 2009

Recommendation B.2: We recommend that the Director, Defense Finance and Accounting Service Indianapolis Operations:

a. Cancel returned U.S. Treasury checks within 3 workdays of receipt as required by U.S. Treasury guidance.

Comments: Concur. Disbursing Operations Directorate is canceling returned U.S. Treasury checks within 3 workdays of receipt as required by U.S. Treasury guidance.

Completion Date: November 7, 2008

b. Compare the DFAS Indianapolis returned check log to the returned checks entered into RCB, compare the returned checks inventory to the returned checks identified in each weekly RCB "Returned Checks and Bonds Open Cases Aging Report", and reconcile any discrepancies.

Comments: Concur. Verifications will begin immediately.

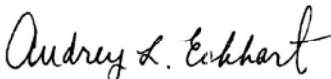
Completion Date: November 7, 2008

c. Inventory and report all returned checks in the cash verification reports.

Comment: Concur. A 100% inventory of returned checks will be conducted during each Cash Verification. Any discrepancies will be noted in the report.

Estimated Completion Date: January 1, 2009

My point of contact for Disbursing Operations is Ken Kie man, 317-510-4273 and for Accounts Receivable is Sally McManus, 317-510-6751.


for Edna J. Knight
Director, Indianapolis Operations



Inspector General Department of Defense