

Inspector General

United States
Department of Defense



Internal Controls Over DoD Cash and Other Monetary Assets

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Acronyms and Abbreviations

COMA	Cash and Other Monetary Assets
DFAS	Defense Finance and Accounting Service
DO	Disbursing Officer
DoD FMR	DoD Financial Management Regulation
DSSN	Disbursing Station Symbol Number
EFT	Electronic Fund Transfer
FASAB	Federal Accounting Standards Advisory Board
FMFIA	Federal Managers Financial Integrity Act
FBWT	Fund Balance with Treasury
FMS	Financial Management Service
GWAMP	Governmentwide Accounting Modernization Project
OMB	Office of Management and Budget
USD(C)/DoD CFO	Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer
SFFAS	Statement of Federal Financial Accounting Standards
SOA	Statement of Accountability
SOT	Statement of Transactions
TFM	Treasury Financial Manual
U.S.C.	United States Code



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

March 25, 2009

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF
FINANCIAL OFFICER
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL
MANAGEMENT AND COMPTROLLER)
NAVAL INSPECTOR GENERAL
AUDITOR GENERAL, DEPARTMENT OF THE AIR FORCE
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Report on Internal Controls Over DoD Cash and Other Monetary Assets
(Report No. D-2009-062)

We are providing this report for review and comment. This report is one in a series that discusses internal controls over Cash and Other Monetary Assets. We considered comments from the Under Secretary of Defense Comptroller/DoD Chief Financial Officer and the Defense Finance and Accounting service when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer comments were responsive to recommendations A.1.a.(1)-(2)., A.1.b., B.1.a., B.1.c., B.1.d., C.1.b., D.1.a.(1)-(2). and D.1.b., and were nonresponsive to recommendations A.1.c., B.1.b., B.1.e., and C.1.a.(1)-(5). Therefore, we request additional comments on these recommendations. The Director, Defense Finance and Accounting Service comments were responsive to recommendations A.2.a., B.2., and C.2., and were nonresponsive to recommendations A.2.b. Therefore, we request additional comments on recommendations. We request additional comments on all of the recommendations by May 25, 2009.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to AUDDBO@dodig.mil. Copies of 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. Please direct questions to me at (703) 601-5868 (DSN 329-5868).

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Results in Brief: Internal Controls Over DoD Cash and Other Monetary Assets

What We Did

Our overall audit objective was to assess the internal controls over DoD Statements of Accountability (SOA) and the reporting of Cash and Other Monetary Assets (COMA) on the DoD Agency-Wide financial statements.

What We Found

Overall, DoD did not have effective controls over the reporting of COMA. DoD disbursing officers do not charge an appropriation when they obtain operating cash from the U.S. Treasury, as required by regulations. This has been the DoD practice since the 1950s. As of September 30, 2007, the cash balance held outside of the U.S. Treasury was \$2.6 billion. As a result, DoD is increasing the risk of augmenting its appropriations and causing Antideficiency Act violations (finding A).

DoD disbursing officers continued to obtain large amounts of cash to use in their daily operations. The persistent use of cash by disbursing officers perpetuated the significant administrative costs of using and holding cash and increased the potential for loss of funds (finding B).

In addition, Defense Finance and Accounting Service (DFAS) did not identify and track the number and dollar amount of cash collections and disbursements made by DoD disbursing stations. As a result, DFAS was not compliant with DoD Financial Management Regulation (DoD FMR) provisions that require audit trails to have sufficient detail to trace transactions from DFAS to their source. In addition, DFAS could not provide an audit universe of cash collections and disbursements for internal reviews and independent external audits (finding C).

DFAS incorrectly posted SOA line items that were not COMA to the DoD Agency-Wide Balance Sheet. As a result, the DoD Agency-Wide Consolidated Balance Sheet overstated COMA by \$11.1 million as of September 30, 2007 (finding D).

What We Recommend

We recommend that the Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer (USD[C]/CFO):

- Charge a proper appropriation to obtain cash, or coordinate with the Office of Management and Budget and the U.S. Treasury to obtain a waiver or develop an alternative process.
- Develop a policy for specific circumstances that would allow cash disbursements to be made to contractors in Iraq and other countries, instead of another payment method.
- Revise the DoD FMR to require DFAS to identify and track the number and dollar amounts of cash collections and disbursements it makes.
- Revise the DoD FMR to specify which SOA line items should be reported as COMA on the balance sheet.

We recommend that the Director, DFAS direct that processes and standard operating procedures be revised as necessary to implement the above recommendations.

Management Comments and Our Responses

The USD(C)/DoD CFO agreed with 14 recommendations, partially agreed with 2 recommendations, and disagreed with 1 recommendation. However, some of the actions taken or the proposed actions are nonresponsive. The recommendation the USD(C)/DoD CFO disagreed with is nonresponsive. Therefore, we request additional comments from the USD(C)/DoD CFO.

DFAS agreed with three recommendations and partially agreed with one recommendation. Therefore, we request additional comments from DFAS. Please see the recommendations table on the back of this page.

March 25, 2009

Recommendations Table

Management	Recommendations Requiring Comment	No additional Comments Required
Under Secretary of Defense (Comptroller)/ DoD Chief Financial Officer	A.1.c., B.1.b., B.1.e., and C.1.a.(1)-(5).	A.1.a.(1)-(2)., A.1.b., B.1.a., B.1.c., B.1.d., C.1.b D.1.a.(1)-(2)., and D.1.b.
Director, Defense Finance and Accounting Service	A.2.b.	A.2.a., B.2., and C.2.

Please provide comments by May 25, 2009.

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Introduction

Objectives

This audit is one in a series that addresses internal controls over Cash and Other Monetary Assets. Our overall audit objective was to assess the internal controls over DoD Statements of Accountability and the reporting of Cash and Other Monetary Assets on the DoD Agency-Wide and Component financial statements. See Appendix A for a discussion of the scope and methodology and Appendix B for prior coverage related to the objectives. See Appendix H for a glossary of terms.

Background

Cash and Other Monetary Assets (COMA) is an asset account that represents a material line item¹ on the September 30, 2007, DoD Agency-Wide Consolidated Balance Sheet. The Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No.1, “Accounting for Selected Assets and Liabilities,” March 30, 1993, defines cash as: (a) coins, paper currency and readily negotiable instruments, such as money orders, checks, and bank drafts on hand or in transit for deposit; (b) amounts on demand deposit with banks or other financial institutions; and (c) foreign currencies, which for accounting purposes should be translated into U.S. dollars at the exchange rate on the financial statement date.

Cash is classified as either entity cash or nonentity cash, and these are reported separately on Federal financial statements. Entity cash is the amount of cash that the reporting entity holds and is authorized by law to spend. Nonentity cash is collected and held by the reporting entity on behalf of another Federal entity or the U.S. Government, and these funds are not available for use by the reporting entity. In some circumstances, the entity deposits cash into its accounts in a fiduciary capacity for the U.S. Treasury or other entities.

Restrictions are usually imposed on cash deposits by law, regulation, or agreement. Nonentity cash is always restricted cash. Entity cash may be restricted for specific purposes. Such cash may be in escrow or other special accounts. Financial reports should disclose the reasons for and nature of restrictions.

Office of Management and Budget (OMB) Circular A-136, “Financial Reporting Requirements,” June 29, 2007, defines other monetary assets as gold, special drawing rights, and U.S. Reserves in the International Monetary Fund. The U.S. Treasury primarily uses this category.

Cash Balance. DoD reported \$15 billion for COMA on its DoD Agency-Wide Consolidated Balance Sheet as of September 30, 2007. However, only \$2.6 billion was DoD COMA. The remaining \$12.4 billion was Foreign Military Sales Trust Fund cash. DoD COMA represents approximately .17 percent of the DoD Agency-Wide total assets.

¹The American Institute of Certified Public Accountants states that the auditor’s consideration of materiality is a matter of professional judgment and is influenced by the auditor’s perception of the needs of users of the financial statements. In addition, materiality judgments are made in light of surrounding circumstances and involve both quantitative and qualitative considerations. We have concluded that the use of cash by DoD in its operations is material to the Office of Management and Budget, U.S. Treasury, and Congress.

See Figure 1 below for a breakout of the approximate \$2.6 billion of COMA within DoD. (The pie chart does not include Foreign Military Sales Trust Fund COMA.)

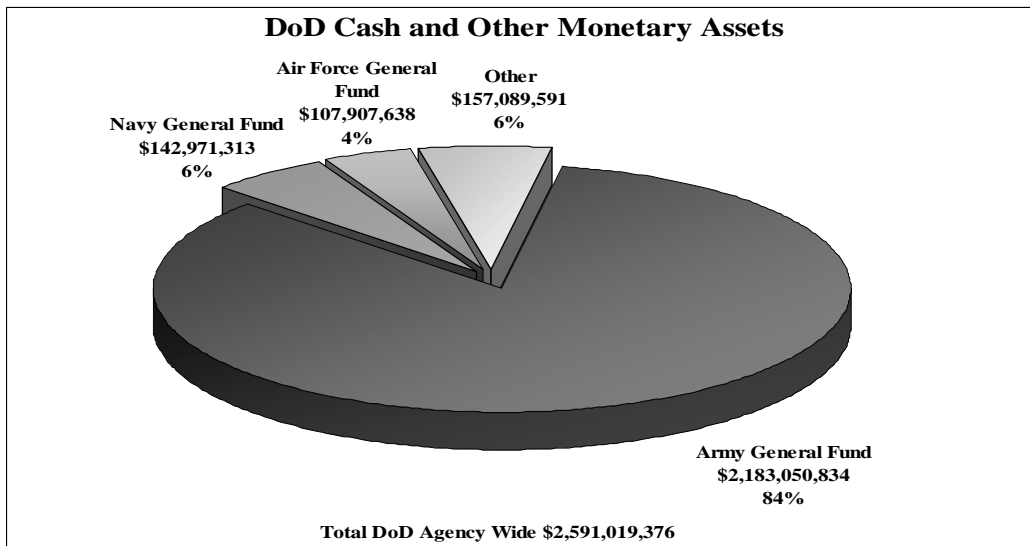


Figure 1. DoD COMA as of September 30, 2007

Cash Balance Increase. Since FY 1998, the DoD COMA balance has increased by \$2,071,651,000, or approximately 400 percent. Most of this increase has occurred since FY 2003 because of U.S. Military involvement in Afghanistan and Iraq. See Figure 2 for the 10-year trend. (The bar graph does not include Foreign Military Sales Trust Fund cash.)

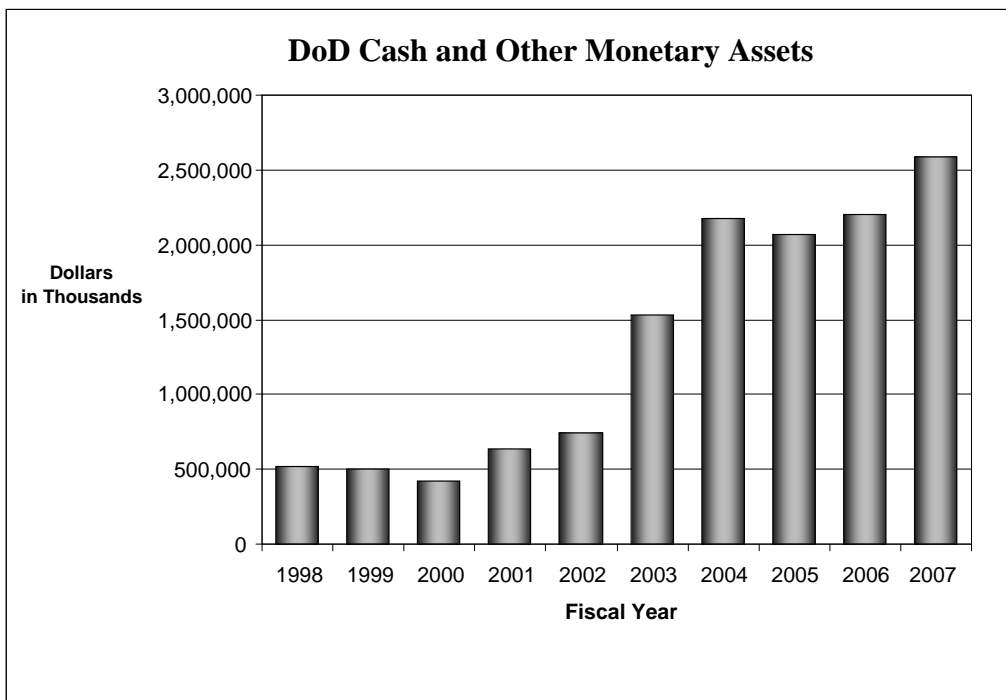


Figure 2. DoD COMA 10-Year Trend

Cash Reporting. Disbursing officers (DOs) and agencies report their accountability and transactions to the U.S. Treasury monthly on the following Financial Management Service (FMS) forms:

- FMS 1219 Statement of Accountability (SOA), and
- FMS 1220 Statement of Transactions (SOT).

The SOA summarizes disbursement and collection activity for the month. In addition, the SOA is used to determine the accountability of DOs for funds held outside the U.S. Treasury, known as “cash on hand.” The SOT shows a detailed account classification of the disbursements and collections processed in a disbursing officer’s account for a given accounting period. Agencies must identify each disbursement or collection transaction with the appropriate U.S. Treasury account symbol.

Fund account symbols are used for internal and external reporting purposes. The fund account symbol indicates: (1) the department to which funds were appropriated; (2) the fiscal years during which the appropriation is available for obligation; and (3) the appropriation. The monthly SOA and SOT reflect each DO’s monthly disbursements and collections. Treasury uses each agency’s reporting of disbursements and collections to update its record of the agency’s Fund Balance with Treasury account balance.

Cash Management. Cash management involves the practices and techniques designed to accelerate and control collections, ensure prompt deposit of receipts, improve control over disbursement methods, and eliminate idle cash balances. See Appendix C for more information on the purpose and the history of cash management in the Federal Government.

Review of Internal Controls

DoD Instruction 5010.40, “Managers’ Internal Control (MIC) Program Procedures,” January 4, 2006, requires DoD Components to establish a MIC program to review, assess, and report on the effectiveness of internal controls in DoD. The MIC program must identify and promptly correct ineffective internal controls and establish internal controls, when warranted, for the following two distinct processes: the Federal Managers Financial Integrity Act (FMFIA) overall process and the FMFIA financial reporting process. DoD Instruction 5010.40 defines a material weakness as a reportable condition that the head of a DoD Component determines to be significant enough to be reported to the next higher level of management.

Scope of the Review of the Internal Controls. We reviewed the adequacy of the internal controls over the DoD processes for obtaining cash from the U.S. Treasury, making cash disbursements, identifying and tracking the number and amount of cash disbursements and collections, and reporting COMA on the financial statements. We reviewed management’s self-evaluation as it applied to those controls.

Adequacy of Internal Controls. We identified material management control weakness at the USD(C)/DoD CFO as defined by DoD Instruction 5010.40. Specifically, we identified the following material management control weaknesses.

- USD(C)/DoD CFO internal controls over the DoD processes and procedures for obtaining cash from the U.S. Treasury were not adequate to ensure that DoD charged an appropriation when it obtained cash from the U.S. Treasury

(finding A). Recommendation A, if implemented, will establish USD(C)/DOD CFO policy and improve the DoD process for obtaining cash from the U.S. Treasury. Recommendation A.2., if implemented, will establish procedures within DFAS to implement the new policy.

- USD(C)/DoD CFO internal controls over DoD use of cash in Iraq and other countries were not adequate to reduce administrative costs and the potential loss of funds (finding B). Recommendation B.1., if implemented, will provide a policy for determining when cash disbursements to contractors in Iraq and other countries are appropriate. Recommendation B.2., if implemented, will establish procedures within DFAS to implement the new policy.
- USD(C)/DoD CFO internal controls over identifying and tracking cash transactions did not ensure that cash transactions could be traced to their source documents and that an audit universe of cash transactions could be provided for internal reviews and independent audits (finding C). Recommendation C.1, if implemented, will establish USD(C)/DOD CFO policy and require DFAS to identify and track cash transactions. Recommendation C.2., if implemented, will establish procedures within DFAS to identify and track cash transactions.
- USD(C)/DoD CFO internal controls over reporting cash from SOA line items on the DoD Agency-Wide Consolidated Balance Sheet did not ensure that COMA was fairly presented on the Balance Sheet (finding D). Recommendation D.1, if implemented, will provide guidance for which SOA line items should be reported as COMA on the balance sheet.

We will send a copy of this report will be sent to the senior officials in charge of internal controls for the USD(C)/DoD CFO and DFAS.

Adequacy of Management's Self-Evaluation. USD(C)/DoD CFO officials did not identify the internal controls identified above within its assessable units and, therefore, did not identify or report the material management control weaknesses identified by the audit.

Finding A. Obtaining Cash from the U.S. Treasury

DoD disbursing officers do not charge an appropriation when they obtain operating cash from the U.S. Treasury, as required by regulations. This has been the DoD practice since the 1950's. As of September 30, 2007, the cash balance held outside of the U.S. Treasury was \$2.6 billion. This occurred because DoD has not established a process and procedures to ensure that disbursing officials charge an appropriation when they obtain cash from the U.S. Treasury. Also, U.S. Treasury guidance does not address cash management in a contingency environment. Additionally, DoD does not have a current exemption or waiver for the requirement to charge an appropriation when it obtains cash from the U.S. Treasury. As a result, DoD is increasing the risk of augmenting its appropriations and causing Antideficiency Act violations.

Background

DoD needs a ready supply of cash to support a wide variety of operational activities, including:

- change funds,
- imprest funds,
- accommodation exchange (check cashing),
- purchases of goods and services,
- classified missions, and
- contingencies.

DoD is often required to do business in foreign countries that do not have the political, financial, or communications infrastructure to support any payment mechanism other than cash. Disbursing officials make payments in mission-critical or contingency circumstances that are of such an unusual and compelling urgency that the DoD mission would be seriously impaired unless they used cash.

Criteria

U.S. Constitution. Article I, Section 9, Clause 7 of the U.S. Constitution states, “No Money shall be drawn from the Treasury, but in Consequence of Appropriations made by law.”

United States Code. The United States Code (U.S.C.) Title 31, “Money and Finance,” includes the following guidance.

Section 1301 - Application. Section 1301(a), the “Purpose Statute,” states that appropriations must be applied only to the objects for which the appropriations were made except as otherwise provided by law.

Section 3302 - Custodians of Money. Section 3302(b), the “Miscellaneous Receipts Statute,” states that an agent or official of the Government receiving money for the Government from any source must deposit the money in the Treasury as soon as practicable without deduction for any charge or claim.

Section 3342 - Check Cashing and Exchange Transactions. Section 3342 states a disbursing official of the U.S. Government may:

- cash and negotiate negotiable instruments payable in U.S. currency or foreign currency;
- exchange U.S. currency, coins, and negotiable instruments and foreign currency, coins, and negotiable instruments; and
- cash checks drawn on the Treasury to accommodate U.S. citizens in a foreign country, but only if satisfactory banking facilities are not available in the foreign country, and a U.S. citizen presents the check for payment.

Government Accountability Office. The Principles of Federal Appropriation Law, volume II, chapter 9, “Liability, and Relief of Accountable Officers,” February 2006, states that a commitment or a reservation of funds is to be made at the time the imprest fund cashier obtains cash. The commitment or reservation of funds is necessary to protect against violating the Antideficiency Act.

U.S. Treasury Financial Management Service. The Treasury Financial Manual (TFM), volume I, part 2, chapter 3400, “Accounting for and Reporting on Cash and Investments Held Outside of the U.S. Treasury,” September 26, 2002, provides agencies with the accounting and reporting policies and procedures for cash. Chapter 3400 also includes guidance on cash held outside of the U.S. Treasury and the requirements for accountable officers, who have responsibility for funds received, certified, disbursed, and held in their custody.

Office of Management and Budget. OMB Circular No. A-123, "Management's Responsibility for Internal Control," revised December 21, 2004, provides guidance to improve the accountability and effectiveness of programs and operations by establishing, assessing, correcting, and reporting on internal control.

Obtaining Cash from the U.S. Treasury

DoD disbursing officers do not charge an appropriation when they obtain operating cash from the U.S. Treasury, as required by regulations. This has been the DoD practice since the 1950's. As of September 30, 2007, the cash balance held outside of the U.S. Treasury was \$2.6 billion.

DoD Process for Obtaining Cash. DOs must periodically obtain cash to replenish their operating cash supply. A DO obtains cash by writing a U.S. Treasury check made out to himself or herself (or an agent) and presenting it to a bank. DoD refers to this as an “Exchange for Cash Check.” Although DO accountability increases by the amount of the check, transactions are not charged to an appropriation. DOs are not agents of the U.S. Treasury.

Eventually, the DO makes a cash payment or provides cash to an authorized agent or official, who makes a cash payment for goods or services. After the cash payment is made, receipts are provided, a voucher is prepared, the transaction is charged to a proper appropriation, and it is reported on the SOA and SOT.

DOs may also receive cash from sources outside the Federal Government, including foreign corporations and foreign governments. For example, a DO may accept “burden-sharing” (cash) contributions from foreign governments for relocation and construction costs.

According to DoD representatives, the process used by DoD to obtain cash from the U.S. Treasury has been in place for more than 50 years. They stated that this process probably developed from the Joint Regulations issued by the Comptroller General and the U.S. Treasury in the 1950s. The implementing authority for these Joint Regulations was the “Budget and Accounting Procedures Act of 1950.” The effect of the Joint Regulations was to shift the point at which money is drawn from the U.S. Treasury from the time the DO obtains cash from the U.S. Treasury to the time the DO disburses the cash. While these Joint Regulations may have provided a basis for the process followed by DoD today, the authority granted by the Joint Regulations is not current, and there is no other corresponding policy except for the TFM, which requires DoD to charge an appropriation when it obtains cash from the U.S. Treasury.

See Appendix D for a detailed explanation of the process and the forms used by DoD to obtain cash, to account for cash on accountability documents, and to report cash balances to the U.S. Treasury.

Cash Amounts. DoD obtained and held approximately \$2.6 billion and \$2.3 billion in cash without charging a Government appropriation as of September 30, 2007, and September 30, 2006, respectively. During these 2 fiscal years, the quarterly cash balances fluctuated between a high of \$2.7 billion to a low of \$1.9 billion. The dollar amounts represent the total accountability (dollar amount of cash) of the Army, Navy, Air Force, and the Corps of Engineers. The following table provides the dollar amount by quarter for FY 2007 and FY 2006.

Table 1. Dollar Amount of Cash Held Outside of the U.S. Treasury
(in millions)

Fiscal Year	1st Quarter Amount	2nd Quarter Amount	3rd Quarter Amount	4th Quarter Amount
2007	\$2,448.4	\$1,994.7	\$2,689.2	\$2,621.4
2006	\$1,874.6	\$1,943.2	\$2,115.2	\$2,274.0

The cash DoD obtains and holds from the U.S. Treasury is not charged to an appropriation and is not assigned to any U.S. Treasury account symbol. The cash is only reported on the DO SOA until it is time to prepare the quarterly or annual financial statements. At that time, Defense Finance and Accounting Service (DFAS) creates a journal voucher to record cash on the reporting entity’s balance sheet. However, the journal voucher does not charge an appropriation or any U.S. Treasury account symbol. For example, DFAS Indianapolis uses “9999,” an invalid U.S. Treasury account symbol, to report Army cash. Because the journal voucher is only entered into a reporting system, the data is not permanently held and a reversing entry is not needed.

We were unable to obtain the number and dollar amounts of cash disbursements and collections made by DoD in FY 2007 and FY 2006. The DFAS centers do not identify and track the number and dollar amounts of cash disbursements and collections made by DoD. See finding C for more information.

Adequacy of the DoD Process and Procedures for Obtaining Cash and U.S. Treasury Guidance

DoD has not established a process and procedures to ensure that disbursing officials charge an appropriation when they obtain cash from the U.S. Treasury. U.S. Treasury

guidance does not address cash management in a contingency environment. Additionally, DoD does not have an exemption or waiver for the requirement to charge an appropriation when it obtains cash from the U.S. Treasury.

Adequacy of the DoD Process and Procedures. As discussed above, DOs did not charge an appropriation when they obtain operating cash from the U.S. Treasury. This practice appears to contradict the following guidance.

- Article I, Section 9, Clause 7 of the U.S. Constitution states, “No Money shall be drawn from the Treasury, but in consequence of appropriations made by law.”
- Title 31, U.S.C. 1301(a), the “Purpose Statute,” states that appropriations must be applied only to the objects for which the appropriations were made except as otherwise provided by law.
- Title 31, U.S.C. 3302(b), the “Miscellaneous Receipts Statute,” states that an agent or official of the Government receiving money for the Government from any source must deposit the money in the Treasury as soon as practicable without deduction for any charge or claim.
- Principles of Federal Appropriation Law, volume II, chapter 9, states that a commitment or a reservation of funds must be made at the time the imprest fund obtains cash.
- TFM, volume I, part 2, chapter 3400, states that agencies must report cash using existing SOA line items and current budgetary accounts.

In summary, DoD neither charged an appropriation nor identified the purpose for the cash.

Adequacy of U.S. Treasury Guidance. The TFM, volume I, part 2, chapter 3400, requires DoD to charge an appropriation when it obtains cash from the U.S. Treasury. Specifically, the TFM requires DoD to charge an appropriation and assign subclass “41” to it. Assigning subclass 41 to the appropriation tells the U.S. Treasury that cash is being held outside of the Treasury (for instance, cash held in the DO safe).

A typical charge would look like this: 41 21 8 2020 10,000. This means that cash is being held outside of the Treasury (41), by the Army (21), with FY 2008 funds (8), charged to the Army Operation and Maintenance appropriation account (2020) for \$10,000. When the DO disburses the funds, he or she reverses the above entry and makes it again, except without using subclass 41. Reversing the entry tells Treasury that this cash is no longer being held outside of Treasury, but was either deposited back to Treasury or disbursed. Making the above entry again, without using subclass 41, properly charges the Army appropriation (21 8 2020 10,000).

However, the TFM does not take into consideration the fact that a DO may be operating in a contingency environment and needs cash to meet a wide variety of daily operational requirements. DOs cannot charge an appropriation when they obtain cash from the U.S. Treasury because the specific purpose of the funds is unknown at the time. Cash needs are not always predictable, and the DO cannot always anticipate who will request cash. Furthermore, in a contingency environment the U.S. Army has the unique responsibility of being the primary source of cash for the other Military Services, other Federal Agencies, nongovernmental organizations, and contractor support personnel.

In addition, the TFM does not consider 31 U.S.C. 3342. Title 31 U.S.C 3342 permits DoD to provide accommodation exchanges for the convenience of authorized personnel. An accommodation exchange occurs when a DO exchanges U.S. dollars for a U.S. Treasury check or U.S. dollar instrument (check cashing). In an accommodation exchange, an appropriation is never charged.

Exemption or Waiver. DoD currently does not have an exemption or waiver for the requirement to charge an appropriation when it obtains cash from the U.S. Treasury. Seeking and obtaining an exemption or waiver would permit DoD to hold a certain amount of cash without charging an appropriation.

DoD needs to find a way to charge a proper appropriation, obtain an exemption or waiver to hold a certain amount of cash without charging an appropriation, or establish a new U.S. Treasury account symbol to charge when cash is obtained from the U.S. Treasury.

Risk of Augmentation and Antideficiency Act Violations

When DoD does not charge an appropriation at the time cash is obtained from the U.S. Treasury, it increases the risk of augmenting its appropriations and violating the Antideficiency Act.

Augmentation. Augmentation is action that increases the effective amount of funds available in an agency's appropriation. An agency may not augment its appropriations from outside sources without specific statutory authority. When Congress makes an appropriation, it also is establishing an authorized program level. In other words, it is telling the agency that it cannot operate beyond the level that it can finance under its appropriation. Congress appropriates a specific amount of funding for a specific agency, for a specific purpose, during a specific period. If an agency gets additional funding from another source without specific statutory authority, it has more budget authority than Congress said it could have for those purposes during that time.

When an agency operates beyond its appropriated funding level with funds derived from some other source, the agency is circumventing Congress' budget controls. The reason Government agencies are not allowed to augment their appropriations is to keep them from exceeding the amount Congress has budgeted for them.

A typical augmentation occurs when one appropriation is used to pay costs associated with the purposes of another appropriation. This violates the "Purpose Statute." For example, if the Air Force were to buy air-to-air missiles using its "Procurement Ammunition, Air Force" appropriation, instead of its more specific "Procurement, Missiles, Air Force" appropriation, this would enable it to purchase a greater quantity of missiles (some using the missile appropriation and some using the ammunition appropriation) than Congress desired.

Antideficiency Act. Title 31 U.S.C. 1341(a)(1)(A), one of the statutes collectively referred to as the, "Antideficiency Act," states an officer or employee of the U.S. Government may not make or authorize an expenditure or obligation exceeding the amount available in an appropriation or fund for the expenditure or obligation. An Antideficiency Act violation occurs when there is an over-obligation or over-expenditure of an appropriation.

When DoD does not charge an appropriation when obtaining cash from the U.S. Treasury, it increases the risk of improperly augmenting its appropriations and causing Antideficiency Act violations.

Material Weakness

OMB Circular A-123 defines a material weakness over the FMFIA overall process as any reportable condition that the agency head determines to be significant enough to report outside of the agency. OMB Circular A-123 defines a material weakness over the FMFIA financial reporting process as a reportable condition, or combination of reportable conditions, that results in more than a remote likelihood that a material misstatement of the financial statements, or other significant financial reports, will not be prevented or detected.

The process and procedures DoD uses to obtain cash from the U.S. Treasury do not comply with the U.S. Treasury TFM. Specifically, DoD does not charge an appropriation when it obtains cash from the U.S. Treasury. Thus, DoD had a material weakness in the FMFIA overall process for COMA, and should report a material weakness in their Annual Statement of Assurance and Annual Financial Report until it is corrected.

A misstatement occurred on the DoD Agency-Wide Consolidated Balance Sheet because the DoD Fund Balance with Treasury (FBWT) account was overstated. The DoD overstated its FBWT account because DoD did not charge an appropriation when it obtained cash from the U.S. Treasury. The FBWT account was overstated by the amount of cash being held by DoD outside of the U.S. Treasury. Thus, DoD had a material weakness in the FMFIA financial reporting process for FBWT. Because DoD is already reporting a material weakness for its FBWT account, it should add this problem to the list of issues in the description of the issue section for FBWT in its Annual Statement of Assurance.

Actions in Progress

The Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer (USD[C]/CFO) representatives have been working with U.S. Treasury representatives since June 2003 to solve the problem of DOs not charging an appropriation when they obtain cash from the U.S. Treasury. Meeting minutes from June 2003 show that DFAS representatives were concerned that DoD cash was not charged to an appropriation and was not charged to any U.S. Treasury account symbol. In addition, DFAS representatives stated that the proper accounting of cash should be a management priority.

DoD started trying to correct this issue because the U.S. Treasury is developing a new central accounting system, the Governmentwide Accounting Modernization Project (GWAMP), and GWAMP does not permit cash to be obtained without charging an appropriation. In addition, the GWAMP eliminates the SOA and SOT, because it requires the appropriation affected to be reported, along with the related cash, check-issue, deposit, debit voucher, or interagency payment and collection transaction information. Specifically, the new GWAMP system will require that the appropriation be posted when a transaction occurs.

Recommendations, Management Comments, and Our Response

A.1. We recommend that the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer:

a. Charge a proper appropriation, or coordinate with the Office of Management and Budget and the U.S. Treasury to:

- (1) Obtain a waiver to hold a certain amount of cash without charging an appropriation, or**
- (2) Establish a new U.S. Treasury account symbol to charge when cash is obtained from the U.S. Treasury.**

b. Revise DoD Financial Management Regulation 7000.14, volume 5, to reflect the implementation of Recommendation A.1.a.(1)-(2).

c. Report a material weakness (Overall Process) for Cash and Other Monetary Assets in its Annual Statement of Assurance and Annual Financial Report until it implements all the recommendations in this report.

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

The Acting USD(C)/DoD CFO agreed with recommendation A.1.a. The Acting USD(C)/DoD CFO, with the OMB and U.S. Treasury, is establishing a special control account to report and account for cash to support DoD and other Federal Agencies involved in ongoing contingency operations. In addition, the Acting USD(C)/DoD CFO stated he is in the process of developing specific policy, criteria, and metric to ensure the account is used only as intended. Expected completion date is June 2009.

The Acting USD(C)/DoD CFO agreed with recommendation A.1.b. DoD FMR, volume 5, will be updated to reflect the implementation of Recommendations A.1.a.(1)-(2). Expected completion date is June 2009.

The Acting USD(C)/DoD CFO disagreed with recommendation A.1.c. The Acting USD(C)/DoD CFO stated that Government Auditing Standards defines a material weakness as a deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. DoD COMA only represents .17 percent of the DoD Agency-Wide total assets. Therefore, it does not meet this criterion and should not be considered a material weakness. Acting USD(C)/DoD CFO emphasized that his office will track all recommendations until implemented. Expected completion date is June 2009.

Our Response

The Acting USD(C)/DoD CFO comments to recommendations A.1.a.(1)-(2). and A.1.b. are responsive. The Acting USD(C)/DoD CFO comments to recommendations A.1.c. are nonresponsive. We agree that DoD COMA only represents .17 percent of the DoD Agency-Wide total assets as of September 30, 2007. However, we recommended that the Acting USD(C)/DoD CFO report a material weakness for COMA in the FMFIA Overall

Process, and not a material weakness for COMA in the FMFIA Financial Reporting. Furthermore, we recommended that a material weakness be reported for COMA in the USD(C)/DoD CFO Annual Statement of Assurance and Annual Financial Report until the USD(C)/DoD CFO implements all the recommendations in this report. The \$2.6 billion cash balance is a significant amount, and COMA is an inherently high-risk account. Additionally, the DoD practice of not charging an appropriation when it obtains cash from the U.S. Treasury is a significant noncompliance with the Treasury Financial Manual and other regulations. Therefore, we believe a material weakness should be reported for the DoD COMA account. We request that the Acting USD(C)/DoD CFO reconsider his position.

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

a. Require the DFAS Centers to develop or revise processes and formal standard operating procedures to implement Recommendation A.1.a.(1)-(2).

b. Report a material weakness (Overall Process) for Cash and Other Monetary Assets in its Annual Statement of Assurance until it implements all the recommendations in this report.

Defense Finance and Accounting Service Comments

The Director, Standards and Compliance agreed with recommendation A.2.a. DFAS will support the USD(C)/DoD CFO as he plans for Government-wide accounting. DFAS will develop standard operating procedures when USD(C)/DoD CFO policy is developed. Expected completion date is October 1, 2009.

The Director, Standards and Compliance partially agreed with recommendation A.2.b. The Director stated that DFAS is operating under the spirit of United States Code, Title 31 and the DoD FMR. Thus, this issue should not be listed as a material weakness. However, DFAS will ensure that this finding is addressed in accordance with OMB A-123 and DoD Instruction 5010.40 guidance to determine the proper reporting in the DFAS Annual Statement of Assurance. Expected completion date is July 1, 2009.

Our Response

The Director, Standards and Compliance comments to recommendations A.2.a. are responsive. However, the Director's comments to recommendations A.2.b. are not responsive. We recommended that a material weakness be reported for COMA in the DFAS Annual Statement of Assurance until it implements all the recommendations in this report. The DoD practice of not charging an appropriation when it obtains cash from the U.S. Treasury is a significant noncompliance with the U.S. Treasury TFM and other regulations. Therefore, we believe a material weakness should be reported for the DoD COMA account. We request that the Director, Standards and Compliance reconsider his position on recommendation A.2.b.

Finding B. Use of Cash

DoD disbursing officers continued to obtain large amounts of cash to use in their daily operations. For example, DoD used large amounts of cash in Iraq and other countries to make cash payments to contractors. This occurred because DoD has not developed a comprehensive policy for determining when cash disbursements to contractors are appropriate instead of another payment method. The persistent use of cash by disbursing officers perpetuated the significant administrative costs of using and holding cash and increased the potential for losses of funds.

Criteria

Code of Federal Regulations. Part 208, “Management of Federal Agency Disbursements,” requires that all Federal payments be made by electronic fund transfer (EFT) except as specified in section 208.4, “Waivers.” A waiver could be granted when the political, financial, or communications infrastructure in a foreign country does not support payment by EFT. A waiver could also be granted when an agency’s need for goods and services is of such unusual and compelling urgency that the Government would be seriously injured unless payment were made by a method other than EFT.

DoD Financial Management Regulation. Volume 5, chapter 3, “Keeping and Safeguarding Public Funds,” October 2006, provides guidance on cash operations, cash review requirements, safeguarding funds and related documents, and advancing funds to agents and friendly foreign nations. Volume 5, chapter 6, “Irregularities in Disbursing Officer Accounts,” January 2004, provides information on irregularities (also known as losses of funds). Chapter 6 provides information on categorizing losses of funds, accounting for losses of funds, classifying losses of funds as minor or major, and investigating losses of funds.

Use of Cash in Iraq and Other Countries

DoD disbursing officers continued to obtain large amounts of cash to use in their daily operations. For example, DoD continued to use large amounts of cash in Iraq and other countries to make cash payments to contractors. For example, in FY 2007 and FY 2006 Army Disbursing Station Symbol Number (DSSN) 8548 sent \$1.4 billion and \$1.1 billion, respectively, to Iraq and other countries.

DFAS could not give us the number and dollar amount of cash disbursements and collections that DoD made in FY 2007 and FY 2006. The DFAS centers do not identify and track the number and dollar amount of DoD cash disbursements and collections. See finding C for more information.

DoD Policy on the Use of Cash

DoD has not developed a comprehensive policy for determining when cash disbursements to contractors are appropriate. Specifically, DoD does not have a comprehensive policy for addressing when disbursing officials should make cash disbursements to contractors in Iraq and other countries instead of using another payment method.

Sometimes there are valid reasons for making cash disbursements. For example, DoD is often required to do business in foreign countries that do not have the political, financial, or communications infrastructure to support any other payment mechanism other than cash. In addition, disbursing officials make payments in mission-critical or contingency

circumstances that are of such an unusual and compelling urgency that the DoD mission would be seriously impaired unless they used cash.

Recent Policy Memoranda. DoD has recently issued policy memoranda encouraging the use of other payment methods instead of cash.

- On February 12, 2008, the USD(C)/DoD CFO issued a memorandum that encourages the use of International Treasury Services (ITS.gov), a Federal Government comprehensive payment and collection system. See Appendix E for copy of the memorandum.²
- On December 18, 2007, the USD(C)/DoD CFO issued a memorandum that states that the Government Purchase Card is the preferred method of payment for Official Representation Fund events.²
- On September 25, 2007, the Joint Contracting Command (Iraq/Afghanistan) issued a memorandum for its phased plan to implement contract payments by EFT. The memorandum stated that this EFT initiative will promote a modern banking sector in Iraq by leveraging the roughly \$150 million per month in contracts that the Joint Contracting Command awards to host-nation vendors. See Appendix F for copy of the memorandum.
- On July 10, 2007, the USD(C)/DoD CFO issued a memorandum requiring disbursing officers to confirm that their cash on hand does not exceed the absolute minimum operational requirements. The memorandum required disbursing officials to consider alternatives to using cash, such as credit and debit cards. In addition, the memorandum required disbursing officials to report any cash reductions made in response to the memorandum.

However, the USD(C)/DoD CFO should develop a comprehensive policy for when a disbursing officer is allowed to make cash disbursements to contractors in Iraq and other countries, instead of using another payment method. The USD(C)/DoD CFO should coordinate this with DoD acquisition personnel. The USD(C)/DoD CFO should notify all affected organizations and personnel of the new policy, incorporate the new policy into the DoD Financial Management Regulation (DoD FMR), and ensure that the new policy is followed.

Administrative Costs and Losses of Funds

The persistent use of cash by DOs perpetuated the significant administrative costs of using and holding cash and increased the potential for losses of funds. These costs often take the form of time spent by disbursing office personnel to obtain, store, secure, process, disburse, and account for cash. In addition, DOs have a constant risk of loss of funds when cash is used. Large amounts of cash and other negotiable instruments increase the possibility of theft, fraud, and mismanagement. Additionally, holding cash creates unnecessary interest expense. Administrative costs and the risk of losses of funds can be significantly reduced by using other payment methods, such as EFT.

²The USD(C)/DOD CFO issued this memorandum in response to the DoD OIG audit, “Internal Controls Over Army General Fund Cash and Other Monetary Assets Held Outside of the Continental United States,” (Project No. D2007-D000FP-0122).

Loss of Funds. According to DoD FMR, volume 5, chapter 6, losses of funds are categorized as physical losses of funds; illegal, incorrect, or improper payments; or overages of funds. From FY 2000 through FY 2007, DoD reported 723 loss-of-funds cases valued at \$11.4 million. Of these 723 loss-of-funds cases:

- 289 cases valued at \$6,811,761 were granted relief from liability,
- 419 cases valued at \$1,889,056 were denied relief from liability, and
- 15 cases valued at \$2,661,244 were pending.

See the table below for the number and dollar amount of loss-of-funds cases by fiscal year.

Table 2. Loss-of-Funds Cases

Fiscal Year	Number	Amount
FY 2007	66	\$1,395,439.47
FY 2006	92	565,571.76
FY 2005	149	3,952,796.09
FY 2004	149	2,554,897.64
FY 2003	75	829,533.15
FY 2002	78	393,719.70
FY 2001	59	1,644,513.90
FY 2000	55	25,589.25
Total	723	\$11,362,060.96

Recommendations, Management Comments, and Our Response

B.1. We recommend that the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer:

- a. Develop a policy for determining when cash disbursements can be made to contractors in Iraq and other countries instead of another payment method, such as check or electronic fund transfer.**
- b. Coordinate the policy with the Office of the Secretary of Defense (Acquisition) personnel.**
- c. Provide all affected DoD organizations and personnel with the new policy by issuing a memorandum and guidance as necessary.**
- d. Incorporate the policy into DoD Regulation 7000.14-R, DoD Financial Management Regulation, volume 5, “Disbursing Policy and Procedures, September 2007.**
- e. Ensure that the new policy is followed by conducting periodic inspections of disbursing stations.**

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

The Acting USD(C)/DoD CFO agreed with recommendation B.1.a-d. The USD(C)/DoD CFO issued a memorandum on February 12, 2008, which reiterated that the Treasury International Services (ITS.gov) should be used to the maximum extent possible. In addition, DoD FMR volume 5, chapter 12, "Foreign Disbursing," was updated in May 2008, to state that when a foreign currency payment needs to be made, the preferred method of payment is ITS.gov. Headquarters, Joint Contracting Command-Iraq/Afghanistan issued a memorandum on September 27, 2007, establishing guidance as to when cash payments can be made in Iraq and Afghanistan. The actions were completed May 2008.

The Acting USD(C)/DoD CFO agreed with recommendation B.1.e. The Acting USD(C)/DoD CFO stated that DoD FMR, volume 5, chapter 3, requires that cash on hand be kept to the absolute minimum levels needed for operational requirements. In addition, a policy memorandum was issued requiring that all affected DoD organizations confirm that cash on hand did not exceed absolute minimum operational requirements. The Acting USD(C)/DoD CFO stated he will continue to monitor the use of cash and seek other non-cash methods of payments. The action is completed.

Our Response

The Acting USD(C)/DoD CFO comments to recommendations B.1.a., B.1.c., and B.1.d. are responsive. The Acting USD(C)/DoD CFO comments to recommendations B.1.b. and B.1.e. are nonresponsive. The Acting USD(C)/DoD CFO did not coordinate the policy with the acquisition personnel and did not require periodic inspections. He needs to coordinate with acquisition personnel to ensure that they require the use of other payment methods instead of cash for contract payments. In addition, he needs to ensure the new policy is adhered to by conducting periodic inspections. We request that the Acting USD(C)/DoD CFO reconsider his position.

B.2. We recommend that the Director, Defense Finance and Accounting Service require the DFAS Centers to develop or revise processes and formal standard operating procedures to implement Recommendations B.1.a-e.

Defense Finance and Accounting Service Comments

The Director, Standards and Compliance agreed with recommendation B.2. DFAS will develop and implement standard operating procedures when the Acting USD(C)/DoD CFO policy is developed.

Our Response

The Director, Standards and Compliance comments to recommendation B.2. are responsive.

Finding C. Identifying and Tracking Cash Disbursements and Collections

DFAS did not identify and track the number and dollar amount of cash disbursements and collections made by DoD disbursing stations. This occurred because the DoD FMR guidance was inadequate. As a result, DFAS was not in compliance with other DoD FMR provisions that require the maintenance of audit trails in sufficient detail to trace transactions from DFAS to their originating source. In addition, DFAS could not provide an audit universe of cash disbursements and collections for internal and independent external audits.

Criteria

DoD FMR, volume 6A, chapter 2, “Financial Reports Roles and Responsibilities,” March 2002, defines the roles and responsibilities of DFAS and DFAS Component customers. The DoD FMR, volume 5, chapter 11, “Disbursements,” September 2007, discusses the different types of disbursements, preparing certified disbursement vouchers, processing disbursement vouchers, and making disbursements from deposit funds and budget clearing accounts.

Identifying and Tracking Cash Disbursements and Collections

DFAS did not identify and track the number and dollar amount of cash disbursements and collections made by DoD disbursing stations.

Army Cash Disbursements and Collections. DFAS Indianapolis did not identify and track the number and dollar amount of cash disbursements and collections made by Army disbursing stations. As of September 30, 2007, DFAS Indianapolis had approximately 21 DSSNs, using five different disbursing systems, reporting to them. DFAS Indianapolis also has one dormant DSSN, three closed DSSNs, two DSSNs in settlement, and three disbursing stations that use a manual system. The disbursing systems and the approximate number of DFAS Indianapolis DSSNs using them are as follows:

- Deployable Disbursing System - 12
- Standard Finance System Redesign, Subsystem 1 - 4
- Mechanization of Contract Administration Services - 3
- Corp of Engineers Financial Management System - 1
- Classified Disbursing System - 1

DFAS Indianapolis does not have a systematic process and procedures to identify and track the number of cash transactions made by Army DSSNs. We attempted to obtain the number and dollar amount of cash disbursements and collections made by the 12 Army DSSNs using the Deployable Disbursing System in FY 2006, but we were unable to because DFAS gave us incomplete data. Specifically, four DSSNs did not provide data, and three DSSNs provided incomplete data. Five DSSNs provided complete data (we did not test the accuracy of their data).

Navy Cash Disbursements and Collections. DFAS Cleveland cannot identify and track the number and dollar amount of cash disbursements and collections because of systems limitations.

Air Force Cash Disbursements and Collections. DFAS Denver uses the Central Disbursing System to record Air Force disbursements and collections, including those made in cash. However, deputy DOs enter activity for cash disbursed or collected by paying agents as a total. Therefore, DFAS Denver Central Disbursing System can only produce reports of total cash disbursed and collected. The report does not list each individual cash transaction. Furthermore, DFAS Denver records individual voucher transactions in its accounting systems but does not specifically identify them as cash transactions. To provide a complete universe of cash transactions for audit purposes, DFAS Denver would be required to compile cash transactions by querying its accounting systems and performing manual processes. Thus, DFAS Denver cannot provide a universe of cash transactions in a timely and cost-effective manner. Specifically, DFAS Denver cannot identify and track the volume of cash transactions made during FY 2007 in a timely manner.

Adequacy of the DoD Financial Management Regulation

One of the reasons DFAS does not have sufficient audit trails or a complete audit universe of cash disbursements and collections is because the DoD FMR is inadequate. Specifically, DoD FMR volume 6A, chapter 2 is not adequate because it does not require DFAS and DFAS Component customers to identify and track the number and dollar amounts of cash disbursements and collections made at their disbursing offices. According to chapter 2, DFAS must establish internal controls to ensure that data provided by each DoD Component customer is recorded accurately and processed into the finance and accounting systems in a timely manner. DFAS must maintain or create controls to ensure that:

- All transactions that are received are processed correctly. These controls should include tools to identify and track the number, type, and dollar amount of transactions that are received by DFAS. Such controls also apply to all transactions generated by DFAS.
- All transactions generated (whether electronic or hard copy) are validated to ensure accuracy and each transaction is identified correctly in terms of type, dollar amount, and other data.

However, chapter 2 does not require DFAS and DFAS Component customers to identify and track the disbursement and collection methods. For example, a DoD disbursing official can make a disbursement by cash, check, EFT, or interagency payment. Chapter 2 should require DFAS and DFAS customers to identify and track the number and dollar amount of cash disbursements and collections made at their disbursing offices.

DoD FMR volume 5, chapter 11 requires DFAS to annotate a certified disbursement voucher as to whether the disbursement was made by cash, check, EFT or as an interagency payment. However, chapter 11 does not require DFAS and DFAS Component customers to systematically identify and track the number and dollar amount of cash disbursements and collections. For example, chapter 11 does not require DFAS to identify and track cash disbursements and collections by DFAS center, disbursing station, month and fiscal year, number, and dollar amount. In addition, chapter 11 does not define the roles and responsibilities for identifying and tracking the number and dollar amount of cash disbursements and collections.

Audit Trails and Audit Universe for Cash Disbursements and Collections

DFAS was not in compliance with the DoD FMR, which requires that audit trails exist in sufficient detail to trace transactions from DFAS to their source. In addition, DFAS could not provide an audit universe of cash disbursements and collections for internal reviews and independent external audits.

Audit Trails. DoD FMR volume 6A, chapter 2 states that DoD Components must ensure that audit trails are maintained in sufficient detail to permit tracing of transactions with a unique identity from their sources to their transmission to the DFAS. This is necessary to demonstrate the accuracy, completeness, and timeliness of a transaction, as well as to provide documentary support, if required, for all data generated by the DoD Component and submitted to DFAS for recording in the accounting systems and use in financial reports. In addition, DFAS must ensure that a complete and documented audit trail is maintained to support the reports it prepares. A complete audit trail ensures that:

- the numbers, types, and dollar amounts of transactions transmitted by the DoD Component customers are received and tracked by DFAS to ensure that they are properly processed and recorded, and
- the numbers, types, and dollar amounts of transactions received from the DoD Component customers, as well as those generated by DFAS, are processed timely and entered accurately into the finance and accounting systems.

However, if DoD Component customers and DFAS do not identify and track cash disbursements and collections, these specific accounting transactions cannot be traced from the source document to financial reports (such as the balance sheet), and from financial reports back to the source document. Specifically, DFAS accountants and both internal and external auditors need an audit trail from source documents to the balance sheet cash line and from the balance sheet cash line to source documents. This is necessary to demonstrate the accuracy and completeness of cash transactions and provide documentary support for the cash transactions.

Audit Universe. DFAS needs to be able to provide the number and dollar amounts of cash disbursements and collections before the Army, Navy, and Air Force will be able to assert that their cash lines are ready for an independent external audit. Independent external auditors need an audit universe in order to be able to perform statistical sampling. Statistical sampling involves the selection of individual test items from the universe and projecting the sample results over the universe. Therefore, if DFAS does not have an audit universe, the Army, Navy, and Air Force cannot assert that their cash lines are ready for an independent external audit.

Recommendations, Management Comments, and Our Response

C.1. We recommend that the Office of the Under Secretary of Defense Comptroller, Chief Financial Officer revise the DoD Financial Management Regulation 7000.14, volume 6A, chapter 2, “Financial Reports Roles and Responsibilities,” to:

(a) Require the Defense Finance and Accounting Service to be able to identify and track cash collection and disbursement vouchers by the following types of information:

- (1) Defense Finance and Accounting Service center;**
- (2) Disbursing Station Symbol Number;**
- (3) Month and fiscal year;**
- (4) Number of cash collections and disbursements;**
- (5) Dollar amount of cash disbursements and collections; and**

(b) Archive the information in accordance with DoD record retention requirements.

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

The Acting USD(C)/DoD CFO agreed with recommendation C.1.a.(1)-(5). He stated his current systems do not capture and maintain the information recommended. Therefore, the USD(C)/DoD CFO and DFAS will not be able to implement these recommendations until the U.S. Treasury Governmentwide Accounting Modernization Project (GWAMP) for non-U.S. Treasury disbursing operations is deployed. As processes and systems permit, the Acting USD(C)/DoD CFO will revise the DoD FMR. Completion date is subject to the GWAMP implementation schedule.

The Acting USD(C)/DoD CFO agreed with recommendation C.1.b. He stated that DoD FMR, volume 5, Chapter 21, “Disbursing Office Records,” provides authoritative guidance on retaining disbursing office records. This information will be hyperlinked to volume 6A, chapter 2, “Financial Reports Roles and Responsibilities,” and volume 1, chapter 9, “Financial Records Retention.” Expected completion date is March 2009.

Our Response

The Acting USD(C)/DoD CFO comments to recommendations C.1.a.(1)-(5) are not responsive. The Acting USD(C)/DoD CFO needs to revise the DoD FMR as soon as possible. Requiring DFAS to identify and track cash collection and disbursement vouchers now will require DFAS to develop processes and systems to meet these requirements. Because GWAMP is a Treasury system, DoD needs to develop its own processes and systems for identifying and tracking cash collection and disbursement vouchers. We request that the Acting USD(C)/DoD CFO reconsider his position..

The Acting USD(C)/DoD CFO comments to recommendation C.1.b. are responsive.

C.2. We recommend that the Director, Defense Finance and Accounting Service require the DFAS Centers to develop or revise processes and formal standard operating procedures to implement Recommendations C.1.a.(1)-(5) and C.1.b.

DFAS Management Comments

The Director, Standards and Compliance agreed with recommendation C.2. He stated that DFAS supports the USD(C)/DoD CFO staff in their efforts to implement GWAMP which is an essential component of DoD strategy in executing recommendations C.1.a.(1)-(5) and C.1.b. DFAS will implement standard operating procedures when the Acting USD(C)/DoD CFO policy is developed.

Our Response

The Director, Standards and Compliance comments to recommendation C.2. are responsive.

Finding D. Reporting of Cash and Other Monetary Assets

DFAS incorrectly posted SOA line items that were not COMA to the DoD Agency-Wide Balance Sheet. Specifically, the balance sheet included line items such as losses of funds and receivables as COMA. This occurred because the DoD FMR did not define which SOA line items should be categorized as COMA on the balance sheet. As a result, the DoD Agency-Wide Consolidated Balance Sheet overstated COMA by \$11.1 million, as of September 30, 2007.

Journal Voucher Process

DFAS accountants prepare a journal voucher every quarter and at fiscal year-end to report COMA on the DoD Agency-Wide Balance Sheet. The journal vouchers are supported by SOAs that the DFAS centers receive from their DOs. As previously discussed, DOs use the SOA to summarize their accountability for funds held outside of the U.S. Treasury (cash on hand). The “Total Disbursing Officer Accountability” line on the SOA includes items such as cash on hand, cash in limited depository accounts, cash with Deputy DOs and paying agents, losses of funds, and receivables. See Appendix D for the specific line item titles and a sample SOA.

Definition of Cash

Federal Accounting Standards Advisory Board. SFFAS No.1 states cash consists of: (a) coins, paper currency and readily negotiable instruments, such as money orders, checks, and bank drafts on hand or in transit for deposit;³ (b) amounts on demand deposit with banks or other financial institutions; and (c) foreign currencies, which for accounting purposes should be translated into U.S. dollars at the exchange rate on the financial statement date.

Office of Management and Budget. OMB Circular A-136, “Financial Reporting Requirements,” June 2007, uses the same definition for cash as FASAB. In addition, OMB Circular A-136 defines other monetary assets as gold, special drawing rights, and U.S. reserves in the International Monetary Fund. The U.S. Treasury primarily uses this category. OMB Circular A-136 also states that the components of cash must be disclosed in Note 4, “Cash and Other Monetary Assets,” to the balance sheet.

DoD Financial Management Regulation. Volume 6b, chapter 4, “Balance Sheet,” January 2006, uses the same definition for cash as FASAB and OMB. Chapter 4 also provides specific instructions for preparing each line item of the DoD Agency-Wide Balance Sheet, including the cash line. DoD FMR, volume 5, chapter 19, “Disbursing Officer Accountability Reports,” August 1999, provides the SOA line items and their definitions.

Statement of Accountability COMA Categories

DFAS incorrectly posted SOA line items that were not COMA to the DoD Agency-Wide Balance Sheet. Specifically, DFAS incorrectly included the following nine SOA line

³ For a check to be a negotiable instrument, the check must be delivered to a bank or to a third party (holder in due course).

items in reporting the cash account balance on the DoD Agency-Wide Consolidated Balance Sheet:

- Line 6.6 - Advances to Contractors
- Line 6.9 - Other Cash Items
- Line 7.1 - Deferred Charges - Vouchered Items
- Line 7.2 - Receivables - Check Overdrafts
- Line 7.3 - Losses of Funds
- Line 7.4 - Receivables - Dishonored Checks
- Line 9.2 - Receivables - Checks Overdrafts
- Line 9.3 - Losses of Funds
- Line 9.4 - Other Accountability

We determined that these nine SOA line items did not meet the definition of COMA. We based our determination on the definitions provided in SFFAS No. 1 and DoD FMR volume 5, chapter 19, “Disbursing Officer Accountability Reports,” August 1999. For example, the DoD FMR states that line 7.3, “Loss of Funds,” and line 9.3, “DFAS - Loss of Funds,” represent physical losses of cash. These funds are not in the possession of the DoD and should not be recorded on the balance sheet. In addition, the DoD FMR states that line 7.4 “Receivables-Dishonored Checks” is used to record any dishonored checks that are to be retained in DO accountability. This money is not on hand and should not be included in COMA. (See Appendix G for the nine SOA line item definitions.)

Adequacy of Criteria for Reporting COMA on the Balance Sheet

The DoD FMR does not define which SOA line items should be reported as COMA on the balance sheet. The DoD FMR, volume 6B, chapter 4 states that the DO accountability should be used to report COMA on the balance sheet. In addition, chapter 4 states that the components of COMA should be disclosed in Note 7 to the balance sheet, and any cash restrictions should be disclosed. However, not all the line items on the DO SOA meet the definition of COMA, and chapter 4 does not define which SOA line items should be reported as COMA on the balance sheet. In addition, chapter 4 does not provide guidance for where non-COMA line items should be reported on the financial statements.

Reporting of COMA on the Balance Sheet

As of September 30, 2007, the DoD Agency-Wide Balance Sheet overstated COMA by \$11.1 million. Table 3 shows the Army, Navy, and Air Force SOA line items and their corresponding amounts that do not meet the SFFAS No. 1 definition of COMA and cause an overstatement of the DoD Agency-Wide Balance Sheet cash line.

Table 3. Calculation of the Overstatement of the DoD Agency-Wide Cash and Other Monetary Assets

Line No.	Line Title	Army General Fund	Navy General Fund	Air Force General Fund	DoD Agency-Wide
6.6	Advances to Contractors	\$0	\$228,679	\$0	\$228,679
6.9	Other Cash Items	1,475,348	(11,988)	0	1,463,360
7.1	Deferred Charges - Vouchered Items	345,032	981,654	6,371,988	7,698,674
7.2	Receivables - Checks Overdrafts	0	4,728	1,200	5,928
7.3	Losses of Funds	127,537	128,057	2,006	257,600
7.4	Receivables - Dishonored Checks	52,463	50,504	7,651	110,618
9.2	Receivables - Check Overdrafts	383	1,974	0	2,357
9.3	Losses of Funds	252,343	1,002,504	34,395	1,289,242
9.4	Other Accountability	21,931	34,106	0	56,037
	Total	\$2,275,037	\$2,420,218	\$6,417,240	\$11,112,495

The USD(C)/DOD CFO and DFAS need to improve their internal controls over the reporting of cash on the DoD Agency-Wide Balance Sheet.

Recommendations, Management Comments, and Our Response

This report is the last in a series regarding the financial reporting of DoD Cash and Other Monetary Assets. Assets that are incorrectly classified as Cash and Other Monetary Assets affect not only the reporting Component's balance sheet, but the DoD Agency-Wide Balance Sheet. The following recommendations apply to this report, as well as to the other reports issued in this series.

D.1 We recommend that the Office of the Under Secretary of Defense Comptroller, Chief Financial Officer:

a. Revise the DoD Financial Management Regulation 7000.14, volume 6B, chapter 4, "Balance Sheet," January 2006, by:

(1) Defining which Statement of Accountability line items should be reported as Cash and Other Monetary Assets on the balance sheet.

(2) Providing guidance on how to correctly report line items that are not Cash and Other Monetary Assets on the balance sheet.

b. Require DFAS Centers to develop or revise DFAS standard operating procedures to implement Recommendations D.1.a.(1)-(2).

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

The Acting USD(C)/DoD CFO partially agreed with recommendation D.1.a.(1)-(2). The USD(C)/DoD CFO revised FY 2008, 2nd Quarter, Attachment 205-"Disbursing Officer's Accountability Report," to identify which SOA line item should be reported

as COMA and non-COMA on the Balance Sheet. The USD(C)/DoD CFO will update the DoD FMR, volume 6B, chapter 4, "Balance Sheet," by March 2009. However, the Acting USD(C)/DoD CFO disagreed that Line 6.9 "Other Cash Items" is incorrectly reported and should be accounted for as COMA on the Balance Sheet because SFFAS No.1 defines cash as, "coins, paper currency, and readily negotiable instruments, such as money orders checks, and bank drafts on hand or in transit for deposit." The Acting USD(C)/DoD CFO stated that Line 6.9 "Other Cash Items" are U.S. Treasury exchange-for-cash checks prepared in advance and waiting to be picked up by a deputy, agent, or cashier.

The Acting USD(C)/DoD CFO agreed with recommendation D.1.b. The Acting USD(C)/DoD CFO will issue a memorandum directing DFAS to develop or revise DFAS standards operating procedures. Expected completion date is December 2008.

Our Response

The Acting USD(C)/DoD CFO comments to recommendations D.1.a.(1)-(2). and D.1.b are responsive.

Appendix A. Scope and Methodology

We conducted this performance audit in accordance with generally accepted government auditing standards.* Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We performed this audit from April 23, 2007 through October 10, 2008.

We reviewed DoD policy, processes, and procedures for obtaining cash from the U.S. Treasury. We also reviewed the internal controls over the reporting of COMA on the DoD Agency-Wide and Component financial statements. We reviewed applicable guidance from the following:

- U.S. Constitution,
- 31 U.S.C., “Money and Finance,”
- Code of Federal Regulations,
- Federal Accounting Standards Advisory Board Statements of Federal Financial Accounting Standards No. 1,
- Government Accountability Office Principles of Federal Appropriation Law,
- Office of Management and Budget circulars,
- Treasury Financial Manual, and
- DoD Financial Management Regulation.

We obtained our understanding by reviewing applicable criteria, reviewing prior audit coverage, and reviewing the DFAS Indianapolis process action document for cash. We also interviewed USD(C)/DoD CFO, DFAS Arlington, DFAS Indianapolis, and U.S. Treasury personnel and attended briefings by these organizations. We then determined whether the DoD process and procedures for obtaining cash met applicable criteria. We obtained Army, Navy, Air Force, Corps of Engineers, and Office of Secretary of Defense accountability balances (cash on hand) to determine the amount of cash held outside of the U.S. Treasury as of September 30, 2007, for the potential augmentation and Antideficiency Act violation amounts.

We reviewed the USD(C)/DoD CFO and the Joint Contracting Command (Iraq/Afghanistan) policy for making cash payments to contractors in Iraq and other countries. We obtained our understanding by reviewing applicable criteria and USD(C)/DoD CFO and Joint Contracting Command (Iraq/Afghanistan) memorandums, and by interviewing USD(C)/DoD CFO and DFAS Arlington personnel.

We reviewed the USD(C)/DoD CFO policy for identifying and tracking the number and dollar amount of cash disbursements and collections made by DoD disbursing stations. We obtained our understanding by reviewing the DoD FMR and interviewing USD(C)/DoD CFO and DFAS personnel.

* We used the GAO, Government Auditing Standards, June 2003 Revision. The July 2007 Revision is effective for audits started after January 1, 2008.

We reviewed the USD(C)/DoD CFO policy for reporting cash on the balance sheet. We obtained our understanding by reviewing applicable criteria and interviewing USD(C)/DoD CFO and DFAS Indianapolis personnel. We identified nine non-COMA SOA line items. We then obtained the dollar amount of these nine non-COMA SOA line items by totaling what the Army, Navy, and Air Force reported on their consolidated SOA for them.

Use of Computer-Processed Data

For finding A, we used computer-processed data obtained from the Central Accounting and Reporting System and the Defense Department Reporting System. This computer-processed data was used to determine the Army, Navy, Air Force, Corps of Engineers, and Office of Secretary of Defense accountability (cash on hand) by quarter for FY 2007 and FY 2006.

For FY 2007, we obtained computer-processed data from the Central Accounting and Reporting System. Specifically, we relied on Army, Navy, Air Force, Corps of Engineers, and Office of Secretary of Defense SOAs to determine their accountability (cash on hand) as of September 30, 2007. We did not perform a formal reliability assessment of the computer-processed financial data because the Central Accounting and Reporting System is operated and maintained by the U.S. Treasury and is therefore outside the scope of this project. However, we compared the Army consolidated SOA that was provided by the Central Accounting and Reporting System to the Army consolidated SOA that was reported to the U.S. Treasury by DFAS Indianapolis. We did not find any errors that would preclude the use of the computer-processed data to meet the audit objectives or that would change the conclusions in the report.

For FY 2006, we obtained computer-processed data from the Defense Department Reporting System. Specifically, we relied on Army, Navy, Air Force, Corps of Engineers, and Office of Secretary of Defense cash balances as of September 30, 2006. We did not perform a formal reliability assessment of the computer-processed financial data because we are not evaluating the accuracy of the cash balances. However, we compared these reporting Components' cash balances to the Central Accounting and Reporting System SOAs (cash on hand). We did not find errors that would preclude the use of the computer-processed data to meet the audit objectives or that would change the conclusions in the report.

For finding D, we used computer-processed data obtained from numerous DFAS and Military Department finance and accounting systems. This computer-processed data was used to obtain the Army, Navy, Air Force, Corps of Engineers, and Office of Secretary of Defense consolidated SOA dollar amounts by line item. We relied on this information to calculate the DoD overstatement of cash by SOA line item. We did not perform a formal reliability assessment of the computer-processed financial data because we are not determining the accuracy of the overstatement of cash by SOA line item. We are only showing that noncash SOA line items affect the accuracy of DoD Agency-Wide COMA. However, we compared the Army SOA that was provided by the U.S. Treasury Central Accounting and Reporting System to the Army consolidated SOA that was reported to the U.S. Treasury by DFAS Indianapolis. We did not find errors that would preclude the use of the computer-processed data to meet the audit objectives or that would change the conclusions in the report.

Use of Technical Assistance

The DoD Inspector General Office of the General Counsel reviewed and provided comments on finding A. We did not use any other technical assistance to perform this audit.

Government Accountability Office High-Risk Area

The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage of the Financial Management high-risk area. GAO first designated financial management as high risk in 1995, and it remains so today. The GAO acknowledges that DoD leadership continues to take positive steps towards improving financial operations but states that "tangible evidence of improvement remains limited." GAO considered DoD Financial Management a high risk because the DoD continuing substantial financial management weaknesses adversely affect its ability to produce auditable financial information, and more importantly, to provide timely and reliable information for use in making informed decisions. DoD continues to face pervasive financial and related business management and system deficiencies that adversely affect its ability to:

- control costs;
- ensure basic accountability;
- anticipate future costs and claims on the budget;
- measure performance;
- maintain funds control;
- prevent and detect fraud, waste and abuse; and
- address pressing management issues.

Appendix B. Prior Coverage

During the last 5 years, the Department of Defense Inspector General (DoD IG), the U.S. Army Audit Agency (AAA), the Navy Audit Services (NAS), the Air Force Audit Agency (AFAA) and the Special Inspector General for Iraq Reconstruction (SIGIR) have issued twelve reports that discuss cash issues. Unrestricted DoD IG reports can be accessed over the Internet at: www.dodig.osd.mil/audit/reports. Unrestricted AAA reports can be accessed at www.aaa.army.mil/reports.htm. Unrestricted Navy reports can be accessed at www.hq.navy.mil/naualaudit. Unrestricted AFAA reports can be accessed at www.afaa.hq.af.mil/afck/plansreports/reports.shtml. Unrestricted Special Inspector General for Iraq Reconstruction (SIGIR) reports can be accessed at www.sigir.mil/reports/audit.aspx.

DoD Inspector General

DoD IG Report No. D-2005-087, “Departmental Expenditure Reporting at Defense Finance and Accounting Service Indianapolis,” June 27, 2005

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

DoD IG Report No. D-2007-018, “Independent Auditor’s Report on the Fiscal Year 2006 Army General Fund Financial Statements,” November 8, 2006

Army Audit Agency

AAA Report No. A-2005-0104-ALW, “Disbursing Station Expenditure Operations - DoD Disbursing Station Number 5570,” February 14, 2005

AAA Report No. A-2005-0206-FFG, “Validation of the Statement of Accountability, Attestation of Disbursing Station Symbol Number 8551 - 336th Finance Command, Camp Arifjan, Kuwait,” June 29, 2005

AAA Report No. A-2006-0186-ALR, “Follow-up Audit of Disbursing Station Expenditure Operations DoD Disbursing Station 5570,” August 22, 2006

Navy Audit Service

NAS Report No. N2003-0062, “Internal Controls at Navy Disbursing Activities,” July 23, 2003

NAS Report No. N2006-0047, “Cash Accountability of Department of the Navy Disbursing Officers for Hurricane Katrina Relief Funds,” September 22, 2006

Air Force Audit Agency

AFAA Report No. F2003-0003-FB4000, “Nonappropriated Fund Cash Controls,” December 30, 2002

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

Special Inspector General for Iraq Reconstruction

SIGIR Report No. 04-009, "Coalition Provisional Authority Comptroller Cash Management Controls Over the Development Fund for Iraq," July 28, 2004

SIGIR Report No. 05-006, "Control of Cash Provided to South-Central Iraq," April 30, 2005

Appendix C. Cash Management History

The U.S. Department of Treasury Financial Management Service provides the following information in its *Cash Management Made Easy*, April 2002 guidebook. The purpose of the guidebook is to provide a high-level overview of the Federal Government cash management tools and assist agency cash managers in improving the management of Government finances.

Purpose of Cash Management. Cash management is the stewardship or proper use of an entity's cash resources. It serves as the means to keep an organization functioning by making the best use of cash resources of the organization. The function of cash management at the U.S. Treasury is threefold:

1. To eliminate idle cash balances. Every dollar held as cash rather than used to increase revenues or decrease expenditures represents a lost opportunity. Funds that are not needed to cover expected transactions can be used to buy back outstanding debt (and stop a flow of funds out of the Treasury for interest payments) or can be invested to generate a flow of funds into the Treasury's account. Minimizing idle cash balances requires accurate information about expected receipts and likely disbursements.
2. To deposit collections in a timely manner. Having funds in hand is better than having accounts receivable. The cash is easier to convert immediately into value or goods. A receivable, an item to be converted in the future, often is subject to a transaction delay or a depreciation of value. Once funds are due to the Government, they should be converted to cash in hand immediately and deposited in the Treasury's account as soon as possible.
3. To properly time disbursements. Some payments must be made on a specified or legal date, such as Social Security payments. For such payments, there is no cash management decision. For other payments, such as vendor payments, discretion in timing is possible. Government vendors face the same cash management needs as the Government. They want to accelerate collections. One way vendors can do this is to offer discount terms for timely payment for goods sold.

In 1981, President Ronald Reagan, OMB, and the President's Private Sector Survey on Cost Control said that the Federal Government could save a great deal of money by managing Federal cash as carefully as businesses manage their cash. Essentially, most Federal agencies concentrated on operating their programs and ignored the time value of money. The President's Management Improvement Program took aim at reforming Federal financial management by making one of its top priorities the cessation of the needless loss of interest on cash flows.

In 1981-82, a portion of the President's Management Improvement Program, Reform 88, was developed as a comprehensive program to improve, consolidate, and streamline the management systems of the Federal Government by a target date of 1988. Reform 88 put new life into the management of Federal cash. Each Federal agency was required to monitor its own cash flows, selecting the best tools for speeding collections to the Treasury and timing disbursements to vendors, grantees, and other payment recipients.

Before 1982, the U.S. Government made 30 percent of its payments too late and 45 percent too early, resulting in unnecessary late charges and lost interest earnings. Congress passed the Prompt Payment Act of 1982 (and its amendment in 1988) requiring Federal agencies to make payments on time, to pay interest when payments are late, and

to take discounts only when payments are made on or before the discount date. It also provides a formula for determining if a discount is cost-effective. OMB wrote the regulations to implement the Prompt Payment Act, which provides for timely payment, better relations with contractors, improved competition for Government business and reduced costs to the Government.

Once the necessary legislation and regulations were in place to improve Federal agency management of payments, the Government turned its focus on collections. Congress passed the Deficit Reduction Act of 1984. A section of the act, referred to generally as the Collection and Deposit Legislation, moved agencies closer to the goal of institutionalizing cash management in the Federal Government. It legislated cash management for collections and deposits analogous to the directives given to Federal agencies about paying their bills on time in the Prompt Payment Act of 1982. The Collection and Deposit Legislation mandated that the Treasury would hold Federal agencies responsible for their collection and deposit practices. Federal agencies must use EFT, lockboxes, and automatic withdrawal of funds wherever feasible and in accordance with Treasury regulations.

The Collection and Deposit Legislation requires the Financial Management Service to conduct periodic cash management reviews of Federal agency financial operations. These reviews examine and analyze agency management of the following programs: collections and deposits, disbursements, inventories, imprest funds, and other cash held outside the Treasury. The Federal agency and Financial Management Service must agree on recommendations and plans for improvement. The Cash Management Improvement Act was enacted in 1990 to improve the transfer of Federal funds between the Federal Government and the States. The statutory purpose of Cash Management Improvement Act is to: (1) ensure efficiency, (2) provide effectiveness, and (3) ensure equity.

The National Performance Review began in 1993 when President Bill Clinton announced a 6-month review of the Federal Government. The goal was to identify problems and offer solutions and ideas for savings. The report was divided into four sections: (1) Cutting Red Tape, (2) Putting Customers First, (3) Empowering Employees to Get Results, and (4) Cutting Back to Basics. One of the three steps to accomplish the last section, Cutting Back to Basics, is to collect more through imposing or increasing user fees where pricing makes economic sense, and by collecting what the Government is owed in delinquent debt or fraudulent overpayment of benefits. Essentially, the Government must find better, more efficient, and more effective ways to pay for its programs and activities.

On April 26, 1996, Congress passed the Debt Collection Improvement Act of 1996. A major part of this Act began the EFT Program. The EFT Program requires Federal agencies to disburse payments via electronic funds transfer, with few exceptions. The Treasury published regulations to provide guidance to Federal agencies. Agencies began enrolling payment recipients for electronic payments by collecting payment recipients' bank account information and enhancing their systems to provide various electronic payment alternatives. The cooperative efforts of Federal agencies, the private sector, Office of Management and Budget, and the Financial Management Service have spawned an impressive list of improvements since the mid-1980s and generated billions of dollars in interest savings.

Appendix D. DoD Process for Obtaining Cash from the U.S. Treasury

A DO obtains cash by writing a U.S. Treasury check out to cash or to himself or herself. The bullets below describe the DoD process for obtaining and reporting cash to the U.S. Treasury.

- If a DO writes a U.S Treasury check made out to cash or made out to himself or herself for \$100,000, the DO's accountability increases by \$100,000. The DO records the negotiated check in Line 2.1, "Checks Issued on U.S. Treasury," and Line 6.2, "Cash on Hand and in Transit to Treasury." The DO accountability is reflected in Line 5.0, "Total Accountability Close of Period," Line 8.0, "Total of My Accountability," and Line 11.0, "Total Disbursing Officer Accountability." Because no appropriation was charged, the DO would not submit an SOT to the U.S. Treasury for month 1. The DO would only submit an SOA for month 1. The DO carries this accountability on their SF 1219 until the requestor of cash provides receipts and the appropriation to be charged. See Figure D.1.
- When the DO provides an agent \$100,000 in cash, the DO prepares DD Form 1081, "Statement of Agent Officer's Account." In addition, the DO decreases Line 6.2, "Cash on Hand and In Transit to Treasury," by \$100,000 and increases Line 6.5 "Cash In Custody of Government Cashiers," by \$100,000. Because no appropriation was charged, the DO would not submit an SOT to the U.S. Treasury for month 2. The DO would only submit his SOA for month 2. See Figure D.2.
- DO accountability is decreased when a voucher is prepared, certified, approved, and submitted. If a voucher is submitted for \$40,000, the DO accountability is decreased by \$40,000 and the DO accountability would become \$60,000. Specifically, the DO increases Line 4.1, "Net Disbursements," by \$40,000 and decreases Line 6.5 "Cash In Custody of Government Cashiers," by \$40,000. The DO's new accountability is reflected in Line 5.0, "Total Accountability Close of Period," Line 8.0, "Total of My Accountability," and Line 11.0, "Total Disbursing Officer Accountability." The voucher information would be reported in the SOT for month 3, and would be submitted to the U.S Treasury along with the SOA for month 3. See Figures D.3 and D.4.

SF 1219 STATEMENT OF ACCOUNTABILITY			
PART A - TRANSACTIONS DURING PERIOD AFFECTING ACCOUNTABILITY			
1.0	TOTAL ACCOUNTABILITY BEGINNING OF PERIOD		0.00
2.0	INCREASES IN ACCOUNTABILITY		
2.1	CHECKS ISSUED ON U.S. TREASURY	100,000.00	
2.11	CHECKS ISSUED/ADJUSTMENTS-TFS FORM 5206	0.00	
2.12	CHECKS ISSUED/ADJUSTMENTS-215 PAYMENT VOUCHERS	0.00	
2.3	OTHER TRANSACTIONS	0.00	
2.34	DISCREPANCIES IN D.O. ACCOUNTS – CREDITS	0.00	
2.36	PAYMENTS BY ANOTHER D.O.	0.00	
2.37	TRANSFERS FROM OTHER DISBURSING OFFICERS	0.00	
2.8	IPAC PAYMENTS AND COLLECTIONS	0.00	
2.9	TOTAL INCREASE IN ACCOUNTABILITY		100,000.00
3.0	SUBTOTAL		100,000.00
4.0	DECREASES IN ACCOUNTABILITY		
4.1	NET DISBURSEMENTS	0.00	
4.2	DEPOSITS PRESENTED OR MAILED TO BANK	0.00	
4.3	OTHER TRANSACTIONS	0.00	
4.34	DISCREPANCIES IN D.O. ACCOUNTS – DEBITS	0.00	
4.36	PAYMENTS FOR ANOTHER D.O.	0.00	
4.37	TRANSFERS TO OTHER DISBURSING OFFICERS	0.00	
4.9	TOTAL DECREASES IN ACCOUNTABILITY		0.00
5.0	TOTAL ACCOUNTABILITY CLOSE OF PERIOD		100,000.00
PART B - ANALYSIS OF INCUMBENT OFFICER'S ACCOUNTABILITY			
6.1	CASH ON DEPOSIT IN DESIGNATED DEPOSITARY		0.00
6.2	CASH ON HAND AND IN TRANSIT TO TREASURY		100,000.00
6.3	CASH - UNDEPOSITED COLLECTIONS		0.00
6.4	CUSTODY OR CONTINGENCY CASH		0.00
6.5	CASH IN CUSTODY OF GOVERNMENT CASHIERS		0.00
6.6	ADVANCES TO CONTRACTORS		0.00
6.7	CASH IN TRANSIT		0.00
6.8	PAYROLL CASH		0.00
6.9	OTHER CASH ITEMS		0.00
7.1	DEFERRED CHARGES -VOUCHERED ITEMS		0.00
7.2	RECEIVABLES - CHECK OVERDRAFTS		0.00
7.3	LOSSES OF FUNDS		0.00
7.4	RECEIVABLES - DISHONORED CHECKS		0.00
7.5	ADVANCES		0.00
8.0	TOTAL OF MY ACCOUNTABILITY		100,000.00
PART C - PREDECESSOR OFFICER'S ACCOUNTABILITY			
9.2	RECEIVABLES- CHECK OVERDRAFTS		0.00
9.3	LOSSES OF FUNDS		0.00
9.4	OTHER ACCOUNTABILITY		0.00
10.0	TOTAL PREDECESSOR OFFICER'S ACCOUNTABILITY		0.00
11.0	TOTAL DISBURSING OFFICER ACCOUNTABILITY		100,000.00

Figure D.1. Statement of Accountability – Month 1

SF 1219 STATEMENT OF ACCOUNTABILITY			
PART A - TRANSACTIONS DURING PERIOD AFFECTING ACCOUNTABILITY			
1.0	TOTAL ACCOUNTABILITY BEGINNING OF PERIOD		100,000.00
2.0	INCREASES IN ACCOUNTABILITY		
2.1	CHECKS ISSUED ON U.S. TREASURY	0.00	
2.11	CHECKS ISSUED/ADJUSTMENTS-TFS FORM 5206	0.00	
2.12	CHECKS ISSUED/ADJUSTMENTS-215 PAYMENT VOUCHERS	0.00	
2.3	OTHER TRANSACTIONS	0.00	
2.34	DISCREPANCIES IN D.O. ACCOUNTS – CREDITS	0.00	
2.36	PAYMENTS BY ANOTHER D.O.	0.00	
2.37	TRANSFERS FROM OTHER DISBURSING OFFICERS	0.00	
2.8	IPAC PAYMENTS AND COLLECTIONS	0.00	
2.9	TOTAL INCREASE IN ACCOUNTABILITY		0.00
3.0	SUBTOTAL		100,000.00
4.0	DECREASES IN ACCOUNTABILITY		
4.1	NET DISBURSEMENTS	0.00	
4.2	DEPOSITS PRESENTED OR MAILED TO BANK	0.00	
4.3	OTHER TRANSACTIONS	0.00	
4.34	DISCREPANCIES IN D.O. ACCOUNTS – DEBITS	0.00	
4.36	PAYMENTS FOR ANOTHER D.O.	0.00	
4.37	TRANSFERS TO OTHER DISBURSING OFFICERS	0.00	
4.9	TOTAL DECREASES IN ACCOUNTABILITY		0.00
5.0	TOTAL ACCOUNTABILITY CLOSE OF PERIOD		100,000.00
PART B - ANALYSIS OF INCUMBENT OFFICER'S ACCOUNTABILITY			
6.1	CASH ON DEPOSIT IN DESIGNATED DEPOSITARY	0.00	
6.2	CASH ON HAND AND IN TRANSIT TO TREASURY	0.00	
6.3	CASH - UNDEPOSITED COLLECTIONS	0.00	
6.4	CUSTODY OR CONTINGENCY CASH	0.00	
6.5	CASH IN CUSTODY OF GOVERNMENT CASHIERS	100,000.00	
6.6	ADVANCES TO CONTRACTORS	0.00	
6.7	CASH IN TRANSIT	0.00	
6.8	PAYROLL CASH	0.00	
6.9	OTHER CASH ITEMS	0.00	
7.1	DEFERRED CHARGES -VOUCHERED ITEMS	0.00	
7.2	RECEIVABLES - CHECK OVERDRAFTS	0.00	
7.3	LOSSES OF FUNDS	0.00	
7.4	RECEIVABLES - DISHONORED CHECKS	0.00	
7.5	ADVANCES	0.00	
8.0	TOTAL OF MY ACCOUNTABILITY		100,000.00
PART C - PREDECESSOR OFFICER'S ACCOUNTABILITY			
9.2	RECEIVABLES- CHECK OVERDRAFTS	0.00	
9.3	LOSSES OF FUNDS	0.00	
9.4	OTHER ACCOUNTABILITY	0.00	
10.0	TOTAL PREDECESSOR OFFICER'S ACCOUNTABILITY		0.00
11.0	TOTAL DISBURSING OFFICER ACCOUNTABILITY		100,000.00

Figure D.2. Statement of Accountability – Month 2

SF 1219 STATEMENT OF ACCOUNTABILITY			
PART A - TRANSACTIONS DURING PERIOD AFFECTING ACCOUNTABILITY			
1.0	TOTAL ACCOUNTABILITY BEGINNING OF PERIOD		100,000.00
2.0	INCREASES IN ACCOUNTABILITY		
2.1	CHECKS ISSUED ON U.S. TREASURY	0.00	
2.11	CHECKS ISSUED/ADJUSTMENTS-TFS FORM 5206	0.00	
2.12	CHECKS ISSUED/ADJUSTMENTS-215 PAYMENT VOUCHERS	0.00	
2.3	OTHER TRANSACTIONS	0.00	
2.34	DISCREPANCIES IN D.O. ACCOUNTS – CREDITS	0.00	
2.36	PAYMENTS BY ANOTHER D.O.	0.00	
2.37	TRANSFERS FROM OTHER DISBURSING OFFICERS	0.00	
2.8	IPAC PAYMENTS AND COLLECTIONS	0.00	
2.9	TOTAL INCREASE IN ACCOUNTABILITY		0.00
3.0	SUBTOTAL		100,000.00
4.0	DECREASES IN ACCOUNTABILITY		
4.1	NET DISBURSEMENTS	40,000.00	
4.2	DEPOSITS PRESENTED OR MAILED TO BANK	0.00	
4.3	OTHER TRANSACTIONS	0.00	
4.34	DISCREPANCIES IN D.O. ACCOUNTS – DEBITS	0.00	
4.36	PAYMENTS FOR ANOTHER D.O.	0.00	
4.37	TRANSFERS TO OTHER DISBURSING OFFICERS	0.00	
4.9	TOTAL DECREASES IN ACCOUNTABILITY		40,000.00
5.0	TOTAL ACCOUNTABILITY CLOSE OF PERIOD		60,000.00
PART B - ANALYSIS OF INCUMBENT OFFICER'S ACCOUNTABILITY			
6.1	CASH ON DEPOSIT IN DESIGNATED DEPOSITARY	0.00	
6.2	CASH ON HAND AND IN TRANSIT TO TREASURY	0.00	
6.3	CASH - UNDEPOSITED COLLECTIONS	0.00	
6.4	CUSTODY OR CONTINGENCY CASH	0.00	
6.5	CASH IN CUSTODY OF GOVERNMENT CASHIERS	60,000.00	
6.6	ADVANCES TO CONTRACTORS	0.00	
6.7	CASH IN TRANSIT	0.00	
6.8	PAYROLL CASH	0.00	
6.9	OTHER CASH ITEMS	0.00	
7.1	DEFERRED CHARGES -VOUCHERED ITEMS	0.00	
7.2	RECEIVABLES - CHECK OVERDRAFTS	0.00	
7.3	LOSSES OF FUNDS	0.00	
7.4	RECEIVABLES - DISHONORED CHECKS	0.00	
7.5	ADVANCES	0.00	
8.0	TOTAL OF MY ACCOUNTABILITY		60,000.00
PART C - PREDECESSOR OFFICER'S ACCOUNTABILITY			
9.2	RECEIVABLES- CHECK OVERDRAFTS	0.00	
9.3	LOSSES OF FUNDS	0.00	
9.4	OTHER ACCOUNTABILITY	0.00	
10.0	TOTAL PREDECESSOR OFFICER'S ACCOUNTABILITY		0.00
11.0	TOTAL DISBURSING OFFICER ACCOUNTABILITY		60,000.00

Figure D.3. Statement of Accountability – Month 3

Statement of Transactions						
According to Appropriations, Funds and Receipt Accounts						
In Support of Statement of Accountability						
1. OF (Name of Disbursing Officer)			2. Department Code		3. Station or Agency Number	
			2100			
4. Location			5. Accounting Period			
Appropriation, Fund or Receipt Symbol and Fiscal Year a.	Receipts		Reimbursements		Disbursements	
					(Net of refunds)	
	Description	b.	Description	c.	Description	d.
21 - 2020 - 06		0.00		0.00	Cash Payment	40,000.00
		0.00		0.00		0.00
		0.00		0.00		0.00
		0.00		0.00		0.00
	Totals	0.00	0.00		40,000.00	
			Net Disbursements (Line 4.1)		40,000.00	

Figure D.4. Statement of Transactions – Month 3

Appendix E. Office of the Under Secretary Defense (Comptroller)/Chief Financial Officer Memorandum



COMPTROLLER

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

FEB 12 2008

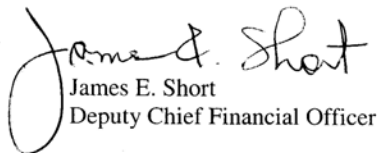
MEMORANDUM FOR ASSISTANT SECRETARIES OF THE MILITARY
DEPARTMENTS (FINANCIAL MANAGEMENT AND
COMPTROLLERS)
U.S. MARINE CORPS, ASSISTANT DEPUTY
COMMANDANT FOR PROGRAMS AND RESOURCES
COMMANDERS OF THE COMBATANT COMMANDS
INSPECTOR GENERAL OF THE DEPARTMENT OF
DEFENSE
DIRECTORS OF THE DEFENSE AGENCIES
COMMANDER, U.S. ARMY CORPS OF ENGINEERS
DIRECTORS OF THE DOD FIELD ACTIVITIES

SUBJECT: Foreign Disbursing Operations - International Treasury Services Usage

The International Treasury Services (ITS.gov) is the Federal Government's comprehensive payment and collection system. The ITS.gov electronically processes international transactions similar to the electronic funds transfer used within the continental United States. ITS.gov supports both foreign currency and U.S. dollar payments. Currently, ITS.gov is used in over 150 countries and supports 135 currencies.

In accordance with the Department of Defense Financial Management Regulation Volume 5, Chapter 12, disbursing officers are encouraged to use ITS.gov where the infrastructure will support its usage. The use of ITS.gov will reduce the amount of cash required to support our overseas operations; eliminate the costs for international transaction processing; and provide the latest security technology.

Managers must ensure internal control procedures are in place for transparency and accountability over ITS.gov transactions. My point of contact is Ms. Audrey Clark. She may be reached by phone at (703) 695-9437 or email at audrey.clark@osd.mil.


James E. Short
Deputy Chief Financial Officer

Appendix F. Joint Contracting Command (Iraq/Afghanistan) Memorandum



HEADQUARTERS
JOINT CONTRACTING COMMAND-IRAQ/AFGHANISTAN
APO AE 09316



PARC-I

25 September 2007

MEMORANDUM FOR PARC-I Contracting Officers and HNBA's

SUBJECT: Contract Payment by Electronic Funds Transfer

Joint Contracting Command-Iraq contracting officers and host nation business advisors will play a key role in a phased plan to implement contract payment by electronic funds transfer (EFT) in Iraq. This EFT initiative will promote a modern banking sector in Iraq by leveraging JCC-I's roughly one hundred fifty million dollars per month awarded to host nation vendors.

Phase I, effective 1 October 2007 for RCC Baghdad, RCC Taji, RCC Victory, MNSTC-I MSD, and TWR: New contracts and orders with an award amount \geq to \$50,000 shall require the vendor to be paid by electronic funds transfer (EFT) to a bank of the vendor's choosing. Further, EFT will be the preferred method of payment for all Iraq RCCs.

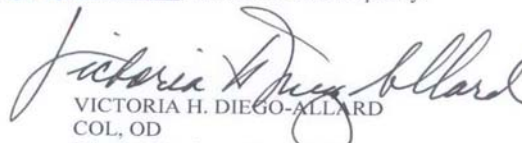
Phase II, effective 1 December 2007 for RCC Baghdad, RCC Taji, RCC Victory, MNSTC-I MSD, and TWR: The threshold award amount is lowered to \geq to \$25000.

Phase III, effective 15 January for RCC Tikrit, RCC Mosul, RCC Kirkuk, and RCC Basrah. These locations shall implement mandatory EFT payments for new contracts and orders with an award amount \geq to \$25000.

Regional Contracting Centers should promote the use of EFT at vendor day presentations, site visits, I-BIZ locations, and pre/post-award meetings. When a vendor chooses to use EFT for on a current contract, the contracting officer will modify the payment instructions as quickly as possible. The contracting officer will document that the government's consideration for the administrative modification is the reduction in handling of cash transactions and the long-term benefit to the Iraqi banking system.

This policy and contract language will be included in the next Acquisition Instruction update. Lt Col Kristen Nelson, kristen.nelson@iraq.centcom.mil, is the POC for this policy.

Attachment:
Draft AI Language


VICTORIA H. DIEGO-ALLARD
COL, OD
Principal Assistant Responsible
for Contracting-Iraq

Appendix G. Non-COMA Statement of Accountability Line Items

Line Item Number	Statement of Accountability Line Item and Definition
6.6	Advances to Contractors. Used to record cash advanced to contractors under advance pool agreements.
6.9	Other Cash Items. Used for exchange-for-cash checks prepared in advance and pre-positioned checks awaiting pickup by a Deputy DO, disbursing agent, or cashiers.
7.1	Deferred Charges-Vouchered Items. Used to record any paid voucher that has not been recorded in the accounting system.
7.2	Receivables-Check Overdrafts. Used for check-issue overdraft increases and for any disbursements or collections against an undercharged appropriation reducing the check-issue overdraft.
7.3	Losses of Funds. Used to record any physical losses of cash, negotiable instruments, and uncollected dishonored check amounts.
7.4	Receivables-Dishonored Checks. Used for any dishonored checks received that are to be retained in DO accountability. Used also for dishonored checks collected or for which relief has been granted that are currently carried in DO accountability.
9.2	Receivables-Check Overdrafts. Used by incumbent DO to settle the predecessor DO accounts. Compute in the same manner as Line 7.2.
9.3	Losses of Funds. Used by incumbent DO to settle the predecessor DO accounts. Compute in the same manner as Line 7.3.
9.4	Other Accountability. Used by incumbent DO to settle the predecessor DO accounts. Compute in the same manner as Line 7.4.

Appendix H. Glossary

Accommodation Exchange. The exchange of U.S. Treasury checks or U.S. dollar instruments for U.S. dollars (i.e. check-cashing). Also, the exchange of U.S. dollars or dollar instruments for foreign currency for the convenience of authorized personnel, or, where permitted, the exchange of foreign currencies for U.S. dollars or dollar instruments.

Accountable Individual. As used in this report, the term “accountable individual” includes all personnel, whether military or civilian, who are certifying officers, accountable officials, and disbursing officers. The term also includes deputy disbursing officers, agents, cashiers and other employees who by virtue of their employment are responsible for or have custody of government funds.

Agent (of a Disbursing Officer). An individual who is acting under a formal letter of appointment from the disbursing officer. Agents are not authorized to sign U.S. Treasury checks. The duties of an agent usually consist of making cash payments and collections, performing check-cashing services, and preparation of financial documents. Agents may be authorized to sign such other official documents attesting to transactions made by the agent as specifically designated in the appointment.

Cashier. A cashier can be a military member or DoD civilian employee designated by the disbursing officer to perform duties involving the handling of public funds.

Certifying Officer. An individual designated to attest to the correctness of statements, facts, accounts, and amounts appearing on a voucher or other documents. A certifying officer is pecuniarily liable for payments in accordance with 31 U.S.C. 3528.

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

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

Collection Agent. A collection agent is an individual who has been designated to perform duties relating to the collection of official funds, including funds held as safekeeping deposits, at a point other than a disbursing office. The individual designated as a collection agent must perform the collection duties under the general supervision of and as prescribed by the appointing officer. Responsibility for duties and functions should be segregated among receipt of funds, recordkeeping, determination of amount owed, and making demands on the debtor, so as to minimize opportunities for unauthorized, fraudulent, or otherwise irregular acts. Collection agents should not be involved with billing or accounting for funds received. Additionally, disbursing office personnel will not be designated as collection agents. A collection agent is appointed by the local commander.

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

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

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

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

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

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

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

Disbursing Station Symbol Number (DSSN). A four-digit number assigned to each disbursing office by the Department of the Treasury. The DSSN is an identification number that indicates authority to receive and disburse public funds and issue checks on the United States Treasury.

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

General Depository. The financial institution designated by the Department of the Treasury to accept deposits of cash and checks from specifically authorized disbursing officers (also called Treasury's General Account Depositories).

Illegal, Incorrect, or Improper Payment. An illegal, incorrect, or improper payment is defined as:

- a) an overpayment of a payee;
- b) two or more payments to a payee for the same entitlement;
- c) a payment to the wrong payee;
- d) a U.S. Treasury check issue overdraft (in some instances);
- e) a negotiation of both the original and a replacement U.S. Treasury check;
- f) any payment based on fraudulent, forged, or altered documents prepared or presented by individuals who do not work in the disbursing office; or
- g) a payment made in violation of a regulation.

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

Imprest Fund Cashier. An individual appointed by the local commander to make authorized cash payments for materials or services. An imprest fund cashier is required to maintain custody of public funds and to file periodic vouchers to account for and replenish the imprest fund. Disbursing personnel are not eligible for appointment as imprest fund cashiers.

Irregularity in a Disbursing Officer's Account. Denotes any action (or lack thereof), event, practice, or circumstance that causes an out-of-balance condition in the financial accountability to the United States of the disbursing officer or deputies, agents, and cashiers to whom public funds have been entrusted.

Limited Depository. A U.S. or foreign commercial bank designated by the Treasury Department to receive deposits from disbursing officers for credit to their official limited depository checking accounts.

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

Paying Agent. A military member or DoD civilian employee appointed by the commander to act as an agent of a disbursing officer. The purpose of a paying agent is to make specific payments, currency conversions, or check-cashing transactions from funds temporarily advanced to the agent by the disbursing officer. Paying agents are individuals whose regular duties do not involve disbursing functions and who are not located in the disbursing office. They are appointed to the position of paying agent as a collateral duty and will be under the exclusive supervision of the disbursing officer in all matters concerning custody and disposition of funds advanced to them. They will comply with all instructions and regulations pertaining to their paying agent duties as issued by the disbursing officer. All payments or currency conversions made by a paying agent are made for, and in the name of, the disbursing officer making the appointment. Funds advanced to a paying agent are held at personal risk by the paying agent and must be accounted for to the disbursing officer immediately upon completion of the transaction(s) for which advanced.

Special Drawing Right. An international reserve asset created by the International Monetary Fund to supplement the existing reserve assets of its member countries. The Special Drawing Right is the International Monetary Fund's unit of account, and Special Drawing Rights may be used by members in transactions with the International Monetary Fund, other member countries, and other authorized holders. Four currencies (the U.S. dollar, the euro, the Japanese yen, and Pound sterling) serve as the basis for determining both the valuation and the interest rate of the Special Drawing Right.

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

SF 1220, "Statement of Transactions." Each DoD disbursing station is required to prepare the Statement of Transactions monthly. The Statement of Transactions reports the disbursements shown on the Statement of Accountability by appropriation. Treasury requires that the net disbursements reported on the Statement of Transactions agree with the net disbursements reported on the Statement of Accountability.

Office of the Under Secretary of Defense Comments



COMPTROLLER

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

DEC 08 2008

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

SUBJECT: Comments to Draft Audit Report, "Internal Controls Over DoD Cash and
Other Monetary Assets," (Project No. D2007-D000FP-0174.000)

This memorandum forwards the Under Secretary of Defense (Comptroller)
response to the subject draft DoD Inspector General report, dated October 10, 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", is positioned above the printed name.

David P. Smith
Acting Deputy Chief Financial Officer

Attachment:
As stated

**DOD OIG DRAFT REPORT DATED OCTOBER 10, 2008
PROJECT NO. D2007-D000FP-0174.000**

**"INTERNAL CONTROLS OVER DOD CASH AND OTHER MONETARY
ASSETS"**

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

RECOMMENDATION A.1.a: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD(C)/CFO) charge a proper appropriation, or coordinate with the Office of Management and Budget (OMB) and the U.S. Treasury (Treasury) to:

- (1) Obtain a waiver to hold a certain amount of cash without charging an appropriation, or
- (2) Establish a new U.S. Treasury account symbol to charge when cash is obtained from the U.S. Treasury.

OUSD(C) RESPONSE: Concur. We are in engaged with OMB and Treasury in resolving this issue and have recommended the establishment of a special control account to report and account for cash to support DoD and other Federal Agencies involved in ongoing contingency operations. Both OMB and Treasury recognize that timely, responsible, and efficient financial support is vital to the global war on terror and have agreed to work with DoD. We are in the process of developing specific criteria, policy, and metrics to ensure the account is used only as intended. Expected completion date is June 2009.

RECOMMENDATION A.1.b: We recommend that the USD(C)/CFO revise the Department of Defense Financial Management Regulation (DoDFMR), Volume 5, to reflect the implementation of Recommendation A.1.a (1) – (2).

OUSD(C) RESPONSE: Concur. The DoDFMR, Volume 5 will be updated to incorporate the new policy. Expected completion date is June 2009.

RECOMMENDATION A.1.c: We recommend that the USD(C)/CFO report a material weakness (Overall Process) for Cash and Other Monetary Assets in its Annual Statement of Assurance and Annual Financial Report until it implements all the recommendations in this report.

Attachment
Page 1 of 4

OUSD(C) RESPONSE: Nonconcur. We disagree with the recommendation to report a material weakness for COMA in the Annual Statement of Assurance and the Annual Financial Report. The Government Accountability Office, "Government Auditing Standards," defines a material weakness as, "a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected." COMA, reported as 0.17 percent of the DoD Agencywide total assets, does not meet this criteria and should not be considered a material weakness. Management will evaluate the reported deficiencies in accordance with DoD Instruction 5010.40, "Managers' Internal Control Program Procedures" and determine the proper method for reporting. We will continue to track all recommendations until implemented. Expected completion date is June 2009.

RECOMMENDATION B.1.a. We recommend that the USD(C)/CFO develop a policy for determining when cash disbursements can be made to contractors in Iraq and other countries instead of another payment method, such as check or electronic fund transfer.

OUSD(C) RESPONSE: Concur. The OUSD(C)/DCFO issued a memorandum on February 12, 2008, which reiterated that the Treasury International Service (ITS.gov) should be used to the maximum extent possible, when the infrastructure permits, to reduce the cost of processing international transactions. The DoDFMR, Volume 5, Chapter 12, "Foreign Disbursing Operations" was updated in May 2008 to state, "When a foreign currency payment needs to be made, the preferred method of payment is ITS.gov." Also, the Headquarters, Joint Contracting Command-Iraq/Afghanistan issued a memorandum on September 27, 2007, establishing guidance as to when cash payments can be made in Iraq and Afghanistan. Completed May 2008.

RECOMMENDATION B.1.b: We recommend that the OUSD(C)/CFO coordinate the policy with the Office of the Secretary of Defense (Acquisition) personnel.

OUSD(C) RESPONSE: Concur. See response to Recommendation B.1.a. above. Completed May 2008.

RECOMMENDATION B.1.c. We recommend that the USD(C)/CFO provide all affected DoD organizations and personnel with the new policy by issuing a memorandum and guidance as necessary.

OUSD(C) RESPONSE: Concur. See response to Recommendation B.1.a. above. Completed May 2008.

RECOMMENDATION B.1.d. We recommend that the USD(C)/CFO incorporate the policy into the DoDFMR, Volume 5, "Disbursing Policy and Procedures."

Attachment
Page 2 of 4

OUSD(C) RESPONSE: Concur. The DoDFMR was updated to reflect the new policy. Completed May 2008.

RECOMMENDATION B.1.e. We recommend that the USD(C)/CFO ensure that the new policy is followed by conducting periodic inspections of disbursing stations.

OUSD(C) RESPONSE: Nonconcur. We disagree with the recommendation to conduct periodic inspections. The DoDFMR, Volume 5, Chapter 3, requires that cash on hand be kept to the absolute minimum levels needed for operational requirements. Additionally, a policy memorandum, "Cash and Other Monetary Assets Review" was issued on July 10, 2007, requiring that all affected DoD organizations confirm that cash on hand did not exceed the absolute minimum operational requirements and report the amount of the cash reductions from the review to the DCFO. We will continue to monitor the use of cash and seek other non-cash methods of payments. Action is completed.

RECOMMENDATION C.1.a: We recommend that the USD(C)/CFO revise the DoDFMR, Volume 6A, Chapter 2, "Financial Reports Roles and Responsibilities" to require the Defense Finance and Accounting Service (DFAS) to be able to identify and track cash collection and disbursement vouchers by the following types of information:

- (1) DFAS site;
- (2) Disbursing Station Symbol Number;
- (3) Month and fiscal year;
- (4) Number of cash collections and disbursements;
- (5) Dollar amount of cash disbursements and collections.

OUSD(C) RESPONSE: Concur. Our current systems and processes do not capture and maintain the information recommended. We do recognize that having the recommended data would provide valuable information for decision-making and oversight. However, DFAS will not be able to implement this recommendation until the Treasury Governmentwide Accounting Modernization Project (GWAMP) for the Non-Treasury Disbursed Operations is deployed. As systems and processes permit, the DoDFMR will be revised. Completion date is subject to the GWAMP implementation schedule.

RECOMMENDATION C.1.b. We recommend that the USD(C)/CFO archive the information in accordance with DoD record retention requirements.

OUSD(C) RESPONSE: Concur. The DoDFMR, Volume 5, Chapter 21, "Disbursing Office Records" provides the authoritative guidance on the retention of disbursing office

Attachment
Page 3 of 4

records. We will 'hyperlink' this information to Volume 6A, Chapter 2, "Financial Reports Roles and Responsibilities" and Volume 1, Chapter 9, "Financial Records Retention." Expected completion date is March 2009.

RECOMMENDATION D.1.a: We recommend that the USD(C)/CFO revise the DoDFMR, Volume 6B, Chapter 4, "Balance Sheet," January 2006, by:

- (1) Defining which Statement of Accountability (SoA) line items should be reported as Cash and Other Monetary Assets on the balance sheet.
- (2) Providing guidance on how to correctly report line items that are not Cash and Other Monetary Assets on the balance sheet.

OUSD(C) RESPONSE: Partially Concur. The USD(C)/CFO staff revised "Attachment 205 – Disbursing Officer's Accountability Report" for the fiscal year 2008, second quarter financial statement reporting to identify which SoA line items should be reported as COMA and non-COMA on the balance sheet. The DoDFMR Volume 6B, Chapter 4, "Balance Sheet" will be updated by March 2009.

However, we disagree that Line 6.9 – "Other Cash Items" is incorrectly reported and accounted for as COMA on the balance sheet. The Federal Accounting Standards Advisory Board, Statement of Federal Financial Accounting Standards, No.1, "Accounting for Selected Assets and Liabilities" defines cash as, "coins, paper currency, and readily negotiable instruments, such as money orders, checks, and bank drafts on hand or in transit for deposit." The amounts reported on Line 6.9 are Treasury Exchange-for-Cash Checks prepared in advance and awaiting pickup by a deputy, agent, or cashier. Additionally, the DoDFMR, Volume 5, Chapter 19, paragraph 190205, dated April 2008, requires that "Any other category of cash or cash items to be reported on this line must be approved by the servicing DFAS site and explained."

RECOMMENDATION D.1.b: We recommend that the USD(C)/CFO require DFAS sites to develop or revise DFAS standard operating procedures to implement Recommendations D.1.a. (1) – (2).

OUSD(C) RESPONSE: Concur. The DCFO will issue a memorandum directing DFAS to develop or revise standard operating procedures on how to report COMA on the balance sheet. Expected completion date is December 2008.

Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE
8550 EAST 36 TH STREET
INDIANAPOLIS, INDIANA 46249

DEC 11 2008

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCIAL AUDITING SERVICE,
OFFICE OF THE INSPECTOR GENERAL, DoD

SUBJECT: DFAS Comments to DoDIG Draft Report, "Internal Controls Over DOD
Cash and Other Monetary Assets", dated October 10, 2008, Project D2007-
D000FP-0174.000.

Attached are management comments to DoDIG Draft Report, "Internal Controls
Over DoD Cash and Other Monetary Assets", dated October 10, 2008 to
recommendations A.2.a, A.2.b, B.2, and C.2.

Questions your staff may have concerning these matters may be directed to Ms.
Cindy Gregory, Standards & Compliance Tax & Disbursing Functional Area, (317) 510-
6176.

David E. McDermott
Director, Standards & Compliance

Attachment:
As stated

DFAS
Your Financial Partner @ Work

DFAS Comments to DoDIG Draft Report, "Internal Controls Over DoD Cash and Other Monetary Assets", dated October 10, 2008, Project D2007-D000FP-0174.000

We Recommend that the Director, Defense Finance and Accounting Service:

Recommendation A.2.a: Require the DFAS Centers to develop or revise processes and formal standard operating procedures to implement Recommendations A.1.a (1)-(2).

Management Comments: Concur. We are supporting OUSD(C) as they plan for Government Wide Accounting (GWA). We will develop and implement SOPs when the OUSD(C) policy is developed.

Estimated Completion Date: October 1, 2009. (This is 90 days after OUSD(C)'s ECD for the policy change.)

Recommendation A.2.b: Report a material weakness (Overall Process) for Cash and Other Monetary Assets in its Annual Statement of Assurance until it implements all the recommendations in this report.

Management Comments: Partially-Concur. It is our opinion that we are operating within the guidance of the DoDFMR and spirit of 31 U.S.C. and that this issue should not be listed as a material weakness. We will ensure that this finding is addressed in accordance with OMB A-123 and DoD Instruction Number 5010.40 guidance to determine the proper reporting in the DFAS Annual Statement of Assurance.

Estimated Completion Date: July 1, 2009.

Recommendation B.2: Recommend the Director, Defense Finance and Accounting Service require the DFAS Centers to develop or revise processes and formal standard operating procedures to implement Recommendations B.1.a-e.

Management Comments: Concur. We will develop and implement SOPs when the OUSD(C) policy is developed.

Estimated Completion Date: October 1, 2009. (This is 90 days after OUSD(C)'s ECD for the policy change.)

Recommendation C.2: Recommend the Director, Defense Finance and Accounting Service require the DFAS Centers to develop or revise processes and formal standard operating procedures to implement Recommendations C.1.a.(1) -(5) and C.1.b.

Management Comments: Concur. We are supporting the OUSD(C) staff in their efforts to implement the Treasury Government-wide Accounting Modernization Project which is an essential component of the Department's strategy to executing recommendations C.I.a.(1) -(5) and C.I.b. We will develop and implement SOPs when the OUSD(C) policy is developed.

Estimated Completion Date: October 1, 2009. (This is 90 days after OUSD(C)'s ECD for the policy change.)



Inspector General Department of Defense

