

# Inspector General

United States  
Department of Defense



Internal Controls Over  
U.S. Army Corps of Engineers,  
Civil Works, Disbursement Processes

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### **Acronyms and Abbreviations**

CEFMS	Corps of Engineers Financial Management System
FMR	Financial Management Regulation
GAO	Government Accountability Office
PCS	Permanent Change in Station
PR&C	Purchase Request and Commitment
SOP	Standard Operating Procedures
TDY	Temporary Duty
UFC	USACE Finance Center
USACE	United States Army Corps of Engineers



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
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August 1, 2011

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF  
FINANCIAL OFFICER  
ASSISTANT SECRETARY OF THE ARMY (CIVIL WORKS)  
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL  
MANAGEMENT AND COMPTROLLER)  
COMMANDING GENERAL AND CHIEF OF ENGINEERS, U.S.  
ARMY CORPS OF ENGINEERS  
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: U.S. Army Corps of Engineers, Civil Works, Internal Controls Over Disbursement  
Processes (Report No. D-2011-094)

We are providing this report for your information. The DoD Office of Inspector General performed an audit of the internal controls over U.S. Army Corps of Engineers (USACE), Civil Works, disbursement processes. Our audit objective was to determine whether USACE, Civil Works, established adequate internal controls to identify and address improper payments. Specifically, we determined whether USACE, Civil Works, disbursements were accurate, timely, and properly paid.

USACE, Civil Works, internal controls for identifying and addressing improper payments were generally effective. However, USACE, Civil Works, standard operating procedures (SOPs) for post payment reviews did not always include updated DoD policies. Our review did not identify any improper payments as a result of this internal control weakness. Therefore, we are not making any recommendations. We informed USACE, Civil Works, personnel of the need to update its SOPs. USACE, Civil Works, generally agreed and stated that USACE, Civil Works, personnel are reviewing the SOPs and will update them as applicable.

#### **ACCURACY AND TIMELINESS OF DISBURSEMENTS**

USACE, Civil Works, internal controls included procedures to identify and address improper payments and ensured that disbursements were accurate and timely. Specifically, the controls for commercial, Temporary Duty (TDY), Permanent Change in Station (PCS), and credit card payments were generally effective for ensuring that the disbursements were accurate, timely, and properly paid. In addition, USACE Finance Center (UFC) performed post payment reviews to identify improper payments and other control weaknesses in its disbursement processes. We reviewed source documents including travel authorizations, travel vouchers, purchase request and commitments (PR&Cs), receiving reports, and invoices for 228 USACE, Civil Works, FY 2010 disbursement transactions, valued at \$5.9 million. We determined that 223 of 228 transactions reviewed were accurate, timely, and properly paid. However, we identified five transactions that were not paid timely. Table 1 shows the value and results of the disbursements we reviewed.

**Table 1. FY 2010 USACE, Civil Works, Value and Results of Disbursements Reviewed**

<b>Disbursements</b>	<b>Transactions Reviewed</b>	<b>Transactions Reviewed That Were Not Paid Timely</b>	<b>Value of Transactions Reviewed</b>
Commercial Payments	71	4	\$5,833,185
TDY/PCS	49	0	39,418
Credit Cards	107	1	47,839
Other*	1	0	27
<b>Total</b>	<b>228</b>	<b>5</b>	<b>\$5,920,469</b>
*Reimbursement for an employee's professional certification.			

**Commercial Payments.** USACE, Civil Works, controls for commercial payments were generally effective. We reviewed PR&Cs, invoices, and receiving reports for 71 commercial payments, valued at \$5.8 million. We compared amounts paid to invoices to determine whether the amounts paid were accurate. Additionally, we compared the invoices' received date to the invoices' paid date to determine whether the payments were made in a timely manner. We also reviewed PR&Cs, receiving reports, and invoices printed from Corps of Engineers Financial Management System (CEFMS) to determine whether the purposes for the payments were proper. We did not identify any improper or inaccurate payments for these transactions. However, 4 of the 71 commercial payments transactions reviewed were not paid timely. The four transactions were for nominal amounts; therefore, we concluded that commercial payment transactions were generally accurate, timely, and properly paid.

In addition, UFC performed daily and quarterly post payment reviews of commercial payments. We assessed results of these post payment reviews and found the review procedures to be generally effective for identifying internal control weaknesses and improper payments. The daily post payment reviews were for disbursements made the day before and included the identification of potential improper payments based on nine reconciliation or edit error types. The procedures for the quarterly post payment reviews included steps for reviewing pertinent commercial payments documentation. USACE, Civil Works, reviews identified instances of "administrative errors." The administrative errors were categorized as inadequate segregation of duties or late payments. USACE, Civil Works, considered late payments to be payments that occurred after the payment due date on the invoices. For example, an invoice stamped as received on December 7, 2009, had a payment due date of December 8, 2009. The invoice was paid on December 17, 2009, and USACE, Civil Works, categorized the payment as late because payment was made after the invoice due date. However, we compared the invoice received date to the paid date and determined that the payment was made within thirty days after the date on which the invoice was received, as required by DoD FMR, volume 10, chapter 7, section

070205, “Determining the Payment Due Date.” Therefore, we do not consider this or similar payments late.

**TDY and PCS Payments.** USACE, Civil Works, controls over TDY and PCS payments were effective. We reviewed travel authorizations and vouchers or subvouchers for 49 TDY and PCS transactions valued at \$39,418. We compared the TDY and PCS authorizations to travel vouchers and subvouchers to determine whether the transactions were proper. We compared vouchers and subvouchers to electronic payment records in CEFMS to determine the accuracy and timeliness of the amounts paid, and did not identify any discrepancies. Therefore, we determined that TDY and PCS payments were accurate and timely. In addition, UFC performed monthly post payment reviews of TDY payments and quarterly post payment reviews of PCS payments. Although USACE, Civil Works, TDY and PCS post payment review procedures were effective in identifying improper payments, the standard operating procedures did not always include updated DoD policies. For example, USACE, Civil Works, procedures for TDY and PCS reviews did not include updated DoD policy to perform pre-payment reviews of travel vouchers for more than \$2,500 as required by DoD FMR, volume 5, chapter 33, section 3308, “Random Review of Disbursement Vouchers,” August 2010. We informed USACE, Civil Works, personnel of the need to update its SOPs. USACE, Civil Works, generally agreed with the finding on the SOPs and stated that USACE, Civil Works, personnel are reviewing the SOPs and will update them as applicable.

**Credit Card Payments.** USACE, Civil Works, controls for credit card purchases and disbursements were generally effective. We reviewed PR&Cs, invoices, and receiving reports for 107 credit card purchases, valued at \$47,839. We compared transaction amounts paid to invoices to determine whether the amounts paid were accurate. We reviewed the PR&Cs, receiving reports, and invoices printed from CEFMS to determine whether the purposes for the payments were timely and proper. We did not identify any improper or inaccurate payments. However, we identified 1 of 107 credit card transactions reviewed that was not paid timely. Therefore, we concluded that credit card disbursement transactions were generally accurate, timely, and properly paid.

## **AUDIT STANDARDS**

We conducted this audit from December 2010 through July 2011 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 conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

## **SCOPE AND AUDIT METHODOLOGY**

We visited and interviewed operating personnel at USACE, Civil Works, Headquarters, UFC, and the Baltimore and Little Rock District offices. At UFC and the district offices, we obtained and reviewed standard operating procedures and observed internal control processes. Specifically, at UFC and the district offices, we observed personnel inputting, approving, and reviewing disbursement transactions in CEFMS.



We obtained a universe of 1,013,376 transactions valued at \$9.7 billion in the USACE, Civil Works, FY 2010 general ledger 1010.21 (Funds Disbursed) account as of September 30, 2010, for our review after we excluded intra-USACE, Civil Works, and payroll transactions. We excluded payroll transactions because we previously shared our observations and recommendations on the internal controls over payroll processing with USACE, Civil Works, as a result of our audit of the USACE, Civil Works, FY 2010 financial statements. We obtained a statistical sample of transactions valued at about \$5.9 million for our review. Our review of supporting documentation included travel orders, travel vouchers, purchase requests, receiving reports, and invoices. We compared:

- amounts billed to PR&Cs, invoices, and receiving reports to determine the accuracy of the amounts billed,
- transaction amounts paid to amounts billed to determine whether the amounts paid were accurate, and
- invoices received date to the paid date to determine whether the payments were made within thirty days after the date on which the invoice was received, as required by DoD FMR, volume 10, chapter 7, section 070205, “Determining the Payment Due Date.”

We reviewed purchase requests, receiving reports, and invoices printed from CEFMS to determine whether the purposes for the payments were proper. Additionally, we reviewed the disbursement documents to determine whether each transaction was initiated, authorized, and approved by different individuals to ensure proper segregation of duties.

## USE OF TECHNICAL ASSISTANCE

With the assistance of our Quantitative Methods and Analysis Division, we used Simple Random Sampling design and randomly selected 228 disbursement transactions for review. We determined the sample size using a “what-if” analysis method and our professional judgment. We drew sample transactions without replacement from the universe using Statistical Analysis System programming tools. Table 2 identifies the universe and the value of sample transactions we reviewed.

**Table 2. Universe and Value of Sample Transactions Reviewed**

	<b>Universe of Transactions</b>	<b>Value of the Universe of Transactions</b>	<b>Sample Transactions</b>	<b>Value of Sample Transactions</b>
<b>Transactions</b>	1,013,376	\$9,729,318,745	228	\$5,920,469

## USE OF COMPUTER-PROCESSED DATA

We used computer-processed data from CEFMS to determine whether USACE, Civil Works, disbursements were accurate, timely, and properly paid. We tested the accuracy of the data by reviewing and comparing the data to source documents such as travel orders, travel vouchers, purchase requests, receiving reports, and invoices. We concluded that CEFMS data were sufficiently reliable for our audit purposes.

## PRIOR AUDIT COVERAGE

During the last five years, the Government Accountability Office (GAO) and the Department of Defense Office of Inspector General issued several reports discussing DoD disbursements. Unrestricted GAO reports can be accessed at <http://www.gao.gov>. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit> reports.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5868 (DSN 329-5868).



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# Inspector General Department of Defense