

# Inspector General

United States  
Department of Defense



Improvements to Controls Over Cash Are Needed at  
the Army Disbursing Office at Soto Cano Air Base,  
Honduras

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## Acronyms and Abbreviations

ATM	Automated Teller Machine
CFR	Code of Federal Regulations
COMA	Cash and Other Monetary Assets
DDO	Deputy Disbursing Officer
DFAS	Defense Finance and Accounting Service
DO	Disbursing Officer
DRS	Deposit Reporting System
DSSN	Disbursing Station Symbol Number
JTF-B	Joint Task Force-Bravo
LOF	Loss of Funds
FMR	Financial Management Regulation
SOP	Standard Operating Procedure
USAFMCOM	U.S. Army Financial Management Command
USSOUTHCOM	U.S. Southern Command



**INSPECTOR GENERAL**  
DEPARTMENT OF DEFENSE  
4800 MARK CENTER DRIVE  
ALEXANDRIA, VIRGINIA 22350-1500

March 4, 2013

MEMORANDUM FOR COMMANDER, U.S. SOUTHERN COMMAND  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE  
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Improvements to Controls Over Cash Are Needed at the Army Disbursing Office at Soto Cano Air Base, Honduras (Report No. DODIG-2013-051)

We are providing this final report for review and comment. Controls at the Honduras disbursing office were not adequate to safeguard, account for, document, and report cash. In addition, the Joint Task Force-Bravo Command did not complete loss of funds investigations. The Honduras disbursing office had \$1.2 million in cash on hand as of November 2, 2011. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that recommendations be resolved promptly. We did not receive comments from Chief of Staff, U.S. Southern Command on Recommendations 2.a and 2.b. Comments from the Commander, Joint Task Force-Bravo, were nonresponsive to Recommendation 5.a. In addition, comments from Defense Finance and Accounting Service, Indianapolis, were partially responsive or nonresponsive to Recommendations 6, 7.b, 7.c (2), 7.c (3), 7.d (1), and 7.d (2). Therefore, we request additional comments on these recommendations by April 3, 2013. We considered all other comments responsive.

If possible, send a portable document format (.pdf) file containing your comments to [audfmr@dodig.mil](mailto:audfmr@dodig.mil). Pdf copies of your comments must have the actual signature of the authorizing official for your organization. We are unable to accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-8938 (DSN 664-8938).

Richard B. Vasquez, CPA  
Acting Assistant Inspector General  
Financial Management and Reporting







# Results in Brief: Improvements to Controls Over Cash Are Needed at the Army Disbursing Office at Soto Cano Air Base, Honduras

## What We Did

We determined whether internal controls at the Army disbursing office on Soto Cano Air Base, Honduras, were effectively designed and operating adequately to safeguard, account for, document, and report Cash and Other Monetary Assets (COMA). The Honduras disbursing office had \$1.2 million in cash on hand as of November 2, 2011. We also evaluated whether the U.S. Army Financial Management Command (USAFMCOM) effectively implemented technical oversight and provided assistance to the Honduras disbursing office.

## What We Found

Controls at the Honduras disbursing office were not adequate to safeguard, account for, document, and report cash. Specifically, the then deputy disbursing officer (DDO) did not avoid conflicts of interest, properly complete "Security Container Check Sheets," and secure cash.

This occurred because DDO appointments were rotated approximately every 6 months and the DO did not have adequate standard operating procedures in place. Moreover, the then DDO stated that he was not aware of the requirements and was not trained to perform these duties.

In addition, the disbursing officer (DO) did not prepare the report on foreign currency purchased and improperly revoked and appointed DDOs. This occurred because he did not have procedures in place to ensure that the report was prepared and DDO revocations and appointments were conducted in a timely manner.

The Commander, Joint Task Force-Bravo (JTF-B), did not properly complete physical loss of funds (LOF) investigations. The DO staff stated that the lack of Command involvement in

appointing investigating officers and the inexperience of the DDOs and their 6-month rotation caused the problems with the LOF investigations. The Deputy Commander, JTF-B, also attributed the problems with the investigations to the lack of continuity of staff.

Lastly, the Director, USAFMCOM, did not provide adequate oversight. The Director stated that adequate oversight was provided during staff assistance visits. However, none of the visits corrected the control issues identified in this report.

As a result, the Army increased its risk of loss due to error, theft, and fraud at the Honduras disbursing office.

## What We Recommend

Among other recommendations, we recommended corrective actions in the areas of separation of duties, training, staff assistance visits, and improved procedures all of which should improve security over cash. We also recommended that senior management review the actions of officials responsible for providing oversight of the Honduras disbursing office, conducting LOF investigations, and ensuring adequate procedures are in place.

## Management Comments and Our Response

We received management comments from the Army and Defense Finance and Accounting Service that were responsive, partially responsive, and nonresponsive. We did not receive comments from the U.S. Southern Command. We request that management provide additional comments in response to this report by April 3, 2013. Please see the Recommendations Table on the next page.

## Recommendations Table

<b>Management</b>	<b>Recommendations Requiring Comment</b>	<b>No Additional Comments Required</b>
Deputy Assistant Secretary of the Army (Financial Operations)		1.a and 1.b
Chief of Staff, U.S. Southern Command	2.a and 2.b	
Director, U.S. Army Financial Management Command		3
Commander, U.S. Army South		4
Commander, Joint Task Force-Bravo	5.a	5.b, and 5.c
Director, Defense Finance and Accounting Service Indianapolis, Financial Operations	6	
Disbursing Officer, Defense Finance and Accounting Service Indianapolis, Disbursing Operations	7.b, 7.c.(2), 7.c.(3), 7.d.(1), and 7.d.(2)	7.a, and 7.c.(1)

**Please provide comments by April 3, 2013.**

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# Introduction

## Objectives

The overall objective of the audit was to determine whether internal controls at the Army disbursing office on Soto Cano Air Base, Honduras (Honduras disbursing office) were effectively designed and operating adequately to safeguard, account for, document, and report Cash and Other Monetary Assets (COMA). In addition, we evaluated whether the U.S. Army Finance Command (now, U.S. Army Financial Management Command [USAFMCOM]) effectively implemented technical oversight and provided assistance to the Honduras disbursing office. See the Appendix for a discussion of the scope and methodology and prior coverage related to the objective.

## Background

The Federal Accounting Standards Advisory Board, Statement of Federal Financial Accounting Standards 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.” Office of Management and Budget Circular No. A-136, “Financial Reporting Requirements,” September 29, 2010, defines other monetary assets as gold, special drawing rights, and U.S. Reserves in the International Monetary Fund.

DoD reported \$1.72 billion of COMA on its DoD Agency-Wide Consolidated Balance Sheet as of September 30, 2011. The Army General Fund COMA represented \$1.43 billion (83.1 percent) of the DoD Agency-Wide COMA amount, of which \$18.7 million was attributable to Army disbursing offices outside the continental United States that did not previously have oversight by an Army Financial Management Center. The Army disbursing offices are located in Sinai, Egypt; Soto Cano Air Base, Honduras; and Riyadh, Saudi Arabia. As of November 2, 2011, the Honduras disbursing office cash balance was about \$1.2 million. See the Appendix for a discussion of our site selection.

The Deputy Assistant Secretary of the Army for Financial Operations issued a memorandum, “Technical Oversight of Army Finance Operations,” on July 10, 2009. The memorandum directs USAFMCOM to provide technical oversight and assistance to finance operations that do not fall under a separate Financial Management Center. At a minimum, USAFMCOM is required to conduct an annual staff assistance visit to help train staff, ensure offices have the most current version of finance systems, and ensure that appropriate internal controls and regulatory compliance are in place.

## Disbursing Office

A disbursing office is an activity, or the organizational unit of an activity, whose principal function consists of the disbursement, collection, and reporting of public funds. Each disbursing office is assigned a disbursing station symbol number (DSSN) by the

U.S. Treasury. The DSSN indicates that authority has been granted to receive and disburse public funds and issue checks on behalf of the U.S. Treasury.

## **Disbursing and Deputy Disbursing Officers**

Each disbursing office has a disbursing officer (DO) and should have at least one deputy DO (DDO) position under the direct DO's cognizance/control. DOs are agents of the U.S. Treasury that perform disbursing functions and are accountable to the U.S. Treasury for the cash items in their possession. DOs maintain documents representing the cash for which they are accountable in their vault or safe and account for them daily on the "Daily Statement of Accountability" (DD Form 2657) and monthly on the "Statement of Accountability" (SF 1219). Further, DOs may provide funds to DDOs and paying agents or authorize DDOs to obtain funds. DDOs report their accountability to the DO on the "Daily Agent Accountability Summary" (DD Form 2665). Other agents' and cashiers' accountability is reported on the "Statement of Agent Officer's Account" (DD Form 1081) as a summary of cash transactions and receipts for cash and vouchers on hand.

## **Reporting Structure of the Honduras Disbursing Office**

The Honduras disbursing office is under the control of the DO for the Defense Finance and Accounting Service (DFAS) Indianapolis, Disbursing Operations (DSSN 5570). The DO is accountable for all the funds collected and disbursed at the disbursing office. The DO is also responsible for appointing and overseeing the DDO for the disbursing office.

The DDO is responsible for appointing staff and conducting the day-to-day operations of the disbursing office. The DDO and staff engage in foreign currency transactions that require appropriate translation between foreign and U.S. currencies. In addition, the DDO and staff engage in accommodation exchanges<sup>1</sup> daily, and normal operating activity transactions that require the use of both U.S. and foreign currency, sometimes concurrently in a single transaction.

## **Effective Controls Over Existence and Accountability Documents**

Although we identified several weaknesses at the Honduras disbursing office, we also observed instances where disbursing office personnel were performing their duties correctly. For example, we observed a cash count on November 3, 2011, and the count agreed with the \$1,163,745 cash balance reported on the DD Form 2665. In addition, we determined that the Honduras disbursing office properly remained within its Cash Holding Authority. We also determined that the Honduras disbursing office had proper:

- reconciliation of the Limited Depository Account,
- preparation of the Statement of Designated Depository Account (SF 1149),

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<sup>1</sup> 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.

- preparation and documentation of the Key Control Register,
- accounting and safeguarding of Treasury checks, and
- functioning alarm system for the disbursing office.

## **Review of Internal Controls**

DoD Instruction 5010.40, “Managers’ Internal Control Program (MICP) Procedures,” July 29, 2010, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We determined that internal control weaknesses at the Honduras disbursing office existed as defined by DoD Instruction 5010.40. Specifically, the then<sup>2</sup> and former DDOs, the DO, and the former Commander did not follow DoD Regulation 7000.14-R, “Financial Management Regulation” (DoD FMR), for safeguarding, accounting for, documenting and reporting cash at the Honduras disbursing office. The reasons for inadequate controls were that the DO did not have adequate standard operating procedures for the disbursing office, and the DDO was not adequately trained. In addition, the DO did not have procedures in place for preparing foreign currency reports and for revoking and appointing DDOs. Furthermore, the JTF-B Commander, did not appoint investigative officers, DDOs were inexperienced and frequently rotated. Lastly, USAFMCOM staff assistance visits did not correct the control issues identified in the report. We will provide a copy of the report to the senior official responsible for internal controls in the Army and DFAS Indianapolis.

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<sup>2</sup> The then DDO refers to the DDO that was at Soto Cano Air Base during our audit fieldwork. In January 2012, this DDO transferred to another position.

## **Finding. Controls at the Army Disbursing Office on the Soto Cano Air Base, Honduras, Were Not Adequate**

Controls at the Army disbursing office on the Soto Cano Air Base, Honduras (Honduras disbursing office), were not adequate to safeguard, account for, document, and report cash. The then and former DDOs did not follow all the requirements of DoD FMR. Specifically, the then DDO did not avoid conflicts of interest and, instead, improperly advanced funds to himself from the safe to replenish two automated teller machines (ATMs). The then DDO also did not properly complete “Security Container Check Sheet” (SF 702). In addition, the then and former DDOs did not:

- use acceptable security containers to store cash for the disbursing office;
- conduct semiannual security inspections or provide documentation for any previous inspections;
- maintain records as required by the DoD FMR; or
- report a major physical loss of funds (LOF).

These conditions occurred because DDO appointments rotated approximately every 6 months, and the Honduras disbursing office relied heavily on the transfer of knowledge from the predecessor DDO to the relieving DDO; however, the transition period was minimal. In addition, the DO did not have adequate standard operating procedures (SOPs) to inform the new DDOs. The DO stated he had control of over 100 disbursing offices and it was not feasible to maintain SOPs for each office. Also, the then DDO stated that he was not aware of the requirements and was not trained to perform these duties.

In addition, the DO did not prepare the “Cumulative Report of Foreign Currency Purchased With U.S. Dollars From Sources Outside the U.S. Government.” Additionally, the DO revoked the former DDO’s authority well after the new appointment and improperly appointed the then DDO. These conditions occurred because the DO did not have procedures in place for preparing cumulative reports and for revoking and appointing DDOs in a timely manner.

Further, the Commander, Joint Task Force-Bravo (JTF-B), did not complete LOF investigations for four LOF cases, did not submit one LOF investigation to DFAS, and did not submit the necessary supporting documentation for two LOF investigations. DO staff stated that the JTF-B Commander’s not appointing investigating officers, inexperience of the DDOs in regard to the requirements for reporting and monitoring LOF, and the 6-month rotation of DDOs caused the problems with the LOF investigations. The Deputy Commander, JTF-B, stated that the turnover of personnel was the main problem for not completing LOF investigations.

Finally, the Director, USAFMCOM, did not provide adequate oversight of the Honduras disbursing office. Although the Director stated that USAFMCOM provided adequate oversight and conducted nine staff assistance visits, including two formal inspections, none of the visits corrected the control issues identified in the report.

Because of the inadequate controls over cash at the Honduras disbursing office, the Army increased its risk of loss due to errors, theft, and fraud.

## **Inadequate Controls Over Cash**

The then and former DDOs did not have adequate controls to safeguard, account for, document, and report cash. Specifically, they did not follow all the requirements of DoD FMR.

## **DDO Improperly Advanced Funds to Himself**

The then DDO improperly advanced funds to replenish two ATMs on the Soto Cano, Air Base. The DDO was advancing himself approximately \$80,000 biweekly. Furthermore, the DDO acted concurrently as a DDO and as a paying agent on behalf of the military banking facility. The DoD FMR, Volume 5, Chapter 2, “Disbursing Offices, Officers, and Agents,” December 2010, states:

Do not appoint individuals performing duties as disbursing agents, deputy DOs (DDO), cashiers, paying agents, collection agents, change fund custodians or imprest fund cashiers involving the custody or disbursement of public funds concurrently to other accountable positions involving the handling, custody, or accountability for other funds.

This was a lack of segregation of duties because the DDO had custody of both the accountability documents and the advanced funds. Specifically, the DDO was preparing and approving a DD Form 1081 to advance funds to himself. The DDO then used these funds from the disbursing office safe to replenish the two ATMs.

The DDO incorrectly reported these funds on Line 25, “Funds With Subagents,” on his “Daily Agent Accountability Summary” (DD Form 2665). The DDO should have prepared a DD Form 165, “Shipment of Funds,” and reported these funds on Line 31, “Other,” on DD Form 2665. DoD FMR, Volume 5, Chapter 5, “Deposit and Transfer of Public Funds,” December 2010 states:

Prepare a DD Form 165 for any shipment of coin or currency, regardless of amount, [and the] DO preserves all registry or other carriers’ receipts and any other documents incident to the shipment until assured that the shipment has been completed and no claims actions should be initiated.

By not reporting these funds on the correct line, the DDO incorrectly reported that these funds were available for disbursement. Conversely, when funds are reported on Line 31, they are no longer deemed available for disbursement by the DDO.

Additionally, the DDO should have used a courier to transport funds to the ATMs. DoD FMR, volume 5, chapter 5, states:

Any commissioned or warrant officer of the Armed Forces on active duty or any individual serving as a courier for the Department of State may serve as courier for delivery of funds represented by currency, checks, drafts, or money orders. The courier takes all practicable precautions to protect the shipment. The courier signs the copy of DD Form 165 retained by the shipping officer in the space beneath the block "Delivery Date and Time" as a receipt for the shipment.

We did not identify or attribute any LOF to this lack of segregation of duties. We also determined the DDO obtained an SF 215 "Deposit Ticket," a Community Bank Wire Transfer form, and a document from Cashlink<sup>3</sup> to confirm that the military banking facility reimbursed the Department of the Treasury. However, the opportunity for misuse and fraud existed because the DDO had custody of both the accountability documents and the advanced funds. The Commander, JTF-B, should appoint a responsible individual other than the DDO to replenish the ATMs. In addition, to accurately account for funds advanced to the ATMs, the DO should ensure the completion of DD Form 165 instead of DD Form 1081.

## Incomplete Security Container Check Sheet

The then DDO did not properly complete an SF 702 for the Honduras disbursing office's safe. Classified National Security Information, 32 CFR sec. 2001.80 (2011), requires the SF 702 to be completed whenever the safe is opened and closed. However, the DDO only initialed the form at the beginning and ending of each day. By the DDO completing the form at the beginning and ending of the day, it appeared that the safe was open all day, including when he stepped out or went to lunch. Our observation showed that it was not actually opened all day; the DDO closed and locked the safe after each entry. The then DDO took corrective action by completing the SF 702 as required by the CFR. Therefore, we are not making a recommendation regarding completing the form whenever the safe is opened and closed.

## Unacceptable Security Containers

The then and former DDOs did not use an acceptable safe to store funds for the Honduras disbursing office. DoD FMR Volume 5, Chapter 3, "Keeping and Safeguarding Public

*DDOs did not use an acceptable safe to store funds for the Honduras disbursing office.*

Funds," August 2011, states that to store currency of \$50,000 or more, the disbursing office must "use a burglary resistant safe or vault with at least an Underwriters Laboratories' classification of Tool-Resistant Safe, TL-30<sup>[4]</sup> and having a Group 1R combination lock." The safe currently in use at the disbursing office does not have an Underwriters

<sup>3</sup> Cashlink is an electronic cash concentration and information system that provides Federal agencies with information, via the Internet, to verify deposits, Automated Clearing House (ACH), and Fedwire transfers as well as adjustment information used to reconcile their accounts.

<sup>4</sup> The numerical value represents the time in minutes that the safe will resist forced entry.



Laboratories' classification and uses an electronic keypad instead of a Group 1R combination lock. The Commander, JTF-B, should provide the disbursing office with a security container that meets DoD FMR requirements.

In addition, the DDO improperly placed \$26,363.92 in a security container that only held a Class 6 rating. DoD FMR, volume 5, chapter 3, states that to store currency and negotiable instruments with a value of \$7,500 to \$50,000 the disbursing office must use a security container with a Class 1 or Class 5 rating, or a burglary-resistant safe with at least an Underwriters Laboratories' classification of Tool-Resistant Safe, TL-15, and a Group 1R combination lock. Class 1 and Class 5 security containers are rated to provide the greatest protection against forced entry. Although Class 1 and 5 security containers carry many of the same requirements of a Class 6 security container, the Class 1 and 5 containers carry an additional requirement of forced entry protection. Moreover, the Class 6 security container used did not have an Underwriters Laboratories' classification of TL-15 or a Group 1R combination lock.

The use of the Class 6 security container occurred because the DDO was ill for 4 days and operations had to continue in his absence. Therefore, the DDO placed \$26,363.92 in a separate security container so the cashier could access the funds and continue daily operations. However, improper use continued even after the DDO's return. DoD FMR, chapter 3, requires DDOs, agents, or cashiers to store the funds entrusted to them in a safe or adequate container assigned for their exclusive use, and only the assigned DDO, agent, or cashier may know the combination of the safe or container. The then DDO took corrective action by removing cashier's funds from the nonapproved Class 6 container and placing them in a separate locking compartment in the main safe that only the cashier can open. Therefore, we are not making a recommendation regarding the use of separate security containers.

## **Lack of Semiannual Security Inspections**

The then and former DDOs did not conduct semiannual security inspections and the then DDO could not provide any documentation of previous inspections for the Honduras disbursing office. The semiannual security inspections are an important part of disbursing office's internal controls because they help verify that the office's physical security is adequate.

We determined that the physical security at the Honduras disbursing office was not adequate. DoD FMR volume 5, chapter 3, requires the DO or designee to personally inspect office security at least semiannually and to keep a record of each inspection. Chapter 3 provides a list of physical security measures that disbursing offices should follow. If the DDO had conducted semiannual inspections, he may have determined the following.

- Entrances to the working areas were not marked conspicuously with "Authorized Personnel Only" signage.

- The record of combination changes dated and signed by the accountable individual for the safe was attached to the outside of the safe door instead of inside the safe.
- The DDO did not place the name and phone number of the accountable individual on the inside of the vault, safe, or container.
- A shield was not attached to the keypad to the safe to limit the possibility of the combination being observed.

The DDO took corrective action by posting an “Authorized Personnel Only” sign on all entrances to the disbursing office, relocating the record of combination changes and accountable individual information to inside the safe, and adding a shield to the safe’s combination dial to prevent the combination from being compromised. However, the DO should conduct semiannual security inspections.

### Disbursing Office Did Not Maintain Records

The then and former DDOs did not maintain records at the disbursing office for the requisite period of time. DoD FMR, Volume 5, Chapter 21, “Disbursing Office Records,” December 2010, states that disbursing offices must “keep original disbursing office records and associated papers and supporting documentation for 6 years and 3 months.” For example, we requested DD Form 1081s; DD Form 2665s; cash verification reports; cash verification team appointment letters; SF 702s; and SF 1149s, “Statement of Designated Depository Account” for the first business day in October for 2005 through 2010. The following table shows that the Honduras disbursing office personnel were unable to provide any documents from 2005 through 2007 and were only able to provide 7 of the 36 requested documents from 2005 through 2010.

**Table 1. Lack of Disbursing Office Records**

Document	Oct. 2005	Oct. 2006	Oct. 2007	Oct. 2008	Oct. 2009	Oct. 2010
Statement of Agent Officer’s Account (DD Form 1081)	-	-	-	-	x	x
Daily Agent Accountability Summary (DD Form 2665)	-	-	-	x	x	x
Cash Verification Reports	-	-	-	-	-	x <sup>1</sup>
Cash Verification Team Appointment Letters	-	-	-	-	-	-
Security Container Check Sheet (SF 702)	-	-	-	-	-	-
Statement of Designated Depository Account (SF 1149)	-	-	-	-	-	x

x = documents provided

<sup>1</sup> Cash verification is conducted quarterly. This report was completed in November 2010.

In addition, the Honduras disbursing office's SOPs incorrectly state that disbursing office documents are required to be maintained for 5 years and 6 months. The then DDO took corrective action by updating the SOPs to meet the DoD FMR requirement of 6 years, 3 months. Therefore, we are not making a recommendation regarding record maintenance.

## Loss of Funds Not Properly Reported

The then and former DDOs did not properly report a major physical LOF<sup>5</sup> in the amount of \$3,423. The DoD FMR, Volume 5, Chapter 19, "Disbursing Officer Accountability Reports," August 2011, requires that when a loss is discovered, the DDO should record

*The then and former DDOs did not properly report a major physical LOF.*

the loss on DD Form 2665. In January 2010, the paying agent failed to close out the DD Form 1081 and return all funds and accountable documents to the DDO before redeployment, as required by DoD FMR, volume 5, chapter 3. The DoD FMR states that "[a]

DDO, agent, or cashier who will be absent for more than 5 workdays returns all funds and accountable documents to the DO with properly executed DD Forms 2665 and 1081 before departure." The DD Form 1081 is a summary of cash transactions and serves as a receipt for the funds that remain in the custody of the paying agent. Because the paying agent failed to submit a completed DD Form 1081 and close out his accountability, the funds in question continued to be carried as "Funds with Subagents" on DD Form 2665 of the then DDO even though the paying agent was no longer stationed in Honduras.

Moreover, the then and former DDOs failed to ensure that the paying agent prepared and submitted a DD Form 1081 to the DDO no less frequently than monthly, as required by the DoD FMR, volume 5, chapter 3. Had either of the DDOs followed up with the paying agent within the required timeframe, the LOF would not have gone undetected from January 2010 until June 2010. The DoD FMR, Volume 5, Chapter 2, "Disbursing Offices, Officers, and Agents," states that DDOs are pecuniarily liable for any losses from public funds in their possession. See "Untimely Physical LOF Investigations," Table 2, LOF investigation number 3 for information on the status of the LOF investigation.

In addition, even after the LOF was detected, the then DDO incorrectly reported the LOF in the amount of \$3,423 as "Funds with Subagents" (Line 25) instead of "Loss of Funds" (Line 29) on the DD Form 2665 from June 2010 through November 2011, which overstated cash on hand and understated LOFs. The then DDO took corrective action by accurately recording this LOF on DD Form 2665. Therefore, we are not making a recommendation regarding LOF reporting. However, the Chief of Staff, U.S. Southern

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<sup>5</sup> DoD FMR Volume 5, Chapter 6, "Physical Losses of Funds, Erroneous Payments, and Overages," defines a major physical loss of funds as "A. Loss of \$750 or more; B. Any loss, regardless of the dollar amount, resulting from a theft; C. Any loss, regardless of the dollar amount, where there is evidence of fraud within the disbursing office; e.g., embezzlement, or fraudulent acts of disbursing personnel, acting alone or in collusion with others."

Command (USSOUTHCOM), should review the actions of officials responsible for conducting day-to-day operations that resulted in LOF, and based on that review, take appropriate management action, including holding responsible personnel accountable.

## **Inadequate Standard Operating Procedures and Training**

The then and former DDOs did not follow all the requirements of the DoD FMR because the DDO appointments rotated approximately every 6 months and the Honduras disbursing office did not have adequate SOPs. For example, the SOPs did not:

- segregate duties for replenishing ATMs,
- require completion of the SF 702,
- provide security container requirements,
- require semiannual security inspections to be conducted,
- have the correct time period for document retention,
- provide instructions on how to report a LOF, or
- require a report on foreign currency purchased to be completed.

The DO stated he had control of over 100 disbursing offices and it was not feasible to maintain SOPs for each office. Furthermore, the then DDO stated that he was not aware of the requirements and was not trained to perform these duties. We reviewed the training course curriculum and determined that the training did not adequately prepare DDOs to perform the duties described in this report. Specifically, the course curriculum did not address the DoD FMR requirements we discussed in this report. In addition, the then DDO attended a weeklong training course at DFAS Indianapolis; however, the course did not sufficiently address the Deployable Disbursing System. Without adequate standard operating procedures and training, the Army increased its risk of loss due to errors, theft, and fraud.

The Commander, U.S. Army South, should require DDOs to attend formal training provided by USAFMCOM and DFAS Indianapolis on the new disbursing systems or new policies and procedures. The DO should revise or provide additional training on the disbursing systems and new policies and procedures to deputy disbursing officers selected by their commands to attend the deputy disbursing officer training, perform staff assistance visits to oversee the transfer of accountability when a deputy disbursing officer is appointed to a disbursing office, and revise the Honduras disbursing office's SOPs.

## **Inadequate Controls Over Foreign Currency Reports and DDO Appointments**

The DO did not have adequate controls for Foreign Currency Reports and DDO appointments. Specifically, he did not follow all the requirements of DoD FMR.

### **Report on Foreign Currency Purchased Was Not Completed**

The DO did not complete the "Cumulative Report of Foreign Currency Purchased With U.S. Dollars From Sources Outside the U.S. Government." DoD FMR, Volume 5, Chapter 16, "Foreign Currency Records and Reports," February 2011, requires this report

to be completed at the end of each quarter. The report is cumulative for the fiscal year and should be submitted to the supporting DFAS site within 15 calendar days after the close of each quarter. The cumulative report includes tracking of foreign currency acquired through accommodation exchange transactions as well as purchases from banks and other dealers in currency exchange.

The absence of this report was significant because the Army, DFAS, and the Department of the Treasury were not informed about gains and losses from foreign currency transactions. In addition, the absence of this report provided an opportunity for currency conversion fraud. Failing to prepare reports and maintain records of the exchange rate used for foreign currency purchased and provided allowed foreign currency gain and losses to go unnoticed. Therefore, the Director, DFAS Indianapolis, Financial Operations, should review the actions of the officials responsible for having adequate procedures in place for completing the report on foreign currency purchased, and on the basis of that review, take appropriate management action, including holding responsible personnel accountable. In addition, the DO should develop and implement procedures to require the completion of the report of foreign currency purchased in accordance with the DoD FMR.

## **Improper Revocation and Appointment of DDOs**

*The DO improperly revoked the former DDO appointment.*

The DO improperly revoked the former DDO appointment. Until a proper revocation is performed, the former DDO continues to have signatory authority over U.S. Treasury funds and continues to be authorized to conduct business on behalf of the U.S. Government. We determined that the relieving DDO assumed authority of the disbursing office on February 12, 2011. However, the former DDO's appointment was not revoked until November 2, 2011. DoD FMR, volume 5, chapter 2, requires in all cases where an appointment of a DDO is revoked, such as at the end of a DDO's rotation, that the DO issue a notice of revocation of the DDO's appointment to the former DDO; DFAS Indianapolis, Disbursing/Debt Management Policy Division.

The revocation procedure is particularly important because the former DDO continues to possess signatory authority over the cash accounts until this authority is officially revoked, which increases the risk for fraud and abuse. For example, if an outgoing DDO's appointment is not revoked at the time of departure, the former DDO could write and cash a U.S. Treasury check that could result in an LOF due to fraud. To preclude possible fraud from occurring, at the completion of the outgoing DDO's appointment, the DO must properly revoke the appointment. In addition, the DO improperly appointed the relieving DDO. DoD FMR, volume 5, chapter 2, states:

DOs appoint deputy DOs by formal letter of appointment. The letter states the specific duties authorized to be performed by the deputy and includes the statement "I acknowledge that I am strictly liable to the United States for all public funds under my control," and a statement that confirms that the appointee has been counseled with regard to pecuniary liability and has been given written operating instructions.

Specifically, we determined that the DDO became accountable for the Honduras disbursing office funds in February 2011; however, his appointment was not official until August 2011. In addition, the formal letter of appointment for the Honduras disbursing office DDO position did not include the specific duties to be performed, a statement that the DDO would be strictly liable to the United States for all public funds under his control, or a statement that the appointee had received counsel with regard to pecuniary liability. A proper appointment is important because without it, the DDO would not be pecuniarily liable for any losses.

The improper revocation and appointment of DDO role occurred because the DO stated he relied on the commanders at JTF-B to provide revocation and appointment notifications to generate the necessary documents to revoke and appoint the DDOs. However, the DO did not have procedures in place to ensure that the appointments and revocations were conducted in a timely manner at remote locations, such as the Honduras disbursing office. As a result the Army increased its risk of loss due to errors, theft, and fraud. Therefore, the Director, DFAS Indianapolis, Financial Operations, should review the actions of the officials responsible for having adequate procedures in place for completing DDO revocations and appointments, and on the basis of that review, take appropriate management action, including holding responsible personnel accountable. In addition, the DO should develop and implement procedures to ensure that DDO revocations and appointments are conducted in a proper and timely manner.

## **Untimely Physical LOF Investigations**

The Commander, JTF-B did not complete LOF investigations for four LOF cases, did not submit one LOF investigation to DFAS Indianapolis, and did not submit the necessary supporting documentation for two LOF investigation. The DoD FMR, volume 5, chapter 6, states, “Within 90 days after the loss is discovered (unless an extension has been authorized), the Investigating Officer (IO) must submit the Report of Investigation (ROI) through the Commander (who appointed the IO) to [DFAS-Disbursing/Debt Management Policy Division, DFAS Indianapolis].” We determined that the disbursing office had seven open LOF investigations, totaling \$11,065, that exceeded the 90-day requirement without authorized extensions. The JTF-B Command did not make completing the LOF investigations a priority until we conducted our audit. The following table provides a breakdown of open LOF investigations and when the report was due.



**Table 2. Honduras Disbursing Office Loss of Funds Investigations**

<b>LOF Investigation Number</b>	<b>Loss Amount</b>	<b>LOF Discovery Date</b>	<b>Report Due Date to DFAS</b>	<b>Actual Report Date to DFAS</b>
1	\$3,085.00	05/25/2010	08/23/2010	None <sup>(1)</sup>
2	2,390.21	05/13/2010	08/11/2010	06/17/2010 <sup>(2)</sup>
3	3,423.28	05/13/2010	08/11/2010	06/17/2010 <sup>(2)</sup>
4	931.00	06/22/2010	09/20/2010	None
5	193.87 <sup>(3)</sup>	06/28/2010	09/26/2010	None
6	1,021.46	07/12/2010	10/10/2010	None
7	20.00 <sup>(3)</sup>	08/27/2010	11/25/2010	None
<b>Total</b>	<b>\$11,064.82</b>			

<sup>1</sup> Command completed an investigation on 12/17/2010; however, it did not submit the report to DFAS.

<sup>2</sup> Command did not submit the necessary supporting documentation for these two LOF investigations and are considered open by DFAS.

<sup>3</sup> Any amount where there is an indication of theft or fraud is treated as a major LOF. These LOF's were being reviewed in connection with other Major LOF's because they were under the same DDO and there was a risk of theft or fraud.

The seven LOF investigations that were discovered in 2010 were unresolved for an average of 617 days before DFAS Indianapolis, Disbursing Operations, requested the assistance of USAFMCOM to resolve these open investigations.<sup>6</sup> On July 12, 2012, USAFMCOM recommended that the Honduras disbursing office classify two LOF cases as minor LOFs and initiate investigations, reinstate four major LOF investigations, and coordinate with Army Criminal Investigation Command to obtain a status report, and if closed, forward results to DFAS. As of July 12, 2012, all seven of these investigations were ongoing.

We asked DFAS Indianapolis, Disbursing Operations, and the JTF-B Deputy Commander why the investigations were not conducted or completed in a timely manner. DFAS personnel stated that lack of JTF-B Command involvement to appoint investigating officers, inexperience of the DDOs in regard to the requirements for reporting and monitoring LOFs, and the 6-month rotation of DDOs caused the problems with the LOF investigations. The Deputy Commander, JTF-B, stated that rotation of personnel was the main cause of the problems with the LOF investigations. The Deputy Commander also stated that personnel changeover dictated continuity, and during the time periods of the LOFs, the Chief Judge Advocate, investigating officers, and the DDO all rotated without a proper "battle handoff."

As a result, the Army increased its risk of loss due to errors, theft, and fraud. The Chief of Staff, USSOUTHCOM, should review the actions of officials responsible for conducting the seven LOF investigations, and on the basis of that review, take appropriate management action, including holding responsible personnel accountable.

<sup>6</sup> DFAS Indianapolis, Disbursing Office, requested assistance on February 27, 2012.

The Director, USAFMCOM, should continue to provide assistance with the LOF investigations as necessary until all LOF investigations have been completed. In addition, the Commander JTF-B, should complete all open LOF investigations and provide a final report to the DFAS Indianapolis, Disbursing/Debt Management Policy Division as soon as possible. The DO should revise standard operating procedures to ensure the DDOs inquire into whether there are any open LOF investigations.

## **Inadequate Oversight of the Honduras Disbursing Office**

The Director, USAFMCOM, did not provide adequate oversight of the Honduras disbursing office. The Deputy Assistant Secretary of the Army (Financial Operations) memorandum, “Technical Oversight of Army Finance Operations,” July 10, 2009, requires USAFMCOM, at a minimum, to conduct an annual staff assistance visit to help train staff, ensure offices have the most current version of finance systems; and validate that appropriate internal controls and regulatory compliance are in place. The Director, USAFMCOM, stated that USAFMCOM provided adequate oversight. He stated that nine staff assistance visits, including two formal inspections, occurred between April 2010 and November 2011. However, only the formal inspections addressed disbursing operations and the first formal inspection was not conducted until a year after the release of the memorandum. Furthermore, the second formal inspection was not conducted until after our site visit, which was more than a year from the first visit.

*The Director, USAFMCOM, did not provide adequate oversight of the Honduras disbursing office.*

Although the report from the first inspection indicated that internal controls and disbursing were susceptible to fraud and addressed the lack of semiannual inspections; it did not specifically address the conflict of interest, the unacceptable security containers, the incomplete security container check sheet, the lack of record retention, or that the report of foreign currency purchased was not being prepared. The report from the second inspection, which was performed after our site visit, did not identify any of these conditions either, except it also found no record of semiannual physical security inspections. In addition, the report stated that the staffing level of the office minimally met separation of duties and internal control requirements.

With the 6-month rotation of DDOs, an annual staff assistance visit may not provide sufficient oversight. Without sufficient oversight, the Army increased its risk of loss due to errors, theft, and fraud. The Deputy Assistant Secretary of the Army (Financial Operations) should reissue the memorandum, “Technical Oversight of Army Finance Operations,” July 10, 2009. In addition, review the actions of officials responsible for conducting staff assistance visit, and based on that review, take appropriate management action, including holding responsible personnel accountable.

## **Management Comments on the Finding and Our Response**

The Deputy Assistant Secretary of the Army (Financial Operations) provided comments regarding the improper advancement of funds.

### ***Deputy Assistant Secretary of the Army (Financial Operations) Comments***

The Deputy Assistant Secretary stated that since our audit, the U.S. Treasury fielded a new system worldwide, the Deposit Reporting System (DRS), which negates the former practice of the DDO approving the advancement of funds to himself. He stated that for Honduras, a technician inputs the deposit into the DRS for the deposit to the ATM with the DDO's approval, which eliminates the requirement to use a DD Form 1081 or DD Form 165. The complete text of the Deputy Assistant Secretary's comments is in the Management Comments section of the report.

### ***Our Response***

The use of the DRS should eliminate the improper advancement of funds and the need for DD Form 1081 and DD Form 165. However, the DO should ensure the completion of DD Form 165 as agreed until DRS is implemented and operational at the Honduras disbursing office.

## **Recommendations, Management Comments, and Our Response**

### **1. We recommend that the Deputy Assistant Secretary of the Army (Financial Operations):**

a. Reissue the memorandum, "Technical Oversight of Army Finance Operations," July 10, 2009.

b. Review the actions of the officials responsible for conducting annual staff assistance visits at the Honduras disbursing office; and on the basis of that review, take appropriate management action, including holding responsible personnel accountable.

### ***Deputy Assistant Secretary of the Army (Financial Operations) Comments***

The Deputy Assistant Secretary of the Army (Financial Operations) agreed with the recommendations. The memorandum was to be reissued and coordinated with DFAS to ensure that the oversight visits performed by USAFMCOM and DFAS complement each other at 6-month intervals. Estimated completion date was February 2013. In addition, the Deputy Assistant Secretary was to review the actions of responsible individuals and take appropriate management action if warranted. Estimated completion date was March 2013.

## ***Our Response***

Comments from the Deputy Assistant Secretary were responsive, and no further comments are required.

2. We recommend that the Chief of Staff, U.S. Southern Command:

a. Review the actions of the officials responsible for conducting the day-to-day operations at the Army disbursing office on Soto Cano Air Base, Honduras, which resulted in loss of funds and other deficiencies identified in this report, and on the basis of that review, take appropriate management action, including holding responsible personnel accountable.

b. Review the actions of the officials responsible for conducting the seven loss of funds investigations at JTF-B, Honduras, and on the basis of that review, take appropriate management action, including holding responsible personnel accountable.

## ***Management Comments Required***

The Chief of Staff, U.S. Southern Command, did not comment on the recommendations. We request that the Chief of Staff provide comments on the final report.

**3. We recommend that the Director, U.S. Army Financial Management Command, continue to provide assistance with the loss of funds investigations to the Commander, Joint Task Force-Bravo, as necessary.**

## ***U.S. Army Financial Management Command Comments***

The Deputy Assistant Secretary of the Army (Financial Operations), responding for the Director, USAFMCOM, agreed, stating that all seven cases cited in the draft report were submitted to DFAS for adjudication. Completion date was November 19, 2012.

## ***Our Response***

The Deputy Assistant Secretary's comments for Recommendation 3 were responsive and no further comments are required.

**4. We recommend that the Commander, U.S. Army South, require newly appointed deputy disbursing officers and current deputy disbursing officers not trained in the new disbursing systems and new policies and procedures to attend formal training provided by U.S. Army Financial Management Command and the Defense Finance and Accounting Service Indianapolis, Disbursing Operations.**

## ***U.S. Army South Comments***

The Chief of Staff, U.S. Army South, responding for the Commander agreed, stating that U.S. Army South would continue to coordinate with USAFMCOM and DFAS Indianapolis, Disbursing Operations, for the DDOs identified to attend the additional or revised training developed by the DFAS Indianapolis, DO. He also stated that U.S. Army

South would continue to work with the organizations identified to improve the process. Estimated completion date was January 31, 2013.

### ***Our Response***

Comments from the Chief of Staff were responsive, and no further comments were required.

#### **5. We recommend that the Commander, Joint Task Force-Bravo:**

- a. Appoint an appropriate individual other than the deputy disbursing officer to be responsible for replenishing the automated teller machines.**
- b. Provide an appropriate security container to the disbursing office.**
- c. Complete all seven loss of funds investigations and submit a final report to the Defense Finance and Accounting Service Indianapolis, Disbursing/Debt Management Policy Division, for final determination on whether to grant or deny relief to the responsible deputy disbursing officer.**

### ***Joint Task Force-Bravo Comments***

The Commander, JTF-B, agreed with the recommendations. He stated that once the DFAS Indianapolis, Disbursing Officer, advises JTF-B, he would appoint an individual other than the DDO to replenish the ATMs.

The Commander also stated that a new building was planned that would contain a vault and safe that would be in compliance with the regulatory guidelines of "DoD Financial Management Regulation," Volume 5, Chapter 3, "Keeping and Safeguarding Public Funds," August 2011. Construction was expected to be completed within 16 months.

In addition, the Commander appointed seven investigating officers to investigate the seven outstanding losses. Final reports for all seven outstanding losses were submitted to DFAS Indianapolis, Special Review Office, for adjudication.

### ***Deputy Assistant Secretary of the Army (Financial Operations) Comments***

Although not required to comment, the Deputy Assistant Secretary of the Army (Financial Operations), explained that JTF-B was to transition to the new DRS. The new system established the use of a technician/noncommissioned officer to replenish the ATM with the approval of the DDO.

### ***Our Response***

We considered the comments from the Commander, JTF-B, on Recommendation 5.a. to be nonresponsive. As of February 22, 2013, DRS is not implemented and operational at the Honduras disbursing office. The appointment of a custodian for the ATM deposits is at the discretion of the Commander, he does not need to wait until being advised by the

DFAS Indianapolis, Disbursing Officer. We ask the Commander to reconsider his response and provide his revised comments to the final report.

The Commander's comments on Recommendations 5.b and 5.c were responsive, and no further comments were required.

**6. We recommend that the Director, Defense Finance and Accounting Service Indianapolis, Financial Operations, review the actions of the officials responsible for having adequate procedures in place for completing the "Cumulative Report of Foreign Currency Purchased With U.S. Dollars From Sources Outside the U.S. Government" and ensuring that DDO revocation and appointments are conducted in a timely manner, and on the basis of that review, take appropriate management action, including holding responsible personnel accountable.**

### ***Defense Finance and Accounting Service Comments***

The Director, DFAS Indianapolis, responding for the Director, DFAS Indianapolis, Financial Operations, partially agreed. He stated that DFAS Indianapolis, Disbursing Operations, would require the Honduras disbursing office to complete site-specific foreign currency reports. He also stated that the occurrence in which the DDO appointment was not revoked in a timely manner was an isolated incident and that the DO reiterated the importance of timely submissions of revocations and appointments to his staff and sites supported by Disbursing Operations. In addition, he stated that quarterly reviews within DFAS Indianapolis, but outside of Disbursing Operations, have shown revocations and appointments are occurring in a timely manner. Estimated completion date was March 31, 2013.

### ***Our Response***

We consider the comments from the Director, DFAS Indianapolis, to be nonresponsive. Although he stated that the Honduras disbursing office will be required to complete site-specific foreign currency reports, he did not explain how this would be required. In addition, he did not state that the Director, DFAS Indianapolis, Financial Operations would review the actions of officials and take appropriate action to hold personnel accountable if appropriate. We ask the Director, DFAS Indianapolis, Financial Operations, provide comments on the final report.

**7. We recommend that the Disbursing Officer, Defense Finance and Accounting Service Indianapolis, Disbursing Operations:**

**a. Revise or provide additional training on the disbursing systems and new policies and procedures to deputy disbursing officers selected by their commands to attend the deputy disbursing officer training.**

**b. Perform staff assistance visits to oversee the transfer of accountability when a deputy disbursing officer is appointed to a disbursing office.**



**c. Revise standard operating procedures to ensure that the Deputy Disbursing Officer:**

**(1) Prepares DD Form 165 instead of DD Form 1081 to accurately account for funds advanced for the automated teller machines.**

**(2) Conducts semiannual security inspections.**

**(3) Upon arrival, inquires to determine whether any loss of funds investigations remain open.**

**d. Develop and implement procedures to ensure that responsible officials:**

**(1) Prepare the “Cumulative Report of Foreign Currency Purchased With U.S. Dollars From Sources Outside the U.S. Government.”**

**(2) Conduct deputy disbursing officer revocations and appointments in a proper and timely manner.**

### **Defense Finance and Accounting Service Comments**

The Director, DFAS Indianapolis, Financial Operations, responded for the DFAS, Disbursing Officer. He agreed with Recommendation 7.a, stating that DFAS Indianapolis would coordinate with USAFMCOM and ensure that training would sufficiently address the Deployable Disbursing System. Estimated completion date was September 30, 2013.

The Director partially agreed with Recommendation 7.b. He stated that the DDO appointment orders already state the responsibilities of the position. In addition, any training provided to new DDOs by DFAS Indianapolis already covered the transfer of agent accountability and how to report loss of funds. Additionally, assistance was available from DFAS Indianapolis as needed. Recommended action was completed.

The Director agreed with Recommendations 7.c.1, 7.c.2, and 7.c.3. He stated that the Disbursing Operations Procedures Manual would be updated to reflect the use of DD Form 165. In addition, he stated that the DFAS Indianapolis, Disbursing Operations, would perform an annual review in FY 2013 and that USAFMCOM would perform an additional annual review, resulting in semiannual security inspections. Additionally, he stated that the requirements for the transfer of agent accountability process must be completed before the new DDO accepted accountability for the funds. Upon discovery of a potential loss of funds, the new DDO was responsible for ensuring that the loss was reported on the predecessor’s summary of accountability reported to DFAS Indianapolis, Disbursing Operations. Estimated completion date was September 30, 2013.

The Director agreed with Recommendations 7.d.1 and 7.d.2. He stated that the DDO would be responsible for submitting the, “Cumulative Report of Foreign Currency Purchased With U.S. Dollars From Sources Outside the U.S. Government,” to DFAS Indianapolis quarterly. In addition, he stated that the DO reiterated the importance of

timely submissions of revocations and appointments to his staff and sites supported by Disbursing Operations. Estimated completion date was March 31, 2013.

## **Our Response**

The Director's comments on Recommendation 7.a were responsive, and no further comments were required.

Although the Director partially agreed with Recommendation 7.b, his comments were nonresponsive. He did not state whether DFAS would conduct staff assistance visits to oversee the transfer of accountability when a DDO was appointed to a disbursing office.

The Director's comments on Recommendation 7.c.1 were responsive, and no further comments were required. Although he agreed with Recommendations 7.c.2 and 7.c.3, we consider his comments partially responsive and nonresponsive. His comments on Recommendation 7.c.2 only stated that security inspections would be conducted in FY 2013 and said nothing about security inspections beyond FY 2013. He should ensure that semiannual inspections would be performed by the DDO on a permanent basis. His comments on Recommendation 7.c.3 did not state that the standard operating procedures would be revised to include a requirement that the DDO inquire about whether any loss of funds investigations remained open. The transfer of agent accountability process does not explicitly require the incoming DDO to inquire about the status of open loss of funds investigations.

Although the Director agreed with Recommendations 7.d.1 and 7.d.2, we considered his comments as partially responsive. His comments on Recommendation 7.d.1 did not provide the procedures that would be developed and implemented to ensure that the, "Cumulative Report of Foreign Currency Purchased With U.S. Dollars From Sources Outside the U.S. Government," was submitted to DFAS Indianapolis quarterly. His comments on Recommendation 7.d.2 did not provide the procedures that would be developed and implemented to ensure that the revocation and appointment of the DDO position occurred in a timely manner.

We request that the Disbursing Officer, DFAS Indianapolis, Disbursing Operations, provide comments on recommendations 7.b, 7.c.2, 7.c.3, 7.d.1, and 7.d.2 of the final report.

## Appendix. Scope and Methodology

We conducted this performance audit from July 2011 through November 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We reviewed applicable guidance from the following:

- Title 31, United States Code, “Money and Finance;”
- Code of Federal Regulations;
- DoD Financial Management Regulation, volume 5, chapters 1-3, 10, 11, 14-16, 19, 21, 33, and 34; and
- JTF-B, Finance Office, standard operating procedures.

We initially selected three Army disbursing offices to audit. Specifically, we selected the three disbursing offices that did not have oversight by an Army Financial Management Center. The Army disbursing offices are located in Sinai, Egypt; Soto Cano Air Base, Honduras; and Riyadh, Saudi Arabia. However, due to security concerns in Egypt, we selected two disbursing offices at Camp Arifjan, Kuwait, to replace the Sinai, Egypt, location. We reannounced our audit to limit our review to the audit work completed at the Honduras disbursing office. In addition, we decided to announce a separate project to audit the disbursing offices in Kuwait and Saudi Arabia.

We visited DFAS Indianapolis, USAFMCOM, and the Army disbursing office at the Soto Cano Air Base, Honduras. We physically reviewed the internal controls over Army COMA at the Honduras disbursing office as of November 2011.

We observed conditions, interviewed disbursing office staff, verified existence of forms, reports, and other documents, and reviewed and analyzed documents to determine whether they were prepared properly, followed applicable criteria, and were supported. We observed a cash count of about \$1.2 million and confirmed the existence of cash reported on the DD Form 2665 as of November 2, 2011. We also confirmed collection and payment documents to ensure there were sufficient controls over cash collections and disbursements. In addition, we verified the daily and monthly statements of accountability for completeness, accuracy, and existence of collection and disbursement documentation, and we reviewed the disbursing office’s reconciliation of its limited depository accounts. Additionally, we reviewed and analyzed the following documents dated between November 2003 and January 2012 from the Honduras disbursing office for existence, accuracy, completeness, and timeliness:

- Alarm/Intrusion Detection Record (DA Form 4930)
- Appointment/Termination Record (DD Form 577)
- ATM Deposit Ticket (SF 215)

- Bank Statements
- Cash Collection Voucher (DD Form 1131)
- Check Registers
- Currency Exchange Record (DD Form 2664)
- Daily Agent Accountability Summary (DD Form 2665)
- Foreign Currency Control Record (DD Form 2663)
- Key Control Register and Inventory (DA Form 5513)
- Nomination/Approval/Termination of Disbursing Officer/Deputy-Disbursing Officer (CDS-I Form 3117-R)
- Operating Agreement for Honduras ATMs
- Safe Combination Change Ledger
- Security Container Check Sheet (SF 702)
- Specimen Signatures (TFS Form 3023)
- Staff Assistance Visit Records
- Statement of Accountability (SF 1219)
- Statement of Agent Officer's Account (DD Form 1081),
- Statement of Designated Depositary Account (SF 1149)
- Training Certifications
- Vault Ledgers
- Voucher Control Log (DD Form 2659)

We reviewed security programs for the Joint Task Force-Bravo Finance Office. We also reviewed documentation for seven open LOF investigations that were provided to us.

## **Use of Computer-Processed Data**

We used computer-processed data for our audit. Specifically, we obtained SF 1219s and DD Form 2665s from the Deployable Disbursing System. We determined data reliability by comparing SF 1219 and DD Form 2665 line item amounts to cash held by the DDO and to supporting documentation. We did not find errors that would preclude the use of computer-processed data to meet audit objectives or that would change the findings and recommendations in the report.

## **Prior Coverage**

During the last 5 years, the Department of Defense Inspector General (DoD IG), the Army Audit Agency (AAA), and the Special Inspector General for Iraq Reconstruction (SIGIR) have issued nine reports discussing Cash and Other Monetary Assets.

Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>.

Unrestricted Army reports can be accessed from .mil and gao.gov domains over the Internet at <https://www.aaa.army.mil/>. Unrestricted SIGIR reports can be accessed at <http://www.sigir.mil/directorates/audits/auditreports.html>

## **DoD IG**

DoD IG Report No. D-2010-034, "Internal Controls Over the Army, General Fund Cash and Other Monetary Assets Held in Southwest Asia," January 8, 2010

DoD IG Report No. D-2009-062, “Internal Controls Over DoD Cash and Other Monetary Assets,” March 25, 2009

DoD IG Report No. D-2009-003, “Internal Controls Over Army General Fund, Cash and Other Monetary Assets Held Outside of the Continental United States,” October 9, 2008

DoD IG Report No. D-2008-123, “Internal Controls Over Navy General Fund, Cash and Other Monetary Assets Held Outside of the Continental United States,” August 26, 2008

DoD IG Report No. D-2008-121, “Internal Controls for Air Force General Fund Cash and Other Monetary Assets,” August 18, 2008

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

## **Army**

AAA Report No. A-2011-0059-FFM, “Army CONUS Cash and Other Monetary Assets, Deputy Assistant Secretary of the Army,” February 9, 2011

## **SIGIR**

SIGIR Report No. 10-020, “Development Fund for Iraq: Department of Defense Needs to Improve Financial and Management Controls,” July 27, 2010

SIGIR Report No. 08-012, “Attestation to Development Fund for Iraq Cash in the Possession of the Joint Area Support Group-Central,” March 13, 2008

## Deputy Assistant Secretary of the Army (Financial Operations) Comments



DEPARTMENT OF THE ARMY  
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY  
FINANCIAL MANAGEMENT AND COMPTROLLER  
109 ARMY PENTAGON  
WASHINGTON DC 20310-0109


REPLY TO  
ATTENTION OF

DEC 10 2012

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR FINANCIAL  
MANAGEMENT AND REPORTING, OFFICE OF THE DEPARTMENT OF DEFENSE  
INSPECTOR GENERAL, 400 ARMY NAVY DRIVE, ARLINGTON, VA 22202-4704

SUBJECT: Improvements to Controls over Cash Are Needed at the Army Disbursing  
Office at Soto Cano Air Base, Honduras (Project No. D2011-D000FP-  
0260.000)

1. Reference your memorandum dated 9 November 2012, subject as above.
2. We appreciate the opportunity to comment on the subject draft report and respond to the issues noted by your auditors on the controls over cash at the Army Disbursing Office at Soto Cano Air Base in Honduras. I have also incorporated the U.S. Army Financial Management Command's response as they are a Field Operating Agency under my purview. It was reassuring to note that your auditors on November 3, 2011 were able to verify that cash on hand in the amount of \$1,163,745 balanced with the DD Form 2665 and that the Honduras disbursing office properly remained within its Cash Holding Authority.
3. We would like to clarify one issue within your report as is more of a technical issue as opposed to a higher command issue. In your draft report you stated that the "DDO improperly advanced funds to himself" resulting in "a lack of segregation of duties because the DDO had custody of both the accountability documents and the advanced funds." This procedure was being used by the DDO to deposit funds into the military banking facility ATM as an internal control mechanism due to the inability of the Deployable Disbursing System to track deposits in transit. Since your audit the Treasury has fielded a system that negates this former practice and the DDO will transition to the new process.
4. Specific responses to the draft recommendations are attached. [REDACTED]

  
James J. Watkins  
Deputy Assistant Secretary of the Army  
(Financial Operations)

Attachment

Printed on  Recycled Paper



DoDIG Project No. D2011-D000FP-0260.000

**Improvements to Controls Over Cash Are Needed  
at the Army Disbursing Office at Soto Cano Air Base, Honduras**

**Department of the Army Comments to the Draft Report Recommendations**

**Recommendation 1:** We recommend that the Deputy Assistant Secretary of the Army (Financial Operations):

a. Reissue the memorandum, "Technical Oversight of Army Finance Operations," July 10, 2009.

b. Review the actions of the officials responsible for conducting annual staff assistance visits at the Honduras disbursing office; and on the basis of that review, take appropriate management action, including holding responsible personnel accountable.

**Army Response 1a:** Concur. The Deputy Assistant Secretary of the Army (Financial Operations) will reissue the memorandum "Technical Oversight of Army Finance Operations." The memorandum will be coordinated with Defense Finance and Accounting Service (DFAS) to ensure oversight visits performed by the two respective organizations complement each other at 6 month intervals.  
ECD: February 2013.

**Army Response 1b:** Concur. The Deputy Assistant Secretary of the Army (Financial Operations) will review the actions of responsible individuals conducting staff assistance visits and take appropriate management action if warranted.  
ECD: March 2013

**Recommendation 3:** We recommend that the Director, U.S. Army Finance Command, continue to provide assistance with the loss of funds investigations the Commander, Joint Task Force-Bravo, as necessary.

**Army Response:** Concur. The Director, U.S. Army Financial Management Command, previously the U.S. Army Finance Command, has provided assistance to Joint Task Force- Bravo resulting in all seven cases cited in the draft report being submitted to DFAS for adjudication.  
ECD: Completed 19 November 2012.

**Recommendation 5a:** We recommend the Commander, Joint Task Force-Bravo appoint an appropriate individual other than the deputy disbursing officer to be responsible for replenishing the automated teller machine.

**Army Response:** Army is only providing clarification of previous business practice and implementation of new Treasury System, Deposit Reporting System (DRS) which negates the old business practice.

a. The procedure previously used by the DDO of advancing funds to him using a DD Form 1081 was simply used as the document to substantiate the deposit of funds into the automated teller machine (ATM) until a deposit ticket was received from the military banking facility. The funds that the DDO places in the ATM were actually a deposit in-transit and not an advance. The deposit in transit function was not available in the Deployable Disbursing System (DDS) so the DDO used the DD Form 1081 as the internal control mechanism to account for the funds pending receipt of a confirmed deposit by the military banking facility.

b. Since your audit the Disbursing Office at Soto Cano Air Base has converted along with all sites worldwide to the new Treasury deposit system, DRS, as part of the Over the Counter Channel Application (OTCnet) IAW Treasury's government-wide mandate. Under this system, the depositing activity inputs the deposit ticket electronically to DRS and the bank subsequently goes into the system and confirms the deposit, at which point it is reported to the Transaction Reporting System (TRS) which replaces the collections side of CashLink. Under DRS, there must be a separate input and approval at the depositing activity. In addition, the system assigns the deposit ticket number at the time of input.

c. For Honduras, a technician/NCO makes the input into DRS for the deposit to the ATM and the DDO approves it (thus two persons involved for separation of duties). Since the deposit ticket number is established in DRS at the input/approval point, the deposit can be recorded in DDS the same day as the physical deposit is made into the ATM. The Bank of America San Antonio operation then subsequently confirms the deposit in DRS after the fact just as they do for all of the community banks under the World-wide Overseas Military Banking Contract. This eliminates the requirement for using a DD Form 1081 to the DDO or someone else as well as any issues with recording a deposit in-transit or advance to agent in DDS.

# U.S. Army South Comments



REPLY TO  
ATTENTION OF

DEPARTMENT OF THE ARMY  
HEADQUARTERS, UNITED STATES ARMY SOUTH  
4130 STANLEY ROAD  
FORT SAM HOUSTON TX 78234-2726

DEC 10 2012

ARSO-CS

MEMORANDUM FOR Department of Defense Inspector General (DODIG), ATTN: Program Director, Financial Management and Reporting, 4800 Mark Center Drive, Alexandria, VA 22350-1500

SUBJECT: DODIG Draft Report - Improvements to Controls Over Cash are Needed at the Army Disbursing Office at Soto Cano Air Base, Honduras, Project No. D2011-D000FP-0260.000

1. US Army South concurs with Recommendation 4. ECD: 31 Jan 13.

a. We will continue to coordinate with the US Army Finance Command (USAFMCOM) and the Defense Finance and Accounting Service – Indianapolis (DFAS-IN), Disbursing Operations for the Deputy Disbursing Officers (DDOs) identified to attend the additional or revised training referenced in Recommendation 7a.

b. In addition, we will identify the training for the DDO in the Worldwide Individual Augmentation System (WIAS), as determined by USAFMCOM and DFAS-IN, when submitting our next personnel request, and will continue to work with the organizations identified to improve the process.

2. [REDACTED]

FOR THE COMMANDER:

  
WILLIAM V. HILL III  
Colonel, GS  
Chief of Staff

# Joint Task Force-Bravo Comments



REPLY TO  
ATTENTION OF

**DEPARTMENT OF THE DEFENSE**  
HEADQUARTERS, JOINT TASK FORCE-BRavo  
SOTO CANO AIR BASE, HONDURAS  
APO AA 34042

JTFB-CDR

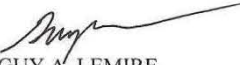
10 December 2012

MEMORANDUM FOR Department of Defense Office of the Inspector General, Financial Management and Reporting Directorate, Financial Resources Division

SUBJECT: Management Comments in Response to Project No. D2011-D000FP-0260.000, Improvements to Controls Over Cash Are Needed at the Army Disbursing Office at Soto Cano Air Base, Honduras

1. Purpose. This memorandum is intended to demonstrate the Joint Task Force-Bravo (JTFB) Commander agrees with the 3 recommendations provided to him by the DoD IG. For each recommendation, a plan of action is provided to provide increased internal controls.
2. Recommendation 5(a). To avoid the conflict created by the Deputy Disbursing Officer (DDO) advancing funds to himself from the safe to replenish two automated teller machines (ATMs), upon being advised to do so by Central Disbursing, the JTFB Commander will appoint an individual other than the DDO to replenish the ATMs.
3. Recommendation 5(b). To provide an acceptable security container for storing cash, a new building is planned to be constructed for the DMPO. Within this building, a vault will be built in compliance with the regulatory guidelines of DoD FMR Volume 5, Chapter 3. Additionally, a safe will be placed within this vault. This safe will also satisfy the requirements of DoD FMR Volume 5, Chapter 3. Construction is expected to be completed within 16 months.
4. Response to Recommendation 5(c). In an effort to complete all Physical Loss of Funds Investigations, the JTFB Commander has appointed 7 investigating officers to investigate the 7 outstanding losses. Final reports for all 7 have been submitted to the office of Special Review at DFAS Indianapolis.

5. [REDACTED]

  
GUY A. LEMIRE  
COL, US Army  
Commanding

# Defense Finance and Accounting Service Comments



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

21 DEC 2012

DFAS-JBK/IN

MEMORANDUM FOR DIRECTOR, DEPARTMENT OF DEFENSE, OFFICE OF  
INSPECTOR GENERAL

SUBJECT: Draft Report, Improvements to Controls Over Cash Are Needed at the Army  
Disbursing Office at Soto Cano Air Base, Honduras  
(Project D2011-D000FP-0260.00)

The Defense Finance and Accounting Service Indianapolis is providing management  
comments for the Draft Report.

[REDACTED]

*for Wayne C. Ingles, Acting Dep Dir*  
Aaron P. Gillison  
Director, DFAS Indianapolis

Attachment:  
As stated



**Improvements to Controls Over Cash Are Needed at the Army Disbursing  
Office at Soto Cano Air Base, Honduras  
(Project No. D2011-D000FP-0260.000)**

**Recommendation 6:** We recommend that the Director, Defense Finance and Accounting Service Indianapolis (DFAS-IN), Financial Operations, review the actions of the officials responsible for having adequate procedures in place for completing the “Cumulative Report of Foreign Currency Purchased With U.S. Dollars From Sources Outside the U.S. Government” and ensuring that Deputy Disbursing Officer (DDO) revocation and appointments are conducted in a timely manner, and on the basis of that review, take appropriate management action, including holding responsible personnel accountable.

**Management Comments:** Partial Concur. The DFAS-IN Disbursing Operations will require the Honduras Disbursing Office to complete the site-specific “Cumulative Report of Foreign Currency Purchased With U.S. Dollars From Sources Outside the U.S. Government” quarterly and submit to Disbursing Officer, DFAS-IN, Central Disbursing.

The case where the DDO appointment was not revoked in a timely manner was an isolated incident. The Disbursing Officer reiterated the importance of timely submission of revocations and appointments to his staff and sites supported by Disbursing Operations. The process of DDO revocation and appointment has been reviewed to ensure they are conducted in a timely manner. In addition, quarterly reviews with statistical sampling performed by an organization within DFAS-IN, but outside of Disbursing Operations, have shown revocations and appointments are occurring in a timely manner.

Standard operating procedures (SOPs) are inherently a function of the unit in charge of the mission. The U.S. Army South is in command of the Honduras Mission and is responsible for maintenance of the SOPs. Upon request from Army, DFAS-IN will provide guidance and assistance.

**Estimated Completion Date:** March 31, 2013

**Recommendation 7a:** We recommend that the Disbursing Officer, DFAS-IN, Central Disbursing: Revise or provide additional training on the disbursing systems and new policies and procedures to deputy disbursing officers selected by their commands to attend the deputy disbursing officer training.

**Management Comments:** Concur with comment. DFAS-IN will coordinate with USAFMCOM to ensure training for new DDOs sufficiently addresses the Deployable Disbursing System prior to reporting for duty as a DDO.

**Estimated Completion Date:** September 30, 2013

**Recommendation 7b:** We recommend that the Disbursing Officer, DFAS-IN, Central Disbursing perform staff assistance visits to oversee the transfer of accountability when a deputy disbursing officer is appointed to a disbursing office.

**Management Comments:** Partially concur. The appointment orders signed by DDOs state the responsibilities of the position. Additional assistance is available from DFAS-IN on an as needed basis.

In addition, any training provided to new DDOs by DFAS-IN includes the requirements for the Transfer of Agent Accountability and the reporting mechanism when a loss of funds is discovered. Upon request from USAFMCOM, DFAS-IN will provide additional advice and assist in transferring accountability when a DDO is appointed to a disbursing office.

**Completion Date:** Action Complete

**Recommendation 7c:** We recommend that the Disbursing Officer, DFAS-IN, Central Disbursing revise standard operating procedures to ensure that the Deputy Disbursing Officer:

- (1) Prepares DD Form 165 instead of DD Form 1081 to accurately account for funds advanced for the automated teller machines.
- (2) Conducts semiannual security inspections.
- (3) Upon arrival, inquires to determine whether any loss of funds investigations remain open.

**Management Comments:** Concur. DFAS-IN Disbursing Operations will:

- (1) update the Disbursing Operations Procedures Manual to reflect the use of the Shipment of Funds (DD 165).
- (2) DFAS-IN Disbursing Operations will perform an annual review in FY 2013. The USAFMCOM will perform an additional annual review, resulting in semi-annual security inspections (in agreement with USAFMCOM SRO). A review of all Loss of Funds Investigations will occur during these two reviews.
- (3) Requirements for the Transfer of Agent Accountability process must be completed prior to the new DDO accepting accountability for the funds. This process includes a thorough review of agent advances, funds, checks, and other negotiable instruments that make up the site's accountability. Upon discovery of a potential Loss of Funds, the new DDO is responsible for ensuring that it is accurately reported on the predecessor's business and reported to DFAS-IN Disbursing Operations.

**Estimated Completion Date:** September 30, 2013

**Recommendation 7d:** We recommend that the Disbursing Officer, DFAS-IN, Central Disbursing: Develop and implement procedures to ensure that responsible officials:

- (1) Prepare the "Cumulative Report of Foreign Currency Purchased With U.S. Dollars From Sources Outside the U.S. Government."
- (2) Conduct deputy disbursing officer revocations and appointments in a proper and timely manner.

**Management Comments:** Concur with comment.

- (1) As stated in our comments to Recommendation 6, the DDO will be responsible for submitting the "Cumulative Report of Foreign Currency Purchased With U.S. Dollars From Sources Outside the U.S. Government" to DFAS-IN on a quarterly basis.
- (2) As stated in our comments to Recommendation 6, the Disbursing Officer has reiterated the importance of timely submission of revocations and appointments to his staff and sites supported by Disbursing Operations.

**Completion Date:** March 31, 2013







# Inspector General Department of Defense

