Report No. DODIG-2015-056

INSPECTOR GENERAL

U.S. Department of Defense

DECEMBER 22, 2014

Opportunities to Improve the Elimination of Intragovernmental Transactions in DoD Financial Statements

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Results in Brief

Opportunities to Improve the Elimination of Intragovernmental Transactions in DoD Financial Statements

December 22, 2014

Objective

We determined whether DoD properly planned the implementation of the Invoice Processing Platform (IPP) to mitigate the material weakness of improperly eliminating intragovernmental transactions (IGTs) for Other Defense Organizations.

Finding

DoD financial management systems cannot produce the transaction-level details and supporting documentation necessary to reconcile buyer and seller data and support IGT eliminations on the applicable DoD financial statements.

DoD is committed to implementing the U.S. Department of Treasury-developed IPP system for storing IGT documentation to remediate IGT elimination challenges. However, the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (OUSD[C]/CFO), did not appropriately plan for implementing IPP across DoD. This occurred because OUSD(C)/CFO did not:

- perform an assessment of IPP to determine whether it effectively reconciles and eliminates IGTs,
- designate an official to oversee the implementation of IPP,
- develop cost estimates and obtain funding for implementing IPP across DoD,

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Finding (cont'd)

- establish an implementation date with measurable milestones for implementing IPP throughout DoD,
- issue Buy/Sell transaction implementation guidance, or
- develop a plan to reconcile and eliminate IGTs other than Buy/Sell transactions.

As a result, intragovernmental account balances reported on the DoD Agency-wide basic financial statements were not accurate and supported. Inaccurate and unsupported intragovernmental account balances continues to be one of the long-standing material control weaknesses preventing DoD from achieving audit readiness on the DoD Agency-wide basic financial statements. Specifically, DoD's ability to be audit ready by FY 2017 is at risk.

Recommendations

The Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, (USD[C]/CFO), should review the results of the IPP pilot program to determine whether it should be implemented throughout DoD. If IPP should be implemented, the USD(C)/CFO should designate an official to oversee the implementation, develop cost estimates and obtain funding, establish an implementation date with milestones, develop and issue implementation guidance, and revise DoD Financial Management Regulations.

Management Comments and Our Response

The Deputy CFO, responding for the USD(C)/CFO, stated that IPP will be implemented throughout DoD. Management comments addressed all the specifics of the recommendations, and no further comments are required. Please see the Recommendations Table on the back of this page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD	None	1, 1.a, 1.b, 1.c, 1.d, 1.e, and 1.f

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December 22, 2014

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

SUBJECT: Opportunities to Improve the Elimination of Intragovernmental Transactions in DoD Financial Statements (Report No. DODIG-2015-056)

We are providing this report for your information and use. The Defense Finance and Accounting Service did not properly eliminate intragovernmental transactions for Other Defense Organizations in the FY 2013 DoD Agency-wide basic financial statements. DoD is implementing plans to ensure that intragovernmental account balances are properly eliminated. However, the implementation plan needs improvement. We conducted this audit in accordance with generally accepted government auditing standards.

We considered management comments on a draft of this report when preparing the final report. Responding for the Office of the Under Secretary of Defense (Comptroller)/ Chief Financial Officer, DoD (OUSD[C]/CFO), the Deputy CFO addressed all specifics of the recommendations and conformed to the requirements of DoD Directive 7650.3; therefore, we do not require additional comments. Based on the Deputy CFO comments, we deleted Recommendation 2. The Deputy CFO plans to implement IPP throughout DoD; thus, an alternative plan is not necessary.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945.

Lorin T. Venable

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Financial Management and Reporting

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Introduction

Objective

Our announced objective was to determine whether the Defense Finance and Accounting Service (DFAS) properly eliminated intragovernmental account balances for selected Other Defense Organizations (ODOs) in the FY 2013 DoD Agency-wide basic financial statements. We determined that DFAS continues to employ the same data collection and elimination procedures that have routinely led to improper elimination of intragovernmental transactions (IGTs). Therefore, we modified our objective to determine whether DoD properly planned the implementation of the Invoice Processing Platform (IPP) to mitigate this material weakness. See Appendix A for a discussion of the scope and methodology and prior coverage related to the objectives.

Background

IGTs result from business activities conducted between two Federal Government entities (trading partners). The U.S. Department of Treasury (Treasury) Financial Manual[1] states that IGTs consist of four categories:

1. **Benefit**. Transactions with Federal entities that manage benefit programs for Federal employees on behalf of other Federal entities.
2. **Buy/Sell**. Transactions that occur between two Federal entities where goods or services are purchased by one entity (buyer) from another entity (seller). This arrangement is typically accomplished through the issuance of a reimbursable agreement between the two entities.
3. **Fiduciary**. Transactions that originate from a fiduciary agent. A fiduciary agent is an entity that acts for and on behalf of another in a particular matter under circumstances that give rise to a relationship of trust and confidence.
4. **Transfer**. Transactions that reduce resources (budgetary or proprietary) in one U.S. Treasury account symbol and increase them in one or more other U.S. Treasury account symbols by the total amount. Transfer IGTs typically require proper interpretation of legislative language and can involve complex scenarios with intricate accounting treatment.

[1] The specific guidance is the Treasury Financial Manual Volume I: Federal Agencies, Part 2: Chapter 4700, "Agency Reporting Requirements for the Financial Report of the United States Government," September 2013, Appendix 10, "Intragovernmental Transaction (IGT) Guide."

An intragovernmental Buy/Sell transaction occurs when a defense agency sells goods or services to another defense agency. The selling defense agency has to eliminate the sale amount from its account receivable and revenue accounts. The buying defense agency has to eliminate the purchase amount from its account payable and expense accounts.

DoD Regulation 7000.14-R, "DoD Financial Management Regulation" (DoD FMR), Volume 6B, Chapter 13, "Adjustments, Eliminations, and Other Special Intragovernmental Reconciliation Procedures," March 2012, states that all DoD reporting entities are required to eliminate IGT activity and report IGT account balances in their basic financial statements. The purpose of eliminating IGTs is to offset the effect of IGTs between DoD reporting entities and other Federal organizations, between different DoD reporting entities, and between organizations within a DoD reporting entity.

The FY 2013 DoD Agency-wide basic financial statements include the ODOs financial statements. Therefore, DFAS had to eliminate IGTs between ODOs for the FY 2103 DoD Agency-wide basic financial statements. However, DoD FMR volume 6B, chapter 13 states, "for the most part, DoD's current accounting systems do not capture trading partner information at the level required to eliminate intragovernmental transactions. Therefore, current systems cannot produce the data necessary for reconciliations between buyers and sellers."

On December 16, 2013, the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (USD[C]/CFO), asserted in his management representation letter to our audit of the DoD FY 2013 Agency-wide basic financial statement that:

> [t]he DoD financial systems permit us to run one of the world's largest organizations while protecting the security of our country. Current DoD financial management systems; however, are not able to provide adequate evidence supporting material portions of the intragovernmental amounts on the financial statements and amounts eliminated from the financial statements. We have attempted to fully reconcile intragovernmental transactions and balances with the appropriate trading partners for the fiduciary transactions identified in the U.S. Treasury's Federal Intragovernmental Transactions Accounting Policies Guide. However, as we disclosed in our financial statements, we are not able to fully reconcile intragovernmental asset, liability, expense, and revenue amounts with other Federal agencies.

Office of Management and Budget (OMB) Circular A-136 (Revised), "Financial Reporting Requirements," October 21, 2013, requires consolidating statements such as the DoD Consolidated Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position to reflect consolidated totals net of IGTs. However, IGT

eliminations are not required for the Statement of Budgetary Resources because the statement is not presented on a consolidated basis. OMB Circular A-136 states, "preparation of consolidated financial statements involves line-by-line elimination of inter-entity balances." Therefore, to remain consistent with information presented on Standard Form 133, "Report on Budget Execution and Budgetary Resources," line-by-line elimination of inter-entity balances is not permitted for the Statement of Budgetary Resources.

The Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (OUSD[C]/CFO), Deputy CFO, issued the memorandum, "Implementation of the Invoice Processing Platform for Buy/Sell Reimbursable Transactions," August 5, 2013, which implements the Invoice Processing Platform (IPP) as the DoD system to manage IGTs and maintain IGT documentation. See Appendix B for a copy of the memorandum. The U.S. Marine Corps (USMC), Washington Headquarters Service (WHS), and the Joint Chiefs of Staff (JCS) are implementing IPP as a pilot program in DoD.

Review of Internal Controls

DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013, 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. The DoD Office of the Inspector General identified elimination of IGTs as a material weakness in the DoD Agency-wide basic financial statements at least 10 years ago. DoD continued to lack the systems or processes to properly eliminate IGTs, 10 years later. DoD plans to implement IPP to reconcile and eliminate intragovernmental Buy/Sell transactions. However, the OUSD(C)/CFO did not properly plan the implementation of IPP. We will provide a copy of the report to the senior official responsible for internal controls in the OUSD(C)/CFO and DFAS.

Finding

DoD's Audit Readiness at Risk Because of the Improper Elimination of Intragovernmental Account Balances

DoD continued to lack the systems or procedures to properly eliminate intragovernmental transactions (IGTs) from the FY 2013 DoD Agency-wide basic financial statements. This has been a long-standing material weakness due to limitations of DoD financial management systems. In August 2013, the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (OUSD[C]/CFO), announced plans to implement the Invoice Processing Platform (IPP) as a global fix to reconcile and eliminate intragovernmental Buy/Sell transactions. However, the OUSD(C)/CFO did not appropriately plan for implementing IPP across DoD. This occurred because the OUSD(C)/CFO did not:

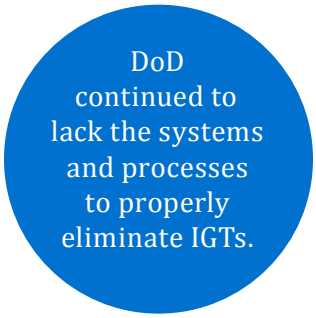
- perform an assessment of IPP to determine whether it effectively reconciles and eliminates IGTs,
- designate an official to oversee the implementation of IPP,
- develop cost estimates and obtain funding for implementing IPP across DoD,
- establish an implementation date with measurable milestones for implementing IPP throughout DoD,
- issue Buy/Sell transaction implementation guidance, or
- develop a plan to reconcile and eliminate IGTs other than Buy/Sell transactions.

As a result, intragovernmental account balances reported on the FY 2013 DoD Agency-wide basic financial statements were not accurate and supported. DoD acknowledges that inaccurate and unsupported intragovernmental account balances continue to be one of the long-standing material control weaknesses preventing DoD from achieving audit readiness on the DoD Agency-wide basic financial statements.[2] Specifically, DoD's ability to be audit ready by FY 2017 is at risk.

[2] The Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, asserted in his management representation letter to our audit of the DoD FY 2013 Agency-wide basic financial statement that DoD systems are not able to provide adequate evidence supporting material portions of the intragovernmental amounts on the financial statements and amounts eliminated from the financial statements.

DoD Improperly Eliminated Intragovernmental Transactions

DoD continued to lack the systems and processes to properly eliminate IGTs. This material weakness was identified over 10 years ago. DoDIG Report No. D-2010-002, "Summary of DoD Office of Inspector General Audits of Financial Management," October 19, 2009, reviewed 25 reports issued between FY 2004 and FY 2008 that discussed deficiencies with DoD IGTs. The report stated that DoD admittedly cannot accurately identify most of its IGTs by customer because DoD systems do not track buyer and seller data needed to match related transactions.



DFAS representatives stated that they employ the same data collection and elimination procedures that have routinely led to improper elimination of IGTs. Specifically, DFAS representatives stated that they do not use transaction-level details and supporting documentation to reconcile and eliminate the IGTs of ODOs. Rather, DFAS personnel adjusted and eliminated summary-level IGTs based on budget reports received from the seller. DoD Regulation 7000.14-R, "DoD Financial Management Regulation" (DoD FMR), Volume 6B, Chapter 13, "Adjustments, Eliminations, and Other Special Intragovernmental Reconciliation Procedures," March 2012, states that for many accounts, the amounts reported by the seller are more accurate than the corresponding amounts reported by the buyer, and DFAS should use the seller's data for reporting most of its intragovernmental balances. In instances where the buyer's data is more complete, accurate, and supported than the seller's data, the buyer may send a memorandum to the Office of DoD Audited Financial Statements and Analysis requesting a waiver from elimination adjustments. In these instances, the seller may be required to make elimination adjustments.

According to DFAS representatives, the process they follow for eliminating IGTs is to compare the seller's IGT elimination amounts to the IGT elimination amounts on either ODOs' Cash Management Report[3] or ODOs' Trial Balance to identify differences. DFAS personnel then allocate the resulting difference among the buyers based on calculated percentages. The DFAS process of using the seller's budget reports instead of actual elimination amounts supported by transaction-level details and supporting documentation continues because DoD financial management systems used to record IGTs cannot capture the required

[3] The Cash Management Report provides summary amounts for each appropriation at the fiscal year, basic symbol, and limit level. The ODOs use the amounts on the report as a control total for reconciling to the U.S. Treasury.

data to reconcile and eliminate IGTs. Additionally, the DFAS representatives stated that the information in the budget reports was from various unknown feeder systems used at field-level accounting offices and that they did not validate the reliability of the reports. DFAS personnel should use supportable transaction-level details (that is, the actual elimination amount) to reconcile and eliminate IGTs.

Invoice Processing Platform

The Treasury developed IPP as a web-based system to manage Government invoicing from purchase order through payment. See Appendix C for the IPP process flowchart. According to the Treasury, IPP has five modules that Federal agencies and their vendors can use alone, together, or in phases for invoice processing. See Appendix D for the capabilities of the five IPP modules.

According to the Treasury, other Federal Government agencies and the private sector have successfully implemented IPP and have been using it for several years. The Federal agencies and private sector contractors have implemented four of the five modules for managing Federal and commercial contracts by using the Purchase Order, Invoices, Workflow, and Payment Notification Service modules.

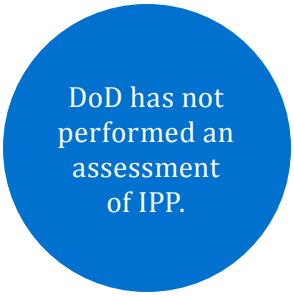
Therefore, if DoD successfully implements IPP, it is reasonable that IPP will significantly reduce the incomplete Buy/Sell transaction data DoD has experienced over the years in trying to reconcile and eliminate IGTs.

DoD Implementation of Invoice Processing Platform

The OUSD(C)/CFO, Deputy CFO, issued a memorandum, "Implementation of the Invoice Processing Platform for Buy/Sell Reimbursable Transactions," August 5, 2013, stating the Treasury's IPP is the way forward for managing the entirety of DoD's IGTs. He stated that IPP would be the repository of IGT documentation throughout DoD. Implementation of IPP throughout DoD is the Deputy CFO's proposed global fix to correct the DoD financial management systems problem of not having transaction details to properly eliminate IGTs. The USMC is piloting the IPP implementation with JCS and WHS. However, the OUSD(C)/CFO needs to improve its IPP implementation plan.

DoD Needs to Perform an Assessment of IPP

DoD has not performed an assessment of IPP to determine whether it should be implemented throughout DoD. The USMC, in coordination with the OUSD(C)/CFO, is performing Buy/Sell transactions with JCS and WHS within IPP as part of a pilot program to determine whether the platform will effectively reconcile IGTs for elimination. However, WHS



representatives informed us that setbacks with implementation delayed their testing of IPP. Specifically, the IPP environment did not initially include access rights, roles, and responsibilities for WHS. WHS personnel stated that, as of May 29, 2014, the Treasury resolved these configuration problems, which allowed WHS to begin processing transactions in IPP with USMC. At the conclusion of the pilot program, the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, (USD[C]/CFO) should review the results to determine whether IPP should be implemented throughout DoD.

DoD Needs to Designate an Individual to Oversee the IPP Implementation

The Deputy CFO has not designated a specific individual to oversee the implementation of IPP within DoD. In his August 5, 2013, memorandum, he established an IPP governance board made up of military officers and senior civilian personnel representatives who are knowledgeable in the IGT end-to-end business process. The memorandum also appointed the OUSD(C)/CFO, Business Integration Office (BIO), to lead the implementation efforts, with the Department of the Navy acting as the executive agent of the IPP implementation. The governance board developed a charter to establish a governance structure for planning and implementing IPP throughout DoD. However, the memorandum and the governance board charter do not define the functional roles of the BIO as the IPP implementation lead and the Navy as the executive agent. There is no higher DoD authority requiring IPP implementation by a specific date or establishing fixed milestones for the platform's implementation. Therefore, the USD(C)/CFO should designate an individual to oversee the implementation of IPP across DoD.

DoD Needs to Develop Cost Estimates and Obtain Funding

DoD has not developed cost estimates and obtained funding for the implementation of IPP. The BIO has determined that the most effective method for interfacing DoD Enterprise Resource Planning (ERP) systems with IPP is thru the Global Exchange Services (GEX).[4] See Appendix C for the GEX interfaces with ERPs and IPP. BIO representatives stated that GEX is a centralized data hub that facilitates the exchange of Buy/Sell transactions between the Army, Navy, Air Force, and other DoD Components' financial management and acquisition systems. In addition, GEX will facilitate consistent data quality and standards, data error handling,[5] and provide a full audit trail. GEX also validates data with crosswalk tables, business rules, and other authoritative sources. Furthermore, GEX will standardize

[4] GEX is an integration of multiple commercial off-the-shelf software packages that provide messaging and mediation services primarily to the Business Mission Area in DoD.

[5] Data error handling refers to the anticipation, detection, and resolution of programming, application, and communications errors.

data between the ERPs and IPP. However, BIO has not developed cost estimates and obtained funding to perform the system integration between the ERPs and GEX, and between GEX and IPP. These interfaces are needed to implement IPP throughout DoD, eliminate IGTs as a material weakness and ensure DoD audit readiness by FY 2017. The USD(C)/CFO should develop cost estimates and obtain funding to implement IPP across DoD.

DoD Needs to Mandate the Use of IPP, Establish an Implementation Date, and Issue Guidance

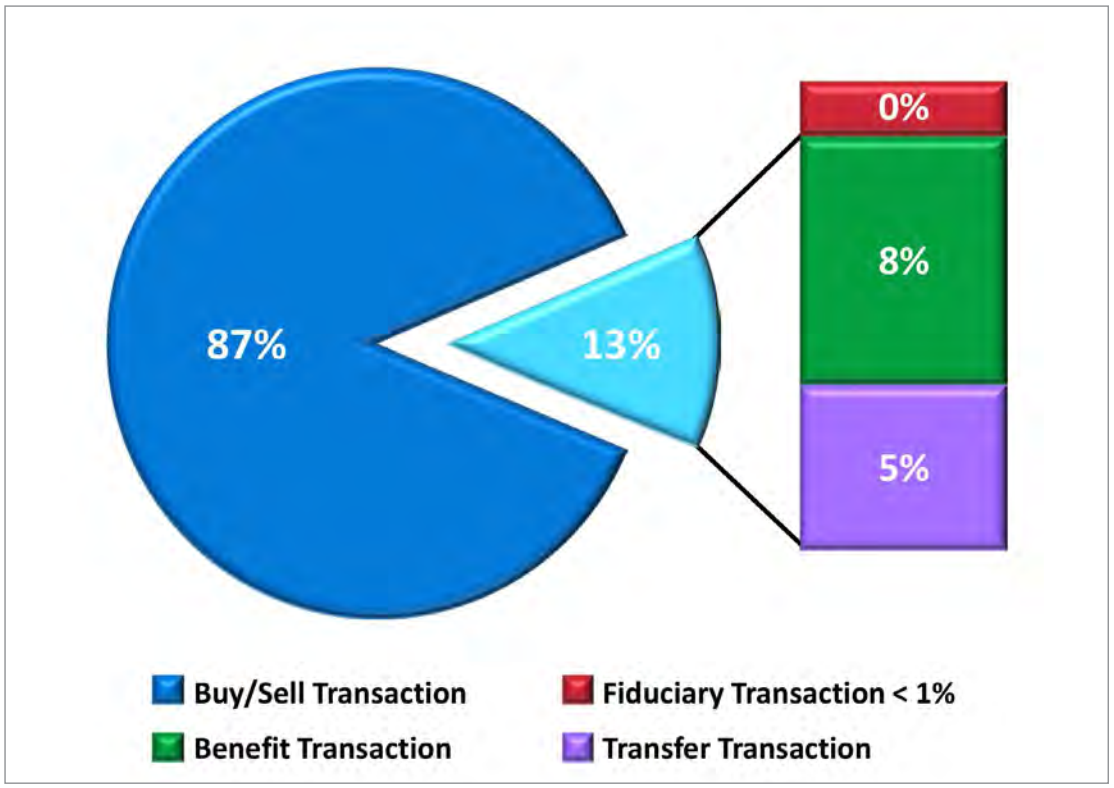
The Deputy CFO plans to implement IPP throughout DoD, but has not mandated[6] DoD-wide use of IPP. In addition, the Deputy CFO's memorandum did not contain an implementation date with specific milestones to measure the success of the IPP implementation and to ensure the IPP implementation met the FY 2017 audit readiness date. The memorandum states that starting in the second quarter of FY 2014, BIO will document IPP implementation progress. However, the memorandum does not establish an implementation date with measurable milestones for implementing IPP. BIO representatives stated they would like to see permanent official guidance requiring the use of the IPP and a specific implementation date with measurable milestones after the USMC pilot program is complete and it has been determined that IPP would work throughout DoD. If it is determined that IPP should be implemented throughout DoD, the USD(C)/CFO should establish an implementation date with measurable milestones for implementing IPP throughout DoD to meet the FY 2017 audit readiness date. In addition, the USD(C)/CFO should use the IPP pilot program results to develop and issue implementation guidance. The USD(C)/CFO should also revise the DoD FMR to mandate the use of IPP for Buy/Sell transactions.

DoD Needs a Plan to Reconcile and Eliminate Intragovernmental Transactions Other than Buy/Sell Transactions

The Deputy CFO's memorandum does not address all DoD IGT data collection concerns. Buy/Sell transactions are one of four types of IGTs that OMB Circular A-136 requires agencies to eliminate. The memorandum did not provide the DoD plan for eliminating the three other types of IGTs. Although Buy/Sell transactions make up approximately 87 percent of the DoD IGT elimination problems, DoD has not developed a corrective action plan to fix the remaining 13 percent of the IGT elimination problems in DoD. The following chart summarizes the FY 2013 IGTs by transaction type.

[6] The Deputy CFO issued a directive-type memorandum that is only effective for 12 months from signature. It must be incorporated into an existing DoD issuance, converted to a new DoD issuance, or reissued to remain in effect.

Chart. DoD FY 2013 IGTs by Transaction Type



Source: Department of Treasury Scorecards

BIO personnel stated that they are aware that IPP does not reconcile and eliminate the Benefit, Fiduciary, and Transfer transactions and plans to address this in FY 2015. Developing a plan to reconcile and eliminate these transactions types will assist DoD in eliminating IGTs as a material weakness and assist in meeting the FY 2017 audit readiness date. The USD(C)/CFO should include in its implementation guidance procedures for reconciling and eliminating IGTs other than Buy/Sell transactions.

DFAS Elimination of FY 2013 ODO Intragovernmental Transactions

Intragovernmental account balances reported on the FY 2013 DoD Agency-wide basic financial statements were not accurate and supported. DFAS eliminated ODO IGTs valued at approximately $143 million from the FY 2013 General Fund ($77.1 million) and Working Capital Fund ($65.9 million) Balance Sheets that the customer/buyer may not have supported or identified due to limitations of DoD financial management systems. In addition, DFAS eliminated ODO IGTs valued at approximately $5.7 billion from the FY 2013 General Fund ($2.3 billion) and Working Capital Fund ($3.4 billion) Statements of Net Costs that the customer/buyer may not have supported or identified due to limitations

of DoD financial management systems. DoD acknowledges that inaccurate and unsupported intragovernmental account balances continues to be one of the long-standing material weaknesses preventing DoD from achieving audit readiness on the DoD Agency-wide basic financial statements. Specifically, DoD's ability to achieve audit readiness by FY 2017 is at risk.

Recommendations, Management Comments, and Our Response

As a result of management comments, we deleted Recommendation 2. According to the OUSD(C)/CFO, Deputy CFO, the OUSD(C)/CFO plans to implement IPP throughout DoD. Therefore, an alternative plan is not necessary.

Recommendation 1

We recommend the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, review the results of the Department of the Treasury Invoice Processing Platform pilot program at the U.S. Marine Corps to determine whether it should be implemented throughout DoD. If it is determined that the Invoice Processing Platform should be implemented throughout DoD:

a. **Designate an individual to oversee the implementation.**

b. **Develop cost estimates and obtain funding for implementing the Invoice Processing Platform across DoD.**

c. **Establish an implementation date with measurable milestones for implementing the Invoice Processing Platform throughout DoD to meet the FY 2017 audit readiness date.**

d. **Use the Invoice Processing Platform pilot program results to develop and issue implementation guidance throughout DoD.**

e. **Revise DoD Financial Management Regulation, Volume 6B, Chapter 13, "Adjustments, Eliminations, and Other Special Intragovernmental Reconciliation Procedures," to mandate the use of the Invoice Processing Platform for Buy/Sell transactions.**

f. **Ensure implementation guidance includes procedures for reconciling and eliminating intragovernmental transactions other than Buy/Sell intragovernmental transactions including intragovernmental Benefit, Fiduciary, and Transfer transactions.**

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

Responding for the Office of the Under Secretary of Defense (Comptroller)/ Chief Financial Officer, DoD (OUSD[C]/CFO), the Deputy CFO did not agree with Recommendation 1. The Deputy CFO regards the implementation of IPP as a

U.S. Treasury Federal-wide initiative. Thus, a business case analysis was not necessary. In addition, subject matter experts from the U.S. Treasury and DoD conducted a paper pilot in FY 2012 and a limited electronic test at the U.S. Marine Corps in FY 2013 to assess the implementation efforts that would be needed in DoD. The August 2013 memorandum was the Deputy CFO announcing the intent to deploy IPP. All efforts since August 2013 have been focused on the IPP implementation strategy for DoD.

The Deputy CFO agreed with Recommendations 1.a through 1.e. He stated that implementation of the IPP project is the responsibility of the OUSD(C)/CFO, Director, Business Integration Office (BIO). Specifically, he stated the Director, BIO, is the program sponsor, and he will emphasize his role in the implementation memorandum scheduled to be published in the first quarter of FY 2015. In addition, the Deputy CFO stated that BIO has obtained cost estimates and a funding commitment for phased implementation in FY 2015. A full cost estimate for full implementation will be created no later than March 30, 2015. Additionally, the Deputy CFO stated that BIO will release measurable milestones for IPP implementation aligned with the FY 2017 audit readiness date no later than March 30, 2015, and implementation plan and related guidance no later than January 30, 2015. Furthermore, the Deputy CFO stated that DoD Financial Management Regulation Volume 6B, Chapter 13, will be revised to require the use of IPP for buy/sell transactions no later than June 30, 2015.

The Deputy CFO partially agreed with Recommendation 1.f. The Deputy CFO agrees that implementation procedures for other than buy-sell transactions must be addressed before the audit readiness date. However, those types of transactions will not be part of IPP, and thus will not be included in IPP implementation guidance. The Deputy CFO stated that DoD will address the elimination of the other types of transactions no later than September 30, 2015.

Our Response

The Deputy CFO did not agree with Recommendation 1 and partially agreed with Recommendation 1.f. Although the OUSD(C)/CFO does not plan to review the results of the IPP pilot program at the U.S. Marine Corps, we agree that the actions already taken meet the intent of our recommendation. No additional comments are required for Recommendation 1. Even though the OUSD(C)/CFO does not plan to include procedures for reconciling and eliminating other types of transactions in the implementation guidance, the Deputy CFO statement that other types of transactions will be addressed separately meets the intent of our recommendation. No additional comments are required for Recommendation 1.f. The Deputy CFO addressed all of the specifics of Recommendations 1.a. through 1.e. No additional comments are required.

Appendix A

Scope and Methodology

We conducted this performance audit from November 2013 through October 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We obtained and reviewed DoD FY 2013 ODOs' financial statements. We focused our review on the Consolidated Balance Sheet and Statement of Net Costs and identified the IGTs eliminated from these financial statements. We did not review and identify intragovernmental eliminations on the Statement of Changes in Net Position because the information for this statement is derived from the same financial management systems and the process for reconciling and eliminating IGTs is the same. In addition, we did not review and identify intragovernmental eliminations for the Statement of Budgetary Resources because the statement is presented on a combined basis rather than a consolidated basis. We reviewed DoD, DFAS, OMB, the Department of the Treasury, and Federal Accounting Standards Board guidance related to the eliminations of intragovernmental account balances. We interviewed DFAS Indianapolis and DFAS Columbus personnel to obtain an understanding of the process for reconciling and eliminating IGTs and determining intergovernmental account balances. We obtained standard operating procedures and flowcharts from DFAS Indianapolis and DFAS Columbus personnel documenting the process and associated controls for reconciling and eliminating intragovernmental activity and determining intragovernmental account balances for the FY 2013 DoD Agency-wide basic financial statements.

Because DFAS continues to employ the same data collection and elimination procedures that have routinely led to improper elimination of intragovernmental account balances, we modified our objective to determine whether DoD has effectively implemented IPP to mitigate this material weakness.

We reviewed the OUSD(C)/CFO, Deputy CFO memorandum implementing IPP in DoD. We interviewed OUSD(C)/CFO BIO, USMC, and WHS personnel to determine the status of the IPP implementation and its capabilities. In addition, we obtained and reviewed flowcharts of the implementation process and associated controls for IPP.

Use of Computer-Processed Data

We did not rely on computer-processed data.

Prior Coverage

During the last 5 years, the Department of Defense Inspector General (DoD IG) issued nine reports discussing elimination of intragovernmental account balances. Unrestricted DoD IG reports can be accessed at http://www.dodig.mil/pubs/index.cfm.

DoD IG

Report No. DODIG-2014-024, "Independent Auditor's Report on the Department of Defense FY 2013 and FY 2012 Basic Financial Statements," December 16, 2013

Report No. DODIG-2013-021, "Independent Auditor's Report on the Department of Defense FY 2012 and FY 2011 Financial Statements," November 15, 2012

Report No. DODIG-2012-107, "Defense Finance and Accounting Service Needs to Improve the Process for Reconciling the Other Defense Organizations' Fund Balance with Treasury," July 9, 2012

Report No. DODIG-2012-066, "General Fund Enterprise Business System Did Not Provide Required Financial Information," March 26, 2012

Report No. DODIG-2012-021, "Independent Auditor's Report on the DoD Agency-Wide FY 2011 and FY 2010 Basic Financial Statements," November 15, 2011

Report No. D-2011-011, "Independent Auditor's Report on the DoD Agency-Wide FY 2010 and FY 2009 Basic Financial Statements," November 15, 2010

Report No. D-2010-016, "Independent Auditor's Report on the Department of Defense FY 2009 and FY 2008 Basic Financial Statements," November 12, 2009

Report No. D-2010-002, "Summary of DoD Office of Inspector General Audits of Financial Management," October 19, 2009

Report No. D-2009-044, "Defense Finance and Accounting Service Indianapolis Compilation of Other Defense Organizations General Fund Financial Data," January 23, 2009

Appendix B

Office of the Under Secretary of Defense (Comptroller)/ Chief Financial Officer, DoD Memorandum

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

COMPTROLLER

AUG 5 2013

MEMORANDUM FOR DEPUTY ASSISTANT SECRETARIES OF THE MILITARY DEPARTMENTS (FINANCIAL OPERATIONS)
COMPTROLLERS/CHIEF FINANCIAL OFFICERS OF THE DEFENSE AGENCIES
COMPTROLLERS/CHIEF FINANCIAL OFFICERS OF THE DOD FIELD ACTIVITIES

SUBJECT: Implementation of the Invoice Processing Platform for Buy/Sell Reimbursable Transactions

The Department of Defense (DoD) and Department of the Treasury (Treasury) are partnering closely to implement Treasury's automated Invoice Processing Platform (IPP) system to manage the entirety of DoD's inter- and intra-governmental transactions (IGT). IPP will serve as DoD's single core system to broker IGT transactions as well as the single repository for IGT documentation in DoD. This will strengthen management and accountability for nearly $273 billion in IGT business.

To guide this implementation, which will include a series of business process changes, I am establishing a DoD-wide chartered IPP governance board. Through this board the Office of the Under Secretary of Defense (Comptroller), Business Integration Office (BIO), will lead IPP implementation efforts in coordination with the Department of the Navy acting as DoD's executive agent.

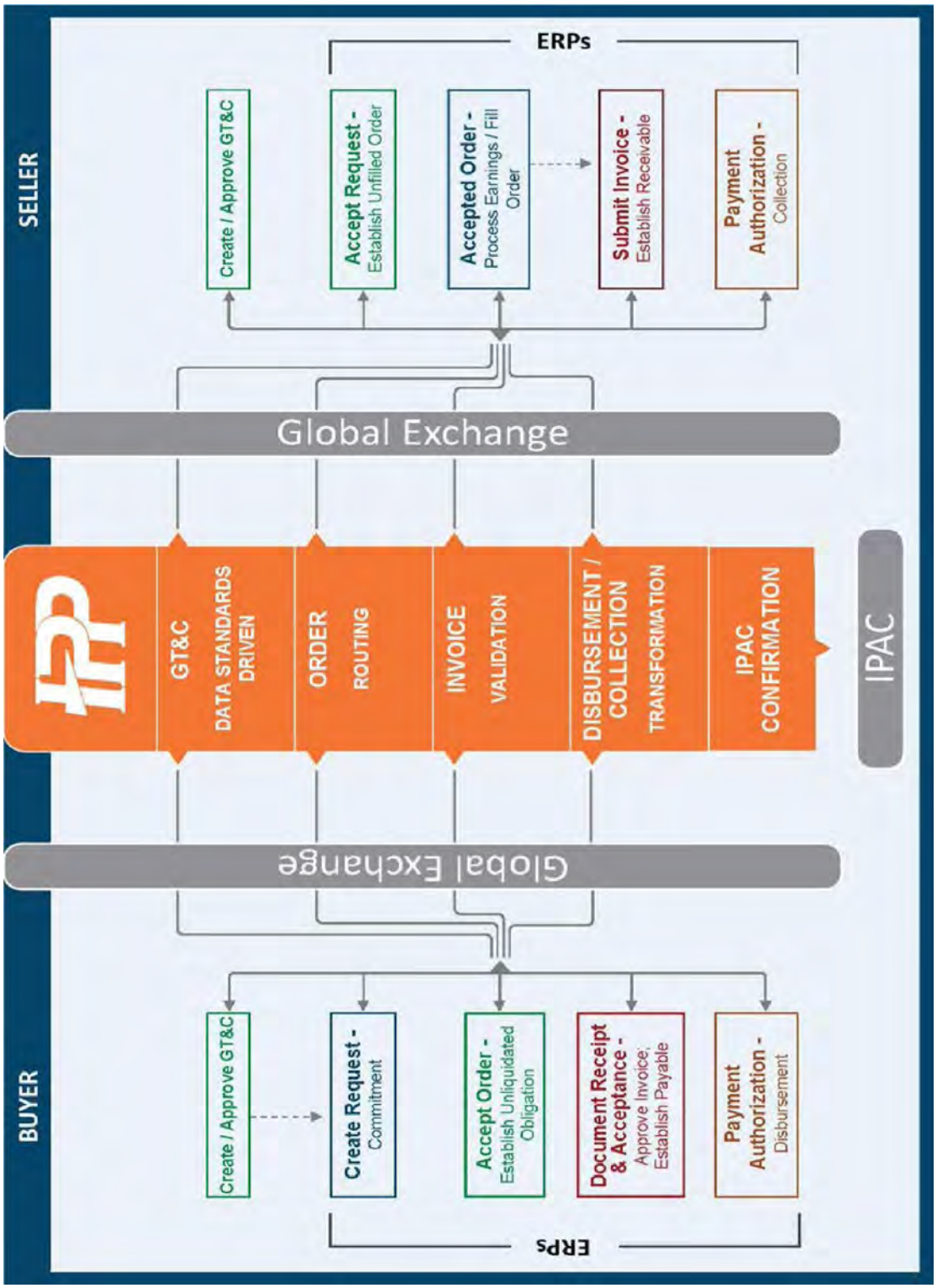
All components should name a representative to the IPP governance board within 30 days of the date of this memo. Representatives should rank at the O6 or GS-15 level and be knowledgeable in the IGT end-to-end business process. Component representatives will help develop the governance board charter, to be published within 90 days of the date of this memo. The charter will establish a governance structure for the planning and implementation of IPP throughout DoD. It will also document the Navy's executive agent authorities, to include overseeing and reporting on the planning and execution of component execution plans, as well as co-chairing the governance board with BIO. Starting in Quarter 2, Fiscal Year 2014, BIO will document IPP implementation progress as part of the Strategic Management Plan monthly metrics report.

I ask for your commitment to this key DoD initiative that will support our audit efforts and address a critical area impacting the management of our IGT business. My point of contact in BIO is [redacted] More information on Treasury's IPP tool can be found at https://www.ipp.gov/about-ipp/index.htm.

Mark E. Easton
Deputy Chief Financial Officer

Appendix C

Invoice Processing Platform Flowchart



Source: "Improving DoD's Inter/Intra-Governmental Financial Reporting" prepared by BIO

Appendix D

Invoice Processing Platform Modules

The Department of the Treasury describes the capabilities of each IPP module as:

Purchase Orders. Agencies can upload purchase orders to IPP from their existing business systems and notify vendors that purchase orders are ready to view online. Vendors can then access the purchase orders and create their invoices with pre-populated data from the purchase orders, which reduces data entry errors. This module also helps agencies and vendors gain greater visibility over transaction data and documents associated with a purchase order.

Invoices. IPP gives vendors multiple ways to submit an invoice. For example, vendors may electronically pre-populate their invoices with data from purchase orders within the system, create an invoice online without a purchase order, or use an electronic file submission. IPP then screens vendor invoices against agency business rules, automatically flagging for correction any areas that do not comply. Once IPP validates an invoice, agencies can export it to their financial system and electronically route it for internal approvals. IPP's self-service and drill-down capabilities enable vendors to check invoice status and determine the estimated time of payment online.

Workflow. IPP automates and supports an invoice approval process by offering multiple approval steps and options to delegate, reassign, or escalate an invoice if it is not processed promptly.

Payment Notification Service. Agencies can automatically provide their vendors with a simple e-mail notification of payment or detailed remittance information. This service enables vendors to easily manage their receivables and match payments to individual invoices. In addition to signing up to receive payment notification e-mails, vendors can use this module to view their payment history and download their remittance data online.

Intragovernmental. Agencies can manage Buy/Sell transactions between Federal entities by ensuring communication between trading partners and providing visibility over each stage of the transaction from general terms and conditions (memorandum of agreement) through payment notification. Specifically, the IGT module:

- allows agency trading partner to validate information before completing the transaction,
- improves the management of IGTs with standard processes and system controls,
- reduces agencies' reconciliation requirement, and
- creates a standard business process for Federal agency Buy/Sell activity.

Management Comments

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

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

COMPTROLLER

DEC 5 2014

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDITING, DEPARTMENT OF DEFENSE OFFICE OF INSPECTOR GENERAL

SUBJECT: Comments on the Department of Defense Inspector General Draft Audit Report, "Opportunities to Improve the Elimination of Intragovernmental Transactions in DoD Financial Statements"

We received the subject October 21, 2014, draft audit report and reviewed your recommendations to the Under Secretary of Defense (Comptroller)/Chief Financial Officer. I am attaching our response.

Thank you for the opportunity to review and comment on the draft audit report. My staff points of contact are [redacted]

Mark E. Easton
Deputy Chief Financial Officer

Attachment:
As stated

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (cont'd)

OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER) (OUSD(C))
RESPONSES TO RECOMMENDATIONS

DOD OFFICE OF INSPECTOR GENERAL DRAFT REPORT,
"OPPORTUNITIES TO IMPROVE THE ELIMINATION OF
INTRAGOVERNMENTAL TRANSACTIONS IN DOD FINANCIAL STATEMENTS"
(PROJECT NO. D2014-D000FP-0072.000)

RECOMMENDATION 1: Review the results of the Department of the Treasury Invoice Processing Platform (IPP) pilot program at the U.S. Marine Corps to determine whether it should be implemented throughout DoD.

OUSD(C) RESPONSE: Non-concur. DoD regards the implementation of IPP as a U.S. Department of the Treasury (Treasury) sponsored government-wide initiative, and therefore did not conduct its own business case analysis. Subject matter experts from both Treasury and DoD reviewed the results of the U.S. Marine Corps (USMC) paper pilot conducted during Fiscal Year (FY) 2012, as well as a limited USMC IPP electronic test during FY 2013, to assess the implementation efforts that would be needed in DoD. In addition, to clarify, the August 2013 Deputy Chief Financial Officer memorandum included in the report as Appendix B announced DoD's intent to deploy IPP. All efforts since August 2013 have been focused on the IPP implementation strategy for DoD.

If it is determined that the Invoice Processing Platform should be implemented throughout DoD:

RECOMMENDATION 1.a.: Designate an individual to oversee the implementation.

OUSD(C) RESPONSE: Concur. IPP project implementation is the responsibility of the Director, Business Integration Office (BIO), OUSD(C). The Director, BIO, is the program sponsor per the project charter (attached). The Department of the Navy is the executive agent. OUSD(C) will emphasize the BIO director's role as the program sponsor, in an implementation memorandum scheduled for release in Quarter 1, FY 2015.

RECOMMENDATION 1.b.: Develop cost estimates and obtain funding for implementing the Invoice Processing Platform across DoD.

OUSD(C) RESPONSE: Concur: BIO has obtained cost estimates and a funding commitment for the creation of necessary interfaces for phased implementation in FY 2015 and will create a full cost estimate for full implementation no later than (NLT) March 30, 2015.

RECOMMENDATION 1.c.: Establish an implementation date with measurable milestones for implementing the Invoice Processing Platform throughout DoD to meet the FY 2017 audit readiness date.

OUSD(C) RESPONSE: Concur. BIO will release measurable milestones for IPP implementation aligned with the FY 2017 audit readiness dates NLT March 30, 2015.

Attachment

Attachment omitted because of length. Copies will be provided upon request.

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (cont'd)

RECOMMENDATION 1.d.: Use the Invoice Processing Platform pilot program results to develop and issue implementation guidance throughout DoD.

OUSD(C) RESPONSE: Concur. BIO will release an implementation plan and related guidance NLT January 30, 2015.

RECOMMENDATION 1.e.: Revise DoD Financial Management Regulation Volume 6B, Chapter 13, "Adjustments, Eliminations, and Other Special Intragovernmental Reconciliations Procedures," to mandate the use of the Invoice Processing Platform for Buy/Sell transactions.

OUSD(C) RESPONSE: Concur. DoD Financial Management Regulation Volume 6B, Chapter 13, will be revised to require the use of IPP for buy/sell transactions NLT June 30, 2015.

RECOMMENDATION 1.f.: Ensure implementation guidance includes procedures for reconciling and eliminating intragovernmental transactions other than Buy/Sell intragovernmental transactions including intragovernmental Benefit, Fiduciary, and Transfer transactions.

OUSD(C) RESPONSE: Partially Concur. The Department concurs that implementation procedures for other than buy-sell transactions must be addressed prior to the FY 2017 audit readiness date. However, those types of transactions will not be part of IPP, and thus will not be included in IPP implementation guidance. The Department will address the elimination of the other types of transactions NLT September 30, 2015, ensuring balances are reported in accordance with the Treasury Financial Manual.

RECOMMENDATION 2: If it is determined that the Invoice Processing Platform should not be implemented throughout DoD, develop an alternative plan of action to mitigate the intragovermental transactions material weaknesses and meet the FY 2017 audit readiness date.

Deleted Recommendation 2.

OUSD(C) RESPONSE: Non-Concur. DoD has decided to implement IPP, thus an alternative plan is not under consideration or currently being developed.

2

Acronyms and Abbreviations

BIO	Business Integration Office
DFAS	Defense Finance and Accounting Service
ERP	Enterprise Resource Planning
FMR	Financial Management Regulation
GEX	Global Exchange Services
IGT	Intragovernmental Transactions
IPP	Invoice Processing Platform
JCS	Joint Chiefs of Staff
ODO	Other Defense Organization
OMB	Office of Management and Budget
OUSD(C)/CFO	Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD
USD(C)/CFO	Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD
USMC	U.S. Marine Corps
WHS	Washington Headquarters Service


INSPECTOR GENERAL
INTEGRITY
EFFICIENCY
DEPARTMENT OF DEFENSE

Whistleblower Protection
U.S. Department of Defense

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For more information about DoD IG reports or activities, please contact us:

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