



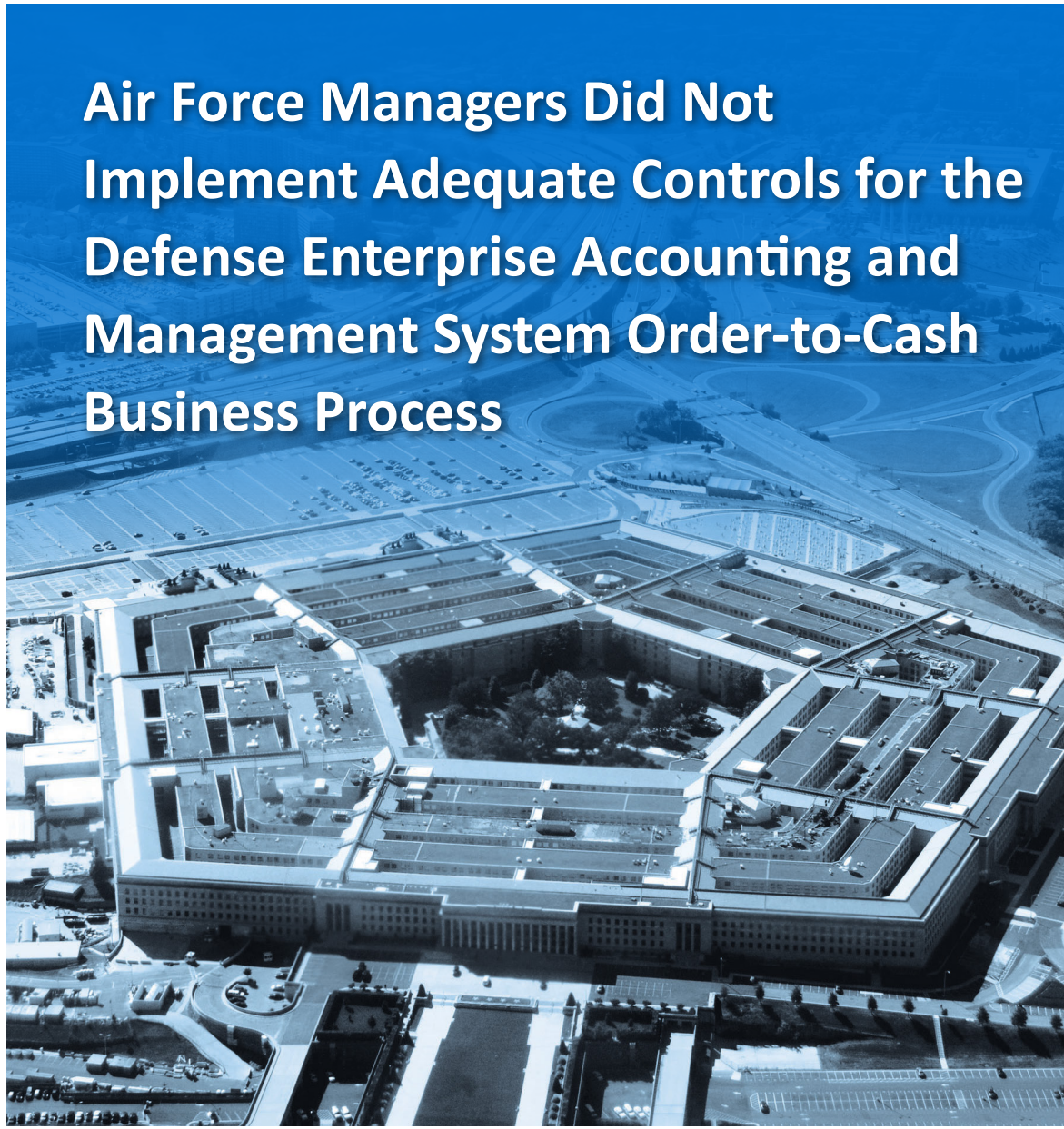
INSPECTOR GENERAL

U.S. Department of Defense

MAY 1, 2014



Air Force Managers Did Not Implement Adequate Controls for the Defense Enterprise Accounting and Management System Order-to-Cash Business Process



INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

Mission

Our mission is to provide independent, relevant, and timely oversight of the Department of Defense that: supports the warfighter; promotes accountability, integrity, and efficiency; advises the Secretary of Defense and Congress; and informs the public.

Vision

Our vision is to be a model oversight organization in the federal government by leading change, speaking truth, and promoting excellence; a diverse organization, working together as one professional team, recognized as leaders in our field.



For more information about whistleblower protection, please see the inside back cover.



Results in Brief

Air Force Managers Did Not Implement Adequate Controls for the Defense Enterprise Accounting and Management System Order-to-Cash Business Process

May 1, 2014

Objective

We determined whether the Air Force's controls over recording accounting transactions within the Defense Enterprise Accounting and Management System (DEAMS) Order-to-Cash (O2C) business process were adequate.

Finding

Air Force managers did not implement adequate controls over recording financial transactions within the DEAMS O2C business process. Specifically, Air Force managers did not include controls for reconciling general and subsidiary ledgers or to make corrections to the categories of Transportation Working Capital Fund (TWCF) transactions that were incorrectly created by other locations that process accounting transactions.

This occurred because Air Force managers conducted inadequate business process reengineering and did not conduct comprehensive risk assessments to identify certain financial reporting requirements.

As a result, in FY 2012, 11 accounts associated with the DEAMS O2C business process produced about \$2.8 billion of abnormal balances while processing data for only one location. However in FY 2013, Air Force managers implemented improvements that resulted in a reduction of abnormal balances in

Finding Continued

the 11 accounts to about \$154 million. In addition to the FY 2013 abnormal balances, the lack of reconciling controls and controls to make corrections to incorrectly categorized TWCF transactions resulted in data errors of about \$25 million. As DEAMS deploys to additional locations, data inaccuracies could grow significantly if not corrected and would likely hinder the Air Force from using DEAMS to meet its FY 2017 auditability requirement.

Recommendations

We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller) establish and maintain evidence of metrics for measuring abnormal balances. Furthermore, we recommend he conduct and maintain evidence of a comprehensive site assessment to include risk assessments and business process reengineering. We also recommend that the Director, DEAMS Functional Management Office, conduct and maintain evidence of monthly monitoring of the metrics measuring abnormal balances at all deployed sites of DEAMS, and report the outcome to senior level Air Force managers.

Management Comments

The Deputy Assistant Secretary of the Air Force (Financial Management and Comptroller) provided comments that were responsive and agreed with the recommendations for the Assistant Secretary of the Air Force (Financial Management and Comptroller) and the Functional Manager, DEAMS Functional Management Office. Therefore, no additional comments are required. Please see the recommendation table on the back of this page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Assistant Secretary of the Air Force (Financial Management and Comptroller)	None	1.a, 1.b
Director, Defense Enterprise Accounting and Management System Functional Management Office	None	2



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

May 1, 2014

MEMORANDUM FOR COMMANDER, U.S. TRANSPORTATION COMMAND
ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE LIMESTONE

SUBJECT: Air Force Managers Did Not Implement Adequate Controls for the Defense Enterprise Accounting and Management System (DEAMS) Order-to-Cash (O2C) Business Process (Report No. DODIG-2014-068)

We are providing this report for your information and use. Unless adequate controls are developed and implemented for the Defense Enterprise Accounting and Management System Order-to-Cash business processes, the Air Force will continue to have significant errors in its reported financial data, and managers will not successfully reach the FY 2017 auditability goal. Although the audit began in August 2012, the information presented in the report remains relevant because the Air Force intends to use DEAMS as its financial system of record to meet the FY 2017 audibility goals.

We considered management comments on a draft of this report when preparing the final report. Comments from the Deputy Assistant Secretary of the Air Force (Financial Management and Comptroller) on behalf of the Office of the Assistant Secretary of the Air Force (Financial Management and Comptroller) and the DEAMS Functional Management Office were responsive and conformed to the requirements of DoD Directive 7650.3; therefore, additional comments are not required.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-5945 (DSN 664-5945).

A handwritten signature in black ink that reads "Lorin T. Venable".

Lorin T. Venable, CPA
Assistant Inspector General
Financial Management and Reporting



Contents

Introduction

Objectives	1
Background	1
Review of Internal Controls	3

Finding. Inadequate Controls Over Recording Accounting Transactions 5

Air Force Managers Did Not Implement Adequate Controls Over Recording Financial Transactions	5
Business Process Reengineering and Comprehensive Risk Assessments Were Not Adequate	7
DEAMS Inaccuracies Could Impede Air Force Auditability and May Increase	8
Recommendations, Management Comments, and Our Response	9

Appendixes

Appendix A. Scope and Methodology	12
Appendix B. Prior Audit Coverage	14
Appendix C. Thirty Order-to-Cash Accounts	16
Appendix D. DEAMS Abnormal Balances in Order-to-Cash Accounts	17
Appendix E. Assistant Secretary of the Air Force (Financial Management and Comptroller) Comments	18

Acronyms and Abbreviations 21



Introduction

Objectives

Our overall objective was to determine whether the Air Force's controls over recording accounting transactions within the Defense Enterprise Accounting and Management System (DEAMS) Order-to-Cash (O2C) business process were adequate. In addition, we were to determine whether DEAMS O2C transactions were supported with verifiable audit trails.

The Air Force O2C business process encompasses 16 different systems, including DEAMS. These 16 systems either support, or process, or both support and process financial transactions included in the DEAMS O2C business process. To determine whether the Air Force O2C business processes were adequate, we would have had to review the controls and functionality for all 16 systems. Instead, we determined whether the controls unique to DEAMS O2C business process were properly identified and implemented. Because we did not review the entire Air Force end-to-end O2C business process, we did not determine whether DEAMS O2C transactions were supported with verifiable audit trails. See Appendix A for the scope and methodology and Appendix B for the prior audit coverage.

Background

Defense Enterprise Accounting and Management System

DEAMS is a joint Enterprise Resource Planning initiative among the Air Force, the United States Transportation Command (USTRANSCOM), and the Defense Finance and Accounting Services (DFAS). When fully deployed, DEAMS will serve as the financial management system of record for the Transportation Working Capital Fund (TWCF) and the General Fund for both USTRANSCOM and the Air Force. The development of DEAMS is under the direction of the Office of the Secretary of the Air Force for Financial Management and Comptroller, and the Office of the Secretary of Defense Finance Accounting Operations and Financial Management Domain. The DEAMS Functional Management Office (FMO) is responsible for interacting with the Air Force, USTRANSCOM, and DFAS financial community to define functional requirements. The DEAMS FMO records, vets, formalizes, and delivers the requirements to the DEAMS Program Management Office, which is responsible for delivering a configured system that satisfies the requirements provided by the FMO.

As of October 2013, DEAMS was deployed to about 1,200 users at six locations-- Scott Air Force Base (AFB), McConnell AFB, Dover AFB, Grand Forks AFB, Little Rock AFB, and Pope AFB--and is expected to support about 30,000 users across the Air Force when fully deployed. DEAMS has been in development for about 10 years and is not scheduled to be complete until FY 2017. As of February 25, 2013, DEAMS's expenditures totaled \$380.1 million, and Air Force managers estimate that the total cost will be about \$2.0 billion.

Material Weaknesses Related to Business Processes

The Air Force and USTRANSCOM had longstanding material weaknesses in their internal controls over financial systems. The Air Force also had longstanding material weaknesses in the financial reporting of its business operations. In the Air Force's FY 2013 Statement of Assurance, the Air Force reported two financial reporting material weaknesses involving accounts receivable relating directly to the O2C business process, and one material weakness involving internal controls over financial systems. In addition, the Acting Secretary of the Air Force identified DEAMS deployment as the major corrective action for resolving these material weaknesses. The Acting Secretary estimated completion dates of FY 2015 for the material weaknesses related to accounts receivable and FY 2017 for the material weakness related to financial systems.

In USTRANSCOM's FY 2013 Statement of Assurance, USTRANSCOM reported a material weakness related to internal controls of financial systems. USTRANSCOM reported that the nonintegrated environment in which DEAMS operated made providing consolidated financial statements challenging. The Commander, Air Force, reported that its material weakness would be corrected by 2015, when the Transportation Financial Management System, Cargo and Billing System, and DEAMS Component Billing System have migrated to DEAMS, to produce auditable, compliant, and consolidated financial statements.

Defense Enterprise Accounting and Management System and DoD Auditability Goals

The FY 2010 National Defense Authorization Act (NDAA)¹ established that the Chief Management Officer of the DoD develop and maintain the Financial Improvement and Audit Readiness (FIAR) Plan. The FY 2010 NDAA required that the FIAR Plan describe specific actions to be taken and the costs associated with ensuring that the financial statements of the DoD are validated as ready for audit by September 30, 2017.

¹ Public Law 111-84, "National Defense Authorization Act (NDAA) for Fiscal Year 2010," dated October 28, 2009.

According to the FIAR Plan of November 2012, DEAMS will be one of the Enterprise Resource and Planning systems essential for the Air Force to reach audit readiness.

The FY 2012 NDAA² established that the FIAR Plan will include interim objectives and a schedule of milestones for each military department and for the defense agencies; the FIAR plan will support the goals established by the Secretary of Defense that the Statement of Budgetary Resources is validated for audit by September 30, 2014. According to the Air Force's November 2012 FIAR Plan, because DEAMS will not be fully deployed in 2014, the Air Force will rely on manual controls and legacy system enhancements to meet the FY 2014 goal of audit readiness for the Statement of Budgetary Resources.

Business Process Reengineering Requirements

The FY 2012 NDAA, amended section 2222 of title 10, United States Code, stipulates that DoD may not obligate funds for a Defense business system program that will have a total cost in excess of \$1 million over the period of the current future-years defense program without determining that appropriate business process reengineering (BPR) efforts have been undertaken and the Defense business system program complied with the DoD enterprise architecture requirements. To justify additional DEAMS funding, the FY 2012 NDAA required the Deputy Chief Management Officer and the Air Force's Chief Management Officer to make the reengineering determinations and assert enterprise architecture compliance.

The Office of the Deputy Chief Management Officer issued a memorandum dated April 30, 2011, providing final guidance for implementing section 1072 of the FY 2010 NDAA, which introduced the BPR. The memorandum states that the Department's Investment Review Boards or the Defense Business System Management Committee may not certify a system unless appropriate BPR efforts were conducted. In September 2012, the Defense Business System Management Committee certified investments of \$133.1 million for DEAMS. The Director of Business Transformation and Deputy Chief Management Officer, Office of the Under Secretary of the Air Force, in his submission determined that DEAMS had complied with the NDAA requirements.

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

² Public Law 112-81, "National Defense Authorization Act for Fiscal Year 2012," dated December 31, 2011.

internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal control weaknesses. We found that DEAMS did not have adequate controls over recording accurate and reliable financial data because Air Force managers did not conduct adequate BPR or comprehensive risk assessments to identify and implement the financial reporting requirements necessary to address those weaknesses. We will provide a copy of the report to the senior official(s) responsible for internal controls in the Department of the Air Force.

Finding

Inadequate Controls Over Recording Accounting Transactions

Managers at the Office of the Secretary of the Air Force for Financial Management and Comptroller, DEAMS Program Management Office, and DEAMS FMO (hereafter referred to as Air Force managers) did not implement adequate controls over recording financial transactions within the DEAMS O2C business process. Specifically, Air Force managers did not include controls for reconciling general and subsidiary ledgers or for making corrections to the categories of TWCF transactions that were incorrectly created by other accounting sites. This occurred because Air Force managers conducted inadequate BPR by attempting to correct known O2C process weaknesses rather than reengineering the entire O2C process. In addition, Air Force managers did not conduct comprehensive risk assessments to identify certain financial reporting requirements. As a result, in FY 2012, 11 accounts associated with the DEAMS O2C business process produced about \$2.8 billion³ of abnormal balances⁴ while processing data for only one location. However, in FY 2013, Air Force managers implemented improvements that resulted in a reduction of abnormal balances in the 11 accounts to about \$154 million. In addition to the FY 2013 abnormal balances, the lack of reconciling controls and TWCF transaction adjustment controls resulted in data inaccuracies of about \$25 million at two locations. As DEAMS deploys to additional locations, data inaccuracies could grow significantly if site-specific process weaknesses and functional gaps are not identified and resolved, which would likely hinder the Air Force from using DEAMS to meet its FY 2017 auditability requirement.

³ The \$2.8 billion of abnormal balances was based on FY 2012 DEAMS O2C ending data. This information is based on data from one location (Scott AFB), because during this time period DEAMS was deployed at only one location.

⁴ An abnormal balance is a balance reported in a general ledger account that is different from the expected normal balance for that account as defined in the chart of accounts. For example, an abnormal balance happens when an account such as Accounts Receivable (1310), which has a normal debit balance, has a reported credit balance.

Air Force Managers Did Not Implement Adequate Controls Over Recording Financial Transactions

Air Force managers were responsible for implementing and monitoring financial reporting controls in DEAMS; however, Air Force managers did not implement adequate controls over recording DEAMS O2C financial transactions. The Office of Management and Budget (OMB) Circular A-123, "Management's Responsibility for Internal Control,"

December 21, 2004, requires system managers to establish and maintain internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. Air Force managers did not have controls in place to ensure that DEAMS produced reliable data or achieved compliance with laws and regulations as required by OMB Circular A-123. For example, Air Force managers did not ensure that the DEAMS O2C business process included controls for reconciling accounts and the adjustment of incorrectly categorized TWCF transactions created by other accounting sites.

Controls for Reconciling Accounts Were Inadequate

Air Force managers did not implement appropriate controls over their financial transactions, such as reconciliations,⁵ to ensure that DEAMS produced reliable data and achieved compliance with laws and regulations, as required by OMB Circular A-123. Reconciliations assist in identifying and correcting input errors and abnormal balances within financial accounts; however, Air Force managers did not ensure that DEAMS had the capabilities to allow DFAS-Limestone⁶ personnel to comply with reconciliation requirements.⁷ Specifically, DFAS-Limestone personnel responsible for performing subsidiary and general ledger reconciliations could not perform reconciliations among the DEAMS General Fund and TWCF subsidiary and general ledgers for 30 O2C accounts to ensure that the ledgers balanced. (See Appendix C for a listing of the 30 O2C accounts.) During the audit, we discussed the requirement to perform reconciliations with Air Force and DFAS managers. According to Air Force managers, as of October 2013, the functionality and associated methodology to perform reconciliations had been deployed, tested, and was working as intended within DEAMS.

Controls for Adjusting Incorrectly Categorized Transactions Within DEAMS Were Not Adequate

Air Force managers did not ensure that the DEAMS O2C process would allow DFAS-Limestone personnel to make corrections to the category designated for TWCF transactions that were incorrectly created by other locations that process accounting transactions. For the remainder of the report, accounting transactions created by other locations that process accounting transactions will be referred to as

⁵ DoD 7000.14-R Financial Management Regulation volume 4, chapter 2, September 2008, states that reconciliation is a process that compares two sets of records, and identifies and explains the differences between the records or account balances. Furthermore, reconciliations are not complete until all differences are identified, accountability is assigned, differences are explained, and the appropriate adjustments are made to records.

⁶ DFAS-Limestone was the DFAS location where auditors performed fieldwork.

⁷ The reconciliation requirements are set forth in the DoD Financial Management Regulation volume 6A, chapter 2, August 2011 and Federal Information System Controls Audit Manual, February 2009.

Transactions by-Others (TBO).⁸ Standard Form 1081, "Voucher and Schedule of Withdrawals and Credits," is used to correct prior expenditures or collection transactions. DFAS 7900.4-M, "Financial Management Systems Requirements Manual, volume 9, Accounts Payable (Payment Management)," September 2012, requires systems to provide the capability to process a Standard Form 1081 that corrects interfaced transactions.⁹ Because the functionality did not exist within DEAMS, Air Force managers did not use Standard Form 1081 to process adjustments for incorrectly categorized TWCF TBO transactions. When a TBO transaction was received into DEAMS and was incorrectly categorized as either a reimbursement or disbursement, DFAS-Limestone personnel could not correct the transaction, and the errors accumulated. During the audit, Air Force managers developed a patch to address several DEAMS related functionality problems including the lack of capability to make TWCF TBO transaction adjustments. According to Air Force managers, Air Force managers tested the patch developed throughout January and February 2013. Air Force managers determined that the patch was working as intended and released it in March 2013.

Business Process Reengineering and Comprehensive Risk Assessments Were Not Adequate

DEAMS did not contain adequate controls over the DEAMS O2C process, in part, because Air Force managers conducted inadequate BPR that led to missing financial reporting requirements in DEAMS. The FY 2012 NDAA requires appropriate BPR efforts before obligating funds for a Defense business systems program. BPR is intended to be the logical methodology and metrics for assessing process weaknesses, identifying gaps, and implementing controls to streamline and improve business processes to create a solid foundation for success in changes to the full spectrum of business operations. However, according to Air Force managers, rather than focusing on BPR, they instead continued to operate in a legacy environment while correcting known process inconsistencies in the DEAMS O2C business process. Air Force managers determined that a more comprehensive BPR update would have been too drastic. As a result, Air Force managers did not fully assess and identify process weaknesses, modify the O2C business process based on the identified weaknesses, and implement controls that would improve the accuracy of reported financial data and reduce abnormal balances. To help increase the likelihood that process weaknesses and functional

⁸ A TBO is an accounting transaction created by other locations that process accounting transactions.

⁹ "Interfaced transactions" refer to the point at which transaction data from one system is exchanged with another.

gaps are identified, Air Force managers should establish metrics that measure monthly abnormal balances and potential data inaccuracies at each location DEAMS is deployed. These metrics should be reported, reviewed, signed, and maintained by senior level personnel from the Office of the Secretary of the Air Force for Financial Management and Comptroller for both oversight and budgetary purposes.

Additionally, Air Force managers did not conduct a comprehensive risk assessment to ensure that the DEAMS O2C business process incorporated the required financial reporting requirements necessary to eliminate financial reporting weaknesses. Instead of performing a comprehensive risk assessment that identified where controls over financial reporting were inadequate, as required by OMB Circular A-123, Air Force managers relied primarily on input from DEAMS users, through help desk tickets, to identify the need for system controls and financial reporting requirements that were not addressed. For example, the inability to make adjustments to TWCF TBO transactions was identified through user help desk tickets rather than through a comprehensive risk assessment or BPR efforts. According to Air Force managers, as of October 16, 2013, DEAMS program-wide risk assessments were delinquent, but Information Technology Teams assessed risk during quarterly and monthly Information Technology Team meetings. Without conducting adequate BPR and performing risk assessments that identify areas of weakness for each location DEAMS is deployed, the Air Force will remain at high risk of producing unreliable financial information. To reduce the risk, before DEAMS is deployed to each additional location, Air Force managers should conduct and maintain evidence of comprehensive assessments of each site, to include risk assessments, and implement BPR as necessary.

DEAMS Inaccuracies Could Impede Air Force Auditability and May Increase

The NDAA for Fiscal Year 2010 established the goal of ensuring that DoD financial statements are validated as ready for audit no later than September 30, 2017. During FY 2013, Air Force personnel processed 43,497,568 transactions worth about \$506 billion. The O2C business process transactions accounted for 2,081,224 transactions worth about \$65 billion during this time. Air Force managers developed DEAMS as one of its solutions to correct the Air Force financial reporting weaknesses and plan to use DEAMS to assert audit readiness in FY 2017. However, as of FY 2013, DEAMS was processing 172,764 O2C transactions worth about \$6.4 billion data from only two sites.

Because Air Force managers did not conduct adequate BPR and comprehensive risk assessments for the O2C business process, errors in DEAMS data resulted in multi-billion dollar inaccuracies in financial data. For example, the lack of functionality to perform reconciliations hindered Air Force managers from identifying and correcting \$2.8 billion worth of abnormal balances for 11 DEAMS O2C accounts in FY 2012. Although Air Force managers made improvements that reduced abnormal balances in DEAMS O2C accounts to \$154 million in FY 2013, additional data errors remain. (See Appendix D for detailed abnormal balance numbers for FY 2012 and FY 2013.) Without conducting adequate BPR or a comprehensive risk assessment, Air Force managers did not implement the controls to reconcile the subsidiary and general ledgers, which resulted in an approximately \$14 million difference between the ledgers for the Accounts Receivable account in the fourth quarter of FY 2012. In addition, without the controls in place to adjust TWCF TBO transactions, some transactions accumulated for numerous years, which resulted in an approximate \$11 million data inaccuracy in DEAMS. Without identifying control weaknesses and implementing corrective actions, these data inaccuracies could grow significantly and cause the Air Force to not meet its 2017 auditability mandate.

Recommendations, Management Comments, and Our Response

Recommendation 1

We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller), prior to site specific deployment of the Defense Enterprise Accounting and Management System Order-to-Cash module:

- a. Establish and maintain evidence of metrics for measuring abnormal balances and procedures for reviewing all monthly reconciliations, to include procedures for timely resolution of erroneous transactions within the Defense Enterprise Accounting and Management System.**

The Assistant Secretary of the Air Force (Financial Management and Comptroller) Comments

The Deputy Assistant Secretary of the Air Force (Financial Management and Comptroller), responding for SAF/FMP, agreed, stating that SAF/FMP will direct the DEAMS FMO and its DFAS partner to establish metrics for measuring abnormal balances and procedures for reviewing all monthly reconciliations, to include procedures for timely resolution of erroneous transactions within DEAMS.

These metrics will be presented to SAF/FMP for review as part of the monthly Accounting Integrated Process Team. The estimated completion date of this recommendation is June 30, 2014.

- b. Conduct and maintain evidence of a comprehensive site assessment to include risk assessments to identify financial control weaknesses and implement business process reengineering to ensure accurate, reliable, and timely financial reporting data.**

The Assistant Secretary of the Air Force (Financial Management and Comptroller) Comments

The Deputy Assistant Secretary of the Air Force (Financial Management and Comptroller), responding for SAF/FMP, agreed, stating that SAF/FMP will direct the DEAMS FMO to conduct and maintain evidence of a comprehensive site assessment to include risk assessments to identify potential financial control weaknesses and implement business process reengineering to ensure accurate, reliable, and timely financial reporting data. This assessment will be incorporated in the Deployment Decision Review conducted before DEAMS is released to each new location. The estimated completion date of this recommendation is August 31, 2014.

Our Response

Comments from the Deputy Assistant Secretary of the Air Force (Financial Management and Comptroller) to Recommendation 1.a and 1.b were responsive, and no additional comments are required.

Recommendation 2

We recommend that the Director, Defense Enterprise Accounting and Management System Functional Management Office conduct and maintain evidence of monthly monitoring of the metrics measuring abnormal balances at all deployed sites of the Defense Enterprise Accounting and Management System, and report the outcome to senior level personnel within the Office of the Secretary of the Air Force (Financial Management and Comptroller) monthly.

Defense Enterprise Accounting and Management System Functional Management Office Comments

The Deputy Assistant Secretary of the Air Force (Financial Management and Comptroller), responding for the DEAMS FMO, agreed, stating that the DEAMS FMO in conjunction with the DFAS Enterprise Resource Office will establish a set of metrics for measuring abnormal balances and procedures for reviewing all monthly reconciliations, to include procedures for timely resolution of erroneous transactions within DEAMS. These metrics will be presented to SAF/FMP for review as a part of a monthly Accounting Integrated Process Team. The estimated completion date of this recommendation is June 30, 2014.

Our Response

Comments from the Deputy Assistant Secretary of the Air Force (Financial Management and Comptroller) were responsive, and no additional comments are required.

Appendix A

Scope and Methodology

We conducted this performance audit from August 2012 through February 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 reviewed OMB Circular A-123; the DoD Financial Management Regulation; DFAS manual 7900.4-M; the NDAA for FYs 2010 and 2012; the Office of Federal Management Core Financial System Requirements, January 2006; United States Standard General Ledger for FY 2012; DoD Standard Reporting Chart of Accounts for FY 2012, and the Federal Information System Controls Audit Manual. We conducted site visits to the DEAMS FMO, USTRANSCOM, the Air Mobility Command, and DFAS-Limestone to observe the processing of accounting transactions by DEAMS O2C users and to understand the DEAMS O2C process and system functionalities. In addition, we interviewed personnel from the Office of the Deputy Chief Management Officer and Air Force managers to understand the Air Force end-to-end O2C process. Furthermore, we conducted interviews with Office of the Secretary of the Air Force for Financial Management and Comptroller management and discussed the Air Force's BPR efforts and the performance of risk assessments for the DEAMS program.

To determine whether internal controls were adequate for the DEAMS O2C process, we reviewed whether controls were in place for two processes unique to DEAMS: daily and monthly reconciliations and making adjustments to TWCF TBO transactions. To determine whether DEAMS could perform daily and monthly reconciliations, we reviewed whether differences existed between the general ledger and the subsidiary ledger. We obtained and compared the FY 2012 fourth quarter DEAMS general ledger and subsidiary ledger data for the 1310 Accounts Receivable account, according to the U.S. Government Standard General Ledger Chart of Accounts. We calculated and compared the differences between the net activity of the general ledger 1310 account, using total debits and credits, and the subsidiary ledger data, using beginning and ending balances.

To determine the impact of DEAMS's inability to perform monthly reconciliations, we interviewed DFAS-Limestone personnel and obtained an understanding of the DEAMS journal voucher process. We analyzed and identified the number of journal vouchers and associated journal imports made to the general ledger 1310 account during the fourth quarter of FY 2012. We used the analysis to identify the number of corrective journal vouchers necessary within one quarter of data. We also obtained the DEAMS O2C abnormal balance data for April 2012 and Fiscal Year end 2012 to identify abnormal balances within O2C specific accounts.

To determine the impact of DEAMS's inability to make adjustments to TBO transactions, DFAS-Limestone personnel provided us with detailed explanations of the TWCF TBO transactions. Using DFAS-Limestone personnel's methodology, we then recalculated and determined the monetary value of TBO transactions requiring Standard Form 1081 capabilities to be corrected.

Use of Computer-Processed Data

To assess the reliability DEAMS data, we traced transactions through the accounting system and reviewed the supporting documentation. In addition, we observed DEAMS users process O2C accounting transactions. Our assessment indicated that the DEAMS data was not reliable; however, during the performance of this audit, Air Force managers have implemented corrective actions to improve the quality of the data. The unreliable data in DEAMS and the Air Force's corrective actions are discussed in the finding section of this report.

Use of Technical Assistance

We did not use technical assistance in conducting this audit.

Appendix B

Prior Audit Coverage

During the last 5 years, the Government Accountability Office (GAO), the Department of Defense Inspector General (DoD IG), and the Air Force Audit Agency (AFAA) have issued 10 reports related to DoD business transformation and DEAMS. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted DOD OIG reports can be accessed at <http://www.dodig.mil/audit/reports>. AFAA reports can be accessed from .mil domains over the Internet at <https://afkm.wpafb.af.mil/ASPs/CoP/OpenCoP.asp?Filter=OO-AD-01-41> by those with Common Access Cards and access to the Air Force Portal.

GAO

Report No. GAO-12-134, "DoD Financial Management: Implementation Weaknesses in Army and Air Force Business Systems Could Jeopardize DoD's Auditability Goals," February 2012

Report No. GAO-11-53, "DoD Business Transformation: Improved Management Oversight of Business System Modernization Efforts Needed," October 2010

Report No. GAO-08-866, "DoD Business Transformation: Air Force's Current Approach Increases Risk That Asset Visibility Goals and Transformation Priorities Will Not Be Achieved," August 2008

DOD OIG

DoD IG Report No. D-2013-111, "Status of Enterprise Resource Planning Systems' Cost, Schedule, and Management Actions Taken to Address Prior Recommendations," August 2013

DoD IG Report No. D-2012-140, "An Unreliable Chart of Accounts Affect Auditability of Defense Enterprise Accounting and Management System Financial Data," September 2012

DoD IG Report No. D-2012-111, "Enterprise Resource Planning Systems Schedule Delays and Reengineering Weaknesses Increase Risks to DoD's Auditability Goals," July 2012

Air Force

AFAA Memorandum Report of Audit, F2013-0008-O10000, "Defense Enterprise Accounting and Management System Accounting Conformance," December 2012

AFAA Report No. F2012-0003-FB2000, "Defense Enterprise Accounting and Management System Controls Selected System Controls," January 2012

AFAA Report No. F2010-0010-FB2000, "Defense Enterprise Accounting and Management System Controls Accounting Conformance," August 2010

AFAA Report No. F2009-0004-FB2000, "Defense Enterprise Accounting and Management System Controls," February 2009

Appendix C

Thirty Order-to-Cash Accounts

The following table identifies the 30 O2C related accounts.

Account Title	Account Number
Fund Balance with Treasury	1010
Accounts Receivable	1310
Interest Receivable—Not Otherwise Classified	1340
Penalties and Fines Receivable—Not Otherwise Classified	1360
Liability for Advances and Prepayments	2310
Liability for Nonfiduciary Deposit Funds and Undeposited Collections	2400
Custodial Liability	2980
Other Liabilities Without Related Budgetary Obligations	2990
Unexpended Appropriations	3107
Anticipated Reimbursements and Other Income	4210
Unfilled Customer Orders Without Advance	4221
Unfilled Customer Orders With Advance	4222
Reimbursements and Other Income Earned—Receivable	4251
Reimbursements and Other Income Earned—Collected	4252
Apportionments—Anticipated Resources—Program Subject to Apportionment	4590
Allotments-Realized Resources	4610
Unobligated Funds Exempt From Apportionment	4620
Allotments—Expired Authority	4650
Anticipated Resources—Program Exempt from Apportionment	4690
Delivered Orders—Obligations Paid	4902
Revenue From Service Provided	5200
Contra Revenue for Services Provided	5209
Interest Revenue—Other	5310
Penalties and Fines Revenue	5320
Expended Appropriations	5700
Other Revenue	5900
Collections for Others—Statement of Custodial Activity	5990
Accrued Collections for Others—Statement of Custodial Activity	5991
Operating Expenses/Program Cost	6100
Other Expenses Not Requiring Budgetary Resources	6790

Appendix D

DEAMS Abnormal Balances in Order-to-Cash Accounts

The following table identifies the absolute values¹⁰ of the FY 2012 and FY 2013 abnormal balances in the O2C related accounts. The reported balances in the below accounts are opposite of their normal debit or credit balance, as set forth in the United States Government Standard General Ledger.

Account Title	Account Number	Abnormal Balance Amount	
		2012 FY End	2013 FY End
Fund Balance with Treasury	1010	\$915,185,683.59	\$1,600,649.98
Accounts Receivable	1310	664,806.80	813,246.91
Liability for Nonfiduciary Deposit Funds and Undeposited Collections	2400	5,995,434.75	27,984,361.60
Other Liabilities Without Related Budgetary Obligations	2990	14,320.29	2,844.29
Anticipated Reimbursements and Other Income	4210	395,446,438.33	4,273.31
Unfilled Customer Orders with Advance	4221	1,144,457,782.96	1,330.44
Reimbursements and Other Income Earned – Receivable	4251	1,672,528.59	262,759.16
Apportionments – Anticipated Resources – Program Subject to Apportionment	4590	1,780.80	1,784.31
Allotments- Realized Resources	4610	1,917.00	1,917.00
Unobligated Funds Exempt from Apportionment	4620	90,750,681.69	122,472,237.08
Allotments – Expired Authority	4650	219,423,051.43	462,170.07
Sum of Abnormal Balances		\$2,773,614,426.23	\$153,607,574.15

¹⁰ Absolute Value is the sum of the positive values of debit and credit transactions without regard to the sign.

Appendix E

Assistant Secretary of the Air Force (Financial Management and Comptroller) Comments



DEPARTMENT OF THE AIR FORCE
WASHINGTON DC

Office Of The Assistant Secretary

27 MAR 2014

MEMORANDUM FOR DOD/IG

FROM: SAF/FMP
1130 Air Force Pentagon
Washington DC 20330-1130

SUBJECT: Air Force Managers Did Not Implement Adequate Controls for the Defense Enterprise Accounting and Management System (DEAMS) Order-to-Cash (O2C) Business Process (Project No. D2012-D000FH-0158.000)

We concur on the audit results and recommendations for the Draft Report of Audit, *Air Force Managers Did Not Implement Adequate Controls for the Defense Enterprise Accounting and Management System (DEAMS) Order-to-Cash (O2C) Business Process*. The Air Force is committed to deploying effective business systems to support the mitigation of its financial system and financial reporting material weaknesses. The DEAMS program will play a critical role in implementing and sustaining the business process reengineering and internal controls necessary for accurate and reliable financial reporting. The corrective actions under taken as a result of this audit will further strengthen the DEAMS program. Specific management comments are attached.

[REDACTED]

DOUGLAS M. BENNETT
Deputy Assistant Secretary
(Financial Operations)

Attachment:
Management Comments

Assistant Secretary of the Air Force (Financial Management and Comptroller) Comments (cont'd)

Management Comments

Department of Defense Inspector General

Report of Audit, Air Force Managers Did Not Implement Adequate Controls for the Defense Enterprise Accounting and Management System (DEAMS) Order-to-Cash (O2C) Business Process (Project No. D2012-0000FH-0158.000)

DODIG Recommendation 1.

Recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller), prior to site specific deployment of the Defense Enterprise Accounting and Management System Order-to-Cash module:

- a. Establish and maintain evidence of metrics for measuring abnormal balances and procedures for reviewing all monthly reconciliations, to include procedures for timely resolution of erroneous transactions within the Defense Enterprise Accounting and Management System.
- b. Conduct and maintain evidence of a comprehensive site assessment to include risk assessments to identify financial control weaknesses and implement business process reengineering to ensure accurate, reliable and timely financial reporting data.

SAF/FMP Comments: Concur.

1a. SAF/FMP will direct the DEAMS Functional Management Office (FMO) and its Defense Finance and Accounting Service (DFAS) partner to establish metrics for measuring abnormal balances and procedures for reviewing all monthly reconciliations, to include procedures for timely resolution of erroneous transactions within DEAMS. These metrics will be presented to SAF/FMP for review as a part of the monthly Accounting IPT. Estimate of Completion Date: 30 June 2014

1b. SAF/FMP will direct the DEAMS FMO to conduct and maintain evidence of a comprehensive site assessment to include risk assessments to identify potential financial control weaknesses and implement business process reengineering to ensure accurate, reliable and timely financial reporting data. This assessment will be incorporated in the Review conducted before DEAMS is released to each new location.

Estimated Completion Date: 31 August 2014

DODIG Recommendation 2.

Recommend that the Director, Defense Enterprise Accounting and Management System Functional Management office conduct and maintain evidence of monthly monitoring of the metrics measuring abnormal balances at all deployed sites of the Defense Enterprise Accounting and Management System, and report the outcome to senior level personnel within the Office of the Secretary of the Air Force (Financial Management and Comptroller) monthly.

SAF/FMP Comments: Concur.

2. The DEAMS Functional Management Office (FMO) in conjunction with the DFAS

Assistant Secretary of the Air Force (Financial Management and Comptroller) Comments (cont'd)

Enterprise Resource Office will establish a set of metrics for measuring abnormal balances and procedures for reviewing all monthly reconciliations, to include procedures for timely resolution of erroneous transactions within DEAMS. These metrics will be presented to SAF/FMP for review as a part of the monthly Accounting IPT. Completion Date: Estimated 30 June 2014

Acronyms and Abbreviations

AFAA	Air Force Audit Agency
AFB	Air Force Base
BPR	Business Process Reengineering
DEAMS	Defense Enterprise Accounting and Management System
DFAS	Defense Finance and Accounting Service
FIAR	Financial Improvement and Audit Readiness
FMO	Functional Management Office
GAO	Government Accountability Office
NDAA	National Defense Authorization Act
O2C	Order-to-Cash
OMB	Office of Management and Budget
TBO	Transaction By-Others
TWCF	Transportation Working Capital Fund
USTRANSCOM	United States Transportation Command



Whistleblower Protection

U.S. DEPARTMENT OF DEFENSE

The Whistleblower Protection Enhancement Act of 2012 requires the Inspector General to designate a Whistleblower Protection Ombudsman to educate agency employees about prohibitions on retaliation, and rights and remedies against retaliation for protected disclosures. The designated ombudsman is the DoD Hotline Director. For more information on your rights and remedies against retaliation, go to the Whistleblower webpage at www.dodig.mil/programs/whistleblower.

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

Congressional Liaison

Congressional@dodig.mil; 703.604.8324

Media Contact

Public.Affairs@dodig.mil; 703.604.8324

Monthly Update

dodigconnect-request@listserve.com

Reports Mailing List

dodig_report@listserve.com

Twitter

twitter.com/DoD_IG

DoD Hotline

dodig.mil/hotline



DEPARTMENT OF DEFENSE | INSPECTOR GENERAL

4800 Mark Center Drive
Alexandria, VA 22350-1500
www.dodig.mil
Defense Hotline 1.800.424.9098

