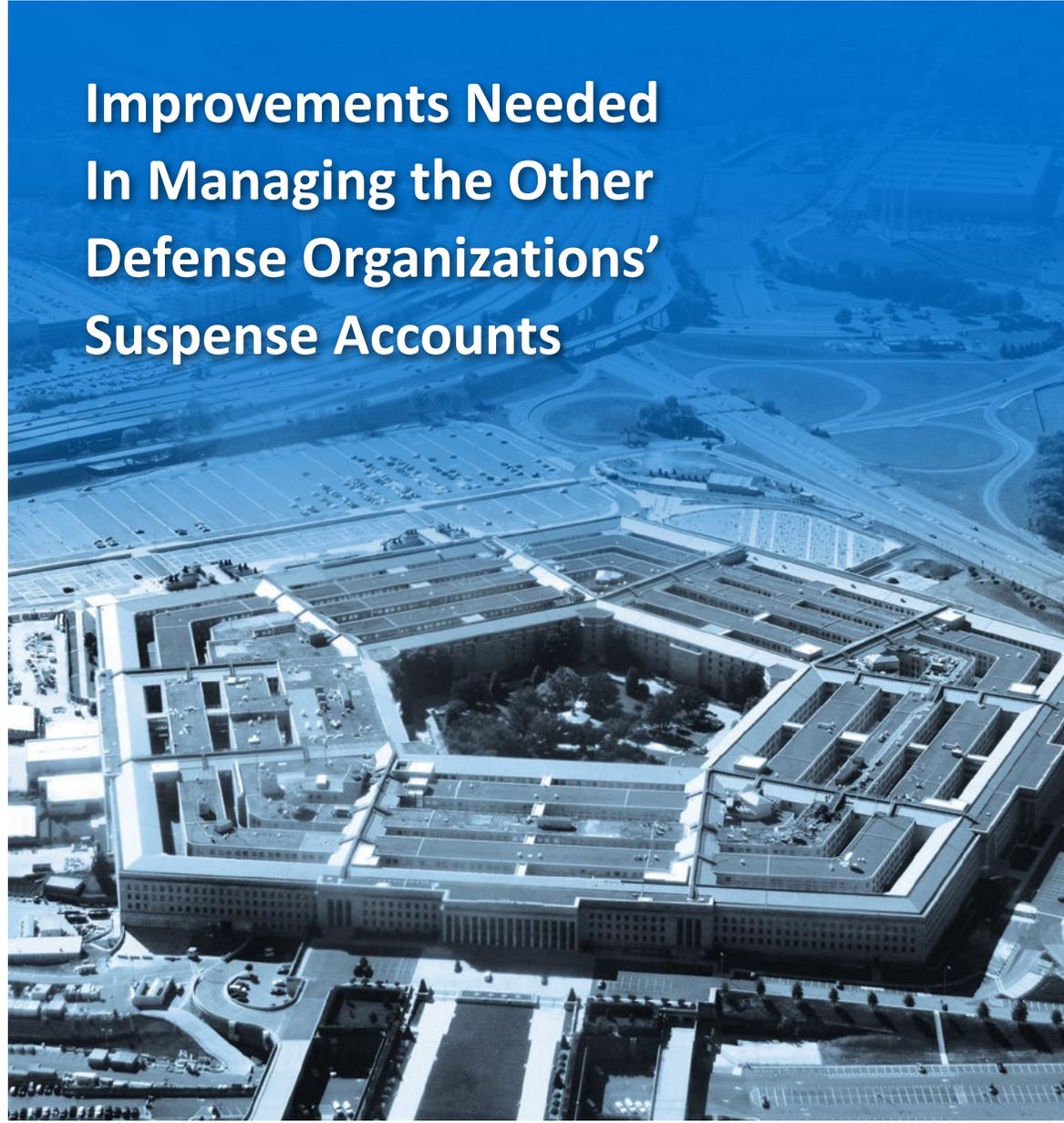




INSPECTOR GENERAL

U.S. Department of Defense

AUGUST 25, 2016



Improvements Needed In Managing the Other Defense Organizations' Suspense Accounts

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Results in Brief

Improvements Needed In Managing the Other Defense Organizations' Suspense Accounts

August 25, 2016

Objective

We determined whether DoD had controls in place to record Other Defense Organizations' (ODO) (Treasury Index 97) suspense account balances on the proper component-level financial statements. In addition, we determined whether the accounts were being used for their intended purpose and that transactions were resolved in a timely manner.

Findings

The Defense Finance and Accounting Service (DFAS) did not have controls in place to accurately record ODO suspense account balances on the proper component-level financial statements or to clear the suspense account transactions in a timely manner. DFAS personnel incorrectly concluded that suspense accounts were immaterial and did not develop adequate procedures to manage and account for the transactions in the ODO suspense accounts. As a result, DFAS reported inaccurate amounts on the consolidated ODO financial statements and could not support the balances with source documentation. In addition, the consolidated suspense account balances are material to most of the individual ODOs' financial statements. Therefore, not allocating the consolidated suspense account balances to the individual ODOs could have a significant impact on the auditability of the individual ODOs' financial statements. Further, unresolved transactions residing in the suspense accounts can conceal problem disbursements and improper payments.

Findings (cont'd)

DFAS incorrectly used the ODO suspense accounts to record collections generated from revenue programs and to temporarily hold Thrift Savings Plan and tax withholdings collected from civilian employees. DoD did not take the necessary action to implement the appropriate accounting treatment for the transactions. In addition, DoD guidance required DoD agencies to use the suspense accounts for purposes that were inconsistent with OMB and Treasury's stated purpose of the suspense accounts. As a result, as of September 30, 2015, DFAS inappropriately included \$17.9 million in transactions in the suspense accounts. Also, DoD understated its budgetary resources by not including the revenue-generating programs in an identifiable appropriation as available to spend.

Recommendations

We recommend that the Directors, DFAS–Indianapolis and DFAS–Columbus, perform regular and recurring reconciliations of the suspense account data and remediate any deficiencies that impact the accuracy of the balances. Further, the Directors, DFAS–Indianapolis and DFAS–Columbus, should develop an estimate using relevant, sufficient, and reliable information to record the consolidated ODO suspense account balances on the individual ODOs' financial statements.

We also recommend that the Directors, DFAS–Indianapolis and DFAS–Columbus, coordinate with the Office of the Under Secretary of Defense (Comptroller) to establish special and deposit fund accounts to more appropriately record and report on-suspense account transactions.

Management Comments and Our Response

Comments from the Director, DFAS Audit Readiness on behalf of the Director DFAS–Indianapolis and DFAS–Columbus, were generally responsive. However, DFAS did not present an actionable plan for removing the Intragovernmental Payments and Collections amounts from the suspense accounts in response to Recommendation A.1.c. As a result, we ask that the Director, DFAS Audit Readiness provide additional comments in response to this recommendation.

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Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Directors, Defense Finance and Accounting Service Indianapolis and Columbus	A.1.c	A.1.a, A.1.b, A.1.d, B.1.a, B.1.b

Please provide Management Comments by September 26, 2016.



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

August 25, 2016

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

SUBJECT: Improvements Needed in Managing the Other Defense Organizations'
Suspense Accounts (Report No. DODIG-2016-126)

We are providing this report for review and comment. The Defense Finance and Accounting Service did not have sufficient controls in place to record Other Defense Organizations' (Treasury Index 97) suspense account balances on the proper component-level financial statements. In addition, some suspense accounts were not used for their intended purpose, and suspense account transactions were not always resolved in a timely manner. We conducted this audit in accordance with generally accepted government auditing standards.

Comments from the Director, DFAS Audit Readiness on behalf of the Directors DFAS–Indianapolis and DFAS–Columbus, were generally responsive. Although DFAS did not agree with Recommendation A.1.c, their plans to move the Federal Insurance Corporation Act, Federal Income Tax Withholdings, and Thrift Savings Plan balances out of the suspense accounts in an effort to reduce the balance in the accounts below the materiality threshold, meets the intent of the recommendation. While DFAS presented actionable plans to remove the Federal Insurance Contributions Act, Federal Income Tax Withholdings, and Thrift Savings Plan amounts from the suspense accounts, DFAS did not present an actionable plan for removing the Intragovernmental Payments and Collections amounts from the accounts. As a result, we ask that the Director, DFAS Audit Readiness, provide additional comments in response to Recommendation A.1.c, specifically their plan for the Intragovernmental Payments and Collections amounts and estimated completion dates for planned actions. We request comments on Recommendation A.1.c by September 26, 2016.

Please send a PDF file containing your comments to audfmr@dodig.mil. Copies of your comments must have the actual signature of the authorizing official for your organization. We cannot accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5900 (DSN 664-5945).

A handwritten signature in cursive script that reads "Lorin T. Venable".

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

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Introduction

Objective

We determined whether DoD had controls in place to record Other Defense Organizations' (ODO) (U.S. Treasury Index [TI] 97) suspense account balances on the proper component-level financial statements. In addition, we determined whether the accounts were being used for their intended purpose and whether transactions were resolved in a timely manner. This audit is one in a series evaluating the use of DoD suspense accounts. See the Appendix for a discussion of the scope and methodology and for prior audit coverage. See the Glossary for definitions of technical terms used in the report.

Background

Other Defense Organizations

ODOs are entities authorized by the Secretary of Defense to perform select consolidated support and service functions to the DoD on a Department-wide basis. These support and service functions include providing military intelligence to the warfighter, defending the U.S. against enemy ballistic missiles, providing the DoD enterprise infrastructure, and maintaining the technological superiority of the U.S. military. ODOs are included in TI 97, an aggregate account that is a consolidation of all of the individual ODOs.¹ As such, the balances reported by the U.S. Treasury will not have the necessary details to identify an individual ODO's activity. However, the transactions in the individual ODOs' accounting records, when consolidated, should support the balances reported in TI 97 by the U.S. Treasury.

Defense Finance and Accounting Service

The Defense Finance and Accounting Service (DFAS) executes statutory (legal) and regulatory financial reporting requirements and prepares financial statements for DoD, to include the ODOs. DFAS–Indianapolis and DFAS–Columbus provide the primary support to ODOs. Specifically, DFAS–Indianapolis provides finance and accounting support for 30 ODOs. DFAS–Indianapolis is also responsible for consolidating the individual ODOs' accounting records, processing consolidated ODO adjustments, preparing the consolidated ODO financial statements, and reporting to the U.S. Treasury at the consolidated ODO level. DFAS–Columbus provides finance and accounting support for eight ODOs. Both DFAS–Indianapolis and DFAS–Columbus manage the suspense accounts for the ODOs they support.

¹ The U.S. Treasury maintains and reports amounts at the Treasury Account Symbol (TAS) level, which includes the TI, fiscal year, and main account. The TI identifies the department or agency that is responsible for the accounts; the fiscal year identifies the period of availability; and the main account, which identifies the type and purpose of the fund.

Suspense Accounts

Office of Management and Budget (OMB) Circular No. A-11² states that general, special, and trust fund collections and disbursements may be held temporarily in clearing (suspense) accounts pending clearance to the applicable account. Further, the suspense accounts are non-budgetary accounts and are only included in the budget after they are posted to either a receipt or an expenditure account. The U.S. Treasury Financial Manual (TFM), volume 1, part 2, chapter 1500³ establishes suspense accounts with an “F” preceding the last four digits of the TAS. Suspense accounts consist of the “3800” series fund group preceded by the two-digit Treasury Index. DoD uses the following six suspense accounts to hold ODO transactions:

- 97F3845—Records proceeds from the sale of personal property.
- 97F3875.001—Records unidentifiable disbursements or collections that belong to the Federal Government. In addition, this account is used to record transactions that are processed with an invalid line of accounting.
- 97F3875.002—Records revenues from certain programs, to include recyclable sales, patent royalties and trademark licensing fees, taxes, and agricultural and grazing leases.
- 97F3880—Records credits from the U.S. Treasury for checks that were not negotiated within the one-year statutory period or checks that the payees reported as lost, stolen, mutilated, or not received.
- 97F3885—Records transactions originating in the Intra-Governmental Payment and Collections (IPAC) system⁴ that are awaiting processing or were originally processed with an invalid line of accounting.
- 97F3886—Holds civilian Thrift Savings Plan (TSP) deductions until the funds are transferred to the TSP program. The TSP is a defined contribution plan for Federal employees and closely resembles the dynamics of the private sector’s 401(k) plan.

Table 1 illustrates the consolidated ODO suspense account balances reported by the U.S. Treasury as of September 30, 2014, and 2015, respectively.

² Office of Management and Budget (OMB) Circular No. A-11, “Preparation, Submission, and Execution of the Budget,” June 2015.

³ TFM volume 1, part 2, chapter 1500, “Description of Accounts Relating to Financial Operations,” September 2011.

⁴ The IPAC system is used to transfer funds from one agency to another.

Table 1. ODO Suspense Account Balances Reported by the U.S. Treasury

Account	Description	September 30, 2014 Net Value (shown in millions)	September 30, 2015 Net Value (shown in millions)
97F3845	Proceeds of Sales	\$1.7	\$1.8
97F3875 ¹	Budget Clearing	(149.3)	(149.3)
97F3875.001	Budget Clearing–Non-Exempt	199.4	214.9
97F3875.002	Budget Clearing–Exempt	(0.5)	(0.6)
97F3880	Check Cancellations and Overpayments	(6.5)	(4.7)
97F3885.007	Undistributed IPAC	(233.0)	(144.5)
97F3886	TSP (Civilian)	(90.5)	(16.8)
Total (NET)		(\$278.8)²	(\$99.2)

¹ In 2003, DFAS–Indianapolis began using subaccounts for the 97F3875 suspense account. Once the subaccounts were established (97F3875.001 and 97F3875.002), DFAS only processed transactions using the subaccounts and stopped using the 97F3875 account altogether. As such, transactions that were collected and reported in 97F3875 may have been cleared from the 97F3875.001 account. Therefore, to reconcile to the U.S. Treasury, we had to combine the balances in 97F3875 and 97F3875.001. We communicated our concerns to DFAS that this could be misleading to an external auditor. DFAS was receptive and has already pursued the U.S. Treasury’s authorization to transfer the balances from 97F3875 to 97F3875.001. For the purposes of this audit, we combined the balances in 97F3875 and 97F3875.001 and will refer to these accounts as 97F3875.001. As of September 30, 2014, these balances totaled \$50.1 million.

² This column does not sum due to rounding. The total value of these amounts is \$278,784,146.80.

Source: DoD OIG

Exempt and Non-Exempt Accounts

DFAS used the terms “exempt” and “non-exempt” to classify whether a suspense account balance must be cleared⁵ within 60 business days, as specified in TFM Bulletin No. 2011-06.⁶ Non-exempt suspense accounts are used to temporarily hold collections until the proper appropriation can be identified, while exempt suspense accounts hold transactions with identifiable appropriations. According to DFAS, suspense accounts that are exempt do not need to comply with 60-business-day requirement. DFAS considered Proceeds of Sales, Budget Clearing–Exempt, and TSP suspense accounts to be exempt. DFAS considered Budget Clearing–Non-Exempt, Check Cancellations and Overpayments, and IPAC suspense accounts to be non-exempt. However, DFAS acknowledged that there was no official guidance that exempts an account from the requirements outlined in the TFM.

⁵ A transaction is considered cleared when it is removed from the suspense account and posted to the correct appropriation.

⁶ TFM Bulletin No. 2011-06, “Reporting Suspense Account Activity Using F3875 and F3885 and Using Default Accounts F3500 and F3502 as a Government-wide Accounting (GWA) Reporter,” June 2011.

Adjustment Process

DoD transactions in the suspense accounts are held with the U.S. Treasury. The transactions are held until DFAS can identify the information that is necessary to charge them to the appropriate entity and record them in that entity's accounting records for inclusion on the financial statements. Accounting principles require an entity to record all transactions on the financial statements. Therefore, after all of the ODO's individual financial statements are combined at the consolidated ODO level, DFAS performs a summary adjustment to bring the yearend suspense account balances onto the consolidated ODO financial statements. The adjustment includes balances from exempt and non-exempt ODO suspense accounts.

Review of Internal Controls

DoD Instruction 5010.40⁷ 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. DFAS did not validate that suspense account balances were reported on the proper component-level financial statements, have all the detailed transactions that supported the ODO suspense account balances, or research and clear transactions posted to the ODO suspense accounts within 60 business days. DFAS also incorrectly used suspense accounts to record program revenues, as well as tax and TSP withholdings. We will provide a copy of the final report to the senior official responsible for internal controls over the ODO suspense accounts.

⁷ DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

Finding A

DoD Suspense Accounts Could Impact the Auditability of the Other Defense Organizations

DFAS did not have controls in place to accurately record the ODO suspense account balances on the proper component-level financial statements or to clear the transactions in the suspense accounts in a timely manner. Specifically, DFAS personnel did not:

- identify and verify the accuracy of the suspense account balances reported on the consolidated ODO financial statements,
- allocate the consolidated ODO suspense account balances to the individual ODO financial statements, or
- research and clear the detailed transactions posted to the ODO suspense accounts within 60 days, as required by the TFM.

This occurred because DFAS personnel incorrectly concluded that suspense accounts were immaterial and did not develop adequate procedures for managing and accounting for the transactions in the ODO suspense accounts. As a result, DFAS reported inaccurate amounts on the consolidated ODO financial statements and could not support the balances with source documentation. In addition, the consolidated suspense account balances are material to most of the individual ODOs. Therefore, not allocating the consolidated suspense account balances to the individual ODOs could have a significant impact on the auditability of the individual ODO financial statements. Further, unresolved transactions residing in the suspense accounts can conceal problem disbursements and improper payments.

DFAS Did Not Ensure Suspense Account Balances Were Accurate and Supported

DFAS did not have controls in place to identify and verify the accuracy of the non-exempt detailed transactions that support the ODO suspense account balances reported on the consolidated ODO financial statements. Specifically, DFAS personnel could not provide the detailed transactions to support \$24.5 million in suspense account balances. In addition, DFAS included an estimated \$37.2 million in the ODO suspense accounts that did not belong to an ODO and improperly reported \$89.5 million in suspense account transactions that had already cleared to an individual ODO's accounting records.

DFAS did not have controls in place to identify and verify the accuracy of the non-exempt detailed transactions.

ODO Suspense Account Balances Differed From U.S. Treasury Balances

DFAS personnel were unable to provide a universe of transactions to support the ODO suspense account balances reported by the U.S. Treasury. Specifically, for the six ODO suspense accounts reviewed, we identified a \$24.5 million difference between the detailed universes that DFAS provided and the suspense accounts balances reported by the U.S. Treasury. Table 2 below provides a breakdown of the differences.

Table 2. ODO Suspense Account Variances, as of September 30, 2014

Basic Symbol	Account	U.S. Treasury (in millions)	DFAS (in millions)	Difference (in millions)*
97F3845	Proceeds of Sales	\$1.7	\$1.7	\$0.0
97F3875.001	Budget Clearing–Non-Exempt	50.1	55.8	5.7
97F3875.002	Budget Clearing–Exempt	(0.6)	1.2	1.8
97F3880	Check Cancellations and Overpayments	(6.5)	(1.7)	4.8
97F3885.007	Undistributed IPAC	(233.0)	(232.9)	0.1
97F3886	TSP (Civilian)	(90.5)	(78.5)	12.1
Total				\$24.5

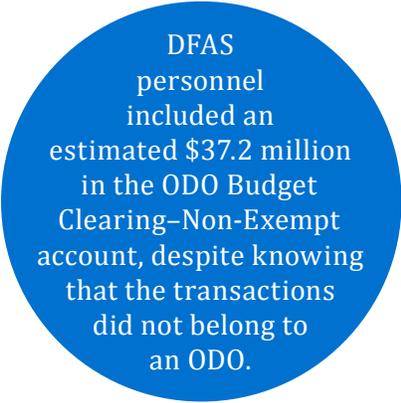
* The differences in Table 2 are in absolute values.

Source: DoD OIG

In response to our audit, DFAS asserted that the balances in the ODO suspense accounts have remained static. As such, DFAS is assembling a write-off package, which will be coordinated with the proper DoD entities and then submitted to the U.S. Treasury. When researching and resolving old transactions that would require an exhaustive effort and could still result in unresolved balances, writing off the amounts may be appropriate. According to DFAS, writing off balances with the U.S. Treasury requires extensive research and supporting documentation. The ODO suspense account write-off is scheduled for July 2016.

Non-ODO Transactions Were Improperly Included in the ODO Suspense Accounts

DFAS personnel included an estimated \$37.2 million in the ODO Budget Clearing–Non-Exempt account, despite knowing that the transactions did not belong to an ODO. Of the \$50.1 million in the ODO’s Budget Clearing–Non-Exempt account, DFAS personnel attributed \$41.6 million to collections that originated in the Mechanization of Contract Administration Services System (MOCAS).⁸ However, prior-period analysis performed by DFAS showed that only 10.6 percent of MOCAS transactions would actually clear to an ODO financial statement. Consequently, only \$4.4 million⁹ of the \$41.6 million should have been included in the ODO suspense accounts, while the remaining \$37.2 million should have been included in the Army, Navy, and Air Force suspense accounts.¹⁰ The remaining \$8.5 million in the ODO Budget Clearing–Non-Exempt account were non-MOCAS transactions and were cleared to the proper accounts.



DFAS personnel included an estimated \$37.2 million in the ODO Budget Clearing–Non-Exempt account, despite knowing that the transactions did not belong to an ODO.

During the audit, DFAS acknowledged that it should not hold and adjust the ODO financial statements for all of the unidentified MOCAS collections. Thus, DFAS implemented procedures for DFAS accountants to research collections from contractors before they post to the suspense accounts. Specifically, DFAS stated that in October 2015, it dedicated additional resources to directly post collections received through hard-copy checks to the proper account. For the remaining collections that were not able to directly post to the correct appropriations, DFAS will use the contract number in the Columbus Check Collection Database to allocate the remaining balance in the suspense account to the different DoD entities. This should ensure a more accurate reflection of the MOCAS collections that have not yet been posted to the correct appropriations.

While we acknowledge the initiative that DFAS has shown in reducing the balances in the ODO Budget Clearing–Non-Exempt account, DFAS should document the implemented procedures and monitor this process to ensure that it is adequately allocating unidentified MOCAS collections. If it is not effective, DFAS should design new procedures for allocating the balances in the ODO Budget Clearing–Non-Exempt suspense account.

⁸ DFAS–Columbus utilizes MOCAS to administer and pay defense contractors on behalf of all DoD entities, to include non-ODOs. When a contractor is overpaid by DFAS–Columbus, the contractor will return the money to DFAS–Columbus using a hard-copy check or an electronic payment.

⁹ \$4.4 million is 10.6 percent of \$41.6 million.

¹⁰ Prior-period analysis performed by DFAS determined that approximately 25.6 percent (\$10.6 million) would clear to the Navy, 35 percent (\$14.6 million) would clear to the Army, and 28.8 percent (\$12 million) would clear to the Air Force.

DFAS Did Not Allocate the ODO Suspense Account Balances

DFAS did not have controls in place to record the ODO suspense account balances at the component level. Specifically, DFAS personnel included \$278.8 million¹¹ in suspense account balances on the FY 2014 consolidated ODO financial statements, but did not allocate any of the balances to the individual ODOs' financial statements. Since most of the transactions in the consolidated ODO suspense accounts belong to an individual ODO, not allocating the balances to the ODOs affects the completeness of the individual ODOs' balances and, consequently, could impact the auditability of the individual ODOs' financial statements.



DFAS did not have controls in place to record the ODO suspense account balances at the component level.

DFAS stated that it was unable to allocate the suspense account balances to the individual ODOs' financial statements because suspense account transactions did not have the necessary information to identify which ODO was responsible for each transaction. However, Federal Accounting Standards Advisory Board guidance¹² allows for entities to use estimates to allocate balances when the value of an account is uncertain. These estimates should only be developed using relevant, sufficient, and reliable information. In order to ensure the ODO suspense accounts are included on the individual ODOs' financial statements rather than the consolidated ODO financial statement, DFAS should develop an estimate using relevant, sufficient, and reliable information to record the consolidated ODO suspense account balances on the individual ODOs' financial statements.

DFAS Did Not Clear ODO Suspense Account Transactions in a Timely Manner

DFAS personnel did not research and clear transactions in the ODO suspense accounts in a timely manner. TFM Bulletin No. 2011-06 requires that transactions in the Budget Clearing Accounts (F3875) and IPAC (F3885) suspense accounts be cleared within 60 business days of the date of the transaction. We selected 289 suspense account transactions for testing. Of the 289 suspense account transactions, we identified 74 transactions were recorded in error. In addition, DFAS

¹¹ The \$278.8 million is the September 30, 2014 net value of the ODO suspense accounts listed in Table 1 in the Background of the report. The absolute value of these accounts is at least \$681 million.

¹² Statements of Federal Financial Accounting Concepts 1, "Objectives of Federal Financial Reporting," June 2015.

Of the 204 non-exempt suspense account transactions we tested, DFAS took more than 60 business days to clear 159 of the transactions.

personnel could not provide adequate source documentation for 11 of the 289 suspense account transactions selected. Therefore, we could not test 85 of the 289 sample transactions originally selected, and only tested the remaining 204 non-exempt suspense account transactions. Of the 204 non-exempt suspense account transactions we tested, DFAS took more than 60 business days to clear 159 of the transactions. We also identified six transactions that took more than one year to clear. Table 3 provides a breakdown of our testing results by suspense account.

Table 3. Number of Days Before DFAS Cleared ODO Suspense Account Transactions

Suspense Account	Sample Transactions	No Documentation Received	Documentation Not Tested Due to Errors	Transactions Cleared Within 60 Days	Transactions Not Cleared Within 60 Days
Budget Clearing– Non-Exempt	103*	0	0	23	80
Check Cancellations and Overpayments	2	0	0	2	0
IPAC	184	11	74	20	79
Totals	289	11	74	45	159

* We statistically selected 114 transactions for testing from the Budget Clearing Account – Non-Exempt, however only 103 transactions cleared suspense. As a result, the remaining 11 transactions were excluded from these calculations.

Source: DoD OIG

DFAS personnel acknowledged that their primary focus when clearing the suspense accounts was to clear transactions with high dollar values. DFAS–Columbus personnel also stated that they experienced technical difficulties when converting to a new IPAC system in July 2014, which halted DFAS personnel’s ability to clear IPAC suspense account transactions for 2 months. This resulted in a backlog of IPAC transactions in the suspense accounts, which DFAS personnel were still working to clear a year after the system conversion. DFAS has shown progress in reducing the total value of IPAC transactions in the ODO suspense accounts in FY 2015. In addition, as a result of our audit, DFAS stated that they implemented a new “standardized control and trending analysis design” in February 2016 to further reduce the total amount of transactions in the ODO suspense accounts.

DFAS should document and monitor the results of its standardized control and trending analysis design to ensure it is adequately resolving suspense account transactions before the 60-business-day requirement. If the control is not effective, DFAS should design new procedures for clearing the suspense accounts in a timely manner.

DFAS Personnel Incorrectly Concluded the ODO Suspense Accounts Were Immaterial

DFAS personnel did not develop or implement procedures to manage and account for the transactions in the ODO suspense accounts because they incorrectly concluded that the suspense accounts were immaterial to the ODO financial statements. Throughout the audit, DFAS personnel asserted several times that the suspense accounts were not material to the consolidated ODO financial statements. However, DFAS personnel did not have a supportable basis for their conclusion that the suspense accounts were immaterial. While the ODO suspense accounts may not be material to the consolidated ODO financial statements, when combined with other individual misstatements identified during a financial statement audit, the aggregate effect of the suspense accounts could become material. Further, DFAS personnel did not conduct a formal analysis of the amounts in the ODO suspense accounts to determine the impact the accounts would have on the individual ODO financial statements. Our analysis determined that the suspense account balances were material to 17 of the 21 (81 percent) General Fund ODOs and three of the four (75 percent) Working Capital Fund ODOs we tested.¹³

Had DFAS properly assessed the impact of the ODO suspense accounts on the individual ODOs' financial statements, DFAS could have developed adequate procedures for managing and accounting for the transactions in the ODOs' suspense accounts. Specifically, DFAS could have developed controls for identifying and verifying the accuracy of the ODO suspense account balances, allocating the consolidated ODO suspense account balances to the individual ODO financial statements, and clearing the detailed transactions posted to the ODO suspense accounts within 60 business days.

¹³ We were unable to test the materiality of the suspense accounts on all of the individual ODOs, because some of the ODOs balances were combined on the financial statements. For example, the intelligence agencies were reported at an aggregate level.

Suspense Account Balances Could Impact ODO Auditability

DFAS reported inaccurate amounts on the consolidated ODO financial statements and could not support the financial statement balances with source documentation. While DFAS management has taken action to correct most of the issues we identified during the audit, the corrections were not made until after the ODO financial statements were prepared. As such, the inaccurate suspense account balances were included on the FY 2014 consolidated ODO financial statements. In addition, the ODO suspense account balances are material to most of the individual ODOs. Therefore, not allocating the consolidated suspense account balances to the individual ODOs could have a significant impact on the auditability of the individual ODOs' financial statements. Further, unresolved transactions residing in the suspense accounts can conceal problem disbursements and improper payments. With 14 individual ODOs scheduled to undergo audit or examination in FY 2016, it is imperative that DFAS addresses these issues.

Recommendations, Management Comments, and Our Response

Recommendation A.1

We recommend that the Directors, Defense Finance and Accounting Service Indianapolis and Columbus:

- a. Document and monitor the newly implemented controls for allocating unidentified MOCAS collections. If the procedures are not showing desired results, design new, more effective controls.**

Directors, Defense Finance and Accounting Service – Indianapolis and Columbus

The Director, DFAS, Office of Audit Readiness, responding for the Directors' DFAS-Indianapolis and DFAS-Columbus, agreed and stated that The Defense Finance and Accounting Service Columbus Disbursing Office has implemented a process to allocate unidentified MOCAS collections by service. The Director stated with this new process, a Suspense Account Report reflecting the allocations for each service is created monthly. The Suspense Account Report will be reconciled and balanced to ensure the entire universe of transactions is included. According to DFAS, this newly adopted process is documented and monitored, and results are approved by management. DFAS acknowledged that they would implement additional procedures and controls after the process has stabilized. DFAS plans to complete these actions by January 2017.

Our Response

Comments from the Director, DFAS, Office of Audit Readiness, addressed all the specifics of the recommendation, and no further comments are required.

- b. Obtain the complete universe of detailed transactions supporting the suspense account balances, perform regular and recurring reconciliations of the data, and remediate any deficiencies that impact the accuracy of the balances.**

Directors, Defense Finance and Accounting Service – Indianapolis and Columbus

The Director, DFAS, Office of Audit Readiness, responding for the Directors' DFAS–Indianapolis and DFAS–Columbus, agreed stating that DFAS currently has a manual process to pull the complete universe. An automated process to pull the universe is included in the current initiatives to support the full financial statement audits. OUSD(C) is leading the development of the AUD-IT tool in partnership with DFAS and fourth estate customers, which will encompass the full scope of ODO accounting system data and allow for an automated pull of the universe of transactions. The current pilot plan is scheduled for implementation in January 2017. DFAS plans to demonstrate proof of concept by September 2017.

Our Response

Comments from the Director, DFAS, Office of Audit Readiness, addressed all the specifics of the recommendation, and no further comments are required.

- c. Develop an estimate using relevant, sufficient, and reliable information to record the consolidated Other Defense Organizations' suspense account balances on the individual Other Defense Organizations' financial statements.**

Directors, Defense Finance and Accounting Service – Indianapolis and Columbus

The Director, DFAS, Office of Audit Readiness, responding for the Directors' DFAS–Indianapolis and DFAS–Columbus disagreed stating that initiatives to move Federal Insurance Corporation Act, Federal Income Tax Withholdings, and Thrift Savings Plan balances out of the suspense accounts would reduce the balance in the accounts. In addition, the Director stated that DFAS is working on reporting Intergovernmental Payments and Collections transactions daily. The Director stated that the suspense accounts would be immaterial after Federal Insurance Corporation Act, Federal Income Tax Withholdings, Thrift Savings Plan, and Intragovernmental Payments and Collections amounts were removed.

Our Response

Comments from the Director, DFAS Audit Readiness on behalf of the Directors DFAS–Indianapolis and DFAS–Columbus, were partially responsive. Although DFAS did not agree with our recommendation, their plans to move the Federal Insurance Corporation Act, Federal Income Tax Withholdings, and Thrift Savings Plan transactions out of the suspense accounts meet the intent of the recommendation because DFAS intends to properly account for the transactions before the transactions enter suspense. The new process will provide a more accurate presentation of the individual Other Defense Organizations’ financial statements. During the audit, DFAS presented actionable plans to remove and properly account for the Federal Insurance Contributions Act, Federal Income Tax Withholdings, and Thrift Savings Plan amounts from the suspense accounts. However, DFAS did not present an actionable plan for removing the Intragovernmental Payments and Collections amounts from the accounts. As a result, we ask that the Director, DFAS–Indianapolis, provide additional comments in response to Recommendation A.1.c. Specifically, their plan for the Intragovernmental Payments and Collections amounts and estimated completion dates for planned actions.

- d. Document and monitor the newly implemented controls for clearing all suspense account transactions within 60 business days. If the procedures are not showing desired results, design new, more effective controls.**

Directors, Defense Finance and Accounting Service – Indianapolis and Columbus

The Director, DFAS, Office of Audit Readiness, responding for the Directors’ DFAS–Indianapolis and DFAS–Columbus, agreed stating that DFAS has implemented a standardized control for all suspense accounts to ensure supervisors and leads responsible for clearing suspense account transactions are reviewing the workload to validate transactions are cleared correctly, in a timely manner, and that supporting documentation is readily available. The Director stated that the review of the accounts would prioritize canceling-year funds, high-dollar items and overaged transactions. DFAS plans to complete these actions by December 2016.

Our Response

Comments from the Director, DFAS, Office of Audit Readiness, addressed all the specifics of the recommendation, and no further comments are required.

Finding B

DFAS Did Not Use the Suspense Accounts for Their Intended Purpose

DFAS incorrectly used the ODO suspense accounts to record collections generated from revenue programs and to temporarily hold TSP and tax withholdings collected from civilian employees. This occurred because DoD did not take the necessary action to implement the appropriate accounting treatment for the transactions. In addition, DoD guidance required DoD agencies to use the suspense accounts for purposes that were inconsistent with OMB and Treasury's stated purpose of the suspense accounts. As a result, as of September 30, 2015, DFAS inappropriately included \$17.9 million in transactions in the suspense accounts. Also, DoD understated its budgetary resources by not including the revenue-generating programs in an identifiable appropriation as available to spend.

DFAS's Use of Exempt Suspense Accounts Did Not Comply With OMB and Treasury Guidance

OMB Circular No. A-11 and TFM volume 1, part 2, chapter 1500 both state that the purpose of the suspense accounts is to temporarily hold general, special, or trust fund Federal Government collections or disbursements pending clearance to the applicable receipt or expenditure accounts. These accounts were not to be used as a temporary holding account for routine, known transactions, such as Federal payroll tax and insurance deductions. However, DFAS incorrectly used the ODO suspense accounts to record collections generated from revenue programs and to temporarily hold TSP and taxes collected from civilian employees.

DFAS incorrectly used the ODO suspense accounts to record collections generated from revenue programs and to temporarily hold TSP and taxes collected from civilian employees.

DFAS Used the Suspense Accounts for Revenue-Generating Programs

Contrary to OMB and TFM guidance, DFAS used the Budget Clearing–Exempt¹⁴ suspense account to hold revenues generated from recyclable materials and trademark fees. Specifically, DFAS is holding proceeds from the following sources within the suspense accounts:

- Sale of recyclable materials that can be credited to cover costs of operations, maintenance, and overhead fees for the recycling program.
- Fees from trademarks, service marks, certification marks, and collective marks owned or controlled by the Secretary of Defense that can be used to cover the costs of securing trademark registrations or licensing programs.

In both cases, DFAS places revenues generated from the programs in the Budget Clearing–Exempt suspense account until an ODO pays for expenses related to the sustainment of the program. The ODO will then be reimbursed for the expenses from the funds in the suspense account. These collections are routine in nature and do not meet the intended purpose of the suspense accounts. As of September 30, 2015, DFAS held \$1.1 million in transactions from revenue-generating programs in the ODO Budget Clearing–Exempt suspense account.

DFAS Used the Suspense Accounts for TSP and Tax Withholdings

DFAS also used the ODO Budget Clearing–Exempt suspense account to inappropriately hold civilian TSP and tax withholdings. OMB Circular No. A-11 states that:

The Government acts as a true trustee on behalf of some entities outside of the Federal Government where it makes no decisions about the amount of these deposits or how they are spent. For example, it maintains accounts on behalf of individual Federal employees in the Thrift Savings Fund, investing them as directed by the individual employee. The Government accounts for such funds in deposit funds.

In addition, TFM volume 1, part 2, chapter 1500 states that the suspense accounts should only be used to temporarily hold unidentifiable collections that belong to the Federal Government. However, DFAS recorded civilian withholdings of employee and agency TSP contributions in the TSP (Civilian) suspense accounts,

¹⁴ The Budget Clearing–Exempt suspense account includes programs that generate identifiable revenue. The Budget Clearing–Exempt account generates revenue by selling recyclable materials and earning income from trademarks.

rather than a deposit fund account as required by OMB guidance. Specifically, DFAS personnel collected TSP withholdings from the employee and agency and held those funds in the suspense accounts until the TSP Board accessed the account and withdrew the funds. As of September 30, 2015, DFAS inappropriately held \$16.8 million in the TSP (Civilian) suspense account.

DFAS also included civilian taxes, which would later be paid to the Internal Revenue Service, in the ODO Budget Clearing-Exempt suspense account. Since taxes are known, identifiable transactions and are routine in nature, they should not be included in the suspense accounts. As of September 30, 2015, DFAS inappropriately held \$116,220 in taxes in the ODO Budget Clearing-Exempt suspense account.

DoD Did Not Implement Appropriate Accounting Treatment for Suspense Accounts

DFAS personnel inappropriately used the ODO suspense accounts because DoD did not take the necessary action to implement an appropriate accounting treatment for the transactions. In January 2008, DoD requested a waiver from the U.S. Treasury that would allow DoD to use suspense accounts for purposes other than to temporarily hold unidentifiable collections and disbursements pending clearance to the appropriate account. The DoD justification stated that in the absence of a U.S. Treasury special fund receipt and expenditure accounts, DoD would continue to use suspense accounts for revenue-generating programs. The justifications also stated that due to system and processing limitations, DoD must temporarily hold tax collections in the suspense accounts until remitted to the Internal Revenue Service. The waiver request referenced future improvements that would allow DoD to discontinue their use of the suspense accounts.

On April 2, 2008, DoD received permission from the U.S. Treasury to continue using the suspense accounts. The approval included the use of the suspense accounts to record transactions associated with revenue-generating programs and tax collections. Although U.S. Treasury officials acknowledged in the waiver that DoD legacy systems had limitations that prevented DoD from posting revenue sources properly, the U.S. Treasury encouraged DoD to use other means to improve processes, making specific reference to the use of a deposit fund to account for transactions from revenue sources, such as income from sales of recyclable materials and trademark fees. However, DoD viewed the waiver as authority to use the suspense accounts indefinitely. As a result, DoD personnel continued to use the exempt suspense accounts in a manner that was inconsistent with their stated purpose and did not subject the exempt suspense accounts to the 60-business-day requirement.

The DoD FMR Contradicts OMB and Treasury Guidance

DFAS also continued to inappropriately use the suspense accounts because the Office of the Under Secretary of Defense (Comptroller) published guidance that required agencies to use the suspense accounts for purposes that were inconsistent with the stated purpose of the suspense accounts. For example, the DoD Financial Management Regulation 7000.14-R (DoD FMR), volume 11A, chapter 5¹⁵ instructs agencies to deposit proceeds from recyclable materials into the suspense accounts. Further, DoD FMR volume 12, chapter 31¹⁶ instructed agencies to deposit trademark fees into the Budget Clearing–Exempt suspense account. Since the transactions from these programs represent revenue generated from proceeds of sales, these volumes contradict both TFM volume 1, part 2, chapter 1500 and OMB Circular No. A-11, which specify that the suspense accounts are only to be used to temporarily hold unidentifiable transactions until the correct appropriation can be identified. To ensure the DoD FMR does not contradict guidance established in the TFM and OMB Circular No. A-11, we recommend that DFAS coordinate with the Under Secretary of Defense Comptroller to revise the DoD FMR. Specifically, the DoD FMR should be consistent with TFM and OMB guidance and instruct agencies on how to properly account for the revenue-generating, TSP, and tax transactions that were previously held in the suspense accounts.

Corrective Actions Taken by DFAS During the Audit

As a result of our audit, DFAS personnel acknowledged that exempt transactions should not be maintained in the suspense accounts and began to take corrective action to address the deficiency. Specifically, DFAS worked with Office of the Under Secretary of Defense (Comptroller) personnel to address the inappropriate uses of these suspense accounts. The following actions by DFAS have been completed or are underway.

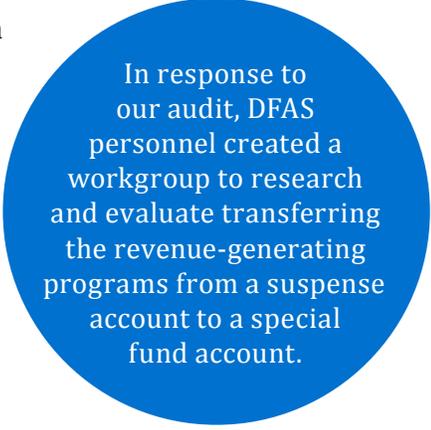
¹⁵ DoD FMR, volume 11A, chapter 5, “Disposition of Proceeds from Department of Defense Sales of Surplus Personal Property,” February 2012.

¹⁶ DoD FMR, volume 12, chapter 31, “DoD Branding and Trademark Licensing Program Procedural and Accounting Guidance,” June 2009.

Revenue-Generating Programs

In response to our audit, DFAS personnel created a workgroup to research and evaluate transferring the revenue-generating programs from a suspense account to a special fund account. In their role, the workgroup will perform the following procedures:

- benchmark other government agencies to identify how those agencies were accounting for revenue-generating transactions,
- determine how DoD customers are currently using special fund accounts, and
- identify and document the new process and determine how it would impact DoD customers.

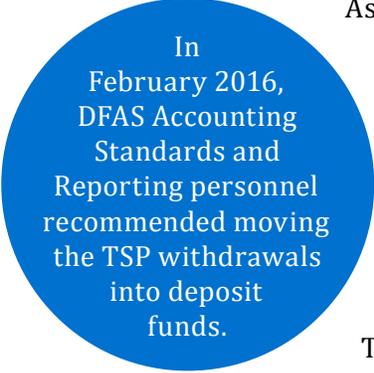


In response to our audit, DFAS personnel created a workgroup to research and evaluate transferring the revenue-generating programs from a suspense account to a special fund account.

According to DFAS, once the workgroup completes the aforementioned procedures, DFAS will prepare a package for the Office of the Under Secretary of Defense (Comptroller), which will request permission to use the special fund account for revenue-generating programs. Once accepted, DoD will request permission from the U.S. Treasury to use the special fund accounts for transactions that reside in the ODO Budget Clearing-Exempt suspense account. DFAS has estimated that it will complete the request by July 2016.

The DFAS plan for moving the revenue-generating programs to a special fund account would comply with U.S. generally accepted accounting principles and also lead to a more accurate consolidated ODO financial statement. Therefore, we recommend that DFAS continue to coordinate these efforts with the Office of the Under Secretary of Defense (Comptroller), OMB, and U.S. Treasury personnel to establish special fund accounts for recording and reporting the revenue-generating transactions.

Thrift-Savings Plan Withholdings



In February 2016, DFAS Accounting Standards and Reporting personnel recommended moving the TSP withdrawals into deposit funds.

As a result of our audit, DFAS began researching whether it was proper to record transactions in the TSP (Civilian) suspense account. In February 2016, DFAS Accounting Standards and Reporting personnel recommended moving the TSP withdrawals into deposit funds. Moving the TSP withholdings to a deposit fund complies with OMB Circular No. A-11. Therefore, we recommend that DFAS implement this action and hold TSP withholdings in a deposit fund until the TSP Board withdraws those funds.

Federal Tax Withholding

In response to our audit, the DFAS Director, Accounting Standards and Reporting, issued a memorandum on December 4, 2015, that required all site directorates across the DFAS Operations network to use deposit accounts for tax and payroll withholding. Recording these transactions in a deposit fund account instead of a suspense account will allow DFAS to comply with OMB Circular No. A-11 and more accurately report transactions on the ODO financial statements.

Improper Use of Suspense Accounts Impacted the Accuracy of the Financial Statements

DoD's improper use of suspense accounts impacted the accuracy of the ODOs' financial statements. Specifically, as of September 30, 2015, DFAS inappropriately included \$17.9 million in identifiable transactions in the suspense accounts. In addition, since the revenue-generating programs have an identifiable appropriation and are available to spend, DoD understated its budgetary resources, again impacting the accuracy of the ODO financial statements.

Recommendations, Management Comments, and Our Response

Recommendation B.1

We recommend that the Directors, Defense Finance and Accounting Service Indianapolis and Columbus, in coordination with the Office of the Under Secretary of Defense (Comptroller):

- a. **Revise the DoD Financial Management Regulation so that it is consistent with the Treasury Financial Manual and Office of Management and Budget guidance, and it instructs agencies on how to properly account for revenue-generating, Thrift Savings Plan, and tax transactions.**

Directors, Defense Finance and Accounting Service – Indianapolis and Columbus

The Director, DFAS, Office of Audit Readiness, responding for the Directors' DFAS–Indianapolis and DFAS–Columbus, agreed stating that their Policy division is working to update the manuals to ensure proper accounts are established and will ensure regulations are properly updated to reflect updated directives by September 30, 2017.

Our Response

Comments from the Director, DFAS, Office of Audit Readiness, addressed all the specifics of the recommendation, and no further comments are required.

- b. **Establish, in coordination with the Office of Management and Budget and the U.S. Treasury, special fund accounts for recording and reporting the revenue-generating transactions and a deposit fund account for properly recording Thrift Savings Plan transactions.**

Directors, Defense Finance and Accounting Service – Indianapolis and Columbus

The Director, DFAS, Office of Audit Readiness, responding for the Directors' DFAS–Indianapolis and DFAS–Columbus, agreed stating that they submitted a formal request to the Office of the Under Secretary of Defense (OUSD) for new Thrift Savings Plan deposit accounts to be established. DFAS continued that OUSD requested the new accounts from the Office of Management and Budget and that

once the new accounts were approved, DFAS will begin implementation. DFAS plans to complete these actions by September, 2017. Additionally, DFAS stated that they do not have statutory authority to establish special fund accounts for the revenue generating transactions. As a result, DFAS is pursuing a legislative change which, if approved will take effect in FY 2018. Therefore the estimated completion date for these actions is December 2018.

Our Response

Comments from the Director, DFAS, Office of Audit Readiness, addressed all the specifics of the recommendation, and no further comments are required.

Appendix

Scope and Methodology

We conducted this performance audit from June 2015 to May 2016 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 objective.

Our audit focused on ODO suspense account balances reported on the ODO financial statements. To gain an understanding of suspense accounts and how they were managed, we interviewed personnel at DFAS–Columbus and DFAS–Indianapolis. We also interviewed DFAS personnel and ODO program managers to gain an understanding of the business activities and accounting practices impacting the suspense accounts, including revenue-generating programs, TSP, and tax collections. Further, we interviewed personnel from the U.S. Treasury, Office of Management and Budget, Health and Human Services, Department of Justice, and Department of Interior to benchmark how other Government agencies were using the suspense accounts. We reviewed policy and criteria, including guidance issued by the U.S. Treasury and OMB, to gain an understanding of how the suspense accounts were intended to be used.

We obtained the consolidated ODO suspense account balances, as of September 30, 2014, and March 31, 2015, from the U.S. Treasury Central Accounting and Reporting System¹⁷ and compared it to detailed transactions supporting the suspense account balances obtained from DFAS personnel to determine any variances. Additionally, we reviewed the September 30, 2014 journal vouchers prepared by DFAS personnel and determined that DFAS was not allocating the suspense account balances to the individual ODOs.

For the exempt suspense accounts (Proceeds of Sales, Budget Clearing–Exempt, and TSP [Civilian]), we non-statistically selected 20 transactions from each account to determine whether:

- transactions were accounted for in the correct suspense account;
- DFAS could provide adequate supporting documentation; and
- DFAS was using the suspense account for the intended purpose.

¹⁷ The Central Accounting and Reporting system handles accounting and reporting for all Federal agencies and is the central accounting system of record for the Department of Treasury, Bureau of Fiscal Service.

For the non-exempt suspense accounts (Budget Clearing–Non-Exempt, Check Cancellations and Overpayments, and IPAC), we reviewed the ODO suspense account universes, as of September 30, 2014, and March 30, 2015, and determined which transactions had cleared the suspense accounts within those 6 months.

From the universe of transactions that cleared the non-exempt suspense accounts between September 30, 2014, and March 30, 2015, we statistically sampled 285 transactions for testing. Specifically, we statistically selected 114 transactions from the Budget-Clearing Non-Exempt account, 2 transactions from the Check Cancellations and Overpayments account, and 184 transactions from the IPAC account.¹⁸

For the non-exempt accounts, we reviewed supporting documentation to determine whether DFAS:

- accounted for the transactions in the correct suspense account;
- cleared the transactions in the suspense account within 60 business days;
- included the suspense account transactions on the correct financial statements; and
- maintained adequate supporting documentation.

However, due to data quality issues with the non-exempt suspense account information, we could not project the testing results of the statistically sampled transactions.

Use of Computer-Processed Data

We used accounting data that DFAS extracted from multiple financial systems, such as the Headquarters Accounting and Reporting System, Defense Cash Accountability System, Mechanization of Contract Administrative Services system, IPAC Mega-Wizard, and the Defense Agency Initiative. We compared this information to the suspense account balances reported in the U.S. Treasury Central Accounting and Reporting System and identified a variance. Further, we identified system errors in the IPAC system, which resulted in DFAS erroneously including transactions in the suspense accounts that had already cleared to an ODO's accounting records. We discuss these deficiencies in Finding A.

¹⁸ Of the 285 transactions we sampled, we did not test 85 of them because of errors we had already identified with those transactions. Specifically, of the 85 transactions we did not test, 74 were already posted to an ODO's accounting records and should not have been included in the ODO suspense accounts. For the remaining 11 transactions, DFAS personnel could not provide adequate source documents.

Use of Technical Assistance

The DoD OIG Quantitative Methods Division assisted with a statistical sampling method for testing non-exempt suspense accounts and a non-statistical sampling method for testing exempt suspense accounts.

Prior Coverage

During the last 5 years, the DoD OIG issued two reports discussing Suspense Accounts. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/PUBS/index.html>.

DoD IG

Report No. DODIG-2016-103, “Improvements Needed in Managing Department of the Army Suspense Accounts,” June 27, 2016.

Report No. DODIG-2016-104, “Improvements Needed in Managing Department of the Navy Suspense Accounts,” June 30, 2016.

Management Comments

Defense Finance and Accounting Service



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

MEMORANDUM FOR PROGRAM DIRECTOR, FINANCIAL MANAGEMENT AND REPORTING

SUBJECT: Management Comments to DoDIG Draft Report "Improvements Needed in Managing Other Defense Organizations' Suspense Accounts", (Project D2015-D000FE-0186.000), dated June 8, 2016

The Defense Finance and Accounting Service is providing management comments for recommendations A.1.a, A.1.b, A.1.c, A.1.d, B.1.a, B.1.b of the subject draft report.

My point of contact for additional information is [REDACTED] at [REDACTED]

HULLINGER ANTH
ONY.C [REDACTED]

Edna J. Knight
Director, Enterprise Solutions & Standards

Attachment:
As stated

Defense Finance and Accounting Service (cont'd)

Final Report Reference

Management Comments to DoDIG Draft Report “Improvements Needed in Managing Other Defense Organizations’ Suspense Accounts”, (Project D2015-D000FE-0186.000), dated June 8, 2016

We recommend that the Directors, Defense Finance and Accounting Service Indianapolis and Columbus:

Recommendation A.1.a. Document and monitor the newly implemented controls for allocating unidentified MOCAS collections. If the procedures are not showing desired results, design new, more effective controls.

Management Comments. The Defense Finance and Accounting Service (DFAS) Columbus Disbursing Office has implemented a process to allocate unidentified Mechanization of Contract Administration Services (MOCAS) collections by service. Each month, a Suspense Account Report (SAR) is created for each service reflecting the allocations. Reconciliation and balancing occurs to ensure the entire universe of transactions is included. This newly adopted process is documented, monitored, and results are approved by management. Once the process has stabilized, procedures and additional controls will be implemented.

Estimated Completion Date. January 31, 2017

Recommendation A.1.b. The Directors, Defense Finance and Accounting Service Indianapolis and Columbus obtain the complete universe of detailed transactions supporting the suspense account balances, perform regular and recurring reconciliations of the data, and remediate any deficiencies that impact the accuracy of the balances.

Management Comments. Concur. DFAS currently has a manual process to pull the complete universe. An automated process to pull the universe is included in the current initiatives to support the full financial statement audits. OUSD(C) is leading the development of the AUD-IT tool in partnership with DFAS and fourth estate customers which will encompass the full scope of TI-97 accounting system data and allow for an automated pull of the Universe of Transactions (UoT). The current project plan has implementation for the TI97 UoT SOCOM Pilot scheduled for January 19, 2018.

Estimated Completion Date. ECD for proof of concept is September 30, 2018.

Recommendation A.1.c. The Directors, Defense Finance and Accounting Service Indianapolis and Columbus develop an estimate using relevant, sufficient, and reliable information to record the consolidated Other Defense Organizations’ suspense account balances on the individual Other Defense Organizations’ financial statements.

Management Comments. Non-concur. DFAS currently has initiatives to move FICA/FITW, Thrift Savings Plan (TSP) and Revenue accounts out of 3875 which will significantly reduce the balance in suspense. Furthermore, efforts to go to daily reporting will reduce IPAC transactions

Defense Finance and Accounting Service confirmed that the Estimated Completion Date for Recommendation A.1.b is actually September 30, 2017.

Defense Finance and Accounting Service (cont'd)

that are currently timing issues. After removing these balances, DFAS allocated remaining suspense data and compared it to the budgetary resources for individual ODO financial statements. Results indicated a minimal risk of materiality. The dollar values allocated to each agency for March 2016 were significantly less than the Design Materiality and Tolerable Misstatement (Budgetary Resources * 1%) threshold. Less than 1% of the items were overaged.

Recommendation A.1.d. The Directors, Defense Finance and Accounting Service Indianapolis and Columbus document and monitor the newly implemented controls for clearing all suspense account transactions within 60 business days. If the procedures are not showing desired results, design new, more effective controls.

Management Comments. Concur. DFAS has implemented a standardized control for all suspense accounts to ensure supervisors and/or leads responsible for clearing suspense transactions are reviewing the workload to validate transactions are cleared correctly, timely, and that Key Supporting Documentation (KSD) is stored for access. Moreover, the review will ensure transactions are prioritized by canceling-year funds, dollar amount, and age. Additionally, DFAS Columbus and DFAS Indianapolis will work with the Defense Agencies to develop standard review and clearance processes when overaged items cannot be cleared after research efforts are exhausted.

Estimated Completion Date. December 31, 2016

Recommendation B.1. We recommend that the Directors, Defense Finance and Accounting Service Indianapolis and Columbus, in coordination with the Office of the Under Secretary of Defense (Comptroller):

Recommendation B.1.a. Revise the DoD Financial Management Regulation so that it is consistent with the Treasury Financial Manual and Office of Management and budget guidance, and it instructs agencies on how to properly account for revenue-generating, Thrift Savings Plan, and tax transactions.

Management Comments. Concur. Referenced DoD Financial Management Regulation, Volumes 5, 7A, and 8, are volumes that deal with pay and disbursing. The Policy division is working to update the manuals to ensure proper accounts are established and will ensure regulations are properly updated to reflect updated directives.

Estimated Completion Date. September 30, 2017

Defense Finance and Accounting Service (cont'd)

Recommendation B.1.b. Establish, in coordination with the Office of Management and Budget and the U.S. Treasury, special fund accounts for recording and reporting the revenue-generating transactions and a deposit fund account for properly recording Thrift Savings Plan transactions.

Management Comments. Concur.

TSP: DFAS submitted a formal request to the Office of Under Secretary of Defense (OUSD) on May 18, 2016 for new TSP deposit accounts to be established. The OUSD notified DFAS in an email dated May 19, 2016 that they are requesting the new deposit accounts from the Office of Management and Budget (OMB). Once the new accounts have been approved by OMB and set up by the Treasury DFAS will begin implementation.

Estimated Completion Date. September 30, 2017

Revenue: DFAS and OUSD do not have statutory authority to establish the special fund accounts for the revenue-generating transactions; therefore, DFAS is pursuing a legislative proposal to change the current legislation and establish the accounts. If approved by congress, the new accounts will be in effect beginning fiscal year 2018 and DFAS will begin implementation.

Estimated Completion Date. December 31, 2018

Glossary

Aging Transactions. Transactions are aged according to how long the transactions have been in a suspense account.

Cleared Transactions. Transactions that have been corrected and transferred from the suspense account to the proper account.

Collection. Funds received from individuals or organizations, in the form of cash, check, credit card, IPAC, voucher deduction, or billing/adjustment voucher.

Deposit Funds. Accounts established to record amounts held temporarily by the Government until ownership is determined or held by the Government as an agent for others.

Disbursement. Cash, check, electronic funds transfer, Intra-governmental Payment and Collection System (IPAC), or interfund payments that liquidate an established obligation, disburse amounts previously collected into a deposit fund account, or provide cash in advance of performance.

Exempt Account. Terminology DFAS used to identify suspense accounts (F3800 series fund group) from which DFAS did not attempt to clear the transactions within 60 business days or otherwise age the transactions.

Intra-governmental Payment and Collection (IPAC). IPAC provides an automated, standardized, interagency expenditure instrument for Federal Program Agencies. It facilitates intra-governmental Federal e-commerce by transferring funds, with related descriptive data, from one Federal Program Agency to another on a real-time basis.

Materiality. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for fair presentation of financial statements in conformity with generally accepted accounting principles, while other matters are not important. The auditor's responsibility is to plan and perform the audit to obtain reasonable assurance that material misstatements, whether caused by errors or fraud, are detected. Design materiality is the portion of the preliminary estimate of materiality that has been allocated to line items, accounts, or classes of transactions (such as disbursements or collections). Test materiality is the materiality actually used by the auditor in testing a specific line item, account, or class of transactions.

Non-exempt Account. Terminology DFAS used to identify suspense accounts in which collection and disbursement transactions were held temporarily pending clearance to the applicable account. Transactions in these suspense accounts were subject to the 60-business-day clearance requirement.

Problem Disbursements. Specific disbursements that have not been properly matched with corresponding obligations.

Special Funds. Accounts used for receipts earmarked for specific purposes and the expenditure of these receipts.

Suspense Account. A clearing account established by the U.S. Treasury to temporarily hold unidentifiable general, special, or trust fund collections that belong to the Federal Government until they are classified to the proper receipt or expenditure account by the Federal entity.

Treasury Account Symbol (TAS). An identification code assigned by the U.S. Treasury, in collaboration with OMB and the owner agency, to an individual appropriation, receipt, or other fund account. As it pertains to the ODO suspense accounts, a TAS consists of the two-digit Treasury Index, with an “F” preceding the last four digits of the 3800-series fund group.

Treasury Index (TI) 97. Funds and accounts authorized by Acts originating in the Congressional Armed Service Committees and appropriated to the ODOs. From a budgetary resources perspective, the ODOs are made up of about 50 distinct agencies, organizations, or funds that receive Defense-wide appropriations (TI 97). The TI 97 funding (both General Funds and Working Capital Funds) constitutes roughly one-fourth of the Department’s resources.

Acronyms and Abbreviations

DFAS	Defense Finance and Accounting Service
FMR	Financial Management Regulation
IPAC	Intra-governmental Payment and Collection
MOCAS	Mechanization of Contract Administration Services System
ODO	Other Defense Organization
OMB	Office of Management and Budget
TAS	Treasury Account Symbol
TFM	Treasury Financial Manual
TI	Treasury Index
TSP	Thrift Savings Plan

Whistleblower Protection

U.S. DEPARTMENT OF DEFENSE

The Whistleblower Protection Ombudsman's role is to educate agency employees about prohibitions on retaliation and employees' rights and remedies available for reprisal.

The DoD Hotline Director is the designated ombudsman.

For more information, please visit the Whistleblower webpage at www.dodig.mil/programs/whistleblower.

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

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congressional@dodig.mil; 703.604.8324

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