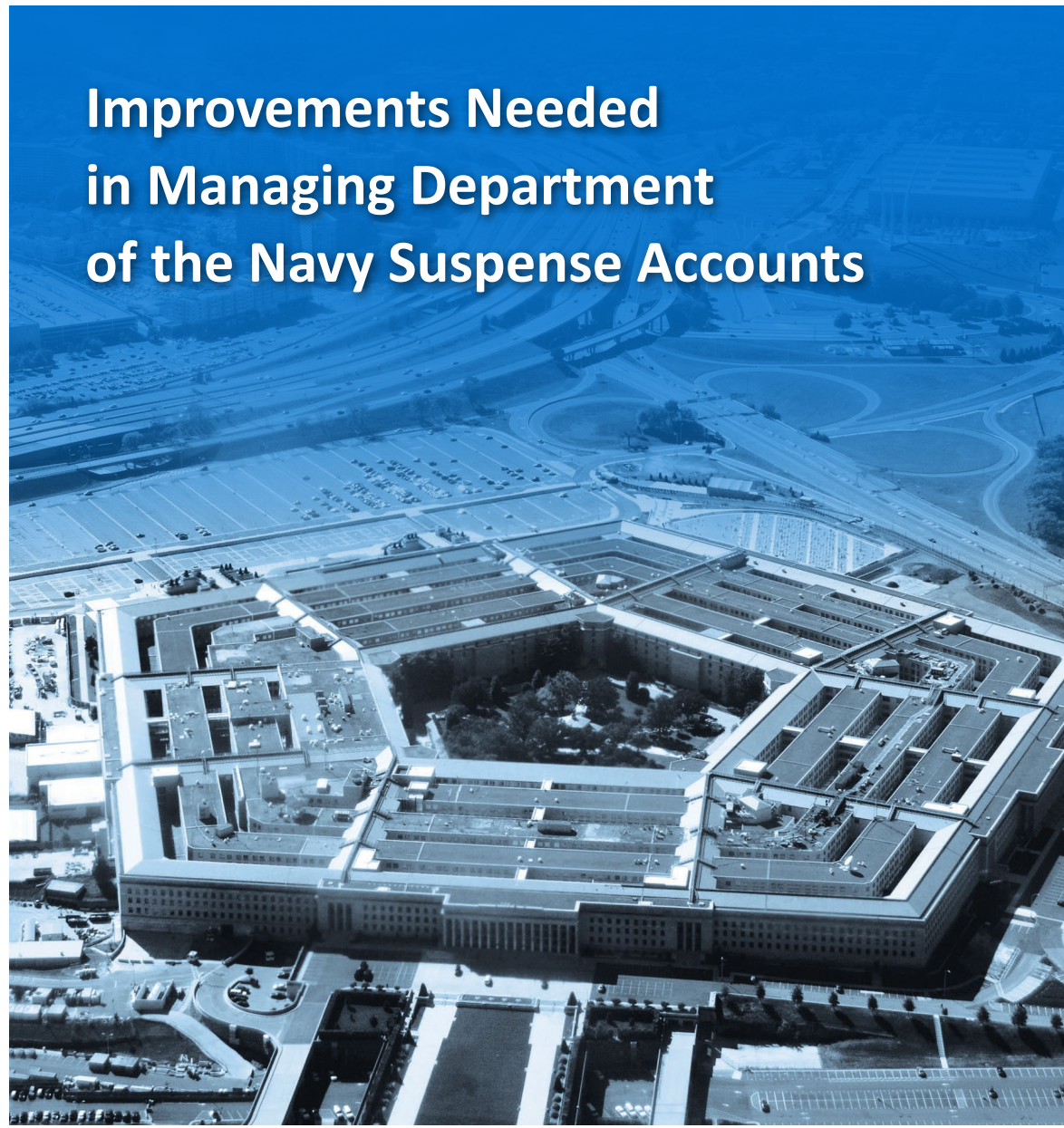




INSPECTOR GENERAL

U.S. Department of Defense

JUNE 30, 2016



Improvements Needed in Managing Department of the Navy Suspense Accounts

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

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Results in Brief

Improvements Needed in Managing Department of the Navy Suspense Accounts

June 30, 2016

Objective

Our objective was to determine whether DoD had controls in place to record Department of the Navy (DON) suspense account balances on the proper component-level financial statements, whether the accounts were being used for the intended purpose, and whether transactions were resolved in a timely manner.

Findings

Defense Finance and Accounting Service–Cleveland (DFAS-CL) and the DON did not have controls in place to properly account for the DON suspense account transactions we reviewed. Specifically, DFAS-CL did not exclude \$3.6 million in suspense account transactions that may not belong on the DON financial statements. Consequently, the FY 2014 DON suspense account balances and the DON General Fund balance sheet were potentially overstated by \$3.6 million. In addition, DFAS-CL erroneously included \$1 million in Army transactions in the DON suspense account. This occurred because DFAS-CL did not conduct research to resolve suspense account transactions or perform a review of DON's suspense accounts before fiscal yearend.

In addition, DON and DFAS-CL incorrectly used suspense accounts to manage their recycling, agricultural leasing, forestry and trademark programs, and Thrift Savings Plan contributions because the DoD Financial Management Regulation (FMR) incorrectly required the use of suspense accounts to record these transactions. As a result, DON overstated its FY 2014 suspense account balance by \$57 million by recording income from its revenue-generating programs and TSP transactions in suspense accounts.

Finally, DFAS-CL did not resolve 1,713 of the 3,576 DON suspense account transactions found in the FY 2014 suspense account universe within 60 business days as required by the

Findings (cont'd)

Treasury Financial Manual. This occurred because DFAS-CL did not have adequate processes in place to ensure transactions were monitored, tracked, and resolved within required timeframes. Consequently, DON's suspense account balance and FY 2014 General Fund financial statements would have been reduced by 1,713 transactions with a net value of \$5 million.

Recommendations

We recommend the Assistant Secretary of the Navy (Financial Management and Comptroller) work with DFAS, the Under Secretary of Defense (Comptroller), and U.S. Department of the Treasury to remove DON revenue-generating program transactions from suspense accounts, disclose the suspense account balances and the potential that transactions may resolve to other DoD or Federal agencies in the DON Annual Financial Report Notes, and write off significantly overaged suspense account transactions identified by DFAS-CL, per DoD Financial Management Regulation guidance.

We recommend the Director, Defense Finance and Accounting Service, develop a corrective action plan with implementation timelines to ensure Thrift Savings Plan transactions are not recorded in suspense accounts.

We also recommend that the Director, DFAS-CL, review DON suspense account balances before yearend closing to identify and remove transactions from DON suspense accounts that belong to other Services or organizations, review and correct business processes to ensure only DON suspense transactions are posted to and included in DON suspense account balances, and work with their business partners to establish a process to ensure DON suspense account transactions post to the correct account within 60 business days.

Management Comments and Our Response

Comments from the Assistant Secretary of the Navy (Financial Management and Comptroller); the Director, Enterprise Solutions & Standards, responding for the Director, Defense Finance and Accounting Service; and the Director, DFAS-CL, addressed all specifics of the recommendations, and no additional comments are required. Please see the Recommendations Table on the back of this page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Assistant Secretary of the Navy, Financial Management and Comptroller		1.a, 1.b, 1.c
Director, Defense Finance and Accounting Service		2
Director, Defense Finance and Accounting Service—Cleveland		3.a, 3.b, 3.c



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

June 30, 2016

MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE–CLEVELAND

SUBJECT: Improvements Needed in Managing Department of the Navy Suspense Accounts
(Report No. DODIG-2016-104)

We are providing this report for your information and use. The Department of the Navy and the Defense Finance and Accounting Service–Cleveland did not have controls in place to properly account for the DON suspense account transactions we reviewed. In addition, some suspense accounts were not used for the intended purpose and transactions in the suspense accounts were not always resolved timely. We conducted this audit in accordance with generally accepted government auditing standards.

We considered management comments on a draft to this report when preparing the final report. Comments from the Assistant Secretary of the Navy, Financial Management and Comptroller; Director, Enterprise Solutions & Standards, responding for the Director, Defense Finance and Accounting Service; and Director, Defense Finance and Accounting Service–Cleveland, conformed to the requires of DoD Instruction 7650.03; therefore, we do not require additional comments.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945 (DSN 329-5945).

Lorin T. Venable

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

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Acronyms and Abbreviations

Introduction

Objective

We determined whether DoD had controls in place to record Department of the Navy (DON) Treasury Index (TI) 17 suspense account balances on the proper component-level financial statements. In addition, we determined whether the accounts were being used for the intended purpose and transactions were resolved in a timely manner. This audit is one in a series evaluating the use of DoD suspense accounts. See Appendix A for the scope and methodology.

Background

Office of Management and Budget (OMB) Circular No. A-11¹ states that general, special, and trust fund collections and disbursements may be held temporarily in clearing accounts pending clearance to the applicable account. Clearing accounts are nonbudgetary accounts that are included in the budget once they are posted to either a receipt or expenditure account.

The Department of Treasury (Treasury) defines clearing (suspense) accounts² in the Treasury Financial Manual (TFM)³ as accounts that temporarily hold unidentifiable general, special, or trust fund collections that belong to the Federal Government. Because individual suspense account transactions are missing data necessary to be recorded in the correct account, they are placed in a suspense account until they are researched and resolved. According to the Financial Improvement and Audit Readiness Plan Status Report May 2015, suspense accounts may impede the auditability of the DON's financial statements.

Suspense accounts are identified by the Treasury Account Symbol (TAS),⁴ which consists of the two-digit Treasury Index (TI)⁵ along with an "F" preceding the last four digits of the "3800" series fund group. TI 17 identifies DON General Fund appropriated accounts.

¹ OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget," June 2015.

² Clearing accounts will be referred to as suspense accounts throughout the report.

³ Treasury Financial Manual, volume I, part 2, chapter 1500, "Description of Accounts Relating to Financial Operations."

⁴ The TAS is an identification code assigned by the Treasury, in collaboration with the OMB and the owner agency, to an individual appropriation, receipt, or other fund account. All financial transactions of the Federal government are classified by TAS for reporting to the Treasury and OMB.

⁵ The TI is assigned by the Treasury to identify appropriations and other fund accounts for Government agencies.

DON Suspense Accounts

The Defense Finance and Accounting Service–Cleveland (DFAS-CL) managed eight suspense accounts on behalf of the DON. The DON suspense accounts include both Navy and Marine Corps transactions. DFAS identified the DON suspense account universe values as being comprised of 77 percent Navy, 23 percent Marine Corps, and less than 1 percent Other.⁶ In addition, these accounts were classified by DFAS-CL as either being “exempt” or “nonexempt.” See Appendix B for a complete description of current DON suspense accounts and the types of transactions contained within.

DFAS-CL used three suspense accounts to manage funds from the DON revenue-generating programs, such as the recycling, agricultural leasing, forestry, and trademark programs,⁷ as well as Thrift Savings Plan (TSP) transactions. Transactions from the revenue-generating programs and TSP activities did not meet the definition of what the Treasury considered a suspense account transaction because financial information is not missing from the individual transactions. Therefore, DFAS-CL considered the revenue-generating and TSP suspense account transactions as “exempt.”

DFAS-CL used five suspense accounts to temporarily hold transactions that were missing information and required research in order to properly post the transaction to the correct account. DFAS-CL considered these suspense accounts as “nonexempt” because they complied with the Treasury’s definition of a suspense account transaction. The DON’s FY 2014 General Fund financial statements⁸ included the following suspense account balances, as of September 30, 2014.

⁶ These amounts were broken out manually by DFAS. Because these transactions are in suspense and may be missing data necessary to categorize, the categorization provided may not be exact.

⁷ Collectively, we will refer to the DON recycling, agricultural leasing, forestry, and trademark programs as “the DON Revenue-Generating Programs” throughout the report.

⁸ Specifically, the Balance Sheet and Statement of Budgetary Resources.

Table 1. DON Suspense Accounts Balances

Account	Account Title	Net value as of September 30, 2014	Net value as of September 30, 2015
17F3875.001	Budget Clearing Account–Nonexempt	\$(12,344,830)	\$(604,914)
17F3875.002	Budget Clearing Account–Exempt	42,129,540	44,815,098
17F3875.004	Treasury Suspense Account	865,687	13,231,839
17F3880	Unavailable Check Cancellations and Overpayments	1,334,600	2,960,584
17F3882	Civilian and Military Thrift Savings Plan	15,200,569	66,843,080
17F3885	Undistributed Intra-Governmental Payments	(191,080)	(6,014,529)
17F3885.007	Intra-Governmental Payments and Collection System	(7,877,129)	(6,343,062)
17F3886	Civilian and Military Thrift Savings Plan	(505)	(6,975)
Totals		\$39,116,852	\$121,224,183

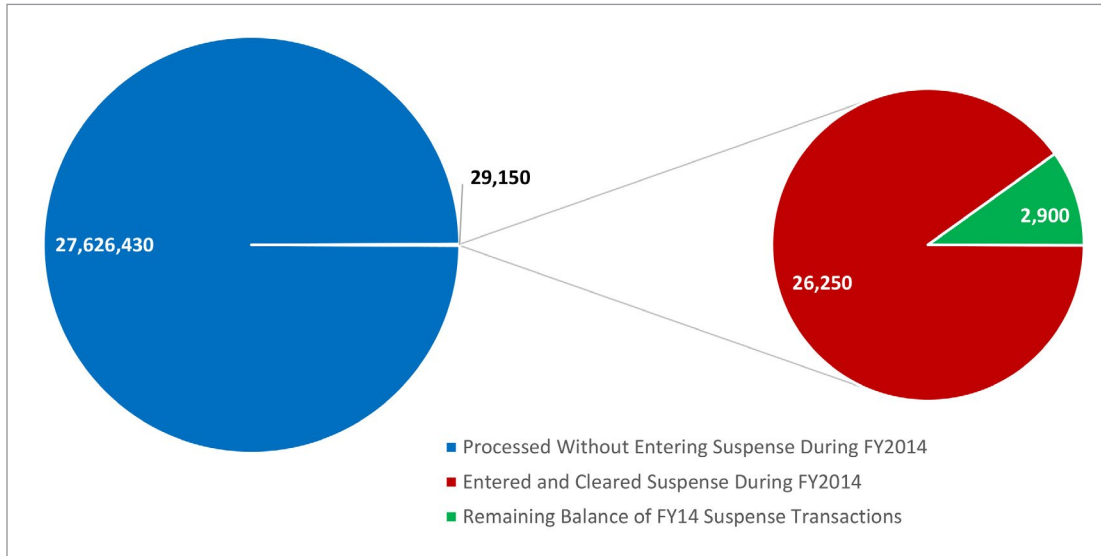
Source: DoDIG created table from the U.S. Department of the Treasury and DFAS-CL data

Defense Finance and Accounting Service

The Defense Finance and Accounting Service (DFAS) prepares financial statements, in accordance with financial reporting requirements, for the Department of the Navy. DFAS-CL uses the Defense Departmental Reporting System to create and post journal vouchers, and to prepare DON General Fund financial statements. However, the DON is responsible for complying with laws and regulations and for the accuracy and auditability of its financial statements.

According to DFAS-CL personnel, they processed approximately 27.6 million DON transactions valued at \$111.1 billion (net value) during FY 2014 without sending them to suspense accounts. An additional 29,150 DON transactions were sent to suspense accounts during FY 2014 due to missing information. DFAS-CL cleared all but 2,900 transactions valued at approximately \$39,678,973 (absolute value) as of September 30, 2014. See Figure 1 on next page.

Figure 1. FY 2014 DON Transactions Processed in Relation to Nonexempt Suspense Account Transactions



Source: DoDIG created figure from DFAS-CL provided data

Review of Internal Controls

DoD Instruction 5010.40⁹ requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal control weaknesses with the DON and DFAS-CL's use of suspense accounts. We found transactions that were in DON suspense accounts that ultimately resolved to other DoD and Federal agency suspense accounts, suspense accounts that were not used for their intended purpose, and transactions that were not resolved in a timely manner. We will provide a copy of the report to the senior official responsible for internal controls in the DON and DFAS-CL.

⁹ DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

Finding

DON and DFAS-CL Incorrectly Used Suspense Accounts

DON and DFAS-CL did not have controls in place to properly account for DON suspense account transactions. Specifically:

- DFAS-CL did not exclude \$3.6 million in suspense account transactions that may not belong on the DON financial statements. In addition, DFAS CL erroneously included \$1 million of Army transactions in the DON suspense account. This occurred because DFAS-CL did not conduct timely research to resolve suspense account transactions or perform a thorough review of DON's suspense accounts before fiscal yearend.
- DON incorrectly used suspense accounts to manage the DON recycling, agricultural leasing, forestry, and trademark programs. This occurred because the DoD Financial Management Regulation (FMR) incorrectly required the use of suspense accounts to record these transactions.
- DFAS-CL incorrectly used suspense accounts to temporarily hold TSP transactions. This occurred because DFAS-CL did not request that the U.S. Department of the Treasury (the Treasury) establish specific accounts for recording TSP transactions, and the DoD FMR included a reference to these accounts for recording TSP transactions.
- DFAS-CL did not resolve 212 of the 361 DON suspense account transactions tested in our statistical sample¹⁰ within 60 business days, as required by the TFM. This occurred because DFAS-CL did not have adequate processes in place to ensure transactions were monitored, tracked, and resolved within required timeframes.

DON's suspense accounts included transactions from Other Defense Organizations, Department of the Army, DON Working Capital Fund, and other Federal agencies, which potentially overstated the DON FY 2014 suspense account balances and General Fund financial statements. In addition, DON overstated their suspense account balance by \$57 million by recording income from its revenue-generating programs and TSP transactions in suspense accounts. Lastly, if DFAS-CL resolved suspense transactions within 60 days, they would have reduced DON's suspense account balance by \$5 million on the FY 2014 General Fund financial statements.

¹⁰ See Appendix A for Scope and Methodology.

Inaccurate Balances May Be Reported on DON's Financial Statements

The DON suspense accounts improperly included transactions from the Other Defense Organizations, Department of the Army, DON Working Capital Fund, and other Federal agencies. Of the 361 transactions reviewed, 175 transactions, totaling \$3.6 million, resolved to other DoD or Federal organizations.¹¹ DFAS-CL did not have a process to review the DON suspense accounts at yearend to identify and exclude transactions that did not belong to the DON. For example, DFAS-CL incorrectly recorded 33 Military Retirement Fund transactions, totaling \$64,713, in a DON suspense account. These transactions were for military retiree canceled checks, and when resolved, posted to an Other Defense Organization account. The Treasury placed canceled checks for all military retirees into a DON suspense account because a DON disbursing office processed all military retiree pay. These transactions should have been placed in the Other Defense Organization suspense accounts for resolution instead of in the DON suspense account. DFAS-CL personnel should have ensured that these transactions were recorded in the correct suspense account.

DFAS-CL also incorrectly included 14 Department of the Army transactions, totaling \$28,874, in a DON suspense account. These transactions were processed from a non-Navy system without the information needed for DFAS-CL to correctly record the transaction. In addition, the correct reporting office data field was missing in the transaction detail, which caused the transaction to be sent to a DON suspense account for resolution. If the correct reporting office information was included in the original transactions, the transactions would have entered the Department of the Army suspense account. Instead, the transactions defaulted to a DON suspense account and were monitored and resolved by DFAS-CL.

In another example, DFAS-CL incorrectly included 48 DON Working Capital Fund¹² transactions, totaling \$1.4 million, which impacted the DON General Fund financial statements. Users of the Intra-Governmental Payment and Collection System entered the wrong account number for 37 of these 48 transactions, which placed the transactions in the DON suspense accounts. The remaining 80 of 175 transactions that ultimately resolved to other Federal Agencies' accounts could not be categorized to a specific problem. See Table 2 for the total number of sample transactions and associated dollar value that DFAS-CL resolved and posted to another agency.

¹¹ Including Other Defense Organizations, Department of the Army, DON Working Capital Fund, and other Federal agencies.

¹² DON Working Capital Fund is a separate TI from DON General Fund activities.

Table 2. Other Federal Agencies' Transactions Included in DON Suspense Accounts on September 30, 2014

Federal Agency	Number of Transactions	Net Value of Transactions
Other Defense Organization or Navy Working Capital Fund	118	\$6,072,477
Army	31	(61,731)
Department of Labor	7	(9,309,191)
Air Force	7	16,071
Department of Veterans Affairs	4	(389)
Department of Health and Human Services	3	(4,469)
National Aeronautics and Space Administration	2	125,950
General Services Administration	1	2,184
Department of Energy	1	(4,719)
Multiple Federal Agencies	1	(429,054)
Total	175	(\$3,592,871)

Source: DoDIG created table from testing results

DFAS-CL did not accurately include suspense account transactions on the DON financial statements because personnel did not conduct timely research of the transactions to obtain the missing information and record the transaction in the correct financial records. In addition, DFAS-CL did not perform a thorough review of DON's suspense accounts before fiscal yearend to identify and remove transactions that belong to other DoD or Federal agencies. In order for DFAS-CL personnel to correct suspense account transactions, they must identify the responsible parties for the transaction and obtain supporting documentation for the correction. DFAS personnel did not obtain the proper information required to resolve the transaction prior to the financial statement yearend closing procedures. Therefore, the 175 transactions remained in suspense until each one could be resolved and posted to the correct agency's financial records. The DON financial statements did not disclose the potential that the 175 transactions may resolve to other DoD or Federal agencies. Until these transactions are resolved, the correct agency's financial statements may be incomplete.

The FY 2014 DON suspense account balances and the DON General Fund balance sheet were potentially overstated by \$3.6 million.

Consequently, the FY 2014 DON suspense account balances and the DON General Fund balance sheet were potentially overstated by \$3.6 million. DFAS-CL should review DON suspense account balances before yearend closing to identify and remove transactions from DON suspense accounts that belong to other Services or organizations. In addition, DFAS-CL should correct business processes to ensure only DON suspense transactions are posted to and included in DON suspense account balances. Finally, since suspense account transactions were not resolved and posted to the correct account until further research was conducted, the DON should disclose the value of its suspense accounts and the potential that these transactions may resolve to other DoD or Federal agencies in the DON Annual Financial Report Notes.

Army Transactions Incorrectly Included in DON Suspense Accounts

In addition to the 31 Army transactions discussed in the previous section and in Table 2, DFAS-CL incorrectly included 92 Army transactions, with a net value of \$29,110, in a DON suspense account as of September 30, 2014. According to DFAS-CL personnel, the Army transactions were included in DON suspense because of a system¹³ mapping error that erroneously placed Army transactions into DON suspense accounts. Each month that the mapping error went unresolved, the system erroneously posted more Army suspense transactions into the DON suspense account. As a result of the system error, transactions in the suspense account grew to 586 transactions with a value of \$957,296 by March 31, 2015. When we brought this to the attention of the DFAS-CL management in June 2015, they stated that they were aware of the error and were working on a solution to correct the problem. However, prior to this audit DFAS did not make fixing this error a priority. In September 2015, DFAS corrected the system error prior to the FY 2015 yearend. We verified they removed the Army transactions from the DON suspense accounts.

DFAS-CL incorrectly included 92 Army transactions, with a net value of \$29,110, in a DON suspense account as of September 30, 2014.

¹³ The Defense Cash Accountability System used by DFAS-CL had an internal coding error that erroneously posted Army transactions into the DON suspense account instead of the Army suspense account.

Suspense Accounts Are Not Being Used for Their Intended Purpose

DON did not correctly use suspense accounts to manage the DON recycling, agricultural leasing, forestry, and trademark programs.¹⁴ In addition, DFAS-CL incorrectly used Civilian and Military TSP-Exempt suspense accounts to manage TSP transactions. The DON's revenue-generating programs and TSP transactions accounted for \$57 million reported in the FY 2014 DON suspense accounts.

Accounting for Revenue-Generating Programs Was Incorrect

DON incorrectly used suspense accounts to record \$42.1 million in income generated from the sale of recyclable materials and forestry products, leasing of land for agricultural purposes, and licensing DON trademarks. DON program managers stated that they used a suspense account to deposit and record the income from these DON Revenue-Generating Programs. In turn, the DON program managers used income from the sales to reimburse program expenses; fund Morale, Welfare, and Recreation programs; and fund other approved expenses. For example, the DON recycling programs can use income generated from their program to fund environmental expenses.



DON incorrectly used suspense accounts to record \$42.1 million in income from revenue-generating programs.

The remaining balance in the suspense account is then recorded by DFAS on the DON's General Fund Balance Sheet by the posting of a journal voucher. DFAS-CL prepared a journal voucher at yearend that credited the "Liability for Clearing Accounts" line item on the Balance Sheet. However, recording the ending balance from the DON revenue-generating programs as a liability on the DON's General Fund Balance Sheet was not consistent with Generally Accepted Accounting Principles for recognizing income. The income collected from the revenue-generating programs should have been recorded as revenue. Generally Accepted Accounting Principles¹⁵ states a liability is a probable future outflow of resources as a result of past transactions or events. When DFAS-CL recorded the suspense account balance as a liability, they incorrectly represented that the DON was obligated to pay for future goods or services. In addition, these transactions misrepresented the amount of the liabilities and financial position on the DON balance sheet. The DoD FMR improperly required the DON Revenue-Generating Programs to record transactions in suspense accounts as a liability instead of

¹⁴ Collectively, we will refer to the DON recycling, agricultural leasing, forestry, and trademark programs as "the DON Revenue-Generating Programs."

¹⁵ Statement of Federal Financial Accounting Standards 5, "Accounting for Liabilities of the Federal Government," December 20, 1995.

recognizing revenue as required by Generally Accepted Accounting Principles. As a result, users of financial information may not have accurate information for decision making purposes. Departing from Generally Accepted Accounting Principles in preparation of the DON financial statements may present challenges to the DON during a full financial statement audit.

In addition, because the liability account previously recorded the accumulated transactions from year to year, the FY 2014 suspense account balances for the DON Revenue-Generating Programs included transactions as far back as 1988. Since the suspense account contained a long history of transactions, including those dating back many years, DON could not provide supporting documentation for the balances reported on the DON's General Fund Balance Sheet. DON's inability to provide documentation for the DON Program transactions may increase the risk of audit deficiencies in a full financial statement audit.

Classifying the DON Program activities as suspense account transactions incorrectly increased the FY 2014 suspense account and the DON General Fund Balance Sheet liabilities by \$42.1 million, did not conform to the TFM, and may increase the risk of audit deficiencies due to a lack of supporting documentation. DON should work with DFAS, Office of the Under Secretary of Defense (Comptroller), and the Treasury to remove DON Program transactions from suspense accounts, and identify a more appropriate, Generally Accepted Accounting Principles-compliant accounting treatment.

Thrift Savings Program Transactions Were Incorrect

DFAS-CL incorrectly used suspense accounts to temporarily hold TSP transactions. DFAS-CL deposited voluntary employee contributions and Government-matching contributions into the DON suspense account. Subsequently, the Federal Retirement Thrift Investment Board retrieved the TSP contributions from the DON suspense accounts and deposited them into individual TSP retirement accounts. However, DFAS-CL's use of these accounts conflicted with the TFM because the TSP transactions were not missing data and could be identified; therefore, the TSP transactions did not meet the intent of a suspense transaction as defined by the TFM.

This occurred because DFAS-CL followed DoD FMR guidance. The DoD FMR included a reference to the use of Civilian and Military Thrift Savings Plan-Exempt suspense accounts for recording TSP transactions. In January 2016, DFAS-CL personnel acknowledged that the TSP transactions should not be accounted for in suspense accounts. DFAS stated they were developing a DoD-wide solution that will discontinue the use of suspense accounts for TSP transactions. Although the recording of TSP transactions in a DON suspense account was not compliant

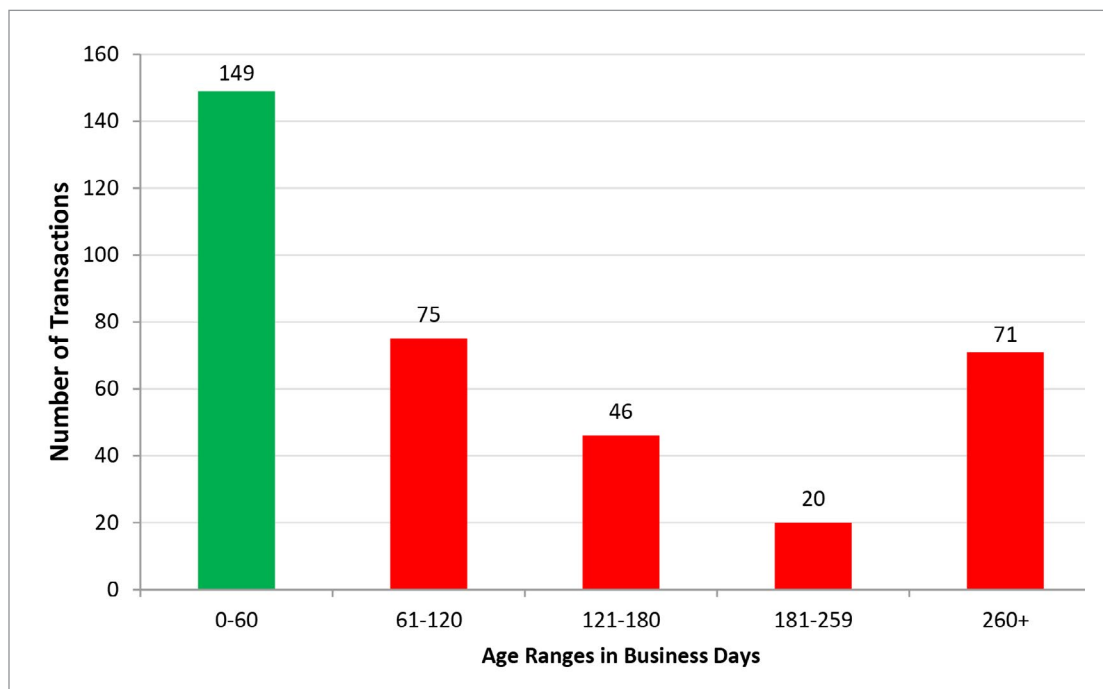
with the TFM, we found the journal voucher used to record the TSP suspense account balances on the FY 2014 DON General Fund financial statements to be appropriate.¹⁶ DFAS should develop a corrective action plan with implementation timelines to ensure TSP transactions are not recorded in suspense accounts.

Suspense Account Transactions Were Not Resolved in a Timely Manner

DFAS-CL did not resolve DON suspense account transactions within 60 business days as required by TFM.¹⁷ We tested 361 suspense account transactions that were included in DON suspense accounts at September 30, 2014, and were resolved by DFAS-CL as of March 31, 2015. Of the 361 transactions tested, DFAS-CL did not resolve 212 suspense account transactions within 60 business days, as required by the TFM. See Figure 2 for the time it took DFAS-CL personnel to resolve the 361 suspense account transactions.

Of the 361 transactions tested, DFAS-CL did not resolve 212 suspense account transactions within 60 business days, as required by the TFM.

Figure 2. Number of Days Taken to Resolve DON Suspense Account Transactions Tested



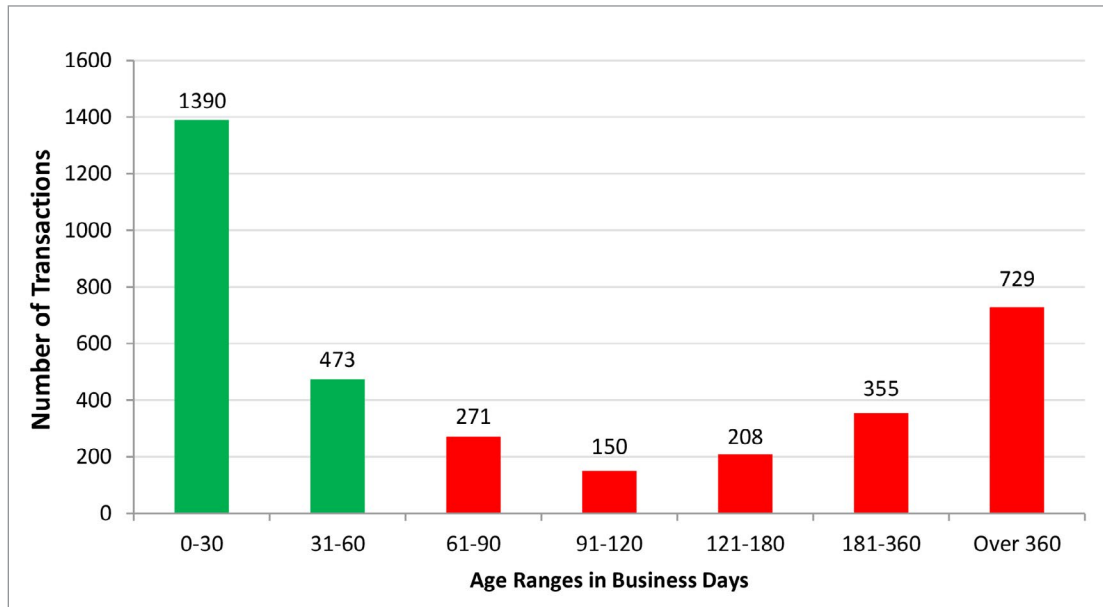
Source: DODIG created chart from DON suspense account sample transactions

¹⁶ The TSP suspense account balance was determined “appropriate” because suspense account balances are recorded as liabilities on the financial statements. TSP transactions are liabilities, because they consist of monies that are not available for use by the DON, but held until the TSP board can transfer them to the appropriate individual TSP account.

¹⁷ TFM, Bulletin No. 2011-06, volume 1, Reporting Suspense Account Activity Using F3875 and F3885 and Using Default Accounts F3500 and F3502 as a Government-wide Accounting Reporter, June 30, 2012.

In addition, DFAS-CL personnel tracked the age of suspense account transactions and were aware that DON suspense account transactions were not resolved within 60 days as required by the TFM. DFAS-CL provided an FY 2014 DON suspense account universe, which consisted of 3,576 transactions. DFAS-CL identified that 1,713 out of the 3,576 transactions were in DON suspense accounts for more than 60 days. The chart below illustrates the age categories that DFAS-CL reported for DON suspense account transactions as of September 30, 2014.¹⁸

Figure 3. Age of DON Suspense Account Transactions as of September 30, 2014



Source: DoDIG created chart from DFAS-CL data

As the chart above illustrates, suspense transactions become more difficult to resolve as they age. DFAS-CL had a process in place to resolve suspense account transactions; however, this process needs to be strengthened. In addition, DFAS-CL business partners need to work with DFAS-CL and recognize the importance of providing the necessary financial information needed to resolve the transaction in a timely manner. DFAS-CL should work with DON to remove all suspense account transactions that are more than 60 days old. According to the DoD FMR,¹⁹ if DFAS-CL has exhausted all efforts and available resources to resolve old suspense account transactions, DON should consider writing off the old transactions. The DoD FMR further states it is appropriate to write off transactions when continued research to correct the transaction would not be cost-effective. Because DFAS-CL

¹⁸ DFAS-CL considers all transactions in suspense account 3875.002, 3882, and 3886 to be exempt from aging requirements, and all transactions are reported as zero to 30 days, regardless of the actual time they spent in suspense accounts. The transactions from these suspense accounts are not included in the table.

¹⁹ FMR volume 3, chapter 11, section 1108. The FMR uses the term “discontinued research” to describe the procedure used to remove the transaction from the accounting records, more commonly referred to as a “write off.”

is unable to identify and resolve these transactions, they will remain in the suspense account balances until they are written off and will continue to impact the accuracy of the financial statements. If DFAS-CL had removed or written off these overaged transactions prior to yearend, DON's suspense account balance would have been reduced. Consequently, DON's suspense account balance and FY 2014 General Fund financial statements would have been reduced by 1,713 transactions with a net value of \$5 million.

DFAS-CL stated that transactions remained in DON suspense accounts for more than 60 business days because they lacked adequate procedures to ensure transactions were monitored, tracked, and resolved within required timeframes. DFAS-CL personnel stated some transactions took a significant amount of time to research because of the difficulty determining the responsible party. In addition, DFAS-CL personnel stated that although these procedures were strengthened, transactions that are more than 60 days old still remain in the suspense accounts. By resolving transactions in a timely manner or writing off old transactions, and reducing the balances in suspense accounts, DFAS-CL will improve the accuracy of DON's financial statements. DFAS-CL should work with their business partners to establish a formal process to ensure DON suspense account transactions post to the correct account within 60 business days. In addition, DON should write off overaged suspense account transactions when DFAS has exhausted all resources available to properly record these amounts per DoD FMR guidance.

Recommendations, Management Comments, and Our Response

Recommendation 1

We recommend the Assistant Secretary of the Navy (Financial Management and Comptroller):

- a. **Work with Defense Finance and Accounting Service, Office of the Under Secretary of Defense (Comptroller), and U.S. Department of the Treasury to remove DON recycling, agricultural leasing, forestry, and trademark program transactions from suspense accounts, and identify a more appropriate, Generally Accepted Accounting Principles-compliant accounting treatment.**

Assistant Secretary of the Navy (Financial Management and Comptroller) Comments

The Assistant Secretary of the Navy (Financial Management and Comptroller) agreed, stating corrective actions will ensure revenue activities related to DON recycling, agricultural leasing, forestry, and trademark program transactions are properly recorded and presented in appropriate Treasury accounts. A legislative proposal²⁰ has been drafted and will be submitted to begin the corrective action strategy. The Assistant Secretary of the Navy (Financial Management and Comptroller) indicated an estimated completion date of September 30, 2017.

- b. **As appropriate, disclose the composition and value of its suspense accounts in the DON Annual Financial Report Notes.**

Assistant Secretary of the Navy (Financial Management and Comptroller) Comments

The Assistant Secretary of the Navy (Financial Management and Comptroller) agreed, stating the DON will update Note 3, Fund Balance with Treasury, in its Annual Financial Report to disclose the value and composition of its suspense accounts. The Assistant Secretary of the Navy (Financial Management and Comptroller) indicated an estimated completion date of September 30, 2016.

²⁰ DON has requested a 5000 series Special Fund type account to record revenue-generating programs. According to the DON, this account requires legislature approval before it can be created.

- c. **Write off significantly overaged suspense account transactions identified by Defense Finance and Accounting Service when Defense Finance and Accounting Service has exhausted all resources available to properly record these amounts, per DoD Financial Management Regulation guidance.**

Assistant Secretary of the Navy (Financial Management and Comptroller) Comments

The Assistant Secretary of the Navy (Financial Management and Comptroller) agreed, stating the DON is coordinating with DFAS to formalize write-off procedures that are compliant with the DoD Financial Management Regulation guidance for significantly overaged transactions. The timing of processing write off packages will be completed prior to yearend to increase the accuracy of the DON's financial statements. The Assistant Secretary of the Navy (Financial Management and Comptroller) indicated an estimated completion date of September 30, 2016.

Recommendation 2

We recommend the Director, Defense Finance and Accounting Service develop a corrective action plan with implementation timelines to ensure TSP transactions are not recorded in suspense accounts.

Director, Defense Finance and Accounting Service Comments

The Director, Enterprise Solutions & Standards, responding for the Director, Defense Finance and Accounting Service, agreed, stating DFAS submitted a formal request for new TSP accounts to be established. Once the new accounts have been approved by the Office of Management and Budget and setup by the Treasury, DFAS will begin making the system changes. The Director indicated an estimated completion date of September 30, 2017.

Recommendation 3

We recommend the Director, Defense Finance and Accounting Service–Cleveland:

- a. Review DON suspense account balances before yearend closing to identify and remove transactions from DON suspense accounts that belong to other Services or organizations.**

Director, Defense Finance and Accounting Service–Cleveland Comments

The Director, Enterprise Solutions & Standards, responding for the Director, Defense Finance and Accounting Service-Cleveland agreed, stating DFAS-CL will implement a process to review all material suspense transactions before yearend closing. The Director indicated an estimated completion date of October 31, 2016.

- b. Review and correct business processes to ensure only DON suspense transactions are posted to and included in DON suspense account balances.**

Director, Defense Finance and Accounting Service–Cleveland Comments

The Director, Enterprise Solutions & Standards, responding for the Director, Defense Finance and Accounting Service–Cleveland agreed, stating DFAS-CL will review and strengthen business processes to ensure, to the extent possible, only DON transactions are posted to DON suspense accounts. The Director indicated an estimated completion date of March 31, 2017.

- c. Coordinate with their business partners to establish a formal process to ensure DON suspense account transactions post to the correct account within 60 business days.**

Director, Defense Finance and Accounting Service–Cleveland Comments

The Director, Enterprise Solutions & Standards, responding for the Director, Defense Finance and Accounting Service–Cleveland, agreed, stating DFAS-CL is working with the Navy Financial Management Office to develop standard review and clearance processes for responsible offices. Beginning in January 2016, certification statements for suspense accounts are distributed to each responsible office on a monthly basis. The Director indicated an estimated completion date of December 31, 2016.

Our Response

Comments from the Assistant Secretary of the Navy (Financial Management and Comptroller) and the Director, Enterprise Solutions & Standards, addressed all specifics of the recommendations, and no further comments are required.

Appendix A

Scope and Methodology

We conducted this performance audit from June 2015 through 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 objectives.

Our audit focused on FY 2014 DON suspense account balances reported on the FY 2014 DON General Fund financial statements. We discussed and reviewed business processes with DFAS personnel in Cleveland, Ohio, and Indianapolis, Indiana, to understand FY 2014 DON suspense accounts and transactions including TSP, IPAC, and canceled checks. We interviewed DON program managers to understand business activities and accounting practices impacting the DON recycling, agricultural leasing, forestry, and trademark programs. We reviewed various criteria, including the TFM, Office of Management and Budget circulars, and the DoD FMR to understand the purpose of suspense accounts, and to determine whether DON and DFAS-CL were using suspense accounts correctly. We reviewed DON suspense account universe data to determine how long transactions were in FY 2014 DON suspense accounts.

We reviewed DON nonexempt suspense account universe data reported on September 30, 2014, and March 31, 2015, to select a statistical sample of 369 transactions valued at \$7.4 million. Our sample items represented DON suspense account transactions that were corrected and removed from DON suspense accounts. We excluded eight sample items from testing because our audit objective did not apply to these transactions. The transactions were excluded because they were not standard suspense transactions and did not fit into our attribute testing. The eight transactions either originated on an afloat Navy ship and were processed differently than normal suspense transactions, were erroneously cleared from the suspense account, or were an error that was reversed. As a result, our sample included 361 transactions and we decided not to project our sample results.

We tested sample transactions to identify if transactions were posted to a non-Navy Treasury Index to determine if the transactions were posted to the proper Component-level financial statements. We also calculated the number of days the transaction was in the suspense account to determine whether they were posted to the correct account within 60 days. We selected a nonstatistical random

sample of DON-exempt suspense account transactions and reviewed supporting documentation to determine whether the DON-exempt suspense accounts were used for their intended purpose. We obtained and reviewed supporting documentation for the sample items, which included e-mails, system screen-prints, vouchers, transactions receipts, contracts, and other supporting documents.

Use of Computer-Processed Data

To perform the audit, we used the following computer-processed data.

- Suspense account transaction universe compiled by DFAS-CL. DFAS-CL used the Suspense Aging and Monitoring System, Check Recertification System, and Intra-Governmental Payment and Collection System to compile the universe of DON suspense account transactions.
- The Treasury suspense account balances from the Central Accounting and Reporting System. As of March 31, 2015, the Central Accounting Reporting System was the central accounting System of Record for the Department of the Treasury, Bureau of the Fiscal Service. The Central Accounting Reporting System provided the agencies with an account statement of their fund balance with Treasury and access to transaction detail.

To assess the reliability of computer-processed data, we compared the DFAS-CL reconciliations of suspense account balances to the Treasury balances in the Central Accounting and Reporting System. We determined DFAS-CL was able to reconcile the suspense account balances. In addition, we tested sample transactions that supported the suspense account balance using source documentation obtained from DFAS-CL. We compared key elements in our sample data, such as dollar amount, to supporting documentation to ensure the data was accurate. As a result, we determined the computer-processed data to be sufficiently reliable to support the findings and conclusions made in this report.

Use of Technical Assistance

During the audit, we received technical assistance from the DoD Office of Inspector General Quantitative Methods Division. Quantitative Methods Division analysts assisted us with designing a sample selection of DON suspense account transactions.

Prior Coverage

No prior coverage has been conducted on suspense accounts during the last 5 years.

Appendix B

DON Suspense Accounts

DFAS-CL uses the following accounts to manage DON suspense account transactions.

- Budget Clearing Account–Nonexempt (17F3875.001). This account is used to record unidentifiable collections from individuals, contractors, foreign countries, international organizations, etc., that belong to the Federal Government.
- Budget Clearing Account–Exempt (17F3875.002). This account is used to record revenues from agricultural and grazing leases, the sale of forest products and recyclable materials, and income from royalties and trademarks.
- Treasury Suspense Account–Nonexempt (17F3875.004). This account is used to record transactions that fail data entry validity checks in the Defense Cash Accountability System.
- Unavailable Check Cancellations and Overpayments–Nonexempt (17F3880). This account is used to record credits from the Treasury for checks issued by disbursing offices that were not negotiated within the one-year statutory period, or checks that the payees reported as lost, stolen, mutilated, or not received.
- Civilian and Military Thrift Savings Plan–Exempt (17F3882). This account is used to temporarily hold Navy and Marine Corp TSP contributions until the funds are moved into individual TSP investment accounts.
- Undistributed Intra-Governmental Payments–Nonexempt (17F3885.000). This account is used to record intergovernmental transactions that fail data entry validity checks in the Defense Cash Accountability System.
- Intra-Governmental Payments and Collection System–Nonexempt (17F3885.007). This account is used to post Intra-Governmental Payments and Collection System transactions that cannot be posted to the correct line of accounting due to a lack of supporting documentation.
- Civilian and Military Thrift Savings Plan–Exempt (17F3886). This account is used to temporarily hold Military Sea Lift Command TSP transactions until the funds are moved into individual TSP investment accounts.

Management Comments

Assistant Secretary of the Navy (Financial Management and Comptroller)



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
1000 NAVY PENTAGON
WASHINGTON, DC 20350-1000

6 June 2016

MEMORANDUM FOR INSPECTOR GENERAL, U. S. DEPARTMENT OF DEFENSE

SUBJECT: Response to Draft Follow Up Report No. DoDIG-2015-D000FS-0204.000,
"Improvements Needed in Managing Department of the Navy Suspense
Accounts," May 5, 2016

In response to subject draft report, the Office of Financial Operations provides the
attached status on Recommendations 1.a, 1.b, 1.c and Recommendation 2.

My point of contact for this matter is [REDACTED], who
may be reached at [REDACTED]

Karen L. Fenstermacher
Karen L. Fenstermacher
Deputy Assistant Secretary of the Navy
(Financial Operations)

Attachment:
As stated

Assistant Secretary of the Navy (Financial Management and Comptroller) (cont'd)

DEPARTMENT OF DEFENSE INSPECTOR GENERAL DRAFT REPORT

Project No. D2015-D000FS-0204.000

"Improvements Needed in Managing Department of the Navy Suspense Accounts"

1. The Department of the Navy (DON) has reviewed the draft report and the following comments are provided:

RECOMMENDATION 1.a: We recommend the Assistant Secretary of the Navy (Financial Management and Comptroller) ASN (FM&C) work with Defense Finance and Accounting Service (DFAS), Office of the Under Secretary of Defense, and U.S. Department of the Treasury to remove DON recycling, agricultural leasing, forestry, and trademark program transactions from suspense accounts, and identify a more appropriate, Generally Accepted Accounting Principles-compliant accounting treatment.

DON RESPONSE 1.a: Concur. DON concurs with the recommendation and is working with other organizations to develop corrective actions. These corrective actions will ensure revenue activities related to DON recycling, agricultural, leasing, forestry, and trademark program transactions are properly recorded and presented in appropriate Treasury accounts pursuant to public law in DON's financial statements. A legislative proposal has been drafted and will be submitted to begin the corrective action strategy. Implementation of corrective actions is expected to be completed by September 30, 2017.

RECOMMENDATION 1.b: We recommend the ASN (FM&C) as appropriate disclose the composition and value of its suspense accounts in the DON Annual Financial Report (AFR) Notes.

DON RESPONSE 1.b: Concur. The DON concurs with the recommendation and has identified corrective actions to remediate the suspense account note disclosure deficiency. Suspense account values reside within the total Fund Balance with Treasury (FBWT) amount reported on the Balance Sheet of the DON's AFR. The types of funding which support the total FBWT amount is disclosed in Note 3, Fund Balance with Treasury, and suspense account values are included within "Other Fund Types". Additionally, suspense account values are included within the "Non-budgetary FBWT" amount reported in Note 3 under the Status of FBWT, which reflects the budgetary resources to support FBWT. The DON will update Note 3, FBWT, in its AFR to disclose the value and composition of its suspense accounts. Implementation of corrective actions is expected to be completed with the publication of the September 30, 2016 AFR.

RECOMMENDATION 1.c: We recommend the ASN (FM&C) write-off significantly overaged suspense account transactions identified by Defense Finance and Accounting Service when Defense Finance and Accounting Service has exhausted all resources available to properly record these amounts, per DoD Financial Management Regulation guidance.

DON RESPONSE 1.c: Concur. The DON concurs with the recommendation of conducting timely reviews and approvals of write off or "discontinued research" packages. The DON is coordinating with DFAS to formalize write-off procedures that are compliant with the DoD Financial Management Regulation guidance for significantly overaged transactions. These procedures will address the steps required to write off transactions once DFAS has exhausted all resources to resolve them and it is no longer cost beneficial to continue research. The timing of processing write off packages will be, if required, completed prior to year end to increase the accuracy of the DON's financial statements. Implementation of corrective actions is expected to be completed by September 30, 2016.

RECOMMENDATION 2: We recommend the Director Defense Financial and Accounting Service develop a corrective action plan with implementation timelines to ensure TSP transactions are not recorded in suspense accounts.

DON RESPONSE: Concur. However, it would be helpful if the DoDIG could provide amplifying guidance regarding revenue generating accounts.

Director, Defense Finance and Accounting Service and Director, Defense Finance and Accounting Service—Cleveland



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 Department of Navy Suspense Accounts”, Project D2015-D000FS-
0204.000, dated May 5, 2016

The Defense Finance and Accounting Service is providing management comments to
recommendations 2, and 3a-c of the subject draft report.

My point of contact for additional information is [REDACTED]

KNIGHT.EDNA.JO [REDACTED]

Digitally signed by
KNIGHT.EDNA.JO [REDACTED]
Date: 2016.06.15 07:52:53 -04'00'

Edna J. Knight
Director, Enterprise Solutions & Standards

Attachment:
As stated

Director, Defense Finance and Accounting Service and Director, Defense Finance and Accounting Service—Cleveland (cont'd)

Management Comments to DoDIG Draft Report, "Improvements Needed in Managing Department of Navy Suspense Accounts", Project D2015-D000FS-0204.000, dated May 5, 2016

Recommendation 2. The Director, Defense Finance and Accounting Service should develop a corrective action plan with implementation timelines to ensure TSP transactions are not recorded in suspense accounts.

Management Comments. Concur. DFAS submitted a formal request to the Office of Under Secretary of Defense (OUSD) on May 18, 2016 for new TSP accounts to be established. The OUSD notified DFAS in an email dated May 19, 2016 that they are requesting the new 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 making the system changes.

- Issue new internal guidance
- Update systems with new account numbers
- Update FMR regulations
- Revise procedures and controls

Estimated Completion Date. September 30, 2017

Recommendation 3.

We recommend the Director, Defense Finance and Accounting Service—Cleveland:

3a. The Director, DFAS Cleveland should review DON suspense account balances before year-end closing to identify and remove transactions from DON suspense accounts that belong to other services or organizations.

Management Comments. Concur. DFAS-CL will implement a process to review all material suspense transactions before year-end closing. Once reviewed, transactions identified as not belonging to the Navy suspense account will be charged to the appropriate service's suspense account.

Estimated Completion Date. October 31, 2016

Director, Defense Finance and Accounting Service and Director, Defense Finance and Accounting Service—Cleveland (cont'd)

3b. The Director, DFAS Cleveland should review and correct business processes to ensure only DON suspense transactions are posted to and included in DON suspense account balances

Management Comments Concur. DFAS-CL will review and strengthen DFAS' business processes to assist in ensuring, to the extent possible, that only DoN transactions are posted to DoN suspense accounts. Remediation activity for 3a above will address the other services' transactions that post to DoN suspense accounts due to insufficient data availability at the time of the posting.

Estimated Completion Date. March 31, 2017.

3c. The Director, DFAS Cleveland should coordinate with their business partners to establish a formal process to ensure DON suspense account transactions post to the correct account within 60 business days.

Management Comments Concur. DFAS Cleveland is working with the Navy Financial Management Office (FMO) to develop standard review and clearance processes for responsible offices. Beginning in January 2016, certification statements for suspense accounts are distributed to each responsible office on a monthly basis. In addition, new suspense account controls will be implemented as of July 1, 2016.

Estimated Completion Date. December 31, 2016

Acronyms and Abbreviations

DFAS	Defense Finance and Accounting Service
DFAS-CL	Defense Finance and Accounting Service–Cleveland
DON	Department of the Navy
FMR	Financial Management Regulation
TSP	Thrift Savings Plan
TFM	Treasury Financial Manual
TI	Treasury Index



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, visit www.dodig.mil/programs/whistleblower.

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

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