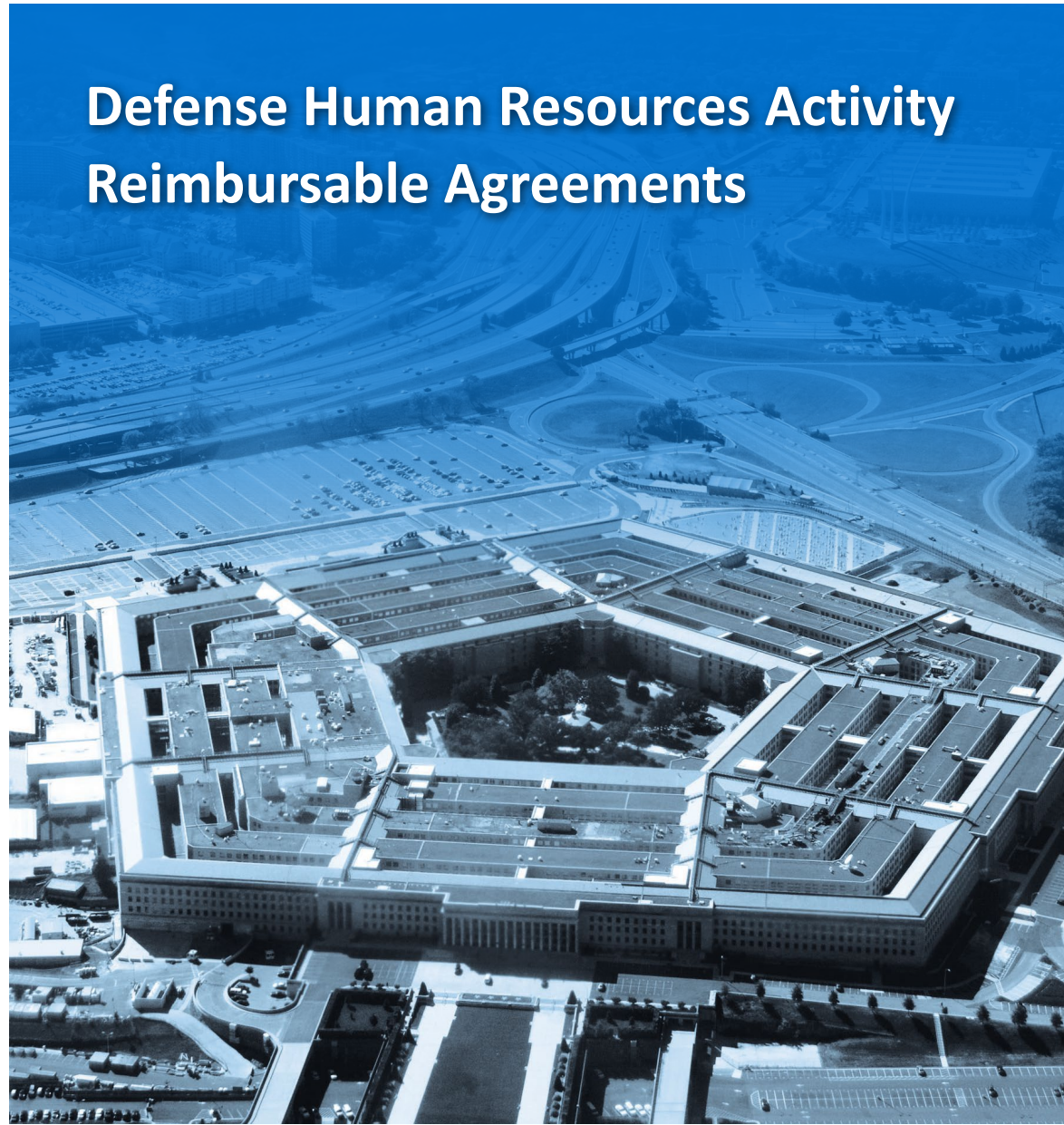




# INSPECTOR GENERAL

*U.S. Department of Defense*

MARCH 27, 2018



## Defense Human Resources Activity Reimbursable Agreements

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

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# Results in Brief

## *Defense Human Resources Activity Reimbursable Agreements*

**March 27, 2018**

### **Objective**

We determined whether the Defense Human Resources Activity (DHRA) properly prepared, executed, and accounted for reimbursable agreements. We performed this audit in response to a request from DHRA management that we review active reimbursable agreements, as of December 31, 2016, where the DHRA was the service provider.

### **Background**

The DHRA provides goods and services, such as providing common access cards, language translation services, and commercial travel support, to Federal organizations through reimbursable agreements.

### **Findings**

Although DHRA personnel correctly prepared 9 of 45 reimbursable agreements, they did not adequately prepare the remaining 36 reimbursable agreements, valued at \$207.4 million. In addition, DHRA personnel did not perform the required annual review for 27 of the 32 reimbursable agreements that were at least 1 year old and did not perform the required triennial review of all 10 reimbursable agreements that were more than 3 years old. This occurred because DHRA management did not effectively oversee DHRA reimbursable programs by developing and implementing procedures for preparing and reviewing reimbursable agreements.

### **Findings (cont'd)**

As a result, DHRA management could not demonstrate that all active reimbursable agreements were adequately prepared to confirm that the DHRA had the appropriate legal and funding authority.

In addition, DHRA personnel did not properly execute DHRA reimbursable agreements, resulting in potential Antideficiency Act violations. This occurred because DHRA personnel did not request reimbursement from the Military Services and Defense Agencies for all reimbursable costs. This also occurred because DHRA management did not have procedures to review reimbursable programs to identify and streamline unnecessarily complex funding and reimbursement processes.

Furthermore, DHRA personnel did not accurately account for DHRA reimbursable agreements in a timely manner. This occurred because:

- DHRA management did not have procedures to record accounts payable and expense transactions in the reporting periods when services were provided;
- DHRA management did not coordinate with Defense Finance and Accounting Service–Columbus to ensure the DHRA had the procedures necessary to record corresponding revenues and expenses in the same reporting period; and
- DHRA management did not maintain a centralized database to retain and readily retrieve reimbursable agreements and related funding documents and did not have the infrastructure to provide supporting documentation in a timely manner.

As a result, DHRA management did not have the complete and accurate financial information needed to oversee the DHRA's reimbursable programs and prevent: (1) inaccurate financial reporting, (2) incorrect use of direct appropriated and reimbursable funds, (3) expenditure of funds in excess of available reimbursable funds, and (4) reimbursable processes that were not cost-effective.





# Results in Brief

## *Defense Human Resources Activity Reimbursable Agreements*

### **Findings (cont'd)**

During this audit, DHRA management implemented new procedures to correct the preparation deficiencies and identified the need for additional procedures to resolve the execution and accounting deficiencies. However, because they only recently implemented them, DHRA personnel could not demonstrate the operating effectiveness of these procedures.

### **Recommendations**

We recommend that the Director, DHRA:

- implement procedures to review reimbursable agreements in accordance with DoD guidance,
- complete a preliminary review of the potential Antideficiency Act violations within 14 weeks from the date of initial discovery,
- implement procedures to prevent funding and reimbursement processes that are not cost-effective,
- implement procedures to maintain a centralized database of reimbursable agreements and related funding documents for reimbursable agreements that went into effect before FY 2017, and
- implement an audit infrastructure that allows for the provision of information within 5 business days.

In addition, we recommend that the Director, DHRA, improve accounting procedures and coordinate with the Director, Defense Finance and Accounting Service–Columbus, to correct misstated account balances.

### **Management Comments and Our Response**

The Director, DHRA, agreed with all of our findings and addressed all of the specifics of our recommendations. He addressed our recommendations by implementing:

- procedures to review reimbursable agreements in accordance with DoD guidance,
- an appointment of a preliminary investigator to review the potential Antideficiency Act violations,
- a plan to establish a work group to ensure the cost effectiveness and efficiency of reimbursable programs,
- procedures to maintain a centralized database of reimbursable agreements and related funding documents for reimbursable agreements that went into effect before FY 2017, and
- an infrastructure that allows for the provision of information to auditors within 5 business days.

Therefore, we consider these recommendations resolved. However, they will remain open until DHRA provides support for corrective actions and we verify their effectiveness.

Please see the Recommendations Table on the next page.

## Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Director, Defense Human Resources Activity	None	A.1, B.1.a, B.1.b, B.1.c, B.1.d, B.2.a, B.2.b, B.2.c, B.3	None

Note: The following categories are used to describe agency management's comments to individual recommendations.

- **Unresolved** – Management has not agreed to implement the recommendation or has not proposed actions that will address the recommendation.
- **Resolved** – Management agreed to implement the recommendation or has proposed actions that will address the underlying finding that generated the recommendation.
- **Closed** – OIG verified that the agreed upon corrective actions were implemented.





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

March 27, 2018

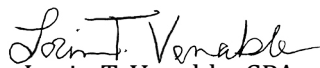
**MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR PERSONNEL  
AND READINESS  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE  
DIRECTOR, DEFENSE HUMAN RESOURCES ACTIVITY**

**SUBJECT: Defense Human Resources Activity Reimbursable Agreements  
(Report No. DODIG-2018-095)**

We are providing this final report for your information and use. We performed the audit in response to a request from the Director, Defense Human Resources Activity. We considered management comments on a draft of this report when preparing the final report. Comments from the Defense Human Resources Activity conformed to the requirements of DoD Instruction 7650.03; therefore, we do not require additional comments.

This report discusses potential Antideficiency Act violations. In accordance with DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 14, chapter 3, Defense Human Resources Activity management has initiated a review of the potential violations. We conducted this audit in accordance with generally accepted government auditing standards.

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

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

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# Introduction

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## Objective

We determined whether the Defense Human Resources Activity (DHRA) properly prepared, executed, and accounted for reimbursable agreements. DHRA management requested this audit and that we review active reimbursable agreements, as of December 31, 2016, where the DHRA was the service provider. See Appendix A for scope and methodology.

## Background

The DHRA provides goods and services to Federal organizations through reimbursable agreements such as providing common access cards, language translation services, and commercial travel support.<sup>1</sup> Specifically, the goal for implementing reimbursable agreements is to leverage the buying power of the Government to acquire goods and services in the most efficient and cost-effective manner.

## *Roles and Responsibilities*

The Under Secretary of Defense for Personnel and Readiness's responsibilities include readiness, health affairs, training, and personnel. The DHRA is a subordinate activity to the Under Secretary of Defense for Personnel and Readiness. As of December 31, 2016, the DHRA had nine Components that supported its mission to manage DoD-wide programs, including travel, language and culture, and human resource advisory services. The Director, DHRA, is responsible for planning and executing this mission, which includes direct oversight of the DHRA's reimbursable programs. We reviewed four of the nine DHRA Components that manage reimbursable programs and provide services to other Federal organizations.

- The Defense Manpower Data Center (DMDC) maintains the central repository of current and historical DoD human resource information. In addition, DMDC provides common access cards.
- The Defense Language and National Security Education Office (DLNSEO) provides program oversight related to language, translation services, regional expertise, and culture.
- The Defense Travel Management Office (DTMO) manages commercial travel for the DoD, which includes the Travel Assistance Center (TAC).

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<sup>1</sup> Federal organizations include the Military Services, Defense Agencies, and non-DoD organizations.

- The Defense Civilian Personnel Advisory Service (DCPAS) provides leadership in human resources management, which includes leadership training.

According to the DHRA, these four DHRA Components managed 144 reimbursable agreements, as of December 31, 2016. Table 1 shows the total universe of reimbursable agreements and the agreements included in our audit sample.

*Table 1. Sample and Universe by Component*

	DMDC	DLNSEO	DTMO	DCPAS	Total
Agreements in Universe (No.)	121	18	4	1	144
Dollar Value (Millions)	\$265.3	\$2.5	\$6.8	\$0.3	\$275.0*
Agreements in Sample (No.)	31	9	4	1	45
Dollar Value (Millions)	\$200.2	\$1.6	\$6.8	\$0.3	\$209.0*

\*The \$0.1 million difference between the total dollar value and each Component's dollar value is due to rounding.

Source: The DoD OIG

## **DHRA Accounting**

The Defense of Finance and Accounting Service-Columbus (DFAS-Columbus) is the DHRA's accounting service provider. Before October 1, 2016, DHRA and DFAS-Columbus personnel used Defense Business Management System (DBMS) as the DHRA's accounting system. Under DBMS, DHRA and DFAS-Columbus personnel worked together to account for reimbursable programs, including recording revenue and expense transactions, paying the DHRA's invoices, seeking reimbursement for reimbursable costs incurred, and collecting the DHRA's accounts receivables. However, DBMS lacked the capability to allocate expenses to reimbursable agreements and identify the Federal organization that should reimburse the DHRA. Therefore, DHRA personnel maintained invoice records outside of DBMS to allocate expenses.<sup>2</sup>

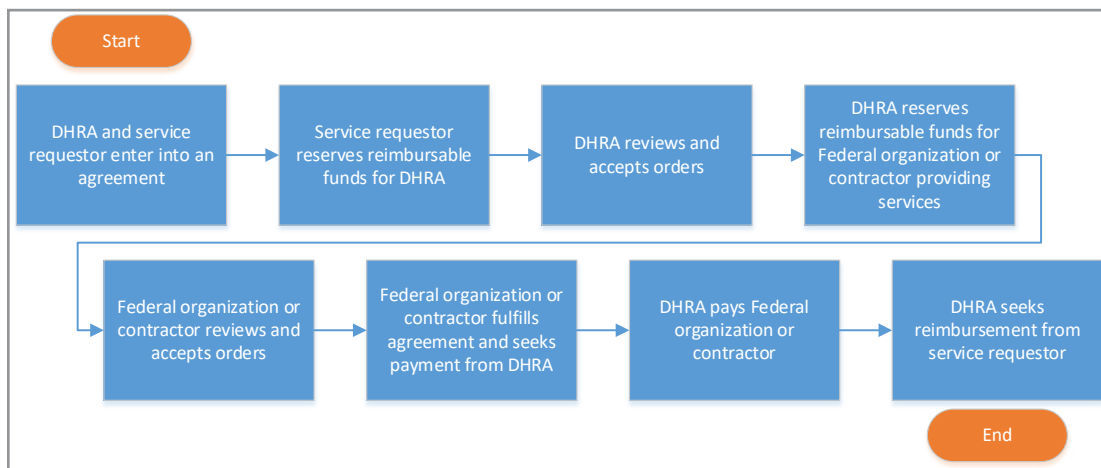
On October 1, 2016, DHRA personnel changed their accounting system from DBMS to Defense Agencies Initiative (DAI). DAI is a modern accounting system that performs functions comparable to DBMS. DHRA and DFAS-Columbus personnel stated that DFAS-Columbus' role in accounting for reimbursable programs was significantly reduced after conversion from DBMS to DAI.

<sup>2</sup> An invoice record identifies the invoice number, the funds the DHRA used to pay for the expense, and the service requestor funds from which the DHRA sought reimbursement.

## Reimbursable Process Flow

The DHRA and the Federal organizations (service requestors) enter into reimbursable agreements, which contain a description of the requested goods and services and essential information, such as billing and payment provisions. Figure 1 shows the DHRA reimbursable process, which includes entering into reimbursable agreements, receiving reimbursable funds from one Federal organization and providing those funds to another Federal organization or contractor, paying invoices, and receiving reimbursement for invoices paid.

Figure 1. Reimbursable Process Flow



Source: The DoD OIG.

## Review of Internal Controls

DoD Instruction 5010.40 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.<sup>3</sup> We identified internal control weaknesses related to the preparation, review, execution, and accounting for reimbursable agreements. We will provide a copy of the report to the senior DHRA officials responsible for internal controls.

<sup>3</sup> DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

## Finding A

### Reimbursable Agreement Preparation and Review

DHRA personnel did not properly prepare and review reimbursable agreements. DHRA personnel correctly prepared 9 of 45 reimbursable agreements; however, they did not adequately prepare the remaining 36 reimbursable agreements, valued at \$207.4 million. This occurred because DHRA management did not effectively oversee the DHRA's reimbursable programs by developing and implementing procedures for preparing reimbursable agreements.

DHRA personnel did not perform the required annual review for 27 of the 32 reimbursable agreements that were at least 1 year old. In addition, DHRA personnel did not perform the required triennial review of all 10 reimbursable agreements that were more than 3 years old. This occurred because DHRA management did not have procedures requiring annual and triennial reviews of approved reimbursable agreements.

As a result, DHRA management did not have processes in place, as of

DHRA management did not have processes in place to properly prepare and adequately review reimbursable agreements.

December 31 2016, to properly prepare and adequately review reimbursable agreements to ensure that agreements had appropriate legal and funding authority. During this audit, DHRA management created a centralized database and implemented new procedures to correct preparation deficiencies. However, because they implemented these procedures only recently, DHRA personnel could not demonstrate the operating effectiveness of these procedures.

### Requirements for Reimbursable Agreement Preparation

Although DHRA personnel correctly prepared 9 of 45 reimbursable agreements, they did not adequately prepare 36 of 45 reimbursable agreements valued at \$207.4 million. DoD Instruction 4000.19 requires DoD personnel to prepare reimbursable agreements using a DD Form 1144 or a memorandum of agreement (MOA).<sup>4</sup> Additionally, DoD FMR, volume 11A, and DoD Instruction 4000.19 contain required clauses and coordination for the preparation of the agreements prior

<sup>4</sup> DD Form 1144, "Support Agreement," November 2001.

to and after approval.<sup>5</sup> Of the 36 agreements not properly prepared, 6 were not prepared using the required DD Form 1144 or MOA and 30 did not comply with other preparation requirements, such as financing source, authority for agreement, and payment provision clauses. This occurred because DHRA management did not develop and implement procedures requiring compliance with applicable DoD guidance. See Appendix B for detailed results of the reimbursable agreements we reviewed.

### ***Proper Forms Not Used***

Of 36 reimbursable agreements that were not properly prepared, DHRA personnel used documents other than the required DD Form 1144 or MOA for six. DoD Instruction 4000.19 requires DoD organization personnel to use either a DD Form 1144 or an MOA to prepare reimbursable agreements. The use of DD Form 1144 or MOA also satisfies the DoD FMR, volume 11A, requirement that services provided by one DoD organization to another be supported by documented evidence of a formal offer and acceptance between the organizations. Without this documented information, there is no assurance that the organizations agreed on the requested services or that payment is required. These forms also contain essential information that is required in a reimbursable agreement, such as the payment provisions.

Of these six agreements, four were prepared for the DTMO, one for the DCPAS, and one for the DMDC. The documents used for these six reimbursable agreements lacked seven or more of the DoD FMR, volume 11A, reimbursable agreement preparation requirements, including legal reviews. Without legal reviews, the DHRA had no assurance that it had the legal basis to enter the reimbursable agreements. Additionally, these agreements did not contain other preparation requirements, such as program financing and the agreement timeframes. DHRA personnel used improper documents as reimbursable agreements because DHRA management did not develop and implement procedures requiring the use of DD Form 1144 or an MOA.



DHRA  
personnel  
used improper  
documents as  
reimbursable  
agreements.

<sup>5</sup> DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 11A, "Reimbursable Operations Policy," Chapter 1, "General Reimbursement Procedures and Supporting Documentation," Section 010204, "Documentation Standards," and DoD Instruction 4000.19, "Support Agreements," April 25, 2013.



### ***Lack of Required Coordination and Clauses***

DHRA personnel did not comply with other DoD preparation requirements when preparing 30 of 39 reimbursable agreements.<sup>6</sup> DoD FMR, volume 11A contains the following reimbursable agreement preparation requirements for DoD personnel (*italicized titles correlate with the requirements shown in Table 2*).

- Authority for entering into agreement<sup>7</sup> (*authority for agreement clause*)
- Description of the material or services required (*description of requirements clause*)
- Established dollar limits (*dollar limits clause*)
- Financing source (*financing source clause*)
- Payment provisions (*payment provisions clause*)
- Program office coordination (*evidence of program office coordination*)
- Comptroller office coordination (*evidence of comptroller office coordination*)
- Legal office coordination (*evidence of legal office coordination*)
- Signature of acceptance (*signature of acceptance*)

In addition to the DoD FMR preparation requirements, DoD Instruction 4000.19 includes the following reimbursable agreement preparation and review requirements for DoD personnel (*italicized titles correlate with the requirements shown in Table 2*).

- Annual review for financial impact (*annual review clause*)
- Triennial review of the entire agreement (*triennial review clause*)
- Duration not to exceed 9 years from the date signed by both parties (*duration 9 years or less*)

Table 2 shows the results of our review for the 39 agreements prepared by the DMDC and DLNSEO, two DHRA Components.

---

<sup>6</sup> We did not review the remaining 6 of 45 reimbursable agreements because DHRA personnel had not prepared them in the required DD Form 1144 or in an MOA.

<sup>7</sup> DoD Instruction 4000.19 states that this requirement is rarely needed between DoD Components.

Table 2. DMDC and DLNSEO Sample Testing Results for Preparation Requirements


	DMDC No	DMDC Yes	DLNSEO No	DLNSEO Yes	Total Reviewed	Total No	Total No Rate
Authority for Agreement Clause	14	16	0	9	39	14	35.9%
Description of Requirements Clause	0	30	0	9	39	0	0.0%
Dollar Limits Clause	0	30	0	9	39	0	0.0%
Financing Source Clause	0	30	0	9	39	0	0.0%
Payment Provisions Clause	2	28	0	9	39	2	5.1%
Evidence of Program Office Coordination	0	30	0	9	39	0	0.0%
Evidence of Comptroller Office Coordination	2	28	0	9	39	2	5.1%
Evidence of Legal Office Coordination	30	0	0	9	39	30	76.9%
Signature of Acceptance	0	30	0	9	39	0	0.0%
Annual Review Clause	0	30	0	9	39	0	0.0%
Triennial Review Clause	1	29	0	9	39	1	2.6%
Duration 9 Years or Less	1	29	0	9	39	1	2.6%

Source: The DoD OIG.

For 30 of 39 reimbursable agreements, there was no evidence that legal office coordination had occurred before approval. In September 2016, the Director, DHRA, issued a memorandum that required DHRA legal office personnel to review all reimbursable agreements before program office approval. In addition, 14 of 39 agreements we reviewed did not include the authority for agreement clause, which identifies the DHRA's legal authority for engaging in reimbursable programs to provide the requested services. DoD Instruction 4000.19 states that the authority clause is rarely needed between DoD Components; however, DoD FMR still lists the authority for agreement clause as part of the minimum essential information to be included in reimbursable agreements. While the DoD Instruction and FMR are inconsistent, DHRA management determined the best practice was to include the agreement authority in all reimbursable agreements; therefore, DHRA management implemented a new reimbursable agreement template that includes

the authority clause. The lack of required coordination and clauses occurred because DHRA management did not develop and implement procedures requiring compliance with applicable DoD guidance.

On February 13, 2016, and April 28, 2017, the DHRA internal Financial Improvement and Audit Readiness (FIAR) Team also reported control weaknesses where reimbursable agreements were not in place and did not contain the required information. The FIAR Team cited the lack of procedures for preparing and approving reimbursable agreements as a cause for these weaknesses. To help correct these control weaknesses, DHRA management began implementing a centralized database during FY 2017. DHRA management began implementing the database to monitor and control the reimbursable agreement preparation process and ensure the agreements comply with preparation requirements, including assurance that all reimbursable agreements have the proper legal review before approval.



DHRA management began implementing the database to monitor and control the reimbursable agreement preparation process.

## Procedures Implemented During the Audit

To correct the reimbursable agreement preparation deficiencies identified by both the FIAR Team and this audit, DHRA management created and began to use the centralized reimbursable agreement database. In addition, DHRA management developed and implemented the following new procedures during the audit.

- “Standard Operating Procedure,” September 26, 2017—establishes guidance, assigns responsibilities, and prescribes procedures for processing agreements at the DHRA.
- “Operating Instruction,” June 15, 2017—establishes procedures for intra-agency agreements, interagency agreements, and memorandums for record between DHRA Components.
- “DHRA Support Agreement SharePoint User Guide,” Version 1, April 2017—provides systematic instructions for submitting, reviewing, tracking, reporting, and monitoring support agreement documentation using the centralized database.

Based on our review of the procedure, instruction, and guide, we concluded that, if properly implemented, these new procedures should correct the preparation deficiencies. Therefore, we did not make recommendations to correct the

preparation deficiencies. However, because they implemented them only recently, DHRA personnel could not demonstrate the operating effectiveness of the procedure, instruction, and guide.

Requirements for Reviews After Agreement Approval

DHRA personnel did not perform required annual reviews for 27 of 32 reimbursable agreements after approval and triennial reviews (every 3 years) for 10 reimbursable agreements after approval.<sup>8</sup> After approval, DoD Instruction 4000.19 requires DoD personnel to perform an annual financial review of the reimbursable agreement and a triennial review of the entire reimbursable agreement. Of the 32 agreements reviewed, DHRA personnel did not provide us with evidence that they conducted annual reviews of 27 reimbursable agreements after agreement approval. Additionally, DHRA personnel did not provide evidence that they conducted triennial reviews for the 10 approved agreements that were more than 3 years old.

Table 3 shows the results of our review of the DMDC and DLNSEO personnel’s compliance with the annual and triennial requirements to review reimbursable agreements after approval.

Table 3. DMDC and DLNSEO Sample Testing Results for Annual and Triennial Review

	DMDC No	DMDC Yes	DLNSEO No	DLNSEO Yes	Total No
Annual, Financial Impact Review	27	0	0	5	27
Triennial, Entire Agreement Review	10	0	0	0	10

Source: The DoD OIG.

The lack of annual and triennial reviews occurred because DHRA management did not develop and implement procedures requiring compliance with applicable DoD requirements. DHRA management should develop and implement procedures to document the performance of required annual and triennial reviews.

Lack of Agreement Reviews

The lack of reimbursable agreement reviews after approval could result in DHRA personnel continuing in reimbursable agreements without any available reimbursable funds and incorrectly using the DHRA direct appropriated funds to supplement another organization’s funds as discussed in Finding B.

<sup>8</sup> We did not test 7 of 39 reimbursable agreements for compliance with the annual review requirement because they were less than 1 year old. We also did not test 29 of 39 reimbursable agreements for compliance with the triennial review requirement because they were less than 3 years old.

By performing the annual and triennial reviews, DHRA management could identify agreements that should be modified or terminated because they are no longer legally authorized or have costs that exceed the DHRA's available reimbursable funds.



DHRA management could identify agreements that should be modified or terminated.

## Recommendations, Management Comments, and Our Response

### ***Recommendation A.1***

**We recommend that the Director, Defense Human Resources Activity, develop and implement procedures requiring Defense Human Resources Activity personnel to document the performance of the required annual and triennial reviews after reimbursable agreement approval, as required by DoD Instruction 4000.19, "Support Agreements," April 25, 2013.**

#### *Director, Defense Human Resources Activity Comments*

The Director, DHRA, agreed with the recommendation. The Director stated that the DHRA has developed and implemented procedures requiring DHRA Components to manage and document performance of required annual and triennial reviews. Components will document their reviews in a SharePoint tool that Headquarters, DHRA, audits monthly.

#### *Our Response*

Comments from the Director, DHRA, addressed all specifics of the recommendation; therefore, the recommendation is resolved but remains open. We will close the recommendation once we verify performance and documentation of the required annual and triennial reviews that occur between SharePoint tool implementation and September 30, 2018.



## Finding B

### Improper Agreement Execution and Accounting

DHRA personnel did not properly execute and account for DHRA reimbursable agreements. Specifically, DHRA personnel:

- did not use the Military Services' reimbursable funds and \$1 million in direct appropriated funds correctly, resulting in potential Antideficiency Act violations,<sup>9</sup> and
- implemented reimbursable programs with unnecessarily complex funding and reimbursement processes that were not cost-effective.

This occurred because DHRA personnel did not request reimbursement from the Military Services and Defense Agencies for all reimbursable costs. In addition, DHRA management did not have procedures in place to review reimbursable programs to identify and streamline unnecessarily complex funding and reimbursement processes.

DHRA personnel also did not accurately account for DHRA reimbursable agreements in a timely manner. Specifically, DHRA personnel did not:

- record accounts payable and expense transactions in the reporting periods when services were provided, as required by DoD FMR, volume 4, chapter 17;<sup>10</sup> and
- provide supporting documentation for its reimbursable agreements within 5 business days, as required by the FIAR Guidance, section 6.<sup>11</sup>

Furthermore, DHRA personnel did not coordinate with DFAS-Columbus to ensure they recorded \$22.4 million in corresponding revenue and expense transactions in the same reporting period, as required by DoD FMR, volume 4, chapters 16 and 17.<sup>12</sup>

This occurred because DHRA management did not coordinate with DFAS-Columbus to ensure the DHRA had the procedures necessary to record revenue, accounts payable, and expense transactions in a timely manner and ensure the accuracy of DAI opening balances. Furthermore, DHRA personnel did not maintain a centralized database to retain and readily retrieve reimbursable agreements and

<sup>9</sup> Direct appropriated funds are monies paid out of the U.S. Treasury pursuant to statutory authority granted by Congress to the DoD to incur obligations and make payments. Reimbursable funds are monies received by an agency as a payment for commodities sold or services furnished either to the public or to another Federal organization.

<sup>10</sup> DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 4, "Accounting Policy," Chapter 17, "Expenses and Miscellaneous Items," Section 170401 "Expense Recording."

<sup>11</sup> "Financial Improvement and Audit Readiness" Guidance, Section 6, "Audit Infrastructure and Sustainment," April 2016.

<sup>12</sup> DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 4, "Accounting Policy," Chapter 16, "Revenue, Other Financing Sources, Gains and Losses," Section 160203, "Exchange Revenue."

related funding documents. They also did not have the infrastructure to provide supporting documentation in a timely manner.

Because of the improper accounting and funding practices and other control weaknesses, DHRA management did not have the complete and accurate financial information needed to oversee the DHRA's reimbursable programs and prevent:

- inaccurate financial reporting, including the reporting of the DoD's intragovernmental transactions that may impact other Federal organizations' financial statements;
- incorrect use of direct appropriated and reimbursable funds;
- reimbursable program costs in excess of the DHRA's available reimbursable funds; and
- reimbursable processes that are not cost-effective.

DHRA management did not have the complete and accurate financial information needed to oversee the DHRA's reimbursable programs.

During this audit, DHRA management developed and began implementing corrective action plans to resolve the execution and accounting deficiencies identified in this finding. Although the implementation of these plans is ongoing, we still made recommendations in this finding to resolve the identified deficiencies.

## Improper Execution of Reimbursable Funds

DHRA personnel did not properly execute their reimbursable agreements, including using reimbursable and direct funds correctly and in a cost-effective manner.

### ***Incorrect Use of Funds and Potential Antideficiency Act Violations***

DHRA personnel did not use the Military Services' reimbursable funds and \$1 million in DHRA direct appropriated funds correctly, resulting in potential Antideficiency Act violations. The "Purpose Statute" (section 1301, title 31, United States Code) states, "Appropriations shall be applied only to the objects for which the appropriations were made except as otherwise provided by law." DHRA personnel potentially violated the Purpose Statute by incorrectly using the Military Services' funds to pay for Defense Agencies' Travel Assistance Center (TAC) usage and paying for

DHRA personnel did not use the Military Services' reimbursable funds and \$1 million in DHRA direct appropriated funds correctly.

reimbursable costs out of the DHRA's direct appropriated funds. In addition, DHRA personnel did not demonstrate that their appropriation was available to pay Military Service and Defense Agency expenses, resulting in potential Antideficiency Act violations.

The TAC reimbursable program, managed by the DTMO, provides support for all DoD personnel requiring assistance using the Defense Travel System. To fund the TAC, the DTMO was granted the authority in two Office of the Secretary of Defense memorandums and Program Budget Decision 071, to enter reimbursable agreements with the Military Services and Defense Agencies.<sup>13</sup> With the reimbursable agreements in place, DHRA personnel billed each Military Service for the TAC cost proportionally to its Defense Travel System usage over the previous 4-year period, while DHRA personnel did not bill the Defense Agencies for their TAC costs.

The incorrect use of the Military Services' funds occurred because DHRA personnel requested funds from only the Military Services for TAC costs, even though the Military Services were responsible only for approximately 92 percent of the FY 2016 TAC usage, according to DTMO personnel. DTMO personnel stated the Military Services paid the entire TAC cost based on a Defense Travel Steering Committee decision. However, DTMO personnel could not provide documentation to support the decision. In addition, DTMO personnel did not provide other documentation of the DHRA's authority to use the Military Services' funding for the Defense Agencies' TAC usage. Because the Purpose Statute requires that Military Service use funds only for Military Service requirements, the DHRA may have violated this statute by using Military Service funds to pay for the Defense Agencies' TAC usage, which was approximately 8 percent of overall TAC usage.

Furthermore, the incorrect use of the DHRA's direct appropriated funds may have occurred because DHRA personnel did not request reimbursement for \$1 million in reimbursable TAC costs. The Military Services paid \$4.6 million of the FY 2016 TAC costs, while the actual costs were \$5.6 million. Instead of requesting additional funds from the Military Services and Defense Agencies, DHRA personnel incorrectly used \$1 million of their direct appropriated funds to pay the remaining TAC costs. DHRA personnel stated that this occurred because it was too late in the fiscal year to request additional reimbursable funding above the estimated TAC costs sent to the Military Services at the beginning of the fiscal year. However, the DHRA was entitled to request additional reimbursable funds to recover the actual TAC costs

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<sup>13</sup> Office of the Secretary of Defense Memorandum, "Defense Travel System," July 17, 2001, and "Designation of Lead Component for Defense Travel System," February 24, 2003.

based on DoD FMR, volume 11A, chapter 3.<sup>14</sup> DHRA personnel may have violated the Purpose Statute when they used \$1 million of the DHRA's direct appropriated funds to pay reimbursable TAC costs that were the Military Services and Defense Agencies responsibility.

By potentially violating the Purpose Statute, DHRA personnel may have violated the Antideficiency Act. Therefore, DHRA management should complete a preliminary review of the potential Purpose Statute and Antideficiency Act violations within 14 weeks from the date of initial discovery as required by DoD FMR, volume 14, chapter 3, and provide the results of the preliminary investigation to the DoD Office of Inspector General.<sup>15</sup>

### ***Reimbursable Funding Process Not Cost-Effective***

DHRA reimbursable programs were not cost-effective due to unnecessarily complex funding and reimbursement processes. Executive Order 13576 requires the identification and elimination of wasteful, duplicative, or otherwise inefficient programs.<sup>16</sup> Before FY 2017, DHRA personnel received reimbursable funds and sent those funds to the Space and Naval Warfare Systems Command (SPAWAR) to procure and manage the TAC contract. Due to the involvement of four organizations, this process required excessive accounting, funding, and program management resources. Figure 2 shows the TAC program funding process.

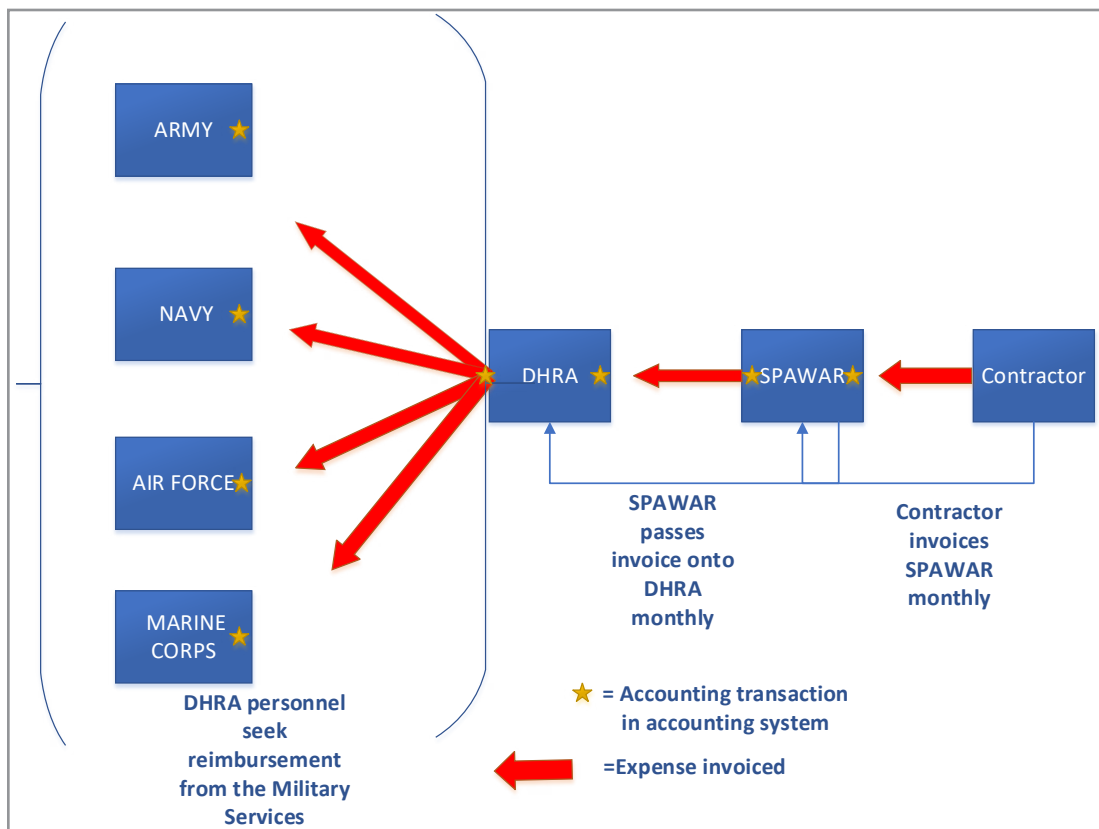
DHRA reimbursable programs were not cost-effective due to unnecessarily complex funding and reimbursement processes.

<sup>14</sup> DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 11A, "Reimbursable Operations Policy," Chapter 3, "Economy Act," Section 030102, "Overview."

<sup>15</sup> DoD Regulation 7000.14-R,, "DoD Financial Management Regulation," Volume 14, "Administrative Control of Funds and Anti-Deficiency Act Violations," Chapter 3, "Preliminary Reviews of Potential Violations," Section 030202, "Investigation."

<sup>16</sup> Presidential Executive Order 13576, "Delivering an Efficient, Effective, and Accountable Government," June 13, 2011.

Figure 2. TAC Program Reimbursable Funding Process

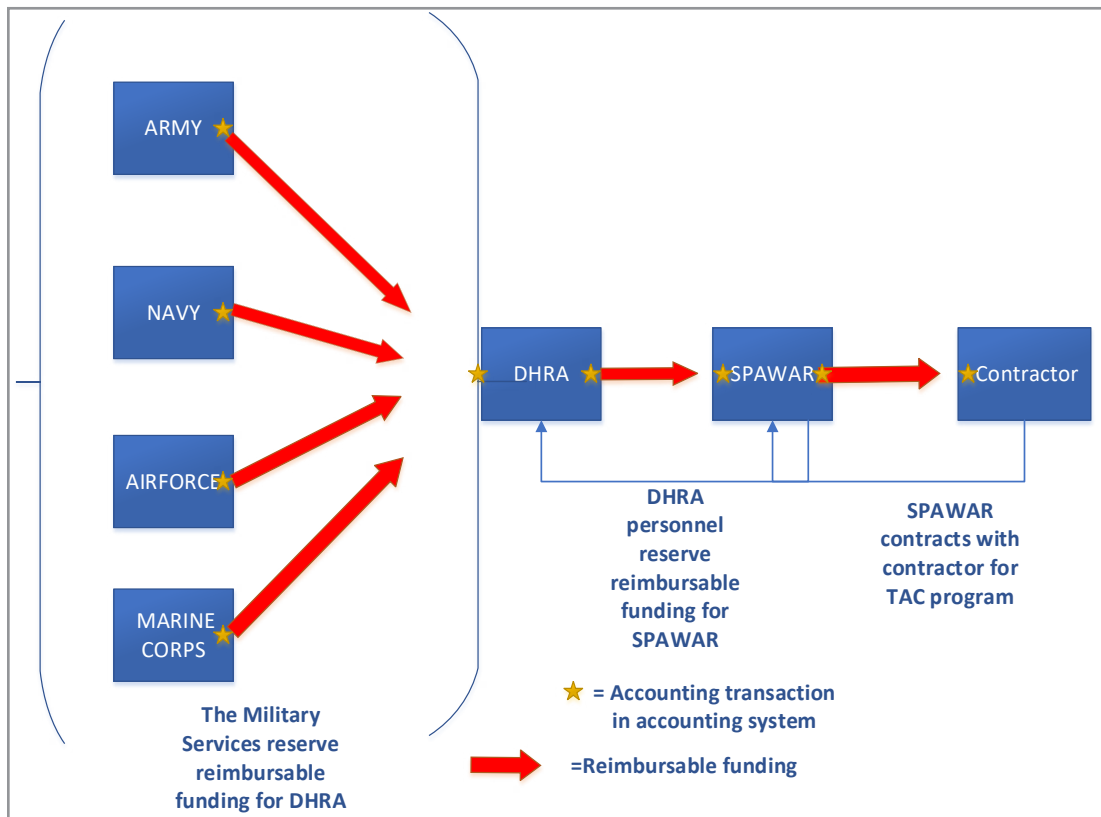


Source: The DoD OIG.

When SPAWAR personnel received invoices from the contractor, SPAWAR personnel requested reimbursement from the DHRA. DHRA personnel paid the invoice amount and then billed the Military Services up to the available reimbursable funds. Figure 3 shows the TAC program reimbursement process.



Figure 3. TAC Program Reimbursement Process



Source: The DoD OIG.

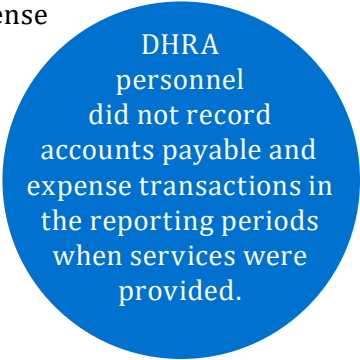
The TAC program funding and reimbursement process was not cost-effective because the number of organizations involved could cause the DHRA to incur excess costs. The DHRA would save the Government money by reducing the number of layers and costs involved in the funding and reimbursement processes. DHRA management eliminated one organization from these processes and reduced administrative costs when the DHRA stopped using SPAWAR contract management services beginning in FY 2017 and contracted directly with the contractor. However, there may be an additional opportunity to save money by directly funding the TAC program through the DHRA budget, which would eliminate the administrative costs associated with the reimbursable program. DHRA management agreed that funding the TAC program through direct appropriation would simplify accounting and be more cost-effective. To ensure the funding and reimbursement processes are cost-effective, DHRA management should implement procedures to review all reimbursable programs to identify and correct any other funding and reimbursement processes that are not cost-effective.

## Untimely and Inaccurate Accounting Practices

DHRA personnel did not accurately account for DHRA reimbursable agreements in a timely manner, including recording accounts payable and expense transactions and providing supporting documentation for accounting transactions.<sup>17</sup> In addition, DHRA personnel did not coordinate with DFAS–Columbus to ensure the proper recording of corresponding revenue and expense transactions in the same reporting period.

### ***Expenses Not Timely Recorded***

DHRA personnel did not record accounts payable and expense transactions in the reporting periods when services were provided, as required by DoD FMR, volume 4, chapter 17. The DoD FMR requires expense transactions to be recorded in the reporting period services are provided, not when invoices are received. Instead, DHRA personnel recorded the accounts payable and expense transactions in a future reporting period after the Federal organization or contractor provided the service. For example, DHRA personnel did not record accounts payable and expense transactions valued at \$697,954 until August 2016 for services provided in May 2016.



DHRA personnel did not record accounts payable and expense transactions in the reporting periods when services were provided.

This occurred because DHRA management did not have procedures to record accounts payable and expense transactions in the reporting periods services were provided. DHRA management provided the Procure-to-Pay Process Narrative, which showed DHRA personnel did not have procedures to record expense transactions in the period the Federal organization or contractor provided the services. To correct this control weakness identified by the DHRA internal FIAR Team's findings, dated April 28, 2017, and confirmed during this audit, DHRA management created corrective action plans. These plans include establishing procedures to obtain and review supporting documentation for expenses and ensuring transactions are recorded correctly in the accounting system. DHRA management stated that implementing the corrective action plans and converting to DAI would correct this weakness. DHRA management is implementing corrective action plans, including documenting DAI procedures and performing system tests. DHRA management should continue to implement the corrective action plans and verify that newly implemented controls are operating effectively to ensure personnel record accounts payable and expense transactions in the reporting periods services are provided.

<sup>17</sup> Although DHRA personnel did not provide the requested information in a timely manner, they ultimately provided the necessary information to support our findings.

Additionally, DHRA personnel incorrectly recorded Federal organization or contractor payments in DBMS before recording the corresponding accounts payable and expense transactions. When DHRA personnel recorded the Federal organization or contractor payment transactions before the corresponding accounts payable and expense transactions, they created abnormal accounts payable balances.<sup>18</sup> DoD FMR, volume 4, chapter 9, requires that abnormal accounts payable balances over \$100 be researched and corrected.<sup>19</sup>

We reviewed 88 invoice records with a DBMS expense and payment transaction for the DMDC reimbursable agreements reviewed in Finding A.<sup>20</sup> Of those 88 records, valued at \$13.5 million, DHRA personnel incorrectly recorded the Federal organization or contractor payment transaction for 44 records, valued at \$9.8 million, before recording the corresponding accounts payable and expense transactions. This created an abnormal accounts payable balance that existed until they recorded the expense transactions. For those 44 records, DHRA personnel recorded the accounts payable and expense transaction an average of 17 days after the corresponding Federal organization or contractor payment transaction occurred, creating abnormal accounts payable balances for that timeframe.

In its April 28, 2017, findings, the DHRA's internal FIAR Team identified DBMS expense transactions not being timely recorded as a control weakness resulting in material abnormal accounts payable balances. To prevent abnormal accounts payable balances, DHRA personnel must record Federal organization or contractor payments concurrent with or after recording the corresponding accounts payable and expense transactions. To address this control weakness, DHRA management provided corrective action plans, which include ensuring correct recording of transactions in the accounting system. DHRA management stated that implementing the corrective action plans and converting to DAI would correct this weakness. DHRA management is implementing corrective action plans, including documenting DAI procedures and performing system tests. Therefore, DHRA management should continue to implement the corrective action plans and verify that newly implemented controls are operating effectively to ensure personnel record payment transactions concurrent with or after recording the corresponding accounts payable and expense transactions.

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<sup>18</sup> Abnormal balances are those in which the normal (or expected) balance is reversed. For example, the normal balance for Accounts Payable is a credit, which makes the abnormal balance a debit.

<sup>19</sup> DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 4, "Accounting Policy," Chapter 9, "Accounts Payable," Section 090211, "Reviewing Accounts Payable Balances."

<sup>20</sup> There were 102 invoice records, but we excluded 14 records because the expense and payment transactions were not recorded in DBMS.

### ***Untimely Provision of Supporting Documentation***

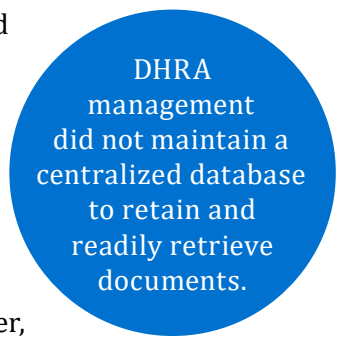
DHRA personnel did not provide us with complete supporting documentation for the reimbursable agreements reviewed within 5 business days, as required by FIAR Guidance. The FIAR Guidance requires management to establish an audit infrastructure to manage auditor requests, collect and submit requested documentation, and respond to auditor questions. It took DHRA personnel more than 50 days to provide us the supporting documentation to show how the reimbursable agreements were funded.



DHRA personnel did not provide us with complete supporting documentation within 5 business days.

In addition, DHRA personnel did not know how many reimbursable agreements for which they had responsibility. DHRA personnel provided us an initial list of 251 reimbursable agreements on January 13, 2017, and subsequently acknowledged that the list was not accurate or complete. DHRA management provided a revised list of 143 reimbursable agreements on January 27, 2017. When we compared the agreements from the two lists, we identified 52 agreements that had inconsistent quantities of funding documents and dollar values between lists. DHRA management subsequently requested the addition of one agreement not included in the revised list, increasing the universe size to 144 agreements. After we selected a sample of 51 agreements from the revised list, we excluded six agreements that were outside the scope of our review because the DHRA was the service requestor, not the service provider.

These supporting documentation control weaknesses occurred because DHRA management did not maintain a centralized database to retain and readily retrieve reimbursable agreements and related funding documents. DHRA management identified this control weakness as part of audit-readiness efforts. In addition, during this audit, DHRA management developed and implemented a centralized database and started to use it to retain reimbursable agreements that started in FY 2017. However, DHRA management has not decided how to maintain the agreements that went into effect before FY 2017. Therefore, DHRA management should develop and implement procedures to retain and readily retrieve reimbursable agreements and related funding documents for agreements that went into effect before FY 2017.



DHRA management did not maintain a centralized database to retain and readily retrieve documents.

Additionally, DHRA management is implementing a corrective action plan to create an infrastructure that provides auditors with supporting documentation in a timelier manner. This plan includes creating folders for each funding document, checklists with the necessary steps for processing each funding document, and a document to record receipt of and revenue earned for each funding document. Therefore, DHRA management should continue to implement the corrective actions that allow for the provision of records within 5 business days and management of auditor requests for support in a timely manner.

### ***Unmatched Revenue and Expenses***

DHRA personnel, in coordination with DFAS–Columbus, did not record \$22.4 million in corresponding revenue and expense transactions in the same reporting period. Specifically, DHRA personnel did not coordinate with DFAS–Columbus to ensure that the DHRA properly:

- recorded \$4.7 million in revenue transactions in the same periods as the corresponding expense transactions,
- recorded \$9.3 million in advance transactions,<sup>21</sup> and
- allocated \$8.4 million in expenses to the applicable service requestors to allow for the recording of corresponding billing and revenue transactions because DHRA personnel lacked the capability.

### ***Revenues Not Recorded in the Same Period as Expenses***

DHRA personnel did not coordinate with DFAS–Columbus to ensure the DHRA properly recorded \$4.7 million in revenue transactions in the same periods as the corresponding expense transactions in DBMS, as required by DoD FMR, volume 4, chapters 16 and 17.<sup>22</sup> According to the DoD FMR, properly matching revenues with the expenses incurred requires DoD organizations to record corresponding revenue and expense transactions in the same reporting periods and be reimbursed (revenues) for actual reimbursable expenses incurred. This results in the account balances for revenues and expenses matching at the end of any reporting period for reimbursable programs. However, on February 13, 2016, DHRA's internal FIAR Team identified a control weakness where DHRA personnel did not ensure all revenues were recorded in the correct reporting period in DBMS.

DHRA personnel did not coordinate with DFAS–Columbus to ensure the DHRA properly recorded \$4.7 million in revenue transactions.

<sup>21</sup> Advance transactions are recorded when cash is received before services are provided or expenses are incurred.

<sup>22</sup> The \$4.7 million in additional expense transactions occurred before FY 2017 and were accounted for in "Cumulative Results of Operations" on the trial balance, as of December 31, 2016.



This occurred because DHRA management did not coordinate with DFAS–Columbus management to develop procedures to ensure the FY 2017 beginning balances converted to DAI were accurate, and instead converted an inaccurate \$4.7 million DBMS account balance to DAI. Therefore, DHRA management, in coordination with DFAS–Columbus management, should develop and implement a corrective action plan to identify and resolve the \$4.7 million difference between prior year revenue and expense transactions. DHRA management should also coordinate with DFAS–Columbus management to identify and correct any other misstated DAI account balances resulting from the conversion of inaccurate DBMS data.

After the DHRA converted from DBMS to DAI, DHRA personnel continued recording expense transactions without corresponding revenue transactions for FY 2017 funds. For example, in the first quarter FY 2017, DHRA personnel recorded \$7,542 in revenue transactions and \$7,577 expense transactions for FY 2017 funds, a \$35 difference. By the end of the second quarter FY 2017, expense transactions exceeded revenue transactions by \$412,149 for FY 2017 funds, which indicates that DHRA personnel did not record corresponding revenue and expense transactions in the same reporting period. This occurred because DHRA management did not have procedures to ensure DHRA personnel recorded corresponding revenue and expense transactions in DAI in the same reporting period. DHRA management should develop and implement DAI procedures, including procedures to reconcile revenue and expense transactions, to ensure personnel record corresponding revenue and expense transactions in the same reporting periods.

### *Recording of Advance Transactions*

DHRA personnel did not coordinate with DFAS–Columbus to accurately record \$9.3 million in advance transactions, as required by the United States Standard General Ledger Supplement.<sup>23</sup> Specifically, DHRA personnel stated that before FY 2016, they would record revenue transactions, bill the service requestors, and receive cash based on service requestors' funds received at the fiscal yearend, regardless of whether corresponding services were provided and expense transactions were recorded. The Supplement requires DHRA personnel to record a liability transaction, increasing "Liability for Advances and Prepayments" and "Unfilled Customer Orders With Advance" accounts, when the cash is collected in advance of incurrence of corresponding expense.<sup>24</sup> Instead of complying with the Supplement, DHRA personnel did not coordinate with DFAS–Columbus personnel

<sup>23</sup> "U.S. Standard General Ledger Supplement Part 1 Fiscal Year 2017 Reporting," Section III, "Account Transactions."

<sup>24</sup> The "Liability for Advances and Prepayments" account is the amount of payments received in advance of earning revenue. The "Unfilled Customer Orders With Advance" account is the total amount of unearned reimbursable orders accepted with an advance.

and improperly recorded advances as revenues, causing an overstatement of “Cumulative Results of Operations” and “Total Actual Resources–Collected” accounts by \$9.3 million each, as of December 31, 2016. Recording incorrect transactions resulted in misstated account balances and prevented accurate financial reporting. Therefore, DHRA management, in coordination with DFAS–Columbus management, should correct the \$9.3 million in misstated account balances. In addition, DHRA management should also coordinate with DFAS–Columbus management to identify and correct any other misstated DAI account balances resulting from the conversion of inaccurate DBMS data.

### *Allocating Expenses to Service Requestors*

DHRA personnel did not have the capability to allocate and accurately account for \$8.4 million in expense transactions to service requestors after the DHRA converted from DBMS to DAI. The incapability to allocate expenses prevented DHRA personnel from recording corresponding billing and revenue transactions in DAI and caused service requestors to question whether the DHRA still needed the requestors’ funds. DHRA personnel could not allocate expenses incurred because they did not have an adequate plan to transition from the manual DBMS expense allocation procedures to the automatic DAI procedures.

DHRA personnel stated that while DAI had the capability to allocate expenses automatically, they could not use that capability for funds converted from DBMS to DAI due to inadequate planning by DHRA management.

DHRA management stated that the DAI expense allocation process is automated. However, we identified during the audit that the expense allocation process was not automated for funds converted from DBMS to DAI. Therefore, DHRA management implemented a corrective action plan manually allocating expenses to service requestors. Because DHRA management already started implementing the corrective action plan, we did not make a recommendation. DHRA personnel should continue to manually allocate expenses until all funds converted from DBMS expire at the end of FY 2018.

DHRA personnel did not have the capability to allocate and accurately account for \$8.4 million in expense transactions to service requestors.

## Increased Management and Legislative Noncompliance Risk

As a result of the \$23.4 million in improper accounting and funding practices and other control weakness, DHRA management did not have the complete and accurate financial information needed to:

- make informed, cost-effective funding and resource decisions on the DHRA's reimbursable programs;
- prevent inaccurate financial reporting on the DHRA's reimbursable programs;
- contribute to correcting the DoD's intragovernmental transactions material weakness and achieving auditability; and
- prevent reimbursable program costs that exceed the DHRA's available reimbursable funds and potential improper use of direct appropriated funds.

## Recommendations, Management Comments, and Our Response

### ***Recommendation B.1***

**We recommend that the Director, Defense Human Resources Activity:**

- a. **Complete a preliminary review of the potential Antideficiency Act violations within 14 weeks of initial discovery as required by DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 14, chapter 3, and provide the results of the preliminary investigation to the DoD Office of Inspector General.**

### *Director, Defense Human Resources Activity Comments*

The Director, DHRA, agreed with the recommendation. He stated that there is a potential Antideficiency Act violation and appointed a preliminary investigator on January 24, 2018. The investigator will gather facts and establish whether a reportable violation of section 1341, title 31, United States Code (U.S.C.); section 1342, title 31, U.S.C.; or section 1517, title 31, U.S.C. occurred. A determination of whether a reportable violation occurred will be made on or around April 23, 2018.

### *Our Response*

Comments from the Director, DHRA, addressed all specifics of the recommendation; therefore, the recommendation is resolved but remains open. We will close the recommendation once the Director provides documentation from the investigator identifying whether a reportable violation has occurred.

- b. Implement procedures to review all reimbursable programs to identify and correct funding and reimbursement processes that are not cost-effective.**

*Director, Defense Human Resources Activity Comments*

The Director, DHRA, agreed with the recommendation. He stated that, as of October 31, 2017, the DHRA had consolidated its reimbursable program under the DHRA Financial Management Directorate, created standard operating procedures and policies, provided training to DHRA personnel, and assigned DHRA personnel to identify and correct data integrity issues. He also stated that the DHRA plans to establish a work group to ensure the cost effectiveness and efficiency of its reimbursable programs. The estimated completion date is September 30, 2018.

*Our Response*

Comments from the Director, DHRA, addressed all specifics of the recommendation; therefore, the recommendation is resolved but remains open. The DHRA recently has completed several actions to improve its management of reimbursable programs, and it was too early for the DHRA to demonstrate the effectiveness of these actions. We will close the recommendation once we verify that the DHRA established the work group and implemented new procedures requiring reviews of all reimbursable programs to identify reimbursement processes that are not cost effective and efficient.

- c. Implement procedures to maintain a centralized database containing reimbursable agreements and related funding documents for reimbursable agreements that went into effect before FY 2017.**

*Director, Defense Human Resources Activity Comments*

The Director, DHRA, agreed with our recommendation and stated that under the Reimbursable Corrective Action Plan, the DHRA recognizes this finding and is addressing it.

*Our Response*

Comments from the Director, DHRA, addressed all specifics of the recommendation; therefore, the recommendation is resolved but remains open. We will close the recommendation once we verify that the centralized database contains reimbursable agreements and related funding documents for reimbursable agreements that went into effect before FY 2017. Based on the Director, DHRA, comments to Recommendation B.2, this corrective action plan's estimated completion date is September 30, 2018.

- d. **Implement an audit infrastructure that allows for the provision of records, documentation, and other information within 5 business days, in accordance with “Financial Improvement and Audit Readiness” Guidance, April 2016.**

### *Director, Defense Human Resources Activity Comments*

The Director, DHRA, agreed with our recommendation. He stated that the DHRA completed an audit infrastructure on December 15, 2017, that supports the guidelines and requirements of the Audit Response Center tool.<sup>25</sup> He stated that an operating instruction would be completed by February 28, 2018.

### *Our Response*

Comments from the Director, DHRA, addressed all specifics of the recommendation; therefore, the recommendation is resolved but remains open. While the estimated completion date of the instructions was February 28, 2018, DHRA personnel did not provide documentation as of this report date. We will close the recommendation once we verify that the new procedures require an audit infrastructure that allows for the provision of records, documentation, and other information to auditors within 5 business days after request dates.

## **Recommendation B.2**

**We recommend that the Director, Defense Human Resources Activity, implement their corrective action plans, document their Defense Agencies Initiative procedures, and test Defense Agencies Initiative to ensure personnel:**

- a. **Record expense transactions in the reporting period that the services are provided, as required DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 4, chapter 17.**
- b. **Record payment transactions concurrent with or after recording the corresponding expense and accounts payable transactions to prevent abnormal accounts payable.**
- c. **Record corresponding revenue and expense transactions in the same reporting period, including procedures to reconcile revenue and expense transactions, as required by DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 4, chapters 16 and 17.**

### *Director, Defense Human Resources Activity Comments*

The Director, DHRA, agreed with our recommendations. The Director stated that the DHRA is implementing corrective actions to ensure the DHRA records earnings and expenses in the reporting period that the DHRA provided the services.

<sup>25</sup> A DoD System Tool for DoD Components to use to respond to audit requests. The Office of the Under Secretary of Defense (Comptroller) issued system access instructions in conjunction with its instructions on accessing the Financial Improvement and Audit Readiness (FIAR) Planning Tool.

After corrective actions are completed, DHRA personnel will perform testing in accordance with the FIAR testing schedule. The estimated completion date is September 30, 2018.

### *Our Response*

Comments from the Director, DHRA, addressed all specifics of the recommendation; therefore, the recommendation is resolved but remains open. We will close the recommendation once we verify DHRA personnel record:

- expense transactions in the reporting period that services are performed,
- payment transactions are recorded after corresponding expense and accounts payable transactions are recorded to prevent abnormal accounts payable balances, and
- earnings and related expense transactions in the same period.

### **Recommendation B.3**

**We recommend that the Director, Defense Human Resources Activity, in coordination with the Director, Defense Finance and Accounting Service–Columbus, develop and implement a plan to identify and correct all misstated account balances converted from the Defense Business Management System, including the \$4.7 million misstatement due to expense transactions exceeding revenue transactions and the \$9.3 million misstatement due to incorrectly accounting for advanced billing in prior fiscal years.**

### *Director, Defense Human Resources Activity Comments*

The Director, DHRA, agreed with our recommendation. He stated that the DHRA created a work group responsible for correcting all misstated account balances converted from the DBMS. DHRA management monitors the work group's progress on a biweekly basis. The estimated completion date is September 30, 2018.

### *Our Response*

Comments from the Director, DHRA, addressed all specifics of the recommendation; therefore, the recommendation is resolved but remains open. We will close the recommendation once we verify that the DHRA work group, which includes DHRA and DFAS–Columbus personnel, corrected all misstated account balances converted from the DBMS.

## Appendix A

### Scope and Methodology

We conducted this performance audit from January 2017 through January 2018 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.

As requested by DHRA management, we reviewed active reimbursable agreements in effect, as of December 31, 2016, where the DHRA was the service provider. DHRA personnel provided a list of 143 agreements. DHRA personnel subsequently requested that we include DCPAS in our audit, which increased the list by 1 to 144 reimbursable agreements, valued at \$275 million. We selected a nonstatistical sample of 51 reimbursable agreements that covered each of the four DHRA Components with reimbursable programs. We chose the 51 reimbursable agreements based on the number of overall reimbursable agreements by component, with 37 chosen for DMDC, 9 for DLNSEO, 4 for DTMO, and 1 for DCPAS. After the sample was chosen, we determined that 6 of 51 sample agreements were outside the scope of our review because the DHRA was not the service provider. Therefore, we reviewed 45 sample reimbursable agreements, valued at \$209 million for compliance with DoD FMR, volume 11A, and DoD Instruction 4000.19 requirements. Specifically, we performed tests and procedures to determine whether DHRA personnel:

- prepared reimbursable agreements that complied with DoD requirements before approval, and
- reviewed reimbursable agreements after approval based on the annual and triennial review clauses required as part of compliant reimbursable agreement preparation.

In addition, we reviewed the Purpose Statute, Antideficiency Act, Executive Orders, DoD FMR, and FIAR Guidance to identify applicable guidance for properly executing and accounting for reimbursable agreements. Specifically, we reviewed:

- the four DTMO agreements to determine whether DHRA personnel correctly used DHRA direct appropriated and reimbursable funds and whether the reimbursable agreements were funded and reimbursed in a cost-effective manner;



- 88 invoice records to determine whether DHRA personnel recorded the transactions in a timely manner; and
- the DHRA Trial Balance, as of December 31, 2016, to determine whether DHRA personnel recorded corresponding revenue and expense transactions properly.

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

To perform this audit, we used reimbursable agreement accounting and funding data from DBMS and DAI for active reimbursable agreements, as of December 31, 2016. To gain assurance on DBMS and DAI data reliability, we traced supporting documents, including funding documents and revenue recognition reports, to accounting and funding records residing in the accounting systems. We also tested supporting documentation to ensure DHRA personnel correctly converted accounting and funding records from DBMS to DAI. We determined that the computer-processed data obtained were sufficiently reliable to support the findings and conclusions made in this report.

## **Prior Coverage**

No prior coverage has been conducted on the DHRA's reimbursable agreements during the last 5 years.

## Appendix B

### Agreement Testing Results

We selected a sample of 51 reimbursable agreements to review from a list of 144 reimbursable agreements provided by DHRA personnel. Of the 51 reimbursable agreements, we did not review six agreements because the DHRA was not the service provider, but rather the service requestor. Of the 45 agreements reviewed, six agreements were not prepared using a valid form, 30 agreements did not meet the DoD FMR, volume 11A, and DoD Instruction 4000.19 preparation requirements, and nine agreements met all preparation requirements we evaluated. Table 4 shows the individual testing results of our review for the 51 sample agreements provided by the DHRA.

*Table 4. Sample Testing Results by Agreement*

Sample No.	Agreement No.	DHRA Component	Tested	Not Valid Form	Preparation Requirements Not Met	Preparation Requirements Met
1	S1607	DMDC	X		X	
2	S1651	DMDC				
3	S1508	DMDC	X		X	
4	S1648	DMDC	X		X	
5	S1653	DMDC	X		X	
6	S1421	DMDC	X		X	
7	S1505	DMDC	X		X	
8	S1518	DMDC	X		X	
9	S1412	DMDC	X		X	
10	S1408	DMDC	X		X	
11	S1404	DMDC	X		X	
12	S1414	DMDC	X		X	
13	S1641	DMDC	X		X	
14	O1411	DMDC	X		X	
15	O1312	DMDC	X		X	
16	S1668	DMDC	X		X	
17	S1422	DMDC	X		X	
18	731-DISA-CBS	DMDC				
19	S1430	DMDC	X		X	
20	626-DOD-DMD	DMDC				
21	S1642	DMDC	X		X	

Sample No.	Agreement No.	DHRA Component	Tested	Not Valid Form	Preparation Requirements Not Met	Preparation Requirements Met
22	S1671	DMDC	X		X	
23	M1136	DMDC				
24	A1512	DMDC	X		X	
25	S1621	DMDC	X		X	
26	W6CDAA-14116-002	DMDC				
27	A1408	DMDC				
28	O1408	DMDC	X		X	
29	S1416	DMDC	X		X	
30	M0717	DMDC	X	X		
31	A1338	DMDC	X		X	
32	S1525	DMDC	X		X	
33	S1620	DMDC	X		X	
34	S1529	DMDC	X		X	
35	S1643	DMDC	X		X	
36	S1436	DMDC	X		X	
37	S1405	DMDC	X		X	
38	DTMO-USMC-2016-4	DTMO	X	X		
39	DTMO-USA-2016-2	DTMO	X	X		
40	DTMO-USAF-2016-1	DTMO	X	X		
41	DTMO-USN-2016-3	DTMO	X	X		
42	MSR FY15-FY17 (1)	DLNSEO	X			X
43	MSR CENTCOM-FY17-FY19	DLNSEO	X			X
44	MSR FY17-FY19 (1)	DLNSEO	X			X
45	MSR FY15-FY17 (2)	DLNSEO	X			X
46	MSR FY16-FY18	DLNSEO	X			X
47	MSR FY17-FY19 (2)	DLNSEO	X			X
48	MSR EUCOM FY15-FY17	DLNSEO	X			X
49	UARPAC MSR FY14-FY16	DLNSEO	X			X
50	MSR FY15-FY17 (3)	DLNSEO	X			X
51	H9821014F0060	DCPAS	X	X		
<b>Totals</b>			<b>45</b>	<b>6</b>	<b>30</b>	<b>9</b>

Source: The DoD OIG.

## Management Comments

### Director, Defense Human Resources Activity



HEADQUARTERS  
DEFENSE HUMAN RESOURCES ACTIVITY  
4800 MARK CENTER DRIVE, SUITE 06J25-01  
ALEXANDRIA, VA 22350-4000

FEB - 7 2018

MEMORANDUM FOR PROGRAM DIRECTOR, DEPARTMENT OF DEFENSE  
INSPECTOR GENERAL (FINANCIAL MANAGEMENT AND  
REPORTING DIVISION)

SUBJECT: Response to Defense Human Resources Activity Reimbursable Agreements  
(Project No. D2017-D000FL-0074.000) Final Draft Report

Thank you for the opportunity to comment on the final draft report (Project No. D2017-D000FL-0074.000). We appreciate the time and effort put forth by your staff in collecting information for the preparation of this report. Our responses to the report's recommendations are attached.

The information in this report may be released without For Official Use Only markings and is not exempt from release under the Freedom of Information Act or other statute, regulation, or authority. As of the date of this memorandum, the Defense Human Resources Activity is carrying out the organization's corrective action plans and I have directed a preliminary review of the potential Antideficiency Act violations.

Please direct questions to [REDACTED]

William H. Booth  
Director

Attachment:  
As stated

## Director, Defense Human Resources Activity (cont'd)

Attachment - DHRA Responses to DoDIG Audit Report for Defense Human Resources Activity Reimbursable Agreements Project No. D2017-D000FL-0074.000				
Finding	Recommendation	Response Agree/ Disagree	Actions Taken to Accomplish the Recommendations	Reason Disagree and Proposed Alternative Corrective Actions
Lack of Agreement Reviews	<p>Recommendation A.1.</p> <p>We recommend that the Director, Defense Human Resources Activity, develop and implement procedures requiring DHRA personnel to document the performance of the required annual and triennial reviews after reimbursable agreement approval, as required by DoD Instruction 4000.19, "Support Agreements," April 25, 2013.</p>	Agree	DHRA management developed and implemented procedures requiring compliance with applicable DoD requirements. Components are now required to manage and document the performance of required annual and triennial reviews. The information is tracked and managed in the HQ DHRA Support Agreement SharePoint tool. Accomplishment of the annual/triennial reviews are monitored by the HQ DHRA SAM during monthly audits.	NA
Incorrect Use of Funds and Potential Antideficiency Act Violations	<p>Recommendation B.1.a.</p> <p>We recommend that the Director, Defense Human Resources Activity:</p> <p>Complete a preliminary review of the potential Antideficiency Act violations within 14 weeks of initial discovery as required by DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 14, Chapter 3, and provide</p>	Agree	DHRA agrees there is a potential Antideficiency Act Violation and appointed a preliminary investigator 24 January 2018. The investigator will gather facts and ultimately factually establish whether a reportable violation of section 1341 of title 31, United States Code (U.S.C.), section 1342 of title 31, U.S.C., or section 1517 of title 31, U.S.C. has occurred. A determination of whether a reportable	NA



## Director, Defense Human Resources Activity (cont'd)

	the results of the preliminary investigation to the DoD Office of Inspector General.		violation has occurred will be made on or around 23 April 2018.	
Reimbursable Funding Process Not Cost-Effective	<p>Recommendation B.1.b.</p> <p>We recommend that the Director, Defense Human Resources Activity:</p> <p>Implement procedures to review all reimbursable programs to identify and correct funding and reimbursement processes that are not cost effective.</p>	Agree	DHRA has executed the following actions to address the recommendation: (1) consolidated the Reimbursable Program under the auspices of the Financial Management (FM) Directorate, completed 10/01/2017, (2) created standardized operating procedures and policies and provided training to staff, completed 10/31/2017, (3) assigned a team of FM professionals to identify and correct data integrity issues, completed 10/31/2017, and (4) DHRA is also establishing a work group to ensure the cost effectiveness and efficiency of the Reimbursable Program throughout the Planning, Programing and Budget and Execution process. Estimated Completion date is 09/30/2018	NA
Untimely Provision of Supporting Documentation	<p>Recommendation B.1.c.</p> <p>We recommend that the Director, Defense Human Resources Activity:</p> <p>Implement procedures to maintain a centralized database containing reimbursable agreements and related funding documents for reimbursable agreements that went into effect before FY 2017.</p>	Agree	Under the DHRA Reimbursable corrective action plan, DHRA recognizes this finding and is addressing it.	NA

## Director, Defense Human Resources Activity (cont'd)

Untimely Provision of Supporting Documentation	<p>Recommendation B.1.d.</p> <p>We recommend that the Director, Defense Human Resources Activity:</p> <p>Implement an audit infrastructure that allows for the provision of records, documentation, and other information within 5 days, in accordance with "Financial Improvement and Audit Readiness" Guidance, April 2016.</p>	Agree	In support of the Department of Defense (DoD) and congressional Financial Improvement and Audit Remediation (FIAR) requirements, DHRA has established an audit infrastructure that supports the guidelines and requirements of the Audit Response Center (ARC) tool provided by the Office of Secretary Defense, (OUSD) Comptroller (C)) under the auspices of the FIAR Guidance, completed 12/15/2017 and Audit Infrastructure standardized operating procedure will be completed 02/28/2018.	NA
Expenses Not Timely Recorded	<p>Recommendation B.2.a.</p> <p>We recommend that the Director, Defense Human Resources Activity, implement their corrective action plans, document their Defense Agencies Initiative procedures, and test Defense Agencies Initiative to ensure personnel:</p> <p>Record expense transactions in the reporting period that the services are provided, as required DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 4, chapter 17.</p>	Agree	DHRA is in the process of implementing all corrective actions identified in the DHRA Reimbursable Corrective Action Plan, which includes ensuring earnings and expenses are recorded in the reporting period that the services are provided. For Fiscal Year (FY) 18, people, policies and procedures are in place to address this issue and the previous FY's are being worked to correct discrepancies. Testing will be performed in accordance with the OUSD (C) FIAR testing schedule, upon completion of all corrective actions. Estimated completion of these actions 09/30/2018.	NA
Expenses Not	Recommendation B.2.b.	Agree	DHRA is in the process of	NA



## Director, Defense Human Resources Activity (cont'd)

Timely Recorded	<p>We recommend that the Director, Defense Human Resources Activity, implement their corrective action plans, document their Defense Agencies Initiative procedures, and test Defense Agencies Initiative to ensure personnel:</p> <p>Record payment transactions concurrent with or after recording the corresponding expense and accounts payable transactions to prevent abnormal accounts payable.</p>		<p>implementing all corrective actions identified in the DHRA Reimbursable Corrective Action Plan, which includes ensuring earnings and expenses are in alignment from the initiation and recording of transactions from the accounting system to the financial statement. Testing will be performed in accordance with the OUSD (C) FIAR testing schedule, upon completion of all corrective actions. Estimated completion of these actions 09/30/2018.</p>	
Revenues Not Recorded in the Same Period as Expenses	<p>Recommendation B.2.c.</p> <p>We recommend that the Director, Defense Human Resources Activity, implement their corrective action plans, document their Defense Agencies Initiative procedures, and test Defense Agencies Initiative to ensure personnel:</p> <p>Record corresponding revenue and expense transactions in the same reporting period, including procedures to reconcile revenue and expense transactions, as required by DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 4, chapter 16.</p>	Agree	<p>DHRA is in the process of implementing all corrective actions identified in the DHRA Reimbursable Corrective Action Plan, which includes ensuring earnings and expenses are recorded in the reporting period that the services are provided. For Fiscal Year (FY) 18, People, policies and procedures are in place to address this issue and the previous FY's are being worked to correct discrepancies. Testing will be performed in accordance with the OUSD (C) FIAR testing schedule, upon completion of all corrective actions. Estimated completion of these actions 09/30/2018.</p>	NA
Recording of	Recommendation B.3.	Agree	The DHRA FM Directorate has	NA

## Director, Defense Human Resources Activity (cont'd)

Advance Transactions	<p>We recommend that the Director, Defense Human Resources Activity, in coordination with the Director, Defense Finance and Accounting Service—Columbus, develop and implement a plan to identify and correct all misstated account balances converted from the Defense Business Management System, including the \$4.7 million misstatement due to expense transactions exceeding revenue transactions and the \$9.3 million misstatement due to incorrectly accounting for advanced billing in prior fiscal years.</p>		<p>implemented a work group, in support of the DHRA corrective action plan that is responsible for correcting all misstated account balances converted from the Defense Business Management System (DBMS) and progress is assessed by DHRA management on a biweekly basis. Estimated completion of these actions 09/30/2018.</p>	

## Acronyms and Abbreviations

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<b>DAI</b>	Defense Agencies Initiative
<b>DBMS</b>	Defense Business Management System
<b>DCPAS</b>	Defense Civilian Personnel Advisory Service
<b>DFAS</b>	Defense Finance and Accounting Service
<b>DHRA</b>	Defense Human Resources Activity
<b>DLNSEO</b>	Defense Language and National Security Education Office
<b>DMDC</b>	Defense Manpower Data Center
<b>DTMO</b>	Defense Travel Management Office
<b>FIAR</b>	Financial Improvement and Audit Readiness
<b>FMR</b>	Financial Management Regulation
<b>MOA</b>	Memorandum of Agreement
<b>SPAWAR</b>	Space and Naval Warfare Systems Command
<b>TAC</b>	Travel Assistance Center



DEPARTMENT OF DEFENSE | OFFICE OF INSPECTOR GENERAL

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# **Whistleblower Protection**

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