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Audit Report

OFFICE OF THE INSPECTOR GENERAL

**REVENUES AND EXPENSES FROM REIMBURSABLE
ACTIVITY FOR OTHER DEFENSE ORGANIZATIONS**

Report No. 98-029

December 5, 1997

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Acronyms

CHAMPUS	Civilian Health and Medical Program of the Uniformed Services
DFAS	Defense Finance and Accounting Service
DLA	Defense Logistics Agency
FMR	Financial Management Regulation
DoDEA	Department of Defense Education Activity
GLAC	General Ledger Account Code



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884



December 5, 1997

MEMORANDUM FOR DISTRIBUTION

SUBJECT: Audit Report on Revenues and Expenses From Reimbursable Activity for
Other Defense Organizations (Report No. 98-029)

We are providing this report for review and comment. The audit was performed in response to the Chief Financial Officers Act of 1990 as amended by the Federal Financial Management Act of 1994. The Army and the Defense Finance and Accounting Service did not respond to the draft report. Comments from all other addressees were responsive, and were considered in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. Therefore, we request that the Army and the Defense Finance and Accounting Service provide comments on the recommendations by January 9, 1998.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to DODIG: (b)(6), Audit Program Director, at (703) 604-DODIG: (b)(6) (DSN 664-DODIG: (b)(6)) or DODIG: (b)(6), Audit Project Manager, at (703) 604-DODIG: (b)(6) (DSN 664-DODIG: (b)(6)). See Appendix H for the report distribution. The audit team members are listed inside the back cover.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

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AUDITOR GENERAL, DEPARTMENT OF THE ARMY

Office of the Inspector General, DoD

Report 98-029

(Project No. 7RF-2012)

December 5, 1997

Revenues and Expenses From Reimbursable Activity for Other Defense Organizations

Executive Summary

Introduction. Public Law 103-356, the "Federal Financial Management Act of 1994," requires DoD to provide audited financial statements for FY 1996 and each succeeding year to the Office of Management and Budget. Included in the consolidated financial statements for DoD is a reporting entity entitled "Other Defense Organizations." The entity represents a consolidation of financial data from various Defense agencies and organizations (to include Military Departments) using Treasury Index No. 97 (Department 97). The Office of the Secretary of Defense has responsibility for Department 97 appropriations, funds, and accounts. FY 1996 was the first year that DoD prepared financial statements for "Other Defense Organizations," which were included in the consolidated financial statements for DoD. The FY 1996 Statement of Operations and Changes in Net Position showed \$46.7 billion in total revenues and financing sources, of which \$6.3 billion was from sales of goods and services or miscellaneous reimbursements.

Audit Objectives. The primary audit objective was to determine the reliability of revenues and expenses from the sale of goods and services and reimbursements shown for "Other Defense Organizations" in the DoD consolidated financial statements for FY 1996. We also evaluated accounting policies for recording those revenues and expenses and the consistency of accounting and reporting among the various organizations submitting information to the Defense Finance and Accounting Service Indianapolis Center. In addition, we also reviewed internal controls as they applied to the audit objectives.

Audit Results. The Defense Finance and Accounting Service and Defense agencies needed to do additional work to provide reliable financial data for financial statements. Our review of revenues and expenses from reimbursable activity for "Other Defense Organizations" showed the following:

- o Revenues from reimbursable activity were overstated by at least NSA: (b)(3), expenses related to reimbursable activity were overstated by NSA: (b)(3) and the Appropriated Capital Used account was overstated by NSA: (b)(3) (Finding A).

- o Accounting offices supporting "Other Defense Organizations" used different general ledger account codes to record the same type of revenues and expenses from reimbursable activity (Finding B).

As a result, the Statement of Operations and Changes in Net Position was not reliable and did not accurately present the results of operations for FY 1996. See Appendix A for details on the internal control program.

Summary of Recommendations. We recommend that Defense Finance and Accounting Service establish procedures to verify that revenues and expenses from reimbursable activity are not duplicated in the Statement of Operations and support all other adjustments to avoid distorting financial statements. We recommend that Defense organizations record revenues based on earnings rather than on obligations, verify the accuracy of reimbursable activity reported, and (for appropriated funds) accrue revenues and expenses for reimbursable activities during the same accounting period. We recommend that the Army Corps of Engineers reprogram its general ledger accounting system to record as cost of goods sold only the acquisition costs of homes sold for the Homeowners Assistance Fund. We also recommend that the Washington Headquarters Services reprogram its accounting system to correct an error in posting to the Appropriated Capital Used account. In addition, we recommend that the Under Secretary of Defense (Comptroller) clarify guidance on how to account for and report revenues and expenses from reimbursable activity.

Management Comments. The Defense Finance and Accounting Service and the Army did not respond to the draft of this report issued on August 28, 1997. We request those organizations to provide comments to the final report by January 9, 1998.

Other organizations receiving the draft report concurred with the finding and recommendations and stated that corrective actions have been or would be implemented. See Part III for the complete text of management comments.

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Part I - Audit Results

Audit Background

Public Law 101-576, the "Chief Financial Officers Act of 1990," November 15, 1990, requires Federal organizations to submit audited financial statements to the Director, Office of Management and Budget. Public Law 103-356, the "Federal Financial Management Act of 1994," October 13, 1994, requires DoD and other Government agencies to prepare consolidated financial statements for FY 1996 and each succeeding year. The consolidated DoD financial statements for FY 1996 included financial statements for a reporting entity entitled "Other Defense Organizations." "Other Defense Organizations" include appropriations, funds, and accounts using Treasury Index No. 97 (Department 97). Department 97 funds include "general funds" appropriated for Defense agencies and organizations, including Defense-wide funds entrusted to the Military Departments. However, revolving funds, which operate based on the sale of goods and services, trust funds, and special funds appropriated through Department 97, are also included in the "Other Defense Organizations" category.

A Statement of Operations and Changes in Net Position (Statement of Operations) for "Other Defense Organizations" is included in the DoD consolidated financial statements. The Statement of Operations for FY 1996 showed \$46.7 billion in total revenues and financing sources and \$46.5 billion in total expenses. Included in the revenues and expenses were \$5.63 billion in "Revenues From Sales of Goods and Services," \$632 million of miscellaneous reimbursements and other revenues, and \$5.4 billion in "Cost of Goods Sold."

Upon receipt of reimbursable authority from Congress, Defense organizations provide goods or services to other Governmental agencies or the public based on orders received. The receiving agency pays the providing agency a mutually agreed amount. However, the costs reimbursed to the providing agency must conform to pertinent laws and regulations. Revenues from reimbursable activity for appropriated (general) funds should equal the expenses incurred to produce the revenues during the same accounting period.

Audit Objectives

The primary audit objective was to determine the reliability of revenues and expenses from the sale of goods and services and reimbursements¹ shown for "Other Defense Organizations" in the DoD consolidated financial statements for

¹ In this report, revenues earned or reimbursements received from the sale of goods or services by any type of fund (that is, appropriated, revolving, trust, etc.) will be referred to as revenues from reimbursable activity.

FY 1996. We also evaluated accounting policies for recording those revenues and expenses and the consistency of accounting and reporting among the various organizations submitting information to the Defense Finance and Accounting Service Indianapolis Center. In addition, we also reviewed internal controls as they applied to the audit objectives. Appendix A discusses the audit scope and methodology and the review of the internal control program. Appendix B provides a summary of related prior audits. Other matters of interest are discussed in Appendix C.

Finding A. Reliability of Revenues and Expenses on the Statement of Operations

DFAS Indianapolis Center and accounting offices overstated revenues from reimbursable activity by at least ^{NSA: (b)(3)} million ^{NSA: (b)(3)} million by DFAS Indianapolis Center and ^{NSA: (b)(3)} million by accounting offices) in the FY 1996 Statement of Operations for "Other Defense Organizations," and DFAS Indianapolis Center overstated expenses from reimbursable activity by ^{NSA: (b)(3)} billion. Also, DFAS Indianapolis Center overstated the Appropriated Capital Used account (a revenue account) by ^{NSA: (b)(3)} billion. The overstatements occurred because of the following:

- o DFAS Indianapolis Center personnel did not determine whether organizations had already reported revenues and expenses in other general ledger accounts before adjusting the accounts to equal revenues from reimbursements shown in the Report on Budget Execution, and DFAS Indianapolis Center made other unsupported adjustments.

- o Accounting offices submitting financial information for incorporation into the financial statements for "Other Defense Organizations" incorrectly recognized revenues based on obligations, did not review the validity of trial balances submitted to DFAS Indianapolis Center, or made other accounting or reporting errors.

- o DFAS Indianapolis Center personnel incorrectly adjusted the Appropriated Capital Used account for reimbursable activity already included in other revenue accounts, and the Washington Headquarters Services Allotment Accounting System contained programming errors affecting the Appropriated Capital Used account.

As a result, the Statement of Operations for "Other Defense Organizations" was not reliable and did not accurately present the results of operations for FY 1996.

Financial Statement Compilation Process

DFAS Indianapolis Center Responsibility. During FY 1996, DFAS Indianapolis Center assumed the responsibility for preparing financial statements for Department 97 appropriations. To prepare the financial statements, DFAS Indianapolis Center required Defense agencies and DFAS accounting offices to submit trial balances at the end of FY 1996 using accounts from the DoD Standard General Ledger.

Finding A. Reliability of Revenues and Expenses on the Statement of Operations

Procedures for Adjusting Trial Balances. After receipt of trial balances as of September 30, 1996, from supporting accounting offices, DFAS Indianapolis Center personnel compared balances of applicable general ledger accounts with comparable amounts shown on Accounting Report (M)1176 ("Report on Budget Execution"). If the amounts in a trial balance were different than the amounts shown in a Report on Budget Execution for the same type of activity, DFAS Indianapolis Center personnel adjusted the trial balance accounts to agree with the Report on Budget Execution. DFAS Indianapolis Center personnel adjusted the trial balance to agree with the Report on Budget Execution because the Report on Budget Execution was "certified" by reporting Defense agencies or DFAS personnel. DFAS Indianapolis Center also made other adjustments to trial balances that reporting organizations submitted, such as adjusting the Appropriated Capital Used account, to try to ensure that it accurately reported financial information.

Revenues and Expenses From Reimbursable Activity. To determine whether accounting offices correctly reported revenues and expenses from reimbursable activity, DFAS Indianapolis Center personnel compared reimbursements earned (line 3A of the Report on Budget Execution) with revenues from the sale of goods or services reported in general ledger account codes (GLACs) 5100 (Revenues From Goods Sold) and 5200 (Revenues From Services Provided) shown in trial balances submitted to DFAS Indianapolis Center². DFAS Indianapolis Center personnel adjusted Revenues From Sales of Goods and Services (GLACs 5100 and 5200³) to equal the amount shown on line 3A of the Report on Budget Execution if the amounts in the trial balance differed from those in the Report on Budget Execution. DFAS Indianapolis Center also adjusted Cost of Goods Sold (GLAC 6500) for appropriated (general) funds to equal the amount of reimbursements earned as shown in the Report on Budget Execution because reimbursements earned for general funds are generated from expenses that the providing organization incurs.

Appropriated Capital Used. During the compilation process, DFAS Indianapolis Center personnel also compared the Appropriated Capital Used account (GLAC 5700) for general funds with operating expenses to ensure that revenues from appropriated capital provided were equal to expenses. Appropriated Capital Used is a revenue account that is increased when expenses

²The Inspector General, DoD, is performing an audit on the "Compilation of the FY 1996 Financial Statements for 'Other Defense Organizations,'" Project No. 7RF-2009.02. According to the audit, the DFAS Indianapolis Center incorrectly excluded account balances, to include reimbursements earned, from appropriations that were canceled by the Department of the Treasury on September 30, 1996. The DFAS Indianapolis Center misstatements related to the exclusion are not shown in the current audit report.

³The DoD financial statements did not differentiate between revenues from goods sold and revenues from services provided. Therefore, in this report, we will use the term "Revenues From Sales of Goods and Services" to indicate revenues recorded in either GLAC 5100 or GLAC 5200.

Finding A. Reliability of Revenues and Expenses on the Statement of Operations

from appropriated funds are recorded. Entries to the Appropriated Capital Used account should generally be equal to the funded expenses recorded against the financing appropriation.

DFAS Indianapolis Center Adjustments to Revenues and Expenses From Reimbursable Activity

Adjustments to Revenues From Reimbursable Activity. DFAS Indianapolis Center personnel incorrectly adjusted revenues from reimbursable activity shown in trial balances by at least NSA: (b)(3) million (see Appendix D). The overstatements were caused by the following:

- o In the trial balances, DFAS Indianapolis Center personnel incorrectly doubled NSA: (b)(3) million in revenues from reimbursable activity for appropriated fund organizations that were not recorded in GLACs 5100 or 5200. DFAS Indianapolis Center personnel expected that all organizations would report revenues from reimbursements in GLACs 5100 or 5200. Therefore, DFAS Indianapolis Center adjusted those accounts to equal the revenues from reimbursements shown on the Report on Budget Execution without removing the revenues from the Miscellaneous Reimbursements account.

- o DFAS Indianapolis Center personnel also made an error in addition in adjusting the trial balance that incorrectly increased revenues from reimbursements for the Defense Health Program by \$10 million. If DFAS Indianapolis Center personnel had reviewed the adjustments more closely, they may have found the addition error.

Adjustments to Expenses From Reimbursable Activity. DFAS Indianapolis Center personnel incorrectly added NSA: (b)(3) billion in adjustments to expenses related to reimbursable activity in the trial balances submitted for "Other Defense Organizations." Appendix E shows the amounts overstated by Defense organization. Certain accounting organizations already included the NSA: (b)(3) billion in the expenses that they submitted. DFAS Indianapolis Center personnel expected that expenses from reimbursable activity for appropriated (general) funds should be equal to revenues from reimbursements. The assumption was correct, because Defense organizations earn reimbursements based on completion of customer orders. However, DFAS Indianapolis Center personnel incorrectly believed that accounting organizations did not report expenses from reimbursable activity if those expenses were not in the Cost of Goods Sold account (GLAC 6500). Therefore, for appropriated funds, DFAS Indianapolis Center adjusted the Cost of Goods Sold account to equal the revenues from reimbursements.

Accounting organizations using the Washington Headquarters Services Allotment Accounting System, the Centralized Accounting and Financial

Finding A. Reliability of Revenues and Expenses on the Statement of Operations

Management System, the Defense Business Management System, the Resource Accounting Management System, and the College and University Financial System were including the expenses related to reimbursable activity in Operating/Program Expenses accounts (GLAC 6100 series).

In adjusting the Cost of Goods Sold account, DFAS Indianapolis Center personnel also made other unsupported adjustments for \$7.5 million.

- o DFAS Indianapolis Center personnel increased the Cost of Goods Sold account by \$4.8 million for the U.S. Special Operations Command without any documentation to support the entry, and

- o DFAS Indianapolis Center personnel increased the Cost of Goods Sold account by **DODIG: (b)(7)(E)** million for the National Imagery and Mapping Agency because of a posting error.

Accounting and Reporting Procedures That Affected Revenue and Expenses From Reimbursable Activity

Accounting offices supporting Defense organizations overstated net revenues and expenses from reimbursable activity by **NSA: (b)(3)** million (Appendix D) and **NSA: (b)(3)** million (Appendix E), respectively.

- o Accounting offices overstated revenues and expenses by a net **DODIG: (b)(7)(E)** million and **DODIG: (b)(7)(E)** million, respectively, because they incorrectly based revenue or expenses on obligations.

- o Accounting offices overstated revenues by \$133 million and understated expenses by \$4.2 million because they did not compare trial balances with the Report on Budget Execution.

- o Accounting offices overstated revenues from reimbursable activity by \$39.7 million and understated expenses by \$6.5 million because of various accounting or reporting errors.

Recognition of Revenues From Reimbursements Based on Obligations.

Accounting offices overstated net revenues from reimbursable activity by at least **DODIG: (b)(7)(E)** million and overstated expenses by at least **DODIG: (b)(7)(E)** million. Five organizations, as shown in the following table, incorrectly recognized revenues or expenses from reimbursable activity based on obligations rather than on when the goods or services were provided.

Finding A. Reliability of Revenues and Expenses on the Statement of Operations

Misstatements of Revenues or Expenses From Reimbursable Activity Based on Use of Obligations

<u>Defense Organization</u>	<u>Misstatements of Revenues (millions)</u>	<u>Expenses (millions)</u>
Defense Advanced Research Projects Agency	\$ (11.5)	-
Defense Information Systems Agency	8.3	-
Defense Intelligence Agency	DODIG: (b)(7)(E)	
Defense Logistics Agency	9.5*	9.5
Washington Headquarters Services	12.8	
Total	\$ DODIG: (b)(7)(E)	

*See footnotes to Appendix D for discussion of possible additional misstatements not identified.

Recognition of revenues based on obligations violated key accounting requirement⁴ No. 5, "Accrual Accounting," which requires transactions to be entered into accounting records as events occur (or as adjusted at the end of the month). Obligations do not create revenues or expenses. Defense organizations should recognize revenues when goods or services are provided.

Comparison of Trial Balances With the Report on Budget Execution.

Accounting offices overstated revenues from reimbursable activity by \$133 million and understated related expenses by \$4.2 million. Accounting personnel at three organizations did not compare revenues or expenses from reimbursable activity shown in trial balances with information reported on the Report on Budget Execution.

Department of Defense Education Activity. The Department of Defense Education Activity's (DoDEA) trial balance overstated revenues from reimbursable activity by \$133.9 million. DoDEA personnel did not review the trial balance submitted to DFAS Indianapolis Center for FY 1996 and did not compare information shown on the trial balance with the Report on Budget Execution. At the time of our audit in April 1997, DoDEA personnel had not developed procedures for reconciling earned and unearned revenues from reimbursements shown in the Washington Headquarters Services Allotment Accounting System with earned and unearned revenues reported on the Report on Budget Execution.

⁴Volume 1 of the FMR shows 13 key accounting requirements. Key accounting requirements are a composite of General Accounting Office, Office of Management and Budget, Department of the Treasury, and DoD regulations. All DoD accounting systems must comply with the key accounting requirements.

Finding A. Reliability of Revenues and Expenses on the Statement of Operations

Before FY 1996, DoDEA did not use a general ledger accounting system. However, during FY 1996, DoDEA transferred, on a test basis, accounting data maintained in its accounting records to the Washington Headquarters Services Allotment Accounting System. Washington Headquarters Services accounting personnel transferred the test data trial balance to DFAS Indianapolis Center. However, DoDEA personnel did not know that DFAS Indianapolis Center would use the data to prepare a financial statement for DoDEA. The trial balance with the test data incorrectly included \$139.9 million in revenues from reimbursements earned during prior years.⁵

Defense Contract Audit Agency. DFAS Indianapolis Center understated revenues and expenses from reimbursements for the Defense Contract Audit Agency by \$0.9 million in adjusting the revenues from the trial balance to agree with the Report on Budget Execution. However, revenues from reimbursements on the trial balance were correct. The Report on Budget Execution was understated by \$0.9 million because of a key-stroke error that DFAS-Columbus Center personnel made in preparing the Report on Budget Execution. Personnel at the DFAS-Columbus Center did not find the discrepancy because the DFAS-Columbus Center had not established procedures to compare the trial balance submitted to DFAS Indianapolis Center with the Report on Budget Execution.

National Security Agency. National Security Agency personnel inadvertently omitted from the trial balance the \$^{NSA: (b)(3)} in revenues from reimbursable activity when they transferred information from the general ledger to a manually prepared trial balance that they submitted to DFAS Indianapolis Center. DFAS Indianapolis Center personnel corrected that error when comparing the trial balance with the Report on Budget Execution. However, DFAS Indianapolis Center personnel were unable to correctly adjust another error that National Security Agency accounting personnel made related to the Cost of Goods Sold account. National Security Agency personnel overstated the Cost of Goods Sold account submitted to DFAS Indianapolis Center by \$^{NSA: (b)(3)} because of posting errors. DFAS Indianapolis Center personnel noted the errors in reviewing the trial balance, but incorrectly adjusted the Appropriated Capital account rather than operating expenses. Therefore, operating expenses were understated by \$^{NSA: (b)(3)} in the FY 1996 Statement of Operations. National Security Agency accounting personnel could have found and corrected the error if they had compared the trial balances that they submitted to DFAS Indianapolis Center with the Report on Budget Execution submitted.

Other Accounting Procedural Concerns. Accounting procedures or programming errors at four accounting offices or organizations caused

⁵The "test" data contained other significant errors also. Comparison of total operating expenses in the trial balance submitted for DoDEA with net accrued expenditures on line 16 of the Report on Budget Execution showed that the operating expenses and Appropriated Capital Used in the trial balance (and reported on the Statement of Operations) were \$2.5 billion more than accrued expenditures shown in the Report on Budget Execution. Comparison of information on the trial balance with information in the Report on Budget Execution would have shown the discrepancy.

Finding A. Reliability of Revenues and Expenses on the Statement of Operations

misstatements of revenues or expenses. Accounting offices overstated revenues from reimbursable activity by \$39.7 million and understated expenses included in the cost of goods sold by \$6.5 million (consisting of an \$11.1 million understatement and a \$4.6 million overstatement).

U. S. Special Operations Command. The DFAS Rock Island Office overstated revenues from reimbursable activity that it reported to DFAS Indianapolis Center for the U.S. Special Operations Command by \$29 million in FY 1996. Accounting personnel were properly recording expenses related to reimbursable activity when they recorded liabilities. However, they did not recognize revenues based on accrual of expenses, but recorded revenues when they established accounts receivable. Because the accounting personnel did not establish accounts receivable simultaneously when the expenses were recorded, they did not report \$29 million in revenues from reimbursable activity earned during FY 1995 until FY 1996. The DFAS Rock Island Office should establish procedures to ensure that it recognizes revenues and expenses from reimbursable activity during the same accounting period.

Civilian Health and Medical Program. Revenues from reimbursable activity of the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) exceeded expenses by \$10.7 million. (Administration of the CHAMPUS program was transferred to the Tricare Support Office. That office was formerly known as CHAMPUS.) Accounting personnel for CHAMPUS reduced expenses from reimbursable activity when they recorded refunds receivable from the health service provider based on overcharges. However, they did not reduce revenues until they collected the refunds, which could have been during a later accounting period, or never, in which case the refunds receivable were written off as a bad debts expense. As a result, revenues and expenses related to reimbursable activity for FY 1996 did not match. During discussions with Tricare Support Office accounting personnel, they proposed changes to their accounting procedures that would record overcharges in an unearned revenues account until the refunds receivable were collected or written off as a bad debts expense. That procedure would ensure that the reported costs (expenses) for reimbursable activity plus bad debts expense equaled the reported revenues for the same period.

Homeowners Assistance Fund. Army Corps of Engineers personnel accounting for the Homeowners Assistance Fund (a revolving fund) incorrectly programmed its accounting systems to make revenues from the sale of homes equal the cost of homes purchased. The trial balance showed the gain or loss from the sale of the homes in GLACs 7110 and 7210 (Gain [or] Loss on Disposition of Assets), and DFAS Indianapolis Center reported it as such in the Statement of Operations for "Other Defense Organizations." That procedure caused the Cost of Goods Sold account to be understated by \$11.1 million for FY 1996 because the homes were sold for \$11.1 million less than they cost.

The Homeowners Assistance Fund buys and sells homes as part of its ordinary course of operations. Therefore, the cost of those homes should appropriately be shown in a Cost of Goods Sold account. The Army Corps of

Finding A. Reliability of Revenues and Expenses on the Statement of Operations

Engineers should reprogram its accounting system to show the actual cost of goods sold (acquisition cost of homes) rather than forcing the Cost of Goods Sold account to equal the sales price with the difference shown in a gain or loss account.

Applied Overhead. Included in the cost of goods sold shown on the Statement of Operations for FY 1996 for "Other Defense Organizations" was \$4.6 million from the Applied Overhead account (GLAC 6600). DFAS Indianapolis Center included GLAC 6600 with the cost of goods sold based on instructions in "DoD Guidance on Form and Content of Financial Statements for FY 1996 Financial Activity," November 8, 1996, that the Under Secretary of Defense (Comptroller) issued. However, our review of the account for "Other Defense Organizations" indicated that the expense was not related to the cost of goods sold by the reporting organizations. The costs were applied overhead that the Army Corps of Engineers Revolving Fund charged various organizations for services that it provided.

The Army Corps of Engineers should discontinue reporting expenses charged to other funds in GLAC 6600 or should provide DFAS Indianapolis Center with instructions to charge the operating expenses of the applicable funds with the amount reported in GLAC 6600.

Accounting and Reporting of Appropriated Capital Used

The Appropriated Capital Used account was overstated by **DODIG: (b)(7)(E)** billion; **DODIG: (b)(7)(E)** billion from improper DFAS Indianapolis Center adjustments and **DODIG: (b)(7)(E)** million from a programming error in the Washington Headquarters Services Allotment Accounting System. Appendix F contains the Defense organizations affected.

DFAS Indianapolis Center Adjustments to Appropriated Capital Used. DFAS Indianapolis Center personnel overstated the Appropriated Capital Used account (GLAC 5700) by **DODIG: (b)(7)(E)** billion as a result of incorrect adjustments. DFAS Indianapolis Center personnel adjusted the Appropriated Capital Used account on each trial balance for general funds submitted to equal funded operating expenses (GLAC 6100 series) and Other Interest Expense (GLAC 6330). However, as previously discussed, DFAS Indianapolis Center personnel did not transfer the reimbursable expenses included in the operating expense accounts to the Cost of Goods Sold (GLAC 6500) account before adjusting to the Appropriated Capital Used account. Therefore, appropriated capital used reported on the Statement of Operations was overstated by **DODIG: (b)(7)(E)** billion, which was the amount of expenses from reimbursable activity included in program or operating expenses.

Finding A. Reliability of Revenues and Expenses on the Statement of Operations

Use of the Appropriated Capital Used Account. Appropriated Capital Used accounts were overstated by ^{DODIG: (b)}_{(7)(E)} million for Defense organizations shown in Appendix F because Washington Headquarters Services personnel incorrectly programmed the Washington Headquarters Services Allotment Accounting System to adjust the Appropriated Capital Used account for expenses for reimbursable activity. Revenues provided for expenses from reimbursable activity were also shown in the Miscellaneous Reimbursements account (GLAC 5910) in the Washington Headquarters Services Allotment Accounting System.

Recommendations and Management Comments

A.1. We recommend that the Director, Defense Finance and Accounting Service Indianapolis Center, establish procedures to:

a. Verify that the Defense Finance and Accounting Service Indianapolis Center only includes revenues and expenses from reimbursable activity once for each organization included in “Other Defense Organizations.”

b. Review and support adjustments to revenues and expenses from reimbursable activity.

c. Verify that Appropriated Capital Used accounts included in trial balance submissions from Defense Organizations does not include funds from reimbursable activity.

Management Comments Required. The DFAS did not comment on a draft of this report. We request that DFAS provide comments on the final report.

A.2. We recommend that the Director, Defense Finance and Accounting Service Indianapolis Center, Customer Support Division; the Director, Defense Information Systems Agency; the Director, Defense Logistics Agency; and the Director, Washington Headquarters Services, account for and report revenues from reimbursable activity when they provide goods or services rather than when they record obligations.

Management Comments. All organizations, except DFAS, responded, concurred, and stated that they would recognize revenues from reimbursable activity when goods or services are provided.

Management Comments Required. The DFAS did not comment on a draft of this report. We request that DFAS provide comments on the final report.

Finding A. Reliability of Revenues and Expenses on the Statement of Operations

A.3. We recommend that the Director, Department of Defense Education Activity; the Director, Defense Finance and Accounting Service Columbus Center; and the Director, National Security Agency, establish procedures to verify that revenues and expenses from reimbursable activity for appropriated funds reported on trial balances to the Defense Finance and Accounting Service Indianapolis Center equal the amounts reported on the "Report(s) on Budget Execution."

Management Comments. The DoDEA, the National Security Agency, and the Washington Headquarters Services concurred and stated that they will verify that revenues and expenses from reimbursable activity reported in trial balances will equal the amounts reported on the "Report(s) on Budget Execution."

Management Comments Required. The DFAS did not comment on a draft of this report. We request that DFAS provide comments on the final report.

Under Secretary of Defense (Comptroller) Comments. Although the recommendation was not addressed to the Under Secretary of Defense (Comptroller), the Under Secretary stated that revenues and expenses from reimbursable activity should not be necessarily equal for revolving (working capital) funds because reimbursement rates are fixed, and revenues are not likely to equal the expense amounts that are not fixed.

Audit Response. We agree with the Under Secretary's comments and have clarified the recommendation in the final report to show that revenues and expenses from reimbursable activity should be equal for organizations operating on appropriated funds.

A.4. We recommend that the Director, Defense Finance and Accounting Service Rock Island Operating Location, and the Director, Tricare Support Office, establish procedures to require that they recognize and accrue revenues and expenses from reimbursable activity during the same accounting period.

Management Comments. In responding for the Tricare Support Office, the Assistant Secretary of Defense (Health Affairs) concurred and stated that procedures to correct the problems recording revenues and expenses from reimbursable activity were corrected in September 1997.

Management Comments Required. The DFAS did not comment on a draft of this report. We request that DFAS provide comments on the final report.

A.5. We recommend that the Commander, U.S. Army Corps of Engineers:

a. Reprogram its general ledger accounting system for the Homeowners Assistance Fund to record in general ledger account code 6500 (Cost of Goods Sold) only the acquisition costs of homes sold.

Finding A. Reliability of Revenues and Expenses on the Statement of Operations

b. Discontinue reporting expenses charged to other funds in general ledger account code 6600 (Applied Overhead) or provide the Defense Finance and Accounting Service Indianapolis Center with instructions to charge the operating expenses of the applicable funds with the amounts reported in the Applied Overhead account.

Management Comments Required. The Army did not comment on a draft of this report. We request that the Army provide comments on the final report.

A.6. We recommend that the Director, Washington Headquarters Services, reprogram the Washington Headquarters Services Allotment Accounting System to exclude revenues recognized from reimbursable activity from being posted to the Appropriated Capital Used account.

Management Comments. The Washington Headquarters Services concurred and stated that it completed reprogramming on October 17, 1997, to exclude reimbursable activity from the Appropriated Capital Used account.

Finding B. Use of General Ledger Account Codes to Record Reimbursable Transactions

Accounting offices supporting "Other Defense Organizations" used different GLACs to record revenues and expenses from reimbursable activity. The inconsistencies occurred because DoD and the DFAS Indianapolis Center issued guidance on the use of GLACs that was not clear or consistent. As a result, the Statement of Operations for "Other Defense Organizations" for FY 1996 showed the same type of revenues and expenses in different places, making the Statement of Operations unreliable.

DoD and DFAS Indianapolis Center Guidance

DoD Guidance. DoD 7000.14-R, "Financial Management Regulation," volume 4, "Accounting Policy and Procedures," provides guidance on recording revenues and expenses related to reimbursable activity.

Revenues From Reimbursable Activity. The Financial Management Regulation (FMR) states that revenues from goods sold or services provided should be recorded in GLACs 5100 or 5200 (Revenues From Sales of Goods or Services). The FMR does not prohibit appropriated funds from using GLACs 5100 or 5200. However, when discussing how to use GLACs 5100 and 5200, the FMR states that the accounts "relate to DoD business operations fund activities." The FMR further states that GLAC 5910 (Miscellaneous Reimbursements) "is used to record the amount of revenues earned from miscellaneous sources not specifically provided for in other revenues accounts as reimbursable to DoD appropriations." The FMR also indicates that appropriated funds (general funds) are authorized to use GLACs 5100, 5200, and 5910. However, business operations funds (revolving funds) and specific trust funds are not authorized to use the GLAC 5900 series.

Expenses From Reimbursable Activity. According to the FMR, DoD organizations should use GLAC 6100 series accounts to record "Operating/Program Expenses." The FMR also states that GLAC 6500 is used to record the cost of goods or services sold from stock or by other DoD organizations authorized to provide services or material to Government organizations. The only examples in the FMR on pro-forma, or standard, accounting entries for GLAC 6500 show it being used to record costs previously accumulated in inventory or work-in-process accounts. The FMR indicates that

Finding B. Use of General Ledger Account Codes to Record Reimbursable Transactions

all types of funds can use GLAC 6500 to include appropriated fund organizations, which "shall use this account to support reimbursable programs when necessary."

DFAS Indianapolis Center Guidance. Guidance in DFAS Indianapolis Center Regulation 37-1, "Finance and Accounting Policy Implementation," September 18, 1995, is similar to the FMR in defining GLACs 5100 and 5200. In defining GLAC 5900⁶, DFAS Indianapolis Center Regulation 37-1 states that the accounting offices should use the account to "record revenues from reimbursable work performed using appropriated funds." Although the definition of GLAC 5900 is clear in DFAS Indianapolis Center Regulation 37-1, none of the pro-forma accounting entries shown in DFAS Indianapolis Center Regulation 37-1 indicates use of GLAC 5900. Revenues from reimbursable activity are always shown in DFAS Indianapolis Center Regulation 37-1 to be recorded in GLAC 5100 or GLAC 5200.

DFAS Indianapolis Center Regulation 37-1 states that accounting offices should use GLAC 6500 to record expenses related to customer orders for the reimbursable program. The regulation also shows pro-forma entries using GLAC 6500 to record the cost of goods or services related to reimbursements.

Procedures Used by DoD Accounting Offices

Accounting for Appropriated Funds. Accounting offices supporting "Other Defense Organizations" did not account for or report revenues and expenses from reimbursable activity consistently because DoD and DFAS Indianapolis Center guidance was not clear or consistent on the GLACs to use to record revenues and expenses from reimbursable activity. Accounting offices using DFAS Indianapolis Center accounting systems designed for appropriated (general) funds reported revenues from reimbursable activities in GLACs 5100 and 5200 (Revenues From Sales of Goods or Services) and related expenses in GLAC 6500 (Cost of Goods Sold). Also, accounting offices submitting information from the DFAS centers performing accounting for the Air Force and Navy organizations, DFAS Denver Center and DFAS Cleveland Center, generally reported revenues from reimbursable activity in GLACs 5100 and 5200 with equal costs shown in GLAC 6500.

⁶DFAS Indianapolis Center Regulation 37-1 does not show GLAC 5910. DFAS Indianapolis Center Regulation 37-1 defines GLAC 5900 as "Miscellaneous Reimbursements," which is the same title as shown in volume 1, FMR, for GLAC 5910.

Finding B. Use of General Ledger Account Codes to Record Reimbursable Transactions

However, other DoD accounting organizations submitting trial balances used a variety of accounting and reporting procedures, as shown in Appendix G.

- o Five accounting systems or information from those systems supporting nine organizations included in this audit recorded or reported revenues from reimbursable activity as Miscellaneous Reimbursements.

- o Five accounting systems or information from those systems supporting nine organizations included in this audit recorded expenses related to reimbursable activity as operating or program expenses (GLAC 6100 series) rather than as a cost of goods sold.

Even if DFAS Indianapolis Center had not made the mistakes shown in Finding A in adjusting revenues and expenses from reimbursable activity, the inconsistencies in accounting for and reporting revenues and expenses made the Statement of Operations unreliable.

Accounting for Revolving and Trust Funds. DFAS Indianapolis Center accounting personnel were not consistent in compiling revenues and expenses for revolving and trust funds. DFAS Indianapolis Center personnel adjusted revenues reported by the Washington Headquarters Services for two revolving funds in GLAC 5910 to GLAC 5200. However, for the Commissary Surcharge Collection Fund, DFAS Indianapolis Center personnel adjusted the revenues from goods sold that the DFAS-Columbus Center reported in GLAC 5200 to GLAC 5910 (Miscellaneous Reimbursements) because no costs of goods sold were reported. DFAS Indianapolis Center personnel left revenues that a DFAS accounting office in Europe reported for the fund in GLACs 5100 and 5200. As a result, revenues from the same type of operations were shown on the Statement of Operations in two different places--revenues from sales of goods and services and miscellaneous reimbursements.

A lack of guidance by DoD regulations on where to report revenues by the Commissary Surcharge Collection Fund and the use of two different accounting systems contributed to reporting the same type of revenues in two different places.

Conclusion

We agree with the procedures used by most accounting offices under control of DFAS Indianapolis Center in recording revenues from reimbursable activity as Revenues From Sales of Goods and Services (GLACs 5100 or 5200) and recording the expenses to generate those reimbursable revenues as Cost of Goods Sold (GLAC 6500). However, DFAS Indianapolis Center Regulation 37-1 directly contradicts that procedure in defining GLAC 5900 (but shows no pro-forma entries on when to use GLAC 5900). The lack of definitive guidance

Finding B. Use of General Ledger Account Codes to Record Reimbursable Transactions

from the Under Secretary of Defense (Comptroller) and conflicting guidance from DFAS Indianapolis Center to account for and report revenues and expenses related to reimbursable activities contributed to the varied ways that Defense organizations reported revenues and expenses. The Under Secretary of Defense (Comptroller) needs to issue specific guidance to Defense organizations on when and how they should use GLACs 5100, 5200, 5910, and 6500 for appropriated, revolving, and trust funds.

Recommendation and Management Comments

B. We recommend that the Under Secretary of Defense (Comptroller) clarify guidance on the general ledger account codes that Defense organizations should use for recording revenues and expenses for reimbursable activity for all appropriated, revolving, and trust funds.

Management Comments. The Under Secretary of Defense (Comptroller) concurred with the recommendation and stated that a revision to the FMR is in process to show the revenue and expense accounts that should be used for reimbursable activity.

Part II - Additional Information

Appendix A. Audit Process

Scope and Methodology

We reviewed DoD and DFAS Indianapolis Center regulations discussing policy and procedures for recognizing and reporting revenues and expenses from reimbursable activity. We also discussed policy interpretation with personnel at DFAS Indianapolis Center and at the Office of the Under Secretary of Defense (Comptroller). In addition, we discussed the reasons for adjustments to revenues and cost of goods sold general ledger accounts that DFAS Indianapolis Center personnel made.

We verified that the following accounts shown in the adjusted trial balance for "Other Defense Organizations" equaled the amounts shown in the Statement of Operations for FY 1996.

Revenues and Expense Accounts Reviewed During the Audit

<u>GLAC</u>	<u>Account(s)</u>	<u>Amount</u> <u>(millions)</u>
5100/5200	Revenues From Sales of Goods and Services	\$ 5,630.2
6500	Cost of Goods Sold	5,362.3
6600	Applied Overhead	4.6
5910	Miscellaneous Reimbursements	627.4
5900	Other Revenues	4.3

We reviewed revenues and expenses on the FY 1996 trial balances submitted for "Other Defense Organizations" in sales of goods or services or miscellaneous revenues. We visited accounting offices and organizations reporting at least \$10 million in revenues and expenses from reimbursable activity to determine general policies and procedures for recognizing and reporting revenues and expenses from reimbursable activity, except for the numerous DFAS offices accounting for reimbursable activity for the Defense Health Program and the U.S. Special Operations Command. We only visited those DFAS accounting offices at which DFAS Indianapolis Center personnel adjusted revenues or expenses from reimbursable activity.

We performed on-site reviews by taking small exploratory samples of FY 1997 reimbursable sales and expense transactions and requesting special queries to reconcile information recorded. We also reviewed and discussed accounting procedures with accounting personnel and reviewed selected supporting information used to prepare trial balances submitted to DFAS Indianapolis Center. We also reviewed and evaluated the propriety and effect of journal vouchers that DFAS Indianapolis Center prepared that affected

Revenues From Sales of Goods and Services (GLACs 5100 and 5200), Miscellaneous Reimbursements (GLAC 5910), Appropriated Capital Used (GLAC 5700), and Cost of Goods Sold (GLAC 6500).

Although we performed limited judgmental sampling of FY 1997 revenues and expense transactions, we limited our reviews of the reliability of reported information for FY 1996 and revenues and expenses related to reimbursable activity to an evaluation of accounting procedures used. This audit was not intended to provide an overall opinion of the reported balances in financial reports. Therefore, we did not perform comprehensive reviews or select statistical samples of transactions supporting revenues and expenses related to reimbursable activity.

Use of Computer-Processed Data. We performed limited reviews of computer-processed data to determine how accounting systems were designed to record revenues and expenses from reimbursable activity. We determined that revenues from reimbursable activity were not reliable for organizations that based revenues on obligations rather than on actual reimbursements earned. Our review of computer-processed adjustments to the trial balances showed that DFAS Indianapolis Center assumptions on the trial balances that non-DFAS Indianapolis Center organizations prepared were not correct. Therefore, the balances of revenues from sales of goods and services, other revenues, cost of goods sold, and the appropriated capital used as shown on the Statement of Operations for "Other Defense Organizations" were not correct.

Audit Period and Standards. We performed this financial-related audit from February through June 1997, in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD, based on the objectives of the audit and the limitations in the scope described in this appendix. Accordingly, we included tests of internal controls considered necessary.

Audit Contacts. We performed audit work at accounting offices supporting Defense organizations and contacted Defense agencies and other individuals during the audit. Further details are available upon request.

Internal Control Program

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Internal Control Program. We performed general reviews of the adequacy of the DFAS Indianapolis Center internal control program over receiving, compiling, adjusting, and reporting for "Other Defense Organizations" during the audit of internal controls and compliance with laws

and regulations, Report No. 97-155 (See Appendix B). We reviewed internal controls and procedures at DFAS Indianapolis Center relating to adjusting and reporting revenues and expenses from reimbursable activity. Audit work at accounting offices providing financial data to DFAS Indianapolis Center were limited to reviews of general accounting procedures for recognizing and recording revenues.

Adequacy of Internal Controls. We identified a material internal control weakness, as defined by DoD Directive 5010.38, at DFAS Indianapolis Center. Internal controls at DFAS Indianapolis Center for departmental financial reporting were not adequate to ensure that DFAS Indianapolis Center adjustments to trial balances submitted to support financial statements were needed or that the information was not already reported elsewhere. Recommendation A.1., if implemented, will correct the deficiency. A copy of the report will be provided to the senior DFAS official responsible for internal controls at DFAS.

Adequacy of Management's Self-Evaluation. Management's self-evaluation did not detect and report the internal control weakness identified in this report because DFAS Indianapolis Center did not assess the reconciliation and adjustment process for "Other Defense Organizations" as part of the DFAS Indianapolis Center internal control program.

Appendix B. Summary of Prior Coverage

The Inspector General, DoD, has published numerous audit reports in response to the requirements of the Chief Financial Officers act. The following four reports include specific information related to this audit.

Report No. 97-155, "Internal Controls and Compliance With Laws and Regulations for the FY 1996 Financial Statements of the 'Other Defense Organizations' Receiving Department 97 Appropriations," June 11, 1997. The report states that the consolidated principal statements for "Other Defense Organizations" were not accurate and reliable representations of the financial operations of the Defense organizations and funds within Department 97. Financial information produced and reported for "Other Defense Organizations" was not in full compliance with regulatory and statutory requirements, and improvements in management controls were needed. Of specific interest to this audit, DFAS Indianapolis Center lacked internal controls needed to ensure that it thoroughly documented the process used to receive, adjust, and consolidate Defense organizations' financial information from trial balances and certified budget execution reports. The report recommended that DFAS Indianapolis Center maintain audit trails of adjustment transactions and document the review process used. DFAS concurred with the recommendations and stated that DFAS will work with organizations preparing trial balances to ensure that it has reconciled data received and that they are accurate to minimize the need to make adjustments.

Report No. 97-131, "Financial Management at the Department of Defense Education Activity," April 17, 1997. Included in the report is a finding related to reporting tuition collections. The report states that DoDEA did not report tuition collections in the fiscal year collected. DoDEA personnel did not promptly deposit tuition checks received in the Okinawa district, and in the Europe area, they deposited advanced tuition collections in a suspense rather than in the accounting records for the appropriate reimbursable appropriation. As a result, DoDEA applied FY 1995 funds of \$7.3 million to FY 1996 Operation and Maintenance funds.

The report recommended that DoDEA report all tuition in the fiscal year collected. DoDEA nonconcurred with the recommendation and appealed to the Under Secretary of Defense (Comptroller) for a waiver to the requirement. The Deputy Director for Accounting Policy stated that DoD policy is to record collections in the accounting period collected and earnings in the accounting period earned. However, the unearned portion of collections received during a fiscal year should be transferred to the following year's appropriation because a significant portion of the related services are to be performed in the following fiscal year.

Appendix B. Summary of Prior Coverage

The report also recommended that:

- o DoDEA train employees to ensure that they deposit tuition collections in a timely manner, and
- o DoDEA establish controls to hold European and Pacific areas accountable for processing tuition collections in accordance with DoD and DoDEA guidance, including abandoning the use of suspense accounts.

DoDEA concurred with those recommendations and stated that it would direct European and Pacific areas to deposit and report tuition collections in a timely manner, in accordance with the Under Secretary of Defense (Comptroller) guidance, and would abandon the use of suspense accounts.

Report No. 97-117, "Eliminating Entries," March 31, 1997. The report states that DoD generally did not report or properly report eliminating entries in the FY 1995 financial statements of entities to be included in the FY 1996 DoD-wide Consolidated Financial Statements. The most material and widespread types of transactions that DFAS should eliminate from DoD financial statements are reimbursable sales and purchases that include transactions between DoD Components and transactions within the same appropriation, account, or entity. The report recommended that DFAS:

- o Establish requirements for new and interim migratory accounting systems that will identify sellers and purchasers in reimbursable transactions.
- o Develop procedures for DFAS centers to extract reimbursable transactions from databases that support the Report on Reimbursements.

DFAS concurred with the recommendations and stated that it will award a contract to review and analyze eliminating entry requirements for the new departmental reporting system being developed. Also, DFAS will prepare guidance on identification of eliminating entry amounts to be reported in financial statements of DoD entities, DoD consolidated financial statements, and Government-wide financial statements.

The report also recommended that the Under Secretary of Defense (Comptroller) issue policy requiring that sellers and purchasers in reimbursable transactions be identified and that selling DoD Components be required to report annual sales to purchasing DoD Components. The Deputy Chief Financial Officer concurred and stated that FY 1997 guidance scheduled for release in late FY 1997 will reinstate the requirement for identifying sales between DoD reporting entities.

Report No. 97-045, "Financial Accounting at the Defense Intelligence Agency," December 12, 1996. The report states that Defense Intelligence Agency accounting records did not contain accurate financial information, and information reported to DFAS for the FY 1995 financial statements was incorrect. Included in the specific problems identified, the report states that the Defense Intelligence Agency recognized revenues and accounts receivable from reimbursements when funds were obligated rather than when the reimbursement

was earned. The report recommended that the Defense Intelligence Agency record revenues and accounts receivable from reimbursable activity based on actual or constructive performance of reimbursable orders. The Defense Intelligence Agency requested and received a limited waiver from the Under Secretary of Defense (Comptroller) to continue to record revenues from reimbursable activity for selected sensitive operations based on estimated accrued expenditure data. (Defense Intelligence Agency personnel stated that use of that estimated information would affect reimbursable revenues less than 1 percent.) However, for all other reimbursable activity, Defense Intelligence Agency personnel stated that they were now recording reimbursable earning based on performance.

Appendix C. Other Matters Of Interest

Intrafund Eliminations

The Under Secretary of Defense (Comptroller) issued "DoD Guidance on Form and Content of Financial Statements for FY 1996 Financial Activity," November 8, 1996. The guidance required organizations to prepare Note 29, "Intrafund Eliminations," to the financial statements. Among the requirements for Note 29 is a Schedule E. In Schedule E, the selling DoD reporting entity identifies sales, expenses, receivables, collections and disbursements, and other transactions between various DoD Components and between DoD and other Government reporting entities.

The purpose of identifying intrafund eliminations is to prepare eliminating entries to be made on consolidating financial statements for DoD as well as on the Government-wide consolidated financial statements. The most material and widespread types of transactions that should be eliminated from DoD financial statements are reimbursable sales and purchases between DoD Components and transactions within the same DoD appropriation, account, or entity.

The FY 1996 financial statements for "Other Defense Organizations" did not include eliminating entries. As stated in Note 29 of the "Other Defense Organizations" financial statements, "Current DoD Accounting Systems do not permit adequate identification of interdepartmental transactions at a level sufficient to accurately report these type transactions." Inspector General, DoD, Report No. 97-117, "Eliminating Entries," (see Appendix B) also found limitations in current DoD systems, in DoD guidance, and in DFAS procedures to extract reimbursable transactions from databases. DFAS concurred with the report's recommendation to develop procedures to extract information on reimbursable activity from account report (M)725, "Report on Reimbursements," and report the information in Note 29. Also, in its response, DFAS acknowledged that it did not obtain eliminating entries for "Other Defense Organizations" but "will address this issue for FY 1997 CFO [Chief Financial Officers] statements."

Although detailed, complete, and reliable information is not available to show all required eliminating entries, our review of information from (M) 725 reports for "Other Defense Organizations" showed that much information was available. Of the ^{NSA:} _{(b)(3)} billion in reimbursable sales included on the Statement of Operations (after adjustments for errors as shown in Appendix D), the (M) 725 report shows that \$4.6 billion was reimbursable sales to "Other Defense Organizations," \$100 million was intrafund sales (within Department 97), and \$417 million was reimbursable sales to other Federal agencies.

Failure to report such eliminating transactions in the consolidating DoD-wide financial statements overstated and distorted the overall activity of DoD. Based on the DFAS response to the report, Note 29 should at least show the information on eliminations available from the (M) 725 report in the FY 1997 financial statements for "Other Defense Organizations."

Revenues From Reimbursable Activity Reported for the Defense Logistics Agency

During our audit of the \$265 million in reported revenues from reimbursable activity at the Defense Logistics Agency (DLA) for FY 1996, we noted two reporting entities within DLA that reported a total of \$97 million in revenues from reimbursable activity that were not part of the DLA general fund.

Defense National Stockpile Center. The Defense National Stockpile Center accounts for transactions for the Defense National Stockpile Transaction Fund, a revolving fund, treasury fund symbol 97X4555 (Stockpile Fund). Separate financial statements for the Stockpile Fund are included as one of the nine major reporting entities for the DoD consolidating financial statements. However, instead of paying operating expenses directly from the fund, expenses are paid by DLA Operation and Maintenance appropriations, which receive reimbursement from the Stockpile Fund. During FY 1996, DLA reported \$42 million in reimbursable revenues from the Stockpile Fund. The revenues from that reimbursable activity were actually transfers of funds to pay for the operating expenses recorded in the Operation and Maintenance appropriations for DLA. The unnecessary use of the DLA general fund as a transfer account distorts operations reported in DLA financial statements.

Defense Technical Information Center. The Under Secretary of Defense (Comptroller) issues direct funding and reimbursable authority through the DLA general fund to the Defense Technical Information Center (the Center). However, the Center was transferred from DLA to the Under Secretary of Defense (Acquisition), now the Under Secretary of Defense for Acquisition and Technology, in 1991. During FY 1996, the Center received \$40 million in direct funding and reported \$55 million in revenues from reimbursable activity. Including financial information for the Center in financial statements for the DLA general fund will distort those financial statements. The Under Secretary of Defense (Comptroller) may wish to provide funding directly to the Center to make DLA financial statements more accurate.

Appendix D. Audit Adjustments to Revenues From Reimbursable Activity

Affected Department 97 Organizations	Financial Statement (millions)	Audit Adjustments			Total Adjusted Revenue From Reimbursements (millions)
		DFAS-IN Errors (millions)	Other Errors (millions)	Total (millions)	
Buildings Maintenance Fund	\$ 28.0	\$ -	\$ -	\$ -	\$ 28.0
Civilian Health and Medical Program of the Uniformed Services	3,713.3	(4.2)	(10.7)	(14.9)	3,698.4
Defense Advanced Research Projects Agency	34.0	(17.0)	11.5 ¹	(5.5)	28.5
Defense Commissary Agency (Surcharge Collections)	282.1	-	-	-	282.1
Defense Contract Audit Agency	45.1	-	0.9	0.9	46.0
Defense Health Program ²	584.8	(10.1) ³	-	(10.1)	574.7
Defense Information Systems Agency	147.9	(42.3)	(8.3)	(50.6)	97.3
Defense Intelligence Agency	DODIG: (b)(7)(E)				
Defense Logistics Agency	265.4	-	(9.5) ⁵	(9.5)	255.9
Defense Special Weapons Agency	75.2	(37.6)	-	(37.6)	37.6
Department of Defense Education Activity	222.6	(44.3)	(133.9)	(178.2)	44.4
Homeowners Assistance Fund	85.6	-	-	-	85.6
Kirtland Air Force Base	10.9	-	-	-	10.9
National Imagery and Mapping Agency	DODIG: (b)(7)(E)				
National Security Agency	NSA: (b)(3)				
Pentagon Reservation Maintenance Revolving Fund	237.7	-	-	-	237.7
U.S. Special Operations Command	181.8	-	(29.0)	(29.0)	152.8
Survivor Annuity Deposits ⁶	17.8	-	-	-	17.8
Uniformed Services University of the Health Sciences	59.4	(29.7)	-	(29.7)	29.7
Washington Headquarters Services	89.2	(44.5)	(12.8)	(57.3)	31.9
Other ⁷	40.1	(2.8)	-	(2.8)	37.3
Total	NSA: (b)(3)				

Note: See the footnotes on following page.

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Footnotes to Appendix D.

¹The Defense Accounting Office for Defense agencies within the Directorate for Defense Accounting, Customer Support Division, DFAS Indianapolis Center, performed accounting for the agency. DFAS Indianapolis Center personnel recorded revenues based on obligations in accordance with instructions from the Defense Advanced Research Projects Agency.

²The organization does not include CHAMPUS and Uniformed Services University of the Health Sciences, which are shown separately.

³A \$10 million error in addition by DFAS Indianapolis Center personnel caused most of the overstatement.

⁴We included only readily identifiable misstatements of revenue from reimbursable activity because of recent audit coverage identifying incorrect procedures in reporting earnings from reimbursable activity. The total misstatement may be larger. The Defense Intelligence Agency corrected procedures for recognizing earnings from reimbursable activity at the beginning of FY 1997 based on Inspector General, DoD, Report No. 97-045 (See Appendix B).

⁵The \$9.5 million overstatement in revenues was related only to accounting performed for the Defense National Stockpile Center, which showed \$42.5 million in revenues from reimbursable activity for FY 1996. Also included in revenue from reimbursable activity by the Defense Logistics Agency was about \$55 million from the Defense Technical Information Center. The Center incorrectly recognized revenues based on obligations. We did not obtain information on the correct amount of revenues and expenses that the Center should have reported because it had archived the accounting records.

⁶The deposits were reported as Miscellaneous Reimbursements on the Statement of Operations. It represents funds received that were transferred to the Treasury. The amount is offset on line 7 (Taxes or Receipts Transferred to the Treasury or Other Agencies) of the Statement of Operations.

⁷"Other" consists of agencies or funds showing less than \$10 million in revenue from reimbursable activity.

⁸The amount agrees with the Statement of Operations, line 2 (Revenues From Sales of Goods and Services) plus Miscellaneous Reimbursements and Other Revenue shown in Note 22.

Appendix E. Audit Adjustments to Expenses Related to Reimbursable Activity

Affected Department 97 Organizations	Audit Adjustments		Total (millions)
	DFAS-IN Errors (millions)	Other Accounting Errors (millions)	
Civilian Health and Medical Program of the Uniformed Services	\$(3,709.1)	\$ -	\$(3,709.1)
Defense Advanced Research Projects Agency	(17.0)	-	(17.0)
Defense Contract Audit Agency	(45.1)	0.9	(44.2)
Defense Health Program	(0.2)	-	(0.2)
Defense Information Systems Agency	(42.3)	-	(42.3)
Defense Intelligence Agency	(b)(7)(E)	-	(b)(7)(E)
Defense Logistics Agency	(265.4)	(9.5)	(274.9)
Defense Special Weapons Agency	(37.6)	-	(37.6)
Department of Defense Education Activity	(44.3)	-	(44.3)
Homeowners Assistance Fund	(0.1)	11.1	11.0
National Imagery and Mapping Agency	(b)(7)(E)	-	(b)(7)(E)
National Security Agency	NSA: (b)(3)	-	(b)(3)
U.S. Special Operations Command	(157.7) ³	-	(157.7)
Uniformed Services University of the Health Sciences	(29.1)	-	(29.1)
Washington Headquarters Services	(44.5)	-	(44.5)
GLAC 6600 (Applied Overhead)	-	(4.6)	(4.6)
Total	NSA: (b)(3)	-	(b)(3)

¹The amount includes a (b)(7)(E) million error in addition by DFAS Indianapolis Center personnel.

²The cost of goods sold was correctly stated in the Statement of Operations. However, operating expenses were understated by \$(b)(3) million because of errors related to reimbursable activity.

³The amount includes \$4.8 million in adjustments that DFAS Indianapolis Center made without any documentation.

⁴The expenses were reported both as program operating expenses and as cost of goods sold.

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Appendix F. Audit Adjustments to Appropriated Capital Used

Affected Department 97 Organizations	Overstatements From		
	DFAS-IN Adjustments (millions)	WHS Programming Error (millions)	Total (millions)
Civilian Health and Medical Program of the Uniformed Services	\$3,697.1	\$ -	\$3,697.1
Defense Advanced Research Projects Agency	-	28.4	28.4
Defense Contract Audit Agency	(10.1)	-	(10.1)
Defense Information Systems Agency	12.6	46.6	59.2
Defense Logistics Agency	265.4	-	265.4
Defense Special Weapons Agency	30.0	-	30.0
Department of Defense Education Activity	178.2	-	178.2
National Imagery and Mapping Agency	DODIG: (b)(7)(E)		
U.S. Special Operations Command	123.5	-	123.5
Uniformed Services University of the Health Sciences	29.7	-	29.7
Washington Headquarters Services	-	31.9	31.9
Total	DODIG: (b)(7)(E)		

Appendix G. General Ledger Account Codes Used to Record Revenues and Expenses From Reimbursable Activity

<u>Accounting System</u>	<u>GLACs Used For Reporting</u>	
	<u>Revenues</u>	<u>Expenses</u>
¹ Army, Navy, and Air Force	5100/5200	6500
² WHS Allotment Accounting System	5910	6100 Series
³ Defense Business Management System	5100	6100
⁴ Centralized Accounting and Financial Management System	5910	6100 Series
⁵ Resource Accounting Management System	5200/5900	6120
⁶ College and University Financial System	5910	6100 series
⁷ General Accounting and Reporting System	5910	6500

¹Accounts that DFAS generally used to report revenue and expenses from reimbursable activity for Army, Navy, and Air Force organizations using Department 97 appropriated funds. We did not specifically review the accounting systems that DFAS used for transactions from the three Military Departments. The DFAS Rock Island Office, which accounted for certain reimbursable activity for the U. S. Special Operations Command, used a business operations accounting system before FY 1997. That system did not use GLAC 6500, but reported expenses in the GLAC 6100 series. The DFAS Rock Island Office discontinued using the business operations accounting system for appropriated funds in FY 1997.

²Used by WHS, DoDEA, Defense Information Systems Agency (headquarters only), Defense Advanced Research Projects Agency, and other agencies with less than \$1 million in reimbursable revenues not included in the audit.

³Used by the Defense Logistics Agency and the Defense Contract Audit Agency.

⁴Used by the Defense Special Weapons Agency (and the On-Site Inspection Agency not included in the audit).

⁵Used by the Tricare Support Office (formerly CHAMPUS). The system records reimbursable revenues in GLAC 5400, but Tricare Support Office personnel manually change the revenues to GLAC 5200 when reporting to DFAS Indianapolis Center. A small amount of revenue from reimbursable activity was reported in 5900.

⁶Used by the Uniformed Services University of the Health Sciences. The trial balance was prepared from the general ledger with non-standard DoD general ledger accounts.

⁷Used by the National Security Agency and the Defense Intelligence Agency. However, they manually prepared their trial balances using GLACs 5100 and 5200 based on information in the general ledger.

Appendix H. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program and Budget)
Assistant Secretary of Defense (Health Affairs)

Department of the Army

Auditor General, Department of the Army
Commander, U. S. Army Corps of Engineers

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, American Forces Information Service
Director, Ballistic Missile Defense Organization
Director, Defense Advanced Research Projects Agency
Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Finance and Accounting Service Indianapolis Center
Director, Defense Finance and Accounting Service Rock Island
Operating Location
Director, Defense Finance and Accounting Service Columbus Center

Other Defense Organizations (Cont'd)

Director, Defense Information Systems Agency

Appendix H. Report Distribution

Director, Defense Intelligence Agency
Inspector General, Defense Intelligence Agency
Director, Defense Investigative Service
Director, Defense Logistics Agency
Director, Defense Special Weapons Agency
Director, Department of Defense Education Activity
Director, National Security Agency
Inspector General, National Security Agency
Director, On-Site Inspection Agency
Director, Tricare Support Office
Director, Washington Headquarters Services
President, Uniformed Services University of the Health Sciences

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division,
General Accounting Office
Chairman and ranking minority member of each of the following congressional
committees and subcommittees:
Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal
Justice, Committee on Government Reform and Oversight
House Committee on National Security

Part III - Management Comments

Under Secretary of Defense (Comptroller) Comments



COMPTROLLER

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



NOV 10 2012

MEMORANDUM FOR DIRECTOR, READINESS AND OPERATIONAL SUPPORT,
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF
DEFENSE

SUBJECT: Draft Audit Report on Revenues and Expenses From Reimbursable Activity for
Other Defense Organizations (Project No. 7RF-2012)

Your office forwarded the subject draft report for review and comment, and requested management comments for your office to consider in preparing the final report.

This office has reviewed the subject draft report. The draft report, which contained one recommendation addressed to this office, recommends that this office clarify policy guidance on revenue and expense general ledger accounts applicable to reimbursable activity for all appropriated, revolving and trust funds.

This office generally agrees with the finding and the recommendation addressed to it. However, a recommendation addressed to other Defense organizations is not technically correct. Attached are this office's detailed comments on this matter.

The point of contact for this matter is [REDACTED] He may be reached by e-mail: [REDACTED] or telephone at [REDACTED].

Alice C. Maroni
Acting Under Secretary of Defense
(Comptroller)

Attachment

OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER)
COMMENTS ON AN OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF
DEFENSE DRAFT AUDIT REPORT, "REVENUES AND EXPENSES FROM
REIMBURSABLE ACTIVITY FOR OTHER DEFENSE ORGANIZATIONS,"
(PROJECT NO. 7RF-2012) DATED AUGUST 28, 1997

RECOMMENDATION A.3: The Office of the Inspector General recommended that the Director, Department of Defense Education Activity; the Director, Defense Finance and Accounting Service Columbus Center; and the Director, National Security Agency, establish procedures to verify that revenues and expenses from reimbursable activity reported on trial balances to the Defense Finance and Accounting Service Indianapolis Center equal the amounts reported on the Report on Budget Execution.

Revised

OUSD(C) Comment: Although the recommendation is generally correct, it does not necessarily apply to revolving fund (i.e., Working Capital Fund) activities. The recommendation implies that revenues and expenses from reimbursable activity should be equal to each other. Additionally, the recommendation states that revenue recorded in proprietary accounts should equal collections and receivables reported on the Report on Budget Execution. Working Capital Fund activities charge stabilized (fixed) reimbursement rates to its customers. Since the reimbursement rates are fixed, it is improbable that revenue amounts that are fixed will equal expense amounts that are not fixed. Also, within the Supply Management business area of the Working Capital Fund, proprietary revenues can include payments in the form of trade-ins. Since trade-ins are not a budgetary resource, they are not included in the Report on Budget Execution.

RECOMMENDATION B: The Office of the Inspector General recommended that the USD(C) clarify guidance on the general ledger account codes that Defense organizations should use for recording revenues and expenses from reimbursable activity for all appropriated, revolving, and trust funds.

OUSD(C) Response: Concur. A revision to the "DoD Financial Management Regulation" is in process. The revision will contain a matrix that shows the applicability of the various revenue accounts to appropriated, revolving, and the various trust funds. Chapter 17, Expenses and Miscellaneous Items, of Volume 4 will be revised to clarify guidance on the use of general ledger account code (GLAC) 6500.

Assistant Secretary of Defense (Health Affairs) Comments



HEALTH AFFAIRS

THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D. C. 20301-1200

NOV 12 1997

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

(ATTENTION: DODIG: (b)(6))

SUBJECT: DoDIG Audit Report on Revenues and Expenses From Reimbursable Activity for
Other Defense Organizations (Project No. 7RF-2012)

This is in response to your memorandum dated August 28, 1997, subject as above. Our
response to the draft report is attached. If you have any questions, please contact

DODIG: (b)(6), the point of contact for this audit at the TRICARE Support Office, at DODIG: (b)(6)

DODIG: (b)(6)

Edward D. Martin
Edward D. Martin, M.D.

Acting Assistant Secretary of Defense

Attachment:
As stated



DEPARTMENT OF DEFENSE
TRICARE SUPPORT OFFICE
AURORA, COLORADO 80045-6900

October 20, 1997

MEMORANDUM FOR THE DIRECTOR, BENEFICIARY AND PROVIDER SERVICES

SUBJECT: DoDIG Report on Revenues and Expenses From Reimbursable Activity for Other Defense Organizations (Project No. 7RF-2012)

The Resource Management Directorate concurs with Finding A and the DoDIG's recommendations for corrective action (4.A). Corrective action has been taken and is reflected in the Fiscal Yearend 1997 reporting. See attached response and September 1997 Consolidated Trial Balance Report.

If you have any questions, please contact DODIG: (b)(6) at extension number DODIG: (b)(6)


S. P. Harry
LCDR, MSC, USN
Director, Resource Management

**DODIG REPORT ON REVENUES AND EXPENSES FROM REIMBURSABLE
ACTIVITY FOR OTHER DEFENSE ORGANIZATIONS**

PROJECT NO. 7RF-2012

Finding A. - Reliability of Revenues and Expenses on the Statement of Operations

Page 10 - Civilian Health and Medical Program.

Page 13 - Recommendations for Corrective Action, A.4.

* Procedures to record overcharges in an unearned revenue account and reimbursable expenses in the cost of goods sold account were implemented by the Tricare Support Office, Resource Management Directorate, in September 1997. The Fiscal Yearend 1997 Trial Balance submitted to Defense Finance and Accounting Service Indianapolis Center included these changes. See attached Consolidated Trial Balance Report for Period Ending 09-30-97, Account Number 2311.1 and Account Number 6500.0. The unearned revenue (Account 2311.1) is equal to the difference in the uncollected reimbursable debts (Account Number 1316.1) and the reimbursable bad debt allowance (Account 1319.1). The reimbursable expense (Account Number 6500.0) plus the bad debt expense (Account Number 6129.1) are equal to the revenue (Account Number 5400.0) reported for the same period.

*Attachment omitted. Copies will be provided upon request.

Defense Information Systems Agency Comments



DEFENSE INFORMATION SYSTEMS AGENCY

701 S. COURTHOUSE ROAD
ARLINGTON, VIRGINIA 22204-2199



IN REPLY
REFER TO: Inspector General

28 October 1997

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE
ATTN: Director, Readiness and Operational Support

SUBJECT: Draft Audit Report on Revenues and Expenses
From Reimbursable Activity for Other Defense
Organizations (Project No. 7RF-2012)

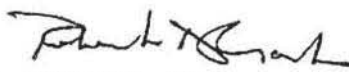
Reference: DODIG Report, subject as above, 28 Aug 97

We reviewed the subject draft report and concur with the finding
and recommendation addressed to the Agency. Our detailed
management comments are contained at the enclosure. The point of
contact is DISA: (b)(6)

DISA: (b)(6)

FOR THE DIRECTOR:

1 Enclosure a/s


for RICHARD T. RACE
Inspector General

Quality Information for a Strong Defense

Defense Information Systems Agency Comments

**MANAGEMENT COMMENTS TO DODIG DRAFT AUDIT REPORT ON
REVENUES AND EXPENSES FROM REIMBURSABLE ACTIVITY ON
OTHER DEFENSE ORGANIZATIONS (PROJECT NO. 7RF-2012)**

Recommendation A2: Recommend that the Director, Defense Finance and Accounting Service Indianapolis Center, Customer Support Division; the Director, Defense Information Systems Agency; the Director, Defense Logistics Agency; and the Director, Washington Headquarters Services, account for and report revenues from reimbursable activity when they provide goods or services rather than when they record obligations.

Response: Concur. We concur that action is needed to correct the deficiencies noted in the draft report. However, successful implementation of these corrections relies upon the Washington Headquarters Services' completion of necessary program changes to its Allotment Accounting System. Presently, these system changes are planned for completion by 30 November 1997. Upon completion of the changes, DISA will begin accounting for and reporting revenues from reimbursable activity when goods and services are provided rather than when obligations are recorded.

Enclosure

Defense Logistics Agency Comments



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD, SUITE 2533
FT. BELVOIR, VIRGINIA 22060-6221

29 OCT 1997

IN REPLY
REFER TO DDAI

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
DEPARTMENT OF DEFENSE

SUBJECT: Draft Report, *"Revenues and Expenses from Reimbursable Activity for Other
Defense Organizations"*, (Project No. 7RF-2012)

This is in response to the August 28, 1997 request. If you have any questions, please
contact Ms. LaVaeda Coulter, (703) 767-6261.

Encl


JEFFREY GOLDSTEIN
Chief, (Acting) Internal Review

Subject: Revenues and Expenses From Reimbursable Activity for Other Defense Organizations
(Project No. 7RF-2012)

Finding A: Reliability of Revenues and Expenses on the Statement of Operations

DFAS-IN and accounting offices overstated revenues from reimbursable activity by at least NSA: (b)(3) million (NSA: (b)(3) million by DFAS-IN and NSA: (b)(3) million by accounting offices) in the FY 1996 Statement of Operations for Other Defense Organizations, and DFAS-IN overstated expenses from reimbursable activity by NSA: (b)(3) billion. Also, DFAS-IN overstated the Appropriated Capital Used account (a revenue account) by NSA: (b)(3) billion. The overstatements occurred because of the following:

- o DFAS-IN personnel did not determine whether organizations had already reported revenues and expenses in other general ledger accounts before adjusting the accounts to equal revenues from reimbursements shown in the Report on Budget Execution, and DFAS-IN made other unsupported adjustments.

- o Accounting offices submitting financial information for incorporation into the Other Defense Organizations' financial statements incorrectly recognized revenues based on obligations, did not review the validity of trial balances submitted to DFAS-IN, or made other accounting or reporting errors.

- o DFAS-IN personnel incorrectly adjusted the Appropriated Capital Used account for reimbursable activity already included in other revenue accounts, and the Washington Headquarters Services Allotment Accounting System contained programming errors affecting the Appropriated Capital Used account.

As a result, the Statement of Operations for Other Defense Organizations was not reliable and did not accurately present the results of operations for FY 1996.

DLA Comments: Concur

Action Officer: Lanier B. McCaskill, FOXS, 767-7235

Review/Approval: Jim O'Laughlin/Billie Blackman

Coordination: LaVaeda G. Coulter, DDAI, 767-6261

DLA Approval:



E.J. CHAMBERLIN
Rear Admiral, SC., USN
Deputy Director

OCT 29 1997

Subject: Revenues and Expenses From Reimbursable Activity for Other Defense Organizations
(Project No. 7RF-2012)

Recommendation A.2.: We recommend that the Director, Defense Finance and Accounting Service Indianapolis Center, Customer Support Division; the Director, Defense Information Systems Agency; the Director, Defense Logistics Agency; and the Director, Washington Headquarter Services, account for and report revenues from reimbursable activity when they provide goods or services rather than when they record obligations.

DLA Comments:

We Concur with the recommendation that revenues from reimbursable activity be accounted for when goods/services are provided. Training has been provided to correct this practice.

Disposition:

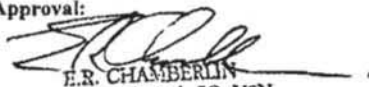
Action is considered complete.

Action Officer: Lanier B. McCaskill, FOXS, 767-7235

Review/Approval: Jim O'Laughlin/Billie Blackman

Coordination: LaVaeda G. Coulter, DDAI, 767-6261

DLA Approval:


E.R. CHAMBERLIN
Rear Admiral, SC, USN
Deputy Director
OCT 29 1997

Department of Defense Education Activity Comments



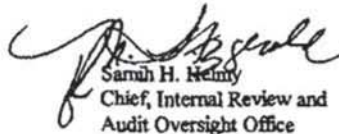
DEPARTMENT OF DEFENSE
EDUCATION ACTIVITY
4040 NORTH FAIRFAX DRIVE
ARLINGTON, VIRGINIA 22203-1635

NOV 4 1997

MEMORANDUM FOR DIRECTOR, READINESS AND OPERATIONAL SUPPORT
DIRECTORATE, INSPECTOR GENERAL, DOD
(ATTN: DODIG: (b)(6))

SUBJECT: Draft Audit Report on Revenues and Expenses From Reimbursable Activity for
Other Defense Organizations, Project No. 7RF-2012, August 28, 1997

This is in reply to your memorandum of August 28, 1997, requesting management comments to the findings and recommendations of the subject audit report. The attached response by DoDEA fiscal managers, provides concurrence with the draft report's finding and recommendation. If you have any questions, please contact Mr. George E. Hanby, Auditor, DoDEA Internal Review and Audit Oversight Office, at 696-9051, extension 2443.


Sarah H. Hanby
Chief, Internal Review and
Audit Oversight Office

Attachment:
As stated

Draft Audit Report on Revenues and Expenses From Reimbursable
Activity for Other Defense Organizations
Project No. 7RF-2012
August 28, 1997

Finding A. Reliability of Revenues and Expenses on the Statement of Operations

Department of Defense Education Activity. The DoDEA's trial balance overstated revenues from reimbursable activities by \$133.9 million. DoDEA personnel did not review the trial balance submitted to DFAS-IN for FY 1996 and did not compare information shown on the trial balance with the Report on Budget Execution.

At the time of the audit, in April 1997, DoDEA personnel had not developed procedures for reconciling earned and unearned revenues from reimbursements shown in the Washington Headquarters Service Allotment Accounting System with earned and unearned revenues reported on the Report on Budget Execution.

Before FY 1996, DoDEA did not use a general ledger accounting system. However, during FY 1996, DoDEA transferred, on a test basis, accounting data maintained in its accounting records to the Washington Headquarters Services Allotment Accounting System. Washington Headquarters Services accounting personnel transferred the test data trial balance to DFAS-IN. However, DoDEA personnel did not know that DFAS-IN would use the data to prepare a financial statement for DoDEA. The trial balance with the test data incorrectly included \$139.9 million in revenues from reimbursements earned during prior years.

Management Response. At the end of FY 1996, and at the request of Defense Finance and Accounting Service-Indianapolis (DFAS-IN), DoDEA provided a general ledger trial balance which was a cross-walk from the DoDEA Report on Budget Execution. This data was accurate with respect to DoDEA's reimbursable revenues and was DoDEA's only official opportunity to provide data for the Chief Financial Officer (CFO) reports. Although the audit specifically addresses the circumstances surrounding DoDEA's test data being transmitted by the Washington Headquarters Services Allotment Accounting System (WAAS) to the DFAS-IN center, it should be noted that DoDEA's financial managers were under the assumption that the proper balances were being used based on the cross-walk of data provided by DoDEA.

Attachment
Page 1

Final Report
Reference

Revised

Recommendation: A.3. We (the DoD Inspector General) recommend that the Director, DoDEA; the Director, Defense Finance and Accounting Service Columbus Center; and the Director, National Security Agency, establish procedures to verify that revenues and expenses from reimbursable activity reported on trail balances to DFAS-IN equals the amounts reported on the Report on Budget Execution.

Management Comments. Concur. Effective October 22, 1997, for the reporting month of September 1997, DoDEA was using the Washington Headquarters Services Allotment Accounting System (WAAS) database for all accounting transactions generated within the DoDDS/DoDEA operating environment. At this juncture, the WAAS produces a general ledger trail balance which is linked directly to DoDEA's Report on Budget Execution. This new process will substantially reduce the potential for any material misstatement of reimbursable revenues or expenses. In addition, DoDEA will review the copy of the trial balance file provided by Defense Finance and Accounting Service-Indianapolis to provide reasonable assurance that the correct accounting information was used.

Attachment
Page 2

National Security Agency Comments



NATIONAL SECURITY AGENCY
FORT GEORGE G. MEADE, MARYLAND 20755-6000

Serial: COMP-060-97
23 September 1997

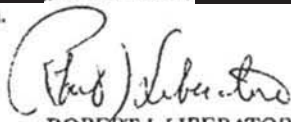
MEMORANDUM FOR THE DIRECTOR, READINESS AND OPERATIONAL SUPPORT DIRECTORATE

SUBJECT: DoD IG Draft Audit Report on Revenues and Expenses from Reimbursable Activity
for Other Defense Organizations - INFORMATION MEMORANDUM

NSA has reviewed the subject draft report dated 28 August 1997. We concur in Recommendation A.3, and will be ready to verify that revenues and expenses from reimbursable activity reported on the trial balance to the DFAS Indianapolis Center equal the amounts reported on the Report of Budget Execution (1176) at the end of the fiscal year (30 September 1997).

Responses are not provided for the other Recommendations as they are not addressed to this Agency.

Please contact NSA: (b)(3), Audit Liaison, NSA: (b)(3), if you have any questions or need additional information.


ROBERT J. LIBERATORE
Comptroller

Washington Headquarters Services Comments



DEPARTMENT OF DEFENSE
WASHINGTON HEADQUARTERS SERVICES
1155 DEFENSE PENTAGON
WASHINGTON, DC 20301-1155



(Budget & Finance)

October 27, 1997

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL
FINANCE AND ACCOUNTING DIRECTORATE

SUBJECT: Audit Report on Revenues and Expenses From Reimbursable Activity for
Other Defense Organizations (Project No. TRF-2012)

We concur in the subject draft audit report. As recommended, the WHS
Allotment Accounting System was reprogrammed on October 17, 1997, to exclude
reimbursable activity for the Appropriated Capital Used (5700) account.

As for recommendation A.2, procedures are being developed and will be
implemented by December 31, 1997 to ensure that revenues for reimbursable activity are
recognized when expenses are accrued and are not based on obligations being recorded.

DODIG: (b)(6)

For
Joe Friedl
Director



Defense Technical Information Center Comments



OFFICE OF THE UNDER SECRETARY OF DEFENSE (ACQUISITION & TECHNOLOGY)
DEFENSE TECHNICAL INFORMATION CENTER
8725 JOHN J KINGMAN RD STE 0944
FT BELVOIR VA 22060-6218



24 OCT 1997

IN REPLY
REFER TO DTIC-R

SUBJECT: Audit Report on Revenues and Expenses from
Reimbursable Activity for Other Defense
Organizations (Project No. 7RF-2012)

TO: OAIG-AUD
Inspector General, Department of Defense
400 Army Navy Drive
Arlington, VA 22202-2884

1. Reference proposed audit report, subject as above, 28 Aug 97.

2. The audit finding specific to the Defense Technical Information Center (DTIC), which includes the IAC reimbursable program at the Defense Supply Center, Columbus, in footnote 5, page 29, states "the Center incorrectly recognized revenue based on obligations." Partially concur - DTIC recognized part of its revenue based on expenses. Procedures are now in place to ensure that all revenues will be recognized based on expenses. These procedures are effective 1 Oct 97.

3. Questions may be addressed to DODIG: (b)(6)
DODIG: (b)(6)

FOR THE ADMINISTRATOR:

BETTY L. FOX
Director of Administration
and Resource Management

Audit Team Members

This report was prepared by the Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD.

DODIG: (b)(6)



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