

# Inspector General

United States  
Department of Defense



Defense Finance and Accounting Service Needs to  
Improve the Process for Reconciling the Other  
Defense Organizations' Fund Balance with Treasury

Report Documentation Page				Form Approved OMB No. 0704-0188	
Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.					
1. REPORT DATE <b>09 JUL 2012</b>		2. REPORT TYPE		3. DATES COVERED <b>00-00-2012 to 00-00-2012</b>	
4. TITLE AND SUBTITLE <b>Defense Finance and Accounting Service Needs to Improve the Process for Reconciling the Other Defense Organizations' Fund Balance with Treasury</b>				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) <b>Department of Defense Office of Inspector General, 4800 Mark Center Drive, Alexandria, VA, 22350-1500</b>				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT <b>Approved for public release; distribution unlimited</b>					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT <b>Same as Report (SAR)</b>	18. NUMBER OF PAGES <b>29</b>	19a. NAME OF RESPONSIBLE PERSON
a. REPORT <b>unclassified</b>	b. ABSTRACT <b>unclassified</b>	c. THIS PAGE <b>unclassified</b>			

## Additional Copies

To obtain additional copies of this report, visit the Web site of the Department of Defense Inspector General at <http://www.dodig.mil/audit/reports> or contact the Secondary Reports Distribution Unit at (703) 604-8937 (DSN 664-8937) or fax (571) 372-7469.

## Suggestions for Audits

To suggest or request audits, contact the Office of the Deputy Inspector General for Auditing by phone (703) 604-9142 (DSN 664-9142), by fax (571) 372-7469, or by mail:

Department of Defense Office of Inspector General  
Office of the Deputy Inspector General for Auditing  
ATTN: Audit Suggestions/13F25-04  
4800 Mark Center Drive  
Alexandria, VA 22350-1500



## Acronyms and Abbreviations

ALC	Agency Location Code
AM&C	Accounts Maintenance and Control
CCAS	Columbus Cash Accountability System
CMR	Cash Management Report
DFAS	Defense Finance and Accounting Service
DISA	Defense Information Systems Agency
FBWT	Fund Balance with Treasury
IDARRS	Indy Detailed Audit Research and Retrieval System
ODO	Other Defense Organizations
OIG	Office of Inspector General
SBR	Statement of Budgetary Resources
SOI	Statement of Interfund
SOT	Statement of Transactions
TBO	Transactions-by-Others
TI	Treasury Index



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

July 9, 2012

**MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE**

**SUBJECT: Defense Finance and Accounting Service Needs to Improve the Process for Reconciling the Other Defense Organizations' Fund Balance with Treasury (Report No. DODIG-2012-107)**

We are providing this report for your information and use. Defense Finance and Accounting Service (DFAS) Indianapolis did not perform adequate transaction level Fund Balance with Treasury reconciliations on approximately \$141 billion disbursed and collected through 723 Other Defense Organizations' appropriations. DFAS cannot support the adjustments it is making to the financial statements, thereby impeding DoD's ability to achieve audit readiness for the Statements of Budgetary Resources by the end of 2014. We considered management comments on a draft of this report when preparing the final report.

Comments on the draft of this report conformed to the requirements of the DoD Directive 7650.3 and left no unresolved issues. Therefore, we do not require any additional comments.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-8905 (DSN 664-8905).

A handwritten signature in cursive script, reading "Amy J. Frontz", is positioned above the printed name.

Amy J. Frontz  
Principal Assistant Inspector General  
for Auditing



# Results in Brief: Defense Finance and Accounting Service Needs to Improve the Process for Reconciling the Other Defense Organizations' Fund Balance with Treasury

## What We Did

We evaluated the adequacy of audit trails and assessed the Other Defense Organizations (ODO) Fund Balance with Treasury (FBWT) reconciliation processes. This is one in a series of reports relating to the reconciliation of the ODO FBWT accounts. The first report concluded that the Cash Management Report (CMR) was not complete or accurate.

## What We Found

The Defense Finance and Accounting Service (DFAS) Indianapolis did not perform adequate, transaction level reconciliations of the ODO FBWT general ledger accounts. Specifically, DFAS Indianapolis did not develop processes for:

- retrieving the detailed transactions supporting the CMR in a timely manner,
- matching the transactions supporting the CMR to the detailed transactions recorded in the accounting systems, and
- researching, and if necessary, resolving the variances between the two sets of data.

This occurred because DFAS Indianapolis did not develop the systems infrastructure, implement systemic processes, or fully dedicate the necessary resources for performing transaction level reconciliations of the ODO FBWT accounts. DFAS Indianapolis reported that it was responsible for reconciling 723 ODO appropriations with disbursements and collections, totaling approximately \$141 billion. Without adequate FBWT reconciliations, DFAS Indianapolis could not support the adjustments it

was making to the ODO FBWT accounts, which caused amounts reported on the ODO financial statements to be unreliable. Unreliable financial statements will impede DoD's ability to achieve audit readiness for the Statements of Budgetary Resources by the end of 2014.

Unlike DFAS Indianapolis, DFAS Columbus was performing complete, transaction level reconciliations. In addition, other than allowing \$16.1 million in Defense Information Systems Agency disbursements and collections to remain unmatched for more than 4 years, DFAS Columbus provided evidence that it had adequate procedures for researching and resolving variances.

## What We Recommend

The Director, DFAS Indianapolis, should develop systems infrastructure, implement systemic processes, and fully dedicate resources for reconciling the ODO FBWT accounts.

The Director, DFAS Columbus, should coordinate with the Director, Defense Information Systems Agency, and resolve the \$16.1 million in transactions that have remained unmatched since May 2007.

## Management Comments and Our Response

We received comments from the Director, DFAS Indianapolis, and the Director, DFAS Columbus. All comments were fully responsive to the recommendations. Therefore, no additional comments are required. Please see the recommendations table on the back of this page.

## Recommendations Table

<b>Management</b>	<b>Recommendations Requiring Comment</b>	<b>No Additional Comments Required</b>
Director, Defense Finance and Accounting Service Indianapolis		1.a, 1.b, 1.c
Director, Defense Finance and Accounting Service Columbus		2

# Table of Contents

<b>Introduction</b>	1
Objectives	1
Background	1
Review of Internal Controls	5
<b>Finding. Defense Finance and Accounting Service (DFAS) Indianapolis Did Not Perform Adequate Fund Balance with Treasury Reconciliations</b>	6
DFAS Indianapolis Needs to Implement Processes for Performing Transaction Level Fund Balance with Treasury Reconciliations	7
DFAS Columbus Developed Adequate Fund Balance with Treasury Reconciliation Procedures	10
DFAS Columbus Must Reduce Risk of Inaccurate Adjustments	12
Recommendations, Management Comments, and Our Response	14
<b>Appendix. Scope and Methodology</b>	17
<b>Management Comments</b>	
Defense Finance and Accounting Service	19



# Introduction

## Objectives

Our objective was to assess the completeness and accuracy of the Cash Management Report (CMR) and determine whether an adequate audit trail existed to enable a transaction level Fund Balance with Treasury (FBWT) reconciliation. In addition, it was to assess the Other Defense Organizations' (ODO) FBWT reconciliation process. This is one in a series of reports relating to the reconciliation of FBWT for the ODOs. In the first report, DoD Office of Inspector General (DoD OIG) Report No. D-2011-098, "Defense Finance and Accounting Service Needs to Improve Controls Over the Completeness and Accuracy of the Cash Management Report," August 15, 2011, we showed that the CMR was not complete or accurate. This second report addresses the adequacy of audit trails and focuses on our assessment of the ODO FBWT reconciliation processes.

## Background

FBWT is an asset account that reflects the available budgetary spending authority of a Federal agency. At the agency level, FBWT is similar to a corporation's cash account. The following are typical transactions that affect an agency's FBWT general ledger account.

- Appropriations increase FBWT. They are the statutory authority to incur obligations and to make payments out of the U.S. Treasury. Appropriations are subject to limitations that restrict the period of availability of the funds.
- Collections increase FBWT. The three types of collections are receipts, reimbursements, and refunds.
- Disbursements reduce FBWT. They are payments to individuals or organizations for goods furnished or services rendered. Disbursements can also be made to transfer funds from one appropriation or fund to another.

As of September 30, 2010, DoD reported \$85 billion in FBWT on the ODO General Fund Balance Sheet. This represented 94.5 percent of the Total Intragovernmental Assets and 67.6 percent of the Total Assets reported on the ODO General Fund Balance Sheet. In addition, the \$85 billion reported in FBWT on the ODO General Fund Balance Sheet represented approximately 8.3 percent of the Total Intragovernmental Assets and 4.4 percent of the Total Assets reported on the DoD Agency-Wide Balance Sheet.

## ***FBWT Reconciliation Requirements***

The reconciliation of the FBWT account is a key internal control process to help identify unauthorized and improperly recorded transactions. Timely and effective reconciliations decrease the risk of fraud, waste, and mismanagement of funds and enhance the Government's ability to monitor budget execution. The Treasury Financial Manual, volume 1, part 2, chapter 5100, "Reconciling Fund Balance with Treasury Accounts," October 1999, requires that agencies reconcile their FBWT accounts on a regular basis to ensure the integrity and accuracy of financial report data. Specifically, an agency's FBWT reconciliation must include a comparison of transactions at a level of detail sufficient for specific identification of differences



to establish that the entity's FBWT general ledger accounts and the corresponding balance in the U.S. Treasury accounts are accurately stated.

DoD Regulation 7000.14-R, "Financial Management Regulation," volume 4, chapter 2, "Accounting for Cash and Fund Balances with Treasury," December 2009, requires that agencies explain any discrepancies between the FBWT in their general ledger accounts and the corresponding balance in the U.S. Treasury accounts. In addition, I TFM 2-5100, "A Supplement to the Treasury Financial Manual," November 1999, prohibits agencies from arbitrarily adjusting their FBWT accounts. Along with the I TFM 2-5100, the Financial Management Regulation states that agencies should maintain detailed reconciliation worksheets that, if needed, can be reviewed by management, auditors, or the U.S. Treasury.

### ***The Other Defense Organizations***

ODOs are entities authorized by the Secretary of Defense to perform select consolidated support and service functions to the DoD on a Department-wide basis. These support and service functions include providing military intelligence to the warfighter, defending the United States against enemy ballistic missiles, providing the DoD enterprise infrastructure, and maintaining the technological superiority of the U.S. military. The ODOs are included in U.S. Treasury Index (TI) 97, an aggregate account that does not provide identification of the separate ODOs sharing the U.S. Treasury account.<sup>1</sup> Since there are 54 individual ODO general fund entities comprising TI 97, each ODO fund balance in the U.S. Treasury accounts is indistinguishable from the fund balances of the other ODOs. As a result, DoD uses unique codes (called limits) to identify, manage, and report the financial activity of each individual ODO.

### ***The Process for Reporting ODO Disbursements and Collections***

The disbursing office is the activity responsible for processing disbursements and collections on behalf of the ODOs. The disbursements and collections processed by each disbursing office are compiled each month and reported by the accounting office on a Statement of Transactions (SOT) to the applicable agency location code (ALC) responsible for reporting those transactions to the U.S. Treasury.<sup>2</sup> If the transactions were processed through the Interfund system, the accounting office will report those transactions on a Statement of Interfund (SOI) to the applicable ALC. The ALCs then compile all of the SOT and SOI files submitted by the accounting offices each month and create a consolidated SOT and SOI file, which is then sent to the U.S. Treasury. Because the U.S. Treasury only identifies the ODOs at the aggregate TI 97 level, the consolidated SOT and SOI files that are sent to the U.S. Treasury are rolled up to the fiscal year, basic symbol level, which does not identify the specific ODO responsible for the disbursements and collections.

In addition to sending the consolidated SOT and SOI files to the U.S. Treasury each month, the ALCs also send the consolidated SOT and SOI files to the other ALCs. However, the data that is

---

<sup>1</sup>The U.S. Treasury maintains and reports FBWT at the appropriation level to include only the TI, fiscal year, and basic symbol. The fiscal year designates the years the funds are available for obligation. The basic symbol identifies the types of funds being used.

<sup>2</sup>The ALCs that report ODO disbursements and collections to the U.S. Treasury are DFAS Indianapolis, DFAS Columbus, DFAS Cleveland, General Services Administration, and State Department.

sent to the ALCs is more detailed than what is reported by the U.S. Treasury. Specifically, the data is at least at the limit level, which identifies the ODO responsible for the disbursements and collections. DFAS Indianapolis uses the disbursement and collection data on the consolidated SOT and SOI files sent by the ALCs, as well as funding data from the Program Budget and Accounting System, to create the CMR. The CMR is similar to the account summary that a commercial bank reports on a customer's individual monthly bank statement. Unlike a monthly bank statement, the CMR does not contain a list of the individual transactions charged to the account during the month. Instead, the CMR reports summary amounts for each appropriation at the fiscal year, basic symbol, limit level.

The ODOs use the amounts on the CMR as a control total for reconciling to the U.S. Treasury. However, in DoD OIG Report No. D-2011-098, we showed that the amounts reported on the CMR were not complete or accurate. Specifically, DoD OIG Report No. D-2011-098 found that the CMR did not attribute approximately \$10.5 billion in transactions to the ODO responsible for reconciling and accounting for the transactions. While DFAS Indianapolis personnel stated that they addressed approximately \$10.2 billion of the variances, there is still a risk that the ODO FBWT accounts are being reconciled to unreliable amounts. As a result, even with an adequate FBWT reconciliation, the ODO FBWT accounts may still be unreliable.

## ***Reconciling the ODO FBWT Accounts***

While there are several ALCs processing disbursements and collections for the ODOs each month, only DFAS Columbus and DFAS Indianapolis are responsible for administering finance and accounting services for the ODOs. As a result, DFAS Columbus and DFAS Indianapolis are each responsible for reconciling certain ODO FBWT accounts. However, because the ODOs are unable to reconcile directly to the U.S. Treasury, DFAS Columbus and DFAS Indianapolis must use different procedures when reconciling the ODO FBWT accounts than the entities that possess their own U.S. Treasury account. In addition to a reconciliation of the amounts reported by the U.S. Treasury to the amounts reported on the CMR at the fiscal year, basic symbol level, a proper ODO FBWT reconciliation<sup>3</sup> should include the following steps:

- reconcile the CMR to the consolidated SOT and SOI files submitted by the DFAS centers, the General Services Administration, and the State Department;
- reconcile the SOT and SOI files submitted by the DFAS centers, the General Services Administration, and the State Department to the disbursements and collections processed by the various disbursing offices;
- reconcile the disbursements and collections processed by the disbursing offices to the disbursements and collections reported in the accounting system. To have an adequate audit trail for the reconciliation of the ODO FBWT accounts, it is essential that DFAS be able to produce the transactions supporting the amounts on the CMR and the transactions supporting the amounts in the accounting system; and
- research, and if necessary, resolve any variances identified in the steps above.

---

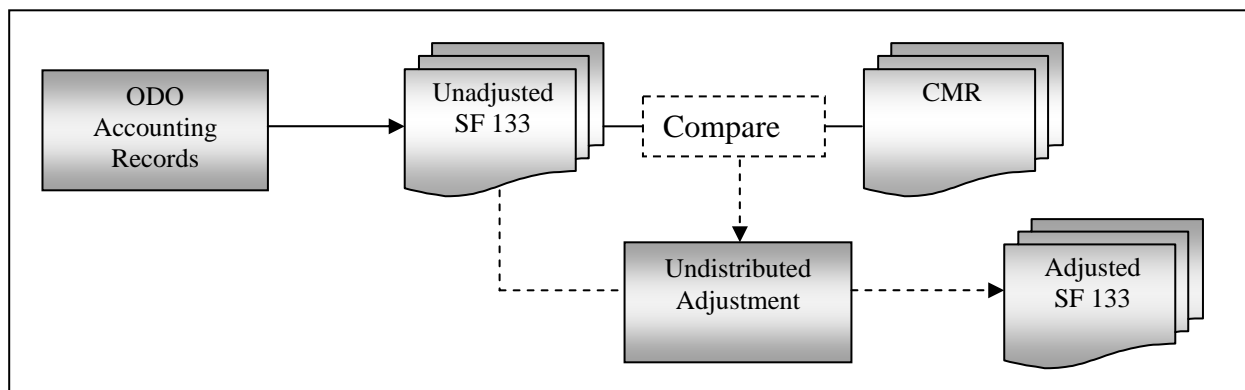
<sup>3</sup>No authoritative source for reconciling the ODO FBWT account existed. Therefore, based on our review of the DFAS procedures for processing, disbursing, and reporting ODO disbursement and collection transactions, we constructed the FBWT reconciliation procedures detailed in this report.

In addition to the procedures for reconciling disbursements and collections listed on the previous page, a proper ODO FBWT reconciliation should also include a reconciliation of the funding issued by the Office of the Under Secretary of Defense (Comptroller) to the funding reported in the ODO accounting system. By performing timely and effective reconciliations, the ODOs will decrease the risk of fraud, waste, and mismanagement of funds and enhance the Government's ability to monitor budget execution. Additionally, it is necessary to perform the reconciliations to support the adjustments being made to the ODO accounting records each month and to ensure that material errors and irregular activity will be detected.

### ***Report on Budget Execution and Trial Balance Adjustments<sup>4</sup>***

Each accounting office supporting an ODO prepares a Report on Budget Execution and Budgetary Resources (SF 133)<sup>5</sup> based on the data reported in the ODO accounting records. The accounting office submits the SF 133 to DFAS Indianapolis. DFAS Indianapolis compares disbursement and collection amounts on the SF 133 to the corresponding amounts reported on the CMR for that specific ODO. DFAS Indianapolis then processes an adjustment to force the amounts reported on the SF 133 to agree with the disbursement and collection amounts reported on the CMR. The flowchart in Figure 1 shows the SF 133 adjustment process.

**Figure 1. SF 133 Adjustment Process**



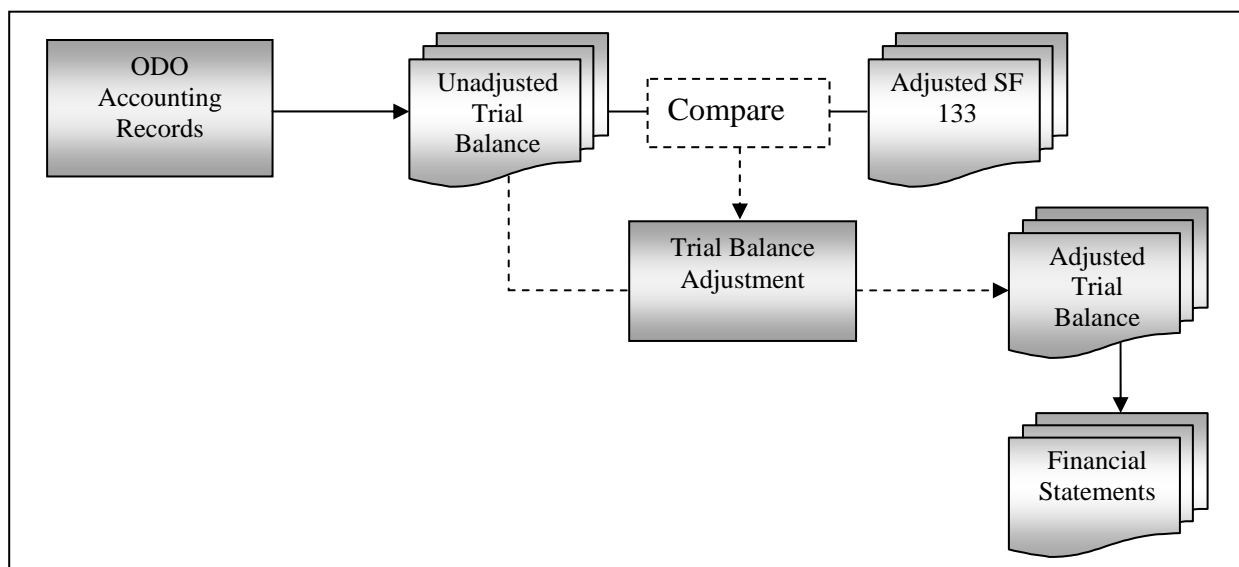
Source: DoD OIG

DFAS Indianapolis stated that the accounting offices also prepare trial balances based on the data in the ODO accounting records and submit the trial balances to DFAS Indianapolis. DFAS Indianapolis compares disbursement and collection amounts on the ODO trial balances to corresponding amounts on the adjusted SF 133s. DFAS Indianapolis processes adjustments to force the amounts reported on the trial balances to agree with the amounts reported on the adjusted SF 133s. DFAS Indianapolis consolidates all of the individual adjusted trial balances to produce the ODO General Fund financial statements. The flowchart in Figure 2 on the following page shows the trial balance adjustment process.

<sup>4</sup>We obtained the information in this section from DoD OIG Report No. D-2011-098.

<sup>5</sup>The SF 133 provides the budgetary resources, obligation, disbursement, and collection data reported in the accounting records.

**Figure 2. Trial Balance Adjustment Process**



Source: DoD OIG

### ***Impact of the FBWT Account on the Statements of Budgetary Resources Initiative***

On October 13, 2011, the Secretary of Defense, issued a memorandum, “Improving Financial Information and Achieving Audit Readiness,” which directed the Under Secretary of Defense (Comptroller) to develop a plan for achieving audit readiness for Statements of Budgetary Resources (SBR) by the end of 2014. This initiative is vital to the Department’s plan for meeting the congressional deadline for audit ready financial statements by 2017. However, because FBWT is a key element of the SBR and the FBWT reconciliation is the key internal control over the FBWT account, any deficiencies in the ODO FBWT reconciliation procedures will have a significant impact on the Department’s probability of achieving audit readiness for the SBR by the end of 2014 and becoming auditable by 2017.

### **Review of Internal Controls**

DoD Instruction 5010.40, “Managers’ Internal Control Program (MICP) Procedures,” July 29, 2010, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal control weaknesses in the DFAS Indianapolis processes for reconciling the ODO FBWT accounts. Specifically, DFAS Indianapolis did not develop the systems infrastructure, implement systemic processes, or fully dedicate the necessary resources for performing transaction level reconciliations of the ODO FBWT accounts. Therefore, DFAS Indianapolis could not provide the detailed transactions to support the summary amounts reported on the CMR. We will provide a copy of the report to the senior official responsible for DFAS internal controls.

## **Finding. Defense Finance and Accounting Service Indianapolis Did Not Perform Adequate Fund Balance with Treasury Reconciliations**

DFAS Indianapolis did not perform adequate, transaction level FBWT reconciliations on 723 ODO appropriations with disbursements and collections, totaling approximately \$141 billion. Specifically, DFAS Indianapolis did not develop processes for:

- retrieving the detailed transactions supporting the CMR control totals in a timely manner;
- matching the transactions supporting the CMR to the detailed transactions recorded in the accounting systems; and
- researching and, if necessary, resolving the variances between the two sets of data.

These deficiencies occurred because DFAS Indianapolis did not develop the systems infrastructure, implement systemic processes, or dedicate adequate resources to support a transaction level reconciliation of the ODO FBWT accounts. Since a FBWT reconciliation is the key control over the FBWT account, DFAS Indianapolis' inability to reconcile the ODO FBWT accounts at the transaction level decreased the likelihood that material errors and irregular activity would be detected and resolved in the normal course of business. Without a transaction level FBWT reconciliation, DFAS Indianapolis cannot support the adjustments it made to these FBWT accounts, which caused unreliable data to be reported on the ODO financial statements. Unreliable financial statements will impede DoD's ability to achieve audit readiness for the SBR by the end of 2014, which is vital for the Department to meet the FY 2017 congressional deadline for audit ready financial statements.

Conversely, DFAS Columbus performed adequate FBWT reconciliations on 318 ODO appropriations with disbursements and collections, totaling approximately \$41 billion. Although it had to reconcile the ODO FBWT accounts to an incomplete and inaccurate CMR, DFAS Columbus was able to:

- retrieve the detailed transactions supporting the CMR,
- match those transactions to the detailed transactions recorded in the accounting systems on a regular and recurring basis, and
- provide evidence, with the exception of \$16.1 million in Defense Information Systems Agency (DISA) disbursements and collections, that it had adequate procedures for researching and resolving variances.

## DFAS Indianapolis Needs to Implement Processes for Performing Transaction Level FBWT Reconciliations

DFAS Indianapolis did not have adequate processes in place for performing regular and recurring reconciliations of the ODO FBWT accounts. Specifically, DFAS Indianapolis could not readily provide the detailed transactions to support two separate nonstatistical samples that we selected; including not being able to locate approximately \$250 million in transactions for one of the samples. We only selected 15 current month and 6 cumulative-from-inception appropriations for each nonstatistical sample; however, DFAS Indianapolis reported that it is responsible for reconciling 723 ODO appropriations with disbursements and collections, totaling approximately \$141 billion. Therefore, if DFAS were required to retrieve the transactions supporting all of the appropriations it is responsible for reconciling from the inception of the appropriations, it would require a significant effort that would likely be unsustainable and at a substantial cost.

*Without the detailed transactions to support the CMR amounts, the ODO FBWT accounts could not be routinely reconciled.*

Without the detailed transactions to support the CMR amounts, the ODO FBWT accounts could not be routinely reconciled. This caused amounts reported on the financial statements to be unreliable and decreased the likelihood that material errors and irregular activity would be detected and resolved in the normal course of business. Furthermore, without a listing of transactions, we could not test the transaction level detail to ensure disbursements and collections were being accurately attributed to the ODOs on the CMR.

## DFAS Indianapolis Needs to Continue to Make Improvements in the Process for Retrieving the Detailed Transactions

DFAS Indianapolis did not maintain a single repository of detailed transactions supporting the amounts reported on the CMR. As a result, it had to manually retrieve the transactions from several field-level systems that archive the transactions. To assist with the retrieval, DFAS Indianapolis created the Indy Detailed Audit Research and Retrieval System (IDARRS). However, throughout the course of the audit, IDARRS did not produce the desired results. When tasked with retrieving the detailed transactions supporting the amounts reported on the CMR for a single appropriation, DFAS Indianapolis personnel within the Departmental Reporting division had to perform the following:

- retrieve the details from IDARRS for the appropriation and balance those details to the summary amounts reported on the CMR for the appropriation;
- conduct analysis on the details retrieved from IDARRS to identify the field-level systems where the applicable detailed transactions reside; and
- perform individual queries of each of the necessary field-level systems to retrieve the transactions. The queries are based on the specific appropriation, to include the fiscal year, basic symbol, and limit.

DFAS Indianapolis personnel performed the steps above for every appropriation. Therefore, it was time consuming and manually intensive to research and retrieve the detailed transactions for multiple appropriations. This was illustrated by the fact that DFAS Indianapolis personnel stated

that it could take several months to retrieve a single month's disbursements and collections processed by DFAS Indianapolis and reported to the U.S. Treasury.

### **DFAS Indianapolis Could Not Readily Provide the Detailed Transactions to Support a Nonstatistical Sample of Appropriations (June 2010)**

DFAS Indianapolis could not readily provide all of the disbursements and collections that it processed for the ODOs in a single month. Therefore, we selected a sample in June 2010 to test whether DFAS Indianapolis had procedures in place that would allow it to readily provide the detailed transactions for specific appropriations. We selected 15 current month appropriations with disbursements and collections, totaling \$34.6 million, and 6 cumulative-from-inception appropriations with disbursements and collections, totaling \$1.7 billion, since the inception of those specific appropriations. For the 15 current month appropriations, DFAS Indianapolis personnel provided the detailed transactions that reconciled to the control totals in 9 business days. For the 6 cumulative-from-inception appropriations, DFAS Indianapolis personnel provided the transactions in 21 business days, which generally reconciled<sup>6</sup> to the CMR control totals. Additionally, DFAS Indianapolis personnel stated that within the 21 business days it took to retrieve the detailed transactions supporting the cumulative-from-inception appropriations, 1 employee worked 10 full days to research and retrieve the detailed transactions.

Although DFAS Indianapolis was ultimately able to provide the transactions supporting the samples we selected to demonstrate that the detailed transactions existed, the information was not available in a timely manner. While we only selected 15 current month and 6 cumulative-from-inception appropriations, DFAS Indianapolis reported that it was responsible for reconciling 723 appropriations. Therefore, if DFAS were required to retrieve the transactions supporting all of the appropriations it is responsible for reconciling from the inception of the appropriations; it would require a significant effort that would likely be unsustainable and at a substantial cost.

### **DFAS Indianapolis Could Not Readily Provide the Detailed Transactions to Support a Nonstatistical Sample of Appropriations (January 2011)**

During the audit, personnel within the Departmental Reporting division stated that while they were attempting to retrieve the detailed transactions for the first sample, they acquired a better understanding of the systems that retained the detailed transactions. As a result of the increased knowledge in the process, DFAS Indianapolis personnel stated they improved the process for retrieving transactions and would be able to provide the details supporting select appropriations on the CMR more efficiently. To test the improvements DFAS Indianapolis made since June 2010, we selected an additional sample in January 2011. The sample selected consisted of 15 current month appropriations with disbursements and collections, totaling \$111 million, and 6 cumulative-from-inception appropriations with disbursements and collections, totaling \$4.1 billion. Although DFAS Indianapolis personnel were able to retrieve the voucher-level

---

<sup>6</sup>The detailed transactions that DFAS Indianapolis provided did not contain the detail to support \$866,028 in disbursements and collections.



support and improve their response time to only 4 days for the current month sample<sup>7</sup>, DFAS Indianapolis was unable to retrieve the disbursements and collections supporting the sample of six cumulative-from-inception appropriations. DFAS Indianapolis personnel stated that they were unable to fulfill the request because \$250 million in transactions were not located in any of the field-level systems they query to retrieve the details. DFAS Indianapolis personnel were unable to provide the universe of the detailed transactions supporting the amounts reported on the CMR because DFAS Indianapolis did not have the systems infrastructure that would allow it to readily retrieve all of the detailed transactions supporting every open appropriation on the CMR.

A proper reconciliation of an ODO FBWT account would require that the ODO disbursements and collections processed by the disbursing offices are reconciled to the disbursements and collections reported in the accounting system. Therefore, it is essential that DFAS Indianapolis personnel can readily retrieve the transaction level details supporting the summary amounts reported on the CMR. DFAS Indianapolis personnel acknowledged that the detailed transactions need to be readily available and informed us that they intended to train additional personnel on the querying process to enable more timely retrievals. While we applaud DFAS Indianapolis personnel for understanding the importance of being able to retrieve the detailed transactions, DFAS Indianapolis management must objectively assess its processes and plans to determine whether it will fully support the ODO needs. This would include determining whether querying single appropriations across multiple field-level systems will provide complete and accurate information in a timely and cost-effective manner. Rather than applying additional resources to a manually intensive process, DFAS Indianapolis should develop systems infrastructure that will allow it to readily retrieve all of the detailed transactions supporting every open appropriation on the CMR. Once the systems infrastructure that DFAS Indianapolis uses to retrieve the detailed transactions is more efficient, DFAS Indianapolis should reassess the number of personnel it will need to train and the amount of resources it will need to dedicate to the process for retrieving the detailed transactions.

### ***DFAS Indianapolis Needs to Develop a Process for Performing Complete FBWT Reconciliations***

The DFAS Indianapolis Accounts Maintenance and Control (AM&C) division was responsible for performing the monthly FBWT reconciliations for most<sup>8</sup> of the ODO that DFAS Indianapolis

*AM&C did not reconcile all of the transactions supporting the amounts on the CMR to all of the transactions recorded in the ODO accounting systems.*

was responsible for as the service provider. However, when we reviewed the FBWT reconciliations performed by AM&C each month, the reconciliations were not adequate because AM&C did not reconcile all of the transactions supporting the amounts on the CMR to all of the transactions recorded in the ODO accounting

---

<sup>7</sup>DFAS Indianapolis formally responded to the request in 4 days. However, in the response, DFAS Indianapolis stated that it only took 2 days to retrieve the current month disbursements and collections. The additional 2 days were for DFAS Indianapolis to try and retrieve the details for the six appropriations that were cumulative-from-inception.

<sup>8</sup>DFAS Indianapolis stated that AM&C does not perform reconciliations for the intelligence agencies or the TRICARE Management Activity.

systems. Specifically, AM&C did not reconcile transactions that were disbursed, but not yet posted to the accounting system. This occurred because DFAS Indianapolis did not have a systemic process in place for:

- retrieving all of the detailed transactions supporting the summary amounts for each appropriation on the CMR that AM&C is responsible for reconciling;
- matching those transactions to the corresponding detailed transactions in the accounting systems on a regular and recurring basis; and
- researching, and if necessary, resolving the identified variances.

To support the adjustments it is making to the ODO financial statements, DFAS Indianapolis should implement a systemic process for reconciling the transactions supporting the amounts on the CMR to the transactions in the ODO accounting systems on a monthly basis.

AM&C also did not perform adequate reconciliations of the ODO FBWT accounts because it did not have adequate resources. While AM&C was responsible for performing the monthly ODO FBWT reconciliations, AM&C personnel informed us that the reconciliations were not their primary function. DFAS Indianapolis should assess the resources that will be needed to perform complete, transaction level FBWT reconciliations for the ODOs each month and fully dedicate those resources to the reconciliations efforts.

## **DFAS Columbus Developed Adequate FBWT Reconciliation Procedures**

Unlike DFAS Indianapolis, DFAS Columbus, using the Columbus Cash Accountability System (CCAS), performed adequate FBWT reconciliations for the ODOs that it was responsible for as a service provider. Specifically, DFAS Columbus maintained the detailed transactions to support that it is performing all of the necessary steps for reconciling the ODO FBWT accounts on a regular and recurring basis.

### ***CCAS Reconciliation Procedures***

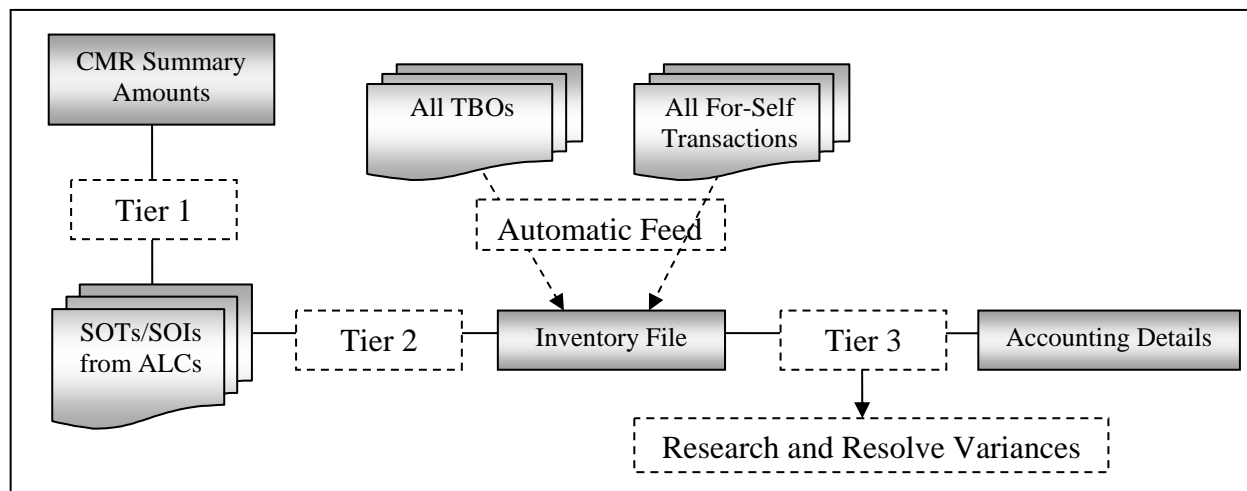
DFAS Columbus reported that it was responsible for reconciling 318 ODO appropriations with disbursements and collections totaling approximately \$41 billion. To reconcile these FBWT accounts, DFAS Columbus used a centralized PC-based tool called CCAS. CCAS employed a three-tiered “top-to-bottom” approach, going from the CMR, which is the highest level summary data, down to the detailed transactions that support the summary amounts on the CMR. The reconciliations that took place at each of the tiers of the CCAS process and the DFAS Columbus process for resolving the identified variances include:

- **Tier 1** - CCAS reconciled the summary disbursement and collection amounts reported on the CMR for each appropriation to the corresponding disbursements and collections reported on the SOT and SOI submitted by the DFAS centers, the General Services Administration, and the State Department. Although Tier 1 variances were rare, a common cause was Treasury adjustments that had been posted, but not included on the ALCs SOT. To resolve Tier 1 variances, DFAS Columbus personnel coordinated with the ALC that provided the inaccurate SOT or SOI.

- **Tier 2** - According to DFAS Columbus, CCAS used an automated feed of for-self<sup>9</sup> and transactions-by-others (TBO)<sup>10</sup> to compile a repository of detailed transactions that support summary amounts reported on the SOTs and SOIs provided by the submitters. CCAS then reconciled the detailed transactions to the corresponding information on the SOTs and SOIs. There were several reasons Tier 2 variances occurred. Depending on the details that were missing, there were also several different actions DFAS Columbus personnel took to resolve the variances. A Tier 2 variance often occurred when a transaction on the SOT had a different date than the date on the voucher of disbursement. To correct this timing difference, DFAS Columbus personnel processed an adjustment to bring the dates into agreement. DFAS Columbus personnel had documented procedures for resolving Tier 2 variances.
- **Tier 3** - CCAS reconciled the detailed transactions supporting the amounts on the SOTs and SOIs, and the CMR, to the corresponding transactions in the ODO accounting systems. In addition to identifying normal in-transit transactions, where the transaction has been reported by a disbursing office to the U.S. Treasury, but has not yet been received or processed by the applicable accounting office, the Tier 3 reconciliation also will discover transactions recorded with differing appropriations, voucher numbers, as well as other unsupported disbursement and collection differences. Similar to Tier 2 variances, depending on the cause of the variance, there were a multitude of actions DFAS Columbus personnel took to resolve Tier 3 variances. DFAS personnel also had written procedures for resolving Tier 3 variances.

The flowchart in Figure 3 illustrates the CCAS reconciliation process.

**Figure 3. CCAS Reconciliation Process**



Source: DoD OIG

<sup>9</sup>A for-self transaction is created when a disbursing office makes a payment for an accounting office that reports to the same DFAS center as the disbursing office.

<sup>10</sup>A TBO is created when a disbursing office makes a payment for an accounting office that reports to a DFAS center other than the center to which the disbursing office reports. An example of a TBO is when a DFAS Cleveland disbursing office makes a disbursement for a DFAS Indianapolis accounting office. A TBO is also created when a non-DoD Federal agency, such as the State Department, charges a payment to a DoD account.

CCAS was an effective reconciliation tool for several reasons. DFAS Columbus maintained a central repository of data that contained all of the transactions processed for the ODOs to which it provided accounting support. This repository included the data for all of the open appropriations from the time each ODO was integrated onto the CCAS reconciliation process.<sup>11</sup> Because DFAS Columbus maintained this repository of information, it was able to efficiently retrieve all of the ODO disbursements and collections. If an ODO were to request its FBWT reconciliations for financial statement auditability purposes, DFAS Columbus would be able to provide the reconciliations in a timely manner.

CCAS was also able to perform efficient and effective reconciliations because DFAS Columbus allocated an adequate number of personnel to the process; all of whom had distinct tasks that they were responsible for completing each month. From the time the CMR was provided to DFAS Columbus until the Tier 3 variances were researched and resolved, DFAS Columbus had documented procedures in place and specific personnel assigned to each step. This ensured that the FBWT reconciliations performed for the ODOs were being performed in a consistent manner and on a regular basis.

### ***CCAS Maintained the Detailed Transactions***

CCAS maintained the transactions used during the reconciliations, which allowed us to trace data through each step of the FBWT reconciliation process. Specifically, using CCAS, DFAS Columbus could readily pull any of the ODOs complete, transaction level reconciliations that were performed each month since that specific ODO was integrated onto CCAS. Additionally, since DFAS maintained a complete repository of data, each of these reconciliations included data that is cumulative-from-inception of each appropriation as opposed to just monthly data, which allowed the user to trace transactions from the inception of the appropriation. CCAS also maintained all of the transactions that matched or did not match during the reconciliation process, as well as an aging mechanism that identified transactions that needed to be researched and resolved. Because CCAS maintained the detailed transactions, we were able to re-perform the FBWT reconciliations for four appropriations and identify the same variances originally identified by DFAS Columbus.

### **DFAS Columbus Must Reduce Risk of Inaccurate Adjustments**

Although DFAS Columbus implemented procedures to reconcile the ODO FBWT accounts at the transactions level, there were still deficiencies in the process that affected the reliability of the adjustments to the ODO FBWT accounts. Specifically, CCAS reconciled to amounts on the CMR that may not have been complete or accurate. Of additional concern, DFAS Columbus was classifying \$16.1 million in DISA variances as supported despite the variances remaining unresolved for more than 4 years.

*DFAS Columbus was classifying \$16.1 million in DISA variances as supported despite the variances remaining unresolved for more than 4 years.*

---

<sup>11</sup> According to DFAS Columbus personnel, any disbursements or collections made on behalf of an ODO before being integrated onto the CCAS reconciliation process are considered “Out of Scope,” and, therefore, unsupported until those transactions flow through the CCAS process and are identified.

## ***An Incomplete and Inaccurate CMR Affects the Reliability of the CCAS Reconciliations***

CCAS reconciles the ODO disbursements and collections reported in the accounting system to the disbursement and collection amounts that were reported on the CMR. Although DFAS Indianapolis stated that it remediated approximately \$10.2 billion of the \$10.5 billion in CMR deficiencies identified in DoD OIG Report No. D-2011-098, there was still a risk that the remaining deficiencies would undermine the DFAS Columbus reconciliations and impede the auditability of the ODO FBWT accounts. This would have a negative effect on the ability of an ODO to obtain a financial statement opinion unless adequate compensating controls are implemented.

DFAS Columbus personnel acknowledged that the CMR deficiencies may negatively affect the completeness of the CCAS FBWT reconciliations they were performing for the ODOs. However, DFAS Columbus personnel stated that because the U.S. Treasury did not report TI 97 transactions at the limit level, the CMR was the only option they had for reconciling the ODO FBWT accounts. In addition, DFAS Columbus personnel stated that by performing FBWT reconciliations at the transaction level, they were mitigating some of the risk. While we agree that the transaction level reconciliations will alleviate some of the risk, the reconciliations will not be effective in addressing unrecorded transactions that were improperly excluded from the CMR and also not recorded in the accounting records. These risks will continue to exist until DFAS Indianapolis resolves all of the deficiencies identified in DoD OIG Report No. D-2011-098.

## ***DFAS Columbus and DISA Should Establish Responsibility for Remediating Aged Unmatched Disbursements***

According to DFAS Columbus personnel, DFAS Columbus did not follow its normal procedures when integrating DISA onto CCAS. As a result, there were \$16.1 million in variances that remained unresolved for more than 4 years; yet, DFAS Columbus still classified these variances as supported. Under the normal procedures, when DFAS Columbus integrated an ODO onto the CCAS FBWT reconciliation process, DFAS Columbus personnel stated that they would classify the summary variance between the disbursements and collections reported in the ODO accounting system and the disbursements and collections reported on the CMR as “Out-of-Scope,” which DFAS Columbus personnel considered to be unsupported. However, when DISA integrated onto the CCAS process in May 2007, DFAS Columbus personnel stated that DISA provided a listing of transactions that they indicated would support the summary variances between the disbursements and collections in DISA’s accounting system and the disbursements and collections attributed to DISA on the CMR. Therefore, assuming that the transactions provided by DISA personnel would be entered into the accounting system shortly after integrating onto the CCAS process, DFAS Columbus personnel informed us that they made the decision to classify the DISA variances as supported. However, 778 transactions, totaling \$16.1 million, from the original file provided by DISA personnel in May 2007 still had not been matched to the accounting records.

*778 transactions, totaling \$16.1 million, from the original file provided by DISA personnel in May 2007 still had not been matched to the accounting records.*

We asked for the service provider agreement between DFAS Columbus and DISA to determine which entity was responsible for researching and resolving the \$16.1 million in unmatched transactions. Neither DFAS nor DISA was able to provide an approved service provider agreement that outlined which entity was responsible for the transactions integrated onto CCAS. The Director, DFAS Columbus, and the Director, DISA, should develop a written agreement that designates responsibility for remediating the \$16.1 million in transactions that have remained unmatched since May 2007. Once the responsible entity has been established, that organization should take the necessary steps to research and resolve the \$16.1 million in unmatched transactions.

*Neither DFAS nor DISA was able to provide an approved service provider agreement that outlined which entity was responsible for the transactions integrated onto CCAS.*

## Conclusion

While DFAS Columbus was reconciling the ODO FBWT accounts on a regular and recurring basis, DFAS Indianapolis did not develop adequate processes for performing complete, transaction level reconciliations of the ODO FBWT accounts. Specifically, DFAS Indianapolis did not develop processes for:

- retrieving the detailed transactions supporting the CMR control totals in a timely manner,
- matching the transactions supporting the CMR to the detailed transactions recorded in the accounting systems, and
- researching and, if necessary, resolving the variances between the two sets of data.

Until DFAS Indianapolis develops its systems infrastructure, implements systemic processes, and dedicates the resources necessary to support monthly transaction level reconciliation of the ODO FBWT accounts, DFAS Indianapolis will not be able to support the adjustments it is making to the FBWT account; which causes amounts reported on the ODO financial statements to be unreliable. Unreliable financial statements will impede DoD's ability to achieve audit readiness for the SBR by the end of 2014, which is a vital step for the Department in meeting the Congressional deadline for audit ready financial statements by 2017.

## Recommendations, Management Comments, and Our Response

**1. We recommend that the Director, Defense Finance and Accounting Service Indianapolis:**

**a. Develop a systems infrastructure that will allow personnel to readily retrieve the detailed transactions supporting all open appropriations that the Accounts Maintenance and Control branch is responsible for accounting for and reconciling on the Cash Management Report.**

### ***Defense Finance and Accounting Service Indianapolis Comments<sup>12</sup>***

The Director, Defense Finance and Accounting Service Indianapolis, agreed with our recommendation. Defense Finance and Accounting Service Indianapolis established a Fund Balance with Treasury Development Team to develop a Fund Balance with Treasury tool. Defense Finance and Accounting Service Indianapolis stated that the tool will warehouse all of the detailed transactions supporting the open appropriations that the Accounts Maintenance and Control branch is responsible for accounting for and reconciling on the Cash Management Report. Defense Finance and Accounting Service Indianapolis stated that the planning and prototype phases for the tool were completed and estimated that it will fulfill this recommendation by June 30, 2014.

**b. Implement a systemic process for reconciling the transactions supporting the amounts on the Cash Management Report to the transactions in the Other Defense Organizations' accounting systems on a monthly basis.**

### ***Defense Finance and Accounting Service Indianapolis Comments***

The Director, Defense Finance and Accounting Service Indianapolis, agreed with our recommendation and stated that the Fund Balance with Treasury tool will incorporate the transactional data for the Other Defense Organizations' supported by the Accounts Maintenance and Control Branch. Defense Finance and Accounting Service Indianapolis stated that each month, detailed transactions submitted to U.S. Treasury as well as the voucher level detail from the Enterprise Resource Planning accounting system(s) will be uploaded to the Fund Balance with Treasury tool. The tool will be utilized to retrieve the Other Defense Organizations detailed transactional data for use in the monthly reconciliation. Defense Finance and Accounting Service Indianapolis estimated that it will fulfill this recommendation by September 30, 2014.

**c. Assess the resources that will be needed to perform complete, transaction level reconciliations for the Other Defense Organizations each month and fully dedicate those resources to the reconciliation efforts.**

### ***Defense Finance and Accounting Service Indianapolis Comments***

The Director, Defense Finance and Accounting Service Indianapolis, agreed with our recommendation and stated that the Fund Balance with Treasury Initiative workgroup efforts include assessing the resources that will be needed to perform complete, transaction level reconciliations for the Other Defense Organizations each month. Defense Finance and Accounting Service Indianapolis stated that upon deployment of the Fund Balance with Treasury tool, it will dedicate the resources necessary to perform complete transaction level monthly reconciliations for the Other Defense Organizations that the Accounts Maintenance and Control branch is responsible for supporting. Defense Finance and Accounting Service Indianapolis estimated that it will fulfill this recommendation by September 30, 2014.

---

<sup>12</sup> The comments provided by DFAS were signed by the Director, Enterprise Solutions and Standards. However, the input used to compile the comments on the draft report was provided by the Director, DFAS Indianapolis.



## ***Our Response***

The comments from the Director, Defense Finance and Accounting Service Indianapolis, were responsive, and the actions met the intent of our recommendation. No further comments are required.

**2. We recommend that the Director, Defense Finance and Accounting Service Columbus, coordinate with the Director, Defense Information Systems Agency, to develop a written agreement that designates responsibility for remediating the \$16.1 million in transactions that have remained unmatched since May 2007. Once the responsible entity has been established, that organization should take the necessary steps to research and resolve the \$16.1 million in unmatched transactions.**

## ***Defense Finance and Accounting Service Columbus Comments<sup>13</sup>***

The Director, Defense Finance and Accounting Service Columbus, agreed with our recommendation. Defense Finance and Accounting Service Columbus issued a memorandum to the Defense Information Systems Agency stating that the Defense Finance and Accounting Columbus Accounts Payable Operations will continue to work the May 2007 unmatched transactions with support from the Defense Information Systems Agency CFE2 operations. Defense Finance and Accounting Service Columbus stated that it resolved \$13.0 million of the \$16.1 million in unmatched transactions.

## ***Our Response***

The comments from the Director, Defense Finance and Accounting Service Columbus, were responsive, and the actions met the intent of our recommendation. No further comments are required.

---

<sup>13</sup> The comments provided by DFAS were signed by the Director, Enterprise Solutions and Standards. However, the input used to compile the comments on the draft report was provided by the Director, DFAS Columbus.

## Appendix. Scope and Methodology

We performed this financial audit from January 2010 to April 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Evidence was obtained through the following.

- We reviewed DoD, U.S. Treasury, and DFAS guidance related to the reconciliation of the Fund Balance with Treasury general ledger account.
- We reviewed the FY 2010 ODO General Fund and the DoD Agency-Wide Financial Statements to determine what percentage of the assets reported on the Agency-Wide financial statements were attributable to the ODO FBWT line item.
- We interviewed DFAS Columbus and DFAS Indianapolis personnel to gain an understanding of their process for reconciling the ODO FBWT accounts. Specifically, we interviewed personnel responsible for retrieving the transactions to support the CMR, matching the transactions supporting the CMR to the transactions in the accounting systems, and researching and resolving the identified variances.
- Using the detailed transactions provided by DFAS Columbus, we re-performed the CCAS reconciliation process on four different appropriations (cumulative-from-inception) to determine whether the summary amounts reported on the CCAS reconciliation reports were adequately supported with detailed transactions. We then selected a nonstatistical sample of 20 disbursements from the matched data set and 6 disbursements from the unmatched data set to determine whether DFAS Columbus could provide adequate documentation to support the individual disbursements used in our re-performance.
- We requested the original undistributed file that was provided to DFAS Columbus by DISA when DISA was integrating onto the CCAS process as well as a listing of the DISA transactions that still remained outstanding from the original DISA undistributed file. We then calculated the volume and the total amount of transactions that were on the original undistributed file as well as the volume and amount of transactions that still remained outstanding.
- We selected two different nonstatistical samples (June 2010 and January 2011) to test whether DFAS Indianapolis had procedures in place that would allow it to readily provide the detailed transactions to support the summary amounts on the CMR. Both samples consisted of 15 current-month appropriations and 6 cumulative-from-inception appropriations. Because DFAS Indianapolis was unable to provide the detailed transactions supporting the appropriations in a timely manner, we were unable to re-perform the reconciliations or test supporting documentation.

- We selected a nonstatistical sample of five ODO appropriations reconciled by AM&C at DFAS Indianapolis. We then re-performed the FBWT reconciliation process for the five appropriations to determine whether AM&C was performing adequate reconciliations for the ODO.

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

We relied on computer-processed data consolidated by CCAS. DFAS Columbus uses CCAS to reconcile the ODO FBWT accounts. To test the reliability of CCAS, we selected a nonstatistical sample of four appropriations reconciled by CCAS; gathered the necessary detail files from DFAS Columbus for each of the appropriations; re-performed the Tier 1, Tier 2, and Tier 3 reconciliations for each of the appropriations; and tested the sample to determine whether DFAS Columbus could provide adequate documentation to support the individual disbursements used in our re-performance. From our analysis of the CCAS reconciliation process and the documentation supporting the detailed transactions that CCAS was using, we determined that the computer-processed data was reliable for the purpose of our audit objective.

To test the adequacy of the amounts reported on the CMR, we also reviewed detailed transactions that DFAS Indianapolis retrieved from several field-level systems. However, because DFAS Indianapolis could not provide the detailed transactions supporting the CMR in a timely manner and also did not have a systemic process in place for performing complete reconciliations of the ODO FBWT accounts, we did not rely on the data provided by DFAS Indianapolis.

## **Prior Coverage**

During the last 5 years, the DoD OIG has issued one report discussing reconciliation of the ODO FBWT accounts. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/audit/reports>.

### ***DoD OIG***

DoD OIG Report No. D-2011-098, “Defense Finance and Accounting Service Needs to Improve Controls Over the Completeness and Accuracy of the Cash Management Report,”  
August 15, 2011

## Defense Finance and Accounting Service Comments



### DEFENSE FINANCE AND ACCOUNTING SERVICE

8899 EAST 56TH STREET  
INDIANAPOLIS, INDIANA 46249

MAY 18 2012

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCIAL AUDITING SERVICE,  
OFFICE OF THE INSPECTOR GENERAL, DoD

SUBJECT: Management Comments to DODIG Draft Report "Defense Finance and Accounting Service Needs to Improve the Process for reconciling the other Defense Organizations' Fund Balance with Treasury" dated April 19, 2012, Project No. D2010-D000FA-0097.001

Attached are Management Comments for recommendations 1a, 1b, 1c, and 2.

Questions your staff may have concerning these matters may be directed to [REDACTED]

Audrey L. Eckhart  
Director, Enterprise Solutions and Standards

Attachment:  
As stated

The comments provided by the Defense Finance and Accounting Service (DFAS) were signed by the Director, Enterprise Solutions and Standards. However, the input used to compile the comments on the draft report was provided by the Director, DFAS Indianapolis, and the Director, DFAS Columbus.

**Management Comments to Draft Report “Defense Finance and Accounting Service Needs to Improve the Process for Reconciling the Other Defense Organizations’ Fund Balance with Treasury”, Dated April 19, 2012, Project No. D2010-D000FA-0097.001**

**DFAS Indianapolis Comments:**

**General Management Comments**

DFAS agrees that obtaining the universe of transactions during the audit was a challenge and the requested transactions could not be retrieved in a timely manner. This condition was reported as a control deficiency in our annual Federal Managers’ Financial Integrity Act review. Therefore, DFAS-Indianapolis has established a Fund Balance with Treasury (FBWT) Initiative workgroup to address the Other Defense Organizations’ (ODOs’) FBWT reconciliation processes. This workgroup consists of representatives from Accounting Operations, Enterprise Readiness Office and Audit Readiness Directorate (AuRD). The workgroup is addressing the Fund Balance with Treasury reconciliation in a three phase process:

Phase I - Manual Reconciliation: Reconcile a test symbol to develop functional requirements to determine needs for automated solution.

Phase II – Automated Solution: Work with Information Technology (IT) to develop the DFAS Fund Balance with Treasury (DFBT) tool for Army General Fund and Other Defense Organizations (ODOs).

Phase III – Process Development: Identify the location and staffing needed to support the monthly DFBT reconciliation and subsequent research of items.

**We recommend that the Director, Defense Finance and Accounting Service Indianapolis:**

**Recommendation 1a:** Develop a systems infrastructure that will allow personnel to readily retrieve the detailed transactions supporting all open appropriations that the Accounts Maintenance and Control branch is responsible for accounting for and reconciling on the Cash Management Report.

**Management Comments:** Concur. DFAS established a FBWT Development Team to develop the DFBT tool. The tool will warehouse all Enterprise Resource Planning Systems (ERP) detailed transactions supporting open appropriations that the Accounts Maintenance and Control Branch is responsible for accounting for and reconciling on the Cash Management Report. Each month, detailed transactions submitted to US Treasury Government Wide Accounting (GWA) as well as the voucher level detail from the accounting system(s) will be uploaded to the DFBT tool. This tool will be utilized to retrieve detailed transactional data for the monthly reconciliation. The planning and prototype phases for the tool have been completed. All Treasury and Trial Balance data inputs have been defined. We are currently developing the documentation for the functional requirements and project completion of the tool for 3<sup>rd</sup> quarter 2014.



**Estimated Completion Date:** June 30, 2014

**Recommendation 1b:** Implement a systemic process for reconciling the transactions supporting the amounts on the Cash Management Report to the transactions in the Other Defense Organizations' accounting systems on a monthly basis.

**Management Comments:** Concur – The DFBT tool will incorporate the transactional data for the ODOs' supported by the Accounts Maintenance and Control Branch. Each month detailed transactions submitted to US Treasury (GWA) as well as the voucher level detail from the ERP accounting system(s) will be uploaded to the DFBT tool. The data residing in DFBT tool will be from Initial Operating Capability forward. This tool will be utilized to retrieve the ODOs' detailed transactional data for use in the monthly reconciliation.

**Current Estimated Completion Date:** September 30, 2014.

**Recommendation 1c:** Assess the resources that will be needed to perform complete, transaction level reconciliations for the Other Defense Organizations each month and fully dedicate those resources to the reconciliation efforts.

**Management Comments:** Concur – The DFAS FBWT Initiative workgroup efforts include assessing the resources that will be needed to perform complete, transaction level reconciliations for ODOs monthly. Upon deployment of the DFBT tool, DFAS will dedicate the resources necessary to perform complete transaction level monthly reconciliations for ODOs the Accounts Maintenance and Control Branch are responsible for supporting.

**Estimated Completion Date:** September 30, 2014.

**Columbus comments:**

**We recommend that the Director, Defense Finance and Accounting Service Columbus:**

**Recommendation 2:** Coordinate with the Director, Defense Information Systems Agency to develop a written agreement that designates responsibility for remediating the \$16.1 million in transactions that have remained unmatched since May 2007. Once the responsible entity has been established that organization should take the necessary steps to research and resolve the \$16.1 million in unmatched transactions.

**Management Comments:** Concur. Defense Finance and Accounting Service Columbus (DFAS-CO) have issued a memorandum to Defense Information Systems Agency (DISA) that DFAS-CO Account Payable Operations will continue to work the May 2007 unmatched transactions with support from DISA CFE2 operations. The unmatched transactions have been worked like any other undistributed Tier 3 Columbus Cash Accountability System variance. The

absolute value as of August 2011 was \$16.1 million and \$13.0 million has been resolved, leaving a balance of \$3.1 million.

**Estimated Completion Date:** This recommendation is consider closed





# Inspector General Department of Defense

