

**A** *udit*



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JOURNAL VOUCHERS FOR FY 2000 DEPARTMENT OF THE NAVY  
GENERAL FUND FINANCIAL REPORTING

Report No. D-2001-122

May 16, 2001

Office of the Inspector General  
Department of Defense

## Form SF298 Citation Data

<b>Report Date</b> <i>("DD MON YYYY")</i> 16 May 2001	<b>Report Type</b> N/A	<b>Dates Covered (from... to)</b> <i>("DD MON YYYY")</i>
<b>Title and Subtitle</b> Journal Vouchers for FY 2000 Department of the Navy General Fund Financial Reporting		<b>Contract or Grant Number</b>
<b>Authors</b>		<b>Program Element Number</b>
<b>Performing Organization Name(s) and Address(es)</b> OAIG-AUD (ATTN: AFTS Audit Suggestions) Inspector General Department of Defense 400 Army Navy Drive (Room 801) Arlington, VA 22202-2884		<b>Project Number</b>
<b>Sponsoring/Monitoring Agency Name(s) and Address(es)</b>		<b>Task Number</b>
<b>Distribution/Availability Statement</b> Approved for public release, distribution unlimited		<b>Work Unit Number</b>
<b>Supplementary Notes</b>		<b>Performing Organization Number(s)</b> D-2001-122
<b>Abstract</b> This audit was performed in response to the Chief Financial Officers Act of 1990. Novemeber 15, 1990, as amended by the Federal Financial Management Act of 1994. This is the fourth and final report on the FY 2000 Department of the Navy (Navy) General Fund Financial Statements. The previous reports discuss accounting entries supporting Marine Corps reporting and our endorsement of he Naval Audit Service disclaimer of opinion on the FY 2000 Navy General Fund financial statements. The previous reports are listed in Appendix A. Defense Finance and Accounting Service (DFAS) Cleveland Kansas City provide finance and accounting support to the Navy and Marine Corps, respectively, maintaining departmental accounting records, and preparing financial statements using data from field organizations. The FY 2000 Navy General Fund reported assets of \$133.4 billion and liabilities of \$24.7 billion. The Navy also reported net cost of operations of \$94.5 billion and total outlays of \$87.9 billion.		<b>Monitoring Agency Acronym</b>
<b>Subject Terms</b>		<b>Monitoring Agency Report Number(s)</b>
<b>Document Classification</b> unclassified		<b>Classification of SF298</b> unclassified

<b>Classification of Abstract</b> unclassified	<b>Limitation of Abstract</b> unlimited
<b>Number of Pages</b> 21	

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### **Acronyms**

DDRS	Defense Departmental Reporting System
DFAS	Defense Finance and Accounting Service
JV	Journal Voucher
STARS-FDR	Standard Accounting and Reporting System – Financial Departmental Reporting



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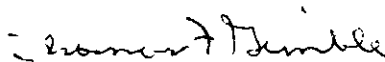
May 16, 2001

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE

SUBJECT: Audit Report on Journal Vouchers for FY 2000 Department of the Navy  
General Fund Financial Reporting (Report No. D-2001-122)

We are providing this report for your information and use. We conducted the audit in response to the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994. No written response to this report was required and none was received. Therefore, we are publishing this report in final form.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Marvin L. Peek at (703) 604-9587 (DSN 664-9587) (mpeek@dodig.osd.mil) or Ms. Linda A. Pierce at (216) 522-6091 (DSN 580-6091), extension 234 (lpierce@dodig.osd.mil). See Appendix B for the report distribution. The audit team members are listed inside the back cover.

  
Thomas F. Gimble  
Acting

Deputy Assistant Inspector General  
for Auditing

## Office of the Inspector General, DoD

Report No. D-2001-122  
(Project No. D2000FC-0283.003)

May 16, 2001

### Journal Vouchers for FY 2000 Department of the Navy General Fund Financial Reporting

#### Executive Summary

**Introduction.** This audit was performed in response to the Chief Financial Officers Act of 1990, November 15, 1990, as amended by the Federal Financial Management Act of 1994. This is the fourth and final report on the FY 2000 Department of the Navy (Navy) General Fund Financial Statements. The previous reports discuss accounting entries supporting Marine Corps reporting and our endorsement of the Naval Audit Service disclaimer of opinion on the FY 2000 Navy General Fund financial statements. The previous reports are listed in Appendix A. Defense Finance and Accounting Service (DFAS) Cleveland and Kansas City provide finance and accounting support to the Navy and Marine Corps, respectively, maintaining departmental accounting records, and preparing financial statements using data from field organizations. The FY 2000 Navy General Fund reported assets of \$133.4 billion and liabilities of \$24.7 billion. The Navy also reported net cost of operations of \$94.5 billion and total outlays of \$87.9 billion.

**Objective.** This report focuses on the objective to determine the reliability and effectiveness of processes and procedures used to prepare the FY 2000 Navy General Fund financial statements. We also reviewed internal controls and compliance with laws and regulations related to the objective. See Appendix A for a discussion of the audit process.

**Results.** DFAS Cleveland recorded 13,813 departmental-level journal vouchers, valued at \$1 trillion, for FY 2000 financial data. Our review of 4,473 journal vouchers, valued at \$614.8 billion, showed that 1,103 journal vouchers, valued at \$453.2 billion, were adequately supported or proper. Our review of 66 journal vouchers, valued at \$295 billion, in the Standard Accounting and Reporting System – Financial Departmental Reporting for supporting documentation showed that 28 of the journal vouchers, valued at \$81.7 billion, did not have adequate supporting documentation. Also, of the 13,813 journal vouchers, 3,342 journal vouchers, valued at \$79.9 billion, were recorded to invalid general ledger accounts and considered improper. As a result, financial data reported in the FY 2000 Navy General Fund financial statements were subject to increased risk and were unreliable. The problem of improper journal vouchers was identified, and recommendations recorded, in two previous Inspector General, DoD, reports. For details of the audit results, see the Finding section of the report. See Appendix A for details on the review of the management control program.

**Management Actions.** DFAS issued journal voucher guidance at the end of FY 2000 as a result of the Inspector General, DoD, FY 1999 audit reports regarding journal vouchers. DFAS Cleveland did not effectively implement the journal voucher guidance for FY 2000. However, in February 2001, DFAS Cleveland conducted training on the journal voucher guidance, emphasizing the requirement to maintain adequate support for journal vouchers. DFAS Cleveland has followed up on that training with supplemental guidance on journal voucher preparation and established a requirement for continuing on-the-job training by supervisors. In addition, DFAS concurred with the recommendations in the FY 1999 report regarding improper journal vouchers; however, all corrective actions were not complete. We have received updated information on the status of corrective actions and revised completion dates for those corrective actions not yet complete. Based on the corrective actions already initiated and planned, we do not make additional recommendations in this report.

**Management Comments.** We provided a draft of this report on March 26, 2001. No written response to this report was required, and none was received. Therefore, we are publishing this report in final form.

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## Background

**Chief Financial Officers Act.** This audit was performed in response to Public Law 101-576, the “Chief Financial Officers Act of 1990,” November 15, 1990, as amended by Public Law 103-356, the “Federal Financial Management Act of 1994,” October 13, 1994. The Chief Financial Officers Act requires the annual preparation of financial statements and requires the Inspectors General to audit the financial statements in accordance with generally accepted Government auditing standards and other standards established by the Office of Management and Budget.

**Audit of the FY 2000 Department of the Navy General Fund Financial Statements.** This report is the fourth and final in a series of reports on the FY 2000 Department of the Navy (Navy) General Fund Financial Statements. We performed audit work on the processes used to compile the Navy General Fund financial statements at Defense Finance and Accounting Service (DFAS) Cleveland and Kansas City. Two previous reports discussed departmental reporting and preparation of the Marine Corps financial reports. We delegated the audit of the FY 2000 Navy General Fund financial statements to the Naval Audit Service, and issued a report endorsing the Naval Audit Service disclaimer of opinion on the FY 2000 General Fund financial statements. See Prior Coverage in Appendix A for a list of the previous three reports.

**Role of the Defense Finance and Accounting Service.** DFAS Cleveland and Kansas City provide finance and accounting support to the Navy and Marine Corps, respectively. They maintain departmental accounting records and prepare financial statements using data from field organizations. DFAS Cleveland prepared the Navy General Fund financial statements, which included data that DFAS Kansas City produced and submitted.

**Navy General Fund Financial Statements.** The FY 2000 Navy General Fund financial statements consisted of the consolidating and consolidated Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position; and the combining and combined Statement of Budgetary Resources and Statement of Financing; along with the supporting footnotes, supplementary schedules, and a management overview. The Navy General Fund financial statements reported the following information.

- The Balance Sheet reported assets of \$133.4 billion and liabilities of \$24.7 billion.
- The Statement of Net Cost reported a net cost of operations of \$94.5 billion.
- The Statement of Changes in Net Position reported an end-of-period net position of \$108.7 billion.
- The Statement of Budgetary Resources reported total outlays of \$87.9 billion.

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## **Objective**

This report focuses on the objective to determine the reliability and effectiveness of processes and procedures used to prepare the Navy General Fund financial statements. We also reviewed internal controls and compliance with laws and regulations related to the objective. Appendix A discusses the audit scope and methodology, the review of the DFAS Cleveland and Kansas City management control programs, and prior audits related to the audit objective.

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# Navy General Fund Journal Vouchers

DFAS Cleveland recorded 13,813 departmental-level journal vouchers (JVs), valued at \$1 trillion, for FY 2000 financial data. Our review of 4,473 JVs, valued at \$614.8 billion, showed that 3,370 JVs, valued at \$161.6 billion, were either unsupported or improper. Although DFAS issued JV guidance, unsupported JVs occurred because the accountants were not adequately trained on the requirements of the guidance to document support for the JVs. Improper JVs occurred because they were recorded to invalid general ledger accounts.<sup>1</sup> As a result, financial data reported in the FY 2000 Navy General Fund financial statements were subject to increased risk and were unreliable.

## Guidance for Preparing and Supporting JVs

DoD Regulation 7000.14R, the “DoD Financial Management Regulation,” volume 6A, “Reporting Policies and Procedures,” February 12, 1996, requires DFAS to support adequately and to justify in writing any adjustment to the official accounting records. The regulation also provides that the documentation of JVs should be detailed enough to provide an audit trail.

A DFAS Director for Accounting memorandum, “Journal Voucher Guidance,” August 2, 2000, provides additional guidance on the use of JVs within DoD, stressing that proper JV preparation is important to ensure that adjustments are accurately recorded as financial events. The guidance prescribes operational internal controls for JV processing. The guidance categorizes JVs by type and establishes specific documentation requirements to support each adjustment type. The guidance also establishes supervisory approval requirements based on the dollar value of the JV and documentation requirements.

## JVs Recorded in FY 2000

DFAS Cleveland and Kansas City recorded 13,813 JVs, valued at \$1 trillion, throughout the fiscal year and at year-end to enter or adjust financial data supporting the Navy General Fund. The following table shows the results of our review of the JVs recorded in the Standard Accounting and Reporting System – Financial Departmental Reporting (STARS-FDR); Defense Departmental Reporting System (DDRS); and offline in order to adjust the STARS-FDR data to be compatible with DDRS.

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<sup>1</sup>Inspector General, DoD, Report No. D-2000-137, “Accounting Entries and Data Processing for the FY 1999 Department of the Navy General Fund Financial Statements,” June 1, 2000, and Inspector General, DoD, Report No. D-2001-041, “Journal Entries to Support Departmental Reporting for the Marine Corps,” January 31, 2001, addressed similar improper JVs.

<b>Navy General Fund FY 2000 Departmental Journal Vouchers</b> (dollars in billions)					
<u>Journal Voucher</u> <u>Type</u>	<u>Supported</u> <u>(JVs)</u>	<u>Unsupported</u> <u>(JVs)</u>	<u>Improper</u> <u>(JVs)</u>	<u>Not</u> <u>Reviewed</u> <u>(JVs)</u>	<u>Total</u> <u>(JVs)</u>
<b>Accounting System Journal Vouchers</b>					
STARS-FDR	\$ 225.5 (915)	\$ 81.7 (28)	\$ 79.9 (3,342)	\$ 354.0 (9,153)	<b>\$ 741.1</b> <b>(13,438)</b>
<b>Statement-Related Journal Vouchers</b>					
DDRS	212.9 (159)	- -	- -	43.4 (187)	<b>256.3</b> <b>(346)</b>
Offline	14.8 (29)	- -	- -	- -	<b>14.8</b> <b>(29)</b>
<b>Totals</b>	<b>\$ 453.2</b> <b>(1,103)</b>	<b>\$ 81.7</b> <b>(28)</b>	<b>\$ 79.9</b> <b>(3,342)</b>	<b>\$ 397.4</b> <b>(9,340)</b>	<b>\$ 1,012.2</b> <b>(13,813)</b>

Of the 13,438 total JVs in STARS-FDR, 4,285 JVs, valued at \$387.1 billion, were reviewed and categorized as supported, unsupported, or improper. Of those reviewed, 66 JVs, valued at \$295 billion, were judgmentally selected and reviewed for support. The JVs shown as improper in the table resulted from an analysis performed on the total population of JVs recorded in STARS-FDR to determine whether the JVs were recorded to invalid general ledger accounts. See Appendix A for more details on the scope and methodology of our review of JVs recorded in STARS-FDR.

Of the 346 JVs, valued at \$256.3 billion, recorded in the DDRS, 159 JVs, valued at \$212.9 billion, were judgmentally selected and reviewed for support. All 29 JVs, valued at \$14.8 billion, recorded offline, were reviewed for support. See Appendix A for more details on the scope and methodology of our review of JVs recorded in DDRS and offline.

The 13,813 JVs, valued at \$1 trillion, recorded for FY 2000, indicated a 4 percent reduction, compared to 14,413 JVs in FY 1999, and a 70 percent reduction, compared to \$3.4 trillion in FY 1999. The difference in dollar value primarily resulted from two JVs, valued at \$800 billion each, recorded in FY 1999 that were not recorded in FY 2000. The JVs in FY 1999 were recorded to eliminate the effects of an interface file that was input with an

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erroneous amount. Although there was a significant reduction in the dollar value of the JVs recorded in FY 2000 compared to FY 1999, the total number of JVs remained relatively constant.

## **JVs in STARS-FDR**

As indicated in the Table, there were 13,438 JVs, valued at \$741.1 billion, recorded in STARS-FDR for FY 2000. Those JVs were recorded during the fiscal year, primarily to adjust financial data to prepare monthly departmental financial reports. We summarized the results of our analysis into the following categories.

**Unsupported JVs.** Of the 66 judgmentally selected JVs, valued at \$295 billion, 28 JVs, valued at \$81.7 billion, were unsupported. DFAS Cleveland was not able to provide adequate documentation or explanation to support those JVs. In some instances, no explanation or documentation was provided, and in other instances, the documentation provided did not support the JV.

**Supported JVs.** Of the 66 judgmentally selected JVs, valued at \$295 billion, 35 JVs, valued at \$212.6 billion, were supported. Overall, 915 JVs, valued at \$225.5 billion, were supported. Of those, 880 JVs, valued at \$12.9 billion, were direct reversals of JVs recorded to invalid general ledger accounts. Because those JVs eliminate the effect of using an invalid general ledger account, we categorized them as being “reversals,” which are included in the supported category.

**Improper JVs.** DFAS Cleveland and Kansas City recorded 3,342 JVs, valued at \$79.9 billion, to invalid general ledger accounts.<sup>2</sup> This is net of 880 JVs, valued at \$12.9 billion, that were subsequently reversed and included in the supported category. Three of those JVs, valued at \$733 million, were part of our judgmental sample of 66 JVs, valued at \$295 billion.

Inspector General, DoD, Report No. D-2000-137, “Accounting Entries<sup>3</sup> and Data Processing for the FY 1999 Department of the Navy General Fund Financial Statements,” June 1, 2000, reported the same condition, stating that DFAS Cleveland recorded 9,348 JVs, valued at \$1.5 trillion, to invalid accounts. The difference in dollar value primarily resulted from one JV, valued at \$800 billion, recorded in FY 1999 that was not recorded in FY 2000. The JV that was recorded in FY 1999 was recorded to the 1108 appropriation to eliminate the effects of an interface file that was input with an erroneous amount. The FY 2000 number and dollar value of improper JVs also decreased because of the 880 JVs, valued at \$12.9 billion, that were subsequently reversed and included in the supported category. Although the number and dollar value of JVs recorded to invalid accounts have decreased from FY 1999 to FY 2000, DFAS Cleveland and Kansas City continued to use invalid accounts in order to

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<sup>2</sup>Invalid general ledger accounts are non-standard accounts created to ensure JVs balance when entered into the general ledger. They neither post to summary accounts nor are used in preparing financial reports.

<sup>3</sup>In the prior reports, “accounting entries,” “journal entries,” and “entries” are the equivalent to “journal vouchers” in this report.

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avoid the appearance of JVs being one-sided entries in FY 2000. The audit report recommended that DFAS Cleveland determine why STARS-FDR received incomplete data, develop an action plan to obtain complete financial data, and establish controls within STARS-FDR to preclude JVs that do not meet generally accepted accounting principles. DFAS concurred with the recommendations; however, all corrective actions were not complete for FY 2000 financial reporting. We have received updated information on the status of corrective actions and revised completion dates for those corrective actions. Based on the corrective actions already initiated and planned, we are not making additional recommendations in this report. However, we will continue to monitor DFAS progress in eliminating the need for JVs to invalid general ledger accounts. See Inspector General, DoD, Report No. D-2000-137, for more details of the prior finding and recommendations.

Inspector General, DoD, Report No. D-2001-041, "Journal Entries to Support Departmental Reporting for the Marine Corps," January 31, 2001, also discusses entries recorded by DFAS Cleveland and Kansas City to invalid general ledger accounts. Those entries were recorded to manually create the "Report on Budget Execution" (SF 133) and were subsequently reversed when the same financial data were fed electronically into STARS-FDR to create other monthly departmental reports. See Inspector General, DoD, Report No. D-2001-041, for more details and for the recommendation made to DFAS that would eliminate the need to make such entries to invalid general ledger accounts.

## **JVs in DDRS and Offline**

As indicated in the Table, all the JVs recorded to DDRS and offline that we reviewed were adequately supported. DFAS Cleveland implemented DDRS in FY 2000 to prepare the annual audited financial statements of the Department of the Navy. DDRS was also used to compile the DoD Agency-Wide financial statements. The offline JVs were recorded after year-end, between STARS-FDR and DDRS, to prepare the financial data for input into DDRS for the FY 2000 financial statements.

## **Implementation of JV Guidance**

Unsupported JVs occurred in STARS-FDR because DFAS Cleveland did not effectively implement the JV guidance outlined in the August 2, 2000, memorandum from the Director, DFAS. The accountants that prepared the JVs were not trained on the requirements and benefits of following this guidance and of documenting support for their JVs. The quality and level of support was varied for the JVs we selected to review at DFAS Cleveland. In some instances, the support was readily available, provided in a timely manner, and well documented. In other instances, no documentation or explanation was provided. Such inconsistencies indicate that the accountants who prepared JVs

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needed training to properly implement the guidance that has been issued. As a result, financial data reported in the FY 2000 Navy General Fund financial statements were subject to increased risk and were unreliable.

## **Corrective Actions Initiated**

DFAS issued JV guidance at the end of FY 2000 as a result of the Inspector General, DoD, FY 1999 audit reports regarding JVs. DFAS Cleveland did not effectively implement the JV guidance for FY 2000, as evidenced by our audit of FY 2000 JVs recorded by DFAS Cleveland. On February 26, 2001, DFAS Cleveland conducted training on the JV guidance, emphasizing the requirement to maintain adequate support for journal vouchers. DFAS Cleveland has followed up on that training with supplemental guidance on journal voucher preparation and established a requirement for on-the-job training by supervisors to continue, which should improve the documentation supporting JVs. Therefore, recommendations to improve the supporting documentation for JVs are not needed. However, we will continue to monitor DFAS progress in maintaining adequate documentation for all JVs.

## **Conclusion**

There was a significant reduction in the dollar value of the JVs recorded in FY 2000 compared to FY 1999, although the total number of JVs remained relatively constant. The significant reduction in dollar value of JVs recorded in FY 2000 compared to FY 1999 primarily resulted from two JVs, valued at \$1.6 trillion, recorded in FY 1999 that were not recorded in FY 2000. DFAS Cleveland improved documenting the support for JVs recorded in STARS-FDR; however, there is still room for improvement. In addition to existing requirements to document support for JVs, the DFAS Director of Accounting issued specific guidance on the use and preparation of JVs at the end of FY 2000. DFAS Cleveland also responded to that need at the end of our audit and initiated training for all of the accounting personnel recording JVs. In addition, DFAS Cleveland issued supplemental guidance and established a requirement for continuing on-the-job training by supervisors. Therefore, we are not making a recommendation in this report.

In addition to the unsupported JVs, our review of the FY 2000 JVs showed that JVs were still being recorded to invalid general ledger accounts at DFAS Cleveland and Kansas City. Inspector General, DoD, Report Nos. D-2000-137 and D-2001-041 address the issue of the use of invalid general ledger accounts. See those reports for details and the recommendations. We have addressed management actions in this report.

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# Appendix A. Audit Process

## Scope and Methodology

**Work Performed.** We examined the processes that DFAS Cleveland used to consolidate financial data. DFAS Cleveland prepared the five required financial statements and the related footnotes. The FY 2000 Navy General Fund financial statements reported a budget authority of \$89.3 billion.

We performed a limited review of the compilation processes that DFAS Cleveland used. Our audit objective was to determine the reliability and effectiveness of processes and procedures used to prepare the Navy General Fund financial statements. In addition, we reviewed management controls and compliance with laws and regulations that DFAS Cleveland used to compile the General Fund's financial data.

In FY 2000, DFAS Cleveland used STARS-FDR to account for the Navy General Fund financial data at the departmental reporting level. DFAS Cleveland used STARS-FDR to prepare financial data for selected line items on the financial statements. STARS-FDR post-closing year-end trial balances were used to prepare the beginning trial balances for DDRS, with some offline JVs discussed below. Departmental reports such as the SF 133 were prepared using financial data from STARS-FDR. Our review of the processing of financial data in STARS-FDR included the adjustments recorded to accounting data; financial data used to prepare the financial statements; and the management controls over processes to prepare the financial statements.

DFAS Cleveland and DFAS Kansas City used the DDRS reporting module to prepare the Navy General Fund financial statements. We observed the processing of DFAS Cleveland financial data in DDRS, which received adjusted post-trial balances from STARS-FDR. We reviewed the adjustments recorded to accounting data in the DDRS module; the financial data used to prepare the financial statements; and the management controls used to compile the Navy General Fund financial statements.

**STARS-FDR JV Data.** We queried the DFAS Cleveland accounting system, STARS-FDR, for JVs recorded during FY 2000 by using the Query Management Facility tables. We queried STARS-FDR for all permanent JVs recorded from October 1, 1999, through September 30, 2000. Queries were run twice to collect JVs, in August and November 2000. Once completed, each appropriation was first saved by appropriation number and then retrieved using a file transfer protocol. Each individual file was opened using a spreadsheet and used for further analysis. We queried 35 appropriations, which resulted in 13,438 JVs, valued at \$741.1 billion. We judgmentally selected 66 JVs in STARS-FDR, valued at \$295 billion. We also reviewed an additional 4,219 JVs in STARS -FDR from an analysis performed on the total population of STARS-FDR JVs to determine the number of JVs recorded to invalid general

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ledger accounts in FY 2000. Our review consisted of 4,285 JVs in STARS-FDR, valued at \$387.1 billion. All temporary JVs were excluded from this audit because they were automatically reversed in the following month.

**Offline JV Data.** We reviewed 29 offline JVs, valued at \$14.8 billion, recorded by DFAS Cleveland for FY 2000 financial data. DFAS Cleveland provided us with the support for those offline JVs. DFAS Cleveland recorded offline JVs to adjust specific post trial balances of STARS-FDR in order to prepare the beginning balances of DDRS.

**DDRS JV Data.** We queried DDRS for all JVs recorded by DFAS Cleveland to prepare the FY 2000 Navy General Fund financial statements. There were 346 DDRS JVs, valued at \$256.3 billion. JVs recorded to eliminate the effects of intra-governmental transactions were included in the population but were not reviewed.

**DoD-Wide Corporate-Level Government Performance and Results Act Goals.** In response to the Government Performance and Results Act, the Secretary of Defense annually establishes DoD-wide corporate-level goals, subordinate performance goals, and performance measures. This report pertains to achievement of the following corporate-level goal, subordinate performance goal, and performance measures.

**FY 2001 DoD Corporate-Level Goal 2:** Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. **(01-DoD-02)**

**FY 2001 Subordinate Performance Goal 2.5:** Improve DoD financial and information management. **(01-DoD-2.5)**

**FY 2001 Performance Measure 2.5.1:** Reduce the number of non-compliant accounting and finance systems. **(01-DoD-2.5.1.)**

**FY 2001 Performance Measure 2.5.2:** Achieve unqualified opinions on financial statements. **(01-DoD-2.5.2.)**

**DoD Functional Area Reform Goals.** Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objective and goal.

**Financial Management. Objective:** Consolidate finance and accounting operations. **Goal:** Reduce and improve accounting systems. **(FM-2.2)**

**Financial Management. Objective:** Reengineer DoD business practices. **Goal:** Improve data standardization of finance and accounting data items. **(FM-4.4)**

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**Financial Management. Objective:** Strengthen internal controls.  
**Goal:** Improve compliance with the Federal Managers' Financial Integrity Act. (FM-5.3)

**General Accounting Office High-Risk Area.** The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the Defense Financial Management high-risk area.

**Use of Computer-Processed Data.** We relied on computer-processed data from STARS-FDR and DDRS to identify the JVs related to preparing the Navy General Fund financial statements. Although we did not perform a reliability assessment of the computer-processed data, we did not find errors that would preclude the use of the computer-processed data to meet the audit objectives or that would change the conclusions in the report.

**Audit Type, Dates, and Standards.** We performed this financial-related audit from June 2000 through March 2001, 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 in the scope and methodology. We included tests of management controls considered necessary.

**Contacts During the Audit.** We visited or contacted organizations in the DoD. Further details are available on request.

## Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require 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 the Review of the Management Control Program.** We evaluated management controls over the DFAS Cleveland and Kansas City processes and procedures for consolidating financial data from the field activities and other sources for preparation of the Navy General Fund departmental reports and financial statements. In this audit report, we reviewed controls over processing financial data in STARS-FDR and the preparation of financial reports. In Inspector General, DoD, Report No. D-2001-097 "Preparing Financial Reports for Marine Corps Appropriations," April 12, 2001, we reviewed controls over processing financial data in the Standard Accounting, Budgeting, and Reporting System and the preparation of financial reports. We also reviewed management's self-evaluation applicable to those controls. In addition, we reviewed management controls over processing financial data in DDRS and evaluated the preparation of financial reports in DDRS. Because DDRS was not an assessable unit, there was no self-evaluation performed.

**Adequacy of Management Controls.** We identified material management control weaknesses at DFAS Cleveland and Kansas City, as defined by DoD

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Instruction 5010.40. STARS-FDR did not have the controls necessary to adequately process financial reports. We are making no recommendations to correct these weaknesses because Inspector General, DoD, Report Nos. D-2000-137 and D-2001-041 contain recommendations to DFAS that should correct the material weaknesses identified in this report. DFAS Cleveland did not effectively implement the JV guidance for FY 2000, as evidenced by our audit of FY 2000 JVs recorded by DFAS Cleveland, but had initiated training at the end of our audit that should improve documentation. We will continue to monitor DFAS progress in maintaining adequate documentation for all JVs.

The manual processes performed at DFAS Kansas City did not have the adequate controls necessary to prepare financial reports. Although we identified the material weaknesses for DFAS Kansas City, we are making no recommendations because Inspector General, DoD, Report No. D-2001-097 contains recommendations to DFAS that should correct the material weaknesses identified. The senior officials responsible for management controls at DFAS Cleveland and Kansas City will receive a copy of the report.

**Adequacy of Management's Self-Evaluation.** Management at DFAS Cleveland did identify STARS-FDR as an assessable unit but did not perform an evaluation. Management did not complete the schedule in the management control plan. Management has planned a review for the assessable unit, STARS-FDR, to be completed by June 30, 2001.

Management at DFAS Kansas City identified financial reporting as an assessable unit. However, in the self-evaluation, DFAS Kansas City officials did not identify the specific material management control weaknesses identified by our audits.

**Uncorrected Material Weakness Identified in FY 1995.** The FY 2000 Annual Statement of Assurance, prepared at DFAS Arlington, presents the following summary of Material Weakness No. 95-028, "Strengthen and Improve Support of Accounting Operations at DFAS Cleveland Center."

DFAS Cleveland...documented known deficiencies in the accounting processes supporting the Department of the Navy (DON). Systems and processes are not being fully compliant with regulatory and statutory requirements, and cannot produce fully auditable financial statements. In turn, financial information and statements do not adequately assist with the management functions of budget formulation, budget execution, proprietary accounting and financial reporting with a high degree of reliability and confidence.

The uncorrected weaknesses have been assigned a targeted correction date of FY 2001. Although standard operating procedures were in place for FY 2000 financial reporting, according to DFAS Cleveland, additional procedures must be developed to cover monthly, quarterly, and annual reporting.

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## Prior Coverage

As part of our audit coverage of the FY 2000 Navy General Fund financial statements we issued the following three reports.

- Inspector General, DoD, Report No. D-2001-097 “Preparing Financial Reports for Marine Corps Appropriations,” April 12, 2001
- Inspector General, DoD, Report No. D-2001-056, “Oversight of the Naval Audit Service Audit of the FY 2000 Department of the Navy General Fund Financial Statements,” February 21, 2001
- Inspector General, DoD, Report No. D-2001-041, “Journal Entries to Support Departmental Reporting for the Marine Corps,” January 31, 2001

The General Accounting Office; the Inspector General, DoD; and the Naval Audit Service have conducted multiple reviews related to financial statement issues. General Accounting Office reports can be accessed on the Internet at <http://www.gao.gov>. Inspector General, DoD, reports can be accessed on the Internet at <http://www.dodig.osd.mil/audit/reports>. Naval Audit Service reports can be accessed on the Internet at <http://www.hq.navy.mil/navalaudit>.

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## **Appendix B. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense (Comptroller)  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)

### **Department of the Army**

Auditor General, Department of the Army

### **Department of the Navy**

Naval Inspector General  
Auditor General, Department of the Navy

### **Department of the Air Force**

Auditor General, Department of the Air Force

### **Other Defense Organizations**

Director, Defense Finance and Accounting Service  
Director, Defense Finance and Accounting Service Cleveland  
Director, Defense Finance and Accounting Service Kansas City

### **Non-Defense Federal Organization**

Office of Management and Budget

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## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

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 Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Reform  
House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform  
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform  
House Subcommittee on Technology and Procurement Policy, Committee on Government Reform

## **Audit Team Members**

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