

Audit



Report

COMPILATION OF THE FY 2000 DOD AGENCY-WIDE
FINANCIAL STATEMENTS

Report No. D-2001-181

September 19, 2001

Office of the Inspector General
Department of Defense

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Acronyms

ATB	Adjusted Trial Balance
AGW	Account Groupings Worksheet
CFO	Chief Financial Officer
DFAS	Defense Finance and Accounting Service
FACTS	Federal Agencies' Centralized Trial-Balance System
FMIP	Financial Management Improvement Plan
OMB	Office of Management and Budget
USD(C)	Under Secretary of Defense (Comptroller)



INSPECTOR GENERAL
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September 19, 2001

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)

SUBJECT: Audit Report on the Compilation of the FY 2000 DoD Agency-Wide
Financial Statements (Report No. D-2001-181)

We are providing this report for information and use. We performed this audit in response to the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994. We considered management comments on a draft of this report when preparing the final report.

The Under Secretary of Defense (Comptroller) comments conform to the requirements of DoD Directive 7650.3; therefore, additional comments are not required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Richard B. Bird at (703) 604-9102 (DSN 664-9102) (rbird@dodig.osd.mil) or Ms. Cindi M. Miller at (317) 510-3855 (DSN 664-3855) (cmiller@dodig.osd.mil). See Appendix B for the report distribution. The audit team members are listed inside the back cover.

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Office of the Inspector General, DoD

Report No. D-2001-181

Project No. (D2001FI-0018.003)

September 19, 2001

Compilation of the FY 2000 DoD Agency-Wide Financial Statements

Executive Summary

Introduction. This report is the fourth in a series of audit reports relating to the audit of the FY 2000 DoD Agency-Wide Financial Statements. The first report discussed the internal controls and compliance with laws and regulations for DoD. The second report discussed issues regarding efforts for improving financial management systems in the 1999 and 2000 Financial Management Improvement Plans. The third report discussed improvements to the Audited Financial Statements Module of the Defense Departmental Reporting System. We performed this audit in response to the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, which requires that DoD provide audited financial statements to the Office of Management and Budget.

The FY 2000 DoD Agency-Wide Financial Statements were compiled from the financial statements of the DoD reporting entities: the Army, Navy, and Air Force General Funds; the Army, Navy, and Air Force Working Capital Funds; the Military Retirement Fund; the U.S. Army Corps of Engineers, Civil Works Program; and financial data for the Other Defense Organizations-General Funds and Working Capital Funds. In FY 2000, the DoD Components reported total assets of \$616.7 billion, total liabilities of \$1.0 trillion, total net costs of operations of \$347.5 billion, and total budgetary resources of \$656.1 billion.

Objectives. Our overall objective was to determine whether the FY 2000 DoD Agency-Wide Financial Statements were prepared in accordance with Office of Management and Budget Bulletin No. 97-01, "Form and Content of Agency Financial Statements," October 16, 1996, as amended, and generally accepted accounting principles. As part of the objective, we determined whether the Defense Finance and Accounting Service consistently and accurately compiled financial data received from field organizations and other sources for the DoD Agency-Wide financial statements. An additional objective was to identify any exceptions to the Department's compliance with U.S. Treasury Financial Manual and completion of the Account Groupings Worksheet, and to identify any differences between the Summarized Federal Agencies' Centralized Trial-Balance System I Data and the audited FY 2000 DoD Agency-Wide Financial Statements. We also reviewed the management control program as it related to the overall objective.

The Defense Finance and Accounting Service processed approximately \$4.4 trillion in department-level accounting entries to DoD Component financial data used to prepare departmental reports and DoD financial statements for FY 2000. Of the \$4.4 trillion in department-level accounting entries, \$2.8 trillion were supported with proper research, reconciliation, and audit trails. However, department-level accounting entries of \$1.1 trillion were unsupported or improper. We did not review another \$477.1 billion

in department-level accounting entries. The DoD Agency-Wide financial statements for FY 2000 were subject to a high risk of material misstatement. The magnitude of department-level accounting entries required to compile the DoD financial statements for FY 2000 highlights the difficulties and problems that DoD encountered in attempting to produce accurate and reliable financial information using existing systems and processes (finding A).

DoD FY 2000 Federal Agencies' Centralized Trial-Balance System I that electronically documents the Department's financial statement submissions to the Department of the Treasury was incomplete and late. Specifically, DoD did not complete the worksheets required by U.S. Treasury guidance. As a result, DoD missed 2 of 3 U.S. Treasury deadlines and was 4 days late for the final submission. Further, we were unable to verify the \$137.5 billion in Commitments and Contingencies reported on the Federal Agencies' Centralized Trial-Balance System data to the published FY 2000 DoD Agency-Wide Financial Statements, footnotes, and other supporting data. These problems negatively impacted the process for preparing and auditing the FY 2000 Government-Wide Financial Statements (finding B).

Summary of Recommendations. Because we previously made recommendations to improve the process for department-level accounting entries, we are not making recommendations on that issue in this report. We recommend that the Under Secretary of Defense (Comptroller) develop and execute specific reconciliation and reporting requirements for the Federal Agencies' Centralized Trial-Balance System I Account Groupings Worksheet and Notes and incorporate those requirements in the DoD Financial Management Regulation.

Management Comments. The Deputy Chief Financial Officer agreed that a Federal Agencies' Centralized Trial-Balance System I reconciliation checklist should be developed and executed. The Deputy agreed to incorporate the reconciliation checklist and Federal Agencies' Centralized Trial-Balance System I key dates into the DoD Financial Management Regulations. The Deputy recommended the establishment of a collaborative workgroup consisting of staff from the Under Secretary of Defense (Comptroller), the Defense Finance and Accounting Service, and the OIG, DoD, which will develop the reconciliation checklist, and other necessary procedures needed to meet the Federal Agencies' Centralized Trial-Balance System I reconciliation and reporting requirements within the established timeframes. See the Management Comments section for the complete text of management comments.

Audit Response. The Under Secretary of Defense (Comptroller) comments are responsive. However, the U.S. Treasury Financial Manual segregates the responsibilities of Federal Agencies' Centralized Trial-Balance System I process. The Federal Agencies' Centralized Trial-Balance System I reconciliation and reporting process is the responsibility of the Chief Financial Officer, not the responsibility of the OIG, DoD. While the OIG, DoD, is willing to assist in the reconciliation process, the Under Secretary of Defense (Comptroller) is accountable for completing and reconciling the Account Groupings Worksheet and reconciling the Federal Agencies' Centralized Trial-Balance System I Notes. The OIG, DoD, is responsible for verifying the DoD Federal Agencies' Centralized Trial-Balance System I final submission.

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Background

This report is the fourth in a series of reports related to the DoD Agency-Wide financial statements for FY 2000. The first report discussed the internal controls and compliance with laws and regulations for DoD. The second report discussed issues regarding efforts for improving financial management systems in the 1999 and 2000 Financial Management Improvement Plans. The third report discussed improvements to the Defense Departmental Reporting System. This report discusses the compilation process for the FY 2000 DoD Agency-Wide Financial Statements.

Reporting Requirements. 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, requires DoD to prepare annual audited financial statements. Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements," dated October 16, 2000, as amended, establishes the minimum requirements for audits of Federal financial statements.

Accounting Functions and Responsibilities. The Under Secretary of Defense (Comptroller) (USD[C]), as the Chief Financial Officer (CFO), is responsible for overseeing all financial management activities related to the programs and operations of DoD. The Defense Finance and Accounting Service (DFAS) performs accounting functions and prepares financial statements for DoD. DFAS operates under the control and direction of the USD(C). DFAS is responsible for entering information from DoD entities into finance and accounting systems, and ensuring the continued integrity of the information entered. The DoD reporting entities are responsible for providing accurate financial information to DFAS through feeder systems and other processes.

For FY 2000, DFAS was to prepare financial statements for nine OMB reporting entities: DoD Agency-Wide; Army, Navy, and Air Force General Funds; Army, Navy, and Air Force Working Capital Funds; Army Corps of Engineers, Civil Works Program; and the Military Retirement Fund. In addition, trial balance data were to be prepared for Other Defense Organizations for FY 2000.

DoD Agency-Wide Financial Statements. The DoD Agency-Wide financial statements consist of five parts: overview, principal statements, required supplementary stewardship information, required supplemental information, and other accompanying information. The principal statements for the reporting entities consist of six financial statements and related footnotes. The statements are the Balance Sheet, the Statement of Net Cost, the Statement of Changes in Net Position, the Statement of Budgetary Resources, the Statement of Financing, and the Statement of Custodial Activity.

FY 2000 DoD Agency-Wide Financial Statements. In FY 2000, the DoD Components reported total assets of \$616.7 billion, total liabilities of \$1.0 trillion, total net costs of operations of \$347.5 billion, and total

budgetary resources of \$656.1 billion. On February 15, 2001, we issued a disclaimer of opinion on the FY 2000 DoD Agency-Wide Financial Statements.

Accounting Policy. The DoD Agency-Wide financial statements for FY 2000 were to be prepared in accordance with OMB Bulletin No. 97-01, "Form and Content of Agency Financial Statements," October 16, 1996, as amended. Footnote 1 to the financial statements discusses the significant accounting policies followed in preparing the financial statements.

Ongoing Corrective Actions. DoD acknowledged that financial management system deficiencies prevent it from producing auditable financial data. In June 1998, DoD developed ongoing corrective actions, commonly referred to as implementation strategies, to improve other aspects of its financial management and to accelerate timelines for achieving "clean" opinions on the Department's annual financial statements. In an effort to integrate its financial management reform initiatives, USD(C) intends to incorporate these implementation strategies into the annual Financial Management Improvement Plan (FMIP). The FMIP will be used as a management tool to monitor its ongoing corrective actions.

Federal Agencies' Centralized Trial-Balance System I. The Federal Agencies' Centralized Trial-Balance System (FACTS) I is a system that is administered and maintained by the Department of the Treasury Financial Management Service to facilitate the preparation and consolidation of the Financial Report of the United States Government. As the preparer of the audited financial statements for the DoD reporting entities, DFAS and the United States Army Corps of Engineers Finance Center are required to electronically transmit the adjusted trial balances (ATB) and footnotes to the Department of the Treasury via the FACTS I.

Objectives

Our overall objective was to determine whether the DoD Agency-Wide financial statements for FY 2000 were prepared in accordance with OMB Bulletin No. 97-01, and generally accepted accounting principles. As part of the objective, we determined whether DFAS consistently and accurately compiled financial data received from field organizations and other sources for the DoD Agency-Wide financial statements. An additional objective was to identify any exceptions to the Department's compliance with U.S. Treasury Financial Manual, volume 1, part 2, chapter 4000, "Federal Agencies' Centralized Trial-Balance System," and completion of the Account Groupings Worksheet (AGW), and to identify any differences between the summarized FACTS I data and the audited FY 2000 DoD Agency-Wide Financial Statements. We also reviewed the management control program as it related to the overall objective. See Appendix A for a complete discussion of the scope, methodology, and prior coverage.

A. Department-Level Accounting Entries

During FY 2000, DFAS processed approximately \$4.4 trillion in department-level accounting entries to DoD Component financial data used to prepare departmental reports and the DoD Agency-Wide financial statements for FY 2000. Of the \$4.4 trillion, \$2.8 trillion were supported, \$1.1 trillion (25 percent) were unsupported or improper, and \$0.5 trillion were not reviewed. Although some department-level accounting entries will always be necessary through the normal course of accounting operations and the complexity of DoD business practices, there are major concerns about the accounting entries because:

- DFAS had to process 729 department-level accounting entries, valued at \$1.2 trillion, to add new data. Many entries were made because DoD did not have adequate integrated systems for compiling accurate and reliable financial data;
- DFAS processed 974 department-level accounting entries, valued at \$588 billion, to correct errors; and
- DFAS processed 5,653 accounting entries, valued at \$1.1 trillion, for which DoD did not perform proper research and reconciliation, maintain adequate documentation and audit trails, or follow accounting principles.

As a result, the DoD financial statements for FY 2000 were subject to a high risk of material misstatement. The magnitude of department-level accounting entries required for FY 2000 highlights the significant problems that DoD encountered in attempting to produce accurate and reliable financial information using existing systems and processes.

Guidance

Section 3512, Title 31, United States Code. The requirements of the Federal Managers' Financial Integrity Act of 1982 for an agency's internal accounting and administrative controls were incorporated in section 3512, title 31, United States Code (31 U.S.C. 3512). That section requires DoD to establish and to implement internal accounting and administrative controls to provide reasonable assurance that revenues and expenditures applicable to agency operations are recorded and accounted for properly so that accounts and reliable financial and statistical reports may be prepared and accountability of the assets may be maintained. In addition, 31 U.S.C. 3512 requires DoD to assess the effectiveness of the internal accounting and administrative controls established and implemented.

OMB Circular No. A-123. OMB Circular No. A-123, "Management Accountability and Control," June 21, 1995, provides guidance to Federal

managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on management controls. OMB Circular No. A-123 requires Federal managers to promptly record, properly classify, and account for transactions to prepare timely and reliable accounts and reports.

General Accounting Office “Standards for Internal Control in the Federal Government.” The General Accounting Office publication, “Standards for Internal Control in the Federal Government,” November 1999, provides an overall framework for internal control. The standards state the following:

Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation of related records which provide evidence of execution of these activities as well as appropriate documentation.

In addition, the standards require clear documentation of all transactions and other significant events, and the documentation should be readily available for examination.

DoD Guidance. DoD has issued guidance for the proper execution of department-level accounting entries. The DoD Financial Management Regulation, DoD Regulation 7000.14-R, volume 6A, “Reporting Policy and Procedures,” January 2001, requires documentation and audit trails necessary to support department-level accounting entries.

DFAS Guidance. “Journal Voucher Guidance,” August 2, 2000, issued by DFAS, established procedures on the use of journal vouchers within DoD and was retroactive to the beginning of FY 2000. This guidance discusses the types of journal vouchers, when and how to use each type, the appropriate support that should accompany each journal voucher, and the approval necessary to ensure the proper entry of journal vouchers.

Department-Level Accounting Entries

Department-Level Accounting Entries for FY 2000. DFAS processed approximately \$4.4 trillion in department-level accounting entries to the DoD Components’ financial data used to prepare departmental reports and the DoD Agency-Wide financial statements for FY 2000. The department-level accounting entries were processed to force financial data to agree with various data sources, to correct errors, and to add new data. Of the \$4.4 trillion, proper research, reconciliations, and adequate audit trails supported \$2.8 trillion of the department-level accounting entries. However, accounting entries of \$1.1 trillion were made to force financial data to agree with various sources without adequate research and reconciliation, were made to force buyer and seller data to agree in preparation for eliminating entries, did not contain adequate audit trails and documentation, or did not follow accounting principles. Because of time constraints, we identified but did not review \$477.1 billion of

accounting entries and, therefore, we did not determine whether they were adequately supported. Table 1 identifies the results of our review of department-level accounting entries made to the DoD Components' financial data.

Department-Level Accounting Entries	Supported (entries)	Unsupported (entries)	Improper (entries)	Not Reviewed (entries)	Total (entries)
Army General Fund	\$ 103.4 (219)	\$ 360.4 (236)	\$ 1.1 (4)	\$ 0 (0)	\$ 464.9 (459)
Army Working Capital Fund	168.2 (174)	36.2 (72)	7.8 (5)	0 (0)	212.2 (251)
Navy General Fund	453.2 (1,103)	81.7 (28)	79.9 (3,342)	397.4 (9,340)	1,012.2 (13,813)
Navy Working Capital Fund	885.9 (432)	48.2 (165)	10.7 (61)	2.5 (316)	947.3 (974)
Air Force General Fund	85.6 (507)	317.4 (1,067)	3.0 (43)	0 (0)	406.0 (1,617)
Air Force Working Capital Fund	68.7 (388)	32.0 (152)	4.3 (8)	0 (0)	105.0 (548)
ODO* General Fund	334.3** (81)**	150.5** (376)**	0.4 (23)	61.6 (758)	546.8** (1,238)
ODO Working Capital Fund	15.2 (203)	10.0 (66)	0 (0)	0 (0)***	25.2 (269)***
U.S. Army, Corps of Engineers	15.0 (117)	0.3 (5)	0 (0)	15.6 (1,906)	30.9 (2,028)
Military Retirement Fund	687.6 (1)	0 (0)	0 (0)	0 (0)	687.6 (1)
Total	\$2,817.1** (3,225)**	\$1,036.7** (2,167)**	\$107.2 (3,486)	\$477.1 (12,320)	\$4,438.1** (21,198)

*Other Defense Organizations.

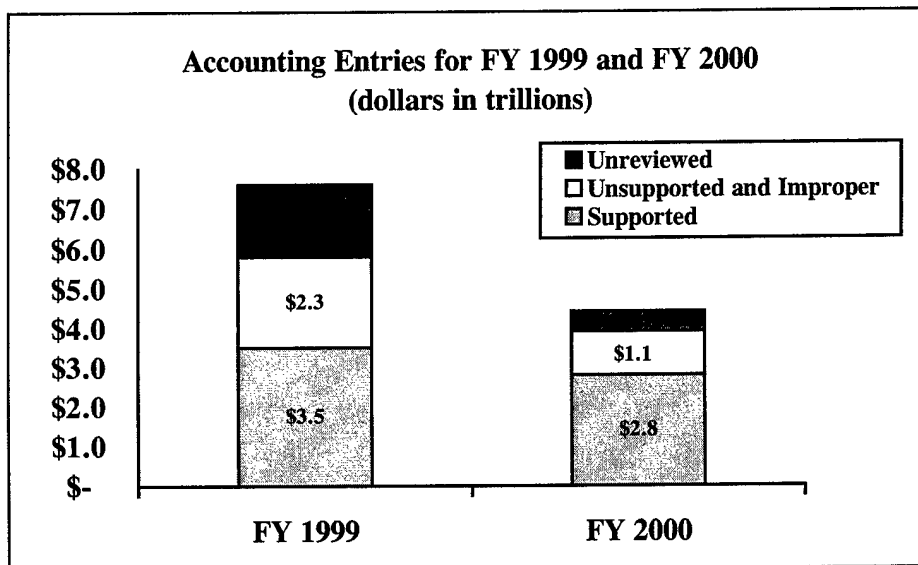
**These data have been refined to reflect an increase of \$8.7 billion in supported, a decrease of \$77.5 billion in unsupported, and a decrease of \$68.8 billion in total department-level accounting entries since the issuance of Inspector General, DoD, Report No. D-2001-070, "Internal Controls and Compliance with Laws and Regulations for the DoD Agency-Wide Financial Statements for FY 2000," February 28, 2001.

***The scope of accounting entries reviewed for the ODO Working Capital Fund (WCF) was limited to entries processed by DFAS Indianapolis (\$2.5 billion) and DFAS Denver (\$22.7 billion). Therefore, the total amount of accounting entries to the ODO WCF financial statements is unknown.

The primary reason that the number and value of department-level accounting entries for the Navy General Fund is larger than for other reporting entities is due to variations

in business processes. In addition, some of the department-level accounting entries included in the "Improper" category were made as a result of system interface problems and other related deficiencies in accounting systems.

Comparison of Department-Level Accounting for FY 1999 and FY 2000. Despite the large volume of department-level accounting entries made to the DoD Component financial data during FY 1999 and FY 2000, progress had been made supporting the entries. The following chart shows the comparison of supported, unsupported and improper, and unreviewed department-level accounting entries for FY 1999 and FY 2000.



The department-level accounting entries processed to compile the DoD Components financial data (used to prepare departmental reports and the DoD Agency-Wide financial statements for FY 2000) decreased by \$3.2 trillion, from at least \$7.6 trillion in FY 1999 to at least \$4.4 trillion. The department-level accounting entries supported by proper research, reconciliation, and adequate audit trails decreased by \$700 billion from \$3.5 trillion in FY 1999 to \$2.8 trillion in FY 2000. The \$1.1 trillion of unsupported and improper department-level accounting entries for FY 2000 decreased \$1.2 trillion from \$2.3 trillion in FY 1999. The major reason for the decrease in unsupported and improper entries was that in FY 1999, DFAS Cleveland made one large entry of \$800 billion that did not follow accounting principles. DFAS Cleveland did not make any accounting entries of this magnitude for FY 2000. We did not review \$1.8 trillion for accounting entries for FY 1999 and \$0.5 trillion for FY 2000.

Supported Department-Level Accounting Entries

DFAS processed 3,225 department-level accounting entries, valued at \$2.8 trillion, for which proper research and reconciliations were performed and adequate audit trails existed. The department-level accounting entries were made to do the following:

- enter new data into the accounting records,
- correct errors, and
- meet the requirements of accounting principles and other guidance.

Although we determined that proper reconciliations were performed and adequate audit trails existed to support \$2.8 trillion of the accounting entries, it is important to note that many of these were corrections of errors or data provided to DFAS from outside sources. For the supported accounting entries prepared using data from outside sources, DFAS correctly prepared a journal voucher for the entry and attached documentation from the outside source supporting the numbers on the voucher. However, due to the unreliable processes used by the outside sources to develop the numbers, such as estimates for environmental liabilities, the numbers from the outside sources could not be verified through audit.

Data Entries. DFAS processed 729 department-level accounting entries, valued at approximately \$1.2 trillion, to add new data into the accounting records. DFAS was required to process department-level accounting entries, such as actuarial estimates, that could not be generated through transaction-driven integrated accounting systems. The data came from outside sources over which DFAS had little or no direct influence. For example, DFAS processed a department-level accounting entry for \$687.6 billion to record the liability for military retirement pensions. The department-level accounting entry was properly supported and the amount was accurate. Although some department-level accounting entries were properly supported, due to the unreliable processes used by the outside sources to develop the numbers, the numbers from the outside sources could not be verified through audit. For example, DFAS processed department-level accounting entries, valued at \$63.2 billion, to record environmental liabilities based on documentation that the Military Departments provided. However, because of insufficient controls that DoD used to develop the estimates, auditors could not verify the accuracy of the reported amount.

DFAS also processed department-level accounting entries to add new data into the accounting records that normally should be generated through a transaction-driven integrated financial management system. Instead, DFAS was forced to prepare data calls for field organizations to obtain amounts to be reported on the financial statements for line items such as inventory and property, plant, and equipment because the current financial management systems were not capable of generating that information. The information should be available to DoD managers throughout the year, not just reported through data calls conducted once a year. Because of demonstrated results of DoD Year 2000 initiatives, in

November 1999, we recommended that DoD develop an approach similar to the Year 2000 approach to identify and bring those systems up to CFO compliance. As approved by the Defense Management Council, the USD(C) developed a financial and feeder systems compliance process dated January 5, 2001, to oversee and monitor the DoD Components' efforts to develop and modify critical finance, accounting, and feeder systems to comply with applicable requirements. The process is patterned after the successful DoD Year 2000 conversion process and consists of five phases with defined exit criteria. We assessed the adequacy of DoD long-term plans in Inspector General, DoD Report No. D-2001-085, "The 2000 DoD Financial Management Improvement Plan," March 19, 2001. Therefore, we are not making recommendations in this report regarding DoD plans to correct financial management systems deficiencies.

Corrections of Errors. DFAS processed 974 department-level accounting entries, valued at \$588 billion, to correct accounting errors. Error corrections decreased in FY 2000 by \$14.7 billion from \$602.7 billion in FY 1999. Although support existed for these adjustments, DoD can improve the efficiency of the financial statement compilation process and help ensure the integrity of the financial data by improving the accuracy of accounting entries and minimizing the need for error corrections.

Accounting Entries Required by Guidance. DFAS processed 1,522 department-level accounting entries, valued at \$989.5 billion, to record entries required by guidance. They included department-level accounting entries that were required by DoD Regulation 7000.14-R and were properly supported. For example, DoD Regulation 7000.14-R, volume 11, chapter 55, requires that DoD inventory be valued at the latest acquisition cost for financial statement presentation. However, to record inventory on the financial statements at latest acquisition cost, DoD organizations that maintain inventory values at the selling price adjust the inventory values to latest acquisition cost by removing operating cost recovery amounts.

Unsupported or Improper Department-Level Accounting Entries

DFAS processed 5,653 unsupported or improper department-level accounting entries, valued at about \$1.1 trillion. The department-level accounting entries were unsupported or improper because of the following:

- they were made to force general ledger data to agree with data from other sources without adequate research and reconciliation;
- they were made to force buyer and seller data to agree in preparation for eliminating entries; and
- they did not follow accounting principles, did not contain adequate supporting documentation, or did not contain adequate audit trails.

Accounting Entries to Force Financial Data to Agree with Various Sources. DFAS processed department-level accounting entries, valued at \$421.8 billion, to force financial data from various sources to agree without performing the proper research and reconciliations. DFAS headquarters guidance requires that, when accounting personnel process accounting entries made to force financial data from various sources to agree, they must document the reason for the discrepancy and explain how they determined the proper source to be correct. For example, DFAS Indianapolis identified \$262.6 billion of differences between various financial data sources used to prepare the Army General Fund financial statements for FY 2000. Instead of conducting the proper research to identify the correct amount to be reported, DFAS Indianapolis processed 72 department-level accounting entries to force the various amounts to agree without performing the proper reconciliations. Without the proper research and reconciliation, management's ability to support the financial data is impaired.

Accounting Entries to Force Buyer and Seller Data to Agree. The DoD guidance did not require adequate support for intragovernmental eliminations. The guidance provided instructions to adjust buyer-side data to agree with seller-side data, without conducting proper research to reconcile the difference. For FY 2000, DoD processed \$135.5 billion in unsupported department-level accounting entries to adjust intragovernmental accounts to ensure sufficient balances to cover the amounts needed for elimination.

For FY 2000 reporting, DoD used information from the DoD entity making sales or providing services ("seller-side") to another DoD entity, or to another Federal agency, that is the recipient and purchaser of those goods or services ("buyer-side") as the basis for reporting intragovernmental eliminations. DoD presumed that the amounts of intragovernmental accounts receivable, revenue, and advances from others (unearned revenue) reported by the seller were more accurate, and that the corresponding amounts reported by the buyer for intragovernmental accounts payable, expenses, advances, and assets must be adjusted to match the seller records. For example, DFAS processed department-level accounting entries of \$17.4 billion to the Air Force General Fund, adjusting the amounts in the Air Force General Fund to the seller-side data without any research or reconciliation.

DoD accounting systems do not capture trading partner data (data on transactions between DoD and other Federal entities) at the transaction level in a manner that facilitates trading partner aggregations. Therefore, DoD was unable to reconcile intragovernmental revenue balances with its trading partners. As a result, the DoD Agency-Wide financial statements were subject to risk of material misstatement. The inability of DoD to properly account for and disclose intragovernmental transactions and report trading partner eliminations is a major impediment in obtaining a favorable audit opinion on its financial statements.

Other Unsupported or Improper Department-Level Accounting Entries. DFAS processed 4,775 department-level accounting entries, valued at \$586.6 billion, that did not follow accounting principles, did not contain adequate supporting documentation, or did not contain adequate audit trails.

For example, DFAS Cleveland processed \$10.7 billion in accounting entries for which the debits did not equal the credits. DFAS Cleveland personnel stated that these department-level accounting entries were necessary due to system interface problems.

Ongoing Corrective Actions

In June 1998, DoD established an initiative to develop and implement corrective actions to improve the financial management of its acquisition, logistics, medical and personnel processes and systems in an attempt to accelerate timelines for achieving "clean" opinions on the Department's annual financial statements. The initiative was referred to as "Implementation Strategies." Thirteen implementation strategies were developed and are in various stages of completion. The Department now intends to incorporate and monitor these corrective actions through the annual Financial Management Improvement Plan (FMIP).

Inspector General, DoD, Report No. D-2000-179. In Inspector General, DoD, Report No. D-2000-179, "Department-Level Accounting Entries for FY 1999," August 18, 2000, we recommended that DoD needed to develop an additional implementation strategy to eliminate unsupported department-level accounting entries used to compile the DoD Component and DoD Agency-Wide financial statements. The Deputy CFO responded to the report by drafting an implementation strategy that addressed the unsupported accounting entries. Although the Department has issued additional accounting guidance on controls over year-end processes, it has yet to issue or finalize this implementation strategy. Therefore, the recommendation previously made relating to department-level accounting entries is still valid. We will follow up with management to ensure that the corrective action is taken and incorporated into the FMIP.

Summary

DoD will always make some department-level accounting entries to reflect needed adjustments to the accounting data. However, DoD made many of the accounting entries to add new data into the accounting records because DoD lacked integrated financial management systems that meet Federal financial management system requirements and accounting principles. DoD acknowledged that deficiencies exist and developed long-term plans to correct critical financial management systems.

Although DFAS adequately supported \$2.8 trillion of accounting entries, many were prepared using data from outside sources. For the supported accounting entries prepared using data from outside sources, DFAS correctly prepared a journal voucher for the entry and attached documentation from the outside source supporting the numbers on the voucher. However, due to the unreliable processes used by the outside sources to develop the numbers, such as estimates for environmental liabilities, the numbers from the outside

sources could not be verified through audit. and \$588 billion in accounting entries were made to correct errors. In addition to its long-term system correction plans, DoD should focus efforts on improving the accuracy of accounting entries made and minimizing error corrections.

DoD did not perform proper research and reconciliations, did not follow accounting principles in making accounting entries, and did not maintain adequate documentation and audit trails for \$1.1 trillion of department-level accounting entries. The accounting entries indicate potential problems in DoD financial management systems and processes. Until compliant financial management systems are in place, DoD could improve the accuracy of its financial data by following accounting principles and including the proper support for any accounting entries made to the accounting records.

As a result of processing \$1.1 trillion of unsupported or improper department-level accounting entries, the FY 2000 DoD Agency-Wide Financial Statements were subject to a high risk of material misstatement. The lack of research, reconciliation, and audit trails impaired the auditors' ability to validate the department-level accounting entries. The magnitude of department-level accounting entries required to compile the DoD financial statements highlights the significant problems that DoD had in producing accurate and reliable financial statements with existing systems and processes.

B. Federal Agencies' Centralized Trial-Balance System I Submission

The DoD FY 2000 FACTS I submission to the Department of the Treasury was incomplete and late. Specifically, DoD did not complete and submit the Account Groupings Worksheet (AGW) as required by U.S. Treasury guidance by March 5, 2001. The FACTS I submission was incomplete and late because DoD did not establish effective control procedures to ensure full compliance with the U.S. Treasury FACTS I reporting requirements. Specifically:

- DoD had not established a mechanism to reconcile U.S. Treasury prepared footnotes with DoD Agency-Wide financial statements, footnotes, and other supporting data; and
- DoD did not perform reconciliations between the FACTS I data and the amounts from DoD Agency-Wide financial statements in a timely manner.

As a result, DoD missed 2 of the 3 U.S. Treasury reporting timelines, missing the final submission by 4 days. Further, DoD was unable to reconcile, and we were not able to verify, the \$137.5 billion of Commitments and Contingencies in FACTS I to the published FY 2000 DoD Agency-Wide Financial Statements, footnotes and other supporting data. Although only 4 days late, the DoD delays in submitting FACTS I data negatively impacted the ability of the Department of the Treasury to prepare and the General Accounting Office to audit the FY 2000 Government-Wide Financial Statements.

Reporting Requirements

The Federal Financial Management Act of 1994, Public Law 103-356 (31 U.S.C. 331(e)(1)), requires the Secretary of the Treasury to annually prepare and submit to the President and the Congress audited financial statements for the preceding fiscal year. These audited financial statements are the Financial Report of the United States Government and must cover all accounts and associated activities of the executive branch of the Federal Government. The Budget and Accounting Procedures Act of 1950 (31 U.S.C. 3513(a)) requires each executive agency to furnish financial and operational information as the Secretary of the Treasury stipulates. The U.S. Treasury Financial Manual identifies the reporting requirements for the agencies.

FACTS I Submission

U.S. Treasury Financial Manual. U.S. Treasury Financial Manual, volume 1, part 2, chapter 4000, "Federal Agencies' Centralized Trial-Balance System (FACTS I)," August 14, 2000, describes the U.S. Treasury requirements for the electronically transmitted preclosing adjusted trial balances, the FACTS I Notes, and the AGW process. DoD missed 2 of its 3 U.S. Treasury reporting timelines, missing the final submission by 4 days. Table 2 provides the FY 2000 required dates for the FACTS I reporting process.

Due Date	FACTS I Reporting Requirement	Date Completed
February 1, 2001	DoD ATB and FACTS I Notes due to Treasury.	February 1, 2001 ¹
February 8, 2001	Treasury preliminary AGW to DoD.	February 10, 2001
February 23, 2001	DoD adjustments to FACTS I data.	March 8, 2001
February 26, 2001	Treasury final AGW to DoD.	February 26, 2001 ²
March 5, 2001	DoD completed AGW and explanation for the differences to Treasury, General Accounting Office, and Office of Management and Budget.	March 9, 2001 ³
March 7, 2001	Inspector General, DoD, delivered the agreed-upon procedures report to Treasury, General Accounting Office, and Office of Management and Budget.	March 13, 2001

¹The DoD ATB data is provided to the Department of the Treasury by the United States Army Corps of Engineers Finance Center and by multiple DFAS locations. A significant portion of the DoD ATB data was provided to the Department of the Treasury by February 1, 2001.

²The Department of the Treasury provided DoD with the final AGW on February 26, 2001. Due to DoD adjustments to the FACTS I data the Department of the Treasury provided revised final AGWs to DoD on March 8 and on March 9, 2001.

³The DoD completed AGW submitted to the Department of the Treasury, the General Accounting Office, and the Office of Management and Budget on March 9, 2001, did not explain any differences identified. On March 13, 2001, DoD provided additional information on the differences subsequent to the Inspector General, DoD, issuing its agreed-upon procedures memorandum.

The Secretary of the Treasury is required to annually prepare and submit the Financial Report of the United States Government by March 31. If a FACTS I reporting requirement is not accomplished by the required date, it negatively impacts the process for subsequent reporting requirements and ultimately could delay the issuance of the Financial Report of the United States Government.

Adjusted Trial Balances. The ATB is a list of standard general ledger accounts with preclosing adjusted balances prepared at year's end. The ATB data is consolidated and used to prepare the Financial Report of the United States Government. DoD is required to electronically transmit the preclosing ATBs using

standard general ledger accounts with balances. DoD provided the preclosing ATBs for the period ending September 30, 2000, by February 1, 2001.

FACTS I Notes Report. The FACTS I Notes are a narrative of additional textual information and detailed standard general ledger account balance information contained in the agencies' financial statements. DoD was required to complete and transmit all applicable notes to the Department of the Treasury by February 1, 2001. DoD was required to report at the business line level and to ensure that the standard general ledger account balances on the FACTS I Note report agreed with the standard general ledger account balances on the ATBs. DoD provided the majority of its FACTS I Notes data by the deadline.

Account Groupings Worksheet. The AGW is a tool used by the Department of the Treasury to ensure that the agencies' consolidated FACTS I ATB data and FACTS I Notes agree with the agencies' audited financial statements. The AGW contains:

- Balance Sheet,
- Statement of Changes of Net Position,
- Statement of Net Cost,
- Schedule of Split U.S. Government Standard General Ledger Accounts, and
- Schedule of Differences between ATB and FACTS I Notes data.

The Department of the Treasury and DoD each populate the AGW. The Department of the Treasury completes the FACTS I ATB data and FACTS I Notes data portion and DoD completes the audited financial statement data portion. DoD is also required to compare and explain any differences between the two. The Department of the Treasury provides DoD 15 days (February 8 to February 23) to adjust the FACTS I ATB data and FACTS I Notes data before providing a final AGW for completion. DoD has an additional 7 days (February 26 to March 5) to complete its final AGW before submitting it to the Department of the Treasury by March 5. The Inspector General, DoD, is required to verify the Department's final AGW and identify any exceptions not identified. DoD did not reconcile its FACTS I ATB data and FACTS I Notes data to the DoD audited financial statements before providing its final AGW to the Inspector General, DoD, for verification. DoD provided its final AGW to the Department of the Treasury on March 9, 2001.

Completed Account Groupings Worksheet

DoD did not complete the AGW as required by the U.S. Treasury Financial Manual. The U.S. Treasury Financial Manual requires that DoD provide the completed AGW to the Department of the Treasury, the General Accounting Office, and the OMB by March 5, 2001. DoD was one of the

last to submit its final AGW to these agencies. DoD provided its final AGW on March 9, 2001. In addition, the final AGW did not have all of the required CFO Procedures completed. The U.S. Treasury Financial Manual requires the CFO to compare the amounts for each AGW line item on the DoD financial statement to the corresponding amounts from the FACTS I ATB. Any differences are to be identified and the reasons for the differences are to be described. Although DoD was aware of a difference on the AGW Statement of Net Position, the reason for the difference was not disclosed.

The U.S. Treasury Financial Manual also requires the CFO to compare the data on the FACTS I Notes report to footnotes or other disclosures in the DoD financial statements, or to other supporting data. Any differences are to be identified and described. Although DoD was aware of differences between the FACTS I Notes report and DoD Agency-Wide Financial Statements, footnotes, and other supporting data, these differences were also not disclosed. DoD needs to disclose all differences and include the description of the differences as required by U.S. Treasury guidance.

FACTS I Footnote Reconciliation

DFAS had not completed the AGW because DoD had not established a process to reconcile U.S. Treasury prepared footnotes with DoD Agency-Wide financial statements, footnotes, and other supporting data. The format requirements of the FACTS I Notes contained in the U.S. Treasury Financial Manual are different from the DoD Agency-Wide financial statement footnote requirements contained in OMB Bulletin No. 97-01. The different reporting requirements resulted in the FACTS I Notes not directly corresponding to the DoD Agency-Wide financial statement footnotes.

The FACTS I Notes contain information derived from a compilation of data identified in the DoD audited financial statements, footnotes, and required supplementary information. As a result, we were unable to verify the \$137.5 billion reported in FACTS I Note 20, Commitments and Contingencies, to the FY 2000 DoD Agency-Wide Financial Statements and supporting information. The FACTS I note reports data by business line for unadjudicated claims, other contingencies, and other commitments. The DoD Agency-Wide financial statement footnote that corresponds to FACTS I Note 20 is Note 16, Commitments and Contingencies. It states that no contingent liabilities meet the criteria for footnote disclosure. A checklist that includes the reconciliation requirements would assist DoD in verifying that the data reported in the FACTS I Notes and in the DoD Agency-Wide financial statement footnotes are consistent. The reconciliation requirement should identify the FACTS I Note data and the location of the corresponding data in the DoD Agency-Wide financial statement, footnotes, and other supporting data to ensure FACTS I data are reconciled with DoD Agency-Wide financial statements in a more timely manner.

Timeliness of Account Groupings Worksheet

DoD did not perform reconciliations between the FACTS I data and the amounts from DoD Agency-Wide financial statements in a timely manner. The Department of the Treasury provided a preliminary AGW to use as a tool to reconcile and adjust the FACTS I data before the FACTS I reporting system was closed for electronic entries. Between February 8 and February 23, the key period for data purification designed to ensure a successful outcome of the FACTS I process, DoD made only limited adjustments to its FACTS I data submissions. DoD did not complete the summarized AGW until March 1, 2001. In previous years, we received a completed summarized AGW prior to that date which allowed us to initiate our agreed-upon procedures for the final AGW in a more timely manner. As a result, the Department of the Treasury had to re-open the FACTS I reporting system so DoD could adjust its FACTS I data previously submitted. DoD continued to adjust its FACTS I data until March 8, 2001, almost 2 weeks after the FACTS I reporting system had been shut down to receive FACTS I data. The Department of the Treasury provided a revised summarized AGW and FACTS I Notes to DoD on March 9, 2001. The DoD submitted the completed final AGW to the Department of the Treasury on March 9, 2001, which was after the March 5, 2001, deadline. We also received the completed final AGW on March 9, 2001, and performed the agreed-upon procedures for the final AGW contained in the U.S. Treasury Financial Manual.

Additionally, the DoD submission did not meet the U.S. Treasury's reporting requirements. This included both the omission of required data on the completed final AGW, as well as DoD submitting the final AGW to the Department of the Treasury, the General Accounting Office, and OMB after the U.S. Treasury mandated submission requirement. DoD needs to establish and initiate control procedures for the DoD FACTS I reconciliation and reporting process to ensure compliance with the U.S. Treasury guidance.

Summary

DoD did not complete the final AGW as required by the U.S. Treasury Financial Manual and did not provide the final AGW to the Department of the Treasury, the General Accounting Office, and OMB until after the required reporting date. The final AGW provided did not identify and describe all the differences required by the U.S. Treasury Financial Manual. As a result, DoD did not meet the U.S. Treasury reporting requirements and we were not able to verify \$137.5 billion reported in FACTS I Note 20. DoD must perform reconciliations between the FACTS I data and the DoD Agency-Wide financial statement, footnotes, and other supporting data in a timely manner. In addition, DoD must perform all of the required CFO Procedures included in the U.S. Treasury Financial Manual prior to submission of the final AGW. A delayed or incomplete DoD FACTS I data submission could negatively impact the ability of the Department of the Treasury to prepare and the General Accounting Office to audit the FY 2000 Government-Wide Financial Statements.

Recommendations, Management Comments, and Audit Response

B. We recommend that the Under Secretary of Defense (Comptroller):

1. Develop and execute a checklist of reconciliation requirements between the Federal Agencies' Centralized Trial-Balance System I Notes and published DoD Agency-Wide financial statement, footnotes and other supporting data.

2. Incorporate Federal Agencies' Centralized Trial-Balance System I key dates, included in the U.S. Treasury Financial Manual, in the DoD Financial Management Regulation, volume 6B, "Form and Content of the Audited Financial Statements." Also incorporate the following reporting requirements:

a. Prepare the Account Groupings Worksheet and reconciliation of Federal Agencies' Centralized Trial-Balance System I Notes for DoD consolidated statements from the preliminary Account Groupings Worksheet and provide to the Inspector General, DoD, within 7 days of receipt by DoD of the preliminary Account Groupings Worksheet from the Department of the Treasury.

b. Prepare the completed final Account Groupings Worksheet and reconciliation of Federal Agencies' Centralized Trial-Balance System I Notes for DoD consolidated statements from the final Account Groupings Worksheet and provide to the Inspector General, DoD, within 3 days of receipt by DoD of the final Account Groupings Worksheet from the Department of the Treasury.

Management Comments. The Deputy Chief Financial Officer, USD(C), concurred in principle with all recommendations. The Deputy agreed that a checklist of reconciliation requirements between the FACTS I Notes and published DoD Agency-Wide financial statement, footnotes, and other supporting data would be a beneficial tool and should be developed and executed. In addition, he agreed to incorporate FACTS I key dates into the DoD Financial Management Regulations. The Deputy also stated that the implementation of the recommendations requires a collaborative effort. The Deputy, plans to establish a FACTS I workgroup consisting of staff from the USD (C) DFAS, and the OIG, DoD, which will develop the checklist and identify the necessary key FACTS I dates and processes for inclusion into the DoD Financial Management Regulation. The Deputy also believes that the assistance of the OIG, DoD, is needed to meet the FACTS I reconciliation and reporting requirements and timelines.

Audit Response. The Deputy Chief Financial Officer, Under Secretary of Defense (Comptroller) comments are responsive. The U.S. Treasury Financial Manual segregates the responsibilities of the FACTS I process to establish controls over the reporting process. Thus, the execution of the FACTS I reconciliation and reporting process is the responsibility of the Chief Financial Officer, not the responsibility of the OIG, DoD. The OIG, DoD, is responsible for verifying the accuracy of the DoD FACTS I submission. The OIG, DoD, is willing to assist USD(C) in developing the FACTS I checklist, updating the DoD Financial Management Regulation and reconciling the Account Groupings Worksheet and FACTS I Notes; however, USD(C) is ultimately responsible for ensuring that the FACTS I requirements are performed timely.

Appendix A. Audit Process

Scope

Work Performed. We reviewed \$3.9 trillion of the \$4.4 trillion department-level accounting entries that DFAS processed. The department-level accounting entries adjusted financial data used to prepare the DoD Component financial reports and financial statements for FY 2000. We reviewed guidance requiring or resulting in department-level accounting entries in addition to guidance on the documentation necessary to support the entries. We developed categories for use in classifying the department-level accounting entries that DFAS processed and identified the type and scope of department-level accounting entries for FY 2000. We reviewed the department-level accounting entries to determine whether they were adequately supported, maintained adequate audit trails, and were in compliance with generally accepted accounting principles. We performed this audit with the assistance of the Army Audit Agency who reviewed accounting entries for the U.S. Army Corps of Engineers and a portion of the Army Working Capital Fund financial statement compilation process.

We compared information in the summarized FACTS I data to the FY 2000 DoD Agency-Wide Financial Statements. Specifically, we compared the amounts for each line item included in the FY 2000 DoD Agency-Wide Balance Sheet and Statement of Changes in Net Position to the related amounts on the completed AGW account balances from the FACTS I ATBs. We also compared the gross cost and the exchange revenue on the FACTS I Statement of Net Cost AGW with the FY 2000 DoD Agency-Wide Statement of Net Cost program cost and earned revenue. We compared the data in the FACTS I Notes report to footnote or other disclosures in the FY 2000 DoD Agency-Wide Financial Statements Footnotes and other supporting documentation.

DoD-Wide Corporate-Level Government Performance and Results Act Coverage. 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 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 2.5.2:** 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 objectives and goals.

- **Financial Management Functional Area. Objective:** Reengineer DoD business practices. **Goal:** Standardize, reduce, clarify, and reissue financial management policies. (FM-4.1)
- **Financial Management Functional Area. Objective:** Strengthen internal controls. **Goal:** Improve compliance with 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.

Methodology

Computer-Processed Data. We could not rely on the computer-processed data used to prepare the DoD Agency-Wide financial statements for FY 2000. DoD financial management systems were unreliable; therefore, the financial statements were unauditible. DoD has candidly addressed deficiencies in its financial management systems in the DoD Components' Annual Statement of Assurance, the Financial Management Improvement Plan, and the DoD management representation letter for FY 2000. Unreliable computer-processed data were used in preparing the financial statements and this report because they were the only financial data available. We continue to review the adequacy of existing and proposed financial management systems.

Audit Type, Dates, and Standards. We performed this financial-related audit from October 2000 through April 2001 in accordance with generally accepted Government auditing standards except that we were unable to obtain an opinion on our system of quality control. The most recent external quality control review was withdrawn on March 15, 2001, and we will undergo a new review.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD, and the Department of the Treasury. 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 evaluates the adequacy of the controls.

Scope of the Review of the Management Control Program. We reviewed management controls over DFAS processes and procedures for recording department-level accounting entries into the financial data used to compile the DoD Component and the DoD Agency-Wide financial statements for FY 2000. We also reviewed management controls over DoD processes to populate the AGW and report differences on the AGW for FACTS I verification.

Adequacy of Management Controls. We identified material management control weaknesses as defined in DoD Instruction 5010.40 in the FY 2000 DoD Agency-wide Financial Statements compilation process. DoD had not implemented management controls to ensure that all department-level accounting entries were adequately supported. In Inspector General, DoD, Report No. D-2000-179, "Department-Level Accounting Entries for FY 1999," August 18, 2000, we made a recommendation to correct the material weakness identified in finding A on department-level accounting entries. However, the USD(C) has not implemented our recommendation and the management control weakness remains. The details and results of the management control reviews at DFAS Cleveland, DFAS Denver, and DFAS Indianapolis were addressed separately in the reports on the financial statement compilation process for the respective DFAS center. Further, DoD had not implemented management controls to ensure compliance with all U.S. Treasury FACTS I reporting requirements. DoD had not established procedures to effectively and timely reconcile U.S. Treasury data with DoD Agency-Wide financial statements, footnotes, and other supporting data. The recommendations in finding B will improve the controls over the reporting and verification of FACTS I data. A copy of this report will be provided to the senior official responsible for management controls at DFAS.

Adequacy of Management's Self-Evaluation. DFAS reported the general ledger and financial reporting as a material weakness attributable to its control environment, accounting and related systems, and control procedures. However, the department-level accounting entries material weakness previously identified in Inspector General, DoD, Report No. D-2000-179, "Department-Level Accounting Entries for FY 1999," August 18, 2000, has not been corrected or specifically addressed in the Annual Statement of Assurance. Further, the FACTS I reporting material weakness was not identified by DFAS.

Prior Coverage

The General Accounting Office and the Inspector General, DoD, 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>.

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

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

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

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

Other Defense Organizations

Director, Defense Finance and Accounting Service

Non-Defense Federal Organizations

Office of Management and Budget
General Accounting Office

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

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Under Secretary of Defense (Comptroller) Comments



COMPTROLLER

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

Aug 24 2001

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING, OFFICE OF THE
INSPECTOR GENERAL

SUBJECT: Draft Audit Report on the Compilation of the Fiscal Year 2000 DoD Agency-Wide
Financial Statements (Project No. D2001FI-0013.003)

This is in response to your request for comments on the subject draft report. While this office offers no objections with the intent of the recommendations, it believes that the recommendation to develop and execute a checklist of reconciliation requirements between the Federal Agencies' Centralized Trial-Balance System I (FACTS I) Notes and the published DoD Agency-Wide financial statement should not rest with this office alone. The proposed FACTS I reconciliation checklist also should be used by the OIG, DoD; therefore, your office should participate in the development process.

Additionally, the reconciliation process is complicated by the inconsistency of the footnote requirements issued by the Office of Management and Budget (OMB) in its form and content guidance and the FACTS I Notes requirements issued by the Treasury Department in the Treasury Financial Manual. The differences between these two sets of guidance can further prolong the FACTS I reconciliation process.

More detailed comments on the specific recommendations are provided in the attachment. I request that the draft report be modified accordingly.

The point of contact for this matter is Ms. Rita Cronley. She may be reached by e-mail: cronleyr@osd.pentagon.mil or by telephone at (703) 693-6505.


Nelson Toy

Deputy Chief Financial Officer

Attachment

OFFICE OF INSPECTOR GENERAL DRAFT AUDIT REPORT

"COMPILATION OF THE
FY 2000 DOD AGENCY-WIDE FINANCIAL STATEMENTS"
DATED MAY 4, 2001
(PROJECT NO. D2001FI-0018.003)

COMMENTS ON RECOMMENDATIONS

RECOMMENDATION 1: The Office of the Inspector General, Department of Defense (OIG, DoD) recommends that the Under Secretary of Defense (Comptroller) (USD(C)) develop and execute a checklist of reconciliation requirements between the Federal Agencies' Centralized Trial-Balance System I (FACTS I) Notes and published DoD Agency-Wide financial statement, footnotes and other supporting data.

OUSD(C) Response: The reconciliation process between FACTS I and the published DoD Agency-Wide financial statements is complicated by inconsistent FACTS I Notes requirements established by the Treasury Department in its Treasury Financial Manual (TFM) and the footnotes required by the Office of Management and Budget for the agency financial statements. The differences between the two sets of data can further complicate and prolong the FACTS I reconciliation process. Nevertheless, a checklist of reconciliation requirements between the FACTS I Notes and the DoD Agency-Wide financial statements could be a useful tool facilitating the reconciliation of the FACTS I data. Because the checklist also should be used by the Office of the Inspector General (OIG), DoD to reconcile the FACTS I Notes, the Office of the Under Secretary of Defense (Comptroller) believes that the development of the checklist should be a collaborative effort among the OIG, DoD, the OUSD(C) and the Defense Finance and Accounting Service (DFAS). Therefore, the OUSD(C) recommends that a FACTS I workgroup consisting of staff members from the OUSD(C), the OIG, DoD and the DFAS be established to develop the checklist. Upon completion, the checklist could be published in Volume 6A, Chapter 6, Federal Agencies' Centralized Trial-Balance Reporting and Verification Requirements of the "DoDFMR."

RECOMMENDATION 2: The OIG, DoD recommends that the USD(C) incorporate Federal Agencies' Centralized Trial-Balance System I key dates, included in the U.S. Treasury Financial Manual, in the DoD Financial Management Regulation ("DoDFMR"), Volume 6B, "Form and Content of the Audited Financial Statements."

OUSD(C) Response: The FACTS I key dates published in the draft U.S. Treasury Financial Manual, Volume 1, part 2, chapter 4000 (I TFM 2-4000) could be incorporated in Volume 6B of the "DoDFMR." However, as the due date for financial statements is accelerated by the Office of Management and Budget (or others), the key dates for FACTS I submission could be expected to be changed. Therefore, incorporation of applicable due dates into the DoDFMR perhaps should be accomplished by reference to applicable dates in the U.S. Treasury Financial Manual rather than the inclusion of a date(s) certain for various actions.

Also, this office suggests that the proposed FACTS I workgroup review the key dates to determine if the dates are inclusive of DoD FACTS I reporting processes and make additions or deletions to the list accordingly.

RECOMMENDATION 2A: Also incorporate the following reporting requirements: Prepare the Account Groupings Worksheet and reconciliation of Federal Agencies' Centralized Trial-Balance System I Notes for DoD consolidated statements from the preliminary Account Groupings Worksheet and provide to the OIG, DoD within 7 days of receipt by DoD of the preliminary Account Groupings Worksheet from the Department of Treasury.

OUSD(C) Response: The FACTS I reconciliation process must be a collaborative effort among the OUSD(C), the DFAS and the OIG, DoD in order to meet the reconciliation timeframes imposed by the Treasury Department. Therefore, the OUSD(C) believes that the assistance of the OIG, DoD is necessary if the preliminary Account Groupings Worksheet review and FACTS I Notes reconciliation to the DoD financial statements is to be completed within 7 business days of receipt of the preliminary Account Groupings Worksheet. Consequently, upon notification of receipt of the preliminary Account Groupings Worksheet, the OIG, DoD would be solicited by the OUSD(C) for assistance in the reconciliation of the audited financial statements to the Account Groupings Worksheet and the FACTS I Notes. This joint effort would expedite the review process and facilitate timely identification of differences and resolution by the staffs of the OUSD(C), the DFAS and the OIG, DoD.

Furthermore, the proposed FACTS I workgroup should establish procedures for completing the Account Groupings Worksheet and the conducting of the reconciliation of FACTS I Notes for DoD consolidated statements from the preliminary and the final Account Groupings Worksheet.

RECOMMENDATION 2B: Prepare the completed final Account Groupings Worksheet and reconciliation of Federal Agencies' Centralized Trial-Balance System I Notes for DoD consolidated statements from final Account Groupings Worksheet and provide to the OIG, DoD within 3 days of receipt by DoD of the final Account Groupings Worksheet from the Department of Treasury.

OUSD(C) Response: As stated previously, the FACTS I reconciliation process should be a cooperative effort among the OUSD(C), the DFAS and the OIG, DoD. Such collaboration would expedite the review process and facilitate timely identification and resolution of differences. The assistance of the OIG, DoD is necessary if the final Account Groupings Worksheet and FACTS I Notes reconciliation is to be completed within 3 days upon receipt. Therefore, upon notification of receipt of the final Account Groupings Worksheet, assistance from the OIG, DoD would be solicited by the OUSD(C) and the DFAS in the reconciliation of the audited financial statements to the final Account Groupings Worksheet and the FACTS I Notes.

Audit Team Members

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report. Personnel of the Office of the Inspector, DoD, who contributed to the report are listed below.

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INTERNET DOCUMENT INFORMATION FORM

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**C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #): OAIG-AUD (ATTN: AFTS Audit Suggestions)
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DTIC-OCA, Initials: __VM__ Preparation Date 10/01/01**

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