

Audit Report



FINANCIAL REPORTING FOR THE OTHER DEFENSE ORGANIZATIONS -
GENERAL FUNDS AT THE DEFENSE FINANCE AND
ACCOUNTING SERVICE SAN ANTONIO

Report No. D-2002-038

January 14, 2002

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Acronyms

ASN	Allotment Serial Number
DFAS	Defense Finance and Accounting Service
STANFINS	Standard Finance System



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

January 14, 2002

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Audit Report on Financial Reporting for the Other Defense Organizations-
General Funds at the Defense Finance and Accounting Service San Antonio
(Report No. D-2002-038)

We are providing this report for your information and use. This audit was performed 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 Defense Finance and Accounting Service comments conformed to the requirements of DoD Directive 7650.3; therefore, additional comments are not required.

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. Sandra L. Fissel at (703) 604-9485 (DSN 664-9485) (sfissel@dodig.osd.mil). See Appendix C for the report distribution. The audit team members are listed inside the back cover.

A handwritten signature in black ink, reading "Thomas F. Gimble", is positioned above the printed name.

Thomas F. Gimble
Acting
Deputy Assistant Inspector General
For Auditing

Office of the Inspector General, DoD

Report No. D-2002-038

(Project No. D2001FA-0086.000)

January 14, 2002

Financial Reporting for the Other Defense Organizations- General Funds at the Defense Finance and Accounting Service San Antonio

Executive Summary

Introduction. We performed the audit in response to the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, which requires DoD and other Government agencies to prepare consolidated financial statements. The DoD Agency-Wide financial statements include financial statements for a reporting entity entitled "Other Defense Organizations-General Funds." This entity represents a consolidation of financial information from various Defense organizations and funds that use the Treasury Index Symbol 97. Net abnormal balances reported in the FY 2000 year-end trial balances also existed during FY 2001, and the trial balances prepared for Department 97 funds sub-allocated to the Army reported \$643.2 million of net abnormal balances as of March 31, 2001. We audited the financial reporting procedures that the Defense Finance and Accounting Service San Antonio and the Defense Finance and Accounting Service Indianapolis (Sustaining Forces) used to report on Treasury Index Symbol 97 funds sub-allocated to the Army.

Objectives. The audit objective was to determine the accuracy and completeness of the data that the accounting offices submitted to the Defense Finance and Accounting Service Indianapolis (Sustaining Forces) for inclusion in the FY 2001 Other Defense Organizations Financial Statements. Specifically, we looked at the abnormal balances reported in trial balances prepared by the Defense Finance and Accounting Service San Antonio. In addition, we reviewed the management controls related to our objective.

Results. Of the \$643.2 million in net abnormal balances reported for Department 97 funds sub-allocated to the Army, trial balances prepared from accounting records that the Defense Finance and Accounting Service San Antonio maintained reported \$334.3 million, or 52 percent. From the trial balances prepared by the Defense Finance and Accounting Service San Antonio, we examined two general ledger accounts, Funds Disbursed, and Travel and Transportation of Persons Expense. Those two accounts represented 93.5 percent of the abnormal balances. We determined that:

- the Standard Finance System, as configured to process payroll transactions, did not post matching debits and credits to the trial balances maintained for individual Army medical sites;
- individual Army medical sites adjusted current year expense accounts to reduce expenses recorded in previous years; and

- the Defense Finance and Accounting Service San Antonio did not have adequate procedures in place to identify, research, and correct abnormal balances.

Until the Standard Finance System, a legacy accounting system, is consolidated into the Defense Joint Accounting System in 2004, the individual balances reported in the Funds Disbursed account for Army medical sites will be incorrect. However, the net abnormal balances in the Funds Disbursed account should not adversely impact the routine operations of the Army medical sites. In July 2001, the Defense Finance and Accounting Service San Antonio changed the process for recording travel expenses, which should reduce the possibility of reporting abnormal balances. See Appendix A for details on the management control program.

Summary of Recommendations. We recommend that the Director, Defense Finance and Accounting Service San Antonio, review all accounts with abnormal balances, document the causes of those balances, provide explanations to the Defense Finance and Accounting Service Indianapolis (Sustaining Forces) personnel responsible for preparing the financial statements and, when possible, correct abnormal balances.

Management Comments. The Director, Defense Finance and Accounting Service, concurred with the finding and recommendations. The Defense Finance and Accounting Service San Antonio will work to identify and document the causes of all abnormal general ledger account balances and provide explanations to personnel responsible for preparing the financial statements. When possible, the Defense Finance and Accounting Service San Antonio will correct the abnormal account balances. The Defense Finance and Accounting Service estimates completion of all actions by May 31, 2002. See the Finding section for a discussion of management comments, and the Management Comments section for the text of the comments.

Table of Contents

Executive Summary	i
Introduction	
Background	1
Objectives	1
Finding	
Accuracy of Trial Balances	2
Appendixes	
A. Audit Process	
Scope	9
Methodology	9
Management Control Program Review	10
Prior Coverage	11
B. General Ledger Accounts with Net Abnormal Balances-DFAS	
San Antonio	12
C. Report Distribution	13
Management Comments	
Defense Finance and Accounting Service	15

Background

Other Defense Organizations. The audit was performed as part of the continuing audit work of the Inspector General, DoD, in support of the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, which requires DoD and other Government agencies to prepare consolidated financial statements. Specifically, the DoD Agency-Wide financial statements include a reporting entity entitled "Other Defense Organizations-General Funds." The entity represents a consolidation of financial information from various Defense organizations and funds that use the Treasury Index Symbol 97 (also referred to as Department 97). The FY 2000 financial statements for Other Defense Organizations-General Funds included \$3.9 billion of net abnormal balances reported in trial balances prepared by supporting accounting offices. The largest portion of those abnormal balances, \$2.4 billion, was reported through the Defense Finance and Accounting Service (DFAS) Indianapolis (Sustaining Forces) and included funds sub-allocated to the Army. As of March 31, 2001, trial balances for Department 97 funds sub-allocated to the Army included net abnormal balances of \$643.2 million. Of the \$643.2 million, DFAS San Antonio reported the largest portion, \$334.3 million. The abnormal balances on the FY 2000 year-end trial balances continued to exist during FY 2001.

DFAS San Antonio. As a field site, DFAS San Antonio provides vendor payment and accounting services to both Army and Air Force organizations. As part of its accounting services, DFAS San Antonio posts transactions into the Standard Finance System (STANFINS) and uses STANFINS to prepare budgetary reports and general ledger trial balances. DFAS San Antonio shares access to STANFINS with its customers, and the customers are responsible for posting obligations into STANFINS. DFAS San Antonio prepares and provides budgetary reports and trial balances to DFAS Indianapolis (Sustaining Forces) personnel, who subsequently use those reports to prepare the Other Defense Organizations-General Funds financial statements.

STANFINS. DFAS and the Army use STANFINS to perform basic accounting and reporting functions. STANFINS is an automated accounting system capable of producing trial balances at the site level. STANFINS is a DoD legacy system and, according to the DoD Financial Management Improvement Plan, Volume II, January 2001, STANFINS is to be consolidated into the Defense Joint Accounting System in July 2004. As a legacy system, funding is generally not available to fund changes to STANFINS.

Objectives

The audit objective was to determine the accuracy and completeness of the data that accounting offices submitted to DFAS Indianapolis (Sustaining Forces) for inclusion in the annual financial statements. Specifically, we looked at the abnormal balances reported in trial balances prepared by the DFAS San Antonio accounting office. In addition, we reviewed DFAS San Antonio management controls related to our objectives. See Appendix A for a discussion of the audit scope, methodology, review of the management control program, and prior coverage related to the audit objectives.

Accuracy of Trial Balances

The March 31, 2001, trial balances for Department 97 prepared from accounting records at DFAS San Antonio included \$334.3 million of net abnormal balances. The condition occurred largely due to DFAS and the Army continuing to use the STANFINS legacy system. In addition, the condition occurred because:

- STANFINS, as configured for processing payroll, did not properly post payroll transactions to Funds Disbursed, general ledger account 1012, for individual Army medical sites funded by the Defense Health Program;
- Army medical sites recorded downward adjustments to travel expense accounts during FY 2001 to decrease expenses reported in prior years; and
- controls that DFAS San Antonio had in place over the financial reporting process did not ensure personnel identified all abnormal balances, documented the causes, and initiated corrective action.

Until STANFINS is consolidated into the Defense Joint Accounting System in 2004, the individual balances in general ledger account 1012 for Army medical sites will be incorrect. However, those net abnormal balances should not adversely impact the routine operations of the Army medical sites, and the combined balance in general ledger account 1012 for the Defense Health Program should not be misstated. During the audit, DFAS San Antonio made changes to the process for recording travel expenses, which should reduce the possibility of reporting abnormal balances in the future.

FY 2001 Mid-Year Trial Balances

The March 31, 2001, trial balances for Department 97 prepared from accounting records that DFAS San Antonio maintained, reported \$334.3 million of net abnormal balances in 33 general ledger accounts. See Appendix B for a list of the general ledger accounts with abnormal balances. We reviewed two general ledger accounts that totaled \$312.5 million and represented 93.5 percent of the total abnormal balances, as shown in Table 1.

**Table 1. DFAS San Antonio General Ledger Accounts
With Abnormal Balances as of March 31, 2001
That Were Reviewed**

<u>Account Title</u>	<u>General Ledger Account</u>	<u>Abnormal Balances (millions)</u>	<u>Percent of March 31, 2001 Net Abnormal Balance</u>
Funds Disbursed	1012	\$309.2	92.5
Travel and Transportation of Persons Expense	6116	3.3	1.0
Total		\$312.5	93.5

General ledger reporting uses separate accounts to record increases and decreases in assets, liabilities, and equity. The normal balance for an account is always positive. However, if an account balance goes below \$0 it becomes a negative balance and therefore is abnormal. An abnormal balance represents more decreases to an account than increases and is generally indicative of a reporting anomaly and requires explanation.

DFAS and Army Use of STANFINS

DFAS and the Army continue to use STANFINS, which DoD has designated as a legacy system. The limitations of STANFINS largely created the abnormal balances we reviewed. The results of this audit reiterate the continuing need for DoD to replace legacy systems with systems that are fully compliant with generally accepted government accounting standards. According to the DoD Financial Management Improvement Plan, volume II, January 2001, STANFINS is to be replaced by the Defense Joint Accounting System in July 2004. However, in the interim, funding is not readily available to make system changes. According to DoD Memorandum, "Accelerated Implementation of Migration Systems, Data Standards, and Process Improvement," October 13, 1993, "funding for development, modernization, or enhancement of legacy systems..." is limited to those changes that are essential to the mission of each Defense organization.

Accounting for Payroll Transactions

Of the \$334.3 million in net abnormal balances, \$309.2 million was reported in Funds Disbursed, general ledger account 1012. STANFINS maintains trial balances for individual sites; however, as configured, STANFINS did not post matching debits and credits in each medical site's general ledger account 1012.

This phenomenon was primarily limited to payroll transactions processed by DFAS San Antonio for Army medical sites funded by the Defense Health Program.

General Ledger Account 1012. STANFINS used general ledger account 1012 to report disbursements. For general ledger account 1012, increases are posted using credits; therefore, its normal balance is a credit. The account is annually closed into general ledger account 1013, Funds With Treasury.

Defense Health Program. The Defense Health Program receives appropriated funds from the Defense Health Program appropriation (basic symbol 0130). The Defense Health Program is the primary allocation holder¹ and sub-allocates funds to the Army, Navy, Air Force, and Defense agencies, who are sub-allocation holders. The funds sub-allocated to the Army are identified by limit² 1881. The Army uses those funds to finance Army medical sites, such as the Womack Army Hospital, Fort Bragg, North Carolina. Each individual medical site is assigned an allotment serial number (ASN), such as the Womack Army Hospital is assigned ASN 7414, which is used to track the funds, as shown in Figure 1.

¹An allocation holder, or sub-allocation holder, is an organization that has received appropriated funds and will execute those funds.

²A limitation, also referred to as a limit, is a four-digit suffix to the U.S. Treasury account or basic symbol. It is used to identify a subdivision of funds restricting the amount or use of funds for a certain purpose or to identify sub-elements within an account for management purposes.

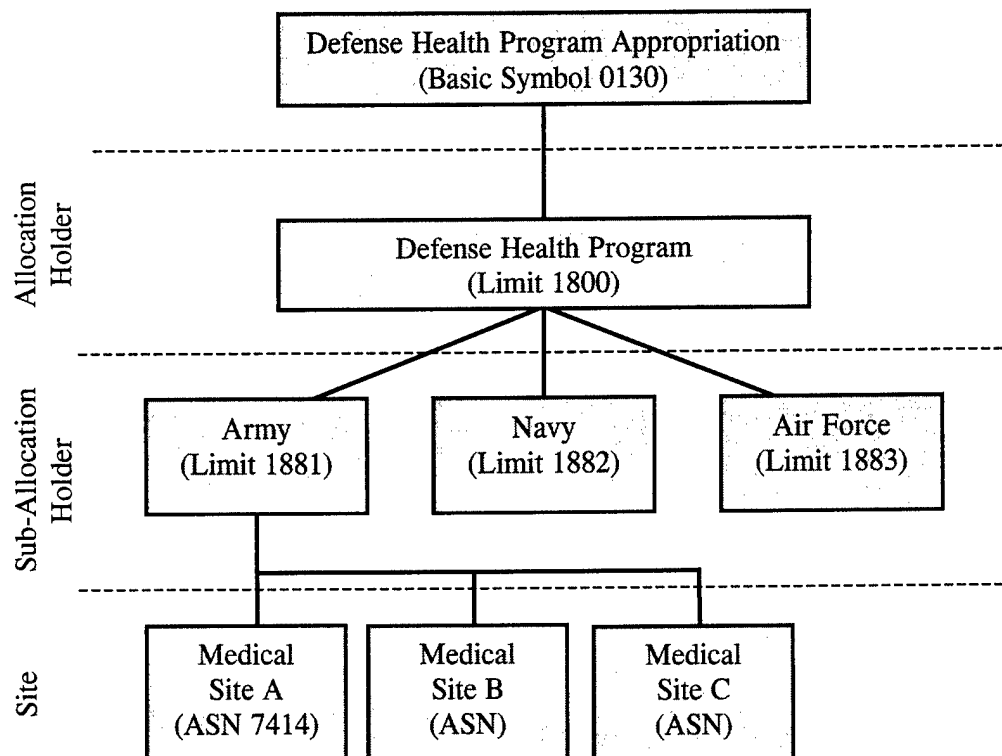


Figure 1. Illustration of Funding Flow

Transactions are posted to trial balances maintained at the individual medical site level. The abnormal balances that we reviewed in general ledger account 1012 were reported in trial balances maintained at the site level.

Posting Payroll Disbursements. Abnormal balances in general ledger account 1012 occurred primarily because STANFINS, as configured for processing payroll, did not properly post disbursements to the trial balances of individual medical sites. STANFINS posted transactions increasing general ledger account 1012 separately to each individual medical site's trial balance. However, STANFINS posted transactions decreasing general ledger account 1012 as a single transaction representing the total payroll for all supporting medical sites to the trial balance of only one medical site. For each payroll cycle, STANFINS selected a different medical site to receive the decrease. Each site that received the aggregate decrease reported more decreases than increases and, therefore, reported an abnormal balance. Due to the age and status of STANFINS, systems support staff could not explain the rationale for the system configuration and stated significant costs would be required to fix the problem.

Effect on Financial Statements. When financial statements are compiled, the trial balances for individual medical sites are combined and the debits in one site's trial balance should properly offset the corresponding credits in the trial balances of other sites. We attempted to perform a transaction level

reconciliation but an adequate audit trail did not exist. The STANFINS support staff at DFAS Indianapolis (Sustaining Forces) acknowledged that STANFINS was limited in its capability to provide the necessary detail to perform the reconciliation. As a result, we could not determine the effect on the financial statements of the abnormal balances. Until transactions can be fully tested, we cannot completely rely on the balances reported in general ledger account 1012 to correctly reflect disbursements. Because STANFINS is a legacy system, funding is not available to make system changes; therefore, we are not making system recommendations. In the interim, DFAS San Antonio should document the limitation of STANFINS to produce accurate balances in general ledger account 1012.

Accounting For Travel Expenses

Of the \$334.3 million in net abnormal balances, \$3.3 million was reported in Travel and Transportation of Persons Expense, general ledger account 6116. At least \$1.8 million of the abnormal balance was created because of the process DFAS San Antonio and its customers used to record and adjust travel expenses. Travel expenses were recorded in the trial balance by recording increases (debits) in general ledger account 6116. General ledger account 6116 is an expense account and is closed at the end of each fiscal year. The balance is transferred to Cumulative Results of Operations.

Recording Estimated and Actual Travel Expenses. DFAS customers prepared travel orders for the estimated costs of travel, and used an automated transaction (type action code 21³) that simultaneously posted an obligation, liability, and expense in STANFINS. After the travel was completed and a disbursement had been made, DFAS San Antonio personnel recorded the disbursement in STANFINS. Based on the amount of the disbursement, customers used type action code 21 with a positive or negative dollar amount to simultaneously increase or decrease obligations, liabilities, and expenses to reflect the actual cost of travel. This process had no adverse impact on obligations and liabilities because these accounts did not close at the end of each reporting period. However, expenses were recorded in an expense account that closed at the end of the annual reporting period. When the actual costs of travel were less than the estimated costs of travel, customers created a negative balance in general ledger account 6116 by recording a negative dollar amount in the current year to decrease expenses reported in a previous year. According to the United States Government Standard General Ledger, adjustments to expenses reported in a prior reporting period should be posted to the Prior Period Adjustments account, general ledger account 7400.

Effect of Abnormal Balances in General Ledger Account 6116. Making downward adjustments to general ledger account 6116 in the current reporting period for expenses recorded in a previous reporting period caused an understatement in the expenses reported for the current reporting period.

³Type actions codes are system attributes that STANFINS uses to post transactions to specific general ledger accounts. A single type action code can generate multiple general ledger transactions.

Corrective Actions Taken by DFAS San Antonio. During the audit, we notified DFAS San Antonio of the abnormal balances reported in general ledger account 6116. In response, DFAS San Antonio changed the process used to record travel transactions. Beginning in July 2001, DFAS San Antonio instructed its customers to post travel obligations using type action code 23, which only obligates funds. Now, when actual costs are identified, DFAS San Antonio posts the accrual and expense using type action code 32, which only records an accrual and expense. As a result of this change, travel expenses, when posted, will report actual costs and thereby alleviate the necessity of posting downward adjustments to expenses.

Financial Reporting at DFAS San Antonio

DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 6A, "Reporting Policies and Procedures," chapter 2, "Departmental Financial Reports Roles and Responsibilities," February 1996 (with changes through 2001), requires DFAS to review financial reports for abnormal balances. DFAS San Antonio is required to identify deficiencies, initiate research, and when possible coordinate with Defense organizations to correct the deficiencies. DFAS San Antonio personnel stated that the Status of Funds report was reviewed for abnormal balances, but personnel did not perform a detailed review of the general ledger trial balances. DFAS San Antonio should review each quarterly trial balance provided to DFAS Indianapolis (Sustaining Forces) to identify all abnormal balances, initiate research, and take action to resolve the deficiencies.

Summary

We only reviewed the abnormal balances in 2 of the 33 general ledger accounts that reported abnormal balances. The causes for abnormal balances in those two accounts were created because of a system limitation and because of a flawed business practice. The net abnormal balances reported in general ledger account 1012 were created because of the way STANFINS records payroll transactions. However, those abnormal balances do not adversely impact the routine operations of Army medical sites or adversely affect the combined balance reported for the Defense Health Program. Because DFAS San Antonio took action in July 2001 to reduce the possibility of recording abnormal balances in general ledger account 6116, the FY 2001 Statement of Net Cost will not be materially affected. Of the 33 general ledger accounts with abnormal balances, at least 10 additional expense accounts reported abnormal balances (see Appendix B), and may be the result of similar business process anomalies. Although net abnormal balances may be small dollar amounts, they represent cumulative financial activity and may be indicators of potentially material problems. Therefore, DFAS San Antonio should review remaining general ledger accounts to identify the cause of the abnormal balances and determine if those abnormal balances are due to system limitations that cannot be changed or due to business processes that can be changed.

Recommendations and Management Comments

We recommend the Director, Defense Finance and Accounting Service San Antonio:

1. Initiate a review of all abnormal general ledger accounts. Determine the cause of those net abnormal balances, document the causes, and where possible correct the balances. (See Appendix B for a listing of abnormal balances as of March 31, 2001.)

Management Comments. DFAS concurred. DFAS San Antonio developed tools to assist in identifying and reviewing abnormal balances. Additionally, DFAS San Antonio will work to determine the causes of the abnormal balances and document the causes. When possible, DFAS San Antonio will correct the balances. The estimated completion date is February 28, 2002.

2. Perform routine reviews of the quarterly trial balances provided to the Defense Finance and Accounting Service Indianapolis (Sustaining Forces) to:

a. Identify abnormal balances;

Management Comments. DFAS concurred. DFAS San Antonio will implement procedures to identify abnormal balances on a quarterly basis. Estimated completion date is May 31, 2002.

b. Document the cause and effect of abnormal balances and explaining, as necessary, any system limitations causing the abnormal balances;

Management Comments. DFAS concurred. DFAS San Antonio will work to identify causes of the abnormal balances. Additionally, DFAS San Antonio will document any system limitations causing the abnormal balances. Estimated completion date is May 31, 2002.

c. Provide explanations to the Defense Finance and Accounting Service Indianapolis (Sustaining Forces) for use in preparing the financial statements; and

Management Comments. DFAS concurred. DFAS San Antonio will provide explanations for the abnormal balances to DFAS Indianapolis (Sustaining Forces) personnel responsible for preparing the financial statements. Estimated completion date is May 31, 2002.

d. Correct abnormal balances generated by business process anomalies.

Management Comments. DFAS concurred. DFAS San Antonio will identify and correct abnormal balances generated by business process anomalies. Estimated completion date is May 31, 2002.

Appendix A. Audit Process

Scope

Financial Information, Procedures, and Controls Reviewed. We reviewed the procedures and related controls used by DFAS Indianapolis and DFAS San Antonio to prepare financial reports. We specifically focused on the preparation of trial balances and the transactions supporting those trial balances. Out of the \$643.2 million in net abnormal balances reported for Department 97 funds sub-allocated to the Army, DFAS San Antonio reported \$334.3 million, or 52 percent. Therefore, we selected DFAS San Antonio as the site to perform detailed audit work. We reviewed detailed balances totaling \$312.5 million in two general ledger accounts. We reviewed written standard operating procedures and trial balances for the FY 2001 reporting periods. We also interviewed personnel to determine how information is obtained, recorded, and reported in the trial balance financial reports.

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 "DoD Financial Management" high-risk area.

Methodology

Review of Abnormal Balances. We identified 33 general ledger accounts with \$334.3 million of net abnormal balances prepared from accounting records maintained by DFAS San Antonio. We then identified eight general ledger accounts with net abnormal balances greater than \$1 million, and selected two of the eight accounts for detailed review. We selected general ledger account 1012 because it was the account with the largest abnormal balance, \$309.2 million. By evaluating the procedures STANFINS used to record payroll disbursements in general ledger account 1012, we successfully determined the primary cause for the abnormal balances. We also selected general ledger account 6116 to review because it was the expense account with the largest abnormal balance, \$3.3 million. We employed a business process approach to evaluate how STANFINS users recorded travel costs and successfully determined at least one major cause of the abnormal balances reported in general ledger account 6116.

Use of Computer-Processed Data. We relied on computer-processed data contained in STANFINS. We obtained information on obligations, disbursements, accruals, and expenses. STANFINS is a DoD legacy system and is scheduled for consolidation into the Defense Joint Accounting System in July 2004. We tested the system by reviewing transactions supporting the trial balances. Our tests showed that, as configured for processing payroll transactions, STANFINS was not posting matching debits and credits to the trial

balances of individual medical sites. Our tests further showed that STANFINS users were not using type action codes that would record expense transactions in the proper reporting period. We did not identify further deficiencies related to the system.

Audit Type, Date and Standards. We performed this financial-related audit from May 2001 to October 2001, at DFAS Indianapolis (Sustaining Forces), Indianapolis, Indiana, and DFAS San Antonio, San Antonio, Texas, in accordance with generally accepted government auditing standards. We included tests of management controls considered necessary.

Contacts During the Audit. We visited and contacted individuals and organizations within 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 reviewed the adequacy of DFAS San Antonio management controls over Department 97 financial reporting. Specifically, we reviewed the controls over the preparation and review of trial balances. We reviewed management's self-evaluation applicable to those controls.

Adequacy of Management Controls. We did not identify a material management control weakness for DFAS San Antonio as defined by DoD Instruction 5010.40. The abnormal balances occurred in part because of the way STANFINS was configured; however, because STANFINS is a legacy system, we did not make recommendations to change its configuration. Further, the abnormal balances we reviewed did not have a material effect on the financial statements. DoD has compiled the FY 2000 Financial Management Improvement Plan that designates STANFINS as a legacy system. The designation as a legacy system acknowledges for all users that STANFINS has limitations and will therefore be consolidated into the Defense Joint Accounting System in 2004.

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. General Ledger Accounts with Net Abnormal Balances-DFAS San Antonio

<u>General Ledger Account Title</u>	<u>General Ledger Account Number</u>	<u>Net Abnormal Balance</u>
Funds Disbursed	101200*	\$309,234,265.91
Accumulated Depreciation on Assets Under Capital Lease	181900	6,792,055.41
Accounts Receivable-Public-Current	131300	5,422,065.23
Travel and Transportation of Persons	611600*	3,298,853.45
Undistributed Collections	101400	2,029,531.83
Accounts Receivable-Government-Current	131100	1,836,264.15
Funds Collected	101100	1,404,401.37
Other Services	612000**	1,391,024.51
Equipment (Not Capitalized)	612200**	586,371.82
Funds with Treasury	101300	524,472.86
Supplies and Materials	612100**	508,954.15
Revenue from Goods Sold-Public	510010	310,698.95
Cost of Goods Sold-Public	650010	163,407.40
Accounts Payable-Government-Current	211100	163,234.39
Personnel Compensation-Civilian	611100**	130,367.62
Personnel Benefits-Civilian	611300**	122,734.88
Unearned Revenue-Advances from the Public	231200	108,343.64
Grants, Subsidies, and Contributions	612300**	67,305.35
Accrued Annual Leave-Civilian-Unfunded	222100	55,398.35
Accounts Payable-Public-Current	211300	43,597.76
Refunds Receivable-Government	131500	38,720.15
Revenue from Services	520020	35,112.87
Accrued Payroll-Civilian	221100	32,258.13
Revenue from Services Provided-Public	520010	17,269.69
Accrued Payroll-Civilian-Employer Share-Fringe Benefits	221300	9,969.84
Personnel Compensation-Military	611200**	8,042.01
Transportation of Things	611700**	7,681.64
Other Interest Expenses	633000	2,026.49
Rent, Communications and Utilities	611800**	1,508.34
Refunds Receivable-Public	131600	664.00
Printing and Reproduction	611900**	217.35
Travel Advances	141100	123.84
Accrued Payroll-Military	221200	22.50
Total		\$334,346,965.88

*General ledger account reviewed during the audit.

**General ledger expense account with abnormal balance that may be the result of business process anomalies similar to general ledger expense account 6116.

Appendix C. Report Distribution

Office of the Secretary of Defense

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Director, Defense Finance and Accounting Service Indianapolis (Sustaining Forces)
Director, Defense Finance and Accounting Service San Antonio

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Defense Finance and Accounting Service Comments



DFAS-DAS

DEFENSE FINANCE AND ACCOUNTING SERVICE

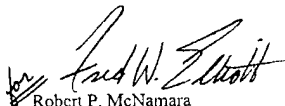
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ARLINGTON, VA 22240-5291
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MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF
DEFENSE

SUBJECT: Audit Report on Financial Reporting for the Other Defense Organizations-General
Funds at the Defense Finance and Accounting Service San Antonio (Project No.
D2001FA-0086.000)

Our response to the subject audit is attached. The point of contact is Mr. David Arvin,
(703) 607-2857 or DSN 327-2857.


Robert P. McNamara
Director for Accounting

Attachment:
As stated

cc:
DFAS-DDI
DFAS-AAIP/DE
DFAS-AICD/IO

**DFAS Comments to DoDIG Draft Audit Report on Financial Reporting for the Other
Defense Organizations-General Funds at the Defense Finance and Accounting Service San
Antonio (Project No. D2001FA-0086.000)**

General Comments. Page 7, Effect on Financial Statements, states, "Because STANFINS is a legacy system, funding is not available to make system changes; therefore, we are not making system recommendations." Although there are not plans for funding to support system rewrites, the Standard Financial System (STANFINS) system manager will continue to make system changes that are essential to the mission of the Defense organizations and/or changes resulting from Congressional acts.

Responses to Recommendations.

Recommendation 1. We recommend the Director, Defense Finance and Accounting Service San Antonio initiate a review of all abnormal general ledger accounts. Determine the cause of those net abnormal balances, document the causes, and where possible correct the balances. (See Appendix B for a listing of abnormal balances as of March 31, 2001.)

Management Comments. Concur. The Defense Finance and Accounting Service (DFAS) San Antonio developed a program to identify abnormal balances and created a report for accountants to review those balances. To determine the cause of the abnormal balances, DFAS San Antonio is developing standard data queries to research various Standard Finance System (STANFINS) subsidiary ledgers, such as Non-Stock Fund Orders and Payables, Accounts Receivable Program File and monthly transactions files, and document the cause of the abnormal balances. In addition, San Antonio will provide the documentation and identify corrective action, if possible, to the appropriate input source for all databases.

Estimated Completion Date. February 28, 2002.

Recommendation 2a. We recommend the Director, Defense Finance and Accounting Service San Antonio perform routine reviews of the quarterly trial balances provided to the Defense Finance and Accounting Service Indianapolis (Sustaining Forces) to identify abnormal balances.

Management Comments. Concur. Beginning with the second quarter of fiscal year 2002, which ends March 31, 2002, and each subsequent quarter thereafter, DFAS San Antonio will use the program identified in the above management comments to Recommendation 1 to create abnormal balance reports for each database.

Estimated Completion Date. May 31, 2002.

Recommendation 2b. We recommend the Director, Defense Finance and Accounting Service San Antonio perform routine reviews of the quarterly trial balances provided to the Defense Finance and Accounting Service Indianapolis (Sustaining Forces) to document the cause and effect of abnormal balances and explaining, as necessary, any system limitations causing the abnormal balances.

Management Comments. Concur. Abnormal balances will be compared with the Status of Funds Report Table of Abnormal Balances (TAB) errors. If a TAB error also exists, the problem will be identified, and the corrective action being taken will be annotated. If necessary, standard STANFINS queries, which were developed for this purpose, will be used to research problems and identify causes. A spreadsheet will be prepared to document the system limitations causing the abnormal balances.

Estimated Completion Date. May 31, 2002.

Recommendation 2c. We recommend the Director, Defense Finance and Accounting Service San Antonio perform routine reviews of the quarterly trial balances provided to the Defense Finance and Accounting Service Indianapolis (Sustaining Forces) to provide explanations to the Defense Finance and Accounting Service Indianapolis (Sustaining Forces) for use in preparing the financial statements.

Management Comments. Concur. DFAS San Antonio will provide a spreadsheet with explanations of abnormal balances to DFAS Indianapolis (Sustaining Forces) beginning with the first quarter of fiscal year 2001 and every quarter thereafter.

Estimated Completion Date. May 31, 2002.

Recommendation 2d. We recommend the Director, Defense Finance and Accounting Service San Antonio perform routine reviews of the quarterly trial balances provided to the Defense Finance and Accounting Service Indianapolis (Sustaining Forces) to correct abnormal balances generated by business process anomalies.

Management Comments. Concur. Using the management tools previously identified, DFAS San Antonio will identify and correct abnormal balances generated by business process anomalies by the second month following the end of each quarter.

Estimated Completion Date. May 31, 2002.

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