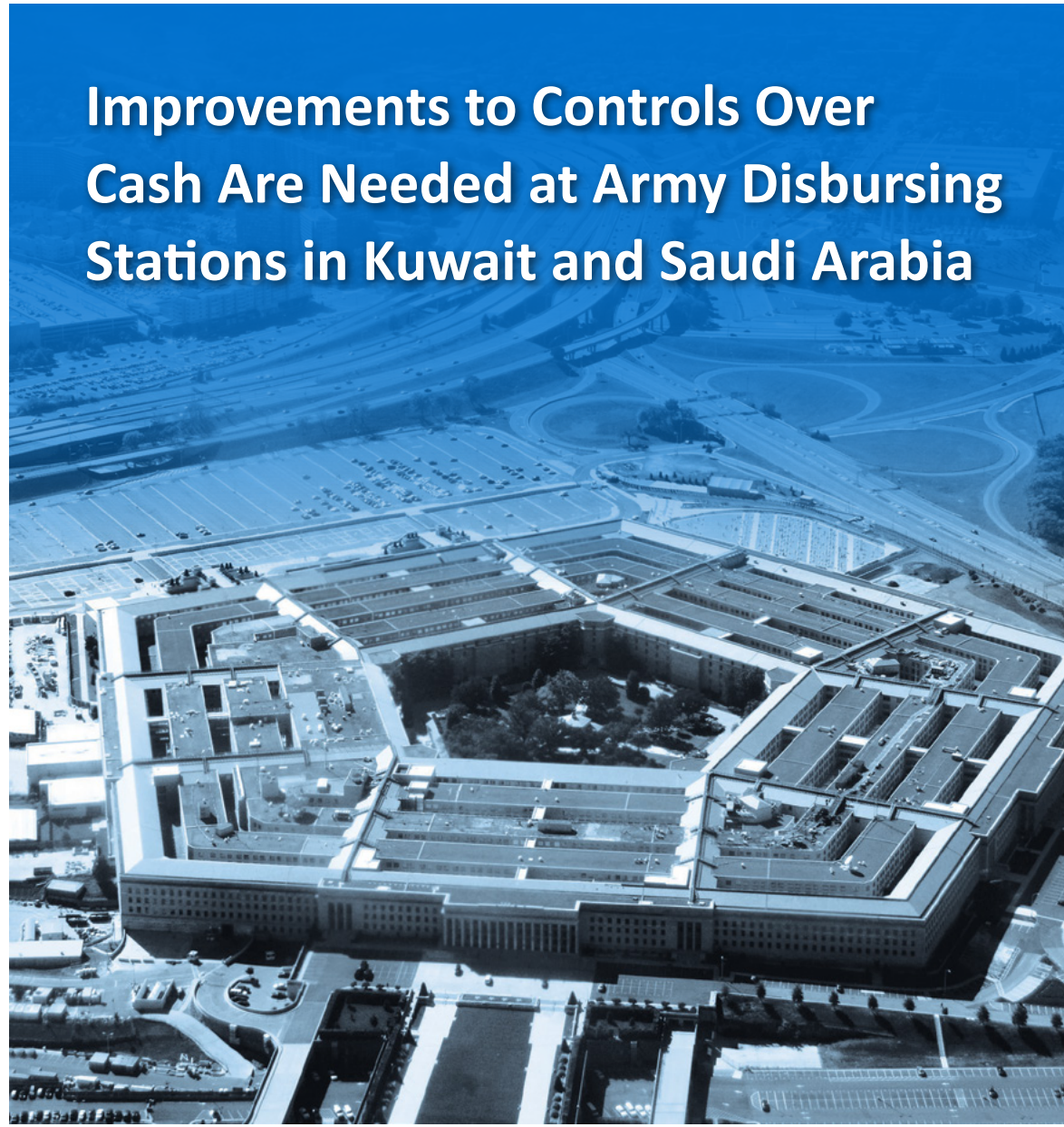




INSPECTOR GENERAL

U.S. Department of Defense

APRIL 9, 2014



Improvements to Controls Over Cash Are Needed at Army Disbursing Stations in Kuwait and Saudi Arabia

Report Documentation Page

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Results in Brief

Improvements to Controls Over Cash Are Needed at Army Disbursing Stations in Kuwait and Saudi Arabia

April 9, 2014

Objective

We determined whether the controls at the Army disbursing stations in Kuwait (Disbursing Station Symbol Numbers [DSSNs] 8550 and 8748) and Saudi Arabia (DSSN 5588) were adequate to safeguard, account for, document, and report cash held at those sites. In addition, we evaluated whether the U.S. Army Financial Management Command (USAFMCOM) effectively implemented technical oversight and provided assistance to the Army disbursing station in Saudi Arabia. The three disbursing stations we reviewed had \$4.9 million in cash on hand at the time of our cash counts.

Findings

Controls at Kuwait (DSSN 8550) and Saudi Arabia (DSSN 5588) disbursing stations were not adequate to safeguard, account for, document, and report cash. For example, we found that the disbursing officer (DO) and the deputy disbursing officer (DDO) for DSSN 8550 did not segregate confiscated funds from public funds, accurately prepare a shipment of funds form, timely prepare an agent's accountability form, properly account for funds in transit, and retain quarterly cash verification reports. The DO for DSSN 5588 did not properly transfer accountability from the predecessor DO to himself, properly appoint a DDO, timely reconcile the Limited Depository Account, properly report cash with agents, and require agents to prepare daily accountability summaries.

Findings Continued

These conditions occurred because the DOs and DDOs were not aware of these requirements and were not properly trained to perform these duties. As a result of these inadequate controls over cash, the Army increases its risk of loss because of errors, theft, and fraud.

In addition, the DO for DSSN 8550 did not report a loss of funds of about \$6.5 million when the Al-Warka bank in Baghdad, Iraq, failed. This occurred because the DO believed that the Army would recover these funds in the future. As a result, the risk of losing the remaining balance of \$5.4 million has increased.

Recommendations

Among other recommendations, we recommend the Army conduct staff assistance visits when a new DO or DDO is appointed to the Army disbursing stations in Kuwait. In addition, we recommend that the Army revise the training curriculum for DOs and DDOs and certify that DOs and DDOs have taken this training. We also recommend that the DO for DSSN 8550 report a loss of funds of \$5.4 million, conduct an investigation and prepare a report, inform senior officials at the Departments of State and Treasury of the loss of funds, and request assistance from these officials in recovering the lost funds. Furthermore, we recommend that senior officials review the actions of the DOs for DSSN 8550 and DSSN 5588 regarding the deficiencies identified in this report and take appropriate management action, including holding the necessary officials accountable.

Management Comments and Our Response

Management comments adequately addressed 26 of 33 recommendations. We request the Army provide comments in response to the report. Please see the recommendations table on the back of this page.

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Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Deputy Assistant Secretary of the Army (Financial Operations)		A.1
Director, U.S. Army Financial Management Command		A.2.a.(1), A.2.a.(2), A.2.a.(3), A.2.a.(4), A.2.a.(5), A.2.a.(6), A.2.a.(7), A.2.a.(8), A.2.a.(9), A.2.a.(10), A.2.a.(11), A.2.a.(12), A.2.a.(13), and A.2.b
Commander, 1 st Sustainment Command	B.1.b	B.1.a
Director, 18 th Financial Management Center		A.3
Comptroller, U.S. Military Training Mission to Saudi Arabia		A.4
Disbursing Officer, Disbursing Station Symbol Number 5588		A.6.a, and A.6.b
Disbursing Officer, Disbursing Station Symbol Number 8550	B.2.a, B.2.b, B.2.c, B.2.d.(1), B.2.d.(2), and B.2.d.(3)	A.5.a, A.5.b, A.5.c, A.5.d, A.5.e, and A.5.f

*Please provide comments by May 9, 2014.



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

April 9, 2014

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Improvements to Controls Over Cash Are Needed at Army Disbursing Stations
in Kuwait and Saudi Arabia (Report No. DODIG-2014-057)

We are providing this report for review and comment. Controls at Army disbursing stations at Camp Arifjan, Kuwait, and Riyadh, Saudi Arabia, were not adequate to safeguard, account for, document, and report cash. In addition, an Army disbursing station in Kuwait did not report a loss of funds of about \$6.5 million. The issues in this report are still relevant because the Army has not conducted a formal loss of funds investigation. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that recommendations be resolved promptly. Management comments received addressed 26 of the 33 recommendations. However, we did not receive comments from the Commander, 1st Sustainment Command, on Recommendation B.1.b. Comments from the Deputy Assistant Secretary of the Army (Financial Operations) and the Director, 336th Theater Financial Management Support Center, responding for the Disbursing Officer for Disbursing Station Symbol Number 8550, did not fully address Recommendations B.2.a, B.2.b, B.2.c, B.2.d.(1), B.2.d.(2), and B.2.d.(3). Therefore, we request additional comments on these recommendations by May 9, 2014. We considered all other comments to have adequately addressed the recommendations.

Please send a PDF file containing your comments to audfmr@dodig.mil. Copies of your comments must have the actual signature of the authorizing official for your organization. We are unable to accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945.

A handwritten signature in cursive script that reads "Lorin T. Venable".

Lorin T. Venable, CPA
Assistant Inspector General
Financial Management and Reporting

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Acronyms and Abbreviations

Introduction

Objectives

The overall objective of the audit was to determine whether internal controls at the Army disbursing stations in Kuwait and Saudi Arabia were effectively designed and operating adequately to safeguard, account for, document, and report Cash and Other Monetary Assets (COMA). In addition, we evaluated whether the U.S. Army Financial Management Command (USAFMCOM) effectively implemented technical oversight and provided assistance to the Army disbursing station in Saudi Arabia. See the appendix for a discussion of the scope and methodology and prior coverage related to the objective.

Background

The Federal Accounting Standards Advisory Board, Statement of Federal Financial Accounting Standards No. 1, "Accounting for Selected Assets and Liabilities," March 30, 1993, defines "cash" as: "(a) coins, paper currency and readily negotiable instruments, such as money orders, checks, and bank drafts on hand or in transit for deposit; (b) amounts on demand deposit with banks or other financial institutions; and (c) foreign currencies." Office of Management and Budget Circular A-136, "Financial Reporting Requirements," September 29, 2010, defines "other monetary assets" as gold, special drawing rights, and U.S. Reserves in the International Monetary Fund.

The Army General Fund COMA represented \$1.5 billion (83.4 percent) of the DoD Agency-Wide COMA amount as of September 30, 2012. The COMA balances for the Army disbursing stations in Kuwait and Saudi Arabia as of September 30, 2012, were:

- \$8.6 million at Camp Arifjan, Kuwait (DSSN 8550);
- \$0.9 million at Camp Arifjan, Kuwait (DSSN 8748); and
- \$18.5 million at Riyadh, Saudi Arabia (DSSN 5588).

The Deputy Assistant Secretary of the Army for Financial Operations issued a memorandum, “Technical Oversight of Army Finance Operations,” July 10, 2009,¹ that requires USAFMCOM to provide technical oversight and assistance to finance operations that do not fall under a separate Financial Management Center (FMC). The Army disbursing stations that do not fall under a separate FMC are located in Sinai, Egypt (Disbursing Station Symbol Number [DSSN] 5570); Soto Cano Air Force Base, Comayagua, Honduras (DSSN 5570); and Riyadh, Saudi Arabia (DSSN 5588). At a minimum, USAFMCOM is expected to conduct an annual staff assistance visit to help train staff, confirm stations have the most current version of finance systems, and validate that appropriate internal controls and regulatory compliance are in place.

Disbursing Station

DoD Regulation 7000.14-R, Financial Management Regulation (DoD FMR), volume 5, “Disbursing Policy,” states that a disbursing station is an activity, or the organizational unit of an activity, whose principal function consists of the disbursement, collection, and reporting of public funds. The U.S. Treasury assigns each disbursing station a DSSN. The DSSN indicates that the U.S. Treasury has granted authority to the disbursing station to receive and disburse public funds and issue checks. Each disbursing station will have a disbursing officer (DO) and should have at least one deputy disbursing officer (DDO), who is under direct supervision of the DO. A disbursing station may branch off and have several deputy disbursing offices. These deputy disbursing offices consist of DDOs that report to a DO at a centralized location.

Disbursing and Deputy Disbursing Officers

DOs are agents of the U.S. Treasury who perform disbursing functions and are accountable to the U.S. Treasury for the cash items in their possession.² DOs maintain documents representing the cash for which DOs are accountable in their safe or vault. The DO then accounts for the documents on the “Daily Statement of Accountability” (DD Form 2657) and monthly on the “Statement of Accountability” (SF 1219). Furthermore, DOs may provide funds to DDOs, paying agents, and cashiers or authorize DDOs to obtain funds. DDOs report their accountability to the DO on the “Daily Agent Accountability Summary” (DD Form 2665). The DO reports other agents

¹ In response to a recommendation in Report No. DODIG-2013-051, “Improvements to Controls Over Cash Are Needed at the Army Disbursing Office at Soto Cano Air Base, Honduras,” March 4, 2013, the Deputy Assistant Secretary of the Army (Financial Operations) reissued this memorandum. The memorandum, “Technical Oversight of Army Finance Operations,” March 14, 2013, requires USAFMCOM to conduct annual operation reviews at the Army disbursing stations in Sinai, Egypt; Soto Cano Air Force Base, Comayagua, Honduras; and Riyadh, Saudi Arabia.

² The DOs at the Army disbursing stations in Kuwait and Saudi Arabia are under the supervision of the Army.

and cashiers' accountability on the "Statement of Agent Officer's Accountability" (DD Form 1081) as a summary of cash transactions and receipt for cash and vouchers on hand.

Reporting Structure of the Army's Disbursing Stations in Kuwait

The Army disbursing station at Camp Arifjan, Kuwait, (DSSN 8550) Central Funding, was under the control of the DO for the Army's 18th FMC.³ This disbursing station provides funding to other disbursing stations in Southwest Asia. The DO is accountable for all the funds transferred through the disbursing station. The DO is also responsible for providing oversight for Army disbursing stations in Afghanistan, Iraq, and Kuwait. In addition, the DO is responsible for appointing and overseeing the DDO for this disbursing station. The DDO is responsible for conducting the day-to-day operations of the disbursing station using Army funds. The DDO and his staff engage in providing funds to other disbursing operations in theater in addition to turning in funds to the Federal Reserve Bank.

The other Army disbursing station at Camp Arifjan, Kuwait (DSSN 8748) was under the control of the DO for the Army's 130th Financial Management Company (FMCO).⁴ The DO is accountable for all the funds collected and disbursed at this disbursing station. The DO is also responsible for appointing and overseeing the DDO for this disbursing station. The DDO is responsible for overseeing remote disbursing agents within Kuwait and conducting the day-to-day operations of the disbursing station using Army funds. The DDO and her staff engage in both accommodation exchanges⁵ on a daily basis and also normal operating activity transactions that require the use of both U.S. and foreign currencies, sometimes concurrently in a single transaction.

Both DSSNs in Kuwait fall under 1st Theater Sustainment Command's (TSC) Area of Responsibility.

³ DSSN 8550 is under the control of the 336th FMC as of June 2013.

⁴ DSSN 8748 is under the control of the 27th FMCO as of June 2013.

⁵ 31 U.S.C. 3342 permits DoD to provide accommodation exchanges for the convenience of authorized personnel. An accommodation exchange occurs when a DO exchanges U.S. dollars for a U.S. Treasury check or U.S. dollar instrument (check cashing). In addition, an accommodation exchange occurs when a DO exchanges U.S. dollars or dollar instruments for foreign currency for the convenience of authorized personnel or, where permitted, the exchange of foreign currencies for U.S. dollars or dollar instruments.

Reporting Structure of the Army's Disbursing Station in Saudi Arabia

The Army disbursing station in Riyadh, Saudi Arabia (DSSN 5588) is under the control of the DO for the U.S. Military Training Mission to Saudi Arabia. The DO is accountable for all the funds collected and disbursed at this disbursing station. The DO is also responsible for appointing and overseeing the DDO for this disbursing station.

The DDO is responsible for overseeing remote disbursing agents within Saudi Arabia and conducting the day-to-day operations of the disbursing station using Army funds. The DDO and his staff engage in foreign currency transactions and verify the correct exchange rate is being used. In addition, the DDO and his staff engage in both accommodation exchanges on a daily basis and also normal operating activity transactions that require the use of both U.S. and foreign currencies, sometimes concurrently in a single transaction. The DO reports to the Comptroller for U.S. Military Training Mission to Saudi Arabia.

Review of Internal Controls

DoD Instruction 5010.40, "Managers' Internal Control Program (MICP) Procedures," July 29, 2010, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We determined that internal control weaknesses existed at the Kuwait (DSSN 8550) and Saudi Arabia (DSSN 5588) disbursing stations. Specifically, the DOs and DDOs did not follow DoD FMR requirements for safeguarding, accounting for, documenting, and reporting cash at these disbursing stations. Inadequate controls over cash existed because the DOs and DDOs were not properly trained to perform their duties, and USAFMCOM did not provide adequate oversight of the Army disbursing station in Saudi Arabia (DSSN 5588). Additionally, the DO for the Army disbursing station in Kuwait (DSSN 8550) did not follow the DoD FMR and report a loss of funds because she believed the Army would recover these funds in the future. We will provide a copy of the report to the senior officials responsible for internal controls in the Army.

Finding A

Controls at Army Disbursing Stations in Kuwait and Saudi Arabia Were Not Adequate

Controls at Army disbursing stations in Kuwait (DSSN 8550) and Saudi Arabia (DSSN 5588) were not adequate to safeguard, account for, document, and report cash. The DOs and DDOs for these disbursing stations did not follow the requirements of DoD FMR. Specifically, the DO and DDO for the Kuwait disbursing station did not:

- segregate confiscated funds from public funds,
- accurately prepare a shipment of funds form,
- timely prepare an agent's accountability form,
- properly account for cash in transit,
- retain quarterly cash verification reports,
- shield the vault and safe combination dials from observation, or
- obtain a properly marked Statement of Accountability.

The DO for the Army disbursing station in Saudi Arabia did not:

- properly transfer accountability from the predecessor DO to himself,
- properly appoint the DDO,
- timely reconcile the Limited Depository Account (LDA),
- properly report cash with agents on the Daily Statement of Accountability,
- require agents to prepare the Daily Agent Accountability Summary, or
- change the vault combination.

These conditions occurred because the DOs and DDOs in Kuwait and Saudi Arabia were not aware of these requirements and were not properly trained to perform these duties. In addition, the Director, USAFMCOM, did not provide adequate oversight of the Army disbursing station in Saudi Arabia. Specifically, USAFMCOM

staff did not conduct any required staff assistance visits (SAVs) to this disbursing station for more than 3 years. The USAFMCOM Director stated that he was not able to conduct SAVs because his team was unable to obtain visas from the Saudi Arabian Embassy.

As a result of these inadequate controls over cash, the Army increases its risk of loss because of errors, theft, and fraud.

Controls at One Army Disbursing Station in Kuwait Were Not Adequate

Controls at one Army disbursing station in Kuwait (DSSN 8550) were not adequate to safeguard, account for, document, and report cash. Specifically, DSSN 8550 did not follow many of the requirements of DoD FMR.

Confiscated Funds Not Segregated From Public Funds

The DDO stated that he was holding and storing confiscated monies with public funds entrusted to him. The funds, \$3,500 in total, were monies that the Military Police had confiscated in Iraq and given to an Army disbursing station for safekeeping and deposit. With the drawdown of troops in Iraq, the funds were then transferred to the Army disbursing station in Kuwait. DoD FMR, volume 5, chapter 3, "Keeping and Safeguarding Public Funds," December 2010, states: "Never merge public funds with other funds." The DO stated that she was unaware of the regulation requiring segregating public funds from other funds. By storing the funds together, the DO risks not only using the confiscated funds instead of public funds but also losing the confiscated funds. The Director, USAFMCOM, should revise the training curriculum to include training on segregating public funds from confiscated funds. During our site visit in February 2012, the DO relocated the confiscated funds to a separate safe. Therefore, we are not making a recommendation to segregate the public from the confiscated funds.

During our visit, we asked why DSSN 8550 was holding on to these confiscated funds. The DDO stated he did not deposit the funds because he did not know the origination of the funds. The DDO also stated he did not know what to do with the funds. On March 13, 2013, the 1st TSC legal staff determined that these funds were seized from an Iraqi national who had been engaged in terrorist activities

and that the funds should be returned to the Iraqi Ministry of Finance for the Government of Iraq. As of October 16, 2013, the DO was working with a Department of State representative to deposit the funds into a U.S. Treasury account. The DO should deposit the confiscated funds in a U.S. Treasury account.

Shipment of Funds Form Was Not Accurately Prepared

The DO did not accurately prepare DD Form 165, "Shipment of Funds," when transporting funds to the Bank of America in Germany. The Bank of America in Germany is the closest Federal Reserve-affiliated bank. DoD FMR, volume 5, chapter 5, "Deposit and Transfer of Public Funds," December 2010, states that DD Form 165 must be prepared for any shipment of coin or currency. Completing the form delegates funds to a courier and designates the funds as

"in transit." Chapter 5 also states that the DO and one responsible

witness should personally count the contents of the cash

shipment. Not verifying the count by the DO and a witness

led to less funds being transported than was reported

as being deposited at Bank of America. In November 2011,

the DDO reported a shipment of funds of \$25,141,196.50,

but he shipped only \$24,818,396.50. The DO stated that

the shortage occurred because the DDO miscounted the

funds. When Bank of America identified and reported the

shortage of \$322,800, the DO verified the DDO left funds in the vault and

added the \$322,800 back to her DD Form 2657, "Daily Statement of Accountability."

The DDO was reprimanded for his actions. In addition, the DoD FMR requires

that the DO and a witness sign and date Form 165, attesting to its accuracy. The DO

stated that she was unfamiliar with the regulation requiring verifying funds before

shipment and completing the form. Without the funds verification and accurate

preparation of the form, the Army cannot accurately account for the amount

of money being shipped or deposited. After reviewing documentation from

October 2011 through January 2012, we determined that this was the only

occurrence of this form being inaccurately prepared. The Director, USAFMCOM,

should revise the training curriculum to include verifying funds before shipment

and that they have completed DD Form 165, "Shipment of Funds." In addition, the

DO and a witness should verify the count of funds prior to the shipment of funds.



Bank of America identified and reported the shortage of \$322,800.

Statement of Agent Officer's Accountability Was Not Timely Prepared

The DO did not timely prepare DD Form 1081, "Statement of Agent Officer's Accountability," when she delegated funds to her agent for transportation to the Bank of America in Germany for deposit. DoD FMR, volume 5, chapter 19, "Disbursing Officer Accountability Report," August 2011, states that DD Form 1081 must be prepared to summarize cash transactions between the DO and the DO's agents when advancing funds to agents. The DO completed the form after she deposited the funds at Bank of America. For example, the DO completed a DD Form 1081 on December 19, 2011, delegating funds to an accountable person even though the DO shipped the funds on December 13, 2011, and deposited into Bank of America on December 16, 2011.

The DO stated that she was unsure how to properly advance funds to her agents. By not transferring accountability for funds in transit, the DO remains liable for funds that are no longer in her possession and decreases the likelihood that funds will be recovered if lost or stolen while in transit. The Director, USAFMCOM, should revise the training curriculum to include timely preparation of Statement of Agent Officer's Accountability. During our site visit in February 2012, the DO stated that she will complete DD Form 1081 to transfer accountability before the departure of a courier. However, in October 2013, the current DO stated that DD Form 1081 is not being completed to transfer accountability before the departure of a courier. The DO should complete DD Form 1081 to transfer accountability before the departure of a courier.

Cash in Transit Was Incorrectly Reported on the Daily Statement of Accountability

The DO did not properly account for funds held outside of the vault and in transit to the Bank of America in Germany on DD Form 2657, "Daily Statement of Accountability." The DO reported a cash shipment on line 6.2A, "Cash on Hand" instead of line 6.7, "Cash in Transit." DoD FMR, volume 5, chapter 19, "Disbursing Officer Accountability Report," August 2011, defines "cash on hand" as U.S. currency and coins on hand in the disbursing station safe or vault and with deputies, agents, and cashiers located in the main disbursing station.

For example, on December 12, 2011, the DO reported cash on hand of \$22,243,765 within the disbursing station. On December 13, 2011, the DO authorized and prepared a cash shipment using DD Form 165, "Shipment of Funds," for \$21,811,548. The DDO then physically removed the funds from the vault, transported them to

Germany, and deposited the funds in the Bank of America on December 16, 2011. However, from December 13, 2011, through December 16, 2011, while the \$21,881,548 was in transit to the Bank of America in Germany, the cash was still being reported as “cash on hand.” The funds were never reported as “cash in transit” even though the funds were not physically located within the disbursing station for 3 days.

The DO stated that she was unsure how to record cash in transit in the Deployable Disbursing System (DDS)⁶ from her disbursing station to a non-disbursing entity. However, she stated that she believed that reporting funds in transit as “cash on hand” and preparing the shipment of funds form were adequate to account for funds in transit. We disagree. By reporting funds in transit as “cash on hand,” the DO overstated her cash on hand. Although her total cash amount was correct, she was still responsible for funds not in her control. The Director, USAFMCOM, should revise the training curriculum to include properly accounting for cash in transit on DD Form 2657 using DDS. The DO should start recording cash in transit on DD Form 2657 using DDS.

Quarterly Cash Verification Reports Were Not Retained

The DO could not provide any required Quarterly Cash Verification reports dated before September 22, 2011. DoD FMR, volume 5, chapter 21, “Disbursing Office Records,” December 2010, requires that DOs keep original disbursing office records, associated papers, and supporting documentation for 6 years and 3 months. This requirement is consistent with guidance in the “National Archives and Records Administration General Records, Schedule 6.” Although chapter 21 does not specifically mention Quarterly Cash Verification reports as an original disbursing office record that should be kept for 6 years and 3 months, chapter 21 does state that record retention is not limited to the records listed in the chapter. In addition, chapter 21 states that supporting documentation and any document that affects the DO’s accountability should be kept for 6 years and 3 months. Quarterly Cash Verification reports verify the cash, negotiable instruments, and other assets that compose the DO’s total accountability. Any overages or shortages affect the DO’s accountability.

⁶ DDS is a system that is used to maintain a Disbursing Office’s Accountability.

The DO could not provide any quarterly cash verification reports dated before September 22, 2011, because previous DOs did not maintain hard copies of Quarterly Cash Verification reports. Additionally, the DO stated that all soft copies of the Quarterly Cash Verification reports were unavailable because of a prior disbursing system crash. Without soft or hard copy documentation, the disbursing station did not have adequate records and will not be able to justify and support prior cash transactions. Thus, we were unable to determine whether the Quarterly Cash Verification reports were ever prepared. The Director, USAFMCOM, should revise the training curriculum to include retaining disbursing office records for 6 years and 3 months. During our site visit in February 2012, the DO stated that DDS maintains the Quarterly Cash Verification reports. However, in October 2013, the DO stated that Quarterly Cash Verification reports were not being maintained in DDS. The DO should start maintaining Quarterly Cash Verification reports in DDS.

Vault and Safe Combination Dials Were Not Shielded

The DO did not shield the vault and safe combination dials to prevent the possibility of onlookers observing the combination. DoD FMR, volume 5, chapter 3, “Keeping and Safeguarding Public Funds,” August 2011, requires the following: “The dial to the vault, safe, or container be concealed by a shield made of cardboard or other suitable material to limit the possibility of the combination being observed.” The DO stated that she was unaware of the regulation requiring shielding vault and combination dials. Without the required shield, the opportunity exists for others to view the combination and use it to gain access to public funds. The Director, USAFMCOM, should revise the training curriculum to include shielding the vault and safe combinations from onlookers. During our site visit in February 2012, the DO placed a shield over the vault and safe combination dials. In addition, in October 2013, the current DO stated that the vault and safe combination dials are still being shielded. Therefore, we are not making a recommendation to shield the safe and vault combination dials.

A Properly Marked Statement of Accountability Was Not Provided

The final Statement of Accountability (SF 1219) should have been marked as “FINAL” on the date that the new DO relieved the predecessor DO. DoD FMR, volume 5, chapter 19, “Disbursing Officer Accountability Reports,” August 2011, states, “A DO being relieved submits a final SF 1219 regardless of the fact that the last day of the accounting period may be other than the last day of the month. The DO should plainly mark the final SF 1219 ‘FINAL’ in the blank space directly above the name line.”

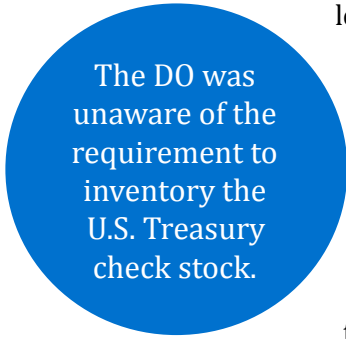
The DO stated that she was unaware of the regulation requiring marking the final SF 1219 “FINAL.” The omission of the marking “FINAL” on the SF 1219 creates ambiguity of the ending of the predecessor DO’s accountability and the new DO’s accountability. The Director, USAFMCOM, should revise the training curriculum to include marking the SF 1219 “Final” on the day the DO relieves the predecessor DO. The DO should mark the predecessor final SF 1219 “FINAL.” The Director of the 18th Financial Management Center should review the actions of the DO for DSSN 8550 regarding the deficiencies identified in this report. On the basis of that review, the Director should take appropriate management action, including holding the necessary officials accountable.

Controls at the Army Disbursing Station in Saudi Arabia Were Not Adequate

Controls at the Army disbursing station in Saudi Arabia (DSSN 5588) were not adequate to safeguard, account for, document, and report cash. Specifically, DSSN 5588 did not follow many of the requirements of DoD FMR.

DO Did Not Properly Transfer Accountability from the Predecessor DO to Himself

As part of relieving the predecessor DO, the DO prepared a letter of transfer that did not include the inventory of U.S. Treasury check stock.⁷ DoD FMR, volume 5, chapter 2, “Disbursing Offices, Officers, and Agents,” December 2010, requires that the predecessor DO inventory the U.S. Treasury checks on hand and prepare a letter transferring the inventory of checks to the incoming DO. During our site visit in February 2012, the DO stated that he was unaware of the requirement, when relieving the predecessor DO in August 2011, to inventory the U.S. Treasury check stock. By not conducting the inventory of checks, the DO increased risk of being accountable for missing or fraudulent checks. Specifically, a person with access to the check stock could have stolen checks and created a fraudulent check. The Director, USAFMCOM, should revise the training curriculum to include properly relieving the predecessor DO by inventorying and transferring the U.S. Treasury check stock to an incoming



The DO was unaware of the requirement to inventory the U.S. Treasury check stock.

⁷ “Check stock” is defined as an inventory of blank U.S. Treasury checks.

DO. During our site visit in February 2012, the DO stated that future letters of transfers will include an inventory of U.S. Treasury check stock. In addition, we confirmed that the August 2013 letter of transfer for the new DO included an inventory of U.S. Treasury check stock. Therefore, we are not making a recommendation to include the inventory of check stock in letters of transfer.

In addition, the DOs did not verify or make reference to the clearing accounts⁸ in the letter of transfer. Specifically, the DOs did not verify the clearing account balances, transfer subsidiary clearing account transactions with backup documentation, or document the status of the clearing accounts. Chapter 2 requires the DO to verify and transfer all backup documentation for open balances in the clearing accounts. The DO stated that he was unaware of the existence of the clearing accounts and the requirement to transfer all documentation. By not performing these procedures, the DO takes personal liability for any potential missing funds in the clearing accounts. The Director, USAFMCOM, should revise the training curriculum to include transferring clearing accounts to an incoming DO. During our site visit in January 2012, the DO stated that future letters of transfers will transfer clearing accounts after balances are verified. However, we confirmed that the August 2013 letter of transfer for the current DO did not transfer clearing accounts after balances are verified. The DO should verify clearing account balances on future letters of transfer.

DO Did Not Properly Appoint the DDO

The DO's formal letter of appointment for the DDO position did not:

- state specific duties authorized to be performed by the DDO;
- include the statement, "I acknowledge that I am strictly liable to the U.S. for all public funds under my control;"
- include a statement that the appointee had been counseled regarding pecuniary liability; or
- indicate the DDO was given written operating instructions.

DoD FMR, volume 5, chapter 2, "Disbursing Offices, Officers, and Agents," December 2010, states that DOs appoint DDOs by formal letter of appointment. Chapter 2 also states that DDOs must be appointed before they can commence disbursing operations. The letter should state the specific duties authorized

⁸ Clearing accounts are temporary holding accounts for funds until they can be designated elsewhere.

to be performed by the DDO and include the statement, "I acknowledge that I am strictly liable to the United States for all public funds under my control." It should also include a statement that confirms that the appointee has been counseled with regard to pecuniary liability and has been given written operating instructions. The appointee is to acknowledge acceptance of the appointment on the original and all copies of the letter of appointment. During our site visit in January 2012, the DO stated that he was unaware of these documentation requirements for establishing a DDO position. Therefore, the DDO was unable to fully understand his duties and liabilities because his duties and liabilities were not established in the appointment letter. The Director, USAFMCOM, should revise the training curriculum to include documentation requirements for properly appointing a DDO. During our site visit in January 2012, the DO stated that future letters of appointment will have all the necessary information. USAFMCOM conducted a SAV in August 2013, and found that the current DDO letter of appointment was properly prepared, but was not done timely. USAFMCOM staff stated that future letters of appointment will be issued on time. Therefore, we are not making a recommendation regarding letters of appointment.

DO Did Not Timely Reconcile the Limited Depository Account

The DO did not timely reconcile the LDA from October 23, 2011, through December 20, 2011. DoD FMR volume 5, chapter 14, "Limited Depository Checking Accounts," March 2010, requires that within 30 days after the close of a calendar month the DO prepare and submit a SF 1149, "Statement of Designated Depository Account." This statement reconciles the DO's records to the bank statement for the LDA. The LDA ending balance is reported on line 6.1, "Cash on Deposit in Designated Depository," of the SF 1219. However, the LDA ending balance reported on the SF 1219 did not agree with the LDA ending balance reported on the SF 1149 for October through December 2011. Table 1 identifies the differences between the LDA ending balances on the SF 1219s and SF 1149s for October through December 2011.

Table 1. Differences Between the LDA Ending Balances on the SF 1219 and the SF 1149

Month	SF 1219 Balance	SF 1149 Balance	Difference
October 2011	\$2,442,731.72	\$2,442,416.26	\$315.46
November 2011	\$5,506,714.95	\$5,506,399.49	\$315.46
December 2011	\$10,010,624.92	\$10,009,424.13	\$1,200.79

The DO did not reconcile his records to the bank statement for the LDA until our visit to the disbursing station in January 2012. Reconciling an LDA is necessary to confirm an accurate bank account balance. Not reconciling a LDA can lead to a loss of funds not being detected. For example, not reconciling the LDA at this disbursing station led to a \$2.9 million loss of funds that went unnoticed from 2005 until 2008 when a DoD Inspector General audit was conducted.⁹ The Director, USAFMCOM, should revise the training curriculum to include reconciling LDAs within 30 days after month end. USAFMCOM conducted a SAV in August 2013 and confirmed that the DO is properly reconciling the LDA. Therefore, we are not making a recommendation requiring the reconciliation of the LDA.

Cash With Agents on the Daily Statement of Accountability Was Not Properly Reported

The DO reported cash with agents on Line 6.2, “Cash on Hand,” instead of Line 6.5, “Funds with Agents,” on DD Form 2657, “Daily Statement of Accountability.” DoD FMR, volume 5, chapter 19, “Disbursing Officer Accountability Reports,” August 2011, requires that cash with agents be reported on Line 6.5, “Funds with Agents.” The DO stated that he was unaware of the requirement to separately account for cash not located at the disbursing station. This improper reporting of cash with agents overstates the “Cash on Hand” line and understates the “Funds with Agents” line. The Director, USAFMCOM, should revise the training curriculum to include properly reporting cash with agents on Line 6.5, “Funds with Agents,” on DD Form 2657. During our site visit in January 2012, the DO took corrective action by moving the funds to the correct line. USAFMCOM conducted a SAV in August 2013 and confirmed the DO was properly reporting funds with agents on Line 6.5 on the DD Form 2657. Therefore, we are not making a recommendation regarding the proper reporting of cash with agents.

Daily Agent Accountability Summaries Were Not Prepared

The DO did not require agents to complete DD Form 2665, “Daily Agent Accountability Summary,” on the day they turned in their business transactions to the DO. DoD FMR, volume 5, chapter 19, “Disbursing Officer Accountability Reports,” August 2011, states that each deputy, cashier, and agent prepares a daily agent account summary form for each day during which he or she transacts

⁹ DoD IG Report No. D-2010-034, “Internal Controls Over the Army, General Fund Cash and Other Monetary Assets Held in Southwest Asia,” January 8, 2010.

business, recording transactions in U.S. dollar values. During our site visit in January 2012, the DO stated that he was unaware of these requirements for the day the agents turn in their business transaction to the DO. Without this documentation, the DO is unable to provide a continuous picture of the transactions affecting the accountability of his agents. Specifically, the DO does not have knowledge of the amount of cash being held by agents. The Director, USAFMCOM, should revise the training curriculum to include requiring cashiers and agents to complete DD Form 2665 for each day they transact business. During our site visit in January 2012, the DO stated that he would require his agents to prepare DD Form 2665 on the day they turn in their business. USAFMCOM conducted a SAV in August 2013 and confirmed that the disbursing agents were preparing DD Form 2665 daily. Therefore, we are not making a recommendation regarding the preparation of DD Form 2665.

Vault Combination Was Not Changed

The DO had not changed the combination to the vault door for more than 2 years. DoD FMR, volume 5, chapter 3, "Keeping and Safeguarding Public Funds," August 2011, requires changing the combination for vaults and safes every 6 months. The DO stated that he did not have directions on how to change the combination to the vault door and that the vault manufacturer was no longer in business. The DO's not changing the combination to the vault door, as required, increased risk that other individuals who previously possessed the combination could access the funds in the vault. The Director, USAFMCOM, should revise the training curriculum to include changing the vault and safe combinations every 6 months. During our site visit in January 2012, the DO initiated the process to change the combination to the vault. However, as of August 2013, the combination to the vault has not been changed. USAFMCOM staff stated that a new safe has been ordered and the vault area is going to be completely renovated. Therefore, we are making a recommendation to change the combination to the vault until the vault is replaced. The DO should change the combination to the vault immediately. The Comptroller of the U.S. Military Training Mission to Saudi Arabia should review the actions of the DO for DSSN 5588 regarding the deficiencies identified in this report. On the basis of that review, the Comptroller should take appropriate management action, including holding the necessary officials accountable.

Inadequate Training and Oversight Were Provided to the Disbursing Officers and Deputy Disbursing Officers

DOs and DDOs from the Army disbursing stations in Kuwait (DSSN 8550) and Saudi Arabia (DSSN 5588) stated that they were not aware of the DoD FMR requirements discussed in this report and had not been trained to perform these duties. We reviewed the training course curriculum provided by USAFMCOM and determined that the training did not adequately prepare a DO or DDO to perform the duties identified in the preceding paragraphs. Specifically, the training slides did not include a discussion on:

1. segregating public funds from other funds, such as confiscated funds, and returning funds to the Department of Treasury when appropriate;
2. verifying accurate preparation of DD Form 165, "Shipment of Funds";
3. timely preparation of DD Form 1081, "Statement of Agent Officer's Accountability";
4. properly accounting for "cash in transit" on DD Form 2657, "Daily Statement of Accountability";
5. retaining accountability documents for 6 years and 3 months;
6. shielding vault and safe combination dials;
7. properly marking the final SF 1219 "Statement of Accountability";
8. properly relieving the predecessor DO by:
 - inventorying the U.S. Treasury check stock, and
 - verifying and transferring clearing accounts;
9. properly appointing DDOs;
10. reconciling LDAs timely;
11. properly reporting cash with agents on DD Form 2657, "Daily Statement of Accountability";
12. verifying agents prepare DD Form 2665, "Daily Agent Accountability Summaries"; and
13. verifying vault combinations are changed.

USAFMCOM staff stated that some of these items were discussed during the training even though they were not on the training slides. However, the DOs from the three Army disbursing stations (DSSNs 8748, 8550, and 5588) stated that the training they received was not sufficient for them to perform their disbursing duties. One DO stated she was unable to attend disbursing training due to scheduling conflicts with other career courses. In addition, the DDO¹⁰ from DSSN 8748 also stated that the training he received was not sufficient to perform his disbursing duties. The DDO also stated that the training he received was so general that he hoped that he did not make a mistake and become liable for funds.

We reported on lack of training at the Army disbursing office at Soto Cano Air Base, Honduras. Report No. DODIG-2013-051, "Improvements to Controls Over Cash Are Needed at the Army Disbursing Office at Soto Cano Air Base, Honduras," March 5, 2013, stated that the DDO for the Army disbursing office in Honduras was not aware of various DoD FMR requirements and was not trained to perform his duties. The Director, USAFMCOM should revise the training curriculum for DOs and DDOs to specifically address all the requirements in DoD FMR, volume 5, "Disbursing Policy," including the 13 issues that we identified in this finding. Further, the Director, USAFMCOM, should certify that all incoming DOs and DDOs attend training before being allowed to collect and disburse funds at Army disbursing stations.

For more than 3 years, the USAFMCOM staff did not perform required SAVs to the disbursing station in Saudi Arabia (DSSN 5588) as required by Army policy. On July 10, 2009, the Deputy Assistant Secretary of the Army (Financial Operations) issued the memorandum, "Technical Oversight of Army Finance Operations." The memorandum stated that USAFMCOM should, at a minimum, conduct annual SAVs to help train the staff, confirm that the disbursing station is using the most current version of finance systems, and validate that the appropriate internal controls are in place. The Director, USAFMCOM, stated that USAFMCOM did not conduct SAVs to Saudi Arabia because USAFMCOM was unable to obtain visas from the Saudi Arabian Embassy. In October 2012, 9 months after our site visit, USAFMCOM staff conducted a SAV to the Army disbursing station in Saudi Arabia (DSSN 5588). As a result of the lack of training and management oversight at these disbursing stations, the Army increased its risk of loss because of errors, theft, and fraud. The Deputy Assistant Secretary of the Army (Financial Operations) should issue guidance to require the Director, USAFMCOM,

¹⁰ The DDOs for DSSN 8550 and 5588 did not respond to our questions.

to conduct SAVs when a new DO or DDO is appointed to the Army disbursing stations in Kuwait or at a minimum, annually. We are not recommending that the Assistant Secretary issue guidance requiring SAVs to Saudi Arabia because he already requires USAFMCOM to conduct annual SAVs in his memorandum, "Technical Oversight of Army Finance Operations," March 14, 2013.

Effective Controls over Existence and Accountability Documents

Although we identified numerous instances of noncompliance with disbursing policies in DoD FMR, volume 5, we also determined that DOs and DDOs at the three disbursing stations had effectively implemented many of their responsibilities. Additionally, we agreed with the cash balances reported on each of their DD Form 2657, "Daily Statement of Accountability."

Kuwait (DSSN 8748)

We reviewed various controls at the Army disbursing station at Camp Arifjan, Kuwait (DSSN 8748) covering more than 16 topic areas and only identified five minor variances. We observed a cash count on January 31, 2012, that agreed with the \$1,008,063 cash balance reported on DD Form 2657. In addition, we determined that this Kuwait disbursing station properly operated within its cash holding authority. We also determined that this Kuwait disbursing station had effective controls over the following:

- semiannual security inspections,
- preparation of the Security Container Check Sheet (SF 702),
- preparation and documentation of the Key Control Register,
- accounting and safeguarding of U.S. Treasury Checks,
- preparation of the Statement of Agent Officer's Accountability (DD 1081), and
- reconciliation of the LDA.

Therefore, controls at this Kuwait disbursing station were effective to safeguard, account for, document, and report cash.

Kuwait (DSSN 8550)

At the Army disbursing station at Camp Arifjan, Kuwait (DSSN 8550), we observed a cash count on January 31, 2012, that agreed with the \$2,215,443 cash balance reported on the DD Form 2657. In addition, we determined that this Kuwait disbursing station properly operated within its cash holding authority. We also determined that the disbursing station had effective controls over the following:

- semiannual security inspections,
- preparation of the Security Container Check Sheet (SF 702),
- preparation and documentation of the Key Control Register, and
- accounting and safeguarding of U.S. Treasury Checks.

Saudi Arabia (DSSN 5588)

At the Army disbursing station at Riyadh, Saudi Arabia (DSSN 5588), we observed a cash count on January 20, 2012, that agreed with the \$1,633,707 cash balance reported on the DD Form 2657. In addition, we determined that the Saudi Arabia disbursing station properly operated within its cash holding authority. We also determined that the Saudi Arabia disbursing station had effective controls over the following:

- semiannual security inspections,
- functioning alarm and security system for the disbursing station,
- preparation and documentation of the Key Control Register,
- accounting and safeguarding of Treasury Checks,
- preparation and computation of the Currency Exchange Record (DD 2664), and
- preparation of the Statement of Agent Officer's Accountability (DD 1081).

Conclusion

The controls at the Army disbursing stations in Kuwait (DSSN 8550) and Saudi Arabia (DSSN 5588) were not adequate to safeguard, account for, document, and report cash. Specifically, the control deficiencies we identified represent a significant deficiency in the control environment at these Army disbursing stations. For example, the DO for DSSN 8550 did not perform the following key controls:

segregate confiscated funds from public funds, accurately prepare a shipment of funds form, timely prepare an agent's accountability form, properly account for funds in transit, and retain quarterly cash verification reports. The DO for DSSN 5588 did not perform the following key controls: properly transfer accountability from the predecessor DO to himself, timely reconcile the LDA, properly report cash with agents, and require agents to prepare daily accountability summaries. Therefore, corrective actions should be taken to correct these deficiencies. All the DOs and DDOs from the three disbursing stations reviewed stated that they were not provided adequate training to sufficiently perform their job duties. In addition, the Director, USAFMCOM did not provide adequate oversight of the Army disbursing station in Saudi Arabia. For example, USAFMCOM staff did not perform required SAVs for more than 3 years. These inadequate controls over cash increase the Army's risk of loss because of errors, theft, and fraud.

Recommendations, Management Comments, and Our Response

Recommendation A.1

We recommend that the Deputy Assistant Secretary of the Army (Financial Operations) issue guidance to require the Director, U.S. Army Financial Management Command, to conduct staff assistance visits to Army disbursing stations in Kuwait when a new Disbursing Officer or Deputy Disbursing Officer is appointed to these disbursing stations or at a minimum, annually.

Deputy Assistant Secretary of the Army (Financial Operations) Comments

The Deputy Assistant Secretary of the Army (Financial Operations) agreed with our recommendation and plans to issue Army-wide guidance on responsibilities for performing technical oversight and periodic reviews of all active Army finance operations. The Deputy Assistant Secretary stated that the internal control elements of the Financial Management Support Centers have the primary responsibility for this oversight and review. However, when there are no active Financial Management Support Centers, such as in Honduras and Saudi Arabia, U.S. Army Financial Management Command (USAFMCOM) will have primary responsibility. The Deputy Assistant Secretary stated that USAFMCOM publishes and regularly updates a checklist for disbursing operations.

The Deputy Assistant Secretary issued the memorandum, "Oversight and Reviews of Army Finance and Accounting Operations," February 26, 2014, which states all Army finance and accounting operations require appropriate technical oversight and periodic independent review. The memorandum states that for finance and accounting operations outside the contiguous United States under commands without a Financial Management Support Center, the USAFMCOM performs the technical oversight and review. As a general rule, on-site reviews will be conducted annually; however, the frequency will be based on the risk of fraud or error and related impacts. When feasible, personnel should review disbursing operations in conjunction with the changeover of the accountable disbursing official.

Our Response

The Deputy Assistant Secretary of the Army (Financial Operations) response addressed all the specifics of the recommendation, and no additional comments are required.

Recommendation A.2

We recommend that the Director, U.S. Army Financial Management Command:

- a. Revise the training curriculum for Disbursing Officers and Deputy Disbursing Officers to include:**
 - 1. segregating public funds from confiscated funds and returning funds to the Department of Treasury when appropriate;**
 - 2. accurately preparing of DD Form 165, "Shipment of Funds";**
 - 3. timely preparing of DD Form 1081, "Statement of Agent Officer's Accountability";**
 - 4. properly accounting for "cash in transit" on DD Form 2657, "Daily Statement of Accountability";**
 - 5. retaining accountability documents for 6 years and 3 months;**
 - 6. shielding vault and safe combination dials;**
 - 7. obtaining a properly marked final SF 1219, "Statement of Accountability";**
 - 8. properly relieving the predecessor disbursing officer by inventorying the U.S. Treasury check stock and verifying and transferring clearing accounts;**

9. **properly appointing deputy disbursing officers;**
10. **timely reconciling Limited Depository Accounts;**
11. **properly reporting cash with agents on the DD Form 2657, “Daily Statement of Accountability”;**
12. **properly preparing DD Form 2665, “Daily Agent Accountability Summaries”;** and
13. **changing vault combinations every 6 months.**

U.S. Army Financial Management Command Comments

The Deputy Assistant Secretary of the Army (Financial Operations), responding for the Director, USAFMCOM, agreed with our recommendations and stated that the requirements listed in the recommendations are included within DoD Financial Management Regulations (FMR) and are already addressed in the finance officers training course. In addition, USAFMCOM provides additional training to units using the latest automated finance systems, which are developed and maintained by the Defense Finance and Accounting Service or U.S. Treasury, and thus not within the scope of the normal Army systems and new equipment training processes. Furthermore, USAFMCOM provides training to finance officers assigned to Honduras and Saudi Arabia, before they assume the DO or DDO positions, that includes a majority of the requirements listed in the recommendation. However, the Deputy Assistant Secretary agreed to re-verify that all the recommendations are specifically addressed in the training given by the U.S. Army Financial Management School and USAFMCOM. The Deputy Assistant Secretary provided an estimated completion date of February 2014. The Director, USAFMCOM, stated in March 2014, that his office performed a review of the training curriculum and included the items identified in this audit report.

Our Response

The Deputy Assistant Secretary of the Army (Financial Operations) response addressed all the specifics of the recommendations, and no additional comments are required.

- b. Certify that all incoming Disbursing Officers and Deputy Disbursing Officers attend formal training before being allowed to collect and disburse funds at Army disbursing stations.**

U.S. Army Financial Management Command Comments

The Deputy Assistant Secretary of the Army (Financial Operations), responding for the Director, USAFMCOM, partially agreed with our recommendation, stating he will publish guidance requiring minimum experience or training for an individual to be assigned to a DO or DDO position. The Deputy Assistant Secretary provided an estimated completion date of March 2014. The Director, USAFMCOM, stated in March 2014, that the revised completion date is May 2014.

Our Response

Although the Deputy Assistant Secretary of the Army (Financial Operations) partially agreed with our recommendation, the actions taken to establish minimum experience levels and improve DO and DDO training satisfy the intent of the recommendation. No additional comments are required.

Recommendation A.3

We recommend that the Director of the 18th Financial Management Center review the actions of the disbursing officer for Disbursing Station Symbol Number 8550, regarding the deficiencies identified in this report. On the basis of that review, the Director should take appropriate management action, including holding the necessary officials accountable.

18th Financial Management Center Comments

The Deputy Assistant Secretary of the Army (Financial Operations), responding for the Director of the 18th Financial Management Center (FMC), stated that the 18th FMC previously redeployed and the individuals in the leadership and disbursing positions have been reassigned to other units.

Our Response

Even though the Director of the 18th FMC did not review the actions of the disbursing officer, we agree with the Deputy Assistant Secretary of the Army (Financial Operations) position that a review should not be performed because the disbursing officer has been reassigned to another unit. No additional comments are required.

Recommendation A.4

We recommend that the Comptroller, U.S. Military Training Mission to Saudi Arabia, review the actions of the disbursing officer for Disbursing Station Symbol Number 5588, regarding the deficiencies identified in this report. On the basis of that review, the Comptroller should take appropriate management action, including holding the necessary officials accountable.

U.S. Military Training Mission to Saudi Arabia Comments

The Comptroller, U.S. Military Training Mission to Saudi Arabia, agreed with our recommendation, stating that he reviewed the practices and procedures of the Finance Office with the new DO following the USAFMCOM annual review of August 2013. The Comptroller acknowledged that the previous disbursing officer did not comply with regulations. However, he stated that the USAFMCOM's and his review showed that changes have been implemented to address our recommendation and that the current DO is now responsible for ensuring adequate controls are in place. In addition, the Comptroller is in the process of hiring a dedicated quality assurance/internal control manager. In the meantime, a soldier has been appointed to review compliance with DoD FMR.

Our Response

Even though the Comptroller, U.S. Military Training Mission to Saudi Arabia, did not review the actions of the disbursing officer, he took appropriate management actions. In addition, there is a new disbursing officer for Disbursing Station Symbol Number 5588. No additional comments are required.

Recommendation A.5

We recommend that the Disbursing Officer for Disbursing Station Symbol Number 8550:

- a. deposit the confiscated funds of \$3,500 in a U.S. Treasury account.**

Disbursing Station Symbol Number 8550 Comments

The Director of the 336th Theater Financial Management Support Center (TFMSC), responding for the DO for DSSN 8550, partially agreed with our recommendation, stating that the 336th TFMSC is working with the U.S. Embassy in Kuwait to coordinate returning funds to the Iraqi Embassy in Kuwait. The Director stated that the procedures in the DoD FMR for turning funds over to the State Department are being eliminated. The Director stated that the funds cannot be deposited into the

seized-asset account established for this purpose, because the funds were not seized from the prior Iraqi regime. The Director stated that in the interim, the funds will continue to be maintained separately from operating cash and within the disbursing office's accountability records. The Director provided an estimated completion date of July 2014.

Our Response

Although the Director of the 336th TFMSC partially agreed with our recommendation, the actions taken to return the funds to Iraq through appropriate channels satisfy the intent of the recommendation. No additional comments are required.

b. verify with a witness cash counts prior to the shipment of funds.

Disbursing Station Symbol Number 8550 Comments

The Director of the 336th TFMSC, responding for the DO for DSSN 8550, agreed with our recommendation stating that DD Form 165, "Shipment of Funds," is now completed and verified before the courier transfer of excess funds to a community bank in Germany.

Our Response

The Director of the 336th TFMSC response addressed all the specifics of the recommendation, and no additional comments are required.

c. complete DD Form 1081, "Statement of Agent Officer's Accountability," to transfer accountability before the departure of a courier.

Disbursing Station Symbol Number 8550 Comments

The Director of the 336th TFMSC, responding for the DO for DSSN 8550, partially agreed with our recommendation, stating that DD Form 1081, "Statement of Agent Officer's Accountability," is always prepared before the funding of agents, but it is not used for couriers. The Director stated that the 336th TFMSC accounts for funds by using DD Form 165, "Shipment of Funds," DD Form 1907, "Signature and Tally Record," and an OTCnet¹¹ deposit ticket.

¹¹ The U.S. Treasury Financial Management Service provides Over the Counter Channel Application (OTCnet) financial services to facilitate the prompt electronic processing and reporting of deposits and transaction activity. OTCnet financial services include transactions made at agency offices throughout the U.S. and abroad.

Our Response

Although the Director of the 336th TFMSC, partially agreed with our recommendation, the use of the OTCnet deposit ticket to account for funds provided to a courier satisfies the intent of the recommendation. No additional comments are required.

- d. record cash in transit on DD Form 2657, “Daily Statement of Accountability,” using the Deployable Disbursing System.**

Disbursing Station Symbol Number 8550 Comments

The Director of the 336th TFMSC, responding for the DO for DSSN 8550, agreed with our recommendation, stating that funds transferred to a community bank in Germany using couriers are now recorded on line 4.2A, “Deposits Presented or Mailed to Bank,” of DD Form 2657, “Daily Statement of Accountability.”

Our Response

The Director of the 336th TFMSC response addressed all the specifics of the recommendation, and no additional comments are required.

- e. maintain Quarterly Cash Verification reports in the Deployable Disbursing System.**

Disbursing Station Symbol Number 8550 Comments

The Director of the 336th TFMSC, responding for the DO for DSSN 8550, partially agreed with our recommendation, stating that quarterly cash verifications are kept in the disbursing office Record Accounting Book and that the 336th TFMSC internal control section keeps all cash verifications on a shared drive. The Deployable Disbursing System captures and reports transactions based on U.S. Treasury standards but does not store images of reports not related to that function. These records will be transferred to the incoming DO from the 266th TFMSC to assist in future audits.

Our Response

Although the Director of the 336th TFMSC partially agreed with our recommendation, recording quarterly cash verifications in the disbursing office Record Accounting Book and the 336th TFMSC internal control section keeping cash verifications on a shared drive satisfies the intent of the recommendation. No additional comments are required.

f. mark the predecessor final SF 1219 "FINAL."

Disbursing Station Symbol Number 8550 Comments

The Director of the 336th TFMSC, responding for the DO for DSSN 8550, agreed with our recommendation stating that when the 336th TFMSC took over from the 13th TFMSC, the locally printed copy of the DO's SF 1219 was annotated "FINAL," and the 336th TFMSC will follow the same process for the transfer to the 266th TFMSC.

Our Response

The Director of the 336th TFMSC response addressed all the specifics of the recommendation, and no additional comments are required.

Recommendation A.6

We recommend that the Disbursing Officer for Disbursing Station Symbol Number 5588:

a. verify the clearing account balances on future letters of transfer.

Disbursing Station Symbol Number 5588 Comments

The Comptroller, U.S. Military Training Mission to Saudi Arabia, responding for the DO for DSSN 5588, agreed with our recommendation. The Comptroller stated that the current DO has not had a balance in clearing accounts **F3880 or **F3885, the balances in clearing account **F3875 are cleared on a quarterly basis, and the DO verifies the balance in this account on the monthly Suspense Account Report. In addition, the Comptroller stated that the DO will ensure account balances for clearing accounts are verified by the incoming DO and documented in the transfer of accountability memorandum. The next transfer of accountability is August 2014.

Our Response

The Comptroller, U.S. Military Training Mission to Saudi Arabia, response addressed all the specifics of the recommendation, and no additional comments are required.

b. change the combination to the vault immediately.

Disbursing Station Symbol Number 5588 Comments

The Comptroller, U.S. Military Training Mission to Saudi Arabia, responding for the DO for DSSN 5588, agreed with our recommendation. The Comptroller stated that because a prior DO lost the combination to the vault and the manufacturer is out of business and unable to provide instructions, a contract was awarded to replace

the entire existing vault door. Upon replacement of the vault door, the combination will be immediately changed from the manufacturer settings. The combination will be recorded on an SF 700, placed in a sealed envelope, and stored in the command group safe to prevent another loss of the combination. The combination will be changed every 6 months or when personnel change. The Comptroller provided an estimated completion date of February 2014. The Comptroller stated in March 2014 that a new vault door was installed, and the factory combination was changed.

Our Response

The Comptroller, U.S. Military Training Mission to Saudi Arabia, response addressed all the specifics of the recommendation, and no additional comments are required.

Finding B

Disbursing Officer for Army Disbursing Station 8550 at Camp Arifjan, Kuwait, Did Not Report a Loss of Funds

The DO for Army disbursing station (DSSN 8550) at Camp Arifjan, Kuwait, did not report a loss of funds of about \$6.5 million, when another disbursing station closed and transferred an LDA from the Al-Warka bank in Baghdad, Iraq, that failed. The DO did not follow the DoD FMR and report a loss of funds because she believed the Army would recover these funds in the future. The DO relied on statements made by Al-Warka banking officials that the Al-Warka bank will repay the Army because \$1.1 million had been collected in calendar year 2012. The risk of losing the remaining balance of \$5.4 million increased because the loss of funds was not officially reported to the appropriate officials within the Army and Defense Finance and Accounting Service (DFAS).

Closing of Army Disbursing Stations in Iraq

In August 2010, the DO for Army disbursing station (DSSN 5579) at Camp Liberty, Iraq, received notice that the Al-Warka bank in Baghdad, Iraq, was having problems releasing funds for vendor payments using electronic fund transfers. Specifically, the DO was informed of severe liquidity¹² problems and vendor non-payments at Al-Warka bank.

On September 11, 2010, as part of the Drawdown of Forces in Iraq, the DO for Army disbursing station (DSSN 8589) at Contingency Operating Base Speicher, Iraq, closed the disbursing station and transferred its Al-Warka bank LDA of about \$6.0 million to the DO for DSSN 5579. At that time, the DO for DSSN 5579 had a \$3.8 million balance in its LDA at the Al-Warka bank. As a result of this transfer, the LDA for DSSN 5579 at the Al-Warka bank had a balance of about \$9.8 million. In November 2010, the Al-Warka bank was placed in receivership¹³ by the Central Bank of Iraq.

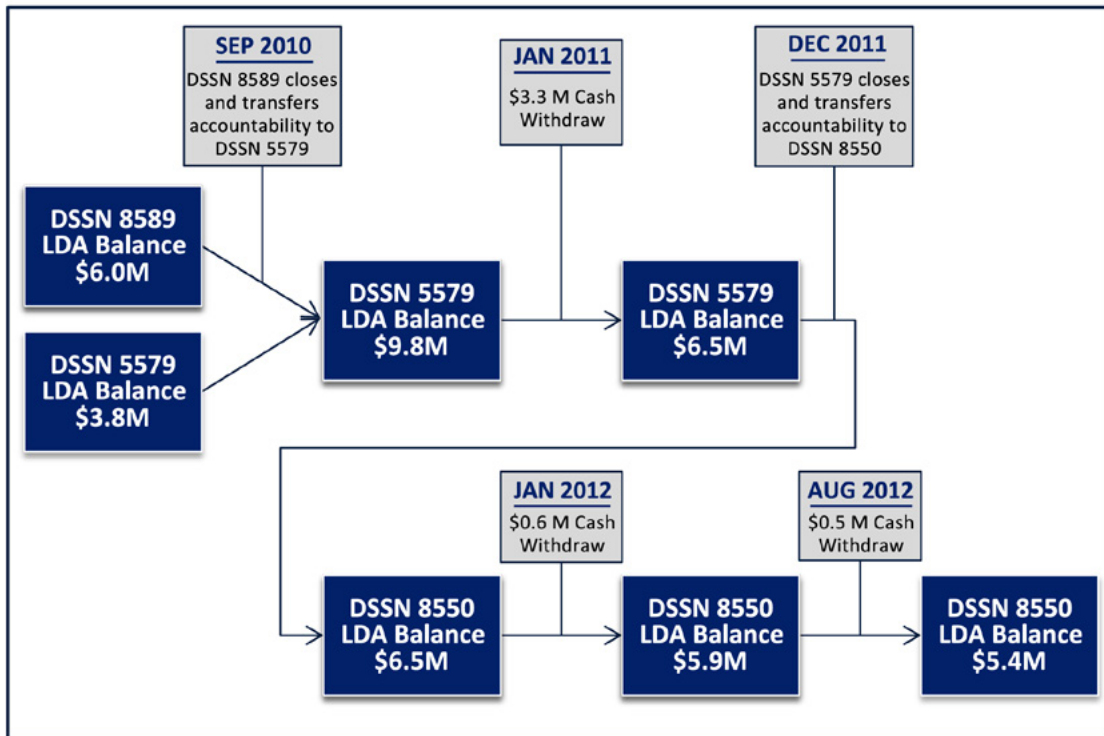
¹² "Liquidity" is the extent to which a bank has cash to meet its immediate and short term cash requirements and the ability to convert assets to cash.

¹³ Receivership is the state of a business that has been placed under the control of a receiver because the business is bankrupt.

By January 2011, the DO for DSSN 5579 was able to make two cash withdrawals, totaling \$3.3 million, from its LDA at the Al-Warka bank LDA. The LDA balance was then about \$6.5 million. However, despite extensive efforts and repeated requests to withdraw cash for the remainder of 2011, the DO for DSSN 5579 was unable to withdraw any additional cash from the LDA.

In December 2011, because of the continued drawdown of forces in Iraq, the DO for DSSN 5579 closed and transferred its Al-Warka bank LDA of about \$6.5 million to the DO for DSSN 8550. This marked the closing of the last disbursing station in Iraq. See Diagram 1 for a summary of disbursing stations that closed and transferred LDA balances and cash withdrawals.

Diagram 1. Significant LDA Events from September 2010 to Present



The DO for DSSN 8550, under the command of the 18th FMC, maintained contact with Al-Warka bank officials and was able to make one additional cash withdrawal of almost \$600,000, thereby reducing the Al-Warka bank LDA balance to \$5.9 million. In August 2012, the Al-Warka bank made an additional payment of about \$500,000, thereby further reducing the balance to about \$5.4 million. No other cash has been recovered since August 2012.

DO for the Disbursing Station in Kuwait Did Not Report a Loss of Funds

The DO for Army disbursing station (DSSN 8550) at Camp Arifjan, Kuwait, did not report a loss of funds of about \$6.5 million on her DD Form 2657, "Daily Statement of Accountability," and SF 1219, "Statement of Accountability." Since the Al-Warka bank was placed in receivership in November 2010, the Army has been unable to readily withdraw cash. The DO for DSSN 5579 should have reported a loss of funds when the Al-Warka bank was placed in receivership. Since DSSN 5579 closed in December 2011 as part of the drawdown, we are not making a recommendation related to DSSN 5579. However, the DO for DSSN 8550 should have reported a loss of funds when the DO for DSSN 5579 closed and transferred the LDA balance of about \$6.5 million to her in December 2011.



Since the Al-Warka bank was placed in receivership in November 2010, the Army has been unable to readily withdraw cash.

The Director for the 18th FMC and the DO knew that the Al-Warka bank had failed and that the LDA funds were not available for use. DoD FMR, volume 5, chapter 6, "Physical Losses of Funds, Erroneous Payments, and Overages," July 2009, lists a bank failure as an example of a loss of funds. Specifically, Chapter 6 states that if a DO has funds such as an LDA in a bank, and the bank closes because of failure, the result is a loss of funds. Chapter 6 also states that, "All physical losses of funds must be investigated" and that "all physical losses (whether major or minor) are recorded on the DD Form 2657 by increasing line 7.3 (or 9.3, if predecessor DO), 'Loss of Funds,' and decreasing the appropriate line." The DO for disbursing station (DSSN 8550) should report a loss of funds for the amount remaining in the LDA on line 7.3, "Loss of Funds," or line 9.3, "Predecessor Disbursing Officer Loss of Funds," on DD Form 2657, "Daily Statement of Accountability." The DO should also conduct an investigation, as required by Chapter 6, on the loss of funds, prepare and submit a report to DFAS, and contact the Department of Treasury and Department of State officials to inform them of this loss of funds, provide them the investigative report, and request assistance in recovering this loss of funds. The Commander of the 1st TSC should verify that these actions were taken.

The DO stated that she did not follow the DoD FMR and report a loss of funds because she believed she would recover these funds in the future. The DO relied on statements made by Al-Warka banking officials that the Al-Warka bank would repay the Army because \$1.1 million had been collected. The DO stated that

Al-Warka banking officials informed Army officials that repaying U.S. accounts was Al-Warka's top priority. However, had the DO followed DoD FMR requirements, an investigation would have occurred, and DFAS Debt Management Policy division would have been notified.

Before the 13th FMC assumed responsibility for Army disbursing station (DSSN 8550) at Camp Arifjan, Kuwait, in September 2012, officials expressed concerns over the liquidity of the \$5.4 million in the Al-Warka bank. Specifically, on August 29, 2012, the DO and 13th FMC representatives met with representatives from the 18th FMC, 336th FMC, USAFMCOM, DFAS Indianapolis, and the Office of the Under Secretary of Defense (Comptroller) to discuss whether the \$5.4 million should be reported as a loss of funds. The participants agreed that the Al-Warka bank was not a failed bank as described by the DoD FMR. The participants stated that even though the Al-Warka bank was in conservatorship, it was still a financial institution that was repaying its debts. We disagree with this assessment because the Al-Warka bank is not repaying its debts. Army disbursing officials have not been able to withdrawal all of its funds from this LDA and \$5.4 million remains in this account. Disbursing officials have only been able to withdraw about \$1.1 million from March 2011 through August 2012. As of October 2013, there has not been any more cash withdraws. Chapter 6 states that if a bank closes because of failure, the funds in an LDA become a loss of funds and all loss of funds must be investigated and reported on DD Form 2657.

As a result of not reporting a loss of funds, the risk of losing the remaining balance of \$5.4 million increased. Conducting an investigation and reporting a loss of funds to the appropriate officials within DFAS Indianapolis Disbursing/Debt Management Policy Division would have elevated this situation to the appropriate officials for their review and action. In addition, the account balance reported on the Army General Fund financial statements for COMA was overstated by about \$5.4 million. This amount represents about 0.36 percent of the Army COMA balance of \$1.5 billion as of September 30, 2012. The Army COMA balance will be overstated until the DO for DSSN 8550 reports a loss of funds on her DD Form 2657 and SF 1219. The Commander of the 1st TSC should review the actions of the Director for the 18th FMC and the DO for the Army disbursing station in Kuwait (DSSN 8550) for not reporting a loss of funds on DD Form 2657, "Daily Statement of Accountability," and the SF 1219, "Statement of Accountability." On the basis of this review, the Commander should take appropriate management actions, including holding the necessary officials accountable.

Recommendations, Management Comments, and Our Response

Recommendation B.1

We recommend that the Commander of the 1st Theater Sustainment Command:

- a. Review the actions of the Director for the 18th Financial Management Center and the Disbursing Officer for Disbursing Station Symbol Number 8550 for not reporting a loss of funds on DD Form 2657, “Daily Statement of Accountability,” and the SF 1219, “Statement of Accountability.” On the basis of that review, take appropriate management action, including holding the necessary officials accountable.

1st Theater Sustainment Command Comments

The Deputy Assistant Secretary of the Army (Financial Operations), responding for the Commander of the 1st Theater Sustainment Command (TSC), stated that the 18th Financial Management Center redeployed and the individuals in the leadership and disbursing positions have been reassigned to other units.

Our Response

Even though the Commander of the 1st Theater Sustainment Command did not review the actions of the disbursing officer, we agree with the Deputy Assistant Secretary of the Army (Financial Operations) position that a review should not be performed. The 18th Financial Management Center has been redeployed and the disbursing officer has been reassigned to another unit. No additional comments are required.

- b. Verify that the Disbursing Officer for Disbursing Station Symbol Number 8550 implemented all the recommendations in Recommendation B.2 of this report.

Management Comments Required

Neither the Deputy Assistant Secretary of the Army (Financial Operations) nor the Commander of the 1st TSC commented on recommendation B.1.b. We request either the Deputy Assistant Secretary or the Commander provide comments on the final report.

Recommendation B.2

We recommend that the Disbursing Officer for Disbursing Station Symbol Number 8550:

- a. report a loss of funds for the amount remaining in the Limited Depository Account (\$5,375,034.62 as of February 26, 2013) on line 7.3, "Loss of Funds," or line 9.3, "Predecessor Disbursing Officer Loss of Funds," on DD Form 2657, "Daily Statement of Accountability."**
- b. conduct an investigation on the loss of funds.**
- c. prepare and submit a report to the Defense Finance and Accounting Service.**
- d. contact Department of Treasury and Department of State officials to:**
 - 1. inform these officials of this loss of funds.**
 - 2. provide them the investigative report.**
 - 3. request assistance in recovering this loss of funds.**

Disbursing Station Symbol Number 8550 Comments

Both the Deputy Assistant Secretary of the Army (Financial Operations) and the Director, 336th Theater Financial Management Support Center (TFMSC), responded for the DO for DSSN 8550, and made the same comments. Both partially agreed with our recommendations, stating that filing a loss of funds report is the correct procedure when the funds are deemed lost. However, both the Deputy Assistant Secretary and Director stated that in this case, the funds are not lost, because they are still accounted for, and the bank has not closed. In addition, the Iraqi High Tribunal Court–Rasafa Appeals Court in November 2013 directed the Central Bank of Iraq to lift and cancel the custodianship of the Al-Warka bank. This was after the Central Bank of Iraq announced that its board had decided to "lift custody [guardianship]" over the Al-Warka bank after a final decision by the Financial Service Court. The Deputy Assistant Secretary and Director also stated that the 336th TFMSC has reopened dialogue with the U.S. Embassy in Bagdad to obtain support in recovering the funds from the Al-Warka bank.

The Deputy Assistant Secretary and Director stated that an investigation under Army Regulation 15-6¹⁴ has been done and that the account has always been accounted for on the Statement of Accountability but will transfer from current to predecessor accountability. They stated that U.S. Army Financial Management Command (USAFMCOM) will revalidate with DFAS that the account with the Al-Warka bank should not be declared a loss of funds because it is not a failed bank. The revalidation should be completed in February 2014. The Director, USAFMCOM, stated in March 2014, that his office revalidated with DFAS that the account should not be declared a loss of funds. The Director also stated that the Army has not received any funds from the Al-Warka bank since August 2012.

Our Response

The Deputy Assistant Secretary and Director responses did not address our recommendations. The disbursing officer (DO) needs to report a possible loss of funds on DD Form 2657, "Daily Statement of Accountability," because the DO no longer has access to the cash in the Limited Depository Account (LDA). The Army has not been able to withdraw all its cash from this LDA since at least November 2010 and has only received one cash payment in August 2012. In addition, there is no indication the Army will get any funds from the Al-Warka bank any time soon. Reporting these funds as a loss of funds on DD Form 2657 would properly show that these funds are not available for use. The DO should then notify the Commanding Officer of the possible loss of funds so an independent investigation can be conducted in accordance with the DoD Financial Management Regulations, volume 5, chapter 6, "Physical Losses of Funds, Erroneous Payments, and Overages," July 2009. The DO is still accountable for these funds until the investigation is completed and a final determination is made on the proper accounting treatment of these funds. Reopening dialogue with the U.S. Embassy in Bagdad to obtain support in recovering the funds from the Al-Warka bank is appropriate, but the Army should also formally ask the Department of the Treasury and Department of State officials for assistance in accessing its funds in the LDA at the Al-Warka bank.

We request that the DO for DSSN 8550 provide comments on recommendations B.2.a., B.2.b., B.2.c., B.2.d.(1), B.2.d.(2), and B.2.d.(3) of the final report.

¹⁴ The Director, however, later confirmed that the Army Regulation 15-6 investigation did not pertain to the status of funds at the Al-Warka bank.

Appendix

Scope and Methodology

We conducted this performance audit from January 2012 through December 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. While some of the data in the report is from 2011, the audit team determined that other than the corrective actions discussed in the report, control deficiencies still existed as of October 2013 for the Kuwait (8550) disbursing station and August 2013 for the Saudi Arabia (5588) disbursing station.

We reviewed applicable guidance from the following:

- 31 United States Code, “Money and Finance,”
- Code of Federal Regulations,
- DoD Financial Management Regulation, and
- Local standard operating procedures.

We initially selected three Army disbursing stations to audit. Specifically, we selected the three disbursing stations that did not have oversight by an Army Financial Management Center. The Army disbursing stations are located in Sinai, Egypt; Soto Cano Air Base, Honduras; and Riyadh, Saudi Arabia. However, because of security concerns in Egypt, we selected two disbursing stations at Camp Arifjan, Kuwait, to replace the Sinai, Egypt, disbursing station. A separate report was issued for the Honduras disbursing station. Therefore, this report covers the disbursing stations in Kuwait and Saudi Arabia.

We visited DFAS, Indianapolis; USAFMCOM; the Saudi Arabia disbursing station (5588); and two disbursing stations in Kuwait (8550 and 8748). We reviewed the internal controls over Army COMA at the Saudi Arabia disbursing station in January 2012 and the Kuwait disbursing stations in February 2012.

We observed conditions; interviewed disbursing station staff; verified existence of forms, reports, and other documents; and reviewed and analyzed documents to determine whether they were prepared properly, followed applicable criteria, and supported. Specifically, we reconciled the existence of cash as reported on the DD Forms 2665 during October, November, and December 2011. We also confirmed collection and payment documents to validate controls over cash collections and disbursements. In addition, we verified the daily and monthly statements of accountability for completeness, accuracy, and existence of collection and disbursement documentation. Additionally, we reviewed each disbursing station's reconciliation of its LDAs and requested, reviewed, and analyzed the following disbursing station records for existence, accuracy, completeness, and timeliness for the months of October, November, and December 2011.

- Alarm/Intrusion Detection Record (AF 2530)
- Appointment/Termination Record (DD Form 577)
- Bank Statements
- Cash Collection Voucher (SF 1131)
- Check Registers
- Currency Exchange Record (DD Form 2664)
- Daily Agent Accountability Summary (DD Form 2665)
- Daily Statement of Accountability (DD Form 2657)
- Deposit Ticket (SF 215)
- Foreign Currency Control Record (DD Form 2663)
- Key Control Register and Inventory (DA 5513)
- Safe Combination Change Ledger
- Security Container Check Sheet (SF 702)
- Specimen Signatures (TFS Form 3023)
- Staff Assistance Visit Records
- Statement of Accountability (SF 1219)
- Statement of Agent Officer's Accountability (DD Form 1081)

- Statement of Designated Depository Account (SF 1149)
- Training Certifications
- Vault Ledgers
- Voucher Control Log (DD Form 2659)

We reviewed the security programs for each disbursing station and documentation for the closing of disbursing stations in Iraq.

We interviewed the DOs from DSSNs 8748, 8550, and 5588, and the DDO from DSSN 8748 regarding the adequacy of the training they received from USAFMCOM prior to working in an Army disbursing office. We also reviewed USAFMCOM training slides to determine whether they discussed the conditions we identified in the report.

Use of Computer-Processed Data

We used computer-processed data for our audit. Specifically, we obtained SF 1219s, “Statements of Accountability,” and DD 2665s, “Daily Agent Accountability Summary,” from the Deployable Disbursing System. We assessed the data reliability by comparing SF 1219 and DD Form 2665 line item amounts to cash held by the DDO and to supporting documentation. We concluded that the data was sufficiently reliable to support the findings and conclusions in this report.

Prior Coverage

During the last 5 years, the Department of Defense Inspector General (DoD IG), the U.S. Army Audit Agency (AAA), and the Special Inspector General for Iraq Reconstruction (SIGIR) have issued nine reports discussing Cash and Other Monetary Assets. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/pubs/index.cfm>. Unrestricted Army reports can be accessed from .mil and gao.gov domains over the Internet at <https://www.aaa.army.mil/>. Unrestricted SIGIR reports can be accessed at <http://www.sigir.mil/directorates/audits/auditReports.html>.

DoD IG

DoD IG Report No. DODIG-2013-051, “Improvements to Controls Over Cash Are Needed at the Army Disbursing Office at Soto Cano Air Base, Honduras,” March 4, 2013

DoD IG Report No. D-2010-034, “Internal Controls Over the Army, General Fund Cash and Other Monetary Assets Held in Southwest Asia,” January 8, 2010

DoD IG Report No. D-2009-062, "Internal Controls Over DoD Cash and Other Monetary Assets," March 25, 2009

DoD IG Report No. D-2009-003, "Internal Controls Over Army General Fund, Cash and Other Monetary Assets Held Outside the Continental United States," October 9, 2008

DoD IG Report No. D-2008-123, "Internal Controls Over Navy General Fund, Cash and Other Monetary Assets Held Outside the Continental United States," August 26, 2008

DoD IG Report No. D-2008-121, "Internal Controls for Air Force General Fund Cash and Other Monetary Assets," August 18, 2008

Army

AAA Report No. A-2011-059-FFM, "Army CONUS Cash and Other Monetary Assets, Deputy Assistant Secretary of the Army," February 9, 2011

SIGIR

SIGIR Report No. 10-020, "Development Fund for Iraq: Department of Defense Needs to Improve Financial and Management Controls," July 27, 2010

SIGIR Report No. 08-12, "Attestation to Development Fund for Iraq Cash in the Possession of the Joint Area Support Group-Central," March 13, 2008

Management Comments

Deputy Assistant Secretary of the Army (Financial Operations)



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
FINANCIAL MANAGEMENT AND COMPTROLLER
109 ARMY PENTAGON
WASHINGTON DC 20310-0109

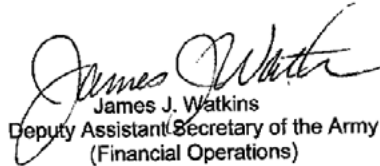
REPLY TO
ATTENTION OF

JAN 14 2014

MEMORANDUM FOR PROGRAM DIRECTOR, FINANCIAL MANAGEMENT AND REPORTING, 4800 MARK CENTER DRIVE, ALEXANDRIA, VA 22350-1500

SUBJECT: Improvements to Controls Over Cash Are Needed at Army Disbursing Offices In Kuwait and Saudi Arabia (Project No. D2011-D000FP-0260.001)

1. Reference your memorandum dated December 11, 2013, subject as above.
2. We appreciate the work by your auditors. Specific responses to the auditors' recommendations are attached.
3. The Army point of contact is [REDACTED]


James J. Watkins
Deputy Assistant Secretary of the Army
(Financial Operations)

Attachment

Deputy Assistant Secretary of the Army (Financial Operations) (cont'd)

DoDIG Project No. D2011-D000FP-0260.001

Improvements to Controls Over Cash Are Needed at the Army Disbursing Stations in Kuwait and Saudi Arabia

Department of the Army Response to Recommendations

Recommendation A.1: We recommend the Deputy Assistant Secretary of the Army (Financial Operations) issue guidance to require the Director, U.S. Army Financial Management Command, to conduct staff assistance visits to Army disbursing stations in Kuwait when a new Disbursing officer or Deputy Disbursing officer is appointed to these disbursing stations or at a minimum, annually.

Army Response A.1: Concur. The Deputy Assistant Secretary of the Army (Financial Operations) will issue Army-wide guidance on responsibilities for performing technical oversight and periodic reviews of all active Army finance operations, to include disbursing. The primary responsibility for this function rests with the internal control elements of the Financial Management Support Centers (FMSC) under the Theater Sustainment Command assigned to the applicable theater of operations. When there is no active FMSC within the appropriate command structure, such as in Saudi Arabia or Honduras, the US Army Financial Management Command (USAFMCOM) will continue to have primary responsibility for this function. Additionally, USAFMCOM publishes and regularly updates a standard review checklist for disbursing operations. ECD: February 2014.

Recommendation A.2: We recommend the Director, U.S. Army Financial Management Command:

- a. Revise the training curriculum for Disbursing officers and Deputy Disbursing Officers to include:
 1. Segregating public funds from confiscated funds and returning funds to the Department of treasury when appropriate;
 2. Accurately preparing of DD Form 165, "Shipment of Funds";
 3. Timely preparing of DD Form 1081, "Statement of Agent officer's Accountability";
 4. Properly accounting for "cash in transit" on DD Form 2657, "Daily Statement of Accountability";
 5. Retaining accountability documents for 6 years and 3 months;
 6. Shielding vault and safe combination dials;

Deputy Assistant Secretary of the Army (Financial Operations) (cont'd)

7. Obtaining a properly marked final SF 1219, "Statement of Accountability";
 8. Properly relieving the predecessor disbursing officer by inventorying the U.S. Treasury check stock and verifying and transferring clearing accounts;
 9. Properly appointing deputy disbursing officers;
 10. Timely reconciling Limited Depository Accounts;
 11. Properly reporting cash with agents on the DD Form 2657, "Daily Statement of Accountability";
 12. Properly preparing DD Form 2665, "Daily Agent Accountability Summaries"; and
 13. Changing vault combinations every 6 months.
- b. Certify all incoming Disbursing Officers and Deputy Disbursing Officers attend formal training before being allowed to collect and disburse funds at Army disbursing stations.

Army Response A.2:

a. Concur. The above requirements are contained in the DoDFMR Volume 5 and the preponderance is already addressed in the primary training of finance officers through the U.S. Army Financial Management School career courses. This training is reinforced by internal training within the unit which is a command responsibility. USAFMCOM does provide additional training to units which is focused on hand-on training using the latest version of automated finance systems which are developed and maintained by the Defense Finance and Accounting Service or US Treasury, and thus not within the scope of the normal Army systems and new equipment training processes. USAFMCOM also provides training to individual finance officers assigned to Saudi Arabia and Honduras prior to assuming the disbursing officer or deputy disbursing officer positions. Training incorporates the majority of the requirements above. We will re-verify all of the items mentioned above are specifically addressed in the curriculum of training given by the U.S. Army Financial Management School and by USAFMCOM. ECD: February 2014

Deputy Assistant Secretary of the Army (Financial Operations) (cont'd)

b. Partially concur. The Deputy Assistant Secretary of the Army (Financial Operations) will publish guidance establishing minimum training or experience levels required prior to assignment of individuals to the positions of disbursing or deputy disbursing officers. ECD: March 2014

Recommendation B.2: We recommend the Disbursing Officer for Disbursing Station Symbol Number 8550:

a. Report a loss of funds for the amount remaining in the Limited Depository Account (\$5,375,034.62 as of February 26, 2013) on line 7.3, "Loss of Funds," or line 9.3, "Predecessor Disbursing Officer Loss of Funds," on DD Form 2657, "Daily Statement of Accountability."

- b. Conduct an investigation on the loss of funds.
- c. Prepare and submit a report to the Defense Finance and Accounting Service.
- d. Contact Department of Treasury and Department of State officials to:
 - 1. Inform these officials of this loss of funds
 - 2. Provide them the investigative report.
 - 3. Request assistance in recovering this loss of funds.

Army Response B.2: Partially concur. The loss of funds report is correct procedure once the funds are deemed lost. However, in this case, the funds are still accounted for and the bank has not been closed. USAFMCOM will revalidate with DFAS the account with Al Warka bank is not declared as a loss of funds since it is not a failed bank. On 28 November, 2013, the Iraqi High Tribunal Court – Rasafa Appeals Court directed the Central Bank of Iraq to lift and cancel the custodianship of the Al Warka Bank. This was after the Central Bank of Iraq had announced its board has decided to "lift custody [guardianship]" over Warka Bank on August 25, 2013, following a final decision made by the Financial Services Court on 26th May, 2013. The 336th FMSC, which replaced the 18th FMSC, has recently reopened dialogue with the US Embassy in Bagdad to gain their support in obtaining the release of funds from the Al Warka bank. The account has always been accounted for on the Statement of Accountability, transferring it from current to predecessor accountability. An investigation under Army regulation 15-6 was previously done. The 18th FMSC was following guidance provided by USAFMCOM and DFAS Disbursing Policy. ECD: February 2014

Deputy Assistant Secretary of the Army (Financial Operations) (cont'd)



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
FINANCIAL MANAGEMENT AND COMPTROLLER
109 ARMY PENTAGON
WASHINGTON DC 20310-0109

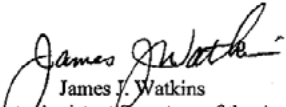
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JAN 27 2014

MEMORANDUM FOR PROGRAM DIRECTOR, FINANCIAL MANAGEMENT AND REPORTING, 4800 MARK CENTER DRIVE, ALEXANDRIA, VA 22350-1500

SUBJECT: Improvements to Controls Over Cash Are Needed at Army Disbursing Offices In Kuwait and Saudi Arabia (Project No. D2011-D000FP-0260.001)

1. Reference your memorandum, dated December 11, 2013, subject as above.
2. In response to recommendations A.3 and B.1a, the 18th FMC previously redeployed and the individuals in leadership and disbursing positions have subsequently been reassigned to other units. As such, these recommendations should be closed.
3. The Army point of contact is [REDACTED]


James I. Watkins
Deputy Assistant Secretary of the Army
(Financial Operations)

U.S. Military Training Mission to Saudi Arabia

REPLY TO
ATTENTION OF:

HEADQUARTERS
UNITED STATES MILITARY TRAINING MISSION
TO SAUDI ARABIA
APO AE 09803

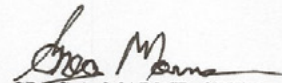
USMTM-J8

15 January 2014

MEMORANDUM FOR PROGRAM DIRECTOR, FINANCIAL MANAGEMENT AND
REPORTING, 4800 MARK CENTER DRIVE, ALEXANDRIA, VA 22350-1500

SUBJECT: Improvements to Controls Over Cash Are Needed at Army Disbursing Offices In
Kuwait and Saudi Arabia (Project No. D2011-D000FP-0260.001)

1. Reference your memorandum dated December 11, 2013, subject as above.
2. We appreciate the work by your auditors confirming there were no actual discrepancies in the cash accountability for DSSN 5588 in Saudi Arabia. We are also glad to see that though you have found discrepancies during the 2010 through 2012 time period, you have recognized that most of these discrepancies have been corrected as of August 2013. My specific responses to the auditors' recommendations are attached.
3. The point of contact for DSSN 5588 Finance Office is [REDACTED]


GREG A. MARME, CDFM
Chief Financial Officer and J8

Attachment

U.S. Military Training Mission to Saudi Arabia (cont'd)

DoDIG Project No. D2011-D000FP-0260.001

Improvements to Controls Over Cash Are Needed at the Army Disbursing Stations in Kuwait and Saudi Arabia

DSSN 5588, United States Military Training Mission Response to Recommendations

Recommendation A.4: We recommend that the Comptroller, U.S. Military Training Mission to Saudi Arabia, review the actions of the disbursing officer for Disbursing Station Symbol Number 5588, regarding the deficiencies identified in this report. On the basis of that review, the Comptroller should take appropriate management action, including holding the necessary officials accountable.

Comptroller Response A.4: Concur. Following the USAFMCOM Annual Review conducted in August 2013, I reviewed practices and procedures of our Finance Office with the new Disbursing Officer. Procedures reviewed included: transfer of accountability from predecessor DO, appointment of DDO, reconciliation of SF 1149 and the LDA, proper preparation of the DD Form 2657, as well as agent accountability.

While this area did not comply with regulations under a previous Disbursing Officer, my review, as well as the August 2013 USAFMCOM review showed that changes have been already implemented in the USMTM Finance Office that addressed this area in D2011-D000FP-0260.001. The recent transfers from [REDACTED] to [REDACTED] and then on to [REDACTED] went smoothly and complied with all requirements. The current Disbursing Officer is now responsible for insuring adequate controls are in place to safeguard, account for, document, and report cash in order to minimize the Army's risk of loss due to errors, theft, and fraud.

Additionally, severe manning shortages prior to July 2013 caused us not to have a dedicated Quality Assurance (QA) / Internal Control manager. Currently, we are in the process of filling this QA positions with a newly-authorized permanent civilian. In the interim, I have appointed a soldier as the QA who will review each division monthly for compliance with the DoDFMR.

Recommendation A.6a: We recommend that the Disbursing Officer for Disbursing Station Symbol Number 5588 verify the clearing account balances on future letters of transfer.

Disbursing Officer Response A.6a: Concur. DSSN 5588 has not had a balance in clearing accounts **F3880 or **F3885 under the current Disbursing Officer. The balances in clearing account **F3875 are cleared on a quarterly basis and the Disbursing Officer verifies the balance in this account on the monthly Suspense Account Report (SAR). Going forward, the Disbursing Officer will insure account balances for these clearing accounts are verified by the incoming Disbursing Officer and documented on the transfer of accountability memorandum. The next transfer of accountability is August 2014.

Recommendation A.6b: We recommend that the Disbursing Officer for Disbursing Station Symbol Number 5588 change the combination to the vault immediately.

U.S. Military Training Mission to Saudi Arabia (cont'd)

Disbursing Officer Response A.6b: Concur. As stated in the report, many years ago, a previous Disbursing Officer lost the combination to the vault and instructions for changing the vault combination. Current personnel could not obtain the directions as the vault manufacturer is out of business. We awarded a contract for replacement of the entire existing vault door with estimated completion of 28 February 2014. Upon replacement of the vault door, the combination will be immediately changed from manufacturer settings. The combination will be recorded on an SF 700, placed in a sealed envelope with contents unknown to command group custodian, and stored in the command group safe to prevent loss of combination in the future. The combination will then be changed every 6 months or upon change of personnel.

336th Theater Financial Management Support Center



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
1ST SUSTAINMENT COMMAND (THEATER)
THEATER FINANCIAL MANAGEMENT SUPPORT CENTER
CAMP ARIFJAN, KUWAIT
APO AE 09366

ACEN-TSC-FMSC

16 January 2014

MEMORANDUM FOR PROGRAM DIRECTOR, FINANCIAL MANAGEMENT AND
REPORTING, 4800 MARK CENTER DRIVE, ALEXANDRIA, VA 22350-1500

SUBJECT: Improvements to Controls Over Cash Are Needed at Army Disbursing Stations in
Kuwait and Saudi Arabia(Project No. D2011-D000FP-0260.001)

1. References your memorandum dated December 11, 2013, subject as above.
2. We appreciate the work by your auditors. Specific responses to the auditors' recommendations are attached.
3. The 336th Theater Financial Management Support Center (TFMSC) point of contact is [REDACTED]

Attachment

CRAFT,ROBERT.CHARLES [REDACTED]

[REDACTED]
ROBERT C. CRAFT
COL, FI
Director

336th Theater Financial Management Support Center (cont'd)

DoDIG Project No. D2011-D000FP-0260.001

Improvements to Controls Over Cash Are Needed at Army Disbursing Stations in Kuwait and Saudi Arabia

336th Theater Financial Management Support Center (TFMSC) Response to Recommendations

Recommendation A.5: We recommend that the Disbursing Officer for Disbursing Station Symbol Number 8550:

- a. Deposit the confiscated funds of \$3,500 in a US. Treasury account.
- b. Verify with a witness cash counts prior to shipment of funds.
- c. Complete DD Form 1081, "Statement of Agent officer's Accountability," to transfer accountability before the departure of a courier.
- d. Record cash in transit on DD Form 2657, "Daily Statement of Accountability," using the Deployable Disbursing System.
- e. Maintain Quarterly Cash Verification reports in the Deployable Disbursing System.
- f. Mark the predecessor final SF 1219 "FINAL".

Army Response A.5:

- a. Partially Concur. The 336th TFMSC is working with the political/military liaison office of the U.S. Embassy in Kuwait to coordinate the return of funds to the Iraqi Embassy located in Kuwait. The procedure in the DoDFMR of turning funds over to the State Department is being eliminated. Because these funds were not seized from the prior Iraqi regime, they cannot be deposited into the seized asset account established for this purpose nor do they belong in the account established for monies found on post. In the interim, funds will continue to be maintained separate from operating cash in the disbursing office accountability records. ECD: July 2014
- b. Concur. The DD Form 165, "Shipment of Funds", is now completed and verified for courier transfer of excess US Dollars to the community bank in Germany. This recommendation may be closed. ECD: Completed
- c. Partially concur. DD Form 1081, "Statement of Agent officer's Accountability", is always prepared prior to funding of agents. It is not used when courier processes and documentation, as outlined in the DoDFMR Volume V, are used. The 336th TFMSC Cash

336th Theater Financial Management Support Center (cont'd)

Management Section account for the funds by doing an OTC.net deposit ticket, DD Form 165 (Shipment of Funds) and DD Form 1907 (Signature and Tally Record) IAW DoDFMR Volume V, paragraph 050501, Shipment of Public Funds. This recommendation may be closed. ECD: Completed

d. Concur. Funds being transferred to the Community Bank via courier are now recorded under line 4.2.A, Deposits Presented or Mailed to Bank, IAW the DoDFMR Volume 5 Chapter 5. This recommendation may be closed. ECD: Completed

e. Partially concur. The record of quarterly cash verifications are kept in the Disbursing Office Record Accounting Book. In addition, the 336th FMSC Internal Control Section keeps all cash verifications on a shared drive. While there is no requirement to retain these records for the period of the statute of limitations, since they do not impact accountability; they will be transferred to the incoming disbursing officer from the 266th TFMS to assist in future audits. Because DDS captures and reports transactions impacting accountability in accordance with US Treasury standards, it does not store images of reports not directly associated with those functions. This recommendation may be closed. ECD: Completed

f. Concur. When the 336th TFMS DO took over the account from the 13th TFMS, the locally printed copy of the 13th TFMS Disbursing Officer's SF 1219 was annotated "final". The 336th TFMS Cash Management Section will ensure they follow the same process for the upcoming transfer to the 266th TFMS. This recommendation may be closed. ECD: Completed

Recommendation B.2: We recommend the Disbursing Officer for Disbursing Station Symbol Number 8550:

a. Report a loss of funds for the amount remaining in the Limited Depository Account (\$5,375,034.62 as of February 26, 2013) on line 7.3, "Loss of Funds," or line 9.3, "Predecessor Disbursing Officer Loss of Funds," on DD Form 2657, "Daily Statement of Accountability."

b. Conduct an investigation on the loss of funds.

c. Prepare and submit a report to the Defense Finance and Accounting Service.

d. Contact Department of Treasury and Department of State officials to:

1. Inform these officials of this loss of funds
2. Provide them the investigative report.
3. Request assistance in recovering this loss of funds.

Army Response B.2: Partially concur. The loss of funds report is correct procedure once the funds are deemed lost. However, in this case, the funds are still accounted for and the bank has not been closed. USAFMCOM will formally revalidate with DFAS that the account with AI

336th Theater Financial Management Support Center (cont'd)

Warka bank should not be declared as a loss of funds since it is not a failed bank. On 28 November, 2013, the Iraqi High Tribunal Court – Rasafa Appeals Court directed the Central Bank of Iraq to lift and cancel the custodianship of the Al Warka Bank. This was after the Central Bank of Iraq had announced its board has decided to “lift custody [guardianship]” over Warka Bank on August 25, 2013, following a final decision made by the Financial Services Court on 26th May, 2013. The 336th TFMSC, which replaced the 13th TFMSC and its predecessor, the 18th TFMSC, has recently reopened dialogue with the US Embassy in Baghdad to gain their support in obtaining the release of funds from the Al Warka bank. The account has always been accounted for on the Statement of Accountability. An investigation under Army regulation 15-6 was previously done; the 18th TFMSC, and its successors, were following guidance provided by USAFMCOM and DFAS Disbursing Policy. ECD: February 2014 (for revalidation the account should not be declared as a loss of funds)

Acronyms and Abbreviations

COMA	Cash and Other Monetary Assets
DDO	Deputy Disbursing Officer
DDS	Deployable Disbursing System
DFAS	Defense Finance and Accounting Service
DO	Disbursing Officer
DSSN	Disbursing Station Symbol Number
FMC	Financial Management Center
FMCO	Financial Management Company
FMR	Financial Management Regulation
LDA	Limited Depository Account
SAV	Staff Assistance Visits
TSC	Theater Sustainment Command
TFMSC	Theater Financial Management Support Center
USAFMCOM	United States Army Financial Management Command
U.S.C.	United States Code

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U.S. DEPARTMENT OF DEFENSE

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