



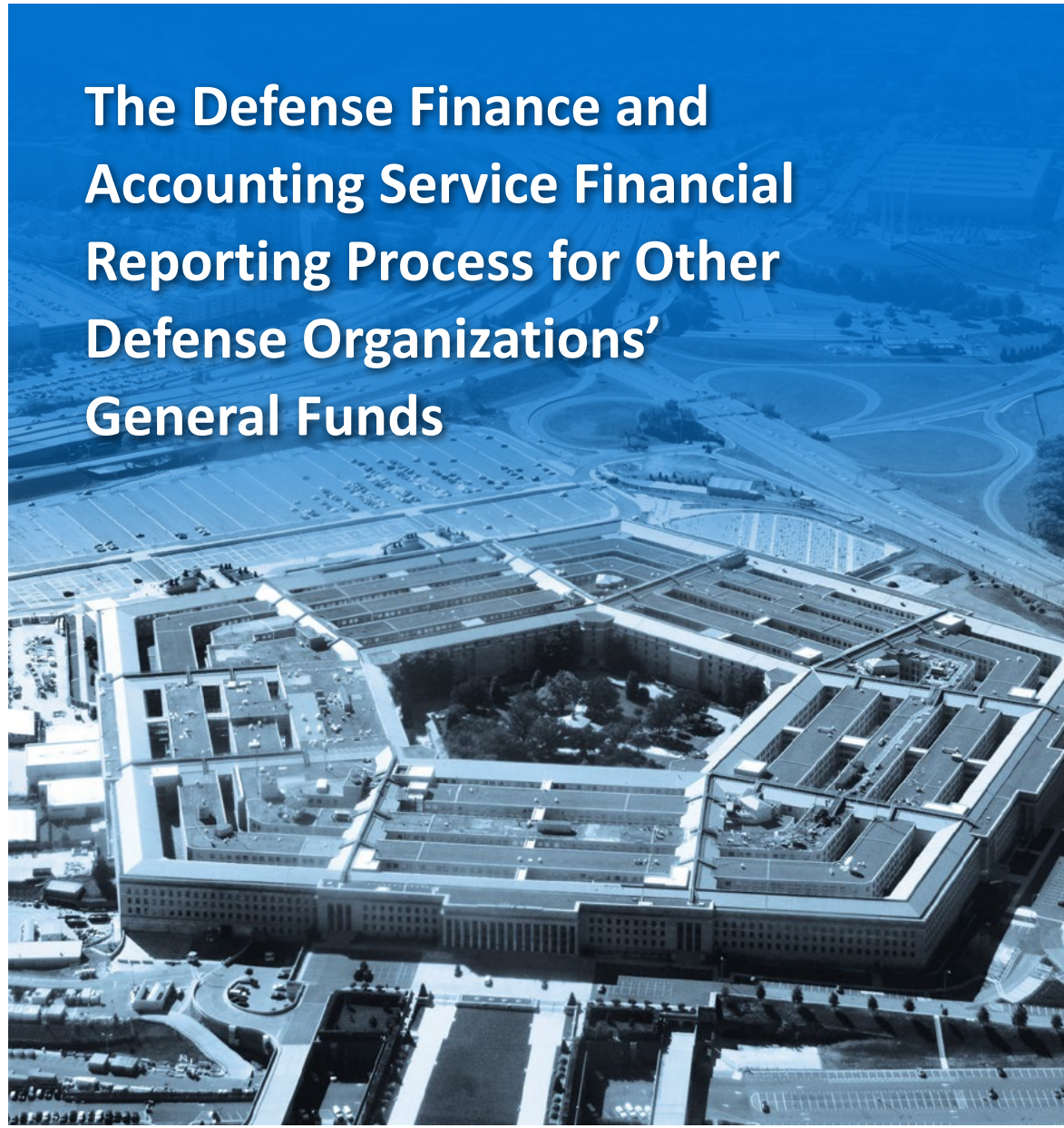
# INSPECTOR GENERAL

*U.S. Department of Defense*

DECEMBER 15, 2017



## The Defense Finance and Accounting Service Financial Reporting Process for Other Defense Organizations' General Funds



INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

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# Results in Brief

## *The Defense Finance and Accounting Service Financial Reporting Process for Other Defense Organizations' General Funds*

December 15, 2017

### Objective

We determined whether the Defense Finance and Accounting Service (DFAS) was properly accumulating and reporting Other Defense Organizations' (ODOs') General Fund financial data for the DoD Agency-Wide financial statements. In addition, we followed up on the status of DFAS's implementation of prior recommendations related to this audit objective.

### Findings

DFAS-Indianapolis is responsible for compiling the ODOs' General Funds financial statements. We determined that DFAS-Indianapolis personnel did not properly accumulate and report the ODOs' General Fund financial data for the FY 2015 DoD Agency-Wide Financial Statements. Specifically, DFAS-Indianapolis did not:

- develop a universe of the ODOs' General Fund transactions;
- maintain a reconciled list of ODOs' General Fund reporting entities and sub-entities; and
- prepare the ODOs' General Fund financial statements that reflected the current reporting entities.

This occurred because DFAS-Indianapolis personnel did not develop a process narrative (written explanation) of the control activities and a process map (detailed flowchart) of how the ODOs' General Funds are compiled.<sup>1</sup> In addition, DFAS-Indianapolis personnel did not develop

### Findings (cont'd)

adequate standard operating procedures that identified the ODOs' entities and sub-entities to accumulate and report the General Funds' financial data.

Additionally, DFAS-Indianapolis personnel continue to prepare unsupported journal vouchers (JVs) to accumulate and report the ODOs' General Fund financial statements. DFAS-Indianapolis personnel should also improve their process for justifying and reviewing JVs.

Furthermore, DFAS-Indianapolis personnel did not prepare the required quarterly metric reports that included all the JVs prepared during the ODOs' General Fund compilation process. This occurred because DFAS-Indianapolis personnel responsible for preparing the reports stated that they believed that they were responsible for including only the JVs manually prepared by DFAS-Indianapolis and not the system-generated JVs created by the financial systems.

Since DFAS-Indianapolis cannot properly accumulate and report its financial data for ODOs and the large number and dollar amount of unsupported JVs, it is increasingly probable that the ODOs' General Fund financial statements are materially misstated. Because the ODO General Fund financial statements are part of the DoD Agency-wide financial statements, there is also the increased risk that these statements are misstated.

### Recommendations

We recommend that the Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer:

- develop a universe of ODOs' General Fund transactions; and
- request that the U.S. Treasury make payments directly to the Military Retirement Fund and the Medicare Eligible Retiree Health Care Fund.

<sup>1</sup> Control activities are actions taken to minimize risk.





# Results in Brief

## *The Defense Finance and Accounting Service Financial Reporting Process for Other Defense Organizations' General Funds*

### Recommendations (cont'd)

We recommend that the Director, DFAS-Indianapolis develop a process narrative and process map of the ODOs' General Fund compilation process.

In addition, we recommend that the Director, DFAS-Indianapolis develop adequate standard operating procedures (SOPs) that:

- provide the steps necessary to compile the ODOs' General Fund financial statements;
- develop a list of the ODOs' General Fund reporting entities and sub-entities that reconcile to the established reporting hierarchy for the Defense Departmental Reporting System–Audited Financial Statements; and
- prepare combining and consolidating financial statements that accurately reflect these reporting entities.

We also recommend that the Director, DFAS-Indianapolis develop a plan to reduce the number of JVs needed to compile the ODOs' General Funds financial statements. Furthermore, we recommend that the Director, DFAS-Indianapolis revise the SOPs for preparing, approving, and reviewing JVs.

We recommend that the Director, DFAS Enterprise Solutions and Standards:

- categorize all the JVs in accordance with the DoD Financial Management Regulation (DoD FMR) and prepare quarterly JV metric reports that include all of the JVs prepared during the ODOs' compilation process;<sup>2</sup> and

- monitor the status of the open recommendation<sup>3</sup> and, when appropriate, expedite the implementation of the Department 97 Reconciliation and Reporting Tool and develop milestones for its implementation.<sup>4</sup>

We recommend that the Director, DFAS Strategy, Policy, and Requirements, revise the DoD FMR to include an accurate list of ODOs' General Fund reporting entities and sub-entities.

### Management Comments and Our Response

The Deputy Chief Financial Officer (DCFO) agreed with our finding and recommendation to develop a universe of ODO General Fund transactions (UoT). However, comments from the DCFO only partially addressed the recommendation; therefore, the recommendation is unresolved and remains open. The DCFO stated that his office is developing a UoT database to capture ODO General Fund transactions. He also stated that the database is able to reconcile to 97 percent of the transaction details to Defense Departmental Reporting System trial balances (unadjusted trial balances). However, DCFO's comments did not discuss the status of the UoT database that supports the adjustments from the unadjusted trial balance to the adjusted trial balance, and the adjusted trial balance to the financial statements. In addition, the comments did not state what DoD organization is responsible for developing this portion of the UoT database and providing supporting

<sup>2</sup> DFAS-IN JV metric reports, among other things, should show the number, amount, type of JV, and a statement on whether the JV is supported or unsupported.

<sup>3</sup> DODIG Report No. D-2012-107, "Defense Finance and Accounting Service Needs to Improve the Process for Reconciling the Other Defense Organizations' Fund Balance with Treasury," July 9, 2012.

<sup>4</sup> The Department 97 Reconciliation and Reporting Tool will warehouse transactional-level data to support the ODOs' Fund Balance With Treasury.



# Results in Brief

## *The Defense Finance and Accounting Service Financial Reporting Process for Other Defense Organizations' General Funds*

### **Comments (cont'd)**

documentation to the auditors. Therefore, we request that the DCFO provide additional comments on the status of the UoT database for these adjustments, and the DoD organization responsible for developing this portion of the database and providing the supporting documentation to the auditors. We also request that the DCFO provide an estimated completion date for this UoT database.

The DCFO disagreed with the recommendation to request that the U.S. Treasury make payments directly to the Military Retirement Fund and the Medicare Eligible Retirees Healthcare Fund. Comments from the DCFO and the additional documentation provided by the Office of Management and Budget to respond to this recommendation explained why it would not be proper to make payments directly to these funds. The Office of Management and Budget determined that accrual charges for pension and health benefits need to be recognized in the budget as costs in general fund accounts and then transferred to the trust funds and reported as income of the trust funds. Therefore, we consider this recommendation closed, and no additional documentation or information is needed from the DCFO.

The DCFO, responding for the Director, DFAS-Indianapolis, agreed with the recommendation to develop a process narrative and process map that describes the detailed processes for the ODOs' General Fund compilation process. However, comments from the DCFO did not address the recommendation; therefore, the recommendation is unresolved and remains open. We request that the DCFO provide additional comments that include a process narrative and process map that describes the entire ODOs' General Fund compilation process. We also ask that the DCFO provide an estimated completion date for providing the process narrative and process map.

The DCFO, responding for the Director, DFAS-Indianapolis, agreed with the recommendations to develop adequate SOPs that provide the steps to:

- compile the ODO General Fund financial statements;
- develop a list of reporting entities and sub-entities that can be reconciled to the established reporting hierarchy; and
- prepare ODOs' General Fund financial statements that reflect the current reporting entities.

However, comments from the DCFO did not address the recommendations; therefore, the recommendations are unresolved and remain open. We request that the DCFO provide additional comments that include SOPs that provide the steps needed to compile the ODO General Fund financial statements, develop a list of reporting entities and sub-entities that can be reconciled to the established reporting hierarchy, and prepare ODOs' General Fund financial statements that reflect the current reporting entities. We also request that the DCFO provide an estimated completion date for these recommendations.

The DCFO, responding for the Director, DFAS-Indianapolis, agreed with our recommendations to develop a plan to reduce the number of JVs needed to compile the ODOs' General Fund financial statements. However, comments from the DCFO did not address the recommendation; therefore, the recommendation is unresolved and remains open. We request that the DCFO provide additional comments that include a written plan for reducing the number of manual and system-generated JVs needed to compile the ODOs' General Fund financial statements. We also request that the DCFO provide an estimated completion date for providing this plan.



# Results in Brief

## *The Defense Finance and Accounting Service Financial Reporting Process for Other Defense Organizations' General Funds*

### **Comments (cont'd)**

The DCFO, responding for the Director, DFAS-Indianapolis, agreed with our recommendations to update SOP 3057. The DCFO's comments and the updated SOP 3057 addressed the specifics of the recommendations to require JVs made in the Defense Departmental Reporting System to have adequate supporting documentation and explain clear reasons for JV adjustments. Therefore, these recommendations are closed, and no additional information is required. However, comments from the DCFO did not address our recommendations to complete and sign checklists for JV reviews and to require signatures to be in the proper sequence. Therefore, these recommendations are unresolved and remain open. We request that the DCFO provide additional comments that include a revised SOP 3057 that requires a complete and signed JV checklist and requires the preparer, reviewer, and approver signatures to be in the proper sequence. We also request that the DCFO provide an estimated completion date for revising SOP 3057.

The DCFO, responding for the Director, DFAS Enterprise Solutions and Standards, agreed with the recommendation to categorize the system-generated JVs in accordance with the DoD FMR. Therefore, the recommendation is resolved but will remain open. We will close the recommendation when we confirm that Defense Departmental Reporting System-Budgetary assigns JV category codes to system-generated JVs. The DCFO expects the system change to occur by September 30, 2019.

The DCFO, responding for the Director, DFAS Enterprise Solutions and Standards, agreed with our recommendation to prepare quarterly metrics reports that include system-generated JVs. However, comments from the DCFO only partially addressed the recommendation; therefore, the recommendation is unresolved and remains open. We request that the

DCFO provide additional comments that include metric reports that identify the source of the system-generated JVs and the JV category, and define how the metric was calculated. We also request the DCFO provide an estimated completion date for providing these revised metric reports.

The DCFO, responding for the Director, DFAS Enterprise Solutions and Standards, agreed with our recommendation to monitor the status of the open recommendation, and to expedite the implementation of the Department 97 Reconciliation and Reporting Tool (DRRT). However, comments from the DCFO did not address the recommendation; therefore, the recommendation is unresolved and remains open. We request that the DCFO provide additional comments that states how they will expedite the implementation of the DRRT's last phase and did not provide milestones for its implementation. We also ask that the DCFO provide an estimated completion date for this recommendation.

The DCFO, responding for the Director, DFAS Strategy, Policy, and Requirements, agreed with the recommendation to revise DoD FMR, Volume 6B, Chapter 1, "Introduction and Summary," to include an accurate list of ODOs' General Fund reporting entities and sub-entities and stated that chapter will be updated with a current list of ODO reporting entities and sub-entities by January 17, 2018. Therefore, the recommendation is resolved, but will remain open. We will close the recommendation when we confirm that DoD FMR, Volume 6B, Chapter 1, "Introduction and Summary," has been revised to include the current list of ODO reporting entities and sub-entities.

Please see the Recommendations Table on the next page for the status of the recommendations.

## Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Under Secretary of Defense (Comptroller)/ Deputy Chief Financial Officer	1.a		1.b
Director, Defense Finance and Accounting Service–Indianapolis	2.a, 2.b.1, 2.b.2, 2.b.3, 2.c, 2.d.3, and 2.d.4		2.d.1, and 2.d.2
Director, Defense Finance and Accounting Service Enterprise Solutions and Standards	3.b, and 3.c	3.a	
Director, Defense Finance and Accounting Service Strategy, Policy, and Requirements		4	

Please provide Management Comments by January 16, 2018.

Note: The following categories are used to describe agency management’s comments to individual recommendations.

- **Unresolved** – Management has not agreed to implement the recommendation or has not proposed actions that will address the recommendation.
- **Resolved** – Management agreed to implement the recommendation or has proposed actions that will address the underlying finding that generated the recommendation.
- **Closed** – OIG verified that the agreed upon corrective actions were implemented.







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

December 15, 2017

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF  
FINANCIAL OFFICER, DOD  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: The Defense Finance and Accounting Service Financial Reporting Process for Other  
Defense Organizations' General Funds (Report No. DODIG-2018-041)

We are providing this report for review and comment. The Defense Finance and Accounting Service–Indianapolis did not properly accumulate and report Other Defense Organizations' General Fund financial data for the FY 2015 DoD Agency-Wide Financial Statements.

We considered management comments on a draft of this report when preparing the final report. The Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer (DCFO) responded to the two recommendations (Recommendations 1.a and 1.b) addressed to him and responded for Defense Finance and Accounting Service (DFAS) on the 13 recommendations (Recommendations 2.a, 2.b.1, 2.b.2, 2.b.3, 2.c, 2.d.1, 2.d.2, 2.d.3, and 2.d.4, 3.a, 3.b, 3.c, and 4) addressed to DFAS Directors. Recommendations 1.b, 2.d.1, a2.d.2, 3.a, and 4 conformed to DoD Instruction 7650.03, and we do not require additional comments. The DCFO's comments on Recommendation 1.a partially addressed the recommendation. The DCFO's comments on Recommendations 2.a, 2.b.1, 2.b.2, 2.b.3, 2.c, 2.d.3, 2.d.4, 3.b, and 3.c did not address the recommendations. Therefore, these recommendations are unresolved and remain open. We request that the DCFO reconsider his position and provide additional comments by January 16, 2018.

Please send a PDF file containing your comments to [audfmr@dodig.mil](mailto:audfmr@dodig.mil). Copies of your comments must have the actual signature of the authorizing official for your organization. We cannot 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 (DSN 664-5945).

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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# Introduction

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## Objective

We determined whether the Defense Finance and Accounting Service (DFAS) was properly accumulating and reporting Other Defense Organizations' (ODOs') General Fund financial data for the DoD Agency-Wide financial statements. In addition, we followed up on the status of DFAS's implementation of prior DoD Office of Inspector General (DoD OIG) recommendations related to this audit objective. The prior coverage section lists the three reports that we followed up on and the status of recommendations. See Appendix A for a discussion of the scope, methodology, and prior coverage related to the objective.

## Background

The ODOs are Defense agencies, Defense-wide appropriations/programs, and trust funds. Defense Departmental Reporting System (DDRS) Attachment 804E, "Entity Code Listing and Supplemental LOA File," 2015, provides the reporting hierarchy for ODOs' entities and sub-entities and grouping program codes under a reporting entity. DFAS-Indianapolis uses this hierarchy to compile the ODOs' General Fund financial statements. See Appendix B for the FY 2015 list of ODO reporting entities.

### ***Accumulating and Reporting Process for ODO General Funds' Financial Data***

The DoD Financial Management Regulation (DoD FMR) states that accumulating and reporting the ODOs' General Fund financial statements is a responsibility shared among the ODOs and DFAS.<sup>5</sup> The ODOs are responsible for recording, processing, and summarizing their accounting transactions into their financial systems. The ODOs are also responsible for submitting their trial balances (General Ledger account balances) to DFAS-Indianapolis for inclusion into the ODOs' General Fund financial statements. The DoD FMR also requires that the ODOs maintain supporting documents for their financial statements and review for accuracy reports developed by their accounting systems and provided by DFAS.<sup>6</sup>

DFAS-Indianapolis is responsible for compiling the ODOs' General Funds and Working Capital financial statements. DFAS-Indianapolis accumulates ODOs' trial balances in DDRS-Budgetary (DDRS-B) module to produce budgetary reports. The trial balance information in DDRS-B is then transferred to the DDRS-AFS

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<sup>5</sup> DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 6B, chapter 2, section 020101, "Responsibility for Financial Statements," May 2012, subsequently updated in September 2016.

<sup>6</sup> DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 6A, chapter 2, section 020201, "Stewardship and General Responsibilities," and section 020206, "Draft Reports."

module to produce the ODO General Fund financial statements.<sup>7</sup> DFAS-Indianapolis certifies that the trial balances are accurate and final and “locks” the trial balances information in the DDRS-AFS so that the reporting entities cannot change the data. As part of the compilation process, DFAS-Indianapolis prepares journal vouchers (JVs) to adjust the ODOs’ financial data.<sup>8</sup> DFAS-Indianapolis personnel prepare the JV adjustments to:

- establish balances that did not transfer from legacy systems,
- reconcile financial data, and
- adjust financial data.<sup>9</sup>

According to memorandums of understanding between DFAS-Indianapolis and the ODOs, the ODOs have 4 hours to respond to DFAS-Indianapolis’s request to review the JVs adjustment for accuracy. Any adjustments needed to the ODOs’ financial statements are also made within DDRS-AFS.

## Review of Internal Controls

DoD Instruction 5010.40 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.<sup>10</sup>

We identified internal control weaknesses in the compilation of the FY 2015 ODOs’ General Fund Financial Statements. Specifically, DFAS-Indianapolis did not have adequate controls to properly accumulate and report ODOs’ General Fund financial data for the FY 2015 DoD Agency-Wide Financial Statements. In addition, we identified internal control weaknesses related to the process for justifying and reviewing JV adjustments for the FY 2015 ODOs’ General Fund Financial Statements. Furthermore, DFAS-Indianapolis personnel did not prepare the required quarterly metric reports that include all of the JVs prepared during the ODOs’ General Fund compilation process.

We will provide a copy of the report to the senior official responsible for internal controls in the Office of the Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer (OUSD[C]/DCFO), DoD, and DFAS-Indianapolis.

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<sup>7</sup> DDRS is the consolidated financial management and budgetary reporting system used by ODOs. DDRS-B and DDRS-AFS are two modules within DDRS.

<sup>8</sup> DFAS-Indianapolis Standard Operating Procedure 3057, “Journal Voucher Processing, Accountability, and Controls,” May 29, 2015, states that each accountant is responsible for the production and analysis of the monthly budgetary and quarterly audited financial statements for their assigned entities. This process requires the creation of JVs to ensure the trial balance and resulting financial statements are correct.

<sup>9</sup> According to DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 6A, chapter 2, section 020208, “Journal Voucher (JV) Preparation,” JVs are used to process monthly, quarterly, and annual adjustments to the general ledger account balances in field and higher-level accounting and reporting systems.

<sup>10</sup> DoD instruction 5010.40, “Managers’ Internal Control Program Procedures,” May 30, 2013.



## Finding

### **DFAS Did Not Properly Accumulate and Report ODOs' General Fund Financial Data**

DFAS-Indianapolis personnel did not properly accumulate and report ODOs' General Fund financial data for the FY 2015 DoD Agency-Wide Financial Statements.<sup>11</sup> Specifically, DFAS-Indianapolis did not:

- develop a universe of ODOs' General Fund transactions that supported its financial statements;
- maintain a reconciled list of ODOs' General Fund reporting entities and sub-entities; and
- prepare ODOs' General Fund financial statements that reflected the accurate number of ODOs' General Fund reporting entities.

This occurred because DFAS-Indianapolis personnel did not develop a written explanation of the control activities and a detailed flowchart of how ODOs' General Funds are compiled. In addition, DFAS-Indianapolis personnel did not develop adequate standard operating procedures (SOPs) that identified the ODO entities and sub-entities to accumulate and report the General Fund financial data.

Additionally, DFAS-Indianapolis personnel continue to prepare unsupported JVs to accumulate and report the ODOs' General Fund financial statements. DFAS-Indianapolis personnel should also improve their process for justifying and reviewing JVs.

Furthermore, DFAS-Indianapolis personnel did not prepare the required quarterly JV metric reports that include all of the JVs prepared during the ODO General Funds' compilation process. This occurred because DFAS-Indianapolis personnel responsible for preparing the reports stated that they believed that they were responsible for including only the JVs manually prepared by DFAS-Indianapolis and not the JVs created by the financial systems.

Since DFAS-Indianapolis cannot properly accumulate and report its financial data for ODOs and the large number and dollar amount of unsupported JVs it is increasingly probable that the ODOs' General Fund financial statements are materially misstated. Because the ODO General Fund financial statements are part of the DoD Agency-wide financial statements there is also the increased risk that these statements are misstated.

<sup>11</sup> DFAS-Indianapolis accumulates unadjusted trial balances from the ODOs and adjusts the data in the form of JVs.

## **Financial Data Was Not Properly Accumulated and Reported**

DFAS-Indianapolis personnel did not develop a universe of the ODOs' General Fund transactions from all the general ledger systems that contain ODO transactions. In addition, DFAS-Indianapolis personnel did not maintain a reconciled list of reporting entities and sub-entities or prepare ODOs' General Fund financial statements that reflected the current reporting entities.

### ***No Universe of Transactions***

DFAS-Indianapolis personnel stated that they did not develop a universe of the ODOs' General Fund transactions that reconciles to the ODOs' General Fund trial balances and the ODOs' General Fund financial statements. The OUSD(C)/CFO Financial Improvement and Audit Readiness (FIAR) Directorate's May 2015 FIAR Plan Status Report states that the ability to provide a universe of transactions is critical because an audit cannot begin without it.<sup>12</sup> A universe of transactions contains the underlying, individual, accounting transactions that support a financial statement line or balance. In addition, accounting transactions that support a financial statement line or balance must reconcile to general ledgers and feeder systems.<sup>13</sup> The OUSD(C)/CFO FIAR Directorate has acknowledged that it does not have a universe of transactions and is developing a universe of ODO General Fund transactions.

### ***Lack of a Reconciled List of ODO General Fund Reporting Entities***

DFAS-Indianapolis personnel did not maintain a reconciled list of ODOs' General Fund reporting entities and sub-entities that matched those reported on the ODO General Fund financial statements. The Statement of Federal Financial Accounting Concepts states that the basic reason for having an understanding about the reporting entities is to ensure that the users of the entity's financial reports are provided with all the relevant information.<sup>14</sup> For example, we identified that the Washington Headquarters Service (WHS) had nine sub-entities in the FY 2015 ODO General Fund financial statements. However, the Departmental Defense Reporting System-Attachment 804E used by DFAS identified WHS as a reporting entity with 11 sub-entities. The number of entities in Attachment 804E also differed from the reporting entities identified by the OUSD(C)/CFO FIAR Directorate and the DoD FMR.

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<sup>12</sup> "Financial Improvement and Audit Readiness Plan Status Report," May 2015.

<sup>13</sup> A feeder system or a mixed system supports both financial and non-financial functions of an ODO. The system may not necessarily contain financial information, but the information it does contain is used to support dollars in financial reports/statements.

<sup>14</sup> Statement of Federal Financial Accounting Concepts 2, "Entity and Display."

DFAS-Indianapolis personnel stated that they did not maintain a list of ODO General Funds' reporting entities and sub-entities that was reconciled to the OUSD(C)/CFO FIAR Directorate listing of ODOs' General Fund entities and sub-entities or the DoD FMR. For example, the FIAR Directorate guidance listed the WHS as a reporting entity with 10 sub-entities; however, while the DoD FMR showed the WHS with 10 sub-entities these listings of the sub-entities were different. The impact of the different entities may affect the accuracy of this reporting entity's financial statements. Representatives from both the FIAR Directorate and DFAS-Indianapolis stated that there are no specific criteria that define an ODO General Fund reporting entity. The FIAR representatives also stated that an ODO General Fund is defined by the needs of the ODO financial data. For example, the FIAR Directorate uses the reporting entities and sub-entities to show whether these entities are ready for audit and will meet set milestone dates. DFAS-Indianapolis tracks the reporting entities for the ODO General Funds' Combining and Consolidating financial statements to ensure that all the financial statement information is properly included. It is important that DFAS and the FIAR Directorate maintain matching lists of the ODO entities because the FIAR Directorate uses the list of ODO reporting entities and sub-entities to determine the material ODO and the audit priority of the reporting entities.<sup>15</sup> The matching list will also help DFAS-Indianapolis ensure the reporting hierarchy is correct so the financial information is being accurately summarized and reported for ODO on the financial statements.

### ***Accurate Number of Reporting Entities Not Used***

DFAS-Indianapolis personnel did not report an accurate number of reporting entities on the ODOs' General Fund financial statements. The DoD FMR requires the ODOs to report their entities and sub-entities on their General Fund Combining Balance Sheets.<sup>16</sup> For example, DFAS-Indianapolis reported the Defense Health Program as three separate entities (Financial Operations Division, the Uniformed

<sup>15</sup> The DoD Consolidated Audit Strategy is to conduct examinations of ODO that are designated as Tier 3 reporting entities. Tier 4 reporting entities are considered immaterial.

<sup>16</sup> DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 6B, "Form and Content of the Department of Defense Audited Financial Statements," states that combining statements use a multi-column format to present financial information on the entity's reporting entities (ODOs). Volume 6B also states that it is very important that these statements are reviewed for completeness and consistency with the consolidated statements.

Services University of Health Sciences, and the Service Medical Activity) on the ODOs' General Fund Combining Balance Sheet when it should have been reported as one entity. DFAS personnel stated that they have not updated the DDRS program to report the Defense Health Program as one entity instead of as three separate entities. Not accurately reporting these entities misrepresents the materiality of the Defense Health Program in comparison to other reporting entities on the ODOs' financial statements. As a single entity the total assets on the FY 2015 ODOs' Consolidating Balance Sheet for the program would be \$23.6 billion versus, \$2.6 billion (Financial Operations Division), \$458 million (Uniformed Services University of Health Sciences), and \$20.5 billion (Service Medical Activity) if they continued to be reported separately. Clearly defining a reporting entity provides the users of the financial statements with a clear understanding of what the reporting entity includes on the ODOs' financial statements.

In addition, DFAS-Indianapolis personnel inaccurately reported the U.S. Treasury payments made to the Military Retirement Fund and the Medicare Eligible Retiree Health Care Fund on the ODOs' General Fund financial statements. Specifically, DFAS-Indianapolis inaccurately reported the U.S. Treasury payments as a reporting entity on the FY 2016 ODOs' General Fund Financial Statements but should have made the payments directly to the trust fund accounts because these payments are not ODO entities. The U.S. Treasury made payments in FY 2016 to the Military Retirement Fund amounting to \$86.9 billion and to the Medicare Eligible Retiree Health Care Fund amounting to \$3.3 billion. By not sending these U.S. Treasury payments directly to the trust funds, DFAS-Indianapolis overstated the ODOs' General Fund budgetary resource balances by \$90.2 billion.

### **DFAS-Indianapolis Did Not Have a Written Explanation, Detailed Flowchart, or Adequate Standard Operating Procedures**

DFAS-Indianapolis personnel did not properly accumulate and report the ODOs' General Fund financial information because they did not develop a written explanation of control activities and detailed flowchart of the ODOs' General Fund compilation process. In addition, DFAS-Indianapolis personnel did not develop adequate SOPs that identified the ODOs' entities and sub-entities to accumulate and report General Funds' financial data.



### ***Lack of a Written Process Narrative and Process Map***

DFAS-Indianapolis personnel did not develop a written explanation or a detailed flowchart of how ODOs' General Funds are compiled. DFAS Manual 5010.40-M requires a written explanation and detailed flowchart to describe the detailed processes needed to compile and report the ODOs' General Fund financial information.<sup>17</sup> DFAS Manual 5010.40-M states that:

- a process narrative (written explanation) provides a summary of the control activities and breaks down processes into individual, control activities, focusing on identifying controls within those activities. The summary of control activities provides the narrative for a process map.
- a process map (detailed flowchart) shows the inputs, activities, and outputs of the compilation process. The map represents the entire process at a detailed level to describe the events and communications within the DFAS business environment.

DFAS-Indianapolis personnel provided some documents in an attempt to show that they complied with DFAS Manual 5010.40-M, but we concluded that the information was incomplete because they did not develop a written explanation of the control activities and a detailed flowchart. Specifically, DFAS-Indianapolis did not include a complete start-to-end process that displayed the step-by-step activities within these documents. Well-written explanations and detailed flowcharts allow DFAS-Indianapolis to ensure that the key processes for compiling the ODOs' General Fund financial information are accurately documented, risk and control assessments are performed, and test plans are developed to validate control effectiveness. The Director, DFAS-Indianapolis, should develop a written explanation and detailed flowchart that describes the detailed processes for the ODOs' General Fund compilation process.

### ***Inadequate Standard Operating Procedures***

DFAS-Indianapolis personnel did not develop adequate SOPs to compile the ODOs' General Fund financial statements. Specifically, the SOPs did not discuss the different types of JV adjustments needed to properly accumulate and report the ODOs' General Fund financial statements. The DoD FMR provides 10 categories of JV adjustments and requires the preparer of the JV to assign the JV to one of the categories as part of the justification for preparing the JV.<sup>18</sup> See Appendix C for a description of the JV categories. DFAS-Indianapolis personnel stated that

<sup>17</sup> DFAS Managers' Internal Control Program Policy (MICP), October 30, 2012.

<sup>18</sup> DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 6A, chapter 2, section 020208, "Journal Voucher (JV) Preparation."

DFAS-Indianapolis SOP 3218 provided the procedures for compiling the ODOs' General Fund financial statements, but these procedures did not include all the steps in the process needed to compile the ODOs' General Fund financial statements.<sup>19</sup>

For example, DFAS-Indianapolis SOP 3218 did not include the categories on reversing entries, the different types of data calls, intragovernmental eliminations, inventory adjustments, reclassification of accounts, identified errors and reasonable checks, adjustments to balance reports internally, and accrual entries. Although DFAS-Indianapolis SOP 3218 discussed the JV categories for recognizing undistributed disbursements and collections, and the reconciliation of trial balances to budget execution reports, the SOP lacked the detail needed to understand the processes. Complete and well-written SOPs provide managers an explanation of the ODOs' compilation process and guidance to evaluate the effectiveness of the internal control, effectiveness and efficiency of operations, reliability of the financial reporting, and compliance with laws and regulations. The Director, DFAS-Indianapolis, should:

- develop adequate SOPs that provide the steps necessary to compile the ODOs' General Fund financial statements,
- include steps for reconciling the list of ODOs' General Fund reporting entities and their sub-entities to the DFAS Report 804E and OUSD(C)/DCFO FIAR Directorate listing, and
- include steps for preparing ODOs' General Fund financial statements (combining and consolidating) that reflect the current ODOs' General Fund reporting entities.

The Director, DFAS Strategy, Policy, and Requirements, should:

- revise the DoD FMR to include an accurate list of ODOs' General Fund reporting entities and their sub-entities.

The OUSD(C)/DCFO should:

- manage the development of a universe of ODO General Fund transactions, and
- request that the U.S. Treasury make payments directly to the Military Retirement Fund and the Medicare Eligible Retiree Health Care Fund.

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<sup>19</sup> DFAS-Indianapolis SOP 3218, "Budget Execution Report Preparation," March 31, 2015.

## DFAS-Indianapolis Continues to Prepare Unsupported Journal Vouchers

DFAS-Indianapolis personnel acknowledged that they continue to prepare unsupported JVs to accumulate and report the ODOs' General Fund financial statements. During the accumulating and reporting process for the ODO financial data, DFAS-Indianapolis personnel prepared and processed JVs to compile the ODOs' General Fund financial statements. The DoD FMR requires DFAS and the DoD Components to prepare JVs that are adequately supported with documentation.<sup>20</sup> The JV must contain sufficient documentation that clearly identifies the reason for preparing it, justifies that the general ledger accounts being adjusted are proper and accurate, and identifies whether the JV is supported or unsupported.<sup>21, 22</sup> The documentation should also include the applicable criteria used to support the rationale for preparing the adjustment and the calculation of the dollar amount of the adjustment. Lastly, the documentation should identify the JV preparer, approver, and reviewer signatures. Table 1 shows that during the fourth quarter of FY 2015, DFAS-Indianapolis personnel prepared and processed 5,180 JVs, totaling \$450.6 billion, for the ODO General Funds. Of these 5,180 JVs, DFAS-Indianapolis personnel considered 4,817 JVs, totaling \$396.2 billion, as unsupported, and 363 JVs, totaling \$54.4 billion, as supported.

*Table 1. The Number and Dollar Amount of Unsupported and Supported JVs Made in the Fourth Quarter of FY 2015 for the ODO General Funds by DRS Module*

System	Unsupported JVs		Supported JVs		Totals	
	Number	Amount (in billions)	Number	Amount (in billions)	Number	Amount (in billions)
DDRS-B	4,368	\$336.1	101	\$17.2	4,469	\$353.3
DDRS-AFS	449	\$60.1	262	\$37.2	711	\$97.3
<b>Total</b>	<b>4,817</b>	<b>\$396.2</b>	<b>363</b>	<b>\$54.4</b>	<b>5,180</b>	<b>\$450.6</b>

Source: DFAS-Indianapolis.

Note: Dollar amounts may not equal the actual sum due to rounding.

<sup>20</sup> DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 6A, chapter 2, section 020208, "Journal Voucher (JV) Preparation," states that JVs must be authorized, approved, and documented at the appropriate level of management or designee to be considered supported. In addition, JVs must be annotated with the name, title, and office symbol of the preparer and the approver.

<sup>21</sup> DFAS-Indianapolis SOP 3057, "Journal Voucher Processing, Accountability, and Controls," May 29, 2015, states that all JVs require a reason in narrative format. These reasons should be written in a way that any reader can understand what is to be accomplished by the JV and why it is required.

<sup>22</sup> DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 6A, chapter 2, section 020208, "Journal Voucher (JV) Preparation," states that all JVs must contain documentation that identifies whether a JV entry is supported or unsupported. In addition, DFAS-Indianapolis SOP 3057 states that all JVs are required to be designated as supported or unsupported.

The DoD FMR requires the preparer of the JV to determine the category of the JV. DFAS-Indianapolis personnel used 7 of the 10 JV categories when preparing the ODOs' General Fund financial statements. As shown in Table 2, DFAS-Indianapolis prepared 826 of the 5,180 JVs, totaling \$114.8 billion, to adjust the ODOs' General Fund financial statements that were included in the FY 2015 DoD Agency-Wide Financial Statements. Of the 826 JVs, DFAS-Indianapolis personnel determined that 455 JVs, totaling \$60.4 billion, were not supported, and 371 JVs, totaling \$54.4 billion, were supported.

*Table 2. JVs Made by DFAS-Indianapolis*

JV Category	Number of Unsupported JVs	Unsupported Amount	Number of Supported JVs	Supported Amount	Total JVs	Total JV Amount
Reversing Entries for Prior Reporting Period-A	0	0	4	\$305,766,904	4	\$305,766,904
Data Call Entry-B	10	\$209,804,834	257	\$51,876,970,849	267	\$52,086,775,683
Balancing Entries for Eliminations-C	17	\$6,292,032,030	1	\$12,877,369	18	\$6,304,909,399
Reclassification of Accounts-G	1	\$16,927,424	6	\$631,545,125	7	\$648,472,549
Identified Errors and Reasonableness Checks-H	346	\$51,048,425,600	84	\$1,544,722,217	430	\$52,593,147,817
Adjustments to Balance Reports Internally-I	81	\$2,800,429,960	6	\$26,082,561	87	\$2,826,512,521
Other Accruals-J	0	0	4	\$10,122,316	4	\$10,122,316
No Category JVs	0	0	9	\$800,964	9	\$800,964
<b>Total</b>	<b>455</b>	<b>\$60,367,619,848</b>	<b>371</b>	<b>\$54,408,888,305</b>	<b>826</b>	<b>\$114,776,508,153</b>

Source: DFAS-Indianapolis.

Note: Dollar amounts may not equal the actual sum due to rounding.



In addition, the DDRS-B and DDRS-AFS JV logs showed that 4,362 of the 4,817 unsupported JVs (91 percent) prepared in the fourth quarter of FY 2015 were “system-generated.” However, DFAS-Indianapolis personnel did not identify the JV category for these system-generated JVs as required by the DoD FMR, volume 6A, chapter 2. The DoD FMR requires the preparer to assign a category as part of the justification for preparing the JV. See Table 3 for the number of unsupported JVs by category.

*Table 3. Number and Amount of Unsupported JVs by Category*

JV Category <sup>1</sup>	Number of JVs	Amount of JV (in billions)
B	10	\$0.2
C	17	\$6.3
G	1	\$0.0
H	346	\$51.1
I	81	\$2.8
Blanks <sup>2</sup>	4,362	\$335.8
<b>Total</b>	<b>4,817</b>	<b>\$396.2</b>

Source: DFAS-Indianapolis.

<sup>1</sup> Refer to Appendix B of this report for definitions of each JV category.

<sup>2</sup> Blanks are JVs without a JV category.

DFAS-Indianapolis personnel acknowledged that they prepared far too many JVs during the ODO General Funds’ compilation process in order to prepare the ODO General Funds’ financial statements. The May 2015 FIAR Plan Status Report states that having too many JVs may be an indicator of underlying problems, such as weak internal controls. DFAS-Indianapolis personnel stated that they are trying to reduce the number and dollar amount of JVs needed to compile the ODOs’ General Fund financial statements by identifying the reasons for the system generated JVs. The Director, DFAS-Indianapolis, should develop a plan reduce the number of the JVs needed to compile the ODOs’ General Fund financial statements. The Director, DFAS Enterprise Solutions and Standards, should categorize the system-generated JVs in accordance with the DoD FMR.

## Improvements Needed for Justifying and Reviewing Journal Vouchers

We nonstatistically selected 10 JVs, totaling \$9.4 billion, that DFAS-Indianapolis personnel determined were supported.<sup>23</sup> Although we found that DFAS appropriately categorized the JVs as properly prepared and adequately supported, we determined that DFAS-Indianapolis personnel could improve their reasons for preparing the JVs, completing the JV checklist, citing applicable criteria, including delegation letters, and signing the JVs. The DoD FMR, volume 6A, chapter 2, requires that the JV documentation contain sufficient information that clearly describes the reason for preparing the JV and supports that the JV is proper and accurate. In addition, DFAS-Indianapolis SOP 3057 requires that JVs include a reason (detailed explanation) for the JV. However, the detailed explanations for three of the JVs DFAS-Indianapolis personnel prepared, totaling \$220.6 million, were not clear. Specifically, two JVs did not specify the correct quarter or fiscal year in the JVs' detailed explanation but other documentation in the JVs show the correct quarter and fiscal year. In addition, the third JV's detailed explanation did not identify whether the JV was prepared to record an advance payment or a contingent liability. Additional explanations and documentation had to be provided by DFAS-Indianapolis personnel to justify the appropriateness of the JV.

In addition, DFAS-Indianapolis personnel could have improved their reviews of 6 of the 10 JVs reviewed, totaling \$286.0 million. DFAS-Indianapolis SOP 3057 requires that a JV undergo a review before an adjustment is made to the accounting records. To help DFAS-Indianapolis personnel review JVs, DFAS-Indianapolis SOP 3057 requires a JV review checklist to be prepared for each JV.<sup>24</sup> For 5 of the 10 JVs, DFAS-Indianapolis personnel did not complete the entire JV review checklist. In addition, the supporting documentation for two of five JVs could have been improved. Specifically, the documentation did not include the applicable criteria used to support the rationale for preparing the JV adjustment or document the JV preparer, reviewer, and approver. The sixth JV did not include the reviewer's delegation letter.<sup>25</sup>

<sup>23</sup> We nonstatistically selected 10 JVs from the 92 Category B – Data Call JVs, totaling \$17.2 billion that were considered supported and made in DDRS-B.

<sup>24</sup> DFAS-Indianapolis SOP 3057, "Journal Voucher Processing, Accountability and Control," May 29, 2015, requires a "Journal Voucher Approval Checklist" for every JV. The preparer is responsible for completing items 1 to 14 of the checklist. Items 9 to 14 will be completed after the JV has gone through the entire JV signature process. The checklist must be signed by the JV preparer and approver.

<sup>25</sup> DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 6A, chapter 2, section 020208, "Journal Voucher (JV) Preparation," states that JVs may be prepared at the installation or departmental level and shall be authorized and documented at the appropriate level of management or designee. Approving officials may delegate their authority in writing to lower-level supervisors or other authorized officials with sufficient knowledge of the accounting matters addressed by the JV.

Neither the preparer nor the approver digitally signed any of the 10 JVs or included the titles of the preparer or approver as required by the DoD FMR and DFAS-Indianapolis SOP 3057.<sup>26</sup> In addition, the user identification of the preparer for two JVs did not match the name of the preparer on the signature page of the JV. Additionally for one JV, the timestamp of the reviewer's digital signature was after the timestamp of the approver's digital signature, which showed that the approver signed the JV before it was completed and signed by the preparer. Because of this audit, DFAS-Indianapolis personnel revised DFAS-Indianapolis SOP 3057 to no longer require a digital signature by the preparer, reviewer, and approver.<sup>27</sup> Although these deficiencies were not significant enough alone to state that a JV was not supported, DFAS-Indianapolis needs to improve its overall JV review and approval process to help ensure JVs are properly prepared and adequately supported. The Director, DFAS-Indianapolis, should revise DFAS-Indianapolis SOP 3057 to include adequate procedures that require: JVs made in DDRS-B and DDRS-AFS to have adequate supporting documentation; JVs to have clear reasons for the JV adjustment; complete and signed checklists for JV reviews; and require preparers, reviewers, and approvers to sign JVs in the proper sequence.

## Quarterly Metric Reports Were Incomplete

DFAS-Indianapolis personnel did not prepare quarterly metric reports that included all the JVs prepared by DFAS for the ODOs' General Fund compilation process. According to DFAS-Indianapolis personnel, they are required to prepare quarterly JV metrics that identify the number, the dollar amounts, and purpose of the adjustments made on reports. However, DFAS-Indianapolis personnel omitted 4,354 JVs, totaling \$335.8 billion, from the fourth quarter FY 2015 JV Metric Report that were included on the DDRS-B and DDRS-AFS JV logs.

When asked why they did not include the JVs in the report, DFAS-Indianapolis personnel stated that they were responsible for including only the JVs prepared in the DDRS-B and DDRS-AFS systems. DFAS-Indianapolis personnel explained that they were not required to include other system-generated JVs. However, a December 2016 memorandum from the OUSD(C)/DCFO specifically requires the

<sup>26</sup> DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 6A, chapter 2, section 020208, "Journal Voucher (JV) Preparation," states that JVs must be annotated with the name, title, and office symbol of the preparer and the approver. In addition, DFAS-Indianapolis SOP 3057 states that the JV Signature Page is the document that identifies the name, title, office symbol, signature and date signed of the JV preparer, JV reviewer, and approving official.

<sup>27</sup> DFAS-Indianapolis SOP 3057, "Journal Voucher Processing, Accountability, and Control," February 18, 2016.

JV Metric Reports to include system-generated JVs for FY 2017.<sup>28</sup> The Director, DFAS Enterprise Solutions and Standards, should prepare quarterly metric reports that include all the JVs, including system-generated JVs, made to compile the ODOs' General Fund financial statements.

## Prior Recommendations

We issued three reports with 15 recommendations to DFAS in the past 8 years (See Appendix A for the list of reports). We determined the status of prior DoD OIG audit report recommendations that related to the ODO General Funds' compilation process, review and approval of JVs, and JV supporting documentation. DFAS-Indianapolis personnel have implemented corrective actions for 14 of the 15 recommendations. The recommendation that remains open advised DFAS-Indianapolis in April 2012 to implement a Fund Balance With Treasury reconciliation tool to improve the reconciliation process of the ODO accounts. In August 2015, DFAS-Indianapolis personnel stated that they were in the last phase of implementing the Fund Balance with Treasury tool, known as the, "Department 97 Reconciliation and Reporting Tool"; however, the implementation has been placed on hold due to potential concerns with sensitive activities and classified data. As of August 2017, this recommendation remains unresolved. See Appendix D for a list of the closed recommendations and the action taken by DoD management. The Director, DFAS Enterprise Solutions and Standards, should monitor the status of this open recommendation and, when appropriate, expedite the implementation of the Department 97 Reconciliation and Reporting Tool and develop milestones for its implementation.

## Other Defense Organizations' General Fund Financial Statements May Be Misstated

If DFAS management cannot provide the auditors with a universe of transactions, a reconciled list of reporting entities and their sub-entities, and financial statements that reflect current reporting entities, they will have to spend significant time explaining the compilation process for the ODOs' General Fund financial statements. In addition, because DFAS-Indianapolis cannot properly accumulate and report its financial data, and based on the large number and dollar amount of unsupported JVs, it is increasingly probable that the ODOs' General Fund financial statements are materially misstated. Furthermore, because the ODOs' General Fund financial statements are part of the DoD Agency-wide financial statements, there is also the increased risk that these statements are misstated.

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<sup>28</sup> Office of the Under Secretary of Defense Memorandum, "Department Of Defense Fiscal Year 2017 Financial Operations Metric Goals," December 14, 2016.



## Recommendations, Management Comments, and Our Response

### **Recommendation 1**

**We recommend that the Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer:**

- a. Manage the development of a universe of Other Defense Organizations' General Fund transactions.**

### *DoD Response*

The Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer (DCFO) agreed with the recommendation. The DCFO stated that his office is developing a Universe of Transaction (UoT) database of ODOs' General Fund transactions. The DCFO stated that this project includes 19 financial management systems, supporting feeder systems, and the Defense Departmental Reporting System (DDRS). As of September 30, 2017, the UoT database contains over 1 billion rows of transaction data and is supporting multiple audit examinations and full financial statement audits. The DCFO stated that the UoT database is able to reconcile 97 percent of the General Ledger transaction details to DDRS trial balances and that the match rate will continue to improve as past appropriations cancel. The DCFO stated that this project is led by an executive steering group made up of executives from the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD; Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics; DoD Chief Information Officer; and DFAS. The DCFO expects this recommendation to be completed by September 30, 2018.

### *Our Response*

Comments from the DCFO partially addressed the recommendation; therefore, the recommendation is unresolved and remains open. We acknowledge that the DoD has been developing a UoT database of ODOs' General Fund transactions. However, the comments discuss only the UoT database supporting the ODOs' unadjusted trial balances. The comments did not discuss the status of the UoT database that supports the adjustments from the unadjusted trial balance to the adjusted trial balance, and the adjusted trial balance to the financial statements. In addition, the comments did not state what DoD organization is responsible for developing the UoT database for these adjustments and providing the supporting documentation to internal and external auditors when requested. Therefore, we request the DCFO provide additional comments on the status of the UoT database

for these adjustments, and the DoD organization responsible for providing the supporting documentation to the auditors. We also request that the DCFO provide an estimated completion date for this UoT database.

**b. Request that the U.S. Treasury make payments directly to the Military Retirement Fund and the Medicare Eligible Retiree Health Care Fund.**

*DoD Response*

The DCFO disagreed with the recommendation. The DCFO stated that he coordinated his response with an OMB representative, who disagreed with the recommendation and provided comments. The OMB representative stated that the current budgetary accounting for the unfunded liability of the Military Retirement Fund (MRF) follows longstanding budgetary accounting practices and guidelines that require general fund appropriations to a trust fund to be recorded first as budget authority in a general fund account and then paid to a trust fund receipt account. Specifically, the budgetary accounting for the MRF was carefully considered in 1985 when it was converted to accrual funding, and the budgetary accounting for the MRF is discussed in an appendix to the FY 1986 budget. The OMB representative stated that OMB Circular No. A-11, "Preparing, Submitting, and Executing the Budget," August 1, 2017, directs agencies to record appropriations from the general fund of the Treasury to an agency trust fund as an appropriation in an agency general fund expenditure account and a subsequent obligation and outlay to a receipt account associated with the trust fund. The OMB representative stated that, from a conceptual standpoint, this correctly allocates the cost of the unfunded liability to the general fund for budget presentations and shows the appropriation as income to the trust fund.

The OMB representative stated that the DoD pays accrual charges each year to the MRF and the Medicare Eligible Retirees Healthcare Fund (MERHCF) for the cost of pension and retiree health benefits accrued by service members during the year. As a result, these accrual charges are appropriately recognized in the budget as costs in general fund accounts and then transferred to the MRF and MERCHF as expenditure transfers of the general fund accounts and reported as income of the trust funds. The OMB representative also stated that the unfunded liability represents the cost of pension and retiree health benefits that were incurred by service members in past years but were not recognized in the budget in those years. As those costs are recognized in the budget, it is appropriate to account for them similar to the cost of benefits accruing in the current year. The current budgetary treatment meets this requirement by recording a general fund appropriation for the unfunded liability and an expenditure transfer of these amounts to the trust funds.

### *Our Response*

Comments from the DCFO and the additional documentation provided by the DCFO to respond to this recommendation adequately explain why it would not be proper to make payments directly to the MRF and the MERHCF. Therefore, we consider this recommendation closed, and no additional documentation or information is needed from the DCFO.

## **Recommendation 2**

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

- a. Develop a process narrative and process map that describes the detailed processes for the Other Defense Organizations' General Fund compilation process.**

### *DoD Response*

The DCFO, responding for the Director, DFAS-Indianapolis, agreed and stated that these documents were provided during the audit. The DCFO also stated that he considers this recommendation closed.

### *Our Response*

Comments from the DCFO did not address the recommendation; therefore, the recommendation is unresolved and remains open. We acknowledged in the report that DFAS-Indianapolis personnel provided some documentation in an attempt to show that they complied with DFAS Manual 5010.40-M; however, we concluded that the information was incomplete because DFAS-Indianapolis personnel did not develop a written explanation of the control activities and a detailed flowchart. Specifically, DFAS-Indianapolis did not include a complete start-to-end process that displayed the step-by-step process of the ODOs' General Fund compilation process. DFAS-Indianapolis provided some additional documentation in response to this recommendation, but there was no overall process narrative and process map that described the detailed processes of the entire ODOs' General Fund compilation process. DFAS-Indianapolis can reference some of this supporting documentation in the overall process narrative and process map, but DFAS-Indianapolis first needs to develop a process narrative and process map of the entire General Fund compilation process. We request that the DCFO provide additional comments that include a process narrative and process map that describes the detailed processes of the ODOs' General Fund compilation process. We also request that the DCFO provide an estimated completion date for these documents.

**b. Develop adequate standard operating procedures that provide the steps necessary to:**

**1. Compile the Other Defense Organizations' General Fund financial statements.**

*DoD Response*

The DCFO, responding for the Director, DFAS-Indianapolis, agreed. However, the DCFO stated that these documents were provided during the audit. In addition, assessing the adequacy of the SOPs at the time of this audit is nearly impossible due to the delayed issuance of this report on the FY 2015 processes and because the SOPs have been updated multiple times. The DCFO stated that the SOP was last updated on February 27, 2017.

*Our Response*

Comments from the DCFO did not address the recommendation; therefore, the recommendation is unresolved and remains open. We acknowledged in the report that DFAS-Indianapolis provided SOP 3218, "Budget Execution Report Preparation," March 31, 2015, for the procedures necessary to compile the ODOs' General Fund financial statements. However, the SOP was inadequate because it did not include all the steps needed to compile the ODOs' General Fund financial statements. For example, in the report, we state that SOP 3218 did not discuss all the different type of JVs, such as reversing entries, data call entries, intragovernmental eliminations, inventory adjustments, reclassification of accounts, corrections of identified errors, adjustments to balance reports, and accrual entries, needed to compile the ODOs' General Fund financial statements. DFAS-Indianapolis can reference other SOPs in the overall SOPs for the entire compilation process, but DFAS-Indianapolis first needs to develop SOPs for the entire compilation process. DFAS-Indianapolis revised SOP 3218 in December 2016, but the revised SOP did not include any of the changes discussed in the report. We request the DCFO provide additional comments that provide the steps needed to compile the ODOs' General Fund financial statements. We also request that the DCFO provide an estimated completion date for revising these SOPs.

**2. Reconcile the list of Other Defense Organizations' General Fund reporting entities and their sub-entities to the Defense Finance and Accounting Service Report 804E, "Entity Code Listing and Supplemental Line of Accounting," and Office of the Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer Financial Improvement and Audit Readiness Directorate listing.**

### *DoD Response*

The DCFO, responding for the Director, DFAS-Indianapolis, agreed and stated that SOPs needed to be developed at the time of the audit for performing this reconciliation. However, the DCFO stated that DFAS-Indianapolis created SOP 3038, “DDRS-Budgetary and DDRS-Audited Financial Statements Change Requests,” and implemented it in December 2015. The DCFO stated that SOP 3038 established a mapping and change request process, including instructions on updating Attachment 804E of the Quarterly Guidance. The DCFO stated that the SOP was last updated on February 27, 2017.

### *Our Response*

Comments from the DCFO did not address the recommendation; therefore, the recommendation is unresolved and remains open. We acknowledge that DFAS-Indianapolis updated SOP 3038 to include instructions on updating Attachment 804E and reconciling with the DDRS-Budgetary organization structure; however, the SOP does not describe the process for reconciling Attachment 804E with the FIAR Directorate listing and did not state how often this reconciliation should be performed. In addition, documentation was not provided showing the reconciliation. We request that SOP 3038 be revised to include a process for reconciling Attachment 804E to the FIAR Directorate listing of ODO reporting entities and their sub-entities and provide the frequency of this reconciliation. We recommend this reconciliation be performed quarterly. We request the DCFO provide additional comments that provide the steps for reconciling Attachment 804E to the FIAR Directorate listing of ODO reporting entities and their sub-entities and provides the frequency of this reconciliation. We also request that the DCFO provide an estimated completion date for revising these SOPs.

- 3. Prepare Other Defense Organizations’ General Fund financial statements (combining and consolidating) that reflect the current Other Defense Organizations General Funds’ reporting entities.**

### *DoD Response*

The DCFO, responding for the Director, DFAS-Indianapolis, stated that DFAS-Indianapolis personnel interpreted this recommendation as the same as Recommendation 2.b.1.

### *Our Response*

Comments from the DCFO did not address the recommendation; therefore, the recommendation is unresolved and remains open. Recommendation 2.b.3 is not the same as Recommendation 2.b.1. Recommendation 2.b.3 recommended that DFAS-Indianapolis develop procedures that provide the steps necessary to prepare ODOs' General Fund financial statements (combining and consolidating) that reflect the current ODOs' General Fund reporting entities and their sub-entities. Recommendation 2.b.1 recommended that DFAS-Indianapolis develop procedures for compiling the ODOs' General Fund financial statements. We request the DCFO provide additional comments that provide the steps for preparing the ODOs' General Fund financial statements that reflect the current reconciled list of ODO reporting entities and their sub-entities. We also request that the DCFO provide an estimated completion date for revising these SOPs.

- c. Develop a plan to reduce the number of the journal vouchers needed to compile the Other Defense Organizations' General Fund financial statements.**

### *DoD Response*

The DCFO, responding for the Director, DFAS-Indianapolis, agreed with the recommendation, but stated that a plan existed at the time of the audit and was discussed with the DoD OIG auditors during the audit. The DCFO stated that the plan continues to mature, and execution of the plan has enabled DFAS-Indianapolis to reduce the number of manual JVs by 211 JVs with a value of \$32.9 billion over the last 2 years. The DCFO also stated that a majority of the JVs are systemic JVs produced for undistributed disbursements/collections and pre-close items related to canceling year appropriations. The DCFO also stated that DFAS-Indianapolis has developed controls to randomly sample and compile packages for the systemic JVs.

### *Our Response*

Comments from the DCFO did not address the recommendation; therefore, the recommendation is unresolved and remains open. We disagree with the assertion that DFAS-Indianapolis personnel provided DoD OIG auditors a plan for reducing the number of JVs needed to compile the ODOs' General Fund financial statements. In addition, a copy of this plan was not provided in response to a draft of this report. We request that the DCFO provide additional comments that include and provide a written plan for reducing the number of manual and system-generated JVs needed to compile the ODOs' General Fund financial statements. We also request that the DCFO provide an estimated completion date for providing this plan.



- d. Revise Defense Finance and Accounting Service–Indianapolis Standard Operating Procedure 3057, “Journal Voucher Processing, Accountability, and Controls,” May 29, 2015, to include adequate procedures that:**
- 1. Require journal vouchers made in Defense Departmental Reporting Systems–Budgetary and Defense Departmental Reporting System–Audited Financial Statements have adequate supporting documentation;**
  - 2. Require journal vouchers to have clear reasons for journal vouchers adjustments;**
  - 3. Complete and sign checklists for journal voucher reviews; and**
  - 4. Require preparers, reviewers, and approvers sign journal vouchers in the proper sequence.**

### *DoD Response*

The DCFO, responding for the Director, DFAS-Indianapolis, agreed that SOP 3057 did not include our recommended procedures at the time of the audit, but since the delayed issuance of this report on 2015 processes, DFAS has updated SOP 3057 multiple times. The DCFO stated that the SOP now includes instructions for JVs to have adequate supporting documentation, clear reasons for JV adjustments, complete and signed checklists, and signatures by the JV preparer, reviewer, and approver.

### *Our Response*

Comments from the DCFO and updated SOP 3057 addressed Recommendations 2.d.1 and 2.d.2; therefore, we consider these recommendations closed, and no additional information is needed from the DCFO. However, the DCFO’s comments did not address Recommendations 2.d.3 and 2.d.4; therefore, these recommendations are unresolved and remain open. DFAS-Indianapolis last revised SOP 3057 in February 2017, but this revision was not provided to the DoD OIG auditors during the audit. The revised SOP 3057 does not require complete and signed JV checklists and does not require the preparer, reviewer, and approver signature to be in the proper sequence. We request that the DCFO provide additional comments that includes a revised SOP 3057 that requires a complete and signed JV checklist and requires the preparer, reviewer, and approver signatures to be in the proper sequence. We also request that the DCFO provide an estimated completion date for providing the revised SOPs.

### **Recommendation 3**

**We recommend that the Director, Defense Finance and Accounting Service Enterprise Solutions and Standards:**

- a. Categorize the system-generated journal vouchers in accordance with DoD Financial Management Regulation, volume 6A, chapter 2, section 020208, "Journal Voucher (JV) Preparation," August 2011.**

#### *DoD Response*

The DCFO, responding for the Director, DFAS Enterprise Solutions and Standards, agreed with the recommendation and stated that DFAS acknowledges that the DoD FMR requires DFAS to categorize system-generated JVs and has drafted a customer change request for the DDRS-Budgetary to remediate the deficiency. The DCFO stated that the customer change request will require JV category codes be assigned to system-generated JVs. The DCFO stated that the customer change request is being coordinated among DFAS sites to ensure concurrence with the change and the categories being assigned to each of the eight types of system-generated JVs. The DCFO stated that once concurrence is achieved, the request will be submitted to the DDRS Project Management Office for prioritization and further processed as a system change request. The DCFO estimated the system change to occur by September 30, 2019.

#### *Our Response*

Comments from the DCFO addressed all specifics of the recommendation, and no further comments are required. Therefore, the recommendation is resolved but will remain open. We will close the recommendation when we confirm that DDRS-Budgetary assigns JV category codes to system-generated JVs.

- b. Prepare quarterly metric reports that include all the journal vouchers, including system-generated journal vouchers, made to compile the Other Defense Organizations General Funds' financial statements.**

#### *DoD Response*

The DCFO, responding for the Director, DFAS Enterprise Solutions and Standards, agreed with the recommendation and stated that DFAS fulfills the need to prepare metric reports by compiling monthly financial operations metrics that reflect the financial impact of JVs on financial statements.

### *Our Response*

Comments from the DCFO did not address the recommendation; therefore, the recommendation is unresolved and remains open. In response to the draft report, the DCFO provided financial operations metric reports. However, the metric reports did not identify the source of the system-generated JVs and the JV category, and did not define how the metric was calculated. We request the DCFO provide additional comments that includes metric reports that identify the source of the system-generated JVs and the JV category, and define how the metric was calculated. We also request that the DCFO provide an estimated completion date for providing these revised metric reports.

- c. Monitor the status of the open recommendation and, when appropriate, expedite the implementation of the last phase of the Department 97 Reconciliation and Reporting Tool and develop milestones for its implementation.**

### *DoD Response*

The DCFO, responding for the Director, DFAS Enterprise Solutions and Standards, agreed with the recommendation and stated that DFAS developed the Department 97 Reconciliation and Reporting Tool (DRRT) in FY 2013 and completed deployment in October 2014 to address the April 2012 recommendation. The DCFO stated that in FY 2015, additional functionality was defined for the DRRT, which expanded the depth of reconciliations. The DCFO stated that the aggregation of this additional data raised some concerns within the sensitive activities community and that DFAS continues to work with the community to address how to provide better financial data while ensuring data security. The estimated completion date is September 30, 2018.

### *Our Response*

The response did not address the specifics of the recommendations; therefore, the recommendation is unresolved and remains open. The DCFO comments did not state how DFAS-Indianapolis was going to expedite the implementation of the last phase of DRRT and did not provide milestones for the implementation of the last phase. This recommendation has been open for over 5 years, and DFAS-Indianapolis needs to expedite the implementation of the DRRT because it is an important tool in reconciling ODOs' Fund Balance with Treasury accounts. Reconciling these accounts is a longstanding material weakness in DoD. We request the DCFO provide additional comments that states how they plan to expedite the implementation of DRRT's last phase and provide milestones for its implementation. We also request that the DCFO provide an estimated completion date for this recommendation.

### ***Recommendation 4***

**We recommend that the Director, Defense Finance and Accounting Service Strategy, Policy and Requirements, revise DoD Financial Management Regulation, volume 6B, chapter 1, “Introduction and Summary,” to include an accurate list of Other Defense Organizations General Funds’ reporting entities and sub-entities.**

#### ***DoD Response***

The DCFO, responding for the Director, Defense Finance and Accounting Service Strategy, Policy, and Requirements, agreed with the recommendation and stated that DoD FMR, Volume 6B, Chapter 1, “Introduction and Summary,” will be updated with a current list of ODO reporting entities and sub-entities by January 17, 2018.

#### ***Our Response***

Comments from the DCFO addressed all specifics of the recommendation, and no further comments are required. Therefore, the recommendation is resolved but will remain open. We will close the recommendation when we confirm that DoD FMR, Volume 6B, Chapter 1, “Introduction and Summary,” has been revised to include the current list of ODO reporting entities and sub-entities.

## Appendix A

### Scope and Methodology

We conducted this performance audit from February 2016 through September 2017 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We obtained an understanding of the ODOs' General Fund compilation process for FY 2015. This included reviewing the JV adjustments made in DDRS-B and DDRS-AFS to prepare the ODOs' General Fund financial statements. We received briefings on the compilation process; interviewed DFAS-Indianapolis personnel; and reviewed flowcharts, SOPs, prior audit reports, and the DFAS Statement on Standards for Attestation Engagements No. 16 report.<sup>29</sup> We also reviewed the DoD FMR, FIAR guidance, and the DFAS 804E Report to determine the number of ODOs' reporting entities and sub-entities they were reporting.

We reviewed the FY 2015 DoD Agency-Wide consolidated balance sheet obtained from DFAS that summarized the ODOs as one amount for each line item. We reviewed the detailed information that comprised the ODO amounts and identified that DFAS included 26 reporting entities. One of these 26 ODO reporting entities, the Other Defense Agencies General Fund, included 21 sub-entities that we reviewed.

DFAS-Indianapolis accumulated and reported the ODOs' General Fund financial data for the FY 2015 DoD Agency-Wide Financial Statements. To accumulate and report the ODOs' General Fund financial data, DFAS made 5,180 JVs, totaling \$450.6 billion, during the fourth quarter of FY 2015 for the ODO General Funds in DDRS-B and DDRS-AFS. Of these JVs, DFAS made 4,469 JVs, totaling \$353.3 billion, in DDRS-B. DFAS made the remaining 711 JVs, totaling \$97.3 billion, in DDRS-AFS. We focused our review on the DDRS-B JVs because they represented 78 percent of the total dollar value of all JVs that DFAS made.

<sup>29</sup> "Report on the Defense Finance and Accounting Service Financial Reporting Service's Description of its System Supporting the Processing of Financial Reports and the Suitability of the Design and Operating Effectiveness of its Controls," for the period October 1, 2015 through July 31, 2016.

We reviewed the metric report for the fourth quarter of FY 2015 to select a nonstatistical sample of JVs to review. This report showed that DFAS-Indianapolis made 826 JVs, totaling \$114.8 billion, in DDRS-B and DDRS-AFS. Specifically, the report identified that DFAS-Indianapolis made:

- 115 JVs, totaling \$17.5 billion, in DDRS-B, and
- 711 JVs, totaling \$97.3 billion, in DDRS-AAFS.

Of the 115 JVs made in DDRS-B, DFAS-Indianapolis considered 92 JVs, totaling \$17.2 billion, as Category B–Data Call JVs and supported. We focused our review on these 92 JVs because they represented 98 percent of the total dollar value of JVs made in DDRS-B.

Of the 92 JVs, 22 JVs, totaling \$15.3 billion, were for the Defense Health Program. We selected the three largest JVs, totaling \$8.8 billion, which represented 51 percent of the total dollar value for supported Category B–Data Call JVs. We then sorted the remaining 70 JVs by reporting entity and highest dollar value. After the sorting, we selected seven additional JVs, totaling \$681.8 million that were the highest dollar value for reporting entities other than Defense Health Program.

Our total nonstatistical sample consisted of 10 supported Category B–Data Call JVs, totaling \$9.4 billion that DFAS-Indianapolis made in DDRS-B during the fourth quarter of FY 2015. We reviewed the supporting documentation for the 10 JVs to determine whether they were properly supported. We also compared the general ledger accounts identified on the JV to the United States Standard General Ledger list of transactions to determine whether the proper general ledger accounts were used to make the JV adjustment. In addition, we reviewed the preparer and reviewer signatures to determine whether they complied with the DoD FMR and DFAS-Indianapolis policies. Furthermore, we met with the JV preparers and reviewers to obtain clarifications for why the JV was prepared and the supporting documentation.

We determined the status of prior DoD OIG audit report recommendations. We identified three reports that issued 15 recommendations to DFAS in the past 8 years related to the ODOs’ General Fund compilation process, review and approval of JVs, and JV supporting documentation.



## Use of Computer-Processed Data

To perform this audit, we obtained the JV logs from DDRS-B and DDRS-AFS to identify the universe of JV adjustments for ODOs' General Funds. We did not test the reliability of the computer-processed data in DDRS-B and DDRS-AFS for the JVs reviewed because we reviewed only a sample of JVs to determine whether the JVs were properly supported and used the correct general ledger accounts and whether the preparer and reviewer signatures were completed in accordance with DoD FMR and DFAS policies. Therefore, we determined that the reliability of the computer-processed data did not affect the conditions and findings in this report.

## Use of Technical Assistance

We consulted with the DoD Office of Inspector General Quantitative Methods Division on the selection of our nonstatistical sample of JVs that were prepared by DFAS-Indianapolis during the fourth quarter of FY 2015.

## Prior Coverage

During the last 8 years, the Department of Defense Office of Inspector General (DoD OIG) issued three reports discussing financial data and adjustments pertaining to DoD Agency-Wide financial statement compilation. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/reports.html/>.

### **DoD OIG**

Report No. D-2012-107, "Defense Finance and Accounting Service Needs to Improve the Process for Reconciling the Other Defense Organizations' Fund Balance with Treasury," July 9, 2012

DFAS-Indianapolis did not perform adequate, transaction-level Fund Balance With Treasury reconciliations on 723 ODO appropriation accounts with disbursements and collections, totaling approximately \$141 billion. As a result, DFAS-Indianapolis cannot support the adjustments it made to these Fund Balance With Treasury accounts, which caused unreliable data to be reported on the ODO financial statements.

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

The Cash Management Report was not complete or accurate. Specifically, the Cash Management Report did not attribute approximately \$10.5 billion in transactions to ODOs responsible for reconciling and accounting for the transactions. As a result, the ODOs cannot reconcile their Fund Balance With Treasury general ledger accounts directly to amounts reported by the U.S. Treasury. It also prevents unauthorized transactions from being detected, which increases the risk of fraud, waste, and mismanagement.

Report No. D-2009-044, "Defense Finance and Accounting Service Indianapolis Compilation of Other Defense Organizations General Fund Financial Data," January 23, 2009

DFAS-Indianapolis internal controls were not adequate. Material internal control weaknesses existed in the accounting adjustments made to the ODOs General Fund records. Specifically, DFAS did not sufficiently support or approve the adjustments. These internal control weaknesses increased the risk that the DoD materially misstates balances reported in the DoD Agency-Wide financial statements.

## Appendix B

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### List of Other Defense Organizations General Funds' Reporting Entities

- Chemical Biological Defense Program
- Defense Advanced Research Projects Agency
- Defense Commissary Agency
- Defense Contract Audit Agency
- Defense Contract Management Agency
- Defense Finance and Accounting Service
- Defense Health Agency–Contract Resource Management
- Defense Health Agency–Financial Operation Division
- Defense Health Agency–Uniformed Services University of Health Sciences
- Defense Information Systems Agency
- Defense Logistics Agency
- Defense Security Cooperation Agency
- Defense Technical Information Center
- Defense Threat Reduction Agency
- Department of Defense Education Activity
- DoD Component-Level Accounts
- Joint Chiefs of Staff
- Medicare-Eligible Retiree Health Care Fund Payment
- Military Retirement Fund Payment
- Missile Defense Agency
- Office of the Inspector General
- Other 97 Funds Provided to the Air Force by the Office of the Secretary of Defense
- Other 97 Funds Provided to the Army by the Office of the Secretary of Defense
- Other 97 Funds Provided to the Navy by the Office of the Secretary of Defense
- Other Defense Agencies General Fund
- Service Medical Activity
- U.S. Special Operations Command
- Washington Headquarters Service

## Appendix C

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### Journal Voucher Categories

- **Category A**–Reversing Entries for Prior Reporting Period: JVs shall include documentation regarding the original accrual entry and explicit statement that the JV is a reversing entry.
- **Category B**–Data Call Entry: Source-entry information is provided by data calls where the data are not recorded on a detailed transaction basis. A JV should be prepared to record the summarized data call amounts, so the amounts can be recorded in the general ledger trial balance.
- **Category C**–Balancing Entries for Eliminations: An authorized official has determined that entries are necessary to balance buyer-side data to seller-side data and a correcting JV is prepared to eliminate selected intragovernmental accounts.
- **Category D**–Recognition of Undistributed Disbursements and Collections: The effects of undistributed disbursements and collections shall be recognized in the accounting records and the financial statements. A JV is made to adjust Fund Balance With Treasury. An allocation process is used to apply undistributed disbursements and collections to accounts payable and accounts receivable.
- **Category E**–Reconciliation of Trial Balance and Budget Execution Reports: When an authorized official has determined during a reconciliation of data between two or more sources that a discrepancy exists, a correcting journal voucher may be necessary.
- **Category F**–Supply Management Inventory: A correcting JV which is prepared when the authorized official has determined that inventory values for supply management activities need to be adjusted from standard price to approximate historical cost.
- **Category G**–Reclassification of Accounts: When an authorized official has determined that the accounting systems are unable to provide data at the required level of detail for financial statement and footnote presentation, a correcting JV shall be prepared to crosswalk data from installation level accounts to the U.S. Standard General Ledger.
- **Category H**–Identified Errors and Reasonableness Checks: An authorized official or auditor identifies errors through analysis, reasonableness checks, quality control procedures, or other means, a correcting JV shall be prepared.

- **Category I**—Adjustments to Balance Reports Internally: A correcting JV may be necessary when the duly authorized official has determined that a reconciliation of data supporting different reports cannot be performed. Evidence to support this type of JV shall include documentation of the reconciliation efforts made before determining that the reports cannot be reconciled.
- **Category J**—Other Accruals: When the supporting documentation for other accrual JVs shall include a narrative explaining the basis for the accrual and any subsequent reversal.

## Appendix D

### List of Closed Recommendations Related to this Report

We issued three reports with 15 recommendations to DFAS in the past 8 years. DFAS-Indianapolis personnel have implemented corrective actions for 14 of the 15 recommendations. See the tables below for a list of the closed recommendations and the management actions taken by DoD OIG report number.

*Report No. DODIG-2012-107, "Defense Finance and Accounting Service Needs to Improve the Process for Reconciling the Other Defense Organizations' Fund Balance with Treasury," July 9, 2012*

Recommendation	Recommendation Text	Action Taken
1.b	The DoD OIG recommended that the Director, Defense Finance and Accounting Service–Indianapolis, implement a systemic process for reconciling the transactions supporting the amounts on the cash management report to the transactions in the other defense organizations' accounting systems on a monthly basis.	Defense Finance and Accounting Service successfully completed user acceptance testing in January 2014, which led to the decision to move forward with deployment of Department 97 Reconciliation and Reporting Tool into the production environment. Since October 2014, the tool has been used to perform a systemic process for reconciling the transactions supporting the amounts on the Cash Management Report to the transactions in the Other Defense Organizations' accounting systems for FY 2015 and forward on a monthly basis. <b>(DoD OIG closed on March 8, 2016).</b>
1.c	The DoD OIG recommended that the Director, Defense Finance and Accounting Service–Indianapolis, assess the resources that will be needed to perform complete, transaction level reconciliations for the Other Defense Organizations each month and fully dedicate those resources to the reconciliation efforts.	Defense Finance and Accounting Service completed their reorganization effort and staffed a team of eleven accountants dedicated to the performance of reconciliations for Other Defense Organizations. In addition, all actions related to hiring, training, procedures, and implementation within Accounting Operations have been completed. <b>(DoD OIG closed on March 8, 2016).</b>
2	The DoD OIG recommended that the Director, Defense Finance and Accounting Service–Columbus, coordinate with the Director, Defense Information Systems Agency, to develop a written agreement that designates responsibility for remediating the \$16.1 million in transactions that have remained unmatched since May 2007. Once the responsible entity has been established, that organization should take the necessary steps to research and resolve the \$16.1 million in unmatched transactions.	Defense Finance and Accounting Service–Columbus coordinated with the Defense Information Systems Agency to resolve the \$16.1 million in unmatched transactions. In addition to the normal remediation process, some transactions were resolved through fiscal year close-out processing. (DoD OIG closed on April 22, 2014) <b>(DoD OIG closed on April 22, 2014).</b>



*Report No. DODIG-2011-098, "Defense Finance and Accounting Service Needs to Improve Controls Over the Completeness and Accuracy of the Cash Management Report," August 15, 2011*

Recommendation	Recommendation Text	Action Taken
1.a	The DoD OIG recommended that the Director, Defense Finance and Accounting Service–Indianapolis, develop and implement written procedures to routinely reconcile and resolve the variances between amounts reported on the Cash Management Report and amounts reported by the U.S. Treasury.	Defense Finance and Accounting Service–Indianapolis Operations developed and implemented written procedures to routinely reconcile and resolve the variances between amounts reported on the Cash Management Report and amounts reported by the U.S. Treasury. Specific written procedures developed in response to this recommendation include procedures for the Disbursement/Collection Variances–Balance Brought Forward (Defense Finance and Accounting Service–Indianapolis) to U.S. Treasury Reconciliation for TI 97 Accounts and procedures for Funding Variances–Reconciling Funding reported on the Cash Management Report to the Funding reported on the Official Budget Execution Reports. <b>(DoD OIG closed on November 22, 2011).</b>
1.b	The DoD OIG recommended that the Director, Defense Finance and Accounting Service–Indianapolis, coordinate with the Director, Financial Improvement and Audit Readiness, Under Secretary of Defense (Comptroller) to develop a comprehensive plan for remediating the U.S. Treasury variances that occurred prior to FY 2005	Defense Finance and Accounting Service–Indianapolis Operations has coordinated with the Director, Financial Improvement and Audit Readiness, Office of the Under Secretary of Defense (Comptroller) and developed a comprehensive plan for remediating the U.S. Treasury variances that occurred prior to FY 2005. <b>(DoD OIG closed on November 22, 2011).</b>
1.c	The DoD OIG recommended that the Director, Defense Finance and Accounting Service–Indianapolis, establish an integrated working group to resolve any ongoing or emerging issues affecting the completeness and accuracy of the Cash Management Report.	Defense Finance and Accounting Service–Indianapolis Operations has established five integrated working groups to resolve any ongoing or emerging issues affecting the completeness and accuracy of the Cash Management Report. An oversight group was also established to track progress on all five working groups. <b>(DoD OIG closed on November 22, 2011).</b>

*Report No. DODIG-2011-098, "Defense Finance and Accounting Service Needs to Improve Controls Over the Completeness and Accuracy of the Cash Management Report," August 15, 2011 (cont'd)*

Recommendation	Recommendation Text	Action Taken
1.d	The DoD OIG recommended that the Director, Defense Finance and Accounting Service–Indianapolis, develop a process for communicating with Defense Finance and Accounting Service–Cleveland to resolve all outstanding undistributed balances resulting from Navy subhead conversions and to timely address any new problems that may occur.	Defense Finance and Accounting Service–Indianapolis Operations has successfully developed a process for communicating with the Defense Finance and Accounting Service–Cleveland (See recommendation 1.c) to resolve all outstanding undistributed balances resulting from Navy subhead conversions and to timely address any new problems that may occur. <b>(DoD OIG closed on March 29, 2012).</b>
1.e	The DoD OIG recommended that the Director, Defense Finance and Accounting Service–Indianapolis, research and correct, with the necessary support from the Other Defense Organizations, any transactions held in suspense accounts in a timely manner.	Defense Finance and Accounting Service–Indianapolis Operations has implemented procedures to research, monitor, and provide supporting documentation in a timely manner to correct suspense account balances identified in the subject audit report. <b>(DoD OIG closed on March 29, 2012).</b>
1.f	The DoD OIG recommended that the Director, Defense Finance and Accounting Service–Indianapolis, report quarterly to the Director, Financial Improvement and Audit Readiness, Under Secretary of Defense (Comptroller) on its progress in resolving the deficiencies listed in this report.	Under Secretary of Defense (Comptroller) confirmed that Defense Finance and Accounting Service reported quarterly to the Director, Financial Improvement and Audit Readiness on progress in resolving the deficiencies listed in this report. <b>(DoD OIG closed on November 22, 2011).</b>
2	The DoD OIG recommended that the Director, Financial Improvement and Audit Readiness, Under Secretary of Defense (Comptroller) monitor the progress of the integrated working group and ensure personnel responsible for reporting Other Defense Organization's transactions to Defense Finance and Accounting Service–Indianapolis are fully participating.	Financial Improvement and Audit Readiness, Under Secretary of Defense (Comptroller) continued to monitor the progress of the integrated working group and recorded the participation of responsible personnel in meeting minutes. <b>(DoD OIG closed on November 16, 2012).</b>

*Report No. DODIG-2009-0044, "Defense Finance and Accounting Service Indianapolis Compilation of Other Defense Organizations General Fund Financial Data," January 23, 2009*

Recommendation	Recommendation Text	Action Taken
2.a	The DoD OIG recommended that the Director, Defense Finance and Accounting Service–Indianapolis Operation, implement procedures that all Other Defense Organization journal vouchers are supported and reviewed by officials with the appropriate level of authority.	This recommendation was closed by the DoD OIG after reconsidering Defense Finance and Accounting–Indianapolis Operations, management comments to the final report and because the DoD OIG audit team provided a memorandum outlining what Defense Finance and Accounting Service–Indianapolis Operation needed to support a journal voucher and why certain categories of journal vouchers are considered unsupported. <b>(DoD OIG closed on August 20, 2009).</b>
2.b	The DoD OIG recommended that the Director, Defense Finance and Accounting Service–Indianapolis Operation, implement procedures for Departmental Accounting supervisory review of the journal voucher control log.	Defense Finance and Accounting Service–Indianapolis Accounting Operations, Directorate for Departmental Reporting prepared standard operating procedures for management review of the journal voucher control log. The initial supervisory review of the journal voucher control log was completed in the first quarter of FY 2009. <b>(DoD OIG closed on April 9, 2010).</b>
2.c	The DoD OIG recommended that the Director, Defense Finance and Accounting Service–Indianapolis Operation, discontinue the delegation of authority for journal voucher review and approval to lower-level management and supervisors.	Defense Finance and Accounting Service–Indianapolis Operation agreed to review the journal voucher review and approval process to determine whether the process was effective. <b>(DoD OIG closed on June 26, 2010)</b>
2.d	The DoD OIG recommended that the Director, Defense Finance and Accounting Service–Indianapolis Operation, make footnote disclosures on the DoD Agency-Wide financial statements to explain estimates used to adjust abnormal balances.	The FY 2009 DoD Agency-wide and DOD Components financial statements included a modified footnote. That footnote disclosed the abnormal balances in accordance with the planned corrective action. <b>(DoD OIG closed on March 5, 2010).</b>

## Management Comments

### Office of the Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer, DoD

**Final Report  
Reference**



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

COMPTROLLER

OCT 10 2017

MEMORANDUM FOR PROGRAM DIRECTOR, FINANCIAL MANAGEMENT AND  
REPORTING, DOD OFFICE OF INSPECTOR GENERAL

SUBJECT: Comments on Draft Audit Report "The Defense Finance and Accounting Service  
Financial Reporting Process for Other Defense Organizations General Funds"  
(Project No. D2016-D000FP-0105.000)

This memorandum responds to your request for comments on the recommendations (1a and 1b) made to Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer and recommendations (2.a, 2.b.1, 2.b.2, 2.b.3, 2.c, 2.d.1, 2.d.2, 2.d.3, 2.d.4, 3.a, 3.b, 3.c and 4) made to the Defense Finance Accounting Service (DFAS) contained in the subject draft audit report. Upon review of the draft report we concur with 14 recommendations and nonconcur with 1 recommendation as detailed in the attachments.

As referenced in our responses to several of your recommendations, we have already taken action to address the specific deficiency noted and would prefer the draft audit report to indicate that no further action is required.

The Department appreciates the opportunity to comment on the subject draft report, and appreciates your office's ongoing engagement and support for efforts directed at DoD's financial improvement and auditability. My staff point of contact is [REDACTED]

Mark E. Easton  
Deputy Chief Financial Officer

Attachments:  
As stated

**Omitted SOPs  
provided with  
the management  
comments  
because of length.  
Copies provided  
upon request.**



## Office of the Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer, DoD (cont'd)

**THE OFFICE OF INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
DRAFT AUDIT REPORT DATED SEPTEMBER 8, 2017  
PROJECT NO. D2016-D000FP-0105.000**

**“THE DEFENSE FINANCE AND ACCOUNTING SERVICE FINANCIAL REPORTING  
PROCESS FOR OTHER DEFENSE ORGANIZATIONS GENERAL FUNDS”**

**DEPARTMENT OF DEFENSE COMMENTS  
TO THE DoD OIG RECOMMENDATIONS**

**RECOMMENDATION 1.a:** The DoD Office of Inspector General (DoD OIG) recommends that the Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer develop a universe of Other Defense Organizations General Fund transactions.

**DoD RESPONSE:** The Under Secretary of Defense (Comptroller)/Office of the Deputy Chief Financial Officer is actively developing and deploying the Universe of Transactions (UoT) capability for the Other Defense Organization General Fund Transaction.

The scope of this project includes 19 financial management systems, the Defense Departmental Reporting System (DDRS) financial reporting system, and supporting feeder systems. As of September 30, 2017, the UoT contains over 1 billion rows of transactional data and is actively supporting multiple audit examinations and full financial statement audits. The UoT has received an authority to operate and is hosted at Marines Corps Information Technology Center in Kansas City.

The UoT is currently able to reconcile 97 percent of the General Ledger details to the DDRS trial balances and that match rate will continue to improve as appropriations cancel. The UoT project has worked closely with the DoD OIG audit leads to ensure that capabilities and reconciliations will support future audits. This project is led by an executive steering group made up of executives from the OUSD (C), OUSD for Acquisition Technology and Logistics, Office of the Deputy Chief Management Officer, DoD Chief Information Officer, and Defense Finance and Accounting Service.

**ECD:** September 30, 2018

**RECOMMENDATION 1.b:** The DoD OIG recommends that the Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer request that the U.S. Treasury make payments directly to the Military Retirement Fund and the Medicare Eligible Retiree Health Care Fund.

**DoD RESPONSE:** The Under Secretary of Defense (Comptroller)/ Deputy Chief Financial Officer coordinated with the Office of Management and Budget (OMB) for comments on this recommendation. OMB Office of Federal Financial Management does not concur with the recommendation and commented as follows:

## Office of the Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer, DoD (cont'd)

"The current budgetary accounting of general fund appropriations for the unfunded liability of the MRF follows longstanding budgetary accounting practices and guidelines that require general fund appropriations to a trust fund to be recorded first as budget authority in a general fund account and then paid from the general fund account to a trust fund receipt account. The budgetary accounting for the Military Retirement Fund (MRF) was carefully considered in 1985/1986 when the Military Retirement System was converted to an accrual funding system. The budgetary accounting for all of the associated accounts is discussed on pages 6-40 through 6-43 of the 1986 Budget document. The budget account that records the appropriation for the payment for unfunded liability is presented and discussed on pages I-H12 to I-H13 of the 1986 Budget Appendix volume. When health benefits for Medicare-aged military retirees were converted to accrual funding in 2003, the funding mechanism and budgetary accounting of the new MERCHF was developed using the MRF as a model, with the payment for the unfunded liability shown as an appropriation to a general fund account followed by a payment to a special fund receipt account. There is no reason to change the budgetary accounting and deviate from longstanding practices and guidelines."

### Basis for Conclusion

"Budgetary accounting and reporting requirements are determined jointly by OMB and the Treasury Department under 31 USC 1112. OMB's requirements are contained in OMB Circular No. A-11. The Circular directs agencies to record appropriations from the general fund of the Treasury to an agency trust fund as an appropriation in an agency general fund expenditure account and a subsequent obligation and outlay to a receipt account associated with the trust fund. When the funds are deposited into the receipt account, the Fund Balance with Treasury (FBWT) becomes part of the FBWT (i.e., unexpended balance) of the trust fund expenditure account. From a conceptual standpoint, this correctly allocates the cost of the unfunded liability to the general fund for all budget presentations and shows the appropriation as income to the trust fund. The budgetary accounting of the general fund appropriation for the unfunded liability of the MERCHF meets the same conceptual needs."

"Section 20.4 (j) of OMB Circular No. A-11 provides that "A transfer is recorded as either an expenditure transfer, which involves an outlay, or a non-expenditure transfer, which does not involve an outlay. Which you record usually depends on the purpose of the transfer, as explained in the following table, except that non-expenditure transfers are limited to transactions in which both accounts are within the same fund group (i.e., trust-to-trust or Federal-to-Federal)." Exhibit 20 of OMB Circular No. A-11 provides further guidance about the budgetary treatment of expenditure transfers of budgetary resources among Federal government accounts. (See below.) Both of the appropriations at issue meet the "purpose" test in the guidance. To help understand why this is the case, it might help to consider first the budgetary accounting of accrual charges paid by DoD each year to both funds. These payments reimburse the two funds for the cost of pension and retiree health benefits accrued by service members during the year." "As such, they are appropriately recognized in the budget as costs in general fund accounts and then transferred to the MRF and Medicare Eligible Retiree Health Care Fund (MERCHF) as expenditure transfers of the general fund accounts and as income of the funds. The unfunded



## Office of the Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer, DoD (cont'd)

liability represents the cost of pension and retiree health benefits that were incurred by service members in past years but were not recognized in the budget in those years. As those costs are recognized in the budget, it is appropriate to account for them similar to the cost of benefits accruing in the current year. The current budgetary treatment meets this requirement by recording a general fund appropriation for the unfunded liability and an expenditure transfer of those amounts to the two funds.”

TYPE OF TRANSACTION	NATURE OF TRANSACTION	TREASURY ACCOUNTING TREATMENT	BUDGET TREATMENT
<b>II. EXPENDITURE TRANSFERS</b>			
<b>A. EXPENDITURE TRANSFER PAYMENTS BETWEEN TWO FEDERAL FUNDS OR BETWEEN TWO TRUST FUNDS</b>	Payments to carry out the purposes of the PAYING ACCOUNT, such as payments in return for goods and services authorized under the Economy Act.  Payments that represent financial interchanges between Federal government accounts that are not in exchange for goods and services.	PAYMENTS via FMS 224 or electronic funds transfer. <sup>2</sup>	Obligations and outlays are reported by the PAYING account. Offsetting collections are reported by the RECEIVING account. The collections are (1) ADVANCES or (2) REPAYMENTS in the form of REIMBURSEMENTS or REFUNDS.
<b>B. EXPENDITURE TRANSFER PAYMENTS BETWEEN FEDERAL AND TRUST FUNDS</b>	All transfers between the two fund groups are expenditure transfers.	PAYMENTS via FMS 224 or electronic funds transfer	Same as above.

ECD: N/A

## Office of the Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer, DoD (cont'd)

**Introduction to Management Comments:** The Defense Finance and Accounting Service (DFAS) completed 10 of 13 audit recommendations and 3 remain open with corrective actions planned. The delayed issuance of this report on September 15, 2017, using FY 2015 financial reporting data, processes and practices created outdated recommendations. As noted in the management comments below, since 2015, DFAS-Indianapolis (DFAS-IN) has taken several steps to improve its processes based on various audit findings, self-identified issues, and recommendations. DFAS-IN will continue to work with the DoD OIG to demonstrate the value of financial reporting corrective actions taken during and after their 2015 audit fieldwork was completed.

### **Recommendation 2**

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

- a. Develop a process narrative and process map that describes the detailed processes for the Other Defense Organizations' (ODO) General Fund compilation process.

**Management Comment**—These documents existed and were provided during the time of the audit.

**ECD:** Completed

- b. Develop adequate standard operating procedures that provide the steps necessary to:
  1. Compile the Other Defense Organizations' General Fund financial statements.

**Management Comment**—These documents existed and were provided during the time of the audit. To assess the adequacy of the Standard Operating Procedures (SOP) at the time of this audit is nearly impossible due to the delayed issuance of this report on 2015 processes and the SOP has been updated multiple times.

**ECD:** Completed, SOP most recently updated on February 27, 2017.

2. Reconcile the list of Other Defense Organizations' General Fund reporting entities and their sub-entities to the Defense Finance and Accounting Service Report 804E, "Entity Code Listing and Supplemental Line of Accounting," and Office of the Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer (OUSD (C)/DCFO) Financial Improvement and Audit Readiness (FIAR) Directorate listing.

## Office of the Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer, DoD (cont'd)

**Management Comment** – DFAS-IN concurs with the recommendation that a standard operating procedure needed to be developed at the time of this audit for reconciling the list of ODO General Fund reporting entities and their sub-entities to the DFAS Report 804E and OUSD(C)/DCFO FIAR Directorate listing. Since the delayed issuance of this report on 2015 processes, DFAS completed this SOP. The SOP 3038, “DDRS-Budgetary and DDRS-Audited Financial Statements Change Requests,” was created and implemented in December 2015, which establishes a mapping and change request process, to include instructions on updating Attachment 804E of the Quarterly Guidance.

**ECD:** Completed, SOP most recently updated on February 27, 2017.

3. Prepare Other Defense Organizations’ General Fund financial statements (combining and consolidating) that reflect the current Other Defense Organizations’ General Funds’ reporting entities.

**Management Comment** — See management comment 2.b.1 as DFAS interprets this as the same recommendation.

**ECD:** Completed, SOP most recently updated on February 27, 2017.

- c. Develop a plan to reduce the number of the journal vouchers needed to compile the Other Defense Organizations’ General Fund financial statements.

**Management Comment** —A plan existed and was discussed with DoD OIG at the time of audit. The plan has continued to mature, and execution of the plan has enabled DFAS-IN to significantly reduce manual journal vouchers over the last two years. The chart below reflects 199 unsupported journal vouchers eliminated (43.7 percent reduction), and an overall decrease of 211 JVs (26 percent reduction), from the total manual universe for a \$32.9B decrease in JV value. DFAS-IN is focused and committed on eliminating unsupported journal vouchers.

## Office of the Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer, DoD (cont'd)

DDRS Manual Journal Vouchers						
Accounting Period	DDRS-B and DDRS-AFS					
	Supported Count	Supported \$ (\$ in billions)	Unsupported Count	Unsupported \$ (\$ in billions)	Total Count	Total \$ (\$ in billions)
4Q FY2015	358	\$54.4	455	\$60.4	813	\$114.8
3Q FY2017	346	\$52.3	256	\$29.6	602	\$81.9
Reduction in JVs	(12)	(\$2.1)	(199)	(\$30.8)	(211)	(\$32.9)
Percentage change	-3.4%	-3.9%	-43.7%	-51.0%	-26%	-28.7%

As noted in the report, the majority of journal vouchers are systemic journal vouchers produced for undistributed disbursements/collections and pre-close items related to canceling year appropriations. DFAS-IN has developed controls to randomly sample and compile packages for the systemic journal vouchers. DFAS-IN has also developed a control that provides assurance the system is working as designed and provides negative assurance. Please see SOP 3057, "JV Processing, Accountability, and Controls".

**ECD:** Completed

- d. Revise DFAS-Indianapolis Standard Operating Procedure 3057, "Journal Voucher Processing, Accountability, and Controls," May 29, 2015, to include adequate procedures that:

1. Require journal vouchers made in Defense Departmental Reporting Systems-Budgetary and Defense Departmental Reporting System-Audited Financial Statements have adequate supporting documentation;
2. Require journal vouchers to have clear reasons for journal voucher adjustments;
3. Complete and sign checklists for journal voucher reviews; and
4. Require preparers, reviewers, and approvers sign journal vouchers in the proper sequence.

**Management Comment** – DFAS-IN concurs that this condition existed at the time of audit and proposes closure for the recommendation regarding SOP 3057. Since the delayed issuance of this report on 2015 processes, DFAS has updated this SOP multiple times. This SOP includes

## Office of the Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer, DoD (cont'd)

instructions for JVs to have adequate supporting documentation, clear reasons for JV adjustments, complete signed checklist, and preparers', reviewers and approver signature.

**ECD:** Completed. SOP most recently updated on February 24, 2017.

### **Recommendation 3**

We recommend that the Director, Defense Finance and Accounting Service Enterprise Solutions and Standards:

a. Categorize the system-generated journal vouchers in accordance with DoD Financial Management Regulation, volume 6A, chapter 2, section 020208, "Journal Voucher (JV) Preparation," August 2011.

**Management Comments** - DFAS acknowledges the Department of Defense Financial Management Regulation (DoD FMR) requirement to categorize system-generated journal vouchers and has drafted a Customer Change Request (CCR) for the Defense Departmental Reporting System - Budgetary to remediate the deficiency. The DDRS-B CCR requires journal voucher category codes be systemically assigned to system-generated journal vouchers to bring these entries into compliance with DoD FMR requirements. Currently the DDRS-B CCR is being coordinated among the DFAS sites to ensure concurrence with the change and the categories being assigned to each of the eight types of system-generated journal vouchers. Once concurrence is achieved, the request will be submitted to the DDRS Project Management Office (PMO) for prioritization and further processing as a System Change Request (SCR).

**ECD:** September 30, 2019

b. Prepare quarterly metric reports that include all the journal vouchers, made to compile the Other Defense Organizations General Funds' financial statements.

**Management Comment** - DFAS fulfills the need to prepare metric reports reflecting the financial impact of journal vouchers on financial statements by compiling monthly Financial Operations Metrics. Financial Operations Metrics reflect monthly journal voucher data including counts, amounts, JV type and supported/unsupported indicator for system-generated journal vouchers.

**ECD:** Completed

c. Monitor the status of the open recommendation and, when appropriate, expedite the implementation of the last phase of the Department 97 Reconciliation and Reporting Tool and develop milestones for its implementation.

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**Management Comments** - DFAS developed the Department 97 Reconciliation and Reporting Tool (DRRT) in FY2013 and completed deploying it for use in support of the TI97 Entities in October 2014. The tool provides a Fund Balance with Treasury Universe of Transactions and the ability to reconcile accounting systems to the Treasury 1010 Account at the voucher, detail, level. This effort addressed the April 2012 recommendation.

In FY 2015 additional functionality was defined for the DRRT tool which expands the depth of reconciliations to include things such as the adjusted trial balance and Statement of Transactions. Those requirements also included adding additional data that will aid accountants in researching variances from the reconciliations performed. The aggregation of this additional data raised some concerns within the sensitive activities community and DFAS continues to work with them to address how to provide better financial data while ensuring data security.

ECD: September 30, 2018

### **Recommendation 4**

We recommend that the Director, Defense Finance and Accounting Service Strategy, Policy and Requirements, revise DoD Financial Management Regulation, volume 6B, chapter 1, "Introduction and Summary," to include an accurate list of Other Defense Organizations General Funds' reporting entities and sub-entities.

**Management Comments** - DoD Financial Management Regulation Volume 6B, Chapter 1 will be updated with a current list of Other Defense Organization reporting entities and sub-entities, as well as additional links to supporting references.

ECD: January 17, 2018

## Acronyms and Abbreviations

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<b>DCFO</b>	Deputy Chief Financial Officer
<b>DDRS-AFS</b>	Defense Departmental Reporting System–Audited Financial Statements
<b>DDRS-B</b>	Defense Departmental Reporting System–Budgetary
<b>DFAS</b>	Defense Finance and Accounting Service
<b>DoD FMR</b>	DoD Financial Management Regulation
<b>FIAR</b>	Financial Improvement and Audit Readiness
<b>JV</b>	Journal Voucher
<b>ODO</b>	Other Defense Organization
<b>OUSD(C)</b>	Office of the Under Secretary of Defense (Comptroller)
<b>OUSD(C)/DCFO</b>	Office of the Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer
<b>SOP</b>	Standard Operating Procedure
<b>UoT</b>	Universe of Transactions
<b>WHS</b>	Washington Headquarters Service





# **Whistleblower Protection**

## **U.S. DEPARTMENT OF DEFENSE**

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## **For more information about DoD OIG reports or activities, please contact us:**

### **Congressional Liaison**

703.604.8324

### **Media Contact**

[public.affairs@dodig.mil](mailto:public.affairs@dodig.mil); 703.604.8324

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4800 Mark Center Drive  
Alexandria, Virginia 22350-1500  
[www.dodig.mil](http://www.dodig.mil)  
Defense Hotline 1.800.424.9098

