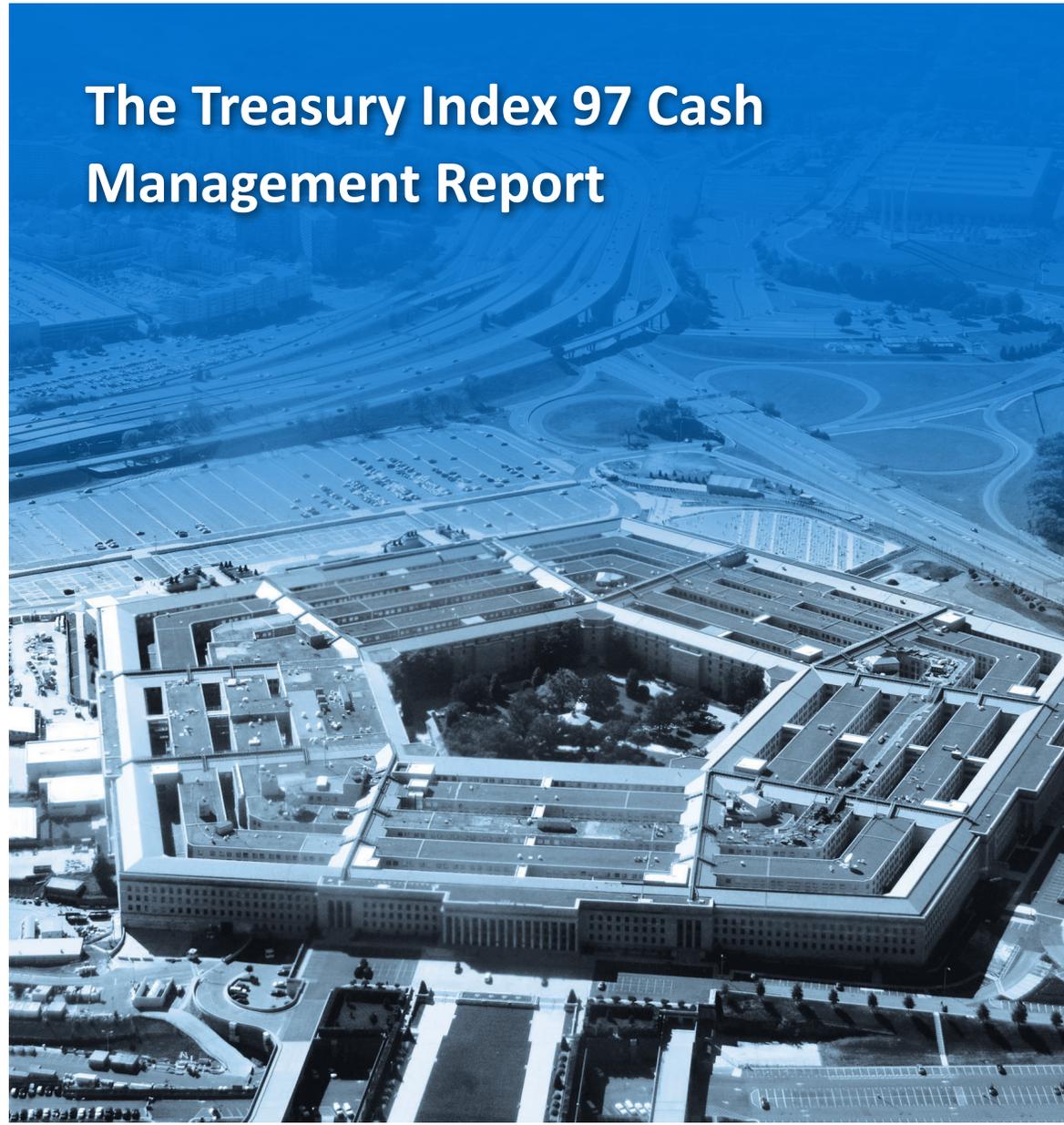




# INSPECTOR GENERAL

*U.S. Department of Defense*

MAY 23, 2018



## The Treasury Index 97 Cash Management Report

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# Results in Brief

## *The Treasury Index 97 Cash Management Report*

May 23, 2018

### Objective

We determined whether the Treasury Index (TI) 97 Cash Management Report (CMR) was complete, accurate, and supported by the details necessary to perform Fund Balance With Treasury (FBWT) reconciliations.

### Background

The Defense Finance and Accounting Service (DFAS)-Indianapolis developed the CMR to help Other Defense Organizations (ODOs) reconcile their FBWT accounts because the Department of the Treasury (the Treasury) does not record individual ODO FBWT account balances. The CMR is similar to a commercial bank statement in that it provides a summary cash position for each ODO FBWT account by fiscal year and appropriation at the limit level. Limits are four-character codes that help identify, manage, and report the financial activity of each ODO. DFAS and the ODOs use the CMR to perform individual ODO FBWT account balance reconciliations by the four-character limit. DFAS Manual 7097.01 lists all the valid limits for ODOs.<sup>1</sup>

### Finding

We determined that the September 2016 TI-97 CMR was not complete, accurate, or supported by the details necessary for ODOs to perform FBWT reconciliations.<sup>2</sup> Specifically:

<sup>1</sup> DFAS Manual 7097.01, "Financial Management Departmental Reporting Manual for Office of the Secretary of Defense (Treasury Index 97) Appropriations," August 2015.

<sup>2</sup> The September 2016 CMR is considered the fiscal year-end report because it contains TI-97 financial activity for the entire fiscal year.

### Finding (cont'd)

- DFAS-Indianapolis personnel excluded 69 TI-97 appropriations from the CMR that were reported in the Treasury Central Accounting and Reporting System (CARS). Additionally, DFAS-Indianapolis personnel did not report \$3.6 billion in financial activity for the Defense Working Capital Fund (DWCF) on the CMR. This occurred because DFAS-Indianapolis personnel did not design the CMR to report all financial activity for each of the ODOs, as required by the DoD Financial Management Regulation (DoD FMR). In addition, the DFAS-Indianapolis standard operating procedures (SOPs) did not require a reconciliation of all TI-97 FBWT accounts in the CMR with all TI-97 FBWT accounts in CARS.<sup>3</sup>
- DFAS-Indianapolis personnel made unsupported adjustments of \$322.6 million to TI-97 FBWT accounts to resolve differences identified while reconciling the CMR with FBWT account balances in CARS. This occurred because DFAS-Indianapolis did not have SOPs that included detailed steps to identify and resolve the root cause of the differences identified when reconciling the CMR with account balances in CARS in accordance with the DoD FMR. In addition, DFAS-Indianapolis personnel did not maintain supporting documentation for all adjustments made to TI-97 accounts while reconciling the CMR with CARS.
- DFAS-Indianapolis personnel reported an absolute amount of \$11 billion in unidentified limits on the CMR; therefore, the ODOs did not have the details needed to perform FBWT reconciliations. This occurred because DoD personnel did not record and submit account balances and transactions in DoD accounting and disbursing systems with limits required by DFAS Manual 7097.01. In addition, DFAS-Indianapolis did not design the Headquarters Accounting and Reporting System to convert all unidentified limits into limit "\*999" as required by the DoD FMR.

<sup>3</sup> DFAS-Indianapolis Standard Operating Procedure, "Cash Management Report Summary-Level Preparation," September 2015.



# Results in Brief

## *The Treasury Index 97 Cash Management Report*

### ***Finding (cont'd)***

As a result, DFAS-Indianapolis and the ODOs lacked the information needed to perform complete FBWT account reconciliations for September 2016. In addition, the \$322.6 million in unsupported adjustments to resolve differences and the use of \$11 billion in unidentified limits indicate that the accounting records did not reflect an accurate and supported financial position for the ODO FBWT accounts. This will cause FBWT accounts to be misstated on the individual ODO financial statements and the DoD Agency-wide financial statements. Additionally, without accurate financial data, ODOs management will not be able to make informed budget decisions regarding operations.

### **Recommendations, Management Comments, and Our Response**

The Deputy Chief Financial Officer (DCFO) disagreed with the recommendation to create individual DWCF accounts for the Defense Information Systems Agency, Defense Logistics Agency, and DFAS. Additionally, the DCFO disagreed with the recommendation to establish FBWT accounts or four-digit limits for ODOs in CARS. The comments from the DCFO did not address the specifics of the recommendations; therefore, the recommendations are unresolved. The DCFO stated that splitting up the DWCF will remove valuable flexibility in managing cash balances and may put the ODOs at greater risk of experiencing cash shortages. Additionally, the DCFO stated that establishing individual FBWT accounts for ODOs may expose sensitive activities and create an unnecessary burden that would remove much of the flexibility within Defense-wide appropriations.

We request that the DCFO reconsider his position on these recommendations and provide additional comments in response to the final report. Specifically, the current cash management philosophy prioritizes

flexibility within the ODOs' FBWT accounts rather than accountability. Each agency should establish its own DWCF account and be responsible for managing its individual cash position. Establishing separate accounts will allow for ODOs and the DoD to accurately account for and manage TI-97 FBWT accounts through accountability and direct oversight. The current cash management process adds unnecessary complexities and makes it difficult for DoD personnel to provide a reliable and clear audit trail.

The DCFO agreed to develop a single, consolidated TI-97 FBWT reconciliation tool; issue policy establishing a list of approved limits; develop a plan to reduce the number and dollar amount of unidentified limits; establish metrics that report the number and amount of unidentified limits by system monthly; and develop a FBWT reconciliation process that incorporates the entire universe of transactions. The comments from the DCFO either partially addressed the recommendations or did not address all of the specifics of the recommendations. Therefore, the recommendations are unresolved. We request that the DCFO provide additional comments in response to the final report.

The DCFO agreed to require DoD disbursing stations to report transaction level data to the Treasury on a daily basis. The DCFO addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open.

We provided the draft report to the Assistant Secretary of the Navy (Financial Management and Comptroller) and requested comments to the draft report and the recommendation to correct the Navy's financial systems to report TI-97 transactions with the limits approved by the DCFO. However; the Assistant Secretary of the Navy (Financial Management and Comptroller) did not respond to the draft report or the recommendation. Therefore, the recommendation is unresolved.



# Results in Brief

## *The Treasury Index 97 Cash Management Report*

### **Recommendations (cont'd)**

We request that the Assistant Secretary of the Navy (Financial Management and Comptroller) provide comments on the final report.

The Director, DFAS-Indianapolis, disagreed with the recommendation to produce a consolidated CMR that supports TI-97 FBWT account reconciliations; to document the updated CMR process in process maps and process narratives; to revise existing SOPs to require reconciliation of all TI-97 FBWT accounts to CARS; and to require DFAS personnel to obtain written approval for any adjustment made to TI-97 accounts. The comments from the Director did not address the specifics of the recommendations; therefore, the recommendations are unresolved. The Director stated that the DoD OIG audit team narrowly focused on the CMR, which is only a portion of the comprehensive FBWT reconciliation process. The Director disagreed with the DoD OIG interpretation that the DoD FMR requires the CMR to be the exclusive FBWT reconciliation tool. Lastly, the Director stated that identifying differences at an absolute value misstates the impact to an entity's cash position.

We request that the Director reconsider his position on these recommendations and provide additional comments in response to the final report. We acknowledge that the DoD FMR does not require a single FBWT reconciliation tool. However, the DoD FMR requires DFAS and the Components to reconcile the Government-Wide Accounting statement in CARS with the CMR. DFAS and the Components could not demonstrate that they could reconcile the Government-Wide Accounting statement to the CMR without unsupported summary level variances. Lastly, each transaction should be scrutinized in terms of absolute value, regardless of the transaction's net impact.

The Director, DFAS-Indianapolis, agreed to develop SOPs that provide steps on identifying differences between TI-97 FBWT accounts in the CMR and in CARS and to require DFAS-Indianapolis to maintain supporting documentation for any adjustment made to TI-97 FBWT accounts. The comments from the Director partially addressed the recommendations; therefore, the recommendations are unresolved. We request that the Director provide additional comments in response to the final report that detail his plan for developing SOPs that provide steps on identifying and resolving differences between the CMR and in CARS; and requiring DFAS-Indianapolis personnel to maintain supporting documentation for any adjustment made to TI-97 FBWT accounts.

The Director, DFAS-Indianapolis, agreed to produce a CMR that reports only TI-97 activity and to report the absolute dollar amount of the balances recorded in unidentified limits to the ODOs monthly. The comments from the Director addressed all specifics of the recommendations, and no further comments are required. Therefore, the recommendations are resolved but will remain open.

## Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Office of the Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer	1.a, 1.b, 1.c, 1.d, 1.e, 1.f, 1.g	1.h	
Assistant Secretary of the Navy (Financial Management and Comptroller)	2		
Director, Defense Finance and Accounting Service-Indianapolis	3.a.1, 3.a.3, 3.b, 3.c, 3.d.1, 3.d.2, 3.d.3	3.a.2, 3.e	

Please provide Management Comments by June 22, 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**

May 23, 2018

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

SUBJECT: The Treasury Index 97 Cash Management Report (Report No. DODIG-2018-120)

We are providing this report for review and comment. We conducted this audit in accordance with generally accepted government auditing standards.

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 eight recommendations (Recommendations 1.a-1.h) addressed to him. The Assistant Secretary of the Navy (Financial Management and Comptroller) did not respond to Recommendation 2. The Director, Defense Finance and Accounting Service–Indianapolis, responded to the nine recommendations (Recommendations 3.a-3.e) addressed to him. Comments on Recommendations 1.h, 3.a.2, and 3.e conformed to DoD Instruction 7650.03, and we do not require additional comments. The DCFO's comments on Recommendations 1.c, 1.d, and 1.g partially addressed the recommendation. The DCFO's comments on Recommendations 1.a, 1.b, 1.e, and 1.f did not address the recommendations. The Director's comments on Recommendations 3.d.1 and 3.d.2 partially addressed the recommendations. The Director's comments on Recommendations 3.a.1, 3.a.3, 3.b, 3.c, and 3.d.3 did not address the recommendations. Therefore, these recommendations are unresolved. We request that the DCFO, the Assistant Secretary of the Navy (Financial Management and Comptroller), and the Director reconsider their positions and provide additional comments by June 22, 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 Treasury Index (TI) 97 Cash Management Report (CMR) was complete, accurate, and supported by the details necessary to perform Fund Balance With Treasury (FBWT) reconciliations. See the Appendix for a discussion of the scope, methodology, and prior coverage related to the objective. See the Glossary for definitions of terms used in this report.

## Background

The Department of the Treasury (the Treasury) has the critical responsibility to maintain the U.S. Government's set of accounts and serve as the repository of information about the financial position of the U.S. Government. The Treasury's Bureau of the Fiscal Service uses the Central Accounting and Reporting System (CARS) to handle the accounting and financial reporting for all Federal agencies. Specifically, CARS captures and records summary-level information, such as funding, collections, disbursements, and intragovernmental transactions, and provides agencies with an account statement of their FBWT accounts.<sup>4</sup>

DoD disbursing stations report collection and disbursement information to DFAS centers. Specifically, DoD disbursing stations use the SF 1219, "Statement of Accountability," and SF 1220, "Statement of Transactions," to report DoD collections and disbursements to DFAS centers monthly.<sup>5</sup> These statements report summary collection and disbursement information for TI-97 Other Defense Organizations (ODOs).<sup>6</sup>

The Defense Finance and Accounting Service (DFAS)-Indianapolis Headquarters Accounting and Reporting System (HQARS) consolidates the collection and disbursement information received from disbursing stations into one amount for each FBWT account. HQARS reports the balance for each FBWT account to CARS at the summary level because CARS does not record individual ODO FBWT balances. To help ODOs reconcile their FBWT accounts, DFAS-Indianapolis developed the CMR. The CMR is similar to a commercial bank statement in that it provides a summary cash position for each individual ODO FBWT account

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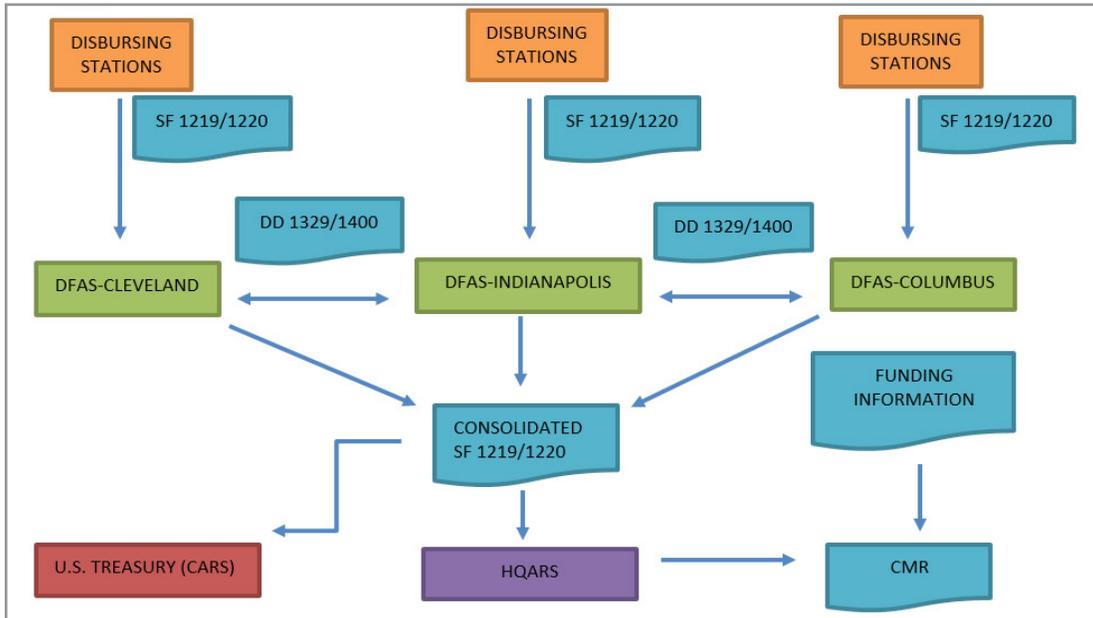
<sup>4</sup> The FBWT is an asset account that reflects available funds in the entity's accounts with the Treasury that authorizes the entity to make expenditures and pay liabilities.

<sup>5</sup> The SF 1219 provides the Treasury information about disbursing office collections and disbursements and discloses changes to the disbursing officer's accountability. The SF 1220 provides the Treasury with information related to an agency's disbursement and collection activity by appropriation, fund, and receipt accounts.

<sup>6</sup> The TI-97 FBWT account is an aggregate account that includes many ODOs. However, these aggregate accounts do not identify individual ODO balances. ODOs include Defense agencies, Defense-wide appropriations and programs, and trust funds.

by fiscal year and appropriation at the limit level. Limits are four-character codes that help identify, manage, and report the financial activity of each ODO. DFAS Manual 7097.01 contains a list of valid limits and appropriations.<sup>7</sup> The following figure shows a flowchart of the process for reporting collections and disbursements to CARS and creating the CMR. We explain the standard forms (SFs) and DoD (DD) forms below the flowchart.

*Figure. Flowchart for Reporting Collections and Disbursements to CARS and Creating the CMR*



Source: The DoD OIG.

The flowchart shows the following process.

- Disbursing stations report monthly collection and disbursement balances on the SF 1219 “Statement of Accountability” and the SF 1220 “Statement of Transactions” to DFAS centers in Cleveland and Columbus, Ohio, and Indianapolis, Indiana. Each DFAS center consolidates the collection and disbursement data received from the disbursing stations and submits a consolidated SF 1219 and SF 1220 to the Treasury monthly.
- The DFAS centers create and exchange a DD Form 1329, “Statement of Transactions,” to report transactions that were reported on behalf of other DFAS centers. For example, if DFAS-Indianapolis receives Navy data on the SF 1219 and SF 1220 from its disbursing stations, DFAS-Indianapolis reports those transactions to the Treasury on its consolidated SF 1219 and SF 1220. DFAS-Indianapolis then reports the Navy data to DFAS-Cleveland (Navy service provider) on a DD Form 1329.

<sup>7</sup> DFAS Manual 7097.01, “Financial Management Departmental Reporting Manual for Office of the Secretary of Defense (Treasury Index 97) Appropriations,” August 2015.

- DFAS centers will create and exchange a DD Form 1400, “Statement of Inter-fund Transactions.” Inter-fund transactions are intragovernmental transactions between or within DoD Components for the purchase of goods.
- Data from the consolidated SF 1219, SF 1220, DD Form 1329, and DD Form 1400 are reported in HQARS and consolidated with funding information from the Program Budget Accounting System to create the CMR.<sup>8</sup>
- DFAS centers report the consolidated data to the Treasury CARS by TI, appropriation, fiscal year, and amount.
- The CMR provides the summary cash position for each individual ODO FBWT account by fiscal year, appropriation, and limit level. The ODOs reconcile their FBWT account balances in their general ledger system with the balances reported on the CMR at the limit level.

DFAS and the ODOs are jointly responsible for effective FBWT reconciliations. An effective FBWT reconciliation is when all reconciling differences are resolved. This ensures that the FBWT universe of transactions is complete and transactions included in the FBWT accounts are accurate and valid. In addition, effective reconciliations serve as a detection control for identifying unauthorized and unrecorded transactions at the Treasury and the ODOs. Effective reconciliations are also important in preventing ODOs disbursements from exceeding appropriated amounts and providing an accurate measurement of the status of available resources.

Reconciling the FBWT accounts is a key internal control for maintaining the accuracy and reliability of the ODO FBWT accounts. Therefore, DFAS and the ODOs must perform timely reconciliations and implement effective and efficient reconciliation processes. DFAS is responsible for reconciling the aggregated ODOs FBWT account balances with the account balances reported in CARS. DFAS and the ODOs are responsible for reconciling the ODO FBWT account balances in their general ledger system with the CMR monthly. The ODOs are responsible for monitoring and approving any reconciliations performed by DFAS on their behalf.

Reconciliation also allows DFAS and the ODOs to resolve differences in a timely manner. DFAS and the ODOs must reconcile any differences caused by time lag and correct differences caused by error. DFAS and the ODOs must explain any discrepancies between CARS and the FBWT account balances in their general ledger system and disclose them in the notes to the financial statements in

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<sup>8</sup> The Program Budget Accounting System is used by the DoD to control and distribute funds from the department level to DFAS field sites.

accordance with Statement of Federal Financial Accounting Standard 1, “Accounting for Selected Assets and Liabilities.” When resolving differences, DFAS and the ODOs must maintain detailed reconciliation documentation that is readily available for review by management, auditors, and the Treasury, if requested.

## 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>9</sup>

We determined that DFAS-Indianapolis personnel excluded appropriations and financial activity from the CMR that was included in CARS. In addition, DFAS-Indianapolis personnel made unsupported adjustments to resolve differences identified while reconciling the CMR with CARS. Furthermore, DFAS-Indianapolis personnel reported unidentified limits and non-TI-97 data on the CMR. We will provide a copy of the report to the senior officials responsible for internal controls at the Office of the Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer (OUSD[C]/DCFO), the Navy, and DFAS-Indianapolis.

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<sup>9</sup> DoD Instruction 5010.40, “Managers’ Internal Control Program Procedures,” May 30, 2013.

## Finding

### The September 2016 Cash Management Report Was Not Complete, Accurate, or Properly Supported

The September 2016 TI-97 CMR was not complete, accurate, or supported by the details necessary for ODOs to perform FBWT reconciliations.<sup>10</sup> Specifically:

- DFAS-Indianapolis personnel excluded 69 TI-97 appropriations from the CMR that were reported in CARS. Additionally, DFAS-Indianapolis personnel did not report \$3.6 billion in financial activity for the Defense Working Capital Fund (DWCF) on the CMR. This occurred because DFAS-Indianapolis personnel did not design the CMR to report all financial activity for each of the ODOs, as required by the DoD Financial Management Regulation (DoD FMR) and the Financial Improvement and Audit Readiness (FIAR) Plan Status Report.<sup>11</sup> In addition, the DFAS-Indianapolis standard operating procedures (SOPs) did not require a reconciliation of all TI-97 FBWT accounts in the CMR with all TI-97 FBWT accounts in CARS.<sup>12</sup>
- DFAS-Indianapolis personnel made unsupported adjustments of \$322.6 million to TI-97 FBWT accounts to resolve differences identified while reconciling the CMR with FBWT account balances in CARS.<sup>13</sup> This occurred because DFAS-Indianapolis did not have SOPs that included detailed steps to identify and resolve the root cause of the differences identified when reconciling the CMR with account balances in CARS in accordance with the DoD FMR. In addition, DFAS-Indianapolis personnel did not maintain supporting documentation for all adjustments made to TI-97 accounts while reconciling the CMR with CARS.
- DFAS-Indianapolis personnel reported an absolute amount of \$11 billion in unidentified limits on the CMR; therefore, the ODOs did not have the details needed to perform FBWT reconciliations.<sup>14</sup> This occurred because DoD personnel did not record and submit account balances and transactions in DoD accounting and disbursing systems with the limits

<sup>10</sup> The September 2016 CMR is considered the fiscal year-end report because it contains TI-97 financial activity for the entire fiscal year.

<sup>11</sup> DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 4, Chapter 2, "Accounting for Cash and Fund Balance With Treasury." FIAR Plan Status Report November 2016.

<sup>12</sup> DFAS-Indianapolis Standard Operating Procedure, "Cash Management Report Summary-Level Preparation," September 2015.

<sup>13</sup> Because DFAS-Indianapolis personnel could not provide supporting documentation for these adjustments, we considered them inaccurate.

<sup>14</sup> Absolute amount is the value of change, whether a decrease or increase in cost. A limit is considered unidentified if it is not listed in DFAS Manual 7097.01 with an appropriation in the manual's appropriation tables.

required by DFAS Manual 7097.01. In addition, DFAS-Indianapolis did not design HQARS to convert all unidentified limits into limit “\*999” in accordance with the DoD FMR.

As a result, DFAS-Indianapolis and the ODOs lacked the information needed to perform complete FBWT account reconciliations for September 2016. In addition, the \$322.6 million in unsupported adjustments to resolve differences and the use of \$11 billion in unidentified limits indicated that the accounting records did not reflect an accurate and supported financial position for the ODO FBWT accounts. This will cause FBWT accounts to be misstated on the individual ODO financial statements and the DoD Agency-wide financial statements. Additionally, without accurate financial data, ODOs management will not be able to make informed budget decisions regarding operations.

## Cash Management Report Was Incomplete

DFAS-Indianapolis personnel excluded 69 TI-97 appropriations from the September 2016 CMR that were reported in CARS. Additionally, DFAS-Indianapolis personnel did not report \$3.6 billion in financial activity for the DWCF on the CMR.

### ***Excluded TI-97 Appropriations***

The DoD FMR requires DFAS to reconcile the CMR with account balances reported in CARS.<sup>15</sup> However, DFAS-Indianapolis personnel did not reconcile the CMR with TI-97 account balances reported in CARS. In addition, DFAS-Indianapolis personnel did not follow FIAR Plan Status Report guidance to report the complete cash position of the ODOs on the CMR at the appropriation and limit levels. DFAS-Indianapolis personnel stated that they excluded 69 appropriations from the CMR because they did not need the data from the CMR to produce financial statements. DFAS-Indianapolis personnel also stated that they developed separate processes to reconcile and report the financial activities of the excluded appropriations. However, DFAS’s stated practice of excluding appropriations limited management oversight of 69 appropriations with account balances totaling \$15.6 billion and resulted in inaccurate reporting of ODO financial activity on the CMR. Table 1 shows the type, number, and CARS balances of appropriations that DFAS-Indianapolis personnel stated were excluded from the September 2016 CMR.

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<sup>15</sup> DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” Volume 4, Chapter 2, “Accounting for Cash and Fund Balance With Treasury.”

Table 1. Type, Number, and CARS Balances of Appropriations Excluded From the September 2016 CMR

Type of Appropriation Excluded*	Number of Appropriations Excluded	CARS Balances of Appropriations Excluded (millions)
General Fund	4	\$5,155.6
Clearing Account	5	(11.6)
Deposit Fund Account	8	1,150.1
General Treasury Account	2	853.1
Defense Working Capital Fund	1	7,683.1
Trust Fund Accounts	7	805.9
Accounts With No Balance	42	0.0
<b>Total</b>	<b>69</b>	<b>\$15,636.1**</b>

\* See the Glossary for definitions of these appropriations.

\*\* The totals will not add due to rounding.

Source: The DoD OIG.

Although DFAS-Indianapolis listed the DWCF cash balance as an appropriation that is excluded from the CMR in its SOPs, DFAS-Indianapolis personnel reported some of the DWCF cash balance on the September 2016 CMR.<sup>16</sup> In addition, DFAS-Cleveland and DFAS-Columbus reported DWCF financial activity related to cash on three additional CMR reports. Specifically,

- DFAS-Indianapolis reported \$7 billion in TI-97 DWCF financial activity for the Department of the Army, DFAS, the Defense Information Systems Agency (DISA), and the Defense Logistics Agency on the CMR;
- DFAS-Cleveland reported \$1.4 billion on a CMR for the Department of the Navy; and
- DFAS-Columbus reported \$2.8 billion in TI-97 DWCF activity for the Department of the Air Force and the Defense Commissary Agency on two separate CMR reports.

However, the total DWCF balance of \$11.2 billion reported by the three DFAS centers does not produce an overall reconciliation of the DWCF account because it does not reconcile with the \$7.7 billion balance reported in CARS (See Table 1 above) because DWCF financial activity was excluded.

<sup>16</sup> The DWCF is used by the Army, Navy, Air Force, Defense Commissary Agency, DFAS, DISA, and the Defense Logistics Agency. The DWCF is used by the Army, Navy, and Air Force when they receive and execute TI-97 funds. The appropriation number for the DWCF is 4930, and it uses limits to identify the DoD Component; limit .1\*\*\* is Army, .2\*\*\* is Navy, .3\*\*\* is Air Force, .4\*\*\* is Defense Commissary Agency, and .5\*\*\* is shared by DFAS, DISA, and the Defense Logistics Agency.

### ***Excluded Defense Working Capital Fund Financial Activity***

The DWCF balances reported by DFAS did not reconcile with amounts in CARS because DFAS-Indianapolis personnel did not report a net amount of \$3.6 billion in DWCF financial activity on the CMR, which would have reduced the CMR balance.<sup>17</sup> Specifically, DFAS-Indianapolis personnel did not report all the funding, collection, and disbursement data that was reported in CARS for the Department of the Army, DFAS, DISA, and the Defense Logistics Agency (DLA). Therefore, DFAS-Indianapolis personnel needed to make \$3.6 billion in forced accounting entries to resolve the variance between the CMR and the amounts reported in CARS.<sup>18</sup> The \$3.6 billion in DWCF financial activity excluded from the CMR included \$0.5 million in collections and disbursements that are not supported by voucher-level details. These excluded transactions indicate that DFAS-Indianapolis does not have an accurate universe of transactions for the DWCF FBWT account, which may adversely impact the Army, DFAS, DISA, and DLA financial statement audits. Because DFAS, DISA, and the DLA share a DWCF account at the Treasury, there is no way to determine which agency will be impacted by the excluded collections and disbursements. DFAS, DISA, and the DLA will not be able to perform effective reconciliations of their DWCF FBWT accounts until these collection and disbursement transactions are researched and assigned to the correct agency. In addition, the preparation of four CMRs by DFAS for DWCF financial activity does not produce an overall reconciliation of the DWCF account. See Table 2 for a summary of the DWCF financial activity excluded from the DFAS-Indianapolis CMR.

*Table 2. DWCF Financial Activity and Balance Excluded From the September 2016 CMR*

<b>Financial Activity Excluded from the CMR</b>	<b>Balance (millions)</b>
Funds from Authority	\$326.9
Funds from Transfers	(\$3,926.0)
Collections/Disbursements	0.5
<b>Total</b>	<b>(\$3,598.6)</b>

Source: The DoD OIG.

The September 2016 CMR was not complete because DFAS-Indianapolis personnel did not design the CMR to report all financial activity for each ODO, as required by the DoD FMR and the FIAR Plan Status Report. In addition, the DFAS-Indianapolis SOPs did not require a reconciliation of all TI-97 FBWT accounts in the CMR with all TI-97 FBWT accounts in CARS.

<sup>17</sup> The \$11.2 billion minus \$3.6 billion does not equal the CARS balance of \$7.7 billion due to rounding.

<sup>18</sup> Forced accounting entries represent any amount posted, usually at a summary level, to eliminate differences between the Component's general ledger balance and the Treasury total.

DFAS's practice of excluding TI-97 financial activity from the CMR results in multiple CMRs and separate reconciliation processes for TI-97 FBWT accounts. This decentralized approach to managing TI-97 financial activity is inefficient and increases the likelihood that significant errors will occur. These errors could prevent the ODOs from performing effective and reliable FBWT reconciliations in accordance with the DoD FMR. The OUSD(C)/DCFO should create individual DWCF accounts at the Treasury for DISA, DLA, and DFAS. The Director, DFAS-Indianapolis, should improve the CMR process to produce one consolidated CMR that reports all the ODOs financial activity on a single consolidated CMR. The Director should also ensure the CMR supports all TI-97 FBWT account reconciliations. In addition, the Director should document the updated CMR process for all TI-97 FBWT accounts in process maps and process narratives.<sup>19</sup> Lastly, the Director should revise SOPs to require a reconciliation of all TI-97 FBWT accounts in the CMR with all TI-97 FBWT accounts in CARS.

## **DFAS-Indianapolis Made Unsupported Adjustments to the Cash Management Report**

DFAS-Indianapolis personnel made unsupported adjustments of \$322.6 million to TI-97 FBWT accounts to resolve differences identified while reconciling the CMR with FBWT account balances in CARS. The DoD FMR requires DFAS to reconcile CMR amounts with those reported by CARS and identify and resolve any differences. The DoD FMR also requires DFAS and the ODOs to ensure that all adjustments are researched and traceable to supporting documents. However, DFAS did not identify, resolve, and maintain supporting documentation for all differences identified while reconciling the CMR with CARS.

For example, DFAS-Indianapolis personnel adjusted the Defense Health Program account by \$227.2 million to force the CMR to balance with the amount reported in CARS. DFAS-Indianapolis personnel stated that they needed to make this adjustment because some of these funds were frozen by sequestration and not released to the DoD, causing the balance on the CMR to be lower than the balance reported in CARS. However, DFAS-Indianapolis personnel were not able to provide supporting documentation for \$151.5 million of this \$227.2 million adjustment to show the variance was caused by sequestration. This indicates that DFAS-Indianapolis personnel did not accurately identify and support the root cause of the difference.

<sup>19</sup> DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013. According to the Instruction, the Assessable Unit Manager is required to ensure key processes are accurately documented in process maps and narratives.

DFAS-Indianapolis also made \$58.4 million in unsupported adjustments to force the CMR to balance with five other TI-97 FBWT accounts. The largest adjustment in these accounts was by \$47 million to a Foreign Military Sales account, the Global Security Contingency Fund. DFAS-Indianapolis personnel were not able to provide supporting documentation to justify the adjustments to any of the five TI-97 FBWT accounts.

DFAS-Indianapolis personnel made unsupported adjustments because they did not have SOPs that included detailed steps on how to identify and resolve the root cause of the differences identified when reconciling the CMR with account balances in CARS in accordance with the DoD FMR. In addition, DFAS-Indianapolis personnel did not maintain supporting documentation for all adjustments made to TI-97 accounts while reconciling the CMR with CARS.

The ODO financial statements will continue to be unreliable and ODOs management will not be able to make informed budget decisions regarding operations if DFAS cannot support differences identified during the FBWT reconciliation process as required by the DoD FMR. The Director, DFAS-Indianapolis, should develop SOPs that provide detailed steps on how to identify and resolve differences between TI-97 FBWT accounts balances reported in the CMR and the TI-97 FBWT account balances reported in CARS. The SOPs should require DFAS-Indianapolis to maintain supporting documentation for any adjustment made to TI-97 FBWT accounts. In addition, the SOPs should require DFAS-Indianapolis to obtain written approval from the ODOs for any adjustments made to TI-97 accounts.

## **Cash Management Report Contained Unidentified Limits**

DFAS-Indianapolis personnel reported an absolute amount of \$11 billion in unidentified limits on the CMR; therefore, the ODOs did not have the details needed to perform FBWT reconciliations.<sup>20</sup> A limit is considered unidentified if it is not listed in DFAS Manual 7097.01 with an appropriation in the manual's appropriation tables. The DoD FMR states that the ODOs must reconcile their FBWT account balances with their limits on the CMR, with support from DFAS as their service provider. DFAS and the ODOs are required to perform reconciliations at the voucher level (voucher number and amount). However, the CMR did not identify all the information necessary for the ODOs to perform FBWT account balance

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<sup>20</sup> Limits are four-character codes that help identify, manage, and report the financial activity of each ODO. DFAS Manual 7097.01 contains a list of valid limits and appropriations.

reconciliation at the limit level. In addition, DFAS-Indianapolis personnel did not have the voucher-level details that supported all CMR balances. For example, DFAS-Indianapolis reported the following balances on the CMR:<sup>21</sup>

- \$238.7 million in limits \*999;<sup>22</sup>
- \$8.3 billion in other unidentified limits, including \$13.9 million that can be attributed to the Navy submitting their own unique codes that did not identify the correct ODO limits;
- \$2.5 billion in unidentified limits 99SD, 99SC, 99UF, 99SA, and I99\*; and
- \$76,186 in non-TI-97 financial activity.

None of the limits listed above are associated with any of the ODOs according to DFAS Manual 7097.01 and are considered unidentified limits. Because these limits were not associated with a specific agency, DFAS and the ODOs could not determine which transactions belong to their organization. As a result, individual ODO FBWT accounts may be misstated.

### ***Unidentified Limits Converted to Limit \*999***

DFAS-Indianapolis personnel reported \$238.7 million in collections and disbursements in unidentified limits \*999 on the CMR. Disbursing stations submit collection and disbursement data to HQARS to be validated and standardized for the preparation of the CMR. HQARS verifies that the data, such as the appropriation and limit, is complete and accurate. If HQARS identifies an incorrect limit, the system will convert the limit to \*999. In January 2017, DFAS-Indianapolis personnel developed the L9 report, which is a tool to help DFAS and the ODOs manage and reconcile the transactions in limits \*999. DFAS-Indianapolis personnel identified other data elements in the transaction, such as Fiscal Station Number (FSN), to help attribute the transaction to the ODOs.<sup>23</sup>

However, we identified errors in the L9 report that will prevent DFAS and the ODOs from correcting all of the transactions in the \*999 limits. The transactions contained in the January 2017 L9 report did not always have a limit or FSN to identify the correct ODO responsible for recording the accounting transaction. For example, a transaction for \$1.8 million was submitted without a limit so it was converted to the unidentified limit of “N999” by HQARS. In addition, the transaction does not have an FSN to help identify the ODO responsible for recording the accounting transaction.

<sup>21</sup> The balances in these bullets are reported as absolute amounts.

<sup>22</sup> The asterisk mark is a placeholder for a digit or character.

<sup>23</sup> An FSN is a five-digit number (in a six-position field) assigned to an installation or activity integrated finance and accounting office.

DFAS-Indianapolis personnel did not distribute the L9 report to all of the ODOs. Therefore, we provided the L9 report to four ODOs to determine whether ODO personnel could confirm that the transactions were correctly attributed to their organizations. Personnel from the four ODOs could not verify that 1,160 of 1,187 transactions were correctly attributed to their organizations. Specifically, personnel from three of the four ODOs stated they could not confirm that all the transactions were correctly attributed to their organizations. Personnel from one of the four ODOs stated that all of the transactions that DFAS identified on the L9 report were incorrectly attributed to their organization. DFAS-Indianapolis and ODO personnel will not be able to reconcile these transactions until the correct accounting information is identified on the L9 report; therefore, the transactions will not be accurately reported on the individual ODOs financial statements. Table 3 describes unconfirmed transactions from the January 2017 L9 report.

*Table 3. Unconfirmed Transactions from the January 2017 L9 Report*

ODO	Attributed Transactions	Unconfirmed Transactions	Explanation
DoD Education Activity (DoDEA)	175	142	DoDEA personnel stated that the L9 report did not have enough information to confirm all of the transactions.
Defense Acquisition University (DAU)	654	654	DAU personnel stated that all of the transactions were incorrectly assigned to their organization. DAU suballots funds to DoD components to take training. According to DAU personnel, the transactions on the L9 report should be attributed to the components receiving the suballotment.
Defense Contract Management Agency (DCMA)	346	346	DCMA personnel stated that the L9 report did not have enough information to confirm all of the transactions.
Defense Advanced Research Projects Agency (DARPA)	12	1	DARPA personnel stated that the L9 report did not have enough information to confirm all of the transactions.
<b>Totals</b>	<b>1,187</b>	<b>1,143</b>	

Source: The DoD OIG.

In addition, DFAS-Indianapolis did not use the FSN for DISA to identify 17 transactions that should have been attributed to DISA. In another example, one transaction for \$1.7 million was submitted with the unidentified limit of “0000” and converted by DFAS to the unidentified limit “N999.” Instead of properly researching this error and assigning it to an ODO, DFAS-Indianapolis personnel attributed this transaction to the Army’s General Fund Enterprise Business System. However, Army personnel provided voucher-level details that indicated the transaction should have been attributed to the U.S. Special Operations Command. U.S. Special Operations Command personnel were not aware that they were responsible for reconciling this transaction because it was not attributed to their organization on the L9 report. This indicates that DFAS-Indianapolis and ODO personnel are not performing FBWT reconciliations at the voucher level in accordance with the DoD FMR.

### ***Unidentified Limits Not Converted to Limit \*999***

DFAS-Indianapolis reported an absolute amount of \$8.3 billion in 114 other unidentified limits that could not be validated using DFAS Manual 7097.01. These limits were not converted into \*999 limits as intended by HQARS and were reported on the CMR with unidentified limits. This indicates that the controls in HQARS that validated the data were not operating effectively. Additionally, DFAS-Indianapolis personnel stated that these limits are not tracked by the L9 report. For example, DFAS-Indianapolis reported a balance with an absolute amount of \$173,422 in limit “NONE” on the CMR. DFAS-Indianapolis cannot determine which agency should record and reconcile this balance. In another example, DFAS reported an absolute amount of \$65.8 million in an unidentified limit “0200.” DFAS personnel were unable to provide documentation to explain this limit. According to DFAS-Indianapolis personnel, some of these transactions are reported in unidentified limits because the Navy does not use the standardized limits in DFAS Manual 7097.01 when executing TI-97 appropriations. We discuss the Navy’s use of unidentified limits later in the report.

### ***Unidentified Limits and Amounts Used to Force Balance the Cash Management Report***

DFAS-Indianapolis reported an absolute amount of \$2.5 billion in balances on the CMR in limits 99SD, 99SC, 99SA, 99UF, I99\*. These limits are not identified in DFAS Manual 7097.01 and are not tracked on the L9 report. DFAS-Indianapolis records balances in these limits to capture variances and timing differences between the amounts reported on the CMR and the amounts reported in CARS. These unidentified limits and amounts were used to force balance the CMR to account balances in CARS. DFAS-Indianapolis personnel stated that these variances

are not supported by voucher-level details. The DoD FMR states that DFAS and the ODOs must research and resolve the differences at the detail voucher level. Thus, if DFAS and the ODOs cannot identify the voucher-level details that support these differences, they will not be able to perform accurate and complete FBWT reconciliations in accordance with the DoD FMR. Additionally, the individual ODO financial statements may be misstated.

### ***Unidentified Limits Used by Navy***

The Navy did not always report collections and disbursements to DFAS-Indianapolis with valid limits in accordance with DFAS Manual 7097.01. According to the DoD FMR, DFAS and the ODOs are required to reconcile FBWT accounts at the limit level. However, the Navy did not submit the correct limits necessary for DFAS and the ODOs to perform FBWT reconciliations at the limit level. According to DFAS-Indianapolis personnel, an absolute amount of \$13.9 million was reported in unidentified limits on the CMR that were caused by the Navy submitting incorrect limit information. Navy personnel used a unique coding structure that applied only to the Navy rather than using valid limits in accordance with DFAS Manual 7097.01. Navy personnel provided the ODO financial activity to DFAS, along with conversion tables that crosswalk the Navy codes to limits. DFAS converted the data to limits and reported the information on the CMR for the ODOs to perform reconciliations. However, we determined that Navy codes were not always converted by DFAS to the proper limit. As a result, it was not clear which ODOs should record and reconcile the transactions. The Navy's use of unidentified limits created unnecessary steps for DFAS and the ODOs and increased the likelihood that the financial position of the ODOs is misstated. According to DFAS-Cleveland personnel, Navy personnel did not submit the correct limit information because the Navy's financial systems did not have the capability to report information by the approved limits. The Assistant Secretary of the Navy (Financial Management and Comptroller) should correct the Navy's financial systems to report TI-97 transactions with the limits established by DFAS-Indianapolis and approved by the OUSD(C)/DCFO.

### ***Non-TI-97 Financial Activity Recorded on Cash Management Report***

According to the DoD FMR, the CMR is a FBWT reconciliation tool for TI-97 entities. However, DFAS-Indianapolis reported \$76,186 in non-TI-97 financial activity on the September 2016 CMR. For example, DFAS-Indianapolis personnel reported \$9,098 in a TI-21 (Army) appropriation used for aircraft procurement on the CMR. In another example, DFAS-Indianapolis personnel reported \$63,540 in a TI-57 (Air Force) appropriation used for military personnel on the CMR. Because

the CMR contains non-TI-97 financial activity, there is a breakdown in the controls related to the preparation of the TI-97 CMR. DFAS-Indianapolis personnel were unable to explain why non-TI-97 transactions were included on the TI-97 CMR. The Director, DFAS-Indianapolis, should improve the CMR process to produce one consolidated CMR that reports only TI-97 financial activity.

### ***Inaccurate Impact Represented to ODO Personnel***

DFAS-Indianapolis personnel did not accurately represent the impact of the \$11 billion in unidentified limits to ODO representatives. DFAS-Indianapolis personnel calculated balances of unidentified limits that were recorded in TI-97 appropriations. DFAS reported the balances monthly to the ODOs for the appropriations that are used by their organizations in audit reconciliation workbooks. However, the calculations used to present the balances did not accurately reflect the materiality of the unidentified limits because DFAS-Indianapolis personnel presented the balances as net amounts. This means that DFAS-Indianapolis added collections and disbursements with unidentified limits together, making the balance appear to be smaller.

For example, DFAS-Indianapolis personnel provided an audit reconciliation workbook for September 2016 to DISA personnel, stating that a net amount of \$3.7 million in unidentified limits was recorded in general fund appropriations used by DISA.<sup>24</sup> However, the actual risk to DISA is \$881.6 million, which is the absolute value of each collection and disbursement in unidentified limits. Specifically, DISA's financial position could be impacted by each collection and disbursement recorded in the unidentified limits in these four appropriations. Furthermore, the balances recorded in these unidentified limits could be attributed to DISA or any other ODO that shares these appropriations. DISA personnel stated that they have performed analyses to show that the balances recorded in these unidentified limits do not impact their FBWT account balances. However, we did not assess these analyses because it was outside the scope of our audit. The Director, DFAS-Indianapolis, should report the absolute dollar amount of the balances recorded in unidentified limits to the ODOs in the monthly TI-97 audit reconciliation workbook.

The CMR contained unidentified limits because DoD personnel did not record and submit balances and transactions in DoD accounting and disbursing systems using limits identified in DFAS Manual 7097.01. In addition, DFAS-Indianapolis has not designed HQARS to convert all unidentified limits into \*999 in accordance with the DoD FMR. The ODOs need to take responsibility for reconciling their

<sup>24</sup> DISA uses four general fund appropriations, 0100, 0300, 0400, and 0500. 0100 is Operation and Maintenance; 0300 is Procurement; 0400 is Research, Development, Test, and Evaluation; and 0500 is Military Construction.

FBWT account balances and limit DFAS's involvement in the reconciliation process. Select ODOs could improve their financial management by establishing individual FBWT accounts at the Treasury. This would enable the ODOs to have direct oversight of their FBWT accounts without relying on DFAS processes for their FBWT account reconciliations. There are TI-97 entities with individual FBWT accounts at the Treasury that have clean audit opinions, such as the Military Retirement Fund. The DCFO should use his discretion when deciding which ODOs should establish accounts at the Treasury. For ODOs that cannot have their own accounts, they could improve their financial management by reconciling directly to FBWT accounts at the Treasury at the four-digit limit level.

If DFAS-Indianapolis continues to report transactions and balances with unidentified limits that cannot be assigned to a specific ODO, DFAS and the ODOs will need to make forced accounting entries to the ODO FBWT accounts to reconcile with balances reported by the Treasury in CARS. OUSD(C)/DCFO personnel acknowledged that unidentified limits indicate that the accounting records do not reflect an accurate financial position, which then causes FBWT accounts to be misstated. The problems identified in the report need to be resolved to support current and future ODO financial statements. Due to the widespread issues identified with the CMR in this report, the OUSD(C)/DCFO should reconsider whether the CMR is an adequate TI-97 FBWT reconciliation tool. The OUSD(C)/DCFO should oversee the corrections to the CMR or develop a single, consolidated TI-97 FBWT reconciliation tool that allows stakeholders to perform detailed reconciliations for the TI-97 FBWT accounts at the voucher level. The OUSD(C)/DCFO should develop and issue policy establishing that DFAS Manual 7097.01 is the authoritative list of approved limits and requiring these limits to be used when executing TI-97 transactions. In addition, the OUSD(C)/DCFO should develop a plan to reduce the number and dollar amount of unidentified limits used for TI-97 appropriations. Additionally, the OUSD(C)/DCFO should establish metrics that report the number of transactions in unidentified limits and the total absolute dollar amount of these transactions monthly by accounting and disbursing system. Furthermore, the OUSD(C)/DCFO should work with the Treasury to either establish FBWT accounts for select ODOs when appropriate or establish four-digit limits for TI-97 FBWT accounts in CARS.

## Conclusion

DFAS-Indianapolis and the ODOs lacked the information needed to perform complete FBWT account reconciliations for September 2016. In addition, the \$322.6 million in unsupported adjustments to resolve differences and the use of \$11 billion in unidentified limits indicated that the accounting records did not reflect an accurate and supported financial position for the ODO FBWT accounts.

Specifically, this will cause FBWT accounts to be misstated on the individual ODO financial statements and the DoD Agency-wide financial statements. Additionally, without accurate financial data, ODOs management will not be able to make informed budget decisions regarding operations.

## Management Actions

According to DFAS-Indianapolis personnel, the limit “99UF” is used as a placeholder to account for TI-97 funds that were received by the DoD but were not yet allocated to individual ODOs at the limit level. In response to a discussion draft of this report, DFAS-Indianapolis personnel provided a summary-level reconciliation for \$699 million of the \$2 billion balance reported in limit “99UF” on the CMR. However, DFAS-Indianapolis personnel did not have support for the entire balance reported in limit “99UF” readily available as required by the DoD FMR. In March 2017, we requested supporting documentation that would support the amounts reported in invalid limits on the CMR, including limit “99UF.” DFAS-Indianapolis personnel were not able to provide the necessary support until December 2017. The DoD FMR states that the FBWT universe of transactions includes all valid funding, disbursements, collections, or transfers of funds (including warrants) to or from an entity. Therefore, DFAS and OUSD(C) personnel need to be able to provide a detailed reconciliation of the unallocated funds in a timely manner to support the individual ODO financial statement audits. The OUSD(C)/DCFO should develop a comprehensive TI-97 FBWT account reconciliation process that incorporates the entire FBWT universe of transactions (funding, disbursements, collections, and transfers of funds) in accordance with the DoD FMR.

## Other Matters of Interest

On September 24, 2012, the OUSD(C)/DCFO acknowledged the Treasury’s requirement to submit standardized data on all transaction types and convert from an end-of-month expenditure reporting process at the summary level with daily submissions at the transaction level, effective October 2014.<sup>25</sup> However, the DoD does not always report transaction-level data on a daily basis. The OUSD(C)/DCFO should require DoD disbursing stations to report transaction-level data to the Treasury on a daily basis.

<sup>25</sup> Department of The Treasury, Financial Management Service Memorandum, “Upcoming Financial Management Service’s Systems Changes and Timelines.”

## Management Comments on the Finding and Our Response

The Director, DFAS-Indianapolis, stated that FBWT account reconciliation is required for financial statement audits and that DFAS will continue to upgrade the processes and tools as a result of the audit. The Director stated that the DoD OIG audit team narrowly focused on the CMR, which is only a portion of the comprehensive FBWT reconciliation process. Independent Public Accounting (IPA) firms are taking the comprehensive approach on reviewing the FBWT account reconciliation process by reviewing the CMR, CMR error reports, and Department 97 Reconciliation and Reporting Tool (DRRT) that reconciles at the detail transaction level. The Director disagreed with the DoD OIG interpretation that the DoD FMR requires the CMR to be the exclusive FBWT reconciliation tool. The Director stated that DFAS confirmed with the OUSD(C)/Chief Financial Officer's Accounting and Finance Policy Directorate that the intent of the FMR was to establish high-level policy requirements for reconciliation but not limit the reconciliation to a single system or tool. The Director agreed with the DoD OIG position that FBWT account reconciliations must be accomplished at the detailed transaction level. Lastly, the Director stated that identifying differences at an absolute value misstates the impact to an entity's cash position.

### *Our Response*

The CMR was the scope of our audit because the CMR is the primary tool ODOs use to perform FBWT account reconciliations. DFAS personnel confirmed this at the beginning of our audit. The CMR provides a summary cash position for individual ODOs and they must reconcile their TI-97 FBWT account balances in their general ledger systems with the CMR monthly. Additionally, management from one of the ODOs requested that we review the CMR because of the issues identified during the ODO's FYs 2014 through 2017 financial statement audits. We agree that the work IPA firms perform can provide a road map for additional improvements. However, several IPA firms have reviewed the CMR process during their ODO financial statement audits and found that it is unreliable. The IPA firms' findings and conclusions related to the CMR directly align with our report.

We acknowledge that the DoD FMR does not require a single FBWT reconciliation tool. However, the DoD FMR requires DFAS and the Components to reconcile the Government-Wide Accounting statement in CARS with the CMR. In addition, the DRRT pulls balances from the CMR rather than directly from CARS. Specifically, the DRRT reconciles disbursements and collections that have been recorded on the CMR against the detailed transactions that have been recorded in the ODOs

accounting systems and reported on their trial balances. Therefore, until the DRRT can pull balances directly from CARS, the CMR needs to be corrected to effectively reconcile ODOs FBWT accounts.

DFAS and the Components could not demonstrate that they could reconcile the Government-Wide Accounting statement with the CMR without unsupported summary level variances. Lastly, each transaction should be scrutinized in terms of absolute value, regardless of the transaction's net impact. For example, if a checking account misstated a collection for \$100 and misstated a disbursement for \$101, it is not correct to suggest that the error is only \$1. In this example, two transactions need to be researched and resolved for total of \$201. The Director agrees with the need to scrutinize errors as an absolute amount, as evidenced by his response to Recommendation 3.e, which stated that DFAS-Indianapolis will begin reporting absolute amounts in the TI-97 audit reconciliation workbooks.

## Recommendations, Management Comments, and Our Response

### ***Recommendation 1***

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

- a. Create individual Defense Working Capital Fund accounts at the Department of the Treasury for the Defense Information Systems Agency, Defense Logistics Agency, and Defense Finance and Accounting Service.**

#### *Deputy Chief Financial Officer Comments*

The Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer (DCFO) disagreed with the recommendation. The DCFO stated that the current convention of accounting for the three DWCF organizations—DFAS, DISA, and the DLA—within the single 4930.5 account allows the DoD valuable flexibility when considering rate-setting practices, cash management, and limited authorities (for example, advanced billings). This flexibility has allowed the Office of the Under Secretary of Defense (Comptroller) (OUSD[C]) to respond to changes in the military operational environment, emergent need to support Federal Emergency Management Agency in humanitarian support efforts, significant spikes and troughs in the fuel market, and other unforeseen changes without having to disturb the planned activities of the Military Departments. The DoD is opposed to splitting up the DWCF because it may put the ODOs at greater risk of experiencing cash shortages. This is primarily a problem at the beginning of the fiscal year when the customers are often under a continuing resolution or awaiting their

fund distributions and will take risks with their DFAS and DISA bills. While all of the Defense agencies should budget and set rates to maintain solvency, the DWCF agencies have historically been able to rely upon each other for last resort coverage in the event of emergency shortfalls. If this safeguard was eliminated, DFAS and DISA, in particular, might have to grow their cash balances to absorb potential shortfalls, and the source for that growth would be their customers' appropriations.

### *Our Response*

Comments from the DCFO did not address the specifics of the recommendation; therefore, the recommendation is unresolved. During our audit, we discovered unsupported summary-level variances that were recorded in the 4930.5 DWCF account. DFAS could not determine whether DFAS, DISA, or the DLA should reconcile and report these variances. Because these agencies share a Treasury account, they depend on unreliable FBWT reconciliation tools provided by DFAS, such as the CMR. The current cash management philosophy prioritizes flexibility within the 4930.5 account rather than accountability. Each agency should establish its own DWCF account and be responsible for managing its individual cash position. This will improve accountability and auditability within the DWCF accounts. If cash needs to be transferred between accounts, the DoD can request a transfer by notifying Congress and receiving Office of Management and Budget approval in accordance with the DoD FMR. Furthermore, a continuing resolution provides authority to agencies to continue current operations and should not prevent Defense agencies from paying their mission-essential bills. We request that the DCFO reconsider his position on establishing separate DWCF accounts for each Defense agency or provide an alternative that ensures the ODOs can determine and manage their individual cash positions. We request the DCFO provide additional comments in response to the final report.

- b. Oversee the corrections to the Cash Management Report or develop a single, consolidated Treasury Index 97 Fund Balance With Treasury reconciliation tool that allows stakeholders to perform detailed reconciliations for the Treasury Index 97 Fund Balance With Treasury accounts at the voucher level.**

### *Deputy Chief Financial Officer Comments*

The DCFO agreed with the recommendation. The DCFO stated that DFAS developed the DRRT to support FBWT for the ODOs. The DCFO stated that implementation of this tool was completed in October 2014 for all Defense agencies that DFAS services. This tool provides a FBWT universe of transactions and the ability to reconcile accounting systems to the Treasury FBWT account at the voucher detail level for all open appropriations reconciled on the CMR on a monthly basis.

In FY 2015, DFAS defined additional functionality for the DRRT as a part of Increment 3, which provides enhancements to reconciliations that will further aid accountants in researching variances. The new functionality incorporates funding, suspense, and receipt data as well as data directly from the Treasury's CARS. Although DFAS completed the initial development of the DRRT Increment 3 reconciliation enhancements, DFAS must now address and coordinate additional controls with the sensitive activities community before DFAS can finalize the DRRT Increment 3 Project Schedule. The estimated completion date is September 2018.

### *Our Response*

Although the DCFO agreed with the recommendation, the DRRT by itself does not adequately ensure that stakeholders can perform detailed reconciliations for TI-97 FBWT accounts at the voucher level. Therefore, the recommendation is unresolved. We did not audit the DRRT because DFAS personnel informed us that the ODOs primarily use the CMR to reconcile their FBWT accounts. According to DFAS personnel, the DRRT was developed to perform the reconciliation of disbursements and collections that have been recorded on the CMR against the detailed transactions that have been recorded in the ODOs accounting systems and reported on their trial balances. Specifically, the first step in the FBWT reconciliation process is to compare the CMR to the consolidated DD Form 1329 and DD Form 1400. Therefore, the CMR needs to be corrected to effectively reconcile ODOs FBWT accounts until the DRRT has the capability to pull TI-97 FBWT account balances directly from CARS.

Furthermore, according to DFAS personnel, the DRRT reconciliation implementation date for the DLA began in March 2001. In September 2017, the auditors performing the DLA FY 2017 financial statement audits determined that the DRRT processes were not sufficient to validate complete and accurate FBWT account reconciliations between the DLA general ledger and the Treasury. Reconciling with the Treasury is a key control point established in the DoD FMR. The DCFO needs to reconsider whether the DRRT is the appropriate TI-97 reconciliation tool if IPA firms are still finding weaknesses 17 years after implementation. We request that the DCFO reconsider his position on the CMR and DRRT and provide additional comments to the final report that address the development of a FBWT reconciliation tool that allows stakeholders to perform detailed reconciliations.

- c. Develop and issue policy establishing that Defense Finance and Accounting Service Manual 7097.01, "Financial Management Departmental Reporting Manual for the Office of the Secretary of Defense (Treasury Index 97) Appropriations," is the authoritative list of approved limits and requiring the use of these limits when executing Treasury Index 97 transactions.**

### *Deputy Chief Financial Officer Comments*

The DCFO agreed with the intent of the recommendation. The DCFO stated that DFAS Manual 7097.01 is no longer the authoritative source for the list of approved limits. As of January 22, 2018, the Standard Financial Information Structure (SFIS) Values Library is the authoritative source for the Sub-Allocation Holder Identifier (also known as limit) and helps to ensure that limits are used for the intended purposes. The limit is used to identify the entity and the sub-allotment recipient. The DCFO also stated that the memorandum, "Improved Sub-Allocation Holder Identifier Management Process," January 22, 2018, supports closure of this recommendation and indicates that the SFIS Values Library is the authoritative source for limits.

### *Our Response*

Comments from the DCFO partially addressed the specifics of the recommendation; therefore, the recommendation is unresolved. The DCFO memorandum establishes that the SFIS Values Library will be the authoritative source for limits and the DoD components will be required to use the limits identified in the library in FY 2019. The memorandum provides business rules for the management and assignment of limits and SOPs for the new process. However, the memorandum does not discuss the use of limits when executing TI-97 transactions. In addition, the SOPs provided by the DCFO states that DFAS personnel will update DFAS Manual 7097.01 to reflect updates to limits. The DCFO should clarify why DFAS Manual 7097.01 needs to be updated if the SFIS Values Library is the new authoritative source for limits. Having two sources for limits increases the risk of discrepancies and may cause confusion as to which one is the authoritative source. The DCFO should consider establishing the requirements and procedures in the DoD FMR or eliminate one of the sources that is used to identify limits. We request that the DCFO provide additional comments in response to the final report addressing the use of limits when executing TI-97 transactions and his plan to incorporate the new requirements and procedures into the DoD FMR.

- d. Develop a plan to reduce the number and dollar amount of unidentified limits used for Treasury Index 97 appropriations.**

### *Deputy Chief Financial Officer Comments*

The DCFO agreed with the recommendation. The DCFO stated that unidentified limits are caused primarily by edit errors. As part of the Financial Management Functional Strategy, the DoD will conduct upfront Standard Line of Accounting validations via the Global Exchange for each financial data exchange to flag and mitigate errors prior to payments and routing to the accounting systems. This validation will eliminate errors at the source. In early FY 2017, the DoD began

conducting validation for transactions routing through the Global Exchange and providing feedback to the source on the transaction failures. The DoD is still connecting all necessary financial systems to the Global Exchange. The estimated completion date is September 30, 2019.

### *Our Response*

Comments from the DCFO partially addressed the recommendation; therefore, the recommendation is unresolved. While transactions caused by edit errors were identified on the September 2016 CMR, we disagree that unidentified limits are primarily caused by edit errors (\*999). During our audit, we determined that amounts recorded in limits resulting from calculated variances were significantly larger than the edit errors. For example, DFAS-Indianapolis reported \$238.7 million in unidentified limit \*999 on the September 2016 CMR that were a result of edit errors. However, we identified \$2.3 billion in calculated variances and unallocated funds that were used to balance the CMR to account balance in CARS. Furthermore, the Global Exchange is primarily used to facilitate the exchange of Buy/Sell transactions between the Army, Navy, Air Force, and other DoD Components' financial management and acquisition systems. The DCFO should plan to reduce the number and dollar amount of unidentified limits used for TI-97 appropriations that are not Buy/Sell transactions. We request that the DCFO provide comments in response to the final report addressing the plan to reduce unidentified limits discussed in this report.

- e. Establish metrics that report the number of transactions in unidentified limits and the total absolute dollar amount of these transactions by accounting and disbursing system monthly.**

### *Deputy Chief Financial Officer Comments*

The DCFO agreed with the recommendation. The DCFO stated that the DFAS Financial Operation Metrics report captures unidentified limits (absolute dollar value) for the TI-97 appropriations. Therefore, the recommendation is complete. The DCFO provided the January 2018 Financial Operation Metrics report to close the recommendation.

### *Our Response*

Comments from the DCFO did not address the specifics of the recommendation; therefore, the recommendation is unresolved. The report the DCFO provided shows a total for some CMR reconciling items and unidentified differences but does not state how these amounts were calculated. In addition, the report does not show the number of transactions in unidentified limits, or the total absolute dollar amount of these transactions by accounting and disbursing system monthly.

Furthermore, the report does not include the number and absolute amount of transactions of all of the unidentified limits that were reported on the CMR. For example, the report does not include unidentified limits such as “NONE” or “\*1\*\*\*” that were on the CMR. We recommend that the monthly report include unidentified limits such as these and breakout this information by accounting and disbursing system to show what systems are providing the unidentified limits. We ask that the DCFO provide additional comments in response to the final report addressing his plan to establish metrics that report the number of transactions in all unidentified limits and the total absolute dollar amount of these transactions by accounting and disbursing system monthly.

- f. Work with the Department of the Treasury to either establish Fund Balance With Treasury accounts for select Other Defense Organizations when appropriate or establish four-digit limits for Treasury Index 97 Fund Balance With Treasury accounts in the Central Accounting and Reporting System.**

#### *Deputy Chief Financial Officer Comments*

The DCFO disagreed with the recommendation. The DCFO stated that the OUSD(C) worked to establish FBWT accounts for select ODOs, but exposure of sensitive activities prevented establishment of certain accounts. In addition, establishing Treasury accounts for each Defense agency would increase the number of reprogramming actions that would fall under Section 8005 in the Defense Appropriations Acts. This would add an unnecessary burden and would remove much of the flexibility within accounts such as the Operation and Maintenance, a Defense-Wide appropriation.

#### *Our Response*

Comments from the DCFO did not address the specifics of the recommendation; therefore, the recommendation is unresolved. While we agree that it may not be practical to establish separate FBWT accounts for sensitive activities, the DCFO did not address his plans to work with the Treasury to establish four-digit limits for TI-97 FBWT accounts in CARS for sensitive ODOs. In addition, the DCFO did not provide a response that explains his plans to establish individual Treasury accounts or establish four-digit limits for TI-97 FBWT accounts in CARS for non-sensitive ODOs. One of the DCFO’s reasons for not establishing FBWT accounts or four-digit limits is the possible exposure of sensitive activities. However, the DCFO has not demonstrated how summary-level financial activity on the CMR can expose sensitive activities. Another reason the DCFO provided for not establishing individual accounts is that it will require additional efforts and would remove much of the flexibility within accounts, such as the Operation and Maintenance

appropriation. We also disagree with that assertion. The OUSD(C) allocates funding, including Operation and Maintenance funds, at the four-digit limit level to the ODOs. These funds should maintain their “identity” throughout DoD accounting and disbursing systems to allow for an effective FBWT account reconciliation with Treasury. The OUSD(C) will still have the flexibility to transfer unallocated funds between the ODOs as needed.

These efforts will allow for ODOs and the DoD to accurately account for and manage TI-97 FBWT accounts through accountability and direct oversight. This is the second response from the DCFO that highlighted the need to be flexible in shifting cash to cover gaps. In our opinion, the DoD needs to properly budget for its mission rather than relying on the flexibility of shifting cash to compensate for shortages. The current process adds unnecessary complexities and makes it difficult for DoD personnel to provide a reliable and clear audit trail. The FIAR Directorate reported a FBWT material weakness in the first FIAR Plan in 2005. The DoD is still addressing the same issues 13 years later. Two of the DoD’s top leaders, the Secretary of Defense and the Chief Financial Officer emphasized the importance of remediating audit findings and establishing a culture of performance where results and accountability matter on every expenditure. The DCFO has the opportunity to remediate the findings in this report and establish accountability in TI-97 FBWT accounts. We request that the DCFO reconsider his position on establishing individual FBWT accounts when appropriate and provide additional comments to the final report.

- g. Develop a comprehensive Treasury Index 97 Fund Balance With Treasury account reconciliation process that incorporates the entire Fund Balance With Treasury universe of transactions (funding, collections, disbursements, and transfers of funds) in accordance with the DoD Financial Management Regulation.**

#### *Deputy Chief Financial Officer Comments*

The DCFO agreed with the recommendation. The DCFO stated that DRRT 3 plus will include funding, collections, disbursements, and transfers of funds. This tool provides a FBWT universe of transactions and the ability to reconcile accounting systems with the CMR on a monthly basis. Although DFAS completed the initial development of the DRRT Increment 3 reconciliation enhancements, DFAS must address and coordinate additional controls with the sensitive activities community before DFAS can finalize the DRRT Increment 3 Project Schedule. The estimated completion date is September 30, 2018.

### *Our Response*

Comments from the DCFO partially addressed the specifics of the recommendation; therefore, the recommendation is unresolved. Although the DCFO agreed with the recommendation, DoD has not demonstrated that the DRRT can perform detailed reconciliations for TI-97 FBWT accounts at the voucher level for ODOs. See our response in recommendation 1.b. regarding the effectiveness of DRRT as a TI-97 FBWT reconciliation tool. Furthermore, if the DoD plans to continue using the DRRT, it will need to correct the CMR to effectively reconcile ODOs FBWT accounts until the DRRT can pull balances directly from CARS. We request that the DCFO provide additional comments to the final report detailing his plan for developing a comprehensive TI-97 FBWT reconciliation process that incorporates the entire universe of transactions.

- h. Require DoD disbursing stations to report transaction-level data to the Department of the Treasury on a daily basis.**

### *Deputy Chief Financial Officer Comments*

The DCFO agreed with the recommendation. The DCFO stated that the Treasury mandated that all Federal agencies, including the DoD, report disbursements and collections on a daily basis. The DoD has been incrementally implementing the mandate. OUSD(C) memorandum, "Treasury Disbursing and Collections Initiative: Standard Processes, Systems Identification, and Data Standardization," August 29, 2017, provided specific timelines for conversion to Treasury Direct Disbursing processes, including daily reporting for Non-Treasury Disbursing Offices. The memorandum states any new system that entitles payments must implement the Treasury Direct Disbursing process. Except for contingency disbursing operations, existing systems must also convert to the Treasury Direct Disbursing process, but may use the daily reporting process through the Non-Treasury Disbursing offices at DFAS for an interim period as legacy systems are being retired. The memorandum mandates that all DoD agencies report disbursements and collections on a daily basis with the Treasury. This conversion is required to be completed by September 30, 2019.

### *Our Response*

Comments from the DCFO addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the conversion to Treasury Direct Disbursing is completed.

## **Recommendation 2**

**We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) correct the Navy's financial systems to report Treasury Index 97 transactions with the limits established by Defense Finance and Accounting Service-Indianapolis and approved by the Office of the Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer.**

### *Management Comments Required*

The Assistant Secretary of the Navy (Financial Management and Comptroller) did not respond to our request for comments on this recommendation in the draft of this report. Therefore, the recommendation is unresolved. We request that the Assistant Secretary of the Navy (Financial Management and Comptroller) provide comments on the final report.

## **Recommendation 3**

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

- a. Improve the Cash Management Report process to produce one consolidated Cash Management Report that:
 
  - 1. Reports all the Other Defense Organizations financial activity;****

### *Director, DFAS-Indianapolis Comments*

The Director, DFAS-Indianapolis, disagreed with the recommendation. The Director stated that the DoD FMR does not require that the CMR be the single source for reconciling all TI-97 expenditure activity. The Director stated that the DoD FMR suggests that the limit-level reconciliation will be done separately, with an overall reconciliation demonstrating how the pieces come together to make the whole. The CMR and the TI-97 audit workbooks perform this function by reconciling all TI-97 amounts back to the CARS total, including accounts that are reconciled outside the CMR.

The Director stated that the DWCF amount of \$3.6 billion identified in the draft report represents budget authority and non-expenditure transfers. This activity is reconciled outside of the CMR by DFAS-Indianapolis, DFAS-Cleveland, and DFAS-Columbus. The Director stated that information related to the DWCF reconciliation was provided to the audit team but not discussed in the report.

Additionally, the Director disagreed with the DoD OIG's interpretation of the current Federal funding process as well as the unidentified limits when the DoD OIG suggested the ODOs could not perform their FBWT reconciliations. The Director stated that \$10 billion of the \$11 billion reported in unidentified

limits is due to unallocated funds or amounts reconciled in separate environments. The nature of CMR variances attributable to unallocated funds was explained to the DoD OIG auditors several times throughout the audit but not considered or commented on within their findings.

### *Our Response*

Comments from the Director did not address the specifics of the recommendation; therefore, the recommendation is unresolved. According to the DoD FMR, DFAS and the Components must ensure they have addressed all of the key control points in the FBWT reconciliation process, including reconciling the Government-Wide Accounting account statement in CARS to the CMR. However, DFAS and the Components cannot reconcile the Government-Wide Accounting account statements to the CMR because the CMR does not contain all the data that is reported on the Government-Wide Accounting statement. Specifically, in the report we discuss how the DWCF balances reported on the DFAS centers CMRs did not produce an overall reconciliation to the DWCF account balance in CARS because DWCF financial activity was excluded from the DFAS centers CMRs. Therefore, DFAS and the Components did not demonstrate that they have addressed all of the control points in the FBWT reconciliation process. DFAS-Indianapolis personnel stated CMR variances were attributed to unallocated funds but they could not provide supporting documentation to support this assertion other than the \$699 million discussed in the Management Action section of the report. The CMR process needs to be improved so ODOs can effectively reconcile their FBWT accounts in their general ledger systems to the CMR and DFAS can effectively reconcile the CMR to CARS. Additionally, the audit team is unsure what benefit employing numerous reconciliation processes serves the DoD in producing auditable financial statements. This decentralized approach is inefficient and increases the likelihood that significant errors will occur. These errors could prevent the ODOs from performing effective FBWT account reconciliations in accordance with the DoD FMR. The current CMR process is complicated and extremely difficult for management to review and explain to auditors. In addition, even DFAS personnel did not have a comprehensive understanding of the FBWT account reconciliation process.

We understand that unallocated funds represent funds appropriated to the DoD but not yet allocated to the Defense agencies. However, we disagree with the Director's assertion that most of the \$11 billion reported in unidentified limits is due to unallocated funds. The DoD should be able to provide a detailed reconciliation of the funding balances in addition to expenditure activity in accordance with the DoD FMR. DFAS personnel needed 9 months to provide supporting documentation to the audit team for \$699 million of the \$2 billion reported in unallocated limits

on the CMR and were unable to provide support for the remaining \$1.3 billion. We request that the Director reconsider his position on reporting the financial activity of all the ODOs on one consolidated CMR and provide additional comments in response to the final report.

## **2. Reports only Treasury Index 97 financial data; and**

### *Director, DFAS-Indianapolis Comments*

The Director, DFAS-Indianapolis, agreed with the recommendation. The Director stated that DFAS will review existing internal controls to determine whether new controls are necessary to prevent further inclusion of non-TI-97 financial activity in the CMR creation process. The Director estimated the review to be completed by June 30, 2018.

### *Our Response*

Comments from the Director 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 evaluate the results of the internal control review.

## **3. Supports all Treasury Index 97 Fund Balance With Treasury account reconciliations.**

### *Director, DFAS-Indianapolis Comments*

The Director, DFAS-Indianapolis, disagreed with the recommendation and deferred to his response to Recommendation 3.a.1.

### *Our Response*

Comments from the Director did not address the specifics of the recommendation; therefore, the recommendation is unresolved. We recognize that DFAS uses multiple reconciliation processes outside of the CMR. However, DFAS could not demonstrate how all of the TI-97 accounts come together to reconcile with the balance reported in CARS. For example, we considered the DWCF reconciliation documentation that DFAS provided, but the reconciliation included summary level unsupported differences that could not be attributed to a specific ODO. Additionally, the three reconciliation processes used for the DWCF did not reconcile with the balance reported in CARS. Lastly, the DFAS Director did not explain the benefit of employing numerous reconciliation processes in producing auditable financial statements. The current CMR process is complicated and extremely difficult for DFAS personnel to articulate. We request that the Director reconsider

his position on improving the CMR process to produce one CMR that supports all TI-97 FBWT account reconciliations and provide additional comments in response to the final report.

- b. Document the updated Cash Management Reporting process for all Treasury Index 97 Fund Balance With Treasury accounts in process maps and process narratives.**

*Director, DFAS-Indianapolis Comments*

The Director, DFAS-Indianapolis, disagreed with the recommendation and deferred to his response to Recommendation 3.a.1.

*Our Response*

Comments from the Director did not address the specifics of the recommendation; therefore, the recommendation is unresolved. The CMR process needs to be improved so ODOs can effectively reconcile their FBWT accounts in their general ledger systems to the CMR and DFAS can effectively reconcile the CMR to CARS. The DoD OIG and several IPAs have reviewed the CMR process and determined that it was not complete and accurate for ODOs to perform FBWT reconciliations. In addition, DFAS needs to develop process maps and process narratives of the existing CMR process and include changes in the CMR process as recommended in this report and as required by DoD Instruction 5010.40 and the DoD FMR. Therefore, we request that the Director reconsider his position on documenting the updated CMR process in process maps and process narratives and provide additional comments in response to the final report.

- c. Revise Standard Operating Procedure, “Cash Management Report Summary-Level Preparation,” September 2015, to include adequate procedures that require a reconciliation of all Treasury Index 97 Fund Balance With Treasury accounts in the Cash Management Report with all the Treasury Index 97 Fund Balance With Treasury accounts in the Central Accounting and Reporting System.**

*Director, DFAS-Indianapolis Comments*

The Director, DFAS-Indianapolis disagreed with the recommendation and deferred to his response to Recommendation 3.a.1.

*Our Response*

Comments from the Director did not address the specifics of the recommendation; therefore, the recommendation is unresolved. The CMR process needs to be improved so ODOs can effectively reconcile their FBWT accounts in their general ledger systems to the CMR and DFAS can effectively reconcile the CMR to CARS.

The DoD OIG and several IPAs have reviewed the CMR process and determined that it was not complete and accurate for ODOs to perform FBWT reconciliations. In addition, DFAS needs to revise the SOP to require a reconciliation of all TI-97 FBWT accounts in the CMR with all the TI-97 FBWT accounts in the CARS as required by the DoD FMR and the November 2016 FIAR Plan Status Report. We request that the Director, DFAS-Indianapolis, reconsider his position on revising the “Cash Management Report Summary-Level Preparation” SOP and provide additional comments in response to the final report.

**d. Develop standard operating procedures that:**

- 1. Provide detailed steps on how to identify and resolve differences between the Treasury Index 97 Fund Balance With Treasury account balances reported in the Cash Management Report and the Treasury Index 97 Fund Balance With Treasury account balances reported in the Central Accounting and Reporting System;**

*Director, DFAS-Indianapolis Comments*

The Director, DFAS-Indianapolis, agreed with the recommendation. The Director provided SOP 20147 “Cash Management Report 99SC/99SD Variance Navy Only Research and Analysis” to close the recommendation.

*Our Response*

Comments from the Director partially addressed the recommendation; therefore, the recommendation is unresolved. The SOP that the Director provided only addresses variance research for the two Navy unidentified limits discussed in the report. We request that the Director provide additional comments in response to the final report that detail his plan for developing SOPs that provide steps on how to identify and resolve differences between all of the TI-97 account balances reported on the CMR and in CARS.

- 2. Require Defense Finance and Accounting Service-Indianapolis to maintain supporting documentation for any adjustments made to Treasury Index 97 Fund Balance With Treasury accounts; and**

*Director, DFAS-Indianapolis Comments*

The Director agreed with the recommendation and provided an estimated completion date of June 30, 2018.

### *Our Response*

Comments from the Director partially addressed the recommendation; therefore, the recommendation is unresolved. The Director did not provide a corrective action plan that will address the recommendation. We request that the Director provide additional comments in response to the final report that detail his plan with procedures for requiring DFAS-Indianapolis to maintain supporting documentation for any adjustment made to TI-97 FBWT accounts.

- 3. Require Defense Finance and Accounting Service-Indianapolis to obtain written approval from the Other Defense Organizations for any adjustment made to Treasury Index 97 accounts.**

### *Director, DFAS-Indianapolis Comments*

The Director, DFAS-Indianapolis, disagreed with the recommendation. The Director stated that the nature of some adjustments DFAS-Indianapolis makes is such that a single adjustment can affect dozens of ODOs. In the current environment with already limited monthly reporting timelines, requesting written approval from dozens of organizations is not practical. The Director stated that he will consider measures to improve the ODO's visibility of adjustments performed by the Treasury division.

### *Our Response*

Comments from the Director did not address the specifics of the recommendation; therefore, the recommendation is unresolved. According to the DoD FMR, any difference identified during the reconciliation process must be researched and resolved. According to the DoD FMR, reconciliation documentation (including support for any adjustments required) must be prepared and retained. The DoD FMR also states that evidence of the review and approval of the reconciliation and any adjustments must be contained in the documentation. We request that the Director reconsider his position and provide additional comments to the final report that detail his plan to obtain written approval for any adjustment made to TI-97 accounts or identify how DFAS plans to comply with the DoD FMR.

- e. Report the absolute dollar amount of the balances recorded in unidentified limits to the Other Defense Organizations in the monthly Treasury Index 97 audit reconciliation workbooks.**

### *Director, DFAS-Indianapolis Comments*

The Director, DFAS-Indianapolis, agreed with the recommendation. The Director stated that DFAS-Indianapolis will begin reporting both net and absolute values on the TI-97 audit reconciliation workbooks in order to assist the ODOs in determining

the materiality of unreconciled differences. Additionally, in March 2018, the DFAS-Indianapolis Accounting Analysis team added 12 limits (9999, 99SA, 99SC, 99SD, 99UF, F999, I990, I999, I992, N999, S999, and T999) to DFAS Manual 7097.01. Therefore, these limits will no longer be considered unidentified. The Director provided an estimated completion date of September 30, 2018.

### *Our Response*

Comments from the Director addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once we verify that the absolute value of unidentified limits is reported monthly to the ODOs in the TI-97 audit reconciliation workbooks. However, we disagree with the Director's statement that adding these 12 limits to the manual will make these valid limits. The DCFO has identified many of these limits as unidentified limits and these limits are used by DFAS personnel to categorize financial activity that has to be assigned to a valid limit. Limits are valid when they can be used to identify, manage, and report the financial activity of a Defense agency. Just because a four-digit limit is added to the manual does not mean that DoD personnel can cross-walk financial activity to the correct Defense agency. Additionally, the SFIS Values Library is the authoritative source for limits, not DFAS Manual 7097.01. Please see the DCFO response to recommendation 1.c.

## Appendix

### Scope and Methodology

We conducted this performance audit from February 2017 through March 2018 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.

To achieve our objective, we performed a walkthrough at DFAS-Columbus and DFAS-Indianapolis to understand the processes used to develop the TI-97 CMR. In addition, we received briefings from DFAS personnel on what appropriations were included in the September 2016 CMR, how adjustments were made to balance the CMR with CARs, and how DFAS processed unidentified limits. Additionally, we received briefings on the ODO FBWT reconciliation workbooks. We also interviewed key personnel from the Treasury, the Office of Management and Budget, the OUSD(C), and the ODOs. Furthermore, we reviewed guidance and requirements in the DoD FMR, DFAS Manual 7097.01, FIAR Status Plan Report, and the Federal Account Symbols and Titles book.

We reviewed the September 2016 CMR to determine whether the CMR was complete, accurate, and supported by the details necessary to perform FBWT reconciliations. The net and absolute values of the September 2016 CMR was \$91.9 billion and \$555.4 billion, respectively. We determined whether the CMR was complete by verifying that all TI-97 appropriations reported in CARs were included on the CMR. We determined whether the CMR was accurate by verifying that the amounts reported on the CMR reconciled with the amounts reported in CARs. We verified that any adjustments to the CMR were supported by the appropriate documentation. We determined whether the CMR was supported by details necessary to perform FBWT reconciliations by verifying that all limits reported on the CMR were valid in accordance with DFAS Manual 7097.01. According to DFAS-Indianapolis personnel, they developed separate processes to report and reconcile appropriations excluded from the CMR. However, we did not determine whether these processes existed and did not review any of these processes. Our objective was to determine whether the CMR was complete, accurate, and supported by the details necessary to perform FBWT reconciliations.

We cross-walked the September 2016 CMR to the Federal Account Symbols and Titles book to determine whether the CMR contained any non-TI-97 appropriations. We followed up with personnel from the OUSD(C), DFAS, the Office of Management and Budget, and the Treasury to discuss discrepancies.

## Use of Computer-Processed Data

We relied on computer-processed data included in the CMR and supporting documents provided by DFAS for this audit. The data reported on the CMR was submitted by DoD personnel and processed through HQARS and the Program Budget Accounting System. We did not verify that the data submitted was accurately reported on the CMR because our objective was to determine whether the CMR contained all the valid TI-97 appropriations, adjustments to the CMR were adequately supported, and the CMR did not contain any unidentified limits. We also determined whether the TI-97 CMR balances were properly reconciled with CARS balances. However, based on our analysis, we determined that the September 2016 CMR was not reliable. We discuss the data reliability problems we identified in the Finding.

## Prior Coverage

During the last 6 years, the DoD OIG issued two reports discussing reconciliation of ODO FBWT accounts. 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 reconciliations of the ODO FBWT general ledger accounts. As a result, DFAS-Indianapolis could not support the adjustments it was making to ODO FBWT accounts, which caused amounts reported on the ODO financial statements to be unreliable.

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 CMR was not complete or accurate. DFAS-Indianapolis did not attribute \$10.5 billion in transactions to the ODOs responsible for reconciling and accounting for the transactions. As a result, the ODOs reconciled their FBWT general ledger accounts to the CMR, which in aggregate, did not reconcile with the amounts reported by the Treasury.

# Management Comments

## Office of the Under Secretary of Defense (Comptroller)



COMPTROLLER

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

MAR 28 2018

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

SUBJECT: Comments on Draft Audit Report "The Treasury Index 97 Cash Management  
Report" (Report No. DODIG-2017-D000FP-0085.000)

This memorandum responds to your request for comments on the subject report. Attachments 1 through 4 respond to recommendations 1.a, 1.b, 1.c, 1.d, 1.e, 1.f, 1.g & 1.h made to the Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer (OUSD(C)/DCFO). Attachment 5 responds to recommendations 3.a.1, 3.a.2, 3.a.3, 3.b, 3.c, 3.d.1, 3.d.2, 3.d.3 & 3.e made to the Defense Finance Accounting Service.

We are taking the appropriate action to address the recommendations and would like the audit report to reference the work we have completed so far as detailed in the DoD management responses. The Department appreciates the opportunity to comment on the 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]. Please reach him at [REDACTED].

Mark E. Easton  
Deputy Chief Financial Officer

Attachments:

1. Response to recommendations made to OUSD(C)/DCFO
2. January 22, 2018, memo with one attachment
3. January 2018, financial operations metrics
4. August 29, 2017, memo
5. March 16, 2018, memo with one attachment

Omitted attachments 2, 3, 4, and 5 provided with the management comments because of length. Copies provided upon request.

## Office of the Under Secretary of Defense (Comptroller) (cont'd)

DEPARTMENT OF DEFENSE  
OFFICE OF INSPECTOR GENERAL (DOD OIG)  
DRAFT AUDIT REPORT DATED MARCH 5, 2018  
PROJECT NO. D2017-D000FP-0085.000

“THE TREASURY INDEX 97 CASH MANAGEMENT REPORT”

RESPONSE TO DOD OIG RECOMMENDATIONS MADE TO THE OFFICE OF THE  
UNDER SECRETARY OF DEFENSE (COMPTROLLER)  
(OUSD(C))/DEPUTY CHIEF FINANCIAL OFFICER

**Recommendation 1.a:** Create individual Defense Working Capital Fund accounts at the Department of the Treasury for the Defense Information Systems Agency, Defense Logistics Agency, and Defense Finance and Accounting Service.

**OUSD(C) Management Comment:** Non Concur. The current convention of accounting for the three Defense-Wide Working Capital Fund organizations, Defense Logistics Agency (DLA), Defense Finance Accounting Services (DFAS) and Defense Information Systems Agency(DISA) within the single 4930.5 account allows the Department valuable flexibility when considering rate-setting practices, cash management, and limited authorities (e.g. advanced billing). This flexibility has allowed OUSD (C) to respond to changes in the military operational environment, emergent need to support FEMA in humanitarian support efforts, significant spikes and troughs in the fuel market, and other unforeseen changes without having to disturb the planned activities of the Military Departments who remain the *raison d'être* for these three support Agencies.

The Department is opposed to splitting up the Defense-Wide Working Capital Fund because it may put the Defense Agencies at greater risk with their cash balances. The Defense-Wide Working Capital Fund Agencies do not enjoy the same degree of control that the Services do over their revenue streams. DFAS and the DISA are primarily service organizations that must continue providing service and incurring cost whether their customers fund them on time or not. This is primarily a problem at the beginning of the fiscal year when the customers are often under a continuing resolution or awaiting their own fund distributions and will take risks with their DFAS/DISA bills.

While all of the Agencies should budget and set rates to maintain solvency, the Defense-Wide Working Capital Fund Agencies have historically been able to rely upon each other for last resort coverage in the event of emergency shortfalls. If this additional safeguard were eliminated, DFAS and DISA, in particular, might have to grow their cash corpuses to absorb potential shortfalls and the source for that growth would be their customers' appropriations.

**Recommendation 1.b:** Oversee the corrections to the Cash Management Report or develop a single, consolidated Treasury Index 97 Fund Balance With Treasury reconciliation tool that allows stakeholders to perform detailed reconciliations for the Treasury Index 97 Fund Balance With Treasury accounts at the voucher level.

## Office of the Under Secretary of Defense (Comptroller (cont'd))

**OUSDC(C) Management Comment:** Concur. DFAS developed the Department 97 Reconciliation and Reporting Tool (DRRT) to support Fund Balance with Treasury for the Other Defense Organizations. Implementation was completed in October 2014 for all Defense Agencies serviced by DFAS. This 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 for all open appropriations reconciled on the Cash Management Report on a monthly basis. Following the initial implementation DFAS accelerated additional enhancements into DRRT through system modifications and business process changes that improved and sustained the overall match rate for Treasury Index 97 activities to 98-99%. This effort culminated in DFAS stating that using DRRT and CMR tools its relevant processes are in place to reconcile Fund Balance with Treasury on July 11, 2017 and addressed the 2012 recommendation.

In FY2015, DFAS defined additional functionality for DRRT as a part of Increment 3 which provides enhancements to reconciliations that will further aid accountants in researching variances. The new functionality incorporates funding, suspense, and receipt data as well as data directly from the Treasury Centralized Accounting Reporting System (CARS). The addition of this data and functionality raised concerns among the sensitive activities community.

Subsequently, DCFO and DFAS engaged with the sensitive activities community to understand and address these concerns while ensuring appropriate data security practices are in place. Although DFAS completed the initial development of the DRRT Increment 3 reconciliation enhancements, additional controls must now be addressed and vetted with the sensitive activities community before DFAS can finalize the DRRT Increment 3 Project Schedule. The estimated completion date: September 2018

**Recommendation 1.c:** Develop and issue policy establishing that Defense Finance and Accounting Service Manual 7097.01, "Financial Management Departmental Reporting Manual for the Office of the Secretary of Defense (Treasury Index 97) Appropriations," is the authoritative list of approved limits and requiring these limits to be used when executing Treasury Index 97 transactions.

**OUSDC(C) Management Comment:** Concur with the intent of the recommendation. The Defense Finance and Accounting Service Manual 7097.01, "Financial Management Departmental Reporting Manual for the Office of the Secretary of Defense (Treasury Index 97) Appropriations" is no longer the authoritative source for the list of approved limits. As of January 22, 2018, the Standard Financial Information Structure (SFIS) Values Library is the authoritative source for the Sub-Allocation Holder Identifier (SAHI) and helps ensure SAHIs are used for intended purposes. Attachment 2 ("January 22, 2018, memo, "Improved Sub-Allocation Holder Identifier Management Process) supports closure of this recommendation and indicates the SFIS Values library is the authoritative source for SAHIs. The SAHI, also known as limit, represents the SFIS data element the Department uses to identify recipients of Defense-wide appropriations. This recommendation is complete.

## Office of the Under Secretary of Defense (Comptroller) (cont'd)

**Recommendation 1.d:** Develop a plan to reduce the number and dollar amount of unidentified limits used for Treasury Index 97 appropriations.

**OUSD(C) Management Comment:** Concur. Unidentified limits are caused primarily by edit errors. As part of the Financial Management Functional Strategy we will conduct upfront Standard Line of Accounting (SLOA) validations via Global Exchange (GEX) for each financial data exchange in the end-to-end business process to flag and mitigate errors prior to payments and routing to the accounting systems. This validation will eliminate errors at the source. In early FY 2017 we began conducting SLOA validation for transactions routing through the GEX and providing feedback to the source on the transaction failures. We are still in the process of connecting all necessary financial systems to the GEX. The estimated completion date: September 30, 2019.

**Recommendation 1.e:** Establish metrics that report the number of transactions in unidentified limits and the total absolute dollar amount of these transactions by accounting and disbursing system monthly. Attachment 3 (January 2018 Financial Operation Metrics) provides a model supports closure of this recommendation.

**OUSD(C) Management Comment:** Concur. Currently, the Financial Operation Metrics captures unidentified limits (absolute dollar value) for the Treasury Index 97 appropriations.. This recommendation is complete.

**Recommendation 1.f:** Work with the Department of the Treasury to either establish Fund Balance With Treasury accounts for select Other Defense Organizations when appropriate or establish four-digit limits for Treasury Index 97 Fund Balance With Treasury accounts in the Central Accounting and Reporting System.

**OUSD(C) Management Comment:** Non Concur. OUSD(C) worked to establish Fund Balance With Treasury accounts for select Other Defense Organizations but exposure of sensitive activities prevented establishment of certain accounts. In addition, establishing Treasury Accounts for each Defense Agency would increase the number of reprogramming actions that would fall under Section 8005 in the Defense Appropriations Acts (this is a routine provision). This would add an unnecessary burden and would remove much of the flexibility within accounts such as the Operation and Maintenance, Defense-Wide appropriation.

**Recommendation 1.g:** Develop a comprehensive Treasury Index 97 Fund Balance With Treasury account reconciliation process that incorporates the entire Fund Balance With Treasury universe of transactions (funding, collections, disbursements, and transfers of funds) in accordance with the DoD Financial Management Regulation.

**OUSD(C) Management Comment:** Concur. The Department 97 Reconciliation and Reporting Tool (DRRT) 3 plus will include funding, collections, disbursements and transfer of funds. DFAS developed the Department 97 Reconciliation and Reporting Tool (DRRT) to support Fund Balance with Treasury for the Other Defense Organizations. Implementation was completed in October 2014 for all Defense Agencies serviced by DFAS. This tool provides a Fund Balance with Treasury Universe of Transactions and the ability to reconcile accounting systems to the

## Office of the Under Secretary of Defense (Comptroller) (cont'd)

Treasury 1010 Account at the voucher detail level for all open appropriations reconciled on the Cash Management Report on a monthly basis. Following the initial implementation DFAS accelerated additional enhancements into DRRT through system modifications and business process changes that improved and sustained the overall match rate for Treasury Index 97 activities to 98-99%. This effort culminated in DFAS stating that using DRRT and CMR tools its relevant processes are in place to reconcile Fund Balance with Treasury on July 11, 2017 and addressed the 2012 recommendation.

In FY2015, DFAS defined additional functionality for DRRT as a part of Increment 3 which provides enhancements to reconciliations that will further aid accountants in researching variances. The new functionality incorporates funding, suspense, and receipt data as well as data directly from the Treasury Centralized Accounting Reporting System (CARS). The addition of this data and functionality raised concerns among the sensitive activities community. Subsequently, DCFO and DFAS engaged with the sensitive activities community to understand and address these concerns while ensuring appropriate data security practices are in place. Although DFAS completed the initial development of the DRRT Increment 3 reconciliation enhancements, additional controls must now be addressed and vetted with the sensitive activities community before DFAS can finalize the DRRT Increment 3 Project Schedule. The estimated completion date: September 30, 2018.

**Recommendation 1.h:** Require DoD disbursing stations to report transaction-level data to the Department of the Treasury on a daily basis.

**OUSD(C) Management Comment:** Concur. Treasury mandated that all federal agencies, including DoD, report disbursements and collections on a daily basis. DoD has been incrementally implementing the mandate. However, in August 2017 the Office of the Under Secretary of Defense (Comptroller) issued a memo (Attachment 4) providing specific timelines for conversion to Treasury Direct Disbursing (TDD) processes including daily reporting for Non-Treasury Disbursing Offices. The memo states any new system that entitles payments must implement the TDD processes. Except for contingency disbursing operations, existing systems must also convert to the TDD process, but may utilize the daily reporting process through our Non-Treasury Disbursing Offices at DFAS for an interim period as legacy systems are being retired. The memo mandates that all DoD agencies report disbursements and collections on a daily basis with treasury. This conversion is required to be completed: September 30, 2019.

## Defense Finance and Accounting Service-Indianapolis

**Introduction to DFAS Management Comments:** The Defense Finance and Accounting Service is providing management comments to recommendations 3.a.1, 3.a.2, 3.a.3, 3.b, 3.c, 3.d.1, 3.d.2, 3.d.3, and 3.e of the subject report below.

Fund Balance with Treasury (FBWT) reconciliation is a critical capability required for financial statement audits and DFAS will continue to upgrade the processes and tools as a result of the audit.

The DODIG audit scope narrowly focused on the Cash Management Report (CMR), which is a portion of the comprehensive FBWT reconciliation process. To draw conclusions on the comprehensive process, the public accounting firms auditing our customers financial statements are reviewing the CMR, audit workbooks by entity, CMR edit error reports, and the Department 97 Report Reconciliation Tool (DRRT) that reconciles at the detail transaction level. The public accounting firm results provide a good road map for additional improvements.

We disagree with the DODIG interpretation that Volume 4, Chapter 2, paragraph 020806 of the Financial Management Regulation (FMR) requires the CMR to be the exclusive reconciliation tool. We confirmed with Accounting and Finance Policy, Under Secretary of Defense (Comptroller)/CFO that the intent of the paragraph was to establish the high level policy requirements for reconciliation but not limit the reconciliation to a single system or tool. Further, Volume 4, Chapter 2, Figure 1 of the FMR identifies the critical areas and key control points in the FBWT end-to-end reconciliation. Accordingly, our response to CMR specific recommendations are provided in the context of the broader FBWT reconciliation requirements which involve a combination of systems and tools.

The Department audit strategy includes 24 reporting entities, DFAS has aligned our FBWT reconciliation tools with the reporting entities and their financial reporting processes. While it is logical to use the CMR, DRRT, and other tools for Defense Agencies; other Treasury Index 97 entities like the Service working capital funds are best accomplished with other tools. As noted above, the FMR intent was to not require complete reconciliation within the CMR.

Last, we agree with DODIG's position that reconciliation and resolution of differences must be accomplished at the detail transaction level. However, identifying differences at an absolute value misstates the impact to an entity's cash position. For example, an unrecorded deposit of \$10 and an unrecorded check of \$10 nets to zero regarding the cash position while the absolute difference of \$20 dollars implies a misstatement.

**Recommendation 3:** We recommend that the Director, Defense Finance and Accounting Service-Indianapolis:

- a. Improve the Cash Management Report process to produce one consolidated Cash Management Report that:
  1. Reports all the Other Defense Organizations financial activity;

## Defense Finance and Accounting Service-Indianapolis (cont'd)

**DFAS Management Comment:** DFAS non-concurs with this recommendation. The DoDIG states that DFAS-Indianapolis personnel did not design the CMR to report all financial activity for each of the ODOs as required by the DoD Financial Management Regulation (citing DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” Volume 4, Chapter 2). DFAS does not believe that the regulation requires that the CMR be the single source for reconciling all TI97 expenditure activity.

Type of Appropriation Excluded *	Number	CARS Balances of Appropriations Excluded (millions)
General Fund (Foreign Military Sales – Separate Recon under Development)	4	\$5,155.6
Clearing Account (Separate Recon)	5	(11.6)
Deposit Fund Account (Separate Recon)	8	1,150.1
General Treasury Account (Special Funds – Separate Recon)	2	853.1
Defense Working Capital Fund (Separate Recon)	1	7,683.1
Trust Fund Accounts (Separate Recon)	7	805.9
Accounts With No Balance	42	0.0
<b>Total</b>	<b>69</b>	<b>\$15,636.2</b>

Source: The DoD OIG

DoD FMR paragraph 020805 states “DoD must reconcile the OUIDs [limits] of the Department 097 at the Component level with the balances representing available spending authority as managed within DoD. For Treasury reporting purposes, DoD must add the balances of the OUIDs of the Department 97 together and reconcile to the Treasury’s control total at the TAS level in CARS/GWA.” This paragraph suggests that the limit-level reconciliation will be done separately, with an overall reconciliation demonstrating how the pieces come together to make the whole. The CMR, together with the TI97 audit workbooks, perform this function by reconciling all TI97 amounts back to the US Treasury (CARS) total, including TASs that are reconciled outside the CMR such as Suspense Accounts, Trust Funds, and Foreign Military Sales (FMS) as identified in the above figure from page 7 of the Draft Report; DFAS notes are in red confirming reconciliations completed outside of the CMR. The status of these separate reconciliations was communicated to the DoDIG auditors during the course of their examination. In further support of this interpretation of the DoD FMR, paragraph 020806 mentions not only the CMR, but also Suspense Account and FMS reconciliations, as necessary for the FBWT reconciliation process.

The DoDIG also states that “DFAS-Indianapolis personnel did not report \$3.6 billion in financial activity for the Defense Working Capital Fund (DWCF) on the CMR.” As described in the Discussion Draft, the \$3.6 billion represents Budget Authority and Non-expenditure Transfers. DFAS-Indianapolis does not capture authority and transfers in the CMR. These amounts are captured within the cash and fund balance reconciliations performed by Departmental Reporting

## Defense Finance and Accounting Service-Indianapolis (cont'd)

at Indianapolis, Cleveland, and Columbus, outside of the CMR. This information was included with the documentation described above, and thus DFAS is unsure why the DoDIG did not consider and/or comment on this evidence.

Additionally, the DoDIG states that DFAS “reported an absolute amount of \$11.0 billion in unidentified limits on the CMR; therefore, the ODOs did not have the details needed to perform FBWT reconciliations”. DFAS non-concurs with the DoDIG’s interpretation of the current federal funding process as well as the unidentified limits when they suggest the ODOs could not perform their FBWT reconciliations.

The vast majority (\$10 billion) of the amount identified by the DoDIG is due to unallocated funds or amounts reconciled in separate environments. Unallocated funds are funds for which the U.S. Treasury has issued a warrant (resulting in a balance in CARS), but have not yet been allotted to an OSD-approved limit and are therefore not identifiable to a particular defense agency. This normal DoD business process is not a control gap. The legal requirement for apportionment is found in Title 31 (Money and Finance) of the United States Code (U.S.C.), at sections 1512 (Apportionment and Reserves), and 1513. The nature of CMR variances attributable to unallocated funds was explained to the DoDIG auditors several times throughout their testing yet not considered and/or commented on within their findings.

2. Reports only Treasury Index 97 financial data; and

**DFAS Management Comment:** DFAS concurs with this recommendation. DFAS will review existing internal controls to determine whether the creation of new controls is necessary to prevent future instances of non-TI97 data from being included in the CMR creation process.

**Estimated Completion Date (ECD):** 6/30/2018

3. Supports all Treasury Index 97 Fund Balance With Treasury account reconciliations.

**DFAS Management Comment:** DFAS non-concurs with this recommendation, please see response to 3.a.1.

- b. Document the updated Cash Management Reporting process for all Treasury Index 97 Fund Balance With Treasury accounts in process maps and process narratives.

**DFAS Management Comment:** DFAS non-concurs with this recommendation, please see response to 3.a.1.

- c. Revise Standard Operating Procedure, “Cash Management Report Summary-Level Preparation,” September 2015, to include adequate procedures that require a reconciliation of all Treasury Index 97 Fund Balance With Treasury accounts in the Cash Management Report with all the Treasury Index 97 Fund Balance With Treasury accounts in the Central Accounting and Reporting System.

## Defense Finance and Accounting Service-Indianapolis (cont'd)

**DFAS Management Comment:** DFAS non-concurs with this recommendation, please see response to 3.a.1.

d. Develop standard operation procedures that:

1. Provide detailed steps on how to identify and resolve differences between the Treasury Index 97 Fund Balance With Treasury account balances reported in the Cash Management Report and the Treasury Index 97 Fund Balance With Treasury account balances reported in the Central Accounting and Reporting System;

**DFAS Management Comment:** DFAS concurs with this recommendation.

**ECD:** Completed 3/1/2018; enclosed Attachment #1-SOP #2047 to support closure of this recommendation.

2. Require Defense Finance and Accounting Service-Indianapolis to maintain supporting documentation for any adjustments made to Treasury Index 97 Fund Balance With Treasury accounts; and

**DFAS Management Comment:** DFAS concurs with this recommendation.

**ECD:** 6/30/2018

3. Require Defense Finance and Accounting Service-Indianapolis to obtain written approval from the Other Defense Organizations for any adjustment made to Treasury Index 97 accounts.

**DFAS Management Comment:** DFAS non-concurs with this recommendation. The nature of some adjustments made by DFAS-Indianapolis Departmental Reporting is such that a single adjustment can impact dozens of Other Defense Organizations' lines of accounting. In the current environment with already limited monthly reporting timelines, requesting written approval from dozens of organizations is not practical. DFAS will consider measures to improve the Other Defense Organizations' visibility of adjustments performed by Treasury Division.

- e. Report the absolute dollar amount of the balances recorded in unidentified limits to the Other Defense Organizations in the monthly Treasury Index 97 audit reconciliation workbooks.

**DFAS Management Comment:** DFAS concurs with this recommendation. DFAS-IN will begin reporting both net and absolute values on the Treasury Index 97 audit reconciliation workbooks in order to assist our customers in determining the materiality unreconciled differences by analyzing the aggregate absolute values and resulting impact on the financial statements. In addition, in March of 2018, the DFAS-IN Accounting Analysis team added 12 limits to the DFAS Manual 7097.01 to reflect the CMR limits of 9999, 99SA, 99SC, 99SD,

## Defense Finance and Accounting Service-Indianapolis (cont'd)

99UF, F999, I990, I999, I992, N999, S999, and T999. Therefore, these limits will no longer be considered unidentified limits.

**ECD:** 9/30/2018

## Acronyms and Abbreviations

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<b>CARS</b>	Central Accounting and Reporting System
<b>CMR</b>	Cash Management Report
<b>DFAS</b>	Defense Finance and Accounting Service
<b>DISA</b>	Defense Information Systems Agency
<b>DLA</b>	Defense Logistics Agency
<b>DoD FMR</b>	DoD Financial Management Regulation
<b>DWCF</b>	Defense Working Capital Fund
<b>DRRT</b>	Department 97 Reconciliation and Reporting Tool
<b>FBWT</b>	Fund Balance With Treasury
<b>FIAR</b>	Financial Improvement and Audit Readiness
<b>FSN</b>	Fiscal Station Number
<b>HQARS</b>	Headquarters Accounting and Reporting System
<b>IPA</b>	Independent Public Accounting
<b>ODO</b>	Other Defense Organization
<b>OUS(D)/DCFO</b>	Office of the Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer
<b>SAHI</b>	Sub-Allocation Holder Identifier
<b>SFIS</b>	Standard Financial Information Structure
<b>SOP</b>	Standard Operating Procedure
<b>TI</b>	Treasury Index

## Glossary

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**Absolute Value.** Absolute value is a value of change, whether a decrease or increase in cost.

**Appropriation.** An appropriation is a provision of law conferring authority to incur obligations for a specified purpose. This process consists of two sequential steps: (1) enactment of an authorization measure that may create or continue an agency, program, or activity, as well as authorize the subsequent enactment of appropriations; and (2) enactment of appropriations to provide funds for the authorized agency, program, or activity.

**Clearing Accounts.** Clearing accounts are accounts established solely to temporarily hold general, special, or trust fund collections or disbursements pending clearance to the applicable receipt or expenditure budgetary account. Except for clearance to the applicable receipt or expenditure budgetary account, clearing accounts are not available for obligation or expenditure.

**Defense Working Capital Fund (DWCF).** The DWCF is a revolving fund using a business-like buyer and seller approach with a goal of breaking even over the long term.

**Deposit Fund Account.** Expenditure accounts established to account for deposit fund receipts. Such funds are not available for paying salaries grants, or other expenses of the Federal Government. Expenditures are often offset by receipts within this type of fund.

**Fiscal Station Number (FSN).** An FSN is a five-digit number (in a six-position field) assigned to an installation or activity integrated finance and accounting office.

**Fund Balance With Treasury (FBWT).** The FBWT is an asset account that reflects the available funds in the entity's accounts with the Treasury that authorizes the entity to make expenditures and pay liabilities.

**General Fund Accounts.** General fund accounts consist of: (1) receipt accounts used to account for collections not dedicated to specific purposes and (2) expenditure accounts used to record financial transactions arising under congressional appropriations or other authorizations to spend general revenues.

**Inter-Fund Transaction.** Inter-fund transactions are intragovernmental transactions between or within DoD Components for the purchase of goods.

**Limits.** Limits are unique account identifier codes specific to the DoD that represent the structural level below the Treasury's main appropriation account level. These codes are typically four digits, and are used to identify, manage, and report the financial activity of Defense agencies, field activities, and other operational units reported by the Treasury as the combined activities of Department 097.

**Net Value.** Net value is the overall sum of the increases or decreases in cost.

**Treasury General Account.** These accounts include Burdensharing Contribution (97X5441) and the DoD Medicare-Eligible Retiree Health Care Fund (97X5472).

**Trust Fund Accounts.** A trust fund account is usually either a receipt, an expenditure, or a revolving fund account (trust revolving fund account). Trust revolving fund accounts have no receipt account, and the collections are credited directly to the expenditure account.

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