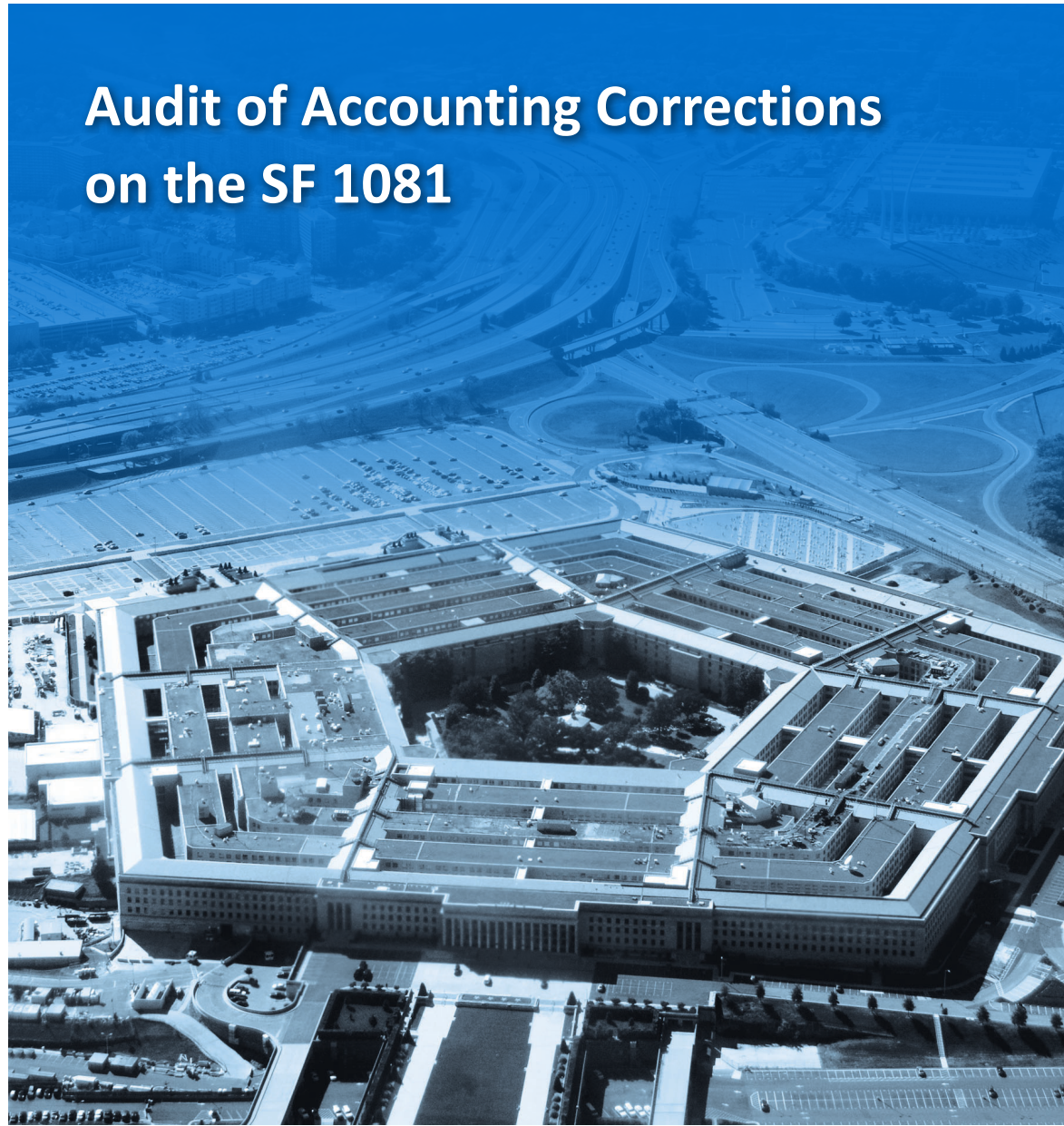




INSPECTOR GENERAL

U.S. Department of Defense

JUNE 25, 2021



Audit of Accounting Corrections on the SF 1081

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE





Results in Brief

Audit of Accounting Corrections on the SF 1081

June 25, 2021

Objective

The objective of this audit was to determine whether the DoD properly used the SF 1081, "Voucher and Schedule of Withdrawals and Credits," to correct accounting errors.

Background

The DoD's Fund Balance With Treasury (FBWT) is a group of individual accounts maintained by the Department of the Treasury (the Treasury) that reflect the funds available for the DoD to make expenditures and pay liabilities. The FBWT universe of transactions includes all valid funding, disbursements, collections, and transfers to or from a DoD Component over a given period. According to the DoD Financial Management Regulation, each DoD Component must record all FBWT transactions in the Component's individual FBWT accounts and reconcile to the balance maintained by the Treasury each month. In addition, DoD Components must maintain all reconciliation documentation, including support for any corrections.

DoD Components and the Defense Finance and Accounting Service (DFAS) use the SF 1081 to transfer amounts between FBWT accounts and to make corrections to collections and disbursements. Therefore, DoD Components must maintain a complete population of SF 1081 transactions to comply with the FBWT reconciliation requirements.

Background (cont'd)

DoD Component and DFAS personnel create, process, and store SF 1081 transactions in many DoD disbursement, general ledger, and feeder systems. This report discusses the following systems.

- The Advancing Analytics Tool
- The Defense Cash Accountability System
- The DFAS Transaction Interface Module
- The Logistics Modernization Program
- The Standard Contract Reconciliation Tool

Findings

The DoD could not produce a complete or accurate universe of SF 1081 transactions processed during the first and second quarters of FY 2020 in accordance with the DoD Financial Management Regulation. The universe provided by the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, and DFAS personnel contained populations of transactions from only four systems. In addition, these populations were unreliable because they contained transactions irrelevant to the scope of our audit and the populations were incomplete.

A complete and accurate universe of SF 1081 transactions is important for the DoD to achieve and sustain financial statement auditability. Because DoD Components process SF 1081 transactions to transfer funds between appropriations and make corrections to collections and disbursements, Components need to ensure that these transactions are valid, accurate, and supported by an audit trail. Otherwise, DoD Components cannot effectively reconcile their FBWT accounts, which could lead to material misstatements of FBWT balances on the Components' financial statements.

In addition, DoD Components did not implement procedures to ensure that all SF 1081 transactions were necessary or accurate. Of the 100 SF 1081 transactions in our sample, DoD Component personnel accurately processed



Results in Brief

Audit of Accounting Corrections on the SF 1081

Findings (cont'd)

45 transactions, totaling \$6.1 billion, to transfer funds and correct errors. While the SF 1081 transactions were necessary and accurate, the DoD needs to develop controls to prevent errors from occurring rather than relying on controls to detect the errors after they occurred.

Of the remaining 55 SF 1081 transactions, DFAS personnel processed 34 SF 1081 transactions, totaling \$1.1 billion, to reclassify transactions from a temporary holding account to the proper DoD account. The transactions were unnecessary because DFAS could have recorded the transaction correctly at the time the transaction occurred.

Furthermore, Army Materiel Command personnel processed six SF 1081 transactions, totaling \$105.2 million, to reallocate costs between accounts. These transactions were unnecessary because the accounting system could have processed the transactions automatically, thus eliminating the need for the SF 1081 transactions.

DFAS personnel did not provide adequate documentation to support the remaining 15 SF 1081 transactions, totaling \$0.15, processed in the Defense Cash Accountability System; therefore, we could not verify whether the transactions were necessary or accurate.

DFAS charged the DoD Components an hourly rate to perform accounting services, which included processing SF 1081 transactions on behalf of the Components. Therefore, unnecessary SF 1081 transactions created an administrative burden and wasted funds that the DoD Components could have put to better use.

Recommendations

Among other recommendations, we recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, work with DFAS and DoD Component Directors to:

- establish and implement business rules between the systems that create, process, or store SF 1081 transactions and the Advancing Analytics tool to ensure that the DoD maintains a universe of SF 1081 transactions in a centralized database;
- establish memorandums of understanding with the system owners and the Advancing Analytics owners to define roles and responsibilities; develop a plan to test SF 1081 transactions on a reoccurring basis to ensure that transactions are necessary, accurate, and supported by an audit trail;
- develop metric reports to track SF 1081 transactions and a plan to reduce the number of SF 1081 transactions; and
- ensure that all systems can differentiate between SF 1081 transactions and other types of transactions.

We recommend that the DFAS Director design and implement internal controls in the DFAS Transaction Interface Module and document the internal controls; and develop functional-area training.

We recommend that the Commanding General of the Army Materiel Command work with the DFAS Director to determine why the SF 1081 population in the Operational Data Store did not reconcile with the population in the Logistics Modernization Program, and develop a corrective action plan.



Results in Brief

Audit of Accounting Corrections on the SF 1081

Recommendations (cont'd)

We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) maintain an audit trail for systemically generated SF 1081 transactions.

We also made recommendations to the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, and the DFAS Director to improve their procedures and internal controls for processing SF 1081 transactions and to reduce the DoD's cost for accounting services.

Management Comments and Our Response

The Deputy Chief Financial Officer (DCFO), responding for the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, and the DFAS Director, agreed to implement corrective actions that met the intent for 10 of 23 recommendations addressed to them by FY 2025. Therefore, the recommendations are resolved but will remain open. We will close the recommendations once we verify that the DCFO has implemented the corrective actions.

The DCFO disagreed with 12 of 23 recommendations addressed to the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, and the DFAS Director. Therefore, the recommendations are unresolved. We request that the DCFO reconsider his position on the 12 recommendations and provide comments on the final report either explaining how he plans to meet the intent of the recommendations or proposing alternative corrective actions.

The DCFO agreed with the remaining recommendation and stated that he implemented the corrective action to close the recommendation. However, we do not agree that the implemented action adequately addressed the recommendation. Therefore, the recommendation is unresolved. We request that the DCFO provide comments on the final report explaining how he plans to meet the intent of the recommendation.

The Executive Deputy to the Commanding General, responding for the Commanding General of the Army Materiel Command, agreed to work with the DFAS Director to determine why the SF 1081 population in the Operational Data Store did not reconcile with the population in the Logistics Modernization Program by December 31, 2021. We will close the recommendation when we verify that the Executive Deputy has implemented corrective action in response to the analysis.

The Director for Financial Operations and Accounting Oversight, responding for the Assistant Secretary of the Army (Financial Management and Comptroller), agreed to maintain an audit trail for systemically generated SF 1081 transactions. Therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the Director has implemented the corrective action plans.

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

Recommendations Table

| Management | Recommendations Unresolved | Recommendations Resolved | Recommendations Closed |
|--|--|--|------------------------|
| Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD | B.4.b and B.5 | A.1.a through A.1.f; B.1; B.4.a; and B.4.c | None |
| Assistant Secretary of the Army (Financial Management and Comptroller) | None | B.3 | None |
| Commanding General, Army Materiel Command | None | A.3 | None |
| Director, Defense Finance and Accounting Service | A.2.a; A.2.b; B.2.a through B.2.c; and B.2.e through B.2.h | B.2.d | None |

Please provide Management Comments by July 26, 2021.

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**

June 25, 2021

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

SUBJECT: Audit of Accounting Corrections on the SF 1081
(Report No. DODIG-2021-095)

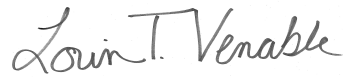
This final report provides the results of the DoD Office of Inspector General's audit. We previously provided copies of the draft report and requested written comments on the recommendations. We considered management's comments on the draft report when preparing the final report. These comments are included in the report.

The Deputy Chief Financial Officer, responding for the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, and the DFAS Director; the Director for Financial Operations and Accounting Oversight, responding for the Assistant Secretary of the Army (Financial Management and Comptroller); and the Executive Deputy to the Commanding General, responding for the Commanding General of the Army Materiel Command, agreed to address 12 of the 25 recommendations presented in the report; therefore, we consider these 12 recommendations resolved and open. As described in the Recommendations, Management Comments, and Our Response section of this report, we will close the recommendations when you provide us documentation showing that all agreed-upon actions to implement the recommendations are completed. Therefore, please provide us within 90 days your response concerning specific actions in process or completed on the resolved recommendations.

The report contains 13 recommendations that are considered unresolved because the Deputy Chief Financial Officer did not fully address the recommendations presented in the report. Therefore, as discussed in the Recommendations, Management Comments, and Our Response section of this report, the recommendations remain open. We will track these recommendations as unresolved until we reach an agreement on the actions that you will take to address the recommendations, and will close the recommendations once you have submitted adequate documentation showing that all agreed-upon actions are completed.

DoD Instruction 7650.03 requires that recommendations be resolved promptly. Therefore, please provide us within 30 days your response concerning specific actions in process or alternative corrective actions proposed on the unresolved recommendations. Send your response to either followup@dodig.mil if unclassified or rfunet@dodig.smil.mil if classified SECRET.

If you have any questions, please contact me at [REDACTED]

A handwritten signature in black ink that reads "Lorin T. Venable". The signature is written in a cursive, flowing style.

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



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Introduction

Objective

The objective of this audit was to determine whether the DoD properly used the SF 1081, “Voucher and Schedule of Withdrawals and Credits,” to correct accounting errors.¹ See the Appendix for the scope and methodology and prior coverage.

Background

The DoD’s Fund Balance With Treasury (FBWT) is a group of individual accounts maintained by the Department of the Treasury (the Treasury) that reflect the funds available for the DoD to make expenditures and pay liabilities. The FBWT universe of transactions (UoT) includes all valid funding, disbursements, collections, and transfers to or from a DoD Component over a given period. Collections, disbursements, and related corrections processed by the DoD and reported to the Treasury will increase or decrease the balance of the DoD FBWT accounts.

Each DoD Component must record all FBWT transactions in the Component’s individual FBWT accounts and reconcile to the balance maintained by the Treasury each month. A FBWT reconciliation is a comparison of the transactions (including disbursements, collections, and transfers) to the detailed amounts posted to both the Component’s general ledger and Treasury accounts. An objective of the reconciliation is to determine whether improperly recorded transactions require correction either in the general ledger or at the Treasury.

According to the DoD Financial Management Regulation (FMR), any difference identified during the reconciliation process must be researched and resolved.² Reconciliation is not complete until the Component identifies all differences between transactions and amounts posted, and explains those differences. DoD Components must maintain all reconciliation documentation, including support for any corrections. Supporting documentation includes reconciliation documentation, transaction-level details, the standard operating procedures (SOPs) used, and the applicable Customer-Service Provider agreements. This documentation is necessary to provide an adequate audit trail. Components must ensure that the supporting documentation is readily accessible to management for oversight and to auditors to support auditability.

¹ We define proper as necessary and accurate. We revised our objective during the audit. See the Appendix for an explanation.

² DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 4, “Accounting Policy,” chapter 1, “Financial Control of Assets.”

DoD Components use the SF 1081 to transfer amounts between FBWT accounts and to make corrections to collections and disbursements.³ For example, Components may use the SF 1081 to transfer funds between appropriations. Components may also process an SF 1081 transaction to correct a prior disbursement that cited the wrong appropriation or amount. Therefore, DoD Components must maintain a complete population of SF 1081 transactions to comply with the FBWT reconciliation requirements in the DoD FMR.

Defense Finance and Accounting Service

The Defense Finance and Accounting Service (DFAS) is a Defense agency that pays DoD military and civilian personnel, retirees, and annuitants, as well as major DoD contractors and vendors. Financed as a working capital fund, DFAS obtains revenue by charging the DoD Components for the services it provides rather than receiving funding through direct appropriations.⁴ DFAS sets annual rates 2 years in advance based on anticipated workload and estimated costs calculated to offset any prior year gains or losses. In FY 2020, DFAS charged the DoD Components between \$74.28 and \$88.40 per hour to perform accounting services, which included processing SF 1081 transactions on behalf of the Components.

Processing an SF 1081 Transaction

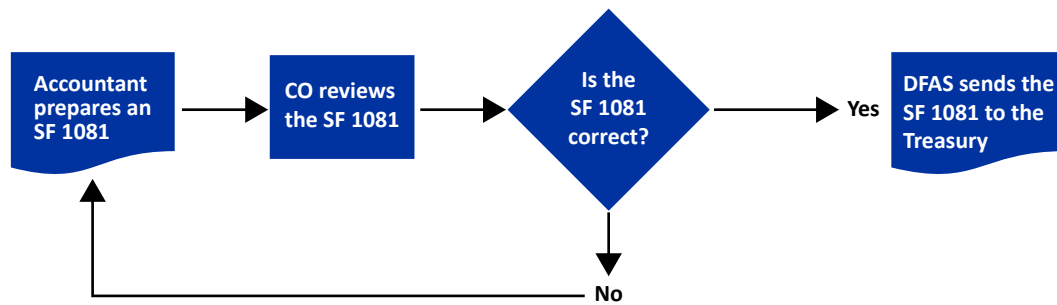
DoD Component and DFAS personnel can initiate an SF 1081 transaction to transfer funds between appropriations or to make corrections to collections or disbursements. Once Component or DFAS personnel prepare the SF 1081 transaction, the preparer sends it to the certifying officer (CO) for review.⁵ Before approving the transaction, the CO reviews the SF 1081 to ensure that the transaction is necessary, accurate, and supported by an audit trail. If the CO identifies an error, the CO will return the SF 1081 to the preparer for corrections and the process will repeat. Once the CO approves the transaction, DFAS reports the transaction to the Treasury. Figure 1 illustrates how DoD Components process SF 1081 transactions.

³ SF 1081, "Voucher and Schedule of Withdrawals and Credits," Revised September 1982.

⁴ A working capital fund is a revolving fund using a business-like buyer and seller approach with a goal of breaking even over the long term.

⁵ A CO is an individual designated to attest to the correctness of statements, facts, accounts, and amounts appearing on a voucher, or other documents.

Figure 1. Steps to Process an SF 1081 Transaction



Source: The DoD OIG.

Systems Used to Process SF 1081 Transactions

DoD Component personnel create, store, and process SF 1081 transactions in many DoD disbursement, general ledger, and feeder systems. The following systems either collect, process, or store SF 1081 transactions.

The Advancing Analytics Tool

The National Defense Authorization Act for FY 2018 required the DoD to develop a repository for common data to improve data transparency and facilitate DoD-wide analysis and management of business operations.⁶ In response to this requirement, the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (OUSD[C]/CFO) developed the Advancing Analytics (Advana) tool. Once fully implemented, Advana will collect data from the many disbursement, general ledger, and feeder systems across the DoD and store the data in a single location so the data are accessible by management and other stakeholders. Advana collects and stores SF 1081 transactions, among other transactions, generated by DoD systems.

Defense Cash Accountability System

The Defense Cash Accountability System (DCAS) is a DFAS-owned financial application that DFAS personnel use to process and route financial data, such as collections and disbursements, to external systems and entities, such as DoD Component accounting systems and the Treasury. DFAS may record SF 1081 transactions in DCAS or use DCAS to report to the Treasury any SF 1081 transactions processed in other systems.

⁶ Public Law 115-91, "The National Defense Authorization Act for Fiscal Year 2018," sections 911 through 913.

DFAS Transaction Interface Module

The DFAS Transaction Interface Module (DTIM) is a system that DFAS and Air Force personnel use to create SF 1081 transactions and billings, among other transactions. DTIM sends transaction information to the appropriate accounting systems, such as the General Accounting and Finance System and the Defense Enterprise Accounting and Management System.

Logistics Modernization Program

The Logistics Modernization Program (LMP) is an Army enterprise resource planning (ERP) system that enables the Army to maintain asset management and accountability.⁷ LMP's primary users include the Army Materiel Command (AMC) and related subordinate commands, depots and arsenals, as well as DFAS. LMP users record SF 1081 transactions in LMP.

Standard Contract Reconciliation Tool

The Mechanization of Contract Administration Services (MOCAS) system is the primary system used by DFAS to maintain data records pertinent to the administration and payment of contracts. The Standard Contract Reconciliation Tool (SCRT) is a DFAS-owned system that provides a comparison of contract-related financial data in the accounting systems to the data recorded in MOCAS. The system identifies when transactions do not match and provides the user with the capability to correct the errors in the tool. DFAS personnel process SF 1081 transactions in SCRT to correct errors identified in contract-related financial data.

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.⁸ We determined that the DoD could not produce a complete or accurate universe of SF 1081 transactions processed during the first and second quarters of FY 2020. We also identified internal control weaknesses related to document retention and the SF 1081 review process. We will provide a copy of the report to the senior officials responsible for internal controls in the OUSD(C), DFAS, and the Army.

⁷ ERP refers to a type of software that organizations use to manage day-to-day business activities, such as accounting, procurement, and project management. ERP systems tie together a multitude of business processes and enable the flow of data between them.

⁸ DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

Finding A

The DoD Lacked a Complete and Accurate Universe of SF 1081 Transactions

The DoD could not produce a complete or accurate universe of SF 1081 transactions processed during the first and second quarters of FY 2020 in accordance with the DoD FMR.⁹ OUSD(C) and DFAS personnel provided 3.8 million SF 1081 transactions, totaling \$98.4 billion, that the DoD Components processed during this period.¹⁰ However, the universe did not include all SF 1081 transactions from each system that created, processed, or stored the transactions; therefore, the universe was incomplete and inaccurate. The universe was incomplete and inaccurate because OUSD(C) and DFAS personnel could not identify all the systems that created, processed, or stored SF 1081 transactions. In addition, personnel did not have a centralized database containing all SF 1081 transactions.

The universe provided by OUSD(C) and DFAS personnel contained populations of transactions from only DCAS, DTIM, LMP, and SCRT. In addition, these populations were unreliable.

- The DCAS population contained transactions that were irrelevant to the scope of our audit; therefore, we consider this population inaccurate. The DCAS population included these irrelevant transactions because DFAS personnel did not design DCAS to differentiate SF 1081 transactions from other types of transactions.
- The DTIM, LMP, and SCRT populations were missing at least 38,535 transactions totaling \$2.2 billion. The SF 1081 transactions were missing from the populations because DFAS did not design and implement internal controls in these systems to ensure that the SF 1081 populations were complete and accurate. Furthermore, DFAS personnel did not develop accurate and effective techniques for extracting the transactions from the systems to produce reliable populations.

A complete and accurate universe of SF 1081 transactions is important for the DoD to achieve and sustain financial statement auditability. Because DoD Components process SF 1081 transactions to transfer funds between appropriations and make corrections to collections and disbursements, Components need to ensure that these transactions are valid, accurate, and supported by an

⁹ DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 4, "Accounting Policy," chapter 2, "Accounting for Cash and Fund Balances With Treasury."

¹⁰ The \$98.4 billion is an absolute value. Absolute value is the value of change, whether a decrease or increase in cost. The transaction totals presented in this report are all absolute values, unless noted otherwise.

audit trail. Otherwise, DoD Components cannot effectively reconcile their FBWT accounts, which could lead to material misstatements of FBWT balances on the Components' financial statements. Furthermore, as a portion of the FBWT UoT, a reliable universe of SF 1081 transactions may help provide management with an accurate measurement of its available resources and its operational costs. This information is necessary for management to make data-driven decisions regarding its operations.

The DoD's Universe of SF 1081 Transactions Was Not Complete or Accurate

The DoD could not produce a complete or accurate universe of SF 1081 transactions in accordance with the DoD FMR.¹¹ We asked OUSD(C) personnel to provide all unclassified SF 1081 transactions that the DoD Components processed during the first and second quarters of FY 2020. In response, OUSD(C) personnel provided a universe of 2.8 million SF 1081 transactions, totaling \$16.5 billion, from Advana. However, the universe contained only transactions that Advana extracted from DCAS. DCAS is only one of many systems that created, processed, or stored SF 1081 transactions; therefore, the Advana population was incomplete. According to OUSD(C) personnel, Advana is not yet fully implemented throughout the DoD to collect and store a complete universe of SF 1081 transactions.

Once we determined that the Advana population was incomplete, OUSD(C) personnel, with support from DFAS personnel, attempted to gather all the SF 1081 transactions manually from each of the DoD systems that created, processed, or stored the transactions. OUSD(C) and DFAS personnel provided a revised universe of 3.8 million SF 1081 transactions, totaling \$98.4 billion, from DCAS, DTIM, LMP, and SCRT. However, OUSD(C) and DFAS personnel acknowledged that the 3.8 million transactions did not represent all SF 1081 transactions processed or stored in every DoD system for the period requested. OUSD(C) and DFAS personnel were unable to provide an estimate of the number of transactions missing from the universe.

OUSD(C) and DFAS personnel stated that they were unable to produce a complete or accurate universe of SF 1081 transactions because they could not identify all systems that created, processed, or stored the transactions. OUSD(C) personnel acknowledged that with a complete list of systems, the OUSD(C) could work with the system owners to establish business rules between Advana and the systems that store SF 1081 transactions. The business rules would enable Advana to extract the transactions from the systems and store the data in a centralized location.

¹¹ DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 4, "Accounting Policy," chapter 2, "Accounting for Cash and Fund Balances With Treasury."

After OUSD(C) and DFAS personnel acknowledged that they were unable to produce a complete and accurate universe, we asked the Military Departments to provide SF 1081 transactions processed in their ERP systems during the first and second quarters of FY 2020. We sent three requests to Army personnel asking them to provide SF 1081 transactions processed in the General Fund Enterprise Business System (GFEBS).¹² Army personnel did not respond to our requests. According to Navy and DFAS personnel, DFAS processes all SF 1081 transactions affecting the Navy ERP in DCAS. DFAS personnel stated that the DCAS population provided in the total population of 3.8 million transactions contained all the SF 1081 transactions posted for the Navy.

We asked the Air Force to provide the SF 1081 transactions processed in the Defense Enterprise Accounting and Management System. DFAS personnel, responding for the Air Force, provided 12,586 SF 1081 transactions totaling \$652.2 million. These transactions were not included in the universe of 3.8 million transactions because the OUSD(C) and DFAS personnel assigned to support our audit were unaware that the Defense Enterprise Accounting and Management System processed or stored SF 1081 transactions. Therefore, the OUSD(C) and DFAS personnel did not communicate with the appropriate personnel within DFAS to obtain the transactions. We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (USD[C]/CFO), work with DFAS and the DoD Component Directors to:

- establish and implement business rules between all the systems that create, process, or store SF 1081 transactions and Advana to ensure that the DoD maintains a universe of SF 1081 transactions in a centralized database;
- establish memorandums of understanding with the system owners and Advana owners to define roles and responsibilities for managing the SF 1081 transactions;
- develop and implement a plan to test SF 1081 transactions on a reoccurring basis to ensure that transactions are necessary, accurate, and supported by an audit trail;
- develop metric reports that track the net and absolute dollar amount, and number of SF 1081 transactions by each system that creates, processes, and stores SF 1081 transactions; and
- develop and implement a plan to reduce the number of SF 1081 transactions for each system that creates, processes, and stores SF 1081 transactions.

¹² GFEBS is an Army ERP system that integrates financial, real property, cost, and performance data to provide real-time visibility of transactions and other data.

DCAS, DTIM, LMP, and SCRT Populations Were Unreliable

OUSD(C) and DFAS personnel provided 3.8 million transactions, totaling \$98.4 billion, that DoD Component personnel created, processed, or stored in DCAS, DTIM, LMP, and SCRT during the first and second quarters of FY 2020. However, these populations were unreliable. Table 1 summarizes the transactions provided from each system.

Table 1. FY 2020 First and Second Quarter SF 1081 Transactions Provided by the OUSD(C) and DFAS

| System | Population Count | Population Value (in Billions) |
|--------------|------------------|--------------------------------|
| DCAS | 3,641,043 | \$69.7 |
| DTIM | 115,209 | 20.7 |
| LMP | 383 | 0.2 |
| SCRT | 67,725 | 7.8 |
| Total | 3,824,360 | \$98.4 |

Source: OUSD(C) and DFAS personnel provided the populations. DoD OIG personnel calculated the populations' count and value.

DCAS

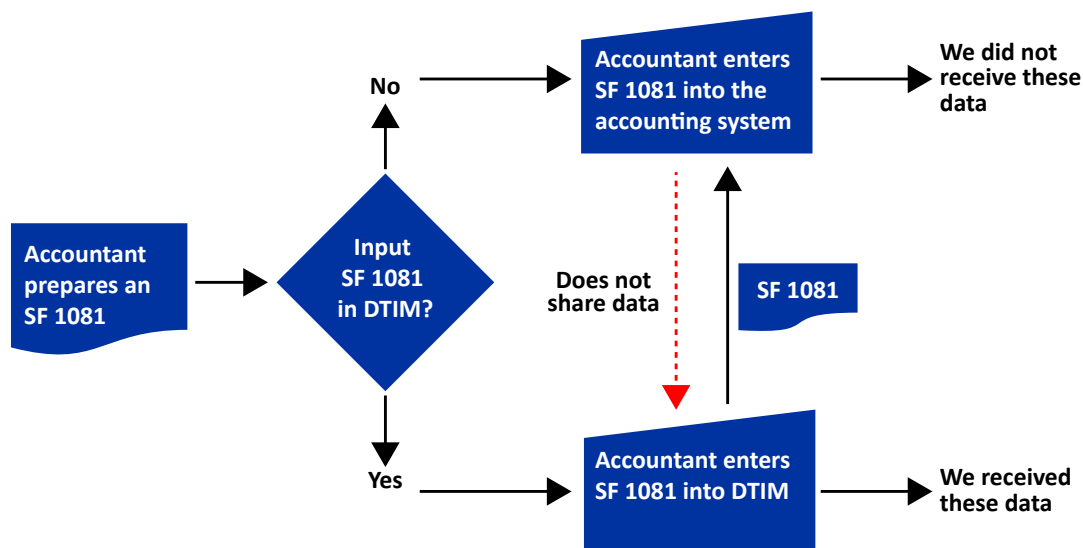
The DCAS population contained transactions that were irrelevant to the scope of our audit; therefore, we consider this population inaccurate. For example, the population included SF 1080 transactions, which are irrelevant to our request because DoD Components do not use SF 1080 transactions to correct accounting errors.¹³ DFAS personnel stated they were unable to identify and remove SF 1080 transactions from the SF 1081 population without reviewing each of the 3.6 million transactions to determine whether the transaction was an SF 1080 or SF 1081. The DCAS population contained irrelevant transactions because DFAS personnel did not design DCAS to differentiate between the types of transactions. Because of this, it is unclear how many of the 3.6 million DCAS transactions were not SF 1081 transactions. It is unclear how the DoD Components and DFAS can effectively reconcile their FBWT accounts if they cannot differentiate between corrections to collections and disbursements and other transactions. We recommend that the USD(C)/CFO work with DFAS and the DoD Component Directors to ensure that all systems that create, process, or store SF 1081 transactions can differentiate between SF 1081 transactions and other types of transactions. In addition, the systems should have the capability to differentiate between SF 1081 transactions used to correct errors and those used to transfer funds.

¹³ SF 1080, "Voucher for Transfers Between Appropriations and/or Funds," Revised April 1982. An SF 1080 voucher is used to transfer amounts between FBWT accounts and to make intra-agency payments.

DTIM

We could not determine whether the DTIM population was reliable because DFAS personnel did not design or implement internal controls in DTIM to ensure that the transactions were complete and accurate. DFAS personnel stated that DTIM does not always interface with accounting systems efficiently so they implemented a manual procedure to process SF 1081 transactions outside of DTIM. To implement this procedure, the DFAS technician must create an SF 1081 in DTIM; print the SF 1081 to a hardcopy document; and manually input the information into the accounting system. DTIM does not maintain a record of the manually processed SF 1081, nor does it receive updates from the accounting system. It was not until we identified the manual SF 1081 process that OUSD(C) and DFAS personnel identified and provided an additional 22 SF 1081 transactions, totaling \$4.8 million, that they had not included in the universe of 3.8 million transactions. Figure 2 illustrates the SF 1081 process in DTIM.

Figure 2. DTIM SF 1081 Process



Source: The DoD OIG.

We recommend that the DFAS Director design and implement internal controls in DTIM to ensure that transactions are created, stored, and cataloged in a complete and accurate manner. The Director should document the controls in SOPs, process narratives, and process maps.

LMP

To determine whether OUSD(C) and DFAS personnel provided a complete population of SF 1081 transactions recorded in LMP, we also asked the AMC to provide a population of transactions for the same period so that we could compare the two populations. In response to our request, AMC personnel provided 38,697 transactions, totaling \$2.3 billion, that were recorded in LMP. Table 2 shows a comparison of the two populations.

Table 2. LMP Populations Provided by OUSD(C) and AMC Personnel

| Organization | Population Count | Population Value (in Billions) |
|------------------|------------------|--------------------------------|
| OUSD(C) and DFAS | 383 | \$0.2 |
| AMC | 38,697 | 2.3 |

Source: OUSD(C) and AMC personnel provided the populations. DoD OIG personnel calculated the populations’ count and value.

OUSD(C) and DFAS personnel were unable to explain why the LMP population they provided did not reconcile with that provided by the AMC. According to DFAS personnel, they did not obtain the SF 1081 population directly from the LMP. Instead, they used an intermediary system, the Operational Data Store, to extract the data from the LMP. Therefore, we recommend that the AMC Commanding General work with the DFAS Director to perform a root-cause analysis to determine why the SF 1081 population in the Operational Data Store did not reconcile with the population in LMP. The Commanding General and the Director should develop and implement a corrective action plan to remedy any deficiencies identified during the analysis.

SCRT

The SCRT population was unreliable because DFAS personnel used an incorrect query to extract the population from the SCRT. DFAS personnel did not provide at least 199 SF 1081 transactions totaling \$55.5 million in the SCRT population. We recommend that the DFAS Director develop and implement functional-area training to ensure that staff can correctly extract data from SCRT for management and other stakeholders.

SF 1081 Transactions Are Important for Auditability and Operational Success

A complete and accurate universe of SF 1081 transactions is important for the DoD to achieve and sustain financial statement auditability. Because DoD Components process SF 1081 transactions to transfer funds between

appropriations and make corrections to collections and disbursements. Components need to ensure that these transactions are valid, accurate, and supported by an audit trail. Otherwise, DoD Components cannot effectively reconcile their FBWT accounts, which could lead to material misstatements to FBWT balances on their financial statements.

According to the Financial Improvement and Audit Remediation report, auditors issued 110 findings in FY 2019 related to the DoD's inability to produce a complete UoT.¹⁴ As a result, auditors classified the UoT as a material weakness. The DoD must be able to identify and produce a complete and accurate UoT to support the information presented in its financial statements. Otherwise, the inability to produce a complete and accurate UoT will remain a persistent hurdle for the DoD to obtain an audit opinion on its financial statements.

A complete and accurate population of SF 1081 transactions will also enable management to make data-driven decisions regarding its operations. As a portion of the FBWT UoT, a reliable universe of SF 1081 transactions may help decision makers ensure that they are not under-or overusing available resources for mission-critical needs. In addition, a reliable universe will provide management an accurate measurement of its operational costs.

Management Identified Applicable Systems During the Audit

In January 2021, in response to feedback we provided during the audit, OUSD(C) and DFAS personnel identified at least 18 systems that process SF 1081 transactions. By identifying the systems that process SF 1081 transactions, the DoD took the first step in maintaining a complete population of SF 1081 transactions. While we recognize the DoD's efforts, the list was incomplete. We identified that at least two systems that process SF 1081 transactions were missing from the list—the Standard Operations and Maintenance Army Research and Development System and the Standard Finance System. The DoD needs to continue to identify and maintain a list of systems that process SF 1081 transactions. Because the OUSD(C) and DFAS provided the list of systems before we issued the draft report, we removed a recommendation for the USD(C)/CFO to work with DFAS and DoD Component Directors to identify all the systems that create, process, or store SF 1081 transactions.

¹⁴ U.S. Department of Defense Financial Improvement and Audit Remediation Report, June 2020.

Recommendations, Management Comments, and Our Response

Recommendation A.1

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, work with the Directors of the Defense Finance and Accounting Service and DoD Components to:

- a. Establish and implement business rules between all the systems that create, process, or store SF 1081 transactions and the Advancing Analytics tool to ensure that the DoD maintains a universe of SF 1081 transactions in a centralized database.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The Deputy Chief Financial Officer (DCFO), responding for the USD(C)/CFO, stated that there is not an authoritative requirement to maintain a universe of SF 1081 transactions but there is value to management oversight by having these internal controls. The DCFO agreed to implement the recommendation by March 2024.

Our Response

Comments from the DCFO addressed the recommendation; therefore, the recommendation is resolved but will remain open. As described in the background section of this report, DoD Components use the SF 1081 to transfer amounts between FBWT accounts and to make corrections to collections and disbursements. DoD Components must maintain a complete universe of SF 1081 transactions to comply with the FBWT reconciliation requirements in the DoD FMR. We will close the recommendation once we verify that the USD(C)/CFO has established and implemented the business rules between the applicable systems and Advana.

- b. Establish memorandums of understanding with the system owners and the Advancing Analytics owners to define roles and responsibilities for managing the SF 1081 transactions.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The DCFO, responding for the USD(C)/CFO, did not agree with the recommendation, stating that the Components are responsible for managing SF 1081 transactions. The DCFO also stated that the DoD will document rules that define SF 1081 transactions within Advana's Common Data Model maintained with each system owner, rather than maintaining additional memorandums of understanding.

Our Response

Although the DCFO disagreed with the recommendation, documenting rules that define SF 1081 transactions within Advana's Common Data Model meets the intent of the recommendation. Therefore, the recommendation is resolved but will remain open. We will close this recommendation once we verify that the USD(C)/CFO documented the rules that define SF 1081 transactions in Advana's Common Data Model.

- c. Develop and implement a plan to test SF 1081 transactions on a reoccurring basis to ensure that transactions are necessary, accurate, and supported by an audit trail.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The DCFO, responding for the USD(C)/CFO, agreed to implement the recommendation by September 2024.

Our Response

Comments from the DCFO addressed the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the USD(C)/CFO has developed and implemented a plan to test SF 1081 transactions.

- d. Develop metric reports that track the net and absolute dollar amount, and number of SF 1081 transactions by each system that creates, processes, and stores SF 1081 transactions.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The DCFO, responding for the USD(C)/CFO, stated that there is no policy requirement for this recommendation, but recognized the value of identifying SF 1081 transactions. The DCFO agreed to implement the recommendation by June 2024.

Our Response

Comments from the DCFO addressed the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the USD(C)/CFO has developed metric reports that track SF 1081 transactions by each system.

- e. **Develop and implement a plan to reduce the number of SF 1081 transactions for each system that creates, processes, and stores SF 1081 transactions.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The DCFO, responding for the USD(C)/CFO, agreed to implement the recommendation by September 2024.

Our Response

Comments from the DCFO addressed the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the USD(C)/CFO has developed and implemented a plan to reduce the number of SF 1081 transactions.

- f. **Ensure that all systems that create, process, or store SF 1081 transactions can differentiate between SF 1081 transactions and other types of transactions. In addition, the systems should have the capability to differentiate between SF 1081 transactions used to correct errors and those used to transfer funds.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The DCFO, responding for the USD(C)/CFO, partially agreed with the recommendation, stating that there is no policy requirement for differentiating between SF 1081 transactions and other types of transactions. However, the DCFO agreed to implement the recommendation by March 2024 as part of corrective actions taken to implement Recommendation A.1.a.

Our Response

Comments from the DCFO addressed the recommendation; therefore, the recommendation is resolved but will remain open. As explained in the background section of this report, DoD Components use the SF 1081 to transfer amounts between FBWT accounts and to make corrections to collections and disbursements. DoD Components must maintain a complete population of SF 1081 transactions to comply with the FBWT reconciliation requirements in the DoD FMR. Therefore, in order to maintain a complete population, DoD Components need to differentiate SF 1081 transactions from other types of transactions. We will close the recommendation once we verify that the USD(C)/CFO has created business rules to differentiate SF 1081 transactions from other types of transactions.

Recommendation A.2

We recommend that the Director of the Defense Finance and Accounting Service:

- a. Design and implement internal controls in the Defense Finance and Accounting Service Transaction Interface Module to ensure that transactions are created, stored, and cataloged in a complete and accurate manner. The Director should document the controls in standard operating procedures, process narratives, and process maps.**

Director of the Defense Finance and Accounting Service Comments

The DCFO, responding for the DFAS Director, did not agree with the recommendation. The DCFO stated that because DTIM is part of the SF 1081 transaction population, the DoD will address the intent of this recommendation when implementing corrective actions in response to Recommendation A.1.a.

Our Response

Comments from the DCFO did not address the recommendation; therefore, the recommendation is unresolved. We made this recommendation because DFAS personnel acknowledged during the audit that they did not design or implement internal controls in DTIM to ensure the SF 1081 population was complete and accurate. Based on the DCFO's response to Recommendation A.1.a, it is unclear how establishing business rules between Advana and DTIM will also result in the development and documentation of new DTIM internal controls. Therefore, we request that the DCFO reconsider his position on the recommendation and provide comments on the final report. The DCFO should explain his plan to design, implement, and document new DTIM internal controls to ensure that the DFAS creates, stores, and catalogs SF 1081 transactions in DTIM in a complete and accurate manner.

- b. Develop and implement functional-area training to ensure that staff can correctly extract data from the Standard Contract Reconciliation Tool for management and other stakeholders.**

Director of the Defense Finance and Accounting Service Comments

The DCFO, responding for the DFAS Director, did not agree with the recommendation. The DCFO stated that because SCRT is part of the SF 1081 transaction population, the corrective actions taken in response to Recommendation A.1.a will address the intent of this recommendation.

Our Response

Comments from the DCFO did not address the recommendation; therefore, the recommendation is unresolved. We made this recommendation because during the audit DFAS personnel used an incorrect query to obtain a population of SF 1081 transactions from SCRT, which resulted in DFAS omitting SF 1081 transactions from the population. It is unclear how the corrective actions taken in response to Recommendation A.1.a will also result in the development and implementation of SCRT training. Therefore, we request that the DCFO reconsider his position on the recommendation and provide comments on the final report explaining his plan to develop and implement training to ensure staff can correctly extract data from SCRT.

Recommendation A.3

We recommend that the Commanding General of the Army Materiel Command work with the Director of the Defense Finance and Accounting Service to perform a root-cause analysis to determine why the SF 1081 population in the Operational Data Store did not reconcile with the population in the Logistics Modernization Program. The Commanding General and the Director should develop and implement a corrective action plan to remedy any deficiencies identified during the analysis.

Commanding General of the Army Materiel Command Comments

The Executive Deputy to the Commanding General, responding for the AMC Commanding General, agreed with the recommendation. The Executive Deputy stated that the AMC will work with DFAS to remedy any differences in the SF 1081 data between the Operational Data Store and the LMP by December 31, 2021.

Our Response

Comments from the Executive Deputy to the Commanding General addressed the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we review the results of the analysis.

Finding B

DoD Components Did Not Implement Procedures to Ensure All SF 1081 Transactions Were Necessary or Accurate

Of the 100 SF 1081 transactions in our sample, DoD Component personnel accurately processed 45 transactions, totaling \$6.1 billion, to transfer funds and correct errors. While the SF 1081 transactions were necessary and accurate, the DoD needs to develop controls to prevent errors from occurring rather than relying on controls to detect the errors after they occurred.

Of the remaining 55 SF 1081 transactions, the following 40 SF 1081 transactions, totaling \$1.2 billion, were unnecessary.

- DFAS personnel processed 34 SF 1081 transactions, totaling \$1.1 billion, to reclassify transactions from a temporary holding account to the proper DoD account. In all 34 instances, DFAS personnel recorded the transactions in a temporary holding account, despite receiving the necessary accounting information to record the transactions in the proper DoD account. Because personnel had the necessary information to record the transactions in the proper account, we consider the 34 SF 1081 transactions as unnecessary and avoidable. DFAS personnel processed unnecessary SF 1081 transactions because DFAS did not implement the guidance in Office of Management and Budget (OMB) Circular No. A-11.¹⁵
- AMC personnel processed six SF 1081 transactions, totaling \$105.2 million, to reallocate costs between accounts. We consider the six SF 1081 transactions unnecessary because the AMC's accounting system, LMP, had the capability to record the transactions automatically, thus eliminating the need for the SF 1081 transactions. AMC personnel did not explain why they did not use LMP's capabilities, but provided evidence that they made corrections to their process to eliminate the SF 1081 transactions in the future.

Furthermore, DFAS personnel did not provide adequate documentation to support the remaining 15 SF 1081 transactions, totaling \$0.15, processed in DCAS; therefore, we could not verify whether the transactions were necessary or accurate.

¹⁵ OMB Circular No. A-11, "Preparation, Submission and Execution of the Budget," July 2016.

Finally, DoD Component personnel did not implement effective internal controls to ensure that SF 1081 transactions were necessary and accurate in accordance with OMB Circular No. A-123 and DoD Instruction 5010.40.¹⁶ The review process was not effective because DoD Component personnel were not always authorized to certify the SF 1081 transactions or properly trained in accordance with the DoD FMR.¹⁷

Some of the SF 1081 transactions processed by DoD Component personnel were unnecessary. The unnecessary transactions created an administrative burden and wasted DoD funds that DoD Components could have put to better use. In addition, manually inputting SF 1081 transactions into disbursement, general ledger, and feeder systems increases the risk that these systems contain inaccurate transactions. Without accurate transactions, the DoD Components cannot effectively reconcile their FBWT accounts and make accurate decisions regarding their resources.

DoD Components Processed SF 1081 Transactions to Transfer Funds and Correct Errors

DoD Component personnel accurately processed 45 SF 1081 transactions, totaling \$6.1 billion, to transfer funds and correct errors. Of the 45 SF 1081 transactions, DFAS personnel processed 15 transactions, totaling \$1 billion, to transfer funds between accounts. For example, DFAS personnel processed four SF 1081 transactions, totaling \$1.7 million, to transfer debt information between accounts. When a Service member leaves the Service and has an outstanding debt on file, DFAS transfers the debt information to an account used to track debts for discharged Service members. In another example, at the request of the Defense Security Cooperation Agency, DFAS personnel processed two SF 1081 transactions, totaling \$167.4 million, to transfer grant funds from the Foreign Military Financing account to the Foreign Military Sales Trust Fund in support of a foreign partner.

DoD Component personnel processed 30 SF 1081 transactions, totaling \$5.1 billion, to correct disbursement errors or errors that occurred on previously approved SF 1081 transactions. For example, Navy personnel processed 15 transactions, totaling \$4.3 billion, to correct military pay disbursements that did not cite the correct accounting information on the original disbursement. According to Navy personnel, DFAS processes all military pay disbursements in the Defense Joint Military Pay System. However, due to limitations of that system, DFAS cannot

¹⁶ OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," July 2016. DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

¹⁷ DoD Regulation 7000-14.R, "DoD Financial Management Regulation," volume 5, "Disbursing Policy," chapter 5, "Certifying Officers, Departmental Accountable Officials, and Reviewing Officials."

cite the correct accounting information on the disbursement. Therefore, Navy personnel must process SF 1081 transactions to correct the disbursements. Navy personnel indicated that they plan to migrate from the Defense Joint Military Pay System to the Navy Personnel and Pay System, which will reduce the number of manual SF 1081 transactions to correct military pay disbursements in the future. Therefore, we did not make any recommendations to the Navy. However, the DoD needs to find solutions for the other DoD Components. Therefore, we recommend that the USD(C)/CFO, DoD, work with the DFAS Director to either update the Defense Joint Military Pay System to ensure that all disbursements cite the correct accounting information or develop alternative automated solutions.

In another example, DFAS personnel processed 15 SF 1081 transactions, totaling \$0.8 billion, to correct errors, such as incorrectly processed invoices or contract payments. DFAS personnel caused all 15 errors and corrected the errors with SF 1081 transactions. In one instance, DFAS personnel processed four SF 1081 transactions, totaling \$175 million, in July 2019 to realign progress payments on an Air Force contract. However, in November 2019, Air Force personnel determined that DFAS processed the SF 1081 transactions incorrectly. At the request of Air Force personnel, DFAS personnel processed four additional SF 1081 transactions in November 2019, totaling \$175 million, to reverse the transactions processed in July. DFAS spent in excess of 49 hours to process the SF 1081 transactions and charged the Air Force \$3,692 to correct the errors.

Because DFAS still employs manual inputs, particularly in its commercial pay process, the errors likely occurred because DFAS did not implement effective controls to prevent the errors. While DFAS personnel identified and corrected all the errors in our samples before our audit, DFAS needs to develop controls to prevent the errors from occurring rather than relying on controls to detect errors after they occur. If DFAS improves its preventative controls, DoD Components may not need to reimburse DFAS for accounting services to correct errors caused by DFAS personnel. Therefore, we recommend that the DFAS Director:

- perform a comprehensive review of DFAS's commercial pay processes to identify procedures that rely on manual inputs, and identify and implement automated solutions, when feasible;
- develop, implement, and document compensating and preventative internal controls, when automated solutions are not feasible, to ensure that errors are identified before the transactions are processed; and
- implement procedures to inform DoD Component management when the Component is charged for DFAS's errors.

SF 1081 Transactions Were Unnecessary

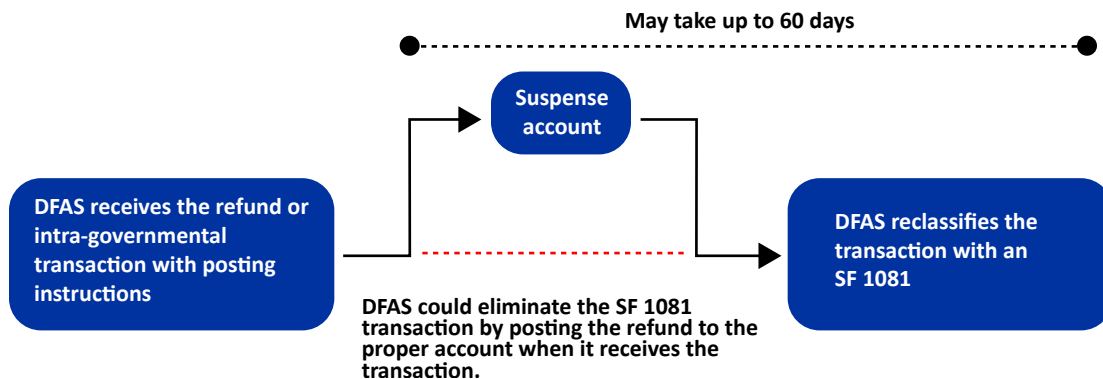
DFAS personnel processed 34 SF 1081 transactions, totaling \$1.1 billion, to reclassify the following suspense account transactions to the proper DoD account. Specifically, DFAS personnel processed:

- 18 SF 1081 transactions, totaling \$128.6 million, in SCRT to reclassify vendor refunds; and
- 16 SF 1081 transactions, totaling \$982 million, in DTIM to reclassify transactions between Government agencies (referred to as intra-Governmental transactions).

According to OMB Circular No. A-11, agencies may use suspense accounts to hold unidentifiable transactions temporarily until the agency can classify the transaction to the proper account. When processing refunds, agencies should deposit refunds into the account charged with the original obligation. If the proper account cannot be determined, the agency may post the refund to a suspense account until the agency can classify the refund to the proper account.¹⁸ DoD Component personnel have 60 days to research and reclassify suspense account transactions to the proper account.¹⁹

In all 34 instances, DFAS personnel recorded the refunds and intra-governmental transactions in suspense accounts, despite receiving the necessary accounting information to record the transactions in the proper account. Because personnel had the necessary information to record the refunds and transactions in the proper account at the time the transaction occurred, we consider the 34 SF 1081 transactions as unnecessary and avoidable. Figure 3 illustrates DFAS's procedures for processing the transactions.

Figure 3. DFAS's Procedures for Processing Refunds and Intra-Governmental Transactions in SCRT and DTIM



Source: The DoD OIG.

¹⁸ OMB Circular No. A-11, "Preparation, Submission and Execution of the Budget," July 2016.

¹⁹ DoD Regulation 7000-14.R, "DoD Financial Management Regulation," volume 4, "Accounting Policy," chapter 2, "Accounting for Cash and Fund Balance with Treasury."

In addition to not complying with OMB Circular No. A-11, DFAS's procedures for processing refunds and intra-governmental transactions are not always cost-effective. We identified instances in which the cost to process the refund exceeded the value of the refund. For example, in March 2020, DFAS collected a vendor refund check totaling \$0.01. It cost DFAS at least \$13.58 to reclassify the refund from a suspense account to the proper account with an SF 1081 transaction. Because DFAS must recover its costs by charging the DoD Components for accounting services, the cost of this transaction will be passed to the DoD Component through DFAS's billing process.²⁰

DFAS processed unnecessary SF 1081 transactions because it did not implement the guidance in OMB Circular No. A-11. DFAS procedures require personnel who process vendor refunds in SCRT to deposit all the refunds into suspense accounts as opposed to only those that the DFAS technician could not classify to the proper account.²¹ DFAS personnel stated that due to competing priorities, they recorded the refunds in suspense accounts to ensure that they recorded the refunds with the Treasury quickly, rather than spending additional time recording the refund in the proper account. DFAS's use of suspense accounts to temporarily hold identifiable transactions is a reoccurring condition that the DoD OIG has identified in a prior report. In 2016, the DoD OIG reported that DFAS personnel inappropriately used suspense accounts to temporarily hold routine, known transactions.²² While we recognize the importance of promptly recording refunds with the Treasury, it is important that DFAS use suspense accounts for the purpose intended by OMB Circular No. A-11.

DFAS also designed DTIM to record all incoming intra-governmental transactions automatically to a suspense account. DFAS personnel could not explain why they designed DTIM to process DTIM transactions in this manner. By revising its procedures for processing refunds and intra-Governmental transactions, DFAS may achieve a reduction in operating costs, which will result in cost savings for the DoD Components. Therefore, we recommend that the DFAS Director:

- revise the "MOCAS Accounts Receivable Posting Collections" SOP to require technicians to deposit all identified collections to the appropriate account at the point of receipt;
- make the necessary corrections to DTIM to post intra-governmental transactions to the correct account at the point of receipt; and

²⁰ This does not include the cost associated with receiving the check and posting the refund to the suspense account.

²¹ DFAS Procedure, "MOCAS Accounts Receivable Posting Collections," January 31, 2019.

²² Report No. DODIG-2016-126, "Improvements Needed in Managing Other Defense Organizations' Suspense Accounts," August 25, 2016.

- identify other processes or systems that may be using suspense accounts to record known transactions and implement corrective actions, to include updating applicable process documentation, as appropriate.

DFAS Needs to Improve Its Procedures for Processing Collections to Reduce Unnecessary SF 1081 Transactions

The DFAS “MOCAS Accounts Receivable Posting Collections” SOP was marked “draft” and did not include the following in accordance with DoD Instruction 5010.40 and DFAS policy:²³

- evidence that the SOP was reviewed by a supervisor within the last year; and
- a process map of the collection process.

In addition, the SOP did not include a step in the collection process to verify that the vendor’s instructions for recording the refunds were correct before processing the refunds or the SF 1081 transaction. DFAS personnel were unable to explain the purpose of 17 of the 18 refunds processed in SCRT, including whether the refund was a result of an overpayment.²⁴ Instead, DFAS personnel stated that they recorded the refunds in accordance with the vendor instructions. Furthermore, the DFAS SOP did not have a step in place to coordinate with Component contracting personnel to ensure that the adjustment was accurate and that contracting personnel updated their records to reflect the refund. In all 18 instances, DFAS personnel stated that they did not coordinate the refund with the DoD Component responsible for the contract.

Because DFAS reports the SF 1081 transactions to the Treasury, it is important that DFAS personnel ensure that any refund and SF 1081 transaction processed in response to vendor instructions is necessary and accurate. Verifying the necessity and accuracy of vendor’s information will ensure that any adjustment made to suspense or DoD FBWT account balances at the Treasury is valid and accurate. Therefore, we recommend that the DFAS Director:

- revise the “MOCAS Accounts Receivable Posting Collections” SOP to include:
 - steps to verify that the vendor refund is accurate before processing an SF 1081 transaction;
 - steps to coordinate the refund with the DoD Component responsible for the contract; and

²³ DFAS Procedure, “MOCAS Accounts Receivable Posting Collections,” January 31, 2019. DoD Instruction 5010.40, “Managers’ Internal Control Program Procedures,” May 30, 2013.

²⁴ The remaining refund was a result of a cost accounting change.

- a process map that depicts the updated collection process; and
- once the revisions are implemented, review and sign the updated “MOCAS Accounts Receivable Posting Collections” SOP. DFAS leadership should review the SOP annually.

AMC Personnel Processed Unnecessary SF 1081 Transactions to Allocate Costs

We determined that AMC personnel processed six SF 1081 transactions, totaling \$105.2 million, to reallocate incurred costs from headquarters-level accounts to installation-level accounts. AMC personnel centrally manage obligation and disbursement activity in a headquarters-level account and on an annual basis allocate the costs to the installations using SF 1081 transactions. The six SF 1081 transactions were not necessary because LMP had the capability to record the transactions automatically, thus eliminating the need for SF 1081 transactions.

AMC personnel did not explain why they used the SF 1081 transaction to allocate the costs and acknowledged that LMP had the capability to allocate the costs automatically. AMC personnel informed us that they plan to use LMP to automate the cost allocation process in the future, which will eliminate the SF 1081 transactions. We verified that AMC headquarters personnel informed installation-level personnel of the change; therefore, we did not make any recommendations to the AMC.

DFAS Personnel Did Not Provide Adequate Documentation to Support SF 1081 Transactions Processed in DCAS

DFAS personnel did not provide adequate documentation to support 15 SF 1081 transactions totaling \$0.15 that DFAS personnel certified in DCAS; therefore, we could not verify whether the transactions were necessary or accurate. DFAS personnel stated that they could not provide the documentation because GFEBS generated the SF 1081 transactions automatically before reporting the information to DCAS. DFAS personnel explained that GFEBS automatically generates an SF 1081 when an unmatched transaction is cleared or when the customer initiates the transaction.²⁵ Because GFEBS generated the transactions automatically, DFAS personnel were unable to provide key documents, such as the SF 1081, invoices, and vouchers, which were critical for us to verify whether the transactions were

²⁵ An unmatched transaction is a transaction that has been received and accepted by an accounting office, but has not been matched to the correct detail obligation. This includes transactions that have been rejected back to the paying office or central disbursement clearing organization by an accounting office.

necessary or processed properly. We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) implement capabilities within GFEBS or find alternative automated solutions to maintain an audit trail for systemically generated SF 1081 transactions. The capabilities should ensure that an adequate audit trail for system-generated transactions is readily available for management, service providers, and other stakeholders.

The DoD Needs to Implement an Effective SF 1081 Review Process

OMB Circular No. A-123 and DoD Instruction 5010.40 require management to establish and maintain internal controls to ensure that programs are operating as intended.²⁶ DoD Component personnel did not implement effective internal controls to ensure that they processed SF 1081 transactions accurately in accordance with OMB Circular No. A-123 and DoD Instruction 5010.40.

DoD Components consistently designed and implemented controls for the certifying officer (CO) to review the manual SF 1081 transactions and applicable supporting documentation before approving the transactions. The objective of the controls was to ensure that the SF 1081 transactions were necessary, accurate, and supported by an adequate audit trail. While the COs performed the controls, the controls were ineffective because they did not always prevent the CO from approving inaccurate SF 1081 transactions. We identified 13 SF 1081 transactions in our sample, totaling \$535.8 million, which were either incorrect or processed to correct a previously certified SF 1081 transaction that was incorrect.

In one example, AMC personnel processed an SF 1081 transaction, totaling \$14.4 million, to reallocate incurred costs. After processing the transaction, AMC personnel determined that the amount was incorrect because it included accrued costs rather than the disbursement amounts. AMC personnel processed a second SF 1081 transaction for an additional \$0.3 million to correct the error. In another example, DFAS personnel processed an SF 1081 for \$18.38 to correct an error that occurred while recording an interest penalty. It took DFAS personnel five attempts to correct the error. In each of these examples, the controls failed to prevent the DFAS employee from approving an inaccurate SF 1081.

The SF 1081 review process was ineffective because DoD Component personnel were not always authorized to approve the SF 1081 transactions or properly trained in accordance with the DoD FMR. According to the DoD FMR, COs must

²⁶ OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," July 2016. DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

be appointed on the DD Form 577 to approve transactions.²⁷ Of the 23 COs who approved SF 1081 transactions in our sample, 3 COs had appointment letters, but the letters did not specify that they were authorized to approve the SF 1081 transaction.

In addition, the DoD FMR requires COs to complete an approved Certifying Officer Legislation (COL) course applicable to their mission areas annually.²⁸ DFAS also requires that COs complete the COL Foundations course annually upon designation. However, the COs did not comply with the training requirements in the DoD FMR. Of the 23 COs who approved the SF 1081 transactions in our sample:

- 1 CO did not provide evidence that he completed the COL Foundations course;
- 8 COs did not provide evidence that they completed a COL course applicable to their functional areas; and
- 5 COs provided expired training certificates.

DFAS personnel did not provide the SF 1081 for 15 of the transactions processed in DCAS that were in our sample. Therefore, we could not identify the CO who approved the SF 1081 to verify whether the CO completed the appropriate training courses.

During our audit, several DoD Component personnel were unaware of or did not consistently implement the DoD FMR training requirements. For example, DFAS personnel stated that they were unclear whether COs in Accounts Receivable had to complete a COL course applicable to their functional area. The DoD FMR does not provide any exception to maintaining the necessary training for COs. Therefore, we recommend that the OUSD(C)/CFO work with DFAS and the DoD Component Directors to:

- develop, implement, and document effective internal controls within the SF 1081 certification process to ensure that COs do not approve inaccurate SF 1081 transactions;
- ensure that COs are appointed on a DD Form 577 that explains the types of transactions in each system that the CO is authorized to approve; and
- ensure that COs complete all necessary training, including the COL Foundations course and a COL training specific to the COs' mission areas.

²⁷ DoD Regulation 7000-14.R, "DoD Financial Management Regulation," volume 5, "Disbursing Policy," chapter 5, "Certifying Officers, Departmental Accountable Officials, and Reviewing Officials." DD Form 577, "Appointment/Termination Record-Authorized Signature," February 2011.

²⁸ DoD Regulation 7000-14.R, "DoD Financial Management Regulation," volume 5, "Disbursing Policy," chapter 5, "Certifying Officers, Departmental Accountable Officials, and Reviewing Officials."

The DoD May Realize Potential Savings by Improving Its SF 1081 Process

The SF 1081 transactions processed by DoD Component personnel were not always necessary. These unnecessary transactions created an administrative burden on the DoD and wasted funds that the DoD Components could have put to better use. Based on the 3.8 million SF 1081 transactions provided by OUSD(C) and DFAS personnel, the DoD processed in excess of 20,000 SF 1081 transactions per day during the first and second quarters of FY 2020. While the data were unreliable, they provide a useful approximation of the volume of SF 1081 transactions processed throughout the DoD. The DoD should improve its business operations to reduce the volume of SF 1081 transactions processed, particularly those that are unnecessary or processed manually to correct errors. Manually inputting SF 1081 transactions into disbursement, general ledger, and feeder systems increases the risk that these systems contain inaccurate transactions. Without accurate transactions, the DoD Components cannot effectively reconcile their FBWT accounts and make accurate decisions regarding their resources.

In addition, DFAS has the critical responsibility of reducing the cost of the DoD's accounting operations by providing accurate, efficient, and effective support to the DoD Components. However, we determined that DFAS did not meet this responsibility because they did not implement cost effective procedures for processing SF 1081 transactions. Moreover, DFAS charged the DoD Components between \$74.28 and \$88.40 per hour to process unnecessary SF 1081 transactions and to correct errors that were caused by DFAS personnel or their systems. Enhancements in DFAS operations may reduce the amount of funds that DoD Components spend on accounting operations, which can be redirected to the Components' operational needs. In addition, these enhancements may improve the DoD Components' ability to produce accurate and reliable financial statements. Due to the pervasive conditions identified throughout this report, we recommend that the USD(C)/CFO identify and direct the appropriate official to conduct an analysis of the various cost components that DFAS uses to compute the rate it charges DoD customers for accounting services. From this analysis, identify and implement improvements to DFAS operations to reduce the DoD's cost for accounting services.

Recommendations, Management Comments, and Our Response

Recommendation B.1

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, work with the Director of the Defense Finance and Accounting Service to either update the Defense Joint Military Pay System to ensure that all disbursements cite the correct accounting information or develop alternative automated solutions.

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation and stated that the Defense Joint Military Pay System is on track to be replaced by the Navy and Air Force in FY 2022 and by the Army in FY 2025. The DCFO stated that the DoD will address this during the military pay system transition initiatives.

Our Response

Comments from the DCFO addressed the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the new military pay systems cite the correct accounting information on disbursements.

Recommendation B.2

We recommend that the Director of the Defense Finance and Accounting Service:

- a. **Perform a comprehensive review of the Defense Finance and Accounting Service commercial pay processes to identify procedures that rely on manual inputs and implement automated solutions, when feasible.**

Director of the Defense Finance and Accounting Service Comments

The DCFO, responding for the DFAS Director, disagreed with the recommendation and stated that the recommendation is too broad. The DCFO stated that many factors can cause payments to be re-aligned, and the DoD cannot implement automated solutions for each of those factors.

Our Response

Comments from the DCFO did not address the recommendation; therefore, the recommendation is unresolved. We acknowledge that DoD contracts are complex and often require manual intervention. However, it is unclear why the DCFO is not willing to perform a review of DFAS's commercial pay process to identify aspects of the process that DFAS can improve through automation. According to OMB Circular No. A-123, Federal leaders and managers are responsible for seizing opportunities to improve effectiveness and efficiency of operations.²⁹ Implementing automated solutions within the commercial process may improve DFAS operations by reducing errors and labor hours spent on manual accounting operations, which may reduce accounting costs. We request that the DCFO reconsider his position on the recommendation and provide comments on the final report explaining why he is not willing to identify and implement automated solutions in the commercial pay process, when feasible. If the DCFO still disagrees with implementing this recommendation, we request the DCFO explain his plan to improve the rate of errors in manual MOCAS processes.

- b. Develop, implement, and document compensating and preventative internal controls, when automated solutions are not feasible, to ensure that errors are identified before the transactions are processed.**

Director of the Defense Finance and Accounting Service Comments

The DCFO, responding for the DFAS Director, disagreed with the recommendation and stated that the recommendation is too broad. The DCFO added that there are many factors that can cause a progress payment to be re-aligned, and many of those situations cannot be automated.

Our Response

Comments from the DCFO did not address the recommendation; therefore, the recommendation is unresolved. We determined that 15 of the 100 sampled SF 1081 transactions, totaling \$0.8 billion, were necessary to correct errors, such as incorrectly processed invoices or contract payments. While DFAS may have fixed the errors identified before our audit, many of the errors occurred because DFAS personnel processed data in MOCAS incorrectly. DFAS personnel did not implement effective internal controls to prevent the errors from occurring. In his response to Recommendation B.2.a, the DCFO disagreed with exploring automated solutions to the commercial pay process. It is unclear why the DCFO would also disagree with

²⁹ OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," July 15, 2016.

strengthening internal controls in manual processes at DFAS given the feedback we provided in this report. According to OMB Circular No. A-123, Federal leaders are responsible for establishing and maintaining internal controls to achieve specific internal control objectives within their operations.³⁰ We request that the DCFO reconsider his position on the recommendation and provide comments on the final report explaining why he is not willing to strengthening internal controls for manual processes with MOCAS. If the DCFO still disagrees with implementing this recommendation, we request the DCFO explain his plan to improve the rate of errors in manually inputted data within MOCAS.

c. Implement procedures to inform DoD Component management when the Component is charged for Defense Finance and Accounting Service errors.

Director of the Defense Finance and Accounting Service Comments

The DCFO, responding for the DFAS Director, disagreed with the recommendation and stated that it would be cost prohibitive to track every edit error. The DCFO stated that DFAS will focus on building an SF 1081 universe of transactions in response to Recommendation A.1.a. The DCFO stated that DFAS will share information with Components on how many SF 1081s are being created to allow for root cause analysis to be performed.

Our Response

Comments from the DCFO did not address the recommendation; therefore, the recommendation is unresolved. The intent of the recommendation is not to track every error, but to establish transparency between DFAS and its customers. We determined that 64 of the 100 sampled SF 1081 transactions, totaling \$6.2 billion, were processed to correct errors caused by DFAS personnel or DFAS-owned systems. We recognize that DFAS is financed as a working capital fund and must recover all of its costs by charging the Components for its services, such as processing SF 1081 transactions. However, the DoD FMR states that Defense Working Capital Funds are designed to create a cost conscious environment for both customers and providers. Customers benefit by becoming aware of the cost of their service requirements and behaviors, deriving cost savings by limiting demands to actual requirements and adjusting behaviors to reduce the cost of providing services. Providers conscientiously reduce or eliminate costs to provide services, and assist customers in identifying and modifying behaviors

³⁰ OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," July 15, 2016.

that increase cost.³¹ Therefore, implementing this recommendation will help improve the Components' ability to monitor DFAS' performance and drive change through collaboration. We request that the DCFO reconsider his position on the recommendation and provide comments on the final report explaining how he plans to develop a cost-effective solution to inform the Components when they are charged for errors caused by DFAS personnel or DFAS-owned systems.

- d. Revise the “Mechanization of Contract Administration Services Accounts Receivable Posting Collections” standard operating procedures to require technicians to deposit all identified collections to the appropriate account at the point of receipt.**

Director of the Defense Finance and Accounting Service Comments

The DCFO, responding for the DFAS Director, agreed to implement the recommendation by August 2021.

Our Response

Comments from the DCFO addressed the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the DFAS Director revised the MOCAS SOP.

- e. Make the necessary corrections to the Defense Finance and Accounting Service Transaction Interface Module to post intra-governmental transactions to the correct account at the point of receipt.**

Director of the Defense Finance and Accounting Service Comments

The DCFO, responding for the DFAS Director, did not agree with the recommendation, stating that the Intra-Governmental Transactions effort will ensure that DFAS records DTIM transactions in the appropriate account.

Our Response

Comments from the DCFO did not address the recommendation; therefore, the recommendation is unresolved. Although the DCFO disagreed with the recommendation, the DCFO acknowledged the importance of recording transactions in the appropriate account at the point of receipt. In response to this report, OUSD(C) personnel provided documentation indicating that they have a plan in place to transition to a new invoicing solution. However, it is unclear how implementing the invoicing solution will affect the design and functionality of

³¹ DoD Regulation 7000-14.R, “DoD Financial Management Regulation,” volume 11B, “Reimbursable Operations Policy-Working Capital Funds,” chapter 1, “Defense Working Capital Funds General Policies,” August 2019.

DTIM, which we identified as the source of incorrectly posting transactions to suspense accounts. We request that the DCFO reconsider his position on the recommendation and provide comments on the final report explaining the impact that the invoicing solution will have on the design of DTIM.

- f. Identify other processes or systems that may be using suspense accounts to record known transactions and implement corrective actions, to include updating applicable process documentation, as appropriate.**

Director of the Defense Finance and Accounting Service Comments

The DCFO, responding for the DFAS Director, did not agree with the recommendation, stating that the intent of this recommendation is addressed in a corrective action plan established in response to notices of findings and recommendations issued by the DoD OIG during the Agency-wide financial statement audit.³²

Our Response

Comments from the DCFO did not address the recommendation; therefore, the recommendation is unresolved. We recognize that the corrective action plan that the DCFO referenced addresses suspense account transactions. However, the plan does not provide the corrective actions that DFAS will take to prevent the posting of all routine and known transactions to suspense accounts. If the DCFO plans to meet the intent of this recommendation by implementing DFASIPACAP-5099, we ask the DCFO to revise and resubmit the plan. The DCFO should include in the revised plan specific actions he will take to prevent DoD personnel from posting all known and routine transactions to suspense accounts and an estimated completion date for the actions. Otherwise, we request that the DCFO reconsider his position on the recommendation and provide comments on the final report explaining his plan to reduce the number of routine transactions posted to suspense accounts.

- g. Revise the “Mechanization of Contract Administration Services Accounts Receivable Posting Collections” standard operating procedures to include:**
 - 1. Steps to verify that the vendor refund is accurate before processing an SF 1081 transaction.**
 - 2. Steps to coordinate the refund with the DoD Component responsible for the contract.**
 - 3. A process map that depicts the updated collection process.**

³² DFASIPACAP-5099, “Reduce Suspense Account Balances to Immaterial Levels for TI-17, TI-21, TI-57, and TI-97.”

Director of the Defense Finance and Accounting Service Comments

The DCFO, responding for the DFAS Director, did not agree with the recommendations. The DCFO stated that the DoD will meet the intent of these recommendations by implementing corrective actions in response to other audit efforts, such as the “Audit of the DoD Compliance in FY 2020 with Improper Payment Reporting Requirements.”

Our Response

Comments from the DCFO did not address the recommendation; therefore, the recommendation is unresolved. After reviewing the DCFO’s responses to this report and Report No. DODIG-2021-080, we do not agree that the DCFO’s corrective actions will address the intent of our recommendation. The corrective action plans do not include any steps to verify that vendor refunds are accurate or coordinate the refunds with the DoD Components. In addition, the plans do not specify that DFAS plans to incorporate these steps into a process map. If the DCFO plans to meet the intent of this recommendation by implementing corrective actions in response to other audit efforts, we request that the DCFO revise the plans to include steps to address our recommendation and then resubmit the plans. Otherwise, we request that the DCFO reconsider his position on the recommendation and provide comments on the final report explaining his plans to revise the MOCAS SOP.

- h. Once the revisions in Recommendation B.2.g are implemented, review and sign the updated “Mechanization of Contract Administration Services Accounts Receivable Posting Collections” standard operating procedures. Defense Finance and Accounting Service leadership should review the standard operating procedures annually.**

Director of the Defense Finance and Accounting Service Comments

The DCFO, responding for the DFAS Director, agreed with the recommendation and stated that the corrective action is complete. The DCFO stated that DFAS signed the SOP in December 2020.

Our Response

Although the DCFO agreed with the recommendation and provided a signed SOP that contained a process map, the SOP and map did not include steps to verify that the accuracy of the vendor refund or coordinate the refund with the DoD Component, as outlined in B.2.g. Therefore, the recommendation is

unresolved. We request that the DCFO provide comments on the final report explaining his plans to meet the intent of recommendation B.2.g and to review the SOP annually.

Recommendation B.3

We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) implement capabilities within GFEBS or find alternative automated solutions to maintain an audit trail for systemically generated SF 1081 transactions. The capabilities should ensure that an adequate audit trail for system-generated transactions is readily available for management, service providers, and other stakeholders.

Assistant Secretary of the Army (Financial Management and Comptroller) Comments

The Director for Financial Operations and Accounting Oversight, Office of the Deputy Assistant Secretary of the Army (Financial Operations and Information), responding for the Assistant Secretary of the Army (Financial Management and Comptroller), agreed with the recommendation. The Director stated that the Army will implement capabilities within the GFEBS replacement system to maintain an audit trail for systemically generated SF 1081 transactions. Additionally, the Director stated that the Army will communicate the preference to use manual SF 1081 transactions to clear unmatched transactions instead of authorizing the use of GFEBS automated SF 1081 transactions.

Our Response

Comments from the Director addressed the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the Director implemented the capabilities in the system that replaces GFEBS.

Recommendation B.4

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, work with the Director of the Defense Finance and Accounting Service and the DoD Components to:

- a. Develop, implement, and document effective internal controls within the SF 1081 certification process to ensure that certifying officers do not approve inaccurate SF 1081 transactions.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The DCFO, responding for the USD(C)/CFO, agreed to implement the recommendation by April 2022.

Our Response

Comments from the DCFO addressed the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the DCFO has developed, implemented, and documented effective internal controls within the SF 1081 certification process.

- b. Ensure that certifying officers are appointed on a DD Form 577 that explains the types of transactions in each system that the certifying officer is authorized to approve.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The DCFO, responding for the USD(C)/CFO, disagreed with the recommendation, stating that there is not a policy requiring an SF 1081 certifier to have a DD Form 577. The DCFO stated that SF 1081 transactions do not fall under the definition of a voucher for payment as defined by the DoD FMR because they do not occur before, or simultaneously with, a receipt for payment of good or services.

Our Response

Comments from the DCFO did not address the recommendation; therefore, the recommendation is unresolved. We disagree with the DCFO's interpretation of the DoD FMR. The DoD FMR states that a disbursement is:

- a payment to an individual or organization for goods furnished or services rendered; or
- a transfer of funds from one appropriation or fund to another by a "no check drawn" transaction using a SF 1081.

The DoD FMR states that formal disbursement vouchers, such as an SF 1081, must support all disbursements.³³ Therefore, the SF 1081 is a voucher for payment. The DoD FMR requires that DoD personnel responsible for certifying vouchers for payment to be appointed using a DD 577 that identifies the types of payments to be certified and, if appropriate, the entitlement system involved.³⁴ Based on our sample, DFAS certifying officers had DD 577s that did not always identify the types of payments to be certified. We request that the DCFO reconsider his position

³³ DoD Regulation 7000-14.R, "DoD Financial Management Regulation," volume 5, "Disbursing Policy," chapter 9, "Disbursements," October 2020.

³⁴ DoD Regulation 7000-14.R, "DoD Financial Management Regulation," volume 5, "Disbursing Policy," chapter 5, "Certifying Officers, Departmental Accountable Officials, and Review Officials," October 2020.

on the recommendation and provide comments on the final report explaining his plan to ensure Components appoint each certifying officer on a DD Form 577 that explains the types of transactions in each system the certifying officer is authorized to approve.

- c. **Ensure that certifying officers complete all necessary training, including the Certifying Officer Legislation Foundations course and a Certifying Officer Legislation training specific to the certifying officers' mission areas.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The DCFO, responding for the USD(C)/CFO, agreed to establish internal controls to ensure that certifying officers complete the required training. The DCFO plans to implement the recommendation by April 2022.

Our Response

Comments from the DCFO addressed the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the DCFO has implemented the corrective action.

Recommendation B.5

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, identify and direct the appropriate official to conduct an analysis of the various cost components that the Defense Finance and Accounting Service uses to compute the rate it charges DoD customers for its services. From this analysis, identify and implement improvements to the Defense Finance and Accounting Service operations to reduce the DoD's cost of accounting and financial management operations.

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The DCFO, responding for the USD(C)/CFO, disagreed with the recommendation, stating that the recommendation is outside of the scope of the audit. The DCFO stated that SF 1081 transactions are part of a general accounting rate and are processed for various reasons, such as changing a line of accounting that Component personnel incorrectly cited on a transaction. The DCFO stated that because DFAS is financed as a working capital fund, DFAS must recover its costs associated with all services it performs.

Our Response

Comments from the DCFO did not address the recommendation; therefore, the recommendation is unresolved. The objective of the audit was to determine whether the DoD properly used the SF 1081 to correct accounting errors. We determined that 64 of the 100 SF 1081 transactions in our sample were necessary to correct errors caused by DFAS personnel or DFAS-owned systems. Specifically, we identified that:

- DFAS processed 34 SF 1081 transactions, totaling \$1.1 billion, to reclassify transactions that DFAS personnel incorrectly posted to suspense accounts;
- Navy personnel processed 15 SF 1081 transactions, totaling \$4.3 billion, to correct errors because DFAS did not cite the correct accounting information on the disbursement; and
- DFAS personnel processed 15 SF 1081 transactions, totaling \$0.8 billion, to correct errors on Component contract payments that were caused by DFAS personnel.

As the DCFO acknowledged in his response, the DoD Components must pay for services performed by DFAS personnel, including unnecessary SF 1081 transactions. Therefore, it is important that DFAS improve its operations to reduce the number of unnecessary transactions. In his January 2020 memorandum on DoD reform, the Secretary of Defense acknowledged the importance of reforming the DoD to free up money and stated that fiscal discipline and continuous improvement must become the cultural norm. We believe that implementing this recommendation will result in improvements to DFAS operations, which will reduce the cost of accounting and financial management operations throughout the DoD. The Components may redirect funds saved by reducing accounting and financial management to implementing the National Defense Business Strategy. We request that the DCFO reconsider his position on the recommendation and provide comments on the final report explaining how the DCFO plans to reduce the DoD's cost of accounting and financial management operations.

Appendix

Scope and Methodology

We conducted this performance audit from April 2020 through January 2021 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.

Our announced audit objective was to determine whether the DoD properly used the SF 1081 to correct accounting errors. In addition, we planned to determine whether the DoD identified and reported improper payments resulting from the accounting errors. During the fieldwork phase of the audit, we removed the portion of the objective related to improper payments for two reasons.

First, DoD Component personnel were unable to provide key supporting documentation for us to verify whether the Components processed SF 1081 transactions to correct improper payments. In addition, some SF 1081 transactions in our sample were either summary vouchers that consolidated hundreds of individual transactions into a single amount, or vendor refunds resulting from contracting actions. DFAS personnel did not always have this documentation available or could not always explain the purpose of these transactions. Obtaining the necessary documentation to answer the objective would have resulted in a substantial effort for the DoD Components and our audit team that would have likely caused significant delays to our audit report.

Second, based on our preliminary observations related to improper payments, we determined that any recommendations made to the DoD Components were already captured by recommendations made in DoD OIG audit reports DODIG-2020-083 and DODIG-2021-024. We think it is important that the DoD Components focus on implementing corrective actions to address the recommendations issued in these reports. We shared our observations with the DoD OIG audit team that conducts the annual Payment Integrity Information Act of 2019 compliance audit for consideration in developing its audit guides for future work.

To achieve our audit objective, we interviewed OUSD(C), DFAS, and DoD Component personnel to understand the purpose of SF 1081 transactions. We reviewed SOPs, process narratives, process maps, and other documentation to understand the steps necessary to process SF 1081 corrections. We also reviewed applicable public laws, OMB Circulars, the Treasury Financial Manual, and the DoD FMR.

We reviewed unclassified SF 1081 transactions processed during the first and second quarters of FY 2020. OUSD(C) and DFAS personnel were unable to provide a complete universe of SF 1081 transactions processed during this period. Instead, they provided populations from four systems: DCAS, SCRT, LMP, and DTIM. We interviewed OUSD(C) and DFAS personnel to understand the challenges with obtaining a complete universe of DoD SF 1081 transactions and to understand each system and the populations provided.

We calculated the value of the 38,535 missing SF 1081 transactions (\$2.2 billion) by adding the absolute values of the missing transactions that we identified during our data reliability assessment of the DTIM (22 transactions totaling \$4.8 million), LMP 38,314 transactions totaling \$2.1 billion), and SCRT populations (199 transactions totaling \$55.5 million).

We selected a nonstatistical sample to determine whether the DoD Components processed the SF 1081 transactions properly. To select the nonstatistical sample, we sorted each population from highest to lowest based on each transaction's absolute dollar value and selected the transactions with the highest and lowest values. For the DCAS sample, we sorted the population based on absolute dollar value and selected the 15 highest and 15 lowest valued transactions from the total population of 3,641,043 transactions. We excluded zero-dollar-value transactions and transactions identified as SF 1080 transactions. If DFAS officials informed us that a transaction selected in the sample was an SF 1080, we exchanged the transactions with the next highest or lowest transaction, as applicable.

For the SCRT sample, we determined that 60 percent of the population's absolute value was attributable to three accounts: the Air Force Research, Development, Test, and Evaluation; the Foreign Military Sales Trust Fund; and the Defense agencies budget clearing account. We selected the five highest and the five lowest valued transactions from the 25,451 transactions in the three accounts.

For the LMP sample, we determined that nearly 99 percent of the population's absolute value was attributable to the Defense-Wide Working Capital Fund. Within this fund, nearly 59 percent of the absolute value was attributable to two accounts. We selected the two highest and two lowest valued transactions from the 32 transactions in the two accounts.

For the DTIM sample, we determined that 72 percent of the population's absolute value was attributable to four appropriations: Air Force Military Personnel, Air Force clearing account for undistributed Intra-Governmental payments, Air Force Thrift Savings Fund, and the Foreign Military Sales Trust Fund. In each of these appropriations, DoD personnel processed transactions valued at greater than \$1 billion during the first and second quarters of FY 2020. We selected the

four highest and four lowest valued transactions from the total 52,607 transactions in the accounts, excluding zero-dollar-value transactions. Table 3 summarizes the populations received and the transactions in each sample from the four populations.

Table 3. SF 1081 Data Received and Transactions in Each Sample

| System | Population Count | Population Value (in Billions) | Sample Count | Sample Value (in Billions) |
|--------------|------------------|--------------------------------|--------------|----------------------------|
| DCAS | 3,641,043 | \$69.7 | 30 | \$4.3 |
| SCRT | 67,725 | 7.8 | 30 | 0.7 |
| LMP | 383 | 0.2 | 8 | 0.1 |
| DTIM | 115,209 | 20.7 | 32 | 2.3 |
| Total | 3,824,360 | \$98.4 | 100 | \$7.3 |

Source: SF 1081 data provided by DFAS and OUSD(C) personnel. Dollar values are presented as absolute values.

For each population's sample, we requested policies and procedures that described the controls in place for processing the SF 1081 corrections specific to the system used to generate the transactions. We also requested the following documentation for each sample selected:

- explanation for why the transaction was necessary;
- the original voucher, authorizing document (such as an invoice), and the SF 1081 transaction;
- evidence that the transaction was reviewed and approved by a DFAS supervisor;
- e-mail communication with the customer regarding the transaction, including that the customer was informed that the transaction was processed;
- evidence that the transaction was posted in the accounting system; and
- the certifying official's appointment letter and applicable training certificates.

Using the documents described above, we determined whether:

- documentation to support the transaction was readily available;
- the original voucher was paid with the correct line of accounting and for the correct amount;
- the final posting was against the obligation established in the authorizing document;
- additional SF 1081 transactions were necessary and accurate;

- the SF 1081 had the appropriate signatures at the established authorizing levels;
- the source (agency, point of contact, accounting office) of the original voucher was informed of the correction; and
- the official who certified the SF 1081 transaction had an appointment letter and completed the applicable CO legislation training courses.

We used data from each sample and the results of our analysis to calculate the totals described in Finding B. To calculate the \$13.58 to process the SF 1081, we observed DFAS reclassify an SF 1081 transaction from a suspense account to the proper account. It took the DFAS employee approximately 10 minutes to process the transaction or one sixth of an hour (16.7 percent). We multiplied the 16.7 percent by the applicable rate that DFAS charges the DoD Components (\$81.30).

Use of Computer-Processed Data

We relied on computer-processed data provided by the DoD Components. These data were generated in many systems, including Advana, DCAS, DTIM, LMP, and SCRT. To assess the reliability of the data, we reviewed the data and applicable system documentation, such as data dictionaries, queries, and SOPs. We also interviewed DoD Component personnel responsible for managing the data within each system. We traced data to source documentation to obtain corroborating evidence necessary to support our assessment. We determined that the data were incomplete but sufficiently reliable to draw conclusions and make recommendations. We discuss the unreliable data in the report findings. In addition, because we selected a nonstatistical sample, the completeness and reliability of the data did not affect the results of this audit because we reported only the results obtained by testing the transactions in our sample. We did not project our results to the population of SF 1081 transactions.

Prior Coverage

We did not find any audit reports during the last 5 years directly related to processing SF 1081 transactions. However, the following three reports were mentioned in this report. Unrestricted DoD OIG reports can be accessed at www.dodig.mil/reports.

DoD OIG

Report No. DODIG-2021-024, "Audit of the Accuracy of the Improper Payment Estimates Reported for MOCAS," November 12, 2020

The DoD OIG found that DFAS personnel did not accurately identify and report improper payments from MOCAS for the first two quarters of the FY 2020 improper payment reporting period. In addition, DFAS personnel did not report identified underpayments as improper payments.

Report No. DODIG-2020-083, "Audit of the DoD's Compliance in Fiscal Year 2019 With Improper Payments Elimination and Recovery Act Requirements," May 1, 2020

The DoD OIG found that the DoD published unreliable improper payment estimates for five programs and missed its annual improper payment reduction targets for three programs.

Report No. DODIG-2016-126, "Improvements Needed in Managing the Other Defense Organizations' Suspense Accounts," August 25, 2016

The DoD OIG found that DFAS did not have controls in place to accurately record Other Defense Organizations' suspense account balances or to clear the suspense account transactions in a timely manner. In addition, the DoD OIG found that DFAS incorrectly used the Other Defense Organizations' suspense accounts to record collections generated from revenue programs and to temporarily hold Thrift Savings Plan and tax withholdings collected from civilian employees.

Management Comments

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



COMPTROLLER

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

April 20, 2021

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

SUBJECT: DoD Office of Inspector General Draft Report, "Audit of Accounting Corrections on
the Standard Form 1081" (Project No. D2020-D000FP-0112.000)

My office and the Defense Finance and Accounting Service (DFAS) have received the
subject draft report, dated March 26, 2021, and reviewed your recommendations to the Under
Secretary of Defense (Comptroller)/Chief Financial Officer and Director, DFAS. Our responses
to your recommendations are provided in the attachment.

The Department will continue to take actions to improve compliance with processing
Standard Form (SF) 1081 transactions. In addition, my office will work diligently with DFAS
and the Components to correct the deficiencies identified by your audit team. Specifically, we
will conduct reviews of the SF 1081 transactions and conduct an analysis in an effort to reduce
SF 1081 transactions. I am confident the corrective actions we take will improve the overall
accuracy and completeness of the SF 1081 transactions for correcting accounting errors.

The Office of the Under Secretary of Defense (Comptroller) welcomes continued
collaboration with the DoD Office of Inspector General to ensure our efforts are synchronized
to produce only the most substantive and value-added program improvements. My office will
work timely to resolve your recommendations. My staff point of contact is [REDACTED]
[REDACTED] at [REDACTED] or [REDACTED].

GLENN.DOUGLAS.A
LAS.A [REDACTED]

Digitally signed by
GLENN DOUGLAS A

Douglas A. Glenn
Deputy Chief Financial Officer

Attachment:
As stated

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

DOD IG DRAFT REPORT – DATED MARCH 26, 2021
PROJECT NO. D2020-D000FP-0112.000

“AUDIT OF ACCOUNTING CORRECTIONS ON THE STANDARD FORM 1081”

OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER) (OUSD(C)) AND
DEFENSE FINANCE AND ACCOUNTING SERVICE (DFAS)
RESPONSES TO RECOMMENDATIONS

RECOMMENDATION A.1.a: We recommend that Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, work with the Directors of the Defense Finance and Accounting Service and DoD Components to:

- a. Establish and implement business rules between all the systems that create, process, or store SF 1081 transactions and the Advancing Analytics tool to ensure that the DoD maintains a universe of SF 1081 transactions in a centralized database.

OUSD(C) RESPONSE TO RECOMMENDATION A.1.a: Concur. While there is not an authoritative requirement to maintain a universe of SF 1081 transactions, there is added value to management oversight of internal controls. The OUSD(C) will work with DFAS and the DoD Component directors to establish and implement business rules between all systems that create, process, or store SF 1081 transactions and Advancing Analytics (Advana) to ensure the DoD maintains a universe of SF 1081 transactions in a centralized database.

Estimated completion date (ECD): March 2024

RECOMMENDATION A.1.b: We recommend that Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, work with the Directors of the Defense Finance and Accounting Service and DoD Components to:

- b. Establish memorandums of understanding with the system owners and the Advancing Analytics owners to define roles and responsibilities for managing the SF 1081 transactions.

OUSD(C) RESPONSE TO RECOMMENDATION A.1.b: Non-concur. Roles and responsibilities reside with the Components to manage SF 1081 transactions. System and Advana owners are not responsible to manage SF 1081 transactions. Additionally, the rules to define SF 1081 transactions within Advana will be documented within Advana's Common Data Model it maintains with each system owner rather than maintaining additional memorandums of understanding.

Attachment

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

RECOMMENDATION A.1.c: We recommend that Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, work with the Directors of the Defense Finance and Accounting Service and DoD Components to:

- c. Develop and implement a plan to test SF 1081 transactions on a reoccurring basis to ensure that transactions are necessary, accurate, and supported by an audit trail.

OUSD(C) RESPONSE TO RECOMMENDATION A.1.c: Concur. OUSD(C), DFAS, and DoD Component directors will develop and implement a plan to test SF 1081 transactions to ensure the transactions are necessary, accurate, and supported for an audit. The estimated completion date may accelerate as the business rules are defined in recommendation A.1.a.

ECD: September 2024

RECOMMENDATION A.1.d: We recommend that Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, work with the Directors of the Defense Finance and Accounting Service and DoD Components to:

- d. Develop metric reports that track the net and absolute dollar amount, and number of SF 1081 transactions by each system that creates, processes, and stores SF 1081 transactions.

OUSD(C) RESPONSE TO RECOMMENDATION A.1.d: Concur. While there is no policy requirement for this recommendation, the DoD recognizes the business value of identifying these types of transactions. Advana has the capability to create a visualization of the SF 1081 transactions once the business rules are defined.

ECD: June 2024

RECOMMENDATION A.1.e: We recommend that Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, work with the Directors of the Defense Finance and Accounting Service and DoD Components to:

- e. Develop and implement a plan to reduce the number of SF 1081 transactions for each system that creates, processes, and stores SF 1081 transactions.

OUSD(C) RESPONSE TO RECOMMENDATION A.1.e: Concur. OUSD(C), DFAS, and DoD Component directors will develop and implement a plan to reduce the number of SF 1081 transactions.

ECD: September 2024

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

RECOMMENDATION A.1.f: We recommend that Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, work with the Directors of the Defense Finance and Accounting Service and DoD Components to:

- f. Ensure that all systems that create, process, or store SF 1081 transactions can differentiate between SF 1081 transactions and other types of transactions. In addition, the systems should have the capability to differentiate between SF 1081 transactions used to correct errors and those used to transfer funds.

OUSDC(C) RESPONSE TO RECOMMENDATION A.1.f: Partial Concur. Differentiating between SF 1081 transactions and other types of transactions is not a policy requirement. However, the Department will define business rules to differentiate SF 1081 transactions referenced in recommendation A.1.a.

RECOMMENDATION A.2.a: We recommend that the Director of the Defense Finance and Accounting Service:

- a. Design and implement internal controls in the Defense Finance and Accounting Service Transaction Interface Module to ensure that transactions are created, stored, and cataloged in a complete and accurate manner. The controls should be documented in standard operating procedures, process narratives, and process maps. The documentation should include internal control objectives.

DFAS RESPONSE TO RECOMMENDATION A.2.a: Non-concur with separate recommendation. The DFAS Transaction Interface Module is part of the SF 1081 transaction population that will be covered with actions taken to properly address recommendation A.1.a.

RECOMMENDATION A.2.b: We recommend that the Director of the Defense Finance and Accounting Service:

- b. Develop and implement functional-area training to ensure that staff can correctly extract data from the Standard Contract Reconciliation Tool for management and other stakeholders.

DFAS RESPONSE TO RECOMMENDATION A.2.b: Non-concur with separate recommendation. The Standard Contract Reconciliation Tool is part of the SF 1081 transaction population that will be covered with actions taken to properly address recommendation A.1.a.

RECOMMENDATION B.1: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer work with the Director of the Defense Finance and Accounting Service to either update the Defense Joint Military Pay System to ensure that all disbursements cite the correct accounting information or develop alternative automated solutions.

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

OUSDC(C) RESPONSE TO RECOMMENDATION B.1: Concur. Defense Joint Military Pay System is on track to be replaced by the Navy and Air Force in fiscal year (FY) 2022 and by the Army in FY 2025 and it is cost prohibitive to make these types of changes. OUSDC(C), DFAS, and DoD Component directors will address within the scope of existing Military Pay system transition initiatives.

RECOMMENDATION B.2.a: We recommend that the Director of the Defense Finance and Accounting Service:

- a. Perform a comprehensive review of the Defense Finance and Accounting Service commercial pay processes to identify procedures that rely on manual inputs and implement automated solutions, when feasible.

DFAS RESPONSE TO RECOMMENDATION B.2.a: Non-concur. This recommendation is broad ranging. There are many factors that can cause a progress payment to be re-aligned, and many of those situations cannot be automated. The draft audit report stated there were no errors identified during the DoD Office of Inspector General (OIG) audit sampling.

RECOMMENDATION B.2.b: We recommend that the Director of the Defense Finance and Accounting Service:

- b. Develop, implement, and document compensating and preventative internal controls, when automated solutions are not feasible, to ensure that errors are identified before the transactions are processed.

DFAS RESPONSE TO RECOMMENDATION B.2.b: Non-concur. In alignment with recommendation B.2.a. response, this recommendation is broad ranging. There are many factors that can cause a progress payment to be re-aligned, and many of those situations cannot be automated. The draft audit report stated there were no errors identified during the DoD OIG audit sampling.

RECOMMENDATION B.2.c: We recommend that the Director of the Defense Finance and Accounting Service:

- c. Implement procedures to inform DoD Component management when the Component is charged for Defense Finance and Accounting Service errors.

DFAS RESPONSE TO RECOMMENDATION B.2.c: Non-concur. It is cost prohibitive to track every edit error. DFAS will focus on building an SF1081 universe of transactions with actions taken to properly address recommendation A.1.a. DFAS will share information with Components on how many SF1081s are being created to allow for root cause analysis to be performed. The DFAS establishes Direct Billable Hour workload in agreement with the customer. The rate structure is developed by total estimated hours to perform the workload, and is not segregated by transaction type. Once finalized, Working Capital Fund rates are submitted to OUSDC(C) and approved prior to incorporation into the President's Budget. As a Working

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

Capital Fund, activities within each Component will set their prices based on full cost recovery, including all general and administrative support provided by others (DoD Financial Management Regulation (FMR) Volume 2B Chapter 9, paragraph 090107); therefore, DFAS cannot offer a refund or discount to customers based on errors.

RECOMMENDATION B.2.d: We recommend that the Director of the Defense Finance and Accounting Service:

- d. Revise the “Mechanization of Contract Administration Services Accounts Receivable Posting Collections” standard operating procedures to require technicians to deposit all identified collections to the appropriate account at the point of receipt.

DFAS RESPONSE TO RECOMMENDATION B.2.d: Concur. The Mechanization of Contract Administration Services Standard Operating Procedures will be revised to include language requiring to deposit all identified collections to the appropriate account at the point of receipt if a valid line of accounting is provided.

ECD: August 2021

RECOMMENDATION B.2.e: We recommend that the Director of the Defense Finance and Accounting Service:

- e. Make the necessary corrections to the Defense Finance and Accounting Service Transaction Interface Module to post intra-governmental transactions to the correct account at the point of receipt.

DFAS RESPONSE TO RECOMMENDATION B.2.e: Non-concur. The Intra-Governmental Transactions effort addresses the improvement of funds recorded to the appropriate account. The DFAS Transaction Interface Module is one of many systems under the umbrella of these efforts.

RECOMMENDATION B.2.f: We recommend that the Director of the Defense Finance and Accounting Service:

- f. Identify other processes or systems that may be using suspense accounts to record known transactions and implement corrective actions, to include updating applicable process documentation, as appropriate.

DFAS RESPONSE TO RECOMMENDATION B.2.f: Non-concur with separate recommendation. A similar recommendation was addressed in a DFAS corrective action plan (DFASIPACAP-5099) in response to DoD OIG notices of findings and recommendations AWC-2019-N0080, AWC-2020-N0008, and AWC-2020-N0015.

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

RECOMMENDATION B.2.g: We recommend that the Director of the Defense Finance and Accounting Service:

- g. Revise the “Mechanization of Contract Administration Services Accounts Receivable Posting Collections” standard operating procedures to include:
 - 1. Steps to verify that the vendor refund is accurate before processing an SF 1081 transaction.
 - 2. Steps to coordinate the refund with the DoD Component responsible for the contract.
 - 3. A process map that depicts the updated collection process.

DFAS RESPONSE TO RECOMMENDATION B.2.g: Non-concur with separate recommendation. This recommendation is addressed in DoD Payment Recapture Audit (PRA) Plan, Statement of Assurance Guidebook FY 2021, and PRA Commercial Pay Template Quarterly Requirement. Furthermore, this recommendation will be covered under plans addressing recommendations from the DoD OIG draft report, “Audit of the Department of Defense Compliance in FY 2020 With Improper Payment Reporting Requirements” (Project No. D2020-D000FL-0171.000). Specifically, recommendation 1.B of that draft report addresses the creation of process maps and flow charts to outline the steps from identification of the overpayment through the recovery process for all of the established Department Payment Integrity Information Act programs.

RECOMMENDATION B.2.h: We recommend that the Director of the Defense Finance and Accounting Service:

- h. Review and sign the updated “Mechanization of Contract Administration Services Accounts Receivable Posting Collections” standard operating procedures. Defense Finance and Accounting Service leadership should review the standard operating procedures annually.

DFAS RESPONSE TO RECOMMENDATION B.2.h: Concur. The corrective action plan has been completed. The standard operating procedure was signed December 2020.

Completed Date: December 2020

RECOMMENDATION B.4.a: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer work the Director of the Defense and Finance and Accounting Service and the DoD Components to:

- a. Develop, implement, and document effective internal controls within the SF 1081 certification process to ensure that certifying officers do not approve inaccurate SF 1081 transactions.

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

OUSD(C) RESPONSE TO RECOMMENDATION B.4.a: Concur. OUSD(C), DFAS, and the DoD Components will develop, implement, and document effective internal controls within the SF 1081 approval process to determine actions required to ensure improved internal controls are in place. There is not policy requiring a DD Form 577 certifier appointment for approving/processing SF1081 transactions.

ECD: April 2022

RECOMMENDATION B.4.b: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer work the Director of the Defense and Finance and Accounting Service and the DoD Components to:

- b. Ensure that certifying officers are appointed on a DD Form 577 that explains the types of transactions in each system that the certifying officers are authorized to approve.

OUSD(C) RESPONSE TO RECOMMENDATION B.4.b: Non-concur. There is no policy requiring a DD Form 577 certifier appointment for approving/processing SF 1081 transactions. Specifically, for DD Form 577 appointments, DoD FMR Volume 5 Chapter 5 Paragraph 050202.B speaks to the applicability for vouchers for payment, of which SF1081s do not fall within this definition because they do not occur prior to, or simultaneously with, a receipt of and payment for goods and/or services.

RECOMMENDATION B.4.c: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer work the Director of the Defense and Finance and Accounting Service and the DoD Components to:

- c. Ensure that certifying officers complete all necessary training, including the Certifying Officer Legislation Foundations course and a Certifying Officer Legislation training specific to the certifying officers' mission areas.

OUSD(C) RESPONSE TO RECOMMENDATION B.4.c: Concur. OUSD(C), DFAS, and the DoD Components will uphold DoD FMR Volume 5 Chapter 5 subparagraph 050304.A.2 requirements for Certifying Officer training by developing and implementing effective internal controls.

ECD: April 2022

RECOMMENDATION B.5: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer identify and direct the appropriate official to conduct an analysis of the various cost components that the Defense Finance and Accounting Service uses to compute the rate it charges DoD customers for accounting services. From this analysis, identify and implement improvements to the Defense Finance and Accounting Service operations to reduce the DoD's cost for accounting services.

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

OUSDC(C) RESPONSE TO RECOMMENDATION B.5: Non-concur. The objective of this audit was to determine whether the DoD properly used the SF 1081 to correct accounting errors. This recommendation is outside of that based on the Scope and Methodology. SF 1081 transactions are part of a general accounting rate and are not billed individually. It is important to understand the reasons DFAS processes SF 1081 transactions to make corrections. For example, Components citing an incorrect line of accounting in their Enterprise Resource Planning may result in a need for DFAS to process a SF 1081 transaction to make a correction at the request of our customers. Therefore, DFAS has a cost associated with the accounting event, and as a service provider operating within a Working Capital Fund, this cost is charged to the customer.

Army Financial Management and Comptroller



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

SAFM-FOI

MEMORANDUM FOR Department of Defense Inspector General (DoDIG) [REDACTED]
[REDACTED] Program Director, Financial Management and Reporting, 4800 Mark Center
Drive, Alexandria, VA 22350-1500

SUBJECT: The Assistant Secretary of the Army (Financial Management and
Comptroller) Comments on the Department of Defense Inspector General Draft Report
"Audit of Accounting Corrections on the Standard Form 1081" (Project No. D2020-
D000FP-0112.000).

1. References draft audit report "Audit of Accounting Corrections on the Standard Form
1081" (Project No. D2020-D000FP-0112.000).

2. The Assistant Secretary of the Army (Financial Management and Comptroller)
reviewed the results and recommendations in the subject draft report. The Official Army
Position (OAP) is that we concur with Recommendation B.3 and will take appropriate
actions during EBS Convergence efforts to implement capabilities within the GFEBS
replacement ERP to maintain complete SF 1081 transactions to include an audit trail for
systemically generated SF 1081 transactions once that system is determined and
developed. Additionally, we will communicate the preference to use a manual SF 1081
to clear unmatched transactions instead of authorizing the use of GFEBS automated SF
1081s.

3. The point of contact for this memorandum is [REDACTED]
[REDACTED]

MEDINA.MYRN
A.L. [REDACTED]

Digitally signed by
MEDINA.MYRNA

Myrna L. Medina
Director, Financial Operations and Accounting
Oversight
Office of the Deputy Assistant Secretary of the
Army (Financial Operations and Information)

Army Materiel Command



AMIR

DEPARTMENT OF THE ARMY
HEADQUARTERS, U.S. ARMY MATERIEL COMMAND
4400 MARTIN ROAD
REDSTONE ARSENAL, AL 35898-5000


19 APR 2021

MEMORANDUM FOR Department of Defense Inspector General (DoDIG) [REDACTED]
[REDACTED] Program Director, Financial Management and Reporting, 4800 Mark Center
Drive, Alexandria, VA 22350-1500

SUBJECT: Command Comments on Department of Defense Inspector General Draft
Report: Audit of Accounting Corrections on the Standard Form 1081, Project D2020-
D000FP-0112.000

1. The U.S. Army Materiel Command has reviewed the subject draft report and concurs with the recommendation. Specific comments are included at the enclosure.
2. The U.S. Army Materiel Command point of contact is [REDACTED]
[REDACTED] or email: [REDACTED]

Encl
as


LISHA H. ADAMS
Executive Deputy to the
Commanding General

Army Materiel Command (cont'd)



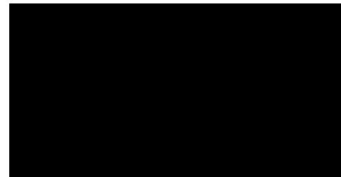
DEPARTMENT OF THE ARMY
HEADQUARTERS, U.S. ARMY MATERIEL COMMAND
4400 MARTIN ROAD
REDSTONE ARSENAL, AL 35898-5000

AMRM-F

MEMORANDUM FOR Director, Internal Review and Audit Compliance Office, Headquarter,
U.S. Army Materiel Command, 4400 Martin Road, Redstone Arsenal, AL 35898

SUBJECT: Army Materiel Command, resource Management, Financial Operations
Division, Reply to the Department of Defense Inspector General Draft Report "Audit of
Accounting Corrections on the Standard Form 1081" (Project No. D2020-D000FP-
0112.000)

1. Reference draft audit report "Audit of Accounting Corrections on the Standard Form 1081" (Project No. D2020-D000FP-0112.000).
2. The Army Materiel Command, Resource Management, Financial Operations Division, reviewed the results and recommendations in the subject draft report. We concur with Recommendation A.3. Additionally, we request the Defense Finance and Accounting Services (DFAS) points of contact and underlying data sets used in this audit to ensure a successful root causes analysis. Finally, with the DFAS points of contact and data provided, Army Materiel Command, in coordination with DFAS, will take appropriate actions to remedy any differences in Standard Form 1081 data request between Operational Data Storage and the Logistics Modernization Program with an estimated completion date of December 31, 2021.
3. My point of contact is the undersigned.



Acronyms and Abbreviations

| | |
|--------------------|---|
| Advana | Advancing Analytics |
| AMC | Army Materiel Command |
| CO | Certifying Officer |
| COL | Certifying Officer Legislation |
| DCAS | Defense Cash Accountability System |
| DCFO | Deputy Chief Financial Officer |
| DFAS | Defense Finance and Accounting Service |
| DTIM | Defense Finance and Accounting Service Transaction Interface Module |
| ERP | Enterprise Resource Planning |
| FBWT | Fund Balance With Treasury |
| FMR | Financial Management Regulation |
| GFEBS | General Fund Enterprise Business System |
| LMP | Logistics Modernization Program |
| MOCAS | Mechanization of Contract Administration Services |
| OUSD(C)/CFO | Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD |
| SCRT | Standard Contract Reconciliation Tool |
| SOP | Standard Operating Procedure |
| UoT | Universe of Transactions |
| USD(C)/CFO | Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD |

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U.S. DEPARTMENT OF DEFENSE

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