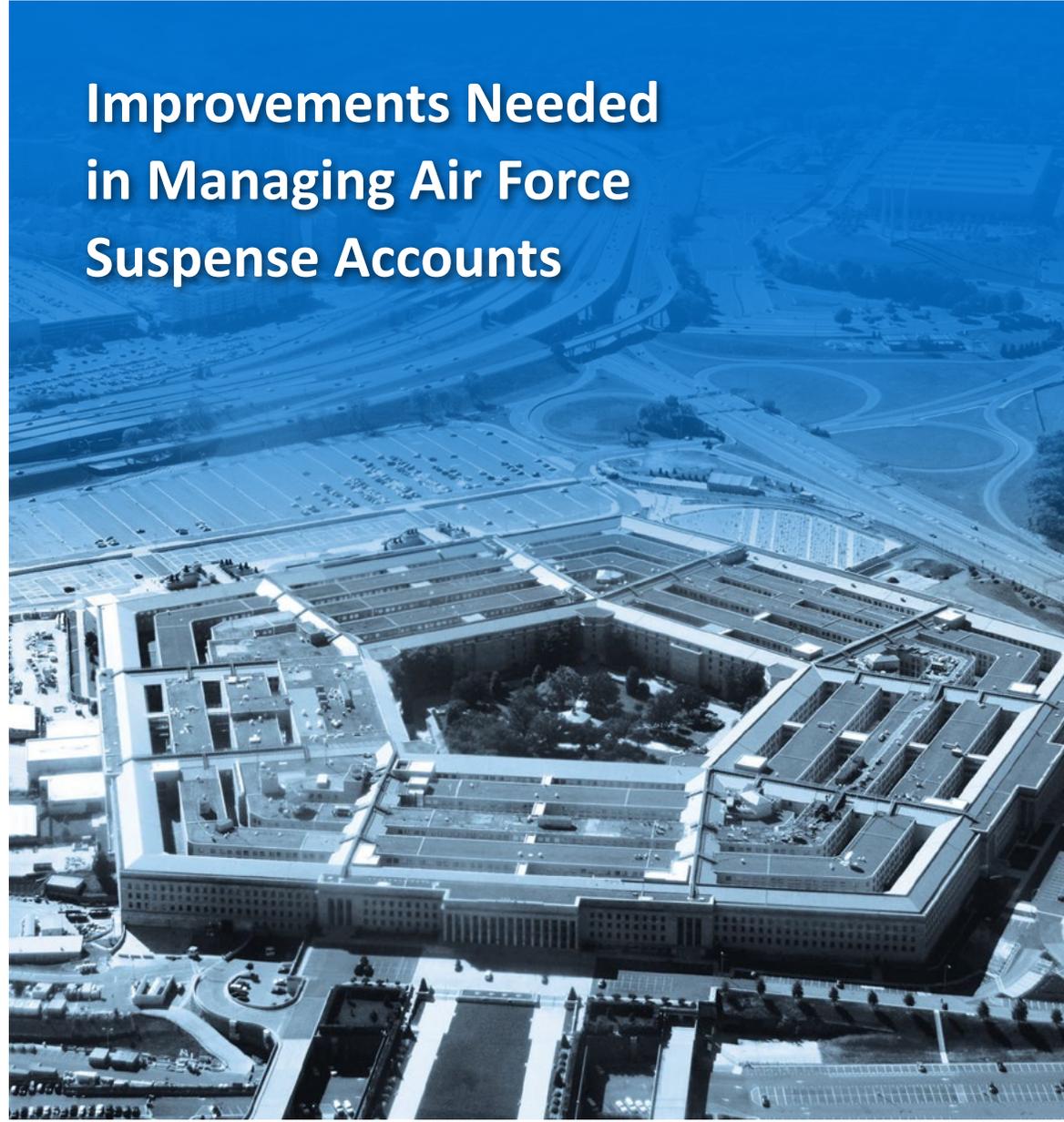




# INSPECTOR GENERAL

*U.S. Department of Defense*

NOVEMBER 10, 2016



## Improvements Needed in Managing Air Force Suspense Accounts

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

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# Results in Brief

## *Improvements Needed in Managing Air Force Suspense Accounts*

November 10, 2016

### Objective

We determined whether DoD had controls in place to record Department of the Air Force (Treasury Index 57) suspense account balances on the proper Component financial statements. In addition, we determined whether the accounts were being used for the intended purpose and whether transactions are resolved in a timely manner.

### Findings

Defense Finance and Accounting Service–Columbus (DFAS-CO) personnel did not have sufficient internal controls in place to record Air Force suspense account transactions on the proper Component financial statements. This occurred because DFAS-CO personnel did not analyze historical data to determine what portion of the balances should be posted to the Air Force General Fund Financial Statements and the portion that should be posted on other DFAS prepared financial statements. DFAS-CO also did not ensure that Air Force suspense account transactions were researched and cleared within 60 business days as required by the Treasury Financial Manual. This occurred because DFAS-CO did not have adequate processes in place to identify, track, monitor, age, and timely resolve suspense transactions. In addition, DFAS-CO did not report suspense account balances to the appropriate financial statement line items. This occurred because DFAS-CO personnel posted unsupported accounting entries that erroneously reported the suspense account balances to improper line items.

### Findings (cont'd)

As a result, DFAS-CO personnel misstated the FY 2014 and FY 2015 Air Force General Fund Financial Statements by an absolute value of \$22.7 million and \$7.6 million respectively and included \$54.3 million in suspense account transactions older than 60 business days.

DFAS-CO incorrectly used suspense accounts to manage revenue-generating programs, Uniformed Services Thrift Savings Plan contributions, and payroll tax withholdings. This occurred because DFAS-CO followed the DoD Financial Management Regulation, required the use of suspense accounts for recording revenue generating program transactions, various payroll tax withholding transactions, and Uniformed Services Thrift Savings Plan contributions. As a result, DFAS-CO and Air Force personnel overstated the suspense account balances for revenue generating-programs, Uniformed Services Thrift Savings Plan contribution, and Federal income tax withholdings by \$412.8 million in the FY 2014 Suspense Account Report and \$442.1 million in the FY 2015 Suspense Account Report.

### Recommendations

We recommend that the Director, DFAS-CO:

- develop procedures for reporting only Air Force suspense accounts in the Air Force General Fund Financial Statements by allocating the portion of Air Force suspense account transactions reported by others, removing non-Air Force suspense account transactions;
- implement a formal process to track, monitor, age, and resolve Air Force suspense account transactions to ensure that the transactions are cleared within 60 business days;
- review the suspense accounts for errors, make the necessary entries to correct the reporting errors, and develop internal controls to prevent and detect future reporting errors;

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# Results in Brief

## *Improvements Needed in Managing Air Force Suspense Accounts*

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

- in coordination with the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, revise the DoD Financial Management Regulation; and
- establish special and deposit fund accounts to more appropriately record and report non-suspense account transactions.

### **Management Comments and Our Response**

Comments from the Deputy Director, DFAS-CO, addressed all specifics of the recommendations, and no further comments are required.

Specifically, the Deputy Director, DFAS-CO, stated that DFAS has implemented a process to allocate unidentified Mechanization of Contract Administration Services system collections by service and established a new control for all suspense accounts that ensures responsible personnel validate that transactions are cleared correctly and timely and that the

documentation is maintained. The Deputy Director also stated that DFAS is developing interim solutions to allocate/remove non-Air Force suspense account transactions from Air Force financial statement reporting and will research and make adjusting entries to correct the Uniformed Services Thrift Saving Plan suspense account balances reported in Balance Sheet lines Accounts Receivable and Cumulative Results of Operations Accounts.

The Deputy Director, DFAS-CO, further indicated that DFAS will work with the Under Secretary of Defense (Comptroller) to update the DoD Financial Management Regulation to be consistent with the Treasury Financial Manual and Office of Management and Budget guidance. The Deputy Director also stated that DFAS began transitioning to newly created Thrift Savings Plan deposit accounts effective October 1, 2016. Lastly, the Deputy Director stated that DFAS is pursuing a legislative proposal to establish special fund accounts for revenue-generating programs. See Recommendations Table on the next page.

## ***Recommendations Table***

<b>Management</b>	<b>Recommendations Requiring Comment</b>	<b>No Additional Comments Required</b>
Director, Defense Finance and Accounting Service–Columbus		A.1.a, A.1.b, A.1.c, B.1.a, and B.1.b



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

November 10, 2016

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

SUBJECT: Improvements Needed in Managing Air Force Suspense Accounts  
(Report No. DODIG-2017-019)

We are providing this report for your information and use. The Defense Finance and Accounting Service–Columbus did not have sufficient controls in place to accurately record Department of the Air Force (Treasury Index 57) suspense account balances on the financial statements. In addition, some suspense accounts were not used for the intended purpose, and transactions in the suspense accounts were not always resolved in a timely manner. We conducted this audit in accordance with generally accepted government auditing standards.

We considered management comments on a draft of this report when preparing the final report. Comments from the Deputy Director, Defense Finance and Accounting Service–Columbus, conformed to the requirements of DoD Instruction 7650.03; therefore, we do not require additional comments.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945 (DSN 329-5945).

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

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

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# Introduction

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## Objective

We determined whether DoD had controls in place to record Department of the Air Force (Treasury Index 57)<sup>1</sup> suspense account balances on the proper Component financial statements. In addition, we determined whether the accounts were being used for the intended purpose and transactions were resolved in a timely manner. This audit is one in a series evaluating the use of DoD suspense accounts. See Appendix A for the scope and methodology and prior audit coverage.

## Background

Office of Management and Budget (OMB) Circular No. A-11<sup>2</sup> states that general, special, and trust fund collections and disbursements may be held temporarily in clearing accounts, also referred to as suspense accounts, pending clearance to the applicable account. Clearing accounts are nonbudgetary accounts that are included in the budget once posted to either a receipt or expenditure account.

The Department of the Treasury (Treasury) establishes suspense accounts to temporarily hold unidentifiable general, special, or trust fund collections that belong to the Federal Government until they are classified to the proper receipt or expenditure account by the Federal entity. Suspense accounts are identified by a Treasury Account Symbol,<sup>3</sup> which consists of the two-digit Treasury Index, along with an “F” preceding the last four digits of the “3800” series fund group preceded by the two-digit Treasury Index. Treasury Index 57 identifies Air Force General Fund appropriated accounts.

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<sup>1</sup> The Treasury assigns the Treasury Index to identify appropriations and other fund accounts for Government agencies.

<sup>2</sup> OMB Circular No. A-11, “Preparation, Submission, and Execution of the Budget,” June 30, 2015.

<sup>3</sup> The Treasury Account Symbol is an identification code assigned by the Treasury, in collaboration with the OMB and the owner agency, to an individual appropriation, receipt, or other fund account. All financial transactions of the Federal Government are classified by Treasury Account Symbol for reporting to the Treasury and OMB.

## ***Air Force Suspense Accounts***

The Defense Finance and Accounting Service-Columbus (DFAS-CO) managed five suspense accounts on behalf of the Air Force. DFAS-CO classified these accounts as either “exempt” or “nonexempt.”<sup>4</sup> For a complete description of current Air Force suspense accounts and the types of transactions contained within, see Appendix B. See Appendix C for the materiality of suspense account balances. Also, see the acronyms and abbreviations listing, and the glossary for definitions of terms used in the report.

DFAS-CO maintains two suspense accounts for funds from revenue-generating programs and tax and Uniformed Services Thrift Savings Plan (TSP) contributions that have been either collected or disbursed but are not yet available for their intended purpose. Transactions in these accounts do not meet the definition of what the Treasury considers a suspense account because they are not problem transactions that need correction. Therefore, DFAS-CO considered the revenue-generating and withholding suspense account transactions as exempt from the requirement to research and clear the accounts in 60 days.

DFAS-CO used three suspense accounts to temporarily hold Air Force transactions that were missing information and required research to properly post the transaction to the correct account. DFAS-CO considered these suspense accounts as nonexempt because they complied with the Treasury’s definition of a suspense account transaction. As presented in Table 1, the Air Force’s FY 2014 and FY 2015 General Fund Financial Statements<sup>5</sup> included the following suspense account balances, as of September 30, 2014, and 2015.

---

<sup>4</sup> Exempt accounts are suspense accounts from which DFAS did not attempt to clear the transactions within 60 business days or otherwise age the transaction. Nonexempt suspense account transactions are held temporarily pending clearance to the applicable account. Nonexempt suspense accounts are subject to the 60 business day clearance requirement.

<sup>5</sup> Specifically, the Balance Sheet and Statement of Budgetary Resources.

Table 1. Air Force General Fund Suspense Accounts Balances

Account	Account Title	Net value <sup>1</sup> as of September 30, 2014	Net value as of September 30, 2015
57F3875.001	Budget Clearing Account–Nonexempt	\$12,950,936	\$12,206,696
57F3875.002	Budget Clearing Account–Exempt Revenue-Generating Programs	23,962,392	23,279,840
	Budget Clearing Account–Exempt Payroll Tax Withholdings	355,444,241	370,796,573
	Budget Clearing Account– Exempt All Other Accounts	3,406,501	186,521
	Subtotal	382,813,134	394,262,934
57F3880	Unavailable Check Cancellations and Overpayments	(615,020)	(8,842,727)
57F3882	Uniformed Services Thrift Savings Plan	33,385,918	48,001,709
57F3885.007	Undistributed Intra-governmental Payments	(103,780,251)	(400,110,762)
<b>Total (Net Value)</b>		<b>\$324,754,717</b>	<b>\$45,517,850</b>
<b>Total (Absolute Values<sup>2</sup>)</b>		<b>\$533,545,259</b>	<b>\$863,424,828</b>

Source: DFAS-CO

<sup>1</sup> Net value is the overall sum of the increases or decreases.

<sup>2</sup> Absolute value is the value of change, whether a decrease or increase.

Note: Figures in parentheses represent negative amounts.

### ***The Defense Finance and Accounting Service***

DFAS-CO prepares financial statements, in accordance with DoD financial reporting requirements. DFAS-CO uses the Defense Departmental Reporting System to create and post journal vouchers, and to prepare the Air Force's General Fund Financial Statements. However, the Air Force is responsible for complying with laws and regulations and for the accuracy and auditability of its financial statements.

According to DFAS-CO personnel, they processed \$179,916.2 million in total Air Force General Fund transactions in FY 2014. Of those transactions, 6.01 percent, or \$10,811.4 million,<sup>6</sup> entered into a suspense account. According to DFAS-CO, less than 0.18 percent of the total transactions, or \$324.8 million, remained in a suspense account at yearend. Table 2 shows the magnitude of suspense account transactions in FY 2014 and FY 2015 compared to overall Air Force General Fund transaction amounts.

*Table 2. The Magnitude of Air Force Suspense and Non-Suspense Transactions Processed in FY 2014 and FY 2015 (in millions)*

	FY 2014		FY 2015	
	Net Dollar Amount	Percentage of Total	Net Dollar Amount	Percentage of Total
<b>Total Air Force Transactions</b>	\$179,916.2	100.0	\$182,584.5	100.0
<b>Total Air Force Transactions Processed Through Suspense</b>	\$10,811.4	6.0	\$10,854.9	5.9
<b>Ending Air Force Suspense Account Balance</b>	\$324.8	0.18	\$45.5	0.02

Source: DoD OIG analysis

### ***Reporting Suspense Accounts***

Air Force accounting activities are responsible for properly documenting, supporting, and clearing transactions held in suspense accounts. The accounting activities, which include DFAS-Indianapolis, DFAS-Limestone, and DFAS-Japan, also report suspense account balances and the aging of transactions to DFAS-CO on a monthly basis. Based on consolidated suspense account information, DFAS-CO personnel prepare and submit the monthly Suspense Account Report (SAR) to the Treasury. Annually, the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, is required to certify the suspense account balances to Treasury for the preceding yearend. Included in the certification is a justification for why transactions are more than 60 days old.

Air Force suspense accounts impact the Air Force General Fund Balance Sheet and related notes, as well as the Statement of Budgetary Resources (SBR). See Appendix C for a detailed discussion of how the Air Force suspense accounts impact the financial statements and the materiality of the reported Air Force suspense account balances.

<sup>6</sup> Figures in this sentence and the following sentence may not equal the computations due to rounding.

## Review of Internal Controls

DoD Instruction 5010.40<sup>7</sup> requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal control weaknesses with DFAS-CO use of Air Force suspense accounts. We found transactions that were in Air Force suspense accounts that ultimately resolved to other DoD and Federal agency suspense accounts, suspense accounts that were not used for their intended purpose, and transactions that were not resolved in a timely manner. We will provide a copy of the report to the senior official responsible for internal controls at DFAS-CO.

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<sup>7</sup> DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

## Finding A

### Additional Controls Needed for Air Force Suspense Accounts

DFAS-CO personnel did not have sufficient internal controls in place to:

- record the Air Force suspense account transactions on the proper Component financial statements. Specifically, DFAS-CO personnel included transactions that did not belong to the Air Force on its FY 2014 and FY 2015 General Fund Financial Statements and also reported transactions that belonged to the Air Force on other Components' financial statements. This occurred because DFAS-CO personnel did not analyze historical data to determine what portion of the balances should be posted to the Air Force General Fund Financial Statements.
- ensure that the Air Force researches and clears suspense account transactions within 60 business days as required by the Treasury Financial Manual (TFM). This occurred because DFAS-CO did not have adequate processes in place to track, monitor, age, and timely resolve suspense transactions.
- report suspense account balances to the appropriate financial statement line items. This occurred because DFAS-CO personnel posted unsupported journal entries that erroneously reported the suspense account balances to improper line items.

As a result, DFAS-CO personnel misstated the FY 2014 and FY 2015 Air Force General Fund Financial Statements by an absolute value of \$22.7 million and \$7.6 million, respectively. DFAS-CO personnel also included \$54.3 million in suspense account transactions older than 60 business days. Without improvements over the suspense account internal controls, uncorrected misstatements could continue and negatively impact Air Force General Fund Financial Statements and overall audit readiness.

### Transactions Not Properly Recorded on Air Force General Fund Financial Statements

DFAS-CO personnel did not have sufficient controls in place to record Air Force suspense account transactions on the proper Component financial statements. Specifically, DFAS-CO personnel included transactions that did not belong to the Air Force on its FY 2014 and FY 2015 General Fund Financial Statements and reported transactions that belonged to the Air Force on other Components' financial statements.

## ***Some Transactions in Air Force Suspense Accounts Belonged to Other Components***

DFAS-CO personnel reported suspense account transactions on the FY 2014 Air Force General Fund Financial Statements that belonged to the Army, Navy, Air Force Working Capital Fund, and Other Defense Organizations (ODO). The TFM<sup>8</sup> requires the Air Force to place transactions into the suspense account only if there is a reasonable presumption that the amounts belong to the Air Force. We selected a nonstatistical sample of 120 transactions<sup>9</sup> as of September 30, 2014. Of the 120 transactions, 42 transactions totaling an absolute value of \$10.6 million<sup>10</sup> cleared to a non-Air Force General Fund appropriation, while 44 transactions cleared to an Air Force account, as required by the TFM. Additionally, DFAS-CO could not provide timely or adequate support for 25 of the 120 transactions selected for review.<sup>11</sup> Also, 9 of the 120 transactions had not cleared suspense.

Of the 42 non-Air Force General Fund transactions, DFAS-CO personnel cleared 32 transactions to an ODO appropriation. For example, DFAS-CO cleared 16 of those 32 transactions, valued at \$5,598,052, to an ODO foreign military sales appropriation rather than an Air Force General Fund appropriation. We also determined that DFAS-CO personnel cleared seven out-of-service debt<sup>12</sup> transactions, valued at \$212,795.55, to non-Air Force appropriations. DFAS<sup>13</sup> accounts for DoD out-of-service debt transactions in the Air Force Intra Governmental Payment and Collection (IPAC) suspense account. Although DFAS-CO personnel indicated that they used the Air Force IPAC suspense account (57F3885) for out-of-service debt information, they did not allocate those transactions to the appropriate DoD Component financial statement. Therefore, maintaining these transactions in the Air Force IPAC suspense account (57F3885) overstates the Air Force suspense account balance and Air Force General Fund financial statements. The IPAC suspense account will remain overstated until DFAS-CO performs research and transfers the non-Air Force transactions to the correct appropriation.

<sup>8</sup> TFM volume 1, part 2, chapter 1500, "Description of Accounts Relating to Financial Operations," September 2011.

<sup>9</sup> We selected a nonstatistical sample of 120 suspense account transactions to review what appropriation the transactions cleared to and how long the transactions remained in suspense. See Appendix A for the sample methodology.

<sup>10</sup> The absolute value included summary transactions with positive and negative amounts.

<sup>11</sup> We requested supporting documentation on March 24, 2016, and DFAS-CO had not provided support as of the cut-off date of May 6, 2016 (43 days). DFAS did not supply any support for 20 of the items and the support for the remaining five items was not sufficient to determine which appropriation the transaction cleared to.

<sup>12</sup> Out-of-service debts are collection transactions from debts received from former uniformed service members and civilians who have outstanding debts to the DoD.

<sup>13</sup> DFAS-Indianapolis manages the out-of-service-debt transactions.

We also identified that 7 of the 42 transactions, valued at \$158,839.59, cleared from the Air Force General Fund suspense accounts to the Air Force Working Capital Fund. The Air Force General Fund Treasury Index is 57, while the Air Force Working Capital Fund Treasury Index is 97. DFAS-CO records Air Force Working Capital Fund suspense transactions in the Air Force General Fund suspense account. Consequently, the inclusion of the Air Force Working Capital Fund suspense account transactions overstates the Air Force General Fund Financial Statements because the funds use a different Treasury Index, and DFAS prepared separate financial statements for each fund.

Table 3 shows the disposition of the transactions reviewed that cleared to a non-Air Force General Fund appropriation.

*Table 3. Air Force Transactions Clearing to Air Force General Fund and Other Agencies*

Defense Agency	Transaction Count	Transaction Amount
Other Defense Organizations	32	\$10,042,621.13*
Air Force Working Capital Fund	7	\$158,839.59
Army	2	\$989.33
Navy	1	\$369,663.50
<b>Subtotal Non-Air Force General Fund Appropriations</b>	<b>42</b>	<b>\$10,572,113.55</b>
Air Force General Fund	44	\$11,716,777.80
<b>Total Transactions Reviewed</b>	<b>86</b>	<b>\$22,288,891.35</b>
Support Not Available to Review or Did Not Clear	34	\$20,754,489.06
<b>Total</b>	<b>120</b>	<b>\$43,043,380.41</b>

Source: DoD OIG analysis

\* Other Defense Organizations included seven transactions clearing to Treasury Index 97 for out-of-service debt valued at \$212,795.55.

DFAS-CO personnel did not correctly report the non-Air Force General Fund suspense account transactions because they did not have procedures to analyze historical data to determine what portion of the balances should not be reported on the Air Force General Fund Financial Statements. To comply with the TFM, DFAS-CO should record a transaction in the Air Force suspense account only when there is a reasonable presumption that the amounts belong to that account. Recording transactions belonging to others in the Air Force suspense account casts doubt about the accuracy of suspense account transactions recorded on the Air Force General Fund Financial Statements. DFAS-CO should develop procedures to ensure the Air Force suspense account transactions are accurately reported on the Air Force General Fund Financial Statements.

## ***Some Transactions Reported on Other Components' Financial Statements Belonged to the Air Force***

DFAS reported suspense account transactions on other DoD Components' financial statements that eventually cleared to an Air Force appropriation.

DFAS reported suspense account transactions on other DoD Components' financial statements that eventually cleared to an Air Force appropriation. Specifically, DFAS-CO personnel did not allocate \$12.0 million and \$7.5 million in FY 2014 and FY 2015, respectively, of Air Force suspense account transactions in the Air Force Budget Clearing–Nonexempt suspense account for transactions that originated in the Mechanization of Contract Administration Services (MOCAS) system.<sup>14</sup> For FY 2014 and FY 2015, the ODO Budget Clearing–Nonexempt suspense account had a balance of \$41.6 million and \$39.8 million, respectively, in MOCAS transactions. DFAS personnel acknowledged that 28.8 percent of those suspense transactions for FY 2014 and 18.7 percent for FY 2015 cleared to an Air Force General Fund appropriation. Using these percentages, we determined \$12.0 million of the FY 2014 total and \$7.5 million of the FY 2015 MOCAS transactions belonged in the Air Force Budget Clearing–Nonexempt suspense account. Accordingly, the FY 2014 and FY 2015 Air Force Balance Sheet Fund Balance with Treasury (FBWT) and Other Liabilities and SBR Offsetting Receipts line items were understated by \$12.0 million and \$7.5 million, respectively.

The under-reporting of Air Force suspense account balances occurred because DFAS-CO personnel did not analyze historical data to determine what portion of the balances should be posted to the Air Force General Fund Financial Statements. DFAS-CO is implementing procedures to allocate MOCAS suspense transactions to the proper appropriation on a timely basis. Specifically, DFAS stated that in October 2015, it dedicated additional resources to directly post collections received through hard-copy checks to the proper account. For the remaining collections that were not able to directly post to the correct appropriations, DFAS will use the contract number to allocate the remaining balance in the suspense account to the different DoD entities. DFAS-CO should continue to implement procedures to allocate the Air Force portion of the MOCAS suspense transactions clearing to an Air Force suspense account for financial reporting purposes.

<sup>14</sup> The MOCAS system is an integrated system supporting post-award contract administration used by the Defense Contract Management Agency and DFAS-CO to pay more complex, high-dollar, multiyear contracts with multiple contract deliverables.

## Transactions in Suspense Accounts Did Not Clear in a Timely Manner

DFAS-CO did not have sufficient controls in place to ensure that Air Force suspense account transactions were researched and resolved within 60 business days as required by the TFM.<sup>15</sup> Specifically, the TFM requires that transactions in the Budget Clearing Account (57F3875) and IPAC (57F3885) suspense accounts be cleared within 60 business days of the date of the transactions. Treasury guidance does not include the 60-business-day requirement for the Check Cancellations and Overpayments (57F3880) suspense account, but the TFM<sup>16</sup> requires that every effort be made to maintain a minimum balance in the Check Cancellations and Overpayment account by transferring all monies initially classified in this account to the proper appropriation or fund as expeditiously as possible. DFAS-CO reported Air Force suspense account balances that did not clear by the end of the reporting period in the monthly SARs to the Treasury. DFAS-CO also used the uncleared balances to compile the Air Force General Fund Financial Statements.

DFAS-CO did not have sufficient controls in place to ensure that Air Force suspense account transactions were researched and resolved.

### ***DFAS-CO Needed to Resolve Suspense Account Transactions Within 60 Business Days***

DFAS-CO personnel reported on the March 31, 2015, SAR that \$7.9 million in transactions had been in suspense for more than 60 business days. For the 120 suspense account transactions selected for review, DFAS-CO did not resolve 36 transactions, valued at \$1.6 million, within 60 business days as required by the TFM. For example, one transaction for an unavailable check<sup>17</sup> entered suspense on November 21, 2013 and cleared suspense 361 business days later on April 30, 2015. In another example, DFAS-CO took 181 business days to clear an IPAC transaction valued at \$443,974.08 from the suspense account. The IPAC transaction was a summary<sup>18</sup> of five individual transactions entering Air Force suspense on January 13, 2014. Those five transactions were ultimately cleared to various Air Force General Fund and non-Air Force appropriations on September 29, 2014.

<sup>15</sup> TFM, Bulletin No. 2011-06, Volume 1, Reporting Suspense Account Activity Using 57F3875 and 57F3885 and Using Default Accounts 57F3500 and 57F3502 as a Government-wide Accounting Reporter, June 30, 2012. Specifically, page 4, second paragraph states, "...clears these "F" account entries within 60 business days of the transaction..."

<sup>16</sup> TFM Volume 1, Part 4, Chapter 7000, "Cancellations, Deposits, and Claims for Checks Drawn on the Treasury," August 2007.

<sup>17</sup> TFM, volume 1, part 4, chapter 7000 defines unavailable check as, "A Treasury check...reported as lost or not received by the payee or the claimant."

<sup>18</sup> A summary transaction represents the sum total of more than one individual transaction and lacks the detailed information normally associated with a transaction.

## **DFAS-CO Needed to Accurately Age Suspense Account Transactions on the Air Force Suspense Account Report**

In addition to the 100 suspense account transactions we reviewed, we also determined that another 8,780 transactions, valued at \$52.6 million, remained in Air Force suspense accounts for more than 60 business days.<sup>19</sup> This amount is \$44.7 million greater than the \$7.9 million DFAS-CO reported on the Air Force SAR as of March 31, 2015. Table 4 shows the counts and dollar amounts for transactions remaining in the Air Force suspense account for more than 60 business days.

*Table 4. Air Force General Fund Suspense Transactions Aged Over 60 Business Days*

Suspense Account	Transactions Reviewed that Remained in Suspense Accounts Over 60 Business Days		Transactions Not Reviewed that Remained in Suspense Accounts Over 60 Business Days (March 31, 2015)		Total Transactions Aged Over 60 Business Days		Air Force Suspense Account Report Transactions Over 60 Business Days (March 31, 2015)	
	Count	Dollar Amount	Count	Dollar Amount	Count	Dollar Amount	Count	Dollar Amount
57F3875.001	15	\$490,342	8,661	\$3,961,911	8,676	\$4,452,253	227	\$682,976
57F3880	11	514,660	54	46,975	65	561,635	58	403,227
57F3885	10	620,426	65	48,603,541	75	49,223,967	54	6,785,305
<b>Total*</b>	<b>36</b>	<b>\$1,625,429</b>	<b>8,780</b>	<b>\$52,612,426</b>	<b>8,816</b>	<b>\$54,237,855</b>	<b>339</b>	<b>\$7,871,508</b>

Source: DoD OIG analysis

\* Totals may not equal the actual sum because of rounding.

DFAS-CO used the SAR to report the number of suspense account transactions more than 60 business days old to the Treasury. However, the September 30, 2014, SAR did not include an accurate count of detailed transactions that were in suspense for more than 60 days. In addition, DFAS-CO reported summary transactions instead of individual transactions in the IPAC suspense account. Reporting summary instead of individual transactions reduced the count and gave the appearance that there were fewer transactions in suspense when, in fact, this was not accurate. For example, DFAS-CO reported on the September 30, 2014, SAR that there were 22 IPAC suspense transactions. The 22 IPAC transactions reported on the SAR represented thousands of detailed transactions. The 22 summary IPAC transactions was an inaccurate count of the suspense transactions and could not be individually tracked to ensure the transactions were resolved within 60 business days.

<sup>19</sup> Calculated based on comparison between the Air Force September 30, 2014 and March 31, 2015 suspense account universe data.

DFAS-CO needed to ensure that the SAR contained only transactions that had not cleared the suspense accounts. Specifically, the IPAC suspense account balance erroneously increased from \$193.5 million to \$572.7 million and ultimately overstated the reported IPAC suspense account balance. The dramatic increase was due to a reporting error between the Defense Enterprise Accounting and Management System and the General Accounting and Finance system. After a review, DFAS-CO determined that cleared transactions had not been removed from the IPAC suspense account. In another instance where cleared transactions had not been removed from the SAR, we identified that the Check Cancellations and Overpayments suspense account (57F3880) contained nine transactions that DFAS-CO personnel had cleared. The supporting documentation showed that five transactions cleared on September 30, 2014, three transactions cleared September 18, 2014, and one transaction cleared on July 31, 2014. DFAS-CO could not explain why these transactions remained in the suspense account as of September 30, 2014.

### **DFAS-CO Did Not Adequately Track, Monitor, Age, and Resolve Transactions in a Timely Manner**

DFAS-CO personnel did not always resolve suspense account balances within 60 business days because DFAS-CO did not have adequate processes in place to track, monitor, age, and resolve these transactions in a timely manner. DFAS-CO personnel acknowledged the problems that existed with aging individual suspense transactions and the universe of transactions, which caused the suspense account balances on the SAR to be inaccurate. In some instances, DFAS-CO personnel relied on the suspense account transactions from other sources without obtaining the supporting documentation associated with the transactions.



DFAS-CO did not have adequate processes in place to track, monitor, age, and resolve these transactions in a timely manner.

The lack of detailed supporting documentation caused delays in clearing transactions from the suspense accounts. DFAS-CO personnel are implementing procedures to include detailed transactions for certain suspense transactions, but improvements are still needed to properly track, monitor, age, report, and timely resolve detailed suspense account transactions. Specifically, DFAS-CO personnel report individual Federal Excise Tax suspense transactions in the Budget Clearing Account (57F3875) suspense account instead of summary transactions. However, to ensure compliance with the TFM, and ensure the timely resolution of suspense transactions, DFAS-CO should establish a formal process to adequately track, monitor, age, and timely resolve suspense balances within 60 business days.

## **Suspense Account Transactions Reported on Improper Financial Statement Line Items**

DFAS-CO personnel did not establish sufficient internal controls to report suspense account balances on the appropriate Air Force General Fund Financial Statement line items. Specifically, DFAS-CO personnel reported Uniformed Services TSP suspense account balances of \$176,618 and \$177,198 in the FY 2014 and FY 2015 Balance Sheet lines Accounts Receivable and Cumulative Results of Operations Accounts. However, Department of Defense 4th Quarter, FY 2014 and FY 2015 Financial Reporting Guidance required DFAS to report the Uniformed Services TSP suspense account to the balance sheet FBWT and Other Liabilities to the Public accounts.

The misstatements occurred because DFAS-CO prepared unsupported journal vouchers that erroneously posted the balances to improper accounts in the accounting records. The DFAS-CO accounting entries did not follow DoD financial reporting guidance and resulted in the Uniformed Services TSP suspense account balances being reported on incorrect financial statement line items. DFAS-CO personnel made the unsupported entries as part of the FY 2011 yearend closing reconciliation to correct an out-of-balance condition between the accounting records and the Treasury Report on Receivables. DFAS-CO did not research the out-of-balance condition and instead made the unsupported journal voucher to reconcile two different balances.

To prevent Uniformed Services TSP reporting errors in the accounting records, DFAS-CO had to post Uniformed Services TSP suspense account entries that complied with accounting guidance and were supported by detailed transactions. Accordingly, DFAS-CO should research and make adjusting entries to correct the Uniformed Services TSP suspense account reporting error. DFAS-CO also needs to develop internal controls to prevent and detect future reporting errors to suspense accounts.

## **Inaccurate Suspense Accounts Misstate Air Force General Fund Financial Statements**

DFAS-CO personnel did not have sufficient internal controls in place to report suspense account balances on the FY 2014 and FY 2015 Air Force General Fund Financial Statements accurately. As a result, DFAS-CO personnel misstated the FY 2014 and FY 2015 Air Force General Fund Financial Statements by an absolute

value of \$22.7 million and \$7.6 million, respectively, and included \$54.3 million in suspense account transactions that were older than 60 business days. The amount of the misstatements, although not material<sup>20</sup> to either the FY 2014 or FY 2015 Air Force General Fund Balance Sheet or SBR, negatively impacted multiple financial statements and line items, which provides uncertainty over the suspense account reporting for the Air Force General Fund Financial Statements. Table 5 shows the suspense account misstatements in the FY 2014 and FY 2015 Air Force Financial Statements.

*Table 5. Misstatements in the FY 2014 and FY 2015 Air Force Financial Statements (in millions)*

Misstatement Condition	Suspense Account	Air Force General Fund Financial Statements Impacted	FY 2014	FY 2015
Air Force-related MOCAS Transactions	Budget Clearing–Nonexempt	Balance Sheet FBWT and Other Liabilities; SBR Offsetting Collections	\$12.0	\$7.5
Clearing to Non-Air Force General Fund Appropriations	Budget Clearing–Nonexempt, Check Cancellations and Overpayments, and IPAC	Balance Sheet FBWT and Other Liabilities; SBR Offsetting Collections	10.6	Not Tested
Erroneous Financial Statement Entries	Uniformed Services TSP	Balance Sheet Accounts Receivable and Cumulative Results of Operations	0.2	0.2
<b>Collective Misstatement*</b>			<b>\$22.7</b>	<b>\$7.6</b>

Source: DoD OIG analysis

\* Totals do not equal the actual sum because of rounding.

Until DFAS-CO personnel implement corrective action and ensure sufficient internal controls are in place to accurately track, monitor, clear, and report Air Force suspense account balances, the financial statements will remain misstated and contain suspense account transactions that are more than 60 business days old. Furthermore, with the uncertainties over the internal controls for suspense account financial reporting, additional misstatements to the financial statements may go undetected and could impact Air Force audit readiness in future years.

<sup>20</sup> See Appendix C for more information on the materiality of the Air Force suspense account balances.

## Recommendations, Management Comments, and Our Response

### **Recommendation A.1**

We recommend the Director, Defense Finance and Accounting Service–Columbus:

- a. **Develop procedures for reporting only Air Force suspense accounts in the Air Force General Fund Financial Statements by allocating the portion of Air Force suspense account transactions reported by others, and removing non-Air Force suspense account transactions.**

#### *Deputy Director, Defense Finance and Accounting Service–Columbus Comments*

The Deputy Director, DFAS-CO, agreed and stated that the DFAS-CO Disbursing Office has implemented a process to allocate unidentified MOCAS collections by service. The process is documented and monitored, and management approves the results. The Deputy Director indicated a completion date of January 31, 2017. Additionally, DFAS–Indianapolis will assist DFAS-CO in developing interim solutions to allocate/remove non-Air Force suspense account transactions from Air Force financial statement reporting. The Deputy Director indicated a completion date of May 31, 2017, for the interim solutions.

#### *Our Response*

Comments from the Deputy Director, DFAS-CO, addressed all the specifics of the recommendation, and no further comments are required.

- b. **Implement a formal process to track, monitor, age, and resolve Air Force suspense account transactions to ensure that the transactions are cleared within 60 business days.**

#### *Deputy Director, Defense Finance and Accounting Service–Columbus Comments*

The Deputy Director, DFAS-CO, agreed and stated that effective July 1, 2016, DFAS implemented a standardized control for all accounts that ensures responsible personnel review the workload to validate that transactions are cleared correctly and timely and that the documentation is stored for access. The Deputy Director indicated a completion date of December 31, 2016.

*Our Response*

Comments from the Deputy Director, DFAS-CO, addressed all the specifics of the recommendation, and no further comments are required.

- c. Review the Uniformed Services Thrift Savings Plan suspense account for errors, make the necessary entries to correct the reporting error, and develop internal controls to prevent and detect future reporting errors.**

*Deputy Director, Defense Finance and Accounting Service–Columbus Comments*

The Deputy Director, DFAS-CO, agreed and stated that DFAS-CO will research and make adjusting entries to correct the Uniformed Services TSP suspense account balances reported in Balance Sheet lines Accounts Receivable and Cumulative Results of Operations Accounts. The Deputy Director indicated a completion date of December 31, 2016.

*Our Response*

Comments from the Deputy Director, DFAS-CO, addressed all the specifics of the recommendation, and no further comments are required.

## Finding B

### Incorrect Use of Suspense Accounts

DFAS-CO incorrectly used suspense accounts to manage revenue-generating programs, Uniformed Services TSP contributions, and payroll tax withholdings. This occurred because DFAS-CO followed the DoD Financial Management Regulation (DoD FMR), which required the use of suspense accounts for recording recycling collections, agricultural and grazing leases, sales of forestry products, trademarks and licensing fees, various payroll tax withholding transactions, and Uniformed Services TSP contributions. These transactions did not meet the Treasury definition of a suspense account transaction. As a result, DFAS-CO personnel overstated the suspense account balances for revenue-generating programs, Uniformed Services TSP contributions, and Federal income tax withholdings by \$412.8 million in the FY 2014 SAR and \$442.1 million in the FY 2015 SAR.

### DFAS-CO Use of Suspense Accounts Not in Accordance With OMB Guidance

DFAS-CO use of suspense accounts for revenue-generating programs, Uniformed Services TSP contributions, and payroll tax withholdings was not in accordance with OMB Circular No. A-11. The Circular requires agencies to account for amounts not considered Government funds in deposit funds. Deposit fund accounts are established to record amounts held temporarily by the Government until ownership is determined or held by the Government as an agent for others.

OMB Circular No. A-11 provides guidance on how to use deposit fund accounts, including when State and local income taxes are withheld from Federal employees' salaries and not yet paid to the State or local government. The Circular also provides guidance to Federal agencies maintaining funds on behalf of individual Federal employees for investment in the TSP Fund. The Circular states that special fund accounts are used to account for receipts earmarked for specific purposes and the expenditures of those receipts. The Treasury establishes special fund receipt and expenditure accounts.

### ***Revenue-Generating Programs Did Not Meet Suspense Account's Intended Purpose***

Contrary to OMB guidance but consistent with DoD guidance, DFAS-CO personnel improperly used suspense accounts to record collections generated from the sale of recyclable materials and forestry products, leasing of land for agricultural purposes, and licensing Air Force trademarks. The DoD FMR requires the use of suspense account Budget Clearing Account–Exempt for recycling and forestry revenue programs. Specifically, DoD FMR, volume 11A, chapter 5<sup>21</sup> states that for the sale of recyclable material, the net proceeds shall be deposited into the Budget Clearing Account (F3875). Similarly, DoD FMR, volume 11A, chapter 16<sup>22</sup> requires the proceeds from the sale of forest products to be deposited into the Budget Clearing Account (F3875). DFAS-CO personnel followed the DoD FMR guidance and recorded collections from the revenue-generating programs to the suspense account Budget Clearing Account–Exempt. As of September 30, 2014, and 2015, the Air Force SAR indicated that it reported \$24.0 million and \$23.3 million, respectively, in suspense account Budget Clearing Account–Exempt (57F3875.002)<sup>23</sup> for these programs.

### ***Uniformed Services Thrift Savings Plan and Payroll Tax Withholdings Did Not Meet Suspense Account's Intended Purpose***

DFAS-CO personnel improperly used the Uniformed Services TSP (57F3882) and the Budget Clearing Account–Exempt (57F3875.002) to hold funds, later withdrawn by the Federal Retirement Thrift Investment Board or the Internal Revenue Service. The DoD FMR provides guidance for using the Uniformed Services TSP suspense account (57F3882), but there was no guidance for using the Budget Clearing Account–Exempt (57F3875.002) to account for payroll tax withholdings. OMB Circular No. A-11 states the deposit fund accounts are used for recording deposits and disbursements of funds not owned by the Government. Furthermore, the Circular provides that when the Government acts as a trustee and maintains accounts on behalf of individual Federal employees in the TSP, the Government accounts for such funds in deposit funds.

<sup>21</sup> DoD FMR, Volume 11A, Chapter 5, "Disposition of Proceeds from Department of Defense Sales of Surplus Personal Property."

<sup>22</sup> DoD FMR, Volume 11A, Chapter 16, "Accounting for Production and Sale of Forest Products."

<sup>23</sup> The DoD FMR refers to the Budget Clearing suspense account as F3875. However, DFAS-CO manages the Air Force nonexempt and exempt Budget Clearing suspense accounts in 57F3875.001 and 57F3875.002, respectively.

As of September 30, 2014, and 2015, the Air Force SAR indicated that the Uniformed Services TSP suspense account reported a balance of \$33.4 million and \$48.0 million, respectively. Although DFAS-CO personnel accounted for the Uniformed Services TSP contributions in the Uniformed Services TSP suspense account (57F3882), they correctly reported the balances on the Air Force General Fund Financial Statements.<sup>24</sup> The Air Force SAR also indicated that as of September 30, 2014, and 2015, the tax and payroll withholdings suspense account had balances of \$355.4 million and \$370.8 million, respectively.

## DFAS-CO Followed DoD FMR Guidance Instead of Treasury or OMB Guidance

DFAS-CO personnel improperly used the Budget Clearing Account–Exempt and Uniformed Services TSP suspense accounts because DFAS-CO followed DoD FMR guidance that contradicted the TFM and OMB Circular No. A-11. Specifically, the DoD FMR<sup>25</sup> instructs agencies to deposit proceeds from recyclable materials into the suspense accounts. Furthermore, the DoD FMR<sup>26</sup>

instructs agencies to deposit trademark fees into the Budget Clearing–Exempt suspense account. Because the transactions from these programs represent revenue generated from proceeds of sales, these volumes contradict both the TFM and OMB Circular No. A-11, which specify that the suspense accounts are to be used only to temporarily hold unidentifiable transactions until the correct appropriation can be identified.

DoD needed to take action to establish the proper fund accounts for balances associated with revenue-generating programs, Uniformed Services TSP, and payroll tax withholdings. In 2008, the DoD received an approval from the Treasury to use suspense accounts to collect funds from the revenue-generating programs, payroll tax withholdings, and Uniformed Services TSP contributions. The original waiver request from the DoD stated the DoD would work to establish new receipt and expenditure accounts for these programs, but would use the suspense accounts

DFAS-CO personnel improperly used the Budget Clearing Account–Exempt and Uniformed Services TSP suspense accounts.

<sup>24</sup> DFAS-CO personnel reported Uniformed Services TSP contributions to Balance Sheet lines FBWT, and Other Liabilities to the Public. As discussed in Finding A, DFAS-CO personnel also posted an unsupported journal voucher that mistakenly reported Uniformed Services TSP contributions to Balance Sheet lines Accounts Receivable and Cumulative Results of Operations.

<sup>25</sup> DoD FMR, Volume 11A, Chapter 5, “Disposition of Proceeds from Department of Defense Sales of Surplus Personal Property.”

<sup>26</sup> DoD FMR, Volume 12, Chapter 31, “DoD Branding and Trademark Licensing Program Procedural and Accounting Guidance.”

until such accounts are established. The approval letter from the Treasury granted the waiver and stated that the DoD can continue to use the suspense accounts with discretion and per currently established guidelines for Treasury reporting. The Treasury also issued a bulletin in 2011 that stated Federal agencies can use these accounts only if the transactions are missing data (that is, unidentifiable). However, the DoD continued to use these accounts to record identifiable revenue-generating program transactions, Uniformed Services TSP contributions, and payroll tax withholdings despite the 2011 Treasury guidance.

## Improper Use Led to Overstated Suspense Account Balances

DFAS-CO personnel overstated the FY 2014 and FY 2015 SAR balances reported to Treasury by \$412.8 million and \$442.1 million, respectively. The FY 2014 and FY 2015 Air Force General Fund Financial Statements also included related misstatements of \$379.4 million and \$394.1 million, respectively. This occurred because DFAS-CO personnel followed DoD FMR guidance and recorded revenue-generating programs, Uniformed Services TSP, and tax and payroll withholdings transactions in exempt suspense accounts instead of special funds and deposit accounts.



DFAS-CO personnel overstated the FY 2014 and FY 2015 SAR balances reported to Treasury by \$412.8 million and \$442.1 million.

Air Force SAR and financial statement misstatements could have been avoided if DFAS-CO personnel would have properly used suspense accounts in accordance with Treasury and OMB guidance. Specifically, if DFAS-CO personnel would have reported revenue-generating programs in a special fund account, the FY 2014 balance of \$24.0 million and the FY 2015 balance of \$23.3 million would not have been included in the SAR and would have been properly reported on the Air Force General Fund Balance Sheet as Cumulative Results of Operations instead of Other Liabilities. Furthermore, had DFAS-CO personnel reported tax and payroll withholdings balances as a deposit fund, the FY 2014 and FY 2015 balances of \$355.4 million and \$370.8 million, respectively, would not have been included in the SAR or reported on the Air Force General Fund SBR. To ensure the DoD FMR does not contradict guidance established in the TFM and OMB Circular No. A-11 and that DoD establishes new policy, DFAS-CO should, in coordination with Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, revise

the DoD FMR to be consistent with the TFM and OMB guidance to account for the revenue-generating programs, Uniformed Services TSP contributions and payroll tax withholdings. DFAS-CO should comply with TFM and OMB guidance and record revenue-generating programs in a special fund account and record payroll tax withholdings and Uniformed Services TSP contributions as deposit fund accounts to properly report the balances on the correct line of the Air Force General Fund Financial Statements.

## **Corrective Actions Taken by DFAS During the Audit**

During our audit, DFAS-CO personnel recognized that transactions in some suspense accounts should not be maintained in the suspense accounts and began to take corrective actions. Specifically, DFAS personnel worked with Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, and DFAS Accounting Standards and Reporting personnel to address the inappropriate uses of these suspense accounts. The following actions by DFAS have been completed or are still underway.

### ***Federal Tax Withholding***

On December 4, 2015, the DFAS Director, Accounting Standards and Reporting, issued a memorandum stating, “all Site Directorates across the DFAS Operations network are required to utilize deposit accounts 6275 [Withheld State and Local Taxes] and 6276 [Other Federal Payroll Withholding, Allotments] for Tax and Payroll Withholding.” Recording these transactions in a deposit fund account will allow DFAS to comply with OMB Circular No. A-11. The policy was effective November 30, 2015.

### ***Revenue-Generating Programs***

On August 16, 2016, the Director of DFAS signed a legislative proposal that addresses the challenges with using suspense accounts and proposes using special fund accounts to account for revenue-generating transactions and balances. This proposal would amend sections 2260, 2577, and 2667, title 10, United States Code, to use special fund accounts for forestry, agriculture and grazing, recycling, trademark and licensing, and royalty income (“Revenue Programs”) instead of suspense accounts.

### ***Thrift Savings Plan Withholdings***

DFAS personnel drafted a memorandum to the Budget Reports Division, Department of the Treasury, stating, “In collaboration with OMB and the relevant administrative agency, request Treasury establish the use of new deposit accounts and discontinues the use of suspense accounts 3882 and 3886.” A draft memorandum developed by the DFAS Office of Audit Readiness working with the Treasury and the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, requests that the Treasury establish new deposit accounts and discontinue the use of suspense account for Uniformed Services TSP withholdings.

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

### ***Recommendation B.1***

**We recommend that Director, Defense Finance and Accounting Service–Columbus:**

- a. In coordination with the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, revise the DoD Financial Management Regulation to be consistent with the Treasury Financial Manual and Office of Management and Budget guidance to account for the revenue-generating programs, Uniformed Services Thrift Savings Plan contributions and payroll tax withholdings.**

#### ***Deputy Director, Defense Finance and Accounting Service–Columbus Comments***

The Deputy Director, DFAS-CO, agreed and stated that DFAS will work with the Under Secretary of Defense (Comptroller) to update the DoD Financial Management Regulation to be consistent with the Treasury Financial Manual and Office of Management and Budget guidance to account for the revenue-generating programs, Uniformed Services TSP contributions and payroll tax withholdings. The Deputy Director indicated a completion date of September 30, 2017.

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

Comments from the Deputy Director, DFAS-CO, addressed all the specifics of the recommendation, and no further comments are required.

- b. Record revenue-generating-programs in a special fund account and record payroll tax withholdings and Uniformed Services Thrift Savings Plan contributions as deposit fund accounts to properly report the balances on the correct line of the Air Force General Fund Financial Statements.**

*Deputy Director, Defense Finance and Accounting Service—Columbus Comments*

The Deputy Director, DFAS-CO, agreed and stated that a memorandum dated September 23, 2016, directs DFAS operations to begin transitioning to newly created TSP deposit accounts effective October 1, 2016. The Deputy Director indicated a completion date of September 30, 2017. Additionally, the Deputy Director, DFAS-CO agreed and stated that for revenue-generating programs, DFAS and the Office of the Under Secretary of Defense do not have statutory authority to establish special fund accounts. DFAS is pursuing a legislative proposal to establish the accounts. If Congress approves, the new accounts will be in effect beginning FY 2018. The Deputy Director indicated a completion date of December 31, 2018.

*Our Response*

Comments from the Deputy Director, DFAS-CO, addressed all the specifics of the recommendation, and no further comments are required.

## Appendix A

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### Scope and Methodology

We conducted this performance audit from June 2015 through September 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit focused on FY 2014 and FY 2015 Air Force suspense account balances reported on the FY 2014 and FY 2015 Air Force General Fund Financial Statements. We discussed and reviewed business processes with DFAS-CO personnel in Columbus, Ohio, to understand FY 2014 and FY 2015 Air Force suspense accounts and transactions. We interviewed Air Force program managers to understand business activities and accounting practices impacting the Air Force recycling, agricultural leasing, forestry, and trademark programs. We reviewed various criteria, including the TFM, OMB circulars, and the DoD FMR to understand the purpose of suspense accounts, and determine whether Air Force and DFAS-CO were using suspense accounts correctly. We reviewed Air Force suspense account universe data to determine how long certain transactions were in FY 2014 and FY 2015 Air Force suspense accounts.

We obtained the Air Force nonexempt suspense account universe data reported as of September 30, 2014 and March 31, 2015. We did this for Budget Clearing Account–Nonexempt 57F3875.001, Unavailable Check Cancellations and Overpayments–Nonexempt (57F3880), and IPAC (57F3885) suspense accounts. We used the universe data to select a nonstatistical sample of 120 suspense account transactions. Specifically, we reviewed all 14 of the cleared transactions from Budget Clearing Account–Nonexempt (57F3875.001) and all 26 cleared transactions from Unavailable Check Cancellations and Overpayments–Nonexempt (57F3880) suspense accounts. Because DFAS-CO was unable to provide a listing of uncleared IPAC suspense account (57F3885) transactions as of September 30, 2014, we reviewed a nonstatistical random sample of 48 transactions from throughout FY 2014. In addition, we nonstatistically selected 32 sample items were \$20,000 and over from undistributed suspense account transactions.<sup>27</sup>

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<sup>27</sup> Undistributed Air Force suspense account transactions are the differences between detailed field level postings of disbursements and/or collections to a specific obligation, payable, or receivable versus Treasury-posted totals. The 32 suspense account transactions reviewed made up 98.8 percent of all the undistributed suspense account transactions in the September 30, 2014, population.

We reviewed sample transactions to identify whether transactions were posted to an Air Force or non-Air Force Treasury Index and to determine whether the transactions were posted to the proper Component financial statements before they cleared. We also calculated the number of days the transaction was in the suspense account to determine whether they were posted to the correct account within 60 business days. We obtained and reviewed supporting documentation for the sample items, which included e-mails, system screen-prints, vouchers, transactions receipts, and other supporting documents. Of the 120 nonstatistically sampled transactions, we were unable to determine to which appropriation the suspense transaction cleared for 34 transactions because 9 transactions had not cleared suspense at the time of our review and because DFAS-CO was unable to provide any supporting documentation for 20 transactions and adequate support for 5 transactions. Additionally, we were unable to review 20 of the 120 transactions to determine how long the transaction was in suspense, because DFAS-CO was unable to provide any supporting documentation for those transactions.

We also obtained the Treasury Index 57 SAR as of September 30, 2014, March 31, 2015, and September 30, 2015. We compared the suspense account balances on the SAR to the Treasury reported balances to determine whether they agree. We also compared the underlying details in the September 30, 2014, and March 31, 2015, SAR to determine whether the SAR properly reported the transactions by both dollar amount and number of transactions.

## Use of Computer-Processed Data

To perform the audit, we used the following computer-processed data.

- Commanders Resource Integration System compiled by DFAS-CO for the universe of Air Force suspense account transactions.
- The Treasury suspense account balances from the Central Accounting Reporting System. As of March 31, 2015, the Central Accounting Reporting System was the central accounting system of record for the Department of the Treasury, Bureau of the Fiscal Service. The Central Accounting Reporting System provided the agencies with an account statement of their FBWT and access to transaction detail.
- Financial statements for suspense accounts and adjusting entries from Defense Departmental Reporting System–Audited Financial Statements.

To assess the reliability of computer-processed data, we reconciled the detailed suspense transactions as of September 30, 2014, to the SAR, to the Treasury balances in the Central Accounting and Reporting System, and to the Air Force

General Fund Financial Statements. In addition, we tested transactions that supported the suspense account balance using source documentation obtained from DFAS-CO. We compared key elements, such as dollar amount and date, to supporting documentation to ensure the data was accurate. Except for incidences noted where the incoming suspense transaction data did not agree to the supporting documentation, we confirmed the reliability of the computer-processed data. We performed alternative audit procedures to test the dates to determine the timing to clear a suspense account transaction. Overall, we determined that the computer-processed data were sufficiently reliable to support the findings and conclusions made in this report.

## Use of Technical Assistance

During the audit, we received technical assistance from the DoD Office of Inspector General Quantitative Methods Division. Quantitative Methods Division analysts assisted in selecting a nonstatistical sample of Air Force suspense account transactions.

## Prior Coverage

During the last 5 years, the Department of Defense Office of the Inspector General (DoD IG) and the Air Force Audit Agency issued four reports discussing suspense accounts. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/pubs/index.cfm>. Unrestricted Air Force Audit Agency reports can be accessed from <https://www.efoia.af.mil/palMain.aspx> by clicking on Freedom of Information Act Reading Room and then selecting audit reports.

### **DoD OIG**

Report No. DODIG-2016-126, “Improvements Needed in Managing Other Defense Organizations’ Suspense Accounts,” August 25, 2016

Report No. DODIG-2016-104, “Improvements Needed in Managing Department of the Navy Suspense Accounts,” June 30, 2016

Report No. DODIG-2016-103, “Improvements Needed in Managing Army Suspense Accounts,” June 27, 2016

### **Air Force**

Report No. F2014-0025-RWT000, “Qualified Recycling Program 452d Air Mobility Wing March ARB CA,” March 14, 2014

## Appendix B

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### Air Force Suspense Accounts

DFAS-CO used the following accounts to manage Air Force suspense account transactions.

- Budget Clearing Account–Nonexempt (57F3875.001). This account was used to record unidentifiable collections from individuals, contractors, foreign countries, and international organizations that belong to the Federal Government.
- Budget Clearing Account–Exempt (57F3875.002). This account was used to record revenues from agricultural/grazing leases, the sale of forest products and recyclable materials, income from royalties and trademarks, treasury offset program, and payroll tax withholdings.
- Unavailable Check Cancellations and Overpayments–Nonexempt (57F3880). This account was used to record credits from the Treasury for checks issued by disbursing offices that were not negotiated within the 1-year statutory period or checks that the payees reported as lost, stolen, mutilated, or not received.
- Uniformed Services Thrift Savings Plan–Exempt (57F3882). This account was used to temporarily hold Air Force TSP contributions until the funds were moved into individual TSP investment accounts.
- Intra-Governmental Payment and Collection System–Nonexempt (57F3885.007). This account was used to post IPAC System transactions that could not be posted to the correct line of accounting due to a lack of supporting documentation.

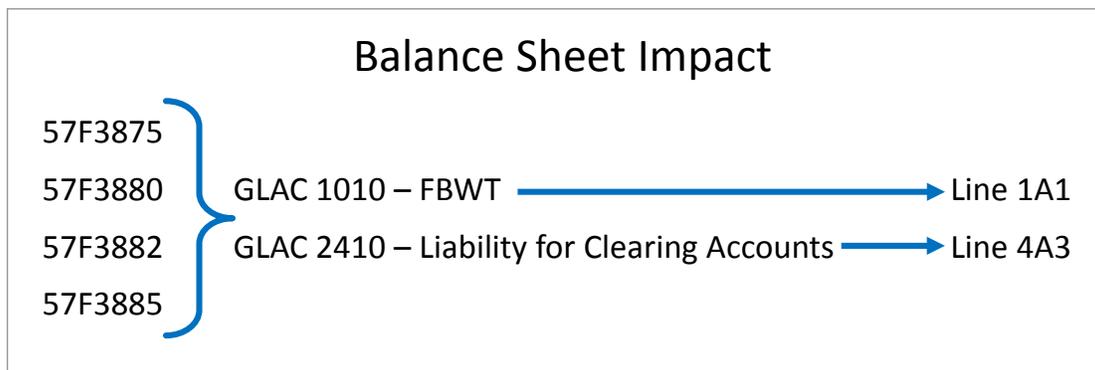
## Appendix C

### Materiality of Suspense Account Balances

Air Force suspense accounts impact the Air Force General Fund Balance Sheet and related notes, as well as the SBR. Specifically, the accounts impact the FBWT line on the Balance Sheet, Note 3 (FBWT) and Note 15 (Other Liabilities). The TFM states that the proper recording of a suspense account transaction is to debit general ledger account code (GLAC) 101000 (FBWT) and credit GLAC 241000 (Liability for Clearing Accounts). The TFM states that GLAC 101000 is reported on the FBWT line on the Balance Sheet (Line 1A1 for Air Force General Fund Balance Sheet) and GLAC 241000 is reported on either the Other Liabilities line or the Intragovernmental: Other Liabilities line, depending on the type of entity involved in the transaction with the Air Force.

As illustrated in Figure 1, GLAC 101000 increases Line 1A1 (Intragovernmental: FBWT), and GLAC 241000 increases Line 4A3 (Intragovernmental: Other Liabilities).

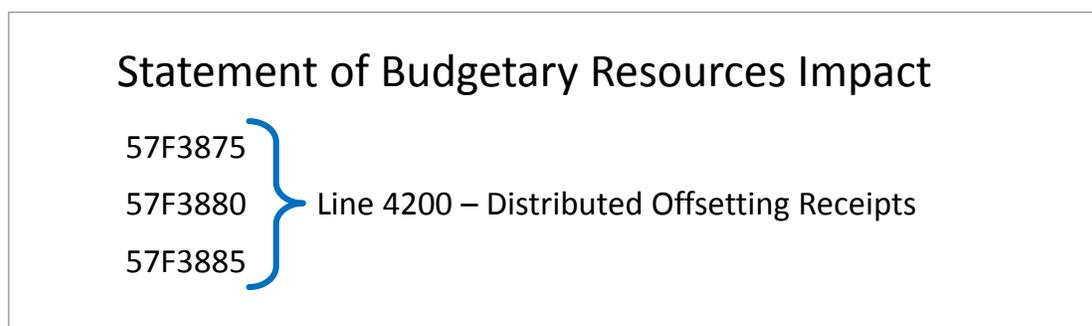
*Figure 1. Suspense Account Impact on the Balance Sheet*



Source: Treasury

Air Force suspense accounts, except for the Uniformed Services TSP suspense account (57F3882), were considered distributed offsetting receipt accounts, which impacted the SBR (line 4200). Account 57F3882 was considered nonentity FBWT and was not included in distributed offsetting receipts. Distributed offsetting receipt accounts were also reported in Note 21 (Reconciliation of Net Cost of Operations to Budget). See Figure 2 to see what suspense accounts impacted the SBR.

Figure 2. Suspense Account Impact on the SBR



Source: Treasury

Because suspense accounts impacted both the Air Force General Fund Balance Sheet and the SBR, we considered the materiality on both statements. We used the Financial Audit Manual<sup>28</sup> to calculate materiality. The Manual identifies planning materiality as 3 percent of the materiality base and the Design Materiality and Tolerable Misstatement as 33 percent of the planning materiality. This is comparable to the materiality thresholds that were used for the Air Force General Fund FY 2015 Schedule of Budgetary Activity audit.<sup>29</sup> Table 6 identifies the materiality threshold for both the Air Force General Fund Balance Sheet and the SBR.

Table 6. Air Force General Fund Materiality Thresholds (in millions)

Materiality Calculation*	FY 2014 Dollars	FY 2015 Dollars
<b>Balance Sheet</b>		
Materiality Base	\$203,812	\$195,240
Planning Materiality	6,114	5,857
Design Materiality and Tolerable Misstatement	2,038	1,952
<b>Statement of Budgetary Resources</b>		
Materiality Base	162,763.4	159,986.1
Planning Materiality	3,255.3	3,199.7
Design Materiality and Tolerable Misstatement	1,627.6	1,599.9

Source: DoD OIG analysis

\* The materiality base for the Air Force General Fund was the total assets on the Balance Sheet less the Total Intragovernmental Assets. The materiality base for the SBR was the Obligations Incurred Total Budgetary Resources.

<sup>28</sup> Government Accountability Office/President's Council of Integrity and Efficiency's Financial Audit Manual, Section 230, "Determine Planning and Design Materiality and Tolerable Misstatement."

<sup>29</sup> For the FY 2015 Schedule of Budgetary Activity audit, the independent public accounting firm determined that the planning materiality was 2 percent and the tolerable misstatement threshold was 50 percent of planning materiality.

## Management Comments

### Defense Finance and Accounting Service—Columbus



**DEFENSE FINANCE AND ACCOUNTING SERVICE**  
P.O. BOX 182317  
COLUMBUS, OH 43218-2317

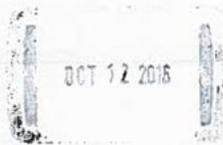
DFAS-CO/JB

MEMORANDUM FOR DIRECTOR OF AUDIT PROGRAM, DEPARTMENT OF DEFENSE  
INSPECTOR GENERAL

SUBJECT: Management Comments to Department of Defense — Inspector General Draft  
Report “Improvements Needed in Managing Air Force Suspense Accounts,” Project  
Number D2015-D000FT-0206.000, dated September 14, 2016.

In accordance with subject audit, management comments to the draft report are attached.

For additional information, please contact [REDACTED], DFAS-CO/GBKJA, at  
[REDACTED].



Rebecca S. Beck  
Deputy Director, DFAS Columbus

Attachment:  
As stated

[www.dfas.mil](http://www.dfas.mil)

## Defense Finance and Accounting Service—Columbus (cont'd)

**Management Comments to Department of Defense — Inspector General Draft Report  
Improvements Needed in Managing Air Force Suspense Accounts,” Project Number  
D2015-D000FT-0206.000, dated September 14, 2016**

**A.1** We recommend the Director, Defense Finance and Accounting Service — Columbus:

**Recommendation A.1.a:** Develop procedures for reporting only Air Force suspense accounts in the Air Force General Fund Financial Statements by allocating the portion of Air Force suspense account transactions reported by others, and removing non-Air Force suspense account transactions.

**Current Management Comments:** Concur. The Defense Finance and Accounting Service (DFAS) Columbus Disbursing Office has implemented a process to allocate unidentified Mechanization of Contract Administration Services (MOCAS) collections by service. Each month, a Suspense Account Report (SAR) is created for each service reflecting the allocations. Reconciliation and balancing occurs to ensure the entire universe of transactions is included. This newly adopted process is documented, monitored, and results are approved by management. Once the process has stabilized, procedures and additional controls will be implemented.

**Current Estimated Completion Date:** January 31, 2017.

Concur. DFAS Indianapolis will assist DFAS Columbus in developing interim solutions to allocate/remove non-Air Force suspense account transactions for reporting of the Air Force General Fund Financial Statements. Additionally, DFAS Columbus will explore the feasibility of a permanent accounting system change request (SCR) for the proper allocation of Intra-governmental Payment and Collection (IPAC) Air Force suspense account transactions.

**Current Estimated Completion Date:** May 31, 2017.

**Recommendation A.1.b:** Implement a formal process to track, monitor, age, and resolve Air Force suspense account transactions to ensure that the transactions are cleared within 60 business days.

**Current Management Comments:** Concur. Effective July 1, 2016, DFAS implemented a standardized control for all suspense accounts to ensure supervisors and/or leads responsible for clearing suspense transactions are reviewing the workload to validate transactions are cleared correctly, timely, and that Key Supporting Documentation (KSD) is stored for access. Moreover, the review will ensure transactions are prioritized by canceling-year funds, dollar amount, and age.

Additionally, the correction of non-aging undistributed suspense account transactions, with the appropriate age reported on the SAR, began in May 2016.

**Current Estimated Completion Date:** December 31, 2016.

## Defense Finance and Accounting Service—Columbus (cont'd)

**Recommendation A.1.c:** Review the Uniformed Services Thrift Savings Plan Suspense Account for errors, make the necessary entries to correct the reporting error, and develop internal controls to prevent and detect future reporting errors.

**Current Management Comments:** Concur. DFAS-CO will research and make adjusting entries to correct the Uniformed Services TSP suspense account balances reported in Balance Sheet lines Accounts Receivable and Cumulative Results of Operations Accounts.

**Current Estimated Completion Date:** December 31, 2016.

**B.1** We recommend that Director, Defense Finance and Accounting Service — Columbus:

**Recommendation B.1.a:** In coordination with the Under Secretary of Defense (Comptroller)/ Chief Financial Officer, DoD, revise the DoD Financial Management Regulation to be consistent with the Treasury Financial Manual and Office of Management and Budget guidance to account for the revenue-generating programs, Uniformed Services Thrift Savings Plan contributions and payroll tax withholdings.

**Current Management Comments:** Concur. DFAS will work with the Office of the Under Secretary of Defense (Comptroller) to update the DoD Financial Management Regulation Volumes 11A and 12, to be consistent with the Treasury Financial Manual and Office of Management and Budget guidance to account for the revenue-generating programs, Uniformed Services Thrift Savings Plan contributions and payroll tax withholdings.

**Current Estimated Completion Date:** September 30, 2017.

**Recommendation B.1.b:** Record revenue-generating-programs in a special fund account and record payroll tax withholdings and Uniformed Services Thrift Savings Plan contributions as deposit fund accounts to properly report the balances on the correct line of the Air Force General Fund Financial Statements.

**Current Management Comments:** Concur. For TSP, DFAS Enterprise Solutions and Standards (ESS) Memorandum dated September 23, 2016, directs DFAS operations to begin transitioning to newly created TSP deposit accounts effective October 1, 2016. It lists deposit account 57 X 6230 for Air Force TSP voluntary deductions, loan repayments and employer contributions, and directs ESS to coordinate with the field sites to complete the transition.

**Current Estimated Completion Date:** September 30, 2017.

Concur. For revenue-generating programs, DFAS and OUSD do not have statutory authority to establish the special fund accounts for the revenue-generating transactions; therefore, DFAS is pursuing a legislative proposal to change the current legislation and establish the accounts. If approved by Congress, the new accounts will be in effect beginning fiscal year 2018 and DFAS will begin implementation.

**Current Estimated Completion Date:** December 31, 2018.

## Glossary

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**Absolute value.** The numerical value of a real number without regard to its sign. For example, the absolute value of -4 is 4.

**Aging Transactions.** Transactions are aged according to how long the transactions have been in a suspense account.

**Cleared Transactions.** Transactions that have been corrected and transferred from the suspense account to the proper account.

**Collection.** Funds received from individuals or organizations, in the form of cash, check, credit card, IPAC System, voucher deduction, or billing/adjustment voucher.

**Deposit Funds.** Accounts established to record amounts held temporarily by the Government until ownership is determined or held by the Government as an agent for others.

**Disbursement.** Cash, check, electronic funds transfer, IPAC System, or interfund payments that liquidate an established obligation, disburse amounts previously collected into a deposit fund account, or provide cash in advance of performance.

**DoD Component Entities.** A reporting entity within DoD required by Office of Management and Budget to prepare stand-alone audited financial statements, such as the Department of the Army, Department of the Navy, and Department of the Air Force General Funds and Working Capital Funds; Military Retirement Fund; and U.S. Army Corps of Engineers Civil Works.

**Exempt Account.** Terminology DFAS used to identify suspense accounts (F3800 series fund group) from which DFAS did not attempt to clear the transactions within 60 business days or otherwise age the transactions. The Air Force exempt suspense accounts were 57F3875.002 (Budget Clearing Account-Exempt), and 57F3882 (Uniformed Services Thrift Savings Plan Withholdings).

**Intra-governmental Payment and Collection.** IPAC provides an automated, standardized, interagency funds expenditure transfer mechanism for Federal program agencies. It facilitates intragovernmental Federal e-commerce by transferring funds, with related descriptive data, from one Federal program agency to another on a real-time basis.

**Materiality.** The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for fair presentation of financial statements in conformity with generally accepted accounting principles, while other matters are not important. The auditor's responsibility is to plan and perform the audit to obtain reasonable assurance that material misstatements, whether caused by errors or fraud, are detected. Design materiality is the portion of the preliminary estimate of materiality that has been allocated to line items, accounts, or classes of transactions (such as disbursements or collections). Test materiality is the materiality actually used by the auditor in testing a specific line item, account, or class of transactions.

**Nonexempt Account.** Terminology DFAS used to identify suspense accounts which collection and disbursement transactions were held temporarily pending clearance to the applicable account. Transactions in these suspense accounts were subject to the 60-business-day clearance requirement. The Air Force nonexempt accounts were 57F3875.001 (Budget Clearing Account–Nonexempt), 57F3880 (Check Cancellations and Overpayments), and 57F3885.007 (IPAC System).

**Special Funds.** Accounts used for receipts earmarked for specific purposes and the expenditure of these receipts.

**Suspense Account.** A clearing account established by the Treasury to temporarily hold unidentifiable general, special, or trust fund collections that belong to the Federal Government until they are classified to the proper receipt or expenditure account by the Federal entity.

**Suspense Account Report.** A report prepared by DFAS-CO that provides details on the monthly metrics for suspense accounts, using account balances reported by Air Force accounting activities to DFAS-CO.

**Treasury Account Symbol.** An identification code assigned by the Treasury, in collaboration with Office of Management and Budget and the owner agency, to an individual appropriation, receipt, or other fund account. As it pertains to Air Force suspense accounts, a Treasury Account Symbol consists of the two-digit Treasury Index, with an "F" preceding the last four digits of the "3800" series fund group.

**Treasury Index.** Funds and accounts authorized by Acts originating in the Congressional Armed Service Committees and appropriated to the DoD. Treasury Index 57 equates to a Department of the Air Force account.

**Unavailable Check.** A Treasury check that is not in the possession of the Federal Program Agencies, the Treasury Regional Finance Centers, or the non-Treasury disbursing office and is reported as lost or not received by the payee or the claimant.

## Acronyms and Abbreviations

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<b>DFAS</b>	Defense Finance and Accounting Service
<b>DFAS-CO</b>	Defense Finance and Accounting Service–Columbus
<b>DoD FMR</b>	Department of Defense Financial Management Regulation
<b>FBWT</b>	Fund Balance with Treasury
<b>GLAC</b>	General Ledger Account Code
<b>IPAC</b>	Intra-Governmental Payment and Collection
<b>MOCAS</b>	Mechanization of Contract Administration Services
<b>ODO</b>	Other Defense Organizations
<b>OMB</b>	Office of Management and Budget
<b>SAR</b>	Suspense Account Report
<b>SBR</b>	Statement of Budgetary Resources
<b>TFM</b>	Treasury Financial Manual
<b>TSP</b>	Thrift Savings Plan



# **Whistleblower Protection**

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

*The Whistleblower Protection Ombudsman's role is to educate agency employees about prohibitions on retaliation and employees' rights and remedies available for reprisal. The DoD Hotline Director is the designated ombudsman. For more information, please visit the Whistleblower webpage at [www.dodig.mil/programs/whistleblower](http://www.dodig.mil/programs/whistleblower).*

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