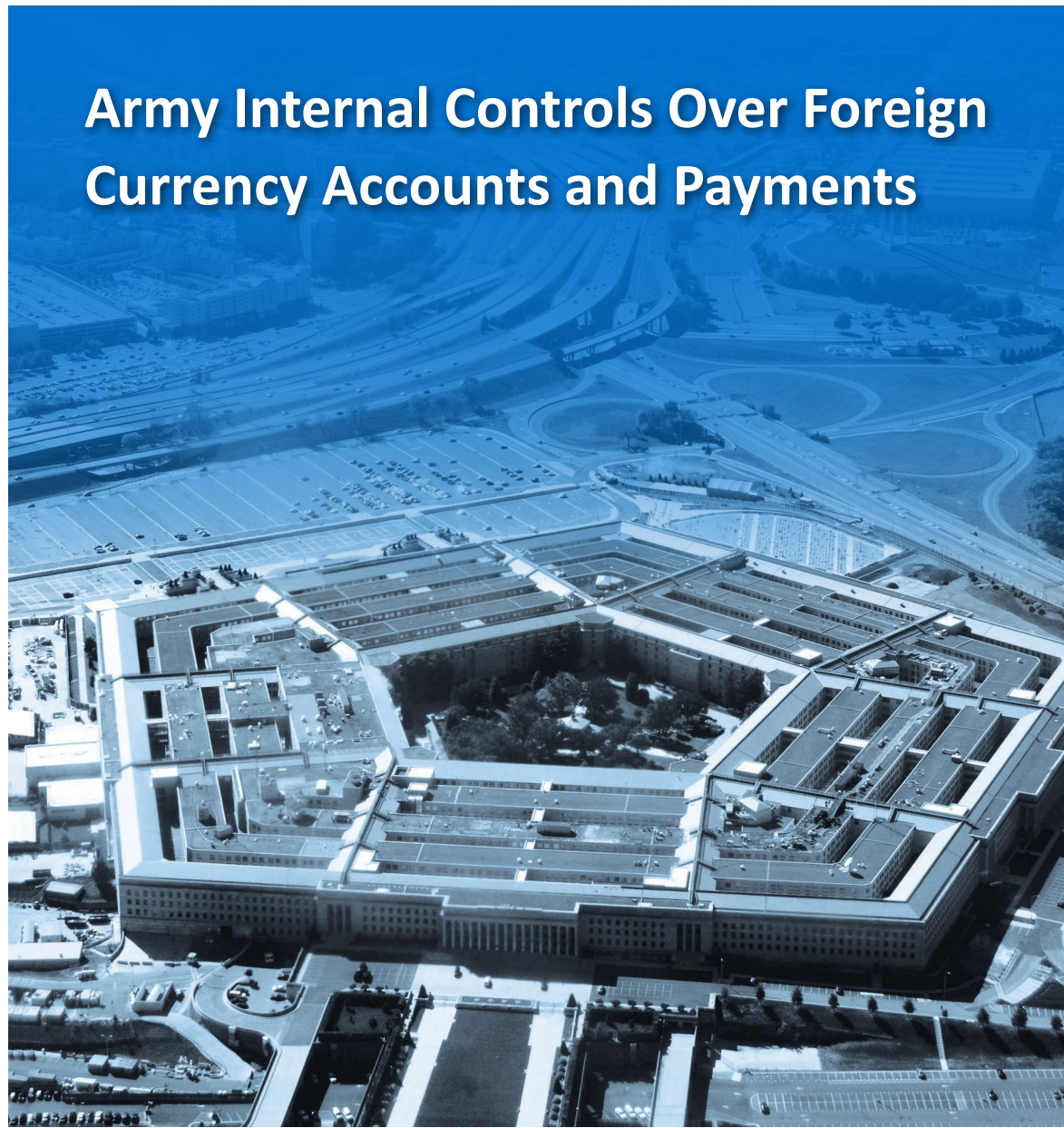




# INSPECTOR GENERAL

*U.S. Department of Defense*

MARCH 29, 2018



## Army Internal Controls Over Foreign Currency Accounts and Payments

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INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

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# Results in Brief

## *Army Internal Controls Over Foreign Currency Accounts and Payments*

March 29, 2018

### Objective

We determined whether the Army properly recorded foreign currency payments, exchange transactions, and related gains and losses. We also performed internal control reviews, including testing the accuracy of foreign currency payments.

### Background

The Army conducts operations overseas, where it is sometimes necessary to make payments using the currency of the host nation instead of the U.S. dollar. Currency exchange rates constantly fluctuate, affecting the U.S. dollar value when making foreign currency payments. The Army records these fluctuations in its disbursing and accounting systems when processing foreign payments. U.S. Army Financial Management Command (USAFMCOM) provides financial oversight to the disbursing offices.

### Findings

The Army did not properly record foreign currency payments, fluctuations from exchange transactions, and related gains and losses for four of the five disbursing offices we reviewed. We project that the Army incorrectly recorded 11,173 of 52,632 (21 percent) fluctuation transactions. The projected 11,173 incorrectly recorded transactions had an absolute value of \$30 million. Army management did not have procedures in place over their local national employee payroll, disbursing, and vendor pay processes to prevent or identify

### Findings (cont'd)

the inaccuracies. Disbursing offices use a vendor pay process to determine the amount due to a contractor or vendor for all contract or purchase orders.

The Army did not properly record foreign currency payments and fluctuation because personnel did not update the General Fund Enterprise Business System (GFEBS) in 2016 to comply with revised DoD policy to record gains and losses from foreign currency exchange rate fluctuations. As a result, the Army incorrectly recorded a projected absolute value of \$30 million to the foreign currency fluctuation accounts in FY 2016 and first quarter FY 2017. Also, the disbursing offices did not have adequate procedures in place to ensure proper recording of future foreign currency transactions, because Army management did not establish thorough oversight of operations within the vendor pay, disbursing, and local national employee payroll functions. Although we did not find instances of fraud, the Army is at risk for potential losses and reporting of additional financial inaccuracies from undetected errors and fraud, increased interest payments, and payments made for incorrect amounts, as a result of incorrect exchange rates.

The Army disbursing officers did not effectively manage the 10 Limited Depository Checking Accounts (LDAs) used to hold foreign currency that we reviewed. Of the 10 LDAs, 8 maintained balances that were \$126.5 million higher than the approved cash holding authority limit, and 6 of those 10 held a total of \$112.1 million more than the 7-day supply of funds limit. Additionally, Disbursing Office personnel from the Army 176th Financial Management Support Unit (FMSU) did not protect sensitive financial information of Korean Nationals when processing payments through the LDA. Because of ineffective management of the LDAs, the disbursing offices held cash in excess of immediate needs. In addition, the Army recorded additional gains and losses on the value of the excess funds, and the DoD is at risk of future losses due to unfavorable fluctuations in the value of the excess foreign currency. Furthermore, 176th FMSU personnel placed bank accounts for affected Korean National personnel and contractors at risk to unauthorized access.



# Results in Brief

## *Army Internal Controls Over Foreign Currency Accounts and Payments*

### Recommendations

We recommend the Commander, 176th FMSU, U.S. Army Garrison Yongsan, South Korea, revise the standard operating procedures for the disbursing process; develop and implement an approval process for all currency exchanges; develop and implement procedures to safeguard sensitive financial information; and ensure the disbursing office has taken all possible actions to transmit payment files securely.

We recommend that the Director, Army Finance and Accounting Service – Korea, ensure the vendor pay office fully implements new procedures to track invoices received and verify funds are available for payment.

We recommend that the Under Secretary of Defense (Comptroller), Office of the Deputy Chief Financial Officer (ODCFO) issue guidance on DoD standard general ledger transactions for Components. Once issued, we recommend that the Deputy Assistant Secretary of the Army (Financial Operations) (DASA[FO]) update the Army accounting systems as required by the DoD Financial Management Regulation (FMR).

We recommend that the Director, 266th Financial Management Support Center (FMSC), develop guidance to require periodic reviews of system accesses for finance office personnel and ensure adequate separation of duties; develop procedures to maintain alternate certifying officials for each payment system; implement controls to ensure the Italy Finance Office maintains proper separation of duties; ensure senior management is directly involved in oversight of the payroll process; develop a plan to replace the current Italian Local National Payroll System with a system that meets Federal requirements.

We recommend that the ODCFO revise the DoD FMR to clarify the requirements for managing foreign government contributions (burden sharing funds). Once revised, we recommend that the Commander,

### Recommendations (cont'd)

176th FMSU, U.S. Army Garrison Yongsan, South Korea; Director, Defense Finance and Accounting Service (DFAS)-Japan; and Director, U.S. Army Corps of Engineers (USACE) Finance Center develop local procedures to comply with the DoD FMR.

We recommend that the Commander, 176th FMSU, U.S. Army Garrison Yongsan, South Korea; Director, USACE Finance Center; and Director, 266th FMSC adjust the cash holding authorities or reduce the balances of the LDAs to comply with the current cash holding authorities.

We recommend that the Director, Army Financial Services, U.S. Army Finance Command (USAFMCOM) verify that quarterly cash verifications determine and report on whether the disbursing officer's cash balance held at personal risk comply with the cash holding authority letter as required by the DoD FMR.

### Management Comments and Our Response

The DASA(FO); Commanding General, USAFMCOM; Director, USACE Finance Center; Director, DFAS-Japan; Commander, 176th, FMSU; Director, Army Finance and Accounting Service – Korea; and Director, 266th FMSC, concurred or agreed to take actions that addressed the intent of all of the recommendations. The ODCFO generally agreed with our recommendations; however, the Deputy's response to B.1.d did not meet the intent of the recommendation. Therefore, we request that the ODCFO provide additional comments to the report no later than April 30, 2018.

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

## Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Under Secretary of Defense (Comptroller), Office of the Deputy Chief Financial Officer	B.1.d	B.1.a, B.1.b	A.3, B.1.c
Deputy Assistant Secretary of the Army (Financial Operations)		A.4	
Director, Army Financial Services, U.S. Army Financial Management Command		B.3	
Director, U.S. Army Corps of Engineers Finance Center		B.4	B.2
Director, Defense Finance and Accounting Service - Japan		B.4	
Commander, 176th Financial Management Support Unit		B.4, B.5.a	A.1, B.2, B.5.b, B.5.c
Director, Army Finance and Accounting Service - Korea			A.2
Director, 266th Financial Management Support Center		A.5.b, A.5.c, A.5.d, A.5.e, B.2	A.5.a

Please provide Management Comments by April 30, 2018.

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

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





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

March 29, 2018

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

SUBJECT: Army Internal Controls Over Foreign Currency Accounts and Payments  
(Report No. DODIG-2018-099)

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

We considered management comments on the draft report when preparing the final report. DoD Instruction 7650.03 requires that recommendations be resolved promptly. Comments from the Under Secretary of Defense (Comptroller), Office of the Deputy Chief Financial Officer partially addressed the recommendation. Therefore, we request additional comments on Recommendation B.1.d by April 30, 2018.

Please send a PDF file containing your comments on the recommendations to [audfmr@dodig.mil](mailto:audfmr@dodig.mil). If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET). Copies of your comments must have the actual signature of the authorizing official for your organization.

If you have any questions or would like to meet to discuss the audit, please contact me at (703) 601-5945 (DSN 329-5945). We appreciate the cooperation and assistance received during the audit.

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

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

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# Introduction

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## Objective

We determined whether the Army properly recorded foreign currency payments, exchange transactions, and related gains and losses.<sup>1</sup> We performed internal control reviews that included testing of the accuracy of foreign currency payments during FY 2016 and the first quarter FY 2017. See Appendix A for the audit scope, methodology, and prior audit coverage related to the audit objective.

## Background

The Army conducts operations overseas and pays for some items, such as local national employee payroll and commercial invoices, using the currency of the host nation.<sup>2</sup> The Army maintains disbursing offices within and outside the United States to process these payments. Overseas disbursing offices typically maintain checking accounts, called limited depository checking accounts (LDAs), at local banks where disbursing personnel hold foreign currency and process the foreign currency payments.

During FY 2016 and the first quarter of FY 2017, the U.S. Army Corps of Engineers (USACE) processed \$2.8 billion in foreign currency payment transactions for its civil and military construction funds. During the same period, the Army processed \$5.5 billion in foreign currency payments through the Deployable Disbursing System (DDS).

At the beginning of each fiscal year, the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, (USD[C]/CFO) publishes a budgeted exchange rate for nine foreign currencies.<sup>3</sup> Exchange rates constantly change, affecting the value of the U.S. dollar when making payments in foreign currency. The Army records these changes in the value of currencies as fluctuation. Fluctuation amounts are the result of the difference between the exchange rate on the payment date and the budgeted exchange rate. For example, if the budgeted exchange rate for FY 2017 was 1 euro to 1 U.S. dollar, and a 100-euro payment was subsequently scheduled at a time when the exchange rate had changed to 0.84 euros, the payment which would have previously cost the

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<sup>1</sup> The review of exchange transactions focused on the fluctuations related to the exchange rates in foreign currency payments.

<sup>2</sup> Vendor pay is the process of determining the amount due to a contractor or vendor for all contract or purchase orders, except those administered by the Defense Contract Management Agency or a payroll area.

<sup>3</sup> The nine currencies are the Denmark krone, European Union euro, Iceland krona, Japan yen, Norway krone, Singapore dollar, South Korea won, Turkey lira, and British pound. DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 6A, chapter 7 defines budget rates as the foreign currency rate the Office of the Secretary of Defense uses in preparing DoD's operating budget. These rates are also used as the basis for recording budgetary obligations associated with approved overseas programs into the accounting systems of the DoD.

United States \$100 at the budgeted exchange rate would now cost \$119.05. Therefore, the resulting disbursing transaction would reflect a \$100 payment with a fluctuation amount of \$19.05.

### ***Foreign Currency Transaction Process***

Army foreign finance offices perform disbursing and accounting functions, including military payroll, local national employee payroll, travel payments, and commercial (contract or vendor) payments. The Army processes foreign currency payments, using DDS and the Corps of Engineers Financial Management System (CEFMS), through disbursing offices that are located inside and outside the continental United States.

Depending on the finance office, vendor pay personnel at non-USACE finance offices initiate the foreign currency payments through either the General Fund Enterprise Business System (GFEBs) or the Computerized Accounts Payable System-Windows (CAPS-W). The vendor pay personnel then forward the payments to the disbursing office for approval through its disbursing system (DDS). The approved payments are also sent to the accounting office to record the transactions in the Army's accounting systems, GFEBs or the Standard Army Finance Information System (STANFINS).

USACE vendor pay, disbursing, and accounting personnel process foreign currency payments in CEFMS. CEFMS contains all of USACE's financial transactions, from the original commitment of funds through the final payment.

### ***Roles and Responsibilities***

#### ***U.S. Army Financial Management Command***

The U.S. Army Financial Management Command (USAFMCOM) provides finance support to Army installations, Tactical Units, and the Defense Finance and Accounting Service (DFAS), on matters that pertain to finance policies, systems, and reporting requirements. USAFMCOM performs financial management unit technical training, electronic commerce, and classified finance and accounting oversight.

#### ***Defense Finance and Accounting Service–Indianapolis***

DFAS-Indianapolis Disbursing Operations is responsible for foreign currency payments processed at DFAS-Indianapolis, DFAS-Europe, DFAS-Rome, DFAS-Japan, Honduras, and the Commercial Vendor Services Retrograde program.<sup>4</sup>

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<sup>4</sup> The Commercial Vendor Services Retrograde program responsibilities include receiving, reviewing, reconciling, and processing all payment requests originating from the Theater Vendor Pay Support Cell.

### *266th Financial Management Support Center*

The 266th Financial Management Support Center (FMSC) provides finance and accounting services for service components in the U.S. Army Europe (USAREUR), joint and combined theaters. The 266th FMSC is responsible for overseeing the finance offices located on U.S. Army Garrisons Benelux and Italy. The Benelux Finance Office (BFO) conducts financial operations for Army disbursing offices located in Belgium and the Netherlands. The Italy Finance Office (IFO) conducts financial operations for Army disbursing offices in Vicenza and Camp Darby.

### *U.S. Army Garrison Yongsan*

The finance office that supports the DoD on U.S. Army Garrison Yongsan, South Korea, includes a disbursing office managed by the 176th Financial Management Support Unit (FMSU) and the vendor pay office managed by the 175th Financial Management Center (FMC), also known as Army Finance and Accounting Service, Korea (AFAS-K). The 175th FMC Centralized Pay and Accounting Division provides accounting, vendor pay, foreign national pay, and civilian pay customer services. The 176th FMSU is responsible for the Army disbursing operations located at U.S. Army Garrison Yongsan, including multiple remote disbursing offices located in various locations in South Korea.<sup>5</sup>

### *U.S. Army Corps of Engineers*

The USACE Finance Center, in Millington, Tennessee, provides full finance and accounting services for USACE engineering and construction operations worldwide, including vendor payments and disbursing. The USACE Finance Center processes foreign currency payments for USACE operations in the Far East District (Korea), the Japan District, and the Europe District (Germany). USACE uses local banks in those overseas districts for foreign currency payments, but the disbursing officer at the USACE Finance Center is responsible for managing the foreign accounts.

## **Controls Over Foreign Currency Transactions**

Office of Management and Budget (OMB) Circular No. A-123 defines management's responsibilities for establishing and maintaining strong internal control into existing business activities related to operations, reporting, and compliance with laws and regulations.<sup>6</sup> The DoD Regulation 7000.14-R, "DoD Financial Management Regulation," (DoD FMR), states that disbursing offices should implement the controls discussed in OMB Circular A-123 to eliminate opportunities to conceal

<sup>5</sup> The 176th FMSU Disbursing Officer is also responsible for the disbursing activities that occur at Camp Humphreys, Camp Henry, and Camp Casey.

<sup>6</sup> OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," July 15, 2016.



errors or irregularities, and assign work so that no one individual controls multiple phases of a transaction.<sup>7</sup> For example, internal controls usually require separation of duties to prevent errors or attempted fraud from going undetected. To minimize risk of loss, the DoD FMR requires management to assign to separate individuals the functions of contracting; authorizing, approving, and recording transactions; receiving assets; certifying and making payments; preparing and signing checks; and reviewing and auditing payments.

## Review of Internal Controls

DoD Instruction 5010.40 requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls.<sup>8</sup> We identified internal control weakness over the Army's local national employee payroll, disbursing, and vendor pay processes for foreign currency transactions. In addition, we identified the Army and USACE did not effectively manage their LDAs. We will provide a copy of the final report to the senior official responsible for internal controls in the Department of the Army.

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<sup>7</sup> DoD FMR, volume 5, chapter 1.

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

## Finding A

### The Army Did Not Have Adequate Disbursing Processes for Foreign Currency Payments

The Army did not properly record in its disbursing and accounting systems the FY 2016 and first quarter FY 2017 foreign currency payments, fluctuations from exchange transactions, and related gains and losses for four of the five disbursing offices we reviewed.<sup>9</sup> The Army disbursing offices did not uniformly implement procedures to ensure that its personnel would:

- verify the accuracy of the exchange rates used for payments;
- confirm they processed all invoices received for payment;
- consistently verify the availability of funds;
- conduct appropriate verifications of the payment information transferred from the accounts payable system to the disbursing system;
- monitor the user roles within Deployable Disbursing System (DDS) to verify appropriate system access;
- appoint sufficient resources as certifying officials; and
- maintain separation of duties among all employees involved in the local national payroll process.

The Army did not properly record the transactions because Army personnel did not update GFEBs to record the gains and losses from foreign currency exchange rate fluctuations to the correct fiscal year appropriation. In addition, the disbursing offices did not have adequate procedures in place to ensure the proper recording of future foreign currency transactions, because Army management did not establish thorough oversight of operations within the local national employee payroll, disbursing, and vendor pay functions. As a result, the Army is at risk for losses and additional financial reporting inaccuracies from undetected errors and potential fraud, increased interest payments, and payments made for incorrect amounts as a result of incorrect exchange rates.

<sup>9</sup> This includes the 176th Financial Management Support Unit (Korea); Disbursing Operations - Indianapolis; Benelux Finance Office; Italy Finance Office; and USACE Finance Center (Civil Works and Military Construction) disbursing office.

## Incorrect Fiscal Year Used for Fluctuation Transactions

We project that from October 2015 through December 2016, the Army incorrectly recorded 11,173 of 52,632 fluctuation transactions. In February 2016, the Under Secretary of Defense (Comptroller), Office of the Deputy Chief Financial Officer (ODCFO) updated the DoD FMR to require DoD Components to charge the same fiscal year as the underlying obligation for net gains or losses from foreign currency exchange rate fluctuations funded by Operations & Maintenance, Military Personnel, and Construction appropriations.<sup>10</sup>

Before the DoD FMR policy was changed, the DoD recorded fluctuation disbursements to the current fiscal year account. However, after the February 2016 policy change, GFEBs, the Army's accounting system, continued to charge fluctuations in the same fiscal year the payment transaction occurred instead of matching the fluctuation to the fiscal year that funded the original obligation. Based on our statistical sample, we project that the Army incorrectly recorded 11,173 of 52,632 (21 percent) fluctuation transactions, with an absolute value of \$30 million.<sup>11</sup> See Appendix B for projection analysis.



We project that the Army incorrectly recorded 11,173 of 52,632 (21 percent) fluctuation transactions, with an absolute value of \$30 million.

According to the Director, Army Financial Services, USAFMCOM, the Office of the Secretary of Defense notified Army of the DoD FMR policy change in October 2014, however Army did not agree with the policy change because of concerns that the fluctuation accounts would not be adequately funded to cover anticipated fluctuations. After the February 2016 policy change, the Army still did not update GFEBs due to this concern.

According to personnel from the Office of the Deputy Chief Management Officer and the Director, Financial Operations and Accounting Oversight, Office of the Deputy Assistant Secretary of the Army (Financial Operations), the Army and other DoD Components are included in a Defense Accounting Solutions Working Group that coordinates with ODCFO to develop additional procedural and accounting guidance on how DoD personnel should record foreign currency fluctuation transactions. The Director also attributed the Army's inability to implement the DoD FMR policy change to a lack of standard accounting practice on how the Army should record the fluctuation gains and losses on foreign currency transactions, and procedures to transfer fluctuation gains to the DoD centrally managed account for redistribution. ODCFO personnel are developing a recommendation

<sup>10</sup> DoD FMR, volume 6A, chapter 7.

<sup>11</sup> An absolute value is the value of change, whether it is a decrease or increase in amount.

to the Treasury for new U.S. Standard General Ledger accounting transactions to record gains and losses related to the foreign currency fluctuation fund. The ODCFO should develop and issue procedures and standard accounting transactional updates to record foreign currency exchange rate fluctuation gains and losses within the Components' financial management systems. When the ODCFO accounting guidance is issued, the Deputy Assistant Secretary of the Army (Financial Operations) should update the Army accounting systems to record foreign currency exchange rate fluctuation gains and losses as required by DoD financial policy.

## **Inadequate Vendor Pay and Disbursing Office Processes and Guidance**

Of the five disbursing offices reviewed, four did not uniformly implement procedures over their vendor pay, disbursing, or local national employee payroll functions to ensure the proper recording of future foreign currency transactions in GFEBs and STANFINS. Specifically:

- Army Garrison Yongsan did not use correct exchange rates, track incoming invoices, ensure the availability of funds for payments, and verify the accuracy of information in DDS.
- The Benelux Finance Office did not verify the accuracy of information in DDS and maintain adequate separation of duties.
- The Italy Finance Office did not verify the accuracy of information in DDS and maintain adequate separation of duties.
- Commercial Vendor Services Retrograde program at Fort Drum, New York, did not verify the accuracy of information in DDS.

### ***Inadequate Procedures at U.S. Army Garrison Yongsan Vendor Pay and Disbursing Offices***

Personnel at the 176th FMSU Disbursing Office did not verify the accuracy of the exchange rates used in payments processed by remote disbursing offices. In addition, the 175th FMC/AFAS-K vendor pay personnel, located with the 176th FMSU at U.S. Army Garrison Yongsan, did not have adequate procedures in place to confirm they processed all invoices received for payment and used inconsistent procedures to verify the availability of funds for payment.

### *Disbursing Office Used Inaccurate Exchange Rates*

For 13 of the 282 business days in FY 2016 and first quarter FY 2017, the remote disbursing office personnel reporting to the 176th FMSU used inaccurate or unsupported exchange rates, which resulted in 48 improper payments, with a variance of \$761.<sup>12</sup> For example, remote disbursing office personnel used the exchange rate from the previous day for the current day disbursement. According to 176th FMSU disbursing personnel, the remote site personnel did not always input the most current rate and sometimes input the wrong exchange rates. Although 176th FMSU disbursing office personnel were responsible for the final processing of the remote site payments, the disbursing officer did not implement procedures to ensure the accuracy of rates used by the remote sites.

During the period reviewed, the 176th FMSU personnel did not have standard operating procedures (SOP) that documented actions employees should follow to process vendor payments in the disbursing system. While the 176th FMSU Disbursing Officer was writing an SOP, the only document available to the 176th FMSU disbursing personnel that discussed vendor, travel, and payroll payments was a processes document that consisted of a series of high-level flowcharts of each functional area and a list of each employee's roles and responsibilities. The document did not include operational procedures. For example, the procedures document did not discuss or assign responsibility for verifying the accuracy of the exchange rates used by the remote disbursing offices during final processing of the payments. As a result, the 176th FMSU Disbursing Officer authorized payments from the remote sites that used inaccurate exchange rates and, consequently, inaccurately recorded the U.S. dollar value of these payments. The 176th FMSU management should revise their SOPs to include steps to verify that the remote disbursing offices use accurate exchange rates and prevent future inaccuracies.

The 176th FMSU personnel did not have standard operating procedures (SOP) that documented actions employees should follow to process vendor payments in the disbursing system.

### *Vendor Pay Office Did Not Have Process to Track Invoices*

Personnel from the 175th FMC/AFAS-K vendor pay office at U.S. Army Garrison Yongsan did not track hardcopy invoices to confirm they input the invoices into the appropriate vendor pay system in time to prevent overdue payments.<sup>13</sup>

<sup>12</sup> OMB Circular A-123, Appendix C, "Requirements for Effective Estimation and Remediation of Improper Payments," October 20, 2014, defines an improper payment as any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an improper payment.

<sup>13</sup> The audit team considered all invoices not submitted to the 175th FMC vendor pay office through Wide Area Work Flow to be hardcopy invoices. These invoices may have been hand delivered, mailed, or submitted by the vendor through e-mail.



Upon receipt of the invoices, vendor pay personnel assigned the invoices to analysts for input into the vendor pay systems; however, the pay personnel did not follow up to verify input. As a result, vendor pay personnel would not know that invoices were not paid until a vendor contacted them for payment.

Although the vendor pay office used aging reports, these reports excluded invoices not entered into the vendor pay systems.<sup>14</sup> The Deputy Director, AFAS-K, agreed that this was not an adequate process and the vendor pay processes should be updated to include steps confirming input of invoices into the vendor pay systems to better track invoices through the payment process. In October 2017, AFAS-K issued an SOP for payment processing in the vendor pay office. The procedure included responsibilities for maintaining an invoice tracker. The Director, AFAS-K, should ensure that the vendor pay office fully implements the new procedures to track invoices received.

### *Vendor Pay Office Did Not Consistently Verify Availability of Funds*

Personnel from the 175th FMC/AFAS-K vendor pay office did not consistently verify if funds were available for payment before processing invoices in the CAPS-W vendor pay system. While the other vendor pay system that was used in the office, GFEBS, had systematic controls to stop payments from processing if funding was not available, CAPS-W did not have the same controls. Therefore, personnel should have verified if the funds were available before they processed the payments according to the DoD FMR.<sup>15</sup>

The 175th FMC/AFAS-K analysts responsible for entering the payments into CAPS-W did not always verify that the payments were adequately funded. Furthermore, the certifying officer stated that she did not perform steps to verify fund availability because she relied on the analysts who processed those payments to verify the availability of funds. The SOP provided for the 175th FMC/AFAS-K vendor pay office during the period reviewed did not include steps to verify the availability of funds for payment. The new SOP AFAS-K issued in October 2017 included procedures for technicians to verify the availability of funds before certifying an invoice for payment. The Director, AFAS-K, should ensure that the vendor pay office fully implements procedures to verify funds are available prior to processing CAPS-W payments.

<sup>14</sup> The aging reports identify the status of invoices processed into CAPS-W or GFEBS.

<sup>15</sup> DoD FMR, volume 10, chapter 1.

## ***Finance Offices Did Not Consistently Validate DDS Payment Information***

Personnel at the four finance offices reviewed that used GFEBs did not conduct appropriate verifications of GFEBs payment data transferred into DDS. Before transferring payment data to DDS, the vendor pay certifying official ensured that each payment was made to the correct entity, in the correct amount, and for goods and services actually received. After DDS receives the payment data, DDS requires a user to accept each individual payment transferred from GFEBs to ensure the payment data received is accurate.

According to the Director, USAFMCOM, the vendor pay office certifying official should validate in DDS that the data received from GFEBs is correct. However, personnel did not consistently verify the accuracy of key elements of the GFEBs payments, such as the amounts, currencies, and payee information, before accepting the transaction into DDS. This occurred because USAFMCOM did not distribute guidance to all Finance Offices to establish the requirements of this validation process. For example, personnel at the BFO and IFO were not fully aware of the certification requirements. The risk of improper payments increased because Finance Office personnel did not verify the key elements of the payments. As a result of this audit, the Commanding General, USAFMCOM, issued a memorandum on November 27, 2017, that directed certifying officers from the vendor pay offices to perform the certification of GFEBs payment files in DDS. Therefore, we did not make a recommendation.

## ***DDS System Roles Were Not Adequately Monitored***

The Director of the BFO, who reports to the 266th FMSC, did not ensure adequate separation of duties, as defined in the DoD FMR, within the disbursing office when he allowed the BFO Deputy Disbursing Officer to maintain multiple user identifications (IDs) within DDS.<sup>16</sup> Although the BFO Information Management Officer was developing processes to monitor system user access, the Director did not restrict the Deputy Disbursing Officer from maintaining or using multiple IDs within DDS.

The Deputy Disbursing Officer had different levels of system permissions within each ID, enabling him to authorize vouchers for payment, as well as to input and pay vouchers in DDS. Specifically, the Deputy Disbursing Officer had

<sup>16</sup> DoD FMR, volume 5, chapter 1.

The Director of the BFO did not ensure adequate separation of duties when he allowed the BFO Deputy Disbursing Officer to maintain multiple user identifications (IDs) within DDS.

permissions to:

- perform accounting,
- input and certify collection and disbursement vouchers,
- maintain the vault,
- print checks, and
- prepare and certify payroll.

Furthermore, one of the IDs that the Deputy Disbursing Officer used enabled him to log in as a system administrator. When logged in as system administrator, the Deputy Disbursing Officer had the ability to make changes within DDS that were beyond the authority level of a Disbursing Officer user role in the disbursing system, such as the ability to create additional user IDs, activate or deactivate accounts, and assign access privileges.

Although we found no evidence that the Deputy Disbursing Officer misused the system administrator access, having such access privileges allowed for opportunities for misuse (for example, create an employee account for personal gains) without anyone else reviewing or authorizing the payment. The disbursing office would be able to reduce the risk of misuse if personnel, such as the BFO Information Management Officer or the 266th FMSC Information Management Officer, regularly reviewed employee accesses within DDS.

Due to the lack of separation of duties, there was an unacceptable level of risk that finance office personnel would not be able to prevent or detect errors and irregularities processed within DDS. After we identified the number and types of user IDs granted, the Director of the BFO removed the multiple user IDs and appropriately restricted the accesses granted to the Deputy Disbursing Officer. Therefore, we are not including a recommendation for that action. However, the 266th FMSC personnel should conduct periodic independent reviews of DDS user roles and access. The Director, 266th FMSC, should develop guidance to conduct periodic reviews of the system accesses granted, the system roles established, and the separation of duties.

### ***Vendor Pay Did Not Have Alternate Certifying Officials***

The Directors of the IFO and the BFO, who report to the 266th FMSC, did not appoint more than one individual from their accounts payable offices to certify payments in the CAPS-W system.<sup>17</sup> According to the Director of IFO, they did not request additional CAPS-W certification permissions for a second employee because of the length of time it took to receive the permissions within CAPS-W. Without

<sup>17</sup> A properly appointed certifying officer signs to attest that a voucher is correct and proper for payment.

alternate certifiers, the 266th FMSC risked delaying authorization of payments, potentially causing interest penalties due to late payments.

After we identified the risk associated with not having an alternate CAPS-W certifier, the Director of the BFO designated an alternate certifying officer. The Director also submitted a request for the alternate employee to obtain the necessary CAPS-W system access in order to be able to certify payments. However, without the necessary CAPS-W permissions, the employee was not able to start certifying payments. While we found no evidence that the 266th FMSC incurred interest penalties, when the CAPS-W certifying officials were absent for more than 2 weeks, the IFO and BFO jeopardized their ability to process payments on time, which could cause late payment interest penalties. The Director, 266th FMSC, should develop and implement procedures for the IFO and BFO to maintain alternate certifying officers for all vendor payment systems.

### ***IFO Did Not Maintain Adequate Separation of Duties in Local National Payroll Process***

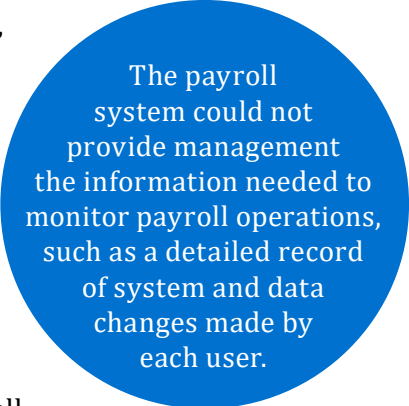
The Director, IFO, did not maintain adequate separation of duties within the Italian local national payroll process. The Finance Office is responsible for ensuring the Italian local national payroll system is updated when the Italian government issues laws and regulations that affect local national employee payroll and benefits, and when the conditions of employment agreement for local national employees is modified.<sup>18</sup> The Director, IFO, authorized the Payroll and Accounting branch chiefs, who were local national employees, to make changes to payroll reports before submitting the reports to the Italian government. In addition, these employees were authorized to input or approve payroll transactions for all local national employees, including themselves. Finally, the two branch chiefs were responsible for submitting the payroll transaction files to the Disbursing Branch and the Accounting Branch personnel to be processed. While we found no evidence of fraud or abuse in the transactions reviewed, the lack of separation of duties of the two branch chiefs increases the risk of potential fraud or abuse.

While we found no evidence of fraud or abuse in the transactions reviewed, the lack of separation of duties of the two branch chiefs increases the risk of potential fraud or abuse.

The Army is responsible for safeguarding its information systems, as required by OMB Circular No. A-130. Those safeguards should include separation of duties that reduces the risk of abuse by those with authorized system privileges,

<sup>18</sup> The Conditions of Employment for Local National Employees of the U.S. Armed Forces in Italy contract implements the provisions of the Memorandum of Agreement between the U.S. Government and the Italian workers unions, covering European Union citizens employed by the U.S. Forces in Italy.

as well as continuous monitoring and logging of system functions performed by privileged users.<sup>19</sup> The Italian national payroll system is a commercial program based on 30-year-old technology, for which the Army purchased limited upgrades since implementation. The Director, IFO and the 266th FMSC personnel did not have the necessary access to the payroll system to independently monitor and control changes within the system. In addition, the system maintains a record of only the date when users accessed the payroll system. As a result, the payroll system could not provide management the information needed to monitor payroll operations, such as a detailed record of system and data changes made by each user.



The payroll system could not provide management the information needed to monitor payroll operations, such as a detailed record of system and data changes made by each user.

The Director, IFO, stated that no one else at the IFO, other than the Payroll and Accounting branch chiefs, knew how to make the necessary changes when the vendor responsible for maintaining the payroll system could not make the requested changes in the time required. Because the IFO Disbursing Officer and the 266th FMSC personnel did not have the necessary access to the payroll system or the ability to read the Italian system manuals and screens, they relied on the two branch chiefs to manage the payroll system. As a result, the Army limited its ability to meet Federal Financial Management Improvement Act and OMB Circular No. A-123 requirements that Federal financial management systems provide reliable financial reporting and meet effective and efficient operations objectives.<sup>20</sup> The Director, 266th FMSC, should implement proper separation of duties at the IFO and ensure senior management is involved in the oversight of the payroll process. In addition, the Director, 266th FMSC, should develop and implement a plan to replace the Italian Local National Payroll System with one that meets U.S. Government Federal Financial Management Improvement Act and OMB Circular No. A-123 requirements for Federal financial management systems.

<sup>19</sup> OMB Circular No. A-130 "Managing Information as a Strategic Resource," July 28, 2016.

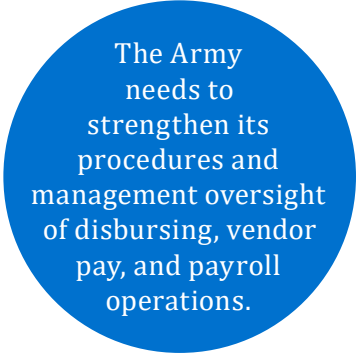
<sup>20</sup> Federal Financial Management Improvement Act of 1996, Section 803(a) requires that each agency implement and maintain financial management systems that comply substantially with Federal financial management system requirements. OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," July 15, 2016, states that Federal financial management system requirements consist of three parts, including: (a) reliable financial reporting to include maintaining internal control over financial reporting and financial system security, and (b) effective and efficient operations objectives that include ensuring resources are safeguarded against waste, loss, and misuse.



## Inadequate Management Oversight Resulted in Internal Control Weaknesses

The Army needs to strengthen its procedures and management oversight of disbursing, vendor pay, and payroll operations. Without process improvements, the Army may experience losses and inaccuracies, including:

- financial reporting errors resulting from recording fluctuation gains and losses to the incorrect appropriation and using incorrect exchange rates;
- interest penalties resulting from missed or delayed processing of invoices;
- losses from improper vendor payments due to inaccurate payment information accepted into DDS; and
- undetected payroll errors due to inadequate disbursing, vendor pay, and payroll processes.



The Army needs to strengthen its procedures and management oversight of disbursing, vendor pay, and payroll operations.

The DoD depends on responsible officials to make payments and oversee the disbursement of U.S. Government funds. When Army disbursing personnel are responsible for paying out U.S. Government funds, strong internal controls over the disbursing operations are critical to ensure that the Army is properly accounting for the DoD's funds.

## Recommendations, Management Comments, and Our Response

### *Management Comments on the Disbursing Processes for Foreign Currency Payments*

The Commanding General, USAFMCOM, stated that of the 203 sampled payments, we identified 48 payments processed at the wrong exchange rate resulting in \$761 being incorrectly recorded to the underlying appropriation of the payments, rather than the foreign currency fluctuation account. The Commanding General stated that the report correctly noted that the Army's Enterprise Resource Planning has not been reprogrammed to implement the DoD 2016 policy change. However, the reprogramming has no impact on the financial statements since the net value of the fluctuations in the Services' fluctuation accounts are transferred to a no-year DoD appropriation within the fiscal year.

### *Our Response*

We appreciate the Commanding General's response to the finding discussion. While we agree that the amount of improper payments from a remote disbursing officer using the incorrect exchange rates were relatively low, we are concerned with the lack of internal controls at the 176th FMSU to prevent the use of incorrect exchange rates. To achieve its mission, the Army requires effective internal controls; therefore, identification of the deficiencies within the 176th FMSU's internal controls presents an opportunity for the Commanding General to improve the controls required to prevent future financial reporting errors, interest penalties, and losses from improper payments.

In addition, the finding stated that the Office of the Secretary of Defense notified the Army of the DoD FMR policy change for recording the foreign currency fluctuation in October 2014. Although the guidance was released in February 2016, the Army still had not complied. In response to this report, the Deputy Assistant Secretary of the Army (Financial Operations) stated that the requirement for the change, which will correct the standard general ledger transaction posting, has been identified and accepted by the GFEBs configuration board for adoption beginning October 1, 2019.

### ***Recommendation A.1***

**We recommend the Commander, 176th Financial Management Support Unit, U.S. Army Garrison Yongsan, South Korea, revise the standard operating procedures to document each step in the disbursing process, including a step to verify the rates used by detachment disbursing offices are accurate and match the rate used by the main disbursing office.**

### *Commander, 176th Financial Management Support Unit Comments*

The Commander, 176th FMSU, agreed with the recommendation, stating the 176th FMSU updated its SOP on January 2, 2018, to ensure the subordinate disbursing site use the correct daily rate.

### *Our Response*

Comments from the Commander addressed all specifics of the recommendation and provided the updated SOP that defined disbursing operation roles for the Deputy Disbursing Officer, Disbursing Manager, and cashiers. Therefore, the recommendation is closed.

## **Recommendation A.2**

**We recommend that the Director, Army Finance and Accounting Service–Korea, ensure the vendor pay office fully implements new procedures to track invoices received and verify funds are available for payment.**

### *Director, Army Finance and Accounting Service–Korea Comments*

The Acting Director, AFAS-K, agreed with the recommendation, stating that AFAS-K updated their processes and codified (finalized) them in the SOP on October 10, 2017. The Acting Director further explained that a tracker is maintained and updated for each payment and that three different personnel now verify the funds availability.

### *Our Response*

Comments from the Acting Director addressed all specifics of the recommendation and provided the updated SOP that established the use of an invoice tracker and the review process for funds availability. Therefore, the recommendation is closed.

## **Recommendation A.3**

**We recommend that the Under Secretary of Defense (Comptroller), Office of the Deputy Chief Financial Officer develop and issue guidance on DoD standard general ledger transactions for Components to record foreign currency exchange rate gains or losses, and to return excess gains for redistribution.**

### *Under Secretary of Defense (Comptroller) Comments*

The Assistant Deputy Chief Financial Officer, responding for the Deputy Chief Financial Officer, agreed with the recommendation and provided the guidance developed and issued by the Business Integration Office to the Components. The guidance provides procedures and standard accounting transactional updates to record foreign currency exchange rate fluctuation gains and losses in the financial systems.

### *Our Response*

Comments from the Assistant Deputy Chief Financial Officer addressed all specifics of the recommendation and provided a copy of the guidance. Therefore, the recommendation is closed.

### **Recommendation A.4**

We recommend that the Deputy Assistant Secretary of the Army (Financial Operations) update the Army accounting systems once the Under Secretary of Defense (Comptroller), Office of the Deputy Chief Financial Officer issues the DoD standard general ledger transactions and guidance for recording foreign currency exchange rate gains and losses as required by the DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 6a, chapter 7.

#### *Deputy Assistant Secretary of the Army (Financial Operations) Comments*

The Deputy Assistant Secretary of the Army (Financial Operations), agreed with the recommendation, stating that the requirement for change was identified and accepted by the GFEBS configuration board. The expected date for implementation of the change is October 1, 2019.

#### *Our Response*

Comments from the Deputy addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation upon verification that the accounting system has been updated to record foreign currency exchange rate gains and losses as required by the DoD FMR.

### **Recommendation A.5**

We recommend that the Director, 266th Financial Management Support Center:

- a. **Develop guidance to require periodic reviews of system accesses granted and system roles established for all personnel in the Finance Offices and ensure adequate separation of duties.**

#### *Director, 266th Financial Management Support Center Comments*

The Director, 266th FMSC, agreed with the recommendation, stating that the update to the 266th FMSC policy directs the Information Management Office to centrally manage all DDS accounts to ensure separation of duties. The policy includes monthly reporting to Information Assurance Officers identifying conflicts, 1-day response time for correcting the conflict, the use of a disbursing checklist, and the termination of user roles within 48 hours of notification of reassignment or departure.

#### *Our Response*

Comments from the Director addressed all specifics of the recommendation and provided the updated Technical Policy; therefore, the recommendation is closed.

- b. Develop and implement procedures to maintain alternate certifying officials for each payment system, to ensure continuity of payment operations at the Finance Offices.**

*Director, 266th Financial Management Support Center Comments*

The Director, 266th FMSC, agreed with the recommendation, stating the 266th FMSC policy requires both a primary and alternate appointee for a multitude of positions, including certifying officers. The Director confirmed that the Benelux Finance Office appointed alternates for GFEBs and CAPS-W, while the Italy Finance Office is seeking a change to its position descriptions to allow for this appointment. The Director expects to complete this by April 2, 2018. The Director also stated that the 266th FMSC Internal Control section includes the appointment of these alternates in the checklist for the FY 2018 annual review.

*Our Response*

Comments from the Director addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we receive verification that the Italy Finance Office changed the position descriptions.

- c. Implement controls to ensure the Italy Finance Office maintains proper separation of duties between personnel responsible for payroll system maintenance and personnel in the Local National Payroll Office and Accounting Office.**

*Director, 266th Financial Management Support Center Comments*

The Director, 266th FMSC, agreed with the recommendation, stating that the 266th FMSC is replacing the Italian Local National Pay Service to implement proper separation of duties. The Director stated that he anticipates that the new service will be fully implemented in January 2019. In addition, the 266th FMSC Internal Control section is establishing an Italian Local National Pay Services-specific inspection checklist addressing separation of duty requirements.

*Our Response*

Comments from the Director addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify the implementation of the Italian Local National Pay Service as well as the checklist for separation of duties.

- d. Implement controls to ensure senior management is directly involved in oversight of the payroll process.**

*Director, 266th Financial Management Support Center Comments*

The Director, 266th FMSC, agreed with the recommendation, stating that the 266th FMSC, in conjunction with the changes noted in Recommendations A.5.c and A.5.e, is changing the control of the local national payroll process from local national employees to General Service billets over the next 12 to 24 months to strengthen the local national pay process controls.

*Our Response*

Comments from the Director addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify the conversion of the senior accounting and internal controls positions to General Service billets and the implementation of the Italian Local National Pay Service.

- e. Develop and implement a plan to replace the current Italian Local National Payroll System with a system that meets U.S. Government Federal Financial Management Improvement Act of 1996, section 803(a) and Office of Management and Budget Circular No. A-123 requirements for Federal financial management systems.**

*Director, 266th Financial Management Support Center Comments*

The Director, 266th FMSC, agreed with the recommendation, stating that the documents for the new Italian National Pay Service are under review. The expected full implementation date of the new system is January 2019.

*Our Response*

Comments from the Director addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify the implementation of the new Italian Local National Pay Service.

## Finding B

### The Army Ineffectively Managed Limited Depository Checking Accounts and Related Transactions

The Army and USACE Disbursing Officers did not effectively manage the 10 Limited Depository Checking Accounts (LDAs) that we reviewed. Specifically:

- 8 of the 10 LDAs reviewed maintained a higher cash balance than the cash holding authority limit by \$126.5 million. The Disbursing Officers did not include all LDA balances in their cash holding authority because the officers did not appropriately implement the DoD FMR guidance that required LDA balances to be included. In addition, Army personnel completing the quarterly cash verifications did not validate whether the cash on hand complied with the cash holding authority limit.
- 6 of the 10 LDAs reviewed held a total of \$112.1 million more than the 7-day supply of funds limit as defined by the DoD FMR.<sup>21</sup> This occurred because:
  - a disbursing officer accepted a transfer of funds without an immediate need for those funds, and
  - the DoD FMR does not provide clear guidance on how to account for foreign government contributions in the disbursing office's 7-day supply.
- The 176th FMSU Disbursing Office did not protect sensitive financial information of Korean Nationals when processing payments through the LDA.<sup>22</sup> This occurred because the disbursing office did not have a secure method of transmitting the sensitive files to the local bank.

As a result of ineffective management of the LDAs by five disbursing officers:

- the disbursing offices held cash in excess of immediate needs instead of returning it to the U.S. Treasury and recorded additional gains and losses on the value of the excess funds held in the LDAs, and
- the DoD was at risk of future losses due to unfavorable fluctuations in the foreign currency.

Furthermore, 176th FMSU personnel placed bank accounts at risk of unauthorized access for affected Korean National personnel and contractors.

<sup>21</sup> This calculation is based on the average ending balances of the LDAs between October 2015 and December 2016. We calculated the 7-day needed supply based on average daily disbursements of the LDAs over the same time period. DoD FMR, volume 5, chapter 14, establishes that LDA balances in excess of immediate needs (typically a 5-to 7-business-day supply) should be withdrawn and deposited with the U.S. Treasury.

<sup>22</sup> Financial information is defined as sensitive PII by the National Institute of Standards and Technology, "Guide to Protecting the Confidentiality of Personally Identifiable Information (PII)," April 2010.



## Limited Depository Checking Account

According to the DoD FMR, disbursing officers may collect and maintain cash on hand, which includes U.S. and foreign currency, in an LDA.<sup>23</sup> An LDA may be necessary in a foreign country when the U.S. Treasury payment service does not support mission requirements or when the disbursing officers are receiving large deposits for host country support.<sup>24</sup>

The Army maintains LDAs in numerous locations outside of the continental United States, sometimes with multiple LDAs at the same bank. For example, 176th FMSU maintains two LDAs at the Community Bank in Seoul, Korea: one is restricted for local national payroll with contributions from the Republic of Korea (burden sharing funds), the other is unrestricted for all other payments. Furthermore, USACE typically maintained separate accounts for the Civil and Military operations. We reviewed the balances and controls related to 10 LDAs at the 5 disbursing offices reviewed.

## Disbursing Officers Exceeded Cash Holding Authority

The Army and USACE Disbursing Officers maintained balances higher than their cash holding authorities by a total of \$126.5 million.<sup>25</sup> During FY 2016 and first quarter FY 2017, the disbursing officers for eight LDAs maintained average total balances of \$140.2 million while only having cash holding authority of \$13.7 million.<sup>26</sup> Table 1 illustrates the cash holding authority amounts and LDA balances for the eight LDAs.

<sup>23</sup> DoD FMR, volume 5, chapter 3.

<sup>24</sup> The U.S. Treasury provides international payment services to federal agencies through an automated system (ITS.gov), which is the preferred method for payments.

<sup>25</sup> Average ending balance for each LDA was calculated by taking the average of the ending checkbook balances from the Standard Form 1149, "Statement of Designated Depository Account" for each of the 15 months during the scope of our audit. The average total balance is the sum of the average ending balances for the 8 LDAs that maintained a higher dollar value in funds than their cash holding authority allowed.

<sup>26</sup> The 176th FMSU Disbursing Officer could not provide the approved cash holding authority letter supporting the disbursing office's cash holding authority from October 1, 2015, through March 31, 2016.

Table 1: LDA Balances That Exceeded Cash Holding Authority

LDA Account Holder	Cash Holding Authority Amount (in Millions)	LDA Average Balance (in Millions)	Excess (in Millions)
176th FMSU (Korea)	\$ 0.7	\$115.4	\$114.7
BFO (Belgium)	0.7	1.8	1.1
IFO (Italy)	0.1	2.3	2.2
USACE Military (Germany)	5.3	8.4	3.1
USACE Civil (Germany)	0.2	0.2	0.0 <sup>1</sup>
USACE Military (Japan)	2.5	3.4	0.9
USACE Civil (Japan)	0.2	0.2	0.0 <sup>2</sup>
USACE Military (Korea)	4.1	8.6	4.5
<b>Total<sup>3</sup></b>	<b>\$13.7</b>	<b>\$140.2</b>	<b>\$126.5</b>

<sup>1</sup>The USACE Civil (Germany) LDA balance was \$17,475 higher than the cash holding authority amount.

<sup>2</sup>The USACE Civil (Japan) LDA balance was \$1,558 higher than the cash holding authority amount.

<sup>3</sup>Totals in the rows or columns may not equal the actual sum because of rounding.

Source: The DoD OIG.

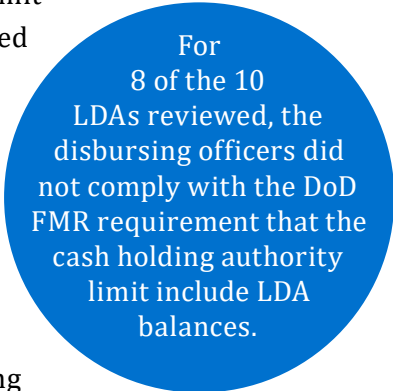
### ***Disbursing Officers Unaware of Requirement to Include LDA Funds in Request for Cash Holding Authority***

Semiannually, disbursing officers are required to request authority to hold cash on hand, including those funds held in an LDA. The DoD FMR, published by the ODCFO, requires that the cash holding authority request include the amount to be held personally by the disbursing officer, and it specifies that cash held personally by the disbursing officer include cash on deposit in an LDA.<sup>27</sup> Specifically, the DoD FMR states that disbursing officers may obtain and maintain cash on hand at their personal risk for official disbursements.<sup>28</sup> In addition, when disbursing officers are required to increase their cash holding authority amounts, they should request approval to increase cash held at personal risk. When disbursing officers expect to increase the cash held at personal risk to be more than 30 days, the disbursing officers should re-compute their cash holding authority and submit a new request.

<sup>27</sup> DoD FMR, volume 5, chapter 3 requires disbursing officers to request a cash holding authority letter from a commander, director, equivalent civilian head, or designee. This letter provides authority for disbursing officers and their associated deputy disbursing officers, agents, cashiers, and other custodians of public funds to maintain cash on hand.

<sup>28</sup> The DoD FMR glossary defines cash held at personal risk as cash held by authorized disbursing officers, their cashiers, and their agent officers, including alternates, for making miscellaneous cash payments, meeting cash payrolls or making change; funds established for making small purchases; imprest funds; cash held pending delivery to other disbursing officers; and for other purposes specifically authorized by law.

For 8 of the 10 LDAs reviewed, the disbursing officers did not comply with the DoD FMR requirement that the cash holding authority limit include LDA balances. As a result, the balance maintained in the LDAs was higher than the cash holding authority limits for the disbursing officers. After we identified that the 176th FMSU had exceeded its cash holding authority for April 2016 through December 2016, the disbursing officer concurred, and stated that he would modify the cash holding authority letter to include the LDA account balance. The disbursing officer also confirmed that he could not provide the cash holding authority letter supporting the disbursing office's cash holding authority for October 1, 2015, through March 31, 2016. USACE personnel stated that they did not understand that the DoD FMR specified that the full amount of the LDA balance should be included in the cash holding authority. In addition, neither the IFO nor the BFO included the LDA balances in the amounts of their cash holding authority approvals.



For 8 of the 10 LDAs reviewed, the disbursing officers did not comply with the DoD FMR requirement that the cash holding authority limit include LDA balances.

The DoD FMR specifically requires that the cash holding authority limit include LDA balances; however, it does not specify whether contributions from foreign governments should be included in the cash holding authorities. Because the full LDA balances were not included in the request for cash holding authority, the disbursing offices exceeded their cash holding authority limit. As a result of this audit, the Commanding General, USAFMCOM, issued a memorandum on November 27, 2017, that directed disbursing operations to include amounts held in LDAs in the cash holding authority. Therefore, we did not make a recommendation to USAFMCOM to direct disbursing officers to implement guidance on cash holding authority. However, the ODCFO should revise the DoD FMR to clarify whether the cash holding authority letters should include the foreign government contributions. To comply with the DoD FMR, disbursing officers should request adjustments to their cash holding authorities to include the balances of the LDAs or reduce the balances of the LDAs to comply with the cash holding authorities.

### ***Quarterly Cash Verifications Not Adequate to Test Compliance With Cash Holding Authority***

According to disbursing office personnel, an independent cash verification team appointed by the local Commander performed the cash verification testing in FY 2016 and the first quarter FY 2017 at the sites we reviewed.<sup>29</sup> The DoD FMR

<sup>29</sup> Cash verification testing at these locations is performed by the Eighth Army/U.S. Forces Korea Internal Review Office (176th FMSU disbursing office); the U.S. Air Force Detachment 3, 786th Force Support Squadron (BFO); U.S. Army Garrison Italy (IFO); DFAS-Japan Customer Support Service; and USACE Resource Management.

requires that quarterly cash verification testing compare the total cash holdings, with LDA balances, to the amounts authorized in the cash holding authority letters.<sup>30</sup> However, the testing performed by the selected cash verification teams did not include this comparison to determine if the LDA balances complied with the limits authorized by the cash holding authority. Therefore, the testing would not have alerted the disbursing officer if the LDA balance was higher than authorized. As a result of this audit, the Commanding General, USAFMCOM, issued a memorandum on November 27, 2017, stating that the quarterly cash verifications should include all accountability and not just physical cash. In addition, the memorandum stated that the cash verification should verify that cash and other cash items do not exceed the authorized cash holding authority. Although the Commanding General issued this memorandum, USAFMCOM should verify that the quarterly cash verifications determine and report on whether the disbursing officers' cash held at personal risk, including funds kept in LDAs, comply with the cash holding authority letter.

## **Army Had Additional Gains and Losses for Excess Funds**

The Army recorded additional gains and losses in the value of excess funds held in the LDAs. The Army records gains or losses in the U.S. dollar value of the foreign currencies held in LDAs because of exchange rate changes. The Army calculates these changes in value by dividing the total foreign currency on hand by the new exchange rate, and comparing the new value to previous U.S. dollar value using the old exchange rate. The Army incurred additional gains and losses when it revalued the LDAs for the change in value of the excess foreign currency.

## **Disbursing Officers Held Funds That Exceeded 7-Day Disbursing Limit**

The disbursing officers for six LDAs maintained more funds in the LDAs than the limit specified by the DoD FMR.<sup>31</sup> Specifically, the disbursing officers kept LDA balances totaling \$127.6 million while only needing \$15.5 million to provide for 7 days of payments, resulting in \$112.1 million in excess LDA balances. The DoD FMR states that disbursing officers should “keep daily LDA balances as near zero as possible” and “balances in excess of immediate needs, typically a 5- to 7- business day supply, are promptly withdrawn and deposited with the U.S. Treasury.” Table 2 illustrates the LDA balances exceeding a 7-day supply for payments.

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<sup>30</sup> DoD FMR, volume 5, Appendix A.

<sup>31</sup> DoD FMR, volume 5, chapter, 14 requires disbursing officers to keep daily LDA balances as near zero as possible, and if the balance exceeds a 7-business-day supply, sell the excess currencies to another disbursing officer or deposit with U.S. Treasury.

Table 2: LDA Balances Exceeded DoD FMR Limitations

LDA Account Holder	LDA Balance (in Millions)	7-Day Need (in Millions)	Excess (in Millions)	Days in Balance
176th FMSU (Korea)	\$115.4	\$10.5	\$104.9	77
DFAS Japan	3.0	2.1	0.9	10
USACE Civil (Germany)	0.2	0.1	0.1	20
USACE Civil (Japan)	0.2	0.0 <sup>1</sup>	0.2	196
USACE Military (Korea)	8.6	2.8	5.9	22
USACE Civil (Korea)	0.2	0.0 <sup>2</sup>	0.2	50
<b>Total<sup>3</sup></b>	<b>\$127.6</b>	<b>\$15.5</b>	<b>\$112.1</b>	

<sup>1</sup>The USACE yen (Civil) 7-day need was \$7,341.

<sup>2</sup>The USACE won (Civil) 7-day need was \$28,233.

<sup>3</sup>Totals may not equal the actual sum because of rounding.

Source: The DoD OIG.

The 176th FMSU and DFAS-Japan Disbursing Officers held more funds in their LDAs than authorized because of foreign government contributions. According to the 176th FMSU Disbursing Officer, the excess amount in the LDA was partially due to Republic of Korea (Korea) contributions of 55 billion won for construction and relocation costs. Disbursing personnel accepted Korea's contributions of 5.2 billion won for the Yongsan Relocation Program in February 2015 and 49.8 billion won for construction in March 2015. The 176th FMSU Disbursing Officer held these funds in an unrestricted LDA account that also held U.S. funds, thus increasing the balance. In another example, DFAS-Japan personnel stated that they received distributions of Government of Japan (Japan) utility and training funds quarterly, although the LDA balance may have already been sufficient to make these anticipated payments. Therefore, Japan's distributions sometimes caused the LDA balance to be higher than the 7-day supply limit. Although the DoD FMR includes a requirement to limit LDA balances to a 7-day disbursing, it does not allow exceptions for instances when foreign government contributions increase the balance above the 7-day supply limit. The ODCFO should revise the DoD FMR, volume 5, to clarify the requirements of disbursing officers to manage foreign government contributions of funds (burden sharing funds), and how to account for the contributions in their cash holding authority. The DoD FMR should address disbursing officers' responsibility, when their total fund balance will exceed a 7-day supply of funds, to obtain approval when the contributions cause the LDA balances to exceed the 7-day supply. The guidance should also require disbursing officers to obtain an

The DoD FMR does not allow exceptions for instances when foreign government contributions increase the balance above the 7-day supply limit.

approved plan that provides a timeline and outlines how all funds, including foreign contributions, will be fully expended. The Army disbursing officers should develop procedures to comply with the revised DoD FMR guidance, when it is issued by the ODCFO. Furthermore, upon issuance of the revised DoD FMR guidance, the ODCFO should ensure that disbursing officers across the DoD develop procedures to comply with the guidance for LDA balances to ensure that excessive balances of LDAs are not occurring in other parts of the DoD.

### ***Disbursing Office Accepted Funds Without a Defined Need***

The 176th FMSU LDA balance contained excess amounts since February 2015 because it accepted a transfer of funds without an immediate need. According to the Director, Army Financial Services, USAFMCOM, the 176th FMSU Disbursing Office accepted a currency trade from USACE of 63 billion Korean won valued at \$58 million U.S. dollars in February 2015 because USACE needed U.S. dollars to pay U.S. contractors. However, the Disbursing Office personnel involved with the exchange could not identify an immediate need for the 63 billion won and did not return the excess funds to the U.S. Treasury.<sup>32</sup> The 176th FMSU Disbursing Office held the excess funds in its LDA since February 2015 and has not been able to provide a spending plan for the 63 billion won. According to the Director, Army Financial Services, USAFMCOM, the disbursing officers should have used these funds to disburse against operational payments. The 176th FMSU should develop and implement procedures to ensure all collections of Korean won into the unrestricted LDA, resulting from currency exchanges, have an immediate need and will not cause the balance to exceed a 7-day supply prior to approving the currency exchanges, or obtain approval to exceed the 7-day supply of funds using a plan that provides a timeline and outlines how the funds will be fully expended.

### **Sensitive Financial Information Not Protected**

Personnel in the 176th FMSU Disbursing Office, U.S. Army Garrison Yongsan did not protect sensitive financial information when processing payment transactions through an LDA, increasing the risk that affected individuals could be subject to identity theft, embarrassment, or blackmail.<sup>33</sup> Specifically, the 176th FMSU personnel

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<sup>32</sup> DoD FMR, volume 5, chapter 14.

<sup>33</sup> According to National Institute of Standards and Technology, "Guide to Protecting the Confidentiality of Personally Identifiable Information (PII)," April 2010, not protecting personal information puts an individual at risk of identity theft, blackmail, or embarrassment.

transmitted sensitive financial information using a personal e-mail account and a computer that potentially did not meet the minimum security requirements for Federal Information and Information Systems.<sup>34</sup>

From March 3, 2017, through April 18, 2017, a voucher examiner inappropriately used a personal e-mail account to transmit sensitive bank account information for 459 individuals and contractors to a local bank for payment. On April 18, 2017, a voucher examiner transmitted an unprotected travel payment file with individuals' bank account numbers from a Government e-mail account to a personal e-mail account. The voucher examiner then accessed a computer that, according to the Deputy Director, AFAS-K, did not restrict access to the local bank website and was connected to the public internet.<sup>35</sup> The voucher examiner then uploaded the unprotected file from the personal e-mail account to the local bank website for payment. The voucher examiner stated that this process was also used to disburse payroll withholdings (union fees, health insurance, and retirement fees) that included bank account information.

Additionally, before March 2017, the voucher examiner transmitted sensitive information to the bank by copying the file from a computer, without access to the local bank website, to a compact disc (CD). She then uploaded the sensitive information from the CD to a computer with access to the local bank website. The Deputy Director stated that the bank did not provide a secure website and would not accept an encrypted data file. Therefore, they had to use a computer outside the AFAS-K firewall to submit the payment file. In March 2017, when this computer's CD drive broke, the voucher examiner started e-mailing the sensitive information from her Government e-mail account to her personal e-mail account for transmission to the local bank. The voucher examiner used a personal e-mail account to transmit sensitive account information to the local bank because the voucher examiner's computer restricted access to the bank's website, and the 176th FMSU did not have a secure alternate method of transmitting files to the local bank. The 176th FMSU Deputy Disbursing Officer stated that, since our site visit, the voucher examiner protected the CD from unauthorized access and stored it in a secure location when not in use. Also, the AFAS-K Information Management Officer then inspected the computer and determined that it met minimum security requirements. To protect the individuals and contractors receiving payments from

<sup>34</sup> National Institute of Standards and Technology, "Minimum Security Requirements for Federal Information and Information Systems," March 2006 requires organizations to monitor, control, and protect organizational communications at the external boundaries and key internal boundaries of the information system; and employ architectural designs, software development techniques, and systems engineering principles that promote effective information security within organizational information systems. Organizations must provide protection from malicious code at appropriate locations within organizational information systems.

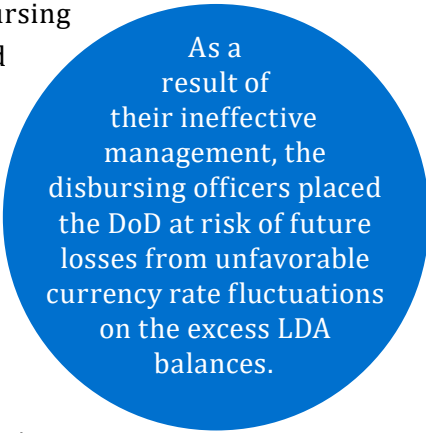
<sup>35</sup> The U.S. Forces Korea primarily used this computer to communicate with the Republic of Korea Government offices; specifically Korea's Tax Office, Servicing Employment Center, and National Pension Plan Office.



the 176th FMSU, the disbursing officer should develop and implement procedures to ensure that sensitive financial information maintained within the disbursing office, to include bank account data, is safeguarded at all times. Additionally, 176th FMSU should ensure it has taken all possible actions to transmit payment files securely to the local bank and implement internal controls to mitigate the associated risks.

## Consequences of Ineffective LDA Management

Although the DoD FMR provides guidance to assist the disbursing officers in the management of their LDAs, the disbursing officers did not follow the guidance and maintained excess balances in the LDA accounts. As a result of their ineffective management, the disbursing officers placed the DoD at risk of future losses from unfavorable currency rate fluctuations on the excess LDA balances. Without process improvements, the disbursing officers will continue to maintain funds above their cash holding authority, while incurring additional gains and losses. The Army needs to improve its controls to effectively manage LDAs and better protect the U.S. funds held in foreign currency.



As a result of their ineffective management, the disbursing officers placed the DoD at risk of future losses from unfavorable currency rate fluctuations on the excess LDA balances.

## Recommendations, Management Comments, and Our Response

### *Management Comments on the Army's Ineffective Management of LDAs and Related Transactions*

The Commanding General, USAFMCOM, stated that we made recommendations to correct current policy in the DoD FMR based on Army operations for failing to follow the deficient policy. The Commanding General also stated there would have been a net increase cost to the Government if the Army converted incoming foreign currency, primarily from burden sharing funds, to U.S. dollars and then subsequently bought foreign currency following the 7-day usage guidance.

### *Our Response*

We appreciate the Commanding General's responses to the finding. While we identified that the DoD FMR required further clarification for the LDAs that hold foreign government contributions, we did not identify that the guidance required any clarification in the requirement to include LDA balances in the cash holding authority letters. The report discusses the lack of internal controls that led to the

reviewed disbursing offices not following the DoD FMR guidance requiring the inclusion of the LDA balances in their cash holding authority letters. In reviewing the LDAs, we identified areas of improvement within the DoD FMR that would further clarify the cash holding authority requirements of disbursing offices that accept foreign government contributions. Therefore, the recommended clarification of the DoD FMR guidance does not affect the requirement to report the LDA balances in the disbursing officers' cash holding authority letters. The intent of the recommended change is to clarify whether foreign government contributions should be included in those LDAs.

Furthermore, the 176th FMSU exceeded the 7-day supply of funds by accepting a transfer of funds from USACE. Therefore, the 176th FMSU did not comply with the DoD FMR. As discussed in the report, the 176th FMSU Disbursing Office accepted a currency trade from USACE of 63 billion Korean won valued at \$58 million U.S. dollars. However, the disbursing office personnel involved with the exchange could not identify an immediate need for the 63 billion Korean won, and when asked, the disbursing office could not provide an execution plan for these funds, even after holding them for almost 3 years. The DoD FMR allows for disbursing officers to either return excess funds to the Treasury or request an increase to the amount approved on the cash holding authority with a description of the circumstances and duration of the expected need. To ensure compliance with the DoD FMR and visibility over the funds, the disbursing officer should have requested an increase in the cash holding authority to maintain these funds.

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

**We recommend that the Under Secretary of Defense (Comptroller), Office of the Deputy Chief Financial Officer, revise DoD 7000.14-R, "DoD Financial Management Regulation," volume 5, to clarify the requirements for managing foreign government contributions (burden sharing funds) and:**

- a. Identify whether these contributions should be included in the cash holding authority.**

#### ***Under Secretary of Defense (Comptroller) Comments***

The Assistant Deputy Chief Financial Officer, responding for the Deputy Chief Financial Officer, agreed with the recommendation, stating that the DoD FMR, volume 5, chapter 3, will be revised to clarify the requirements for managing foreign currency contributions, including whether burden sharing funds must be included in the cash holding authority. The Assistant Deputy also stated that they would complete the DoD FMR revisions by December 2018.

### *Our Response*

Comments from the Assistant Deputy Chief Financial Officer addressed the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation when the DoD FMR, volume 5, is revised to identify the requirements for including burden sharing funds in the disbursing officer's cash holding authority.

- b. Identify the responsibilities of the disbursing officers to obtain approval when the foreign government contributions of funds cause the limited depository checking account balances to exceed a 7-day supply.**

### *Under Secretary of Defense (Comptroller) Comments*

The Assistant Deputy Chief Financial Officer, responding for the Deputy Chief Financial Officer, agreed with the recommendation, stating that the DoD FMR, volume 5, chapter 14, will be revised to clarify the requirements for obtaining approval when foreign government contributions cause the LDA balances to exceed a 7-day supply. The Assistant Deputy also stated that they would complete the DoD FMR revisions by December 2018.

### *Our Response*

Comments from the Assistant Deputy Chief Financial Officer addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the DoD FMR, volume 5, revision provides the disbursing officers' responsibilities when contributions cause their account balances to exceed a 7-day supply.

- c. Require an approved plan that provides a timeline and outlines how all funds, including foreign government contributions, will be fully expended.**

### *Under Secretary of Defense (Comptroller) Comments*

The Assistant Deputy Chief Financial Officer, responding for the Deputy Chief Financial Officer, did not agree with the recommendation, stating that disbursing officers are not required to provide a plan outlining how funds are to be expended. The Assistant Deputy stated that disbursing officers are required to obtain currency for future disbursement and accommodation exchange needs based on historical data, as outlined in DoD FMR, volume 5, chapter 3. Therefore, disbursing officers holding currency in excess of immediate needs must transfer the excess funds; withdraw and deposit the funds with the Treasury; or receive Treasury approval to exceed the 5- to 7-day supply.

### *Our Response*

While the Assistant Deputy Chief Financial Officer did not agree with the recommendation, her response addressed the specifics of the recommendation. The Assistant Deputy stated that disbursing officers are expected to comply with DoD policy not to hold more than the 7-day supply of foreign currency, unless they obtain Treasury approval. That, in addition to the planned revision to DoD FMR, volume 5, chapter 14, addressed the intent of the recommendation. Therefore, the recommendation is closed.

- d. Ensure that disbursing officers across the DoD develop procedures to comply with the revised guidance for limited depository checking account balances to ensure the excessive balances identified in the Army are not occurring in other parts of the DoD.**

### *Under Secretary of Defense (Comptroller) Comments*

The Assistant Deputy Chief Financial Officer, responding for the Deputy Chief Financial Officer, partially agreed with the recommendation, stating that the DoD FMR, volume 5, chapters 3 and 14, will be revised by December 2018, as described. The Assistant Deputy stated that Components are responsible for developing and implementing procedures, as needed, for compliance with the revised FMR.

### *Our Response*

Comments from the Assistant Deputy Chief Financial Officer partially addressed the specifics of the recommendation; therefore, the recommendation is unresolved. Revising the DoD FMR to incorporate additional guidance for disbursing officers on managing their LDA balances will help the Army Components that, through this audit, were made aware of internal control weaknesses and areas of noncompliance. We request that the Assistant Deputy describe the measures the ODCFO will take to ensure that all Components within the DoD are not maintaining excessive balances within their LDAs.

## ***Recommendation B.2***

**We recommend that the Commander, 176th Financial Management Support Unit, U.S. Army Garrison Yongsan, South Korea; Director, U.S. Army Corps of Engineers Finance Center; and Director, 266th Financial Management Support Center adjust the cash holding authorities of the 176th Financial Management Support Unit Disbursing Officer, the U.S. Army Corps of Engineers Finance Center Disbursing Officer, the Benelux Finance Office and the Italy Finance Office to include the balances of the limited depository checking accounts, or reduce the balances of the limited depository checking accounts to comply with the current cash holding authorities.**

*Commander, 176th Financial Management Support Unit Comments*

The Commander, 176th FMSU, agreed with the recommendation, stating that the cash holding authority was updated on January 23, 2018, that included the LDA balance with a reevaluation requirement every 6 months.

*Director, U.S. Army Corps of Engineers Finance Center*

The Chief of Finance and Accounting Policy Division, Directorate of Resource Management, responding for the Director, USACE Finance Center, agreed with the recommendation, stating that the LDA will be adjusted.

*Our Response*

Comments from management addressed all specifics of the recommendation and provided updated cash holding authorities reflecting the LDA balances; therefore, the recommendation is closed.

*Director, 266th Financial Management Support Center*

The Director, 266th FMSC, agreed with the recommendation, stating that the 266th FMSC modified the cash holding authority request to include LDA balances and will manage the LDAs for optimization of daily balances.

*Our Response*

Comments from the Director addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once the 266th FMSC provides the updated cash holding authorities for the IFO and BFO.

**Recommendation B.3**

**We recommend that the Director, Army Financial Services, U.S. Army Financial Management Command verify that quarterly cash verifications determine and report on whether the disbursing officer's cash balance held at personal risk, including funds kept in limited depository checking accounts, comply with the cash holding authority letter as required by DoD 7000.14-R, "Financial Management Regulation," volume 5.**

*Director, Army Financial Services, U.S. Army Financial Management Command Comments*

The Commanding General, USAFMCOM, responding for the Director, Army Financial Services, USAFMCOM, partially agreed with the recommendation, stating that the requirement to include the LDA balances in the cash verification is already part of the Army's standard disbursing checklist. The Commanding General also

stated that USAFMCOM would reinforce this requirement and add a question on the cash verification team reviewing on-hand balances to the approved cash holding authority. He also stated that responsible commands, as discussed in the Deputy Assistant Secretary of the Army (Financial Operations) memorandum dated February 26, 2014, would continue to use the checklist for that purpose. The estimated completion date is April 2018.

### *Our Response*

Although the Commanding General partially agreed with the recommendation, his comments addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation when the Army provides documentation supporting the addition of a question to the cash verification team's review comparing the on-hand balances to the cash holding authority.

### **Recommendation B.4**

**We recommend that the Commander, 176th Financial Management Support Unit, U.S. Army Garrison Yongsan, South Korea; Director, Defense Finance and Accounting Service-Japan; and Director, U.S. Army Corps of Engineers Finance Center develop local procedures to comply with revised guidance identified in Recommendation B.1, when issued by the Under Secretary of Defense (Comptroller), Office of the Deputy Chief Financial Officer.**

#### *Commander, 176th Financial Management Support Unit*

The Commander, 176th FMSU, agreed with our recommendation, stating that new guidance will be developed within 90 days of the ODCFO revising DoD 7000.14-R, "DoD Financial Management Regulation," volume 5, to clarify the requirements for managing foreign government contributions.

#### *Director, Defense Finance and Accounting Service-Japan*

The Director, Defense Finance and Accounting Service-Japan, agreed with our recommendation, stating that new guidance will be developed once the ODCFO revises DoD 7000.14-R, "DoD Financial Management Regulation," volume 5, to clarify the requirements for managing foreign government contributions.

#### *Director, U.S. Army Corps of Engineers Finance Center*

The Chief of Finance and Accounting Policy Division, Directorate of Resource Management responding for the Director, USACE Finance Center, agreed with our recommendation, stating that new guidance will be developed once the ODCFO revises DoD 7000.14-R, "DoD Financial Management Regulation," volume 5, to clarify the requirements for managing foreign government contributions.

### *Our Response*

Comments from management addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once we verify that the Commander, Director, and Chief have developed guidance that implements the updated DoD FMR guidance.

### **Recommendation B.5**

**We recommend that the Commander, 176th Financial Management Support Unit, U.S. Army Garrison Yongsan, South Korea:**

- a. Develop and implement an approval process for all currency exchanges to ensure all collections of Korean won into the unrestricted limited depository checking account have an immediate need and will not cause the balance to exceed a 7-day supply or obtain approval to exceed the 7-day supply of funds using a plan that provides a timeline and outlines how the funds will be fully expended.**

### *Commander, 176th Financial Management Support Unit*

The Commander, 176th FMSU, partially agreed with our recommendation, stating that new guidance from U.S. Army Financial Management Command is needed before the unit can re-sell won at a loss.

### *Our Response*

Although the Commander partially agreed, the comments provided addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once we verify that the 176th FMSU has developed and implemented guidance to meet the 7-day requirement of the DoD FMR. Additionally, the 176th FMSU expects to develop and implement this guidance within 90 days of the ODCFO issuance of the revised DoD 7000.14-R, "DoD Financial Management Regulation," volume 5.

- b. Develop and implement procedures to ensure that sensitive financial information maintained within the disbursing office, to include bank account data, is safeguarded at all times.**
- c. Ensure the disbursing office has taken all possible actions to transmit payment files securely to the local bank and implement internal controls to mitigate the associated risks.**

### *Commander, 176th Financial Management Support Unit*

The Commander, 176th FMSU, agreed with the recommendations, stating that switching banks to one that is accessible through the Non-classified Internet Protocol Router network has reduced the risks to the payment files.



*Our Response*

Comments from the Commander addressed all specifics of the recommendations and took action to address the security of the sensitive financial data and the transmission of payment files. Therefore, the recommendations are closed.

# Appendix A

## Scope and Methodology

We conducted this performance audit from January 2017 through January 2018 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We met with personnel from USAFMCOM to understand the Army locations and systems involved with processing foreign currency payments. We also met with personnel from the Program Management Offices of GFEBs, CAPS-W, STANFINS, DDS, and CEFMS to understand the systems used by the Army to process foreign currency transactions. We met with personnel from DFAS (Indianapolis, Japan, and Rome), 176th FMSU, 175th FMC, IFO, BFO, Fort Drum, and USACE to understand the processes and assess internal controls for processing payments into CAPS-W, GFEBs, DDS, and CEFMS. Table 3 identifies the locations we visited and the LDAs reviewed.

*Table 3. Disbursing Offices Visited and LDAs Reviewed*

Disbursing Office	Site Visit Locations	LDAs Reviewed
Benelux Finance Office	Belgium	1 LDA: Belgium
Disbursing Operations - Indianapolis	Indianapolis, Indiana Rome, New York Fort Drum, New York DFAS Japan	1 LDA: DFAS Japan
Italy Finance Office	Vicenza, Italy	1 LDA: Italy
U.S. Army Garrison Yongsan	176th FMSU and 175th FMC Yongsan Army Garrison, South Korea	1 LDA: Korea
USACE	Millington, Tennessee	6 LDAs: USACE-Military, Europe USACE-Civil, Europe USACE-Military, Japan USACE-Civil, Japan USACE-Military, Korea USACE-Civil, Korea
<b>Total</b>		<b>10</b>

Source: The DoD OIG.

We reviewed the following applicable guidance to determine whether Army personnel complied with the guidance for reporting foreign currency transactions.

- Section 2350j, title 10, United States Code
- Section 2779, title 10, United States Code
- DoD Regulation 7000.14-R, “DoD Financial Management Regulation”
- Army policy and guidance, (an example is Army Finance and Accounting Service – Korea Eighth Army Accounts Payable Branch Standard Operating Procedure Payment Processing)

We obtained FY 2016 and first quarter FY 2017 payment information from the Disbursing Reporting Initiative system (DRI) for 10 Army disbursing offices responsible for completing foreign currency payments.<sup>36</sup> Based on the total number of transactions and total dollar value of the transactions, we nonstatistically selected seven sites, representing five disbursing offices, and obtained a universe of transactions from those seven sites to test the accuracy of the foreign currency payments, exchange transactions, and related gains and losses. From that universe, Quantitative Methods Division (QMD) personnel statistically selected a sample of 203 foreign currency transactions with a total dollar value of \$1.7 billion for our review. The 203 transactions came from 6 of the 7 sites in the universe, managed by 4 disbursing offices.

For one of the tests of accuracy, we determined if the Army charged the foreign currency exchange rate fluctuations to the proper fiscal year of the foreign currency fluctuation account, based on DoD FMR policy in effect at the time. The ODCFO implemented a DoD FMR, volume 6a, chapter 7 policy change as of February 2016 that affected how the Army was to record gains and losses to the foreign currency fluctuation account. Variances from the results of this testing are discussed in Finding A. Appendix B provides the projection methodology used to project the testing results to the universe of Army DDS transactions.

We obtained a universe of FY 2016 and first quarter FY 2017 payment transactions from CEFMS for USACE Military Construction and Civil Works disbursing stations that are managed by the USACE disbursing office at Millington, Tennessee. From the universe of transactions, QMD statistically selected a sample of foreign currency transactions for our review, to test the accuracy of the foreign currency payments, exchange transactions, and related gains and losses. We reviewed 195 foreign currency transactions with a total dollar value of \$569.1 million. We did not project the results of our review to the universe of USACE transactions.

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<sup>36</sup> DRI is an electronic data storage location for transactions processed through DDS.

We reviewed \$2.2 billion of the \$7.9 billion of foreign currency payments recorded at the five disbursing offices in DDS and CEFMS. Table 4 illustrates the amount of foreign currency payments at each disbursing office and the amounts included in our sample.

*Table 4. Foreign Currency Payments Reviewed From DDS and CEFMS*

Disbursing Office	Amount Reviewed (in Millions)	Amount Paid (in Millions)
Benelux Finance Office	\$ 357.9	\$ 517.6
Disbursing Operations-Indianapolis <sup>1</sup>	991.7	3,297.8
Italy Finance Office <sup>2</sup>	5.8	173.7
U.S. Army Garrison Yongsan <sup>3</sup>	309.9	1,099.7
USACE	569.1 <sup>4</sup>	2,827.5
<b>Total<sup>5</sup></b>	<b>\$2,234.55</b>	<b>\$7,916.3</b>

<sup>1</sup> Includes DFAS-Indianapolis, DFAS-Rome, Fort Drum, New York (33rd FMSU), DFAS-Europe, and DFAS-Japan.

<sup>2</sup> Includes foreign currency payments for the Vicenza and Camp Darby locations.

<sup>3</sup> Includes the 176th FMSU Disbursing Office and the 175th FMC Vendor Pay Office.

<sup>4</sup> We reviewed \$569.1 million for USACE Military Construction and \$10,907 for USACE Civil Works.

<sup>5</sup> The amounts do not equal the actual sum because of rounding.

Source: The DoD OIG.

## Use of Computer-Processed Data

We used computer-processed data for Army foreign currency transactions from DDS, DRI, GFEBS, STANFINS, CEFMS, and CAPS-W. We obtained DDS payment data by querying DRI, and STANFINS data from Online Data Store queries. We obtained transaction-level detail from GFEBS and CEFMS. We concluded, for each system, that the respective controls to determine reliability of the information were sufficient for the purposes of this audit.

## Use of Technical Assistance

The Quantitative Methods Division (QMD) provided assistance designing the statistical samples of the DDS and CEFMS data. QMD personnel also projected the results of our analysis to the universe of transactions. See Appendix B for the QMD support provided for the audit.

## Prior Coverage

During the last 7 years, the DoD Office of Inspector General (DoD OIG) issued four reports discussing Army properly recorded foreign currency payments, exchange transactions, and associated gains and losses. DoD OIG reports can be accessed at <http://www.dodig.mil/pubs/index.cfm>.

**DoD OIG**

Report No. DODIG-2014-102, "Government of the Islamic Republic of Afghanistan Needs to Provide Better Accountability and Transparency Over Direct Contributions," August 29, 2014

The DoD OIG determined that the Government of the Islamic Republic of Afghanistan's Ministry of Finance could not account for currency gains of at least \$110.4 million made on Afghanistan Security Forces Fund direct contribution.

Report No. DODIG-2014-057, "Improvements to Controls Over Cash Are Needed at Army Disbursing Stations in Kuwait and Saudi Arabia," April 9, 2014

The DoD OIG determined that the disbursing officer did not reconcile the Standard Form 1149 to the Standard Form 1219, and this reconciliation is required by the DoD FMR.

Report No. DODIG-2012-023, "Management Improvements Needed in Commander's Emergency Response Program in Afghanistan," November 21, 2011

The DoD OIG determined that U.S. Forces-Afghanistan controls did not prevent disbursing officers and paying agents from withdrawing funds for contract payments from the finance office at one exchange rate and subsequently paying the contractor using a different exchange rate.

Report No. DODIG-2011-101, "Controls Over Army Deployable Disbursing System Payments Need Improvement," August 17, 2011

The DoD OIG determined that the Army did not maintain accurate or complete information in its financial system because Army finance offices did not properly use DDS interfaces.

## Appendix B

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### Statistical Sampling and Projection Methodology – Army DDS Transactions

#### ***Universe***

We obtained a universe of 65,310 foreign currency transactions with a total value of \$5.5 billion. The universe consisted of DDS transactions processed by 10 disbursing stations from October 1, 2015, through December 31, 2016. Each disbursing station consisted of one or more locations that originated the payment transactions. We identified the seven locations with the highest total U.S. dollar value of payments for the 15-month period, and nonstatistically selected six of the seven locations to test.<sup>37</sup>

- Afghanistan Retrograde/33rd FMSU;
- DFAS Disbursing Operations, Indianapolis;
- Army 175th FMC and 176th FMSU;
- Benelux Finance Office;
- Vicenza Finance Office; and
- DFAS Japan.

The universe of transactions from the six locations consisted of 52,632 foreign currency DDS transactions valued at \$5.1 billion (92 percent of the total universe value).

#### ***MEASURES AND PARAMETERS***

QMD personnel used a 90-percent confident level to determine the absolute dollar value of errors and a 90-percent confident level to determine the number of fluctuation transactions with errors.

#### ***SAMPLE PLAN AND ANALYSIS***

QMD personnel designed a stratified sampling plan based on the U.S. dollar value for each foreign currency transaction. For the 203 DDS payment transactions valued at \$1.67 billion (net) that were sampled and reviewed, we determined whether the transactions were recorded accurately, using the correct foreign currency exchange rate, and whether associated fluctuation gains or losses were recorded correctly. QMD used a 95-percent confidence interval.

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<sup>37</sup> We excluded the Saudi Arabia site due to prior coverage.

Based on the audit results for testing whether the fluctuation gain or loss for each transaction was recorded to the correct account, we identified the absolute value of the errors in the sample. We projected that the Army incorrectly recorded 11,173 of 52,632 (21 percent) fluctuation transactions, with an absolute value of \$30 million. See Table 5 for the universe and sample values, and the sample testing results for fluctuation gains and losses.

*Table 5. Population and Sample Results Breakdown*

Stratum (Subgroup)	Stratum Size of Universe	Universe Value (Net) (in Thousands)	Sample Size	Sample: Number of Errors	Sample: Absolute Value of Fluctuation Errors (in Thousands)
>\$15,000,000	53	\$1,214,043.5	53	3	\$1,904.1
\$5,000,000 to \$15,000,000	115	1,322,792.3	30	6	492.3
\$1,000,000 to \$5,000,000	449	863,427.9	30	0	0
\$500,000 to \$1,000,000	579	402,204.2	30	2	10.2
\$50,000 to \$500,000	6,156	942,283.6	30	10	106.9
Zero to \$50,000	45,280	336,845.6	30	6	2.8
<b>TOTAL</b>	<b>52,632</b>	<b>\$5,081,597.1</b>	<b>203</b>	<b>27</b>	<b>\$2,516.3</b>

Source: The DoD OIG.

## **STATISTICAL ANALYSIS AND INTERPRETATION**

Based on the audit test results, QMD calculated statistical projections for the number and absolute value of errors recording foreign currency gains and losses. QMD projected at the 90-percent confidence level that the error rate of fluctuation amounts was between 10 to 32 percent with a point estimate of 21 percent. QMD projected that fluctuation amounts paid in error were between \$10,193,775 and \$49,820,971 with a point estimate of \$30,007,373.



## Management Comments

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



COMPTROLLER

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

MAR - 9 2018

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

SUBJECT: Department of Defense Inspector General Draft Audit Report, "Army Internal  
Controls Over Foreign Currency Accounts and Payments"  
(Project No. D2017-D000FL-0075.000)

We received the subject draft report on February 12, 2018 and reviewed your  
recommendations to the Under Secretary of Defense (Comptroller), Office of the Deputy Chief  
Financial Officer. A response that addresses your recommendations is attached.

We appreciate the opportunity to review and comment on the draft audit report. My staff  
point of contact is [REDACTED]

[REDACTED]  
Alaleh A. Jenkins  
Assistant Deputy Chief Financial Officer

Attachment  
As stated



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

Attachment

DOD IG DRAFT REPORT – DATED JANUARY 10, 2018  
DOD IG PROJECT NO. D2017-D000FI-0075.000

### “ARMY INTERNAL CONTROLS OVER FOREIGN CURRENCY ACCOUNTS AND PAYMENTS”

OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER)  
(OUSD(C)) RESPONSE TO THE DOD IG RECOMMENDATIONS

RECOMMENDATION A.3: We recommend that the Under Secretary of Defense (Comptroller), Office of the Deputy Chief Financial Officer develop and issue guidance on DoD standard general ledger transactions for Components to record foreign currency exchange rate gains or losses, and to return excess gains for redistribution.

OUSD(C) RESPONSE: Concur. The Under Secretary of Defense (Comptroller) (OUSD(C)), Office of Deputy Chief Financial Officer, Business Integration Office has developed and issued a Defense Accounting Guidance, Research and Recommendation Paper. This document titled, “Issues with Proper Accounting for the Foreign Currency Fluctuation (FCF) Activity,” dated October 26, 2017, provides procedures and standard accounting transactional updates to record foreign currency exchange rate fluctuation gains and losses within the Components’ financial management systems. This document was distributed to each Component’s Comptroller and is included as an attachment to this response.

RECOMMENDATION B.1:

We recommend that the OUSD(C), Office of the Deputy Chief Financial Officer, revise DoD 7000.14-R, “DoD Financial Management Regulation (FMR),” Volume 5, to clarify the requirements for managing foreign government contributions (burdensharing funds) **and:**

RECOMMENDATION B.1.a: Identify whether these contributions should be included in the cash holding authority.

OUSD(C) RESPONSE: Concur. The DoD FMR Volume 5, Chapter 3, “Obtaining and Safeguarding Public Funds” will be revised to clarify the requirements for managing foreign government contributions, i.e., burdensharing funds must be included in the cash holding authority. Revisions to the DoD FMR will take place no later than December 2018.

RECOMMENDATION B.1.b: Identify the responsibilities of the disbursing officers to obtain approval when the foreign government contributions of funds cause the limited depository checking account balances to exceed a 7-day supply.

OUSD(C) RESPONSE: Concur. The DoD FMR Volume 5, Chapter 14, “Limited Depository Checking Accounts” will be revised to clarify requirements for obtaining approval of when the foreign government contributions of funds cause the limited depository checking account balances to exceed a 7-day supply. Revisions to the DoD FMR will take place no later than December 2018.

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

Attachment

RECOMMENDATION B.1.c: Require an approved plan that provides a timeline and outlines how all funds, including foreign government contributions, will be fully expended.

OUSDC(C) RESPONSE: Nonconcur. Disbursing Officers are not required to provide a plan that outlines how funds are to be expended because they are required to obtain currency for future disbursement and “Accommodation Exchange” needs based on historical data outlined in the DoD FMR Volume 5 Chapter 3, “Obtaining and Safeguarding Public Funds.” Disbursing Officers holding foreign currency balances in excess of immediate needs (defined as 5 to 7 day supply) must transfer the excess funds to other DoD Disbursing Officers, U.S. Department of State Disbursing Officers, or a U.S Embassy; withdraw and deposit the funds with Treasury; or receive Treasury approval to exceed the 5 to 7 day supply.

RECOMMENDATION B.1.d: Ensure that disbursing officers across the DoD develop procedures to comply with the revised guidance for limited depositary checking account balances to ensure the excessive balances identified in the Army are not occurring in other parts of the DoD.

OUSDC(C) RESPONSE: Partially Concur. The DoD FMR Volume 5, Chapter 3, “Obtaining and Safeguarding Public Funds” and Chapter 14, “Limited Depositary Checking Accounts” will be revised. DoD Components will be informed of the revisions and are responsible for developing and implementing procedures as needed for compliance. Revisions to the DoD FMR will take place no later than December 2018.

## Deputy Assistant Secretary of the Army (Financial Operations)



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

SAFM-FO

February 8, 2018

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on the Audit of Army Internal Controls over Foreign Currency Accounts and Payments (Project D2017-D000FL-0075.000)

1. This memorandum is in response to the Inspector General, Department of Defense (DoDIG), Project No. D2017-D000FL-0075.000, Army Internal Controls Over Foreign Currency Accounts and Payments
2. Army concurs with DoDIG Recommendation A.4 that the Army has not updated the General Fund Enterprise Business System (GFEBS) to record the Foreign Currency Fluctuation to the year of obligation. However, the requirement for change has been identified to and accepted by the GFEBS configuration board for adoption. This change will correct the standard general ledger transaction posting and implementation guidance and will be developed on recording foreign currency exchange rate gains and losses. We have requested the change be made for implementation beginning October 1, 2019, as only recently was the contract protest resolved and the new system integrator began to assume the duties for making system changes.

3. The point of contact is [REDACTED]

Encl  
as

Wesley C. Miller  
Deputy Assistant Secretary of the Army  
(Financial Operations)

# Army Financial Services, U.S. Army Financial Management Command



DEPARTMENT OF THE ARMY  
UNITED STATES ARMY FINANCIAL MANAGEMENT COMMAND  
INDIANAPOLIS, IN 46249-3000

FMFS

09 FEB 2018

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on the Audit of Army Internal Controls over Foreign Currency Accounts and Payments (Project D2017-D000FL-0075.000)

1. Reference your draft report dated January 10, 2018, subject as above.
2. We appreciate the work by your auditors which out of a sample of 203 payments for \$2.5 million identified 48 payments by a remote deputy operation in Korea being processed at the wrong exchange rate resulting in \$761 (0.03 percent) being incorrectly recorded to the underlying appropriation of the payments rather than the foreign currency fluctuation account. We also appreciate the audit report identifying recommendations to the Department of Defense (DoD) to correct current policy in the DoD Financial Management Regulation, since the primary findings in the report cite the Army operations for failing to follow the deficient policy.
  - a. While the report correctly notes that the Army's Enterprise Resource Planning has not been reprogrammed to implement the DoD 2016 policy change requiring budget fluctuations to be recorded against the fiscal year of the obligation for the underlying payment, it has no impact on the financial statements since the net value of the fluctuations in the Services' fluctuation accounts are transferred to a no-year DoD appropriation within the fiscal year.
  - b. Had the Army converted incoming foreign currency, primarily from burden sharing funds, to U.S. dollars and then subsequently bought foreign currency following the seven day usage guideline, the net increased cost to the government between the differential on buy and sell exchange rates and current Treasury interest carrying costs on an annual basis would have been \$1,674,626.

3. The response to the specific recommendation for this command is enclosed.

Encl

DAVID C. COBURN  
Major General, USA  
Commanding

## Army Financial Services, U.S. Army Financial Management Command (cont'd)

### DoDIG Draft Report on the Audit of Army Internal Controls Over Foreign Currency Accounts And Payments (Project D2017-D000FL-0075.000)

#### U.S. Army Financial Management Command Response to Recommendations

**Recommendation B-3:** We recommend that the Director, Army Financial Services, U.S. Army Financial Management Command, verify that quarterly cash verifications determine and report on whether the disbursing officer's cash balance held at personal risk, including funds kept in limited depository checking accounts, comply with the cash holding authority letter as required by DoD 7000.14-R, "Financial Management Regulation," Volume 5.

**USAFMCOM Response B-3:** Partially Concur. The requirement to include the LDA balances in the cash verification is in the current Army standard disbursing internal control check list last updated in May 2016. We will reinforce this, as well as add an additional question on the cash verification team comparing on-hand balances to the approved cash holding authority. The responsible command for completing the external inspection will continue to use the checklist for that purpose. Oversight responsibilities for all Army finance offices is addressed in the DASA(FO) memorandum dated 26 February, 2014, subject: Oversight and Reviews of Army Finance and Accounting Operations. ECD: February 2018.



## U.S. Army Corps of Engineers Finance Center



**DEPARTMENT OF THE ARMY**  
U.S. ARMY CORPS OF ENGINEERS  
441 G STREET NW  
WASHINGTON, D.C. 20314-1000

CERM-F

February 9, 2018

Project: No. D2017-D000FL-0075.000  
Inspector General, U.S. Department of Defense

Title: Army Internal Controls Over Foreign Currency Accounts and Payments

Recommendation B.2: We recommend that the Commander, 176<sup>th</sup> Financial Management Support Unit, U.S. Army Garrison Yongsan, South Korea; Director, U.S. Army Corps of Engineers Finance Center; and Director, 266<sup>th</sup> Financial Management Support Center adjust the cash holding authorities of the 176<sup>th</sup> Financial Management Support Unit Disbursing Officer, the U.S. Army Corps of Engineers Finance Center Disbursing Officer, the Benelux Finance Office and the Italy Finance Office to include the balances of the limited depository checking accounts, or reduce the balances of the limited depository checking accounts to comply with the current cash holding authorities.

Response: CONCUR with recommendation : Based on the Department of Defense Financial Management Regulation (DoD FMR) Volume 5, Chapter 3, the U.S. Army Corps of Engineers (USACE) Finance Center Disbursing Officer is reviewing Limited Depository Account (LDA) balance requirements based on Figure 3-1 in the DoD FMR. The LDAs will be modified to include a maximum amount to be held for two (2) weeks based on Paragraph 030203A in the DoD FMR.

Recommendation B.4: We recommend that the Commander, 176<sup>th</sup> Financial Management Support Unit, U.S. Army Garrison Yongsan, South Korea; Director, Defense Finance and Accounting Service, Japan; and Director, U.S. Army Corps of Engineers Finance Center develop local procedures to comply with revised guidance identified in Recommendation B.1, when issued by the Under Secretary of Defense (Comptroller), Office of the Deputy Chief Financial Officer.



## U.S. Army Corps of Engineers Finance Center (cont'd)

CERM-F  
Project: No. D2017-D000FL-0075.000

Response: CONCUR with Recommendation: The USACE Finance Center Disbursing Officer will develop local procedures to comply with revised guidance once issued by the Under Secretary of Defense (Comptroller), Office of the Deputy Chief Financial Officer.

WALSH.MICHAEL.ED [REDACTED]

WARD. [REDACTED]

Michael E. Walsh, CPA  
Chief, Finance and Accounting Policy Division  
Directorate of Resource Management

## Defense Finance and Accounting Service - Japan



DEFENSE FINANCE AND ACCOUNTING SERVICE  
JAPAN  
APO, AP 96328

DFAS-JA/JB

February 9, 2018

MEMORANDUM FOR OFFICE OF THE INSPECTOR GENERAL OF THE  
DEPARTMENT OF DEFENSE

SUBJECT: Management Comments to Draft Report Army Internal Controls Over  
Foreign Currency Accounts and Payments (Project No. D2017-D000FL-0075.000)

DFAS Japan appreciates the opportunity to review and offer comments to the draft report. Upon review of the report, DFAS Japan concurs with the finding and recommendation B.4. We have established quarterly meetings to regularly review regulatory updates. We will update our local procedures for managing foreign government contributions (burden sharing funds) upon the completion and release of the DoD 7000.14-R revisions as recommended in Recommendation B.1 (ECD: pending OUSD FMR release).

If you have questions regarding this memorandum please contact my point of contact

[REDACTED]

SPRINGER,FREDE  
RICK A JR [REDACTED]

Frederick A. Springer, Jr.  
Director, DFAS Japan

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

## 176th Financial Management Support Unit



REPLY TO:  
ATTENTION OF:

**DEPARTMENT OF THE ARMY**  
HHC, 498<sup>TH</sup> COMBAT SUSTAINMENT SUPPORT BATTALION  
UNIT 15275  
APO, AP 96260-5275

EANC-MS-C-QHZ

31 January 2018

MEMORANDUM FOR Inspector General, Department of Defense, 4800 Mark Center Drive,  
Alexandria, VA 22350-1500

SUBJECT: 176<sup>th</sup> Financial Management Support Unit (FMSU) Response to DoD Inspector  
General Draft Report on the Army Internal Controls Over Foreign Currency Accounts and  
Payments (Project D2017-D0000FL-00075.000)

1. Reference: Memorandum, DoD Inspector General, 10 January 2018, Subject: Army Internal  
Controls Over Foreign Currency Accounts and Payments
2. 498<sup>th</sup> Combat Sustainment Support Battalion and 176<sup>th</sup> Financial Management Support Unit  
reviewed the subject draft audit report and attached enclosed Command response to the audit  
findings and associated recommendations A.1, B.2, B.4, and B.5. The command concurs with  
the audit conclusion and recommended actions; and have already taken corrective actions.
3. The point of contact for this memorandum is [REDACTED]

SALVADOR RIZALDO  
ODE [REDACTED]

RIZALDO SALVADOR  
LTC, LG  
Commanding

## 176th Financial Management Support Unit (cont'd)

EANC-SBM-QHZ

SUBJECT: 176<sup>th</sup> FMSU Response to DoD Inspector General Draft Report

**Recommendation A.1.** We recommend the Commander, 176th Financial Management Support Unit, U.S. Army Garrison Yongsan, South Korea, revise the standard operating procedures to document each step in the disbursing process, including a step to verify the rates used by detachment disbursing offices are accurate and match the rate used by the main disbursing office.

**Command Response:** Concur. Daily won rates are set by local Community Bank via email notification directly to disbursing officers and agents for each calendar day. 176th FMSU has modified its SOP (dated 02JAN2018) to verify the subordinate sites utilized the correct daily rate. (reference to para 4.a.3, on page 2 of Disbursing SOP)

**Recommendation B.2** We recommend that the Commander, 176th Financial Management Support Unit, U.S. Army Garrison Yongsan, South Korea; Director, U.S. Army Corps of Engineers Finance Center; and Director, 266th Financial Management Support Center adjust the cash holding authorities of the 176th Financial Management Support Unit Disbursing Officer, the U.S. Army Corps of Engineers Finance Center Disbursing Officer, the Benelux Finance Office and the Italy Finance Office to include the balances of the limited depository checking accounts, or reduce the balances of the limited depository checking accounts to comply with the current cash holding authorities.

**Command Response:** Concur, CHA has been adjusted to include LDA balance and is reevaluated every 6 months. The current CHA memo was update on 23 Jan 2018.

**Recommendation B.4** We recommend that the Commander, 176th Financial Management Support Unit, U.S. Army Garrison Yongsan, South Korea; Director, Defense Finance and Accounting Service, Japan; and Director, U.S. Army Corps of Engineers Finance Center develop local procedures to comply with revised guidance identified in Recommendation B.1, when issued by the Under Secretary of Defense (Comptroller), Office of the Deputy Chief Financial Officer.

**Command Response:** Concur. 176th will develop SOP within 90 days of the release of guidance from USD(C)/ODFCO.

**Recommendation B.5** We recommend that the Commander, 176th Financial Management Support Unit, U.S. Army Garrison Yongsan, South Korea:  
a. Develop and implement an approval process for all currency exchanges to ensure all collections of Korean won into the unrestricted limited depository checking account have an immediate need and will not cause the balance to exceed a 7-day supply or obtain approval to

## 176th Financial Management Support Unit (cont'd)

EANC-SBM-QHZ

SUBJECT: 176<sup>th</sup> FMSU Response to DoD Inspector General Draft Report

exceed the 7-day supply of funds using a plan that provides a timeline and outlines how the funds will be fully expended.

**Command Response:** Partially concur. The guidance must be provided on how to re-sell the Won at an immediate loss. We will not be able to provide an accurate time-line of when the funds are to be expended because the amount of funds needed for disbursements are not under the 176th FMSU's control. 176th and AFAS-K will need to see the intended USAFMCOM procedures and regulations prior to implementation.

b. Develop and implement procedures to ensure that sensitive financial information maintained within the disbursing office, to include bank account data, is safeguarded at all times.

**Command Response:** Concur. The 176th FMSU has switched Korean banks from Shinhan to Kookmin bank. Kookmin's process for uploading pay files is via a secure site. Additionally, the 176th FMSU has coordinated with the area NECs to unblock the required bank websites and allow access on the NIPR network.

c. Ensure the disbursing office has taken all possible actions to transmit payment files securely to the local bank and implement internal controls to mitigate the associated risks.

**Command Response:** Concur. The new system used by Kookmin Bank and allowing access to the websites in the NIPR network has resolved this issue. Information no longer needs to be transmitted via CD from a military networked computer to a commercial internet connect. Keeping the documents contained in the military network and uploading to a secure website directly to the bank significantly reduces the risk to the pay files.

## Army Finance and Accounting Service - Korea



DEPARTMENT OF THE ARMY  
HEADQUARTERS, EIGHTH ARMY  
UNIT #15236  
APO AP 96205-6236

EARM-FMC

19 January 2018

MEMORANDUM FOR Inspector General, Department of Defense, 4800 Mark Center Drive, Alexandria, VA 22350-1500

SUBJECT: Army Finance and Accounting Service-Korea (AFAS-K) Response to DoD Inspector General Draft Report on the Army Internal Controls Over Foreign Currency Accounts and Payments (Project D2017-D0000FL-00075.000)

1. Reference: Memorandum, DoD Inspector General, 10 January 2018, Subject: Army Internal Controls Over Foreign Currency Accounts and Payments
2. Army Finance and Accounting Service-Korea (AFAS-K) reviewed the subject draft audit report and concurred with the findings and associated recommendation A2. As discussed with the audit team, AFAS-K has updated processes and codified them in the Standard Operating Procedure (SOP) dated 10 October 2017. Management of the Accounts Payable Division will continue to ensure the processes outlined in the SOP are followed.
3. The point of contact for this memorandum is [REDACTED]

POTTS.DAVID.RICH [REDACTED]  
ARD: [REDACTED]  
David R. Potts  
Acting Director, AFAS-K

## 266th Financial Management Support Center



DEPARTMENT OF THE ARMY  
266TH FINANCIAL MANAGEMENT SUPPORT CENTER  
UNIT 23122  
APO AE 09054

AETS-FCZ

8 Feb 18

MEMORANDUM FOR

SUBJECT: Responses to Draft Report Recommendations

1. Reference. Draft Report, DoDIG, 10 Jan 18, subject: Audit of Army Internal Controls over Foreign Currency Accounts and Payments This template is formatted IAW AR 25-50.

2. 266th Financial Management Support Center (FMSC) responses follow.

a. Recommendation A.5a. Develop guidance to require periodic reviews of system accesses granted and system roles established for all personnel in the Finance Offices and ensure adequate separation of duties. 266th FMSC concurs. 266th FMSC policy has been updated directing the Information Management Office (IMO) to centrally manage all DDS account provisioning to ensure accounts enforce separation of duties. The IMO Finance Systems Manager will provide monthly reports to Information Assurance Officers (IAO) in the field identifying conflicts in accordance with DoD Financial Management Regulation (DoD FMR) 7000.14-R and OMB Circular A-123. The responsible IAO will act to immediately correct any identified deficiencies and provide a response within one working day. Failure to address a conflict results in the removal of access for the account in question. Further, the 266th FMSC Internal Control section utilizes disbursing checklist question that asks, "Are appropriate controls in place and utilized to ensure there is an appropriate level of separation of duties by reviewing the DDS users' access privileges to identify segregation of duties and conflicts?" for all annual inspections. The 266th FMSC removed all conflicting user IDs and restricted the Deputy Disbursing Officer's ability to create DDS user accounts. Finally, IAOs will terminate user roles within 48 hours of notification of reassignment or departure from the section requiring roles.

b. Recommendation A.5b. Develop and implement procedures to maintain alternate certifying officials for each payment system, to ensure continuity of payment operations at the Finance Offices. 266th FMSC concurs. 266th FMSC policy codifies the requirement to identify both primary and alternate appointees for a multitude of positions, to include Certifying Officers. For the FY18 annual review, the 266th FMSC Internal Control section will include the appointment alternates in the checklist for compliance in accordance with this recommendation. The BFO appointed alternate Certifying Officer for CAPS-W and GFEBs. All primaries and alternates have appropriate systems access and roles to perform duties. IFO will seek a Position Description (PD) change to allow a change of duties for the acting chief when the Commercial Vendor Service (CVS) chief is unavailable.



## 266th Financial Management Support Center (cont'd)

AETS-FCZ

SUBJECT: Responses to Draft Report Recommendations

c. Recommendation A.5c. Implement controls to ensure the Italy Finance Office maintains proper separation of duties between personnel responsible for payroll system maintenance and personnel in the Local National Payroll Office and Accounting Office. 266th FMSC concurs. The 266th FMSC is in the process of replacing the Italian Local National Pay Service (ILNPS) with a new service to facilitate proper separation of duties. The identified solution encompasses controls that make the service auditable, functional, and flexible enough to meet reporting and data export capabilities required to provide data to U.S. and Italian Government taxation and budgetary entities. The new contracted service follows a phased roll-out. The plan starts with the contract award in March 2018; product analysis completed NLT June 2018; system build-out and population NLT September 2018; and finally training and fielding that results in the full implementation January 2019. The 266th FMSC Internal Control section is working on the establishment of an ILNPS-specific inspection checklist addressing separation of duty requirements and will be used during the next IC inspection of IFO, with the understanding the checklist may be adjusted upon the fielding of the new service.

d. Recommendation A.5d. Implement controls to ensure the senior management is directly involved in oversight of the payroll process. 266th FMSC concurs, with comment. In conjunction with the LN Payroll control changes outlined in the responses for items A.5.c and A.5.e, the 266th FMSC is working to convert the senior accounting and internal controls LN positions to GS billets within the Italy Finance Office over the next 12-24 months. This change will eliminate the existing end-to-end control of the LN Payroll processes by LN employees, who are paid on said LN Payroll, and strengthen the internal controls of the LN Pay process. The change will occur as the current accounting and internal control chiefs retire, and replacements are hired during FY18/19.

e. Recommendation A.5e. Develop and implement a plan to replace the current Italian Local National Payroll System with a system that meets U.S. Government Federal Financial Management Improvement Act of 1996, section 803(a) and Office of Management and Budget Circular A-123 requirements for federal financial management systems. 266th FMSC concurs. The new ILNPS requirements document is currently under review for submission to contracting, in order to upgrade to an auditable, fiscally-compliant, local national pay system/service. The 266th FMSC expects to test this new system/service in fiscal year 2018 with full implementation January 2019.

f. Recommendation B.2. Adjust the cash holding authorities of the Benelux Finance Office and the Italy Finance Office to include the balances of the limited depository checking accounts, or reduce the balances of the limited depository checking accounts to comply with the current cash holding authorities. 266th FMSC concurs. The 266th FMSC has modified the Cash Holding Authority (CHA) request to include Limited Depository Account (LDA) balances. Standard templates for semi-annual request for authority to hold cash at personal risk will utilize monthly projections for LDA balances prior to 266th FMSC

## 266th Financial Management Support Center (cont'd)

AETS-FCZ  
SUBJECT: Responses to Draft Report Recommendations

Director's approval. The 266th will manage LDAs for optimization of daily balances. There is no need to adjust. Enter data for memorandum.

3. Point of contact is [REDACTED].

WHITE.SCOTT.ANT [REDACTED]  
HONY [REDACTED]  
SCOTT A. WHITE  
COL, FI  
Director

## Acronyms and Abbreviations

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<b>AFAS-K</b>	ARMY FINANCE AND ACCOUNTING SERVICE, KOREA
<b>BFO</b>	BENELUX FINANCE OFFICE
<b>CAPS-W</b>	COMPUTERIZED ACCOUNTS PAYABLE SYSTEM - WINDOWS
<b>CEFMS</b>	CORPS OF ENGINEERS FINANCIAL MANAGEMENT SYSTEM
<b>DDS</b>	DEPLOYABLE DISBURSING SYSTEM
<b>DFAS</b>	DEFENSE FINANCE AND ACCOUNTING SERVICE
<b>DOD FMR</b>	DOD FINANCIAL MANAGEMENT REGULATION
<b>FMC</b>	FINANCIAL MANAGEMENT CENTER
<b>FMSC</b>	FINANCIAL MANAGEMENT SUPPORT CENTER
<b>FMSU</b>	FINANCIAL MANAGEMENT SUPPORT UNIT
<b>GFEB</b>	GENERAL FUND ENTERPRISE BUSINESS SYSTEM
<b>ID</b>	USER IDENTIFICATION
<b>IFO</b>	ITALY FINANCE OFFICE
<b>LDA</b>	LIMITED DEPOSITARY CHECKING ACCOUNT
<b>ODCFO</b>	OFFICE OF THE DEPUTY CHIEF FINANCIAL OFFICER
<b>OMB</b>	OFFICE OF MANAGEMENT AND BUDGET
<b>QMD</b>	QUANTITATIVE METHODS DIVISION
<b>STANFINS</b>	STANDARD ARMY FINANCE INFORMATION SYSTEM
<b>TREASURY</b>	U.S. DEPARTMENT OF TREASURY
<b>USACE</b>	U.S. ARMY CORPS OF ENGINEERS
<b>USAFMCOM</b>	U.S. ARMY FINANCIAL MANAGEMENT COMMAND

# **Whistleblower Protection**

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

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

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