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**PAYROLL EXPENSES REPORTED BY THE DEFENSE FINANCE  
AND ACCOUNTING SERVICE COLUMBUS CENTER**

Report Number 98-134

May 14, 1998

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Office of the Inspector General  
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### **Acronyms**

<b>CFO</b>	<b>Chief Financial Officers (Act)</b>
<b>DCAA</b>	<b>Defense Contract Audit Agency</b>
<b>DFAS</b>	<b>Defense Finance and Accounting Service</b>
<b>DLA</b>	<b>Defense Logistics Agency</b>
<b>GLAC</b>	<b>General Ledger Account Code</b>
<b>OMB</b>	<b>Office of Management and Budget</b>



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202

May 14, 1998

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE COLUMBUS CENTER

SUBJECT: Audit Report on Payroll Expenses Reported by the Defense Finance and  
Accounting Service Columbus Center (Report No. 98-134)

We are providing this report for review and comments. This is the third in a series of reports addressing payroll-related issues. This audit was performed in response to the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Defense Finance and Accounting Service did not comment on a draft of this report; therefore, we are requesting comments on the final report by June 15, 1998.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Charles J. Richardson at (703) 604-9582 (DSN 664-9582), e-mail [crichardson@DODIG.OSD.MIL](mailto:crichardson@DODIG.OSD.MIL), or Ms. Dorothy L. Jones at (703) 604-9521 (DSN 664-5921), e-mail [djones@DODIG.OSD.MIL](mailto:djones@DODIG.OSD.MIL). See Appendix D for the report distribution. The audit team members are listed inside the back cover.

*David K. Steensma*

David K. Steensma  
Deputy Assistant Inspector General  
for Auditing

## Office of the Inspector General, DoD

Report No. 98-134  
(Project No. 7RF-2010.02)

May 14, 1998

### Payroll Expenses Reported by the Defense Finance and Accounting Service Columbus Center

#### Executive Summary

**Introduction.** The audit was performed in compliance with Public Law 101-576, the "Chief Financial Officers Act of 1990," and Public Law 103-356, the "Federal Financial Management Act of 1994." Public Law 103-356 requires DoD and other Government agencies to prepare consolidated financial statements for FY 1996 and the following years. The Defense Finance and Accounting Service (DFAS) Indianapolis Center is responsible for preparing the financial statements for Department 97\* appropriations, beginning in FY 1996. To meet that requirement, the Deputy Director for Accounting Operations, DFAS Indianapolis Center, consolidates the financial information received from offices that provide accounting support to the Defense organizations and prepares the financial statements for the "Other Defense Organizations," a segment of the DoD consolidated financial statements. During FY 1996, the Defense organizations received \$39 billion in appropriations, and their financial statements showed operating expenses of \$40.5 billion. Inspector General, DoD, Report No. 98-028, "Personal Services and Benefits Expenses in the FY 1996 Statement of Operations and Changes in Net Position of the Other Defense Organizations," December 2, 1997, reported that \$7.1 billion of the operating expenses was for payroll. For the FY 1996 financial statements, DFAS Indianapolis Center records showed that the DFAS Columbus Center reported operating expenses in Standard General Ledger Account Code 6100, "Operating and Program Expense," totaling \$310.4 million for the Defense Contract Audit Agency (DCAA) and \$1.7 billion for the Defense Logistics Agency (DLA). This report is the third in a series of reports addressing payroll-related issues, including the effect of noncompliant payroll actions on the FYs 1996 and 1997 financial statements.

**Audit Objectives.** The overall audit objective was to evaluate management controls over the presentation of civilian payroll and related expenses on the Other Defense Organizations' FY 1996 financial statements. We also reviewed the effect of noncompliant payroll actions on the FYs 1996 and 1997 financial statements. Specifically, we reviewed accounting records for payroll and related expenditures to determine the validity of payroll expenses that the DFAS Columbus Center submitted to the DFAS Indianapolis Center on behalf of DCAA and DLA. We also assessed the DFAS Columbus Center's management control program as it related to the overall objective.

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\*Department 97 appropriations include general funds, as well as revolving funds, trust funds, and some small special funds, which are specifically allocated to Defense organizations and Military Departments.

**Audit Results.** The FY 1996 Statement of Operations and Changes in Net Position for Other Defense Organizations included \$1.2 billion of DCAA and DLA payroll expenses in Note 23 that could not be traced to source records. Also, the DFAS Columbus Center did not follow the DFAS Indianapolis Center's guidance for reporting financial data in the FY 1996 Statement of Operations. As a result, DCAA and DLA payroll expenses for FY 1996 were not identifiable in the reported operating expenses and were not auditable to the source records. Also, in the operating expenses that the DFAS Columbus Center reported to the DFAS Indianapolis Center in Standard General Ledger Account Code 6100, DCAA payroll expenses were understated by \$56.1 million.

The auditability of the FY 1997 and future operating expenses for DCAA and DLA will be adversely affected until the DFAS Columbus Center corrects the causes for the incorrect reporting. Although the corrective actions will not change the data for FYs 1996 and 1997, they will have an impact on FY 1998 data. See Part I for a discussion of the audit results and Appendix A for details of our review of the management control program.

**Summary of Recommendations.** We recommend that the Director, DFAS Columbus Center, modify accounting and reporting systems to allow operating expenses to be reported by Standard General Ledger Account Code on the financial statements, and establish procedural reviews to ensure that financial information is properly reported and classified.

**Management Comments.** Management comments were not received on a draft of this report. Therefore, we request that the Director, DFAS Columbus Center, provide comments on this final report by June 15, 1998.

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## **Part I - Audit Results**

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## Audit Background

**Requirements for Financial Statements.** Public Law 101-576, the "Chief Financial Officers (CFO) Act of 1990," November 15, 1990, requires Executive departments and agencies to prepare financial statements for each of their trust funds, revolving funds, and commercial activities. The CFO Act also requires the Inspectors General to audit or oversee the audit of all financial statements prepared under the CFO Act. The auditors must report on the adequacy of internal controls of the reporting entity and on compliance with laws and regulations that could have a material effect on the financial statements. The CFO Act, as amended by Public Law 103-356, the "Federal Financial Management Act of 1994," October 13, 1994, requires DoD and other Government agencies to prepare consolidated financial statements for FY 1996 and the following years.

The DoD Consolidated Financial Statements for FY 1996 include financial information for a reporting entity entitled "Other Defense Organizations." The financial statements for Other Defense Organizations include financial information for various Defense organizations that received Department 97\* appropriations. In FY 1996, 35 Defense organizations were appropriated \$39 billion of Department 97 funds to perform their missions and functions.

**Financial Reports.** The Defense Finance and Accounting Service (DFAS) Indianapolis Center is responsible for compiling the financial information submitted on behalf of Other Defense Organizations. Total operating expenses are reported on the Other Defense Organizations Statement of Operations and Changes in Net Position (hereafter referred to as the Statement of Operations) and by object class in Note 23, Program or Operating Expenses. Object classes are defined by the Office of Management and Budget (OMB) and are used to report obligations and expenses according to the nature of the services or articles procured. Appendix C shows the OMB object classes and the related DoD Standard General Ledger accounts for all operating expenses. The FY 1996 Statement of Operations prepared by the DFAS Indianapolis Center reports that Other Defense Organizations had operating expenses of \$40.5 billion, of which \$7.1 billion could be attributed to the object class defined as personal services and benefits.

**Accounting Support.** The DFAS Columbus Center provides accounting support for the Defense Contract Audit Agency (DCAA), agency limitation 4600, and the Defense Logistics Agency (DLA), agency limitation 5100. The support includes maintaining general ledger accounting records and pertinent documents. DCAA and DLA maintain their respective payroll time and attendance source documents. The DFAS Columbus Center is responsible for preparing monthly trial balances and submitting the accounting information to the DFAS Indianapolis Center for financial statement reporting.

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\*Department 97 appropriations include general funds, as well as revolving funds, trust funds, and some small special funds, which are specifically allocated to Defense organizations and Military Departments.

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For the FY 1996 financial statements, DFAS Indianapolis Center records showed that the DFAS Columbus Center reported, in Standard General Ledger Account Code (GLAC) 6100, \$310.4 million of total operating expenses for DCAA agency limitation 4600 and \$1.7 billion of total operating expenses for DLA agency limitation 5100.

The DFAS Indianapolis Center included the reported total operating expenses for both agencies on the FY 1996 Statement of Operations in the object class defined as personal services and benefits.

## **Audit Objectives**

The overall audit objective was to evaluate management controls over the presentation of civilian payroll and related expenditures on the FY 1996 Financial Statements for Other Defense Organizations. We also reviewed the effect of noncompliant payroll actions on the financial statements for FYs 1996 and 1997. Specifically, we reviewed accounting records for payroll and related expenditures to determine the validity of the payroll expenses that the DFAS Columbus Center submitted to the DFAS Indianapolis Center on behalf of DCAA and DLA. We also assessed the DFAS Columbus Center's management control program as it related to the overall objective. This report is the third in a series of reports addressing payroll-related issues. See Appendix A for a discussion of the audit scope and methodology and the results of our review of the management control program. See Appendix B for a summary of prior coverage related to the audit objectives.

## Payroll Expenses Reported for FY 1996

The FY 1996 Statement of Operations for Other Defense Organizations included \$1.2 billion of DCAA and DLA payroll expenses in Note 23 that could not be traced to source records. Also, the DFAS Columbus Center did not follow the DFAS Indianapolis Center's guidance for reporting financial data in the FY 1996 Statement of Operations. The expenses could not be traced to source records because the accounting system used by the DFAS Columbus Center did not retain detailed payroll expense data after the expenses were accumulated in summary form. Lacking access to the detailed expense data, the DFAS Columbus Center could not follow the FY 1996 guidance for preparing the financial statements for Other Defense Organizations. As a result, DCAA and DLA payroll expenses for FY 1996 were not identifiable in the reported operating expenses and were not auditable to the source records. Also, the DFAS Columbus Center, when reporting the DCAA operating expenses in GLAC 6100 to the DFAS Indianapolis Center, understated DCAA payroll expenses by \$56.1 million.

### Payroll and Related Expenses for FY 1996

Although the DFAS Columbus Center reported only the total operating expenses for DCAA and DLA to the DFAS Indianapolis Center, the agencies' trial balances reported payroll expenses separately from all other operating expenses, as shown in the following table.

#### Payroll Expenses Reported in Note 23

<u>Agency</u>	<u>Payroll Expenses (millions)</u>	<u>Other Expenses (millions)</u>	<u>Trial Balances (millions)</u>
DCAA	\$ 259.4	\$ 56.1	\$ 315.5
DLA	<u>930.1</u>	<u>0.0</u>	<u>930.1</u>
<b>Totals</b>	<b>\$1,189.5</b>	<b>\$ 56.1</b>	<b>\$1,245.6</b>

However, no audit trail existed to trace the validity of the summarized payroll expenses from the trial balances to the source documents.

### Requirement for Audit Trails

**DoD Financial Management Regulation.** DoD Regulation 7000.14-R, the "DoD Financial Management Regulation," states that DoD accounting systems must have audit trails. That is, the accounting system must allow a financial transaction to be traced from its source to the accounting records to the financial

statements, and from the financial statements back to the accounting records and back to the source records. In Key Accounting Requirement No. 8, "Audit Trails," DoD Regulation 7000.14-R states that all transactions, including those that are computer-generated and computer-processed, must be traceable to individual source records. Source records that are necessary for audit trails include transaction type, record or account involved, amount, processing references, and identification of the preparer and approver of the transaction.

**Audit Trail at DFAS Columbus Center.** DFAS Columbus Center's reporting and accounting systems did not have a complete audit trail for FY 1996 payroll expenses. In tracing the \$1.2 billion in payroll expenses from the financial statements, the audit trail ended at each agency's trial balance. From the total payroll expenses reported to the DFAS Indianapolis Center, the DFAS Columbus Center was not able to identify individual accounting entries for DCAA or DLA. As a result, the payroll expenses were not auditable.

## **Reporting Financial Data**

The DFAS Columbus Center did not follow the DFAS Indianapolis Center's guidance for reporting financial data to the DFAS Indianapolis Center for the FY 1996 Statement of Operations.

**Reporting Guidance.** On June 25, 1995, the DFAS Indianapolis Center issued guidance to accounting offices, including the DFAS Columbus Center, for preparing the financial statements for Other Defense Organizations. The guidance directed Defense agencies and other submitters of Department 97 reports to make the transition during FY 1996 to full trial balance reporting, using the DoD Standard General Ledger chart of accounts. Full trial balance reporting includes DoD Standard General Ledger summary accounts and supporting accounts for each appropriation. Payroll expenses are accumulated in five GLACs:

- o GLAC 6111, Personnel Compensation-Civilian;
- o GLAC 6112, Personnel Compensation-Military;
- o GLAC 6113, Personnel Benefits-Civilian;
- o GLAC 6114, Personnel Benefits-Military; and
- o GLAC 6115, Benefits for Former Personnel.

By submitting a full trial balance, the subsidiary accounts for operating expenses, such as payroll expenses, can be easily identified for financial statement reporting.

**DFAS Columbus Center Reporting.** The DFAS Columbus Center reported total operating expenses in GLAC 6100, "Operating/Program Expense," a summary account for all operational and program costs incurred during

## **Payroll Expenses Reported for FY 1996**

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FY 1996, rather than by individual GLACs. When asked to provide total operating expenses by subsidiary accounts, DFAS Columbus Center employees stated that they could not do so because the accounting system did not retain detailed expense data for FY 1996 after the expenses were summarized for reporting purposes. As a result, the DCAA and DLA payroll expenses included in the FY 1996 Statement of Operations were not identifiable.

**Reporting DCAA Civilian Personnel Benefits.** DCAA payroll expenses for GLAC 6100 were understated by \$56.1 million. The DFAS Columbus Center excluded DCAA civilian personnel benefits from GLAC 6100 when reporting operating expenses to the DFAS Indianapolis Center. The DFAS Columbus Center also incorrectly reported DCAA civilian personnel benefits in GLAC 6400, which represents expenses paid through the Military Retirement Trust Fund and the DoD Education Benefits Trust Fund (see Appendix C). In addition to using the incorrect GLAC, the DFAS Columbus Center reported only \$56.1 million, not the full amount of \$57 million.

## **System Limitations and Controls**

The DFAS Columbus Center reported expenses inaccurately because of limitations of the financial system and weaknesses in management controls over financial data reporting. Financial system limitations prevented the DFAS Columbus Center from reporting operating expenses by subsidiary accounts. Data for the subsidiary accounts were unavailable because the financial system automatically purged detailed operating expense data when the FY 1996 expense accounts closed. When the accounts were closed, the financial system summarized the detailed operating expense data in the cumulative results of operations for each agency. Therefore, to report operating expenses, DFAS Columbus Center personnel used budgetary data because they could support the expenses recorded in the budgetary accounts. However, the budgetary data could not be traced to operating expenses by GLAC or object class. The DFAS Columbus Center did not have review procedures that were adequate to ensure that financial data were reported to the DFAS Indianapolis Center accurately and in accordance with instructions.

## **Recommendations for Corrective Action**

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

1. Revise accounting and reporting systems to comply with the Defense Finance and Accounting Service Indianapolis Center's instructions to report operating expenses in individual Standard General Ledger Account Codes

instead of in the summary Standard General Ledger Account Code (6100) for the FY 1998 Financial Statements of the Defense Contract Audit Agency and the Defense Logistics Agency.

2. Establish procedural reviews to ensure that expenses and other financial information are properly reported and classified in accordance with reporting instructions issued by the Defense Finance and Accounting Service Indianapolis Center.

### **Management Comments Required**

The Director, DFAS Columbus Center, did not comment on the draft of this report. Therefore, we request that the Director, DFAS Columbus Center, provide comments on this final report.

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## **Part II - Additional Information**

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## Appendix A. Audit Process

### Scope and Methodology

We reviewed operating expenses of \$366.5 million in GLACs 6100 and 6400 for agency limitation 4600 (DCAA) and \$1.7 billion in GLAC 6100 for agency limitation 5100 (DLA). Both agency limitations were included in the Statement of Operations in the DoD Consolidated Financial Statements for FY 1996. We reviewed and analyzed the DCAA and DLA year-end trial balances submitted by the DFAS Columbus Center, the accounting office, to the DFAS Indianapolis Center on behalf of DCAA and DLA. We attempted to identify the payroll expenses within the reported operating expenses. We also attempted to calculate the FY 1996 payroll expenses for DCAA and DLA using DD Form 592, "Payroll for Personal Services Certification and Summary."

**Use of Computer-Processed Data.** We used the FY 1996 computer-processed data that the DFAS Indianapolis Center used to prepare the FY 1996 Statement of Operations for Other Defense Organizations. In addition, we used computer-processed general ledger data and financial reports generated by the DFAS Columbus Center for accounting and management purposes. We did not validate the reliability of any of the accounting and management systems because we limited our use of the data to testing management controls, performing analytical reviews, and obtaining an understanding of the procedures that the DFAS Indianapolis and Columbus Centers used to compile and report operating expenses. Not validating the reliability of the data did not affect the results of our audit.

**Sampling Method.** In FY 1996, 35 Defense organizations spent Department 97 funds for personal services and benefits expenses through 87 agency limitations." Using a sampling method known as probability proportional to size methodology, we statistically selected a sample of 15 agency limitations. Agency limitations 4600 (DCAA) and 5100 (DLA) were the only selected samples that received accounting support from the DFAS Columbus Center. Because of inadequate audit trails from the financial statements to the accounting and source records at supporting accounting organizations, we curtailed our audit work after five agency limitations. We will issue a report on the DFAS Cleveland Center, which provided accounting support for 2 of the 15 selected agency limitations. We will not issue an overall audit report addressing FY 1996 payroll expenses for Other Defense Organizations.

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<sup>1</sup>OMB Circular No. A-34, "Instructions on Budget Execution," December 1995, states that an "agency limitation" is for fund control purposes and defines the term as "any administrative division or subdivision of funds made by agency officials that restricts the use of Federal Government funds."

The following table shows the extent of the audit trails that existed for the payroll expenses of the five selected agency limitations from the financial statements to the accounting records, and from the accounting records back to the source records. An "X" indicates the presence of supporting accounting records.

**Extent of Audit Trails for Payroll Financial Data  
Analyzed by Agency Limitation**

Accounting Office	WHS	DFAS Columbus Center		DFAS Cleveland Center	
Limitation	OSD 1120	DCAA 4600	DLA 5100	96 BRAC III Navy 16B4	96 BRAC IV Navy 40B4
Total for payroll	\$145.4 million	\$315.5 million	\$930.1 million	Unknown	Unknown
FY 1996 financial statement	X	X	X	X	X
Submitting office trial balances	X	X	X		
Accounting records	X	X	X		
Subaccounting records	X				
Source documents (payroll summaries)					

BRAC            Base Realignment and Closure  
 OSD            Office of the Secretary of Defense  
 WHS            Washington Headquarters Services

**Use of Technical Assistance.** The Technical Director and an Operations Research Analyst of the Quantitative Methods Division, Office of the Assistant Inspector General for Auditing, provided technical assistance in selecting an audit sample.

**Audit Type, Dates, and Standards.** We performed this financial-related audit from April 1997 through January 1998 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We included tests of management controls that we considered necessary.

**Contacts During the Audit.** We visited or contacted individuals and organizations within DoD. Further details are available on request.

## **Management Control Program**

DoD Directive 5010.38, "Management Control Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of those controls.

**Scope of Review of the Management Control Program.** We assessed the adequacy of the DFAS Columbus Center's management controls over payroll expenses reported to the DFAS Indianapolis Center for inclusion in the FY 1996 Financial Statements for Other Defense Organizations. To accomplish this, we relied on Inspector General, DoD, Report No. 97-073, "Reliability of the FY 1995 Financial Statements for the Defense Logistics Agency General Fund," January 15, 1997, and Inspector General, DoD, Report No. 97-024, "General Fund Trial Balance of the Defense Logistics Agency at September 30, 1995," November 15, 1996. We reviewed management's self-evaluation of controls over expense reporting.

**Adequacy of Management Controls.** We identified a material management control weakness as defined by DoD Directive 5010.38. The DFAS Columbus Center's management controls over the reporting of operating expenses were not adequate to ensure that all expenses were properly and accurately classified and reported and were auditable. The recommendations in this report, if implemented, will improve the accuracy of operating expenses reported to the DFAS Indianapolis Center for inclusion in the Statement of Operations and Changes in Net Position for Other Defense Organizations in future years. A copy of this report will be provided to the senior DFAS official responsible for management controls.

**Adequacy of Management's Self-Evaluation.** The DFAS Columbus Center identified the financial statements that DoD organizations are required to prepare and submit to OMB under the CFO Act as an assessable unit and, in our opinion, correctly identified the associated risk as high. However, management's self-evaluation was not adequate to ensure that operating expenses were properly and accurately classified and reported and were auditable. Also, the accounting system did not provide audit trails, as recommended in prior reports. Management is conducting an evaluation to determine whether the current accounting system will be updated or replaced.

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## Appendix B. Summary of Prior Coverage

The Inspector General, DoD, has published numerous audit reports in response to the requirements of the CFO Act. The following six reports are related to this audit.

**Inspector General, DoD, Report No. 98-058, "Payroll Expenses Reported in FY 1996 for the Office of the Secretary of Defense," February 2, 1998.** This is the second in a series of reports addressing payroll-related issues, including the effect of noncompliant payroll actions on the FYs 1996 and 1997 financial statements. The report states that the FY 1996 Statement of Operations and Changes in Net Position for Other Defense Organizations included \$145.4 million of payroll expenses for the Office of the Secretary of Defense; however, this amount could not be traced to source records. As a result, the operating expense portion of the Statement of Operations and Changes in Net Position for Other Defense Organizations could not be relied on to accurately present payroll expenses for FY 1996. A change in payroll systems corrected the problem for FY 1997.

**Inspector General, DoD, Report No. 98-028, "Personal Services and Benefits Expenses in the FY 1996 Statement of Operations and Changes in Net Position of the 'Other Defense Organizations,'" December 2, 1997.** This is the first in a series of reports addressing payroll-related issues, including the effect of noncompliant payroll actions on the FYs 1996 and 1997 financial statements. The report states that in the FY 1996 Statement of Operations and Changes in Net Position for Other Defense Organizations payroll expenses were overstated by \$8 billion. As a result, the operating expense portion of the FY 1996 Statement of Operations and Changes in Net Position for Other Defense Organizations could not be relied on to accurately present payroll expenses. We recommended issuing additional instructions to require the individual reporting of operating expenses. Management concurred and issued clarifying instructions in August 1997.

**Inspector General, DoD, Report No. 97-201, "Navy and Marine Corps Reserve Financial Reports on the National Guard and Reserve Equipment Appropriation," July 30, 1997.** The report states that the "Report(s) on Budget Execution," DD Form 1176, for the Navy and Marine Corps Reserve National Guard and Reserve Equipment Appropriation were not fully supported with source documentation. The Report(s) on Budget Execution were not fully supported because the DFAS Cleveland Center did not maintain adequate documentation or source records, as required by Key Accounting Requirement No. 8, "Audit Trails." As a result, the Report(s) on Budget Execution could not be verified, and the FY 1996 trial balances for the Navy and Marine Corps Reserves may be unreliable. Further, if the DFAS Cleveland Center does not reconcile the FY 1996 financial reports with source documents, the FY 1997 financial statements may also be unreliable. The DFAS Cleveland Center concurred with all recommendations.

## **Appendix B. Summary of Prior Coverage**

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**Inspector General, DoD, Report No. 97-155, "Internal Controls and Compliance With Laws and Regulations for the FY 1996 Financial Statements of the 'Other Defense Organizations' Receiving Department 97 Appropriations," June 11, 1997.** The report states that the consolidated principal statements for Other Defense Organizations did not accurately and reliably represent the financial operations of the Defense organizations and funds that received Department 97 General Fund appropriations. Unless improvements in accounting systems and management controls are made, the FYs 1997 and 1998 Financial Statements for Other Defense Organizations will not be reliable. The report also states that the DFAS Indianapolis Center and the accounting offices supporting the Defense organizations and funds that receive Department 97 appropriations were unable to fully comply with applicable laws and regulations. As a result, the Defense organizations receiving Department 97 general funds did not fully comply with the CFO Act and the Federal Managers' Financial Integrity Act. The report recommended that the Director, DFAS Indianapolis Center, maintain the records needed for audit trails of all adjustment transactions; reconcile the current-year Department 97 expenditure data for the Fund Balance With Treasury account with Department of the Treasury data; and document the review process used and the decision made regarding the auditors' recommended adjustments to the Principal Statements, including the footnotes. The Director, DFAS Indianapolis Center, concurred with the recommendations.

**Inspector General, DoD, Report No. 97-073, "Reliability of the FY 1995 Financial Statements for the Defense Logistics Agency General Fund," January 15, 1997.** The report states that the DFAS Columbus Center did not prepare reliable FY 1995 financial statements for three DLA General Fund appropriations. The report recommended that the DFAS Columbus Center perform quality control reviews of the financial statements. DFAS Columbus Center concurred with the recommendation and stated that the completed financial statements are randomly selected for detailed reviews.

**Inspector General, DoD, Report No. 97-024, "General Fund Trial Balance of the Defense Logistics Agency at September 30, 1995," November 15, 1996.** The report states that the DFAS Columbus Center did not reconcile the DLA general ledger accounts before preparing and certifying the FY 1995 DLA trial balance. The report also states that the DFAS Columbus Center's accounting system did not readily permit identification of imbalances. In addition, the DFAS Columbus Center's accounting system did not provide an adequate audit trail to identify the causes and correct the imbalances. The report recommended that the DFAS Columbus Center accelerate the schedule of implementing the accounting system changes needed to readily identify and correct account imbalances and perform needed reconciliations to ensure that the DLA FY 1996 Financial Statements would be more reliable. The DFAS Columbus Center concurred with the recommendations, stating that software would be installed to implement the DoD Standard General Ledger and allow segregation of proprietary accounts. However, the DFAS Columbus Center has not implemented the changes needed in the accounting system.

## Appendix C. OMB Object Classes and Related DoD Standard General Ledger Accounts

<u>Object Class</u>	<u>General Ledger Account</u>	<u>Account Definition</u>
Personal Services and Benefits	6111-Personnel Compensation-Civilian	Represents the gross compensation for personal services rendered by Federal civilian employees and non-Federal employees.
	6112-Personnel Compensation-Military	Represents the earned basic, incentive, and special pays for military personnel.
	6113-Personnel Benefits-Civilian	Represents the benefits paid directly to DoD civilian personnel and payments to other funds for the benefit of the employees.
	6114-Personnel Benefits-Military	Represents the benefits paid directly to military personnel or to other funds for military personnel.
	6115-Benefits for Former Personnel	Represents benefits due to former personnel or their survivors.
Travel and Transportation	6116-Travel and Transportation of Persons	Represents the expense of transporting employees and others, including their per diem allowances, while in an authorized travel status.
	6117-Transportation of Things	Represents the expense of transporting things and the care of such things while in the process of being transported.

**Appendix C. OMB Object Classes and Related DoD Standard General Ledger Accounts**

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<u>Object Class</u>	<u>General Ledger Account</u>	<u>Account Definition</u>
Rents, Communications, and Utilities	6118-Rents, Communications, and Utilities	Represents the expense incurred for rents, communications, and utilities purchased from commercial or U.S. Government sources.
Printing and Reproduction	6119-Printing and Reproduction	Represents the expense incurred for printing and reproduction and the related composition and binding operations.
Contractual Services	6120-Other Services	Represents the expense incurred for services not otherwise classified.
Supplies and Materials	6121-Supplies and Materials	Represents the expense incurred for supplies and materials, including ammunition. Includes all supplies consumed or utilized that do not meet the capitalization criteria.
Equipment Not Capitalized	6122-Equipment Not Capitalized	Represents the acquisition costs of equipment that do not meet capitalization requirements.
Grants, Subsidies, and Contributions	6123-Grants, Subsidies, and Contributions	Represents the value of grants, subsidies, and contributions made to further or enhance the interest of national defense.
Insurance Claims and Indemnities	6124-Insurance Claims and Indemnities	Represents payments to veterans and their survivors for death or disability, claims and judgments arising from court decisions, contracts, and military operations.

**Appendix C. OMB Object Classes and Related DoD  
Standard General Ledger Accounts**

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<u>Object Class</u>	<u>General Ledger Account</u>	<u>Account Definition</u>
Other	6130-Annual Leave	Represents the expense for annual leave earned by military personnel and civilian employees during the accounting period.
	6190-Contra Bad Debt Expense-Incurred for Others	Represents bad debt expense.
	6199-Adjustment to Subsidy Expense	Represents the amount of adjustment to subsidy expense in the program fund.
	6400-Benefit Program Expense	Represents amounts paid by the Military Retirement Trust Fund and the DoD Education Benefits Trust Fund.

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## **Appendix D. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense (Comptroller)  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)  
Director for Accounting Policy  
Director, Administration and Management  
Assistant Secretary of Defense (Public Affairs)  
Director, Defense Logistics Studies Information Exchange  
Director, Washington Headquarters Services

### **Department of the Army**

Auditor General, Department of the Army

### **Department of the Navy**

Assistant Secretary of the Navy (Financial Management and Comptroller)  
Auditor General, Department of the Navy  
Superintendent, Naval Postgraduate School

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force

### **Other Defense Organizations**

Director, Defense Contract Audit Agency  
Director, Defense Finance and Accounting Service  
Director, Defense Finance and Accounting Service Cleveland Center  
Director, Defense Finance and Accounting Service Columbus Center  
Director, Defense Finance and Accounting Service Denver Center  
Director, Defense Finance and Accounting Service Indianapolis Center  
Director, Defense Logistics Agency  
Director, National Security Agency  
Inspector General, National Security Agency  
Inspector General, Defense Intelligence Agency

## **Non-Defense Federal Organizations and Individuals**

Office of Management and Budget  
Technical Information Center, National Security and International Affairs Division,  
General Accounting Office  
Inspector General, Department of Education

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on National Security, Committee on Appropriations  
House Committee on Government Reform and Oversight  
House Subcommittee on Government Management, Information, and Technology,  
Committee on Government Reform and Oversight  
House Subcommittee on National Security, International Affairs, and Criminal  
Justice, Committee on Government Reform and Oversight  
House Committee on National Security

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## INTERNET DOCUMENT INFORMATION FORM

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**C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #):** OAIG-AUD (ATTN: AFTS Audit Suggestions)  
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