Audit Report

OFFICE OF THE INSPECTOR GENERAL

FINANCIAL STATEMENTS FOR THE COMMISSARY OPERATIONS FUND, AS OF SEPTEMBER 30, 1994

Report No. 95-217

June 2, 1995

Department of Defense

DISTRIBUTION STATEMENT A
Approved for Public Release
Distribution Unlimited
Additional Copies

Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate, at (703) 604-8937 (DSN 664-8937) or FAX (703) 604-8932.

Suggestions for Future Audits

To suggest ideas for or to request future audits, contact the Planning and Coordination Branch, Audit Planning and Technical Support Directorate, at (703) 604-8939 (DSN 664-8939) or FAX (703) 604-8932. Ideas and requests can also be mailed to:

Inspector General, Department of Defense
OAIG-AUD (ATTN: APTS Audit Suggestions)
400 Army Navy Drive (Room 801)
Arlington, Virginia 22202-2884

DoD Hotline

To report fraud, waste, or abuse, contact the Defense Hotline by calling (800) 424-9098; by sending an electronic message to Hotline@DODIG.OSD.MIL; or by writing the Defense Hotline, The Pentagon, Washington, D.C. 20301-1900. The identity of each writer and caller is fully protected.

Acronyms

DeCA  Defense Commissary Agency
DFAS-CO  Defense Finance and Accounting Service-Columbus Center, Columbus, Ohio
DBMS  Defense Business Management System
OMB  Office of Management and Budget
June 2, 1995

MEMORANDUM FOR DIRECTOR, DEFENSE COMMISSARY AGENCY
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Audit Report on the Financial Statements for the Commissary Operations
Fund, as of September 30, 1994 (Report No. 95-217)

We are providing this report for your information and use and for use by the
Congress. Financial statement audits are required by the Chief Financial Officers Act
for Federal Financial Statements," January 8, 1993, requires the Inspector General,
DoD, to report on the adequacy of internal controls and compliance with laws and
regulations and express an opinion on the fairness of the financial statements.
Comments from the Defense Commissary Agency and the Defense Finance and
Accounting Service were considered in the preparation of this report.

We are unable to render an opinion on the Statement of Financial Position and
Statement of Operations for the Commissary Operations Fund because the internal
control structure, while improved, was not adequate to provide reasonable assurance
that material misstatements would be prevented or detected in a timely manner. Our
disclaimer of opinion is based on the Statement of Financial Position and the Statement

The comments received from the Defense Commissary Agency and the Defense
Finance and Accounting Service in reply to a draft report conformed to the
requirements of DoD Directive 7650.3. Any further comments you wish to make
should be received by July 3, 1995.

The courtesies extended to the audit staff are appreciated. Questions about this
audit should be directed to Mr. Robert J. Ryan, Audit Program Director, at
(703) 604-9418 (DSN 664-9418) or Mr. John Yonaitis, Audit Project Manager, at
(703) 604-9231 (DSN 664-9231). The distribution of this report is in Appendix E. A
list of the audit team members are listed on the inside back cover.

Robert J. Lieberman
Assistant Inspector General
for Auditing
Office of the Inspector General, DoD

Report No. 95-217
(Project No. 5LA-2001)

June 2, 1995

Financial Statements for the
Commissary Operations Fund,
as of September 30, 1994

Executive Summary

Introduction. The Commissary Operations Fund receives funding primarily through the Defense Business Operations Fund and accounts for direct and indirect costs of headquarters, region, and store operations. The Defense Commissary Agency (DeCA) manages the Commissary Operations Fund while the Defense Finance and Accounting Service-Columbus Center, Columbus, Ohio (DFAS-CO), provides most accounting services. As of September 30, 1994, DeCA reported on the financial statements that the Commissary Operations Fund had negative $1.164 billion in assets, $381 million in liabilities, $45 million in revenues, and $1.087 billion in expenses. We performed this audit in response to the Chief Financial Officers Act.

Audit Objectives. Our objectives were to determine whether the September 30, 1994, Statement of Financial Position and the Statement of Operations present fairly the financial position of the Commissary Operations Fund in accordance with Office of Management and Budget Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993. We evaluated the DeCA and the DFAS-CO internal control structure for ensuring that material misstatements were prevented or detected in liability and expense account balances as well as their compliance with applicable laws and regulations that have a direct and material effect on the financial statements. We did not review the asset and revenue accounts on the financial statements because under the Defense Business Operations Fund concept the accounts are reported at the DoD level, not the agency level.

Scope and Methodology. We examined the Statement of Financial Position and the Statement of Operations for the Commissary Operations Fund and related notes for the Commissary Operations Fund. Other principal statements and related notes prepared by DeCA, but not examined by us, include the Statement of Cash Flows, and the Statement of Budget and Actual Expenses. The Statement of Financial Position reflects the asset and liability general ledger account balances, while the Statement of Operations reflects the revenue and expense general ledger account balances. For each general ledger account balance that we selected to review, we evaluated the internal control structure over transaction processing and recording at DeCA and DFAS-CO. We verified or attempted to verify balances to subsidiary records and supporting source documentation generated by accounting systems. We reviewed computer-processed data from DeCA and DFAS organizations. We also independently verified the source data for selected transactions but not in sufficient quantities to draw conclusions on the overall reliability of the computer-processed data. The Statement of Financial Position and the Statement of Operations upon which we made our review were submitted to us on December 30, 1994.

Disclaimer of Opinion. We are unable to render an opinion on the Statement of Financial Position and Statement of Operations for the Commissary Operations Fund as of September 30, 1994, because an internal control structure over accounts payable and
transportation of things was not adequate to provide reasonable assurance that material misstatements would be prevented or detected in a timely manner. Additionally, DFAS-CO, in its 1994 Annual Statement of Assurance, recognized that the Defense Business Management System, the official accounting and payment system used to record DeCA financial transactions, was incapable of preventing or detecting material misstatements in account balances.

Findings on Internal Controls. The internal control structure for the Commissary Operations Fund did not provide reasonable assurance that material misstatements would be prevented or detected in a timely manner.

  o The DeCA and DFAS-CO internal control structure over transaction processing and general ledger recordings did not provide reasonable assurance of an accurate accounts payable balance. As a result, the $325.9 million accounts payable balance as of September 30, 1994, contained overstatement errors of as much as $35.8 million and is probably materially misstated (Finding A).

  o The DeCA internal control structure over transaction processing and general ledger recordings did not provide reasonable assurance of an accurate transportation of things account balance. As a result, the $121.7 million balance as of September 30, 1994, could not be verified and is probably materially misstated (Finding B).

DeCA has made some improvements in its financial and accounting practices, such as use of the accrual method of accounting, use of proprietary general ledger accounts, and the use of the DoD established general ledger account numbers. DFAS-CO has also recognized the need for accounting system improvements. The DeCA and DFAS-CO internal management control programs also need to be improved to ensure the effective processing and recording of liabilities and expenses. A discussion of the controls assessed and the weaknesses identified is in Part II.A.

Findings on Compliance With Laws and Regulations. There were instances of noncompliance with laws and regulations that materially affected the reliability of the Statement of Financial Position and Statement of Operations for the Commissary Operations Fund. Except for laws and regulations dealing with the form and content of financial statements, all instances of material noncompliance and their effect on the Statement of Financial Position and the Statement of Operations are discussed in Part II.A. Part II.B. contains our report on compliance with laws and regulations.

Summary of Recommendations. We recommend that DeCA and DFAS-CO establish procedures to periodically review accounts payable balances. We recommend that DFAS-CO establish controls to ensure that disbursements are posted timely, and establish interim procedures for matching disbursements to obligations before payments are made. We also recommend that DeCA validate the accuracy of billings for second destination transportation expenses before payment approval.

Management Comments. The DeCA concurred with the recommendation to periodically review all accounts payable balances. The DeCA proposed alternatives to the recommendation to periodically validate the second destination transportation expense account balance that we consider responsive to the recommendation. The DFAS concurred with all of the recommendations.

Audit Response. We consider the DeCA comments and alternative actions to be responsive to the recommendations. We consider the DFAS comments to be responsive to the recommendations.
Table of Contents

Executive Summary .................................................. 1

Part I - Disclaimer of Opinion .................................. 2
     Disclaimer of Opinion ........................................ 2
     Auditing Standards ......................................... 3
     Accounting Principles ...................................... 3

Part II - Audit Results ............................................ 6
     Audit Background ............................................ 6
     Audit Objectives ........................................... 7

Part II.A. - Review of Internal Controls ....................... 10
     Introduction ............................................... 10
     Finding A. Accounts Payable .............................. 13
     Finding B. Transportation of Things ...................... 22

Part II.B. - Review of Compliance With Laws and Regulations 28
     Introduction ............................................... 28
     Reportable Conditions .................................... 29
     Reportable Conditions Not Noted ......................... 30

Part III - Additional Information ................................. 32
     Appendix A. Scope and Methodology ...................... 32
     Scope ....................................................... 32
     Methodology ............................................... 33
     Appendix B. Other Matters of Interest .................... 35
     Appendix C. Summary of Prior Audits and Reviews ........ 40
     Appendix D. Organizations Visited or Contacted .......... 42
     Appendix E. Report Distribution ........................... 43

Part IV - Management Comments ................................. 46
     Defense Commissary Agency Comments .................... 46
     Defense Finance and Accounting Service Comments ...... 50
Part I - Disclaimer of Opinion
Disclaimer of Opinion

We are unable to render an opinion on the Statement of Financial Position and Statement of Operations for the Commissary Operations Fund and related notes as of September 30, 1994. Our disclaimer of opinion is based on the financial statements and related notes submitted to us on December 30, 1994. Although the Defense Commissary Agency (DeCA) has made a major commitment to improving financial management of the Commissary Operations Fund, a weak internal control structure prevented us from performing an audit of the general ledger balances.

- The DeCA and the Defense Finance and Accounting Service, Columbus Center, Columbus, Ohio (DFAS-CO) internal control structure for processing and recording transactions into the accounts payable general ledger accounts during FY 1994 did not conform to key DoD accounting requirements; and the accounts payable balance of $325.9 million reported on the Statement of Financial Position as of September 30, 1994, contained overstatement errors of as much as $35.8 million and is probably materially misstated (Finding A).

- The DeCA internal control structure for processing and recording transportation of things expense transactions into the Cost of Goods Sold, Intragovernmental general ledger account during FY 1994 did not conform to key DoD accounting requirements; and the balance of $121.7 million reported on the Statement of Operations as of September 30, 1994, could not be verified and is probably materially misstated (Finding B).

- The DFAS-CO, in its FY 1994 Annual Statement of Assurance, included a statement of nonassurance that the Defense Business Management System (DBMS) was capable of preventing or detecting material misstatements in account balances. The DBMS is the official accounting and payment system used to record DeCA financial transactions.

- The DFAS-CO self-assessment of its payroll division identified nine areas where DBMS failed to conform to accounting principles and standards for government agencies.

It was not practical or efficient for us to perform, nor did we perform, other auditing tests to determine the validity of the reported balances. Because we were unable to determine the proper values of material liability and expense account balances, the scope of our work was not sufficient to enable us to express an opinion on the Statement of Financial Position and Statement of Operations for the Commissary Operations Fund and related notes; therefore, we do not express an opinion.
Auditing Standards

We conducted our audit in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and Office of Management and Budget (OMB) Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the principal statements are free of material misstatements. We relied on the guidelines suggested by the General Accounting Office and our professional judgment in assessing the materiality of matters impacting the fair presentation of the Statement of Financial Position and the Statement of Operations and the related internal control weaknesses.

Accounting Principles

Accounting principles and standards for the Federal Government remain under development. The Federal Accounting Standards Advisory Board was established to recommend Federal accounting standards to the Director, OMB; the Secretary of the Treasury; and the Comptroller General, who are principals of the Joint Financial Management Improvement Program. Specific standards agreed on by the three principals are issued by the Director, OMB, and the Comptroller General. Until accounting standards have been issued that will govern all aspects of financial statement reporting and constitute "generally accepted accounting principles for the Federal Government," agencies are required to follow the hierarchy of accounting principles described in OMB Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993. The hierarchy constitutes an "other comprehensive basis of accounting" to be used for preparing Federal agency financial statements. The hierarchy defined and approved by the Joint Financial Management Improvement Program principals is summarized as:

- standards agreed to and published by the Joint Financial Management Improvement Program principals,
- form and content requirements of OMB,
- accounting standards contained in agency accounting policy guidance,
- accounting principles published by other authoritative sources.

To date, three accounting standards have been published by the Joint Financial Management Improvement Program principals, so most accounting standards for the DoD "other comprehensive basis of accounting" are contained in DoD accounting policy guidance. The DoD accounting guidance is primarily in the DoD Manual 7220.9-M, "DoD Accounting Manual," October 1983. During FY 1993, the then Comptroller of the DoD (presently the Under Secretary of
Disclaimer of Opinion


The DoD Financial Management Regulation will eventually serve as the single DoD-wide financial management regulation for use by all DoD Components for accounting, budget, finance, and financial management education and training. In the interim, unless superseded by published Federal accounting standards or requirements of OMB, the policy contained in the DoD Accounting Manual or in the DoD Financial Management Regulation, as applicable, is the authoritative basis for preparing financial statements in accordance with an "other comprehensive basis of accounting."
Part II - Audit Results
Audit Background

The Chief Financial Officers Act requires an annual audit of funds such as the Commissary Operations Fund. The fund is a primary business area of the Defense Business Operations Fund, for which an appropriation is established based on a percentage of commissary store sales. The financial statements of the Commissary Operations Fund are the responsibility of DeCA and were prepared by DeCA based on financial information provided by the DFAS-CO, and the 9th Finance Group - Subsistence Finance and Accounting Office, Germany. The Statement of Financial Position and the Statement of Operations essentially show the worth of the Commissary Operations Fund by comparing its assets, liabilities, revenues, and expenses as of the end of a fiscal year. DeCA reported net assets of negative $1.164 billion and liabilities of $381 million on the Statement of Financial Position, and revenues of $44.9 million and expenses of $1.087 billion on the Statement of Operations for the Commissary Operations Fund as of September 30, 1994. The balances of the Commissary Operations Fund included of the major accounts identified in Table 1.

<table>
<thead>
<tr>
<th>Table 1. Major Accounts of the Commissary Operations Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Asset Account Balances</strong></td>
</tr>
<tr>
<td>Fund Balance With Treasury</td>
</tr>
<tr>
<td>Funds Collected</td>
</tr>
<tr>
<td>Funds Disbursed</td>
</tr>
<tr>
<td><strong>Liability Account Balances</strong></td>
</tr>
<tr>
<td>Accounts Payable Federal</td>
</tr>
<tr>
<td>Accounts Payable Non-Federal</td>
</tr>
<tr>
<td><strong>Revenue Account Balances</strong></td>
</tr>
<tr>
<td>Revenues From Sales of Goods and Services</td>
</tr>
<tr>
<td>Intragovernmental</td>
</tr>
<tr>
<td><strong>Expense Account Balances</strong></td>
</tr>
<tr>
<td>Cost of Goods Sold, Intragovernmental</td>
</tr>
<tr>
<td>Personnel Compensation</td>
</tr>
<tr>
<td>Transportation of Things</td>
</tr>
</tbody>
</table>

We reviewed accounts payable and transportation of things (Findings A and B, respectively) and personnel compensation (Appendix B).
Audit Results

We did not review the asset and revenue accounts on the financial statements because under the Defense Business Operations Fund concept of accounting for the Fund Balance with Treasury accounts are reported at the departmental level, not at the agency level. DeCA was required to report funds disbursed and expensed, but could not offset those with cash and revenues, and was instructed by DFAS Headquarters to record operating expenses in the Cost of Goods Sold, Intragovernmental, as cost of services sold. The DeCA Operations Fund does not manufacture or sell any product. Therefore, we consider the negative asset balance of $1.164 billion, and the Cost of Goods Sold, Intragovernmental of $1.087 billion, as presented on the DeCA financial statements as of September 30, 1994, to be materially misrepresented. (At the consolidated Defense Business Operations Fund level, the cash and disbursements and revenue and expense accounts are offset.)

Audit Objectives

Our primary objective was to determine whether the September 30, 1994, Statement of Financial Position and Statement of Operations accounts presented fairly the financial position of the Commissary Operations Fund in accordance with OMB Bulletin 94-01. We also evaluated the DeCA and DFAS-CO internal control structure for ensuring that material misstatements were prevented or detected in liability and expense account balances as well as their compliance with applicable laws and regulations that have a direct and material effect on the financial statement.
This page was left out of original document.
Part II.A. - Review of Internal Controls
Introduction

We examined the internal control structure for the principal liability and expense accounts presented on the Statement of Financial Position and Statement of Operations for the Commissary Operations Fund as of September 30, 1994. The statements upon which our examination was based were submitted to us on December 30, 1994. DeCA and DFAS-CO management are jointly responsible for establishing and maintaining an internal control structure. In fulfilling that responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures.

The objectives of an internal control structure (United States Code, title 31, section 3512) are to provide management with reasonable but not absolute assurance that the following are met.

- Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets.

- Funds, property, and other assets are safeguarded against loss, misappropriation, unauthorized use, and waste.

- Transactions, including those related to obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the financial statements, and any other laws and regulations that the OMB, entity management, or the Inspector General, DoD, have identified as being significant for which compliance can be objectively measured and evaluated.

For the purpose of this report, we evaluated the significant internal controls over accounts payable, personnel compensation, and transportation of things.

Reportable Conditions. Reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization’s ability to effectively control and manage its resources and ensure accurate and reliable financial information needed to manage and evaluate operational performance. A material weakness is a reportable condition in which the design or operation of the internal control structure does not reduce to a relatively low level the risk that errors or irregularities could occur. Such errors would be in amounts that would be material to the statements being audited, or material to a performance measure or aggregation of related performance measures, and not be detected within a timely period by employees in the normal course of performing their functions. Material internal control weaknesses existed in the internal control structure at both DeCA and DFAS-CO.
**DeCA.** The DeCA did not establish or implement internal controls to ensure that material misstatements were prevented or detected in the accounts payable and transportation of things account balances of the Commissary Operations Fund financial statements. Additionally, DeCA did not fully implement the DoD Internal Management Control Program as it relates to preventing or detecting material misstatements in the accounts payable and transportation of things expense account balances of the Commissary Operations Fund. Although DeCA did not assess the overall internal control risks of the Commissary Operations Fund, it did assess general fund control as a medium risk. However, it did not plan self-assessments until FY 1995. Because DeCA had not yet conducted self-assessments of individual accounts, the material weaknesses we identified were not surfaced and resolved.

**DFAS-CO.** The DFAS-CO did not establish a responsive accounting system for Commissary Operations Fund transactions and recordings. DFAS-CO used the DBMS to account for Commissary Operations Fund transactions and general ledger recordings. However, DBMS had significant shortcomings in meeting the accounting requirements for the Accounts Payable and Transportation of Things accounts of the Commissary Operations Fund. Because of the DBMS shortcomings, DeCA had to exercise accounting control of operating expenses off-line. DFAS-CO recognized the shortcomings of DBMS, and stated that, taken as a whole, the system of internal accounting and administrative control in effect during FY 1994, did not comply with the requirement to provide reasonable assurance that the objectives of the DoD Internal Management Control Program were met. Until DFAS-CO corrects the weaknesses of the DBMS system, the accounts payable liability and transportation of things expense account balances will likely remain unreliable.

In its Annual Statements of Assurance, DFAS-CO identified material weaknesses in its system of internal accounting and administrative controls for DBMS and within the payroll subsystem of DBMS. We have identified similar conditions affecting accounting and administrative controls. However, we did not follow up on the conditions identified by the payroll division of DFAS-CO.

**DFAS-CO Accounting and Administrative Controls.** In its Annual Statement of Assurance, October 13, 1994, DFAS-CO identified the following material weaknesses.

- Monthly reconciliations between the trial balance and subsidiary ledgers were not effective.
- Reviews of unliquidated obligations were not being performed.
- Subsidiary ledgers for outstanding advances and accrued but unpaid expenditures contained erroneous data and did not provide reliable accounting data.
Review of Internal Controls

- No uniform document control numbers existed at DFAS-CO.
- No automated front end validations were on all document numbers at DFAS-CO.

DFAS-CO Payroll Subsystem.  In its Annual Statement of Assurance, September 7, 1994, the DFAS-CO Payroll Division identified the following material weaknesses.

- The DBMS did not identify erroneous entries to the source of input.
- The DBMS did not ensure that entitlements posted in the payroll subsystem equaled the amount disbursed.
- Certain premium pays and leave balances could be manipulated without being reflected on the employees pay and leave account.
- Timekeepers could override separation dates input by the personnel office.
- The DBMS did not have edit checks to prevent overpayments and manipulation of tax information.
- The DBMS did not have edits to prevent employees from being paid on more than 1 of the 20 data bases supporting DFAS-CO.
- The DBMS allowed payments to employees beyond the employees' termination dates.

Reportable Conditions Not Noted.  Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions that are also considered to be material weaknesses.
Finding A. Accounts Payable

The DeCA and DFAS-CO internal control structure over transaction processing and general ledger posting for the Commissary Operations Fund did not provide reasonable assurance that the accounts payable balance presented in the Statement of Financial Position as of September 30, 1994, was accurate. The condition occurred because DeCA did not establish effective accounting controls over the recording of accounts payable, and DFAS-CO did not establish an effective review process to ensure the accuracy and integrity of the accounts payable balance. As a result, the $325.9 million accounts payable balance contained overstatement errors of at least $35.8 million and invalid negative accounts payable of at least $1.45 million. Additionally, the accounts payable are probably materially misstated.

Accounting for Accounts Payable

The Commissary Operations Fund accounts payable includes Accounts Payable-Transactions with Non-Federal Entities (accounts payable-public) and Accounts Payable-Transactions with Federal Entities (accounts payable-Federal). Accounts payable-public represents monies DeCA owes commercial vendors for personal services, and supplies and for repairs to commissary stores. Accounts payable-Federal represents monies DeCA owes military installations and other Governmental agencies for support of DeCA.

DeCA commits, obligates, and expenses funds for transactions that are payable with Commissary Operations Funds, for general and administrative, custodial, janitorial, and personnel compensation expenses incurred at DeCA activities and for second destination transportation expenses, which primarily are charges for shipping DeCA resale stock to commissaries outside the continental United States. The accounts payable balance increases as DeCA expenses the Commissary Operations Fund. Disbursements by DFAS-CO or other DFAS service centers reduce the accounts payable balance. At the end of the accounting period, all unpaid expenditures are reported in the Accrued Expenditures Unpaid Register, which is used as the subsidiary record to support the accounts payable balance. DFAS-CO is responsible for the maintenance of the DeCA general ledger accounts and its subsidiary ledgers, registers, and supplementary reports needed to prepare the financial statements. DeCA is responsible for the accuracy of the balances presented on the financial statements.

The DoD Financial Management Regulation provides accounting policy, procedures, principles, and standards that DoD Components are required to follow to account for accounts payable. The DoD Accounting Manual requires that amounts recorded as accounts payable be supported by documentation that clearly shows the basis for the amount recorded. The DoD Financial Management Regulation requires every DoD Component to establish an
Finding A. Accounts Payable

accounting system that will include adequate controls to promote the accuracy of the accounts and the data produced from the accounts. Periodically, but at least annually, the accounts payable balance is required to be reconciled to the supporting documentation. Differences are to be researched and, if necessary, adjusted.

As of September 30, 1994, the DeCA Statement of Financial Position for the Commissary Operations Fund reported $325.9 million in accounts payable ($145.1 million public, and $180.8 million Federal). Of that amount, $293.7 million was reported in the general ledger of the DBMS maintained by DFAS-CO. The remaining $32.2 million was recorded in the general ledger of the Standard Finance System maintained by the 9th Finance Group - Subsistence Finance and Accounting Office.

Account Balance

The DeCA and DFAS-CO internal control structure for processing and posting transactions to the general ledger accounts for the Commissary Operations Fund did not provide reasonable assurance that the accounts payable balance presented in the FY 1994 Statement of Financial Position was accurate. We selected 140 documents valued at $88.7 million, that included both positive and negative accounts payable, by object class code (purpose for the expense) from the Accrued Expenditure Unpaid Register as of September 30, 1994, to test the reasonableness of the accounts payable balance. We obtained the 140 funding documents at DeCA Headquarters and at the northeast, midwest and southwest regions of DeCA. We also obtained transaction histories and performed analysis of funds available for disbursements by DFAS-CO. We sent accounts payable confirmation letters to DeCA creditors for confirmation of $2.7 million DeCA owed on 39 of those documents. The general ledger reports did not always match the Accrued Expenditures Unpaid Register; therefore, the general ledger balances could not be supported and are probably misstated.

Results of Review. Our judgmental sample of 105 documents with positive accounts payable balances of $90.7 million, and 35 documents with negative accounts payable balances of $2 million, showed, after examining the funding and billing documents available at DeCA and the disbursement data at DFAS-CO, that:

- 47 of the documents with positive balances of $35.8 million were invalid, mainly because DeCA did not adjust the accrued balances by the actual disbursed amounts.

- 23 of the documents with a negative balance of $1.45 million were invalid because they represented overdisbursements without valid expenses established to cover the payment.
Finding A. Accounts Payable

- 15 of the documents with positive balances of $1.7 million and 1 document with a negative balance of $5,080 could not be verified because billing and payment documentation was not available at DeCA, DFAS-CO, military organizations servicing DeCA, or commercial vendors to determine amounts owed or paid.

- Only 13 of the 39 documents that we requested confirmations on by the payor were returned. However, those 13 verified that $2.1 million of the $2.7 million of questioned accounts payable were invalid because the amounts had already been paid, or DeCA did not owe the accounts payable balances.

Internal Control Structure at DeCA

DeCA did not establish effective internal controls over the accounting methods used to obligate and record accounts payable. Obligation and deobligation practices and inadequate controls over the input of funding documents resulted in an overstated accounts payable balance.

Obligation Analysis. The accounts payable balance was overstated as a result of DeCA obligation and deobligation practices, because DeCA did not match actual expenses to accruals. DeCA was using the accrual method of accounting to record operating expenses, such as general and administrative support for the commissary stores and second destination transportation expenses. When the accrual method of accounting is used to record expenses, generally accepted accounting principles require that those accruals be adjusted to actual expenses when they become known. During FY 1994, for example, DeCA accrued $121.7 million in accounts payable for second destination transportation expenses. Of the $121.7 million, DFAS-CO disbursed $59.2 million against the first half of FY 1994 second destination transportation accruals of $75.6 million. However, DeCA did not process adjusting entries for the $16.4 million ($75.6 million minus $59.2 million) to reduce the accounts payable accrual balance. As a result, the accounts payable balance was overstated.
Finding A. Accounts Payable

Table 2 shows the outstanding balances for second destination transportation accounts payable.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Outstanding Balance (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>$10.3</td>
</tr>
<tr>
<td>1993</td>
<td>4.9</td>
</tr>
<tr>
<td>1994 (first half)</td>
<td>16.4</td>
</tr>
<tr>
<td>1994 (second half)</td>
<td>46.1</td>
</tr>
<tr>
<td>Total</td>
<td>$77.7</td>
</tr>
</tbody>
</table>

We could not determine the validity of the accounts payable balance for the second half of FY 1994, because no disbursements were posted against the $46.1 million accounts payable accruals. We believe the accounts payable balance as of September 30, 1994, was overstated by as much as $31.6 million in invalid accruals for FY 1992, FY 1993, and the first half of FY 1994, because DeCA did not make adjustments to the accrued accounts payable balance when the actual second destination transportation expenses were known.

**Funding Input Controls.** The accounts payable balance was overstated because of inadequate controls over the input of funding documents. Funding documents are input into the DBMS as commitments and obligations by DeCA, and are normally expensed when billings are received to establish accounts payable. Overstatements occurred because of the following inaccurate funding inputs:

- A funding document authorization for roof repairs at the commissary at Edwards Air Force Base, California, for about $567,000 was input twice into DBMS.

- The Fitzsimmons Army Medical Center, Colorado, showed in a funding document that over $199,000 of the funds were not needed and were available for DeCA to deobligate. That amount has been listed as an accrued expenditure and included in the accounts payable balance since FY 1992.

- DeCA Headquarters transferred over $383,000 in negative accounts payable (overdisbursements) from 12 funding documents and created a new funding document with excess funds (obligations and expenses that should have been deobligated) to cover the overdisbursements without a review of why the overdisbursements occurred or an analysis of what DFAS-CO posted against the documents and without collection of the amounts overpaid.

- About $377,000 has been listed as an accrued expenditure since August 1993 for design costs and roof repairs at five different commissary stores on a funding document first issued in June 1992. Officials at DeCA
Headquarters have amended the funding document many times. DeCA Headquarters officials could not tell us whether the $377,000 accrued expenditure was a valid accounts payable.

Mare Island Naval Shipyard, California, billed DeCA in November 1993 for about $13,000 on a $63,000 funding document and indicated that excess funds of about $50,000 were not needed and were available for DeCA to deobligate. The excess funds were not deobligated and were included in the accounts payable balance as of September 30, 1994. In a March 13, 1995 response to our accounts payable confirmation letter, Mare Island officials stated that the funds were still available for DeCA to deobligate.

Internal Control Structure at DFAS

The DFAS-CO did not establish an effective review process to ensure the timely posting of disbursement transactions, and the accuracy of the accounts payable balance. Additionally, the balances in the accounts payable accounts were not properly liquidated or reconciled to the supporting documentation and differences were not researched and adjusted accordingly.

Posting of Transactions. As of September 30, 1994, the accounts payable balance was overstated, in part, because DFAS-CO did not establish controls to ensure that disbursements were posted in the accounting period in which they were made. DoD Financial Management Regulation provides that liabilities are to be recorded initially in the designated accounts for the accounting period during which the transaction giving rise to them occurred and removed in the period during which they are liquidated. DFAS paid a transaction for over $408,000 in May 1992, but the amount was not posted to reduce the accounts payable balance until after our audit inquiry in December 1994. Our analyses indicated that interfund disbursements also were not being posted in a timely manner to reduce the accounts payable balance.

Accurate Accounts Payable Balances. The Accrued Expenditure Unpaid Register, the only reliable listing according to DeCA and DFAS-CO personnel that supported the accounts payable balance, was not accurate and contained invalid negative balances. For instance, in our sample of 140, we identified $1.45 million in invalid negative balances. Negative accounts payable are erroneous and can occur when DFAS-CO:

- overpays an obligation,
- credits a payment to a document with a balance less than the amount paid,
Finding A. Accounts Payable

- posts disbursements to a "dummy" document without obligations established by DeCA, and
- posts duplicate disbursements to the correct document.

Negative entries can falsely decrease the accounts payable balance and affect the accounts payable balance as reported on September 30, 1994.

Posting Travel Expenditures. The Accrued Expenditure Unpaid Register contained numerous employee travel transactions that were included in the accounts payable balance even though they were fully liquidated. Obligations for travel of DeCA employees were estimates and increased accounts payable when posted. DFAS-CO made payments to the employees after submission of travel claims. The disbursements were then posted to reduce the accounts payable balance by object class codes. DFAS-CO assigned a functional code to the posting indicating a final disbursement which should have enabled DeCA to deobligate any excess travel funds. However, DFAS-CO posted disbursements to travel documents using the wrong object class codes, which resulted in negative accounts payable for some object class codes and accrued expenditures unpaid for others. The amounts obligated for travel were estimates, and because excess funds were not deobligated timely, they were included in the accounts payable balances. Only 7 of the 37 travel documents that we reviewed were considered valid accrued expenditures unpaid because they were for permanent change in station expenses and the time period to liquidate those claims had not expired as of September 30, 1994. Employees had liquidated the other 30 travel documents, but DFAS-CO personnel posted the documents to accounts payable by the wrong object class codes, which resulted in incorrect balances in the Accrued Expenditures Unpaid Register.

Reconciliation of Accounts Payable. Neither DeCA nor DFAS-CO conducted adequate periodic reviews and reconciliations of accounts payable balances because neither knew who was responsible for the reviews and reconciliation. We were unable to obtain an unliquidated obligation listing from DFAS-CO to perform independent reviews. DoD Financial Management Regulation requires every DoD Component to establish an accounting system that will include adequate controls to promote the accuracy of the accounts and the data produced from the accounts. Periodically, but at least annually, the balances in the accounts payable accounts are to be reconciled to the supporting documentation. Differences are to be researched and, if necessary, adjusted. We believe that both DeCA and DFAS-CO have the responsibility to perform periodic reviews and reconcile accounts payable balances to subsidiary records and source documents.

Reconciliations, if performed properly, would have identified some of the input errors at DFAS-CO that have affected the accuracy of the accounts payable balances, as reported on September 30, 1994. We reconciled funding document MIPLFW00214301 for $50,000, issued to Peterson Air Force Base, Colorado, for FY 1992 base support costs for the DeCA Midwest Region District Office. We also reconciled funding document MIPLFWE00214301 for $240,000, issued by the DeCA Midwest Region for FY 1992 base support costs for the Peterson Air Force Base commissary store. On September 22, 1992, Peterson Air Force
Finding A. Accounts Payable

Base cross-disbursed both documents for $28,977 and $187,611, respectively; and on April 23, 1993, DFAS-CO posted both to funding document MIPLFWE0214301. Those were final disbursements; therefore, funding document MIPLFW00214301 had a misstated accounts payable balance of $50,000, and funding document MIPLFWE0214301 had a misstated accounts payable balance of $23,412 because of the DFAS-CO erroneous posting of $28,977. Both documents had funds that could have been deobligated in FY 1993 if the postings had been reviewed and corrected.

Materiality and Impact on Financial Statements

The internal accounting controls over accounts payable were materially deficient. The DoD Financial Management Regulation contains guidance on what constitutes a material deficiency in a DoD Component accounting system. The regulation contains specific accounting requirements to meet the standards established by the General Accounting Office, OMB, the U.S. Treasury, and DoD. Accounting data are material when it is significant enough in magnitude or nature to make a difference to a reasonable person relying on it. One of the key requirements that deals with accounts payable specifies that all accounts payable should be recorded in the proper accounting period and that the liability reported in the annual financial statements reflect only the amounts due for goods and services received. A material deficiency in an accounting system is considered to have occurred if the deficiency results in more than 5 percent of measurable resources being misstated. Applying that criteria to our judgmental sample of $88.7 million in accounts payable from the $325.9 million balance reported in the Statement of Financial Position as of September 30, 1994, a material deficiency of accounts payable would have occurred if misstated accounts payable reviewed were $4.4 million more or less than our sample. Based on our analyses, the reported accounts payable balance for 47 documents with positive balances contained overstatement errors of at least $35.8 million, and exceeded the 5 percent materiality level. Of the materially misstated $35.8 million, $31.6 million was due to the invalid accruals for second destination transportation charges by DeCA. The remaining $4.2 million of the materially misstated $35.8 million was due to erroneous accounts payables remaining in DBMS. Our analysis did not include all accounts payable or tests of detailed accounting transactions, and accordingly, offsetting errors could occur. Nevertheless, the internal control structure for accounts payable is materially deficient because of inadequate reconciliations of accounts payable to subsidiary records.

The DoD Financial Management Regulation requires that transactions and significant events be promptly recorded. Our limited analyses indicated that interfund disbursements were not being posted in a timely manner to reduce the accounts payable balance.
DFAS Implementation Plan, Matching Disbursements to Obligations Before Payment

In response to section 8137 of Public Law 103-335, DFAS established an implementation plan for matching disbursements to obligations before payment. Specifically, Public Law 103-335 requires that not later than July 1, 1995, each DoD disbursement in excess of $5 million be matched to a particular obligation before the disbursement is made. It also states that not later than October 1, 1995, each DoD disbursement in excess of $1 million be matched to a particular obligation before the disbursement is made.

The DFAS implementation plan applies to contractor and vendor payments that DoD made to the private sector. As the DoD automated financial systems are enhanced, the dollar threshold will be reduced. Eventually all disbursements and transfers (internal reimbursement billings, grants, cooperative agreements, and payments to other Federal agencies) will be prevalidated.

The current prevalidation milestones provide for the inclusion of transactions of less than $1 million between Government entities to be completed by December 31, 1997. Completion of the DFAS implementation plan should ensure that postings are made to the proper accounts and the correct payments are made.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Director, Defense Commissary Agency, and the Director, Defense Finance and Accounting Service, establish procedures to periodically review all accounts payable balances to determine their accuracy, and the reliability of account balances produced from the accounting system.

DeCA Comments. The DeCA concurred with the recommendation and established June 30, 1995, as the date for requesting guidance from the Under Secretary of Defense (Comptroller) and August 1, 1995, as the date for developing a joint plan.

DFAS Comments. The DFAS concurred with the recommendation, stating that formal procedures were effective March 7, 1995, to periodically review all accounts payable using statistical sampling.

2. We recommend that the Director, Defense Finance and Accounting Service-Columbus Center establish controls to ensure timely posting of disbursements and the proper application of object class codes to accounts payable.
Management Comments. The DFAS concurred with the recommendation, stating that a redesign interface enabling front-end validation of accounts payable was completed March 31, 1995.
Finding B. Transportation of Things

The DeCA internal control structure over transaction processing and general ledger recordings in the Commissary Operations Fund did not provide reasonable assurance that expenses for the transportation of things included in the Cost of Goods Sold, Intragovernmental account balance were accurate. The condition occurred because DeCA did not establish procedures to validate the accuracy of assessed billings. DeCA could not provide adequate documentation to verify or support $121.7 million of the $1.087 billion account balance for Cost of Goods Sold, Intragovernmental that related to transportation of things. As a result, we were unable to attest to the accuracy of the account balance on the Statement of Operations for the Commissary Operations Fund for the period ending September 30, 1994.

Accounting for Transportation of Things

The Statement of Operations for the period ending September 30, 1994, showed $1.087 billion in Cost of Goods Sold, Intragovernmental. Travel and transportation, which include employee official travel and all transportation expenses for DeCA resale stock and equipment worldwide, accounted for about $155 million of the Cost of Goods Sold, Intragovernmental account balance. Transportation of things, which excludes employee travel, amounted to $147.4 million of the $155 million, of which second destination transportation expenses, primarily for shipments of DeCA resale stock and equipment to locations outside the continental United States, amounted to $121.7 million.

Before FY 1994, DeCA accounted for transportation of things in program or operating expenses on the Statement of Operations and not in Cost of Goods Sold, Intragovernmental. In October 1994, we selected the travel and transportation of things account for review based on the account presentation in the FY 1993 Statement of Operations and the FY 1994 trial balance at September 30, 1994, which were the only documents available before the December 30, 1994, release of the DeCA FY 1994 financial statements.

The travel and transportation account balance represented transportation expenses for DeCA Headquarters and the six regional headquarters within the continental United States, and subsistence shipments to DeCA activities outside the continental United States. Second destination transportation expenses consist of all airport handling, demurrage, storage, and surface transportation expenses incurred in shipping items to commissaries outside the continental United States. DeCA Headquarters is responsible for programming, budgeting, verifying, and reconciling all expenses incurred for second destination transportation expenses.

The DoD Financial Management Regulation states that amounts of accrued expenditures must be recorded only when supported by prescribed documentary
evidence on the basis of initial documentation received. They are adjusted subsequently, if necessary, upon receipt of more accurate documentation. Examples of acceptable initial documentation include receiving reports, bills of lading, job sheets, certified unpaid invoices, and journal vouchers showing administrative estimates by responsible officials. The documentation should represent a reflection of the transactions and performance that actually occur.

Account Balance

The internal control structure over transaction processing and general ledger recordings for the Commissary Operations Fund did not provide reasonable assurance of an accurate transportation of things expense being included in the Cost of Goods Sold, Intragovernmental account balance. The Cost of Goods Sold, Intragovernmental account balances included expenses of $147.4 million for transportation of things, with $121.7 million of this amount for second destination transportation expenses. DeCA had committed, obligated, and expended the $121.7 million for second destination transportation expenses during FY 1994. Quarterly postings of the commitments, obligations, and expenses were simultaneous. Although DeCA had expensed all of the $121.7 million, as of September 30, 1994, it had only received billings for about $95.8 million, and had only authorized disbursements for $59.2 million. We were unable to determine whether the $59.2 million in authorized disbursements were valid because supporting documentation was not available to match shipments with billed and disbursed amounts.

Internal Controls for Second Destination Transportation Expenses

The DeCA did not establish effective internal controls over the methods used to review and validate the accuracy of billings it received. DeCA received billings for about 16,000 second destination transportation expense transactions monthly, not including travel, to review and authorize for payment. DeCA assigned only one person to review the transactions, causing the individual to approve billings without requiring proof that the transactions billed were valid. The billing review was cursory because DeCA assumed that the Military Traffic Management Command and the Military Sealift Command had adequate internal controls over the shipping and receiving process. The overwhelming number of transactions that DeCA received normally resulted in DeCA approving for payment 90 percent of the billed amount that DFAS-CO submitted. The remaining 10 percent was reviewed later to determine whether non-DeCA transactions were being billed to DeCA based on non-DeCA transportation account codes and DoD activity codes. That review usually occurred 3 to 5 months after the initial billing periods. The transportation account codes show the accounting classification used to control the funding and billing process for
the transportation expense and the DoD activity codes indicate where the activities’ cargo is supposed to be delivered. During FY 1994, DeCA performed only one subsequent review of the transportation billings, which included the first 5 months of FY 1994. DeCA sent the Defense Personnel Support Center, Philadelphia, Pennsylvania, which forwarded to DFAS-CO, the paying office, an "exception report" listing those transactions that had been billed to DeCA but which DeCA did not recognize as a DeCA activity. DeCA disputed $2 million of the $52.4 million in billings that it had received for second destination transportation expenses during the first 5 months of FY 1994 and both the Defense Personnel Support Center and DFAS-CO accepted the reduction without questioning DeCA.

Neither DeCA nor DFAS-CO had established adequate procedures to obtain billing and disbursement supporting documentation to show that shipments and deliveries had actually been made. We judgmentally selected 40 transactions from the April and September 1994 billings to DeCA and requested:

- transportation control and movement documents that DeCA prepared and forwarded to the Military Traffic Management Command and the Military Sealift Command showing the destination, quantity, point of entry, volume, and weight of the items shipped.

- manifests prepared by the Military Traffic Management Command and the Military Sealift Command showing what carrier shipped the items, the points of entry, and delivery of the items. Those documents were also used as the basis for billing second destination transportation charges.

- proofs of receipt of shipments at the final destination, such as signed receipts, manifests, or any other document showing that the items were received.

After almost 4 weeks, DeCA could provide only fragmented information that related to transportation control and movement documents and manifests for several of the 40 transactions we selected for review. Additionally, DeCA did not provide proof of receipt for any of the 40 transactions.

DeCA was effective only in identifying transactions that had obvious errors and did not establish an internal control system to ensure that the transactions were valid expenses. We could not attest to the accuracy of the account balance because adequate source documentation was not available. The DeCA internal control structure relating to second destination transportation expenses could not provide reasonable assurance that material misstatements would be prevented or detected in a timely manner.

### Materiality and Impact on Financial Statements

The internal accounting controls over transportation of things were materially deficient. DoD Financial Management Regulation contains guidance on what
Finding B. Transportation of Things

constitutes a material deficiency in a DoD component accounting system. The regulation contains specific key accounting requirements that an accounting system must comply with to meet the standards established by the General Accounting Office, OMB, the U.S. Treasury, and DoD. Accounting data are material when they are significant enough in magnitude or nature to make a difference to a reasonable person relying on it. A material deficiency in an accounting system is considered to have occurred if the deficiency could result in 5 percent or more of the measurable resources being misstated for which the accounting system was responsible. Applying that criteria to our review of $121.7 million in second destination transportation expenses from the $147.4 million balance for transportation of things reported in the Statement of Operations for the Commissary Operations Fund, a material deficiency of transportation of things would have occurred if transportation of things reviewed exceeded $7.37 million more or less than the balance. Based on our analyses of 40 transactions that could not be verified, the reported second destination transportation expenses of $121.7 million is unsupportable and exceeds the materiality level. Our analysis did not include all transportation of things expenses or tests of detail accounting transactions, and accordingly, offsetting errors could occur. Nevertheless, the internal control structure for transportation of things is materially deficient because of inadequate documentation to support valid expenses.

Recommendations, Management Comments, and Audit Response

We recommend that the Director, Defense Commissary Agency, establish procedures to periodically validate the second destination transportation expenses account balance.

DeCA Comments. The DeCA partially concurred with the recommendation, and offered alternate solutions to the problem. It proposed that DeCA, in coordination with DFAS, determine whether a more cost-effective method to validate the second destination transportation expense account balance can be developed. If not, then DeCA will request guidance from the Comptroller, DoD. The proposed action is estimated to be completed by March 31, 1996.

Audit Response. We consider the alternative actions proposed by DeCA to be responsive.
This page was left out of original document
Part II.B. - Review of Compliance with Laws and Regulations
Review of Compliance with Laws and Regulations

Introduction

We evaluated the Statement of Financial Position and Statement of Operations for the Commissary Operations Fund, and related notes as of September 30, 1994, for material instances of noncompliance with laws and regulations. The financial statements on which we based our evaluation were submitted to us on December 30, 1994. The Statement of Financial Position essentially shows the worth of the Commissary Operations Fund by comparing its assets and liabilities as of the end of a fiscal year. DeCA reported assets of negative $1.164 billion and liabilities of $381 million on the Statement of Financial Position. The Statement of Operations shows the net results of operations of DeCA, revenues less expenses for the Commissary Operations Fund. DeCA reported revenues of $44.9 million and expenses of $1.087 billion on the Statement of Operations. DeCA has financial management responsibility for the Commissary Operations Fund while DFAS-CO and the 9th Finance Group - Subsistence Finance and Accounting Office, Germany, provide accounting services. Compliance with laws and regulations is the responsibility of the Commissary Operations Fund managers.

As part of obtaining reasonable assurance on whether the Statement of Financial Position and the Statement of Operations are free of material misstatements, we tested compliance with laws and regulations that may directly affect the financial statement and other laws and regulations designated by OMB and DoD. Such tests are required by the Chief Financial Officers’ Act of 1990. The laws and regulations used as a basis for our review were:

- United States Code, title 31, section 3512 (formerly the Federal Managers' Financial Integrity Act of 1982, Public Law 97-255);
- Chief Financial Officers' Act of 1990, Public Law 101-576;
- Code of Federal Regulations, chapter 1, title 5, "Administrative Personnel," revised January 1, 1994; (formerly 31 Code of Federal Regulations, chapter 1, title 5, "Administrative Personnel," revised as of June 1, 1993 and December 1, 1993);
- OMB Bulletin No. 94-01, "Form and Content of Financial Statements," November 16, 1993;
- DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987;
- DoD Manual 7220.9-M, "DoD Accounting Manual," October 1993; and

28
Review of Compliance with Laws and Regulations


We also obtained an understanding of the DeCA process for evaluating and reporting on internal control and accounting systems, as required by United States Code, title 31, section 3512. We compared the material weaknesses reported in the DeCA Annual Statement of Assurance for FY 1994 to the material weaknesses in the Commissary Operations Fund internal control structure and reported in Part II.A. of this report.

Reportable Conditions

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions in laws or regulations. Such failures or violations are those that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the Principal Statements or those whose sensitive nature would cause them to be perceived as significant. Our examination disclosed instances of noncompliance with laws and regulations that materially affected the reliability of the DeCA September 30, 1994, Statement of Financial Position and Statement of Operations for the Commissary Operations Fund. The instances of noncompliance were considered when forming our disclaimer of opinion on the Statement of Financial Position and Statement of Operations. The results of our tests disclosed the following instances of noncompliance.

Accounts Payable. The DoD Accounting Manual and the DoD Financial Management Regulation were not fully complied with in processing and recording accounts payable. The DoD Accounting Manual provides that liabilities will be posted to accounting records as they occur. The DoD Financial Management Regulation provides that payables should be recorded in the proper accounting period and that the liability reported in the annual financial statements shall reflect amounts due for goods and services received. The DoD Financial Management Regulation also provides that an accounting system should ensure that transactions are correctly classified, coded, and recorded in all affected accounts. However, DeCA did not adhere to prescribed accrual precepts, and DFAS-CO did not establish an effective review process for ensuring the accuracy of accounts payable balances. Because the applicable regulations were not complied with in accounting for accounts payable, the accounts payable balance of $325.9 million presented in the September 30, 1994, Statement of Financial Position cannot be relied upon and could be materially misstated.

Transportation of Things. The DoD Financial Management Regulation was not fully complied with in processing and recording the second destination
transportation expense portion of the transportation of things account balance. The DoD Financial Management Regulation states that amounts of accrued expenditures must be recorded only when supported by prescribed documentary evidence on the basis of initial documentation received. They are adjusted subsequently, if necessary, upon receipt of more accurate documentation. The documentation should represent a reflection of the transactions and performance that actually occur. However, DeCA could not provide adequate documentation to verify or support second destination transportation expenses. Because the applicable accounting principles were not complied with in accounting for second destination transportation expenses, the account balance of $121.7 million, included in the Cost of Goods Sold, Intragovernmental, in the September 30, 1994, Statement of Operations cannot be relied upon and could be materially misstated.

**Internal Control Program.** United States Code, title 31, section 3512 (United States Code, title 31), and DoD Directive 5010.38 were not fully complied with in establishing and assessing internal controls. United States Code, title 31, requires agencies to establish internal accounting and administrative controls in accordance with standards instituted by the Comptroller General. United States Code, title 31, also requires agencies to establish a comprehensive system of internal controls management to properly record and account for revenues and expenditures, prepare reliable financial and statistical reports, and maintain accountability over assets. DoD Directive 5010.38 provides the management system for achieving the objectives of United States Code, title 31. In its FY 1994 Annual Statement of Assurance, DeCA reported a material weakness in achieving the objectives of United States Code, title 31. DeCA acknowledged in the annual statement that it had not complied with established financial procedures in managing the Commissary Operations Fund. A source of identifying the reported weaknesses was Inspector General, DoD, audit reports. DeCA also did not implement an effective internal control program that assessed the adequacy of internal controls over the liabilities and expenses of the Commissary Operations Fund.

**Reportable Conditions Not Noted**

Our evaluation of laws and regulations would not necessarily disclose all instances of noncompliance considered to be material and reportable. With respect to items not tested, nothing came to our attention that caused us to believe that DeCA and DFAS-CO had not complied, in all material respects, with those laws and regulations identified above.
Part III - Additional Information
Appendix A. Scope and Methodology

We examined the Statement of Financial Position and Statement of Operations for the Commissary Operations Fund and related notes as of September 30, 1994. Other principal statements and related notes prepared by DeCA, but not examined by us, include the Statement of Cash Flows and Statement of Budget and Actual Expense. The Statement of Financial Position and the Statement of Operations essentially show the worth of the Commissary Operations Fund by comparing its assets, liabilities, revenues, and expenses as of the end of a fiscal year. DeCA reported assets of negative $1.164 billion and liabilities of $381 million on the Statement of Financial Position, and revenues of $44.9 million and expenses of $1.087 billion on the Statement of Operations. DeCA has financial management responsibility for the Commissary Operations Fund while DFAS-CO and the 9th Finance Group - Subsistence Finance and Accounting Office, Germany, provide accounting services. The financial statements on which we made our examination were submitted to us on December 30, 1994.

Scope

We evaluated the DeCA internal control structure related to the Commissary Operations Fund accounts payable liability account, transportation of things expense account, and personnel compensation expense account and its compliance to directly related laws and regulations at DeCA Headquarters, five DeCA regions, four commissary stores, four Defense Logistics Agency Center personnel support offices, one Defense civilian personnel service activity, the Military Traffic Management Command, and the Military Sealift Command in the continental United States. We selected DeCA regions for evaluation because they maintain supporting documentation for accounts payable balances and monitor personnel actions and pay. We selected commissary stores for evaluation to assess internal controls over inputting payroll information into the DBMS. We selected the Defense Logistics Agency personnel support offices and the Defense civilian personnel service activity for evaluation because they process personnel information for DeCA employees as well as maintain official personnel records. We selected the Military Traffic Management Command, and the Military Sealift Command for evaluation because they are the primary source of billing for second destination transportation expenses to DeCA.

Our review covered the Statement of Financial Position and the Statement of Operations and related general ledger account balances as of September 30, 1994. In making our review, we verified or attempted to verify balances to subsidiary records and supporting source documentation generated by accounting systems. We judgmentally selected the particular regions and commissary stores for evaluation based on account balances. We evaluated four
Appendix A. Scope and Methodology

Defense Logistics Agency personnel support offices and the Defense civilian personnel service activity used by DeCA, based on our judgmental sample of DeCA personnel.

We also evaluated the DFAS-CO internal control structure related to the Commissary Operations Fund and its compliance to directly related laws and regulations. DFAS-CO maintains the DBMS, which operates the general ledger accounts for the Commissary Operations Fund. Further, we reviewed the internal control structure at the DFAS-CO Payroll Division.

For examination of the accounts payable balance we judgmentally selected 140 documents, valued at $88.7 million, listed on the September 30, 1994, Accrued Expenditures Unpaid Register, 37 of which were for employee travel. We also sent accounts payable confirmation letters to 29 entities (public and Federal) to confirm the balances on 39 of the sampled documents.

For examination of the second destination transportation expense balance, we judgmentally selected 40 shipments from the April and September 1994 billings received at DeCA from DFAS-CO, valued at $221,000.

For examination of the personnel compensation account balance we judgmentally selected 166 employees from the 16,600 DeCA employees employed within the continental United States, Alaska, Hawaii, and Puerto Rico and paid by DFAS-CO.

Methodology

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in financial statements, including the accompanying notes. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit efforts provided a reasonable basis for our results.

Computer-Processed Information. We reviewed computer-processed data from DeCA and DFAS organizations. We independently verified the source data for selected transactions but not in sufficient quantities to draw conclusions on the overall reliability of the computer-processed data. We did not use statistical sampling procedures to conduct this audit.
Appendix A. Scope and Methodology

**DoD Internal Management Control Program.** Our internal control evaluation included implementation of the DeCA and the DFAS-CO Internal Management Control Programs. The purposes of the evaluation were to:

- determine our auditing procedures for expressing an opinion on the financial statements and
- determine whether the internal control structure was established to ensure that the statements were free of material misstatements.

That determination included obtaining an understanding of the internal control policies and procedures, as well as assessing the level of control risk relevant to all significant cycles, classes of transactions, and account balances. For those significant control policies and procedures that had been properly designed and placed in operation, we performed sufficient tests to provide reasonable assurance that the controls were effective and working as designed.

**Time Period and Locations.** This financial statement audit was made from October 17, 1994, through March 10, 1995. A complete list of the locations we visited and contacted is in Appendix D.
Appendix B. Other Matters of Interest

Personnel Compensation Expense Account

As part of our audit of the FY 1994 Financial Statements for the DeCA Commissary Operations Fund, we selected for review the personnel compensation expense account. The account balance was a part of the Cost of Goods Sold, Intragovernmental, that was included on the Statement of Operations for the period ending September 30, 1994.

We reviewed the internal control structure for personnel and payroll at DeCA; Defense Logistics Agency, Civilian Personnel Offices; DFAS-CO; and the Defense civilian personnel service activity (Peninsula Civilian Personnel Service Activity) for compliance with applicable laws and regulations for selected personnel compensation expense transactions. We determined that deficiencies were not materially sufficient for reporting in Part II of this report.

Background. The personnel compensation expense account represents the compensation for services rendered to DeCA by Federal civilian employees and non-Federal employees. Personnel compensation expenses include:

- regular salaries and wages paid directly to civilian employees for work or while on paid leave and other payments that become a part of the employee’s basic pay rate (for example, critical position pay, geographic adjustments, and merit pay increases) and

- all personnel compensation above the basic rates paid directly to civilian employees, including cash incentive awards, holiday pay, night work differential, overtime, and Sunday pay.

The DoD Financial Management Regulation provides the principles, standards, and related requirements for DoD pay operations and systems for civilian employees. The regulation illustrates the accounting entries that organizations should follow to record the obligation and payment for personnel compensation expenses. Basically, until personnel services are rendered, personnel compensation expense transactions are recorded in the budgetary accounts as undelivered orders. When personnel services are rendered, as evidenced by the end of the biweekly recording of time and attendance data and the processing of pay, the transactions are recorded simultaneously in the budgetary accounts as accrued expenditures unpaid and in the proprietary accounts as a personnel compensation expense and accounts payable. The basis for recording a personnel compensation expense are properly authorized personnel actions and time and attendance records.

The DoD Financial Management Regulation also prescribes internal control techniques for operating accounting systems. The regulation requires that
adequate written policies and procedures be established and implemented, all personnel be adequately trained in their functions, sufficient controls be installed, and management oversight be implemented to ensure compliance with payroll system requirements.

The Code of Federal Regulations, chapter 1, title 5, "Administrative Personnel," revised January 1, 1994, sets forth the regulations, criteria, and conditions that the Office of Personnel Management has prescribed for various types of employment and the administration of pay and leave. Agencies are subject to specific Office of Personnel Management requirements to varying degrees, pursuant to statute, regulation, or formal agreement between the Office of Personnel Management and the agencies.

Objectives. Our primary objective was to determine whether the personnel compensation expense account balance for the period ending September 30, 1994, was presented fairly and in accordance with generally accepted accounting principles for Federal agencies. Specific objectives were to:

- evaluate the adequacy and effectiveness of significant internal accounting controls;
- test the accuracy, completeness, and propriety of personnel compensation expense transactions and account balance;
- ascertain whether expanded audit procedures and tests were required to opine on the account balance; and
- evaluate compliance with applicable laws and regulations for those personnel compensation expense transactions selected for testing.

Significance of the Selected Account. Based on the DeCA trial balance as of September 30, 1994, cumulative personnel compensation expenses for FY 1994 amounted to approximately $463 million of the operating expenses reported in Cost of Goods Sold, Intragovernmental, on the DeCA Statement of Operations. Of the $463 million, approximately $389 million was recorded in the general ledger of the DBMS for personnel compensation expenses for the six DeCA regions located in the continental United States; and approximately $74 million was recorded in the general ledger of the Standard Army Finance System for personnel compensation expenses for the DeCA European Region.

Scope and Methodology. We limited our review to assessing the internal controls and testing for compliance with applicable laws and regulations that were directly related to the recording and reporting of personnel compensation expenses for the six DeCA regions located within the continental United States with pay processed and accounted for in DBMS. Personnel compensation expenses for those regions amounted to about 84 percent of the personnel compensation expenses reported on the DeCA trial balance as of September 30, 1994.
Related Audit and Review Coverage. In developing our tests and procedures, we considered internal control and automated reporting system inadequacies previously reported by the Inspector General, DoD; and the DFAS Richmond Detachment within the last 3 years. See Appendix C for related audit and review coverage by the Inspector General, DoD, and the DFAS Richmond Detachment.

Review Locations. We performed our review at DeCA Headquarters, two DeCA regions, four DeCA commissary stores, four Defense Logistics Agency personnel support offices, one Defense civilian personnel service activity, and DFAS-CO. We judgmentally selected DeCA organizations to obtain an understanding of the DeCA financial concepts and transaction flows. We selected all of the five personnel support offices or organizations that process personnel actions into DBMS for DeCA employees. We selected the offices or organizations for evaluation and testing of controls over processing official personnel actions for DeCA employees and compliance with those provisions of laws and regulations governing the processing of personnel actions. The DFAS-CO was selected for evaluation and testing of controls over processing pay for DeCA employees and maintaining accounting records for personnel compensation expenses as governed by applicable provisions of laws and regulations.

Computer-Processed Information. We obtained computer-processed data from the DBMS for the personnel compensation expense account. That data included financial accounting history records for the period October 1, 1993, through September 30, 1994.

Our evaluation of the computer-processed data showed that the data were not usable for testing of financial statement account balances because a significant portion of the data were electronically generated document numbers representing appropriation history summaries. Electronically generated document numbers representing appropriation history summaries were unusable for testing because they included numerous documents resulting from the DBMS summarization process. The DBMS summarization process occurs as follows.

- A new document number is generated biweekly for each combination of activity code, organization code, cost code, and object class code.

- Monthly, all biweekly generated document numbers for personnel compensation expense transactions are summarized to one document number for each combination of activity code, organization code, cost code, and object class code.

- Document numbers for summarized transactions are deleted from the appropriation history files.
Appendix B. Other Matters of Interest

- Deleted document numbers are not written to tape, and a hard copy is not produced.

- Summary documents for personnel compensation expense transactions are further summarized quarterly and annually, and all previously summarized document numbers are deleted from DBMS.

Because of the summarization process, we were unable to select documents for personnel compensation expense transactions and trace the transactions back through DBMS to the supporting source documents to ascertain the propriety and validity of recorded transactions. However, transactions could be validated if reviewed on a real-time basis and before the summarization process. In effect, payroll could be validated beginning with pay period 1 and moving forward to pay period 26, but could not be validated starting with another pay period, especially later ones, and tracked back to earlier pay periods using computer-processed data.

Review Procedures. Of about 16,600 civilian personnel within the continental United States, Alaska, Hawaii, and Puerto Rico, we judgmentally selected 166 DeCA employees with pay records contained in DBMS and obtained source documents supporting personnel compensation expense transactions for those employees for two pay periods during FY 1994. We compared information from the supporting source documents to available reports of data recorded in the Payroll Subsystem of DBMS to ascertain whether information from the source documents was accurate. We also reviewed control procedures used to verify the accuracy of biweekly pay recorded in the Payroll, Cost, and Appropriation Accounting Subsystems of DBMS.

By performing audit testing procedures, we evaluated the effectiveness of the controls for the functions associated with personnel compensation expense transactions to determine whether they were operating as intended and as required by applicable laws and regulations. Specifically, we obtained official personnel actions, employment confirmations, master employee records, and source documents supporting pay adjustments and payments made off-line to DBMS for the 166 DeCA employees selected for testing. We reviewed source documents for completeness, accuracy, and appropriate authorizations. We also tested control records used to verify the accuracy of biweekly pay data recorded in the Payroll, Cost, and Appropriation Accounting Subsystems of DBMS to test the accuracy of personnel compensation expenses recorded for the two pay periods selected for review.

Results of Review. The results of our review of 166 employees for two pay periods were not material to the personnel compensation expense account balance and are summarized below.

- Retroactive pay for one employee totaling $558 was incorrectly posted in FY 1995 instead of FY 1994.

- One employee received a within-grade increase 2 months early and was overpaid $180, which was posted as personnel compensation expenses in FY 1994.
Appendix B. Other Matters of Interest

Conclusion. Our evaluation of the internal control structure and our assessment of compliance with applicable laws and regulations for selected personnel compensation expense transactions did not disclose any conditions of sufficient materiality to merit reporting in Part II of this report. However, our limited review of the internal control structure and applicable laws and regulations would not necessarily disclose all matters in the internal control structure or in the DeCA compliance with applicable laws and regulations that might be reportable conditions as defined in Part II of this report.
Appendix C. Summary of Prior Audits and Reviews

During the past 3 years, five reports relating to personnel and payroll accounting were issued. The following is a summary of the reported conditions, recommendations, and management comments.

Inspector General (IG), DoD, Report No. 95-036, "Controls Over Time and Attendance for the Defense Commissary Agency," November 22, 1994, stated that controls were not adequate to ensure that the presence or absence of employees was completely and accurately recorded and reported for the purposes of computing pay, leave, and allowances, or to prevent unauthorized payments and overpayments to former and transferred DeCA employees. The report recommended that DeCA establish adequate policies and procedures for time and attendance recording and reporting, comply with Office of Personnel Management guidance on premium pay and part-time career employment, provide adequate training on time and attendance reporting, periodically review time and attendance recording and reporting procedures, identify unauthorized payments and overpayments to active and inactive employees, and recoup funds, as appropriate. It also recommended that DeCA and DFAS establish controls to stop automatic payments to employees after a predetermined number of pay periods pass without supervisory certification. DeCA and DFAS concurred with all corrective actions recommended in the report and provided a completion date or a planned completion date for each recommendation except the recommendation to stop employees' pay when the time and attendance is not certified. DFAS stated that a system change request is being prepared to stop payments if no certified time and attendance is reported for two consecutive pay periods.

The IG, DoD, Report No. 94-157, "Defense Commissary Agency Financial Management Improvement Program," June 30, 1994, stated that DeCA had made significant improvements in six Financial Management Improvement Program functional areas: accrued expenses, automated data processing, contract payments, fixed assets, inventory, and sales and deposits. The audit disclosed no material deficiencies in implementing the Financial Management Improvement Program. DeCA management agreed with the report.

The IG, DoD, Report No. 94-081, "Controls Over Access to Personnel and Payroll Data for the Defense Commissary Agency," April 11, 1994, stated that controls were not adequate to prohibit unauthorized access to and the ability to add, change, and delete data in the Personnel and Payroll subsystems of DBMS. Additionally, controls were not adequate to ensure that Privacy Act data could not be accessed and manipulated by unauthorized personnel. The report recommended that DeCA and DFAS establish internal controls to restrict the number of employees with access to both the personnel and payroll subsystems, match user identification numbers to active DeCA employees, restrict employee access to the personnel and payroll data, and establish software requiring employees to periodically change their passwords. DeCA and DFAS adequately addressed all corrective actions recommended in the report. DeCA and DFAS
implemented a process to restrict access to a single subsystem of DBMS, agreed to periodically screen the DBMS to ensure that only authorized users have access, created a separation of duties between personnel and payroll functions, agreed to limit database access by authorized personnel, and initiated a process to force users to change their initial passwords when they initially log on to DBMS. Additionally, they are establishing an automated system requiring complete password changes every 90 days.

Richmond Detachment of DFAS, Federal Managers' Financial Integrity Act Division report, "Evaluation of the Appropriated Accounting Sub-System of the Defense Business Management System at the Defense Finance and Accounting Service-Columbus Center, Columbus, Ohio," April 15, 1994, stated that the DBMS Appropriated Accounting Sub-system did not conform to the principles, standards, and related requirements of the General Accounting Office, OMB, and DoD. In summary, internal controls were insufficient, reconciliations performed in the Accounting Operations Division were inconsistent among the branches and did not normally address the quality of financial data. Also, many work areas lacked Standard Operating Procedures, additional training for both DFAS-CO and agency liaison offices was required, large backlogs existed in some areas, no single source of data entry existed, DBMS did not use the standard general ledger, and DFAS-CO expended a great deal of resource to manually record data in DBMS. DFAS concurred and identified planned corrective approaches and estimated completion dates for the corrective actions.

Richmond Detachment of DFAS, Federal Managers' Financial Integrity Act Division report, "Evaluation of the Payroll Sub-System of the Automated Payroll, Cost and Personnel System," September 4, 1992, stated that the DBMS Payroll Sub-system did not conform to the principles, standards, and related requirements of the General Accounting Office, OMB, and DoD. Payroll totals were not in balance with payroll certifications, and the Payroll for Personnel Services Certification did not agree with disbursements. DFAS concurred and provided estimated completion dates for the corrective actions.
Appendix D. Organizations Visited or Contacted

Department of the Army
Military Traffic Management Command, Arlington, VA
Peninsula Civilian Personnel Service Activity, Newport News, VA

Department of the Navy
Military Sealift Command, Washington, DC

Defense Organizations
Defense Commissary Agency, Headquarters, Fort Lee, VA
Defense Commissary Agency, Midwest Region Headquarters, Kelly Air Force Base (AFB), TX
Defense Commissary Agency, Northeast Region Headquarters, Fort Meade, MD
Defense Commissary Agency, Northwest/Pacific Region Headquarters, Fort Lewis, WA
Commissary Store, Fort Lewis, WA
Commissary Store, McChord AFB, WA
Defense Commissary Agency, Southern Region Headquarters, Maxwell AFB, AL
Commissary Store, Gunter AFB, AL
Commissary Store, Maxwell AFB, AL
Defense Commissary Agency, Southwest Region Headquarters, El Toro, CA
Defense Finance and Accounting Service, Headquarters, Arlington, VA
Defense Finance and Accounting Service- Columbus Center, Columbus, OH
Defense Finance and Accounting Service- Financial Systems Activity, Columbus, OH
Defense Logistics Agency, Headquarters, Alexandria, DC
Civilian Personnel Support Office, Defense Construction and Supply Center, Columbus, OH
Civilian Personnel Support Office, Defense Distribution Depot, Ogden, UT
Civilian Personnel Support Office, Defense General Supply Center, Richmond, VA
Civilian Personnel Support Office, Administrative Support Center East, Memphis, TN
Appendix E. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
Under Secretary of Defense for Personnel and Readiness
Assistant to the Secretary of Defense (Public Affairs)

Department of the Army

Assistant Secretary of the Army (Financial Management)
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

Department of the Air Force

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

Defense Organizations

Director, Defense Commissary Agency
Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency
Director, National Security Agency
   Inspector General, National Security Agency
Inspector General, Central Imagery Office
Appendix E. Report Distribution

Non-Defense Federal Organizations

Office of Management and Budget
National Security and International Affairs Division, General Accounting Office
  Technical Information Center
  Defense and National Aeronautics and Space Administration Management Issues
  Military Operations and Capabilities Issues

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 National Security, International Affairs and Criminal Justice, Committee on Government Reform and Oversight
  House Committee on National Security
  House Panel on Morale, Welfare and Recreation, Committee on National Security
Part IV - Management Comments
MEMORANDUM FOR INSPECTOR GENERAL, LOGISTICS SUPPORT DIRECTORATE,
400 ARMY NAVY DRIVE, ARLINGTON, VA 22202-2884

SUBJECT: Audit Report on the Financial Statements for the
Commissary Operations Fund, as of September 30, 1994
(Project No. SLA-2001)

Reference: DoDIG Memorandum, May 2, 1995, SAB.

Attached is the DeCA reply to the recommendations provided in
subject report. If you have any questions, please contact Mr. Ben
Mikell at (804) 734-8103.

RONALD P. McCOY
Colonel, USAF
Chief of Staff

Attachments:
As Stated
DEFENSE COMMISARY AGENCY REPLY


Additional Facts:

The DeCA has centralized accounting support as much as possible to reduce the DBOF appropriation for commissary operations. As noted in the report, the Defense Finance and Accounting Service, Columbus Center (DFAS-CC) provides the majority of the accounting services for commissaries and the Army 266th Theater Finance Command, Subsistence Finance and Accounting Office (i.e., formerly under the 9th Finance Group) supports the European commissaries.

Although centralization of commissary accounting services saves taxpayer money and provides efficiencies, it increases the transaction errors, lost documentation, posting delays (i.e., most of which are unavoidable), and provides DeCA with no visibility of "in-transit" disbursement transactions. These problems are inherent in the DoD financial cross disbursement system (i.e., TFO/TBO process) and are not unique to DeCA. Generally 6-12 months are required to process a TBO/TFO transaction through the DoD cross disbursement system from point of origin to DFAS-CC for posting to DeCA's accounts payable. As you have previously reported, up to 2 years have passed before some transactions were posted to DeCA's account. As a result of these problems, accrued expenses exceed disbursements for long periods of time and/or create negative accounts payable balances when coded inaccurately as identified in the report.

Finding A. Accounts Payable

Page 15: The audit report states that 47 of the documents reviewed with positive balances of $35.6 million were invalid, mainly because DeCA did not reduce the accrued expense balances to equal the actual disbursed amounts.

DeCA accrues expenses when goods or services are received in accordance with the DoD Financial Management Regulation. However, as previously discussed, the delays in processing TFO/TBO transactions through the DoD cross disbursement system result in untimely posting to DeCA's account. Untimely posting of disbursements to DeCA's accounts payable does not invalidate the accounts payable balance. While we agree that the accounts payable balance was overstated where the customer indicated final bill, we
do not agree that the other accounts payable balances were overstated simply because of the passage of time as indicated in the report. However, DeCA will seek guidance from the USD (Comptroller), Accounting Policy, since these processing delays are inherent in the DoD system and beyond DeCA's control and visibility.

Page 18: The report states that the Accrued Expenditures Unpaid Register was used to test the reasonableness of the accounts payable balance.

The Accrued Expenditures Unpaid Report (UPFE350A) is produced by the Defense Business Management System (DBMS) to be used as an Accounts Payable Aging Report. The balances reflected in this report should reflect balances in the Trial Balance (UPFX700A). DeCA identified errors in this report and submitted a request for system research and correction to DFAS-CO. DFAS-CO notified DeCA, January 25, 1995, that they have submitted this request to the Financial Systems Activity (FSACO) for an estimate of the manhours needed to correct the problem. DeCA provided examples to DFAS-CO to expedite the process of pinpointing the software errors and correcting them. DeCA continues to analyze financial accounts and reports and coordinate with DFAS and FSACO to correct deficiencies.

Recommendation A-1. Establish procedures to periodically review all accounts payable balances to determine their accuracy, and the reliability of account balances produced from the accounting system.

Action Taken: Concur. DeCA will coordinate with our supporting finance offices to develop a joint plan for periodic review of accounts payable. Additionally, DeCA will request guidance from USD (Comptroller), Accounting Policy, regarding the timing of de-accruals of expenses and de-obligations of funds considering the considerable time required to process TFO/TBO transactions through the DoD cross disbursement system. A joint plan for review will be developed by August 1, 1995. The request to USD (Comptroller), Accounting Policy, will be submitted by June 30, 1995.

Finding B. Transportation of Things

Additional Facts:

DeCA is required to use the DoD transportation system to move American products to commissaries overseas. The major players in this transportation system are the Military Traffic Management Command, Military Sealift Command, and Air Mobility Command. It is the responsibility of these organizations to arrange the
transportation, validate shipment was made, and pay the carrier’s bill. Documentation such as manifests, bills of lading, and other movement documentation are used by these organizations to support and make payment to the carriers. This documentation is not forwarded to DeCA, nor do we believe it should be, due to the excessive administrative costs of obtaining, maintaining and managing this significant volume of documents and the questionable benefits to be gained.

DeCA has taken the initiative to develop what we believe is a more cost effective way to identify and resolve inaccurate transportation charges and ensure the integrity of the transportation account. Since October 1991, we have identified and corrected approximately $16 million of erroneous transportation charges using this system. Specifically, we have set up an edit system, using the Air Force’s Enhanced Transportation Automated Documentation System (ETADS) which provides us with management reports that are used to review 100 percent of the bills and identify improper transportation charges for correction.

Recommen{edation: Establish procedures to periodically validate the second destination transportation expenses account balance.

Action Taken: Partially concur. DeCA in coordination with DFAS will determine if a more cost effective process than our current one can be developed to periodically validate the second destination transportation expenses account balance. If it is determined that a cost effective validation process cannot be developed, DeCA will request guidance and/or a waiver from the USD (Comptroller), Accounting Policy, to continue using our transportation bill validation process (i.e., ETADS) to meet the requirements of the DoD Financial Management Regulation. With the reorganization of DeCA, study efforts will begin in the 1st Quarter of FY 1996 and be completed NLT March 31, 1996.
MEMORANDUM FOR DIRECTOR, LOGISTICS SUPPORT DIRECTORATE, INSPECTOR GENERAL, DOD


As requested in your memorandum dated May 2, 1995, subject as above, attached are the comments on recommendations directed to the Defense Finance and Accounting Service in the subject report.

My point of contact is Ms. Melinda G. Graves. She may be reached at (703) 607-1579/1581 or DSN 327-1579/1581.

Edward A. Harris
Deputy Director for Business Funds

Attachment

RECOMMENDATION A.1:
We recommend that the Director, Defense Commissary Agency, and the Director, Defense Finance and Accounting Service, establish procedures to periodically review all accounts payable balances to determine their accuracy, and the reliability of account balances produced from the accounting system.

DFAS COMMENTS: Concur. DFAS and DeCA Liaison offices started joint reviews of Unliquidated Obligations in January 1993. DFAS has established standard operating procedures in agreement with DoD regulations.

ESTIMATED COMPLETION DATE: Complete. Formal procedures were effective March 7, 1995, to periodically review all accounts payable balances using the statistical sampling method.

RECOMMENDATION A.2:
We recommend that the Director, Defense Finance and Accounting Service - Columbus Center establish controls to ensure timely posting of disbursements and the proper application of object class codes to accounts payable.

DFAS COMMENTS: Concur. DFAS implemented the following initiatives to ensure timely posting of disbursements and validation of payments from the paying system to accommodate the Defense Business Management System (DBMS):

a. Mechanized the manual posting of by-self payments through a Standard Financial System (STANFINS) Redesign (SRD-1) interface into the DBMS.

b. Established a prototype organization in the DFAS Columbus Center that combined the functions of both the Internal/External Services Divisions support personnel with the accounting personnel.

c. The Columbus Center established a front-end validation section to ensure that obligations and accounts payable agree to supporting documentation in both the paying and accounting systems.

ESTIMATED COMPLETION DATE: Completed March 31, 1995.
Audit Team Members

This report was prepared by the Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense.

Shelton R. Young
Robert J. Ryan
John Yonaitis
Henry Adu
Denise E. Baldridge
Douglas M. Warish
Michael J. Guagliano
Sheryl L. Martz
INTERNET DOCUMENT INFORMATION FORM

A. Report Title: Financial Statements for the Commissary Operations Fund, as of September 30, 1994

B. DATE Report Downloaded From the Internet: 01/14/99

C. Report’s Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #):
   OAIG-AUD (ATTN: AFTS Audit Suggestions)
   Inspector General, Department of Defense
   400 Army Navy Drive (Room 801)
   Arlington, VA 22202-2884

D. Currently Applicable Classification Level: Unclassified

E. Distribution Statement A: Approved for Public Release

F. The foregoing information was compiled and provided by:
   DTIC-OCA, Initials: _VM_ Preparation Date 01/14/99

The foregoing information should exactly correspond to the Title, Report Number, and the Date on the accompanying report document. If there are mismatches, or other questions, contact the above OCA Representative for resolution.