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### Abstract

This audit was performed in response to the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994. This is the first report in a series of audit reports on our audit of the FY 2000 Department of the Navy (Navy) General Fund financial statements. Defense Finance and Accounting Service (DFAS) Cleveland and Kansas City provide finance and accounting support to the Navy and Marine Corps, respectively. The FY 1999 Navy General Fund reported assets of $125.9 billion, liabilities of $54.4 billion, net cost of operations of $114.1 billion, and total outlays of $78.6 billion. The Navy General Fund financial statements include financial data for both the Navy and the Marine Corps. The FY 2000 Navy General Fund preliminary financial statements were not available during the audit.

### Subject Terms

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**Acronyms**

DFAS | Defense Finance and Accounting Service
---|---
STARS-FDR | Standard Accounting and Reporting System – Financial Departmental Reporting
January 31, 2001

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE


We are providing this report for review and comment. We considered management comments on a draft of this report when preparing the final report. We conducted the audit in response to the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Defense Finance and Accounting Service comments were not responsive to the recommendation. Therefore, we request that the Director, Defense Finance and Accounting Service, provide comments to the final report by March 30, 2001.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Marvin L. Peek at (703) 604-9587 (DSN 664-9587) (mpeek@dodig.osd.mil) or Ms. Linda A. Pierce at (216) 522-6091 (DSN 580-6091), extension 234 (lpierce@dodig.osd.mil). See Appendix B for the report distribution. See the inside back cover for a list of audit team members.

David K. Steensma
Deputy Assistant Inspector General
for Auditing
Journal Entries to Support Departmental Reporting for the Marine Corps

Executive Summary

Introduction. This audit was performed in response to the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994. This is the first report in a series of audit reports on our audit of the FY 2000 Department of the Navy (Navy) General Fund financial statements. Defense Finance and Accounting Service (DFAS) Cleveland and Kansas City provide finance and accounting support to the Navy and Marine Corps, respectively. The FY 1999 Navy General Fund reported assets of $125.9 billion, liabilities of $54.4 billion, net cost of operations of $114.1 billion, and total outlays of $78.6 billion. The Navy General Fund financial statements include financial data for both the Navy and the Marine Corps. The FY 2000 Navy General Fund preliminary financial statements were not available during the audit.

Objectives. The overall audit objective was to determine the reliability and effectiveness of processes and procedures used to prepare Navy General Fund financial statements. Specifically, for this part of the audit, we focused on whether the journal voucher entries that DFAS Cleveland made to create the monthly and year-end departmental reports for the Marine Corps appropriations were necessary. Our review of the management control program for departmental and financial statement reporting for DFAS Cleveland and Kansas City will be reported in a future audit report.

Results. DFAS Cleveland manually entered unnecessary Marine Corps appropriation financial data into the Standard Accounting and Reporting System – Financial Departmental Reporting, using journal vouchers, to prepare the monthly “Report on Budget Execution” (SF 133). Because the data to create the SF 133 were later uploaded in the accounting system electronically, DFAS personnel prepared additional journal voucher entries to reverse much of the information originally entered. As a result, DFAS Cleveland prepared 1,297 unnecessary journal vouchers with an absolute value of $39.6 billion in FY 2000 through August 10, 2000. The manual process increased the potential for input errors and diverted personnel from other work. For details of the audit results, see the Finding section of the report. Appendix A discusses the audit scope and methodology and prior audits related to the audit objective.

Summary of Recommendation. We recommend that the Director, Defense Finance and Accounting Service Kansas City and the Director, Defense Finance and Accounting
Service Cleveland establish procedures to use electronically uploaded financial data to support the “Appropriation Status Report” (DD Form 1002), “Report of Reimbursements” (DD Form 725) and “Report on Budget Execution” (SF 133) each month to avoid the need to prepare journal voucher entries and later reverse entries manually.

**Management Comments.** The Director for Accounting, DFAS, concurred in principle with the finding and recommendation, stating that because the due date of the SF 133 report is before the completion date of the DD Form 1002 and DD Form 725 reports, the journal entries are necessary to prepare the SF 133. Further, DFAS stated that they would have to extend the due date of the SF 133 past the completion date of the DD Form 1002 and DD Form 725 reports to effectively implement the recommendation. See the Finding section for the complete discussion of management comments and the Management Comments section for the complete text of the management comments.

**Audit Response.** The management comments from DFAS were not responsive. We recognize the due date problem and state that aspect of the process in the report. The intent of the recommendation is to compensate for the due date problem by using the electronic financial data available to prepare the SF 133 report without the necessity of making journal entries that must later be reversed. DFAS did not address our proposal to use the electronic financial data to prepare the SF 133. We request that the Director, Defense Finance and Accounting Service, provide comments to the final report by March 30, 2001.
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Background


Role of the Defense Finance and Accounting Service. Defense Finance and Accounting Service (DFAS) Cleveland and Kansas City provide finance and accounting support to the Navy and Marine Corps, respectively, and maintain departmental accounting records and prepare financial statements using data from field organizations. DFAS Cleveland prepares the Department of the Navy General Fund financial statements, which include data for the Marine Corps that DFAS Kansas City produced and submitted to DFAS Cleveland. The FY 1999 Navy General Fund reported assets of $125.9 billion and liabilities of $54.4 billion. The Navy also reported net cost of operations of $114.1 billion and total outlays of $78.6 billion. The Navy General Fund financial statements include financial data for both the Navy and the Marine Corps. The FY 2000 Navy General Fund preliminary financial statements were not available during the audit.

FY 1999 Department-Level Accounting Entries. Inspector General, DoD, Report No. D-2000-179, “Department-Level Accounting Entries for FY 1999,” August 18, 2000, states that DFAS Cleveland processed 9,348 accounting entries, valued at $1.5 trillion, to invalid general ledger accounts. In response to that report, the Under Secretary of Defense (Comptroller) stated that all $1.5 trillion of accounting entries were related to the procedure in which DFAS Cleveland entered and reversed the Marine Corps budgetary data to prepare the “Report on Budget Execution” (SF 133). Therefore, we directed our initial audit work for FY 2000 to determine why DFAS Cleveland needed to make the manual accounting entries for the SF 133. Our audit, as discussed in this report, showed only 14 percent of the adjustments for FY 2000 were related to the Marine Corps SF 133.

Objectives

The overall audit objective was to determine the reliability and effectiveness of processes and procedures used to prepare Navy General Fund financial statements. Specifically, for this part of the audit, we focused on whether the journal voucher entries that DFAS Cleveland made to create the monthly and year-end departmental reports for the Marine Corps appropriations were necessary. Our review of the management control program for departmental and financial statement reporting for DFAS Cleveland and Kansas City will be reported in a future audit report. Appendix A discusses the audit scope and methodology related to the audit objective.
Journal Voucher Entries for Marine Corps Appropriations

DFAS Cleveland manually entered unnecessary Marine Corps appropriation financial data into the Standard Accounting and Reporting System – Financial Departmental Reporting (STARS-FDR), using journal vouchers, to prepare the monthly SF 133. The manual journal vouchers were prepared because DFAS Cleveland personnel stated that they could not load the information electronically in time to meet the reporting deadline for the SF 133. As a result, DFAS Cleveland prepared 1,297 unnecessary manual journal vouchers with an absolute value of $39.6 billion, in FY 2000 through August 10, 2000. The manual process also increased the potential for input errors and diverted personnel from other work.

Monthly Reporting Process

DFAS Cleveland prepared three monthly reports for Department of the Navy appropriations: The SF 133, the “Appropriation Status Report” (DD Form 1002), and the “Report of Reimbursements,” (DD Form 725). To prepare those reports for the Marine Corps appropriations, DFAS Kansas City transmitted three electronic files to DFAS Cleveland on the 13th workday of each month, one file for each report. The SF 133 was due on the 16th day of the month, and DD 1002 and DD 725 were due on the 21st day of the month.

The electronic file for the SF 133 was not directly uploadable into STARS-FDR and DFAS Cleveland manually input the SF 133 data. However, electronic files for the DD 1002 and DD 725 were transmitted in a format that allowed the information to be electronically uploaded into specific general ledger accounts in STARS-FDR. The majority of the financial data for the SF 133 was also included on the DD 1002 and DD 725 reports, but the DD 1002 and DD 725 reports included more detailed information. DFAS programmed STARS-FDR to produce the three required monthly reports from the data entered.

Preparation of SF 133 for Marine Corps Appropriations

DFAS Cleveland manually created 1,297 journal voucher entries worth $39.6 billion for Marine Corps appropriations to create the monthly SF 133 during the first 10 months of FY 2000. Because the data to create the SF 133 were later uploaded in STARS-FDR electronically, DFAS personnel prepared additional manual journal voucher entries to reverse much of the information originally entered.

Journal Voucher Entries. DFAS Cleveland used journal vouchers to enter Marine Corps appropriation financial data into STARS-FDR, which produced the monthly SF 133 report. DFAS Cleveland used specific general ledger accounts that flowed directly to each respective line of the SF 133. Each of these accounts was identifiable by a four-digit suffix, which included the specific
line number that the data would flow to on the SF 133. For example, the general ledger account number “4811.08A0” was used to populate line 8.A., Obligations Incurred, of the SF 133 for each Marine Corps appropriation and all reported budget years.

Table 1 shows an example of one journal voucher entry in STARS-FDR to create the SF 133. The entry was for budget year 2000. A similar entry was made each month for each Marine Corps appropriation: Military Personnel (1105); Operation and Maintenance (1106); Operation and Maintenance, Reserve (1107), Reserve Personnel (1108); and Procurement (1109) and for each budget year reported (budget years 2000, 1999/2000, 1999, 1998, 1997, 1996, and 1995).

<table>
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<th>General Ledger Account</th>
<th>Debit Amount</th>
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<tr>
<td>4150.1000</td>
<td>$</td>
<td>$22,036,000</td>
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<tr>
<td>4511.1000</td>
<td>22,036,000</td>
<td>--</td>
</tr>
<tr>
<td>4561.1000</td>
<td>246,195,244</td>
<td>--</td>
</tr>
<tr>
<td>4571.1000</td>
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<td>245,495,244</td>
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<tr>
<td>4650.1000</td>
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<td>4811.9000</td>
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</tr>
<tr>
<td>4921.9000</td>
<td>31,347,753</td>
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<tr>
<td>4231.03B2</td>
<td>93,908,749</td>
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<tr>
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<tr>
<td>4811.08A0</td>
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<td>240,109,162</td>
</tr>
<tr>
<td>4811.14C0</td>
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<td>271,456,915</td>
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<tr>
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<td><strong>$1,343,589,443</strong></td>
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**Journal Voucher Reversals.** After DFAS Cleveland submitted SF 133s on the 16th workday of the month, it uploaded the electronic files to support the DD 1002 and DD 725 into STARS-FDR to prepare those reports. However, some of the information to support the DD 1002 and DD 725 was
already in STARS-FDR because DFAS Cleveland personnel manually prepared journal voucher entries earlier in the month to produce the SF 133. Therefore, DFAS Cleveland personnel had to reverse that information out of STARS-FDR. Table 2 shows the reversing journal voucher entry for the journal voucher entry in Table 1.

<table>
<thead>
<tr>
<th>General Ledger Account</th>
<th>Debit Amount</th>
<th>Credit Amount</th>
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<tbody>
<tr>
<td>4910.9000</td>
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Note that not all the general ledger accounts in the initial journal voucher from Table 1 were reversed in the journal voucher entry in Table 2. The general ledger accounts that were reversed were “holding” accounts that went directly to a line of the SF 133 and needed to be reversed because the actual data were entered into STARS-FDR through the upload of the DD 1002 and DD 725. The $637 million of accounts from Table 1 that were not reversed were valid general ledger accounts that were not replaced by the upload of the DD 1002 and DD 725 reports.

**Timing of the Reports.** DFAS Cleveland prepared the manual journal vouchers for the Marine Corps appropriations because personnel stated that they could not complete the electronic feed of the DD 1002 and DD 725 in time to meet the SF 133 reporting deadline of the 16th workday of the month. However, the data for the SF 133, DD 1002, and DD 725 were available on the 13th workday of each month.

**Magnitude of Journal Vouchers.** As of August 10, 2000, DFAS Cleveland accountants had made 1,297 unnecessary journal voucher entries for FY 2000 in STARS-FDR, worth $39.6 billion (absolute value) associated with the Marine Corps appropriation SF 133 data. As illustrated in Table 1, each individual journal voucher entry was large and time consuming. The number and absolute
dollar value of Marine Corps SF 133 journal voucher entries was 14 percent and 6 percent, respectively, of the total journal voucher entries made in FY 2000 through August 10, 2000.

DFAS Efforts to Improve Marine Corps Financial Reporting

In a Memorandum of Understanding signed on June 14, 2000, DFAS Cleveland and Kansas City agreed to transfer the duties of preparing the manual journal vouchers in STARS-FDR to DFAS Kansas City, on a test basis, for two Marine Corps appropriations. DFAS Kansas City and Cleveland later agreed to transfer the rest of the Marine Corps appropriations to DFAS Kansas City, starting with the first month of FY 2001. The agreement was intended to move the responsibility of preparing the Marine Corps departmental reports to the personnel who had the most information, and to allow the making of changes and adjustments more easily.

Although the Memorandum of Understanding was a step in the right direction, there were no plans to discontinue preparing manual journal vouchers. DFAS Cleveland expected DFAS Kansas City personnel to prepare the manual journal vouchers and make the necessary adjustments. However, the need for those journal vouchers can be eliminated if the data for the DD 1002 and DD 725 were uploaded in STARS-FDR and used to produce the SF 133 by the 16th workday. Our discussions with accounting personnel at DFAS Cleveland and Kansas City indicated that they were eager to eliminate the need to prepare manual journal voucher entries and were willing to try using uploaded DD 1002 and DD 725 information to create the SF 133. No one could say how long that process would take however.

Conclusion

DFAS Cleveland prepared a significant number of journal voucher entries in STARS-FDR during the course of the year. The entries were to correct, complete, or enter original data into STARS-FDR. Certain journal voucher entries will be necessary under any circumstances, especially with the current system configuration in the Department of the Navy. However, reducing the number of unnecessary manual journal vouchers will save time and decrease the potential for input errors. An effort should be made to increase the use of electronic feeds of data instead of the use of manual journal voucher entries to enter original financial data into STARS-FDR. The time saved by not making the manual journal voucher entries can be used to upload the DD 1002 and DD 725 reports, balance them, and create the SF 133.
Recommendation, Management Comments, and Audit Response

We recommend that the Director, Defense Finance and Accounting Service Kansas City and the Director, Defense Finance and Accounting Service Cleveland establish procedures to use electronically uploaded financial data to support the “Appropriation Status Report” (DD Form 1002), “Report of Reimbursements” (DD Form 725) and “Report on Budget Execution” (SF 133) each month to avoid the need to manually prepare journal voucher entries and later reversing entries.

Management Comments. The Director for Accounting, DFAS, concurred in principle, stating that because the due date of the SF 133 report is before the completion date of the DD 1002 and DD 725 reports, the journal entries are necessary to prepare the SF 133. Further, DFAS stated that they would have to extend the due date of the SF 133 past the completion date of the DD 1002 and DD 725 reports to effectively implement the recommendation.

Audit Response. The comments from DFAS are not responsive. We recognize the due date problem and stated that aspect of the process in the draft of this report. The intent of the recommendation is to compensate for the due date problem by using the electronic financial data available to prepare the SF 133 without the necessity of making journal entries that must later be reversed. DFAS did not address our proposal to use the electronic data to prepare the SF 133. At a minimum, DFAS should consider running a test to examine the potential of our recommendation and come up with ways to expedite the DD 1002 and DD 725 reporting processes. We request that DFAS provide additional comments in response to the final report.
Appendix A. Audit Process

Scope and Methodology

Work Performed. The overall audit objective was to determine the reliability and effectiveness of processes and procedures used to prepare Navy General Fund financial statements. Specifically, for this part of the audit, we focused on whether the journal voucher entries that DFAS Cleveland made to create the monthly and year-end departmental reports for the Marine Corps appropriations were necessary. We queried DFAS Cleveland accounting system, STARS-FDR, for all journal voucher entries made from October 1, 1999, through August 10, 2000, by using the Query Management Facility tables. We queried 35 appropriations, which resulted in 9,274 journal voucher entries, totaling $636 billion. All temporary journal voucher entries were excluded from each run of the appropriations. Once completed, each appropriation was saved by appropriation number then retrieved using a file transfer protocol. We then opened each individual file in Excel for further analysis.

We observed the process that DFAS Cleveland and Kansas performed to prepare the departmental reports for the Marine Corps appropriations. We started with the process DFAS Kansas City performed to prepare the reports from the source data and followed the process to the actual journal voucher entries in STARS-FDR.

DoD-Wide Corporate-Level Government Performance and Results Act (GPRA) Coverage. In response to the GPRA, the Secretary of Defense annually establishes DoD-wide corporate level goals, subordinate performance goals, and performance measures. This report pertains to achievement of the following objective and goal, subordinate performance goal, and performance measure.

FY 2001 DoD Corporate-Level Goal 2: Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. (01-DoD-02)

FY 2001 Subordinate Performance Goal 2.5: Improve DoD financial and information management. (01-DoD-2.5)

FY 2001 Performance Measure 2.5.2: Achieve unqualified opinions on financial statements. (01-DoD-2.5.2)

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the Defense Financial Management high-risk area.

Use of Computer-Processed Data. We relied on computer-processed data from the STARS-FDR system to identify the journal voucher entries related to
preparing and reversing manual journal voucher entries for the Marine Corps departmental reports. Although we did not perform a reliability assessment of the computer-processed data, we did not find errors that would preclude use of the computer-processed data to meet the audit objectives or that would change the conclusions in this report.

Audit Type, Period, and Standards. We performed this financial-related audit from July through October 2000, in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD.

Contacts During the Audit. We visited or contacted organizations in the DoD. Further details are available on request.

Prior Coverage

Appendix B. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Comptroller (Program/Budget)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Naval Inspector General
  Auditor General, Department of the Navy

Department of the Air Force

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

Other Defense Organizations

Director, Defense Finance and Accounting Service
  Director, Defense Finance and Accounting Service Cleveland
  Director, Defense Finance and Accounting Service Kansas City

Non-Defense Federal Organization

Office of Management and Budget
Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

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 Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Management, Information, and Technology, Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform
MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE, OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Audit Report on Journal Entries to Support Departmental Reporting for the Marine Corps (Project No. D2000FC-0283.000)

Our response to the subject request is attached. The point of contact is Mr. David Arvin, (703) 607-2857 or DSN 327-2857.

Edward A. Harris
Director for Accounting

Attachment:
As stated

cc:
DFAS-DDI
DFAS-AX/KC
DFAS-AJIS/CL
Audit Report on Journal Entries to Support Departmental Reporting for the Marine Corps (Project No. D2000FC-0283.000)

Recommendation: We recommend that the Director, Defense Finance and Accounting Service Kansas City Center and the Director, Defense Finance and Accounting Service Cleveland Center establish procedures to use electronically uploaded financial data to support the “Appropriation Status Report” (DD Form 1002), “Report of Reimbursements” (DD Form 725) and “Report on Budget Execution” (SF 133) each month to avoid the need to manually prepare journal voucher entries and later reversing entries.

Management Comments: Concur in principle. The Defense Finance and Accounting Service (DFAS) makes journal entries to the system, creates the SF 133, reverses the journal entries, and creates the DD Form 1002 and the DD Form 725 reports. Since the due date of the SF 133 is before the completion date of the DD Form 1002 and the DD Form 725 reports, DFAS must make the journal entries to prepare the SF 133 and then reverse them. To effectively implement the auditors’ recommendation, DFAS would need to extend the due date of the SF 133 past the completion date of the DD Form 1002 and the DD Form 725 reports.
Audit Team Members

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report. Personnel of the Office of the Inspector, DoD, who contributed to the report are listed below.

F. Jay Lane
Salvatore D Guli
Marvin L. Peek
Linda A. Pierce
David J Ramseyer
Kristie J. Ebert