INSPECTOR GENERAL, DOD, OVERSIGHT
OF THE NAVAL AUDIT SERVICE AUDIT OF THE
FY 2000 DEPARTMENT OF THE NAVY
GENERAL FUND FINANCIAL STATEMENTS

Report No. D-2001-056
February 21, 2001

Office of the Inspector General
Department of Defense
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Supplementary Notes

Abstract
Public Law 101-576, the ihChief Financial Officers Act of 1990,io November 15, 1990, as amended by Public Law 103-356, the "Federal Financial Management Act of 1994," October 13, 1994, requires DoD to prepare annual audited Department of the Navy General Fund financial statements. Office of Management and Budget Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements," October 16, 2000, establishes the minimum requirements for these financial statements. This Bulletin requires the Inspector General, DoD, to express an opinion on the DoD financial statements and to report on the adequacy of internal controls and compliance with laws and regulations. We delegated the audit of the FY 2000 Department of the Navy General Fund financial statements to the Naval Audit Service. This is the third in a series of reports on our audit of the FY 2000 Department of the Navy General Fund financial statements. This report provides the results of our oversight of the Naval Audit Service work. Our first report discusses the journal entries made to support the departmental reporting for the Marine Corps and our second report discusses the preparation of financial reports for Marine Corps appropriations.

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Acronym

NAS  Naval Audit Service
MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Audit Report on Inspector General, DoD, Oversight of the Naval Audit
Service Audit of the FY 2000 Department of the Navy General Fund
Financial Statements (Report No. D-2001-056)

We are providing this report for your information and use and for transmittal to
the Director, Office of Management and Budget. It includes our endorsement of the
Naval Audit Service disclaimer of opinion on the FY 2000 Department of the Navy
General Fund financial statements, along with excerpts from the Naval Audit Service
report, "Fiscal Year 2000 Department of the Navy General Fund Principal
financial statements is required by the Chief Financial Officers Act of 1990, as
contains no findings or recommendations, written comments are not required.

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@dodi.osd.mil) or Ms. Linda A. Pierce at (216) 522-6091,
extension 234 (DSN 580-6091) (lpierce@dodi.osd.mil). See Appendix B for the
report distribution. The audit team members are listed inside the back cover.

David K. Steensma
Deputy Assistant Inspector General
for Auditing

February 21, 2001
Executive Summary

Introduction. Public Law 101-576, the “Chief Financial Officers Act of 1990,” November 15, 1990, as amended by Public Law 103-356, the “Federal Financial Management Act of 1994,” October 13, 1994, requires DoD to prepare annual audited Department of the Navy General Fund financial statements. Office of Management and Budget Bulletin No. 01-02, “Audit Requirements for Federal Financial Statements,” October 16, 2000, establishes the minimum requirements for these financial statements. This Bulletin requires the Inspector General, DoD, to express an opinion on the DoD financial statements and to report on the adequacy of internal controls and compliance with laws and regulations. We delegated the audit of the FY 2000 Department of the Navy General Fund financial statements to the Naval Audit Service. This is the third in a series of reports on our audit of the FY 2000 Department of the Navy General Fund financial statements. This report provides the results of our oversight of the Naval Audit Service work. Our first report discusses the journal entries made to support the departmental reporting for the Marine Corps and our second report discusses the preparation of financial reports for Marine Corps appropriations.

Objective. Our objectives were to oversee the Naval Audit Service audit of the FY 2000 Department of the Navy General Fund financial statements and to determine the reliability and effectiveness of processes and procedures used to prepare those statements. This report focuses on the oversight objective. The objective for determining the reliability and effectiveness of processes and procedures used to prepare financial statements is addressed in our first two audit reports for this project. A subsequent audit report will further discuss this objective and our review of the management control program for departmental and financial statement reporting. See Appendix A for a discussion of the audit process.

Results. The Naval Audit Service report, “Fiscal Year 2000 Department of the Navy General Fund Principal Statements,” February 7, 2001, states that the auditors were unable to express an opinion on the FY 2000 Department of the Navy General Fund financial statements. We concur with the Naval Audit Service disclaimer of opinion; our endorsement of that disclaimer is Exhibit 1. Excerpts from the Naval Audit Service audit report are included as Exhibit 2 and provide the reasons for the disclaimer of opinion and identify the material weaknesses and reportable conditions associated with the internal controls and compliance with laws and regulations. Naval Audit Service reports can be accessed on the Internet at http://www.hq.navy.mil/navalaudit. The FY 2000 Department of the Navy General Fund financial statements can be accessed on the Internet at www.dtic.mil/comptroller.
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2. Excerpts from Naval Audit Service Report “Fiscal Year 2000 Department of the Navy General Fund Principal Statements”
Appendix A. Audit Process

Scope and Methodology

Audit Work Performed. To fulfill our responsibilities under Public Law 101-576, the “Chief Financial Officers Act of 1990,” as amended by Public Law 101-356, the “Federal Financial Management Act of 1994,” and Office of Management and Budget Bulletin No. 01-02, “Audit Requirements for Federal Financial Statements,” dated October 16, 2000, we performed oversight of the independent audit conducted by the Naval Audit Service (NAS) of the FY 2000 Department of the Navy General Fund financial statements. We reviewed the NAS audit approach and monitored audit progress at key points.

Reviewing the NAS Audit Approach. We used the “Federal Financial Statement Audit Manual,” January 1993, issued by the President’s Council on Integrity and Efficiency, and the “Financial Audit Manual,” December 12, 1997, issued by the General Accounting Office, as the criteria for reviewing the NAS audit approach. We reviewed the notification letter, formulation of strategy, entity profile, general risk analysis, cycle memorandums, and audit programs. In addition, we participated in NAS meetings on the Department of the Navy General Fund financial statements. The meetings covered the NAS planning and formulation of audit strategy and included presentations on issues that developed during the NAS work.

Monitoring Audit Progress. Through the DoD Financial Statement Audit Executive Steering Committee, and an integrated line-item oversight effort, we provided a forum for a centrally managed exchange of guidance and information. We reviewed and commented on the NAS audit opinion report, which included discussions of issues on internal controls and compliance with laws and regulations. We reviewed key workpapers and summaries of NAS audit results and conclusions.

DoD-Wide Corporate-Level Government Performance and Results Act Coverage. In response to the Government Performance and Results Act, 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 corporate-level 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)

DoD Functional Area Reform Objectives and Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objective and goal.


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

Audit Type, Period, and Standards. We performed this financial statement audit from September 7, 2000, through February 7, 2001, in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We did not use computer-processed data to conduct our oversight of the Naval Audit Service audit of the FY 2000 Department of the Navy General Fund financial statements.

Contacts During the Audit. We visited or contacted individuals and organizations in the DoD audit community. 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 Organization

Director, Defense Finance and Accounting Service

Non-Defense Federal Organizations

Office of Management and Budget
General Accounting Office

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 Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform
House Subcommittee on Technology and Procurement Policy, Committee on Government Reform
Exhibit 1. Inspector General, DoD, Endorsement Memorandum
MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Endorsement of the Disclaimer of Opinion on the FY 2000
Department of the Navy General Fund Financial Statements
(Project No. D2000FC-0283.001)

The Chief Financial Officers Act of 1990, as amended by the Federal
Financial Management Act of 1994, requires financial statement audits by the
Inspectors General. We delegated to the Naval Audit Service (NAS) the audit of the
FY 2000 Department of the Navy General Fund financial statements. Summarized as
follows are the NAS disclaimer of opinion on the FY 2000 Department of the Navy
General Fund financial statements and the results of our review of the NAS audit.
The information provided in this memorandum contains reasons for the NAS
disclaimer. We endorse the disclaimer of opinion expressed by NAS.

Disclaimer of Opinion. The NAS disclaimer of opinion on the FY 2000
Department of the Navy General Fund financial statements, dated February 7, 2001,
states that NAS was unable to express an opinion on the financial statements. We
concur with the NAS disclaimer of opinion. The following deficiencies identified by
the Department of the Navy in the Management Representation Letter, Annual
Statement(s) of Assurance, and notes to the financial statements preclude an audit
opinion.

- The Department of the Navy did not have transaction-driven
  standard general ledger accounting systems that could accurately
  report the value of assets and liabilities.

- Financial accounting systems did not contain sufficient audit trails
to enable transaction-level verification.

- Department of the Navy financial and non-financial feeder systems
  and processes did not collect and record financial data on the full
  accrual accounting basis. Financial data were based on budgetary
  information and were adjusted for known accruals.

Internal Controls. The NAS determined that internal controls did not provide
reasonable assurance that resources were properly managed and accounted for, that
the Department of the Navy complied with applicable laws and regulations, and that
the FY 2000 Department of the Navy General Fund financial statements contained no
material misstatements. The Department of the Navy and the Defense Finance and
Accounting Service recognized many of the financial reporting weaknesses and
reported them in their FY 2000 Annual Statement(s) of Assurance.
Compliance With Laws and Regulations. The NAS identified areas of noncompliance with laws and regulations. Under the Federal Financial Management Improvement Act of 1996, the NAS audit work showed that financial management systems did not substantially comply with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. For example, the Department of the Navy did not have integrated financial management systems from which to extract financial data for use in preparing financial statements and, therefore, did not substantially comply with Federal Accounting Standards. Details on the adequacy of internal controls and compliance with laws and regulations are discussed in the NAS report.

Review of Naval Audit Service Work. To fulfill our responsibilities for determining the accuracy and completeness of the independent audit work that NAS conducted, we reviewed the audit approach and planning and monitored progress at key points. We also performed other procedures to determine the fairness and accuracy of the approach and conclusions.

We reviewed the NAS work on the FY 2000 Department of the Navy General Fund financial statements from March 1, 2000, through February 7, 2001, in accordance with generally accepted Government auditing standards. We found no indication that we could not rely on the NAS disclaimer of opinion or its related evaluation of internal controls and compliance with laws and regulations.

David K. Steensma
Deputy Assistant Inspector General
for Auditing
Exhibit 2. Excerpts from Naval Audit Service Report, “FY 2000 Department of the Navy General Fund Principal Statements”
Audit Report

Fiscal Year 2000
Department of the Navy
General Fund Principal Statements

N2001-0012
7 February 2001
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<td>To suggest ideas for or to request future audits, please contact Samuel Chason, as follows:</td>
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http://www.hq.navy.mil/navalaudit
Section A

Introduction

Background

Congress passed the Chief Financial Officers Act (Public Law 101-576) on 15 November 1990 requiring the Department of the Navy to prepare an Annual Financial Report, to include Principal Statements. The intent was to strengthen financial management practices and make Government operations more efficient and effective. Congress expanded on that Act and passed the Government Management Reform Act of 1994 (Public Law 103-356).

The Department of the Navy Fiscal Year (FY) 2000 Annual Financial Report includes General, Revolving, Trust, and Other fund accounts under the control of the Department of the Navy. General Fund accounts are used to record funds appropriated by Congress and financial transactions utilizing the funds. The Department of the Navy manages 24 General Fund accounts.

The Defense Finance and Accounting Service - Cleveland prepares the annual financial statements for the Department of the Navy. The Defense Finance and Accounting Service - Kansas City is responsible for providing Cleveland with Marine Corps financial information for inclusion in the Department of the Navy statements. The Department of the Navy is responsible for the annual financial statements conforming with generally accepted accounting principles and Office of Management and Budget (OMB) Bulletin 97-01, “Form and Content of Agency Financial Statements,” 16 October 1996 as amended, and for:

- Establishing and maintaining management controls and systems to provide reasonable assurance that the broad control objectives of the Federal Managers’ Financial Integrity Act are met.
- Complying with applicable laws and regulations.

The Naval Audit Service is responsible for auditing the financial statements and evaluating related internal controls and compliance with laws and regulations.
Objectives

The audit objectives addressed by this report were to:

- Determine whether we could perform an audit of the Department of the Navy Principal Statements for FY 2000. An audit, if completed, would determine whether the principal statements fairly presented, in all material respects, the Department of the Navy’s financial position and results of operation for FY 2000.
- Assess the adequacy of internal controls to detect or prevent errors and misstatements that have a material effect on the financial statements.
- Assess compliance with financial laws and regulations and reporting of performance measures related to the financial statements.

Additional objectives are addressed in other FY 2000 financial audit reports issued by the Naval Audit Service.

Scope and Methodology

Our review of the Department of the Navy FY 2000 Annual Financial Report focused on five key Principal Statements, including related footnotes and the Required Supplementary Stewardship Information. The five principal statements are:

- Consolidated Balance Sheet
- Statement of Net Cost
- Statement of Changes in Net Position
- Statement of Budgetary Resources
- Statement of Financing

The Department of the Navy financial statements account for all funds for which the Department is responsible except information relative to classified assets, programs, and operations excluded from the statements or otherwise aggregated and reported in such a manner that it is no longer classified. We focused our audit work on the General Fund.

Our audit project began on 1 March 2000 and was completed on 7 February 2001. We conducted reviews at the Defense Finance and Accounting Service - Cleveland and Defense Finance and Accounting Service - Kansas City, including related locations. We also conducted reviews at the offices of the Assistant Secretary of the Navy (Financial Management and Comptroller), major commands in the Navy and Marine Corps, and selected Navy and Marine Corps subordinate commands. A list of the activities visited or contacted is in Section D.
The audit work was conducted in accordance with generally accepted government auditing standards and with OMB Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements." Tests and procedures as deemed necessary were used to assess the reliability of systems and processes that provide input to the five FY 2000 statements listed above, including the adequacy of internal controls and compliance with laws and regulations. Details on those tests and procedures are provided in supporting Naval Audit Service reports, which are listed in Section E. Details on the Management Control Program are contained in Part III of this report, "Report on Compliance With Laws and Regulations." We also took into consideration the deficiencies noted in the Department of the Navy Management Representation Letter and Department of the Navy and Defense Finance and Accounting Service annual Statements of Assurance.

This report provides our disclaimer of opinion on the Department of the Navy Principal Statements for the fiscal year ended 30 September 2000, and contains our conclusions on internal controls and compliance with laws and regulations. Additional Naval Audit Service reports contain our conclusions on business risks and on specific deficiencies in systems and operational processes. Section F provides the Principal Statements, Related Footnotes, Required Supplementary Stewardship Information, and Supplemental Financial and Management Section.
Section B
Results of Audit Work

Part I - Report on Auditor’s Opinion

We performed audit work relative to the Fiscal Year 2000 Department of the Navy General Fund Consolidated Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing (the Principal Statements) in accordance with generally accepted government auditing standards and OMB Bulletin No. 01-02. Our auditing procedures included an evaluation of related internal controls and compliance with laws and regulations in some areas. The Assistant Secretary of the Navy (Financial Management and Comptroller) is responsible for these financial statements, for establishing and maintaining internal controls, and for complying with laws and regulations applicable to Department of the Navy financial accounting and reporting. Our responsibility is to express an opinion on the financial statements based on our audit.

We are unable to express an opinion on the Department of the Navy Principal Statements for the fiscal year ended 30 September 2000. The following deficiencies, which have been identified in the Department of the Navy Management Representation Letter, annual Statements of Assurance, and financial statement footnotes, preclude an audit opinion:

- The Department of the Navy did not have transaction-driven standard general ledger accounting systems that could accurately report the value of assets and liabilities.
- Accounting systems did not contain sufficient audit trails to enable transaction level verification.
- Department of the Navy financial and non-financial feeder systems and processes did not collect and record financial data on the full accrual accounting basis. Financial data was based on budgetary information and adjusted for known accruals.

As a result of the deficiencies cited above, we were unable to ascertain the reliability of amounts reported on the financial statements. Financial data in the Overview and the Supplemental Financial and Management Information sections of the Department of the Navy Annual Financial Report was derived from the same sources as the Principal Statements and, therefore, may not be reliable.

Limited tests found internal controls were not adequate to ensure that resources were properly managed and accounted for, that the Department of the Navy complied with
applicable laws and regulations, and that the Principal Statements were free of material misstatements. Internal controls did not ensure that assets and liabilities were properly accounted for, and that accounting transactions were accurate and properly supported. The Department of the Navy and Defense Finance and Accounting Service have recognized these weaknesses and reported them in their Fiscal Year 2000 Assurance Statements on Management Controls.

Bill A. Roderick
Naval Audit Service

7 February 2001
Part II - Report on Internal Controls

As part of our review to determine whether we could perform an audit of the financial statements, we considered the Department of the Navy's internal controls over financial reporting. We obtained an understanding of the internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls in the following areas: Fund Balance with Treasury, Operating Materials and Supplies, Obligations, Problem Disbursements, and Environmental Liabilities. It was not our objective to provide assurance on internal controls over financial reporting. Consequently, we do not provide an opinion on internal controls.

Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal controls over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted certain matters discussed in the following paragraphs involving internal controls and its operation that we consider to be reportable conditions and material weaknesses.

With respect to internal controls related to performance measures reported in the Overview section of the Financial Report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by Office of Management and Budget (OMB) Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal controls over reported performance measures and, accordingly, we do not provide an opinion on such controls.

The major internal control weakness identified in the Management Representation Letter and Statements of Assurance was the lack of an integrated, transaction-driven general ledger accounting system. To accumulate financial data, the Department of the Navy had to rely on a manual "data call" process that was error prone and accounting systems that did not have account-based subsidiary general ledgers. Furthermore, there were internal control weaknesses related to the overall process of preparing the financial statements at Defense Finance and Accounting Service - Cleveland. Many of the internal control weaknesses were reported by the Department of the Navy or Defense Finance and Accounting Service in their Fiscal Year (FY) 2000 Annual Statement of Assurance. These weaknesses relating to the General Fund
financial statements are discussed in the Report on Compliance with Laws and Regulations section of this report. In addition, internal control deficiencies we identified to specific accounts are presented in separate FY 2000 supporting reports.

Financial Statement Preparation Issues

Office of the Inspector General, Department of Defense auditors reviewed the FY 2000 financial statement compilation process at Defense Finance and Accounting Service - Cleveland and Kansas City. Results of this review were detailed in a memorandum dated 5 January 2001. The following paragraphs summarize the weaknesses noted during the Inspector General, Department of Defense review.

Process Overview. Defense Finance and Accounting Service - Cleveland prepared the FY 2000 financial statements for the Department of the Navy to include the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, Statement of Financing, and financial statement footnotes. Because of inadequate accounting systems at Cleveland and Kansas City, these locations continued to use extensive manual processes to gather financial data for use in compiling the Department of the Navy Statements. The primary accounting system deficiency was the absence of integrated, transaction-driven, standard general ledger systems at Defense Finance and Accounting Service. As a result, Cleveland personnel used manual processes to compile the statements from financial information in departmental reports and data call submissions from various sources. Cleveland personnel prepared computer spreadsheets from financial data in the accounting system and departmental reports, and then adjusted the spreadsheets for data call information received from other sources. The adjusted spreadsheet formed the trial balance which was loaded into the Defense Departmental Reporting System (DDRS) for the preparation of the financial statements and footnotes.

Audit Conclusion. Inspector General, Department of Defense auditors concluded that systems and processes used by Defense Finance and Accounting Service - Cleveland and Kansas City to compile the FY 2000 Department of the Navy Financial Statements did not produce auditable financial statements. Cleveland personnel made extensive adjustments to balance financial data and used invalid general ledger accounts in most of the adjusting entries. In addition, systems lacked the necessary general ledger controls to produce reliable financial data.

Improvement Actions Taken

During FY 1998, the Department of the Navy began a large effort to identify and evaluate non-financial feeder systems used in producing the Department of the Navy Principal Statements. This effort included establishing 13 working groups responsible for identifying and evaluating non-financial systems used to feed data to financial statement line accounts through
the data call process. These working groups were established to ensure that systems and processes comply with federal financial management systems requirements and support the Department of Defense Implementation Strategies. The Department of Navy is working towards making all active/ongoing or new initiative systems compliant by 30 September 2003. Redundant systems are being eliminated, and internal controls are being reinforced. Political appointees, senior flag officers, or senior executives head each Non-Financial Feeder Team. Other members of these teams include functional representatives from the logistics, engineering, financial, and audit communities and representatives from each applicable management command. The Department of the Navy Office of Financial Operations, along with the Deputy Under Secretary of the Navy's Organization, Management and Infrastructure Team, is coordinating these efforts. Through teamwork, the Department of Navy is striving to improve overall financial management.

The Department of the Navy made significant progress in reporting environmental cleanup liabilities for training ranges. FY 1999 was the first year that liabilities were reported for training ranges and the Department of Navy demonstrated considerable initiative in reporting a liability of approximately $31 billion. In testimony on 9 May 2000 before the Subcommittee on Government Management, Information and Technology, Committee on Government Reform, House of Representatives, the General Accounting Office recognized improvements made in reporting of environmental and disposal liabilities generally and training ranges specifically. The General Accounting Office noted that the Department of Defense reported a liability of $34 billion to clean up training ranges, of which the Department of Navy reported approximately $31 billion. Since the Department of Defense reported no liability for training range cleanup prior to FY 1999, the General Accounting Office considered this "an important step forward."
Part III - Report on Compliance With Laws and Regulations

The management of the Department of the Navy is responsible for complying with applicable laws and regulations. As part of our review to determine whether we could perform an audit of the Department of the Navy's financial statements, we reviewed compliance with certain provisions of laws and regulations. Noncompliance with those provisions of laws and regulations that we reviewed could have a direct and material effect on determining financial statement amounts. Also, we reviewed compliance with certain other laws and regulations specified in Office of Management and Budget (OMB) Bulletin No. 01-02, including the requirement referred to in the Federal Financial Management Improvement Act of 1996. We did not have as an objective to express an opinion on compliance with laws and regulations and accordingly, we do not express such an opinion. This report is intended for the information of the management of the Department of the Navy, OMB, and Congress. However, this report is a matter of public record, and its distribution is not limited.

The results of our review disclosed instances of noncompliance with laws and regulations that are required to be reported under Government Auditing Standards and OMB Bulletin No. 01-02. Instances of noncompliance described below have been reported in the Management Representation Letter and annual Statements of Assurance.

Federal Financial Management Improvement Act

Under the Federal Financial Management Improvement Act, we are required to report whether the agency's financial management systems substantially comply with the Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. To meet this requirement, we reviewed compliance using the implementation guidance for the Federal Financial Management Improvement Act included in Appendix D of OMB Bulletin No. 01-02.

The results of our review disclosed instances, described below, where the agency's financial management systems did not substantially comply with the requirements discussed in the preceding paragraph. The Military Departments, Defense Agencies, and the Defense Finance and Accounting Service are collectively responsible for the financial management systems that support the Department of Defense. The Military Departments and Defense Agencies are responsible for the non-financial data systems that supply much of the data reported on the financial statements. These data are then fed into the accounting and finance systems that are the responsibility of the Defense Finance and Accounting Service. To compile the Fiscal Year (FY) 2000 Department of the Navy Financial Statements, the Defense Finance and Accounting Service used data from accounting systems and from non-financial data systems.
The Department of Defense has identified 167 systems that are critical to financial management. Of the 167 systems, 33 are Navy owned. Because it is impractical to report deficiencies for all systems, we have identified examples of the most significant system deficiencies in this report.

**Federal Financial Management System Requirements.** Federal financial management system requirements have been well established in OMB Circular A-127, "Financial Management Systems," July 23, 1993, which requires financial management systems to provide complete, reliable, consistent, timely, and useful information. To achieve this goal, the Department of Defense and other Federal agencies must establish and maintain a single, integrated financial management system. In addition, the Joint Financial Management Improvement Program has published a series of "Federal Financial Management System Requirements" that establish standard requirements for Federal agencies' integrated financial management systems. For FY 2000, the financial management systems that support the Department of the Navy did not substantially comply with Federal financial management system requirements. Most significantly, the Department of the Navy did not have integrated financial management systems from which to extract financial data for use in preparing financial statements.

**Federal Accounting Standards.** Federal agencies reporting under the Government Management Reform Act of 1994 are to follow Statements of Federal Financial Accounting Standards agreed to by the Director of OMB, the Comptroller General, and the Secretary of the Treasury. Currently, there are 18 Statements of Federal Financial Accounting Standards and 3 Statements of Federal Financial Accounting Concepts. For FY 2000, the financial management systems that support the Department of the Navy did not substantially comply with Federal Accounting Standards.

**U.S. Standard General Ledger at the Transaction Level.** OMB requires Federal agencies to implement the U.S. Standard General Ledger in their financial systems. The U.S. Standard General Ledger must be implemented at the transaction level. Federal agencies are permitted to supplement their application of the U.S. Standard General Ledger to meet agency-specific information requirements. However, agency standard general ledgers must maintain consistency with the U.S. Standard General Ledger. For FY 2000, finance and accounting systems that support Department of the Navy lacked a standard, transaction-driven general ledger, as the U.S. Standard General Ledger is not fully implemented throughout the systems.

**Government Performance and Results Act**

The Government Performance and Results Act of 1993 required all Government departments to begin strategic planning, performance planning, and evaluation of achievements against performance plans. Within the Department of the Navy, performance measures
presented should relate to Department of the Navy purposes and goals, be in line with Department of Defense goals, and be linked to specific programs presented in the Statement of Net Cost. The success of the Government Performance and Results Act rests on relating program costs to accomplishments. Performance measures show the results of program accomplishments with the resources used. The Net Cost of Operations is a fundamental measure of these resources. In FY 2000, the Department of the Navy Statement of Net Cost did not meet the intent of the Government Performance and Results Act of linking goals to specific Department of the Navy programs and, ultimately, program costs.

Federal Managers’ Financial Integrity Act

As required by the Federal Managers’ Financial Integrity Act of 1982, the Department of the Navy and the Defense Finance and Accounting Service report annually to the Secretary of Defense on whether their management controls comply with the Act’s requirements. The following subparagraphs describe the Department of the Navy’s and the Defense Finance and Accounting Service’s identification of material management control weaknesses in the FY 2000 Assurance Statements.

Department of the Navy Assurance Statement

The Department of the Navy FY 2000 Assurance Statement identified 15 uncorrected material weaknesses. Of these, two systemic management control weaknesses directly affect the accuracy and reliability of the Department of the Navy General Fund financial information. The following subparagraphs taken from the Department of the Navy FY 2000 Statement of Assurance describe the two issues.

Lack of Integrated General Ledger Accounting System. The lack of an integrated, transaction-driven general ledger accounting system has contributed to overstated and understated balances of account balances. In addition, the presentation of accurate financial data was inhibited by data call, accounting system, procedural, and guidance issues. When an accounting system was used, balances could not always be reconciled to detailed accounting records due to poor general ledger controls and the lack of sufficient audit trails. Lack of established written policy and procedural guidance affected closed account balances, pricing and physical inventory accuracy of ammunition, recording acquisition and disposition of Property, Plant, and Equipment; Personal Property; and Accrued Payroll and Benefit costs. FY 1998 was the first year for reporting deferred maintenance for General Property, Plant, and Equipment; Real Property; and National Defense Property, Plant, and Equipment. Deficiencies occurred in reporting because guidance for classifying and reporting deferred maintenance was inadequate and inconsistently applied. Instances were found where Department of Defense guidance was either conflicting or inconsistent with Federal Financial Accounting Standards and OMB requirements.
Unmatched Disbursements. Unmatched disbursements existed in the Department of the Navy's accounting system because: (1) funding organizations did not always obligate funds promptly; (2) controls were not adequate to ensure prompt detection and correction of disbursing office errors; (3) accounting data accuracy was not maintained; and (4) unmatched disbursements were not promptly resolved. Now called "Problem Disbursements," this issue has been expanded to include negative unliquidated obligations and in-transit disbursements. The Department of the Navy's efforts to reduce, if not eliminate, the causes of problem disbursements include working with the Defense Finance and Accounting Service to develop changes in automated accounting systems to prevalidate disbursements by matching payments (proposed) to obligations before payment, reduce the amount of manual data entry, and improve the level of automation in the payment process.

The existence of unmatched transactions and invalid transaction amounts indicates noncompliance with paragraph one of the Federal Managers' Financial Integrity Act of 1982. Paragraph one requires, in part, that administrative controls provide assurance that applicable transactions are properly recorded and accounted for to permit preparation of accurate and reliable financial and statistical reports.

The Department of the Navy managers continued to use audits and inspections in preparing the Annual Statement of Assurance. All material weaknesses reported in the FY 2000 Statement of Assurance were identified by audit and inspection reports. Implementing instructions state that Federal managers have the primary responsibility for monitoring and assessing controls and should use other sources (such as audit and inspection reports) as a supplement to, not a replacement for, their own judgment. However, the Department of the Navy has initiated an effort with the Department of Defense to reengineer the Management Control Program. The Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) has tasked a major consulting firm with developing and implementing a revised Management Control Program, effective for the FY 2001 reporting period. The reengineering effort, led by the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller), should implement a sustainable program of risk and control while achieving the purpose of the Program.

The purpose of this Management Control Program reengineering effort is to: (1) better align the Management Control Program with the intent of the Federal Managers' Financial Integrity Act and with guidance contained in OMB Circular A-123 -- Management Accountability and Control, and the recently revised Standards for Internal Control in the Federal Government; (2) follow through on the goal of the Department of the Navy for the Statement of Assurance reporting process by providing for an assessment of business risks in each Command of the Department of the Navy, identification of controls to manage or mitigate those risks, and a determination of the effectiveness of the controls; (3) develop a proactive and formal program of ongoing risk management, intended to improve the operational and fiscal effectiveness of each program and each Command; (4) properly position the process of risk identification and
control alignment at the Command level, while re-focusing the role of the Naval Audit Service as one of Command and management support, as both auditor and control consultant; and (5) facilitate the assembly of the annual Statement of Assurance by identifying material weaknesses using a risk-based, control-oriented approach.

**Defense Finance and Accounting Service Assurance Statement**

The Defense Finance and Accounting Service FY 2000 Assurance Statement identified 38 uncorrected material weaknesses (13 identified during the current period and 25 identified during prior periods). Of the 38 weaknesses, 20 directly affect the accuracy and reliability of the Department of the Navy General Fund financial information. The following subparagraphs, taken from the Defense Finance and Accounting Service FY 2000 Assurance Statement, describe these 20 material weaknesses.

**Abnormal Departmental Report Balances From Methodology Used in the Development of the Report on Budget Execution (SF 133) crosswalk.** Amounts reflected on the SF 133 are based on an old Navy method used to compute the old Report on Budget Execution (DD 1176). This old method has caused abnormal balances because many of the lines are mathematically derived and do not use the general ledger. Our department has developed a new method during FY 2000 that utilizes the general ledger accounts and follows the pro-forma postings in the official Treasury Manual. This new method has no abnormal balances as of June 2000 reporting. We have presented this to Defense Finance and Accounting Service - Headquarters and the Department of the Navy but have not been given the authority to implement. Until this occurs we will continue to experience abnormal balances on our SF 133. Abnormal Balances on the Accounting Report, Monthly, AR (M) 1307 reflected in Accounts Receivable and Accounts Payable are caused by the Undistributed Collections/Disbursements being greater than the Accounts Receivable and Accounts Payable balances in the general ledgers. This is primarily due to timing differences between the activity cash reporting and Treasury reporting.

**Project Bankroll-Fraud Potential.** Demonstrated that financial fraud potentially could be committed by exploiting weak internal controls. Commission of financial fraud or any other financial crime, whether perpetrated by a person or persons inside or outside of the Defense Finance and Accounting Service, can significantly impair fulfillment of the Defense Finance and Accounting Service mission.

**Inadequate Control Over Systems Access.** None of the systems are managed or controlled by Kansas City and it is not within our control to change them to correct the weakness. These systems are legacy (TMS) or interim migratory systems (IATS, SRD-1, CAPS) that will be replaced at some point by other systems now in development. For the interim, we must establish controls and oversight for levels of
access and assure that migrating controls are in place until the system controls are established or the systems are replaced. The established controls must include a process for documenting the request for and approval of access by a person independent of the system operation or oversight and periodic reviews of access granted to system records.

Untimely Processing and Clearance of Statement of Difference – Undistributed Disbursements (OPAC). A systemic weakness in the timely processing and clearance of discrepancies reported by the Treasury Department, Financial Management Service (FMS) on the Statement of Differences (FMS 6652) - Undistributed Disbursements (OPAC) exists throughout the Defense Finance and Accounting Service. All Defense Finance and Accounting Service activities participating in the OPAC process have been provided guidance to use line 7.1, Deferred Vouchers on their SF 1219, Statement of Accountability to record vouchers processed at Treasury that have not been recorded in the accounting system. Prior to September 1999, oversight for OPAC processing was provided by five Defense and Accounting Service locations. Application and interpretation of guidance was inconsistent between the locations and there was no centralized monitoring to control the process. This weakness causes government funds received and expended using OPAC to be omitted from the accounting financial reports. Therefore, this weakness is material.

Untimely Clearance of Check Issue Discrepancies. A systemic weakness in the timely reconciliation and clearance of discrepancies reported by the Treasury Department, Financial Management Service (FMS) on the Comparison of Checks Issued-Detail Reported on the Statements of Accountability and Block Control Level Totals exists throughout the Defense Finance and Accounting Service. All Department of Defense Disbursing Officers (Defense Finance and Accounting Service, Army, Air Force, Navy, Marine Corps) report details on each check issued to the Treasury by level 8 reporting through the Defense Check Reconciliation Module (DCRM), which updates Treasury's Check Payment and Reconciliation Module (CP&R) system. The Disbursing Officers record the total of the checks issued on their SF 1219, Monthly Statement of Accountability. The CP&R tracks and accounts for each check by detail and the SF 1219 accounts for the checks issued by total by month issued. The Comparison Report monitors the balance between the detail reporting and the total reporting. Differences occur several different ways. Timing differences occur when the Disbursing Officer’s level 8 reporting and/or the SF 1219 data does not get reported to Treasury by the monthly cutoff. Timing discrepancies are usually resolved as soon as the data is reported to Treasury. Other discrepancies are caused by mismatches between the negotiated checks, the SF 1219 reporting and/or the level 8 reporting. As checks are negotiated, a match is made against the detail in the CP&R system. If the check is negotiated for a different amount or the check issue data has not been reported to Treasury yet, a discrepancy will occur. Treasury issues a FMS 5206, Advice of Check Issue Discrepancy, to adjust the data in the CP&R system, which will create a
discrepancy if the amount reported on the SF 1219 did not agree with the amount paid for that check. The Treasury forwards the FMS 5206 to the respective Disbursing Office at the time of issuance. The Disbursing Officer must then research the discrepancy and take the appropriate corrective action. Discrepancies also occur when the total of the level 8 reporting does not match the total on the SF 1219 for checks issued for that month. The Comparison Report is produced monthly by Treasury to identify the discrepancies between the CP&R system and the SF 1219 reporting. On a monthly basis, these reports are distributed to the Disbursing Officer through the supporting Defense Finance and Accounting Service Accounting Services. Prior to 1999, there was little emphasis placed on the importance of clearing the discrepancies and in many cases, the comparison reports were not being forwarded to the Disbursing Officer on a monthly basis. There was not centralized monitoring or control of the corrective action to resolve these discrepancies. This weakness allowed check issue discrepancies to remain unresolved. Unresolved discrepancies affect the accuracy and reliability of the Financial Statements. Therefore, this weakness is material.

The Automated Interface Between the Computerized Accounts Payable System-Windows (CAPS-W) and the Standard Finance Systems Redesign-1 (SRD-1) is Inadequate. The ASCII file used to update the SRD-1 with CAPS-W payment information can be changed. The file is unprotected and can be accessed by anyone that can read and/or change an ASCII file. The file is downloaded to a diskette and then uploaded through the Local Area Network into SRD-1 by one of the financial system specialists. Any individual with access to the disk can alter the information on the disk. However, the technician that performs this load has no access to any other entitlement functions. Also, CAPS does not have the capability to restrict access to the "remit to" address file for associates computing vendor payments. The lack of internal controls and edit checks in the Computerized Accounts Payable address without an audit trail has the potential for fraud and the misuse of government funds.

Defense Joint Military Pay Systems (DJMS) Requirements and Systems Specifications Documentation is Fragmented and Incomplete. Comprehensive sets of requirements, business rules, policy guidance, test criteria, and systems documentation do not exist for DJMS-AC and DJMS-RC. Some requirements documentation, by file, program, or subsystems, is maintained in functional work areas. Selected systems diagrams, including flow charts and various program narratives, are maintained by programmer and analyst staffs, again in their respective and informal work areas. Not all existing information is current. Although the requirement to maintain comprehensive documentation is acknowledged by all communities with systems supporting DJMS, resources have not been available, to date, to initiate and complete corrective action. Heretofore, this material weakness was reported as a Federal Managers' Financial Integrity Act Section IV departure. We now strongly believe that the failure to have documented systems severely impairs and adversely impacts our primary mission of hosting and modifying Defense Finance and Accounting
Service agency-wide sponsored military pay software with acceptable degrees of confidence and expected reliability. The lack of systems documentation also severely impairs the capability of providing timely software change.

**Lack of DJMS Structured/Disciplined Release Process.** Currently, Defense Finance and Accounting Service - Denver is not employing a structured software life cycle development/modification process for DJMS. A structured life cycle process is comprised of 10 critical and independent steps. Each step is managed in a strict disciplined release project plan milestone environment. Each disciplined step is completed upon management review, coordination, and approval of standard expected life cycle project documentation. This has not been the process employed in the past 9 years when, due primarily to pressing migratory needs, the current configuration process has become materially inefficient, ineffective, and error prone.

**Controlling Problem Disbursements.** While problem disbursements do not necessarily represent inappropriate payments, they do have a negative impact on the Navy's budget execution and cause delays of vendor payments. Problem disbursements have two classifications: unmatched disbursements, and negative unliquidated obligations. Unmatched disbursements are disbursements (or collections) that the accounting stations cannot match to obligations in the accounting records. A negative unliquidated obligation is a disbursement that exceeds the value of the matching detail obligation. Negative unliquidated obligations are acted upon by disbursing errors, or by improper postings and adjustments to obligations in the accounting records. A third category of disbursements, in-transit problem disbursements, are disbursements or collections that have been registered to the Department of the Treasury and charged or credited to an appropriation, but not yet distributed to an accounting station. In-transit problem disbursements and unmatched disbursements are generally caused by errors or omissions in the attached lines of accounting. In-transit problem disbursements are recorded in systems' suspense accounts. These transactions can be categorized into those which can be corrected and cleared from suspense, and others that are old and should be resolved by discontinued research accompanied by a Navy buyout.

**Unidentified Items in the Suspense Priority Clearing Report.** The Suspense Priority Clearing Report is a cumulative record of collections received by the disbursing officer for which the collections cannot be credited to the final account until the proper disposition of funds can be accomplished. Collections are placed in the Budget Clearing Account (Suspense), Navy account if it is presumed that the amount will be credited to a Government appropriation, fund, or receipt account, or to the Suspense, Navy account if it will be paid to an individual or non-U.S. Government organization. The total dollar figures included on this report fluctuate monthly based on the individual amounts credited and/or debited during the month by all financial activities. In accordance with sound management practices and regulatory guidance, records should be maintained for each item, including the voucher number, date of collection, remitter,
descriptions or purpose, amount, action, all disbursement voucher numbers and dates of previous disbursements, and date of final disposition. These records are not maintained by individual officers and forwarded to the disbursing officer's designated coordinator. Centralized control and monitoring in this environment is difficult and generates unreliable financial and accounting information, causing unsound management decisions and the Disbursing Officer's inability to account for funds. Desktop procedures have not been established to document all actions and regulatory requirements governing the suspense account.

**General Ledger Control and Reconciliation.** The general ledger is a principal instrument for maintaining accounting control over financial transactions. A variety of nonstandard allotment accounting systems and supporting general ledger structures are currently employed by Defense Finance and Accounting Service offices to support allotment accounting functions for applicable Marine Corps appropriations and funds. This lack of standardization in general ledger structure and corollary reporting and reconciliation functions, coupled with deficiencies in system applications and resources allocated to support these functions, can result in frequent errors and out-of-balance conditions. To some extent, errors and out-of-balance conditions have also been noted on trial balances, financial management reports for other appropriations, and funds for which accounting support is provided. Significant accounting personnel turnover at all levels, coupled with use of personal computer applications and manual procedures to compensate for deficiencies, have resulted in an overall increase in the occurrence of these problems.

**Negative Unliquidated Obligations and Unmatched Disbursements.** Both negative unliquidated obligations and unmatched disbursements are evidence of the same type of weakness — the presence of errors in the interface between payments systems and accounting systems. In the Department of Defense, payment operations are distinct from accounting, even when the payment operation is a component of the same accounting and finance office. Payments are made based on the invoice submitted by contractors, Government receiving reports, and operations. Reviews of Unliquidated Obligations are not always designed to verify that sufficient evidence exists to support the obligations and the amount outstanding is correct. Apparent errors are corrected without considering documents that are in the process of filing, such as contractual actions and vouchers, corrections, and expenditures rejection. Except where there is a payment system integrated with an accounting system, there is no guarantee payment data corresponds with accounting data and the payment is properly recorded in the accounting system.

**Undistributed and Unmatched Cross-Disbursing and Interfund Transactions.** Defense Finance and Accounting Service - Kansas City reported that the balances of uncleared cross-disbursements and interfund transactions for most Marine Corps appropriations and funds have grown significantly. The growth in these unmatched
balances resulted from a combination of factors: (1) substantial personnel turnover in areas responsible for clearing these transactions; and (2) incorrect procedures for clearing problem; and (3) systems deficiencies. The effect of deficiencies in personnel resources and system support also appears to be further compounded by deficiencies in the quality of unliquidated obligation reviews performed. Interfund bills are backlogged and those over 120 days lack supporting document numbers, thus resulting in understating undistributed disbursements and unmatched buyer and seller interfund transactions. Defense Finance and Accounting Service - Cleveland reported that the majority of their undistributed disbursements involve Navy Interfund billings and cross disbursements. Undistributed disbursements indicate that Navy accounting records are not being properly updated in a timely manner. The high volume of undistributed cross-disbursement transactions is a result of a lack of supporting documentation needed to identify the corresponding obligation and the interfaces of feeder systems and the accounting system.

**Inadequate Check Issue Reconciliation.** The Department of the Treasury has reported differences between check issue reporting (Level 8) and the monthly summary of checks issued on the SF 1219 (Statement of Accountability). When these reports do not agree, the liability for outstanding checks or the agency accounts are misstated. Failure to reconcile the differences in a timely manner prevents the detection of possible loss or theft of Government funds. The material weakness was opened at Defense Finance and Accounting Service - Cleveland in order to document actions needed to improve this area. The scope of the corrective actions is limited to those discrepancies that can be eliminated or controlled by Cleveland.

**Accounting Operation at Defense Finance and Accounting Service - Cleveland.** Systems and processes are not fully compliant with regulatory and statutory requirements, and cannot produce fully auditable financial statements. In turn, the financial information and statements do not adequately assist the management functions of budget formulation, budget execution, proprietary accounting, and financial reporting with a high degree of reliability and confidence.

**Inadequate General Ledger Control and Unreliable Financial Reporting.** Defense Finance and Accounting Service has material internal control weakness in general ledger and financial reporting that is attributable to many factors in the control environment, accounting and related systems, and control procedures. Accounting and related systems are the methods and records established to identify, assemble, analyze, classify, record, and report the entity’s transactions and to maintain accountability for the related assets and liabilities. Overall, the accounting systems do not have general ledgers, which permits adequate recording and reporting of financial transactions.

**Inadequate Internal Controls Over Travel Payments.** The Integrated Automated Travel System is used to reimburse Department of Defense travelers for official travel.
A material weakness has been identified in the system that permits manipulation of Electronic Funds Transfer payment data, which has resulted in reported cases of fraudulent travel payments. In all of the reported cases, functional experts who have authorized access to the Integrated Automated Travel System have been responsible. It appears that internal controls for access were ignored, allowing subordinates unlimited access to the system. In other cases, supervisors who had proper access perpetrated the fraud by manipulating the Electronic Funds Transfer data. They have been able to alter Electronic Funds Transfer data (routing, bank account numbers, names, etc.) on legitimate claims and make fraudulent payments to themselves or other participants. Then, the fraudulent payments are reversed from the system and the correct payment is disbursed, often without detection. In essence, the fraudulent payments are invisible to the system and are not captured in the reporting process. Often the fraud was brought to light by the banks servicing the Electronic Funds Transfer accounts. The banks questioned either large sum payments or multiple payments. Another identified material weakness is the control of the payment file, which is used by the disbursing function. The file is a simple ASCII file. It is unprotected (does not have any algorithm or hash total computation routine) and can be accessed by anyone who can read and/or change an ASCII file. The file is downloaded to a diskette and then electronically transmitted, mailed, or hand carried to disbursment for payment. Custody of the diskette is uncontrolled and untracked. Any individual with access to the disk can alter the information on the disk. In other cases, this file is left resident on the local area network server until the scheduled time for transmission of the file to disbursing for payment. Again, anyone with access to the local area network can manipulate the payment data.

**Problem Disbursements.** Defense Finance and Accounting Service - Indianapolis is working with the Department of Defense agencies to fully identify and resolve problem disbursements. Problem disbursements are comprised of two categories: Unmatched disbursements and negative unliquidated obligations. Primary causes of problem disbursements relate to the lack of integration between the entitlement systems and the accounting systems. The occurrence of problem disbursements distorts fund availability. In-transit disbursements (paid by a disbursing office but not yet received by the funded station) are a separate category, which cause delays in posting disbursements to accounting records. The Indianapolis location is monitoring and performing the necessary followup actions to ensure this weakness is eliminated.

**Reconciliation of Suspense Account Balances.** Suspense account balances require extensive reconciliations to ensure that the accounts are properly used, supported by adequate documentation, cleared timely, and in agreement with Department of the Treasury balances. Transactions residing in suspense accounts can conceal problem disbursements and fraud.

**Interface Between the Marine Corps Total Force System and the Accounting System.** The Marine Corps Total Force System contains deficiencies in Key
Accounting Requirements 5, "Accrual Accounting," and 11, "System Operations." The deficiencies for both Key Accounting Requirements relate to the fact that there is not an interface with the accounting system and information relative to expenditures of pay entitlements at the required entitlement level does not pass to the accounting system. Also, information relative to deductions from pay is not transferred to the appropriate general ledger accounts in the accounting system and disbursed to recipients from the appropriate general ledger accounts. This includes deductions for taxes, allotment/bond deductions, collections of debts owed by Marines to other Government agencies or non-appropriated fund activities, etc. In addition, accounts must be established to properly account for and adjust receivables, such as repayments of advance and in-service debt, and payables such as bonus installments due.
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