



United States
General Accounting Office

Cincinnati Regional Office



147497

Cincinnati Commerce Center
600 Vine Street, Suite 2100
Cincinnati, OH 45202-2430

August 31, 1992

Mr. Michael E. Wilson
Director
Defense Finance and Accounting Service
Indianapolis Center

Dear Mr. Wilson:

We recently completed a comprehensive review of the U.S. Army's financial management operations and systems. The primary objectives of this review were to assess the Army's internal control systems and audit the fiscal year 1991 financial statements pursuant to the Chief Financial Officers Act of 1990 (Public Law 101-576). As part of that review, we examined the Defense Finance and Accounting Service-Indianapolis Center's internal controls related to the preparation of the Army's financial statements. Our reports¹ on the results of these audits discussed internal weaknesses, including those at the Indianapolis center, that we identified during the course of our audit.

This letter transmits a summary of briefings we provided you and your staff on the results of our work at the Indianapolis center on January 30 and June 26, 1992. We are presenting these to you at this time so that you may consider actions needed before preparing Army's financial statements for fiscal year 1992.

Overall, our briefings and reports disclosed that

- standard operating procedures were either not available or not current for many accounting processes,
- data editing and validation controls in Headquarters Accounting and Reporting System computer programs were not always updated and tested before they were put into operation,

¹Financial Management: Immediate Actions Needed to Improve Army Financial Operations and Controls (GAO/AFMD-92-82, August 7, 1992) and Financial Audit: Examination of Army's Financial Statements for Fiscal Year 1991 (GAO/AFMD-92-83, August 7, 1992).

GAO/AFMD-92-116R

055304 147497

- data retrieval programs used to extract financial data from the Headquarters Accounting and Reporting System had not been properly documented and tested,
- \$68 million in unsupported balances has remained in 4 suspense accounts since the mid-1970s,
- over \$250 billion in year-end adjustments, error corrections, and supplemental data were not always properly documented and approved,
- data integrity and security controls in the Financial Statements Data Base used to produce Army's financial statements were weak,
- the Army's standard general ledger has not been fully implemented, and
- only a limited quality assurance program was carried out at field finance and accounting offices.

If you or your staff would like any further information about these issues, please contact me at (513) 684-7125 or Jim Fuquay at (317)-542-4867.

We would like to thank you for the support you and your staff provided GAO during the fiscal year 1991 audit. We look forward to continue working with your staff. As you know, we are currently involved in the fiscal year 1992 financial audit.

Sincerely,

C. William Moore

C. William Moore
Regional Manager

Enclosure

GAO AFMD: Defense Audit Group

**RESULTS OF GAO'S AUDIT OF
ARMY FY 91 FINANCIAL
STATEMENTS**

Defense Finance and
Accounting Service-
Indianapolis Center (DFAS-IN)

June 1992

GAO Agenda

- DFAS-IN Operations
- Scope and Methodology
- Control Weaknesses
- FMFIA Reporting
- Conclusions

GAO DFAS-IN Operations

- **Data Received from Accounting and Finance Activities World-Wide**
- **Validates, Edits, and Consolidates Data**
- **Financial Reports Submitted to Army, DOD, Treasury, and OMB**

GAO Scope and Methodology

- Identified, Documented, and Tested Key Controls
- Focused on DFAS-IN Accounting and Financial Reporting Systems
 - Headquarters Accounting and Reporting System
 - PBAS - Standard General Ledger Subsystem

GAO **Scope and Methodology**

- **Focused on DFAS-IN
Accounting and Financial
Reporting Systems**
 - **Financial Statements
Data Base**

- **Assessed Quality Assurance
Program**

GAO Scope and Methodology

- Analyzed Year-End Adjustments
- Substantiated Selected Balance Sheet Amounts
- Conducted Variance Analysis
- FMFIA

GAO Control Weaknesses

- **Standard Operating Procedures**
- **Data Editing and Validation Controls**
- **Suspense Accounts**
- **Year-End Adjustments**
- **Financial Report Preparation**

GAO Control Weaknesses

- **Standard General Ledger**
- **Quality Assurance Program**

GAO Standard Operating Procedures

- **At Least 200 SOPs Used for Accounting and Reporting Processes**
- **Incomplete**
- **Not Reviewed Annually**
- **Some Processes Had No SOPs (Year End Closing)**

**GAO Data Editing and Validation
Controls**

- **Not Always Updated (Edits)**
- **Not Always Tested (Tabs)**
- **Update Methods
Outdated (Tabs)**

GAO Suspense Accounts

- **\$68 Million in Unsupported Balances in 4 Suspense Accounts**
- **Unreconciled Differences With Treasury Since Mid-1970s**

GAO Year-End Adjustments

- \$355 Billion (Absolute Value)
- \$76 Billion Net Change
- 12,000 Corrections and Adjustments
- Over 30 Personnel Authorized to Adjust Data

**GAO Controls Over Year-End
Adjustments**

- **No Separation of Duties**
- **Cannot Determine Type of Change: Corrections vs Adjustments**
- **No Audit Trail in Automated System**

GAO **Controls Over Year-End
Adjustments**

- **Supporting Documentation
Not Prepared/Not Adequate/Not
Controlled**

**GAO Controls Over Year-End
Adjustments**

- **Supervisory Approval Does Not Always Occur**
- **Accounts Office Adjustments Comingled With Departmental Adjustments**

**GAO Financial Report
Preparation**

- **Data Retrieval Programs**
 - **Inefficient**
 - **Not Documented and Tested**

- **Financial Statements
Data Base**
 - **Not Tested Before
Implementation**
 - **Weak Data Integrity Controls**
 - **No Security Controls**

GAO Standard General Ledger

- **Identified as FMFIA Weakness Since FY '88**
- **Only Land, Buildings, and Equipment Accounts Used**
- **Field Systems Not Used to Update Land, Building, and Equipment GL Accounts**

GAO **Standard General Ledger**

- **Data Reliability Still A Problem**
- **Field Reporting Not Timely**
- **Abnormal Account Balances Exist**

GAO Quality Assurance Program

- Directed at Measuring and Improving Quality of Field Accounting Activities
- Authority Not Clear
- Did Not Meet Program Requirements
- Commitment and Resources Limited

GAO **FMFIA: DFAS-IN Needs
to Report**

- **Unsupported Suspense
Amounts Not Cleared**
- **General Ledger Implementation
Not Complete***

*** Previously Reported**

GAO FMFIA: DFAS-IN Needs
to Report

- Intra-Army Eliminations Not Identifiable*
 - Controls Over Year-End Adjustments Are Not Effective
 - QA Program Visits Not Made
- * Previously Reported

GAO Conclusions

- **Undetected Material Misstatements in Army-Wide Financial Reports**
- **Internal Controls Are Not Consistently A High Management Priority**

GAO Conclusions

- **Standard General Ledger Has Not Achieved Operational Objectives**
- **Corrective Actions Must Be Coordinated With Evolving DOD Improvement Initiatives**