

June 2005

DOD PROBLEM DISBURSEMENTS

Long-standing
Accounting
Weaknesses Result in
Inaccurate Records
and Substantial
Write-offs



G A O

Accountability * Integrity * Reliability



Highlights of [GAO-05-521](#), a report to congressional committees

Why GAO Did This Study

Over the years, the Department of Defense (DOD) has recorded billions of dollars of disbursements and collections in suspense accounts because the proper appropriation accounts could not be identified and charged. DOD has also been unable to resolve discrepancies between its and Treasury's records of checks issued by DOD. Because documentation that would allow for resolution of these payment recording problems could not be found after so many years, DOD requested and received legislative authority to write off certain aged suspense transactions and check payment differences. The conference report (H.R. Conf. Rep. No. 107-772) that accompanied the legislation (Pub. L. No. 107-314) required GAO to review and report on DOD's use of this write-off authority.

What GAO Recommends

GAO recommends that DOD:

- Require the accounting centers and field sites to perform proper reconciliations each month with Treasury records.
- Use the results of the reconciliations to improve the quality of its suspense account reports.
- Enforce guidance requiring disbursements in suspense be resolved within 60 days or be charged to current appropriations if research is unsuccessful.

DOD concurred with our recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-05-521.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gregory D. Kutz at (202) 512-9505 or kutzg@gao.gov.

DOD PROBLEM DISBURSEMENTS

Long-standing Accounting Weaknesses Result in Inaccurate Records and Substantial Write-offs

What GAO Found

After decades of financial management and accounting weaknesses, information related to aged disbursement and collection activity was so inadequate that DOD was unable to determine the true value of the write-offs. While DOD records show that an absolute value of \$35 billion or a net value of \$629 million of suspense amounts and check payment differences were written off, the reported amounts are not reliable. Many of the write-offs represented transactions that had already been netted together (i.e., positive amounts offsetting negative amounts) at lower level accounting sites before they were recorded in the suspense accounts. This netting or summarizing of transactions misstated the total value of the write-offs and made it impossible for DOD to locate the support needed to identify what appropriations may have been under- or overcharged or determine whether individual transactions were valid. In particular, DOD could not determine whether any of the write-off amounts, had they been charged to the proper appropriation, would have caused an Antideficiency Act violation.

It is important that DOD accurately and promptly charge transactions to appropriation accounts since these accounts provide the department with legal authority to incur and pay obligations for goods or services. DOD has hundreds of current and closed appropriation accounts that were authorized by law over the years. Similar to a checking account, the funds available in DOD's appropriation accounts must be reduced or increased as the department spends money or receives collections that it is authorized to retain for its own use. Just as an individual who maintains multiple checking accounts must be sure that transactions are recorded to the proper account, DOD also must ensure that the proper appropriation account is charged or credited for each specific disbursement and collection.

Our review found that DOD's guidance and processes developed to ensure compliance with the legislation provided reasonable assurance that amounts were written off properly except that check payment differences did not have the required written certification. The write-off process did not correct underlying records and significant DOD resources were needed to ensure that write-off amounts were properly identified and handled. Also, using staff resources to process old transactions resulted in fewer staff to research and clear current problems. At December 31, 2004, DOD reports showed that after the write-offs, more than \$1.3 billion (absolute value) of suspense amounts and \$39 million of check differences remained uncleared for more than 60 days. However, DOD has acknowledged that its suspense reports are incomplete and inaccurate.

Until DOD complies with existing laws and enforces its own guidance for reconciling, reporting, and resolving amounts in suspense and check differences on a regular basis, the buildup of current balances will likely continue, the department's appropriation accounts will remain unreliable, and another costly write-off process may eventually be required.

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June 2, 2005

Congressional Committees

The Department of Defense's (DOD) inability to accurately account for and record its disbursements and collections has been a serious, long-standing, and much reported financial management problem. The department's ability to improve its accounting has historically been hindered by its reliance on fundamentally flawed financial management systems and processes and a weak overall internal control environment. Rather than promoting quality financial information, DOD's complex and inefficient payment processes have all too often inhibited the proper recording of transactions when they occur, including the prompt and proper matching of disbursements with obligations, which is a critical funds control measure. Having such payment recording problems means that DOD does not know the true amount of funds that it has available to obligate and spend in each appropriation account. As a result, DOD may not be using its funds in accordance with legislative requirements and risks overspending its appropriations or, conversely, forgoing purchases of needed items. Such problems also create an environment conducive to fraud, waste, and abuse because it is difficult, if not impossible, to monitor and audit individual disbursement transactions.

Over the years, we and DOD auditors have reported that the department recorded billions of dollars of disbursements and collections in suspense accounts because the proper appropriation accounts could not be identified. It is important that DOD accurately and promptly charge transactions to appropriation accounts since these accounts provide the department with legal authority to incur and pay obligations for goods or services. The Antideficiency Act requires that no officer or employee of DOD incur obligations or make expenditures in excess of the amounts made available by the appropriation accounts.¹ Therefore, DOD must (1) properly record obligations against appropriation accounts and (2) track disbursements related to such obligations and collections that should properly be credited to the account, in order to ensure that it is in compliance with the law. In some ways, appropriation accounts are similar to private checking accounts. The funds available in DOD's appropriation accounts must be reduced or increased as the department spends money or receives collections that it is authorized to retain for its own use. Just as an

¹ 31 U.S.C. §1341.

individual who maintains multiple checking accounts must be sure that transactions are recorded to the proper account, DOD must also ensure that the proper appropriation account is charged for each specific disbursement and collection.

Auditors have also reported problems with DOD's ability to resolve differences between the summary and detail amounts reported by DOD for the paper checks it issued as well as differences with the amounts reported by banks for the paper checks that were cashed. DOD has long acknowledged that many disbursements, collections, and check differences remained in suspense for years and that the support needed to properly record them to specific appropriations no longer existed. Therefore, DOD requested and received legislative authority to write off certain aged suspense transactions and aged differences between checks issued and checks paid, hereafter referred to as check payment differences.

Section 1009 of the Bob Stump National Defense Authorization Act for Fiscal Year 2003² (NDA Act) authorized DOD to write off long-standing debit and credit transactions that could not be cleared from the department's books because DOD lacked the supporting documentation necessary to record the transactions to the correct appropriations. To be eligible for write-off,³ suspense account transactions must have occurred prior to March 1, 2001, and check payment differences before October 31, 1998. The Secretary of Defense was required to make a written determination that further efforts to identify the correct appropriation to charge are not in the best interest of the government. The legislation specified that DOD must complete any write-offs by December 2, 2004.

The conferees, in the report that accompanied the NDA Act,⁴ directed that we review and report on DOD's use of this write-off authority. As agreed with your offices, our objectives were to determine (1) what amount DOD wrote off using its legislative authority, (2) whether DOD had effective procedures and controls to provide reasonable assurance that amounts were written off in accordance with the legislation, (3) how the write-offs affected Treasury and DOD financial reports, and (4) what aged DOD

² Pub. L. No. 107-314, 116 Stat. 2458, 2635 (Dec. 2, 2002).

³ A write-off is a removal or clearance of suspense account transactions or check payment differences from DOD's accounting records.

⁴ H.R. Conf. Rep. No. 107-772, at 686 (2002).

suspense account balances and check differences are being reported after the write-offs have been accomplished. In addressing this last objective, we also looked at whether DOD had procedures in place to prevent another build-up of aged, unsupported suspense transactions and check payment differences.

In conducting this work, we visited various Defense Finance and Accounting Service (DFAS) centers, the Department of the Treasury, and the office of the Secretary of Defense and gathered, analyzed, and compared information on how write-off amounts were identified and processed. We interviewed DOD officials to obtain a general understanding of DOD's use of suspense accounts and compared DOD's policies and practices for the write-offs to the specific provisions contained in the legislation and with any Treasury requirements. We identified and tested DOD's primary controls over the suspense account write-offs. We interviewed officials to identify the impact of the write-offs on DOD and governmentwide suspense accounts and appropriation balances. We also reviewed DOD management reports, performance metrics data, and fiscal year 2004 financial statements to identify current outstanding suspense account balances and check differences. Because of serious data reliability deficiencies, which the department has acknowledged, it was not our objective to—and we did not—audit the completeness and accuracy of DOD reported amounts, including the write-off amounts. We performed our work from June 2004 through April 2005 in accordance with generally accepted government auditing standards. Appendix I provides details of our scope and methodology. We requested comments from the Secretary of Defense or his designee. We received written comments from the Principal Deputy Under Secretary of Defense (Comptroller), which are reprinted in appendix II. We also sent the draft report to the Secretary of the Treasury. Treasury sent us a few technical comments, which we have incorporated in the report as appropriate.

Results in Brief

DOD reported that it wrote off an absolute value of \$35 billion, or a net value of \$629 million,⁵ of suspense account amounts⁶ and check payment differences using its legislative authority. However, these reported amounts do not represent the true value of the write-offs. Neither of these amounts accurately represents the total value of all the individual transactions that DOD did not correctly record to appropriations and, therefore, left in suspense for years. Many DOD accounting systems and processes routinely offset individual disbursements, collections, adjustments, and correcting entries against each other and recorded only the net amount in suspense accounts. Over time, amounts might even have been netted more than once. Because DOD had not developed effective tools for tracking or archiving the individual transactions that had been netted together, there was no way for DOD to know how much of the suspense amounts recorded prior to March 1, 2001, represented disbursements and collections versus how much represented adjustments and correcting entries. For example, one of the write-offs consisted of a single \$326 million amount for which DFAS Cleveland was unable to distinguish any of the underlying individual transactions and, therefore, had no way of knowing what amounts might have been netted or summarized to arrive at that figure. In order to calculate absolute values for the suspense account write-offs, DOD could only add together the already netted disbursement, collection, adjustment, and correcting amounts. For check payment differences, DOD reported that it wrote off \$14.5 million of net differences. As with suspense account write-offs, DOD could not calculate the true absolute value because officials could not identify the individual underlying checks.

⁵ When absolute amounts are reported, collections and adjustments are added to disbursements. When net amounts are reported, collections and adjustments are offset against disbursements. Reporting net amounts can significantly understate the magnitude and impact of transaction errors.

⁶ We use the word “amounts” rather than “transactions” because DOD’s suspense account entries and check payment differences are often not recorded at the transaction level. DOD’s write-offs included summarized totals of monthly suspense account activity, net monthly differences between Treasury and DOD check issue totals, reconciling adjustments, and other non-transaction-level information.

To manage the suspense account write-off process, DOD developed detailed documentation and multilayered review procedures that provided reasonable assurance of compliance with the legislation. Multiple layers of review were performed by high-ranking DOD officials from DFAS, the military service and defense agency financial management offices (FMO), and the DOD Comptroller's office. In addition, a thorough review was performed by DFAS internal review staff. DOD reviewers identified and questioned or rejected proposed write-off amounts that did not appear to comply with the legislation, including 18 of the original 116 packages⁷ submitted by DFAS centers. One of the main reasons that the reviewers rejected packages was because center officials had not included sufficient evidence that the proposed write-off amounts were recorded in DOD systems prior to March 1, 2001. While reasonably effective, DOD's documentation and review procedures were costly. Because DOD had not enforced the use of proper accounting practices or complied with its own regulations, significant staff and management resources were required to prepare, support, and review the suspense write-off packages. For check payment differences, the process was much less complicated. DFAS center officials prepared, reviewed, and approved all of the proposed write-off amounts. All check payment difference write-offs met the provisions of the legislation except that the required written determination by the Secretary of Defense was not obtained prior to the write-offs being recorded by Treasury.

DOD left suspense account transactions and check payment differences unresolved for so long that supporting documentation was lost or destroyed. As a result, DOD could not identify which, if any, of the aged underlying transactions would have resulted in Antideficiency Act violations had they been correctly charged. The write-off of aged suspense account amounts and check payment differences did not change DOD's reported appropriation account balances or correct any of the over- and undercharges that the department may have made to those appropriations over the years. The write-off process simply reclassified suspense amounts and check payment differences from DOD accounts to general government accounts. The most significant result of the write-off process was to ensure

⁷ Each write-off package varied in content but generally included a certification statement from the DFAS center director, an electronic file and a narrative description of the individual amounts that made up the package, and any additional system reports or documents that demonstrated compliance with legislative limits regarding dates and accounts.

that current appropriation balances would not be required to cover the aged unrecorded transactions.

The suspense account write-offs also did not affect the federal cumulative budget deficit as reported by Treasury. Amounts in DOD suspense accounts had already been counted against the federal deficit in the years that DOD reported the related collection and disbursement transactions to Treasury. For check payment differences, the surplus/deficit had not been adjusted to recognize differences between issued check amounts as reported by DOD and paid check amounts as reported by banks. Since the check payment differences had not previously been reported as disbursements by DOD and thus included in the deficit calculation, the cumulative federal deficit was increased by DOD's write-off amount of \$14.5 million.

Even after the write-offs and despite policies requiring the resolution of suspense account transactions and check differences within 60 days, DOD continues to have significant aged amounts outstanding. According to DOD reports for December 2004, the absolute value of suspense account transactions over 60 days old was \$1.3 billion. However, as with DOD's write-off estimate, this figure is unreliable because DOD officials were unable to reconcile the reports with Treasury records to ensure that the information included was complete and accurate. DOD guidance requires the reconciliation of the suspense account reports, but DFAS management was not enforcing the guidance. For check differences, Treasury reported that the absolute value of differences aged over 60 days was \$39 million as of December 2004. DFAS officials explained that \$36 million of this amount is related to the lengthy processing times for expenditure transactions related to overseas military deployments.

The keys to eliminating aged problem disbursements and preventing their future occurrence include improved disbursement processes and better management controls. In line with these goals, DOD is currently developing and implementing a plan for improving its accounting systems that is intended to, among other things, reduce the occurrence of disbursement errors. However, we reported in January 2005⁸ that DOD has made only limited progress in its system improvements. We have made numerous systems-related recommendations that have not yet been addressed and systems modernization is likely many years away. Therefore, DOD cannot afford to wait until new systems are in place but should take action now to

⁸ GAO, *High-Risk Series: An Update*, [GAO-05-207](#) (Washington, D.C.: January 2005).

prevent the buildup of aged, unidentifiable transactions in suspense accounts. DOD has already developed policies and procedures that if enforced would improve basic accounting practices at DFAS centers and field sites. Therefore, we are recommending that DOD (1) enforce its policy that DFAS centers and field-level accounting sites perform proper reconciliations with Treasury each month, (2) use the results of the reconciliations to improve the quality of its suspense account reports, and (3) enforce guidance requiring that disbursements in suspense be resolved within 60 days or be charged to current appropriations if research attempts are unsuccessful.

In comments on a draft of this report, DOD agreed with our recommendations and described actions being taken to implement them.

Background

For decades, we and DOD auditors have reported that DOD has not promptly or accurately charged its appropriation accounts for all of its disbursements and collections. Instead, DOD has recorded billions of dollars in suspense and other accounts that were set up to temporarily hold disbursements and collections until the proper appropriation account could be identified. But, rather than being a temporary solution, amounts accumulated and remained in suspense for years because DOD did not routinely research and correct its records. Over time, DOD lost the ability to identify the underlying disbursement and collection transactions in suspense because they had been summarized and netted over and over. Also, in many cases the documentation necessary to properly account for the transactions was lost or destroyed.

It is important that DOD charge transactions to appropriation accounts promptly and accurately because these accounts provide the department with legal authority to incur and pay obligations for various kinds of goods and services. DOD has hundreds of current and closed appropriation accounts that were authorized by law over the years. In some ways, appropriation accounts are similar to an individual's checking account—the funds available in DOD's appropriation accounts must be reduced or increased as the department disburses money or receives collections that it is authorized to retain. Just as an individual who maintains multiple checking accounts must be sure that transactions are recorded to the proper account, DOD also must ensure that the proper appropriation account is charged or credited for each specific disbursement and receipt. DOD's failure over the years to promptly and correctly charge and credit its

appropriation accounts has prevented the department and Congress from knowing

- whether specific appropriations were over- or underspent,
- whether money was spent for authorized purposes, and
- how much money was still available for spending in individual appropriation accounts.

Many disbursements and collections remained in DOD suspense accounts well beyond the date that the associated spending authority expired and canceled.⁹

DOD's inability to properly record its financial transactions has also created an environment conducive to fraud, waste, and mismanagement. Auditors have issued numerous reports over the years that identify specific problems related to DOD's poor controls over its accounting for disbursements and collections.¹⁰ But DOD's ability to improve its accounting has historically been hindered by its reliance on fundamentally flawed financial management systems and processes and a weak overall internal control environment. Complex disbursement processes, missing information, and errors often combine to prevent DOD from promptly and accurately charging its appropriation accounts.

⁹ Generally, amounts made available to DOD by annual appropriations acts are available to incur new obligations for 1 fiscal year unless expressly otherwise provided by the appropriation act. Once the period of availability for incurring new obligations expires with respect to an appropriated amount, the amount remains available for 5 fiscal years for the purpose of adjusting and paying obligations properly incurred prior to the expiration of the appropriation. After 5 years in expired status, the account is closed and remaining balances are canceled. Once an account is closed, an obligation that is properly chargeable to the closed account is payable from an account currently available for the same purpose up to 1 percent.

¹⁰ See GAO, *Canceled DOD Appropriations: \$615 Million of Illegal or Otherwise Improper Adjustments*, [GAO-01-697](#) (Washington, D.C.: July 26, 2001); *DOD Contract Payments: Management Action Needed to Reduce Billions in Adjustments to Contract Payment Records*, [GAO-03-727](#) (Washington, D.C.: Aug. 8, 2003); *Military Pay: Army National Guard Personnel Mobilized to Active Duty Experienced Significant Pay Problems*, [GAO-04-89](#) (Washington, D.C.: Nov. 13, 2003). Also, see Department of Defense, Office of Inspector General, *Independent Auditor's Report on the Fiscal Year 2004 DOD Agency-wide Financial Statements*, Report No. D-2005-017 (Washington, D.C.: Nov. 12, 2004).

Disbursement Problems

In general, DOD's disbursement process begins with military service or defense agency personnel obligating¹¹ funds in specific appropriations for the procurement of various goods and services. Once the goods or services are received, DFAS personnel pay for them using electronic funds transfers (EFT), manual checks, or interagency transfers. Although the bill for goods and services received should be matched to the relevant obligation to ensure that funds are available for payment before any disbursement is made, DFAS, military service, or defense agency personnel often do not identify the correct appropriation and perform the match until after making the payment. If the appropriation and obligation then cannot be identified based on the available information, the disbursement is recorded in a suspense account until research is performed, additional information is received, or any errors are corrected. If DFAS staff cannot determine the correct appropriation account to charge, DOD policies allow DFAS staff to request approval for charging current funds.

Several military services and DOD agencies can be involved in a single disbursement, and each has differing financial policies, processes, and nonstandard nonintegrated systems. As a result, millions of disbursement transactions must be keyed and rekeyed into the vast number of systems involved in any given DOD business process. Also, DOD disbursements must be recorded using an account coding structure that can exceed 75 digits, and this coding structure often differs by military service in terms of the type, quantity, and format of data required. The manual entry and reentry of the account code alone often results in errors and missing information about transactions. Automated system edit checks identify transaction records with invalid or missing account coding information, such as the appropriation account number or the chargeable entity, and refuse to process the faulty records. DFAS then records the problem disbursements¹² in suspense accounts until the individual transactions can be corrected and reprocessed by the accounting systems.

¹¹ Obligations include amounts of orders placed, contracts awarded, services received, and similar transactions during a given period that will require payment during the same or a future period.

¹² For this report, we define problem disbursements as transactions that contain errors, missing information, or other problems that prevent DOD from properly accounting for them.

Other reasons for disbursement transactions to be recorded to suspense accounts include

- no valid obligation data identified,
- DOD disbursement records and Treasury disbursement records differ, and
- unsupported charges between DOD services and defense agencies.

Collection Problems

DOD uses suspense accounts to hold several different kinds of collections until they can be properly credited to the relevant appropriation account or organization. For example, contractors often return overpayments they received for the goods and services they provided without including sufficient information for DOD to identify which account or which service location should be credited for the reimbursement. DOD also routinely accumulates estimated payroll tax withholding amounts in suspense accounts until the payments must be transferred to the Internal Revenue Service. If the estimates are higher than actual payments, amounts can be left in suspense indefinitely. Similarly, DOD records user fees collected for various purposes, such as grazing rights and forestry products, to suspense accounts until the accumulated funds are credited to the correct appropriation account or organization. DOD has recognized that using suspense accounts for accumulating withholding taxes and user fees is not appropriate and exacerbates its problems with these accounts but has stated that system and other problems prevent establishment of proper holding accounts for these collections.

Check Differences

Check differences refer to differences between the summary and detail amounts reported by DOD for the paper checks it issued as well as differences with the amounts reported by banks for the paper checks that were cashed. Monthly, Treasury compares the DOD summary and detail amounts and bank discrepancy reports, identifies check issue and payment differences, and sends a report to DOD with the cumulative difference amount. While the check issue and payment differences could occur for various reasons, some of the common reasons are

- check issue records excluded from DOD detail reports but included in DOD summary reports to Treasury,

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- erroneous check amount reported by DOD,
 - check paid by the bank but not reported by DOD,
 - voided check erroneously reported by DOD as check issued, and
 - check dated and paid by the bank in a previous month but DOD reported its issuance in the current month.

DOD does not record these differences in a suspense account or any other holding account. However, Treasury continues to track and report aged check differences monthly to DOD until they are cleared.

Legislative Requirements

DOD recognized that it would never be able to correctly account for billions of dollars of aged, unidentifiable, and unsupported amounts recorded in its suspense accounts or reported as check payment differences. Therefore, DOD management requested and received statutory authority to write off these problem transactions. The NDA Act authorized DOD to cancel long-standing debit and credit transactions that could not be cleared from the department's books because DOD lacked the supporting documentation necessary to record the transactions to the correct appropriations. The legislation specified that the write-offs

- include only suspense account disbursement and collection transactions that occurred prior to March 1, 2001, and that were recorded in suspense accounts F3875, F3880, or F3885;¹³
- include only check payment differences identified by Treasury for checks issued prior to October 31, 1998;
- be supported by a written determination from the Secretary of Defense that the documentation necessary for correct recording of the transactions could not be located and that further research attempts were not in the best interest of the government;

¹³ The legislation defined F3875 as a general Budget Clearing Account, F3880 as the Unavailable Check Cancellations and Overpayments Account, and F3885 as the Undistributed Intergovernmental Payments Account.

-
- be processed within 30 days of the Secretary's written determination; and
 - be accomplished by December 2, 2004.

Actual Amount of Write-offs Cannot Be Calculated

DOD officials estimated the value of the suspense account and check payment write-offs to be an absolute amount of nearly \$35 billion, or a net amount of \$629 million. However, neither of these amounts accurately represented the total value of all the individual transactions that DOD could not correctly record to appropriations and, therefore, left in suspense for years.

Many DOD accounting systems and processes routinely offset individual disbursements, collections, adjustments, and correcting entries against each other and record only the net amount in suspense accounts. Over time, amounts might even have been netted more than once. Because DOD had not developed effective tools for tracking or archiving the individual transactions that had been netted together, there was no way for DOD to know how much of the suspense amounts recorded prior to March 1, 2001, represented disbursements and collections versus how much represented adjustments and correcting entries. In order to calculate absolute values for the suspense account write-offs, DOD could only add together the already netted disbursement, collection, adjustment, and correcting amounts. Table 1 shows the net and absolute values of the suspense write-offs as calculated by DOD and illustrates how the use of net values can present an entirely different picture than the use of absolute values. While suspense account write-offs related to Army appropriations represented nearly the total of the calculated absolute values, they represented less than 30 percent of the calculated net values—far less than the net write-off amounts related to Navy appropriations.

Table 1: DOD Reported Suspense Account Write-off Totals

Dollars in millions

DFAS center	Customer	Absolute values	Percentage of total absolute values	Net values	Percentage of total net values
Cleveland	Navy	\$724.5	2.08%	\$489.1	79.55%
Denver	Air Force	45.3	0.13%	(5.5)	-0.89%
Indianapolis	Army	33,963.0	97.45%	180.8	29.41%
Columbus	Defense agencies	9.1	0.03%	5.7	0.92%
Indianapolis	Defense agencies	111.1	0.32%	(55.5)	-9.02%
Kansas City	Marine Corps	0.3	0.00%	0.2	0.03%
Total		\$34,853.3	100.00%	\$614.8	100.00%

Source: GAO analysis of DOD data.

Also, amounts that have been netted and that cannot be traced back to the underlying transactions cannot be audited. For the nearly \$34 billion of suspense write-offs related to Army appropriations, DFAS had almost no transaction level information that could differentiate between

- individual disbursement and collection transactions that related to specific Army appropriations;
- net reconciling adjustments that resulted from comparing monthly totals for Army records with Treasury records;
- net cumulative monthly charges from other military services, defense agencies, or federal agencies for goods or services provided to the Army;
- summarized suspense account activity reported by Army field accounting sites; and
- correcting entries from center or field staff meant to clear amounts from suspense.

According to DFAS officials, the system used to account for Army appropriations had accumulated about 30 years worth of individual, netted, summarized, and correcting entries that could not be identified and therefore were eligible for write-off.

Unlike the accounting system used for Army, the systems used by DFAS centers to account for the other military services and the defense agencies did not accumulate billions of dollars in correcting entries that were meant to clear amounts from suspense. However, they did include significant amounts of non-transaction-level information, such as reconciling adjustments, net charges, and summarized account activity. For example, one of the write-offs processed for the Navy consisted of a single \$326 million amount for which DFAS Cleveland was unable to distinguish any of the underlying individual transactions. As a result, DFAS Cleveland had no way of knowing what amounts might have been netted or summarized in order to arrive at the \$326 million figure.

DOD also wrote off \$14.5 million of differences between what DOD reported as its check payment amounts and what Treasury reported as check amounts cleared through the banking system. Treasury had accumulated these check payment differences and reported them to DOD monthly on its Comparison of Checks Issued reports. Since the Treasury reports contained only the cumulative net check payment differences and DOD could not identify all of the underlying checks, as with suspense account write-offs, it was not possible to calculate an absolute value for all of the individual check errors. All of the monthly summary totals reported by Treasury for paper checks cashed during the period covered by the legislation were higher than the totals reported by DOD for paper checks issued during that period.

Write-off Process Reasonably Effective but Resource Intensive

To manage the suspense account write-off process, DOD developed detailed guidance and review procedures that provided reasonable assurance, given the limitations in the quality of the underlying data, that the department complied with legislative requirements. Before suspense amounts were approved for write-off, multiple layers of DOD officials and internal auditors reviewed the packages submitted by the five DFAS centers. The write-off packages varied in content but generally included a certification statement from the DFAS center director, an electronic file and a narrative description of the individual amounts that made up the package, and any additional system reports or documents that demonstrated compliance with legislative limits regarding dates and

accounts. For check payment differences, DOD's management process was less complicated—written instructions on how to submit the write-off amounts to Treasury were prepared, but there were no reviews other than those done at the DFAS centers. The check differences write-offs also met the legislative requirements except that the Secretary of Defense did not make a written determination regarding the necessity for the write-offs. The overall write-off process was not without cost to DOD, however; DOD's lack of enforcement of proper accounting procedures and its own regulations meant that significant management and staff resources were required to prepare, support, and review the packages submitted for write-off.

Suspense Account Write-off Guidance and Review Processes

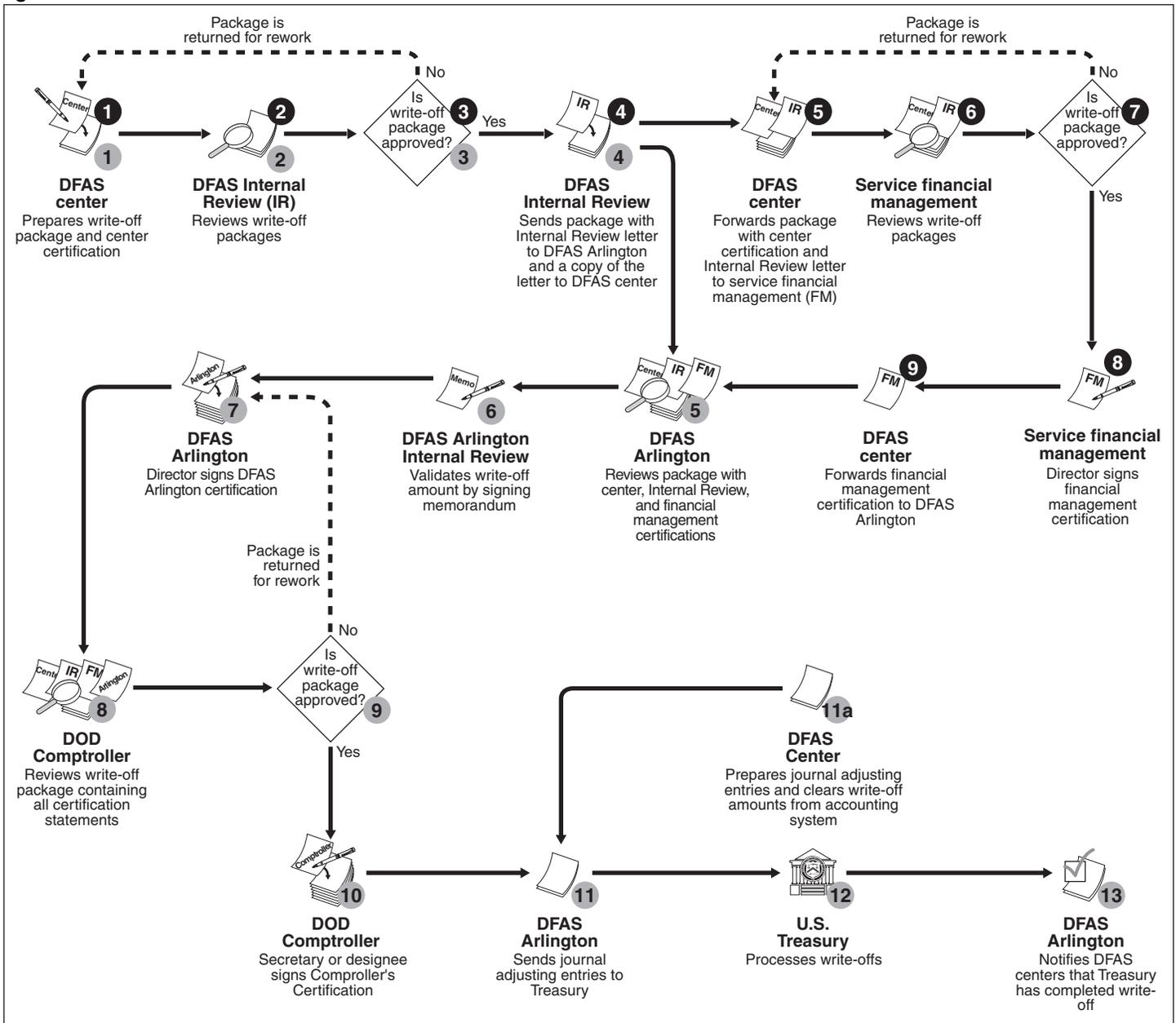
DOD developed guidance for the preparation of the write-off packages and implemented a series of reviews by high-ranking DOD officials. The guidance identified different types of transactions in suspense and specified the documentation requirements for each. For example, nearly a quarter of the write-offs represented disbursement transactions for which vouchers existed, but the vouchers did not contain sufficient information for the transactions to be posted to valid lines of accounting. For this type, the DFAS center director had to certify that steps were taken to obtain the missing information to clear the transactions and that further action was not warranted. For more than half of the write-off amounts, the underlying transactions could not be identified and vouchers and supporting documentation did not exist. Guidance included requirements that this write-off type be accompanied by written narrative from the DFAS center that described in detail the reason why amounts could not be cleared through normal processing.

DFAS centers identified amounts to be written off in various ways depending upon the systems and processes in place at each center. Using the guidance discussed above, center officials then separated the amounts into transaction types, prepared the required supporting documentation or narratives, and grouped the amounts into "packages" to be sent forward for review.

DOD's multilayered review process served as the primary control for providing reasonable assurance that the suspense account write-offs met legislative requirements. As illustrated in figure 1, the reviews were performed sequentially by officials from the DFAS centers, the military service and defense agency FMOs, DFAS Arlington¹⁴ and DFAS internal review and by the DOD Comptroller, the Secretary of Defense's designee. As each level of review was completed, the reviewing official was required to sign a certification statement or memorandum. The certification was a DOD requirement to demonstrate that reviews had been performed by various management officials and all agreed that the proposed write-off amounts met the legislative requirements.

¹⁴ According to DFAS officials, DFAS Arlington is responsible for overseeing and coordinating many of the accounting functions performed at the other five DFAS centers, including overseeing the write-off of suspense account transactions and check payment differences.

Figure 1: DOD's Review Process



Source: GAO analysis of DOD data.

DOD's review process was effective in identifying write-off amounts that did not appear to meet legislative requirements. DOD reviewers told us—and documentary evidence supports their claims—that additional information was requested from DFAS centers to support various questioned amounts or that packages with unsupported amounts were rejected and returned to the centers. For example, a \$326 million package, consisting of a single amount supposedly representing transactions dating back to May 1992, was questioned by DFAS Arlington, DFAS internal review, and the Comptroller's office. Because no supporting detailed transactions were identified and because the package did not clearly demonstrate that the amount had been recorded prior to March 1, 2001, the package was flagged. Reviewers contacted the originating DFAS center and requested additional documentation and explanation. The center provided the reviewers with detailed analyses demonstrating that the proposed write-off amounts had to represent transactions transferred into the center's suspense accounts when the center was established in May 1992. Based on the additional evidence, the reviewers concluded that the proposed write-off met legislative requirements and approved the package. DOD reviewers rejected numerous proposed write-off amounts that did not comply with the legislation, including 18 of the original 116 packages submitted by the DFAS centers, often because they did not clearly support a transaction date prior to March 1, 2001.

To ensure suspense write-off amounts were recorded within 30 days of the determination by the Secretary of Defense's designee¹⁵ and before the legislative deadline of December 2, 2004, DFAS center officials reviewed accounting system records and requested additional information from their staff. The Columbus, Denver, and Indianapolis DFAS centers provided us with information that demonstrated the time frames were met with a few exceptions.¹⁶ DFAS Cleveland and DFAS Kansas City officials told us that they met the time frames for write-offs but could not provide any supporting documentation. Officials at these centers explained that as soon as the Comptroller's office certified each write-off package, center staff sent data files to system technicians specifying the information to be deleted from suspense account records. According to officials, once the

¹⁵ The Secretary of Defense delegated certification responsibility to the DOD Comptroller to make the required written determinations.

¹⁶ Three of the 53 write-off amounts we reviewed were recorded 42 days, rather than 30 days, after the certification. Also, one write-off amount was approved on December 2, 2004, and recorded in center accounting systems on December 6, 2004.

technicians had deleted the records, they sent e-mails back to the requesting center officials confirming that they had deleted the information within the required time frames. However, center officials were unable to provide us with copies of these e-mails or the deleted files.

Check Payment Differences Write-off Process

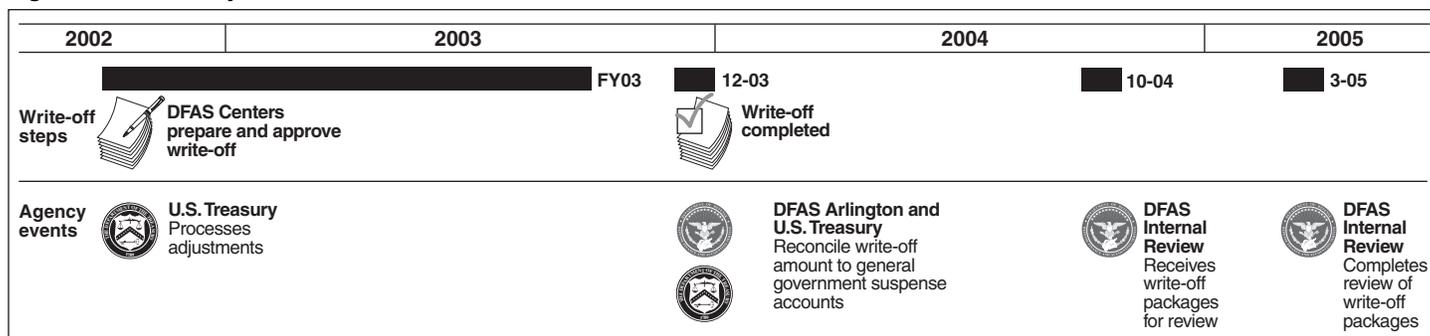
Although DOD did not establish a multilayered review process for check payment differences, the department did comply with legislative requirements for the write-offs with one exception—the Secretary of Defense did not provide the required written determination prior to Treasury’s recording of the write-off amounts.

As specified in the legislation, DFAS centers used Treasury reports (the Treasury Comparison of Checks Issued reports) to identify check payment differences dated prior to October 31, 1998. DFAS staff reviewed available documents to determine that sufficient information was no longer available to identify the proper appropriation account. Even for very large differences, DOD’s accounting records provided no information to help explain the difference in checks issued and paid or to identify what records needed correction. For example, the Treasury report included a single difference of almost \$6 million (over 40 percent of the total write-off amount) that represented a check issued on October 31, 1991, by DFAS Columbus payable to the U.S. Treasury. DFAS Columbus was unable to locate any documentation to support the reason for the check payment, the amount of the check, or the associated appropriation.

DOD established a much abbreviated process for check payment differences write-offs. Rather than having check payment write-offs reviewed by the Comptroller’s office, DFAS Arlington, DFAS internal review, and military service and defense agency FMOs prior to submission to Treasury, DOD relied solely on DFAS center management to ensure compliance with the legislation. Our review indicated that center officials adequately documented that all amounts written off were dated prior to October 31, 1998, and were reported on the Treasury Comparison of Checks Issued report. However, DOD did not comply with the requirement in the legislation that prior to submission to Treasury, the Secretary of Defense make a written determination that DOD officials have attempted without success to locate the documentation necessary to identify which appropriation should be charged with the amount of the check and that further efforts to do so are not in the best interests of the United States. In October 2004, after DOD had submitted all of the check payment difference write-offs to Treasury and Treasury had recorded them,

DOD asked DFAS internal review to look at all the submissions and determine whether they complied with the legislation. According to a DFAS Arlington official, internal review completed its work and concluded that the check payment write-offs sent to Treasury were certified by disbursing officers, DFAS centers, and the services (either in writing or orally) prior to clearing the transactions. The official also stated that this matter has been forwarded to the DOD Comptroller's office for a formal determination to meet the legal requirements under the now expired law. Figure 2 below illustrates the write-off process for check payment differences.

Figure 2: Check Payment Write-off Process



Source: GAO analysis of DOD data.

Resource Intensive Write-off Process

The write-off process itself could not and did not fix DOD's underlying problems—outdated, nonstandard, and nonintegrated financial systems and lack of enforcement of proper accounting policies and procedures—that led to the build-up of aged, unsupported suspense transactions and check payment differences. To the extent that DOD allows large aged suspense and check difference balances to recur, the department will again be required to undertake costly procedures to try to support the proper recording of those transactions or to write them off.

According to DOD officials, numerous staff members at every level were needed to prepare, support, and review the write-off packages and, in some instances, to rework previously submitted packages. For example, DOD officials told us that for the most part, the research and preparation of the write-off packages represented additional tasks that were added to the staff's normal workload. We were told that, although staff tried to prioritize

their work in order to prevent a backlog related to current suspense account balances, they could not keep up with their daily activities and current suspense account balances increased over the period. Also, several DFAS center officials told us that for much of 2003, DFAS Arlington, the Comptroller's office, and Treasury officials tried to reach an agreement on exactly how to process the write-off amounts. Because the official guidance was not issued by DFAS Arlington until January 2004, there was a significant delay in preparing the write-off packages. Although DOD had hoped to finish the write-offs by the end of fiscal year 2004, only 24 packages had been approved by that time. DOD had to assign additional resources to enable the remaining 71 packages to be reviewed, approved, and processed by December 2, 2004, the legislative cutoff date.

Write-offs Had Little Effect on Financial Reporting

Writing off aged suspense account amounts and check payment differences did not change DOD's reported appropriation account balances. Nor did the write-offs correct any of the over- and undercharges that may have been made to those appropriations over the years as a result of not promptly resolving suspense account transactions and check payment differences. DOD will never identify which, if any, of the aged underlying transactions in suspense would have resulted in Antideficiency Act violations had they been correctly charged. The suspense account write-offs also did not affect the reported federal cumulative budget deficit; however, the write-off of check payment differences increased the deficit by \$14.5 million. The most significant result of the write-off process was to guarantee that current appropriation balances would not be required to cover the aged unrecorded transactions.

Appropriation Account Reports

The legislated write-off of aged suspense account amounts and check payment differences did not change DOD's current or past appropriation account balances. Because amounts in suspense and check payment differences had never been recorded to the proper appropriation accounts, DOD had over- or undercharged these appropriations. To accomplish the write-off, Treasury reclassified the aged suspense amounts that met legislative requirements from DOD-specific suspense accounts to

non-agency-specific general government suspense accounts.¹⁷ The check payment differences, which had never been recorded in any DOD accounts, were simply “sent” to Treasury for recording in that same general government suspense account. Although it was unlikely that DOD would ever identify individual aged transactions and the support for their proper recording, the write-off process was the final step in ensuring that the over- and undercharged DOD appropriation accounts will never be corrected.

While the write-off authority did not change or correct any DOD appropriation balances, it did mean that DOD’s current appropriations would not be used to pay for the uncharged disbursements. Generally, authorized disbursements may be made only to pay valid obligations properly chargeable to an appropriation account. If the correct appropriation and obligation cannot be identified and charged with a disbursement, DOD regulations provide that the disbursement be treated as an obligation that is chargeable against current appropriations. However, using current funding authority to cover past disbursements reduces the funds available to purchase goods and services needed to support current operations.

Federal Deficit Reports

We found that the write-off of suspense amounts had no effect on the cumulative federal deficit. The suspense account transactions had already been charged to the federal surplus or deficit in the specific year that DOD reported the related collection and disbursement transactions to Treasury. The reclassification of suspense amounts from DOD accounts to general government suspense accounts did not affect Treasury’s previous recording of the underlying collection and disbursement transactions to the cumulative deficit.

With regard to the write-off of check payment differences, according to Treasury, the surplus/deficit had not been adjusted to recognize differences between issued check amounts as reported by DOD and paid check amounts as reported by banks. Since the check payment differences had not previously been reported as disbursements by DOD and thus included in the deficit calculation, the cumulative federal deficit was increased by DOD’s write-off amount of \$14.5 million.

¹⁷ While a non-agency-specific general government suspense account was used, it was only used as a means of closing the write-off amounts against the cumulative federal deficit. There is no remaining balance in these general government suspense accounts.

Current DOD Policies Are Not Being Enforced

We found that, even though DOD policies require that most suspense account transactions and check differences be resolved within 60 days, DFAS centers were reporting an absolute value of \$1.3 billion in aged suspense account amounts and an absolute value of \$39 million in aged check differences as of December 31, 2004. DFAS knows that the reported suspense amounts are not complete and accurate because

- DFAS center officials are still not performing the required reconciliations of their appropriation accounts, including suspense accounts, with Treasury records;
- some field sites are not reporting any suspense activity to the centers or are reporting inaccurate suspense account information; and
- some of the reported amounts for suspense and check differences still reflect netted and summarized underlying transaction information.

Given these deficiencies with suspense account reporting, the actual value of aged problem transactions could be significantly understated.

Suspense Account Reconciliations

DFAS centers are not performing effective reconciliations of their appropriation activity, including suspense account activity, even though DOD policies have long required them. Similar to checkbook reconciliations, DFAS centers need to compare their records of monthly activity to Treasury's records and then promptly research any differences in order to identify and correct erroneous or missing transactions. When we reviewed the DFAS centers' December 31, 2004, reconciliations of suspense account activity, we found that all of the centers had unexplained differences between their records and Treasury records—differences for which they could not identify transaction-level information. DFAS excluded transactions related to the unexplained differences from its reports on suspense account activity. In addition, we noted that amounts recorded in DFAS suspense accounts often reflected transactions that had been netted or summarized at a field site level. As illustrated by the recent write-off activity, netting transactions often obscures the underlying transactions, makes it more difficult for the centers to identify and correct errors and omissions, and understates the magnitude of suspense account problems.

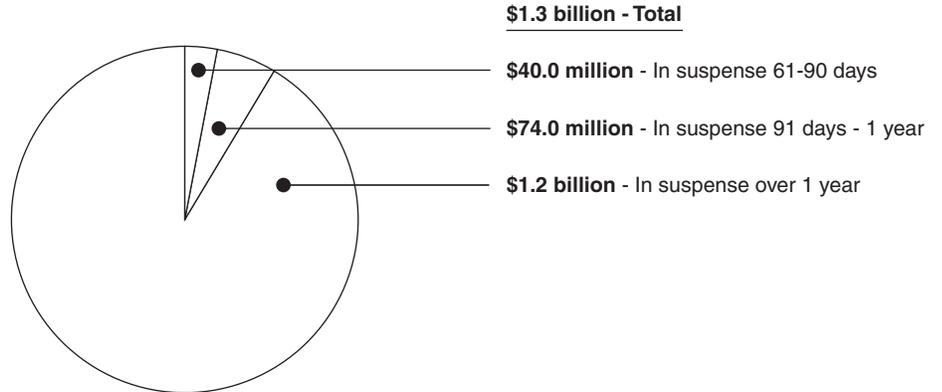
Suspense Account Reports

In 1999, DFAS Arlington issued guidance that instructed each of its centers to develop their own procedures for preparing a monthly suspense account report (SAR) that would show the net value, absolute value, and aging of amounts charged to each suspense account. Because the systems and processes are not uniform across the centers, they were instructed to develop their own procedures for obtaining the necessary information from their systems, reconcile their suspense account records to Treasury records to help ensure accuracy and completeness, and explain any improper charges or overaged amounts.¹⁸

However, as discussed previously, we found that the centers were not effectively reconciling their suspense accounts and, therefore, could not demonstrate that their SARs were complete and accurate. In fact, center officials told us that some field sites did not report any of their suspense information or they reported inaccurate information in the SAR; however, those officials could not quantify the missing information or inaccuracies. As discussed above, the SARs also did not include transactions related to the unreconciled differences between center and Treasury records, including residual balances from prior to March 2001 that DOD was unable to write off. Figure 3 shows the aging of the \$1.3 billion of suspense amounts reported on the December 31, 2004, SAR.

¹⁸ The suspense account aging categories include 0-30 days; 31-60 days; 61-90 days; 91 to 180 days; 181 days to 1 year; over 1 year to October 1, 1997; and older than October 1, 1997.

Figure 3: Suspense Amounts Older Than 60 Days



Source: GAO analysis of DOD data.

We also found that DFAS Arlington officials had not performed any comprehensive reviews to determine whether the centers were compiling the SARs in accordance with their own guidance. DFAS Arlington officials and other center officials told us that it would be an overwhelming task to review the information submitted by the hundreds of DFAS field sites responsible for compiling the SARs. Although not required, some centers have documented the processes they are following to gather suspense account information and prepare the SARs; however, DFAS Arlington officials have not reviewed the written documentation. Arlington officials also did not know whether the centers were using the same criteria for reconciling and calculating absolute values.

Required Recording Procedures

As previously stated, as of December 31, 2004, DFAS reports identified \$1.3 billion absolute value of aged suspense account amounts and Treasury reports identified \$39 million in absolute value of unresolved check differences. These aged problem transactions persist despite the DOD Financial Management Regulation (FMR) that requires staff to identify and charge the correct appropriation account within 60 days.¹⁹ The FMR allows DFAS to charge current appropriations for suspense account transactions and problem disbursements that cannot be resolved through research if approved by the fund holder, military service assistant secretaries, or defense agency Comptroller.

For suspense account transactions, DFAS officials stated that the primary reasons for not consistently following the FMR are (1) staff have been too busy processing the write-off amounts and have not had the resources to clear more recent suspense transactions promptly and (2) military service and defense agency officials are unwilling to accept charges to current appropriation accounts without DFAS supplying them with sufficient proof that the charges actually belong to them.

For the \$39 million of unresolved check differences, DFAS officials stated that \$36 million is related to transactions initiated by Army staff overseas. DFAS officials claimed that with the exception of the \$36 million, they have been able to resolve almost all check differences within 60 days due to increased oversight and staff efforts, implementation of new controls over the check reconciliation process, and the increasing use of EFTs rather than checks.

Conclusion

Overall, the write-off process enabled DOD to clear aged, unsupported amounts from its accounting systems and records and ensured that current appropriations would not be required to cover these amounts. However, the write-off did not correct appropriation account records or fix any of

¹⁹ DOD revised the FMR in 2001 to allow DFAS to charge current appropriations for aged problem disbursements, including those recorded in suspense accounts, if staff are unable to locate sufficient supporting documents. The FMR requires that suspense account transactions be resolved within 60 days except for Interfund suspense, which must be resolved within 180 days. DOD also revised the FMR and issued it as a draft in July 2003—the final version was issued in January 2005—to require staff to research each check difference and clear it within 60 days from the check issue date, a requirement that was excluded from the FMR previously.

DOD's deficient systems or accounting procedures. Therefore, DOD needs to continue its focus on the keys to eliminating aged problem disbursements and preventing their future occurrence, including improved disbursement processes and better management controls. Until DOD enforces its own guidance for reconciling and resolving its suspense accounts and check differences regularly, balances will likely grow. Without adequate tools for tracking and archiving the individual transactions charged to suspense, DOD will continue to have difficulty researching and determining proper accounting treatment. DOD's inability over the years to promptly and correctly charge its appropriation accounts has prevented the department and Congress from knowing whether specific appropriation accounts were overspent or underspent and from identifying any potential Antideficiency Act violations. Unless DOD complies with existing laws and its own regulations, its appropriation accounts will remain unreliable and another costly write-off process may eventually be required.

Recommendations for Executive Action

To prevent the future buildup of aged suspense accounts and check payment differences, we recommend that the Secretary of Defense take the following three actions:

- enforce DOD's policy that DFAS centers and field-level accounting sites perform proper reconciliations of their records with Treasury records each month,
- use the results of the monthly reconciliations to improve the quality of DFAS suspense account reports, and
- enforce guidance requiring that disbursements in suspense be resolved within 60 days or be charged to current appropriations if research attempts are unsuccessful.

Agency Comments and Our Evaluation

In written comments on a draft of the report, the Principal Deputy Under Secretary of Defense (Comptroller) stated that the department concurred with our recommendations and described actions that are being taken to address them. DOD's comments are reprinted in appendix II.

We are sending copies of this report to other interested congressional committees; the Secretary of the Treasury; the Secretary of Defense; the Under Secretary of Defense (Comptroller); the Director, Defense Finance and Accounting Service; and the Assistant Secretaries for Financial Management (Comptroller) for the Army, the Navy, and the Air Force. Copies will be made available to others upon request. In addition, this report is available at no charge on the GAO Web site at <http://www.gao.gov>.

Please contact me at (202) 512-9505 or kutzg@gao.gov if you or your staffs have any questions about this report. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Other GAO contacts and key contributors to this report are listed in appendix III.

A handwritten signature in black ink that reads "Gregory D. Kutz". The signature is written in a cursive style with a large initial "G" and "K".

Gregory D. Kutz
Managing Director
Forensic Audits and Special Investigations

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Objectives, Scope, and Methodology

As required by the conference report (H.R. Conf. Rep. No. 107-772) that accompanied the Bob Stump National Defense Authorization Act for Fiscal Year 2003 (Pub. L. No. 107-314 § 1009, 116 Stat. 2458, 2635), we undertook a review of the Department of Defense's (DOD) use of authority to write off certain aged suspense account transactions and check payment differences. Our objectives were to determine (1) what amount DOD wrote off using the legislative authority, (2) whether DOD had effective procedures and controls to provide reasonable assurance that amounts were written off in accordance with the legislation, (3) how the write-offs affected Treasury and DOD financial reports, and (4) what aged DOD suspense account balances and check payment differences remain after the write-offs have been accomplished.

In conducting this work, we identified prior audit reports and other background information to determine the events that led DOD to request write-off authority. We visited DOD Comptroller offices, visited DFAS centers in Arlington, Indianapolis, Cleveland, and Denver, and contacted officials in DFAS Columbus and Kansas City to perform the following:

- Interviewed Comptroller and DFAS officials to obtain a general understanding of DOD's use of suspense accounts and the department's request for write-off authority.
- Gathered, analyzed, and compared information on how write-off amounts were identified and processed.
- Compared DOD's policies and practices for the write-offs (including those policies and practices in effect at the relevant DFAS centers) to the specific provisions contained in the legislation and with any Treasury requirements.
- Identified DOD's primary controls over the suspense account write-offs—a series of reviews performed by DOD/DFAS management and DFAS internal review—and tested the effectiveness of these controls by reviewing all certification statements resulting from the control procedures, comparing amounts reviewed to amounts written off, inquiring about and reviewing examples of rejected write-off amounts, and reviewing all of the support available for selected individual write-off amounts.

- Compared all check payment difference write-offs to Treasury reports to ensure the amounts were in compliance with the legislative requirements.

To determine the impact of the suspense account and check payment write-offs on DOD's budgetary and financial reports, we determined which specific DOD/Treasury accounts were affected by the write-off entries. We asked DOD and Treasury officials how the write-off entries affected DOD budgetary accounts and the federal deficit. We also reviewed financial reports, journal vouchers, and other documents provided by DOD and Treasury.

To identify the current outstanding suspense account balances and check payment differences, we reviewed amounts disclosed in DOD's fiscal year 2004 financial statements and obtained relevant performance metrics as of September 30, 2004, and December 31, 2004. We identified any remaining aged suspense account or check differences being monitored by DOD management. To determine whether DOD reconciles its records to Treasury, we requested proof of DOD's most current suspense account reconciliations and check difference reports.

We performed our work from June 2004 through April 2005. Because of serious data reliability deficiencies, which the department has acknowledged, it was not our objective to—and we did not—verify the completeness and accuracy of DOD reported amounts, including current suspense account report amounts. We requested comments from the Secretary of Defense or his designee. We received written comments from the Principal Deputy Under Secretary of Defense (Comptroller), which are reprinted in appendix II. We also sent the draft report to the Secretary of the Treasury. Treasury sent us a few technical comments, which we have incorporated in the report as appropriate. We performed our work in accordance with generally accepted government auditing standards.

Comments from the Department of Defense



COMPTROLLER

UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON DC 20301-1100

MAY 18 2005



Gregory D. Kutz
Director
Financial Management and Assurance
United States Government Accountability Office
Washington, DC 20548

Dear Mr. Kutz:

This is the Department of Defense response to the Government Accountability Office (GAO) draft report GAO-05-521, "DoD Problem Disbursements: Long-Standing Accounting Weaknesses Result in Inaccurate Records and Substantial Write-offs," dated April 18, 2005. The Department appreciates the opportunity to review the draft report and provide comments.

I agree with the intent of the recommendations to enforce DoD's policy to perform proper monthly reconciliations with Treasury records, to use the results of monthly reconciliations to improve the quality of DFAS suspense account reports, and to enforce guidance requiring that disbursements in suspense accounts be resolved within 60 days. More detailed comments are at the enclosure.

My point of contact for this matter is Mr. Oscar Covell. He may be reached by e-mail: oscar.covell@osd.mil or by telephone at (703) 697-6149.

Sincerely,

Robert J. Henke
Principal Deputy

Enclosure:
As stated



GAO DRAFT REPORT DATED APRIL 18, 2005
GAO-05-521 (GAO CODE 192132)

"DOD PROBLEM DISBURSEMENTS: Long-standing
Accounting Weaknesses Result in Inaccurate Records and
Substantial Write-offs"

DEPARTMENT OF DEFENSE COMMENTS
TO THE GAO RECOMMENDATIONS

RECOMMENDATION 1: The GAO recommended that the Secretary of Defense enforce DOD's policy that DFAS centers and field-level accounting sites perform proper reconciliations of their records with Treasury records each month. (p. 18/GAO Draft Report)

DOD RESPONSE: Concur. The Defense Finance and Accounting Service (DFAS) Accounting Business Line issued a policy memorandum in December 2004 requiring that each central site modify the existing Suspense Account Report (SAR) to reconcile it to the Treasury Trial Balance (TTB). The reconciliation is to contain a narrative which explains what portion of the difference is supported and what portion cannot be explained. At least once a quarter, the client executive of each central site must sign a certification statement for the reconciliation narrative. The policy required that the central sites meet the new requirement with the submission of the February 2005 SAR. Action is complete.

RECOMMENDATION 2: The GAO recommended that the Secretary of Defense use the results of the monthly reconciliations to improve the quality of DFAS suspense account reports. (p. 18/GAO Draft Report)

DOD RESPONSE: Concur. The Accounting Business Line adopted a strategy to develop a Plan of Actions and Milestones (POA&M) for improving the quality of the SAR. The POA&M is scheduled to be completed by June 30, 2005. The POA&M is to list detail inflow analysis categorizing all suspense transactions by source drivers (payment type, business event, root cause) and to distinguish transactions processing through the Intra-governmental Payment and Collection System from those processing through the Defense Cash Accountability System. Specific emphasis will be placed on developing a uniform reconciliation process as well as on improving the content of the SAR to report all suspended transactions and to more thoroughly explain the supported portion of the difference between the SAR and the TTB. Other initiatives will involve

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Page 1 of 2

documenting the end-to-end transaction level audit trail from sources to SAR and the Treasury along with securing commitments from the other DFAS product lines to reduce the occurrence of suspense postings. Estimated completion date is June 30, 2005.

RECOMMENDATION 3: The GAO recommended that the Secretary of Defense enforce guidance requiring that disbursements in suspense be resolved within 60 days or be charged to current appropriations if research attempts are unsuccessful. (p.18/ GAO Draft Report)

DOD RESPONSE: Concur. The Department of Defense concurs that guidance must be properly enforced and suspended transactions be resolved in a timely manner. Consequently, I have directed the Military Departments, Defense Agencies, and the DFAS to strictly enforce and resolve transactions within the 60 day time frame specified in Volume 3, Chapter 11, paragraph 1115, "Budget Clearing Account (Suspense), F3875, and Undistributed Intergovernmental Payments, F3885" of the Department of Defense Financial Management Regulation. We will monitor compliance through our established metrics program. Estimated completion date is May 31, 2005.

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Page 2 of 2

GAO Contact and Staff Acknowledgments

GAO Contact

Gregory D. Kutz (202) 512-9505

Acknowledgments

Staff making key contributions to this report were Shawkat Ahmed, Rathi Bose, Molly Boyle, Sharon Byrd, Rich Cambosos, Francine Delvecchio, Gloria Hernandez-Saunders, Wilfred Holloway, Jason Kelly, and Carolyn Voltz.

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