Report No. D-2010-034 January 8, 2010

Inspector General
United States Department of Defense

Internal Controls Over the Army, General Fund Cash and Other Monetary Assets Held in Southwest Asia

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Acronyms and Abbreviations

ANSF	Afghan National Security Forces
ARCENT	Army Central Command
COMA	Cash and Other Monetary Assets
CONUS	Continental United States
CSTC-A	Combined Security Transition Command–Afghanistan
DASA(FO)	Deputy Assistant Secretary of the Army (Financial Operations)
DDO	Deputy Disbursing Officer
DDS	Deployable Disbursing System
DFAS	Defense Finance and Accounting Service
DO	Disbursing Officer
DSSN	Disbursing Station Symbol Number
FINCOM	Finance Command
FMC	Financial Management Center
FMCO	Financial Management Company
FMR	Financial Management Regulation
GSA	General Services Administration
LDA	Limited Depositary Account
MFO	Multinational Force and Observers
OCONUS	Outside the Continental United States
OUSD(C)/CFO	Under Secretary of Defense Comptroller/Chief Financial Officer
SOA	Statement of Accountability
SRD-1	Standard Finance System-Redesign Subsystem-1
STANFINS	Army Standard Finance System

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January 8, 2010

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF FINANCIAL OFFICER
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE INDIANAPOLIS

SUBJECT: Internal Controls Over Army General Fund Cash and Other Monetary Assets Held in Southwest Asia (Report No. D2010-034)

We are providing this report for your information and use. We performed this audit in response to a request made by the Deputy Assistant Secretary of the Army (Financial Operations). No written response to this report is required. Therefore, we are publishing this report in final form.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5868 (DSN 329-5868).

Patricia A. Marsh

Patricia A. Marsh, CPA
Assistant Inspector General
Defense Business Operations

Results in Brief: Internal Controls Over Army General Fund Cash and Other Monetary Assets Held in Southwest Asia

What We Did

Our overall objective was to determine whether internal controls over the Army General Fund Cash and Other Monetary Assets (COMA) held in Southwest Asia were effectively designed and operating to adequately safeguard, account, document, and report COMA.

What We Found

Statement of Accountability documents were generally accurate, and observed cash counts agreed with cash balances reported on the Statement of Accountability. However, some Army and Defense Finance and Accounting Service internal controls over COMA held in Southwest Asia were not effective. For example:

- Internal controls were not in place or operating effectively at deputy disbursing offices in Afghanistan and Egypt that report to the disbursing officer for Disbursing Station 5570. We identified the following internal control deficiencies.
  - The deputy disbursing offices did not have adequate physical controls.
  - The disbursing officer (DO) and the deputy disbursing officers (DDOs) did not have support for their cash-holding authority amounts, and DDOs were improperly appointed.
  - DDOs incorrectly prepared Daily Statements of Accountability (SOA), inappropriately accepted checks, improperly stored checks, did not have comprehensive security programs and records of semiannual security reviews, and had deficient quarterly cash verifications.
- Internal controls were not in place or operating effectively at Army disbursing offices in Iraq, Kuwait, and Saudi Arabia. We identified the following internal control deficiencies.
  - Disbursing offices did not have security alarms in place and operating.
  - DOs did not have comprehensive security programs and did not ensure that semiannual security reviews were performed or performed properly.
  - A DO did not prepare Daily SOAs each business day, DOs did not prepare and document analysis to support their justification for cash-holding authority amounts, and DOs had deficient quarterly cash verifications.
- Disbursing Station 5588 had an unreconciled U.S. Treasury Limited Depositary Account difference of $2.9 million.
- During FY 2008, the Army used cash instead of Government purchase cards to pay for trips in support of the Combined Security Transition Command-Afghanistan.

Management Actions

The Deputy Assistant Secretary for the Army (Financial Operations) and Under Secretary of Defense Comptroller/Chief Financial Officer have taken significant actions to address issues we identified, therefore no recommendations were made. Please see the recommendations table on the back of this page and the Management Action sections of Findings A, B, C, and D for further information.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Under Secretary of Defense Comptroller/Chief Financial Officer	None	None
Deputy Assistant Secretary for the Army (Financial Operations)	None	None

Table of Contents

Introduction

Objectives

The objective of this audit was to determine whether internal controls for Army General Fund Cash and Other Monetary Assets held in Southwest Asia were effectively designed and operating adequately to safeguard, account, document, and report Cash and Other Monetary Assets. We performed this audit in response to a request made by the Deputy Assistant Secretary of the Army (Financial Operations). See Appendix A for a discussion of the scope and methodology and Appendix B for prior coverage related to the objectives. See the Glossary for definitions of frequently used terms.

Background

The Cash and Other Monetary Assets (COMA) account represented a material line item[1] on the September 30, 2008, DOD Agency-Wide Consolidated Balance Sheet. The Federal Accounting Standards Advisory Board, Statement of Federal Financial Accounting Standards No. 1, **"**Accounting for Selected Assets and Liabilities,**"** March 30, 1993, defines cash as: (a) coins, paper currency and readily negotiable instruments, such as money orders, checks, and bank drafts on hand or in transit for deposit; (b) amounts on demand deposit with banks or other financial institutions; and (c) foreign currencies. See Appendix C for more information on COMA, how the Army obtains cash, reports cash to the U.S. Treasury, and reports cash on the Army General Fund balance sheet.

DOD reported $2.8 billion of COMA on its DOD Agency-Wide Consolidated Balance Sheet as of September 30, 2008. Army General Fund COMA represented $2.42 billion (86.43 percent) of DOD Agency-Wide COMA. Army General Fund COMA included $2.36 billion held outside the continental United States (OCONUS), of which $0.61 billion was attributable to Southwest Asia. The remaining $.05 billion Army General Fund COMA was held inside the continental United States (CONUS).[2]

The Army does not centrally manage COMA. The U.S. Army Finance Command (FINCOM), the U.S. Army Corps of Engineers, and Defense Finance and Accounting Service (DFAS) Indianapolis all manage Army COMA. A disbursing officer (DO) is a military member or civilian employee of a DOD Component who is designated to make disbursements in accordance with laws and regulations governing the disbursement of public money. A disbursing office is an activity, or the organizational unit of an activity, whose principal function consists of the disbursement, collection, and reporting of public funds. Army DOs provide funds to deputy disbursing officers (DDO) and paying agents or may authorize DDOs to obtain funds. See Appendix D for the disbursing stations and offices we visited.

[1] According to the American Institute of Certified Public Accountants, the auditor's consideration of materiality is a matter of professional judgment and is influenced by the auditor's perception of the needs of users of the financial statements. In addition, materiality judgments are made in light of surrounding circumstances and involve both quantitative and qualitative considerations.

[2] The $2.36 billion and the $.05 billion do not add to $2.42 billion because of rounding.

Review of Internal Controls

DOD Instruction 5010.40, "Managers' Internal Control (MIC) Program Procedures," January 4, 2006, requires DOD Components to establish a management control program to review, assess, and report on the effectiveness of internal controls in DOD. The management control program must identify and promptly correct ineffective internal controls and establish internal controls, when warranted, for the following two distinct processes: the Federal Managers Financial Integrity Act overall process and the Federal Managers Financial Integrity Act financial reporting process.

Adequacy of Internal Controls. We identified internal control weaknesses at the Army and DFAS disbursing operations as defined by DOD Instruction 5010.40. Specifically, we identified internal control deficiencies at Army disbursing stations and DFAS deputy disbursing offices that resulted in the following internal control weaknesses.

DFAS internal controls were not in place and operating effectively to ensure that deputy disbursing offices in Afghanistan and Egypt:

- had adequate security alarms, fire alarms, or armed guards in place;
- had sufficient vaults and safes;
- had complete records;
- prepared and supported cash-holding amounts;
- properly appointed DDOs;
- properly prepared Statements of Accountability (SOA) ;
- only accepted checks made payable to the accepting organization;
- properly stored U.S. Treasury and Limited Depositary Account (LDA) checks;
- prepared comprehensive security programs;
- prepared semiannual security reviews; and
- properly prepared quarterly cash verifications.

We believe the corrective actions taken have resolved these deficiencies (see Finding A).

Army internal controls were not in place and operating effectively to ensure that disbursing offices in Iraq, Kuwait, and Saudi Arabia:

- had adequate security alarms in place,
- prepared comprehensive security programs,
- prepared semiannual security reviews properly,
- properly prepared Daily SOAs,
- prepared and supported cash-holding amounts, and
- properly prepared quarterly cash verifications.

We believe the corrective actions taken have resolved these deficiencies (see Finding B).

Army internal controls were not in place to ensure that Disbursing Station [Symbol Number] (DSSN) 5588 identified, resolved, and reported reconciling differences in its U.S. Treasury LDA. We believe the corrective actions taken will ensure that these deficiencies are addressed (see Finding C).

Finally, internal control guidance provided by the Under Secretary of Defense Comptroller/ Chief Financial Officer (OUSD(C)/CFO) on the payment of expenses supporting the Combined Security Transition Command-Afghanistan mission of training and mentoring the Afghan National Security Forces (ANSF) was not adequate. We believe that the corrective action has resolved this action (see Finding D).

We will provide a copy of this report to the senior officials responsible for internal controls in the Army and at DFAS Indianapolis.

Finding A. Internal Controls at Deputy Disbursing Offices in Afghanistan and Egypt

Cash counts we observed generally agreed with cash balances reported on the Statement of Accountability. However, other internal controls were not in place and operating effectively at deputy disbursing offices in Afghanistan and Egypt that report to the disbursing officer for DSSN 5570. Specifically, we identified the following internal control deficiencies.

- Deputy disbursing offices did not have adequate physical controls such as security alarms, fire alarms, or armed guards; vaults and safes; or complete records.
- Disbursing officers (DOs) and deputy disbursing officers (DDOs) did not have support for their cash-holding authority amounts, and DDOs were improperly appointed.
- DDOs incorrectly prepared Daily Statements of Accountability (SOA), inappropriately accepted checks, improperly stored checks, did not have comprehensive security programs and records of semiannual security reviews, and had deficient quarterly cash verifications.

These conditions occurred because the U.S. Army Central Command-Kuwait (ARCENT) base commanders in Afghanistan did not ensure that physical safeguards were in place and operating effectively. Additionally, the DO and DDOs were not aware of DOD Regulation 7000.14-R, "Financial Management Regulation" (DOD FMR), requirements, and the DOD FMR was inadequate in some cases. In addition, financial record keeping and reporting were manually performed at deputy disbursing offices, and the DO was unable to provide adequate oversight to his DDOs. As a result, the Army increased its risk of loss due to errors, theft, fraud, and injury. It also increased its risk of inadvertently disclosing personally identifiable information. In addition, holding excess cash increased the U.S. Treasury's cost of borrowing money.[3]

DSSN 5570 Operations

The DO for DSSN 5570, who is located at DFAS Indianapolis, is responsible for significant business operations. This DO has greater responsibility than any other DO that we observed in Southwest Asia. The DO supports more than 61 DDOs. In addition, DSSN 5570 provides services to the Army, the U.S. Army Corps of Engineers, Defense agencies, other DFAS sites, Defense Military Pay Offices, the DFAS Indianapolis Transportation Payment Office, and other Federal agencies. In FY 2008, this DO's operations processed 33,586,696 disbursements totaling $82,277,963,858 and 172,757 collections totaling $11,910,883,903. (See Appendix E for more information on the DSSN 5570 DO duties.)

[3] See Appendix F for a matrix of significant internal control deficiencies that existed at deputy disbursing offices in Southwest Asia.

We visited DSSN 5570 disbursing offices at seven locations in Afghanistan and one location in Egypt; this finding applies to those eight locations.

Afghanistan

Disbursing operations in Afghanistan began in 2001. In November 2001, the 126th Finance Command at Fort Bragg, North Carolina, sent a disbursing agent and a very small contingent of finance personnel to the Afghanistan theater to support the U.S. military operations in Afghanistan. The disbursing agent was initially advanced $2 million. As the mission grew, other finance units sent disbursing agents to Afghanistan. The DO for DSSN 5570 funded all of these disbursing agents. In 2003, the 10th Soldier Support Battalion at Fort Drum, New York, deployed to Afghanistan to take command and control over all finance functions. However, the DO for DSSN 5570 continued to provide all funding and disbursing manual functions.

Sinai-Egypt

The Multinational Force and Observers (MFO) Sinai was created under the Camp David Accords in August 3, 1981. Starting in 1984, Fort Bragg, North Carolina, started supporting the finance mission with a deployed disbursing agent. The disbursing functions were consolidated into DSSN 5570 during the mid-1990s. Specifically, the Sinai disbursing agent became a DDO under DSSN 5570 and performed all finance functions manually.

Cash Counts

Cash counts we observed generally agreed with cash balances reported on the Daily SOA. For example, one location had a total balance of $13,420,013, which agreed with the Daily SOA. At another location, the total balance of $6,496,582 had a minor discrepancy of $1.56 with the Daily SOA.

Security Alarms, Fire Alarms, and Armed Guards

Deputy disbursing offices at seven of the eight locations did not have any type of security alarm system; the eighth deputy disbursing office had not activated its already-installed alarm system because no agreement was in place to prescribe how security forces would respond if an alarm was received.

None of the eight deputy disbursing offices had operational fire alarms or sprinkler systems to protect their COMA and other disbursing operation resources. Seven deputy disbursing offices were in locations with only limited fire protection resources that were not nearby. The other location had fire protection resources at approximately 1,000 feet from the site.

None of the eight deputy disbursing offices had armed guards. At one location, security force personnel were not U.S. military members or contractors and therefore, were, prohibited from entering the deputy disbursing office.

DOD FMR, volume 5, chapter 3, "Keeping and Safeguarding Public Funds" (dated October 2006), states, "The DO and all other accountable individuals are responsible for properly safeguarding all Government funds entrusted to him or her and is held pecuniary liable for the loss of such funds." Chapter 3 also states, "…an Intrusion Detection System…is a vital part of any protection system, designed to provide in-depth protection for a resource or other important area." Chapter 3 adds that the commander is responsible for providing fire protection of Government facilities and funds.

The deputy disbursing offices did not have sufficient security alarms, fire alarms, and armed guards because ARCENT base commanders in Afghanistan did not ensure that physical safeguards were in place and operating effectively. The DSSN 5570 DO in Indianapolis was unable to provide adequate oversight of his DDOs in Southwest Asia because of travel complications to Afghanistan; therefore, he could not have firsthand knowledge of the security measures taken at his deputy disbursing offices. Instead, he relied on the Army to put security measures in place. The DO also did not perform any followup activities to ensure that the deputy disbursing offices had adequate protection**.** Consequently, the risk of loss of funds due to fire and theft and the risk of physical injury to disbursing office staff were increased.

Army FINCOM has made progress towards correcting these issues. DASA(FO) has requested that ARCENT work with appropriate sustainment brigades and financial management Army companies to ensure that appropriate physical security is provided for each deputy disbursing office. Army FINCOM also established DSSN 8830 at Bagram Air Field (Bagram), Afghanistan. Because the Bagram DO is stationed in Afghanistan, this DO will be able to travel to all the respective deputy disbursing offices for semiannual inspections with the DDOs to ensure that facilities have security and fire alarms and that security forces and fire department personnel are able to respond to the alarms. See the Management Action section of this finding for additional information.

Vaults and Safes

Deputy disbursing offices did not have adequate vaults at all eight locations. None of the vaults were fireproof or marked as fireproof. Vaults were made using various construction methods. For example, one vault was a room in the basement of a residential house that had been converted to offices. We observed that the vault room walls appeared to be constructed of cement, but the vault room door was wrought iron and had only a keyed lock to secure it. This vault contained blank check stock placed on top of safes. At two sites, woven wire was used to create vaults, and these vaults were inside wooden structures. DDOs used large, keyed padlocks to secure vault doors.

Deputy disbursing offices did not have adequate safes at all eight locations. None of the safes were General Services Administration (GSA)-approved. As we observed, some of the safes were not manufactured in the United States, so they are not GSA rated. We also found disabled locks on safes at two locations. At one, someone had drilled out the combination lock and taped over the hole (see Figure 1). Disabling the locks made these safes useless. At one location, a safe did not appear to be locked regularly as we had

observed the DDO enter the vault and open the safe without using a key or combination. Further, the lock mechanisms and keys at the eight disbursing offices were unique to Southwest Asia. Not only were many of these not acceptable, but also the lock combinations could not be changed because acceptable locksmiths for DOD purposes were not available in Southwest Asia.

Figure 1. Example of a disabled safe combination lock

DOD FMR volume 5, chapter 3, states, "When possible, a disbursing office shall have a built-in, fire-resistant vault with at least a three-position, dial-type combination lock. The door and the vault shall be fire-resistant for a minimum period of two hours. All safes containing funds shall be stored in the vault…." Chapter 3 also states that newly constructed vaults, doors, and intrusion devices must be built or installed following the requirements of the DOD Physical Security Equipment Guide, December 2000.

According to DOD FMR, volume 5, chapter 3, the commander is responsible for ensuring that every individual entrusted with public funds is supplied a vault, safe, or other adequate secure facility (for example, a strong box) for exclusive use that is accessible only to that individual. If it is not possible to provide separate safes, alternatives such as separate locked compartments in one safe, or strong boxes stored in one safe or vault, must be made available. In addition, chapter 3 states that when vaults are not available, combination, three-tumbler-lock, tool-resistant safes appearing on GSA or Federal Supply Schedules must be used by DOs and DDOs to store public funds. If such a safe is not available, a field safe that is secured properly to an immovable object must be used. Chapter 3 requires that safes be GSA-rated and approved. A GSA-approved safe includes a fire rating and resistance to burglary tools, as well as the minimum requirements for a locking mechanism.

DOD FMR, volume 5, chapter 3, states:

> The DO and all other accountable individuals are responsible for properly safeguarding all Government funds entrusted to him or her and is held pecuniary liable for the loss of such funds. When DOs, deputies, agents, cashiers, custodians or alternates have custody of Government funds, each shall be assigned a separate secure container. Although all appointed or assigned personnel are liable for any losses of Government funds in their custody, the DO also continues to hold overall responsibility and is jointly (or severally) liable for any losses associated with these personnel. For this reason, DOs shall make

> sure that all deputies, agents, cashiers, imprest fund cashiers, and other custodians of public funds are fully aware of their responsibilities for properly handling and protecting Government funds. At least semiannually, the DO or designee shall make a personal inspection (and maintain a record of such inspections) of office security measures.

The DOD FMR states that the military commander is responsible for ensuring that every individual entrusted with public funds is supplied a vault, safe or other secure facility. However, the DO and all other accountable individuals are responsible for properly safeguarding all Government funds entrusted to them. Additionally, the DO or designee must personally perform a semiannual inspection and maintain inspection records.

Disbursing offices operated with inadequate vaults and safes because ARCENT base commanders in Afghanistan did not ensure that physical safeguards were in place and operating effectively. In addition, the DO was unable to provide adequate oversight of his DDOs in Southwest Asia. The DO stated that he had not made any site visits to his disbursing offices in Southwest Asia; therefore, he would not have knowledge of the defective vaults and safes the DDOs used. Without the DO's oversight, the risk of theft increased.

Army FINCOM has made progress towards correcting these issues. DASA(FO) has requested that ARCENT take immediate action to obtain GSA-compliant vaults or safes. Additionally, the DO who assumed responsibility for DSSN 8830 in November 2008 at Bagram will be better able to travel to all of the respective DDOs for semiannual inspections to ensure that GSA-compliant vaults or safes are in place and used effectively. See the Management Actions section of this finding for additional information.

Record Retention at Deputy Disbursing Offices

Deputy disbursing offices did not have complete records at all eight locations. The previous DDOs at all the locations did not retain prepared records at the disbursing offices where the transactions originated. For example, DDOs took the office copies of transaction documents and reports, such as invoices, payment documents, and cash verification reports, to their home station or next duty assignment. The DDOs maintained these documents because of the potential liability issues and potential loss-of-funds claims if payments made were later found to be in error.

According to DOD FMR, volume 5, chapter 21, "Disbursing Office Records" (dated September 2007), original disbursing office records and related documents must be retained as Government property and must be readily accessible to the DO or the designated settlement office for 6 years and 3 months, consistent with guidance in the National Archives and Records Administration General Records Schedule 6.

The DSSN 5570 DO stated that he received supporting "paper" documents for the Daily SOAs from each of the DDOs in Southwest Asia. The DO stated that the DDOs did not have document-imaging equipment at the time of the audit but the documents were scanned once they arrived at DFAS Indianapolis. The DO stated that his disbursing

office did not have a document-scanning policy in effect, but that his office was developing one. In addition, the DO had not issued a document-retention policy or other policies and procedures applicable to sensitive data, such as protection of social security numbers or contractor proprietary information, to the DDOs in Southwest Asia. He told us that the DDOs now retain copies of the documents for all their transactions.

The DDOs did not have complete records on site because disbursing office personnel manually performed financial recordkeeping and reporting. In addition, outgoing DDOs took transaction documents and reports with them after their tours of duty in Southwest Asia. These DDOs risk inadvertently disclosing sensitive information, and "For Official Use Only" data is not controlled. Therefore, DOD has no assurance that such data are protected.

Army FINCOM has made progress towards correcting these issues. Specifically, all disbursing operations in Afghanistan now use the Deployable Disbursing System (DDS). This system electronically creates and stores documents. DASA(FO) issued a memorandum reminding DOs that all originals and copies of documents must be retained and protected. See the Management Actions section of this finding for additional information and DDS plans for Egypt.

Cash-Holding Authority

The DO and the DDOs at all eight locations did not completely support their justification for cash-holding authority amounts. DDOs told us they did not prepare any support to justify the level of cash held in their accounts, an amount they used to request the cash-holding authority amounts. Our analysis of cash held by the DDOs showed that they held between 3 days to 647 days worth in cash on that one day. The DO stated that instead of DDOs preparing cash-holding authority amount justifications, DSSN 5570 performs an informal trend analysis of the DDOs' cash usage without documentation to support the analysis.

DOD FMR, volume 5, chapter 3, states that the DFAS Director or a designee is the approving authority for requests to hold cash at personal risk by DFAS DOs. DFAS DDOs, agents, and cashiers who are located at remote sites are authorized to hold cash at personal risk when approved by the activity commander. Chapter 3 states that requests to hold cash at personal risk must be made in writing and include the following: name, title, and duty station of the accountable requestor; description of the payments and transactions requiring the use of cash; a statement that adequate facilities are available to safeguard the cash; and a breakdown of where the cash is held, by accountable position. The request must include the amount to be held personally by the DO, as well as the amounts to be held by all deputies, agents, cashiers of the DO, and other custodians of public funds. Additionally, chapter 3 states, "In considering cash requirements for disbursing and accommodation transactions, DOs shall consider daily cash collections of all deputies, agents, cashiers of the DO, and other custodians of public funds over a representative period of time and average the results."

The DO and DDOs should have provided an accurate daily cash level in their requests for the authority. However, DDOs did not support cash-holding authority amount because the DOD FMR lacked specific guidance or procedures for DOs or DDOs on how to calculate and support their those amounts. As a result, DDOs are holding excessive amounts of cash on hand, which increases the risk of errors, theft, or fraud and increases the U.S. Treasury's borrowing costs.

In response to this audit, the USD(C)/CFO and the Deputy Assistant Secretary of the Army Financial Operations (DASA[FO]) jointly prepared guidance and incorporated it into the DOD FMR to address calculating cash levels for requesting cash-holding authority amounts. See the Management Actions section of this finding for additional information.

Appointment of Deputy Disbursing Officers

DDOs were improperly appointed at all eight locations. Our internal control test was designed to determine whether required documents were prepared in the proper sequence. Specifically, we wanted to determine whether the nomination, appointment, and DDO acceptance letters were prepared in that order. We determined that three DDOs were unable to provide documentation supporting their appointments. DDO nominations and acceptances at five of eight locations were not performed in the proper sequence. Specifically, two DDOs accepted accountability for COMA before they were nominated, and five DDOs accepted responsibility for COMA before they were appointed.

DOD FMR, volume 5, chapter 2, "Disbursing Offices, Officers, and Agents" (dated December 2007), requires the DO to nominate and appoint DDOs by issuing a formal letter of appointment. The appointment letter must state the specific duties the DDO is authorized to perform and include the statement, "I acknowledge that I am strictly liable to the U.S. for all public funds under my control." The letter must include a statement that confirms the appointee has been counseled with regard to pecuniary liability and has been given written operating instructions. The DO should receive a formal acceptance letter from the appointed DDO before the individual assumes any DDO responsibilities. In the acceptance letter, the DDO should include the appropriate verbiage acknowledging liability.

DDOs were improperly appointed because DOs and DDOs did not always follow DOD FMR and DFAS Indianapolis Disbursing Operations Divisions Procedures Manual requirements. As a result, the risk of errors, theft, and fraud was increased.

Management has acted to correct this issue. The new DO at Bagram will now be present to properly appoint and supervise DDOs in Afghanistan. See the Management Actions section of this finding for additional information and actions taken in Egypt.

Preparation of Statements of Accountability

DDOs incorrectly prepared Daily SOAs and submitted them to the DO at seven of the eight locations. Specifically, the seven locations had one or more of the following problems in preparing the SOAs:

- **Month-to-Date Amounts.** DDOs at seven locations submitted Daily SOAs that reported incorrect figures for the month-to-date amounts. The original formulas in the electronically generated spreadsheets had been incorrectly modified for calculating the month-to-date values. At some of these disbursing offices, the amounts reported for daily transaction reporting were the same as the month-to-date amounts. The month-to-date totals, then, were erroneously reported.

- **Support.** At some locations, other cell formulas on the spreadsheet, for amounts that provided support in the Daily SOAs, had also been modified or corrupted. As a result, some amounts were reported on the wrong lines of the Daily SOA. Although the total accountability reported was accurate, the individual lines were not always accurately reported.

Reporting Foreign Currency Gains and Losses. The two DDOs that received cash and paid vouchers in Afghani currency disclosed exchange gains and losses on SF 1081, **"**Voucher and Schedule of Withdrawal and Credits," but should not have done so. They should have reported these exchange gains and losses only on the SOA. In addition, one DDO incorrectly reported sales of aircraft fuel on the foreign currency gains line of his DD Form 2665, "Daily Agent Accountability Summary." Manually entering the information on the forms contributed to these errors,

DOD FMR, volume 5, chapter 19, "Disbursing Officer Accountability Reports" (dated April 2008), states that currency gains must be reported on line 6 and currency losses must be reported on line 11 of DD Form 2665. DDOs did not have accurate data and incorrectly prepared SOAs because disbursing office personnel had to use manual methods to prepare DD Form 2665 and supporting documents. As a result, the risk of loss due to errors, theft, and fraud was increased.

Army FINCOM reported to us that it installed DDS in Southwest Asia so accounting records and reports are automated and can interface with other Army accounting systems. Additionally, DDS will automate reports and supporting schedules so that errors caused by corrupted spreadsheet cells and manual calculation of gains and losses do not occur. Furthermore, DASA(FO) has requested that the U.S. Army Audit Agency perform an audit of the Foreign Currency Gain and Loss account. The U.S. Army Audit Agency announced the audit on July 6, 2009. See the Management Actions section of this finding for additional information.

Accepted Checks Payable to U.S. Treasury

DDOs at seven of the eight deputy disbursing offices incorrectly accepted checks for deposit made payable to the U.S. Treasury. The DDOs should have requested checks made payable to the disbursing office or deputy disbursing office at seven of eight locations. DOD FMR, volume 5, chapter 10, "Collections" (dated February 2005), states that "DOs, deputies, agents, and cashiers shall require remitters to make checks and other negotiable instruments payable to the accepting organization, rather than to the Department of the Treasury."

DDOs accepted checks made out to the incorrect payee because they did not know that the DOD FMR required the payee to be the accepting organization, rather than the U.S. Treasury. In addition, the DO stated that he was not aware that the DOD FMR required personal checks be made payable to the accepting disbursing office instead of the U.S. Treasury. As a result, the risk of loss due to errors, theft, and fraud was increased.

The DASA(FO) has issued a memorandum reminding DOs to follow the guidelines in DOD FMR, volume 5, chapter 10, for accepting personal checks. See the Management Actions section of this finding for additional information.

Storage of U.S. Treasury and Limited Depositary Accounts Blank Check Stock

DDOs improperly stored U.S. Treasury or LDA checks at three of eight locations. The deputy disbursing offices stored their blank check stock outside of the safe but within the vault. However, none of the vaults used by the DDOs met the required minimum standards. DOD FMR, volume 5, chapter 3, states that all cash, blank U.S. Treasury checks, blank depositary checks [LDAs], and related items must be kept in a vault, safe, or security container that meets minimum security standards prescribed in this section.

DDOs stored U.S. Treasury and LDA checks improperly in unsecure areas because they were not aware of the requirements for safeguarding U.S. Treasury and LDA checks. As a result, the risk of loss due to theft or fraud was increased.

DASA(FO) issued a memorandum reminding DOs to follow the guidelines in DOD FMR, volume 5, chapter 3, for storing U.S. Treasury or LDA blank check stock. See the Management Actions section of this finding for additional information.

Comprehensive Security Program

DDOs at seven of eight locations did not have a comprehensive security program. DOD FMR, volume 5, chapter 3, states that a security program must be developed and promulgated in the form of a command instruction or notice. The program must provide adequate protection for the maximum amount of public funds and related documents and instruments on hand at any given time. In addition, volume 5, chapter 3, requires commanders to include personnel protection in the overall disbursing security program.

DO responsibilities include conducting and documenting semiannual inspections of the security measures that are in use by their DDOs. The DO stated that he did not request copies of security programs from his DDOs in Southwest Asia. Security programs were inadequate because the DDOs were not aware of the requirements for comprehensive security programs. As a result, the risk of loss due to theft and the risk of injury were increased.

DASA(FO) issued a memorandum reminding DOs to follow the guidelines in DOD FMR, volume 5, chapter 3, regarding the requirement for a comprehensive security program. See the Management Actions section of this finding for additional information.

Semiannual Security Reviews

DDOs did not have a record of semiannual security reviews at all eight locations. Without a record of reviews, the DO and DDOs could not confirm they had ever conducted the semiannual security reviews. DOD FMR, volume 5, chapter 3, requires each disbursing location to conduct a semiannual review of its security measures. The security program must include requirements for "periodic review of the adequacy of the security measures being used and for testing security equipment for proper operation on a semiannual basis."

The DDOs were not aware of the requirements for reporting semiannual security reviews and they did not conduct semiannual security reviews. The DO stated that he did not request copies of semiannual security reviews from his DDOs in Southwest Asia. Without semiannual security reviews and proof of the reviews, the risk of loss due to theft was increased. DASA(FO) issued a memorandum reminding DOs to follow the guidelines in DOD FMR, volume 5, chapter 3, regarding the need to have semiannual security reviews. See the Management Actions section of this finding for additional information.

Quarterly Cash Verifications

Quarterly cash verifications were incomplete at all eight locations. We requested quarterly cash verifications for the last four quarters for the eight locations we visited (32 reports). The DO could not provide 15 of the 32 reports we requested. One location did not perform any of the required quarterly cash verifications. All the locations had one or more of the following deficiencies: seven locations failed to indicate when the last cash verification was conducted; four locations' reports did not include supporting documentation, such as team member appointments; and one DDO performed his own quarterly cash verifications for three quarters.

DOD FMR, volume 5, chapter 3, states:

> Verification of the DO's cash and other assets shall be conducted by a team of disinterested persons appointed by the commander…. Cash verification team members shall not be in the DO's chain of command. If possible, at least one member shall be equal or senior in rank to the accountable individual…. In all cases, the appointing

> commander shall require the cash verification team (or individual) to perform a verification of all funds held by deputies, branch office cashiers, disbursing agents, paying agents, collection agents, imprest fund cashiers, or change fund custodians, at least once each quarter.

FMR, volume 5, appendix A, "Cash Verifications" (dated October 2003), states that the cash verification team must report all findings in writing to the appointing official immediately upon completion of verification of both official funds and safekeeping deposits. Specifically, a copy of the quarterly cash verification report goes to the DO, another copy goes to the DFAS site that supports the DO, and a copy stays at the deputy disbursing office.

DOD FMR, volume 5, appendix A, provides instructions and checklists for performing cash verifications. It requires the DO to balance the DD Form 2657 and validate amounts reported for items due to the U.S. Government that are included in the balance. DOD FMR, volume 5, appendix A, lists extensive procedures to account for cash; to reconcile bank statements and balances of foreign currency held in limited depositary checking accounts; and to review vouchers supporting gains and losses on foreign currency transactions.

DDOs verifications were incomplete because they were not fully aware of the requirements for quarterly cash verifications. As a result, of the lack of quarterly cash verifications, the risk of loss due to errors, theft, or fraud was increased. DASA(FO) issued a memorandum reminding DOs to follow the guidelines in DOD FMR, volume 5, appendix A, for performing and documenting cash verifications. See the Management Actions section of this finding for additional information.

Other Matters of Interest - Oversight of Multinational Force Observers Sinai DDO

The Multinational Force Observers (MFO) Sinai DDO was created on August 3, 1981, under the Camp David accords, and consolidated into DSSN 5570 in the mid-1990s. Because of its unique mission and remote location, the Army Financial Management Center (FMC) has not provided technical oversight of its operations. We observed numerous problems that resulted from this, such as lack of separation of duties, excessive cash on hand, assorted security issues, and manual transaction processing and report preparation. DASA(FO) issued a memorandum, "Army Disbursing Office Requirements," which addresses many of the issues we identified. Additionally, DASA(FO) has recently directed Army FINCOM management to provide technical oversight, in conjunction with the 18th FMC, to the MFO Sinai deputy disbursing office. See the Management Actions section of this finding for additional information.

Management Actions

The USD(C)/CFO issued a memorandum, "Determining Cash-Holding Authority," which addresses the problems we identified in calculating cash-holding authority amounts. The USD(C)/CFO plans to incorporate the new requirement in the DoD FMR (see Appendix G).

The Director, Army FINCOM reported that Army FINCOM established a new disbursing station, DSSN 8830, at Bagram, Afghanistan, and has completed installation of DDS and digital scanners to process transactions at all deputy disbursing offices in Afghanistan. The Director, Army FINCOM also reported that the Army and DFAS are moving forward on installing DDS for the disbursing operations at MFO Sinai. DDS will eliminate most manual transaction processing and improve report preparation. The required system changes to DDS and the "Operational Data Store" to operate in the Army central disbursing "for-self" network are in production. The conversion from SRD-I to DDS under DSSN 5570 central disbursing was completed at Joint Task Force Bravo in Honduras, April 2009. Current plans call for conversion of the MFO Sinai deputy disbursing office in the first quarter of calendar year 2010.

DASA(FO) issued the following three memorandums to correct the conditions we identified:

- "Army Disbursing Office Requirements," June 26, 2009, addresses the mistakes for appointing DDOs, incorrect preparation of Statements of Accountability, checks improperly made payable to the U.S. Treasury, improper storage of check stock, ineffective security programs, lack of semiannual security reviews, lack of quarterly cash verifications, and record retention deficiencies (see Appendix H).
- "Physical Security for Disbursing Offices," June 16, 2009, addresses non GSA-compliant vaults and safes and deficient security and fire alarms (see Appendix I).
- "Technical Oversight of Army Finance Operations," June 10, 2009, directs Army FINCOM management to provide technical oversight for the Saudi Arabia and MFO Sinai offices (see Appendix J).

DASA(FO) has also requested that the U.S. Army Audit Agency audit the Foreign Currency Gain and Loss account. The U.S. Army Audit Agency announced this audit on July 6, 2009.

Finding B. Internal Controls at Army Disbursing Stations in Iraq, Kuwait, and Saudi Arabia

Statement of Accountability documents were generally accurate, and observed cash counts agreed with cash balances reported on the Statement of Accountability. However, some internal controls were not in place and operating effectively at Army disbursing offices in Iraq, Kuwait, and Saudi Arabia. Specifically, we identified the following internal control deficiencies.

- Disbursing offices did not have security alarms in place and operating.
- Disbursing officers (DOs) did not have comprehensive security programs and did not ensure that semiannual security reviews were performed or performed properly.
- One DO did not prepare Daily Statements of Accountability (SOA) each business day; the DOs did not prepare and document analysis to support their justification for cash-holding authority amounts; and the DOs had deficient quarterly cash verifications.

These conditions existed because the U.S. Army Central Command-Kuwait (ARCENT) sustainment brigade commanders in Southwest Asia did not ensure that physical safeguards were in place and operating effectively and the Army Financial Management Center (FMC) did not provide adequate oversight or guidance to all of its Southwest Asia DOs. Additionally, the DOD FMR was not clear in these areas, and DOs did not always follow existing DOD FMR requirements. As a result, the risk of loss caused by errors, theft, fraud, and injury were increased. In addition, because the disbursing offices held excess cash, the cost of borrowing money increased for the U.S. Treasury.[4]

Management Structure

We visited five Army disbursing stations in Iraq, Kuwait, and Saudi Arabia during May and June of 2008: DSSN 5588, Saudi Arabia; DSSN 5579, Baghdad, Iraq; DSSN 8550, Balad, Iraq; DSSN 8589, Tikrit, Iraq; and DSSN 8748, Camp Arifjan, Kuwait. Each disbursing station had its own DO and staff.

Army FINCOM has three active FMCs that provide technical oversight to OCONUS disbursing stations: Army Europe Command in Germany, Army Pacific Command/Korea in Korea, and Army Central Command in Kuwait. We visited disbursing offices under the Kuwait FMC (Iraq, Kuwait, and Afghanistan); the disbursing office in Saudi Arabia did not fall under the technical oversight of any FMC because of its status as a Joint Operations Site. FMC technical oversight includes reviewing disbursing station

[4] See Appendix K for matrix of significant internal control deficiencies that existed at deputy disbursing offices in Southwest Asia.

procedures, conducting quarterly cash counts, and reviewing security plans and prior reviews. FMC staff rotate frequently in and out of theater; they assume technical oversight while in theater. Frequently rotated staff require consistent guidance for successful technical oversight.

Sustainment brigade commanders, as advised by their financial management support operations staff, exercise command and control over the Financial Management Companies (FMCOs) assigned to them and the execution of their finance mission. Sustainment brigade commanders are responsible for providing the necessary infrastructure for the FMCOs, to include adequate security and communications. Sustainment brigade commanders, in coordination with the FMC, should establish their internal routing and controls for financial operations reporting and must establish appropriate quality assurance and internal controls for those operations.

Army FINCOM is the authority for finance technical issues and approvals, and it approves requests for establishment of new Army disbursing stations. Army FINCOM is also the approval authority for any requests to DFAS for changes in finance support that will increase DFAS billings to the Army. Army FINCOM is a Headquarters Army-level organization distinct from the Army FMCs, which are deployable units supporting Army component commands aligned with the joint combatant commands. The FMCs are strictly responsible for technical oversight of DOs and DDOs.

Statement of Accountability and Cash Counts

The Daily SOAs were generally accurate. Additionally, cash counts we observed agreed with cash balances reported on the SOAs. For example, a total U.S. dollar equivalent balance of $10,482,902, at one disbursing office, agreed with the Daily SOA. At another disbursing office, the U.S. Dollar equivalent balance of $250,185,867 had a minor discrepancy of $2.92 with the Daily SOA. However, we did note the following exceptions. (See the Daily Statements of Accountability section of this finding for additional information and Finding C.)

Security Alarms

Disbursing offices did not have security alarms at four of the five locations we visited. However, armed guards were on the premises at these four disbursing offices. According to DOD FMR, volume 5, chapter 3, the DO and all other accountable individuals are responsible for properly safeguarding all Government funds entrusted to them and are pecuniary liable for the loss of such funds. Chapter 3 states that an intrusion detection system is a vital part of any system designed to provide protection for a resource or other important area. The DOD also supports general policy on the use of intrusion detection system for resource protection purposes.

The disbursing offices did not have security alarms because ARCENT sustainment brigade commanders in Southwest Asia did not ensure that physical safeguards, like security alarms, were in place and operating effectively. As a result, the risk of loss due to theft and the risk of injury to disbursing office personnel were increased. We found the

same conditions at deputy disbursing offices in Afghanistan and Egypt. DASA(FO) has asked that ARCENT work with appropriate sustainment brigades and financial management companies to ensure that appropriate physical security is provided for each disbursing office. See the Management Actions section of this finding for additional information.

Comprehensive Security Program

Disbursing offices did not have comprehensive security programs at three of five locations. DOD FMR, volume 5, chapter 3, states that disbursing offices must have a security program that provides adequate protection for the maximum amount of public funds and related documents and instruments on hand at any given time. In addition, chapter 3 states that personnel protection must be included in the overall disbursing security program. The installation commander is responsible for providing a security program that adequately addresses the local risks and conditions. The security program should be structured to consider the amount of COMA held by the DO to ensure that adequate resources are provided to protect both the COMA and the assigned disbursing office personnel. Without a security program, there is no assurance the installation is aware of and able to mitigate the risks to COMA and personnel assigned to the DO.

The disbursing offices did not have adequate security programs because DOs were not aware of the requirement for a comprehensive security program As a result, the risk of loss from theft and the risk of injury were increased. We found the same conditions at deputy disbursing offices in Afghanistan and Egypt. DASA(FO) issued a memorandum reminding DOs to follow the guidelines in DOD FMR, volume 5, chapter 3, regarding the requirement for a comprehensive security program. See the Management Actions section of this finding for additional information.

Semiannual Security Reviews

DOs did not ensure that semiannual security reviews were performed or performed properly at four of five locations. We determined that COMA was at risk of loss at four sites we visited in Southwest Asia because semiannual security reviews were not being performed, as required by the DOD FMR. One DO did not perform semiannual security reviews properly and three did not perform the security reviews on a semiannual basis because the DOs were not aware of the requirement for semiannual security reviews.

DOD FMR, volume 5, chapter 3, requires each disbursing office to conduct a semiannual review of its security measures. Chapter 3 states, “The program shall include requirements for periodic review of the adequacy of the security measures being used and for testing security equipment for proper operation on a semiannual basis.”

DOs did not authorize or conduct semiannual security reviews because they were not aware of the requirement for semiannual security reviews. As a result, the risk of loss due to theft was increased. We found the same conditions at deputy disbursing offices in

Afghanistan and Egypt. DASA(FO) issued a memorandum reminding DOs to follow the guidelines in DOD FMR, volume 5, chapter 3, regarding the requirement for semiannual security reviews. See the Management Actions section of this finding for additional information.

Preparation of Daily Statements of Accountability

The DO at one of five locations did not ensure that the Daily Statement of Accountability was prepared each day that business was transacted, as required in DOD FMR, volume 5, chapter 19 (dated September 2007). Instead, the DO prepared it every few business days. Army FINCOM and FMC did not review this DO's Daily SOAs to ensure that one was prepared each day that business was transacted.

The DO did not prepare the DD Form 2657 each day because the DO was not aware of the requirement to do so for tracking each day's transactions. As a result, the risk of loss due to errors, theft, or fraud was increased. DASA(FO) issued a memorandum reminding DOs to follow the guidelines in DOD FMR, volume 5, chapter 19, to compile the Daily SOA at the end of each business day. See the Management Actions section of this finding for additional information.

Cash-Holding Authority

DOs did not prepare supporting documentation to justify cash-holding authority amounts at all five locations. Therefore, the amounts held under cash-holding authority letters were not justified. We reviewed cash on hand at each location and compared the amount to the average volume of transactions to determine whether sites had excessive cash on hand. Because sites did not have a standard procedure for determining necessary cash on hand, we could not determine whether amounts held were excessive.

Chapter 3 states that requests to hold cash at personal risk must be made in writing and include the following: name, title, and duty station of the accountable requestor; description of the payments and transactions requiring the use of cash; a statement that adequate facilities are available to safeguard the cash; and a breakdown of where the cash is held, by accountable position. The request must include the amount to be held personally by the DO, as well as the amounts to be held by all deputies, agents, cashiers of the DO, and other custodians of public funds. Additionally, chapter 3 states, "In considering cash requirements for disbursing and accommodation transactions, DOs shall consider daily cash collections of all deputies, agents, cashiers of the DO, and other custodians of public funds over a representative period of time and average the results."

The DOs and DDOs did not support or justify their cash-holding authority because the DOD FMR did not have specific guidance for DOs or DDOs on how to calculate and support their cash-holding authority. As a result, DOs may have held excessive amounts of cash on hand, the risk of theft or fraud was increased, and the U.S. Treasury's borrowing costs were increased. We found the same conditions at deputy disbursing

offices in Afghanistan and Egypt. In response to our audit, the USD(C)/CFO and the DASA(FO) jointly prepared guidance for immediate implementation; the guidance will be incorporated into the DOD FMR. See the Management Actions section of this finding for additional information.

Quarterly Cash Verifications

DOs had deficient quarterly cash verifications at four of five locations. Specifically, the four locations had one or more of the following problems:

- quarterly cash verifications were not performed at one of five locations,
- quarterly cash verifications were not performed quarterly at three of five locations,
- quarterly cash verifications were not conducted by individuals outside of the DO's chain of command at two of five locations.

DOD FMR, volume 5, chapter 3, states:

> In all cases, the appointing commander shall require the cash verification team (or individual) to perform a verification of all funds held by deputies, branch office cashiers, disbursing agents, paying agents, collection agents, imprest fund cashiers, or change fund custodians at least once each quarter…. Cash verification team members shall not be in the DO's chain of command.

DOs had inadequate quarterly cash verifications because they were not fully aware of the requirement for quarterly cash verifications. As a result of the lack of quarterly cash verifications, the risk of loss due to errors, theft, or fraud was increased. We found the same conditions at deputy disbursing offices in Afghanistan and Egypt. DASA(FO) issued a memorandum reminding DOs to follow the guidelines in DOD FMR, volume 5, appendix A, for performing and documenting cash verifications. See the Management Actions section of this finding for additional information.

Additional Observations

We met with the Director of Army FINCOM in August 2008 to present our preliminary findings and recommendations. We noted a number of positive trends during our fieldwork at these five disbursing stations:

- the DO appointments were properly executed,
- DOs required that checks be made to the accepting organization,
- vaults and safes were sufficient,
- LDA blank check stock was properly stored in areas meeting minimum security standards, and
- document retention requirements were met.

Management Actions

The Director of Army FINCOM agreed with our recommendations and promptly took action. The USD(C)/CFO issued a memorandum, "Determining Cash Holding Authority," which addresses the problems we identified in calculating cash-holding authority amounts and plan to incorporate the new requirement in the DoD FMR (see Appendix G). The DASA(FO) issued the following three memorandums to correct the conditions we identified:

- "Army Disbursing Office Requirements," addresses the deficient daily Statements of Accountability, security programs, semiannual security reviews, and quarterly cash verifications (see Appendix H).
- "Physical Security for Disbursing Offices," addresses our concerns with deficient security alarms in theater (see Appendix I).
- "Technical Oversight of Army Finance Operations," assigns technical oversight over the Saudi Arabia disbursing station to Army FINCOM (see Appendix J).

Finding C. Reconciling the DSSN 5588 Limited Depositary Account

DSSN 5588 had an unreconciled U.S. Treasury Limited Depositary Account (LDA) difference of $2.9 million, as of April 26, 2008:

- SF 1219, "Statement of Accountability," (SOA) was not reconciled to the SF 1149, "Statement of Designated Depositary Account," by $2 million, and
- SF 1149 was not reconciled to the bank statement by $0.9 million.

The DO did not reconcile the U.S. Treasury LDA on a monthly basis as required by the DOD FMR. In addition, during a change of command, neither the departing DO nor the incoming DO properly performed all of the required procedures. Furthermore, the FMC did not have technical oversight responsibility for DSSN 5588. As a result, senior Army management officials were not aware that these irregularities existed.

DSSN 5588 Operations

The DO for DSSN 5588 operates under the U.S. Military Training Mission located in Riyadh, Saudi Arabia. Established in 1953, the joint training mission is under U.S. Central Command. The U.S. Military Training Mission is designed to assist the Saudi Arabia Armed Forces with planning, organization, and training. DSSN 5588 was established in 1978 to provide financial services for training, sustainment, and security assistance to the Saudi Arabia Armed Forces. The base commander, currently a U.S. Air Force general, appoints the Army DO for DSSN 5588.

DSSN 5588 implemented DDS in 2006. This system was developed for tactical and OCONUS environments to streamline disbursing operations and improve accountability of the DO funds. DSSN 5588 uses an LDA with the Saudi American Bank to fund operations. The funds held in the LDA are accounted for and reported on the monthly SOA. At the end of each month, DSSN 5588 staff submits a hardcopy report of the SOA to DFAS Rome because the DDS interface with Army Standard Finance System (STANFINS) currently does not include the end-of-month SOA. Therefore, the DFAS Rome accounting staff manually enters the SOA into STANFINS.

Reconciling the Limited Depositary Account

DSSN 5588 had an unreconciled U.S. Treasury LDA difference of $2.9 million. Specifically, as of April 26, 2008, DSSN 5588's SOA was not reconciled to the SF 1149 by $2 million, and the SF 1149 was not reconciled to the LDA bank statement by $0.9 million.

The SF 1149, "Statement of Designated Depositary Account," is a standard form used by the DOs to reconcile the amount reported on the bank statement for an LDA account with the amount reported in the DO's checkbook. Specifically, the DO is required to complete

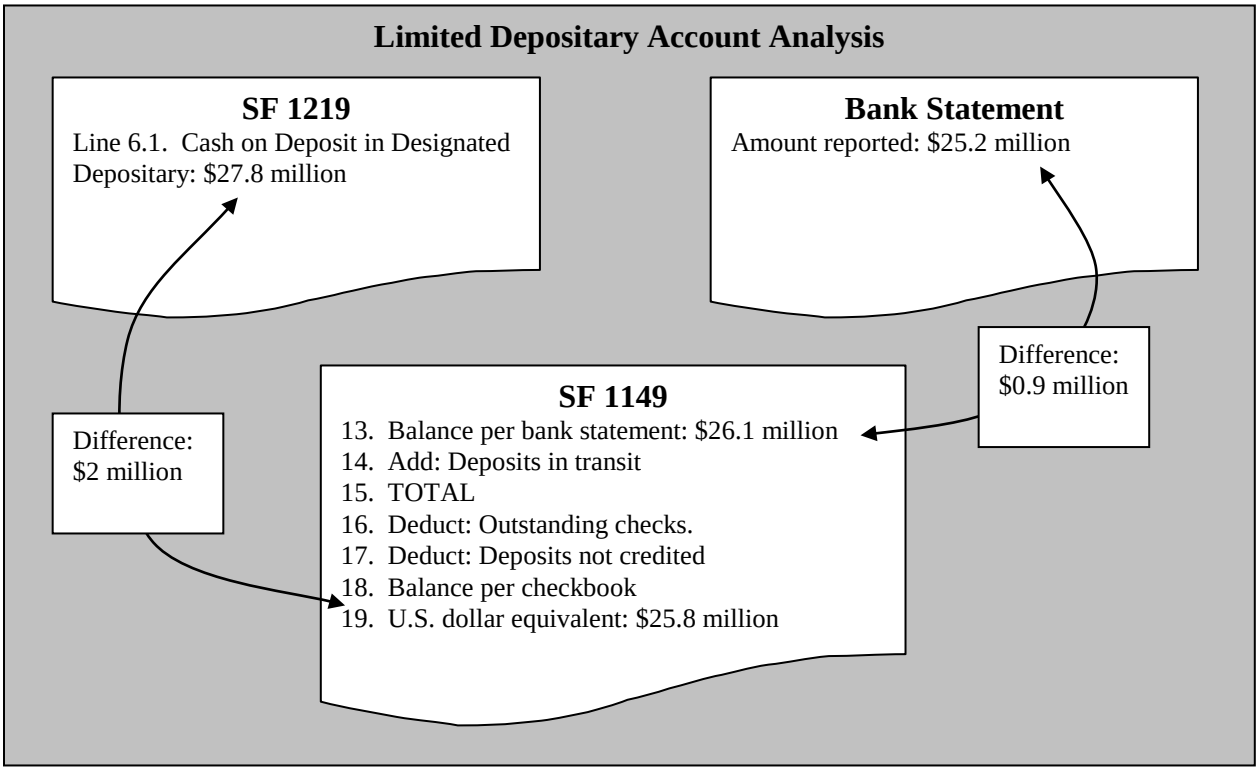
lines 1-11 to obtain line 12, "Checkbook Balance Close of Period." The reconciliation process begins with line 13, "Balance per Bank Statement" which is adjusted by:

- line 14, "Add: Deposits in Transit,"
- line 16, "Deduct Outstanding Checks," and
- line 17, "Deduct: Deposits Not Credited By (Disbursing Officer or Cashier)."

Line 18, "Balance per Checkbook" represents the total and should equal line 12. Line 19, "U.S. Dollar Equivalent," represents line 12 and line 18 converted into U.S. dollars. This amount is reported on line 6.1, "Cash on Deposit in Designated Depositary," of the SOA.

We determined that the LDA balance of $27.8 million that was reported on line 6.1 of the SOA did not agree with the LDA balance of $25.8 million that was reported on line 19 of the SF 1149 as of April 26, 2008. This resulted in a difference of $2 million. In addition, the balance of $26.1 million, reported on line 13 of the SF 1149, did not agree with the balance of $25.2 million that was reported on the bank statement. This resulted in a difference of $.9 million. See the following diagram for a presentation of the discrepancies among the documents.

Figure 2. Analysis of the Limited Depositary Account



Based on the unreconciled accounts, we requested additional documents to determine the extent of the discrepancies and the length of time that they had existed. We determined that these LDA differences existed prior to and following the change of command for the DO appointed on December 19, 2006. We determined that, specifically, on the date that the departing DO transferred his responsibilities to the incoming DO, the departing DO did not document the differences among line 6.1 of the SOA, line 19 of the SF 1149, and the supporting bank statement.

Reconciliation Requirements and Oversight Responsibility

The DO did not reconcile the U.S. Treasury LDA on a monthly basis as required by the DOD FMR. In addition, the departing DO and incoming DO did not perform all of the transfer procedures required by the DOD FMR during the change of command. Furthermore, the FMC did not have technical oversight responsibility for DSSN 5588.

Monthly Reconciliation

DOD FMR, volume 5, chapter 14, "Limited Depositary Checking Accounts" (dated February 2008), states that the LDA is part of the DO's accountability and, therefore, the DO is required to prepare an SF 1149 to reconcile any differences between the amount that the DO has in the disbursing office checkbook and the amount reported on the bank statement. In addition, chapter 14 states that an SF 1149 must be prepared monthly to reconcile the DO's LDA.

Transfer of Accountability

DOD FMR, volume 5, chapter 2, "Disbursing Offices, Officers, and Agents" (dated December 2007), states that on the date that relief takes place, the departing and the incoming DOs must verify cash on hand and all documents that support the SOA. In addition, the DOs must validate any unreconciled differences (including check-issue discrepancies, deposit discrepancies, and Intra-governmental Payment and Collection system differences). If the departing DO cannot provide the incoming DO with documentation supporting the unreconciled items, the departing DO processes all unsupported items as losses or overages of funds.

DOD FMR, volume 5, chapter 14, also states that when an LDA is being closed or transferred it requires a reconciliation. The chapter further states that the successor LDA holder must verify that the LDA is in balance before relieving the predecessor DO.

Technical Oversight

Army FINCOM did not provide technical oversight to the DSSN 5588 through an FMC. FMC technical oversight would have included reviewing DSSN 5588's reconciliation procedures for LDAs and may have prevented or detected this irregularity. However, Army FINCOM has made progress towards correcting this lack of technical oversight.

Specifically, DASA(FO) has directed Army FINCOM to perform technical oversight over Saudi Arabia DSSN 5588. In addition, DASA(FO) has directed disbursing offices to reconcile their LDAs in accordance with DOD FMR requirements. See the Management Actions section of this finding for additional information.

Reporting Requirement for an Irregularity

Senior Army management officials were not aware that irregularities existed in DSSN 5588's U.S. Treasury LDA. The DOD FMR, volume 5, "Definitions" (dated May 2005), defines an irregularity as any action (or lack thereof), event, practice, or circumstance that causes an out-of-balance condition in the financial accountability to the U.S. of the DO, deputies, agents, or cashiers to whom public funds have been entrusted. In addition, DOD FMR, volume 5, chapter 6, "Irregularities in Disbursing Officer Accounts" (dated January 2004), states:

> When a DO discovers an irregularity in the disbursing account, the DO immediately shall verify that all transactions have been properly posted. The DO also shall verify the accuracy of all totals since the date of last balancing on the Daily Statement of Accountability, DD Form 2657, and each deputy's, agent's, or cashier's Daily Agent Accountability Summary, DD Form 2665. The DO then shall verify by actual count that the total of all cash and documents held as cash by the DO and all deputies, agents, and cashiers is in agreement with the amount shown as being on hand on the DD Forms 2657 and 2665.

According to DOD FMR, volume 5, chapter 6, if an irregularity is not resolved within 24 hours of discovery, the DO must report it to the commander and request that the commander direct an immediate audit of all disbursing assets by a cash verification team to confirm the irregularity. Chapter 6 further states, "Upon receipt of information from the DO or other individual that an irregularity has occurred, the commander shall take action to report major losses of funds and erroneous payments due to fraud through the chain of command to the Relief of Liability Section...."

Managers responsible for reporting disbursement account irregularities should comply with these criteria in the DOD FMR.

Management Actions

Army FINCOM sent a financial system analyst to Saudi Arabia DSSN 5588 to resolve the irregularities we identified. The analyst identified a number of discrepancies both in procedures used by the disbursing station and how DDS processes various transactions for the reconciliation of an LDA. In addition, Army FINCOM identified a number of cash withdrawal irregularities. As a result, they have requested an Army Criminal Investigation Command investigation. Further, Army FINCOM has confirmed that DSSN 5588 has a potential predecessor physical loss of funds in the LDA because of questionable cash withdrawals in the amount of $2.8 million. Army FINCOM has reported a loss of funds of $2.8 million to DFAS Indianapolis. The remaining irregularities were attributed to the automated (DDS) reconciliation process and were not accountability issues.

DASA(FO) issued the following two memorandums to correct the conditions we identified:

- "Army Disbursing Office Requirements," which directs Army disbursing offices to reconcile their LDA statements with the Government accounting records each month, in accordance with DOD FMR requirements (see Appendix H).
- "Technical Oversight of Army Finance Operations," which assigns technical oversight over DSSN 5588 Saudi Arabia disbursing station to Army FINCOM (see Appendix J).

Finding D. Cash Amounts Used for Afghani National Security Forces

During FY 2008, the Army used $553,272 in cash to pay for 54 trips and 485 travelers in support of the Combined Security Transition Command-Afghanistan mission of training and mentoring the Afghan National Security Forces. The Army used large amounts of cash to pay for travel expenses because there was no requirement for the Army to use Government purchase or travel cards to pay for Afghan National Security Forces invitational travel. As a result, Army DDOs and escort officers held additional cash to support the cash payments for the Afghan National Security Forces missions, which increased the potential for loss, misuse, and fraud.

Combined Security Transition Command-Afghanistan

The mission of Combined Security Transition Command-Afghanistan (CSTC-A) is to partner with the government of the Islamic Republic of Afghanistan to plan, program, and implement structural, organizational, institutional, and management reforms of the Afghan National Security Forces (ANSF). CSTC-A is helping ANSF to develop a stable Afghanistan, strengthen the rule of law, and deter and defeat terrorism within Afghanistan's borders.

CSTC-A provides some training to ANSF outside of Afghanistan. These trips are for security-enhancement training, database training, and a variety of conferences related to enhancing the ANSF. ANSF training participants rank from junior sergeant to major general. CSTC-A appoints escort officers as paying agents to assist the ANSF both logistically and financially during travel. CSTC-A officers typically escort the ANSF to locations such as: Okinawa, Japan; Islamabad, Pakistan; Heidelberg, Germany; Washington, D.C.; and military facilities in Kansas and Texas. CSTC-A customarily uses cash to fund travel outside of Afghanistan.

Use of Cash to Support the CSTC-A Mission

The Army used cash to pay for the 54 trips and 485 travelers during FY 2008. We determined that the Army issued approximately $553,272 in cash to escort training participants in support of the CSTC-A mission. We found a few instances in which the Army DDO advanced more than $30,000 in cash to escort officers in support of the CSTC-A mission.

The Federal Acquisition Regulation, subpart 13.2, "Actions at or Below the Micro-Purchase Threshold," states, "The Government-wide commercial purchase card shall be the preferred method to purchase and to pay for micro-purchases." The Federal Acquisition Regulation defines a micro-purchase as an acquisition of supplies or services, the aggregate amount of which does not exceed the micro-purchase threshold.

Treasury Financial Manual, volume 1, part 4, chapter 4500, "Government Purchase Cards," states that small purchases of up to $25,000 should be made using a Government purchase card. The Government purchase card: streamlines the payment process, reduces the overall Government costs, reduces the potential for loss or theft, and improves data collection for analysis and decision making. Other small purchase methods (imprest funds, third-party drafts and purchase orders) may be used instead of the Government purchase card only when they are more cost-effective, practicable, or required by statute. The Treasury Financial Manual defines a small purchase as "an acquisition of supplies, non-personal services, or construction in the amount of $25,000 or less."

The Army used large amounts of cash to pay travel expenses because there was no requirement that the Army use Government purchase or travel cards to pay for invitational travel requirements for the ANSF. As a result, Army DDOs and escort officers held additional cash to support the cash payments for the ANSF missions, which increased the potential for loss, misuse, and fraud.

Conclusion

The Army's use of cash instead of the Government purchase card may increase its costs related to holding cash, reduces its ability to monitor purchases, and increases the potential for significant losses associated with holding cash. Specifically, there are costs related to obtaining, storing, protecting, disbursing, and accounting for cash. The costs also include the time spent by disbursing office personnel handling cash. Disbursing offices can avoid these costs by using the Government purchase card, which does not require the holding of cash.

Management Actions

As a result of our audit, the USD(C)/CFO has taken appropriate corrective action. Specifically, the USD(C)/CFO issued the memorandum, "Invitational Travel-Related Expenses for Foreign Nationals, Dignitaries, and Others," March 3, 2009, which states that the Government purchase card is the preferred method of payment when the infrastructure supports Government purchase card use (see Appendix L).

Appendix A. Scope and Methodology

This is the fifth in a series of five audits that we conducted of COMA during FYs 2007-2009. See Appendix B for the list of prior audits. We conducted this performance audit from February 2008 through September 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We visited DFAS Indianapolis, and the disbursing offices listed in Appendix D from May through June 2008. We continued to gather data, perform analysis, and meet with key individuals through July 2009.

We reviewed the internal controls over Army COMA accounted for in Southwest Asia. The Army General Fund reported $2.42 billion on the COMA line as of September 30, 2008, of which $.05 billion was CONUS and $2.36 billion was OCONUS.[*] We observed conditions, verified the existence of COMA as reported on the Daily SOA, confirmed payment and collection documents to ensure sufficient internal controls over COMA and disbursing, verified the SOA for completeness, accuracy, and existence of disbursements, reviewed security programs for disbursing offices, interviewed staff, analyzed documents to determine whether internal controls were designed and operating as intended, and reviewed the disbursing office's reconciliation of its LDAs and foreign currency.

We judgmentally selected DOs and DDOs based on dollar amounts held at sites and interviewed agents and cashiers as needed. We evaluated physical security procedures through direct observation; verified COMA; and reviewed original disbursing office records, such as:

- Statement of Agent Officer's Account (SF 1081)
- Daily Agent Accountability Summary (DD Form 2665)
- Daily Statement of Accountability (DD Form 2657)
- Statement of Accountability (SF 1219)
- Treasury checks
- Check-issue records and reports
- Limited depositary account records and reports
- Records of deposits of negotiable instruments
- Deposit Tickets (SF 215) and Debit Vouchers (SF 5515)
- Appointments and revocations of accountable individuals
- Disbursement and collection vouchers, including supporting documents (invoices, receiving reports, purchase orders or contracts, and lodging receipts)
- Cash journal vouchers

[*] The $2.36 billion and the $.05 billion do not add to $2.42 billion because of rounding.

Further, we inquired into the uses and amounts of COMA obtained by the field sites during the period under review. We also performed analytical procedures and a review of the compilation process used to report the COMA balance on the Army General Fund balance sheet.

We did not review the Army Management Control Program over disbursing offices located in Southwest Asia because the Army was unable to provide sufficient documentation for our review.

Use of Computer-Processed Data

For Findings A, B, and C, we used SOAs produced by both the DDS and the Standard Finance System-Redesign Subsystem-1 (SRD-1). We used this computer-processed data to verify various SOA line items. To assess the reliability of computer processed data we compared various SOA line items to COMA amounts held by DOs and DDOs when we tested existence controls over COMA. We did not find errors that would preclude the use of computer-processed data to meet audit objectives or that would change the conclusions in the report.

Appendix B. Prior Coverage

During the last 5 years, the Department of Defense Inspector General (DOD IG), the U.S. Army Audit Agency (AAA), the U.S. Air Force Audit Agency (AFAA), the Coalition Provisional Authority (CPA), and the Special Inspector General for Iraq Reconstruction (SIGIR) have issued 18 reports discussing Cash and Other Monetary Assets.

Unrestricted DOD IG reports can be accessed at http://www.DODig.mil/audit/reports. Unrestricted Army reports can be accessed from .mil and gao.gov domains over the Internet at https://www.aaa.army.mil/. Air Force Audit Agency reports can be accessed from .mil domains over the Internet at https://wwwd.my.af.mil/afknprod/ASPs/cop/Entry.asp?Filter=OO by those with Common Access Cards who create user accounts. Unrestricted CPA and SIGIR reports can be accessed at http://www.sigir.mil/reports/audit.aspx

DOD IG

DOD IG Report No. D-2009-062, "Internal Controls Over DOD Cash and Other Monetary Assets," March 25, 2009

DOD IG Report No. D-2009-003, "Audit of Internal Controls Over Army General Fund, Cash and Other Monetary Assets Held Outside of the Continental United States," October 9, 2008

DOD IG Report No. D-2008-123, "Internal Controls Over Navy General Fund, Cash and Other Monetary Assets Held Outside of the Continental United States," August 26, 2008

DOD IG Report No. D-2008-121, "Internal Controls for Air Force General Fund Cash and Other Monetary Assets," August 18, 2008

DOD IG Report No. D-2007-028, "Controls Over Army Cash and Other Monetary Assets," November 24, 2006

AAA

AAA Report No. A-2006-0186-ALR: "Follow-up Audit of Disbursing Station Expenditure Operations, DOD Disbursing Station 5570-Accounting Services, Army," August 22, 2006

AAA Report No. A-2005-0206-FFG, "Validation of the Statement of Accountability, Attestation of Disbursing Station Symbol Number 8551-336th Finance Command, Camp Arifjan, Kuwait," June 29, 2005

AAA Report No. A-2005-0136-ALW, "Attestation Examination of Selected Army Chief Financial Officers Strategic Plan Tasks-Fund Balance With Treasury," March 18, 2005

AAA Report No. A-2005-0127-ALW, "Validation of the Army's Fund Balance With Treasury," March 10, 2005

AAA Report No. A-2005-0104-ALW, "Disbursing Station Expenditure Operations-DOD Disbursing Station Number 5570," February 14, 2005

AAA Report No. A-2004-0431-AMW, "Validation of the Army's Fund Balance With Treasury, Defense Finance and Accounting Service Columbus Center," August 3, 2004

AFAA

AFAA Report No. F2006-0006-FD3000, "Central Command Air Forces Deployed Locations Cash Management," August 3, 2006

CPA

Office of the Inspector General for the Coalition Provisional Authority Report Number 04-008, "Coalition Provisional Authority Control Over Seized and Vested Assets," July 30, 2004

Office of the Inspector General for the Coalition Provisional Authority Report Number 04-007, "Oil for Food Cash Controls for the Office of Project Coordination in Erbil, Iraq," July 26, 2004

SIGIR

SIGIR Report Number 08-12, "Attestation to Development Fund for Iraq Cash in the Possession of the Joint Area Support Group-Central," March 13, 2008

SIGIR Reconstruction Memorandum Number 06-024, "Joint Cash Count: Iraq National Weapons Card Program," July 26, 2006

SIGIR Report Number 06-010, "Review of the Multi-National Security Transition Command-Iraq Reconciliation of the Iraqi Armed Forces Seized Assets Fund," April 28, 2006

SIGIR Report Number 06-002, "Prompt Payment Act: Analysis of Expenditures Made From the Iraqi Relief and Reconstruction Fund," February 3, 2006

Appendix C. Cash and Other Monetary Assets Background

Cash is classified as either entity cash or nonentity cash, and these are reported separately on Federal financial statements. Entity cash is the amount of cash that the reporting entity holds and is authorized by law to spend. Nonentity cash is collected and held by the reporting entity on behalf of another Federal entity or the U.S. Government, and these funds are not available for use by the reporting entity. In some circumstances, the entity has cash in its accounts in a fiduciary capacity for the U.S. Treasury or other entities.

Laws, regulations, and agreements impose restrictions on cash deposits. Nonentity cash is always restricted cash. Entity cash may be restricted for specific purposes. Such cash may be in escrow or other special accounts. Financial reports should disclose the reasons for and nature of restrictions.

Army Disbursing Officer Cash

Army DOs obtain cash by writing a U.S. Treasury check made out to themselves (or an agent) and presenting it to a bank. DOD refers to this process as "Exchange for Cash Check" ("Ex-checks"). DOs use cash to establish change funds and custodian imprest funds, fund accommodation transactions, and pay for goods and services and classified and contingency missions.

Cash Reporting to the U.S. Treasury

Each month, DOs and agencies report their accountability and transactions to the U.S. Treasury on the following standard forms (SF):

- SF 1219, Statement of Accountability (SOA), and
- SF 1220, Statement of Transactions.

The SOA summarizes collection and disbursement activity for the month. In addition, the SOA is used to determine the accountability of disbursing officers for funds held outside the U.S. Treasury (known as "cash on hand"). The Statement of Transactions shows a detailed account classification of the collections and disbursements processed in a disbursing officer's accounts for the current accounting period.

Cash Reporting on the Army General Fund Balance Sheet

The Army accounting systems lack a single, standard, transaction-driven general ledger. In addition, these systems are unable to meet all of the requirements for accrual accounting. Therefore, DFAS Indianapolis prepares a journal voucher to record COMA on the Army General Fund balance sheet. The journal voucher is supported by the Army's consolidated SOA. Without the journal voucher, the Army's consolidated SOA would not reconcile to the COMA reported on the Army General Fund balance sheet.

Appendix D. Army Deputy Disbursing Offices and Disbursing Offices Visited

DSSN	Location of Disbursing Office
5570	Bagram Air Field, Afghanistan Camp Vance, Bagram, Afghanistan Camp Fenty, Jalalabad, Afghanistan Camp Eggers, Kabul, Afghanistan Camp Phoenix, Kabul, Afghanistan Kandahar Air Field, Afghanistan Salerno Air Field, Afghanistan MFO Sinai, Egypt
	Location of Disbursing Office
5588	Riyadh, Saudi Arabia
5579	Baghdad, Iraq
8550	Balad, Iraq
8589	Tikrit, Iraq
8748	Arifjan, Kuwait

Appendix E. Additional Disbursing Officer Responsibilities

The DO for DSSN 5570 was recently assigned responsibility for the Military Sealift Command DSSN 5207 and Air Force DSSN 3801.

On December 1, 2007, DSSN 5207 moved from Omaha, Nebraska, to DFAS Indianapolis. The DO provides support to 47 pursers on Military Sealift Command ships in the Atlantic and Pacific. Pursers manage and are accountable for day-to-day disbursing operations on each ship. The DO and his staff are responsible for the monthly SOA and daily input into the Centralized Disbursing System. In FY 2008, DSSN 5570 processed 33,586,696 disbursements totaling $82,277,963,858 and 172,757 collections totaling $11,910,883,903.

In August 2008, Air Force DSSN 3801 relocated to DFAS Indianapolis. DSSN 3801 supports 303 DDOs worldwide. The customer base includes DFAS Columbus, DFAS Limestone, 85 Air Force bases, 14 Air Reserve bases, 97 Air National Guard facilities, Military Sealift Command, Military Surface Deployment and Distribution Command, National Geospatial Intelligence Agency, Defense Security Service, and Uniformed Services University of the Health Sciences. In FY 2008, DSSN 3801 processed 22,966,753 disbursements totaling $55,120,686,937 and 372,087 collections totaling $89,286,825,985. The DO increased his workforce by 56 employees to support this mission.

Appendix F. Internal Control Conditions in Afghanistan and Egypt

	Site A	Site B	Site C	Site D	Site E	Site F	Site G	Site H	Total
No Security Alarm or Security Alarm not operational; No Fire Alarms; No Armed Guards	X	X	X	X	X	X	X	X	8
Deficient or Defective Vaults; Inadequate Safes	X	X	X	X	X	X	X	X	8
Incomplete Records	X	X	X	X	X	X	X	X	8
No complete support for Cash Holding Authority	X	X	X	X	X	X	X	X	8
Improper Appointment of DDOs	X	X	X	X	X	X	X	X	8
Incorrectly Prepared and Submitted SOAs	X	X	X	X	X	X	X	X	7
Incorrectly Accepted Checks Payable to U.S. Treasury	X		X	X	X	X	X	X	7
Improperly Stored U.S. Treasury Checks or LDA Blank Check Stock	X			X	X				3
No Comprehensive Security Program	X	X	X	X		X	X	X	7
No Record of Semiannual Security Reviews	X	X	X	X	X	X	X	X	8
Deficient or Missing Quarterly Cash Verification Reviews	X	X	X	X	X	X	X	X	8

Appendix G. OUSD(C)/CFO Determining Cash Holding Authority Memorandum

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

JUL 10 2009

COMPTROLLER

MEMORANDUM FOR ASSISTANT SECRETARIES OF THE MILITARY DEPARTMENTS (FINANCIAL MANAGEMENT AND COMPTROLLER)
INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE
COMMANDER, U.S. ARMY CORPS OF ENGINEERS

SUBJECT: Determining Cash Holding Authority

In accordance with the Department of Defense Financial Management Regulation ("DoDFMR"), Volume 5, Chapter 3, "Keeping and Safeguarding Public Funds," cash on hand should be kept to the absolute minimum necessary to meet mission requirements. Several audits by the Department of Defense Office of Inspector General concluded that disbursing activities held excessive cash balances or lacked documentation to justify and support the cash holding authority requests. Maintaining large amounts of cash and other negotiable instruments increases the possibility of loss, theft, and fraud and cost the U.S. taxpayers millions in unnecessary interest expenses and processing costs.

In addition to the current "DoDFMR" guidance, your disbursing officers and their deputies shall use the attached Average Daily Cash Requirement templates, or similar worksheets, to calculate and document their request for cash holding authority. DoD Components shall implement management controls to ensure funds held by accountable officers are reviewed at least semiannually and do not exceed approved cash holding authority.

This change in policy for justifying and documenting cash holding authority shall be implemented immediately. We will revise Volume 5 of the "DoDFMR" accordingly. My point of contact for this action is [redacted] She may be reached by phone at [redacted] or by email at [redacted]

[redacted]
Deputy Chief Financial Officer

Attachment:
As stated

Foreign Currency Cash or LDA Balance Requirements Example*

(separate calculations should be done for cash and local depository accounts for each location)

a	Value of Monthly Disbursements in Local Currency (last 3 months average) *	+	299,420
b	Value of Monthly Accommodation Exchange in Local Currency (last 3 months average)	+	63,170
c	Value of Monthly Collections in Local Currency (last 3 months average)**	-	(19,086)
d	Value of Monthly Reconversions in Local Currency (last 3 months average)	-	(4,830)
e	Value of Monthly Local Currency Checks Received (last 3 months average)	+	4,830
f	Average Net Monthly Local Currency Requirements (a+b-c-d+e)		343,504
g	Number of Business Days per Month***		20
h	Average Number of Business Days Required to Obtain Local Currency:		3
i	Static/Contingency Requirements (Command Determination)****		20,000
j	Value of Average Currency Required per Business Day (f/g)		17,175
k	Value of Average Currency Required based on Replenishment (h*j)		51,526
l	Value of Total Local Currency Holding Authority (i+k)		71,526

* *Value based on attached Monthly Worksheet Calculations*

U.S. Dollars (USD) Balance Requirements Example

a	Value of Monthly USD Cash Disbursements (last 3 months average)	+	333,047
b	Value of Monthly USD received from FC Accommodation Exchange (last 3 months average)	+	27,465
c	Value of USD Checks Cashed on Accommodation Exchange (last 3 months average)	+	26,025
d	Value of Monthly USD Collections (last 3 months average)	-	(27,375)
e	Value of Monthly USD cash disbursed on Reconversions (last 3 months average)	-	(2,100)
f	Value of total USD checks received	-	(43,150)
g	Average Net Monthly USD Requirements (a+b+c-d-e-f)		313,912
h	Number of Business Days per Month**		20
i	Average Number of Business Days Required to USD:		5
j	Static/Contingency Requirements (Command Determination)****		30,000
k	Value of Average USD Required per Business Day (g/h)		15,696
l	Value of Average USD Required based on Replenishment (k*i)		78,478
m	Value of Total USD Cash Holding Authority (j+l)		108,478

Notes

* LDAs should generally be maintained with a checkbook balance as close to zero as possible. This is done by forecasting payment requirements in sufficient time to order currency to correspond with payment due date.

** a higher cash holding authority will be required if collections exceed disbursements (i.e. periodic burden sharing fund deposits). Generally it is not cost effective to reconvert currency which will be required for disbursements in the near term.

*** when recurring variance in demand occurs due to events such as paydays, a separate cash holding authority should be computed for these periods and excluded from normal non-peak calculations

**** contingency requirements generally reflect emergency cash needs for operational missions or due to large fluctuations in demand which cannot be forecast in advance. Static requirements reflect subordinate agents, imprest funds, or contractual arrangements such as debit card pool accounts or community bank contingency cash. Agent requirements should be validated based on usage and frequency of returns/replenishment.

US Dollar Cash Requirements WorkSheet Month of:					June-09		
		+	-	-	+	-	=
Business Day	Date	Cash Disbursements	Collections	Checks Cashed	Checks Received	Accommodation FC	Net Cash Required
1	1	10,580	500	200	300	375	9,805
2	2	12,000	333	200	250	443	11,274
3	3	19,823	1,256	300	800	675	18,392
4	4	17,231	489	400	650	400	16,592
5	5	8,654	575	350	425	250	7,904
6	8	13,500	2,300	500	2,400	2,274	10,826
7	9	24,000	785	750	900	475	22,890
8	10	16,050	657	2,800	3,600	2,300	13,893
9	11	12,345	2,458	950	2,300	1,256	9,981
10	12	18,724	379	675	800	675	17,795
11	15	23,275	1,058	1,050	2,000	1,200	21,967
12	16	12,389	1,563	3,950	5,000	3,762	8,114
13	17	11,345	798	825	1,300	1,053	9,969
14	18	10,576	534	4,100	4,300	2,387	7,855
15	19	23,456	786	950	900	967	21,653
16	22	14,282	2,345	525	1,850	1,232	12,030
17	23	13,405	4,500	750	3,200	1,894	9,461
18	24	9,038	4,321	1,050	5,050	956	7,761
19	25	7,864	354	1,250	1,650	1,300	6,610
20	26	24,653	765	825	1,325	875	23,513
21	29	13,278	358	1,425	1,800	932	12,363
22	30	16,579	261	2,200	2,350	1,784	14,684
Month Totals		333,047	27,375	26,025	43,150	27,465	295,332
Daily Average		$15,138.50	$1,244.32	$1,182.95	$1,961.36	$1,248.41	$13,424.18

Foreign Currency Cash Requirements WorkSheet Month of:					June-09	Currency: FC	
		+	-	-	+	-	=
Business Day	Date	FC Cash Disbursements	FC Collections	Reconversions FC to USD	FC Checks Received	Accommodation USD to FC	Net FC Cash Required
1	1	7,380	450	0	450	863	6,518
2	2	3,576	735	0	735	1,019	2,557
3	3	2,395	2,300	353	2,300	1,553	490
4	4	12,367	2,435	0	2,435	920	11,447
5	5	9,354	731	275	731	575	8,504
6	8	12,871	989	0	989	5,230	7,641
7	9	4,567	12	675	12	1,093	2,800
8	10	11,035	0	0	0	5,290	5,745
9	11	13,457	320	734	290	2,889	9,804
10	12	17,369	0	0	0	1,553	15,817
11	15	21,085	175	0	175	2,760	18,325
12	16	12,376	1,563	238	1,200	8,653	3,122
13	17	32,189	567	719	567	2,422	29,048
14	18	12,565	1,382	0	1,382	5,490	7,075
15	19	24,538	345	989	345	2,224	21,325
16	22	17,389	0	0	0	2,834	14,555
17	23	7,652	5,876		5,876	4,356	3,296
18	24	8,989	237	478	237	2,199	6,312
19	25	13,467	831	0	831	2,990	10,477
20	26	22,856	123	369	123	2,013	20,475
21	29	14,358	0	0	0	2,144	12,214
22	30	17,585	15	0	15	4,103	13,482
Month Totals		299,420	19,086	4,830	18,693	63,170	231,028
Daily Average		13,610.00	867.55	161.00	849.68	2,871.34	10,501.25

Appendix H. Army Disbursing Office Requirements Memorandum

REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
FINANCIAL MANAGEMENT AND COMPTROLLER
109 ARMY PENTAGON
WASHINGTON DC 20310-0109

JUN 26 2009

MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: Army Disbursing Office Requirements

1. Recent audit findings indicate that Army disbursing operations are not in conformance with all requirements in the DoD Financial Management Regulation (DoDFMR) Volume 5, Disbursing Policy and Procedures (DoD 7000.14-R). Of particular concern are those discrepancies that have exposed the Army to fraud and the potential for losses through theft or error. Commands with subordinate activities performing disbursing operations should ensure that these operations are included in their management control programs and adequate resources are allocated to maintain the security and integrity of those operations. Due to the sensitivity of disbursing functions, regular reviews should be conducted to ensure compliance with existing security and processing requirements.

2. While the specific deficiencies noted in both external audits and internal reviews vary by location across the Army, the satisfactory implementation of the following requirements should be verified at all Army disbursing operations. Specific detailed requirements are contained in the DoDFMR Volume 5 at http://www.defenselink.mil/comptroller/fmr/.

a. Ensure physical security through vaults, safes, and alarms meeting the minimum specifications outlined in DoDFMR Volume 5, chapter 3.

b. Develop and maintain of a security plan.

c. Conduct semi-annual security inspections.

d. Establish and approve cash holding authority for cash and local bank account balances commensurate with need, based on the actual usage and availability of resupply.

e. Conduct quarterly independent unannounced cash verifications encompassing all assets maintained by the disbursing office, to include blank check stock, in accordance with DoDFMR Volume 5, appendix A.

f. Conduct regular reviews of disbursing and entitlement systems access profiles to ensure appropriate separation of duties and delete users and/or access when no longer required.

g. Monthly reconcile local depository bank account statements with government accountability records.

h. Daily reconcile local disbursing office records of deposits and debit vouchers with U.S. Treasury records.

i. Safeguard blank check stock and stored value cards as cash instruments.

j. Daily balance and close-out of transactions and accountability for each disbursing office and deputy or disbursing agent operation.

k. Minimize exposure to foreign currency fluctuations and properly account for gains or losses caused by revaluations of foreign currency holdings.

l. Maintain records documenting required inspections, reviews, and accountability reports.

m. Use electronic payment mechanisms in lieu of cash or local bank checks whenever feasible.

n. Use the International Treasury Services in lieu of local banks for foreign currency and international payments whenever feasible.

o. Reconcile local military payroll payments to collections in the centralized military payroll systems.

p. Daily process negotiated checks and stored value card transactions to the Federal Reserve Bank or approved Treasury General Account, as applicable.

q. Ensure checks accepted for accommodation exchange are made payable to the specific disbursing activity rather than a generic "U.S. Treasury."

3. The Army holds over $2 billion in cash and other monetary assets at our disbursing offices. It is incumbent on us to properly secure and account for these assets, while minimizing both the Army's exposure to loss and cost to the taxpayers. By law, disbursing officers and their subordinates hold personal pecuniary liability for the assets in their custody and the transactions they conduct. In the event of a loss, they are assumed liable unless they can substantiate that their actions, or lack thereof, did not contribute to the proximate cause of the loss. Providing adequate resources and security for disbursing operations is a command responsibility to protect our Soldiers and the taxpayers from losses.

4. My point of contact is [redacted]

[redacted]
Deputy Assistant Secretary of the Army
(Financial Operations)

Appendix I. Physical Security for Disbursing Offices Memorandum

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
FINANCIAL MANAGEMENT AND COMPTROLLER
109 ARMY PENTAGON
WASHINGTON DC 20310-0109

REPLY TO ATTENTION OF

JUN 16 2009

MEMORANDUM FOR

COMMANDER, U.S. ARMY CENTRAL COMMAND, ATTN: C8, APO AE 09366
DIRECTOR, 18th FINANCIAL MANAGEMENT CENTER, APO AE 09366

SUBJECT: Physical Security for Disbursing Offices

1. During an audit in 2008, the DoDIG identified numerous deficiencies in the physical security of disbursing offices in theater, particularly in Afghanistan. A copy of the unofficial discussion draft report from this audit was provided to the 18th Financial Management Center staff.

2. Request you work with the appropriate sustainment brigades and financial management companies to ensure appropriate physical security is provided for each disbursing office. Ensure security plans are created and maintained and semi-annual security inspections conducted. When feasible, alarm systems should be installed and linked to the local military police and fire personnel. While the transitory nature of contingency operations often precludes construction of permanent secure structures with intrusion detection alarms and GSA approved safes, the long-term nature of current operations supports investing in more permanent solutions than currently being employed.

3. Across the theater there was a lack of alarms for securing disbursing vaults. In Iraq, the offices used armed guards, which is an acceptable alternative. In Afghanistan, some locations had neither alarms nor guards. In Iraq, the offices generally had safes meeting GSA fire and security standards as specified in the DoDFMR Volume 5. In Afghanistan, the offices had safes and secure areas/vaults that did not meet required standards. In some cases, combination locks had been drilled out or taped over to avoid use. In virtually all locations there was no written security plan nor were semi-annual security inspections being conducted in accordance with the DoDFMR Volume 5.

4. It is our understanding that safes have been ordered for Afghanistan and in some cases are in operation. Please provide any documentation on security upgrades to include plans, inspection results, and procurement actions to the U.S. Army Finance Command, as these will be required to close anticipated audit findings.

5. My point of contact is [redacted]

[redacted]
Deputy Assistant Secretary of the Army
(Financial Operations)

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Appendix J. Technical Oversight of Army Finance Operations Memorandum

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
FINANCIAL MANAGEMENT AND COMPTROLLER
109 ARMY PENTAGON
WASHINGTON DC 20310-0109

REPLY TO
ATTENTION OF

JUL 10 2009

MEMORANDUM FOR

COMMANDER, U.S. MILITARY TRAINING MISSION TO SAUDI ARABIA, UNIT 61300 BOX 2, APO AE 09803-1300
COMMANDER, U.S. ARMY SOUTHERN COMMAND, 2450 STANLEY ROAD (STE 700), FORT SAM HOUSTON, TEXAS, 78234-7517
COMMANDER, U.S. ARMY CENTRAL COMMAND, 1881 HARDEE AVE SW, FORT MCPHERSON, GEORGIA 30330

SUBJECT: Technical Oversight of Army Finance Operations

1. I am directing the U.S. Army Finance Command (USAFINCOM) to provide technical oversight and assistance to those active finance operations not under a higher command with an active Financial Management Center (FMC). Your offices in Saudi Arabia, Honduras, and the Sinai currently fall into this area. As a minimum, I expect the USAFINCOM to conduct an annual staff assistance visit to help train the staff; ensure the office is using the most current versions of finance systems; and validate that appropriate internal controls and regulatory compliance is in place.

2. With the designation of the 18th FMC being theater committed to the Army Central Command and the 469th FMC being theater committed to the Army Southern Command, I anticipate that the USAFINCOM will partner with these FMCs on this requirement. Additionally, this requirement is being incorporated into an upcoming re-write of AR 11-37, Army Finance and Accounting Quality Assurance Program.

3. My point of contact is [redacted]

[redacted]
Deputy Assistant Secretary of the Army
(Financial Operations)

CF:
Commander, U.S. Army Finance Command
Director, Defense Finance and Accounting Service
Commander, 18th Financial Management Command (Provisional)
Director, 469th Financial Management Center

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Appendix K. Internal Control Conditions in Iraq, Kuwait, and Saudi Arabia

	Site I	Site J	Site K	Site L	Site M	FINCOM (Site J to M) Total	FINCOM & Site I Total
No Security Alarms in Place and Operating	X	X	X	X		3	4
No Written Security Plans	X		X		X	2	3
No Record of Semi-Annual Security Reviews	X		X	X	X	3	4
Statement of Accountability (SOA) Not Prepared Properly			X			1	1
No Support for Cash Holding Authority	X	X	X	X	X	4	5
Deficient or Missing Quarterly Cash Verification Reviews	X	X	X	X		3	4
Approved Vaults and Safes						0	0
DO Appointments						0	0
Checks Payable to U.S. Treasury						0	0
Storage of U.S. Treasury or LDA checks						0	0

Appendix L. Invitational Travel-Related Expenses Memorandum

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

MAR 0 3 2009

COMPTROLLER

MEMORANDUM FOR DEPUTY ASSISTANT SECRETARY OF THE ARMY
(FINANCIAL OPERATIONS)

SUBJECT: Invitational Travel-Related Expenses for Foreign Nationals, Dignitaries, and Others

A recent audit by the Department of Defense Inspector General identified instances where cash was used to pay for over $550,000 worth of invitational travel-related expenses for foreign nationals, dignitaries, and others when a government card should have been used to pay for the travel-related expenses. In accordance with the Department of Defense Financial Management Regulation, Volume 5, Chapter 11, "Disbursements," cash should only be used when no other payment alternative is feasible.

To reduce the cash requirements for disbursing officers, use a government card to pay for transportation and lodging expenses when the mission and infrastructure supports such usage. Using a government card: (1) streamlines the payment process; (2) reduces the overall government costs (e.g., interest costs on borrowed funds); (3) reduces the potential for loss or theft; and (4) improves data collection for analysis and decision-making.

Also, authorizing officials should ensure management controls are in place. My point of contact for this action is [redacted]

[redacted]
Acting Deputy Chief Financial Officer

Glossary

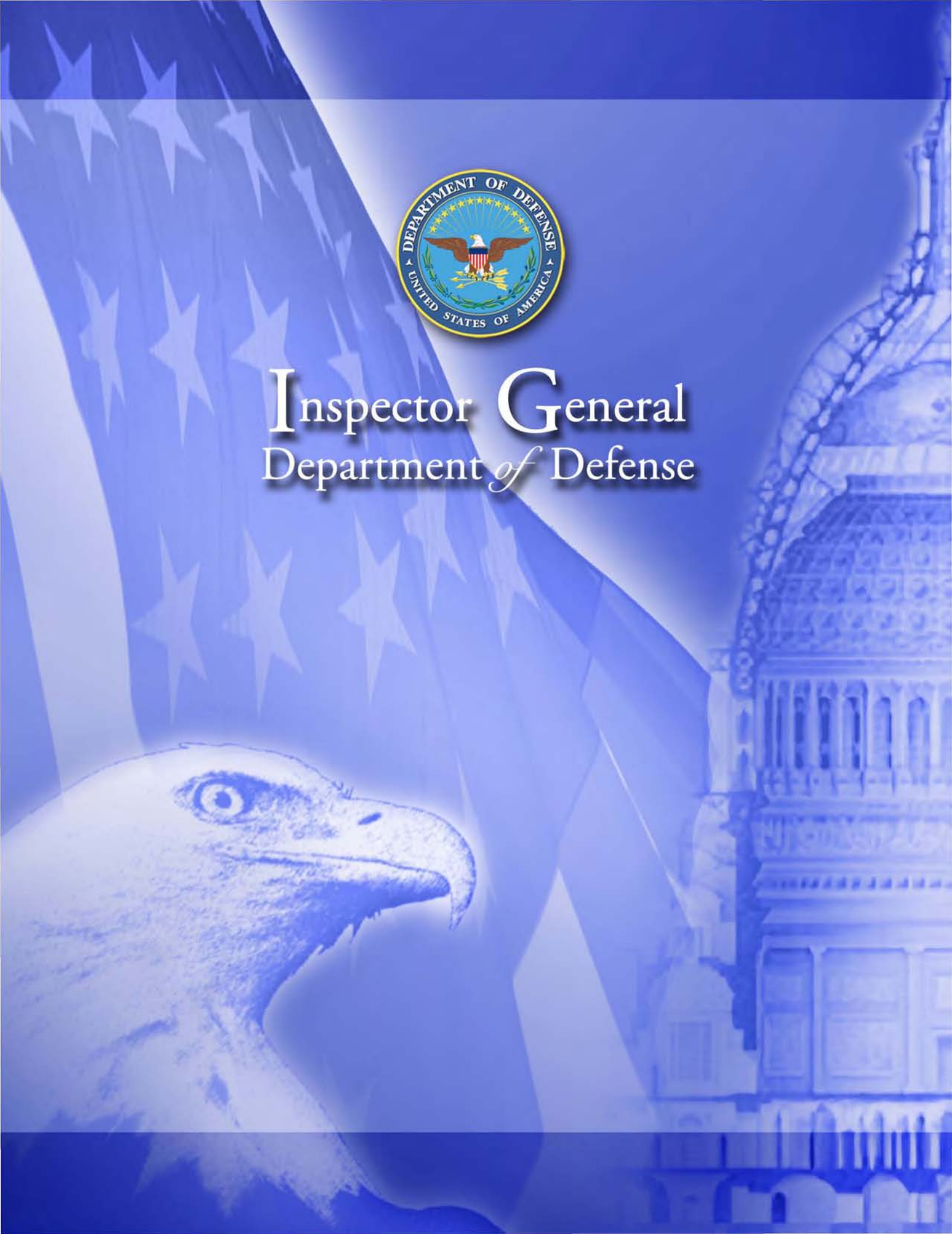
Deputy Disbursing Officer (DDO). An individual appointed by the DO to act in the name of that DO to perform any and all acts relating to the receipt, disbursement, custody, and accounting for public funds. The DO who makes the appointment may restrict the acts a deputy is authorized to perform. All DDO appointees must be U.S. citizens.

Disbursing Agent. An agent to the DO that has not been appointed as a DDO. Generally, a disbursing agent operates a permanently located disbursing office of considerable size that is geographically separated from the disbursing officer's office; however, the use of disbursing agents is not restricted to geographic separation from the DO.

Disbursing Office. An activity or the organizational unit of an activity whose principal function consists of the disbursement, collection and reporting of public funds. The term "disbursing office" includes both tactical and nontactical disbursing activities. Each disbursing office will have a DO and should have at least one DDO position, which is under the direct cognizance and control of the DO.

Disbursing Officer (DO). A military member or a civilian employee of a DOD Component designated to disburse monies and render accounts according to laws and regulations governing the disbursement of public monies. All DO appointees must be U. S. citizens.

Limited Depositary Account (LDA). A checking account in a foreign currency maintained in a limited depositary by a disbursing officer in his or her name. Limited depositary accounts also may be referred to as operating accounts.


Inspector General
Department of Defense