

**SUMMARY OF MAJOR CHANGES TO  
DoD 7000.14-R, VOLUME 13, CHAPTER 9  
“INTERNAL CONTROLS”**

All changes are denoted by blue font

Substantive revisions are denoted by a ★ preceding the section,  
paragraph, table, or figure that includes the revision

Hyperlinks are denoted by *underlined, bold, italic, blue font*

PARA	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Reworded and reformatted chapter for clarity. Revised references. Added electronic links.	Update
0901	Added an Overview section to the chapter.	Add
090203	Added requirement for accounting systems to provide all information necessary to prepare consolidated program group financial statements in accordance with requirements in DoDI 1015.15 and that all systems used at headquarters, major command and/or region, and installation/base will be consistent.	Add
090301	Changed external reporting needs from “executive branch, congress, and public” to “DoD and others.” Changed reporting information is organized by “project or program, responsibility centers, object class of expenditure, organization units, appropriation” to “funding categories and program groups”.	Update
090303.A	Changed the reconciliation and adjustment of general ledger accounts from “periodically” to “monthly”.	Update
090305	Changed correction of errors from “timely” to “immediately”.	Update
090307	Changed requirement for file quality reviews from “Component management shall determine the frequency” to “Component management must determine, at least yearly”.	Update
090308.B	Changed requirements to perform less comprehensive reviews from “in the interim” to “at least annually”. Changed requirement to correct or resolve findings or recommendations from “established timeframes” to “6 months”.	Update
090309.D	Changed information “required by Treasury and OMB” to “DODI 1015.15 specific reporting requirements (e.g., disclosure of fund equity adjustments and eliminating entry transactions between NAFIs); this includes Military Service Headquarters, Major Command and/or Region, and installation NAFIs”.	Update
090311.B	Deleted references to cash and obligation basis of accounting.	Delete
0904	Added section on audits.	Add

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## CHAPTER 9

INTERNAL CONTROLS★0901 OVERVIEW

090101. Purpose. This chapter prescribes the internal control techniques that the Department of Defense (DoD) Components are required to design and implement into DoD Nonappropriated Fund (NAF) accounting systems.

090102. Scope. This chapter applies to all Nonappropriated Fund Instrumentalities (NAFIs) and their supporting Accounting Offices (AOs), except the Armed Service Exchanges.

0902 REQUIREMENTS

090201. General. *Office of Management and Budget (OMB) Circular A-123, "Management Accountability and Control,"* provides guidance on establishing, assessing, correcting, and reporting on internal controls. Circular A-123 also provides a detailed discussion of management's responsibility for developing and maintaining internal control activities that include control environment, risk assessment, control activities, information and communications, and monitoring. The internal management control program under *DoD Instruction (DoDI) 5010.40, "Managers' Internal Control Program Procedures,"* is applicable to NAFIs. NAFI internal control systems shall provide reasonable assurance of the effectiveness of the organization, the efficiency and economy of operations, safeguards over assets, the propriety of receipts and disbursements, and the accuracy and reliability of records and reports. Refer to *Financial Accounting Standards Board Statements of Financial Accounting Standards and Interpretations* and *DoDI 1015.15, "Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources,"* for further information.

090202. Internal Controls. A business entity or activity adopts internal controls to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies. Accounting controls for safeguarding assets and ensuring the reliability of records include systems of authorization and approval, separation of duties, physical controls over assets, and internal auditing. Administrative controls concerning operational efficiency and compliance with policies and procedures include statistical analyses, training programs, and quality controls.

★ 090203. Systems. DoD NAFIs will have systems of accounting and internal controls that provide complete disclosure of financial results, necessary and desired financial information needed, effective control and accountability for assets, and reliable accounting results and reports that are the basis for preparing and providing financial information required by DoDI 1015.15. NAFI accounting systems will provide all information necessary to prepare consolidated program group financial statements, with appropriate intra-program group elimination entries and inter-program group footnotes in accordance with requirements in DoDI 1015.15. All accounting systems used at headquarters, major command and/or region, and

installation/base will be consistent in the reporting of information. Software (commercial off-the-shelf and others) must be tested to ensure that it meets NAF accounting and reporting requirements.

0903 INTERNAL CONTROL STANDARDS. The standards contained in this chapter apply to both manual and automated systems under development, under major revision, or currently operating in DoD Components. These standards, along with other applicable requirements, are considered when NAFIs report annually in compliance with management control standards. NAFIs are responsible for the following control standards.

★ 090301. Accounting System Structure. The accounting system produces and reports financial information for each NAFI to satisfy their internal needs and the external reporting needs of DoD and others as applicable. Information is organized into funding categories, activities, and program groups. The system is flexible so it can adapt to changing user and external requirements during the system's life cycle and to handle additions or deletions without extensive program or system changes. The system provides a means of capturing and reporting transactions by NAFI and activities within NAFI. Financial information is coded to enable lower levels of information to roll up into higher levels. For example, activities within NAFI roll up into the NAFI, which roll up into the consolidated program group as necessary to meet user needs, outside reporting requirements, and inquiries. Data is captured at the lowest level of detail to facilitate adapting to new and expanded report requirements and to provide for general ledger and subsidiary accounts, incorporating the double-entry accounting concept.

A. The general ledger account structure supports required internal and external reporting and conforms to the requirements prescribed in this volume. The account structure within the general ledger is driven by the nature of NAFI operations.

B. To achieve consistency and synchronization, the general ledger account structure and transaction coding must be uniform among accounting, budgeting, and reporting systems and subsystems within the NAFI. The account structure is synchronized so that actual activity is compared to its respective budget.

090302. Support for Accounting Transactions. Pertinent documents and source records support the accounting system's transactions.

A. Personnel acting within the scope of their authority approve and execute transactions and any subsequent adjustments.

B. AOs accumulate, classify, code, and record transactions in the correct amount and in the appropriate accounts. Accounting records capture information simultaneously with, or immediately following, the economic event that gave rise to the transaction. Management analyzes information in financial reports prepared in accordance with internal needs and external requirements.

C. The system references transactions, including those which are computer generated and computer processed, to individual source records. The system completes

referencing in a manner that enables tracing or replicating a transaction from its source to the resulting record or report, and from the resulting record or report to the source, or by tracing indirectly to source records through summaries and calculations contained in general and specific journals.

D. Source records **include** traditional paper documents, forms created when **entering** data at a terminal, records stored on **electronic** media, and listings of transaction data entered at a terminal. Listings include the same data elements as the traditional source document without generating the individual documents.

E. Items in source records necessary for audit trail purposes include **the** transaction type, record or account involved, amount, processing references, and identification of the preparer and approver of the transaction.

F. Ledger **accounts** include a record of postings to the account to facilitate tracing to source documents.

G. Computer-generated transactions **require** verification through reviews of systems documentation, such as edit routines, decision criteria in program listings, master files or database records, detailed listings of computer media work files, or input transactions which trigger other computer-generated transactions.

H. Electronic certification procedures include software lockouts to prevent unauthorized individuals from modifying or accessing any information not within the scope of their authority.

**090303.** Reconciliation. **Reconciliations** are performed to substantiate and maintain the accuracy of account postings and balances.

★ A. Reconciliation of general ledger control account balances **must** be performed **monthly** with **all** subsidiary accounts. **Adjustments** to the general ledger control accounts **are made monthly** to **ensure** agreement with the subsidiary accounts, and **reasons for discrepancies will be determined and documented.**

B. Financial data produced by **NAFIs** or other financial systems **must reconcile** with the comparable data in the accounting system. The system, whether automated or manual, **must** have the capability of reconciling the **control accounts with the subsidiary accounts.** It **must** include appropriate procedures for closing the accounts at the end of one accounting period and reopening accounts at the beginning of the next period.

**090304.** Transaction Processing/Production Control. The accounting system **will** contain **the following** internal controls which operate to prevent, detect, and correct errors and irregularities which may occur anywhere in the chain of events from transaction authorization to issuance of reports.

A. Controls **will** cover the functions of transaction authorization and approval, data preparation and validation, input, communications, processing, storage, and output. **They also cover** error resolution and reentry, as well as file or database quality maintenance.

B. Controls **will** provide reasonable assurance that **prompt** recording, processing, and reporting of financial data are performed. **Controls ensure** authorized transactions and data are **complete** and **accurate** during automated or manual processing.

C. Input controls exist to detect incomplete, duplicate, or otherwise erroneous transactions and ensure they are controlled until corrected.

D. Processing controls exist to provide reasonable assurance that transactions have been processed and that the application processing was correct using **accurate** file data, operator procedures, and processing logic.

E. Output controls provide reasonable assurance that the output is complete, correct, and distributed only to authorized users.

F. Data communication controls exist to ensure that the integrity and confidentiality of data **or other** messages transmitted by communication lines, from the originating point to the reception point, are maintained.

G. Data storage and retrieval controls exist to ensure that the files and data are protected from loss, destruction, and unauthorized changes, and that only the correct and latest version of data and program files are used during processing.

H. The accounting system **includes** controls that **help** prevent or detect the following kinds of situations:

1. Failure to record a transaction.
2. Incorrect or incomplete recording of a transaction.
3. Duplicate recording of a transaction.
4. Loss of a transaction document in handling.
5. Incorrect entry of data at a terminal.
6. Processing of unauthorized or incorrect data.
7. Directly changing account/master file/database records without an authorized transaction,
8. Use of a superseded or test version of a program rather than the current production version,

9. Use of a wrong file or record in processing,
10. Unauthorized file maintenance transaction (which have a financial impact),
11. Use of an incorrect value in internal tables,
12. Incorrect default value,
13. Input of incorrect program parameters,
14. Unauthorized use of programs which bypass normal program controls and edits,
15. Incorrect or incomplete processing logic,
16. Abnormal interruption of the application processing run,
17. Destruction of part or all of a file during processing,
18. Database errors,
19. Inappropriate use of operating program testing aids to circumvent normal processing control procedures,
20. Out-of-balance conditions,
21. Data errors caused during data transfer between interfacing systems,
22. Use of incorrect tables in report writer programs that fail to include all general ledger accounts.

I. The accounting system **must** provide a reference and control list of transactions processed during a processing cycle or a given period of time.

★ 090305. Correction of Errors. The accounting system **must include** procedures for control over errors to ensure that once errors are detected **they are immediately corrected**. Corrections are reentered into the appropriate processing cycle, made only once, and validated.

A. Data items that contain errors **must** be carefully controlled to ensure they are resubmitted (i.e., the transaction is not lost). Lists or reports must be prepared for data input errors indicating why each item was rejected and open items **must** be tracked and aged until all errors are corrected. The system **must** provide reports that list errors, reasons for errors, and corrective action taken.

B. **Supervisory** personnel review error listings and corrections. They also **establish** procedures for analyzing **the cause of** errors and rejected transactions **according to** type and source so that appropriate actions **are** taken to obtain improvements.

C. **The system edits**, either online or for later update to the system, the transaction and its data elements as keyed when **transactions** are input through a terminal. The person keying the transaction **resolves** and **reenters** errors found by edits or the **error** transaction is held in some fashion until the data **is** validated. **If** error resolution **is not completed** at the terminal, **then control** the document or source record to ensure errors are researched, corrected, documented, and resubmitted for input into the system in the appropriate processing cycle. The application software **performs** additional editing once the transaction is in the system.

**090306. Control Over Output.** **AOs control** output distribution to ensure that only properly authorized personnel receive reports or other output. Prior to distribution, **whether paper copies or on-line/real-time access**, **personnel check the system and report** outputs for completeness and agreement of control totals. **When** feasible, a cross-check with output from related programs **is completed**. **Personnel also** perform simple error detection and control procedures (e.g., visual scans, tests against independently maintained control totals, **and** comparison with approximations or physical counts) before relying on the output.

★ **090307. Data File Verification.** The accounting system **must include** maintenance procedures to ensure the continuing quality of files. **Users of files must review the data for** discrepancies depending on the application and record type. Effective input controls and **systematic examinations** of reports **must reduce** the need for special reviews to verify file data. Component management **must** determine, **at least yearly**, the **degree** of file quality reviews with due regard to the risks and costs involved.

**090308. System Tests and Evaluations.** **Components evaluate** and **test** the accounting system to ensure that the system, its controls, and security features continue to meet user needs, perform as intended, and conform **to Financial Accounting Standards Board standards**.

A. Transaction testing of the system **is** performed **to ensure** compliance with prescribed accounting principles, standards, and related requirements. The following testing techniques **are** used to test key aspects of **the** accounting system.

1. The critical aspects of the system are **tested** and **the** results documented (e.g., examining system documentation **and** independently verifying data integrity by use of generalized audit software.)

2. **AOs** disclose whether valid **transactions** are processed properly and whether the system rejects invalid transactions. **In addition, AOs review** process and error reports and **evaluate** error follow-up procedures. **AOs also verify** that the computer-based system correctly processes or rejects both valid and invalid transactions by using actual or simulated transactions.

3. Test plans **are developed giving** consideration to the results of any prior system testing.

4. Personnel are interviewed and activities are observed when the system involves manual operations to ensure accounting procedures and controls are followed. These techniques are also used to validate the entire flow of transactions from initial authorization through processing, posting to the accounts, and reporting.

★ B. System evaluation policies provide for more comprehensive evaluation on a cyclical basis. For example, an independent and fairly detailed review of the entire system or of a major portion of the system is made every third year. At least annually, personnel who operate the system perform less comprehensive reviews. Accounting system managers must evaluate findings and recommendations made by auditors and others reviewing accounting systems. The accounting system managers must also determine proper actions and complete, within 6 months, actions to correct or resolve findings and recommendations.

090309. Financial Reporting. Financial reports provide information users need in a format that is easy to understand. Reports must be prepared accurately and promptly on a consistent and comparable basis, present information and relevant disclosure data fairly, and include only transactions of the period being reported. Financial reports must also comply with restrictions on information classified for security purposes.

A. AOs must prepare internal and external reports from the same source data (the underlying accounting records or database) and ensure reports and source data are in agreement. Except when estimates are clearly appropriate, information included in external reports will include information from the general ledger or accounts under general ledger control.

B. Reporting periods vary between systems and therefore require reconciliation between systems.

C. Financial reports must be based on the entity's systematic accounting process covering the total operations of the reporting entity.

★ D. Financial reports must include full and adequate disclosure of financial and accounting information in accordance with Chapter 7 of this volume and DoDI 1015.15 specific reporting requirements (e.g., disclosure of fund equity adjustments and eliminating entry transactions between NAFIs); this includes Military Service Headquarters, Major Command and/or Region, and installation NAFIs. Following these requirements ensures that financial and accounting information is properly treated in preparing consolidated reports.

090310. Accuracy of Financial Information. Financial data presented in reports and statements must be accurate and will represent reasonable estimates when precise measurements are impractical, uneconomical, unnecessary, or would cause delay in report issuance.

A. If financial data or reports are based on sources other than the official accounting system, then AOs must disclose their basis.

B. Automated and manual controls built into the system ensure the accuracy of financial data collected, processed, and reported. When reports are prepared manually, designated individuals knowledgeable of the reporting requirements **must prepare the reports that** result directly from financial data coming from the system, and supervisory personnel **must review and approve the reports.**

090311. Usefulness of Financial Reports. Internal reports, including reports presented on terminal screen displays, **will** be designed and produced to meet users' needs. Explicit statements of financial information requirements for NAFIs **are the basis for** recurring internal financial reports, **and this information is used** when designing the system. **Components will verify** reports and user satisfaction with the level of detail, frequency, and report distribution.

A. **Components must develop** written policies and procedures for initiating and approving requests for financial information and for changes to report formats. The accounting system ad hoc reporting or query capabilities, as well as procedures for using these capabilities, **are** available to system users. **Components will assign** a particular individual or group the responsibility **to review** internal **and** external reporting policies and practices to determine their continued usefulness and whether they represent organizational and program changes. Reports **will** be designed to highlight major problems, exceptions, or trends and to facilitate the monitoring and evaluation of operations.

★ B. The accounting system **must produce** reports **to** compare current and prior period performance and planned performance with actual performance on **an** accrual basis. Reports **will** be designed **to** signal when controls over funds or other resources have broken down, alert managers when operations are deviating from financial plans, **and** provide the financial data needed to analyze and predict the financial consequences of alternative courses of action. **These** reports, combined with other management information, provide managers with a wide range of useful **information** that contrast anticipated work units and their anticipated costs with actual work units and actual incurred costs. Data **will** be saved as appropriate for historical **purposes** as well as for reconstruction of data files.

090312. Timeliness of Financial Reports. AOs **will produce and provide access to** reports promptly **to ensure** maximum use to management and to meet external requirements. When timeliness is critical, reporting needs **are** met by providing capabilities to query the system's database or **produce** ad hoc reports. Systems **must** have backup and recovery provisions to help ensure timely report generation in cases of processing interruption or emergency situations.

A. AOs **must establish** approved cut-off dates for data input and **will communicate the dates** throughout the Component.

B. AOs **will issue periodic** financial reports according to the accounting period **or** as needed. AOs **will also** develop and maintain reporting schedules and due dates **and will assign** responsibility for report distribution to one individual or group. A control list of reports produced, their due dates, and authorized recipients **are** maintained and checked as reports are issued.

090313. Consistency of Financial Information. AOs must record and report financial management data using standard accounting principles, budget definitions, and classifications. Financial data must be derived from general ledger accounts that are maintained on a consistent basis from period to period, and all material changes in accounting policies or methods and their effects must be explained in the reports.

090314. Operation, Maintenance, and Evaluation. Management must monitor an operating accounting system's life cycle to ensure that the system's stability is maintained because of changes in hardware and software.

A. Successful application of management policies and procedures for controlling changes in system software and hardware, improving compilers, and the proper training of new employees helps protect against communication problems, data entry failures, and user negligence.

B. Well-defined organizational responsibilities and strict adherence to procedures and controls governing the processing of changes to the system (e.g., system maintenance) exist to ensure stability of the system in operation.

C. System changes must be in writing, and such authorizations will be maintained with the system documentation. To the extent practical, the separation of duties required for control purposes includes the following:

1. The computer operations group has responsibility to deliver products generated by the application systems to users, assess problems, and act as a liaison between users and the maintenance support group in resolving problems.

2. The maintenance support group has responsibility to accomplish and document changes or enhancements to meet user needs or to correct program errors detected within the group. They use care, through use of formally approved and documented system change control procedures, to protect against fraudulent or otherwise unauthorized changes to previously tested and accepted application systems and databases.

a. Control procedures require proper analysis of requested changes. After the analysis is completed and documented, user and/or administrative data processing management approves the changes before making modifications.

b. Within the maintenance support group, not all programmers have access to all application software; therefore, after any changes are made, the maintenance support group conducts appropriate tests and reruns the application software to ensure that procedures and controls are working as intended.

3. User groups ensure, to the extent practicable, the integrity of data input, processing, and output. This responsibility includes making sure that internal controls and operating procedures are implemented properly, training and operating manuals are provided to appropriate personnel, operations are evaluated continually against the design requirements, problems are communicated promptly, and errors are resolved. In addition, key duties of

authorizing, processing, recording, and reviewing transactions are assigned separately among individuals.

090315. System Documentation. Complete, current, and maintainable system documentation is required.

A. The documentation must be of sufficient scope and depth to provide management, users, auditors, and system operation maintenance and modification personnel with an understanding of the design and operation of each component in the system and its integration with and relation to other components.

B. Components must safeguard and update documentation of the operating system to show actual operations. Internal control objectives and techniques, pertinent aspects of transactions, and other significant events must be documented, logical, applicable, and complete. System documentation must be available and easily accessible for examination. Refer to Volume 1, Chapter 2 of this Regulation for further information on system documentation requirements.

090316. Personnel. Components must ensure that each AO is supervised by a qualified professional accountant. Accountants must be aware of and adhere to prescribed accounting principles, standards, and related requirements. AO personnel will receive adequate training to efficiently and economically accomplish their assigned responsibilities.

#### ★0904 AUDITS

090401. Policy. DoD policy is to provide adequate audit coverage of NAFIs to include annual financial statement audits. Refer to DoDI 1015.15 for further information. The primary objectives of such audits are to determine whether internal control systems are adequate, resources are safeguarded and managed economically and efficiently, applicable laws and regulations are followed, and desired program results are achieved. Particular attention is placed on identifying potential fraud, waste, or abuse in operations. To the extent possible, audits are conducted on a system or functional basis and not an activity basis. The audit should include the verification of accuracy and reliability of the NAFI's automated data processing system. The NAFI community will have access to the results of system and/or functional audits in the form of reports. DoD personnel, rather than certified public accounting firms, are used for audits involving potential fraud or other serious improprieties. Policies regarding the audit of NAFIs and related activities are prescribed in DoDI 7600.6, "Audit of Nonappropriated Fund Instrumentalities and Related Activities."

090402. Scheduled Audits. Activities are audited at least annually or as instructed by the DoD Component authority. If directives require or circumstances warrant, then additional audits are scheduled.