

CHAPTER 2

GENERAL INSTRUCTIONS FOR THE FINANCIAL STATEMENTS0201 RESPONSIBILITY FOR PREPARING FINANCIAL STATEMENTS

020101. Responsibility for Audited Financial Statements. Primary responsibility for the content and submission of the audited financial statements rests with the head of the reporting entity for which the statements are prepared. The actual preparation of the financial statements is the joint responsibility both of the DoD accounting activity maintaining the official departmental accounting records and the DoD Component for which those official accounting records are maintained. It is important to recognize that, while the accounting organization is responsible for assembling the principal statements, much of the data needed to prepare the principal statements originates in nonfinancial systems. Entity management is responsible for ensuring that the data is provided to the accounting organization in a timely manner, that it is complete, and that there are adequate internal controls and audit trails to ensure the data is accurate. The officials responsible for the content and submission of audited financial statements are identified in Table 2-1.

Officials Responsible for Audited Financial Statements

Reporting Entities	Responsible DoD Official
Department of Defense	Chief Financial Officer, Department of Defense
Department of the Army	The Secretary of the Army
Department of the Navy	The Secretary of the Navy
Department of the Air Force	The Secretary of the Air Force
Army Working Capital Fund (WCF)	The Secretary of the Army
Navy (WCF)	The Secretary of the Navy
Air Force (WCF)	The Secretary of the Air Force
Defense Logistics Agency (DLA) (WCF)	Director, DLA
Defense Finance and Accounting Service (DFAS) (WCF)	Director, DFAS
Department of Defense Military Retirement Trust Fund	Under Secretary of Defense (Personnel & Readiness)
U.S. Army Corps of Engineers Civil Works Program	The Secretary of the Army

Table 2-1

020102. Responsibility for Preparation of the Financial Statements. The primary responsibility for the financial statements rests with the reporting entity management. However, responsibility for preparation of individual sections of the statements is shared with the

accounting organization responsible for maintaining the financial records of the reporting entity. Table 2-2 identifies the office having primary responsibility for preparation of each section of the financial statements.

Official Responsible for Sections of the Audited Financial Statements

Responsibility for Preparation and Submission of Audited Financial Statements	CFO DOD	DFAS/ Accounting Activity	Reporting Entity Management
Overview of the Reporting Entity			★
Balance Sheet		★	
Statement of Net Costs		★	
Statement of Changes in Net Position		★	
Statement of Budgetary Resources		★	
Statement of Financing		★	
Statement of Custodial Activity		★	
Note 1 to the Principal Statements		★	
Remaining Notes to the Principal Statements			★
Required Supplementary Stewardship Information (RSSI)			★
Required Supplementary Information (RSI)		★	
Other Accompanying Information			
Supporting Consolidating Statements		★	
Additional Performance Measures			★
Submission of Unaudited Financial Statements to Chief Financial Officer, Department of Defense			★
Submission of Unaudited Financial Statements to Inspector General, Department of Defense for Audit	★		
Submission of Audited Financial Statements to Office of Management and Budget	★		

Table 2-2

020103. Responsibility For Other Defense Organization Subentities. In order for the Department to prepare the DoD Agency-wide audited financial statements, supporting financial statements must be prepared for the remaining DoD organizations that are not required to submit stand-alone audited financial statements. Required supporting statements shall be prepared for the subentities identified in Table 2-3 by accounting activities and submitted to the responsible Office of the Secretary Defense (OSD) Principal Staff Assistant (PSA) designated in Table 2-3. Designated PSAs shall be responsible for providing all necessary data that originates in nonfinancial processes and systems (such as inventory and property data), reviewing combining statements and providing feedback to the DFAS for consolidation with other PSA combining statements.

Office of the Secretary of Defense Principal Staff Assistants
and Associated Other Defense Organizations Subentities

RESPONSIBLE OSD PRINCIPAL STAFF ASSISTANT (PSA)	OTHER DEFENSE ORGANIZATIONS SUB-ENTITIES
Under Secretary of Defense (Acquisition and Technology)	Ballistic Missile Defense Organization (BMDO)
	Defense Advanced Research Projects Agency (DARPA)
	Defense Acquisition University (DAU)
	Defense Logistics Agency (DLA)
	Defense Special Weapons Agency (DSWA)
	Federal Energy Management Program (FEMP)
	Joint Logistics Systems Command (JLSC)
	National Defense Stockpile Transaction Fund (NDSTF)
	Office of Economic Adjustment (OEA)
	On-Site Inspection Agency (OSIA)
Under Secretary of Defense (Personnel and Readiness)	Defense Commissary Agency (DeCA)
	Defense Health Program
	Defense Medical Program Activity (DMPA)
	Department of Defense Education Activity
	Department of Defense Education Benefits Fund
	Tricare Support Office
	Voluntary Separation Incentive Trust Fund
Under Secretary of Defense (Comptroller)	Defense Contract Audit Agency (DCAA)
	Unallocated
	Undistributed
Under Secretary of Defense (Policy)	National Security Education Trust Fund
	Defense Security Assistance Agency (DSAA)
	Defense Technology Security Administration (DTSA)
	U.S. Special Operations Command (USSOCOM)

Table 2-3

RESPONSIBLE OSD PRINCIPAL STAFF ASSISTANT (PSA)	OTHER DEFENSE ORGANIZATIONS SUB-ENTITIES
	Defense Prisoner of War/Missing Persons Office
Assistant Secretary of Defense (C3I)	Defense Information Systems Agency (DISA)
	Defense Intelligence Agency (DIA)
	Defense Security Service (DSS)
	National Imagery and Mapping Agency (NIMA)
Director, National Security Agency	National Security Agency (NSA)
Inspector General, Department of Defense	Office of the Inspector General (OIG)
Director, Joint Staff	Joint Chiefs of Staff (JCS)
Director, Washington Headquarters Services	Court Appeals Armed Forces (CAAF)
	Defense Legal Services Agency (DLSA)
	American Forces Information Service (AFIS)
	Office of the Secretary of Defense (OSD)
	Pentagon Reservation Maintenance Revolving Fund
	Washington Headquarters Services (WHS)
	Building Maintenance Fund, Defense
	Other "97" Funds Provided to WHS by OSD
	All Other (Prior Year Residual) "97" Funds
Assistant Secretary of the Army (Financial Management and Comptroller)	Emergency Response Fund, Defense
	Homeowners Assistance Fund, Defense
	Other "97" Funds Provided to the Army by OSD
Assistant Secretary of the Navy (Financial Management and Comptroller)	Other "97" Funds Provided to the Navy by OSD
Assistant Secretary of the Air Force (Financial Management and Comptroller)	Other "97" Funds Provided to the Air Force by OSD

Table 2-3 (Cont.)

020104. Reporting of Foreign Military Sales Activity in the Department of Defense Financial Statements. The Defense Security Assistance Agency--that will become the Defense Security Cooperation Agency, administers the Foreign Military Sales (FMS) programs on behalf of the Executive Office of the President. The Office of Management and Budget(OMB), in coordination with the General Accounting Office (GAO), has approved for inclusion the following provisions with the Department of Defense financial statements for specific information on the financial activity of FMS programs.

A. Amounts for FMS procurements by contract will not be reported in the DoD Agency-wide Statement of Net Costs but will be disclosed in a footnote. Management's estimate of the amount of FMS procurements by contract will be included in Note 16 F. of the DoD Agency-wide consolidated financial statements.

B. A Statement of Custodial Activity will be prepared for cash receipts and disbursements of the FMS Trust Fund and included in the DoD Agency-wide consolidated financial statements.

C. Revenue and expense amounts pertaining to FMS goods or services provided from the stocks of the DoD Components on a reimbursable basis will continue to be reported in the financial statements of the applicable DoD Component and in the DoD Agency-wide consolidated statements.

D. Revenue and expense amounts pertaining to the FMS administrative expenses will be included in the DoD Agency-wide consolidated financial statements as a portion of "Other Defense Organizations, General funds."

E. Principal Statements and notes for allocations and authorities received from the Executive Office of the President (i.e., appropriated funds (11*1081, 11*1082, 1151084, 11X1088, and 1161089)) and revolving funds (11X4116, 11X4121, 11X4122, and 11X4174) will be prepared and included in the "Other Accompanying Information" section of the DoD Agency-wide consolidated financial statements.

0202 REPORTING SCHEDULE

020201. Audited Financial Statements. The OMB requires agencies to submit audited financial statements by March 1st following the end of the fiscal year for each of the reporting entities identified in the current OMB Bulletin titled "Audits of Agency Financial Statements." The DoD reporting entities that must meet this requirement are those identified in paragraph 010601, above.

020202. Major Statements Preparation Due Dates. The development and publication of the audited financial statements requires the coordinated actions by entity management, the supporting accounting organization, and the audit community. Table 2-4 provides a list of the major milestones in the development of the audited financial statements. The schedule contained in Table 2-4 applies to all reporting entities identified in paragraph

010601 and to all Other Defense Organizations subentities identified in Table 2-3. The dates identified in Table 2-4 represent the month and day immediately following the end of the fiscal year for which the financial statements are being prepared. If an identified date falls on a Saturday, Sunday, or holiday, then the due date becomes the last workday preceding the weekend or holiday.

Major Statements Preparation Due Dates

Due Date	Required Action	Responsible Office
October 30	Provide Auditors Preliminary Year-End Balances	DFAS
November 16	Provide Data from Feeder Systems to DFAS	Department of Defense Components
December 3	Provide Version 1 Statements and Notes to Department of Defense Components	DFAS
December 8	Provide Version 1 Comments to DFAS	Department of Defense Components
December 11	Provide Version 2 Statements and Notes to Department of Defense Components, Advance Copy to OIG	DFAS
December 17	Provide Consolidated Statements to CFO	Department of Defense Components
December 21	Provide Department of Defense Agency-wide Statements and Notes to CFO	DFAS
December 24	Provide Unaudited Department of Defense Financial Statements and Notes to the OIG	Chief Financial Officer (CFO)
January 15	Provide Final Audit Adjustments to Department of Defense Components and DFAS	Auditors
January 22	Provide Version 3 Statements and Notes to Department of Defense Components	DFAS
February 1	Provide Management and Legal Representation Letters to the OIG and the Military Department Audit Agencies	Department of Defense Components

Table 2-4

Due Date	Required Action	Responsible Office
February 2	Provide Final Financial Statements to CFO and OIG	Department of Defense Components
February 5	Provide Final Department of Defense Agency-wide Financial Statements to the OIG	CFO
February 12	Provide Audit Opinion Letters to CFO and Department of Defense Components	OIG
February 23	Provide Printed and Electronic Copies of Financial Statements to CFO	Department of Defense Components
March 1	Provide Audited Financial Statements to OFFICE OF MANAGEMENT AND BUDGET	CFO
March 2	Post Audited Financial Statements on the Under Secretary of Defense Comptroller (USD(C))web site.	CFO

Table 2-4 (cont.)

0203 MANAGEMENT REPRESENTATION LETTERS

Auditors request that management prepare and submit a management letter, for each reporting entity, prior to the conclusion of an audit. In the letter, management provides a number of assertions that the financial statements do, or do not, present fairly in accordance with federal generally accepted accounting principles and OMB form and content guidance the financial status of the reporting entity. Management representation letters are intended to (a) confirm in writing the representations made to the auditors regarding the financial statements, legal matters, and other significant issues, and (b) ensure that there are no misunderstandings regarding the responsibilities for the financial statements and representations made regarding them. Management representation letters are due to the office performing the entity's audit by due date specified in Table 2-4, above.

020301. Signature levels for management representation letters are indicated below:

A. A management representation letter in support of a financial statement for a Military Department's general funds or working capital fund must be signed by the Secretary or Under Secretary of the Military Department concerned.

B. A management representation letter in support of a financial statement for a Defense Agency working capital fund must be signed by the Director or Deputy Director of the Defense Agency concerned.

C. A management representation letter in support of a CFO financial statement for a trust or revolving fund managed by the Office of the Secretary of Defense or Defense Agency must be signed by the fund manager of the trust or revolving fund concerned.

D. A management representation letter for the "Total DoD" financial statement must be signed by the USD(C).

E. The Director or Principal Deputy Director of the DFAS, or the Director of the applicable DFAS Center, will provide a certification to the respective Military Department Secretary, Defense Agency Director or trust fund manager as supporting documentation for their management representation letter. However, the Director, DFAS will not sign, or cosign, management representation letters (except for the management representation letter for the DFAS WCF financial statements). When accounting support is provided by an office other than the DFAS, the accounting office must provide the same type of certification. A sample of the certification to be provided by the DFAS or other accounting office is provided in Volume 6, Chapter 2, paragraph 020210.

020302. Requests for management representation letters below the above levels should be referred to the Office of the Deputy Chief Financial Officer (ODCFO) for resolution.

0204 LEGAL REPRESENTATION LETTERS

Legal representation letters are the auditors' primary means of corroboration of the information furnished by management concerning litigation, claims, and assessments. Legal representation letters are required for each of the reporting entities identified in paragraph 010601 of this volume. Legal representation letters are intended to inform the auditors clearly of all lawsuits, as well as, asserted and unasserted claims which may be significant in relation to the financial statements, along with an assessment of the probable outcomes--including any potential losses. Upon receipt of the audit agency request, it is the responsibility of the senior management official of each reporting entity to request the legal representation letter. Legal representation letters must be provided to the office performing the audit--the DoD Inspector General or the Military Service audit agency--of the entity's financial statements by the dates specified in the schedule provided in Table 2-4 of this volume. Requests for legal representation letters will be forwarded to the General Counsel (GC) of the applicable Military Service. Requests for legal representation letters for Defense accounts will be forwarded to the GC, DoD. Requests for legal representation letters below the Service or fund level should be referred to the ODCFO, for resolution.

0205 GENERAL PREPARATION INSTRUCTIONS

020501. The principal statements and notes embody the financial accounting concepts and recognition and measurement requirements contained in the Statements of Federal Financial Accounting Concepts (SFFACs) and Statements of Federal financial Accounting Standards (SFFASs) recommended by the Federal Accounting Standards Advisory Board (FASAB) and approved by the Secretary of the Treasury, the Director of the OMB, and the Comptroller General. The SFFACs and SFFASs have been or will be incorporated into the accounting policy and guidance contained in the “DoD Financial Management Regulation” (“DoDFMR”). Preparers of financial statements seeking detailed guidance on matters involving the recognition and measurement requirements for transactions and information covered by the SFFASs should refer to the “DoDFMR.” If sufficient guidance is not found in this regulation, preparers shall follow the hierarchy of accounting principals and standards contained in paragraph 0109, above.

020502. Round dollar amounts to the nearest whole thousand on the final principal statements and in the tables contained in the notes to the principal statements. To avoid excessive workload associated with the resolution of rounding errors, accounting activities should report amounts as dollars and cents on all versions of the principal statements and notes prior to submission of the final versions to entity management. Each version of the principal statements and notes must be submitted in both electronic and hardcopy formats to the DFAS-Indianapolis Center for the preparation of the DoD consolidated financial statements.

020503. Prior year comparative data is to be displayed on the principal statements. The comparative data is to be placed to the right of the current year figures and clearly labeled. However, since FY 1998 is the first year that most of the principal statements will be produced, no comparative data is required on the FY 1998 financial statements. Effective with the FY 1999 statements, comparative data will be required for each of the principal statements. Prior year data, when reported, must be consistent with the amounts reported on the financial statements of the prior year. In addition, significant variances in the values reported from one year to the next on any report line should be explained in the footnotes.

020504. Statement line items, footnotes, and lines or columns in footnotes that do not apply to the reporting entity may be excluded from the final version of the statements and notes. However, in order to ensure consistent and accurate aggregation of amounts from suborganizations, such lines may not be excluded prior to the submission of the final version to entity management. Due to the short timeframes available for statement consolidation at the agency level, preparers are not authorized to combine lines for which the referenced account balances are immaterial.

020505. Do not designate in footnotes as “other” any discrete balances of a material amount. Material balances should be separately reported and designated by name.

020506. The footnote numbering sequence contained in Chapter 10 of this Volume must be maintained in order to ensure consistent and accurate aggregation to the DoD agency

level. If additional footnotes are necessary to provide required disclosures number them sequentially beginning with the number following the last footnote identified in Chapter 10 of this Volume.

020507. The accounting policies and procedures should be applied consistently throughout the financial statements. As a result, the amounts reported throughout the financial statements, footnotes and supplemental information should be reported consistently. Ensure that schedules presented in the footnotes in support of amounts presented on financial statements have total figures that agree with the amounts presented in the body of the financial statements.

020508. The principal statements provided for the DoD reporting entities must be prepared as consolidated statements net of intra-entity transactions. However, the OMB has deferred the requirement for consolidating statements for the Statement of Budgetary Resources and the Statement of Financing. For FY 1998 and FY 1999 the Department will prepare combining statements for the Statement of Budgetary Resources and the Statement of Financing.

020509. Balance sheet consolidating statements are required to be included in the Other Accompanying Information section of the financial statements for each of the DoD reporting entities identified in paragraph 010601 of this volume. In addition, a consolidating balance sheet will be prepared for the total DoD-wide consolidated financial statements. The FASAB defines a consolidating statement as a financial statement in which the transactions and balances of component entities are presented in separate columns along with a column for intraentity transactions and balances. The resulting total column reflects the entity totals net of intraentity transactions and balances.

020510. Entity managers have the option to present consolidating statements for other principal statements where numerous subentities are presented within the financial statements. The consolidating statements should be placed in the Other Accompanying Information section of the financial statements.

020511. The financial statements of the reporting entities identified in paragraph 0106 should be organized as displayed in Appendix B of this Volume.

020512. Entity managers are responsible for the preparation and printing of the final complete version of their financial statements. Fifteen bound copies of the printed financial statements, including all of the items identified in Appendix B, must be submitted to the Office of the Under Secretary of Defense (Comptroller), Office of Deputy Chief Financial Officer, Directorate for Accounting Policy, 1100 Defense Pentagon, Room 3A882, Washington, DC 20301-1100, no later than February 23.

020513. The Department's financial statements will be distributed electronically via the Internet. Entity managers have the option to post their financial statements on their web site or have their financial statements posted on the USD(C) web site. In either case the financial statements must be available via the Internet by March 2.

A. Entity managers who choose to have their financial statements posted on the USD(C) web site, must provide an electronic version of the financial statements to the ODCFO along with the printed copies by February 23. The electronic version must be provided in the portable document format.

B. Entity managers who choose to post their financial statements on an entity web site, must provide the Internet address to the ODCFO along with the printed copies of the financial statements by February 23.

0206 DEPARTMENTAL ADJUSTMENTS RESULTING FROM FINANCIAL STATEMENTS AUDITING

020601. Material errors in financial statements discovered after installation-level records are closed but before departmental-level records are closed shall be corrected upon approval reporting entity management. Material errors result from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the installation-level financial statements were prepared. Corrections to departmental-level financial statements will be made only after their application to specific installations, appropriations and/or accounts, and general ledger accounts has been documented. Each DoD Component, in coordination with the DFAS, will establish and document procedures to ensure that corrections made at the departmental level (after installation-level accounting records have been closed for the reporting year) are transmitted to subordinate installations for input into current year accounting records. Procedures also will be established to monitor and ensure that each installation's respective corrections and prior year adjustments are input into installation accounting systems and that such information is transmitted to the departmental level for control and reporting purposes.

020602. Departmental-level adjustments must be reversed in their entirety during the current fiscal year (i.e., as early as feasible in the fiscal year following the fiscal year for which the financial statements were prepared). The DFAS shall have on file documentation supporting the prior period adjustments along with an audit trail of the approval and recording of transactions and reports on the recording of the associated installation-level adjustments. These records will include the agreement between the DoD Component, the auditors and the DFAS that resulted in the adjustment.

020603. Sample Entries.

A. During January 1999, audit of the FY 1998 financial statements reveals that a revenue item for \$100,000 for services provided was not posted to installation records. The installation records supporting the FY 1998 records have been closed but the departmental records supporting the FY 1998 financial statements are still open. Review of the transaction also reveals that an accounts receivable entry and related budgetary accounts were not posted. The installation accounting officer should determine the reasons for not posting the transaction and for not collecting the receivable. Documentation supporting the need for the adjustment is

available. The posting of revenue, when closed, would have had an effect on equity; therefore, the following actions should be taken.

1. Departmental-level Action.

a. Increase both accounts receivable and revenue and related budgetary account balances in the FY 1998 financial statements by \$100,000.

Dr 1310	Accounts Receivable	100,000	
	(Additional Information Required: Government-Current)		
Cr 5200	Revenue from Services Provided		100,000

Dr 4251	Reimbursements and Other Income Earned - Receivable	100,000	
Cr 4220	Unfilled Customer Orders		100,000
	(Additional Information Required: No advance)		

b. Closing Entries for FY 1998.

Dr 5200	Revenue from Services Provided	100,000	
Cr 3310	Cumulative Results of Operations		100,000

c. Reversing Entries in FY 1999.

Dr 7400	Prior Period Adjustments	100,000	
Cr 1310	Accounts Receivable		100,000
	(Additional Information Required: Government-Current)		

Dr 4220	Unfilled Customer Orders	100,000	
	(Additional Information Required: No advance)		
Cr 4251	Reimbursements and Other Income Earned - Receivable		100,000

2. Installation-level Action. The installation should be requested to make the following journal entries to its FY 1999 accounting records.

Dr 1310	Accounts Receivable	100,000	
	(Additional Information Required: Government-Current)		
Cr 7400	Prior Period Adjustments		100,000

Dr 4251	Reimbursements and Other Income Earned - Receivable	100,000	
Cr 4220	Unfilled Customer Orders		100,000
	(Additional Information Required: No advance)		

B. During the same audit of the FY 1998 financial statements, a revenue item for \$200,000 for services provided was discovered to not have been posted to the FY 1997 (prior year) installation accounting records. The Departmental records supporting the FY 1998 financial statements have not been closed; however, the records for FY 1997 have been closed for over a year. Review of the transaction also revealed that an accounts receivable entry and

related budgetary accounts were not posted. The installation accounting officer should determine the reasons for not posting the transaction and for not collecting the receivable. Documentation supporting the need for the adjustment is available. The posting of revenue, when closed, would have had an effect on equity; therefore, the following actions should be taken:

1. Departmental-level Action.

a. Increase departmental accounts receivable and Prior Period Adjustments and related budgetary accounts by \$200,000. Disclose in the footnotes to the financial statements the adjustment for \$200,000 and its correction during FY 1998.

Dr 1310	Accounts Receivable	200,000	
	(Additional Information Required: Government-Noncurrent)		
Cr 7400	Prior Period Adjustments		200,000
Dr 4251	Reimbursements and Other Income Earned - Receivable	200,000	
Cr 4220	Unfilled Customer Orders		200,000
	(Additional Information Required: No advance)		

b. Closing Entries for FY 1998.

Dr 7400	Prior Period Adjustments	200,000	
Cr 3310	Cumulative Results of Operations		200,000

c. Reversing Entries in FY 1999.

Dr 7400	Prior Period Adjustments	200,000	
Cr 1310	Accounts Receivable - (Additional Information Required: Government-Current)		200,000
Dr 4220	Unfilled Customer Orders (Additional Information Required: No advance)	200,000	
Cr 4251	Reimbursements and Other Income Earned - Receivable		200,000

2. Installation-level Action. The installation should be requested to make the following journal entries to its FY 1999 accounting records.

Dr 1310	Accounts Receivable	200,000	
	(Additional Information Required: Government-Noncurrent)		
Cr 7400	Prior Period Adjustments		200,000
Dr 4251	Reimbursements and Other Income Earned - Receivable	200,000	
Cr 4220	Unfilled Customer Orders		200,000
	(Additional Information Required: No advance)		

C. During January 1999, audit of the FY 1998 financial statements revealed that an expense for \$50,000, related to a reimbursable program, was not posted to installation

records. The departmental records supporting the FY 1998 financial statements have not been closed. Review of the transaction also revealed that an accounts payable and related budgetary accounts were not posted and that payment was never made. The installation accounting officer should determine the reason for not posting the transaction and for not making a payment to liquidate the payable. Documentation supporting the need for the adjustment is available. The posting of expense, when closed, would have had an effect on equity; therefore, the following actions should be taken:

1. Departmental-level Action.

a. Increase both accounts payable and expense, as well as, the related budgetary account balances in the financial statements by \$50,000.

Dr 6100	Operating Expenses/Program Costs	50,000	
Cr 2110	Accounts Payable		50,000
	(Addition Information Required: Government-Current)		
Dr 4801	Undelivered Orders - Unpaid	50,000	
Cr 4901	Expended Authority - Unpaid		50,000

b. Closing Entries for FY 1998.

Dr 3310	Cumulative Results of Operations	50,000	
Cr 6100	Operating Expenses/Program Costs		50,000

c. Reversing Entries in FY 1999.

Dr 2110	Accounts Payable	50,000	
	(Addition Information Required: Government-Current)		
Cr 7400	Prior Period Adjustments		50,000
Dr 4901	Expended Authority - Unpaid	50,000	
Cr 4801	Undelivered Orders - Unpaid		50,000

2. Installation-level Action. The installation should be requested to make the following journal entry to its FY 1999 accounting records.

Dr 7400	Prior Period Adjustments	50,000	
Cr 2110	Accounts Payable		50,000
	(Addition Information Required: Government-Current)		
Dr 4801	Undelivered Orders - Unpaid	50,000	
Cr 4901	Expended Authority - Unpaid		50,000

D. During the same audit of FY 1998 installation accounts, an expense for \$210,000, related to a reimbursable program, was mistakenly posted as \$120,000 to installation FY 1998 records. The \$90,000 error was not detected. The departmental records supporting the FY 1998 financial statements had not been closed. Review of the transaction also revealed that the \$90,000 difference has caused the payment to remain unmatched and the accounts payable and related budgetary accounts unliquidated. The installation accounting officer should

determine the reasons for not correcting the initial posting and for not liquidating the payable. Documentation supporting the need for the adjustment was available. The posting of expense, when closed, would have had an effect on equity; therefore, the following actions should be taken:

1. Departmental-level Action.

a. Increase both accounts payable and expense and related budgetary account balances in the FY 1998 financial statements by \$90,000.

Dr 6100	Operating Expenses/Program Costs	90,000	
Cr 2110	Accounts Payable		90,000
	(Addition Information Required: Government-Current)		
Dr 4801	Undelivered Orders - Unpaid	90,000	
Cr 4901	Expended Authority - Unpaid		90,000

b. Closing Entries for FY 1998.

Dr 3310	Cumulative Results of Operations	90,000	
Cr 6100	Operating Expenses/Program Costs		90,000

c. Reversing Entries in FY 1999.

Dr 2110	Accounts Payable	90,000	
	(Addition Information Required: Government-Current)		
Cr 7400	Prior Period Adjustments		90,000
Dr 4901	Expended Authority - Unpaid	90,000	
Cr 4801	Undelivered Orders - Unpaid		90,000

2. Installation-level Action. The installation should be requested to make the following journal entry to its FY 1999 accounting records.

Dr 7400	Prior Period Adjustments	90,000	
Cr 2110	Accounts Payable		90,000
	(Addition Information Required: Government-Current)		
Dr 4801	Undelivered Orders - Unpaid	90,000	
Cr 4901	Expended Authority - Unpaid		90,000

E. During January 1999, audit of the FY 1998 financial statements revealed that general equipment for \$160,000 was not posted to installation records. The departmental records supporting the FY 1998 financial statements have not been closed. Further review of the transaction revealed that the item of equipment was free issue from a procurement appropriation as of September 29 of the reporting fiscal year. Documentation supporting the need for the adjustment is available. The installation accounting officer should be reviewing accounting procedures to determine why the property was not posted to official accounting reports. The posting of financing sources, when closed, would have had an effect on equity; therefore, the following actions should be taken:

1. Departmental-level Action.

a. Increase the asset account for general equipment and financing accounts for \$160,000 in the FY 1998 financial statements. There are no budgetary entries required.

Dr 1750	Equipment	160,000	
Cr 5720	Financing Sources Transferred In Without Reimbursement		160,000

b. Closing Entries for FY 1998.

Dr 5720	Financing Sources Transferred In Without Reimbursement	160,000	
Cr 3310	Cumulative Results of Operations		160,000

c. Reversing Entries in FY 1999.

Dr 7400	Prior Period Adjustments	160,000	
Cr 1750	Equipment		160,000

2. Installation-level Action. The installation should be requested to make the following journal entry to its FY 1999 accounting records.

Dr 1750	Equipment	160,000	
Cr 7400	Prior Period Adjustments		160,000

F. During January 1999, audit of the FY 1998 financial statements revealed that numerous equipment items totaling \$120,000 were capitalized on installation accounting records. No depreciation had been recorded against the equipment. Departmental records supporting the FY 1998 financial statements have not been closed. Further review of the transactions revealed that the items were purchased from operation and maintenance funds and were not expensed. Budgetary entries to obligate and disburse funds related to these items were correctly posted. Each item acquisition cost was less than the \$100,000 capitalization criteria. Documentation supporting the need for the adjustment is available. The installation accounting officer should be reviewing accounting procedures to determine why the property was not expensed in the official accounting records. (Note: That property records must be maintained in

some specific cases.) The posting of expense, versus capital, when closed, would have had an effect on equity (Unexpended Appropriations); therefore, the following actions are required. In this case, the proper posting would have effected expense; therefore, the installation needs to record a prior period adjustment as follows:

1. Departmental-level Action.

a. Decrease equipment and equity accounts for \$120,000 in the FY 1998 financial statements. There are no budgetary entries required.

Dr 6100	Operating Expenses/Program Costs	120,000	
Cr 1750	Equipment		120,000

b. Closing Entries for FY 1998.

Dr 3310	Cumulative Results of Operations	120,000	
Cr 6100	Operating Expenses/Program Costs		120,000

c. Reversing Entries in FY 1999.

Dr 1750	Equipment	120,000	
Cr 7400	Prior Period Adjustments		120,000

2. Installation-level Action. The installation should be requested to make the following journal entry to its FY 1999 accounting records.

Dr 7400	Prior Period Adjustments	120,000	
Cr 1750	Equipment		120,000

G. During January 1999, audit of the FY 1998 financial statements revealed that a \$150,000 error was made in consolidating the FY 1998 line item for "Property, Plant and Equipment, Net" of the balance sheet at an installation. The departmental records supporting the FY 1998 financial statements had not been closed. The installation accounting officer should determine the reason the error was made in consolidating the FY 1998 line item to preclude it happening in FY 1999. Documentation supporting the need for the correction was available.

1. Departmental-level Action. Make the correction to the "Property, Plant and Equipment, Net" line at the departmental level and ensure that an offsetting entry is made to equity at the Departmental level. Reprint the balance sheet after correction.

2. Installation-level Action. No corrections are made to the FY 1998 financial statements; however, installation-level property records must be corrected so the same mistake is not made next year.

0207 FOOTNOTE REQUIREMENTS TO FINANCIAL STATEMENTS

020701. In many cases, the underlying financial systems and operations that produce these statements were not designed to generate auditable financial statements in compliance with this form and content guidance. Consequently, diversions from generally accepted accounting principles and DoD policy exist in many of the Department's organizations. This is due largely, but not entirely, to long-standing systems problems. The continuing system problems remain a serious challenge to the Department--and realistically will require a number of years to correct. In cases where individual line items of the financial statements cannot be obtained or a substitution is made from the requirements herein, the deficiencies must be explained and the reason for noncompliance annotated. Such explanation should be included in Note 1 "Significant Accounting Policies," and may be included in the "Overview of the Reporting Entity."