

VOLUME 6A, CHAPTER 2: “FINANCIAL REPORTS, ROLES AND RESPONSIBILITIES”

SUMMARY OF MAJOR CHANGES

All changes are denoted by **blue font**.

Substantive revisions are denoted by an asterisk (*) symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

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

The previous version dated **June 2019** is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
020204	Added a consolidated “Supporting Documentation” paragraph to remove duplication throughout the chapter.	Addition
020208.B.1.a.	This revision incorporates relevant information from the Deputy Chief Financial Officer (DCFO) policy memorandum, “Mandatory Use of Root Cause Indicator Code (FPM 20-04),” dated April 18, 2020. The procedural level information from the memorandum remains available on the DCFO Financial Management Policy and Reporting web page under the “Dual Purpose Policy Memos & Other Information” section.	Revision
020209	Added a “System-Generated JVs” section to provide guidance for systems-generated journal voucher (JV) adjustments.	Addition
020210.C.2.	Added guidance for out of balance JV adjustments.	Addition

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CHAPTER 2

FINANCIAL REPORTS, ROLES AND RESPONSIBILITIES

0201 GENERAL

020101. Purpose

This chapter defines the roles and responsibilities in the preparation and issuance of financial reports for Department of Defense (DoD) Components. DoD Components and the Defense Finance and Accounting Service (DFAS) are responsible for the proper and consistent preparation of financial reports at the DoD Component departmental, intermediate, and installation level. In some instances, DoD Components prepare their own financial reports without accounting support from DFAS. Ultimately, each DoD Component is responsible for the accuracy and completeness of financial information in the reports that present the financial effects of its operations.

A. The policies within this chapter apply to all DoD Components and includes those entities whose departmental, intermediate, and installation level financial reports are prepared by DFAS, DoD Components and organizations operating Enterprise Resource Planning (ERP) systems under an approved agreement with DFAS, certain DoD Components which prepare their own financial reports (e.g., the U.S. Army Corps of Engineers), and organizations required to perform their own accounting due to security considerations.

B. In those instances in which DFAS does not have financial report preparation responsibility, the reporting entity **must** fulfill the responsibilities assigned in this chapter at both the DFAS and DoD Component level. The requirements for the audited or interim financial statements addressed in the Office of Management and Budget [*OMB Circular A-136*](#), “Financial Reporting Requirements” **are contained in** Volume 6B, “Form and Content of the Department of Defense Audited Financial Statements.”

020102. Authoritative Guidance

This chapter prescribes the roles, responsibilities, and authoritative guidance for preparation and issuance of financial reports for DoD Components in accordance with the reporting responsibilities and internal control provisions identified in:

A. [Government Accountability Office \(GAO\) “Federal Information System Controls Audit Manual” \(*FISCAM*\)](#);

B. [GAO *Financial Audit Manual* \(FAM\)](#);

C. [OMB Circular A-123](#), “Management's Responsibility for Enterprise Risk Management and Internal Control;”

D. [OMB Circular A-136](#), “Financial Reporting Requirements;”

E. Office of the Under Secretary of Defense (Comptroller) (OUSD(C))/Chief Financial Officer (CFO) [“DoD Financial Statement Audit Guide,”](#) and

F. OUSD(C)/CFO [“DoD Internal Control Over Financial Reporting Guide.”](#)

0202 RESPONSIBILITIES

020201. Stewardship and General Responsibilities

The U.S. Congress provides resources to finance the programs, missions, and functions of DoD and its Components. Financial reports are a tool to display the status and uses of those resources at a point in time. DoD Components and DFAS as their service provider have responsibilities to ensure that financial information is accurate and timely in order for managers to make sound decisions and exercise proper stewardship over these resources. Refer to the “DoD Internal Control Over Financial Reporting Guide” for additional information on roles and responsibilities for internal controls over financial reporting.

020202. Internal Controls

A. DoD Components. DoD Components **must** create and maintain internal controls to ensure that data input in DoD Component-controlled systems, or provided to DFAS to be recorded in the accounting systems and subsequently used in financial reports, **are** accurate, complete, supportable, and input timely into the finance and accounting systems. Refer to the “DoD Internal Control Over Financial Reporting Guide” for additional internal controls applicable to DoD Components.

1. DoD Components **must** maintain **and** create controls to ensure actual or potential Antideficiency Act violations are reported, reviewed, and investigated in accordance with Volume 14, Chapter 2.

2. DoD Components **must** perform and document periodic reviews of system functionality to ensure controls are in place to verify the authorization of recorded transactions and compliance with the FISCAM framework.

3. DoD Components **must** comply with internal control policies contained in [DoD Instruction \(DoDI\) 8510.01](#), “Risk Management Framework (RFM);” Volume 1, Chapter 3; and the “DoD Internal Control Over Financial Reporting Guide.”

B. DFAS. DFAS **must** maintain or create controls to ensure that data provided by each DoD Component is recorded accurately and processed timely for financial reporting. Refer to the “DoD Internal Control Over Financial Reporting Guide” for additional internal controls applicable to DFAS reporting.

1. DFAS **must** maintain or create controls to ensure actual or potential Antideficiency Act violations are reported to DoD Components for their review and investigation in accordance with Volume 14, Chapter 2.

2. DFAS **must** perform and document periodic reviews of DFAS system functionality to ensure controls are in place to verify the authorization of recorded transactions and compliance with the FISCAM framework.

3. DFAS **must** maintain feeder files used in financial reporting from accounting systems of record (component-controlled), in accordance with records retention guidance contained in Volume 1, Chapter 9.

4. DFAS **must** maintain supporting documentation for corrections made to DoD Component submissions in intermediate edit systems as part of the audit trail for the reporting period. DFAS **must** maintain records to support adjustments to DoD Component submissions and assign transactions that fail to pass edits to DFAS or the DoD Component for research and correction.

5. DFAS **must** provide any adjustments made to DoD Component submissions so they can be recorded by the DoD Component in the accounting systems of record, if not already recorded in the accounting systems of record in the current or subsequent period, before the beginning of the next reporting cycle. DFAS and the DoD Component must make every effort to resolve any discrepancies prior to the end of the reporting period. DFAS and the DoD Components must track unresolved discrepancies for research and correction as soon as possible after the end of the reporting period.

6. DFAS **must** comply with internal control policies contained in DoDI 8510.01; Volume 1, Chapter 3; and the “DoD Internal Control Over Financial Reporting Guide.”

020203. Audit Trails

A. DoD Components. DoD Components **must** maintain audit trails in sufficient detail, including the rationale, justification, and approvals to permit tracing of transactions and balances from their sources to their transmission to DFAS. Audit trails are necessary to demonstrate the accuracy, completeness, and timeliness of the transaction. In addition, audit trails provide documentary support for all data generated by the DoD Component and submitted to DFAS for recording in the accounting systems and use in financial reports.

B. DFAS. DFAS **must** clearly document processes and internal controls and maintain a complete and documented audit trail to support the reports it prepares. The organization that translates the information into an electronic mode **must** retain supporting documents or images of the supporting documents. DFAS **must** establish documented business rules and internal controls to ensure feeder file data is received, processed, and compiled in departmental reporting system output files.

1. DFAS **must** sufficiently document adjustments to DoD Component submissions to assist approving officials and others, such as auditors, in understanding the reason for preparing the adjustment, and to support the validity of adjustments prepared during the reporting period.

2. DFAS **must** ensure documentation is readily available as part of the audit trail for the reporting period. The documentation must be readily available for assisting auditors, and those involved in financial statement preparation, to understand how feeder file records are processed.

*020204. **Supporting Documentation**

A. DoD Components and DFAS as their service provider must maintain supporting documentation that will support DoD's accounting cycle. The DoD accounting cycle encompasses the processing and recording of all financial transactions in the proper period and includes the proper presentation on the financial statements and closing of the accounts.

B. DoD Components and DFAS as their service provider must also have the ability to display the rationale and justification for the adjustment, the dollar amount of errors or conditions related to the transactions or records proposed for adjustment, the date of adjustment, and the name and position of the individual(s) approving the adjustment. The documentation must be readily available in one or a combination of the following media: hardcopy, systemically stored electronic records, or electronic files maintained in an external system or location.

C. Proper documentation in hard copy, electronic form, or a combination of both is necessary to support all **journal voucher (JV)** entries. JV documentation **must** include reporting elements deemed critical to assess the accuracy and completeness of financial information, applicable criteria to support the rationale for preparing the adjustment, Treasury Account Symbols or entity codes impacted, and the calculation of the dollar amount of the adjustment. Maintain clear documentation of the JV preparer, reviewer (if used), and approver(s) with the JV documentation. Attach supporting documentation to a copy of the JV. In some cases, it may not be practical to attach all of the documentation to the JV because of the large number of detailed transactions summarized on it. In those cases, attach specific and detailed information summarizing the content and identifying the location of the supporting documentation to the JV.

020205. **Reconciliation**

A. Many financial balances (e.g., general ledger (GL) proprietary and budgetary accounts, such as assets, liabilities, commitments, and undelivered orders) require supporting subsidiary records to validate the amount of the financial balance. Reconcile subsidiary records to financial balances in accordance with the policies, requirements, and frequencies prescribed in [this paragraph](#).

1. DoD Components **must** maintain the supporting records for many financial balances. An individual authorized by each DoD Component **must** periodically validate the accuracy of such subsidiary records against applicable physical assets or other appropriate confirmations of the source documents. DoD Components perform periodic physical inventories in accordance with [DoDI 5000.64](#), "Accountability and Management of DoD Equipment and Other Accountable Property," for tangible equipment, and [DoDI 4165.14](#), "Real Property Inventory (RPI) and Forecasting," for real property. Validations must be documented, signed, and dated by the individual authorized by the DoD Component.

a. Various regulations require periodic counting, or another physical verification in the case of equipment, inventories, supplies and materials, and real property, depending upon the nature of the asset. Refer to the GAO FAM Volume 1, Section 260, "Identify Risk Factors," for controls related to the completeness and accuracy of inventory records.

b. Periodic validation and/or reconciliation is required in the case of commitments, obligations, accounts receivable, and accounts payable. These validations **must** include the review of the documentary evidence that initiated the financial transaction to ensure the integrity of source data. For additional information, see Volume 3, Chapter 8.

2. **DoD Components** must document and provide changes in the source data to DFAS for proper recording. The reconciliation of source data with reported balances is a joint responsibility of DFAS and the DoD Component.

3. **DFAS** **must** establish procedures to ensure that all GL balances, and other associated financial balances, are validated and/or reconciled with supporting records, including source data, in accordance with DoD policy. See Volume 3, Chapter 8.

a. DFAS **must** establish and maintain supporting subsidiary detail transactions that are traceable and reconcile to reported financial statement balances. DoD Components **must** participate in the reconciliation process for these subsidiary records when the source documents, or transactions that require research to complete the reconciliation, are retained by the DoD Component.

b. When the DoD Component maintains accounting system and trial balance subsidiary records, DFAS **must** establish a reconciliation schedule, mutually agreed to by the DoD Component, and subject to approval by OUSD(C), to reconcile the subsidiary records with the financial balance. The reconciliation of such supporting records with the financial balance is a joint responsibility of DFAS and the DoD Component.

4. DFAS **must** investigate unreconciled differences and document adjustments required to balance the GL amount and the amount of the subsidiary records with the rationale, justification, and approvals.

5. DFAS **must** perform reconciliations on a monthly basis, at a minimum, to determine the cause of differences and take appropriate corrective actions to ensure the accuracy and integrity of the accounting system and monthly reports when unreconcilable differences between the GL and the subsidiary records exceed \$1 million. Continue to perform monthly reconciliations until the **irreconcilable** difference is less than \$1 million.

6. DFAS **must** reconcile changes in source data, made by the DoD Component, with reported balances. The reconciliation of source data with reported balances is a joint responsibility of DFAS and the DoD Component.

020206. Reporting Schedules

A. DFAS **must** establish procedures requiring joint development of report preparation schedules with DoD Components according to the timeframes established by the U.S. Department of the Treasury (Treasury), Bureau of the Fiscal Service, Governmentwide Treasury Account Symbol (**GTAS**). DFAS and the DoD Components **must** work to resolve issues identified in the report preparation process according to the GTAS schedule.

B. Reporting schedules for reports provided to external recipients **must** include the opportunity to present a draft of the report to the DoD Component for review and approval prior to release to the recipients.

020207. Draft Reports

A. DoD Components. DoD Components **must** review DFAS reports to assess the accuracy of the financial information reported. The review **must** identify errors, omissions, and significant diversions from budgeted or planned amounts and levels of activity. The DoD Component **must**:

1. Research and propose adjustments to correct abnormal balances. A GL balance is abnormal when the reported balance does not comply with the normal debit or credit balance established in the DoD Standard Reporting Chart of Accounts. DoD Components **must** maintain supporting documentation **in accordance with paragraph 020204** for requested adjustments to financial reports and provide the support to DFAS;

2. Research any unusual trends and comparisons with the prior year and/or prior period amounts to determine whether corrective action is required;

3. Ensure that the amounts in the financial reports are consistent and reconcilable with the same financial data included in management reports prepared by the DoD Component;

4. Not change draft reports provided by DFAS or release the reports to external recipients. For errors or omissions identified in a draft report, submit a request to DFAS to revise the report and include changes in the final report; and

5. Validate reports created within their ERP systems. DoD Components **must** perform quality reviews to confirm that:

- a. Amounts on the report are mathematically correct;
- b. Internal relationships of amounts included in a report that are interdependent are correct;

c. Abnormal account balances, such as negative balances or unusual amounts, are researched and resolved, if possible. If unresolved, include comprehensive explanations identifying root causes and the timeline for resolution; and

d. Unusual trends and comparison with the prior year and/or prior year amounts are identified, researched, and explained.

B. DFAS. DFAS **must** validate reports to ensure reported amounts agree with the official accounting records prior to release to DoD Components for review and approval or release to external recipients. DFAS **must** perform quality reviews to confirm that:

1. Amounts on the report are mathematically correct;
2. Internal relationships of amounts included in a report that are interdependent are correct;
3. Abnormal account balances, such as negative balances or unusual amounts, are researched and resolved, if possible. If unresolved, include comprehensive explanations identifying root causes and the timeline for resolution;
4. Reported amounts for the same data elements for the same report period are consistent across all similar financial reports; and
5. Unusual trends and comparisons with the prior year and/or prior period amounts are identified and called to the attention of the DoD Component.

C. OUSD(C). Refer DoD Component-proposed changes to the draft reports, with which DFAS does not concur, to the OUSD(C) Directorate with oversight responsibility for the subject matter, for adjudication before the end of the current reporting cycle. The DoD Component, or DFAS, may submit requests for adjudication through their reporting chain of command to OUSD(C).

020208. Journal Voucher Adjustments

A. Journal Vouchers (JVs) are all adjustments recorded in system transaction registers and the GL identifying summary-level adjustments to the GL. **Accounting systems generally consist of two forms of JV adjustments, manual JVs and system-generated JVs.** JVs are required for several reasons, including instances when subsidiary records do not reconcile with the financial balances, transactions need correction, and adjustments are required to align obligations, accruals, or expenses with the liquidation amounts for receipts, acceptances, and/or disbursements. JVs do not include transactions and processes used to record detail amounts in subsidiary ledgers as standard business transactions.

B. Either DFAS as the service provider or the DoD Components may identify the need to make adjustments. Both DFAS and DoD Components **must** support adjustments with sufficiently detailed documentation to provide an audit trail to the source transaction(s) that require the adjustments. (See paragraph 020204.)

1. DoD Components. When, during the applicable reporting period, a DoD Component identifies an adjustment pertaining to information included in a monthly, quarterly, semiannual, or annual report, the adjustment will be included as part of the financial information used to produce final report balances.

* a. DoD Components must utilize the Root Cause Indicator Codes (RCIC) when recording manual accounting adjustments in the Defense Departmental Reporting System-Budgetary (DDRS-B) and Defense Departmental Reporting System-Audited Financial Statements (DDRS-AFS). The RCIC is required to record and monitor the root causes for recording accounting adjustments. Capturing the RCIC will be used to develop action plans to address the root cause requiring the accounting adjustment and then monitor the effectiveness of those action plans.

2. DFAS. When DFAS identifies a required adjustment to the official accounting records of a DoD Component, it will refer the proposed adjustment to the DoD Component who **must** review and approve the adjustment. DFAS must document proposed adjustments to DoD Component submissions and provide supporting documentation. DoD Components must respond with approval or disapproval for proposed adjustments within reporting cutoff dates for the relevant period. The following paragraphs provide the exceptions to this policy.

a. When DFAS makes an adjustment of less than \$1 billion to correct errors made by DFAS in the preparation of a report, (e.g., calculation errors and similar mistakes), they may be corrected by DFAS without prior referral to the affected DoD Component. Examples of corrections that may be made by DFAS without referral to a DoD Component are:

(1) Adjustments to correct systems processing deficiencies;

(2) Adjustments to correct an error made by DFAS in processing a transaction or a previous adjustment;

(3) Adjustments to correct a financial balance to equal the sum of subsidiary records; and

(4) Adjustments to align funding, obligation, accrual, or expense amounts with the liquidation amount for receipts, acceptances, and/or disbursements when the applicable supporting information requires such adjustments.

b. DFAS **must** notify DoD Components at least once each month of the reports impacted, total amounts, types, and categories of reasons for adjustments made without prior referral to the DoD Component under circumstances specified in the preceding paragraph and provide corrected reports if applicable. DFAS **must** keep adequate records of all such notifications; and DFAS and the DoD Component **must** work together to record adjustments made by DFAS in the accounting systems of record before the beginning of the next reporting cycle.

C. Appropriate Uses of JVs. JVs have the following primary uses within DoD.

1. Correcting Entries. Correcting entry JVs adjust for errors identified during the reports review process. This entry includes specific amounts, accounts, and/or transactions related to the required correction. If possible, the JV supporting documentation will note the required steps in the process to prevent the need for similar adjustments in future periods.

a. In some cases, correcting entries are required to adjust for errors on previously prepared JVs. In those instances, correcting entries will both reverse the effect of incorrect entries and record the correct amount.

b. In some cases, both entries can be made with one JV and a single set of supporting documentation. Regardless of whether a single JV or multiple JVs are prepared, the correcting JV **must** include a copy of the original JV, documentation supporting the correct amount, and a narrative explanation regarding how it is known that the original entry is incorrect and why the correcting entry is accurate/more accurate.

2. Source Entries. Source entry JVs record those accounting entries that, due to system limitations or timing differences, have not been otherwise recorded. By nature, source entry JVs are usually summarized at the entity level by GL account. The source entry accounting transaction **must** be supported by documentation for the summarized amounts and identify the location of the transaction level supporting detail. Source entry JVs, generally, are used for month-end closing, year-end processing and closing purposes, and also may include postings of information provided through data calls, such as those required to record values for property, plant, and equipment recognition.

3. Summarized Entries. Both correcting and source entry JVs will normally be summarized amounts for which documentation is required. In these situations, the summarized accounting entry represents the amount to record the effect of the detailed transactions. In all such cases, the summarized accounting entry will include documentation of the effect of the detailed transactions and identify the location of the transaction level supporting detail.

4. Subcategories. Further separate correcting and source entry JVs into the following subcategories:

a. Audit Recommended JVs. When auditors recommend a JV adjustment, the proper authoritative source **must** perform an analysis of the recommendation using

the auditors' work papers and other relevant information to determine if the recommended adjustments are valid. Any decision resulting in a determination that a JV should, or should not, be prepared **must** document why the adjustment is, or is not, required; indicate how the duly authorized official determined that the audit recommendation should be, or should not be, followed; and identify the audit recommendation serving as the basis for the actions taken.

b. DoD Component Requested JVs. When a DoD Component requests an adjustment that complies with the JV definition in [subparagraph 020208.A](#), a JV **must** be prepared. In addition, the JV **must** document why the adjustment is required, indicate how the duly authorized official determined that the entries included on the JV are correct, and identify the DoD Component's request serving as the basis for the adjustment. The DoD Component's JV request to DFAS **must** include supporting records and related analysis. A request for a JV entry that is not properly authorized or supported by accurate or proper documentation will be returned to the JV requestor with an indication of what additional information is required to process it, along with any applicable authoritative guidance.

c. Edits and Validations. Reporting entities record JVs modifying report submissions to comply with edits and validations designed to improve the accuracy of financial reporting. The Treasury Financial Manual, United States Standard General Ledger (USSGL), contains a listing of Governmentwide Treasury Account Symbol Adjusted Trial Balance System validations and edits. (See Section VII.)

*020209. System-Generated JVs

A. For the purposes of this chapter, system-generated JVs are all automated and controlled entries included in system transaction registers identifying summary-level adjustments to the GL. Examples of system-generated entries include system-performed period-end closing entries, consolidations, and entries to bring GL accounts into balance at specified periods of times during the financial reporting process. System-generated JVs do not include the automation of JVs previously recorded manually.

B. DFAS utilizes eight types of recurring system-generated JVs in DDRS-B. . These adjustments are approved by the Components for DFAS to process to ensure financial records are compliant with generally accepted accounting principles. Supporting documentation for system-generated JVs must be in accordance with paragraph 020204. The eight recurring system-generated JV types are:

1. Army Legacy. Adjustments processed in the first accounting period of each fiscal year to ensure prior year unobligated balances from Army legacy accounting systems, Standard Finance System (STANFINS), Standard Operations and Maintenance Army Research and Development System (SOMARDS), and Civil Engineers Financial Management System (CEFMS) are not overstated/understated in DDRS-B.

2. Extended Appropriation. Adjustments processed in the first accounting period of each fiscal year to execute the transfer of obligated/unobligated Shipbuilding

and Conversion, Navy (SCN) appropriation balances from the expiring to the extended period of availability. Only SCN balances are in scope for the Extended Appropriation JVs.

3. Flowback. Adjustments to ensure that the impacts of select adjustments processed directly in DDRS-AFS are also reflected in DDRS-B.

4. Funding. Adjustments to guard against the misstatement of funding and ensure the funding amounts reflected in DDRS-B agree to the OMB apportionments recorded in the Program Budget and Accounting System and the Program Budget Information System.

5. Pre-close Cancelling Appropriation. Adjustments processed in the last accounting period of each fiscal year to facilitate the process of cancelling appropriations that have reached the end of their fifth expired year.

6. Reapportionment. Adjustments to facilitate the process of reinstating unapportioned authority which closed during the previous fiscal year's closing process.

7. Reversal. Adjustments posted in the first accounting period of each fiscal year to reverse manual, year-end, Permanent with Reversal or Permanent with Reversal Recurring JVs and Permanent with Reversal Feeder Trial Balance Adjustments.

8. Undistributed. Adjustments to support the monthly requirement that final appropriation-level disbursements and collections reported in DDRS-B agree to the balances reported by Treasury.

C. DFAS must create and maintain standardized narratives for recurring system-generated JVs to identify and provide a description of the predefined business rules used to execute the adjustments. In addition, DFAS must maintain evidence of review and approval of the predefined business rules executed in DDRS-B.

D. Other non-recurring system-generated JVs are recorded based on certain System Change Requests (SCRs), which are proposals to modify information in DDRS-B such as revising programming logic and coding changes. Not all SCRs result in system-generated JVs. In the event a non-recurring system-generated JV is required, the supporting documentation must be supplied and maintained by the requestor of the SCR. DDRS Program Management Office must retain supporting documentation for all non-recurring system-generated JVs to include, at a minimum, user stories, testing documentation, and the impact of the system-generated JV.

020210. JV Preparation

A. General. Proper preparation of and adequate support for JVs is important to ensure they accurately record accounting, financial, or other GL-related events and that documentation for a detailed audit trail exists. Unadjusted GL account balances represent the listing of GL account balances at the end of the reporting period, before period-end adjusting JVs are recorded. In various level financial reporting systems, the unadjusted GL balances reported are summaries of transaction data used to record specific homogeneous types of transactions and

balances that aggregate to specific classifications on the financial statements. Use JVs to process monthly, quarterly, and annual adjustments to unadjusted GL account balances in the field and higher-level accounting and reporting systems.

1. All summary-level entries included in system transaction registers identifying adjustments to the GL are considered JVs for the purposes of this chapter and must be adequately documented to support the validity of the transactions. In accounting systems of record, manual adjustments to the GL are considered JVs. Transactions and processes used to record detail amounts in subsidiary ledgers are not considered JVs.

2. Proper preparation of, and adequate support for, JVs is the responsibility of DFAS and the DoD Components. Memorandum-style entries to the GL, affecting neither Treasury-level reporting nor subordinate records, are not considered JVs for the purposes of this chapter.

B. Internal Controls. OMB Circular A-123 identifies operational internal controls to ensure JVs are recorded properly. These controls **must** be in place for all transactions included in system transaction registers identifying summary-level adjustments to the GL. These controls do not apply to transaction input or processes establishing detail amounts recorded in subsidiary ledgers.

1. JVs may be prepared at the installation (execution) or departmental (reporting) level and must be:

a. Systematically tracked and reflected in a JV log. Reporting entities must implement controls to ensure JVs are tracked and readily available for audit;

b. Categorized by each of the applicable categories listed in subparagraph [020210.D](#);

c. Reviewed and validated to ensure the transaction utilizes the correct accounts and posts correctly;

d. Documented to support the validity and the amount of the JV transaction. The documentation requirement applies to all transactions included in system transaction registers identifying summary-level adjustments to the GL;

e. Authorized, approved, and documented at the appropriate level of management or designee. The organizational level within accounting centers, accounting stations, finance offices, and other accounting locations approving JVs will vary by the dollar amount of the voucher as shown in Table 2-1. The dollar amount for each JV is the sum of the absolute value of the debit side entries on that voucher;

(1) The approving officials listed in Table 2-1 provide a framework for approving JVs based on identified thresholds. Reporting entities may adapt the approving officials identified based on the entity's organizational structure. Within each of the

listed thresholds, other approval thresholds with lower dollar values than those specified in Table 2-1 may be established to accommodate the organizational level of those preparing the JV. In addition, unless other DoD Component approval thresholds with lower dollar values are established in memorandums of understanding between DFAS and a DoD Component, all JVs over \$1 billion **must** be coordinated with the affected DoD Component.

(2) Approving officials may delegate their authority in writing to lower-level supervisors or other duly authorized officials with sufficient knowledge of the accounting matters addressed by the JV. The delegation does not relieve approving officials of their responsibilities as outlined in this chapter. See additional guidance in subparagraph 020210.B.2;

Table 2-1. JV Approval Thresholds

Threshold	Dollar Amount	Approving Official Supporting the Reporting Entity
1	Under \$100 Million	Branch Chief
2	\$100-\$500 Million	Supervisor of Branch Chief
3	Over \$500 Million-\$1 Billion	Director for Accounting or Finance
4	Over \$1 Billion	Site Director

f. Processed under procedures that ensure the separation of duties for preparing, approving, recording or posting, and validating to the maximum extent possible. The preparer and approver cannot be the same person;

g. Annotated with the name, title, and office symbol of currently authorized preparers, reviewers (if used), and approvers. In an electronic environment, the name, title, and office symbol may be represented by user identification;

h. Maintained and readily available in hard copy, electronic form, or a combination if there is a manual approval of an automated system JV. All manual JVs must be documented, approved by the appropriate level, readily available, and in compliance with published guidance. Manual JVs include the automation of JVs previously recorded manually; and

i. Retained in accordance with records retention guidance contained in Volume 1, Chapter 9.

2. Maintain adequate managerial internal controls at each level of management, as directed in OMB Circular A-123, to ensure there is proper oversight of JV preparation. As a minimum, such managerial internal controls require the following:

a. Within 10 workdays after the accounting centers' issuance of quarterly financial statements for the first through third quarters, approving officials, at the levels of authority designated in Table 2-1, must perform and document a high-level integrity review of all JVs for which they delegated approval authority. Integrity reviewers are required to review

each delegated JV for compliance with the terms of the delegation but are not required to review all documentation supporting the JV. A fourth quarter review must take place prior to submission of the Agency Financial Report to OMB (no later than November 15). If the approving official, at the levels of authority designated in Table 2-1, is unavailable to perform the integrity review, an individual having the appropriate accounting knowledge and expertise, and who was not a delegated approver, can perform the integrity review on behalf of the approving official. **The approving official must appoint this individual in writing.**

b. Within 30 calendar days of the issuance of the financial statements, whether quarterly or annually, the DFAS Director for Accounting (or designee) must perform a quarterly quality and compliance review after submission of the quarterly and annual reports to OUSD(C). Conduct the review on a random sample of all **manual** JVs to determine if JVs are correctly prepared and processed, adequately described and supported, and approved at the proper managerial level within the limitations set forth in subparagraph 020210.B.1.e.1. The Director of Accounting (or designee) may substitute monthly reviews in place of the quarterly review. The review must be conducted by an entity outside the immediate office that created the JV. The entity conducting the review must have sufficient auditing expertise to perform the review and must sign, date, and retain documentation to support the completed review.

(1) **DFAS must** conduct the review in accordance with the GAO FAM Volume 1, Section 450, "Perform Sampling Control Tests." The FAM provides guidance pertaining to acceptable sample sizes and error rates for typical internal control samples. The FAM Figure 450.1, "Sample Sizes and Acceptable Numbers of Deviations," includes tables to compute the acceptable number of deviations for testing controls. Within DoD, compute the acceptable number of deviations using a 90 percent confidence level and a 5 percent tolerable error rate. When the tolerable error rate is exceeded, review current JV procedures for possible revision to ensure compliance;

(2) **DFAS must** identify and correct errors and notify the affected DoD Component as necessary. Identify root causes and implement corrective actions as appropriate. If errors materially impacted the financial statements, evaluate the need to restate/reissue the financial statements;

c. The internal review office must conduct an assessment of the organization's JV processing procedures, in accordance with OMB Circular A-123, to ascertain if JVs are properly prepared and supported. Volume 1, Chapter 3, discusses the necessity and importance of independent reviews.

d. DoD Components must perform a compliance review of JVs within their accounting systems to ascertain if the JVs are correctly prepared and processed, adequately described, supported, and approved at the proper managerial level at least on a quarterly basis.

C. **Critical Elements.** Critical elements are items that, if reported incorrectly for financial reporting purposes, would have a direct effect on the amounts presented on the financial statements. Reporting fields deemed critical must be populated in order to provide

sufficient information for the approving official and others, such as auditors, to understand the reason for preparing the JV, determine if it is proper and accurate, and identify whether the JV entries are supported or unsupported by subsidiary records. This paragraph outlines critical elements for most JV categories and applies to JVs recorded in all systems. Additional items may be deemed critical depending on the category of adjustment being made. JVs **must** include items listed in [paragraph 020204](#).

1. Correct Appropriation/Accounting Data. JVs **must** contain accurate financial information in order to populate the required input fields for entry into the accounting/financial reporting systems.

* 2. Balanced Adjustments. JV debits and credits **must** equal and reflect correct dollar amounts. **Out of balance JV adjustments are not permitted.**

3. Approvals. JVs **must** contain required approvals according to the thresholds outlined in subparagraph 020210.B.1.e.

4. Documentation. JVs **must** include adequate documentation, with cross-referencing to other documentation (hard copy or electronic form), to support the validity and amount of the transaction. Attach supporting documentation to the JV as described in [paragraph 020204](#).

5. USSGL. JVs **must** contain valid GL accounts to record the adjustments. Approved DoD postings transactions are available at the DoD USSGL Transaction Library.

D. JV Categories. Regardless of the method of documentation used for the JVs, the dollar amount(s) on the JVs must be clearly and readily identifiable within the supporting documentation for the categories in subparagraphs 020210.D.1-11. Both manual and system-generated JVs require the use of JV categories.

1. Category A - Reversing Entries for Prior Reporting Period. **Category A must be used when reversing JVs from a prior accounting period.**

2. Category B - Data Call Entry. **Category B must be used when recording JVs for summarized source data not included in the GL trial balance.** To the maximum extent possible, reporting entities will eliminate data call JVs in the DDRS and record properly supported JVs closer to the underlying source transaction. This practice enhances accuracy and accountability, reduces errors, and places JV ownership with the organization responsible for the underlying transaction. Examples of data call entries include property, plant and equipment; operating materials and supplies; environmental liabilities; contingent liabilities; and employee benefit data.

3. Category C - Balancing Entries for Eliminations. **Category C must be used** when the duly authorized official has determined that entries are necessary to balance buyer side data with seller side data. Refer to Volume 6B, Chapter 13 for guidance on eliminations.

4. Category D - Recognition of Undistributed Disbursements and Collections. Category D must be used when recording undistributed disbursements and collections JVs representing the difference between the amount of disbursements and collections reported to Treasury and the amount recorded by the operating level activities.

5. Category E - Reconciliation of Trial Balance and Budget Execution Reports. **Category E must be used when reconciling** trial balances or other source data reported by field accounting sites and/or accounting stations to the DoD Component's budget execution reports. Consider trial balances or other source data correct and only adjust to budget execution data in instances where budget execution data is determined to be more accurate, i.e., Tie Point reconciliation of budgetary and proprietary accounts.

6. Category F - Supply Management Inventory. **Category F must be used when** supply management activities adjust from the standard price to approximate historical cost.

7. Category G - Reclassification of Accounts. **Category G must be used when correcting erroneous USSGL accounts attributes and to adjust incorrect posting logic, aligning with the** DoD Standard Reporting Chart of Accounts and Standard Financial Information Structure.

8. Category H - Identified Errors and Reasonableness Checks. **Category H must be used when correcting errors identified by an authorized official or auditor.**

9. Category I - Adjustment to Balance Reports Internally. **Category I must be used when an** authorized official has determined that a reconciliation of data supporting two different reports is not possible.

10. Category J - Other Accruals. **Category J must be used when recording accrual JVs. Accruals involve the following types of business transactions:**

a. **Expenses, losses, and liabilities that have been incurred but are not yet recorded in the accounts,**

b. **Revenues and assets that have been earned but are not yet recorded in the accounts, and**

c. **Laws or Regulations specific requirements**

11. Category M - Data Collection Module (DCM). **Category M must be used when utilizing DDRS DCM JV functionality to record data call amounts from DCM.**

020211. Release of Reports

A. **DoD Components.** DoD Components **must** approve draft annual reports and return those reports to DFAS for appropriate revision, validation, and distribution as final reports.

The DoD Components **must** not release any reports, including monthly recurring reports, such as budget execution reports, to any organization external to the DoD Components. Only DFAS **may** release such reports. Volume 6B, Chapter 2 contains the requirements for the audited and interim financial statements.

B. DFAS. DFAS **must** validate all final reports using the official accounting records prior to release to their intended recipients. The release of reports occurs only after final validation that corrections and adjustments have been made and that the report agrees with the official accounting records.

020212. Certifications

A. DoD Component/Reporting Entity. A reporting entity is an organization represented by the financial information in a financial statement or report and may be a DoD Component or a subordinate command/organization. For example, a reporting entity may include an individual command or activity, such as a shipyard or a supply depot, or it could encompass a number of activities within a business area, such as all shipyards or aircraft depot maintenance activities in a Military Department. A reporting entity can also be at a DoD Component level.

1. The reporting entity, rather than DFAS, is responsible for annual certifications required in the implementation of Title 31, United States Code, section 1501(a). See Chapter 4, "Appropriations and Fund Status Reports," for additional information related to year-end reporting.

2. Reporting entities having working capital funds are responsible for signing the Accounting Report (Monthly) (AR(M)) 1307, Defense Working Capital Fund Accounting Report addressed in Chapter 15.

B. DFAS. DFAS's role in processing financial data, and in preparation of financial reports for DoD Components, includes certain responsibilities. Accordingly, DFAS will provide the following to the DoD Component:

1. Assurances and certifications, when requested, to the reporting entity regarding the quality of accounting and report preparation services performed for the DoD Component;

2. Signed monthly, quarterly, and semiannual reports on behalf of the DoD Component following review and approval by the DoD Component. An exception is the AR(M) 1307, which the DoD Component is required to sign. Volume 6B, Chapter 2 contains the requirements for the audited and interim financial statements; and

3. A certification provided by the chief of the applicable reports section confirming accuracy of the balances reported on the AR(M) 1307.