Audit Report

Office of the Inspector General

Obligation Management of Navy Appropriations

Report No. 96-145

June 6, 1996

Department of Defense

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Acronyms

ACRN  Accounting Classification Reference Number
DFAS  Defense Finance and Accounting Service
GAO  General Accounting Office
IG  Inspector General
MOCAS  Mechanization of Contract Administration Services
NAVAIR  Naval Air Systems Command
NAVSEA  Naval Sea Systems Command
NULO  Negative Unliquidated Obligation
SPAWAR  Space and Naval Warfare Systems Command
STARS  Standard Accounting and Reporting System
June 6, 1996

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT AND COMPTROLLER)

SUBJECT: Audit Report on Obligation Management of Navy Appropriations
(Report No. 96-145)

We are providing this audit report for review and comment. Management comments on a draft of this report were considered in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. We request that the Navy provide additional comments on Recommendation 2.b. and 2.c. by July 8, 1996. The comments should describe the specific planned actions for establishing performance measures to track obligations and the completion dates for reviewing contracts to ensure sufficient funding is available.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Richard B. Bird, Audit Program Director, at (317) 542-3859 (DSN 699-3859), or Mr. Edward A. Blair, Acting Audit Project Manager, at (216) 522-6091 (DSN 580-6091). See Appendix F for the report distribution. The audit team members are listed inside the back cover.

Robert J. Lieberman
Assistant Inspector General
for Auditing
Obligation Management of Navy Appropriations

Executive Summary

Introduction. DoD Directive 7200.1, "Administrative Control of Appropriations," May 4, 1995, requires DoD Components to establish positive control and maintain adequate systems of accounting for appropriations and other funds. DoD Regulation 7000.14-R, volume 14, "Administrative Control of Funds and Antideficiency Act Violations," August 1, 1995, further requires that once an obligation is incurred, it shall be recorded promptly whether or not funds are available. The Antideficiency Act specifically prohibits Executive agencies from making or authorizing an expenditure exceeding an amount available in an appropriation or fund. Failure to record obligations in a timely manner also prevents accurate financial reporting and significantly increases the potential for unmatched disbursements and negative unliquidated obligations.

Audit Objectives. The primary audit objective was to determine whether adequate controls were in place to prevent the creation of negative unobligated balances in Navy appropriations. We also reviewed the identification and reporting of negative unobligated balances.

Audit Results. Controls in Navy organizations were not adequate to ensure that obligations were promptly recorded. From October 1, 1994 through July 19, 1995, the Naval Air Systems Command, the Naval Sea Systems Command, and the Naval Warfare Systems Command took from 11 to 166 days to record obligations in the Standard Accounting and Reporting System. Obligations for 13,082 contract actions (valued at $9.6 billion) out of 33,450 contract actions incurred (valued at $20.7 billion) were not recorded promptly. We defined the recording period of an obligation as the date an obligation was incurred through the date the obligation was entered into the official accounting system. We considered obligations recorded within 10 days to be recorded promptly. We identified eight contracts for which the Defense Finance and Accounting Service Columbus Center made about $1.6 million in payments before the Navy recorded the obligations. Also, the Navy did not record obligations for two approved contract modifications totaling about $30.9 million and did not make payments totaling about $5.6 million because sufficient funds were not available in Navy appropriations. By recording obligations in an untimely manner, the Navy is not complying with DoD Directive 7200.1. Failure to record obligations because sufficient funds are not available also makes identifying potential Antideficiency Act violations more difficult. The recommendations in this report will ensure that the Navy and other DoD Components promptly record obligations in their official accounting records.

Summary of Recommendations. We recommended that the Under Secretary of Defense (Comptroller) issue guidance requiring all DoD Components to record obligations in their official accounting records within 10 calendar days of incurring them. We also recommended that the Assistant Secretary of the Navy (Financial Management and Comptroller) require all Navy organizations to establish and implement procedures to ensure that obligations are recorded in their official accounting systems within 10 calendar days of incurring them; establish performance
measures to track the timely recording of obligations; report periodically on whether obligations are being recorded within 10 calendar days; and require a review of the 10 contracts discussed in this report to determine whether an actual shortage existed at the contract or the appropriation level. If obligations were not recorded because of insufficient funds, investigate potential Antideficiency Act violations; fix responsibility; and if any violations occurred, comply with report requirements in United States Code, title 31, section 1351, and DoD Directive 7200.1.

Management Comments. The Under Secretary of Defense (Comptroller) concurred and issued guidance on February 26, 1996, requiring obligations to be recorded in their official accounting systems by the 10th calendar day after incurring obligations or before the end of the accounting period, whichever is earlier.

The Principal Deputy Assistant Secretary of the Navy (Financial Management and Comptroller) generally concurred with the draft report and issued guidance on April 1, 1996, to implement procedures ensuring the recording of obligations within 10 calendar days of incurring the obligation. The Principal Deputy agreed to establish performance measures to track the recording of obligations, however, the performance measures will not be provided until a study is completed on the types of obligations and the time required to receive and obligate contract actions. The Principal Deputy also agreed to review the 10 contract actions identified in the draft report to determine whether sufficient funds were available. However, she did not provide completion dates for these actions. See Part I for a summary of management comments on the recommendations and Part III for the full text of management comments.

Audit Response. The comments of the Principal Deputy Assistant Secretary of the Navy (Financial Management and Comptroller) generally met the intent of our recommendations. However, the comments did not include a plan of action for establishing performance measures and the intended completion dates for reviewing the 10 contract actions to ensure sufficient funding is available. We request that the Navy provide additional comments on these matters by July 8, 1996.
Table of Contents

Executive Summary i

Part I - Audit Results

Audit Background 2
Audit Objectives 4
Controls Over Recording of Navy Obligations 5

Part II - Additional Information

Appendix A. Scope and Methodology 14
Appendix B. Summary of Prior Audits and Other Reviews 16
Appendix C. Time Taken to Record Contract Actions in STARS 18
Appendix D. Disbursements Made Before Obligations Were Recorded in STARS 19
Appendix E. Organizations Visited or Contacted 20
Appendix F. Report Distribution 21

Part III - Management Comments

Under Secretary of Defense (Comptroller) Comments 24
Department of the Navy Comments 27
Part I - Audit Results
Audit Results

Audit Background

The Defense Finance and Accounting Service (DFAS) was established in November 1990 as the result of DoD Directive 5118.5, "Defense Finance and Accounting Service." DFAS was chartered to standardize and consolidate DoD accounting and finance operations formerly carried out by the various DoD organizations and the Military Departments. Headquarters, DFAS, is in Arlington, Virginia, and DFAS centers are in Columbus, Ohio; Cleveland, Ohio; Denver, Colorado; Indianapolis, Indiana; and Kansas City, Missouri. DFAS also has a number of smaller operating locations.

The DFAS Cleveland Center (DFAS Cleveland) performs a variety of accounting and financial reporting functions for the Navy. DFAS Cleveland:

- provides pay and accounting services to about 1.1 million Navy personnel and 2 million retired military personnel, with payments totaling $25 billion annually;

- performs field, claimant, and departmental accounting and reporting for all Navy appropriations, funds, and accounts; and

- provides financial management and accounting services for the Navy’s prior-year and current-year appropriations.

The DFAS Columbus Center (DFAS Columbus) uses the Mechanization of Contract Administration Services (MOCAS) computer system to make contract payments using Army, Navy, Air Force, and other Defense organizations' appropriated funds. During FY 1995, DFAS Columbus was responsible for 376,048 active contracts valued at $667.4 billion, and paid more than 1.1 million contractor invoices totaling $61 billion.

**Standard Accounting and Reporting System.** The Standard Accounting and Reporting System (STARS) is an interim migratory* computer system that consolidates Navy accounting operations, and records and accounts for appropriated funds. STARS consists of computer modules that support general fund accounting, bill paying, electronic data interchange, electronic funds transfer, data interfaces with other financial and management information systems, and financial reporting.

The STARS Headquarters Claimant Module provides a single data processing system for 46 appropriations. It accounts for more than $350 billion of the Navy's prior-year and current-year appropriations, and can process 600,000 to 700,000 transactions and more than 300,000 inquiries monthly.

**Recurring Problems.** Since August 1991, the General Accounting Office (GAO) and the Inspector General (IG), DoD, have issued five reports on

*An existing or planned and approved automated information system that has been designated to support a functional process on a DoD-wide basis.
continuing problems in the DoD and the Military Departments with managing and controlling unmatched disbursements and negative unliquidated obligations (NULO\'s). Unmatched disbursements are payment transactions that have been received and accepted by an accounting office, but have not been matched to the correct obligations. NULO\'s result when payment transactions appear to have been matched to the correct obligations, but the total disbursements exceed the amount of the obligations (See Appendix B for a detailed summary of the five reports issued).

DoD Directive 7200.1. DoD Directive 7200.1, "Administrative Control of Appropriations," May 4, 1995, regulates fund control for all DoD Components. The Directive requires DoD Components to establish positive control and maintain adequate systems of accounting for appropriations and other available funds. Financial management systems must assure the responsible official that funds are available before an obligation is incurred or a payment is made.

DoD Regulation 7000.14-R. This regulation, "Administrative Control of Funds and Antideficiency Act Violations," volume 14, August 1, 1995, implements procedures for administrative control of appropriations; these procedures are consistent with DoD Directive 7200.1.

Once incurred, all obligations shall be recorded accurately and promptly, even if the result is a potential overobligation of an appropriation. For the Navy, STARS is one of the official accounting records in which obligations must be recorded for major claimant activities. However, no definitive guidance specifies the maximum number of days before an obligation must be recorded. We used 10 days as the standard.

Antideficiency Act. Established pursuant to the United States Code (U.S.C.), title 31, sections 1341 and 1517, the Antideficiency Act specifically prohibits Executive agencies (including the Navy) from making or authorizing an expenditure exceeding an amount available in an appropriation or fund. DoD Regulation 7000.14-R, volume 14, specifies requirements for DoD fund control systems, to ensure that funds are used only for congressionally authorized purposes and that payments are not made in excess of amounts available. Formal investigations of potential Antideficiency Act violations, regardless of the amount, are required. The Comptroller General has also ruled that incurring an obligation in excess of available appropriations, not the recording of the obligation, constitutes a violation of the Antideficiency Act. The Comptroller General considered the failure to record an obligation for the purpose of concealing a violation of the Antideficiency Act to be a violation of 31 U. S. C. 1502 (71 Comptroller General Decision 502, 1992). Thus, all obligations must be recorded in official accounts. However, merely recording the overobligation does not authorize its payment; sufficient budget authority must also be provided.

Matching Disbursements and Obligations. Public Law 103-335, the "Department of Defense Appropriations Act, 1995" (the Act), section 8137, required that by July 1, 1995, each disbursement greater than $5 million must be matched to a particular obligation (prevalidated) before the disbursement is made. The Act also required that starting October 1, 1995, all disbursements
greater than $1 million must be prevalidated. The "Department of Defense Appropriations Act, 1996," Public Law 104-61, section 8102, postponed prevalidation of disbursements greater than $5 million until October 1, 1995, and provided for waivers of such prevalidation in some specific circumstances.

**Recording Obligations.** The accurate and prompt recording of obligations in STARS and other official accounting systems is essential to sound financial management and can directly affect the ability of DFAS and the Navy to match disbursements to corresponding obligations. DFAS Columbus records obligations in MOCAS on receipt of a valid obligation document. Under current policy, DFAS Columbus disbursements of $5 million or less may be made without prevalidating the disbursement to an obligation recorded in the Navy's official accounting records. If the MOCAS disbursement has not been matched against the corresponding obligation recorded in STARS, or is recorded improperly, an unmatched disbursement or a NULO will occur. Unrecorded obligations and the resulting unmatched disbursements and NULOs can significantly distort the accuracy of available balances in Navy appropriations and may conceal potential violations of the Antideficiency Act.

**Related DoD Guidance.** On June 30, 1995, the Under Secretary of Defense (Comptroller) issued new guidelines for unmatched disbursements. Effective in June 1995, for all disbursements that have not been matched to their proper authorizing obligations, new obligations must be established, recorded, and reported after 180 days of payments, in DoD Components' official accounting records. The guidelines apply to disbursements made after March 31, 1994.

**Audit Objectives**

The primary audit objective was to determine whether adequate controls were in place to prevent the creation of negative unobligated balances in Navy appropriations. We also reviewed the identification and reporting of negative unliquidated balances. See Appendix A for details on the audit scope and methodology.
Controls Over Recording of Navy Obligations

Controls in Navy organizations were not adequate to ensure that obligations were promptly recorded in STARS because:

- existing DoD guidance, while requiring that obligations be promptly recorded, did not set a standard for promptness; and

- procedures to ensure the timely recording of Navy obligations either did not exist or were not routinely followed at the organizations visited.

Computerized data in the Defense Contract Action Data System were compared to obligation data recorded in STARS for the three organizations visited. The comparison showed that for 13,082 contract actions (valued at $9.6 billion) of the 33,450 actions analyzed (valued at $20.7 billion), obligations required from 11 to 166 days to be recorded in STARS (see Appendix C). Defense guidance specifying the maximum number of days before an obligation should be recorded does not exist. (We used 10 days as a standard.) Of the 922 contract actions reviewed, in 8 cases, DFAS Columbus made about $1.6 million in payments before the Navy recorded the obligations in STARS. In two additional cases, sufficient funds were not available in Navy appropriations to meet existing obligations. Therefore, Navy officials did not record the obligations in STARS, and payments totaling about $5.6 million were not made. Failure to record obligations in a timely manner prevents accurate financial reporting, significantly increases the potential for unmatched disbursements and NULOs, and can obscure potential Antideficiency Act violations from timely recognition and correction by management.

Recording Obligations at Navy Organizations

Naval Air Systems Command. The Naval Air Systems Command (NAVAIR) took more than 10 days to record obligations in STARS for 5,814 contract actions (valued at $7.1 billion) of the 12,358 actions (valued at $14.4 billion) analyzed. Although control procedures were established to ensure the timely recording of obligations, the procedures were not adequate.

NAVAIR does not have adequate procedures to monitor the flow of obligating documents between the contracting and accounting divisions. The contracting division initially prepares a "Daily Report of Obligation" listing that identifies all contract actions requiring obligations. Based on the information shown on the "Daily Report of Obligation," the contract actions are distributed within the accounting division for recording obligations in STARS. According to NAVAIR personnel, the contract action should be recorded in STARS within
Controls Over Recording of Navy Obligations

1 day after the accounting division receives the "Daily Report of Obligation." However, NAVAIR had not documented these procedures, no time limits were placed on recording obligations in STARS, and obligations were not tracked to ensure that they were recorded promptly.

During visits to NAVAIR, we reviewed a total of 333 judgmentally selected contract actions (valued at $3.6 billion) out of 12,358 contract actions analyzed. Of the 333 contract actions, 231 (valued at $1.32 billion) were not recorded promptly in STARS. Figure 1 shows the results of our review of contract actions at NAVAIR.

![Pie chart showing the number of days taken to record obligations at NAVAIR.]

Figure 1. Number of Days Taken to Record Obligations at NAVAIR

**Naval Sea Systems Command.** For 5,517 contract actions (valued at $2.1 billion) of the 18,013 actions (valued at $5.3 billion) analyzed, the Naval Sea Systems Command (NAVSEA) took more than 10 days to record obligations in STARS. NAVSEA had control procedures to ensure the timely recording of obligations, but the procedures were not adequate. Also, NAVSEA did not have adequate formal procedures to monitor the flow of obligation-related data between the procurement and accounting functions.

At NAVSEA, controls over recording obligations in STARS begin with the contracting division. An obligation is incurred when a contracting officer signs a contract or contract modification. The contracting division sends the accounting operations division a "Daily Report of Obligation" that identifies each contracting action. Based on the appropriation data, the accounting operations division distributes each contract action to the responsible appropriation division. The appropriation division should record the obligation in STARS. For example, the O12 Division (Shipbuilding and Conversion, Navy) is responsible for recording obligations for all Shipbuilding and Conversion, Navy (1611) appropriation symbols.

Control procedures were not adequate; the routing of contract actions between divisions was not accurately tracked, and existing procedures were not followed.
Personnel in the contracting, accounting operations, and appropriation divisions did not track or otherwise document the receipt of the "Daily Report of Obligations." Because formal tracking procedures were not used, NAVSEA could not identify who was responsible for delays in recording obligations.

Although NAVSEA procedures direct appropriation divisions to use the contract actions listed on the "Daily Report of Obligation" to record obligations, the procedures were not always effective. Obligations are often recorded from copies of contract actions that program offices send to the appropriation divisions. That method circumvents the controls designed to ensure that original contract actions are used to record obligations; as a result, obligations can be recorded in STARS more than once. Of the contract actions we reviewed, we did not find any instances of multiple recording. However, NAVSEA personnel stated that in some instances, individual contract actions had multiple obligations recorded because the contract listed on the "Daily Report of Obligation" was not used.

At NAVSEA, we reviewed a total of 147 judgmentally selected contract actions (of 18,013 analyzed); the 147 actions were valued at about $992.8 million. Sixty-six contract actions (valued at $208.8 million) were not promptly recorded in STARS. Figure 2 shows the results of our review of contract actions at NAVSEA.

**Figure 2. Number of Days Taken to Record Obligations at NAVSEA**

Space and Naval Warfare Systems Command. For 1,751 contract actions (valued at $392.7 million) of the 3,079 actions (valued at $1.06 billion) we analyzed, the Space and Naval Warfare Systems Command (SPAWAR) took more than 10 days to record obligations in STARS. Although SPAWAR had some control procedures, they did not ensure the timely recording of obligations in STARS.

Obligations are incurred when the contracting division initially signs a contract action. Conformed copies are then sent to the accounting division; an
obligation can be recorded in STARS only from a contract action that has been stamped "conformed copy." The contracting division also tracks the distribution of contract actions to the accounting division.

When the accounting division receives a conformed copy of a contract action, the obligation should be promptly recorded in STARS. However, the accounting division has no formal tracking procedure to monitor the recording of obligations received from the contracting division. Although SPAWAR has adequate controls to ensure that contract actions are distributed to the accounting division, no procedures exist to ensure that obligations are recorded promptly. Definitive guidance, specifying the maximum number of days before an obligation should be recorded, does not exist.

During visits to SPAWAR, we reviewed a total of 442 judgmentally selected contract actions (of 3,079 analyzed); the 442 contract actions were valued at $789.6 million. Of the 442 contract actions, 222 (valued at $265.5 million) were not promptly recorded in STARS. Figure 3 shows the results of our review of contract actions at SPAWAR.

![Figure 3. Number of Days Taken to Record Obligations at SPAWAR](image)

**Disbursements Made Prior to Obligations**

DFAS Columbus made contract payments totaling about $1.6 million against eight contract actions (two NAVAIR, one NAVSEA, and five SPAWAR actions) before the obligations were recorded in STARS. For example, a $20 million contract action was issued for NAVAIR contract N00019-94-C0058, Accounting Classification Reference Number (ACRN) BA, on December 22, 1994. The obligation was recorded in STARS on April 4, 1995;
however, DFAS Columbus recorded the obligation in MOCAS on January 30, 1995, and disbursed $604,845 against it on February 10, 1995, 53 days before the obligation was recorded in STARS.

In another case, two contract actions totaling $3.7 million were issued for SPAWAR contract N00039-91-C0015, ACRN AG. One contract action was awarded on October 18, 1994, and the other contract action was awarded on January 16, 1995. However, the Navy did not record either obligation in STARS until February 21, 1995. DFAS Columbus recorded both obligations in MOCAS on February 10, 1995, and disbursed $513,698 against them on February 13, 1995, 8 days before the obligations were recorded in STARS. Disbursements were made by MOCAS from 1 to 99 days before the remaining six cases were recorded in STARS (see Appendix D).

Lack of Sufficient Funds

In two cases, because sufficient funds were not available, NAVAIR and NAVSEA did not record obligations in STARS, although contract modifications had been executed. For contract N00019-92-C0020, sufficient funds were not available on ACRN 3V to make a $5.6 million payment on September 10, 1995. Insufficient funding occurred when a Navy modification, deobligating $30.8 million from ACRN ZF and obligating $27 million of that amount against ACRN 3V, was not processed because previous disbursements had already been charged against ACRN ZF. If the Navy had processed the modification, a NULO would have been created. Because of the requirement to prevalidate disbursements of $5 million or more, DFAS Columbus was unable to make the disbursement until October 7, 1995, when it could be prevalidated.

In the second case, NAVSEA did not obligate additional funds against contract modification N60921-93-D-A142, delivery order 0025, ACRN AC, because the contract documentation showed that sufficient funds were not available in the appropriation. Although NAVSEA was notified in November 1994 that a valid $30,253 payment could not be made until additional funds were obligated in STARS, no action had been taken at the time of our review.

When DFAS Columbus receives signed Navy contract actions (basic contracts and contract modifications) for entry into MOCAS and subsequent payment, DFAS Columbus assumes that the Navy has already recorded the obligations in STARS. This assumption is reasonable, because DFAS Columbus generally receives contract actions several weeks after issuance, and STARS and MOCAS do not have a direct interface that could verify the existence of corresponding obligations in STARS.
Controls Over Recording of Navy Obligations

Conclusion

Until Navy obligations are promptly recorded in STARS, problems with unmatched disbursements and NULOs will continue. Current initiatives to prevalidate payments are an improvement, but until all disbursements, regardless of dollar value, are prevalidated, such initiatives cannot prevent payments for which no obligations have been recorded. Failure to promptly and accurately record obligations also prevents accurate financial reporting and can distort the financial data managers need for decision making. Unrecorded obligations can also conceal deficient appropriation balances and can result in violations of the Antideficiency Act if funds are expended without the necessary budget authority.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Under Secretary of Defense (Comptroller) issue guidance requiring all DoD Components to record obligations in their official accounting systems by the 10th calendar day after incurring obligations, or before the end of the accounting period, whichever is earlier.

Management Comments. The Under Secretary of Defense (Comptroller) concurred, issuing guidance on February 26, 1996. The guidance requires DoD Components to record obligations into their official accounting system by the 10th calendar day of incurring the obligation or prior to the end of the accounting period, whichever is earlier.

2. We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller):

   a. Require all Navy organizations to establish and implement control procedures to ensure that all obligations are recorded in Standard Accounting and Reporting System or other official accounting systems within 10 calendar days of incurring the obligations, or before the end of the accounting period, whichever is earlier.

Management Comments. The Principal Deputy Assistant Secretary of Navy (Financial Management and Comptroller) concurred in principle and issued guidance on April 1, 1996, in support of the February 26, 1996, Under Secretary of Defense (Comptroller) guidance to record obligations in the accounting system by the 10th day of incurring the obligation or prior to the end of the accounting period, whichever is earlier.
b. Direct Navy organizations to establish performance measures that track their ability to record obligations within 10 calendar days. Require each Navy organization to periodically report to the Assistant Secretary of the Navy (Financial Management and Comptroller) on the status of recording obligations.

Management Comments. The Principal Deputy Assistant Secretary of Navy (Financial Management and Comptroller) concurred. However, the Principal Deputy stated that the Navy could not fully respond to the recommendation until a study of all types of obligations and the time required to receive and obligate is performed.

Audit Response. The Principal Deputy Assistant Secretary of Navy (Financial Management and Comptroller) comments are not fully responsive because they did not indicate specific actions. We request that the Navy provide the specific planned actions and milestones for the study that will be initiated in response to the report.

c. Review the 10 contracts discussed in this report, for which obligations were not recorded before disbursements were made or no obligations were recorded because sufficient funds were not available, and determine whether an actual shortage existed at the contract level or the appropriation level. If the obligations were not recorded because of insufficient funds at the appropriation level, investigate potential Antideficiency Act violations; fix responsibility; and if any violation of the Antideficiency Act has occurred, comply with reporting requirements in United States Code, title 31, section 1351, and DoD Directive 7200.1.

Management Comments. The Principal Deputy Assistant Secretary of Navy (Financial Management and Comptroller) concurred. Management plans to review the 10 contract actions identified in the draft report for sufficient funds and to take corrective action as needed based on its review.

Audit Response. Although the Assistant Secretary concurred, the comments did not indicate specific planned actions. We request that the Navy provide details on corrective actions and milestones to review the contract actions in response to the report.
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Part II - Additional Information
Appendix A. Scope and Methodology

Scope and Methodology

To identify specific Navy organizations to be visited, we reviewed data from the Defense Contract Action Data System for FY 1995 contract actions valued at $25,000 or more per action (only summary data are provided for contract actions less than $25,000). During FY 1995, the Defense Contract Action Data System showed that 39,367 FY 1995 contract actions valued at $19.9 billion had been entered as of July 19, 1995.

To examine Navy contract actions input during FY 1995 (on contracts issued in FY 1995 or prior years), we also reviewed computerized STARS Headquarters Claimant Module data for all Navy contract actions entered from October 1, 1994, to July 19, 1995 (the latest date for which FY 1995 data were available). In this data base, which included many contract actions of less than $25,000, we identified a total of 90,133 Navy contract actions, valued at about $28.5 billion.

We identified the five Navy organizations with the highest dollar value of FY 1995 contract actions recorded in the Defense Contract Action Data System and STARS. From the five activities, we selected NAVAIR, NAVSEA, and SPAWAR.

We limited our audit scope by focusing on 33,450 contract actions from NAVAIR, NAVSEA, and SPAWAR, valued at $20.7 billion, that were recorded against appropriation symbols with potential negative balances. We judgmentally selected 922 of the 33,450 contract actions (valued at $5.4 billion) for review. At the 3 sites, we interviewed accounting and procurement personnel to evaluate existing management controls over the prompt and accurate recording of obligations in STARS and to obtain answers to other questions about the 922 contract actions we reviewed.

We also compared 121 of the 922 contract actions reviewed against MOCAS payment data at DFAS Columbus to learn whether any contract payments were made before the obligations were recorded in STARS.

Our conclusion that 13,082 contract actions were not recorded promptly was based on a comparison between the date contract actions were recorded in STARS and the STARS data field "Effective Date of Contract."

Reliace on Computer-Processed Data. We relied on computer-processed data from the Defense Contract Action Data System, STARS, and MOCAS to achieve the audit objectives. We did not attempt to evaluate the overall reliability of the data. Our past audit work has shown that all three data bases contain numerous errors. However, most contract numbers, dollar amounts, effective dates of contract actions, and data input dates were accurately entered.
into the systems. We found no errors that would prevent us from relying on the computer-processed data to meet our audit objectives or that could alter conclusions reached in this report.

Audit Period, Standards, and Locations. This financial-related audit was made from July through October 1995 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the IG, DoD. The organizations visited or contacted during the audit are listed in Appendix E.
Appendix B. Summary of Prior Audits and Other Reviews

Since August 1991, the General Accounting Office (GAO) and the IG, DoD, have issued five reports on DoD problems with unmatched disbursements, Negative Unliquidated Obligations (NULOs), and related issues.

GAO Reviews

The GAO issued two reports on related topics. "Navy Records Contain Billions of Dollars in Unmatched Disbursements," Report No. GAO/AFMD 93-21 (OSD Case No. 93-15), was issued on June 9, 1993. According to the GAO, the Navy had $13.6 billion in matched disbursements as of December 1992. The GAO stated that unmatched disbursements were caused largely by poor compliance with management controls (or a lack of adequate controls) to ensure that obligations were recorded in the Navy's accounting system before disbursements were made.

Another GAO report, "Air Force Systems Command is Unaware of the Status of Negative Unliquidated Obligations," Report No. GAO/AFMD-91-42 (OSD Case No. 87-36), was issued on August 29, 1991. The GAO report states that Air Force managers were not being routinely informed of the status or causes of NULOs, and that NULOs resulting from overpayments were being collected through credit invoices or checks from contractors, which circumvented controls that would have prompted corrective action and proper accounting for disbursements. The report recommends that the Secretary of the Air Force and the Director, DFAS, establish policy and procedures to identify and resolve NULOs. In response, the DoD established a Joint Contract Accounting and Finance Process Review Group to aid in identifying problems and to develop solutions to improve DFAS' payment processes for Defense contracts.

Inspector General, DoD

The IG, DoD, has issued three reports on similar issues. Report No. 94-048, "Uncleared Transactions For and By Others," March 2, 1994, concluded that DFAS had not taken prompt and effective actions to clear $35 billion in undistributed disbursements. The DFAS gave priority to disbursing funds and moving transactions and supporting documentation through the system, instead of analyzing the reasons for the problems and taking actions to correct inefficiencies. In addition, the DFAS Centers had not provided Headquarters, DFAS, with complete and accurate data on the status of undistributed disbursements. The report recommends that the DoD and DFAS clarify policy
and procedures for clearing transactions and reporting undistributed disbursements. The Deputy Comptroller generally concurred and implemented plans of action to include adding detailed guidance in the DoD Financial Management Regulation for clearing transactions and reducing undistributed disbursements from December 1993 through June 1995.

Report No. 93-053, "Missile Procurement Appropriations, Air Force," February 12, 1993, identified 370 Air Force contracts maintained by Los Angeles Air Force Base and DFAS Denver with net NULO balances of more than $133 million. The report recommends that the Under Secretary of Defense (Comptroller) accelerate plans to solve problems with NULOs. At a minimum, a single record should be used to account for funds and pay bills, and disbursing stations should ensure that funds are available before payment is made. The DoD Comptroller concurred and requested each of the DoD Components to prepare and submit to DFAS a plan to reduce undistributed disbursements and eliminate negative disbursements.

Report No. 92-028, "Merged Accounts of the Department of Defense," December 30, 1991, showed that DoD merged accounts contained over $1.8 billion in unmatched disbursements and about $1 billion in NULOs. The report recommends that the Under Secretary of Defense (Comptroller) require the Director, DFAS, to emphasize account accuracy in order to reduce unmatched disbursements, and to formally investigate all overdisbursed appropriations and their subaccounts to resolve potential violations of the Antideficiency Act. The Deputy Comptroller agreed to supervise the resolution of the overdisbursed appropriations that were cited in the report.
### Appendix C. Time Taken to Record Contract Actions in STARS

#### Time Taken to Record Obligations in STARS

<table>
<thead>
<tr>
<th>Organization</th>
<th>1-10 days</th>
<th>11-29 days</th>
<th>30+ days</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>NAVSEA</td>
<td>12,496</td>
<td>4,557</td>
<td>960</td>
<td>18,013</td>
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<tr>
<td>NAVAIR</td>
<td>6,544</td>
<td>4,838</td>
<td>976</td>
<td>12,358</td>
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<tr>
<td>SPAWAR</td>
<td>1,328</td>
<td>1,457</td>
<td>294</td>
<td>3,079</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>20,368</strong></td>
<td><strong>10,852</strong></td>
<td><strong>2,230</strong></td>
<td><strong>33,450</strong></td>
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</table>

#### Time Taken to Record Dollars in STARS

(Billions)

<table>
<thead>
<tr>
<th>Organization</th>
<th>1-10 days</th>
<th>11-29 days</th>
<th>30+ days</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
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<td>$1.8</td>
<td>$0.3</td>
<td>$5.3</td>
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<tr>
<td>NAVAIR</td>
<td>7.3</td>
<td>6.3</td>
<td>0.8</td>
<td>14.4</td>
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<tr>
<td>SPAWAR</td>
<td>0.7</td>
<td>0.3</td>
<td>0.1</td>
<td>1.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$11.2</strong></td>
<td><strong>$8.4</strong></td>
<td><strong>$1.2</strong></td>
<td><strong>$20.8</strong></td>
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</tbody>
</table>

#### Contract Actions That Required More than 10 Days to Record in STARS

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<tr>
<th>Organization</th>
<th>Actions</th>
<th>Amount (Billions)</th>
</tr>
</thead>
<tbody>
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<td>$2.1</td>
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<td>NAVAIR</td>
<td>5,814</td>
<td>7.1</td>
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<td>SPAWAR</td>
<td>1,751</td>
<td>.4</td>
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<tr>
<td><strong>Total</strong></td>
<td>13,082</td>
<td><strong>$9.6</strong></td>
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Appendix D. Disbursements Made Before Obligations Were Recorded in STARS

<table>
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<tr>
<th>Appropriation Number</th>
<th>Contract</th>
<th>ACRN</th>
<th>Amount Obligated</th>
<th>STARS Input</th>
<th>MOCAS Input</th>
<th>Disbursement Date</th>
<th>Amount Disbursed</th>
</tr>
</thead>
</table>

Total Obligated $29,061,326
Total Disbursed $1,567,465
Appendix E. Organizations Visited or Contacted

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller), Washington, DC

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller),
  Washington, DC
Naval Sea Systems Command, Arlington, VA
Naval Air Systems Command, Arlington, VA
Space and Naval Warfare Systems Command, Arlington, VA
Naval Supply Systems Command, Arlington, VA
  Fleet Materiel Support Office, Mechanicsburg, PA

Other Defense Organizations

Defense Finance and Accounting Service, Arlington, VA
  Defense Finance and Accounting Service Columbus Center, Columbus, OH
  Defense Finance and Accounting Service Cleveland Center, Cleveland, OH

Non-Defense Federal Organization

Washington Headquarters Services, Washington, DC
Appendix F. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
   Deputy Chief Financial Officer
   Deputy Comptroller (Program/Budget)
Under Secretary of Defense (Acquisition and Technology)
   Director, Defense Logistics Studies Information Exchange
Assistant to the Secretary of Defense (Public Affairs)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
   Commander, Naval Sea Systems Command
   Commander, Naval Air Systems Command
   Commander, Space and Naval Warfare Systems Command
   Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
   Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
   Director, Defense Finance and Accounting Service Columbus Center
   Director, Defense Finance and Accounting Service Cleveland Center
Appendix F. Report Distribution

Other Defense Organizations (Cont.)

Director, Defense Logistics Agency
Director, National Security Agency
   Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency

Non-Defense Federal Organizations

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division,
   General Accounting Office

Chairman and ranking minority member of each of the following congressional
committees and subcommittees:

   Senate Committee on Appropriations
   Senate Subcommittee on Defense, Committee on Appropriations
   Senate Committee on Armed Services
   Senate Committee on Governmental Affairs
   House Committee on Appropriations
   House Subcommittee on National Security, Committee on Appropriations
   House Committee on Government Reform and Oversight
   House Subcommittee on National Security, International Affairs, and Criminal
      Justice, Committee on Government Reform and Oversight
   House Committee on National Security
Part III - Management Comments
MEMORANDUM FOR ACTING DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE, DODIG

SUBJECT: Draft Audit Report on Obligation Management of Navy Appropriations (Project No. 5FI-2028)

This is in response to your request for comments on the subject draft report. The draft report recommended that the Under Secretary of Defense (Comptroller) issue immediate guidance requiring all DoD Components to record obligations in their official accounting systems by the 10th calendar day after incurring obligations, or before the end of the accounting period, whichever is earlier.

The Under Secretary of Defense (Comptroller) issued guidance on February 26, 1996, requiring that obligations be recorded no later than 10 calendar days following the date that an obligation is incurred (copy attached).

Mr. Henry Bezold is the point of contact for this matter. He may be reached at (703) 614-3523.

Alvin Tucker
Deputy Chief Financial Officer

Attachment
MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
UNDER SECRETARIES OF DEFENSE
DIRECTOR, DEFENSE RESEARCH AND ENGINEERING
ASSISTANT SECRETARIES OF DEFENSE
GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE
INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE
DIRECTOR, OPERATIONAL TEST AND EVALUATION
ASSISTANTS TO THE SECRETARY OF DEFENSE
DIRECTOR, ADMINISTRATION AND MANAGEMENT
DIRECTORS OF THE DEFENSE AGENCIES
DIRECTORS OF THE DOD FIELD ACTIVITIES

SUBJECT: Prompt Recording of Obligations in Official Accounting Systems

The prompt recording of obligations in the Department's official accounting systems is absolutely essential. I have been informed that, in some cases, obligations are not being recorded promptly. Delays in recording obligations cause the available funding balances to be overstated and reported obligations to be understated and, therefore, increase the potential for a violation of the Antideficiency Act. In addition, such delays also can cause payment transactions to be rejected unnecessarily during the prevaditation process and consequently result in unmatched disbursements or negative unliquidated obligations.

Effective immediately, obligations should be recorded in the official accounting records at the time that the legal obligation is incurred, or as close to the time of incurrence as is possible. However, in no instance should obligations be recorded any later than 10 calendar days following the date that an obligation is incurred. In addition to this 10-day timeframe, obligating actions of $100,000 or more—per fund citation/accounting line on the obligation document—must be recorded and included in the official financial reports for the same month in which the obligation is incurred.

In many cases, the office that executes the obligation is not the office that is responsible for recording the obligation in the official accounting system. In those cases, the office that executes the obligating action—such as a contracting office that awards a contract—must provide the obligation data to the office that is responsible for recording the obligation as soon as feasible after the legal obligation is incurred, but in no instance later than 6 days following the date that the obligation is incurred. The office responsible for recording the obligation must then record the obligation within 3 days of receipt.
Accelerated actions are required to ensure that obligating actions of $100,000 or more, and executed within 10 days of the end of the month, are provided to the accounting office and recorded and included in the official financial reports for that month. Offices executing obligating actions of $100,000 or more must coordinate with the office(s) responsible for recording these obligation(s) to ensure that the data is received and recorded before the end of month financial reports are prepared.

Please review your internal procedures for processing and recording obligation transactions and make such adjustments as may be needed to meet these timeframes.

My staff point of contact for this issue is Mr. Henry Benzold. He may be reached at (703) 614-3523 or DSN 224-3523.

John J. Hamre
MEMORANDUM FOR OFFICE OF THE INSPECTOR GENERAL DEPARTMENT OF DEFENSE

Subj: DEPARTMENT OF DEFENSE INSPECTOR GENERAL DRAFT REPORT: OBLIGATION MANAGEMENT OF NAVY APPROPRIATIONS (PROJECT NO. SPI-2028)

Ref: (a) IGDD Draft Report: Obligation Management of Navy Appropriations (Project No. SPI-2028) of 20 Feb 96

Encl: (1) DON Comments to Draft Audit SPI-2028 of 20 Feb 96

We appreciate the opportunity to comment on the draft audit on Obligation Management of Navy Appropriations.

The stated primary audit objective was to determine whether adequate controls were in place to prevent the creation of negative unobligated balances in Navy appropriations. The report concludes that until Navy obligations are promptly recorded, problems with unmatched disbursements and Negative Unliquidated Obligations (NULOs) will continue. The audit findings may not fully support this conclusion as the audit did not review all types of obligations. Additionally, the audit does not support the conclusion that the failure to record obligations within 10 days or even 29 days contributes to negative unobligated balances or problem disbursements. The items identified in Appendix D for $1,567,465 represent a small percentage of the monthly problem disbursement inflow. Therefore, this demonstrates that there are sufficient controls in place to ensure that most obligations are recorded in the Standard Accounting and Reporting System (STARS) promptly.

Enclosure (1) responds to the directed audit findings and recommendations. My point of contact is Mr. Gil Gardner (PMO-22) at (703) 607-1555.

Sincerely,
[Signature]

GLADYS J. COMERSON
Principal Deputy
Assistant Secretary of the Navy
(Financial Management and Comptroller)
The following comments relative to the draft audit, Project No. SFI-2028 of 20 February 1996 are provided:

Recommendation 2. We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller):

a. Require all Navy organizations to establish and implement control procedures to ensure that all obligations are recorded in STARS or other official accounting systems within 10 calendar days of incurring the obligations, or before the end of the accounting period, whichever is earlier.

CONCUR IN PRINCIPLE. DON does not dispute the requirement to record obligations accurately and promptly, even if the result is a potential over obligation of an appropriation. However, what defines promptly, has not been adequately dealt with by the draft audit. The audit does not justify how and where the figure of 10 days was determined. In fact, the picture portrayed by the subject audit (Appendices C and D) would indicate that any time up to 30 days would be acceptable in that no NULL cases identified by the IG/DOD occurred before the 30 day period. None of the data provided seems to support 10 days as the right number of days. The draft audit fails to distinguish between days within the three periods (1-10 days, 11-29 days, and over 30 days). It is possible that all the documents within the 11-29 day period were obligated on the 11th day or all on the 29th day. In either case this information would be useful in formulating a DON position. Attachment (A) provides an analysis done by this office based on data provided by the IGDOD on 11 April 1996. It shows by day the number of obligations and the corresponding value that were posted to the Standard Accounting and Reporting System. Our analysis shows that on the 1st effective date (day 0), 33,482 documents (41%) were obligated in STARS. This figure climbs to 63% by the 10th day, 81% by the 20th day and 92% by the 29th day. Our analysis differs from the IG/DOD in that we include contracts from all sources and for all STARS users.

Enclosure (1)
We feel that the scope of the audit was too narrow as inhouse contract obligations represent only a portion of the entire obligation document universe. Other types of obligations include, travel, reimbursable orders, interfund transactions, training, printing, transportation, etc.

The audit fails to address the problem of timely receipt of obligation at the DON commands. However, on page 10 of the audit it was noted that Defense Finance and Accounting Service (DFAS) Columbus is not always able to record obligations in MOCAS within the 10 day period "since DFAS Columbus generally receives contract actions several weeks after issuance". The draft audit fails to address this same problem within the DON. By using such a narrow scope of in-house contracts the draft audit excludes a large number of obligation documents that require longer time periods to obligate.

As a result of this audit the USD(C) issued policy on 26 February 1996 that requires that obligations should be recorded in the official accounting records at the time that the legal obligation is incurred, or as close to the time of incurrence as is possible. Further, in no instance should obligations be recorded any later than 10 calendar days following the date that an obligation is incurred. The DON issued similar guidance on 1 April 1996; a copy is enclosed as attachment (B).

b. Direct Navy organizations to establish performance measures that track their ability to record obligations within 10 calendar days. Require each Navy organization to periodically report to the Assistant Secretary of the Navy (Financial Management and Comptroller) on the status of recording obligations.

CONCUR. The DON agrees that some measure of performance would be useful. The DON supports the requirement to provide periodic reviews against some performance measure. Before the DON can respond fully to the recommendation, a study of all types of obligations and the time required to receive and obligate needs to be done.

c. Review the 10 contracts discussed in this report, for which obligations were not recorded before disbursements were made or no obligations were recorded because sufficient funds
were not available, and determine whether an actual shortage existed at the contract level or the appropriation level. If the obligations were not recorded because of insufficient funds at the appropriation level, investigate potential Antideficiency Act violations; fix responsibility; and if any violation of the Antideficiency Act has occurred, comply with reporting requirements in United States Code, Title 31, Section 1351, and DoD Directive 7200.1.

CONCUR. The 10 contract actions discussed in the draft audit need to be reviewed and resolved. If an over obligation condition results after correction of the problem then the procedures outlined in Volume 14 of the Financial Management Regulations with respect to reporting violations of the Antideficiency Act will be followed.
## Department of the Navy Comments

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<th>($000)</th>
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Total

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## Department of the Navy Comments

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Total: 18,880 4,593,483
MEMORANDUM FOR DISTRIBUTION

Subj: RECORDING OF OBLIGATIONS IN THE OFFICIAL ACCOUNTING AND REPORTING SYSTEMS

Encl: (1) USD(C) memo of 26 Feb 96

As a result of a recent audit, the Under Secretary of Defense Comptroller (USD(C)) was informed that there are cases in which the prompt recording of obligations into the official accounting and reporting systems had not occurred. In response to the audit finding, the USD(C) has issued policy as to what is the appropriate time-frame for recording for obligations in the official accounting system. This policy is provided as enclosure (1).

This policy is effective immediately and is to be followed by all Department of the Navy funds administrators. Please note that adherence to this policy will require each funds administrator working closely with their contracting support organizations. The USD(C) policy should receive widest dissemination within your organizations. Questions concerning this policy may be directed to Mr. Gil Gardner at (703) 607-1555 or DSN 327-1555.

C.O. Signed
A. A. TISONE
Director
Office of Financial Operations

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CNET
ONR
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NAVSYSMGMTACT
Audit Team Members

This report was produced by the Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD.

F. Jay Lane
Richard B. Bird
Edward A. Blair
Suellen R. Leonhardt
Daniel K. Birnbaum
William E. Hosick
Susanne B. Allen
Helen S. Schmidt
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D. Currently Applicable Classification Level: Unclassified

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