Audit Report

OFFICE OF THE INSPECTOR GENERAL

MANAGEMENT DATA USED TO MANAGE THE FOREIGN MILITARY SALES TRUST FUND

Report No. 94-090 April 29, 1994

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Department of Defense

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Acronyms

CFO	Chief Financial Officers
CMCS	Case Management Control System
DFAS	Defense Finance and Accounting Service
DSAA	Defense Security Assistance Agency
FMS	Foreign Military Sales
IG	Inspector General
GAO	General Accounting Office
MISIL	Management Information System for International Logistics
STARS	Standard Accounting and Reporting System

INSPECTOR GENERAL
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MEMORANDUM FOR COMPTROLLER OF THE DEPARTMENT OF DEFENSE
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
DIRECTOR, DEFENSE SECURITY ASSISTANCE AGENCY

SUBJECT: Audit Report on Management Data Used to Manage the Foreign Military Sales Trust Fund (Project No. 3FD-2015)

Introduction

We are providing this report for your information and use. It discusses our limited examination of the critical management data used to manage the Foreign Military Sales (FMS) Trust Fund.

Audit Results

The Military Departments and the Defense Finance and Accounting Service (DFAS) were providing the kinds of critical management data that the Defense Security Assistance Agency (DSAA) needed to operate and make major financial decisions. However, the data reported were often incomplete or inaccurate. Data used to account for country cash balances and to bill countries were subject to high error rates, and errors were not always corrected in a timely manner. The errors consisted of data not reported and data inaccurately reported. Material amounts of undistributed and unmatched disbursements existed in all Military Departments. The Navy's Management Information System for International Logistics (MISIL) was especially well-designed to identify and track FMS accounting errors. In a recent 10-month period, MISIL records showed that 29 percent of contract payments either contained erroneous data or could not be matched to related obligations. Those flawed transactions comprised 49 percent of the dollar amount disbursed to contractors. We believe that similar error rates existed in the Army and Air Force, but the Army and Air Force systems did not identify error rates as well as MISIL.

The General Accounting Office (GAO) and the Inspector General (IG), Department of Defense, have performed four reviews that addressed DoD problems in accounting for obligations and disbursements. While these reviews did not address FMS, the same problems exist for FMS transactions. The organizations, systems, and procedures for recording obligations, paying contractors, and reporting disbursements are the same for FMS and other DoD transactions. A DoD working group and DFAS are pursuing efforts to identify and systemically correct the problems of accounting for obligations and disbursements. Consequently, we are not making any recommendations to correct the problems noted. Furthermore, we concluded that further audit work in this area was not needed.

Objectives

The overall objective of the audit was to determine whether critical management data were available, accurate, and provided to Fund managers to operate, evaluate, and make major financial and nonfinancial decisions. Specifically, we determined whether the Military Departments reported accurate data to the Deputy for Security Assistance at the Defense Finance and Accounting Service, Denver Center (DFAS-Denver), for fund control, cash management of country programs, and case management.

Scope and Methodology

The audit was made at the organizations listed in Enclosure 1. We discussed with key managers the types of data needed to manage FMS. We reviewed systems and procedures that the Military Departments and DFAS used to account for obligations and disbursements pertaining to FMS transactions and to control FMS customers' funds. We documented error rates and amounts of FMS accounting errors for the period December 1992 through January 1994.

This financial-related audit was made from June 1993 through January 1994. We did not evaluate the general and application controls of DoD's numerous automated systems that process FMS transaction data, although we relied on error data produced by many of those systems. With that exception, the audit was made in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the IG, DoD. We terminated our audit work before making audit tests of the management data.

Internal Controls

Because we terminated our audit efforts, we did not evaluate internal controls over fund control or the recording of obligations and disbursements.

Prior Audits and Other Reviews

The GAO issued Report No. GAO/AFMD 93-21, "Navy Records Contain Billions of Dollars in Unmatched Disbursements," in June 1993. The report stated that the Navy's Standard Accounting and Reporting System contained $13.6 billion in unmatched disbursements as of December 19, 1992. Unmatched disbursements are disbursements made without corresponding obligations in the accounting records. This amount included unmatched disbursements for all DoD and FMS transactions. The GAO recommended that the Assistant Secretary of the Navy (Financial Management) enforce compliance with existing regulations and procedures. DFAS management responded to the recommendation by establishing a task force to identify the systemic causes and develop solutions to the data problems.

The IG, DoD, has issued three final reports that address unmatched and undistributed disbursements. Details of the reports are:

In Audit Report No. 94-036, "Financial Status of Navy Expired Appropriations," February 10, 1994, we reported that the Navy had almost $1.0 billion in unmatched disbursements that needed to be reconciled. The Navy's system accumulated the errors at budget level, not at contract level. That method of accumulation prevented the ready identification of errors or deficiencies in overdisbursed contracts. Additionally, the Navy had no standardized procedures for correcting errors that caused unmatched disbursements.

Audit Report No. 94-054, "Fund Control Over Contract Payments at DFAS, Columbus Center" (DFAS-Columbus), March 15, 1994, concluded that procedures used by DFAS-Columbus to control appropriation fund data were not adequate. Disbursement errors of $10.4 million existed in the DFAS-Columbus data base, and an additional $741,000 in disbursements was charged to incorrect appropriations. Based on a statistical sample, the auditors projected that 39 percent of contracts for more than $1.0 million had one or more errors in accounting data entries. In addition, contracts at DFAS-Columbus had $3.1 billion in negative unliquidated obligations. Recommendations were made to improve the contract administration and procurement systems.

Audit Report No. 94-048, "Uncleared Transactions by and for Others," March 2, 1994, disclosed that increased management oversight was needed to clear $34.6 billion in undistributed disbursements that existed as of January 31, 1993. Undistributed disbursements are disbursements reported to the Department of the Treasury that have not been posted to DoD accounting records. Recommendations were made for the DoD Comptroller to issue guidance for reducing and clearing undistributed disbursements, and for DFAS to improve procedures and controls for errors not promptly corrected.

Background

The FMS Trust Fund is used to manage and account for the financial resources provided by foreign customers to pay for purchases of FMS goods and services from the U.S. Government. Foreign customers are required to make advance payments in amounts that cover contractor and DoD provider charges. The Deputy for Security Assistance, DFAS-Denver, maintains subaccounts of the FMS Trust Fund for each foreign customer.

The Chief Financial Officers (CFO) Act of 1990 requires DoD to prepare financial statements for its revolving funds, trust funds, and commercial-type activities. The CFO Act also requires the IG, DoD, to audit or arrange for the audit of these financial statements. After 2 years of CFO audit work, the IG, DoD, has determined that many supporting systems cannot be used to produce financial statements on which we can express an unqualified opinion. This condition exists with regard to the FMS Trust Fund.

We concluded that a revised approach was needed to better meet the intent of the CFO Act, which was to improve the financial management of Government activities. For FY 1993 activity of the FMS Trust Fund and other selected funds, our approach was to determine whether fund managers had the critical management data needed to make major financial and nonfinancial management decisions.

Discussion

Completeness and Accuracy of Critical Management Data. Fund managers at DSAA and DFAS-Denver did not receive the complete and accurate data they needed to account for obligations and disbursements, or to effectively control the funds of foreign countries' programs. Payments that DoD disbursing offices made to contractors and DoD suppliers on behalf of FMS customers were not always charged to the proper customers; obligation data were not always provided to accountable stations; disbursements could not always be matched to obligations; and other accounting data needed to ensure proper charges to FMS cases were not always provided or accurate. We documented error rates and amounts when the applicable systems produced this information. However, because each of the Military Departments' systems was different, we could not obtain comparable data.

Army. The Army's FMS accounting system contained $59.5 million in undistributed disbursements as of September 30, 1993. In addition, the Army's Program Budget and Accounting System contained $1.7 billion in uncleared FMS data errors.

Navy. The Navy used two different systems to account for most FMS cases. Many cases were accounted for by MISIL, while other cases were accounted for by the Standard Accounting and Reporting System (STARS). As of October 1993, MISIL contained $413.0 million in unmatched disbursements, and STARS contained $185.2 million in unmatched disbursements. MISIL was especially well-designed for detecting and tracking data errors.

Air Force. The Case Management Control System (CMCS) contained $122.7 million in undistributed disbursements as of October 31, 1993, and $115.1 million in negative unliquidated obligations as of January 19, 1994. In addition, $13.8 million out of $372.9 million in disbursements made in November 1993 was unmatched after system corrections were made.

DoD and DFAS Initiatives. The Senior Financial Management Oversight Council, chaired by the Deputy Secretary of Defense, has established the Acquisition and Financial Management Panel, which is co-chaired by the DoD Comptroller and the Principal Deputy Under Secretary of Defense (Acquisition and Technology). The panel has been charged with designing a long-term solution to the problem of unmatched disbursements, and is supported by a subordinate Acquisition and Financial Management Working Group. In addition to the working group's efforts, DFAS has developed a master business plan to address the problems of DoD's accounting for obligations and disbursements. The first phase of that plan is scheduled for completion by July 1, 1994.

Audit Decision. The IG, DoD, and GAO have audited DoD's obligation and disbursement problems extensively, and DoD and DFAS have taken action to identify the causes and correct the problems. Therefore, we concluded that further audit work to more fully document the FMS obligation and disbursement problems and their causes would not be useful. Correcting the obligation and disbursement problems for DoD transactions should also correct these problems for FMS transactions.

Management Comments

We provided a draft of this report to the addressees on March 3, 1994. Because there were no recommendations, comments by management were invited but not required. We received comments from the Deputy Comptroller of the DoD (Financial Systems). The comments addressed the DoD initiative to solve the problem of accounting for obligations and disbursements. In our draft report, we cited the DFAS initiative but did not cite the DoD initiative. The Deputy Comptroller suggested that we also cite the DoD initiative in our final report.

Audit Response to Management Comments

We agreed with the Deputy Comptroller of the DoD (Financial Systems) and included an explanation of the DoD initiative.

For More Information

The courtesies extended to the audit staff are appreciated. If you have any questions about this audit, please contact Mr. David Funk at (303) 676-7445 (DSN 926-7445) or Mr. Brice Harbert at (303) 676-7405 (DSN 926-7405).

Robert J. Lieberman
Assistant Inspector General
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Enclosures

Organizations Visited or Contacted

Office of the Secretary of Defense

Deputy Comptroller of the Department of Defense (Management Systems)

Department of the Navy

Naval International Logistics Control Office
Naval Air Systems Command
Naval Sea Systems Command

Department of the Air Force

Air Force Security Assistance Center

Defense Agencies

Defense Finance and Accounting Service, Arlington, VA
- Defense Finance and Accounting Service, Columbus Center, Columbus, OH
- Defense Finance and Accounting Service, Denver Center, Denver, CO
  - Defense Accounting Office, Dayton, OH
  - Defense Accounting Office, Philadelphia, PA
- Defense Finance and Accounting Service, Indianapolis Center, Indianapolis, IN
  - Defense Accounting Office, Arlington, Defense Finance and Accounting Service, Cleveland Center, Arlington, VA

Defense Security Assistance Agency, Washington, DC

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