

# Inspector General

United States  
Department of Defense



Controls Over Funds Appropriated for Assistance  
to Afghanistan and Iraq Processed Through  
the Foreign Military Sales Network

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## Acronyms and Abbreviations

CSTC-A	Combined Security Transition Command-Afghanistan
DFAS	Defense Finance and Accounting Services
DIFS	Defense Integrated Financial System
DSCA	Defense Security Cooperation Agency
FMR	Financial Management Regulation
FMS	Foreign Military Sales
GAO	Government Accountability Office
IG	Inspector General
MIPR	Military Interdepartmental Purchase Requests
MNSTC-I	Multi-National Security Transition Command-Iraq
SAMM	Security Assistance Management Manual



INSPECTOR GENERAL  
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May 24, 2010

MEMORANDUM FOR DIRECTOR, DEFENSE SECURITY COOPERATION  
AGENCY

SUBJECT: Controls Over Funds Appropriated for Assistance to Afghanistan and Iraq Processed  
Through the Foreign Military Sales Network  
(Report No. D-2010-062)

We are providing this report for your information and use. We considered management comments on a draft of this report when preparing the final report.

The comments of the Acting Deputy Director for Defense Security Cooperation Agency conformed to the requirements of DOD Directive 7650.3. Therefore, additional comments are not required.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5868 (DSN 329-5868).

*Patricia A. Marsh*

Patricia A. Marsh, CPA  
Assistant Inspector General  
Defense Business Operations





# Controls Over Funds Appropriated for Assistance to Afghanistan and Iraq Processed Through the Foreign Military Sales Network

## What We Did

We determined whether the Defense Security Cooperation Agency (DSCA) properly managed funds appropriated for assistance to Afghanistan and Iraq that it processed through the Foreign Military Sales (FMS) network. Specifically, we reviewed whether DSCA properly accounted for these funds, used the funds for their intended purpose, and properly reported the funds in DOD financial reports. This report is the second in a series that addresses management of funds appropriated for Afghanistan and Iraq processed through the FMS network.

## What We Found

DSCA ensured that funds appropriated for assistance to Afghanistan and Iraq placed under its oversight were used for their intended purpose and were properly reported in the DOD Cost of War Report. However, our testing identified accounting issues that indicate improvements are necessary to ensure effective management of these appropriated funds. Specifically,

- \$6 million were not returned to DOD or the Military Departments before the funds' cancellation date and were not properly accounted for.
- Funds totaling \$31.6 million could have been better managed because funds identified as not needed were not returned to Multi-National Security Transition Command-Iraq (MNSTC-I) before the funds expired.
- DSCA needs to fully review and determine the proper disposition of at least an additional \$25.7 million of expired unobligated funds held in the FMS Trust Fund.

These management exceptions occurred because DSCA did not have existing procedures on managing canceled funds and did not comply with existing procedures on monitoring and

notifying funds holders of excess amounts on a timely basis. As a result, some appropriated funds were not available for other use. See the finding for further details on these internal control weaknesses.

## What We Recommend

DSCA needs to improve procedures and controls to ensure that it properly accounts for and reports appropriated funds under its oversight processed through the FMS network and expiring in various fiscal years. Specifically DSCA should:

- establish procedures to timely return advances of appropriated funds before cancellation,
- comply with its existing standard procedures for financial reviews to identify over-collected appropriated funds and return such balances to the funds holder, and
- perform a review of appropriated funds that have expired that are in excess of future required expenditures and properly return such funds to the funds holder.

## Management Comments and Our Response

The DSCA Acting Deputy Director's comments were responsive and meet the intent of our recommendations. No further comments are required.



Afghan Police Graduation Ceremony  
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## Recommendations Table

<b>Management</b>	<b>Recommendations Requiring Comment</b>	<b>No additional Comments Required</b>
Director, Defense Security Cooperation Agency		1, 2, 3

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# Introduction

## Objectives

Our objective was to determine whether the funds appropriated for the security, reconstruction, and military assistance to Afghanistan and Iraq processed through the Foreign Military Sales (FMS) network were properly managed. Specifically, we determined whether the funds were

- properly accounted for,
- used for their intended purpose, and
- properly reported in DOD financial reports.

See the Appendix for a discussion of our scope and methodology and for prior audit coverage.

## Background

This report provides our results on the second phase of a two-phase audit of certain funds appropriated for the security, reconstruction, and military assistance to Afghanistan and Iraq processed through the FMS Trust Fund. We issued Report D-2009-063, “Funds Appropriated for Afghanistan and Iraq Processed Through the Foreign Military Sales Trust Fund,” (March 24, 2009) for the first phase of our audit. We reported that executing these appropriated funds using the FMS Trust Fund was not (1) in the best interest of the Government, (2) the most economical use of the funds, and (3) managed in accordance with the requirements in the DOD Financial Management Regulation.

### ***DSCA Management Activities***

DSCA directs, administers, and supervises the execution of Security Assistance programs to foreign governments. DSCA is the focal point for government-to-government arms transfers, budgeting, legislation, projections, and forecasting. DSCA conducts international logistics and sales negotiations with foreign countries, provides financial management, develops and implements Security Assistance policies, and assists U.S. industry in exporting military articles and providing services. As part of its responsibilities, DSCA manages the FMS Trust Fund. This fund originated to receive payment advances from foreign countries purchasing defense articles and services from the U.S. Government. DSCA receives such advances based on payment schedules included in the mutually executed Letters of Offer and Acceptance with the foreign government. DSCA’s process includes establishing a case for the Letters of Offer and Acceptance with one or more order lines to control the acquisition of requested defense articles and services. DSCA performs its management functions through its country directors who coordinate with implementing military agencies that accomplish issuances from stock or contract purchases with Government suppliers. The implementing agencies provide information about case execution including the status of the individual cases to DSCA. This information includes both the value and type of defense articles and services purchased by the foreign country.

## ***DSCA Accounting Activities***

DSCA establishes initial accounting control for monies deposited to the FMS Trust Fund for a case by creating a financial record for the case with a number of data elements, including the appropriate foreign country code designator, case designator, and funds allocated to the case. All purchasing activity must include the country code and case designator to properly record transactions for accounting purposes.

Multiple DOD organizations are involved in creating and recording the accounting transactions related to FMS Trust Fund purchasing activity. DSCA is responsible for working with the Defense Finance and Accounting Services (DFAS) and implementing agencies for execution and accounting of the cases. DFAS personnel use the Defense Integrated Financial System (DIFS) to perform the departmental accounting related to the billing, disbursing, and collecting functions for some security assistance programs. Implementing agencies perform the ordering, contracting, and delivery/receiving functions related to the foreign country purchases. The implementing agencies' accounting and logistics systems either directly interface with or provide financial data for input to DIFS, which compiles the information into reports for use by DSCA personnel and others.

Historically, DSCA has used the DIFS accounting system in managing and reporting monies from foreign countries deposited in the FMS Trust Fund for the Foreign Military Sales program. Those funds do not have expiration dates for their use, meaning that the funds are available until expended. Accordingly, the budgetary account structure of DIFS does not use or report specific expiration years usually associated with executing appropriated funds. DIFS uses only the FMS Trust Fund account number. As a result, implementing agencies executing such cases can only cite that single account number to obligate and disburse funds in the FMS Trust Fund and interface with the DIFS accounting system.

## ***Appropriated Funds for Assistance to Afghanistan and Iraq***

In FY 2003, DSCA began managing certain purchasing activity related to specific funds congressionally mandated for assistance to the Afghanistan and Iraq security forces.\* The purchasing activity it manages originates from two commands: the Combined Security Transition Command – Afghanistan (CSTC-A) and the Multi-National Security Transition Command – Iraq (MNSTC-I). According to DSCA, the most effective process for executing the requests for purchases of defense articles and services with the appropriated funds it manages is to use its existing country and case management process. DSCA decided to use DIFS and the FMS Trust Fund to manage and account for appropriated funds for Afghanistan and Iraq.

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\* For a complete accounting description of the appropriated funds and their transfer into the FMS Trust Fund, see DOD IG Report D-2009-063, "Funds Appropriated for Afghanistan and Iraq Processed Through the Foreign Military Sales Trust Fund."

Accordingly:

- DSCA requires the appropriated funds for each case to be transferred in advance. It collects the funds into the FMS Trust Fund.
- DSCA assigns a two-digit country code to appropriated funds, based on the fiscal year the funds expire, to track those funds in the FMS Trust Fund by their expiration date.
- DSCA uses its case management process to execute each case from CSTC-A and MSNTC-I through implementing agencies. DSCA uses DIFS to monitor and manage the balances in each country code and case number including case value, funds collected, obligation authority, deliveries, and funds disbursed.

As more fully discussed in the Appendix, we identified certain appropriations for reconstruction and military and security assistance to Afghanistan and Iraq from fiscal years 2003 through 2007 executed through the FMS network. We selected line items from applicable Letters of Offer and Acceptance totaling \$790.5 million, ordering various defense articles and services, such as the design and construction of a bridge, the design and construction of buildings; the purchase of weapons, ammunition, tactical and combat vehicles, spare parts, airplanes, helicopter parts, flight simulators, and flight trainers. Table 1 shows by country the order amounts reviewed.

**Table 1. Order Amounts Reviewed for Appropriated Funds for Assistance to Afghanistan and Iraq FY 2003 through FY 2007**

<b>Country</b>	<b>Number of Lines</b>	<b>Defense Articles and Services Order Amount</b>
Afghanistan	31	\$585.8 million
Iraq	34	\$204.7 million
<b>Total</b>	<b>65</b>	<b>\$790.5 million</b>

## **Review of Internal Controls**

We identified internal control weaknesses as defined by DOD Instruction 5010.40, “Managers’ Internal Control (MIC) Program Procedures,” January 4, 2006. DSCA did not have adequate controls over the appropriated funds managed in the FMS Trust Fund. DSCA did not develop and implement procedures to identify and return canceling appropriated funds in accordance with United States Code and the DOD Regulation 7000.14-R, “Financial Management Regulation.” In addition, DSCA did not perform adequate procedures to identify cases where the cash amount collected from the funds holders exceeded the case value. Implementing recommendations 1, 2, and 3 will establish procedures to address the weaknesses. We will provide a copy of the report to the senior DSCA official responsible for internal controls.

## **Finding. Defense Security Cooperation Agency Controls Over Funds Appropriated for Assistance to Afghanistan and Iraq**

Defense Security Cooperation Agency personnel did not always properly manage canceled, over-collected, and unobligated appropriated funds transferred into the Foreign Military Sales (FMS) Trust Fund. Specifically, we identified,

- \$6 million of canceled funds that were not properly accounted for and transferred back to the funds holders:
  - \$3.6 million of funds that were canceled September 30, 2008, and
  - \$2.4 million of funds that were canceled September 30, 2009;
- \$31.6 million of funds that could have been better managed:
  - \$17.5 million of over-collected appropriated funds for three sample items were not returned to MNSTC-I, and
  - \$14.1 million over-collected appropriated funds on one country code for MNSTC-I;
- \$25.7 million of expired unobligated funds held in the FMS Trust Fund for CSTC-A and MNSTC-I that DSCA needs to fully review to determine proper disposition.

These management exceptions occurred because DSCA personnel did not have adequate controls to handle canceling appropriated funds. Additionally, they did not follow established procedures to ensure that they always identified over-collected funds. They also did not consistently perform financial reviews of the cases to determine unneeded unobligated amounts. As a result, DSCA holds canceled funds in the FMS Trust Fund in noncompliance with applicable laws and regulations and DSCA personnel did not authorize the return of funds it identified as unneeded to the funds holders.

### **Managing Canceled Funds in the FMS Trust Fund**

As shown in Table 2, we identified \$6 million in canceled funds that DSCA management did not properly account for and return to the original funds holders. The funds that we identified were canceled September 30, 2008, and September 30, 2009.

**Table 2. Canceled Funds for Assistance to Afghanistan  
Held in the FMS Trust Fund  
(in millions)**

<b>Appropriation Year</b>	<b>Cancellation Year</b>	<b>Advances to FMS Trust Fund</b>	<b>Canceled Amount</b>
FY 2003	FY2008	\$150.4	\$3.6
FY 2004	FY2009	292.5	2.4
<b>Totals</b>		<b>\$442.9</b>	<b>\$6.0</b>

Appropriated funds cancel 5 years after their expiration date. Section 1552(a), title 31, United States Code, and DOD Regulation 7000.14-R, “DOD Financial Management Regulation” (DOD FMR), volume 3, chapter 15, paragraph 150306, state that when balances are canceled, the amounts are not available for obligation or expenditure for any purpose. In addition, the DoD FMR, volume 3, chapter 15, paragraph 150308, states that upon cancelling an appropriation, the balance must be reclassified as canceled authority. The Treasury Financial Manual, volume 1, part 2, chapter 4200, section 4225.15b, requires agencies to report canceled funds on their “Year-End Closing Statement,” FMS Report 2108. The Treasury Financial Manual, Bulletin Nos. 2008-06 and 2009-04 provide further guidance for appropriation accounts that cancel in FY 2008 and FY 2009. The bulletins state that before agencies close an account, their fourth-quarter FACTS II submission must include the unobligated and obligated balances as canceled. In addition, section 1554(b)(1), title 31, United States Code states that after the close of each fiscal year, the head of each agency must submit to the President and the Secretary of the Treasury a report concerning canceled balances.

The DOD and Military Departments were the original funds holders for the FY 2003 and FY 2004 appropriations transferred to the FMS Trust Fund that canceled September 30, 2008, and September 30, 2009, respectively. Because DSCA did not notify them or transfer the funds back to them, the Military Departments did not have the opportunity to comply with the United States Code, DOD FMR volume 3, and Treasury Manual requirements to perform the required reporting. DSCA does not have direct guidance related to canceled funds because the DOD FMR, volume 15, “Security Assistance Policy and Procedures,” and DSCA’s Security Assistance Management Manual (SAMM), DOD 5105.38-M, do not address procedures to record expired or canceled funds in the FMS Trust Fund. However, DSCA personnel should have recognized the need to take appropriate action regarding canceled funds and should have consulted appropriate references including the United States Code, DOD FMR volume 3, and Treasury Financial Manual cited in this report.

During the audit, DSCA management acknowledged that canceled funds were in the FMS Trust Fund. Management agreed in principle to return the funds as soon as they received definitive guidance requested from the funds holders. DSCA stated that any appropriations balances canceling in the future would be returned to the fund holders before the funds actually canceled.

## **Managing Over-collected Funds in the FMS Trust Fund**

Of the sample items tested, we found three where DSCA personnel identified unobligated funds, totaling \$17.5 million, as unneeded for executing the cases. DSCA personnel authorized a decrease to each case value. The amount of appropriated funds originally collected for each case that exceeded the decreased case value were over-collected funds in the FMS Trust Fund. However, DSCA did not promptly return the cash funds to MNSTC-I. After notification from the DOD Office of Inspector General, DSCA personnel did authorize the return of the funds. The Economy Act, section 1535(d), title 31, United States Code, states that the amount obligated is deobligated, to the extent that the agency or unit filling the order has not incurred obligation, before the end of the period of availability. Further, Government Accountability Office (GAO) guidance on Economy Act orders requires the performing activity to recover only actual costs and promptly refund the excess amounts in accordance with the following two passages:

The Principles of Federal Appropriation Law, third edition, volume III, chapter 12, September 2008, states:

If the excess is determined while the appropriation charged with the advance is still available for obligation, the performing agency should pay special attention to returning the funds in time for the ordering agency to be able to use them.

GAO's Policy and Procedures Manual for Guidance of Federal Agencies, Title 7—Fiscal Guidance, Transmittal Sheet No. 7-43, states:

When the law requires that the performing agency recover actual costs for the items or services provided and advances by the requesting agency exceed the actual costs of performance, the excess should be refunded promptly upon completion of performance or termination of the order by the requesting agency. (For example, the prompt return of excess funds may be critical to the requesting agency so that funds can be used before they expire.)

In addition, the SAMM, chapter 9, paragraph 14, DOD 5105.38-M, October 3, 2003, provides guidance regarding the financial review of cases by DSCA including a table to be used in the financial review. Line 6 of that table is for calculating collections that are in excess of case value. The purpose of this line is to identify FMS cases where the amount collected exceeds the case value.

DSCA did not fully implement the Economy Act and associated GAO guidance. For the three samples, DSCA personnel were aware that the funds were not required for case

execution as they authorized amending the case documents to a lower dollar value and amending the case values in DIFS. However, DSCA personnel did not authorize the transfer of these funds from the FMS Trust Fund back to MNSTC-I. As a result, MNSTC-I did not have the opportunity to use the funds before they expired. If DSCA personnel had fully implemented the guidance, they would have become aware that they had not transferred \$17.5 million of appropriated funds from the FMS Trust Fund to the original funds holders. The following describe the three sample items we tested.

- Case B3-B-AAB. The original Letter of Offer and Acceptance was amended 79 days before the funds expired on September 30, 2007, decreasing the total amount of the case by \$16.5 million. DFAS personnel, at the request of DSCA personnel, decreased the case value in DIFS. At the same time, for accounting purposes, DFAS personnel transferred the \$16.5 million to a country code holding account. DSCA personnel notified DFAS that they would provide more instructions for disposition of the excess funds but DSCA did not provide those additional instructions.
- Case Y7-D-AAA. DSCA personnel accepted separate decreases of \$5.5 million and \$0.7 million to the military interdepartmental purchase request (MIPR) funding the case. They properly amended the Letter of Offer and Acceptance before funds expired on September 30, 2006, decreasing the case by \$6.2 million. DSCA personnel authorized DFAS to return \$5.5 million of the \$6.2 million to MNSTC-I. However, DSCA personnel did not provide instruction to DFAS regarding the return of the remaining \$0.7 million.
- Case B3-B-AAC. The original Letter of Offer and Acceptance was modified 58 days before the funds expired on September 30, 2007, decreasing the total amount of the case by \$0.3 million. DSCA personnel did not obtain an amended MIPR to reduce the original budgetary authority and did not authorize the removal of the funds from the case and the return of the funds to MNSTC-I.

For these three cases, DSCA personnel and the funds holders acknowledged the funds were excess because they had authorized the decrease to the case values. DSCA personnel, however, did not transfer funds from the FMS Trust Fund back to MNSTC-I because DSCA did not properly implement its financial review guidance. We notified DSCA personnel regarding this condition. DSCA personnel agreed with the condition and authorized the return of funds. We confirmed that DFAS completed the return of the funds to MNSTC-I on August 7, 2009.

We performed additional reviews of DIFS reports for the cases and line items not tested in our sampling to identify additional over-collected balances. As of September 30, 2009, we identified 15 cases with over-collected balances totaling \$14.1 million in

country code B7 for MNSTC-I. DSCA should correct these instances of over-collected funds through its required financial reviews in accordance with the SAMM and return over-collected funds to MSNTC-I.

## **Managing Unobligated Funds in the FMS Trust Fund**

DSCA did not always effectively monitor and identify excess unobligated funds before they expired. As a result, they were not available for other use. As we have noted, the GAO guidance on Economy Act orders requires the performing activity to recover only actual costs and promptly refund the excess amounts before the funds expire. We reviewed a DIFS report showing the status of funds as of September 30, 2009. The report showed that \$25.7 million in expired unobligated funds consisting of open cases for both CSTC-A and MNSTC-I, as well as holding account balances, remain in the FMS Trust Fund. DSCA personnel need to determine their proper disposition.

DSCA has taken steps to improve its management of expiring appropriated funds processed through the FMS network. In April 2009, the Assistant Secretary of Defense for Global Security Affairs issued standard operating procedures titled “Financial Management of FY 2009 Afghanistan Security Forces Fund, Iraq Security Forces Fund and 1206 Train and Equip Program.” DSCA developed the standard operating procedures to provide guidelines to encourage implementing agencies to identify the excess funds on cases early. The significant guidance included:

- detailed time requirements for processing each step in the case management process by type of appropriated funding;
- priorities for various options to execute purchases for cases and to reprogram excess funds on cases;
- deadlines for establishing new cases near funds expiration dates allowing adequate processing time for implementation of the intended purchase activity through stock issuances or contracting actions;
- deadlines for reviewing case execution status and identifying excess funds for other execution or return to the funds holders; and,
- detail procedures for emergency case implementation ensuring full use of available funding before expiration.

DSCA and implementing agency use of the new procedures should reduce the amount of unneeded unobligated current funds. However, the procedures do not directly address funds that have previously expired and DSCA management should extend these procedures to include reviewing appropriated funds that have expired. DSCA should identify these instances of unneeded unobligated funds and return excess funds to the funds holder.

## **Managing Funds for Their Intended Purpose**

We tested \$790.5 million of line items selected from applicable Letters of Offer and Acceptance to determine whether DSCA ensured that funds appropriated for assistance to Afghanistan and Iraq and placed under its oversight were used for the purposes defined in the relevant appropriation acts. The various items tested included: ordering various defense articles and services, such as the design and construction of a bridge and of buildings and the purchase of weapons, ammunition, tactical and combat vehicles, spare parts, airplanes, helicopter parts, flight simulators, and flight trainers. Our review of these samples showed that the appropriated funds were used for their intended purpose.

## **Conclusion**

Based on the exceptions we found in testing sample items, we have determined that DSCA can improve its management of appropriated funds processed through the FMS Trust Fund. As an executing agency, an important element of managing appropriated funds is adequate monitoring of the status of those funds as well as adequate communication of that status to the original funds holder. DSCA could more effectively manage over-collected funds and funds near expiration or cancellation by following established procedures and developing additional standard procedures to perform the specific functions addressed in our recommendations.

## **Management Comments on the Finding and Our Response**

### ***Management Comments***

The Acting Deputy Director, Defense Security Cooperation Agency, provided comments regarding the finding discussion in our report. Before issuing our draft report, we provided management a discussion draft of the audit background and intended findings and recommendations for review. The Acting Deputy Director stated that DSCA detailed several clarifying comments and factual corrections in its review of that discussion draft and few of its comments were incorporated in the draft report. DSCA recommended another review of those comments and reconsideration to incorporate more of the clarifying comments before publishing our final report.

### ***Our Response***

We appreciated management's comments on the discussion draft of the report, and we thoroughly considered management's suggestions. We made changes suggested by management where appropriate and when sufficient evidence was provided before we issued the draft report. We reviewed that correspondence before issuing this final report and found no instances where additional changes were warranted.

## **Recommendations, Management Comments, and Our Response**

**We recommended that the Director, Defense Security Cooperation Agency:**

- 1. Establish procedures to properly identify, record, and return appropriated funds that are near cancellation on a timely basis.**

### ***Management Comments***

The Acting Deputy Director, Defense Security Cooperation Agency, agreed and stated that DSCA initiated a program to identify pseudo-cases funded with appropriations canceling at fiscal year-end. She stated that DSCA is working with the implementing agencies to close out the identified cases and contracts to return unneeded funds to the funds holder before cancelation.

- 2. Follow its internal financial review guidance, Security Assistance Management Manual, chapter 9, paragraph 14, DOD 5105.38-M, October 3, 2003, to identify advances of appropriated funds collected that are in excess of case values and return such excess funds to the original funds holders.**

### ***Management Comments***

The Acting Deputy Director, Defense Security Cooperation Agency, agreed and stated that DSCA issues annual standard operating procedures that establish time frames for maximum use of funds expiring at fiscal year-end. She stated that DSCA also reviews and addresses unneeded funding to enable reutilization by the funds holder throughout the execution year.

- 3. Perform a financial review of all appropriated funds that have expired to determine unobligated funds that are in excess of future required expenditures and return such funds to the funds holders.**

### ***Management Comments***

The Acting Deputy Director, Defense Security Cooperation Agency, agreed and stated that DSCA will review excess funds for appropriations that expired in previous fiscal years and will return unneeded funds to the original funds holder.

### ***Our Response***

The Acting Deputy Director, Defense Security Cooperation Agency, comments are responsive; and DSCA management actions meet the intent of our recommendations. Further comments from management are not required.

## Appendix. Scope and Methodology

We conducted this performance audit from October 2008 through December 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our objective was to determine whether the funds appropriated by Congress for assistance to Afghanistan and Iraq processed through the Foreign Military Sales network were being properly managed. We reviewed whether DSCA oversight over such funds ensured proper authorization, compliance with intended use, and proper accounting in DOD financial reports.

DFAS personnel used the DIFS, a computer system that reports case execution and FMS Trust Fund financial data. They provided us a universe of 351 cases comprised of 1,691 order lines totaling \$7.6 billion as of September 30, 2007. Before making a final selection of sample items for testing, we excluded

- cases that were reviewed as part of other DOD IG Audits and
- cases executing Foreign Military Financing funds.

The remaining 69 cases were comprised of 345 order lines totaling \$1.2 billion. We then made a judgmental sample of 74 order lines for testing. From the order lines selected, we further excluded order lines where all disbursements occurred outside the United States. Our final sample of 65 order lines totaled \$790.5 million.

We verified the authorization for the funding of our sample items, the recording of transactions showing execution of the funding, and compliance with the intended purpose of the funds by examining source documents. Documents reviewed included applicable public laws, forms establishing the case (amount, items for purchase, and funds citation), MIPRs, vouchers for transferring the appropriated funds into the FMS Trust Fund, contracts, purchase orders, requisitions, domestic shipping and delivery receipts, and disbursement vouchers. Additionally, we determined that DFAS reports properly included obligation information for these appropriated funds for assistance to Afghanistan and Iraq transferred into the Foreign Military Sales Trust Fund, including the cost of war report.

The testing phase of our audit required unexpected additional time to complete because there were delays in obtaining audit documentation. We encountered delays obtaining documentation related to significant construction projects in Afghanistan. It required approximately 4 months from our initial data request to obtain complete and sufficient documentation for the execution of such funds.

## **Use of Computer-Processed Data**

We verified information for the execution of these appropriated funds for our sample items reported in Army, Air Force, and Navy accounting and logistical systems by examining source documents. These systems included CEFMS (Corp of Engineers Financial Management System), PBAS (Program Budget Accounting System), CMCS (Centrally Managed Case System), CISIL (Centralized Integrated System for International Logistics), and MISIL (Management Information System for International Logistics). We used summary information from DIFS, the computer system DSCA uses for accounting management of these appropriated funds processed through the FMS network. Specifically, we obtained financial information regarding ordered amounts on the LOA, collections, disbursements, and current cash balances as well as the dates of occurrence for various accounting events. Based on the results of verifying execution data to source documents for our sample items, and verifying the consistency of the summary data used from DIFS with the execution data we examined, the computer-processed data used in the preparation of this report was sufficiently reliable.

## **Use of Technical Assistance**

We obtained technical assistance from our Quantitative Methods Directorate in making our judgmental sample selection. Additionally, personnel from our Office of General Counsel provided technical assistance regarding various legal matters.

## **Prior Coverage**

During the last 5 years, the Government Accountability Office (GAO) and the Department of Defense Inspector General (DOD-IG) have issued nine reports discussing appropriated funds provided to Afghanistan and Iraq and the FMS Trust Fund. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted DOD IG reports can be accessed at <http://www.dodig.mil/audit/reports>.

## **GAO**

GAO Report No. GAO-09-454, "Foreign Military Sales Program Needs Better Controls for Exported Items and Information for Oversight," May 20, 2009

## **DOD IG**

DOD IG Report No. D-2009-063, “Funds Appropriated for Afghanistan and Iraq Processed Through the Foreign Military Sales Trust Fund,” March 24, 2009

DOD IG Report No. D-2009-050, “Distribution of Funds and the Validity of Obligations for the Management of the Afghanistan Security Forces Fund – Phase II,” February 5, 2009

DOD IG Report No. D-2008-098, “Internal Controls Over Payments Made in Iraq, Kuwait, and Egypt,” May 22, 2008

DOD IG Report No. D-2008-026, “Management of the Iraq Security Forces Fund in Southwest Asia – Phase III,” November 30, 2007

DOD IG Report No. D-2008-012, “Distribution of Funds and the Validity of Obligations for the Management of the Afghanistan Security Forces Fund – Phase I,” November 5, 2007

DOD IG Report No. D-2007-060, “Management of the Iraq Security Forces Fund in Southwest Asia – Phase II,” February 12, 2007

DOD IG Report No. D-2007-030, “Management of the Iraq Security Forces Fund in Southwest Asia – Phase I,” December 8, 2006

DOD IG Report No. D-2006-011, “Report on the Foreign Military Sales Trust Fund Cash Management,” November 7, 2005

# Defense Security Cooperation Agency Comments



DEFENSE SECURITY COOPERATION AGENCY  
201 12TH STREET SOUTH, STE 203  
ARLINGTON, VA 22202-5408

MAR 05 2010

## MEMORANDUM FOR DEPUTY ASSISTANT INSPECTOR GENERAL DEFENSE BUSINESS OPERATIONS

**SUBJECT:** Report on Controls Over Funds Appropriated for Assistance to Afghanistan and Iraq Processed Through the Foreign Military Sales Network. (Project No. D2007-D000FD-0198.001)

**Reference:** (a) DoD Office of Inspector General Memorandum, Controls Over Funds Appropriated for Assistance to Afghanistan and Iraq Processed Through the Foreign Military Sales Network (Project No. D2007-D000FD-0198.001), January 29, 2010  
(b) Defense Security Cooperation Agency Memorandum, Control Over Funds Appropriated for Assistance to Afghanistan and Iraq Processed Through the Foreign Military Sales Network (Project No. D2007-D000FD-0198.001)---Discussion Draft, December 7, 2009

Reference (a) requested the Director, Defense Security Cooperation Agency (DSCA) provide comments to the draft report, subject as above, and state agreement or disagreement with the findings and recommendations. This memorandum is the second response to the report. In reference (b), DSCA detailed several clarifying comments and factual corrections. After reviewing this second draft report, few of our comments were incorporated into the draft report. DSCA recommends another review of the comments already provided and re-consideration to incorporate more of the clarifying comments prior to publication.

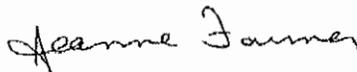
The draft report outlined three recommendations. Please reference those recommendations and our response below.

DSCA response to Recommendation One: DSCA initiated a program to identify pseudo-cases funded with appropriations cancelling at the end of the current fiscal year. DSCA is now actively working with the Implementing Agencies to close out the identified cases and associated contracts so all unneeded funds can be returned to the original funds holder prior to cancellation.

DSCA response to Recommendation Two: DSCA now issues a yearly memorandum which includes a Standard Operating Procedures (SOP) directing timeframes for various actions to enable maximum utilization of funds expiring in the current fiscal year. In conjunction with this memorandum, DSCA aggressively reviews and addresses unneeded funding to enable re-utilization by the funds holder throughout the execution year.

DSCA response to Recommendation Three: As an ongoing process, DSCA will review excess funds for appropriations that expired in a previous fiscal year. As part of this review, DSCA will determine amounts to be retained that may be needed for unanticipated within scope price adjustments. Any unneeded funds will be returned to the original funds holder.

We request you review our comments in this response, in our prior response and incorporate into the final version of your report. If you prefer to meet with my staff to review these comments, please contact my audit focal point [REDACTED]



**Jeanne L. Farmer**  
**Acting Deputy Director**





# Inspector General Department of Defense

