September 16, 2002

Financial Management

Allegation to the Defense Hotline on the Use of Funds by Navy Region Southeast
(D-2002-147)

Office of the Inspector General of the Department of Defense

Constitution of the United States of America

No Money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law; and a regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time.

Article I, Section 9

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Acronyms

O&M	Operations and Maintenance
QOLED	Quality of Life Enhancement, Defense
STARS	Standard Accounting and Reporting System

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

September 16, 2002

MEMORANDUM FOR NAVAL INSPECTOR GENERAL

SUBJECT: Report on Allegation to the Defense Hotline on the Use of Funds by Navy Region Southeast (Report No. D-2002-147)

We are providing this report for your information and use. We performed the audit in response to a complaint made to the Defense Hotline. No written response to this report was required, and none was received. Therefore, we are publishing this report in final form.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Raymond D. Kidd at (703) 604-9159 (DSN 664-9159) (rkidd@dodig.osd.mil) or Ms. Linda A. Pierce at (216) 522-6091 extension 234 (lpierce@dodig.osd.mil). See Appendix B for the report distribution. The audit team members are listed inside the back cover.

for David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General of the Department of Defense

Report No. D-2002-147 **September 16, 2002**
(Project No. D2001FC-0190)

Allegation to the Defense Hotline on the Use of Funds by Navy Region Southeast

Executive Summary

Who Should Read This Report and Why? The Commander, Navy Region Southeast (region) accounting and budgeting personnel who provide program and strategy execution assistance for Navy commands should read this report. Those involved with any aspect of financial data management will want to make sure that financial reports accurately reflect the official appropriation information.

Background. The audit was performed in response to a complaint made to the Defense Hotline. The complainant alleged the region misused $4.4 million and that the money was expensed from the Pine Castle activity, a bombing range in central Florida. The complainant also stated that when a large discrepancy between money appropriated and money expensed was shown in the region database, a work-around was programmed in an attempt to correct the funds discrepancy. A discussion of the Defense Hotline allegation (the allegation) and conclusions is in the finding section of this report.

Results. We did not substantiate the allegation that the region misused $4.4 million. Navy Region Southeast management controls of appropriated funds were adequate in that we found no material weaknesses in the administration of appropriated funds.

Management Comments. We provided a draft of this report on June 21, 2002. No written response to this report was required, and none was received. Therefore, we are publishing this report in final form.

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Background

Hotline Allegation. The audit was performed in response to a complaint made to the Defense Hotline. The complainant alleged that Commander, Navy Region Southeast, Commander in Chief, U.S. Atlantic Fleet (region) misused $4.4 million. See the finding section for a complete discussion of the allegation.

Role of the Region. The region is responsible for financial management of nine operational and five support commands within the Department of the Navy. Before FY 1999, each command was responsible for its individual financial management. Since 1999, the region, as the regional coordinator, has led the combined financial management efforts of the 14 commands, providing program and strategy execution assistance for command appropriations, and for reporting the status of funds.

Financial Systems. The Department of the Navy uses the Standard Accounting and Reporting System (STARS) as its official accounting system. STARS is an interactive, real-time accounting system that provides for processing and reporting of general fund accounting functions. The region developed a database to serve customers that did not have remote access to STARS.

Standard Accounting and Reporting System. STARS processes accounting transactions, prepares standard financial reports, and processes and pays invoices. The STARS system is composed of several sub-systems. STARS-Field Level is the sub-system used for field level unit accounting. STARS allows users on-line access to their financial data, thus giving them the ability to perform interactive processing and queries.

The Region-Developed Financial Database. The region-developed financial database (the region database) generates a funds status report that is available to customers through the Internet. The region database was designed in 1999 for Operations and Maintenance (O&M) Appropriation fund holders within the region. The region database is not an official accounting system and therefore does not post to an official accounting record. However, the region database allows customers without STARS access to view the status of their funds. Information is taken from three sources to generate an unofficial funds status report within the region database. The three sources are:

- appropriation authorizations from the local spending plan,
- accounting transactions downloaded from STARS, and
- special funds and special projects status maintained locally.

Pine Castle. Pine Castle is a bombing range in central Florida funded from the O&M Appropriation 1804, subhead 60CA. The status of Pine Castle funds was available through the region database. Pine Castle was allocated a total of $250,000 for operations in FY 1999 through O&M Appropriations. The money was to maintain the bombing range and pay salaries of the small staff resident at Pine Castle.

Quality of Life Enhancement, Defense. The Quality of Life Enhancement, Defense (QOLED) Appropriation 0839 provides funding for base operations and improvements. QOLED funding for the region began in FY 1999 under subhead 60CA. The money was used for repairs and renovations at the various commands.

Objectives

Our objective was to evaluate the possible misuse of Navy funds and questionable accounting adjustments by the Navy. We also evaluated the management control program as it relates to the audit objective. Appendix A discusses the audit scope and methodology and our review of the management control program.

Use of Navy Funds

The complainant alleged that the region misused $4.4 million. The complainant noticed an over-obligation of $4.4 million in the region database for the Pine Castle activity. Later, a work-around was programmed into the region database to allow an entry to correct the $4.4 million. Consequently, the complainant concluded that the region misused the $4.4 million and covered the trail of funds within the region database. We did not substantiate the allegation.

- The region appropriately expensed appropriated dollars.
- The Pine Castle activity was never allocated and did not obligate or expend $4.4 million.
- The large discrepancy between money appropriated and money expensed was an error reflected in an unofficial accounting system. A work-around was programmed into the region database but it did not affect the official accounting record.

The allegation raised by the complainant does not warrant further action. The allegation and audit results are discussed below.

Audit Results

Allegation. The allegation that the region misused $4.4 million was not substantiated. The complainant identified the O&M appropriation 1804 as having questionable adjustments. When we reviewed STARS data and appropriation documents, it became evident that the expenses in question were made from the QOLED appropriation 0839, not the O&M appropriation 1804. We confirmed that the expenditures fulfilled the intent of the QOLED appropriation 0839.

The query for data from STARS did not specify an appropriation symbol. Consequently, data from the two different appropriations merged where they shared a common data element, subhead 60CA. The merged data was imported into the region database and displayed as O&M appropriation 1804. The STARS query was faulty in that it did not specify the appropriation symbol. Therefore, the region database reflected a $4.4 million discrepancy between money appropriated and money expensed in O&M appropriation 1804. We confirmed that the STARS query was corrected for FY 2002.

Pine Castle Funds. We confirmed that Pine Castle was not authorized the $4.4 million and did not obligate or expend money in excess of their allocations. The funds shown as being over-obligated in the region database did not belong to Pine Castle. A query error caused QOLED obligated funds, Appropriation 0839, to appear allocated to Pine Castle. Pine Castle O&M funds, Appropriation 1804, and QOLED funds, Appropriation 0839, were both expended as allocated.

The Region Database Adjustment. When a $4.4 million discrepancy between money appropriated and money expensed was shown in the region database it appeared a questionable accounting adjustment had been made. We determined that no adjustment was made. However, a work-around feature was programmed in the region database in an attempt to correct the $4.4 million discrepancy. The work-around feature brought the unofficial region database into balance with the official accounting record but did not change actual funds or the official accounting record. The work-around feature was removed from the region database for FY 2002.

Conclusion. Although the complainant concluded that the region misused $4.4 million and covered the trail of funds within the region database, the allegation was not substantiated. Further action is not required.

Appendix A. Scope and Methodology

Scope

Work-Performed. The allegation was thoroughly examined and the results summarized. We traced funding authority and examined budgeting and accounting documents at the region. We reviewed FY 1999 and FY 2000 program execution using STARS data. We identified accounting and budgeting procedures and systems used through interviews with key region personnel.

Methodology

We reviewed the statement provided by the complainant and held a telephone interview with the complainant to clarify issues relating to the allegation. We reviewed applicable laws, regulations, policies, and procedures, related to the allegation. We also obtained an overview of the flow of region funds. Specifically, we interviewed region budgeting and accounting personnel to trace funding authority for the O&M Appropriation 1804 and QOLED Appropriation 0839. In both appropriations, we concentrated on transactions citing Subhead 60CA. Budgeting and accounting documents were examined for FYs 1999 and 2000 for the subject appropriations.

We identified all relevant accounting and budgeting systems utilized and their role at the region. We determined the use of each system through document examination and interviews with region personnel. At the completion of the survey, we determined that additional audit work was not required based on the survey results.

Use of Computer-Processed Data. To achieve the audit objective, we relied on computer-processed data from STARS to identify expenses, obligations and allotments. Although we did not formally assess the reliability of the computer-processed data, the source documentation agreed with the computer-processed data. We did not find any errors that would preclude the use of the computer-processed data to meet the audit objectives or that would change the audit results.

Audit Dates and Standards. We performed this audit from September 2001 through June 2002 in accordance with generally accepted government auditing standards. Accordingly, we reviewed the management control program as it related to the audit objectives.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD.

Management Control Program Review

DoD Directive 5010.38, "Management Control Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. Our review of the region management control program was limited to answering the allegation. We reviewed region management controls over fund administration. Because we did not identify a material weakness, we did not assess the adequacy of management's self-evaluation.

Adequacy of Management Controls. The region management control program for funding administration was adequate as it related to the audit objectives.

Prior Coverage

During the past 5 years, the General Accounting Office, IG DoD, and Naval Audit Service performed no audits related to the possible misuse of funds by the region.

Appendix B. Report Distribution

Office of the Secretary of Defense

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House Subcommittee on Technology and Procurement Policy, Committee on Government Reform

Team Members

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing of the Department of Defense prepared this report. Personnel of the Office of the Inspector General of the Department of Defense who contributed to the report are listed below.

Paul J. Granetto
Raymond D. Kidd
Linda A. Pierce
Laura J.S. Croniger
Kimberly L. Misener
Catherine Bird