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

REPORT
NO. 90-030

January 22, 1990

MEMORANDUM FOR COMPTROLLER OF THE DEPARTMENT OF DEFENSE
ASSISTANT SECRETARY OF DEFENSE (PRODUCTION AND LOGISTICS)

SUBJECT: Report on the Audit of Commercial Aviation Fuel Invoice Payments in Europe (Project 9FC-0033)

Introduction

We are providing this final report on the Audit of Commercial Aviation Fuel Invoice Payments in Europe for your information and use. The audit was performed from March to July 1989 and was initiated due to a complaint that controls were not in place to prevent duplicate payments to commercial vendors for fuel purchases made by U.S. aircrews.

The objectives of the audit were to determine whether DoD and the Military Departments were complying with established procedures when U.S. aircrews purchased aviation fuel, supplies, and support services in Europe. We also evaluated the internal controls associated with the processing and payment of invoices from foreign commercial vendors.

Scope of Audit

The Military Departments purchased approximately $170 million of aviation fuel from 77 overseas commercial airports that participated in the Defense Logistics Agency's aircraft refueling contract program during FY 1988. Our audit included reimbursements made only to commercial vendors in Europe for aviation fuel, supplies, and support services purchased by U.S. aircrews when a contract had not been negotiated. However, we could not determine from available records the dollar value of these commercial purchases made by U.S. aircrews in Europe during FY 1988. We reviewed invoices submitted by European vendors and paid in FY 1988 by the Army Finance and Accounting Center, the Air Force Accounting and Finance Center, and the Navy Atlantic Fleet Accounting and Disbursing Center for aviation fuel, supplies, and support services. We found that U.S. Army and Air Force aircrews purchased very little aviation fuel, supplies, and support services from commercial vendors in Europe. Also, these aircrews generally adhered to established procedures when purchases were made, and controls were in place to prevent and detect duplicate payments when vendor invoices were processed and payments were made. Therefore, we focused our review on the Navy.

The Comptroller of the Department of Defense, Director for Accounting Policy and the State Department were negotiating to improve processing and payment procedures for disbursements that the State Department made for the Military Departments. DoD was also implementing the use of credit cards, which would reduce problems caused by the use of Standard Form 44 (SF-44) Purchase Orders. Based on these actions, we determined that the audit of commercial aviation fuel invoice payments in Europe should be discontinued.

Activities visited or contacted during the audit are shown in Enclosure 1. This program audit was made in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly included such tests of internal controls as were considered necessary.

Internal Controls

The Navy sometimes did not follow proper procedures when vendor invoices were processed for aviation fuel purchases. Internal controls applicable to Navy procedures for the purchase of aviation fuels and the processing and payment of commercial fuel invoices could not be fully evaluated due to an incomplete audit trail. The General Services Administration had entered into a Government-wide contract for the worldwide use of VISA credit cards to streamline payment procedures, improve cash management, and provide procedural checks and feedback to improve management control. Use of the VISA credit cards should strengthen internal controls applicable to the payment and processing of commercial aviation fuel invoices. No recommendation was made concerning internal controls due to the recent implementation of the VISA credit card program.

Background

DoD aircraft operate throughout Europe on a daily basis. When DoD, NATO, or foreign military airfields are not available for refueling, DoD aircraft must land at foreign commercial airports for fuel purchases. The Defense Logistics Agency (DLA) has negotiated aircraft refueling contracts with vendors at 25 commercial European airports. DLA negotiates aircraft refueling contracts with commercial vendors to sell aviation fuel to DoD aircrews at a reduced price. At foreign commercial airports where there are no aircraft refueling contracts, DoD aircrews may purchase aviation fuels, supplies, and services at the current rate on the open market using the six-part SF-44 Purchase Order. However, Air Force aircrews use the Air Force AvFuels Invoice (Form 315) for commercial aviation fuel purchases, and Air Force Invoice (Form 15) for commercial purchases of aviation supplies and services. Procedures for purchasing commercial aviation fuel require Army and Navy aircrews to use prenumbered, preprinted SF-44's. Preprinted

information includes the billing activity and address, the aircraft's home address, and the appropriation classification. In addition, Army and Navy pilots are required to sign the SF-44 to verify that the purchased fuel was received, and to ensure that the purchase date, quantity purchased, and cost (in dollars or foreign currency) are shown. Air Force pilots are required to sign Form 315 and enter their rank, squadron, aircraft tail number, aircraft mission design and series, aircraft home station, date of fuel purchase, location of facility where the purchase was made, and address of the organization to be billed for the fuel purchased.

Vendors submit commercial invoices, SF-44's, Form 315's, and/or Form 15's to military payment centers for reimbursement. However, to ensure timely payment, foreign commercial vendors often present invoices to local U.S. Embassy posts for payment. Local Embassies submit certified invoices to State Department financial management centers for payment. The centers pay the invoices, citing Military Department appropriations, and submit data on disbursements (citing military funds) to the appropriate military finance centers on a monthly basis. At military finance centers, disbursement data are validated and forwarded to applicable installations or squadrons for reconciliation with obligating logs.

Prior Audit Coverage

There were no prior audits during the last 5 years concerning the purchases, payment, and processing of invoices from commercial vendors for purchases of aviation fuel and supplies in Europe by U.S. aircrews.

Discussion

We reviewed paid invoices for goods and services purchased in Europe by the Military Departments during FY 1988. We found that the Army and the Air Force were generally complying with established procedures when U.S. aircrews purchased commercial aviation fuel and supplies in Europe. Our conclusion was based on a review of 29,000 invoices paid for goods and services at the Army Finance and Accounting Center and 23,000 invoices paid at the Air Force Accounting and Finance Center. The amount of aviation fuel and supplies that Army and Air Force aircrews purchased from commercial vendors in Europe was insignificant. We found only 3 Army invoices and 68 Air Force invoices that were paid for commercial aviation fuel. Also, a computer-assisted match of fuel invoices paid during FY 1988 at the Defense Logistics Agency did not reveal any duplicate payments to commercial European vendors holding aircraft refueling contracts.

We noted that the Navy sometimes did not follow established procedures for the purchase of aviation fuels. We were unable to determine how much commercial aviation fuel was purchased by Navy aircrews in Europe during FY 1988. Incomplete SF-44 purchase

documents, missing accounting information, and incompatible financial reporting prevented us from reaching definitive audit conclusions.

We analyzed Navy SF-44 expenditure listings and procedures used by Navy aircrews during FY 1988 at nine Atlantic Fleet squadrons. These squadrons were selected because their assigned missions often required aircrews to purchase aviation fuel from commercial vendors. These squadrons accounted for 25 percent of the 6.5 million commercial gallons purchased by Atlantic Fleet aircrews during FY 1988. Discrepancies noted on SF-44's included:

- Missing dates, aircraft identification numbers, fuel quantities, and pilots' certifying signatures;
- Quantities on SF-44's that did not agree with quantities on vendors' delivery tickets; and
- No indication whether prices were in U.S. dollars or foreign currency.

These discrepancies prevented timely processing and disbursement by Navy payment centers, and limited the Navy's ability to verify the accuracy of purchase amounts.

Because accounting information was missing or incomplete, Navy accounting personnel were sometimes unable to process all payment information on fuel invoices received from overseas State Department financial management centers. Individual data elements missing from support documents included unit identification codes, identification codes for authorized accounting activities, bureau control numbers, document identification numbers, and appropriation identifications. Also, personnel at Navy payment centers did not always receive additional supporting documentation that they requested from State Department financial management centers. Improper completion of Navy SF-44's and missing accounting information from State Department financial management centers created internal control deficiencies in the processing and payment of SF-44's. Commercial vendors could submit separate invoices or copies of SF-44's to State Department or Navy payment centers for payment. The Federal Acquisition Regulation, Part 53.301-44, and the Navy Comptroller Manual, Chapter 4, Part 046054, state that commercial vendors are required to use the original (copy 1) as the invoice or as an attachment to the commercial invoices.

Navy finance centers were sometimes unable to identify and assign disbursements to squadrons for whom disbursements were made. As a result, a squadron's operating obligations and expenditures could not be accurately reconciled, and there was a high probability that duplicate or erroneous SF-44 payments would go undetected because the expenditure would not reach the squadron level for reconciliation. The inability to reconcile

expenditures created a potential problem in controlling funds within the Military Departments and could have resulted in distorted reports of financial conditions.

During FY 1988, the Army and Air Force, in addition to the Navy, rejected about 6 percent ($11 million) of the disbursements the State Department made for them for goods and services in Europe. The primary cause of the Military Departments' problems with State Department disbursements was the lack of a formal agreement addressing specific responsibilities and requirements of State Department and military finance centers. During the audit, the Comptroller of the Department of Defense, Director for Accounting Policy was negotiating with the State Department concerning data that should be submitted to the military finance centers when funds were disbursed citing military appropriations. To assist in the ongoing negotiations, we addressed these issues in a memorandum to the Director for Accounting Policy.

We noted that the General Services Administration had entered into a Government-wide contract for the worldwide use of VISA credit cards. The objectives of this program are to streamline payment procedures, improve cash management, and provide procedural checks and feedback to improve management control. Use of the credit cards should reduce internal control deficiencies in the payment and processing of SF-44's. The Military Departments could negotiate their own payment process, thus centralizing the payment and processing of fuel transactions. VISA cards could be assigned to squadrons and individual aircraft, as deemed necessary for proper internal controls. The centralized payment and processing of fuel transactions would ensure that expenditures reach the squadron level for proper reconciliation. Paying for fuel with VISA credit cards will reduce the use of SF-44's, reestablish a comprehensive audit trail, and improve internal controls.

We provided a draft of this report to the addressees on November 13, 1989. Because there were no recommendations, no comments were required of management, and none were received. Therefore, we are publishing this report in final form. Any comments on this final report should be provided within 60 days of the date of this memorandum.

The courtesies extended to the audit staff are appreciated. See Enclosure 3 for a list of audit team members. If you have any questions about this audit, please contact Mr. James G. McGuire or Mr. Timothy J. Tonkovic at AUTOVON 564-1644. Final report distribution is shown at Enclosure 2.

Stephen A. Trodden
Assistant Inspector General
for Auditing

Enclosures

cc:
Secretary of the Army
Secretary of the Navy
Secretary of the Air Force

ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Comptroller of the Department of Defense, Washington, DC
General Counsel of the Department of Defense, Washington, DC

Department of the Army

Comptroller of the Army, Washington, DC
U.S. Army Finance and Accounting Center, Fort Benjamin Harrison, IN
Fort Eustis, VA
U.S. Army General Materiel and Petroleum Activity, New Cumberland, PA
U.S. Army Flight Detachment, Langley Air Force Base, VA

Department of the Navy

Commander in Chief, U.S. Atlantic Fleet, Norfolk, VA
Commander in Chief, U.S. Naval Forces, Europe, London, England
U.S. Naval Reserve Force, New Orleans, LA
U.S. Navy Accounting and Finance Center, Washington, DC
U.S. Navy Regional Finance Center, Great Lakes, IL
Fleet Accounting and Disbursing Center, Atlantic, Norfolk, VA
U.S. Navy Petroleum Office, Alexandria, VA
Naval Air Station, Patuxent River, MD
Naval Air Station, Jacksonville, FL
Naval Air Station, Norfolk, VA
Naval Air Station, Brunswick, ME
Naval Air Facility, Mayport, FL
Naval Air Station, Sigonella, Italy
Fleet Marine Force, Atlantic, Norfolk, VA
4th Marine Air Wing, New Orleans, LA
2nd Marine Air Wing, Marine Corps Air Station, Cherry Point, NC

Department of the Air Force

Deputy Chief of Staff (Logistics and Engineering), Washington, DC
Assistant Secretary of the Air Force (Financial Management and Comptroller), Washington, DC
Headquarters, U.S. Air Forces in Europe, Ramstein Air Base, Germany
U.S. Air Force Accounting and Finance Center, Lowry Air Force Base, CO
Langley Air Force Base, VA
Detachment 29, San Antonio Air Logistics Center, Alexandria, VA
Detachment 1, 1402nd Military Airlift Squadron, Langley Air Force Base, VA

ACTIVITIES VISITED OR CONTACTED (Continued)

Defense Agencies

Defense Intelligence Agency, Washington, DC
Defense Mapping Agency, Washington, DC
Defense Logistics Agency, Defense Fuel Supply Center, Cameron Station, Alexandria, VA

Other Government Agencies

Department of State, Washington, DC
General Accounting Office, Washington, DC
General Services Administration, Washington, DC

FINAL REPORT DISTRIBUTION

Office of the Secretary of Defense

Comptroller of the Department of Defense
Assistant Secretary of Defense (Production and Logistics)

Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Financial Management)
U.S. Army Inspector General
U.S. Army Finance and Accounting Center
Auditor General, U.S. Army Audit Agency

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Comptroller of the Navy
Commander in Chief, U.S. Atlantic Fleet
Fleet Accounting and Disbursing Center, Atlantic Fleet
Auditor General, Naval Audit Service

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management and Comptroller)
U.S. Air Force Accounting and Finance Center
Auditor General, U.S. Air Force Audit Agency

Defense Activities

Director, Defense Logistics Agency
Director, Defense Logistics Studies Information Exchange

FINAL REPORT DISTRIBUTION (Continued)

Non-DoD

Office of Management and Budget
U.S. General Accounting Office,
NSIAD Technical Information Center

Congressional Committees:

Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
Senate Ranking Minority Member, Committee on Armed Services
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Ranking Minority Member, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on Government Operations

AUDIT TEAM MEMBERS

Nancy L. Butler	Director, Financial Management Division
James G. McGuire	Program Director
Timothy Tonkovic	Project Manager
Gene Akers	Team Leader
James Knight	Team Leader
Suzanne Hutcherson	Auditor
Cheryl Smith	Auditor
Danny Hatten	Auditor