DEPARTMENT OF DEFENSE

AUDIT REPORT

CASE CLOSURE PROCEDURES FOR FOREIGN MILITARY SALES

No. 90-055

April 5, 1990

Office of the Inspector General

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

April 5, 1990

MEMORANDUM FOR COMPTROLLER OF THE DEPARTMENT OF DEFENSE
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT)

SUBJECT: Report on the Audit of Case Closure Procedures for Foreign Military Sales (Report No. 90-055)

This is our final report on the Audit of Case Closure Procedures for Foreign Military Sales for your information and use. Comments on a draft of this report were considered in preparing the final report. We made the audit from January through August 1989. The objectives of the audit were to evaluate the adequacy of foreign military sales case closure procedures in effect for cases designated as candidates for closure, and the adequacy of internal controls that relate to case closure procedures. As of April 30, 1989, 2,231 cases, valued at $19.3 billion, for cases managed by the Army Security Affairs Command, the Naval International Logistics Control Office, and the Air Force Logistics Command were considered logistically complete for at least 1 year.

The Army and the Navy had not closed foreign military sales cases supplied through long-running contracts, which was contrary to DoD regulations. However, DoD Manual 7290.3-M, "Foreign Military Sales Financial Management Manual," did not contain the financial procedures necessary to close a foreign military sales case that had an open contract and to make final disbursement. Navy foreign military sales cases with suballotment transactions that were supplied with long-running contracts remained open although the contracts financed by the suballotment had no outstanding obligations or were closed. Closure of additional Navy cases supplied through suballotment transactions was delayed because Military Interdepartmental Purchase Requests and project orders financed by the suballotments were not closed after the work was completed. Delayed reimbursement transactions and the failure to liquidate U.S. appropriations obligated to support a foreign military sales case contributed to delays in the closure of foreign military sales training cases in the Army. Foreign military sales case reconciliations were untimely and were not performed in accordance with DoD regulations in the Army and the Air Force. We limited our audit work in the Air Force to case closure reconciliation procedures because the Air Force Audit Agency completed an audit on this subject in January 1989. The

internal control procedures employed by the Military Departments were sufficient to identify foreign military sales cases that were candidates for closure and to identify impediments to their closure. The results of the audit are summarized in the following paragraphs, and the details, audit recommendations, and management comments are in Part II of this report.

The Army and the Navy were not closing foreign military sales cases supplied through long-running contracts that were eligible for closure under the provisions of DoD Manual 7290.3-M, "Foreign Military Sales Financial Management Manual." We identified 156 cases with $22.3 million in cash collections that were not required to meet the financial requirements of cases, on which closure was delayed at two Army Major Subordinate Commands and for Navy cases managed by the Naval International Logistics Control Office. This delay prevented foreign customers from seeking alternative investment opportunities. We recommended that the Comptroller of the Department of Defense require the Military Departments to submit to the Executive Foreign Military Sales Reconciliation and Case Closure Board those cases where the only remaining financial issue is the establishment of final indirect cost rates in compliance with DoD Manual 7290.3-M. We also recommended that the Comptroller of the Department of Defense require that suspense accounts be established for closing contracts supporting cases where the only financial issue is the establishment and disbursement of final indirect cost rates (page 5).

Closure was delayed on Navy foreign military sales cases supplied through suballotment transactions. We identified $6.8 million in cash collections in excess of the financial requirements of the 19 cases delayed for closure with open suballotment transactions. We recommended that the Commander, Naval Supply Systems Command, establish procedures to promptly report completion of performance supported by suballotment transactions (page 11).

The Army did not promptly deobligate Army appropriations supporting foreign military sales training. In addition, slow routing of contractor invoices for training at overseas locations delayed the closure of these cases. We determined that 121 open training cases in the Army had unliquidated obligations totaling $9.4 million. We recommended that the Commander, U.S. Army Training and Doctrine Command, require periodic reviews of unliquidated obligations of training cases and promptly deobligate unneeded funds. We also recommended that the Commander, U.S. Army Finance and Accounting Center, determine the cause of late overseas billings and take appropriate action to expedite the process (page 15).

Foreign military sales reconciliation procedures were untimely and were not in accordance with DoD Manual 7290.3-M. We

identified 28 of 115 cases, with cash collections that exceeded the financial requirements by $7 million, on which closure was unnecessarily delayed at the U.S. Army Missile Command and the Air Force Logistics Command. We recommended that the Comptroller of the Department of Defense prepare operating procedures to be used in the case reconciliation process and use suspense accounts to dispose of minor amounts after cases have been reconciled (page 19).

The management comments on a draft of this report did not fully comply with the requirements of DoD Directive 7650.3. The Army Training and Doctrine Command concurred in Recommendation C.1, and described corrective action, but it did not provide the estimated date for completion of the planned actions; therefore, we ask that the Army Training and Doctrine Command provide completion dates in responding to the final report. Management generally agreed with the recommendations presented in the draft of this report. In the draft, we recommended that the Comptroller of the Department of Defense enforce DoD Manual 7290.3-M, the Foreign Military Sales Financial Manual, to require the Military Departments to submit FMS cases to the Defense Executive Foreign Military Sales Reconciliation and Case Closure Board when the only remaining financial issue is the establishment of final indirect cost rates on supporting contracts. The Comptroller stated that no requirement presently exists in DoD Manual 7290.3-M. Accordingly, we have revised Recommendation A.1.a. to establish a requirement for Military Departments to submit cases meeting the closure criteria to the Board. We have accepted the Comptroller's proposed alternative action for Recommendation A.1.b. and D.2. to use existing country-level accounts and omnibus quarterly billing statements for resolving minor reconciliatory amounts and have revised the recommendations accordingly.

The comments received from the Army's Director of Finance and Accounting and the Office of the Navy Comptroller either did not conform to the requirements of DoD Directive 7650.3 or did not adequately explain how the proposed actions will correct the conditions identified in this report. As stated in the audit response to management comments in Findings and Recommendations B. and C., we are requesting estimated completion dates for actions proposed and more detailed explanation as to how the actions proposed will resolve the conditions identified.

DoD Directive 7650.3 requires that all audit recommendations be resolved within 6 months of the date of the final report. Accordingly, final comments on the unresolved issues in this report should be provided within 60 days of the date of this memorandum.

None of the recommendations in this report will result in monetary benefits. However, other benefits would be derived from

implementing those recommendations. A summary of other benefits resulting from this audit is in Appendix E. Management's comments are provided in Appendixes A through C.

The courtesies extended to the audit staff are appreciated. If you have any questions about this audit, please contact Mr. David R. Stoker at (202) 694-1692 (AUTOVON 224-1692) or Mr. Nicholas E. Como at (202) 693-0355 (AUTOVON 223-0355). A list of the audit team members is in Appendix F. Copies of this report are being provided to the activities listed in Appendix G.

Edward R. Jones
Deputy Assistant Inspector General
for Auditing

cc:
Secretary of the Army
Secretary of the Navy
Secretary of the Air Force
Assistant Secretary of the Air Force
(Financial Management and Comptroller)
Director, Defense Security Assistance Agency

REPORT ON THE AUDIT OF CASE CLOSURE PROCEDURES FOR FOREIGN MILITARY SALES

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Prepared by:
Financial Management Directorate
Project No. 9FA-0029

REPORT ON THE AUDIT OF CASE CLOSURE PROCEDURES FOR FOREIGN MILITARY SALES

PART I - INTRODUCTION

Background

A foreign military sales (FMS) case is a candidate for closure when all ordered items have been physically delivered and all ordered services have been performed (are logistically complete). The case manager in the Military Department is responsible for reconciling the Military Department's records with the Security Assistance Accounting Center (SAAC). The case manager may request an FMS trial balance and a listing of historical billing transactions from SAAC to supplement the Military Department's records. When the reconciliation is complete, the Military Department prepares an FMS Case Closure Certificate and submits it to the SAAC.

Although an FMS case may be logistically complete, all financial obligations must also be complete before the Military Department closes the case. These financial obligations can include final charges for materials and services, or final disbursement to a Defense contractor of indirect charges on a contract that supports the case. The final indirect cost payments to a Defense contractor are confirmed by audits performed by the Defense Contract Audit Agency. These audits are normally performed several years after all the materials or services have been delivered and billed. We identified a universe of 2,231 cases, valued at $19.3 billion, that were considered to be logistically complete and that were managed by the Army Security Affairs Command, the Navy International Logistics Control Office, and the Air Force Logistics Command. These cases had been identified as logistically complete for at least 12 months as of April 30, 1989.

Objectives and Scope

Our overall objective was to evaluate the adequacy of FMS case closure procedures for determining the accuracy of final deliveries and billings of those cases designated as candidates for closure. In addition, we reviewed the adequacy of internal controls that relate to case closure procedures.

The audit universe consisted of 2,001 cases valued at $13.6 billion that were verified as logistically complete for at least 1 year as of April 30, 1989. We did not audit case closure procedures in the Air Force because the Air Force Audit Agency recently issued a related audit report, "Case Closure Actions for Foreign Military Sales Cases with Long-Running Contracts," January 31, 1989. That report adequately addressed a major case closure deficiency involving FMS cases with long-running contracts in the Air Force. We compiled the universe data for Army cases from the U.S. Army Security Affairs Command (USASAC)

and for Navy cases from the Naval International Logistics Control Office (NAVILCO). We verified FMS case closure procedures in the Army for cases with long-running contracts at the U.S. Army Missile Command and the U.S. Army Communications-Electronics Command. We reviewed the U.S. Army Training and Doctrine Command's case closure procedures for FMS training cases. We evaluated FMS case closure procedures for long-running contracts at the four major Naval Systems Commands. We evaluated case closure procedures for suballotment transactions at the U.S. Navy Ships Parts Control Center; the U.S. Army Armament, Munitions, and Chemical Command (for inter-Service transactions); and the four Navy Systems Commands. We reviewed FMS case reconciliation procedures at the U.S. Army Missile Command and the Air Force Systems Command.

We examined financial records, historical FMS case management information, contract provisions and financial status of contracts, and automated accounting and billing information, all dated from January 1975 to August 1989. This program audit was conducted from January through August 1989. The 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. A list of activities visited or contacted is provided in Appendix D.

Internal Controls

Internal controls to determine the accuracy of final deliveries and billings on those cases designated as candidates for closure were deemed to be effective in that no significant deficiencies were disclosed by the audit.

Prior Audit Coverage

The Air Force Audit Agency issued Report No. 8296210, "Case Closure Actions For Foreign Military Sales Cases With Long-Running Contracts," on January 31, 1989. The report addressed a major impediment to the FMS case closure process for cases with long-running contracts. The report recommended that the Air Force establish detailed procedures that would facilitate the closing of cases with long-running contracts, as required by DoD Manual 7290.3-M, "Foreign Military Sales Financial Management Manual." The Air Force concurred with the recommendations, and applicable Air Force guidance has been revised.

The U.S. Army Armament, Munitions, and Chemical Command, Internal Review and Audit Compliance Office, issued Report No. 5-88, "Conventional Ammunition Working Capital Fund Military Interdepartmental Purchase Requests (MIPR) Closeout Procedures," on June 8, 1988. The report addressed a deficiency noted in FMS transactions between the Army and the Navy and cited the untimeliness of the closure of nonstandard MIPR ammunition transactions (nonstandard MIPR transactions are used to support

ammunitions sales between the Army and Navy for FMS customers). The report recommended prompt review and disposition of unliquidated obligation balances on nonstandard MIPR ammunition transactions. The Army concurred with the recommendation, but had not fully implemented it at the time of our audit. However, the Army planned to have the recommendation fully implemented by September 30, 1989.

The U.S. Army Audit Agency (AAA) issued a report that addressed the planned elimination of the centralized case closure program in the Army. AAA Report No. NE 89-203, "Foreign Military Sales Case Management," January 25, 1989, cited the untimeliness of closing FMS cases and the necessity for intense formal management of the case closure program. The audit recommended that the Army expedite the preparation of a modified case closure program and evaluate whether the proposed plan will ensure progress in closing cases. The Army concurred with the audit recommendations. We did not address the centralized case closure program in the Army.

PART II - FINDINGS AND RECOMMENDATIONS

A. Case Closure Procedures for Foreign Military Sales Cases with Long-Running Contracts

FINDING

Foreign military sales (FMS) cases supported by long-running contracts that were eligible for closure action under the provisions of DoD Manual 7290.3-M, "Foreign Military Sales Financial Management Manual," were not being closed in a timely manner in the Army and the Navy. These eligible cases were not closed because the DoD Manual did not provide requirements nor financial procedures that the Military Departments and the Security Assistance Accounting Center (SAAC) needed to close cases when the only financial issue was the establishment of final indirect cost rates on contracts supporting the FMS case. The 156 cases identified for closure in the Army and Navy under the provisions of the DoD Manual had $22.3 million more in collections than was required to meet the financial requirements of the cases. Failure to close these cases prevented foreign customers from seeking alternative investments for excess cash.

DISCUSSION OF DETAILS

Background. The Comptroller of the Department of Defense has recognized that a major impediment to FMS case closure was the final disbursement to a contractor for indirect costs. DoD Manual 7290.3-M states that FMS cases that are supported by long-running contracts may be closed before completion of these contracts if the only financial issue remaining is the establishment of final indirect cost rates. However, the manual does not give procedures for making a final disbursement to a contractor or financial settlement with the FMS customers after the FMS case is closed.

The Military Departments establish separate logistical and financial accountability for an FMS case. Military Department Comptrollers adhere to the same regulatory guidance for FMS accounting as that established for U.S. military appropriations. For example, Army Regulation 37-1, "Army Accounting Guidance," stipulates that no out-of-balance conditions can exist between data bases supporting obligations and disbursements. Although an FMS case may be "supply complete" and a candidate for closure on a logistical basis, a case cannot be closed if data bases supporting obligations and disbursements on the case are out of balance.

Army-Managed FMS Cases with Long-Running Contracts. We established a universe of FMS cases supplied through long-running contracts (with contract execution periods of 4 or more years) that were considered logistically complete for more than 1 year. From the U.S. Army Security Affairs Command's data base,

we identified 1,593 Army cases, with total case obligations valued at $10.4 billion, that met our criteria as of April 30, 1989.

We reviewed FMS cases managed at the U.S. Army Missile Command (MICOM) and the Communications-Electronics Command (CECOM). MICOM had 490 open FMS cases, valued at $3.2 billion, that were logistically complete for more than 1 year and were open. CECOM had 169 open cases, valued at $211 million, that were logistically complete for more than 1 year and were open. Of these 659 cases, 321 cases, valued at $890 million, were supported by long-running Defense contracts. Except for the distribution of final indirect cost rates, we determined that all of the foreign Governments' financial requirements (costs relating to the actual end item, personnel charges, administrative surcharges and "add-ons") had been billed and paid at the time of our review. For this report, we calculated excess collections as collections per case less financial requirements per case as of March 30, 1989.

Of the 490 FMS cases at MICOM, 75 cases, valued at $186.7 million, were awaiting the establishment of final indirect cost rates on contracts supporting the cases. These cases had been open for an average of 4 years from the time that the only remaining issue was the establishment of final indirect cost rates. Of the 169 cases at CECOM, 26 cases, valued at $25.0 million, were open for the same reason. Of the 26 cases at CECOM, 13 had been awaiting the establishment of final indirect cost rates for an average of 3 years. We estimated that the 101 FMS cases identified at the two major Army subordinate commands had $10.2 million more in collections than was required to meet the financial requirements of the cases.

MICOM is responsible for reviewing FMS case status and for identifying cases eligible for closure. Part of this process is identifying cases where the only remaining issue is the settlement of final indirect cost rates on supporting contracts. In 1985, MICOM identified a case where only the establishment of final indirect cost rates remained on two contracts. The MICOM Comptroller Directorate, however, refused to issue the closure certificate until the final payment of indirect costs had been made to the contractor. This case had excess collections of $1 million.

CECOM used similar procedures for identifying FMS cases eligible for closure. Although the FMS Accounting Division was aware of open cases with long-running contracts, this Division would not forward the case to the CECOM Comptroller Directorate for closure. The Comptroller could not issue a closure certificate until the final payment of indirect costs was made.

Navy-Managed FMS Cases with Long-Running Contracts. The Navy International Logistics Control Office (NAVILCO) identifies FMS cases listed on the Management Information System-

International Logistics data base that have been supply or services complete for at least 1 year. The cases were catagorized by the type of impediment delaying their closure. These impediments included cases open awaiting final charges, cases undergoing a contract audit, cases affected by a Report of Discrepancy, cases open because of an incomplete suballotment of customer funds, and cases undergoing reconciliation action. The financial program managers at NAVILCO updated the FMS case status monthly.

We determined the status of each long-running contract supporting each case and confirmed the impediment to closing the case. We confirmed the case status with the financial program managers at NAVILCO. We identified 95 Navy cases, valued at $446.6 million, that were open because of long-running supporting contracts.

Of the 95 cases, 20 cases, valued at $72.3 million, could have been closed because the only remaining financial issue was the establishment of final indirect cost rates on supporting contracts. These cases were not closed because the Navy did not adapt with the DoD Manual provision permitting the closure of FMS cases supported by long-running contracts. At the time of our review, these 20 cases had cash collections exceeding financial requirements by $4.0 million.

The Navy Systems Commands' case managers and NAVILCO's financial program managers agreed that establishment of final indirect cost rates was the only remaining action precluding case closure on these 20 cases. For example, on one case, the Procurement Directorate in the Naval Space and Warfare Systems Command stated that the final indirect cost rates were being negotiated on the supporting contract. This case had been supply or services complete since 1984.

NAVILCO financial program managers and the Navy Systems Commands' case managers were not aware of the status of contracts supporting 9 of the 95 FMS cases valued at $57.9 million. The cash collections exceeded the financial requirements on the nine cases by $200,000. In these instances, the supporting contract was closed, but the case manager did not take the necessary action to begin case closure.

Of the 95 FMS cases reviewed, 26 met the criteria of DoD Manual 7290.3-M, but had minor impediments that prevented their closure. For example, on one case, the final indirect cost rates were being established on the supporting contract. However, the case manager and financial program manager stated that one requisition on the case was unbilled. When the minor impediments in these cases are corrected, these cases can also be considered for closure. Cash collections exceeded the financial requirements of these 26 cases by $7.9 million.

The remaining 40 of the 95 cases contained major impediments to case closure, including supporting contracts that were either open or in litigation.

DoD Policy on FMS Case Closure with Long-Running Contracts. The Military Departments have contended that DoD Manual 7290.3-M does not provide a procedure to make a final disbursement to a contractor after the case is closed and all funds are deobligated. This issue was discussed with the Director for Accounting Policy, Office of the Comptroller of the Department of Defense. The Director for Accounting Policy disagreed with the Military Departments' position and stated that procedures do exist in DoD Manual 7290.3-M. The Director stated that an established function of the Defense Executive Foreign Military Sales Reconciliation and Case Closure Board is to determine any contingent liabilities to contractors that will be billed and held in the FMS Trust Fund until financial closure of the supporting contracts. Although this responsibility is outlined in DoD Manual 7290.3-M, the Director stated that the Case Closure Board has not performed this function. He further stated that the Military Departments do not submit cases meeting the criteria for closure to the Board for resolution of open financial issues.

DoD had not provided the Military Departments with procedures to close an FMS case when the only remaining issue is the settlement of indirect costs with a contractor. The audit showed that, consequently, large amounts of customer funds on deposit in the FMS Trust Fund were being held for long periods awaiting final contractor settlement. These funds were held even though settlements are usually small compared to the total value of the case. We believe that the case closure process could be advanced by several years by initiating closure when the case is logistically complete rather than waiting for settlement of indirect costs on the contracts. We recognize that procedures for final contract payment would have to be developed. This could be done by establishing country-level suspense accounts within the FMS Trust Fund. These suspense accounts could be financed with excess funds made available from case closures or through transfers from the country holding accounts. Timely case closure would result in greater customer satisfaction and would facilitate the case reconciliation that is performed at case closure.

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Comptroller of the Department of Defense:

a. Establish a requirement for the Military Departments to submit FMS cases to the Defense Executive Foreign Military Sales Reconciliation and Case Closure Board when the only remaining financial issue is the establishment of final indirect cost rates on supporting contracts.

b. Revise DoD 7290.3-M to require the Defense Executive Foreign Military Sales Reconciliation and Case Closure Board to use existing country-level suspense accounts and omnibus quarterly billing statements for closure of contracts supporting FMS cases where the only financial issue is the establishment of final indirect cost rates.

MANAGEMENT COMMENTS

The Comptroller of the Department of Defense concurred with Recommendation A.1.a. A proposal to revise the Manual will be issued by May 1990 requiring submission of these cases.

The Comptroller of the Department of Defense concurred with the intent of Recommendation A.1.b. in the draft report which was to establish suspense accounts for closure of contracts supporting FMS cases. However, the Comptroller stated that existing country-level accounts and omnibus quarterly billing statements will be used to achieve the same results. A proposal to revise the Manual will be issued by May 1990.

AUDIT RESPONSE TO MANAGEMENT COMMENTS

The alternative action stated in the management comments to Recommendation A.1.b. satisfies the intent of the recommendation. We have revised the recommendation accordingly.

B. Navy Foreign Military Sales Cases with Suballotment Transactions

FINDING

The Navy delayed closing suballotment transactions supporting foreign military sales (FMS) cases. The delays occurred because: case management personnel did not close a suballotment that was fully expended or was supplied with a contract that was closed; the Army did not deobligate unliquidated balances on Military Interdepartmental Purchase Requests (MIPR's) financed by Navy suballotments; and the Navy did not liquidate obligation balances on project orders after the order or service was completed and final billing was made. These delays in finalizing suballotment transactions slowed the Navy's case closure process for 19 cases and resulted in DoD holding $6.8 million in foreign customer funds in excess of the financial requirements of the cases.

DISCUSSION OF DETAILS

Background. The Navy's Systems Commands are responsible for providing materials and services to the foreign customer in FMS cases. In order to meet certain material or service requirements, the Systems Commands may request that the Navy International Logistics Control Office (NAVILCO) issue a suballotment to an activity that can provide the material or service. A suballotment provides funds to an activity to finance continuing operations, programs, or functions. Suballotments may be used to fund contracts, MIPR's, project orders, or work requests. The Navy Ships Parts Control Center (SPCC) and the Aviation Supply Office (ASO) were the Authorization Accounting Activities for the suballotments we reviewed. These Activities maintain general ledger accounts, control funds, make financial reports, issue bills, and account for the suballotment transactions. However, NAVILCO is the Authorization Accounting Activity for all FMS cases managed by the Management Information System-International Logistics data base and is ultimately responsible for closure of those cases.

The Systems Commands determine the amount of required funding for the various portions of an FMS case. If a portion of these requirements is to be met by issuing a suballotment, the military activity receiving the suballotment has the option to determine how to meet its requirements. The activity commits, obligates, and disburses customer funds to meet the objectives established by the office that issued the suballotment. Funds are accounted for and charges are processed on a suballotment by a Project Directive Line Item (PDLI). A suballotment is finalized when there are no unliquidated obligations on all the PDLI's that it has financed. ASO and SPCC must account for and subsequently close the suballotment.

As of April 30, 1989, we identified 56 cases, valued at $49.8 million, where a suballotment transaction was the only remaining financial issue to be resolved before case closure. We found that 15 of the 56 cases were open because of long-running contracts, 24 of the cases were open because of open MIPR transactions, and 8 cases were open because of unbilled project orders or work requests. The remaining 9 of the 56 cases either were not reviewed or disclosed miscellaneous deficiencies.

Long-Running Contracts Supporting Suballotments. The material requirements for a suballotment may be supplied by a contract. The contracts on the suballotments that we reviewed were long-running contracts (with contract execution periods in excess of 4 years). Of the 15 FMS cases that were open with long-running contracts, 6 cases valued at $4.6 million were supported by contracts that either had no outstanding obligations or were closed. However, the suballotment and the FMS case were not closed because Navy records at SPCC and NAVILCO showed outstanding obligations on the contract. The separate issue of indirect cost rates on long-running contracts is addressed in Finding A and Recommendation 1.

Military Interdepartmental Purchase Requests. A Military Interdepartmental Purchase Request is a financial transaction used when a foreign customer has negotiated a case with a Military Department, but the material or services to be supplied are available only from another Department of Defense activity. The U.S. Army Armament, Munitions, and Chemical Command (AMCCOM), Rock Island, Illinois, is the sole supplier of conventional ammunition for FMS. MIPR's were submitted to AMCCOM to provide ammunition to foreign customers. AMCCOM finalizes the MIPR when all direct costs have been verified and there are no unliquidated obligations. AMCCOM then forwards a MIPR Completion Notice to SPCC so that actions may be taken to finalize the MIPR. We determined that closure of 10 of the 24 cases, valued at $12.4 million, was delayed because the MIPR was undergoing a final review at AMCCOM, and uncommitted authorization balances on the MIPR had not been released by AMCCOM, although funds were fully expended. Therefore, neither the MIPR nor the FMS case could be closed. This issue was addressed in AMCCOM's Internal Review Report No. 5-88, "CAWCF MIPR Close-out Procedures," June 8, 1988. Since that internal audit report identified and addressed this deficiency, no recommendation is being made in our report.

Project Orders and Work Requests. Project orders and work requests are issued to Navy activities that create, repair, or rebuild material or provide a specialized service. The performing activity makes monthly reports of the financial and logistical status of the project order or work request to the SPCC and NAVILCO, using a Report of Reimbursable Orders (NC Form 2193). When all work has been completed or services have been performed, SPCC and NAVILCO receive a final NC Form 2193 from the

performing activity indicating that final billing has taken place on the project order or work request.

Of the eight cases open because of unbilled project orders or work requests, the performing activity had submitted the final NC Form 2193 to SPCC and NAVILCO on three cases, valued at $2 million. However, the project orders for these cases were not finalized. For example, the Naval Ordnance Station, Indian Head, Maryland, prepared a final NC Form 2193 for a case in September 1987. The NC Form 2193 indicated that the project order was complete, and the obligation could be liquidated. Although the copy of the NC Form 2193 that we obtained from the Naval Ordnance Station was addressed to SPCC and NAVILCO, the project order was not closed at either SPCC or NAVILCO as of June 1989. Therefore, the case closure was delayed. We could not determine whether SPCC and NAVILCO had received the NC Form 2193 on the three cases with finalized project orders. The Management Information System-International Logistics data base showed the unliquidated obligations on these finalized project orders as of June 1989. Proper routing and prompt posting of NC Forms 2193 would have avoided the delay in closing these cases.

The Navy acknowledged that NAVILCO often does not receive or process the monthly NC Forms 2193 that the performing activities prepare. The Navy Foreign Military Sales Operations Handbook (Naval Supply Systems Command publication 557) cited this condition. The Handbook also emphasized the importance of sending a copy of NC Form 2193 to NAVILCO to ensure that the automated data base is current and that discrepancies are detected early in the billing cycle.

RECOMMENDATION FOR CORRECTIVE ACTION

We recommend that the Commander, Naval Supply Systems Command, establish proper routing and processing procedures of the Report of Reimbursable Orders, (NC Form 2193) for Project Orders and Work Requests supplying foreign military sales cases.

MANAGEMENT COMMENTS

The Navy concurred with the recommendation and stated that the identified problem appears to be more of a procedural matter than a policy issue. Accordingly, the Naval Supply Systems Command will evaluate areas needing strengthening and will reiterate, by letter, existing Navy Comptroller guidance for the proper routing and processing of NC Form 2193. The Navy stated that the estimated completion date is February 28, 1990.

AUDIT RESPONSE TO MANAGEMENT COMMENTS

We are concerned as to whether the action proposed by the Navy will resolve the problems identified in the Finding. In response to this final report, we request that the Navy explain how action will improve on existing procedures.

C. Army Foreign Military Sales Overseas Training Cases

FINDING

The U.S. Army Training and Doctrine Command (TRADOC) had inadequate appropriation accounting procedures for its foreign military sales (FMS) overseas training cases. TRADOC did not adhere to Army regulations that require fiscal year-end reviews and adjustments of the unliquidated balances in the Operation and Maintenance, Army (OMA) and the Military Personnel, Army (MPA) Accounts. TRADOC had also established an arbitrary lead time for the receipt of overseas disbursement vouchers. Therefore, OMA and MPA funds remained unnecessarily obligated, which contributed to delays in the closing of FMS overseas training cases. This condition resulted in 121 open FMS training cases that had unliquidated obligations of $9.4 million.

DISCUSSION OF DETAILS

Background. Foreign military sales overseas training cases are initiated by a U.S. Department of Defense Offer and Acceptance Letter (Form DD 1513) executed between the foreign country and the U.S. Government. The amount of funds provided on the DD 1513 is the maximum that can be obligated from the foreign country's trust fund account. An Obligation Authority and Customer Order for Army-Sponsored FMS Training is the authorization document that obligates funds for both direct cite disbursements and reimbursable expenses for training costs up to the amount of the DD 1513. OMA costs include the U.S. Army equipment, supplies, and services needed to operate or maintain personnel and training in a foreign country. MPA funds finance the annual salaries of the military personnel who conduct training in overseas locations. TRADOC uses an Advice of Obligation Authority to fund these expenses in remote areas where limited accounting support is available. Technical Assistance Field Teams are U.S. training teams whose travel and living expenses are financed by this reimbursable method. When the training team is deployed, the team leader obtains an Advice of Obligation Authority for the team's projected overseas expenses. These expenses are paid by an embassy budget and fiscal office and charged to the Army's OMA or MPA appropriation. As the paid vouchers arrive at TRADOC from the State Department and through the U.S. Army Finance and Accounting Center, TRADOC bills the vouchers to the Security Assistance Accounting Center. Reimbursements are credited to the OMA or MPA appropriations from the foreign country's trust fund.

Unliquidated Fund Balances. Army Regulation (AR) 37-108, "General Accounting and Reporting for Finance and Accounting Offices," provides that OMA and MPA appropriations are available for obligation for 1 year -- the fiscal year in which the expense is scheduled. An update of AR 37-1, "Army Accounting Guidance," Chapter 23, "Review and Reconciliation of Unliquidated Obligations, Commitments, and Reimbursements," contains further guidance. This Regulation makes the activity director responsible for the full use of allotted funds and for performing obligation adjustments when the appropriation expires. It requires that a final review of unliquidated obligations be made during the last 60 days of the fiscal year, in time for funds to be deobligated and reobligated for other costs. Continuous reviews are necessary to minimize deobligation actions after the appropriation expires.

We identified 399 open FMS training cases at TRADOC, valued at $376.8 million as of May 1989. The Command's FMS Fund Control File listed 121 of the 399 cases with OMA and MPA funds having been obligated, but only partially expended. We found unliquidated balances on 45 of the 121 cases totaling $9.4 million for funds allocated for fiscal years 1986, 1987, and 1988. Of the 121 cases, 12 had OMA or MPA funds appropriated for all 3 years with unused balances for each year, and 33 cases had 2 years of expired fund balances. The remaining 76 cases had 1986, 1987, or 1988 funds with unliquidated balances.

The $9.4 million was retained on the 121 cases even though additional expenditures were not forthcoming, or the expenditure was less than estimated. Until funds are deobligated, these balances are potential inhibitors to case closure. Country funds that are idle on an FMS case cannot be used for a country's additional training needs.

Disbursement Processing Delays. In March 1989, TRADOC received three large shipping cartons from the U.S. Army Finance and Accounting Center. They contained over 900 FMS disbursement vouchers totaling $985,559. These vouchers, dating back to September 1987, had been paid by U.S. embassy fiscal and budget offices worldwide. The delayed submission of disbursement vouchers was in noncompliance with DoD 7290.3-M, which requires delivery reporting (billing) to occur within 30 days. We could not determine where the vouchers had been delayed. Because of delays in batch mailings of vouchers, TRADOC instituted a policy of waiting between 18 and 24 months after the return of the overseas instructors before initiating FMS case closure procedures. Consequently, while attempting to ensure that all the case disbursement vouchers were forwarded by the American embassies, TRADOC did not comply with its Letter of Instruction. This Instruction, dated August 23, 1985, specifies procedures for reviewing and adjusting unliquidated obligations on FMS training cases prior to each fiscal yearend. TRADOC's procedures neither deobligate reimbursable appropriations at

fiscal yearend nor initiate closure procedures for at least 18 months after the training instructors return.

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Commander, U.S. Army Training and Doctrine Command, implement the policy of Army Regulation 37-1, "Army Accounting Guidance," and TRADOC Letter of Instruction, "TRADOC Financial Procedures for Security Assistance Training," which require review and deobligating of unliquidated reimbursable appropriations prior to fiscal yearend.

2. We recommend that the Commander, U.S Army Finance and Accounting Center, determine the cause for the late receipt of paid vouchers for foreign military sales training cases at the U.S. Army Training and Doctrine Command and take appropriate action to expedite the process.

MANAGEMENT COMMENTS

The Army Training and Doctrine Command concurred with Recommendation C.1. and stated that it will continue to issue annual instructions to all training teams and budget and finance personnel to perform 100-percent unliquidated obligation reviews. Those instructions will be reviewed annually and strengthened as necessary.

The Army Training and Doctrine Command concurred with Recommendation C.2. However, the Director of Finance and Accounting defers further action at this time pending the outcome of the General Accounting Office's investigation of State Department cross-disbursement practices.

AUDIT RESPONSE TO MANAGEMENT COMMENTS

The response provided by the Army Training and Doctrine Command indicates that no new action will be taken. We request that a revised response be provided that explains how the proposed action will correct the condition cited.

We request that the Director of Finance and Accounting provide additional response to this office to Recommendation C.2. when the General Accounting Office's investigation is complete.

D. FMS Case Reconciliation Procedures

FINDING

Foreign military sales cases with minor variations between Military Department and Security Assistance Accounting Center financial records were not being reconciled in accordance with DoD regulations. Financial and operational procedures did not exist to implement DoD policy on the closure of FMS cases with minor reconciliatory amounts. Due to conflicting DoD and Military Department regulations, the Army Missile Command and Air Force Logistics Command could not implement DoD policy without jeopardizing the financial integrity of FMS cases. As a result, 28 FMS cases at the Army Missile Command and the Air Force Logistics Command had remained open unnecessarily since 1987 and had cash collections of $7.0 million in excess of financial requirements.

DISCUSSION OF DETAILS

Background. DoD Manual 7290.3-M specifies that Military Departments can close an FMS case if the financial variation between the Military Department records and the Security Assistance Accounting Center (SAAC) case records is $10,000 or less for cases valued greater than $1 million, or 1 percent or less for cases valued at less than $1 million. These variations are considered minor reconciliatory amounts. DoD Manual 7290.3-M also provides that after "all appropriate measures" have been taken to reconcile differences in account balances, the SAAC shall reclassify the case to an inactive status and provide a final statement of account to the FMS customer for the SAAC-recorded billed value. Therefore, after the Military Departments have exhausted all attempts to reconcile variations between their financial records and the records of the SAAC, open cases can be closed if the dollar variation falls under the DoD limit.

Logistical and financial accountability for an FMS case are established separately within the Military Departments. The Military Departments' comptrollers adhere to the same regulatory guidance for FMS accounting as for U.S. appropriations. Accounting for U.S. appropriations requires that no variations exist between recorded logistical actions and disbursements. Thus, an FMS case may be logistically complete, but cannot be closed because of financial variations. Army Regulation 37-1, Army Accounting Guidance, states this financial policy in the Army. Air Force Regulation 170-3, "Financial Management and Accounting for Security Assistance and International Programs," stipulates that no variation can exist between the Air Force and the SAAC data bases before a case is closed. However, in response to a recommendation made in the Air Force Audit Agency Report, "Case Closure Actions for Foreign Military Sales Cases with Long-running Contracts," January 31, 1989, the Air Force

proposed a revision to Air Force Regulation 170-3, to include case closure provisions with respect to minor reconciliatory amounts.

Neither DoD's nor the Military Departments' regulations provided a specific procedure to account for and resolve minor reconciliatory amounts remaining on an FMS case. In addition, none of the regulations defined the degree of effort required to meet the stipulation in the DoD Manual that case closure can begin after "all appropriate measures" have been taken. Consequently, the Military Department comptrollers did not close FMS cases that fell within the DoD monetary limits. Instead, they continued to reconcile cases until account balances of the Military Departments and the SAAC were equal.

Army Case Reconciliation Procedures. We restricted our evaluation of FMS case reconciliation procedures in the Army to the U.S. Army Missile Command (MICOM). As of August 1989, 74 cases, valued at $4.1 billion, were eligible for reconciliation at MICOM. Of the 74 cases, 13 had been supply or services complete for more than 15 months and had variations between recorded disbursements and delivered values within the DoD limitation for the closure of FMS cases with minor reconciliatory amounts. These 13 cases, valued at $156.0 million, had $3.5 million more in cash collections than was needed to meet the financial requirements of the cases.

Nominal variations existed between the Army's accounting system and SAAC records on the 13 cases in reconciliation at MICOM. However, these minor differences did not result in case closure in accordance with DoD policy. For example, one case was eligible for reconciliation at MICOM since a $338 difference existed in case disbursements between the Army's Program Budget and Accounting System and the SAAC. This case was valued at $5.9 million, and cash collections exceeded the financial requirements of the case by $267,000. Similarly, another case had a 1-cent difference between recorded Army and SAAC disbursements. Over $740,000 in excess cash collections was retained while this case was in reconciliation. The Army's regulations did not provide procedures for dealing with normal unreconciled variations.

Air Force Case Reconciliation Procedures. We reviewed Air Force reconciliation procedures at the Air Force Logistics Command (AFLC). The 2750th Air Base Wing maintains financial responsibility over AFLC-managed FMS cases. FMS case reconciliation procedures were not in accordance with the provisions of either DoD or Air Force regulations. As of February 1989, closure of 38 cases, valued at $2.3 billion, was delayed because of variations between Air Force and SAAC records. Of the 38 cases, 22 had no other open line items to reconcile. Of these 22 cases, 15 met the DoD criteria for minor reconciliatory amounts. These 15 cases had $3.5 million in cash collections in excess of financial requirements.

The 38 cases had also been assigned to the FMS case reconciliation division of the AFLC Comptroller for up to 3 years. For example, the Air Force spent more than 27 months on resolving a $561 variation on an FMS case. This case was valued at $4.4 million.

AFLC Comptroller personnel were aware of the reconciliation provisions in the DoD Manual. However, they cited the U.S. appropriation accounting standards that the Air Force and the SAAC data bases must agree before closure of an FMS case. They also expressed concern about how to establish operating procedures that define when "all appropriate measures" have been taken in the case reconciliation process. Because this guidance is lacking, case reconciliation efforts were concluded only when case records were in balance, regardless of the dollar variance or the expenditure of resources.

The Military Departments did not have a financial procedure to close an FMS case with minor reconciliatory amounts. This condition parallels FMS case closure actions affected by the final disbursement of indirect cost rates to a contractor, in that no FMS suspense account is used to clear variations disclosed when unresolved differences are identified during the reconciliation process. Compliance with the DoD Manual is further hindered because guidelines have not been established to define "all appropriate measures" that should be taken before an FMS case can be closed with minor unreconciled balances. Until these deficiencies are addressed, the case closure process will continue to be unnecessarily delayed.

RECOMMENDATIONS FOR CORRECTIVE ACTION

We recommend that the Comptroller of the Department of Defense:

1. Prepare operating procedures, in conjunction with the Military Departments, to be incorporated in the Foreign Military Sales Financial Management Manual, DoD 7290.3-M, to define appropriate measures to be used in the FMS case reconciliation process.

2. Use country suspense accounts, established for the liquidation of indirect costs on FMS cases with long-running contracts (see Finding A), to dispose of minor reconciliatory amounts after the case reconciliation process is concluded.

MANAGEMENT COMMENTS

The Comptroller of the Department of Defense concurred with Recommendation D.1. and stated that a proposed revision that provides for reconciliation procedures will be issued by May 1990.

The Comptroller concurred with the intent of Recommendation D.2. and stated that the commitment made in their response to Recommendation A.1.b. will resolve the requirement for the creation of suspense accounts.

AUDIT RESPONSE TO MANAGEMENT COMMENTS

The alternative action stated in management's comments on Recommendation A.1.b. satisfies the intent of Recommendation D.2.

OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON, DC 20301-1100

JAN 18 1990

(Management Systems)

MEMORANDUM FOR DIRECTOR, FINANCIAL MANAGEMENT, INSPECTOR GENERAL, DOD

SUBJECT: Draft Report on the Audit of Case Closure Procedures for Foreign Military Sales (Project NO. 9FA-0029)

A November 13, 1989, memorandum requested the DoD Comptroller's comments on the subject draft report. The report contained four recommendations to the DoD Comptroller.

The recommendations and our positions follow:

a. Recommendation 1.a., "Enforce the Foreign Military Sales Financial Management Manual (DoD Manual 7290.3-M) requirement that Military Departments submit FMS cases to the Executive Foreign Military Sales Reconciliation and Case Closure Board when the only remaining financial issue is the establishment of final indirect cost rates on supporting contracts."

COMMENT: Concur. There is no requirement in the Manual for the Military Departments to submit such cases to the Board. The procedures established by the Board provide for the DoD Components to select cases for review. A proposal to revise the Manual will be issued by May 1990 requiring submission of these types of cases.

b. Recommendation 1.b., "Revise DoD 7290.3-M to require the Executive Foreign Military Sales Reconciliation and Case Closure Board to establish suspense accounts for closure of contracts supporting FMS cases where the only financial issue is the establishment of final indirect cost rates."

COMMENT: Concur with intent. A proposal to revise the Manual will be issued by May 1990. Existing country level accounts and omnibus quarterly billing statements will be used to achieve the same results.

c. Recommendation D.1., "Prepare operating procedures, in conjunction with the Military Departments, to be incorporated in the Foreign Military Sales Financial Management Manual, DoD 7290.3-M, to define appropriate measures to be used in the FMS case reconciliation process."

COMMENT: Concur. A proposed revision that provides for reconciliation procedures will be issued by May 1990.

d. Recommendation D.2., "Use country suspense accounts established for the liquidation of indirect costs on FMS cases with long-running contracts (see Finding A), to dispose of minor reconciliatory amounts after the case reconciliation process is concluded."

COMMENT: Concur with intent. The commitment made in our comments on Recommendation 1.b. above will resolve the above issue also.

The proposals will be coordinated as necessary. We will advise if alternative methods are found to be more practical and feasible.

Alvin Tucker
Deputy Comptroller
(Management Systems)

DEPARTMENT OF THE ARMY
OFFICE OF THE DIRECTOR OF FINANCE AND ACCOUNTING
INDIANAPOLIS, INDIANA 46249-0001

REPLY TO
ATTENTION OF

SAFM-FAP-S (37-80a) 02 JAN 1990

MEMORANDUM FOR THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE,
ATTN: DIRECTOR, FINANCIAL MANAGEMENT DIRECTORATE

SUBJECT: Draft Report of the Audit of Case Closure Procedures for Foreign Military Sales (FMS) (9FA-0029)

Reference your 13 November 1989 memorandum, subject as above, requesting review of the information provided and written comments on the reported facts, conclusions and recommendations. There is no need to classify and protectively mark any portion of the findings.

Comments regarding tentative findings and recommendations addressed to the Director of Finance and Accounting are included in detail at TAB A. Each recommendation and planned action is summarized below:

a. Recommendation C-1: Concur. TRADOC will continue to issue annual instructions to all training teams and budget and finance personnel to perform 100 percent unliquidated obligation reviews. Those instructions will be reviewed annually and strengthened as necessary.

b. Recommendation C-2: Concur. However, the Director of Finance and Accounting defers further action at this time pending the outcome of GAO's investigation of State Department cross-disbursement practices.

Mr. Hugh Severance, AUTOVON 699-3055, is the POC.

Clyde E. Jeffcoat

Clyde E. Jeffcoat
Director of Finance and Accounting
Office of the Assistant Secretary of the Army
(Financial Management)

Enclosures

Copy Furnished:
The Inspector General, ATTN: SAIG-PA

OFFICE OF THE DIRECTOR OF FINANCE AND ACCOUNTING REPLY
TENTATIVE FINDINGS AND RECOMMENDATIONS
CASE CLOSURE PROCEDURES FOR FOREIGN MILITARY SALES

C - Army Foreign Military Sales Overseas Training Cases

Finding: The U.S. Army Training and Doctrine Command (TRADOC) has inadequate appropriation accounting procedures for its foreign military sales (FMS) overseas training cases. The Security Assistance Training Activity (SATFA) at TRADOC failed to adhere to Army regulations that require fiscal year-end reviews and adjustments of the unliquidated balances in Operation and Maintenance, Army (OMA), Military Personnel Appropriation (MPA), and Permanent Change of Station (PCS) accounts. SATFA had also established an arbitrary lead time for the receipt of overseas disbursement vouchers. These procedures caused the OMA, MPA, and PCS funds to remain unnecessarily obligated and contributed to delays in the closing of FMS overseas training cases. This condition resulted in 121 open FMS training cases that had expired unliquidated obligations of $9.4 million.

Additional Facts (quotation from SATFA response): "In FY 85, SATFA initiated procedures for the review and deobligation of unused funds recorded as reimbursements in the accounting records. SATFA's critical task list for fiscal year-end requires the Budget Division to send messages to all team chiefs requesting the balance of unused funds prior to 30 September. Upon receipt of their replies, excess funds are withdrawn. When a reply is not received, an adjustment is made based on current available team chiefs' reports. The funds are drawn down to the final obligated balance reported by the team chief at departure from country or as of 30 September. The unliquidated balance represents unpaid transactions reported by the team chiefs pending receipt of actual vouchers from the embassy fiscal and budget offices worldwide [emphasis added]. The team chiefs' reports are currently the most accurate records we have for obligational expenses incurred and they are used as the basis for maintaining unliquidated obligations on the accounting records. Most reported items include a copy of receipt evidencing actual delivery of goods/services. After we have determined that all disbursements have been received for processing, case closure procedures are initiated. Once there is evidence of a valid obligation, to arbitrarily write off these obligations to simply speed up case closures violates accepted financial procedures. The following states two problems this creates:

"1. The loss of visibility increases the likelihood for the use of U.S. government funds for purchases which are properly chargeable to an FMS case. This would be in violation of the Arms Export Control Act.

TAB A

"2. The likelihood that FMS cases would have to be reopened (sometimes more than once) to charge additional expenditures received after the imposed early liquidation and closure. This would increase workload at SATFA, USASAC, and SAAC not to mention the frustration of the foreign country.

"In conclusion, all unliquidated obligations for OCONUS training are reviewed for validity prior to FY closeout. Yes, we have established a period of time which is set aside to await receipt of expenditure vouchers (which have taken in excess of three years). This period has been established based upon experience. Even this report sites processing delays of 18 months. Documented obligations with expectation of future liquidation cannot be written off. SATFA's procedures for review of unliquidated obligations are in compliance with the requirements of AR 37-1. In addition, FMS orders are reviewed as required by TRADOC Letter of Instruction dated 23 Aug 85. In fact, on year end certified reports, reimbursable obligations must equal orders received."

In addition to the SATFA comments above, the Commander, USAFAC requested the State Department strengthen controls over embassy transmittal of paid vouchers, with the State Department proper supporting documentation. (TAB B) When assistance from State was not forthcoming, this problem was referred through the OSD Comptroller to your agency for investigation. Your agency determined that a larger problem existed and transferred the issue to the General Accounting Office which has an on-going investigation into this subject. Mr. Ron Tobias is the GAO point of contact. Late and inadequate documentation from State Department is a long standing problem for all the military departments and involves more than just FMS.

RECOMMENDATIONS AND COMMAND COMMENTS

C-1 Recommend that the Commander, U.S. Army Training and Doctrine Command enforce Army Regulation 37-1, "Army Accounting Guidance," and TRADOC Letter of Instruction, "TRADOC Financial Procedures for Security Assistance Training," which require review and deobligation of unobligated reimbursable appropriations prior to fiscal year-end.

Action Taken: Concur with the recommendation: TRADOC is in compliance with Army Policy. Annual reviews of unliquidated obligations are required by TRADOC. See TAB C.

In fact TRADOC requires a 100 percent review rather than the statisticial sampling technique prescribed in AR 37-1. Copies of the annual requests for obligation reviews for FYs 88 and 89 are enclosed at TAB C-1, C-2, and C-3.

C-2 Recommend the Commander, U.S. Army Finance and Accounting Center determine the cause for the late receipt of paid vouchers for foreign military sales training cases at the U.S. Training and Doctrine Command and the appropriate action to expedite the process.

Action Taken: Concur. However, The Director of Finance and Accounting defers action at this time pending the outcome of the on-going GAO investigation of cross-disbursement practices by the State Department.

08 MAR 1988

INCO-C

Mr. Howard Renman
Director of Financial Systems
Department of State
Room 4530
1800 North Kemp Street
Arlington, Virginia 22209

Dear Mr. Renman,

This is to solicit your assistance in resolving recurring problems encountered in processing State Department disbursement documents which cite Army funds. Repeated attempts to resolve these issues with personnel located at your Embassies/activities dispersed throughout the world have met with minimal results. Mr. McCallister, your directorate, has provided help in working some of the problems, but many remain unresolved. A synopsis of the problems causing the most difficulty is as follows:

- o Late receipt of documents (Tab A)
- o Non-response to correspondence (Tab B)
- o Incomplete accounting information (Tab C)

Approximately $5M (very large volume of transactions) is currently being reported in Army suspense accounts because of the problems cited. The magnitude of these conditions distort Army's financial condition and create a potential fund control problem that if not resolved will cause me to have to report this condition as a material weakness under the Federal Manager's Financial Integrity Act.

Recommend that a meeting be scheduled between our applicable staff members in Washington, DC or Indianapolis, Indiana to further discuss these issues. My point of contact is Dave Stegman, telephone (317) 542-2537.

Sincerely,

(Signed) A

V. A. Richard
Brigadier General, US Army
Commanding

Attachments

TAB B

ACTION OFFICER, DAVE STEGMAN

AMSMC-IAR (11-7b) 29 DEC 1989

MEMORANDUM FOR AMSMC-PD

SUBJECT: Internal Review Followup Report 89-15, Followup of Internal Review Report 5-88, Conventional Ammunition Working Capital Fund (CAWCF) Military Interdepartmental Purchase Request (MIPR) Closeout Procedures, Recommendation A

1. An on-site followup has been completed to evaluate the adequacy of corrective actions taken in response to Internal Review Report 5-88, CAWCF MIPR Closeout Procedures, Recommendation A.

2. The followup disclosed that the Procurement Directorate has established PD Policy #57 which outlines procedures for non-FMS, nonstandard priced which have been shipped complete but remain open because of small unliquidated obligation balances. Inspection of 20 CAWCF MIPRs open in the Cost Control System for Conventional Ammunition (CCSCA) that fell within the established threshold of PD Policy #57 verified that CAWCF MIPRs are closed with the customer. Inspection of five CAWCF MIPRs confirmed that action was initiated by Procurement personnel toward closing the order in AMCCOM's financial records. Recommendation A is considered complete.

3. Point of contact for this matter is Mr. Gary Dissette/AMSMC-IAR/22570.

SIGNED

R. E. HEMENWAY
Acting Chief, Internal Review/Audit
Compliance Office, Rock Island

DEPARTMENT OF THE NAVY
OFFICE OF THE COMPTROLLER
WASHINGTON, D C. 20350-1100

IN REPLY REFER TO

NCB-532
25 JAN 1990

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR GENERAL FOR AUDITING

Subj: DRAFT REPORT ON THE AUDIT OF CASE CLOSURE PROCEDURES FOR FOREIGN MILITARY SALES (PROJECT 9FA-0029)

Encl: (1) DON Response to Subject Draft Report

In response to your memorandum of 13 November 1989, we have reviewed the subject draft report. We agree in principle with the findings and recommendations contained in the report. However, we believe that recommendation 1.a., which recommends submission of Foreign Military Sales cases to the Case Closure Board, will be unnecessary after improved procedures have been approved and implemented.

Detailed Department of the Navy comments to the findings and recommendations are provided as enclosure (1).

D. B. Cargill
D. BRUCE CARGILL
Deputy

Copy to:
NAVINSGEN
NCB-53

NAVY COMMENTS ON THE DRAFT REPORT ON THE AUDIT OF CASE CLOSURE PROCEDURES FOR FOREIGN MILITARY SALES (PROJECT NO. 9FA-0029)

Recommendation 1.a. (Finding A)

We recommend that the Comptroller of the Department of Defense enforce the Foreign Military Sales Financial Management Manual (DOD Manual 7290.3-M) requirement that Military Departments submit FMS cases to the Executive Foreign Military Sales Reconciliation and Case Closure Board when the only remaining financial issue is the establishment of final indirect cost rates on supporting contracts.

Navy Comment:

Nonconcur. The Security Assistance Accounting Center (SAAC) along with the Defense Security Assistance Agency (DSAA) have developed improved case closure procedures. These procedures are being reviewed by the services for comments and recommendations. After considering the services' comments, the improved procedures will be forwarded to the Case Closure Board for approval. The proposed procedures have four goals:(1) expedite case closure, (2) improve accounting controls and visibility on post case closure activity, (3) process post-closure transactions and (4) eliminate the requirement to modify on-going contracts. With the approved procedures, submission of these cases to the Case Closure Board would not be necessary and would only impede the case closure process.

Recommendation 1.b. (Finding A)

We recommend the Comptroller of the Department of Defense revise DOD 7290.3-m to require the Executive Foreign Military Sales Reconciliation and Case Closure Board to establish suspense accounts for closure of contracts supporting FMS cases where the only financial issue is the establishment of final indirect cost rates.

Navy Comment:

Concur. The proposed procedures noted above provide for the establishment of a clearing account to reimburse contractors for the final indirect costs.

Recommendation (Finding B)

We recommend that the Commander, Naval Supply Systems Command establish proper routing and processing procedures of the Report of Reimbursable Orders, (NC Form 2193) for Project Orders and Work Requests supplying foreign military sales cases.

Navy Comment:

Concur. The problem identified by the DODIG appears to be more of a procedural matter, (e.g., mailing errors, posting delays) than a policy issue. Accordingly, NAVSUP will evaluate areas needing strenghthening and will reiterate by letter, existing Navy Comptroller guidance for proper routing and processing of NC Form 2193 Reports. Estimated completion date is 28 February 1990.

ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Comptroller of the Department of Defense

Department of the Army

Headquarters, Army Materiel Command, Alexandria, VA
Army Finance and Accounting Center, Fort Benjamin Harrison, IN
Army Training and Doctrine Command, Fort Monroe, VA
Army Armament, Munition, and Chemical Command, Rock Island, IL
Army Communications-Electronics Command, Fort Monmouth, NJ
Army Missile Command, Redstone Arsenal, AL
Army Security Affairs Command, New Cumberland, PA

Department of the Navy

Naval Air Systems Command, Washington, DC
Naval Ordnance Station, Indian Head, MD
Naval Sea Systems Command, Washington, DC
Naval Space and Warfare Command, Washington, DC
Naval Supply Systems Command, Washington, DC
Comptroller of the Navy, Washington, DC
Office of the Chief of Naval Research, Arlington, VA
Office of Technology Transfer and Security Assistance, Washington, DC
Navy International Logistics Control Office, Philadelphia, PA
Aviation Supply Office, Philadelphia, PA
Navy Ships Parts Control Center, Mechanicsburg, PA

Department of the Air Force

Headquarters, Air Force Logistics Command, Wright-Patterson Air Force Base, OH
Air Force Accounting and Finance Center, Lowry Air Force Base, CO

Defense Agencies

Defense Security Assistance Agency, Washington, DC

SUMMARY OF POTENTIAL MONETARY AND OTHER BENEFITS RESULTING FROM AUDIT

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
A.1.a.	Program Results. Prompt case closure will result in better customer relations, financial planning and forecasting, and case management.	Nonmonetary
A.1.b.	Program Results. Prompt case closure will result in better customer relations, financial planning and forecasting, and case management.	Nonmonetary
B.	Program Results. Prompt case closure will result in better customer relations, financial planning and forecasting, and case management.	Nonmonetary
C.1.	Program Results. Prompt case closure will result in better customer relations, financial planning and forecasting, and case management.	Nonmonetary
C.2.	Program Results. Prompt case closure will result in better customer relations, financial planning and forecasting, and case management.	Nonmonetary

SUMMARY OF POTENTIAL MONETARY AND OTHER BENEFITS RESULTING FROM AUDIT (Continued)

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
D.1.	Program Results. Prompt case closure will result in better customer relations, financial planning and forecasting, and case management.	Nonmonetary
D.2.	Program Results. Prompt case closure will result in better customer relations, financial planning and forecasting, and case management.	Nonmonetary

AUDIT TEAM MEMBERS

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David R. Stoker, Program Director
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Samuel J. Scumaci, Team Leader
Titus S. Simmons, Team Leader
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Julius L. Hoffman, Auditor

FINAL REPORT DISTRIBUTION

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Commander, U.S. Army Training and Doctrine Command

Department of the Navy

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Commander, Naval Supply Systems Command
Director, Office of Technology Transfer and Security Assistance

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Director, Security Assistance Accounting Center
Auditor General, Air Force Audit Agency

Defense Agencies

Director, Defense Security Assistance Agency

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