DEPARTMENT OF DEFENSE

AUDIT REPORT

FINANCE AND ACCOUNTING OFFICES IN EUROPE

No. 90-099

August 15, 1990

Office of the Inspector General

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
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August 15, 1990

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Final Report on the Audit of Finance and Accounting Offices in Europe (Report No. 90-099)

This is our final report on the Audit of Finance and Accounting Offices in Europe for your information and use. Comments on the draft of this report were considered in preparing the final report. The audit was made from October to December 1989 at the request of the Inspector General, DoD, Regional Office - Europe. The objective of the audit was to evaluate the finance and accounting offices' internal controls over expenditures to ensure that payments were for legitimate obligations and complied with applicable regulations. The audit was limited to 5 of 50 finance and accounting offices in Europe because procedures and records were being automated. In FY 1989, the Army, the Navy, and the Air Force finance offices in Europe disbursed about $5.7 billion to contractors for goods and services.

At the time of the audit, it was evident that U.S. Military strength in Europe would be reduced. This indicates that the supporting finance and accounting organizations will probably be affected by some combination of closure, reduction, consolidation, and relocation of mission to the Unites States. We recognized this, but since the impact on any one organization was not yet determined, we reviewed each as an on-going operation. We did not review military or civilian pay and allowances or travel. The results of the audit are summarized below; the details and audit recommendations are in Part II of this report.

The finance and accounting offices in Europe made payments to contractors that were not for legitimate obligations and did not comply with applicable regulations. We found no indications of illegal acts, but established internal controls were not effective. During FY 1989, four of the five finance offices we visited made duplicate and other erroneous payments of at least $1.0 million. We recommended that the military comptrollers in Europe task local quality assurance personnel to periodically identify all checks returned to the finance offices because of erroneous payments; determine the causes of erroneous payments

and recommend appropriate corrective actions; require each finance activity to develop and maintain current detailed operating procedures; and develop standardized training for all clerical and supervisory positions in commercial accounts (page 5).

On April 2, 1990, a draft of this report was provided to the addressees. We received comments from the Assistant Secretary of the Army (Financial Management), dated May 31, 1990; from the Assistant Secretary of the Navy (Financial Management), dated June 14, 1990; and from the Assistant Secretary of the Air Force (Financial Management and Comptroller), dated June 13, 1990. The Army concurred with the finding and recommendations but did not agree to make periodic quality assurance reviews of returned checks. The Navy nonconcurred with the portion of the finding that concerned duplicate and erroneous payments, stating that its Personnel Service Activity had made no erroneous or duplicate payments. However, the Navy concurred with the recommendations, but did not indicate that they would be implimented Europe-wide. The Air Force also concurred with two of the three recommendations in our draft report, but believed that one of the recommendations should not have been addressed to the Air Force. We agreed, and have revised the final report. The comments are summarized in Part II of this report. The complete texts of the responses are included in Appendixes C., D., and E. Based on comments to the draft report, there are no major unresolved issues concerning our recommendations. However, in Part II, we requested that the Army perform the recommended quality assurance reviews periodically; we provided additional clarification to the Air Force; and requested that the Navy implement our recommendations in all European disbursing activities, not just at the activity visited.

DoD Directive 7650.3 requires that all audit recommendations be resolved within 6 months of the date of the final report. Comments must be provided within 60 days of this report. The specific responses required are detailed in Part II.

The Audit identified internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. Recommendations 1.a., 1.b., and 2., if implemented, will help correct the weaknesses. Because of our limited scope, we did not determine the potential monetary benefits that will be realized if our recommendations are implemented.

The courtesies and cooperation extended to the auditors during the audit are appreciated. If you have any questions about this audit, please contact Mr. Raymond D. Kidd, Program Director, at (202) 694-1682 (AUTOVON 224-1682), or Mr. Donald G. Stoll, Project Manager, at (202) 693-0476 (AUTOVON 223-0476). A list of the audit team members is in Appendix G. Copies of this report are being provided to the activities listed in Appendix H.

Edward R. Jones
Deputy Assistant Inspector General
for Auditing

Secretary of the Army
Secretary of the Navy
Secretary of the Air Force

REPORT ON THE AUDIT OF FINANCE AND ACCOUNTING OFFICES IN EUROPE

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Prepared By:
Financial Management Directorate
Project No. 9FH-5019

REPORT ON THE AUDIT OF FINANCE AND ACCOUNTING OFFICES IN EUROPE

PART I - INTRODUCTION

Background

The Accounting and Auditing Act of 1950 requires the head of each U.S. Government department and agency to establish and maintain adequate systems of internal controls. The Federal Managers' Financial Integrity Act of 1982 (Public Law 97-255) amended the Accounting and Auditing Act of 1950 and strengthened the executive agencies' systems of accounting and administrative controls. Each organization is required to establish its internal controls in accordance with standards prescribed by the Comptroller General of the United States. Obligations and costs must comply with the applicable law; funds, property, and other assets must be safeguarded against waste, loss, unauthorized use, and misappropriation; and revenues and expenditures for operations must be recorded and accounted for properly.

Office of Management and Budget (OMB) Circular A-123, "Internal Control Systems," dated August 4, 1986, gives policies and standards for establishing, maintaining, evaluating, improving, and reporting on internal controls. OMB Circular A-123 requires that periodic internal control reviews be made to evaluate the adequacy of established internal controls and to make improvements as needed.

DoD Directive 5010.38, "Internal Management Control Program," dated April 14, 1987, implements the Public Law and the OMB Circular. In accordance with the DoD Directive, each Military Department has issued implementing guidance. The Army has published Army Regulation 11-2, "Internal Control Systems," December 4, 1987; the Navy has published Office of the Chief of Naval Operations Instruction 5200.25B, "CNO Management Control Program," July 12, 1988; and the Air Force has published Air Force Regulation 15-1, "Air Force Internal Controls," February 28, 1989.

In Europe, the Army has 13 Finance and Accounting Offices, the Navy has 11 Personnel Support Activities or Detachments, and the Air Force has 26 Accounting and Finance Offices. These offices pay suppliers of commercial goods and services purchased or delivered in Europe. Goods and services are procured by the Military Departments' contracting activities. The finance offices make payments based on the terms of contracts and on documentation received from suppliers and receiving activities. Standard automated procedures had not been established in Europe. Except for the Air Force, European finance offices used manual operating procedures, augmented by a variety of locally developed automated functions. The materiel branches of the Air

Force Accounting and Finance Offices used standard automated procedures to process payments for supplies and equipment. The Army and the Air Force were standardizing automated procedures at the time of our audit.

Objectives and Scope

The objective of the audit was to evaluate the finance and accounting offices' internal controls over expenditures to ensure that payments were for legitimate obligations and complied with applicable regulations. The Army's finance offices disbursed about $3 billion during FY 1989 to contractors for goods and services, the Navy disbursed about $700 million, and the Air Force disbursed about $2 billion.

We visited 5 of the 50 Military Department finance offices in Europe, including 2 Army activities, 2 Air Force activities, and 1 Navy activity. Our scope was limited because both the Army and the Air Force were automating commercial accounts activities in Europe, and operating methods were undergoing significant changes. We curtailed our audit after an initial survey because we did not feel that visits to additional sites would be beneficial, considering these changes in procedures.

At the finance offices, we reviewed and evaluated the organizations' internal control reviews, operating procedures used prior to automation, training programs for supervisors and operating personnel, documentation for payments made during FY 1989, controls over disbursements and collections, check registers showing checks returned during FY 1989, and corrective actions taken as a result of prior audits and inspections. We also discussed procedures with responsible personnel at each level of command. Judgmental rather than statistical sampling techniques were used; therefore, we did not make projections based on the audit results.

The audit included elements of a financial audit and was made from October to December 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. Accordingly, tests were conducted to give reasonable assurance of detecting abuse or illegal acts, and internal controls over financial operations were reviewed. We identified no abuse or illegal acts. Appendix F lists the activities we visited or contacted.

Internal Controls

The audit identified internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD directive 5010.38. Established internal controls were not effective to ensure that only proper payments were

made. Recommendations 1.a., 1.b., and 2., if implemented, will help correct the weaknesses. A copy of this report will be provided to the senior officials responsible for internal controls within the Departments of the Army, Navy, and Air Force.

Prior Audit Coverage

U.S. Army Audit Agency Audit Report EU 85-7, May 10, 1985, "Audit of V Corps Finance Group and 18th Area Finance Support Center, Frankfurt, Germany," states that procedures and controls over vendor payments were not adequate, causing duplicate payments to be made.

U.S. Army Audit Agency Audit Report EU 87-601, May 18, 1987, "Audit of Cash Management Initiatives and Prompt Payment Procedures - VII Corps Regional Finance and Accounting Office, and 106th Area Finance Support Center," states that the finance offices did not correct identified weaknesses in internal controls because they did not monitor corrective actions effectively.

The Army's management had agreed with both of the above reports and had agreed to take corrective action. However, a follow-up audit by VII Corps Internal Review auditors showed that the majority of the recommendations made to VII Corps had not been implemented.

There had been no similar audit reports issued by the Navy and Air Force Audit organizations or by the General Accounting Office in the last 5 years.

PART II - FINDING AND RECOMMENDATIONS

Control of Payments

FINDING

The finance and accounting offices in Europe made payments to contractors that were not for legitimate obligations and did not comply with applicable regulations. Although no indications of illegal acts were found, established internal controls were not effective because they were circumvented by operating personnel. Managers did not ensure the accuracy of their subordinates' work. Available data were not used to identify unauthorized or erroneous payments and to initiate corrective actions, operating procedures were not clearly established, and not all personnel were fully trained. Consequently, duplicate and other erroneous payments of at least $1.0 million were returned by contractors during FY 1989 to four of the five finance offices.

DISCUSSION OF DETAILS

Background. In Europe, each Military Department has designated specific finance offices to pay for commercially provided goods and services. Procurement is accomplished by authorized Military Department contracting offices that contract for the goods and services, and then provide copies of the contracts to the finance offices. None of the finance offices visited maintained records to show the number of open contracts on file that were still subject to payment. However, we estimated that the number ranged from 2,700 to 36,000; some of the contracts had been open since 1983. The contracts specify the name of the contractor; the goods or services to be provided; the terms of delivery, payments, and discounts; and the amount of funds to be spent. Military Department regulations require that before payments are made, finance offices must ensure that the goods and services have been received and that the contractor has billed the Military Departments in accordance with the terms of the contracts. Finance offices have established Commercial Accounts or Accounts Payable Sections within their organizations. Finance offices are required to establish internal controls to ensure that:

- legal procurement documents are in effect before payments are made;

- payments are not made without proper invoices;

- payments are not made unless the goods or services are received and accepted, unless fast-pay procedures are being followed; and

- payments are made promptly for the correct amounts to the correct vendors.

Each finance office required that the work of team members be verified both by team leaders and supervisors before being sent to the disbursing activity. The disbursing activity was to ensure that payments were properly documented before paying out funds.

Internal Controls. Except for one Army finance office, the required internal control reviews either had been made or were in process. However, team leaders and supervisors did not always verify that subordinates were adequately accomplishing their assigned duties of acquiring and reconciling receiving reports, invoices, and contract terms; accurately computing the amounts due to contractors; preparing disbursement vouchers for the correct contractors; and determining that payments had not already been made. Supervisors stated that the organization's work load often kept them from reviewing their subordinates' work. We reviewed the contract terms, payment control records, and supporting documentation for recent payments that had been made on 44 contracts at 5 finance offices. We identified 14 clerical errors that finance office managers would have detected if the required supervisory reviews had been made. Identified errors are shown in the table below.

Errors Identified by Review of Selected Transactions

No. of Occurrences	Type of Error	Potential/Actual Effect
3	Documents misfiled	Delayed payments and payments to the wrong contractor
4	Payment control records inaccurate	Duplicate payments
4	Incorrect unpaid balances	Overexpenditure
2	Modifications to contracts missing	Overexpenditure
1	Nonperformance penalty ignored	Contractor overpaid ($154)

Our review of the checks contractors returned to the finance offices during FY 1989 identified 10 duplicate payments ($733,404), 11 payments to the wrong contractors ($266,462), and 9 overpayments ($18,119). No documentation showed that the checks were returned because of action taken by the finance

offices. Audit results are shown in Appendix A. Although contractors returned the erroneous payments to the finance offices, management had not established controls to determine the causes of the overpayments and to prevent their reoccurrence. It is very likely that not all erroneous payments made to contractors were returned.

Operating Procedures. The Army and Navy finance offices did not have up-to-date written operating procedures that explained the specific duties of supervisory and clerical personnel. Some of the errors discussed above were made because personnel were not fully aware of the procedures that they should have followed when performing their day-to-day duties. Written procedures must clearly describe each task that individuals perform, and these procedures must be readily available to all personnel.

Training. With few exceptions, civilian personnel received only on-the-job training. The quality of the training varied based on the supervisor's ability, skills, and work load. Training was often neglected by the supervisors because of work loads and the pressure to pay invoices promptly. At one finance office, the turnover rate was estimated at about 150 percent per year; in this and similar situations, a formal training program is essential.

Automation. At the time of our audit, the Army and the Air Force were implementing standard automated systems in the European commercial accounts functions. These systems were similar to those used by CONUS activities, and should help to correct many of the problems we identified. The Navy had not implemented standard automated systems in CONUS, and had no plans to do so in Europe in the near future.

CONUS Operations. The Army issued the "Accounts Payable Task Force Report," May 31, 1989, which identified many of the same problems in CONUS that we identified in Europe. The Accounts Payable Task Force visited Navy and Air Force finance offices, as well as Army organizations, and reported that serious problems existed because the finance offices lacked effective monitoring programs, good employee training programs, command involvement, and strong control units in the accounts payable offices.

MANAGEMENT COMMENTS TO THE FINDING, AND AUDIT RESPONSES

Army Comments: No comments were provided.

Navy Comments: The Assistant Secretary of the Navy (Financial Management) did not agree with the data concerning duplicate and erroneous payments. He stated that errors shown in the draft report had been identified and corrective actions had been implemented prior to our visit. He further stated that two

of the payments we identified as being made in FY 1989 had been made in FY 1988.

Audit Response: We identified duplicate and erroneous payments by reviewing the finance offices' records of checks returned by contractors during FY 1989. The reasons for the returned checks were determined by command personnel after they received the checks. When preparing the response to our draft finding, the Personnel Support Activity (PSA) apparently identified documentation that was not available to us. At the time of our visit, no documentation in the Contract folders indicated that the checks were returned because of actions taken by the PSA. Based on the additional data, we have revised the finding and Appendix A.

Air Force Comments: The Assistant Secretary of the Air Force (Financial Management and Comptroller) expressed concern that the Comptroller, U.S. Air Forces in Europe believed that we were doing a survey and not an audit and that we had not briefed command personnel before departing; therefore, the Air Force was unable to substantiate the erroneous payments discussed in our report.

Audit Response: During our initial briefing with the Comptroller, U.S. Air Forces in Europe and his staff, we explained that our audit work is done in three phases. In the Survey Phase, our scope is limited; we identify potential problem areas and determine whether to continue the audit. In the Audit Phase, we expand our scope and fully develop the potential problems identified during the survey; and in the Report Phase, we write the audit report and request the command's review and comments. As explained previously, the scope of this audit was limited. We did not visit additional activities to determine the extent of the problems identified during the survey phase because commercial accounts activities were being automated. Since the Comptrollers were not available, we gave exit briefings to their representatives on October 26 and November 14, 1989. At that time we discussed the audit results in detail.

RECOMMENDATIONS, MANAGEMENT COMMENTS, AND AUDIT RESPONSES

1. We recommend that the Comptrollers, U.S. Army Europe and Seventh Army, U.S. Naval Forces Europe, and U.S. Air Forces Europe:

a. (Recommendation 1. in the draft report) Task local quality assurance personnel to identify all checks returned to the finance offices because of erroneous payment, determine the cause for the erroneous payment and recommend appropriate corrective action.

Army Comments: The Assistant Secretary of the Army (Financial Management) concurred, stating that the Deputy Chief of Staff for Resource Management (DCSRM), U.S. Army Europe and Seventh Army (USAREUR) will task all USAREUR accounts payable offices to perform reviews, take corrective actions, and provide results to the DCSRM by July 15, 1990.

Audit Response: The comments made by the Assistant Secretary of the Army (Financial Management) to Recommendation 1.a. are considered to be the appropriate initial action to be taken. However, we believe that this type of action should be taken periodically. Consequently, we request that the Army, in its response to this report, revise its comments and state the specific periodic actions that will be taken.

Navy Comments: The Assistant Secretary concurred, stating that employees at the Personnel Support Activity United Kingdom/Northern Europe (PSA UK/NOREUR) use the procedures we recommended.

Audit Response: Because the responsibility for verifying the receiving document with the contract and the vendor's bill was the responsibility of one organization (the Naval Regional Contracting Center Detachment, London) and the payment of the obligation was the responsibility of another (the Personnel Support Activity), the Personnel Support Activity's quality assurance personnel should periodically identify checks returned to the Personnel Support Activity and the Regional Contracting Center because of erroneous payments, determine why payments were made in spite of established controls, and recommend ways to prevent recurrence. We request that the Navy, in its response to this report, revise its comments and state the specific actions that will be taken and when it expects the actions to be completed.

Air Force Comments: The Assistant Secretary of the Air Force (Financial Management and Comptroller) concurred, stating that procedures were and still are in place to identify and determine causes of erroneous payments. The collecting section notifies the appropriate activity when an erroneous payment is returned. That activity determines the cause of the returned payment, and supervisors take the necessary corrective action. Internal control reviews ensure that the activity conducts the research and validates the actions. Management will ensure compliance with these procedures to help reduce future occurrences of duplicate and erroneous payments.

Audit Response: The activities we visited had not implemented the procedures described by the Assistant Secretary. Instead, the commercial accounts activity was

notified that a check had been returned for erroneous payment. If the contractor did not give a specific reason, the commercial accounts activity determined why the check was returned. The payment record card, the face of the collection voucher, and a voucher log were annotated to show that an erroneous or duplicate payment was made to the account. The quality assurance section verified that this procedure was being followed. Quality assurance personnel should periodically identify checks returned because of erroneous payments, determine why the payments were made in spite of established controls, and recommend ways to prevent recurrence. We request that the Air Force, in its response to this report, revise its comments and state the specific actions that will be taken and when it expects the actions to be completed.

b. (Recommendation 3 in the draft report) Develop standardized training for all phases of the commercial accounts clerical and supervisory positions and provide the training at least quarterly for new hires and newly promoted supervisors.

Army: The Assistant Secretary of the Army (Financial Management) concurred, stating that the DCSRM, USAREUR requested that the U.S. Army Soldier Support Institute, Finance School, provide in-theater training in accounts payable for USAREUR personnel. In addition, training for accounts payable offices is being addressed by the Commercial Accounts Payable Study Group during its current review. The target date for completion of the review is October 1, 1990.

Audit Response: The comments are responsive to the recommendation.

Navy: The Assistant Secretary concurred, stating that employees at the PSA UK/NOREUR were developing detailed operating procedures and standardized training for personnel working in commercial accounts. The estimated completion date for these corrective actions is June 30, 1990.

Audit Response: Despite our limited scope, we are concerned that similar problems may exist at all of the Navy's disbursing activities in Europe. Consequently, we request that the Assistant Secretary of the Navy (Financial Management), in his response to the final report, revise his milestones to show the estimated dates that corrective actions will be completed in all 11 Personnel Support Activities or Detachments in Europe.

Air Force: The Assistant Secretary of the Air Force (Financial Management and Comptroller) concurred, stating that prior to the audit, training procedures had been developed and were in place for commercial services activities. Selected military and civilian employees, including local nationals, are

afforded the opportunity to attend a 2-week formal training course in CONUS. Further, on-the-job training is provided and documented for all employees. At the discretion of the Wing Commander, most Air Force Accounting and Finance Offices are authorized to close each week for recurring training.

Audit Response: Local nationals and U.S. civilians had not been trained because of funding restrictions. Further, no records showed that the activities had established a formal on-the-job training program for each civilian employee. It is not always practical to send new employees and newly promoted supervisors from Europe to training in CONUS. Therefore, an in-theater training program would be cost-effective and expedient. If qualified trainers are not available in the European Command, it would be more cost effective to send a trainer to Europe than to send trainees to CONUS. We request that the Air Force, in its response to this report, revise its comments and state the specific actions that will be taken and when it expects the actions to be completed.

2. (Recommendation 2. in the draft report) We recommend that the Comptrollers, U.S. Army Europe and Seventh Army, and U.S. Naval Forces Europe, require each finance activity to develop and maintain current detailed operating procedures for operating and supervisory personnel involved with commercial accounts.

Army Comments: The Assistant Secretary of the Army (Financial Management) concurred, stating that DCSRM has directed that the commanders of all units have their Standing Operating Procedures reviewed and update them as necessary by August 31, 1990.

Audit Response: The comments are responsive to the recommendation.

Navy Comments: The Assistant Secretary concurred, stating that employees at the PSA UK/NOREUR were developing detailed operating procedures for personnel working in commercial accounts. The estimated completion date for these corrective actions is June 30, 1990.

Audit Response: Same as our response to the Navy for Recommendation 1.b.

Air Force Comments: The Assistant Secretary of the Air Force (Financial Management and Comptroller) stated that the recommendation did not apply to the Air Force.

Audit Response: We agree that this recommendation does not apply to the Air Force, and have readdressed the recommendation.

ERRONEOUS PAYMENTS

Duplicate Payments Made

Finance Office	Number of Instances	Value
VII Corps Finance Group	8	$192,572
9th Finance Group	1*	500,000
36th Comptroller Squadron	1	40,832
Subtotals	10	$733,404

* Also paid by a finance office in Belgium

Payments to the Wrong Contractor

Finance Office	Number of Instances	Value
VII Corps Finance Group	8	$261,993
36th Comptroller Squadron	2	2,012
Personnel Support Activity, London	1	2,457
Subtotals	11	$266,462

Contractors Overpaid

Finance Office	Number of Instances	Value
VII Corps Finance Group	2	$ 7,233
36th Comptroller Squadron	6	9,937
Personnel Support Activity, London	1	949
Subtotals	9	$18,119

Total Erroneous Payments: $1,017,985

SUMMARY OF POTENTIAL MONETARY AND OTHER BENEFITS RESULTING FROM AUDIT

Recommendation Reference	Description of Benefit	Amount and Type of Benefit
1.a.	Internal control to identify systemic problems or clerical oversight.	Undeterminable monetary benefit.
1.b.	Internal control to improve training for new employees and supervisors.	Undeterminable monetary benefit.
2.	Internal control to standardize guidance for day-to-day operations.	Undeterminable monetary benefit.

Because of the limited scope of our audit, monetary benefits for each recommendation are undeterminable.

Assistant Secretary of the Army
(Financial Management) Reply
DODIG Draft Report on the Audit of Finance and Accounting Offices in Europe (Project No. 9FH-5019)

Finding. The finance and accounting offices in Europe made payments to contractors that were not for legitimate obligations and did not comply with applicable regulations. Although no indications of illegal acts were found, established internal controls were not effective because they were circumvented by operating personnel. Managers failed to ensure the accuracy of their subordinates' work. Available data were not used to identify unauthorized or erroneous payments and to initiate corrective actions, operating procedures were not clearly established, and all personnel were not fully trained. Consequently, duplicate and other erroneous payments of at least $1.1 million were made during FY 89 by five finance offices without detection by the finance managers.

Recommendation 1. Task local quality assurance personnel to identify all checks returned to the finance offices because of erroneous payments to determine the causes for the erroneous payments and to recommend appropriate corrective actions.

Action Taken. Concur. The U.S. Army, Europe, and Seventh Army's (USAREUR), Deputy Chief of Staff for Resource Management (DCSRM) will task all USAREUR accounts payable offices by 31 May 1990 to perform reviews, take corrective actions, and provide results to the DCSRM by 15 July 1990.

Recommendation 2. Require each finance activity to develop and maintain current detailed operating procedures for operating and supervisory personnel who work with commercial accounts.

Action Taken. Concur. Commanders of the offices that were audited will be directed to update accounts payable standing operating procedures (SOPs) by 31 August 1990. In addition, the DCSRM will direct that all other offices review their accounts payable SOPs and update these SOPs as necessary by 31 August 1990.

Recommendation 3. Develop standardized training for all clerical and supervisory positions in commercial accounts and provide training at least quarterly for new employees and newly promoted supervisors.

Action Taken. Concur. USAREUR DCSRM is requesting that the U.S. Army Soldier Support Institute, Finance School, provide in-theater accounts payable training for USAREUR personnel. In addition, training for accounts payable offices is being addressed by the Commercial Accounts Payable Study Group during its current review. The target date for implementation is 1 October 1990.

Department of the Navy Response

to

AIG (A) Draft Report of 2 April 1990

on

The Audit of Finance and Accounting Offices in Europe

(Project 9FH-5019)

SUMMARY

The draft report findings included the following: 1) available data were not used to identify unauthorized or erroneous payments or to initiate corrective actions; 2) operating procedures were not clearly established; and 3) not all personnel were fully trained. Finding 1 indicated that "duplicate and other erroneous payments of at least $1.1 million were made during FY 89 by the five finance centers visited without detection by the finance managers." The DODIG audit assigned the U.S. Navy Personnel Support Activity, United Kingdom/Northern Europe (PSA UK/NOREUR) erroneous payments totaling $96,209.

FINDING 1: Do not concur. All ten sub-findings attributable to PSA UK/NOREUR related to erroneous payments based upon DODIG's review of refund checks. These ten sub-findings had been identified and corrective action was implemented by PSA UK/NOREUR prior to the DODIG audit. The report cited three categories of erroneous payments as follows: 1) Duplicate Payments, 2) Payments Made to the Wrong Contractor During FY 89, and 3) Contractors Overpaid During FY 89. Eight findings (five in Category 1 and three in Category 3) were erroneously identified by DODIG as PSA UK/NOREUR bill paying errors. Also, two findings (one in Category 2 and one in Category 3) were erroneously identified by DODIG as payments made in FY 89 when, in fact, they were FY 88 payments. PSA UK/NOREUR processes approximately $450 million in payments annually. Although DODIG cited the amount of erroneous payments by PSA UK/NOREUR in FY 89 as $96,209, the correct amount is zero.

The five findings erroneously identified by DODIG as Duplicate Payments - (Category 1) are as follows:

- One occurrence of a duplicate payment was actually made based on receipt and payment of two separate invoices against two Blanket Purchase Agreements (BPAs) for the same service. Vendor submitted refund. These were errors by the receiving and certifying activity, not PSA UK/NOREUR. Amount of payment: $95.36

- Three duplicate payments and refunds resulted when Defense Electronic Supply Center (DSEC) made payments against contracts after paying responsibility had been transferred to PSA UK/NOREUR. These erroneous payments were made by DESC. Amount of payments: $3,066.53

- British Airways, after receiving payment, determined billing was an administrative error and submitted a refund. This was not a duplicate payment, but an error by both the billing and receiving activity. Amount of payment: $499.21

The five Duplicate Payments totaling $3,661.10 (Appendix A of the report) were not attributable to PSA UK/NOREUR, but to the receiving and certifying activities.

Three of four findings erroneously identified by DODIG as Contractors Overpaid During FY 89 - (Category 3) were not overpayments, but were refunds resulting from contracts negotiated downward after payments were made. The three payments totaled $89,042.44. One of the four findings was an overpayment of $949.52 made in FY 88. Overpayment could have been precluded if the contract was verified against the voucher. PSA UK/NOREUR has established internal controls to ensure contracts are verified against vouchers.

The one finding identified as Payments Made To The Wrong Contractor - (Category 2) was an oversight error by PSA UK/NOREUR and occurred in FY 88, not FY 89 as indicated in the report. The payment was $2,457 as cited in Appendix A of the report. The internal controls needed to prevent a recurrence of oversight errors have been implemented. There were no payments made to the wrong contractor in FY 89.

In summary, erroneous payments cited in the draft report occurred in FY 88 and corrective action was implemented in FY 88 prior to the DODIG audit. It should also be noted that the four instances attributed to PSA, London identified in Appendix A as Contractors Overpaid should total $89,992, not $90,091, as indicated.

FINDINGS 2 and 3: Concur with both findings. PSA UK/NOREUR's operating procedures were not clearly established and personnel were not fully trained. PSA UK/NOREUR is currently taking corrective action by developing detailed operating procedures and standardized training for personnel working with commercial accounts. Estimated completion date is 30 June 1990.

RECOMMENDATION 1: Concur. The recommendation requested personnel to identify all checks returned to the finance officers because of erroneous payments, determine the causes of the erroneous payments and recommend appropriate corrective actions. This is in fact the procedures used at PSA UK/NOREUR.

RECOMMENDATIONS 2 and 3: Concur. The recommendation requested that each finance activity develop, maintain and implement current detailed operating procedures and standardized training for personnel working with commercial accounts. As indicated, PSA UK/NOREUR is currently taking corrective action. Estimated completion date is 30 June 1990.

AIR FORCE

MANAGEMENT COMMENTS TO
DRAFT REPORT ON THE AUDIT OF FINANCE AND ACCOUNTING OFFICES IN EUROPE
(PROJECT NUMBER 9FH-5019)

OVERALL COMMENTS

The DoD IG team inbriefing to the Comptroller, U.S. Air Forces in Europe (USAFE/AC) stated that they were going to conduct a survey, rather than an audit. Feedback from the Air Force bases that the DoD IG Team visited revealed that the respective base officials were not briefed on any of the findings or results of the DoD IG visit. The DoD IG team gave USAFE/AC the understanding that if the survey resulted in any major concerns, they would conduct a follow-up audit.

The audit's objective and scope contain inaccurate information. The DoD IG team requested the amount of FY 1989 gross disbursements relative to all fiscal years, by base, for all USAFE bases. USAFE advised that the requested data would be available on a certain date and the team agreed to return on that date for the data. However, the team did not return or request the data. The total amount disbursed in FY 1989 was $1,973,060,973 rather than the amount stated ($1 billion).

FINDING Due to the manner in which the audit was conducted, the Air Force is unable to substantiate any of the erroneous payments mentioned in the report. However, we request that we be provided the specifics of the findings so that we can ensure corrective action is taken in each instance.

RECOMMENDATION # 1. We recommend that the Comptroller(s),... U.S. Forces in Europe ... task local quality assurance personnel to identify all checks returned to the finance offices because of erroneous payments, to determine the causes for the erroneous payments, and to recommend appropriate corrective actions.

Concur. Procedures were and still are in place to identify and determine causes of erroneous payments. The paying and collecting section notifies the appropriate subject matter area (SMA) when there is a returned check and that SMA researches to determine the cause for the check being returned. Supervisors take the necessary corrective action. In addition, internal control reviews are conducted to ensure these procedures are in place, working and that the SMA conducts the research. The quality assurance SMA validates these actions. Management will ensure compliance with these procedures to help reduce future occurrences of duplicate and erroneous payments.

RECOMMENDATION # 2. We recommend that the Comptroller(s),... U.S. Forces in Europe ... require each finance activity to develop and maintain current detailed operating procedures for operating and supervisory personnel who work with commercial accounts.

Not Applicable. Based on the data presented, this recommendation was not directed to the Air Force. Notwithstanding, our bases have detailed operating procedures in the form of desk top training aids, commercial services supervisors' handbooks, and an integrated accounts payable system users' manual. These instructions are periodically reviewed and updated.

RECOMMENDATION # 3. We recommend that the Comptroller(s),... U.S. Forces in Europe ... develop standardized training for all clerical and supervisory positions in commercial accounts and provide training at least quarterly for new employees and newly promoted supervisors.

Concur. Prior to the audit, training procedures were developed and in place for the commercial services SMA. Selected military members and civilian employees, including local nationals, are afforded the opportunity to attend a two week formal training course at Sheppard AFB, Texas. Further, a system for on-the-job training is provided and documented for all members and employees. Finally, at the discretion of the Wing Commander, most Air Force Accounting and Finance Offices are authorized to close each week for recurring training.

ACTIVITIES VISITED OR CONTACTED

Unified Command

Headquarters, U.S. European Command, Stuttgart, Germany

Department of the Army

U. S. Army Finance and Accounting Center, Indianapolis, Indiana
Headquarters, U.S. Army Europe and Seventh Army, Heidelberg, Germany
Headquarters, U.S. Army Europe Contracting Command, Heidelberg, Germany
Headquarters, U.S. Army Seventh Medical Command, Heidelberg, Germany
266th Theater Finance Command, Schwetzingen, Germany
VII Corps Finance Group, Stuttgart, Germany
Headquarters, 21st Theater Army Area Command, Kaiserslautern, Germany

Department of the Navy

Headquarters, U.S. Naval Forces, Europe, London, England
U.S. Naval Personnel Support Activity, London, England
U.S. Naval Regional Contracting Center, London, England

Department of the Air Force

Headquarters, U.S. Air Force Accounting and Finance Center, Lowry Air Force Base, Colorado
Headquarters, U.S. Air Forces, Europe, Ramstein Air Force Base, Germany
36th Comptroller Squadron, Bitburg Air Force Base, Germany
66th Comptroller Squadron, Sembach Air Force Base, Germany

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Comptroller, U.S. Army, Europe and Seventh Army
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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