Audit Report

OFFICE OF THE INSPECTOR GENERAL

THE NATIONAL DEFENSE STOCKPILE TRANSACTION FUND

Report Number 92-141 September 30, 1992

Department of Defense

The following acronyms are used in this report.

DFAS .....Defense Finance and Accounting Service
DFSC .....Defense Fuel Supply Center
DLA .....Defense Logistics Agency
GAO .....General Accounting Office
GSA .....General Services Administration

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

September 30, 1992

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (PRODUCTION AND LOGISTICS)
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Audit Report on the National Defense Stockpile Transaction Fund (Report No. 92-141)

This final audit report is provided for your information and use. It addresses differences in the financial data for the National Defense Stockpile Transaction Fund (the Fund) between those reported in semiannual reports to Congress and those recorded in official accounting records.

A draft of this report was issued for review and comments on June 24, 1992. Comments were provided by the Office of the Assistant Secretary of Defense (Production and Logistics) on September 18, 1992, and the Defense Logistics Agency on September 8, 1992. The respondents concurred with the report and the recommendations.

We considered management's comments on the recommendations to be responsive except for Recommendation 2.a. Because management comments did not adequately describe a proposed action and completion date in response to Recommendation 2.a., additional comments are requested. Details on the unresolved recommendation are discussed in the Audit Response section in Part II of this report. Unresolved recommendations are subject to resolution in accordance with DoD Directive 7650.3. Your comments are requested within 60 days of the date of this report.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Ms. Mary Lu Ugone on (703) 692-3320 (DSN 222-3320) or Mr. Lloyd O'Daniel on (703) 692-2878 (DSN 222-2878). This report will be distributed to the organizations listed in Appendix G.

E. R. Jones

Edward R. Jones
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

AUDIT REPORT NO. 92-141 **September 30, 1992**
PROJECT NO. 1RE-0068.01

THE NATIONAL DEFENSE STOCKPILE TRANSACTION FUND

EXECUTIVE SUMMARY

Introduction. The National Defense Stockpile Transaction Fund (the Fund) was established in 1979 by the Strategic and Critical Materials Stock Piling Revision Act (the Act). The Fund is a revolving fund that finances the acquisition, transportation, and other costs incidental to the acquisition and disposition of strategic and critical materials. The Act requires that a report containing a statement on and an explanation of the financial status of the Fund be submitted to Congress semiannually. We made the audit because at a July 24, 1991, hearing before the Subcommittee on Seapower and Strategic and Critical Materials, Committee on Armed Services, the Subcommittee expressed concern with the amount of the unobligated balance of the Fund.

Objective. The objective of the audit was to verify the sources and applications of funds reported to the Congress.

Audit Results. The amounts reported to Congress for the period FY 1979 through FY 1988 were the same as those reported in budget execution documents maintained by the Department of Treasury. However, the reports to Congress for FYs 1989 and 1990 did not reflect the financial data contained in the budget execution documents for two reporting categories--Receipts/Budget Authority and Net Obligations. As a result, the unobligated fund balance was understated by $86.4 million (20 percent) in FY 1989 and by $131.5 million (42 percent) in FY 1990.

Internal Controls. We identified no material internal control weaknesses related to procedures for reporting the financial status of the Fund to Congress.

Potential Benefits of Audit. No quantifiable monetary benefits were identified. However, improved reporting will result if our recommendations are implemented (see Appendix E).

Summary of Recommendations. We recommended that the Assistant Secretary of Defense (Production and Logistics) revise the format of the financial status report to Congress; that the Director, Defense Logistics Agency, establish procedures to ensure that consistent and complete information is submitted to Congress; and that the balances reported to Congress for FYs 1989 and 1990 be corrected.

Management Comments. The Assistant Secretary of Defense (Production and Logistics) and the Director, Defense Logistics Agency, concurred with all recommendations. However, we requested that management provide additional comments on the proposed action and completion date for Recommendation 2.a. Details on management's comments are provided at the end of the finding in Part II of the report, and the texts of managements' comments are in Part IV.

TABLE OF CONTENTS

	Page
TRANSMITTAL MEMORANDUM	
EXECUTIVE SUMMARY	i
PART I - INTRODUCTION	1
Background	3
Objective	3
Scope	3
Internal Controls	4
Prior Audits and Other Reviews	4
PART II - FINDING AND RECOMMENDATIONS	7
National Defense Stockpile Transaction Fund Reporting	9
PART III - ADDITIONAL INFORMATION	15
APPENDIX A - Comparison of Financial Data Reported to Congress to Data Contained in Budget Execution Documents	17
APPENDIX B - Verification of Financial Status Reported to Congress for FY 1989	19
APPENDIX C - Verification of Financial Status Reported to Congress for FY 1990	21
APPENDIX D - Proposed Reporting Format for the National Defense Stockpile Transaction Fund Financial Status	23
APPENDIX E - Summary of Potential Benefits Resulting from Audit	25
APPENDIX F - Activities Visited or Contacted	27
APPENDIX G - Report Distribution	29
PART IV - MANAGEMENT COMMENTS	31
Assistant Secretary of Defense (Production and Logistics)	33
Defense Logistics Agency	35

This report was prepared by the Readiness and Operational Support Directorate, Office of the Assistant Inspector General for Auditing, DoD. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate on (703) 614-6303 (DSN 224-6303).

PART I - INTRODUCTION

Background

The Strategic and Critical Materials Stock Piling Revision Act (U.S.C., title 50, section 98) (the Act) mandates that a stock of strategic and critical materials be maintained to decrease dependence on foreign sources of supply in times of national emergency. The Act was revised in 1979 to establish the National Defense Stockpile Transaction Fund (the Fund). The Fund is a revolving fund that finances the acquisition, transportation, and other costs incidental to the acquisition of strategic and critical materials. Section 11(a) of the Act requires that a report containing a statement on and an explanation of the financial status of the Fund be submitted to the Congress semiannually.

Executive Order 12626, February 25, 1988, transferred the responsibility for management of the National Defense Stockpile (the Stockpile) from the General Services Administration (GSA) and the Federal Emergency Management Agency to the Secretary of Defense. In May 1988, the authority to manage the Stockpile was delegated to the Assistant Secretary of Defense (Production and Logistics). Authority to administer the Stockpile was further delegated to the Defense Logistics Agency (DLA). The General Funds Division and Resource Finance Special Projects Division of the Defense Finance and Accounting Service (DFAS) are responsible for accounting for the Fund.

Objective

The objective of the audit was to verify the sources and applications of resources in the Fund. Specifically, we verified the sources and applications of funds reported to the Congress.

Scope

Our verification of the sources and applications of the Fund was limited to a comparison of the financial data reported to Congress and the budget execution documentation submitted to the Department of Treasury for the period August 1, 1979, through September 30, 1990. Specifically, we reviewed the financial data submitted in the Strategic and Critical Materials Report to the Congress. We compared the data to amounts reported in the DoD Report on Budget Execution (DD Form 1176) for FYs 1989 and 1990 and to similar summary financial documentation reported by GSA and maintained by the Department of Treasury from 1979 through FY 1988. For those years that the reported amounts differed, we reviewed the supporting documentation used to complete the DD Form 1176.

The audit was performed at the Defense National Stockpile Center (the Center) and the General Funds Division and Resource Finance Special Projects Division of the DFAS. A list of the activities visited is included in Appendix F.

This performance audit was made from August through November 1991 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included such tests of internal controls as were considered necessary.

Internal Controls

Our review of internal controls was limited to a review of the procedures used to report the financial status of the Fund to Congress. Therefore, we are expressing no opinion on the adequacy of the internal controls for the Fund or on DLA's implementation of the Federal Managers' Financial Integrity Act.

Prior Audits and Other Reviews

In its Audit Report No. AFMD-86-55. "Examination of GSA's Fiscal Year 1985 Financial Statements," June 1986 (OSD Case No. B-222974), the General Accounting Office (GAO) issued an unqualified opinion with reservations on GSA's consolidated balance sheet. The reservations were due to the unavailability of documentation for the Stockpile assets acquired before September 1984. GAO reported that many of the assets were acquired when the Stockpile was established in 1949.

DLA's "Evaluation of the Accounting System for the Transaction Fund at the National Defense Stockpile Center and the Defense Fuel Supply Center," July 7, 1989, reported on the evaluation of the Fund accounting system to determine whether the Fund was operated in compliance with GAO principles and standards and Office of Management and Budget guidelines. Recommendations were made: to develop subsidiary support for asset and liability account balances--management concurred; to provide a financial operating plan--management concurred; to provide quarterly grant (grants to universities for research and development of strategic and critical materials) reports to the Defense Fuel Supply Center (DFSC)--management stated that DFSC should supply grant balances to the Center; and to accurately record grant administration travel expenses--management stated corrections had been made "to a great extent."

Inspector General, DoD, Audit Report No. 91-112, "Requirements for the National Defense Stockpile," July 19, 1991, reported on the process for determining the types, quantities, and qualities of materials to be acquired for and retained in the Stockpile. The report stated that on September 30, 1990, the Fund, which was used to finance Stockpile operations, had an unobligated balance

of about $310 million. The report recommended that legislation be submitted to eliminate the prohibition of disposals of materials when the unobligated balance in the Fund exceeds $100 million. Management concurred and initiated corrective action in June 1991.

The Inspector General, DoD, is conducting an audit of the National Defense Stockpile Transactions Fund's Financial Statements for FY 1992 (Project No. 2FG-2007). The objective of the audit is to determine whether the FY 1992 financial statements for the Fund are presented fairly in accordance with generally accepted accounting principles.

PART II: FINDING AND RECOMMENDATIONS

NATIONAL DEFENSE STOCKPILE TRANSACTION FUND REPORTING

The Strategic and Critical Materials Reports to the Congress for FYs 1989 and 1990 contained financial data that differed from the official accounting records. This condition occurred because the Center had not established procedures to ensure that financial data submitted to the Congress agreed with accounting records maintained by the Center or fully disclosed the status of the Fund. As a result, the unobligated fund balance reported to Congress was understated by $86.4 million in FY 1989 and by $131.5 million in FY 1990.

DISCUSSION OF DETAILS

Background

Section 11(a) of the Act mandates that a semiannual report be submitted to Congress that contains "a statement and explanation of the financial status of the National Defense Stockpile Transaction Fund." Public Law 102-190, "National Defense Authorization Act for Fiscal Year 1992 and 1993," December 5, 1991, modified the Act, requiring annual submission of the report. In addition, the DoD Accounting Manual (DoD 7220.9-M) requires the preparation of the Report on Budget Execution (DD Form 1176). DD Form 1176 is designed to show the status of budgetary resources and the financial data related to them. The Defense Finance and Accounting Service (DFAS) prepares DD Forms 1176 monthly and at the end of each fiscal year. DFAS submits the DD Forms 1176 to the Office of Management and Budget, the Congressional Budget Office, and the Comptroller of the Department of Defense.

In IG, DoD, Audit Report No. 91-112, "Requirements for the National Defense Stockpile," July 19, 1991, we reported an unobligated balance of $310 million in the Fund as of September 30, 1990, based on data on DD Forms 1176. However, in its semiannual report to Congress, DoD reported an unobligated balance of $178 million as of that same date.

Reporting Procedures

Fund reporting. Before the transfer of the Stockpile to DoD, the Federal Emergency Management Agency was responsible for reporting the financial status of the Fund to Congress. The Fund's financial status was reported in four categories:

- The Receipts/Budget Authority category consists of appropriations to the Fund, revenue from the sales of excess Stockpile materials, and other income. Other income includes revenue received for the storage of materials purchased by customers who have not taken possession of those materials.

- The Obligational/Budget Authority category represents the apportionment limitation for the budget program authorized each fiscal year.

- The Net Obligations category consists of current year obligations less recoveries of prior year obligations.

- The Total Balance in Fund (End Date) represents the unobligated balance of the Fund for the fiscal year being reported.

Since taking over responsibility for the Stockpile, DoD has continued to use the same reporting format and categories. Our audit showed that the Obligational/Budget Authority category contained data that either are included in other categories or do not affect the financial status of the Fund. We have excluded that category to facilitate the presentation of data in this report. We compared the data reported to Congress with the financial data extracted from DD Form 1176, the budget execution documentation, for FY 1979 through FY 1990 (Appendix A).

The amounts reported to Congress for the period FY 1979 through FY 1988 were the same as those reported on the DD Form 1176 with the exception of minor discrepancies that we attributed to rounding. However, for FYs 1989 and 1990, the financial status of the Fund reported to Congress did not accurately reflect accounting records data for the categories of Receipts/Budget Authority and Net Obligations, resulting in an understatement of $131.5 million in the Total Balance in the Fund (End Date) as of September 30, 1990.

Financial status for FY 1989. In its report to Congress, the Center understated the Receipts/Budget Authority category and overstated the Net Obligations category. The understatement and overstatement occurred as a result of omissions of receipts and recoveries of prior year obligations. In the Receipts/Budget Authority category, the Center reported $63.4 million from sales and funds appropriated for grants, but that amount did not include $23.0 million in other revenue reported in the DD Form 1176. The Receipts/Budget Authority balance for the period was actually $86.4 million. The reported Net Obligations balance was $219 million, which did not include the adjustment of $63.3 million for recoveries of prior year obligations. Data on DD Form 1176 showed the Net Obligations balance was

$155.7 million. Consequently, the unobligated balance in the Fund was understated. Appendix B shows the data reported to Congress and financial information reported on the DD Form 1176 for FY 1989.

Financial status for FY 1990. In its report to Congress, the Center understated receipts by $18.5 million and overstated obligations by $26.6 million. The understatement and overstatement occurred as a result of omissions of receipts and obligation recoveries. In the Receipts/Budget Authority category, the Center reported $17.2 million but did not include an additional $18.5 million reported on the DD Form 1176. The Receipt/Budget Authority balance for the period was actually $35.7 million. The Net Obligation balance reported for the period was $188.6 million, which did not include an adjustment of $26.6 million for recoveries of prior year obligations. The correct Net Obligations balance was $162 million. Consequently, the unobligated balance in the fund was understated. Appendix C shows the data reported to Congress and financial information as reported on the DD Form 1176 for FY 1990.

Fund balance. The unobligated balance in the Fund was understated by $86.4 million (20 percent) for FY 1989 and by $131.5 million (42 percent) for FY 1990. The data submitted to Congress differed from official accounting records because not all relevant accounting data were used to compile the reports. The Center had not established procedures to identify the accounting records that should be used. The Center used data obtained from operating personnel rather than from the DD Form 1176. Data from operating personnel do not reflect a complete financial position because adjustments to accounts are not reported through operating channels. The Center should establish procedures that will use data from the DD Form 1176 in preparing the financial status reported to Congress. The procedures should include internal controls that will ensure that accurate and complete information is submitted to Congress. In addition, the Center should correct the balances reported for FYs 1989 and 1990 to reflect accounting records data and submit those balances in its next report to Congress.

Full disclosure of financial status. In our opinion, the financial data submitted to Congress do not comply with the provisions of the Act. The financial data submitted do not give an acccurate portrayal of the status of the Fund. The cumulative financial status of the Fund should be presented. The reported financial status should include the beginning balance of the Fund; appropriations, receipts, and disbursements made for the fiscal year; and total obligations outstanding. Appendix D provides an example of a proposed method of reporting the financial status to Congress. We believe that the use of such a method provides a clear reporting of the status of the Fund to permit effective oversight of financial operations of the Stockpile.

RECOMMENDATIONS, MANAGEMENT COMMENTS, AND AUDIT RESPONSE

1. We recommend that the Assistant Secretary of Defense (Production and Logistics) revise the reporting format for the Strategic and Critical Materials Report to Congress to provide data that disclose the beginning balance of the Fund; appropriations, receipts, and disbursements made for the fiscal year; and total obligations outstanding for the National Defense Stockpile Transaction Fund.

Management comments. The Deputy Assistant Secretary of Defense (Production Resources), Office of the Assistant Secretary of Defense (Production and Logistics), concurred with the recommendation, stating that action had been taken to revise the reporting format and to change the reporting procedures.

Audit response. Management comments are considered responsive to the recommendation.

2. We recommend that the Administrator, Defense National Stockpile Center:

a. Establish procedures for preparing the Strategic and Critical Materials Report to Congress that use accounting system data reported in the Report on Budget Execution (DD Form 1176). Procedures should include internal controls to ensure that accurate and complete information is being reported to Congress.

Management comments. Management concurred with the recommendation, stating that it had adopted the DoD system and the DD Form 1176 reporting system immediately upon transfer of the National Defense Stockpile to DoD. Management stated that a change in accounting procedures caused the differences in amounts between the budget execution documents and the report to Congress.

Audit response. Management's comments are only partially responsive. We do not agree that the change of accounting procedures was the cause of inaccurate and incomplete reporting to Congress. Because we found no evidence of procedures to use complete and accurate data for reporting purposes, we ask that in response to the final report, management specify the procedures it established to use accounting system data on DD Forms 1176 to report to Congress. The date that the procedures were or will be established must also be provided.

b. Correct the balances reported to Congress for FYs 1989 and 1990 and present them in the next Strategic and Critical Materials Report to Congress.

Management comments. Management concurred with the recommendation, stating that the unobligated balances in the "Strategic and Critical Materials Report to Congress" had been adjusted for the period ending September 30, 1991.

Audit response. Management comments are considered responsive to the recommendation. Our review of the Strategic and Critical Materials Report to Congress for the period ending September 30, 1991, found that all balances had been corrected consistent with the recommendation.

PART III: ADDITIONAL INFORMATION

APPENDIX A: COMPARISION OF FINANCIAL DATA REPORTED TO CONGRESS TO DATA CONTAINED IN BUDGET EXECUTION DOCUMENTS

Data as reported in the Strategic and Critical Materials Report to Congress for April 1990 through September 1990 are shown in the table below.

($ in Millions)

	Receipts/Budget Authority		Net Obligations		Total Balance in Fund (End Date)		
	Reported to Congress	Budget * Execution Documents	Reported to Congress	Budget Execution Documents	Reported to Congress	Budget Execution Documents	Difference
Balance Brought Forward (FY 1988)					$505.3	$505.3	$ 0
Oct. 1, 1988, to Sept. 30, 1989	$63.4	$86.4	$219.0	$155.7	349.7	436.0	86.4
Oct. 1, 1989, to Sept. 30, 1990	17.2	35.7	188.6	162.0	178.3	309.8	131.5

* Financial status as reported on the DD Form 1176

We compared the financial data reported to Congress to amounts reported on the DD Forms 1176 prepared by the Center for FYs 1989 and 1990 and to similar summary financial documentation reported by GSA and maintained at the Department of Treasury for the period August 1979 through FY 1988. The financial status reported for FY 1979 through FY 1988 was the same as the accounting records, except for minor errors due to rounding. The financial status differed from the accounting records for FYs 1989 and 1990. Appendixes B and C provide details for amounts reported in FYs 1989 and 1990.

APPENDIX B: VERIFICATION OF FINANCIAL STATUS REPORTED TO CONGRESS FOR FY 1989

($ in Millions)

	Reported to Congress 1/	Report on Budget Execution 2/
Receipts/Budget Authority		
Revenue Not Reported 3/	$ .000	$23.017
Disposals -		
Silver	29.917	29.917
Other	.000 .000	
Other Income 4/	.000	.015
Budget Authority (Grants)	33.500	33.500
	$63.417	$86.449
Understated Receipts	$23.045	
Net Obligations		
Transportation of Things	.185	$ .185
Services	.663	.663
Materials	171.777	171.777
Grants	46.400	46.400
Current Year Obligations	$219.025	$219.025
Recoveries of Prior Year Obligations	.000	(63.339)
	$219.025	$155.686
Overstated Net Obligations	$ 63.339	
Total Balance in Fund (End Date)		
Balance Brought Forward (FY 1988)	$505.273	$505.273
Receipts/Budget Authority	63.417	86.449
Net Obligations	(219.025)	(155.686)
Unobligated Balance	$349.665	$436.036
Fund Balance Understatement	$ 86.371	

1/ Financial status as reported in the Strategic and Critical Materials Report to the Congress for FY 1989.
2/ Financial status as reported on the DD Form 1176 for FY 1989.
3/ Prior year receipts from accounts receivable.
4/ Storage charges received from customers who had not yet taken possession of excess material purchased.

APPENDIX C: VERIFICATION OF FINANCIAL STATUS REPORTED TO CONGRESS FOR FY 1990

($ in Millions)

	Reported to Congress 1/	Report on Budget Execution 2/
Receipts/Budget Authority		
Disposals -		
Silver	$ 8.600	$32.660
Other	8.600	10.993
Other Income 3/	.000	.052
Account Receivable Adjustments	.000	(.088)
Changes in Unfilled Customer Orders	.000	(7.905)
	$17.200	$35.712
Understated Receipts	$18.512	
Net Obligations		
Transportation of Things	$ .004	$ .004
Services	1.911	1.911
Materials	172.441	172.441
Grants	14.204	14.204
Current Year Obligations	$188.560	$188.560
Recoveries of Prior Year Obligations	.000	(26.602)
	$188.560	$161.958
Overstated Net Obligations	$26.602	
Total Balance in Fund (End Date)		
Balance Brought Forward (FY 1989)	$349.665	$436.036
Receipts/Budget Authority	17.200	35.712
Net Obligations	(188.560)	(161.958)
Unobligated Balance	$178.305	$309.790
Fund balance Understatement	$131.485	

1/ Financial status as reported in the Strategic and Critical Materials Report to the Congress for FY 1990.
2/ Financial status as reported on the DD Form 1176 for FY 1990.
3/ Storage charges received from customers who had not yet taken possession of excess material purchased.

APPENDIX D: PROPOSED REPORTING FORMAT FOR THE NATIONAL DEFENSE STOCKPILE TRANSACTION FUND FINANCIAL STATUS

We believe that the reporting format presented below provides full disclosure of the Fund and accurately discloses both the results of operations for the current year and cumulative balances.

($ in Millions)

	Fiscal Years		
	1988	1989	1990
Beginning Balance	$696.016	$697.874	$703.293
Appropriations and Transfers	19.258	33.500	.000
Reimbursement Collected	46.447	47.934	17.180
Disbursement	(63.847)	(76.015)	(105.978)
Ending Balance	$697.874	$703.293	$614.495
Total Obligations Net *	(192.601)	(267.258)	(304.706)
Unobligated Balance	$505.273	$436.035	$309.789

* Gross obligations less: disbursements made against obligations, recoveries from prior year obligations, and uncollected reimbursement orders (accounts receivable).

APPENDIX E: SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

Recommendation Reference	Description of Benefit	Type of Benefit
1.	Program results. Provides Congress with information on which to base decisions.	Nonmonetary
2.a.	Economy and efficiency. Establishes procedures to ensure decisions are based on complete and accurate information.	Nonmonetary
b.	Program results. The reporting of corrected information will provide accurate program results.	Nonmonetary

APPENDIX F: ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

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

Defense Agencies

Defense Logistics Agency
  National Defense Stockpile Center, Arlington, VA
  Defense Fuel Supply Center, Alexandria, VA
Defense Finance and Accounting Service
  General Funds Division, Arlington, VA
  Resource Finance Special Projects Division, Alexandria, VA

Non-DoD Federal Organizations

Department of Treasury
  U.S. Mint, Office of Finance

APPENDIX G: REPORT DISTRIBUTION

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition
Assistant Secretary of Defense (Production and Logistics)
Assistant Secretary of Defense (Public Affairs)
Comptroller of the Department of Defense

Department of the Army

Secretary of the Army
Inspector General
Auditor General, U.S. Army Audit Agency

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Auditor General, Naval Audit Service

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Air Force Audit Agency

Defense Agencies

Director, Defense Logistics Agency
Director, Defense Finance and Accounting Service
Director, Defense Acquisition Regulations Council
Director, Defense Logistics Studies Information Exchange

Non-DoD

Department of Commerce
  Secretary of Commerce
  Office of Industrial Resource Administration
  Office of Policy Analysis
  Office of Metals and Commodities
Department of the Interior
  Secretary of the Interior
  Bureau of Mines
Department of Treasury
  U.S. Mint, Office of Finance
General Services Administration
  Administrator, General Services Administration
Office of Management and Budget
U.S. General Accounting Office
  NSIAD Technical Information Center

Appendix G: Report Distribution

Chairman and Ranking Minority Member of the Following Congressional Committees and Subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Subcommittee on Defense Industry and Technology, Committee on Armed Services
Senate Committee on Governmental Affairs
Senate Subcommittee on Mineral Resources Development and Production, Committee on Energy and Natural Resources
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on Government Operations
House Committee on Armed Services
House Subcommittee on Seapower and Critical Materials, Committee on Armed Services
House Subcommittee on Mining and Natural Resources, Committee on Interior and Insular Affairs

PART IV: MANAGEMENT COMMENTS

Assistant Secretary of Defense (Production and Logistics) Comments

THE OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D C 20301-8000

PRODUCTION AND
LOGISTICS

18 SEP 1992

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING

SUBJECT: Draft Audit Report on the National Defense Stockpile Transaction Fund (Project No. 1RE-0068.01)

We concur with the report in its entirety. We have already taken action to revise the Report format and to change the reporting procedures in conformance with the audit recommendations. We believe those changes meet fully the letter and intent of recommendations 1 and 2a in the audit report. Similarly, we have already taken action to adjust the semi-annual report for the period ending September 30, 1991, to conform with Standard Form 1176 reporting requirements.

Nicholas M. Torelli, Jr.
Deputy Assistant Secretary
(Production Resources)

Defense Logistics Agency Comments

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
CAMERON STATION
ALEXANDRIA, VIRGINIA 22304-6100

IN REPLY REFER TO DLA-CI

24 AUG 1992

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, DEPARTMENT OF DEFENSE

SUBJECT: Draft Audit Report of the National Defense Stockpile Transaction Fund (Project No. 1RE-0068.01)

This is in response to your 24 June 1992 request. Ms. Helen T. McCoy, Deputy Comptroller, Defense Logistics Agency, has approved these positions. Our response to the finding will follow shortly.

2 Encl

JACQUELINE G. BRYANT
Chief, Internal Review Division
Office of Comptroller

cc:
DNSC
DLA-CX

TYPE OF REPORT: AUDIT DATE OF POSITION: 21 Aug 92

PURPOSE OF POSITION: INITIAL POSITION

AUDIT TITLE & NO: National Defense Stockpile Transaction Fund
Project No. 1RE-0068.01

RECOMMENDATION 2.a: We recommend that the Administrator, DNSC, establish procedures for preparing the "Strategic and Critical Materials Report to Congress" that use accounting system data reported in the Report on Budget Execution (DD Form 1176). Procedures should include internal controls that ensure that accurate and complete information is being reported to Congress.

DLA COMMENTS: Concur. DNSC adopted the DoD system and the SF 1176 reporting system immediately upon transfer to DoD. As noted, the semi-annual report for the period ending 30 Sep 91 has been footnoted to acknowledge the changed accounting procedures.

DISPOSITION:
( ) Action is ongoing. Estimated Completion Date:
(x) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES
( ) Nonconcur (Rationale must be documented and maintained with your copy of the response)
(x) Concur; however, weakness is not considered material (Rationale must be documented and maintained with your copy of the response)
( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

RECOMMENDATION MONETARY BENEFITS: none
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE REALIZED:

ACTION OFFICER: D. Slugg DNSC-O 746-7342
PSE REVIEW/APPROVAL: Marilyn S. Barnett, DNSC Administrator, 746-7350, 24 July 1992

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

TYPE OF REPORT: AUDIT DATE OF POSITION: 21 Aug 92

PURPOSE OF POSITION: INITIAL POSITION

AUDIT TITLE & NO: National Defense Stockpile Transaction Fund
Project No. 1RE-0068.01

RECOMMENDATION 2.b: We recommend that the Administrator, DNSC, correct the balances reported to Congress for FY 1989 and 1990 and present them in the next "Strategic and Critical Materials Report to Congress."

DLA COMMENTS: Concur. Action has already been taken in the semi-annual report for the period ending 30 Sept 91 to adjust the unobligated balance to conform with SF 1176 reporting requirements. Page 13 of the report acknowledges the difference between the GSA and DoD accounting systems which led to a different statement of the unobligated balance.

DISPOSITION:
( ) Action is ongoing. Estimated Completion Date:
(x) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES
( ) Nonconcur (Rationale must be documented and maintained with your copy of the response)
(x) Concur; however, weakness is not considered material (Rationale must be documented and maintained with your copy of the response)
( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

RECOMMENDATION MONETARY BENEFITS: none
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE REALIZED:

ACTION OFFICER: D. Slugg, DNSC-O, 746-7342
PSE REVIEW/APPROVAL: Marilyn S. Barnett, DNSC Administrator, 746-7350, 24 July 1992

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

AUDIT TEAM MEMBERS

William F. Thomas	Director, Readiness and Operational Support Directorate
Mary Lu Ugone	Program Director
Lloyd O'Daniel	Project Manager
Phyllis Shepphard	Team Leader
Margaret Leps	Auditor
Nancy Cipolla	Editor