Audit Report

OFFICE OF THE INSPECTOR GENERAL

UNCLEARED TRANSACTIONS BY AND FOR OTHERS

Report No. 94-048 March 2, 1994

Department of Defense

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Acronyms

DAO	Defense Accounting Office
DCASR	Defense Contract Administration Services Region
DFAS	Defense Finance and Accounting Service
FMS	Foreign Military Sales
GAO	General Accounting Office
IG	Inspector General
MOCAS	Mechanization of Contract Administration Services
STARS	Standard Accounting and Reporting System
TBO	Transactions By Others

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

March 4, 1994

MEMORANDUM FOR COMPTROLLER OF THE DEPARTMENT OF DEFENSE
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Audit Report on Uncleared Transactions By and For Others (Report No. 94-048)

We are providing this final report for your information and use. It discusses the need for more aggressive and effective actions to clear transactions timely and reduce undistributed disbursements. Comments on a draft of this report were considered in preparing the final report. The comments met the requirements of DoD Directive 7650.3, and there are no unresolved issues. Therefore, no additional comments are required.

The courtesies extended to the audit staff are appreciated. If you have any questions about this audit, please contact Mr. Richard B. Bird, Program Director, at (317) 542-3859 (DSN 699-3859), or Mr. Carmelo G. Ventimiglia, Project Manager, at (317) 542-3852 (DSN 699-3852). The planned distribution of this report is listed in Appendix D. The audit team members are listed inside the back cover.

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Assistant Inspector General
for Auditing

Office of the Inspector General, Department of Defense

Report No. 94-048 March 2, 1994
(Project No. 2FI-0068)

AUDIT REPORT ON UNCLEARED TRANSACTIONS BY AND FOR OTHERS

EXECUTIVE SUMMARY

Introduction. Disbursing stations frequently make disbursements and collections citing funds that belong to other accountable stations. Transactions by and for others may take place between two elements of a DoD Component (intra-Service) or between one DoD Component and either another DoD Component or another Government activity (cross-disbursing). Undistributed disbursements are disbursements reported to the Department of the Treasury that accountable stations have not accepted and posted to accounting records. Interfund transactions are transactions between buyers and sellers of Defense Business Operations Fund supplies and appropriated fund supplies. Uncleared intra-Service, cross-disbursing, and interfund transactions are included in transactions by and for others.

Objectives. The audit objectives were to evaluate:

o the adequacy of the systems and procedures used by the Defense Finance and Accounting Service (DFAS) to resolve uncleared transactions by and for others,

o the accuracy and completeness of the reported numbers and dollar values of undistributed disbursements, including uncleared transactions, and

o the internal controls over clearing transactions.

Audit Results. DFAS needed to improve its systems and procedures for resolving uncleared transactions by and for others.

o Increased management oversight was needed to eliminate excessive delays in clearing transactions, and to reduce net undistributed disbursements valued at about $34.6 billion as of January 31, 1993. The DFAS Centers took limited actions to research and resolve intra-Service disbursements that remained uncleared for extended periods, and actions taken to resolve cross-disbursing transactions were less than fully effective (Finding A).

o Managers at DFAS Headquarters were not given complete and accurate information on the status of undistributed disbursements, including uncleared transactions. The DFAS Centers understated the numbers and dollar values of undistributed disbursements reported as more than 180 days old by about 860,000 transactions and at least $7.2 billion. Consequently, the reported information had limited usefulness to DFAS managers (Finding B).

Internal Controls. We evaluated internal controls and the implementation of the Federal Managers' Financial Integrity Act. During our evaluation, we identified material internal control weaknesses that resulted in the accumulation of about $34.6 billion in undistributed disbursements, including about $3.6 billion in uncleared interfund transactions. The weaknesses are similar to those identified by DFAS in its FY 1992 Annual Statement of Assurance for the Federal Managers' Financial Integrity Act. Part I describes the internal controls assessed. Details of the weaknesses are discussed in Findings A and B.

Potential Benefits of Audit. Recommendations in this report, if implemented, will improve the accuracy of accounting records and the management of Defense appropriations. Prompt clearance of all disbursements and collections is necessary to ensure that resource managers have reliable information on available funds, fraudulent and erroneous payments are recovered, and the risk that funds properly chargeable for disbursements already made will not be improperly obligated for other purposes is reduced. Accurate reporting ensures that managers have the data they need to identify problems and take corrective actions. On August 26, 1993, the DFAS Undistributed Disbursement Project Team was briefed on the audit results. If the recommendations in this report and the team's action plans are fully implemented, DoD's undistributed disbursements will be substantially reduced.

Summary of Recommendations. We recommended that the Comptroller of the Department of Defense include in the "DoD Financial Management Regulation" detailed guidance for clearing transactions and reducing undistributed disbursements. We recommended that DFAS improve procedures and controls over transactions that are not cleared promptly, and issue specific policies for reporting undistributed disbursements.

Management Comments. We received comments from the Deputy Comptroller of the Department of Defense (Management Systems) on January 26, 1994. He generally concurred with our findings and recommendations. His reply incorporated the comments of the Director, DFAS. A discussion of management's comments and audit responses is in Part II of this report, and the complete text of management's response is in Part IV. No further management comments are required.

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This report was prepared by the Financial Management Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense.

Part I - Introduction

Background

Disbursing stations frequently make disbursements and collections citing funds that belong to other accountable stations. Transactions by and for others may take place between two elements of a DoD Component (intra-Service) or between one DoD Component and either another DoD Component or another Government activity (cross-disbursing). The process facilitates prompt payments to contractors and others who receive payments. Because disbursing stations directly charge the appropriations, accountable stations do not need to reimburse disbursing stations.

Before the Defense Finance and Accounting Service (DFAS) was established in January 1991, each of the Military Services used its own systems and procedures for finance and accounting functions. When DFAS was initially established, it was responsible for DoD finance and accounting policies, procedures, standards, systems, and operations, but had no direct authority over the field-level and intermediate-level finance and accounting activities of the DoD Components. In 1992, DFAS began assuming responsibility for the people, resources, and assets involved in performing DoD finance and accounting functions. Except for those organizations, activities, and functions specifically exempted or under study, the transfer was to be completed by the end of FY 1993. Consequently, activities that were not under the operational control of DFAS performed disbursing and accounting functions during the period covered by the audit.

Disbursing stations receive payment requests and supporting documentation from a variety of sources. Before making the payments, the disbursing stations should ensure that payments are properly authorized, supporting documentation is present, and payments have been requested under valid appropriations. After determining the validity of the requested payments, the disbursing stations extract disbursement data from the source documents for processing and payment. Related data are sent to the accountable station that accounts for the cited funds and to the DFAS Center that supports the accountable station. Reports are then sent to the Department of the Treasury by the DFAS Center. The accountable stations match the disbursement and collection data (based on accounting codes and other identifying information) with corresponding obligations in order to determine the status of appropriated funds. The systems and procedures used to process and clear transactions depend on the type of transaction and the Service to which the disbursing station and accountable station belong.

Undistributed disbursements are those that have not been matched with related obligations. Included are uncleared intra-Service, cross-disbursing, and

interfund transactions. The term "undistributed disbursements," as used in this report, also includes collections that have not been matched with previously recorded obligations.

Objectives

The objectives of the audit were to evaluate:

o the adequacy of the systems and procedures used by DFAS to resolve uncleared transactions by and for others;

o the accuracy and completeness of the reported numbers and dollar values of undistributed disbursements, including uncleared transactions; and

o the internal controls over clearing transactions.

Scope and Methodology

We analyzed systems and procedures for resolving uncleared transactions at four of the five DFAS Centers. We did not review operations at DFAS-Kansas City because that Center did not have a means of identifying and reporting uncleared transactions until January 1993. Also, the Center could obtain data on only part of the funds it accounted for. We reviewed the actions taken to clear intra-Service transactions as well as cross-disbursing transactions. Except for limited work at DFAS-Cleveland, we did not review the actions taken by DFAS Centers to clear interfund transactions. We reviewed the DFAS Centers' collection and reporting of data on undistributed disbursements, including uncleared interfund transactions. We performed limited reviews to determine the reliability of computer-processed data provided to us. To the extent that we reviewed the computer-processed data, we concluded that they were sufficiently reliable to be used in meeting our audit objectives.

Audit Period, Locations, and Standards. We performed this economy and efficiency audit from August 1992 to August 1993 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General (IG), Department of Defense. Accordingly, we included such tests of internal controls as were considered necessary. Appendix C lists the organizations we visited or contacted.

Internal Controls

Controls Assessed. We evaluated internal controls for compliance with laws, regulations, and procedures for processing and clearing transactions. Specifically, we reviewed documentation related to the processing and clearing of disbursement and collection transactions; DoD Manual 7220.9-M, "DoD Accounting Manual," as amended, October 6, 1987; Army Regulation 37-1, "Army Accounting and Fund Control," April 30, 1991; Air Force Regulation 177-101, "General Accounting and Finance Systems at Base Level," as amended, November 15, 1992; and Volume 2, "Navy Comptroller Manual," August 15, 1988. We also interviewed personnel at DFAS Headquarters, the DFAS Centers, and disbursing and accounting activities. We assessed the internal controls needed to promptly resolve transactions. We also analyzed the results of internal control reviews and the Annual Statements of Assurance for FY 1992.

Internal Control Weaknesses. Our review of compliance with the Federal Managers' Financial Integrity Act disclosed internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circulars No. A-123 and A-127, and DoD Directive 5010.38. Individually, these internal control weaknesses were not considered material; collectively, however, they resulted in the accumulation of about $34.6 billion (including $3.6 billion in uncleared interfund transactions) in undistributed disbursements as of January 31, 1993, which constitutes a material weakness in DoD's finance and accounting systems. DFAS identified similar weaknesses in its FY 1992 Annual Statement of Assurance for the Federal Managers' Financial Integrity Act. The weaknesses, initially identified by DFAS-Columbus, were also identified as problems at the other DFAS Centers. However, the corrective actions discussed in the FY 1992 Annual Statement of Assurance were aimed at correcting weaknesses at DFAS-Columbus, not DFAS-wide weaknesses.

Implementation of Recommendations A.2. and B.2. in the report will help to correct these weaknesses. Copies of the final report will be provided to the senior officials responsible for internal controls within the Office of the Secretary of Defense and DFAS.

Prior Audits and Other Reviews

Both the General Accounting Office (GAO) and the IG, DoD, have evaluated problems with accounting for DoD disbursements and how these problems affect financial operations.

GAO Reviews. The GAO issued two reports on related topics.

o "Problems in Accounting for DoD Disbursements," GAO/AFMD 91-9, Code 903104, was issued on November 9, 1990. The GAO observed that the Services' failure to use uniform financial information caused serious problems in accounting for cross-disbursing transactions. The GAO reported that the use of nonstandard data made the processing of the Services' cross-disbursing transactions very complex and resulted in processing errors.

o "Navy Records Contain Billions of Dollars in Unmatched Disbursements," GAO/AFMD 93-21, Code 918752, was issued on June 9, 1993. The GAO reported that a major Navy accounting system contained $13.6 billion in unmatched disbursements as of December 19, 1992. The GAO observed that unmatched disbursements were caused by poor compliance with internal controls, or a lack of adequate controls, over the recording of obligations in the accounting system before disbursing funds; the detection and correction of errors in the disbursement process; and the posting of accurate and complete accounting information in systems that support the disbursement process.

IG, DoD. The IG, DoD, recently issued three reports on similar issues.

o "Merged Accounts of the Department of Defense," Report No. 92-028, issued on December 30, 1991, found that DoD's accounting and finance data were inaccurate. A substantial number of negative obligations existed; billions of dollars in disbursements had not been matched to obligations; and four appropriations may have been in violation of the Antideficiency Act, 31 U.S.C. The report recommended that the DoD Comptroller require the Director, DFAS, to emphasize account accuracy in order to reduce DoD's undistributed disbursements.

o "Administration of the Contract Closeout Process within DoD," Report No. 92-076, issued on April 15, 1993, found that contract data in DFAS-Columbus' Mechanization of Contract Administration Services (MOCAS) system were inaccurate and contributed to delays in closing contracts. As a result, inaccurate payments were made, discounts were lost, payments were delayed, and contracts were not closed out promptly.

o "Missile Procurement Appropriations, Air Force," Report No. 93-053, issued on February 12, 1993, identified substantial amounts of negative unliquidated obligations in the FY 1987 and 1988 Missile Procurement Appropriations, Air Force. The report recommended that the DoD Comptroller accelerate plans to resolve problems with negative unliquidated obligations. This included the use of a single record to account for funds and pay bills.

Part II - Findings and Recommendations

Finding A. Clearing Transactions By and For Others

Management was not exercising the oversight needed to eliminate excessive delays in clearing transactions, and to reduce undistributed disbursements and collections valued at about a net $34.6 billion as of January 31, 1993. The procedures used to solve problems with disbursement and collection transactions were less than effective, and were not always followed. A higher priority was placed on making disbursements and processing the transactions than on resolving uncleared transactions. The DFAS Centers did not have the information needed to analyze and correct the causes of uncleared transactions in order to prevent recurrences. Without matching disbursements and collections to obligations, DoD incurs the risk that cumulative disbursements may exceed appropriation and other limits, and that fraudulent or erroneous payments may be made. The lack of accurate financial data also increases the possibility of lost opportunities for using funds because of delays in deobligating and reprogramming unused funds.

Background

The role of each DFAS Center in clearing transactions varies, based on the systems and procedures used and whether the transactions are intra-Service or cross-disbursing transactions. The five major DFAS Centers play an integral role in processing and clearing transactions, especially cross-disbursing transactions. Except for DFAS-Columbus, each DFAS Center may act as either a paying center or an accountable center, depending on whether the disbursements or collections were made by a disbursing station or for an accountable station. The DFAS Center associated with the disbursing station acts as the paying center. It reviews data received from the disbursing station, reports disbursement data to the Department of the Treasury (the Treasury), and sends vouchers, supporting documentation, and summary and Treasury reports to the accountable center. The accountable center is to ensure that the accountable stations have the information needed to clear disbursements and collections made by disbursing stations.

Volume 1, DoD Regulation 7000.14-R, "DoD Financial Management Regulation," May 1993, requires that financial management data be recorded as soon as possible after a transaction occurs. Specific guidance on the number of days allowed for recording a disbursement in an accounting system has not been published. Uncleared transactions and differences in reported disbursement data are accounted for as undistributed disbursements. Undistributed disbursements result from the time lag associated with processing disbursements through an accounting system, and may also result from missing, incomplete, or erroneous information.

Clearing Disbursement Transactions

As of January 31, 1993, DoD had a net amount of $34.6 billion in undistributed disbursements and collections, including undistributed interfund disbursements. Of the $34.6 billion, at least $9.2 billion, or 27 percent, had been undistributed for over 180 days (Appendix A). Of these amounts, $30.6 billion, of which $7.7 billion had been undistributed for over 180 days, related to intra-Service and cross-disbursing transactions. The remaining $4.0 billion in undistributed disbursements related to interfund transactions ($3.6 billion) and foreign military sales ($355.0 million). The remaining $1.5 billion in undistributed disbursements over 180 days old related to interfund transactions ($1.3 billion) and foreign military sales ($215.0 million). Undistributed disbursements were not included in the reports used by accounting organizations to evaluate the execution of budgets and programs. Therefore, program managers could not make informed budget decisions, and the potential existed for fraudulent payments to be made and not detected. Violations of the Antideficiency Act may also have been undetected.

Intra-Service Transactions. As of January 31, 1993, DoD had about $17.2 billion in undistributed intra-Service transactions, and sufficient actions had not been taken to clear these transactions. Taking 60 to 90 days to clear intra-Service transactions was not considered unusual because of the time needed for mailing and reporting. Transactions that required more than 180 days generally indicated a lack of complete and accurate data. We calculated that about $6.6 billion of the $17.2 billion had been undistributed for over 180 days (Table 1.). Actions needed to be taken to match disbursement and collection transactions to corresponding obligations in a timely manner.

Table 1. Intra-Service Transactions by DFAS Center
($ in Billions)

DFAS Center	Value of Transactions	Value of Transactions Over 180 Days Old
DFAS-Indianapolis	$ 5.030	$ .276
DFAS-Denver	4.817	.098
DFAS-Cleveland	7.149	5.953
DFAS-Columbus	0.213	.163
DFAS-Kansas City	*	.100*
Totals	$17.209	$6.590

*The dollar value of all intra-Service transactions was not known. Those shown as over 180 days old were reported to DFAS Headquarters.

DFAS-Indianapolis. DFAS-Indianapolis did not take sufficient actions to clear $276.0 million in intra-Service transactions that had been undistributed for over 180 days. DFAS-Indianapolis published a monthly list of the

10 disbursing and accountable stations with the highest number of transactions over 180 days old. A copy of this list was sent to the higher headquarters of each station on the list. However, DFAS-Indianapolis did not request that the higher headquarters provide any information on actions taken to clear transactions. DFAS-Indianapolis also did not actively work with the higher headquarters and stations to clear transactions. Consequently, the same stations appeared repeatedly on the list. Of the 10 stations on the April 1993 list, 3 had appeared on the list since October 1991.

DFAS-Denver. DFAS-Denver was more active than DFAS-Indianapolis in resolving rejected transactions; however, about $4.8 billion in intra-Service transactions was unresolved. Of the $4.8 billion, about $98.0 million (excluding the undistributed disbursements in the reconciliation file) was older than 180 days. Management needed more information on the disposition of disbursements and collections made by DFAS-Columbus, and needed to place more emphasis on reconciling transactions.

Contract payments made by DFAS-Columbus were not accounted for in the same manner as other intra-Service disbursements. DFAS-Columbus sent the transactions to DFAS-Denver, along with supporting documentation. A temporary file was created and sent to the accountable station so that each transaction could be accepted or rejected. Accountable stations were not allowed to reject disbursements and return them to DFAS-Denver unless the transactions had been charged to the wrong station. Disbursement and collection transactions made by DFAS-Columbus that were accepted by accountable stations, but not matched to corresponding obligations in accounting records, were accounted for in another file known as the reconciliation file. As of January 31, 1993, this file contained a credit balance of $2.6 billion that was related to intra-Service transactions. Other undistributed disbursements, such as transactions that had not been accepted by accountable stations within 9 months of receipt, were placed in the reconciliation file. Increased management attention was needed to solve problems with these undistributed disbursements and reduce the balance in the reconciliation file.

DFAS-Cleveland. DFAS-Cleveland had a total of $7.15 billion in undistributed intra-Service disbursements, of which about $6.0 billion was over 180 days old. DFAS-Cleveland and its subordinate Defense Accounting Offices (DAOs) did not monitor actions taken to reduce undistributed disbursements and collections. We reviewed the actions taken by DFAS-Cleveland's largest DAO, located in Arlington, Virginia (DAO Arlington), to clear transactions that did not match obligations in its Standard Accounting and Reporting System (STARS). Although about 57 percent of Navy funds was accounted for by STARS, including contract payments made by DFAS-Columbus, DFAS-Cleveland did not monitor undistributed disbursements at this or any of its other DAOs. For the 16-month period ending on January 31, 1993, a monthly average of 12 percent of the net dollar value of disbursements accounted for by STARS was not matched against obligations when disbursements were initially posted to STARS. At DAO Arlington, 25 people worked on researching and clearing transactions that did not match data in the accounting system. They attempted to clear transactions that were less than 31 days old, but relied on funding organizations to clear older transactions. DAO Arlington and the

funding organizations had made little progress in clearing transactions. They were unsuccessful because DAO Arlington could not review the obligation and disbursement data in the automated system that DFAS-Columbus used to maintain control over contracts, and did not have access to the contract data it contained. DFAS-Cleveland had not determined the extent of the problems at the other DAOs.

DFAS-Columbus. DFAS-Columbus, in its role as the primary DFAS Center for paying DoD contracts, did not have procedures for clearing transactions promptly and answering requests for the information needed to clear transactions. Clearing transactions was also delayed because differences and inaccuracies existed in the financial data in automated systems that were used to make disbursements and match obligations to disbursements.

Payments for Army Stations. DFAS-Columbus had not taken sufficient actions to resolve uncleared Army transactions for which it became responsible after assuming the contract payment functions from the Defense Contract Administration Services Regions (DCASRs). DFAS-Columbus became responsible for these regions in 1991. However, DFAS-Columbus did not take sufficient steps to research and clear the old transactions until February 1993. We were told that until that time, sufficient trained personnel were not available to perform the task. DFAS-Indianapolis records showed that as of January 31, 1993, former DCASRs were responsible for $163.0 million in uncleared transactions that had been transferred to DFAS-Columbus for resolution. As of June 1993, DFAS-Columbus managers still placed a low priority on researching and resolving uncleared transactions from the former DCASRs because they were trying to maintain their existing accounts.

Payments for Navy and Air Force Stations. DFAS-Columbus did not have effective procedures for answering requests for the information needed to clear transactions made for accountable stations that reported to DFAS-Cleveland and DFAS-Denver. Requests for information on disbursements made for Navy and Air Force stations were not sent to a central office for research and resolution. Correspondence on disbursements that could not be processed through Navy and Air Force accounting systems was sent to the disbursing stations at DFAS-Columbus without being resolved. This practice differed from the more effective procedures established to resolve disbursements made for Army accountable stations. Personnel at DAO Arlington and the Air Force Materiel Command, Wright-Patterson Air Force Base, Ohio, told us that when they tried to contact DFAS-Columbus for information, their inquiries often were not answered. Written correspondence was frequently routed to various divisions within the Contract Administration Services directorates, and callers were transferred from person to person without receiving satisfactory answers. We experienced similar problems when we tried to learn the status of actions that DFAS-Columbus had taken to clear the transactions we selected for review.

A joint Navy - DFAS task force had been established in response to weaknesses in controls over obligations and disbursements identified by GAO in Report No. GAO/AFMD-93-21 (OSD Case No. 918752), "Financial Management: Navy Records Contain Billions of Dollars in Unmatched Disbursements,"

June 1993. The task force determined that most of the disbursements that did not match obligations in STARS were made by DFAS-Columbus and the former DCASRs. Thirty-one people were to be assigned at DFAS-Columbus to respond to requests on task force-related disbursement matters. However, DFAS-Columbus needed to establish a central clearance activity to routinely receive, respond to, monitor, and report progress in filling requests for information needed to expedite the clearance of disbursement and collection transactions made for accountable stations of both DFAS-Cleveland and DFAS-Denver.

Quality of MOCAS Data. The clearing of transactions was delayed by differences and inaccuracies in financial data in the automated systems used to make disbursements and match obligations to disbursements. MOCAS, the automated system used by DFAS-Columbus to maintain control over the administration of contracts, contained erroneous obligation and disbursement information. Because of inaccuracies in the financial data in MOCAS and similar problems with data in STARS, the joint Navy-DFAS task force was obtaining a computerized reconciliation of gross obligations between the MOCAS data base and STARS. Accountable stations also reported that they often changed the accounting data on disbursements without notifying DFAS-Columbus. Obligation and disbursement data in the MOCAS data base were not compared to the data in accounting systems of all the Services' accountable stations to ensure that differences were identified, researched, and resolved. Until the financial data bases in disbursing and accounting systems are integrated, differences and inaccuracies will continue to exist in financial data.

Cross-Disbursing Transactions. DFAS Centers and accountable and disbursing stations did not take prompt and effective actions to clear cross-disbursing transactions. As of January 31, 1993, the DFAS Centers had about $13.4 billion in undistributed cross-disbursing transactions, of which about $1.1 billion was over 180 days old. Table 2. provides a breakdown by DFAS Center.

Table 2. Cross-Disbursing Transactions by Center
($ in Billions)

DFAS Center*	Value of Transactions	Value of Transactions Over 180 Days Old
DFAS-Indianapolis	$1.211	$ .163
DFAS-Denver	9.254	.138
DFAS-Cleveland	2.965	.786
Totals	$13.430	$1.087

*Payments and collections made by DFAS-Columbus were classified as intra-Service transactions. The limited data that DFAS-Kansas City reported to DFAS Headquarters are included as undistributed intra-Service transactions.

Included in the totals was about $6.2 billion from DFAS-Denver's reconciliation file, which could not be aged. Problems in accounting for cross-disbursing transactions were caused by the complexity of processing cross-disbursing information between the Services, the State Department, and Defense agencies, and by the Services' failure to uniformly implement DoD-wide accounting information standards and processing requirements. DFAS is developing standards for financial information and data formats, which should simplify the processing and clearing of transactions in the future. In the meantime, other improvements can be made. Unless corrective actions are taken, fund balances available for obligations and expenditures will be unreliable.

Need for Cross-Disbursing Policy. DoD needs a standard cross-disbursing policy for accounting activities within DFAS, the Services, and the Defense agencies. Accounting and disbursing activities used Service regulations and the Memorandum of Agreement between the Army, Navy, Air Force, and Coast Guard, dated October 1, 1988, as guidance for processing and clearing transactions. Procedures for clearing cross-disbursing transactions were to be included in Volume 4 of the "DoD Financial Management Regulation." Existing guidance did not address the processing and clearing of transactions for Defense agencies, and did not identify the types of supporting documents and data elements needed by the Services and Defense agencies to promptly clear cross-disbursing transactions. Because the Services and Defense agencies required different accounting data, specific guidance would expedite the clearance of cross-disbursing transactions. Guidance should also reemphasize the need for disbursing stations to provide complete and accurate documentation to support payments and collections. Disbursing stations did not have the quality controls needed to report transactions accurately and to clear them promptly.

Shorter Time Frames. The time frames allowed by the Memorandum of Agreement were too lenient and did not encourage prompt actions by the paying centers and disbursing stations. Disbursing activities had up to 8 months to answer requests for missing vouchers, and up to 12 months to answer requests for other data needed to clear transactions, before accountability for the transactions could be transferred to the paying center for distribution to the disbursing station. Disbursing activities should be given no more than 60 days to provide the accountable station with the information needed to clear transactions.

Procedures for Clearing Disbursements. DoD guidance should also include policies and procedures for clearing disbursements and collections that cannot be matched to corresponding obligations. Records at the DFAS Centers showed large numbers and dollar values of uncleared cross-disbursing transactions. Some transactions had been charged back to the disbursing station because actions were not taken within established time frames. Other transactions were identified on the records of accountable centers because the accountable centers had not cleared the transactions promptly. A similar situation existed with other categories of undistributed disbursements, such as intra-Service transactions. DoD guidance did not specify the actions that should be taken to clear these transactions. Without such guidance, undistributed

disbursements may be cleared without reasonable assurance that the disbursements were valid and were not duplicate or fraudulent payments. Particular emphasis should be given to undistributed disbursements from merged appropriations that have closed.

Clearing Transactions. Clearing cross-disbursing transactions was a lengthy process that was slowed even further because vouchers and requests for information needed to clear transactions were sent through the three major paying centers (DFAS-Indianapolis, DFAS-Cleveland, and DFAS-Denver). The methods and procedures used by the DFAS Centers did not ensure that sufficient actions were taken to clear transactions. The DFAS Centers had not established procedures to monitor suspense dates and follow up on information needed to clear transactions within the time frames allowed by the Memorandum of Agreement.

Paying Centers. Procedures used by the paying centers did not ensure that data needed to clear transactions were provided to accountable centers by established suspense dates. The paying centers did not monitor the clearance process closely enough, and did not track the suspense dates on requests for information needed to clear transactions. Our review showed that all rejected transactions did not have to be sent to a paying center. Initial requests for information and replies to requests could be made without involving the paying centers. At DFAS-Indianapolis and DFAS-Denver, we judgmentally selected 55 uncleared transactions from lists for February and March 1993. Our review showed that:

- information was not available for 10 of the 55 transactions;

- the paying center did not meet established suspenses for 20 of the remaining 45 transactions; and

- for 27 of the 45 transactions, the status of completed actions, as shown on lists of unresolved rejected transactions, was incomplete or inaccurate.

Paying Center's Role. DFAS-Cleveland did not keep lists of the transactions that had been rejected by accountable centers and Defense agencies, and did not know the status of actions taken to obtain the data needed to clear the transactions.

Because the accountable and paying centers did not share common data files and did not periodically reconcile the transactions that were identified as uncleared, there was limited assurance that records maintained at the paying centers were complete or accurate. The paying center's role should be limited to ensuring prompt and accurate resolution of transactions rejected by Defense agencies that are not routed through accountable centers. This would require the paying

centers to establish an automated tracking and suspense system that would accurately account for and control rejected transactions. Disbursing stations should send all vouchers directly to the accountable centers.

Accountable Centers. Accountable centers had not established procedures to effectively control and monitor the status of transactions that lacked supporting vouchers or were rejected for other reasons. Accountable centers compared vouchers to lists of cross-disbursing transactions, known as cycles. If the vouchers did not match the lists, letters requesting the vouchers were sent directly to the disbursing station or through the paying center to the disbursing station. Transactions rejected by accountable stations for other reasons were sent to the accountable center. The accountable centers maintained various types of records to account for transactions that lacked supporting vouchers or were rejected by accountable stations. However, none of the centers had procedures that effectively controlled and accounted for the uncleared transactions. From the lists used by accountable centers to identify uncleared cross-disbursing transactions, we judgmentally selected 103 transactions that lacked supporting vouchers and 107 transactions that needed other information in order to be cleared. We reviewed available documentation to determine what actions were taken by accountable centers to obtain information needed to clear transactions within the time frames allowed by the Memorandum of Agreement. Our review showed the following:

o Information was not available for 32 of the 103 transactions that lacked vouchers, and for 43 of the 107 transactions rejected for other reasons.

o Accountable stations did not take action within established time frames for 31 of the remaining 71 transactions that lacked supporting vouchers, and for 49 of the remaining 64 transactions rejected for other reasons.

Need for Improved Operating Procedures. The accountable centers had procedures for tracking the status of actions to obtain data needed to clear transactions. However, these procedures did not ensure prompt and accurate clearance. Not taking actions within time frames established in the Memorandum of Agreement prevented the use of an administrative tool, known as a chargeback, that encourages disbursing stations to provide the information needed to clear transactions. Chargeback procedures allow the transfer of all charges from the accountable station back to the accounting records of the disbursing station, if appropriate documentation is not received or corrective action is not taken within 90 days after the date of the second letter requesting assistance from the paying center. Existing manual procedures failed to ensure that the first and second letters, which are the initial steps for chargebacks, were sent within designated time frames. DFAS-Denver did charge back transactions made by DAO Arlington. In February and March 1993, about $62.1 million was charged back to DFAS-Cleveland. DFAS-Denver personnel said that over 80 percent of the cross-disbursing problems with DFAS-Cleveland was attributed to DAO Arlington. Personnel at the DFAS Centers were less timely in requesting and following up on data needed to clear disbursements and collections made by the Department of State because these transactions were not covered in the Memorandum of Agreement.

Automated Systems Requirements. Sufficient attention was not paid to resolving uncleared cross-disbursing transactions. Each DFAS Center should use a standard, automated tracking and suspense system to ensure the prompt and accurate clearance of transactions.

Treasury Reporting Reconciliation. The DFAS Centers did not resolve differences between amounts reported by paying centers to the Treasury on behalf of accountable centers, and the amounts reported in cycles to the accountable centers.

Paying Center Responsibilities. Paying centers did not have controls to ensure the prompt resolution of differences between the amounts reported to the Treasury on behalf of accountable centers and the amounts reported in cycles to the accountable centers. The Memorandum of Agreement required paying centers to send the accountable centers a monthly aged suspense listing of these differences. Cycles were to be reported to the accountable center within 45 days after the end of the month when the paying center reported them to the Treasury. Consequently, differences would be expected for short periods. However, the paying centers had not established suspense records to monitor these differences, and had not furnished the accountable centers with monthly aged suspense listings. In addition, the paying centers did not transfer to the accountable centers differences that remained outstanding after 9 months. The Memorandum of Agreement required paying centers to take these actions in order to maintain control over the differences and to ensure the accurate and complete reporting of disbursements to the Treasury and accountable stations. Generally, paying center personnel were not familiar with these requirements, and believed that all the cycle data would eventually be sent to the accountable centers.

Accountable Center Actions. Accountable centers were to contact the paying centers for assistance when differences between amounts reported to the Treasury and amounts reported on cycles remained after 6 months. Without the monthly aged suspense listing from the paying centers, reconciling differences was difficult, and there was limited assurance that accountable center records agreed with paying center records. Accountable centers reconciled the cross-disbursing data they received in cycles with the amounts reported to the Treasury, but did not take all the actions necessary to resolve these differences. Accountable centers tried to research and resolve current differences between amounts reported to the Treasury and the amounts the paying centers sent them in cycles. However, little was done to resolve differences that had existed for more than 6 months. For example, DFAS-Cleveland personnel used the Transactions By Others System to record, by appropriation, amounts reported to the Treasury and amounts received in cycles from paying centers. However, outstanding differences were not reviewed, and actions were not taken to reconcile and resolve differences that had accumulated since 1981. Table 3. shows the net differences between amounts reported to the Treasury and amounts received in cycles from paying centers when the differences were more than 6 months old as of January 31, 1993.

Table 3. Differences Between Amounts Reported to the Treasury and Amounts Received in Cycles
($ in Thousands)

Accountable Center	Differences by Paying Center			
	DFAS-Cleveland	DFAS-Denver	DFAS-Indianapolis	Total
DFAS-Cleveland	N/A	$416,353	$(64,151)	$352,202
DFAS-Denver	$ (117)	N/A	(5,592)	(5,709)
Indianapolis	(25,023)	124,666	N/A	99,643

The DFAS Centers did not place a high priority on resolving these undistributed cross-disbursing transactions. DFAS Centers should monitor, reconcile, and correct all differences between amounts reported to the Treasury and amounts received in cycles.

Undistributed Disbursements

Initial Assessment. Until recently, DFAS did not pay sufficient attention to the short-term actions needed to reduce undistributed disbursements. In October 1991, DFAS Headquarters was tasked by the Comptroller, DoD, to solicit plans from DoD accounting organizations on the problems with undistributed disbursements and actions being taken to correct them. Many respondents expressed concerns about the problems and the lack of immediate solutions; however, in its February 7, 1992, response to the Comptroller, DoD, DFAS Headquarters stated that the proposed actions were sufficient and that most of the problems would end when long-term initiatives were put into place.

The Services have not uniformly implemented standard requirements for accounting information, and did not implement an earlier DoD project, Military Standard Contract Administration Procedures, which was designed to solve the problems caused by nonstandard information. The use of noninterfacing automated systems to make and account for disbursements and manage obligations also hindered the matching process.

DFAS Project Team Review. In March 1993, DFAS Headquarters established the Integration of Entitlement and Disbursing Project in response to a tasking from the Acting DoD Comptroller. The tasking was made because of chronic problems in the cross-disbursing process and the lack of progress in reducing undistributed disbursements. The project team defined short- and mid-term initiatives needed to reduce undistributed disbursements and to improve the processing of transactions without vouchers in the future. The team estimated that, as of April 9, 1993, DoD had about $41.4 billion (about 14 percent of the annual Defense budget) in undistributed disbursements. The team concluded that changes were needed in the systems and procedures used to process and clear transactions. The team identified 12 short- and mid-term initiatives and estimated that, if implemented, recommended actions would reduce undistributed disbursements by about $11.4 billion.

Our review confirmed that many of the initiatives recommended by the Integration of Entitlement and Disbursing Project were needed to correct problems with transactions by and for others. DFAS should take action on initiatives to improve systems and procedures for processing and clearing transactions and to reduce undistributed disbursements.

Conclusion

Management oversight and guidance are needed to eliminate excessive delays in clearing transactions by and for others and to reduce undistributed disbursements. Both GAO and the DFAS Integration of Entitlement and Disbursing Project Team confirmed that problems exist with current procedures and corrective actions are needed. The establishment of the joint Navy - DFAS task force in response to the GAO report, and the initiation of a follow-up project to the Integration of Entitlement and Disbursing Project, were constructive responses to some of the problems with matching disbursements and collections to obligations. Achieving the task force's goals, to substantially reduce undistributed disbursements in the Navy's accounting system and to correct problems that prevent the prompt matching of disbursements with obligations, should improve the accuracy of data available to financial managers. Implementation of the recommendations in this report and those of the project team will reduce delays in processing and clearing transactions by and for others and will substantially reduce undistributed disbursements. Implementing DFAS' long-term plan is the solution to many problems with matching obligations to disbursements. However, immediate actions are needed to address problems with clearing transactions and to reduce undistributed disbursements.

Recommendations for Corrective Action

1. We recommend that the Comptroller of the Department of Defense include in the "DoD Financial Management Regulation" detailed guidance that:

a. Requires the Defense Finance and Accounting Service Centers and the Services to work together to monitor and resolve undistributed disbursements.

b. Identifies the specific data required by accountable stations to clear cross-disbursing transactions.

c. Reinforces the need for disbursing stations to provide complete and accurate data to support all disbursements and collections made.

d. Allows a maximum of 60 days to initiate actions on and answer requests for information needed to clear intra-Service and cross-disbursing transactions that have been rejected by accountable stations.

e. Defines the policies and procedures for clearing disbursements and collections that cannot be matched to corresponding obligations.

f. Requires that when amounts reported to the Treasury by paying centers on behalf of accountable centers differ from amounts reported in cycles, these differences be promptly and accurately resolved.

2. We recommend that the Director, Defense Finance and Accounting Service:

a. Identify undistributed disbursements that are more than 180 days old, including all differences between amounts reported to the Treasury and amounts reported in cycles, and take actions to resolve them.

(1) For those disbursements that cannot be matched to specific obligations, take actions that will provide reasonable assurance that the disbursements did not involve duplicate or fraudulent payments.

(2) Issue uniform guidance and take prompt action to clear undistributed disbursements related to merged appropriations that have closed.

b. Establish DoD-wide procedures to return to the Defense Finance and Accounting Service, Columbus Center, transactions that do not meet established clearance criteria.

c. Establish a central clearance activity at the Defense Finance and Accounting Service, Columbus Center, to receive, answer, monitor, and report progress in filling requests for information needed to clear disbursements and collections.

d. Research and resolve differences between obligation and disbursement data in the Mechanization of Contract Administration Services data base and the accounting records of supported accountable stations for all Services. Establish procedures to periodically compare the data and make changes to recorded data as required.

e. Establish an automated tracking and suspense system to account for and control rejected cross-disbursing transactions and take actions that ensure prompt and accurate clearance of transactions.

f. Implement changes in systems and procedures, recommended by the Integration of Entitlement and Disbursing Project Team, that are needed to substantially reduce undistributed disbursements.

Management Comments

We requested comments from the Comptroller of the Department of Defense and the Director, DFAS. The Deputy Comptroller of the Department of Defense (Management Systems) (the Deputy Comptroller) concurred with the finding and recommendations in the draft report. The Deputy Comptroller's comments incorporated the comments of the Director, DFAS.

The Deputy Comptroller disagreed with the statement that disbursements were not being matched to obligations. The Deputy Comptroller stated that departmental policy provides that potential disbursements be matched to obligations before payment. However, the Deputy Comptroller recognized that policy may not be complied with fully for all payments. See Part IV for the full text of management's comments.

Audit Response

The Deputy Comptroller misinterpreted our point regarding the matching of disbursements to obligations. The matching of disbursements to the proper appropriation or contract, without matching them against obligations recorded in official accounting records, does not ensure that DoD is complying with legal spending limits. Further, payments made against contracts or other obligating documents do not prevent duplicate or erroneous payments from being made.

Unless a disbursement is matched with a corresponding obligation in official accounting records, DoD lacks assurance that the disbursement was proper. The transactions by and for others process allowed disbursing stations to make disbursements without matching them to obligations recorded in official accounting records. Disbursing stations did not have access to the official accounting records, and, as stated in the finding, inaccuracies existed in the financial data in the automated system used by DFAS-Columbus to make disbursements and match obligations to disbursements. Until DoD integrates its disbursing and accounting systems or establishes an interface between them, disbursements will not be matched to obligations in official accounting records before payments are made.

Finding B. Reporting by DFAS Centers

Managers at DFAS Headquarters did not receive complete and accurate information from the DFAS Centers on the status of undistributed disbursements. The DFAS Centers understated the numbers and dollar values of undistributed disbursements that were more than 180 days old by about 860,000 transactions and at least $7.2 billion. Program Appraisal Reviews had not given managers visibility over the numbers and dollar values of undistributed disbursements, and were not useful in monitoring progress made by the DFAS Centers to reduce undistributed disbursements. These conditions occurred because DFAS Headquarters had not issued adequate guidance to the DFAS Centers, and personnel at the DFAS Centers had not properly identified all undistributed disbursements. Consequently, undistributed disbursements had not been identified and reduced, and financial decisions were based on inaccurate accounting records.

Background

Volume 1, DoD Regulation 7000.14-R, "DoD Financial Management Regulation," May 1993, defines undistributed disbursements as disbursements reported by the finance network that have not been accepted by the operating-level accounting entity.

DFAS Headquarters began conducting Program Appraisal Reviews in January 1991 to monitor the performance of selected accounting and finance functions. DFAS Centers submit monthly statistics and narrative data on designated performance indicators to the Customer Service and Quality Assurance Deputate at DFAS Headquarters. Reported data are compared to standards and tolerances for each performance indicator. The numbers and dollar values of undistributed disbursements were to be reported on two Program Appraisal Review reports: the "Uncleared Transactions By Others" ("Uncleared TBO") report and the "Undistributed Disbursements" report. DFAS Centers were to report undistributed disbursements over 60 days old on the "Undistributed Disbursements" report until November 1992. In December 1992 and January 1993, they were required to report undistributed disbursements over 180 days old. The reporting guideline for the "Uncleared TBO" report was 180 days for the entire period. "Undistributed Disbursements" reports from the 4 DFAS Centers showed that as of January 31, 1993, 302,400 disbursements valued at $2.0 billion had been undistributed for more than 180 days. DFAS-Columbus did not submit an "Undistributed Disbursements" report. "Uncleared TBO" reports identified 15,400 disbursements valued at $481.2 million for the same period.

Reporting of Undistributed Disbursements

Statistics. DFAS-Cleveland, DFAS-Denver, and DFAS-Columbus substantially understated the numbers and dollar values of undistributed disbursements over 180 days old as of January 31, 1993. DFAS-Indianapolis accurately reported information on undistributed disbursements. We did not include DFAS-Kansas City in our review because January 1993 was the first month that DFAS-Kansas City submitted data, and only part of the undistributed disbursements could be collected. Our analysis showed that the numbers and dollar values of undistributed disbursements were understated by about 860,000 transactions and at least $7.2 billion. See Appendix A for a breakdown by DFAS Center.

Personnel at the DFAS Centers did not report the same data and had different methods of collecting and calculating the numbers and dollar values of undistributed disbursements. Consequently, the data reported to DFAS Headquarters were incomplete, inaccurate, and not comparable.

Reported Data. Each DFAS Center reported different information to DFAS Headquarters. DFAS-Indianapolis appropriately considered a disbursement distributed when the accountable station accepted the transaction and recorded it against the corresponding obligation. Unlike DFAS-Indianapolis, DFAS-Cleveland and DFAS-Denver considered disbursements identified to the appropriation level to be distributed. DFAS-Columbus did not submit an "Undistributed Disbursements" report. Only DFAS-Indianapolis reported complete and accurate data in the "Undistributed Disbursements" report.

The DFAS Centers also were inconsistent in reporting information on the "Uncleared TBO" report. DFAS-Indianapolis included uncleared intra-Service transactions and some uncleared cross-disbursing transactions, as well as uncleared interfund billings, in its "Uncleared TBO" report. The same information, along with the balance of the uncleared cross-disbursing transactions, was appropriately included in DFAS-Indianapolis' "Undistributed Disbursements" report. DFAS-Denver included data on undistributed transactions in its "Uncleared TBO" report, but omitted it, along with other undistributed disbursement data, from its "Undistributed Disbursements" report. DFAS-Cleveland did not submit an "Uncleared TBO" report until February 1993, and then reported only uncleared cross-disbursing transactions. DFAS-Columbus reported only some disbursements that had been rejected by Army accountable stations in its "Uncleared TBO" reports. The lack of complete, accurate, and comparable data from the DFAS Centers obscured DoD's problems with undistributed disbursements.

DFAS-Denver. DFAS-Denver did not report complete and accurate data on the numbers and dollar values of undistributed disbursements. In its "Uncleared TBO" report, DFAS-Denver identified 4,157 transactions valued at about $53.0 million. These intra-Service transactions represented disbursements and collections that had cleared the Merged Accountability and Fund Reporting System and had been placed in a temporary file, waiting to be accepted or

rejected by accountable stations. Consequently, these disbursements and collections had not yet been matched against corresponding obligations. However, these data, along with similar data on cross-disbursing transactions (2,939 transactions, valued at about $21.3 million), were not included in DFAS-Denver's "Undistributed Disbursements" report. Undistributed disbursements not shown on either report included about 6,200 transactions, valued at about $114.1 million, that had been rejected for more than 180 days by accountable stations. Collectively, DFAS-Denver understated undistributed disbursements over 180 days old by at least $188.4 million. In addition, undistributed transactions over 9 months old were placed in another file, called a reconciliation file, that contained other undistributed disbursements. The reconciliation file contained about $3.6 billion in undistributed disbursements as of January 31, 1993 ($6.2 billion related to cross-disbursements and a negative $2.6 billion related to intra-Service transactions). We could not obtain the numbers or dollar values of undistributed disbursements over 180 days old because DFAS-Denver could not determine how long the undistributed disbursements remained in this file. Consequently, Appendix A does not include an estimate of the numbers and dollar values of undistributed disbursements in this file. The inability to age these undistributed disbursements means that management has less oversight.

DFAS-Cleveland. DFAS-Cleveland understated undistributed disbursements over 180 days old by about $6.7 billion. DFAS-Cleveland did not report disbursements and collections that did not match corresponding obligations in accounting systems at its DAOs. In some cases, dollar values that other DFAS Centers had made and reported to the Treasury on behalf of Navy accountable stations differed from the amounts that other DFAS Centers reported in cycles to DFAS-Cleveland. DFAS-Cleveland did not report these differences as undistributed disbursements.

Data Collection and Reporting. DFAS-Cleveland did not routinely collect the numbers and dollar values of undistributed disbursements from any of its 13 DAOs. We obtained undistributed disbursement data from DFAS-Cleveland's DAO Arlington (the office that accounted for about 57 percent of the Navy's funds). STARS contained 932,342 transactions, valued at $7.1 billion, in undistributed disbursements. The other accounting system, the Integrated Disbursing and Accounting Resource Management System, contained 91,258 transactions, valued at $140.6 million, in undistributed disbursements. We calculated that about 864,000 transactions, totaling $6.0 billion, were more than 180 days old. For the other 12 DAOs, the numbers and dollar values of undistributed disbursements were not readily available. Data collected on a one-time basis by DFAS-Cleveland showed that the other DAOs had over $37.5 million in undistributed disbursements over 180 days old as of the end of December 1992. However, all DAOs did not report the requested data, and the data were not available as of the end of January 1993.

Understated Treasury Data. We requested information that showed differences between the dollar values of disbursements that other DFAS Centers had made and reported to the Treasury on behalf of Navy accountable stations, and the amounts the other DFAS Centers reported in cycles to DFAS-

Cleveland, that were more than 180 days old as of the end of January 1993. Records at DFAS-Cleveland showed that $547.8 million more had been reported to the Treasury as disbursements than had been reported to DFAS-Cleveland. DFAS-Cleveland also understated undistributed disbursements by not reporting disbursements and collections that failed to clear the Consolidated Expenditure and Reimbursement Processing System. As of March 29, 1993, accounts at DFAS-Cleveland contained 11,484 disbursements, valued at about $90.0 million, and 628 collections, valued at $2.2 million, for the period ending January 31, 1993. Conversely, personnel at DFAS-Cleveland overstated the number of undistributed interfund transactions by 35,427 because they incorrectly reported the total instead of reporting only the transactions that were over 180 days old.

DFAS-Columbus. DFAS-Columbus reported only part of the undistributed disbursements it was responsible for clearing. All disbursements and collections made by or for DFAS-Columbus and Defense Logistics Agency activities were processed through the DFAS-Indianapolis Transactions By and For Others System. DFAS-Indianapolis omitted from its reports the disbursements that had not been matched to corresponding obligations, and DFAS-Columbus reported only part of them to DFAS Headquarters. Of the 55 accountable and disbursing stations that DFAS-Columbus could have reported on, we found that DFAS-Columbus reported only part of the undistributed disbursements for 14 disbursing stations. DFAS-Columbus also had not reported any data on undistributed interfund disbursements. DFAS-Indianapolis' records showed that a total of 4,498 transactions, valued at about $163.0 million, should have been reported by DFAS-Columbus as undistributed disbursements on Program Appraisal Review reports. DFAS-Columbus also should have reported other undistributed disbursements, but we could not determine the amounts.

Negative Unliquidated Obligations. The practice of not posting disbursements when obligations are insufficient to cover them gives an inaccurate picture of the true account balance and can result in the failure to detect and correct violations of the Antideficiency Act. At DFAS-Cleveland's DAO Arlington, when disbursements were related to obligations that had insufficient unliquidated obligation authority to cover them, these disbursements were inappropriately recorded as undistributed. The Navy's STARS automatically rejected each disbursement as unmatched if the corresponding unliquidated obligation balance was not sufficient to cover the disbursement. Consequently, disbursements were not matched with obligations and posted to accounting records. Records showed that disbursements exceeded available unliquidated obligations for $4.0 billion of the $7.1 billion unmatched in STARS as of January 31, 1993. This practice differed from other accounting organizations and from good accounting practice. DFAS Headquarters should take immediate action to standardize DFAS-Cleveland's accounting and reporting practices for negative unliquidated obligations with those of the other DFAS Centers.

Guidance on Reporting Undistributed Disbursements

DFAS Headquarters had not given the DFAS Centers adequate guidance on the reporting of undistributed disbursements. Guidance should include a clear definition and list of the categories of undistributed disbursements, and should require the DFAS Centers to report the dollar values of undistributed disbursements in absolute dollar value terms. Such guidance is necessary to ensure that reported information is complete, accurate, and useful for monitoring undistributed disbursements.

Distribution of Program Guidance. DFAS Headquarters did not provide sufficient guidance on the data that should be reported. DFAS Centers received general guidance stating that undistributed disbursements were to include uncleared intra-Service, cross-disbursing, and interfund transactions. Personnel at the DFAS Centers had different definitions for terms such as undistributed disbursements, unmatched disbursements, and unmatched funds disbursed. Sometimes the terms were used interchangeably. On October 24, 1991, the Comptroller of the Department of Defense issued a memorandum aimed at eliminating undistributed disbursement balances in DoD accounts. The memorandum defined undistributed disbursements as "disbursements or collections as reported by the finance network which have not been identified and liquidated against the source transaction by the operating level accounting entity." Undistributed disbursements were to represent the difference between the total disbursements or collections recorded at the allotment or operating budget level and those matched to applicable documents for refunds, receivables, advances, obligations, or accounts payable. This information was not included in the guidance for Program Appraisal Reviews. For data to be useful to managers, all DFAS Centers must define undistributed disbursements similarly and submit the same types of data.

Category Reporting Procedures. DFAS Centers were not required to report the numbers and dollar values of undistributed disbursements by category. The major categories were uncleared intra-Service, cross-disbursing, and interfund transactions. When undistributed disbursements were reported as a lump sum, managers could not review the different categories of undistributed disbursements, and they had no assurance that all categories were reported. The reporting of undistributed disbursements by category would also make the "Uncleared TBO" report unnecessary, because the same data would be reported in a more useful format.

Absolute Dollar Values. Managers would have more meaningful information if DFAS Centers reported the absolute value of undistributed disbursements. Each month, the DFAS Centers reported as undistributed disbursements the net dollar value of numerous undistributed disbursements and associated collections and adjustments. Credit balances (collections and adjustments to disbursements) reduced the debit balances (disbursements and adjustments to collections), which resulted in the reporting of substantially lower dollar values of undistributed disbursements. In February 1993, DFAS-Cleveland's DAO Arlington began collecting the absolute dollar values of undistributed disbursements in its Standard Accounting and Reporting System.

As of March 12, 1993, records showed a net dollar value of $6.5 billion in undistributed disbursements. Using the absolute value of each undistributed disbursement would result in an undistributed disbursement balance of $14.4 billion. Using the absolute value would also result in more uniform reporting of undistributed disbursements because the DFAS Centers sometimes added the absolute value of a net credit balance to the net debit balance of other categories of undistributed disbursements. The absolute values of undistributed disbursements would better show the actual dollar amounts of undistributed disbursements.

Disclosure of Substantial Reductions. When the DFAS Centers reduced their undistributed disbursement balances without associating disbursements and collections with specific obligations, DFAS Headquarters did not require the DFAS Centers to disclose this information. We found that DFAS-Indianapolis and DFAS-Cleveland had reduced undistributed disbursements without matching them to specific obligations. For example, in the 5-month period ending on December 31, 1992, DFAS-Indianapolis personnel reduced undistributed disbursements related to merged appropriations by about $94.1 million by applying the disbursements to the unliquidated obligation balances available in these appropriations. By not reporting these reductions, DFAS-Indianapolis gave management less information about the potential for canceled obligation balances to require subsequent payment from current year appropriations. At DFAS-Cleveland, uncleared interfund billings valued at between $300.0 million and $400.0 million were eliminated in July 1992 without the proper distribution of charges. The undistributed disbursements data reported to DFAS Headquarters were misleading because the improper reduction of unprocessed interfund billings was not disclosed.

Use of Reported Data

DFAS Headquarters had not established effective procedures to use the data reported by the DFAS Centers to manage and substantially reduce undistributed disbursements. DFAS Headquarters established a standard (a 4-percent reduction in the dollar values of undistributed disbursements each quarter) and a tolerance (no monthly increase in the dollar values of undistributed disbursements) to manage the reduction of undistributed disbursements. However, little attention was paid to the DFAS Centers that did not meet established standards and tolerances. Because we found a number of problems with the reported data, we recognized the limited value of the actions that could have been taken based on available data. However, standards frequently were not met and out-of-tolerance conditions occurred regularly. The DFAS Centers should have been required to submit plans for correcting problems, and DFAS Headquarters personnel should have followed up with the DFAS Centers if corrective actions were not effective. We also found that DFAS Headquarters had not established acceptable or maximum levels of undistributed disbursements. To set acceptable levels, DFAS Headquarters would have to determine what the age of undistributed disbursements should be before they are reported and monitored. Undistributed disbursements can result from the time

lag in processing disbursements through an accounting system, as well as from incomplete or erroneous information; therefore, the age at which they are reported should depend on the category of the undistributed disbursements. In March 1993, DFAS Headquarters changed the reporting requirements for Program Appraisal Review reports. Undistributed Disbursements and Uncleared TBO reports should give statistical data on transactions older than 120 days. This lower reporting threshold is reasonable for reporting uncleared cross-disbursing transactions, but should be reduced to 90 days for the other categories of undistributed disbursements. Undistributed disbursements have been a long-standing problem that needs to be corrected.

Conclusion

The lack of adequate guidance and sound procedures for identifying and reporting undistributed disbursements substantially reduced the value of the information provided to managers. The Program Appraisal Review process, if properly implemented and used, could monitor progress in reducing the numbers and dollar values of undistributed disbursements and implementing prompt corrective actions. The proper matching of disbursements with related obligations is necessary to ensure that the DoD managers have reliable information on the funds available for obligations and expenditures. DoD managers also need complete and accurate information to fulfill their fiduciary responsibilities for managing public funds.

Recommendations for Corrective Action

1. We recommend that the Director, Defense Finance and Accounting Service, issue additional guidance on reporting undistributed disbursements in Program Appraisal Reviews. The guidance should:

a. Clearly define undistributed disbursements.

b. Require the Defense Finance and Accounting Service Centers to collect data from all sources and report all undistributed disbursements on the "Undistributed Disbursements" report.

c. Require that reported undistributed disbursements be shown in categories of uncleared intra-Service, cross-disbursing, and interfund transactions. Other categories should be shown where appropriate, and the "Uncleared Transactions By Others" report should be discontinued.

d. Require the Defense Finance and Accounting Service Centers to disclose reductions that they make in undistributed disbursements without associating disbursements and collections to corresponding obligations.

e. Require that undistributed disbursements be reported both as net dollar values and as absolute values.

2. We recommend that the Director, Defense Finance and Accounting Service, require all Defense Finance and Accounting Service Centers to:

a. Uniformly record and report all disbursements in accounting records for all Defense Finance and Accounting Service systems, including the Standard Accounting and Reporting System, in order to accurately show negative unliquidated obligations by accounting classification reference number and by contract.

b. Perform the research necessary to identify and correct errors leading to negative unliquidated obligations or, as appropriate, report negative unliquidated obligations as violations of the Antideficiency Act.

3. We recommend that the Director, Defense Finance and Accounting Service:

a. Establish maximum levels of undistributed disbursements and realistic goals for reducing them.

b. Incorporate into the Program Appraisal Reviews an appropriate method of measuring progress in reducing the numbers and dollar values of undistributed disbursements.

c. Require Defense Finance and Accounting Service Centers that exceed maximum levels of undistributed disbursements to develop a plan of corrective actions with proposed completion dates.

Management Comments

The Deputy Comptroller generally concurred with the finding and recommendations. The Deputy Comptroller's response incorporated the comments of the Director, DFAS. See Part IV for the full text of management's comments.

Part III - Additional Information

Appendix A. Undistributed Disbursements Data (Including Interfund) Over 180 Days Old, as of January 31, 1993

DFAS Center	Reported by DFAS as Undistributed Number	Reported by DFAS as Undistributed Millions	Unreported Adjustments Number	Unreported Adjustments Millions
DFAS-Cleveland	212,000	$1,273	841,477	$6,666
DFAS-Columbus	0	0	4,498	163
DFAS-Denver	20,400	107	13,339 [1]	188 [1]
FMS	[3]	56	[3]	159 [4]
DFAS-Indianapolis	16,000	456	0	0
DFAS-Kansas City	54,000	100	[2]	
Totals	302,400	$1,992	859,314	$7,176

[1] Number and dollar values shown do not include amounts in the reconciliation file. The data in the reconciliation file could not be aged. The reconciliation file included 15,272 records valued at $3,601,263,575.

[2] We did not review data reported by DFAS-Kansas City because January 1993 was the first month it submitted data, and only part of the total amount of undistributed disbursements was reported.

[3] The number of foreign military sales (FMS) transactions was not available from the Defense Integrated Financial System.

[4] The amount shown represents FMS undistributed disbursements managed by the Defense Integrated Financial System at DFAS-Denver for Army, Navy, and other Defense agencies' FMS transactions.

Appendix A. Undistributed Disbursements Data (Including Interfund) Over 180 Days Old, as of January 31, 1993

	Revised Undistributed Disbursements	
	Number	Millions
DFAS-Cleveland	1,053,477	$7,939
DFAS-Columbus	4,498	163
DFAS-Denver	33,739	295
FMS	[5]	215
DFAS-Indianapolis	16,000	456
DFAS-Kansas City	54,000	100
Totals	1,161,714	$9,168

[5] The number of FMS transactions was not available from the Defense Integrated Financial System.

Appendix B. Summary of Potential Benefits Resulting from Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
A.1.a. - A.1.f.	Compliance. Guidance will improve the timeliness of clearing transactions and the reliability of DoD's accounting records.	Nonmonetary.
A.2.a.	Compliance. Procedures will reduce undistributed disbursements and improve the reliability of DoD's accounting records.	Nonmonetary.
A.2.b.	Compliance. Procedures will ensure that transactions that are not accepted by accountable stations are returned to the disbursing stations for corrective actions.	Nonmonetary.
A.2.c.	Internal controls. Procedures will improve internal controls by ensuring that transactions that are not accepted are identified, researched, and cleared.	Nonmonetary.
A.2.d.	Internal controls. Procedures will improve the accuracy of financial data in DoD's accounting records.	Nonmonetary.
A.2.e.	Internal controls. Procedures will improve the accountability for and timeliness of clearing cross-disbursing transactions.	Nonmonetary.
A.2.f.	Compliance. Procedures will identify problems with clearing transactions and ways to reduce undistributed disbursements so as to improve the accuracy of DoD's accounting records.	Nonmonetary.

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
B.1.a. - B.1.e.	Program results. Guidance will ensure more uniform reporting of undistributed disbursements.	Nonmonetary.
B.2.a., B.2.b.	Internal controls. Procedures will improve management of DoD appropriations by requiring all disbursements, including those that exceed available obligation balances, to be recorded in accounting records.	Nonmonetary.
B.3.a. - B.3.c.	Program results. Performance measures will provide a basis for measuring progress and developing plans to reduce undistributed disbursements.	Nonmonetary.

Appendix C. Organizations Visited or Contacted

Office of the Secretary of Defense

Comptroller of the Department of Defense, Washington, DC

Department of the Army

Headquarters, National Guard Bureau, Washington, DC
U.S. Army Aviation and Troop Command, St. Louis, MO

Department of the Air Force

Air Force Materiel Command, Wright-Patterson Air Force Base, OH

Defense Agencies

Headquarters, Defense Finance and Accounting Service - Washington, DC
Defense Finance and Accounting Service - Cleveland Center, Cleveland, OH
Defense Finance and Accounting Service - Columbus Center, Columbus, OH
Defense Finance and Accounting Service - Denver Center, Denver, CO
Defense Finance and Accounting Service - Indianapolis Center, Indianapolis, IN
Defense Finance and Accounting Service - Kansas City Center, Kansas City, MO

Non-Defense Federal Organization

Department of the Treasury, Washington, DC

Appendix D. Report Distribution

Office of the Secretary of Defense

Comptroller of the Department of Defense

Department of the Army

Assistant Secretary of the Army (Financial Management)
Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management)

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)

Defense Agencies

Headquarters, Defense Finance and Accounting Service
- Defense Finance and Accounting Service - Cleveland Center
- Defense Finance and Accounting Service - Columbus Center
- Defense Finance and Accounting Service - Denver Center
- Defense Finance and Accounting Service - Indianapolis Center
- Defense Finance and Accounting Service - Kansas City Center

Non-Defense Federal Organizations

Office of Management and Budget
U.S. General Accounting Office, National Security and International Affairs Division, Technical Information Center

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

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

Part IV - Management Comments

OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON, DC 20301-1100

JAN 26 1994

(Management Systems)

MEMORANDUM FOR DEPUTY DIRECTOR, FINANCIAL MANAGEMENT DIRECTORATE, DODIG

SUBJECT: Comments on Draft Audit Report on Uncleared Transactions By and For Others (Project No. 2FI-0068)

In a memorandum dated November 10, 1993, you requested comments on the findings and recommendations contained in the subject draft report, as well as on the internal control weaknesses highlighted in Part I. The DoD Comptroller comments are summarized below and discussed in detail at the attachment.

Generally, we concur with the findings and recommendations of the subject report, and with the overall assessment of internal control weaknesses. This office agrees that implementation of Recommendations A.2 and B.2 of the report should aid in correcting the stated weaknesses in internal controls. Also, while the internal control weaknesses individually were not material, in the aggregate a material internal control weakness is considered to exist. The Defense Finance and Accounting Service has expanded and combined two previously reported material weaknesses on undistributed and unmatched disbursements for inclusion in the Federal Managers' Financial Integrity Act (FMFIA) Annual Statement for FY 1993.

As you may be aware, we previously had recognized the need to make operational and reporting improvements in the functions covered in the report. Two related projects were established: the Integration of Entitlement and Disbursing Project and the Undistributed Disbursements Project.

My staff contact for this matter is Mr. Ron Good. He may be reached at (703) 697-3192. The DFAS staff contact is Mr. George Kielkopf, DFAS-HQ/GB, (703) 607-1549.

Alvin Tucker
Deputy Comptroller
(Management Systems)

Attachment

IG, DoD, DRAFT AUDIT REPORT - DATED NOVEMBER 10, 1993
PROJECT NO.2FI-0068
"UNCLEARED TRANSACTIONS BY AND FOR OTHERS"

* * * * *

DoD COMMENTS ON FINDINGS AND RECOMMENDATIONS

- FINDING A. CLEARING TRANSACTIONS BY AND FOR OTHERS. Management was not exercising the oversight needed to eliminate excessive delays in clearing transactions, and to reduce undistributed disbursements and collections valued at about $34.6 billion as of January 31, 1993. The procedures used to solve problems with disbursements and collection transactions were less than effective, and were not always followed. A higher priority was placed on making disbursements and processing the transactions than on resolving uncleared transactions. The DFAS Centers did not have the information needed to analyze and correct the causes of uncleared transactions in order to prevent recurrences. Without matching disbursements and collections to obligations, DoD incurs the risk that cumulative disbursements may exceed appropriation and other limits, and that fraudulent or erroneous payments may be made. The lack of accurate financial data also increases the possibility of lost opportunities for using funds because of delays in deobligating and reprogramming unused funds.

DoD RESPONSE TO THE DRAFT REPORT: Partially concur. The Department disagrees with the statement that disbursements are not being matched to obligations; however, that policy may not be complied with fully for all payments. Departmental policy provides that potential disbursements shall be matched to obligations before payment. Emphasis is being placed on quality and process improvements to resolve unmatched disbursements.

- RECOMMENDATION A1.a: The DoDIG recommends that the Comptroller of the Department of Defense include in the "DoD Financial Management Regulation" detailed guidance that requires the Defense Finance and Accounting Service Centers and the Services to work together in monitoring and resolving undistributed disbursements.

DoD RESPONSE TO THE DRAFT REPORT: Concur. The appropriate volumes and chapters of the "DoD Financial Management Regulation" will be revised to provide for cooperation at command or field level as appropriate, and include the Services in certain reporting distributions. The Defense Finance and Accounting Service is responsible for preparation of these procedural areas of the "DoD Financial Management Regulation," and draft copies will be distributed as interim procedural guidance. Expected completion is June 1994.

1 Attachment

- **RECOMMENDATION A1.b**: The DoDIG recommends that the Comptroller of the Department of Defense include in the "DoD Financial Management Regulation" detailed guidance that identifies the specific data required by accountable stations to clear cross- disbursing transactions.

DoD RESPONSE TO THE DRAFT REPORT: Concur. The DFAS will define the data requirements for each category of cross disbursements, such as contracts and travel, and initiate implementation. The appropriate volumes and chapters of the "DoD Financial Management Regulation" will be revised as necessary. Expected completion is June 1995.

- **RECOMMENDATION A1.c**: The DoDIG recommends that the Comptroller of the Department of Defense include in the "DoD Financial Management Regulation" detailed guidance that reinforces the need for disbursing stations to provide complete and accurate data to support all disbursements and collections made.

DoD RESPONSE TO THE DRAFT REPORT: Concur. Instructions regarding payment voucher support are being included in the appropriate chapters and sections of Volume 10 of the "DoD Financial Management Regulation." Expected completion is June 1994.

- **RECOMMENDATION A1.d**: The DoDIG recommends that the Comptroller of the Department of Defense include in the "DoD Financial Management Regulation" detailed guidance that allows a maximum of 60 days to initiate actions on and answer requests for information needed to clear intra-Service and cross-disbursing transactions that have been rejected by accountable stations.

DoD RESPONSE TO THE DRAFT REPORT: Concur. The DFAS recommends that requested information be provided in less than 60 days. This will be accomplished by using a direct information flow between the accounting and paying offices. The appropriate volumes and chapters of the "DoD Financial Management Regulation" will be revised to change the procedures and timeframes in which disbursing offices must respond to accounting offices on intra-Service and cross-disbursing problems and questions. Expected completion is June 1994.

- **RECOMMENDATION A1.e**: The DoDIG recommends that the Comptroller of the Department of Defense include in the "DoD Financial Management Regulation" detailed guidance that defines the policies and procedures for clearing disbursements and collections that cannot be matched to corresponding obligations.

DoD RESPONSE TO THE DRAFT REPORT: Concur. The appropriate volumes and chapters of the "DoD Financial Management Regulation" will be revised to include a standard disbursement and collection correction process. This revision will provide the conditions and timeframes in which transactions are to be recorded or returned by accounting offices. Expected completion is June 1994.

- RECOMMENDATION A1.f: The DoDIG recommends that the Comptroller of the Department of Defense include in the "DoD Financial Management Regulation" detailed guidance that requires that differences between amounts reported to the Treasury on their behalf and amounts reported in cycles be promptly and accurately resolved.

DoD RESPONSE TO THE DRAFT REPORT: Concur. The appropriate volumes and chapters of the "DoD Financial Management Regulation" will be revised to emphasize the actions required to be taken to resolve cross-disbursing cycle unreconciled conditions. Expected completion is June 1994.

- RECOMMENDATION A2.a: The DoDIG recommends that the Director, Defense Finance and Accounting Service identify undistributed disbursements that are more than 180 days old, including all differences between amounts reported to the Treasury and amounts reported in cycles, and take actions to resolve them.

DoD RESPONSE TO THE DRAFT REPORT: Concur. All undistributed disbursements over 180 days old will be included in the monthly Center undistributed disbursement report, and related instructions will require them to identify reasons for significant amounts in that age category, and the planned clearance action. Specific instructions will be included in "DoD Financial Management Regulation" procedures covering the servicing DFAS Center's responsibility for timely resolution of cycle differences with the disbursing Defense Accounting Office. Expected completion is June 1994.

- RECOMMENDATION A2.a(1): The DoDIG recommends that the Director, Defense Finance and Accounting Service, for those disbursements that cannot be matched to specific obligations, take actions that will provide reasonable assurance that the disbursements did not involve duplicate or fraudulent payments.

DoD RESPONSE TO THE DRAFT REPORT: Concur. Instructions for processing transactions for others and cross-disbursements in the "DoD Financial Management Regulation" will be reviewed and appropriate revisions added regarding awareness of potential fraudulent payments, such as those on apparently non-existent contracts or advances to unidentifiable persons. Instructions

will require the accounting office to inform the paying office of such information when rejecting a transaction so that appropriate research can be undertaken. Expected completion is June 1994.

- RECOMMENDATION A2.a(2): The DoDIG recommends that the Director, Defense Finance and Accounting Service issue uniform guidance and take prompt action to clear undistributed disbursements related to merged appropriations that have closed.

DoD RESPONSE TO THE DRAFT REPORT: Concur. The Director, Defense Finance and Accounting Service issued a memorandum to all DFAS Centers on October 14, 1993, regarding accounting actions for closing appropriations, and including a requirement to continue research of open undistributed disbursements and apply them to the proper obligation document record.

- RECOMMENDATION A2.b: The DoDIG recommends that the Director, Defense Finance and Accounting Service establish DoD-wide procedures to charge back to the Defense Finance and Accounting Service-Columbus Center transactions that do not meet established clearance criteria.

DoD RESPONSE TO THE DRAFT REPORT: Concur. Efforts currently being undertaken by the DFAS, based on review of accounting and procurement requirements, will result in standard data requirements for accepting and recording DFAS-Columbus Center contract payments in accounting systems, and uniform procedures for rejecting and suspending such transactions. These requirements will be coordinated with the Services. Expected completion is June 1994.

- RECOMMENDATION A2.c: The DoDIG recommends that the Director, Defense Finance and Accounting Service establish a central clearance activity at the Defense Finance and Accounting Service-Columbus Center to receive, answer, monitor, and report progress in filling requests for information needed to clear disbursements and collections.

DoD RESPONSE TO THE DRAFT REPORT: Concur in principle. The establishment of a Director, Contract Entitlements Directorate at the DFAS-Columbus Center provides a central office for controlling and monitoring all aspects of contract pay operations. Additionally, the DFAS has recommended a process management method that requires each DFAS Center to monitor continually the performance of its cross-disbursing process on a DoD-wide basis. This process management method will be expanded to include all by other transactions. This revised method will be incorporated into the "DoD Financial Management Regulation." Expected completion is October 1994.

- **RECOMMENDATION A2.d**: The DoDIG recommends that the Director, Defense Finance and Accounting Service research and resolve differences between obligation and disbursement data in the Mechanization of Contract Administration Services database and the accounting records of supported accountable stations for all Services. Establish procedures to periodically compare the data and make changes to recorded data as required.

DoD RESPONSE TO THE DRAFT REPORT: Concur. Resolution of differences between the Mechanization of Contract Administration Services (MOCAS) system and the major accounting systems serving the Military Service materiel procuring commands is being accomplished through the MOCAS database inquiry capability available to accounting office personnel. This permits these personnel to query MOCAS records for research of transaction errors, and advise the DFAS-Columbus Center of corrections needed in a more timely manner. An effort has been initiated for periodic comparison of contract pay and accounting system data bases. The necessary development work to test feasibility is being done for MOCAS data base comparison with the Standard Accounting and Reporting System at DAO Arlington, and with systems at the DFAS-Denver Center. Expected completion is March 1994.

- **RECOMMENDATION A2.e**: The DoDIG recommends that the Director, Defense Finance and Accounting Service establish an automated tracking and suspense system to account for and control rejected cross-disbursing transactions and take actions that ensure prompt and accurate clearance of transactions.

DoD RESPONSE TO THE DRAFT REPORT: Concur. A DFAS-wide review will be made of each DFAS Center's transaction for others and cross-disbursing procedures and systems. The most effective procedures and system controls will be recommended for application at all Centers. Expected completion is October 1994.

- **RECOMMENDATION A2.f**: The DoDIG recommends that the Director, Defense Finance and Accounting Service implement changes in systems and procedures, recommended by the Integration of Entitlement and Disbursing Project team, that are needed to substantially reduce undistributed disbursements.

DoD RESPONSE TO THE DRAFT REPORT: Concur. The efforts of the Integration of Entitlement and Disbursing Project will continue to be sponsored by the DFAS, and recommendations will be prototype tested and implemented upon proven effectiveness. Collateral efforts also are underway. The DFAS is participating in two departmental efforts in process improvement. The Director, DFAS, is a designated member of the Acquisition and Financial Management Panel, and a DFAS representative will chair the separate supporting Acquisition and Financial Management Working Group. These entities will look at process improvements for the long and short run respectively. Because financial operations are one aspect of a total process that includes

contracting and contract administration functions, these groups include membership from the acquisition, contract management, and financial areas. The Under Secretary for Acquisition and the DoD Comptroller cochair the Acquisition and Financial Management Panel. Expected completion is October 1996.

- FINDING B. Reporting by DFAS Centers. Managers at the DFAS Headquarters did not receive complete and accurate information from the DFAS Centers on the status of undistributed disbursements. The DFAS Centers understated the numbers and dollar values of undistributed disbursements that were more than 180 days old by about 860,000 transactions and at least $7.2 billion. Program Appraisal Reviews had not given managers visibility over the numbers and dollar values of undistributed disbursements, and were not useful in monitoring progress made by the DFAS Centers to reduce them. These conditions occurred because the DFAS Headquarters had not issued adequate guidance to the DFAS Centers, and personnel at the DFAS Centers had not properly identified all undistributed disbursements. Consequently, undistributed disbursements had not been identified and reduced, and financial decisions were based on inaccurate accounting records.

DoD RESPONSE TO THE DRAFT REPORT: Concur. However, since the definitions and methods to obtain and report data are not standard, and the content of various files maintained at each DFAS Center are not subject to a common interpretation, this office cannot validate whether the values are understated.

- RECOMMENDATION B1.a: The DoDIG recommends that the Director, Defense Finance and Accounting Service issue additional guidance on reporting undistributed disbursements in Program Appraisal Reviews that clearly define undistributed disbursements.

DoD RESPONSE TO THE DRAFT REPORT: Concur. The DFAS has developed, and proposed for adoption, standard definitions for undistributed and unmatched disbursements which are being reviewed and coordinated. The DFAS will be incorporating coordinated definitions in procedures and systems, and standardizing the undistributed/unmatched disbursement reporting requirements. Expected completion is March 1994.

- RECOMMENDATION B1.b: The DoDIG recommends that the Director, Defense Finance and Accounting Service issue additional guidance on reporting undistributed disbursements in Program Appraisal Reviews that requires the Defense Finance and Accounting Service Centers to collect data from all sources and report all undistributed disbursements on the "Undistributed Disbursements" report.

DoD RESPONSE TO THE DRAFT REPORT: Concur. The DFAS is developing reporting criteria for undistributed disbursements and negative unliquidated obligations, by age and type categories. Related reporting requirement instructions will specify that reported amounts include all sources where undistributed disbursements are accounted for or held in suspense. Expected completion is March 1994.

- RECOMMENDATION B1.c: The DoDIG recommends that the Director, Defense Finance and Accounting Service issue additional guidance on reporting undistributed disbursements in Program Appraisal Reviews that requires that reported undistributed disbursements be broken down into the categories of uncleared intra-Service, cross-disbursing, and interfund transactions. Other categories should be shown where appropriate, and the "Uncleared Transactions By Others" report should be discontinued.

DoD RESPONSE TO THE DRAFT REPORT: Concur. The DFAS is developing reporting criteria for undistributed disbursements, unmatched disbursements, and negative unliquidated obligations, by age and type categories. These reports, along with related comparisons and analyses, will be adopted for the Program Appraisal Review. Expected completion is March 1994.

- RECOMMENDATION B1.d: The DoDIG recommends that the Director, Defense Finance and Accounting Service issue additional guidance on reporting undistributed disbursements in Program Appraisal Reviews that disclose reductions that are made in undistributed disbursements without associating disbursements and collections to corresponding obligations.

DoD RESPONSE TO THE DRAFT REPORT: Concur. It is recognized that minor amounts of undistributed disbursements may have to be absorbed without a preexisting obligation because of inability or failure to make timely charge back. A disclosure requirement for such amounts will be included in reporting instructions for undistributed disbursements. Expected completion is March 1994.

- RECOMMENDATION B1.e: The DoDIG recommends that the Director, Defense Finance and Accounting Service issue additional guidance on reporting undistributed disbursements in Program Appraisal Reviews that requires that undistributed disbursements be reported as net dollar values and as absolute values.

DoD RESPONSE TO THE DRAFT REPORT: Concur. This standard of reporting has been adopted by the DFAS, and will be included in reporting instructions now being developed. Expected completion is March 1994.

- **RECOMMENDATION B2.a**: The DoDIG recommends that the Director, Defense Finance and Accounting Service, require all Defense Finance and Accounting Service Centers to uniformly record and report all disbursements in accounting records for all Defense Finance and Accounting Service systems, including the Standard Accounting and Reporting System, in order to accurately show negative unliquidated obligations by accounting classification reference number and by contract.

  DoD RESPONSE TO THE DRAFT REPORT: Concur. Completed on December 3, 1993.

- **RECOMMENDATION B2.b**: The DoDIG recommends that the Director, Defense Finance and Accounting Service, require all Defense Finance and Accounting Service Centers to perform the research necessary to identify and correct errors leading to negative unliquidated obligations or, as appropriate, report negative unliquidated obligations as Antideficiency Act violations.

  DoD RESPONSE TO THE DRAFT REPORT: Concur. Those Defense Accounting Offices reporting to the DFAS-Indianapolis Center and DFAS-Denver Center are researching, identifying and correcting any accounting errors leading to negative unliquidated obligations. These requirements have been reemphasized by the August 4, 1993, Master Business Plan for the DFAS Undistributed Disbursements Project, and amounts are being controlled. If a negative unliquidated obligation situation causes an overall funding category, such as an allotment or program, to be overexpended, it will be reported and investigated in accordance with the Department's Antideficiency Act violation reporting procedures.

- **RECOMMENDATION B3.a**: The DoDIG recommends that the Director, Defense Finance and Accounting Service, establish maximum levels of undistributed disbursements and realistic goals for reducing them.

  DoD RESPONSE TO THE DRAFT REPORT: Concur. The appropriate levels and goals will be determined through analysis sponsored by the DFAS Undistributed Disbursements Project, included in reporting requirements and instructions for undistributed disbursements, and measured relative to attainment of established levels and goals. Expected completion is March 1994.

- **RECOMMENDATION B3.b**: The DoDIG recommends that the Director, Defense Finance and Accounting Service incorporate into the Program Appraisal reviews an appropriate method of

measuring progress in reducing the numbers and dollar values of undistributed disbursements.

DoD RESPONSE TO THE DRAFT REPORT: Concur. With the improved reporting requirements being developed, quarterly or monthly comparison of changes, extending back at least one year, will depict accurately the trend and rate in reducing undistributed disbursements. Expected completion is March 1994.

- RECOMMENDATION B3.c: The DoDIG recommends that the Director, Defense Finance and Accounting Service require Defense Finance and Accounting Service Centers that exceed maximum levels of undistributed disbursements to develop a plan of corrective action with proposed completion dates.

DoD RESPONSE TO THE DRAFT REPORT: Concur. Reporting instructions being developed by the DFAS will include a comprehensive analysis requirement. This will include determining reasons for any upward trends and exceeding standard levels of undistributed disbursements. The analysis will include the basis for expected reduction in subsequent periods. Exceeding the standard level for three successive months will require a formally defined plan to correct the adverse condition. Expected completion is March 1994.

- PART I. INTERNAL CONTROL WEAKNESSES: Our review of compliance with Federal Managers' Financial Integrity Act requirements disclosed internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circulars A-123 and A-127, and DoD Directive 5010.38. Individually, these internal control weaknesses were not considered material; collectively, however, they have resulted in the accumulation of about $34.6 billion (including $3.6 billion in uncleared interfund transactions) in undistributed disbursements, which constitutes a material weakness in DoD's finance and accounting systems. The DFAS identified similar weaknesses in its FY 1992 Annual Statement of Assurance for the Federal Managers' Financial Integrity Act. The weaknesses, initially identified by the DFAS-Columbus Center, were also identified as problems at the other DFAS Centers. However, the corrective actions discussed in the FY 1992 Annual Statement of Assurance were aimed at correcting weaknesses at DFAS-Columbus, but not DFAS-wide weaknesses.

Implementation of Recommendations A.2 and B.2 in the report will help to correct these weaknesses. Copies of the final report will be provided to the senior officials responsible for internal controls within the Office of the Secretary of Defense and the DFAS.

DoD RESPONSE TO THE DRAFT REPORT: Concur. The Department agrees that the implementation of Recommendations A.2. and B.2. will aid in correcting the weaknesses in internal controls. Two

previous material weaknesses on undistributed and unmatched disbursements, and related transactions, have been expanded and combined since they first were reported in the FY 1992 Federal Managers' Financial Integrity Act (FMFIA) Report, and have been included in the FY 1993 FMFIA Report. See expected completion dates in DoD responses to Recommendations A.2 and B.2 above.

Audit Team Members

Nancy L. Hendricks	Director, Financial Management Directorate
Richard B. Bird	Audit Program Director
Carmelo G. Ventimiglia	Audit Project Manager
Leslie M. Barnes	Senior Auditor
Thomas C. Schmidt, Sr.	Senior Auditor
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Susanne B. Allen	Editor
Helen S. Schmidt	Administrative Support