Audit Report

UNLIQUIDATED OBLIGATIONS FOR AIR FORCE-FUNDED PROJECTS ADMINISTERED BY THE NAVAL FACILITIES ENGINEERING COMMAND

Report No. D-2001-161 July 26, 2001

Office of the Inspector General
Department of Defense

Additional Copies

To obtain additional copies of this audit report, visit the Inspector General, DoD Home Page at www.dodig.osd.mil/audit/reports or contact the Secondary Reports Distribution Unit of the Audit Followup and Technical Support Directorate at (703) 604-8937 (DSN 664-8937) or fax (703) 604-8932.

Suggestions for Future Audits

To suggest ideas for or to request future audits, contact the Audit Followup and Technical Support Directorate at (703) 604-8940 (DSN 664-8940) or fax (703) 604-8932. Ideas and requests can also be mailed to:

OAIG-AUD (ATTN: AFTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-4704

Defense Hotline

To report fraud, waste, or abuse, contact the Defense Hotline by calling (800) 424-9098; by sending an electronic message to Hotline@dodig.osd.mil; or by writing to the Defense Hotline, The Pentagon, Washington, DC 20301-1900. The identity of each writer and caller is fully protected.

Acronyms

NAVFAC	Naval Facilities Engineering Command
DFAS	Defense Finance and Accounting Service
FIS	Facilities Information System
STARS-FL	Standard Accounting and Reporting System – Field Level

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

July 26, 2001

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
NAVAL INSPECTOR GENERAL

SUBJECT: Audit Report on Unliquidated Obligations for Air Force-Funded Projects Administered by the Naval Facilities Engineering Command (Report No. D-2001-161)

We are providing this report for review and comment. We conducted the audit in response to the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994. We considered management comments from the Department of the Navy and the Defense Finance and Accounting Service on a draft of this report in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Defense Finance and Accounting Service comments were not fully responsive. We request additional comments on Recommendation 1.a. by August 27, 2001.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Marvin L. Peek at (703) 604-9587 (DSN 664-9587) (mpeek@dodig.osd.mil) or Mr. Joel K. Chaney at (216) 522-6091 (DSN 580-6091), extension 235 (jchaney@dodig.osd.mil). See Appendix B for the report distribution. The audit team members are listed inside the back cover.

Thomas F. Gimble
Acting
Deputy Assistant Inspector General
For Auditing

Office of the Inspector General, DoD

Report No. D-2001-161 **July 26, 2001**
(Project No. D2001FD-0014.001)

Unliquidated Obligations for Air Force-Funded Projects Administered by the Naval Facilities Engineering Command

Executive Summary

Introduction. We performed this audit in response to the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, which requires DoD and other Government agencies to prepare consolidated financial statements. The Air Force Audit Agency requested us to assist in its review of the Statement of Budgetary Resources for the Air Force General Fund by reviewing unliquidated obligations for Air Force-funded military construction projects administered by the Naval Facilities Engineering Command. Unliquidated obligations include undelivered orders and accrued expenditures unpaid and are reported on the Statement of Budgetary Resources as "Obligated Balance, Net – End of Period."

The Naval Facilities Engineering Command manages design and construction for the Navy, and administers certain design and construction projects for the Army and the Air Force. During FYs 1998 through 2000, the Naval Facilities Engineering Command received $3.5 billion for design and construction projects. Of the $3.5 billion, $327 million was received from the Air Force. The Standard Accounting and Reporting System - Field Level was the official accounting system to account for funds administered by the Naval Facilities Engineering Command. This report discusses the Defense Finance and Accounting Service (DFAS) Norfolk and the Naval Facilities Engineering Command accounting and review of unliquidated obligation balances for Air Force-funded military construction projects administered by the Naval Facilities Engineering Command and supports the Air Force Audit Agency's disclaimer of opinion on the FY 2000 Air Force General Fund Financial Statements.

Objectives. The audit objective was to determine whether obligated balances and related disbursements for Air Force-funded projects administered by the Naval Facilities Engineering Command were fairly presented in the FY 2000 Statement of Budgetary Resources for the Air Force General Fund. Specifically, we determined whether unliquidated obligation balances were valid; and whether obligations and disbursements were recorded timely and accurately, and were properly approved and supported in accordance with DoD guidance. We also reviewed management controls and compliance with laws and regulations related to the audit objective. Appendix A includes a discussion of the audit process and our review of the management control program.

Results. The FY 2000 Air Force General Fund Financial Statements included $185.6 million in unliquidated obligations for Air Force-funded construction projects administered by the Naval Facilities Engineering Command. Review of 13 funding authorizations involving $50.1 million of the $185.6 million showed that undelivered

orders and accrued expenditures unpaid, shown in the Standard Accounting and Reporting System - Field Level, were understated by $2.7 million, and disbursements were understated by $8.1 million. The understatements occurred because of interface problems between the Standard Accounting and Reporting System – Field Level and the Facilities Information System used by the Navy. In addition, Navy field organizations did not complete required triannual reviews of unliquidated obligations. As a result, information in the Standard Accounting and Reporting System – Field Level was not reliable for either management purposes or financial reporting, and the FY 2000 Air Force General Fund Financial Statements contained errors. See the Finding section for additional details.

Although our review was limited to the Air Force funds administered by the Naval Facilities Engineering Command, the problems identified are symptomatic of a much larger problem because the interface problems impacted accounting for all design and construction projects administered by the Naval Facilities Engineering Command. The FY 2000 Navy General Fund Financial Statements included $1.1 billion in unliquidated obligations from construction related appropriations.

Summary of Recommendations. We recommend that the Commander, Naval Facilities Engineering Command, in coordination with DFAS, establish a comprehensive program for correcting the erroneous accounting data in the Standard Accounting and Reporting System – Field Level, and perform triannual reviews of obligations as required by the DoD Financial Management Regulation. We also recommend that DFAS Norfolk develop desk operating procedures to aid in training new employees to rapidly assume their duties.

Management Comments. The Naval Facilities Engineering Command, in coordination with DFAS, has established a comprehensive program to address and correct the erroneous accounting data in the Standard Accounting and Reporting System –Field Level. A priority of the program is to reconcile the processes involved with the transfer of data from the Facilities Information System to Standard Accounting and Reporting System. The Naval Facilities Engineering Command will perform the required triannual reviews of unliquidated obligations with assistance from DFAS. DFAS nonconcurred with the recommendation to establish milestones for completing programming and testing of interfaces between the Facilities Information System and the Standard Accounting and Reporting System because the interfaces passed acceptance testing prior to system implementation. DFAS Norfolk established written procedures for processing Air Force lines of accounting and will provide training to new employees. See the Finding section of the report for a discussion of management comments and the Management Comments section for the complete text of the comments.

Audit Response. Actions taken by management show that extensive and commendable work is being done to correct the problems identified. We considered management comments responsive except the DFAS comment related to testing of the interfaces prior to systems implementation. Testing of the interfaces was not sufficient to ensure that obligation and accrual transactions were accurately converted and recorded in the Standard Accounting and Reporting System. We continue to believe that comprehensive transaction testing should be performed to ensure that post implementation actions correct the interface deficiencies. We request that DFAS reconsider its position and provide additional comments on the need for additional testing by August 27, 2001.

Table of Contents

Executive Summary i

Introduction

Background 1
Objectives 1

Finding

Recording and Reporting Information Supporting Unliquidated Obligations 2

Appendixes

A. Audit Process
Scope 9
Methodology 10
Management Control Program Review 11
Prior Coverage 11
B. Report Distribution 12

Management Comments

Department of the Navy 15
Defense Finance and Accounting Service 18

Background

Audit Requirements. The audit was performed in response to Public Law 101-576, the "Chief Financial Officers Act of 1990," November 15, 1990, as amended by Public Law 103-356, the "Federal Financial Management Act of 1994," October 13, 1994. We delegated the audit of the FY 2000 Air Force General Fund Financial Statements to the Air Force Audit Agency. As part of their audit of the Statement of Budgetary Resources, the Air Force Audit Agency attempted to substantiate unliquidated obligations as of September 30, 2000. The FY 2000 Air Force General Fund Statement of Budgetary Resources reported $88.2 billion in Obligations Incurred and $33.4 billion in "Obligated Balance, Net – End of Period" (commonly referred to as unliquidated obligations). We assisted the Air Force Audit Agency in reviewing unliquidated obligations for Air Force-funded military construction projects administered by the Naval Facilities Engineering Command (NAVFAC). Inspector General, DoD, Report No. D-2001-058, "Oversight of the Air Force Audit Agency Audit of the FY 2000 Air Force General Fund Financial Statements," February 21, 2001, endorses the Air Force Audit Agency's disclaimer of opinion on those statements. This part of the audit focused on Defense Finance and Accounting Service (DFAS) Norfolk accounting for Air Force-funded construction projects administered by NAVFAC.

DFAS Norfolk. DFAS Norfolk maintained the official accounting records for NAVFAC and used the Standard Accounting and Reporting System – Field Level (STARS-FL) to account for the Air Force military construction projects. DFAS Norfolk also used STARS-FL to account for other projects funded by Army and Navy military construction appropriations.

Naval Facilities Engineering Command. NAVFAC manages facilities design and construction for the Navy, and selected design and construction projects for the Army and the Air Force. During FYs 1998 through 2000, NAVFAC received $3.5 billion for design and construction of various military construction projects, which included $327 million from the Air Force. NAVFAC maintains project management and financial information on de

Objectives

The audit objective was to determine whether obligated balances and related disbursements for Air Force-funded projects administered by NAVFAC were fairly presented in the FY 2000 Statement of Budgetary Resources for the Air Force General Fund. Specifically, we determined whether reported unliquidated obligation balances were valid; and whether obligations and disbursements were recorded timely and accurately, and were properly approved and supported in accordance with DoD guidance. We also reviewed management controls and compliance with laws and regulations related to the audit objective. Appendix A includes a discussion of the audit process and our review of the management control program.

Recording and Reporting Information Supporting Unliquidated Obligations

The FY 2000 Air Force General Fund Financial Statements included $185.6 million in unliquidated obligations for Air Force-funded construction projects administered by NAVFAC. Review of 13 funding authorizations involving $50.1 million of the $185.6 million showed that undelivered orders and accrued expenditures unpaid, shown in STARS-FL, were understated by $2.7 million, and disbursements were understated by $8.1 million. Also, NAVFAC field organizations did not complete required triannual reviews of unliquidated obligations. The understatements occurred because numerous obligation, accrual, and disbursement transactions were not recorded in STARS-FL. This occurred primarily because interface programs between STARS-FL and FIS were not adequately tested before the conversion to STARS-FL. The backlog in recording transactions and failure to perform triannual reviews of obligations occurred because resources were devoted to identifying and correcting interface problems, and transactions had to be researched and manually recorded in STARS-FL. Further, employee turnover at DFAS Norfolk reduced the number of personnel trained to research and record accounting transactions.

As a result, information shown in STARS-FL was not reliable for either management purposes or financial reporting. Accounting personnel recognized the interface problems and used more reliable information from FIS in preparing the FY 2000 financial statements. However, unliquidated obligations for the projects administered by NAVFAC were still overstated in the Air Force financial statements.

DoD Accounting Policy

Obligations. DoD Regulation 7000.14-R "DoD Financial Management Regulation," volume 1, "General Financial Management Information, Systems, and Requirements," June 1999, defines obligations as the amount of orders placed, contracts awarded, services received, and similar transactions that occurred during an accounting period that will require payment during the same or a future period. Such amounts include payments for which obligations have not previously been recorded, and adjustments for differences between obligations previously recorded and actual payments to liquidate those obligations. The amount of obligations incurred is segregated into undelivered orders and accrued expenditures--paid or unpaid.

Recording and Processing Financial Data. DoD Regulation 7000.14-R, volume 6A, "Reporting Policy and Procedures," chapter 2, "Departmental Financial Reports Roles and Responsibilities," December 2000, requires DFAS to establish procedures to ensure that financial reports are prepared and verified to the official accounting records. The regulation also provides that DFAS shall

establish procedures to ensure that data provided by the customer (including data input to finance and accounting systems by the customer) are accurately and timely recorded and processed in finance and accounting systems. In addition, transactions that have occurred during a reporting period are uniquely identified with the reporting period and should be processed in order to meet the reporting schedule for the report due date.

Required Reviews of Obligations. DoD Regulation 7000.14-R, volume 3, "Budget Execution—Availability and Use of Budgetary Resources," chapter 8, "Standards for Recording Commitments and Obligations," December 1996 (with changes through December 2000), establishes guidance for triannual reviews of commitment and obligation transactions. The regulation requires accounting offices to provide funds holders with listings or automated media identifying both outstanding commitments and unliquidated obligations recorded for the funds holder. Accounting offices are also requested to provide listings or automated media identifying accounts payable and accounts receivable which enable the funds holder to verify that proprietary and budgetary accounts are valid, accurate, and reconciled. DoD Regulation 7000.14-R also requires funds holders to review outstanding commitments and unliquidated obligations (to include accounts payable and accounts receivable), irrespective of whether the funds holder or the accounting office actually records the commitments or obligations in the official accounting records.

Obligations, Accruals, and Expenditures Recorded in STARS-FL

The obligation, accrual, and expenditure amounts shown in STARS-FL for Air Force-funded projects administered by NAVFAC were not reliable as of September 30, 2000. Review of 13 funding authorizations, involving $50.1 million of the reported $185.6 million of unliquidated obligations for the Air Force-funded projects, showed that undelivered orders and accrued expenditures unpaid were understated by $2.7 million and accrued expenditures paid (disbursements) were understated by $8.1 million.

Interfacing of Systems. During FY 2000, NAVFAC converted to STARS-FL as the official accounting system. NAVFAC initiated obligation, accrual, and certain disbursement transactions in FIS. Interface programs were developed to record FIS transactions in STARS-FL. NAVFAC and DFAS performed limited testing of the interface programs before converting to STARS-FL in March 2000. However, when NAVFAC and DFAS Norfolk converted to STARS-FL, the interface programs did not work properly. Numerous programming deficiencies caused transactions to not be recorded in STARS-FL. NAVFAC and DFAS have identified numerous post implementation issues and have been working to correct these issues.

Undelivered Orders and Accrued Expenditures Unpaid. For the 13 sampled funding authorizations, involving $50.1 million in unliquidated obligations, $2.7 million in undelivered orders and accrued expenditures unpaid were not recorded in STARS-FL. The understatement was a direct result of the deficiencies in the interface programs. DFAS and NAVFAC were aware of the reliability problems with the data in STARS-FL and used information in FIS for the FY 2000 financial statements, which increased undelivered orders and accrued expenditures unpaid by $45.1 million.

Disbursements. Review of disbursements for the 13 funding authorizations sampled showed that $8.1 million of disbursements (accrued expenditures paid) incurred in FY 2000 were not posted to STARS-FL as of September 30, 2000, and were not included in the reported disbursements in the financial statements.

Payments to Contractors. Comparison of payment information shown in STARS-FL with available documentation (invoices certified for payment or disbursement vouchers) for all contracts associated with the 13 sampled funding authorizations indicated that the $27.9 million of disbursements recorded in STARS-FL were understated by $7.4 million. The understatement occurred primarily because interface problems forced the accounting personnel to research and manually record unmatched disbursements.[1] This effort caused a backlog in recording disbursements. According to DFAS Norfolk, staffing turnover also contributed to the backlog. Staffing turnover impacted the backlog because DFAS Norfolk did not have adequate standard operating procedures to allow for a smooth transition during times of employee turnover.

Supervisory Inspection Overhead Fees. In addition to disbursements made to contractors, NAVFAC charged a supervisory inspection overhead fee. This charge, 6 percent of the accrued expenditures recorded in FIS, was to recover the cost of administering the design and construction projects. Payments for the supervisory inspection overhead were calculated and initially recorded in FIS. The transactions were to be recorded in STARS-FL by the interface program. For the 13 sampled funding authorizations, accrued expenditures paid were understated by $.7 million in STARS-FL because the interface program did not record the supervisory inspection overhead.

Backlog of Unrecorded Transactions. The backlog previously discussed for entering information related to Air Force-funded projects was only a small portion of the total backlog. Air Force-funded projects were less than 10 percent of the total funds managed by NAVFAC. As of February 2001, DFAS Norfolk estimated that more than 44,000 hours of overtime at a cost in excess of $1 million would be required to research and process the backlog

[1]Disbursement transactions that do not match an obligation are not automatically recorded to STARS-FL. Accounting personnel are required to research the disbursement to determine that an obligation exists and that the accounting information is correct before recording the disbursement. Accordingly, unrecorded obligations caused additional workload for the accounting personnel.

caused by the interface program deficiencies. The backlog included obligation and accrual transactions, unmatched disbursement and problem disbursement transactions, transactions for reimbursable programs, and the related reconciliation with the Department of the Treasury for all of NAVFAC.

Corrective Actions. NAVFAC and DFAS identified interface program deficiencies and have initiated measures to reprogram and test the interface between FIS and STARS-FL utilizing the Fleet Material Support Office, NAVFAC Information Technology Center, and a contractor. NAVFAC established a goal of September 2001 to complete the reprogramming effort. We did not evaluate whether that goal was reasonable or attainable. However, we believe that a more comprehensive program is needed. Goals should also be established for evaluating NAVFAC business practices, eliminating the backlog of unrecorded transactions and correcting erroneous accounting information, and validating the accuracy of that data. Accounting information will not be reliable until all of those actions are completed.

Reporting Unliquidated Obligations

The FY 2000 Air Force General Fund Statement of Budgetary Resources included unliquidated obligations, valued at $185.6 million, for the Air Force-funded construction projects administered by NAVFAC. However, DFAS Denver was unable to use STARS-FL (the official accounting records) to obtain this balance and added $45.1 million to unliquidated obligations to data shown in STARS-FL based on information in FIS. (The increases included $6.8 million in undelivered orders and $38.3 million in accrued expenditures unpaid.) DFAS Denver calculated those values using FIS values for undelivered orders and accrued expenditures and disbursement values (accrued expenditures paid) provided by DFAS Norfolk from STARS-FL. We did not verify the accuracy of the $45.1 million from FIS. However, our review of the obligations data in FIS is based on the 13 sampled transactions. The sampled transactions showed that data from FIS on undelivered orders and accrued expenditures were more accurate than STARS-FL.

Despite efforts to use more reliable information on undelivered orders and accrued expenditures from FIS, the unliquidated obligations reported in the Statement of Budgetary Resources were overstated because $8.1 million of disbursements (which reduced unliquidated obligations) were not recorded. Reliance on STARS-FL data caused the FY 2000 Air Force Statement of Budgetary Resources to overstate unliquidated obligations. Accrued expenditures unpaid were overstated because disbursements recorded in STARS-FL were understated.

Triannual Reviews of Obligations

According to NAVFAC personnel, field organizations did not perform triannual reviews of obligations (which include obligations initiated, undelivered orders, and accrued expenditures paid and unpaid) as required by DoD Regulation 7000.14-R. Review of obligations, accruals, and disbursements related to the 37 contracts associated with the 13 sampled funding authorizations showed:

- two contract modifications, which created obligations valued at $27,094, were not recorded in either FIS or STARS-FL (The unrecorded obligations occurred because of errors in manually entering data rather than systemic deficiencies.); and

- $8.1 million in disbursements were not recorded (as previously discussed) in STARS-FL.

Conducting the required triannual reviews should have identified those errors. NAVFAC did not attempt to complete the year-end reviews because of the post-implementation interface problems previously discussed. In addition, NAVFAC did not take steps to verify that the obligation and accrual information recorded in FIS was accurate or that all of the obligations were still needed. Because of the interface problems, the reviews are even more important to verify the accuracy and integrity of obligations, accruals, and expenditures recorded in STARS-FL.

Conclusion

Use of the alternative method to calculate the $185.6 million in undelivered orders and accrued expenditures unpaid reduced the misstatement in the FY 2000 financial statements. However, the inability to use the official accounting system—STARS-FL—to produce accurate information for the annual financial statements highlights the need to correct the interface problems. Our review was limited to the Air Force funds managed by NAVFAC. However, the interface problems identified and the resulting backlog in recording corrective transactions are symptomatic of a much larger problem because the interface deficiencies have and will continue to impact accounting for all projects administered by NAVFAC. The impact on the reliability of the financial statements of the Department of the Navy General Fund could be much greater. Reported obligations incurred for the FY 2000 financial statements showed $1.6 billion in obligations incurred and $1.1 billion in unliquidated obligations for military construction and related appropriations.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Commander, Naval Facilities Engineering Command, in coordination with the Defense Finance and Accounting Service:

a. Establish a comprehensive program for correcting the erroneous accounting data in the Standard Accounting and Reporting System – Field Level. The program should include milestones for:

- **programming and testing the interfaces between the Facilities Information System and the Standard Accounting and Reporting System – Field Level,**
- **evaluating whether business practices need to be changed to implement the interface,**
- **eliminating the backlog in unrecorded transactions and correcting erroneous accounting information in Standard Accounting and Reporting System – Field Level, and**
- **validating the accuracy of the Standard Accounting and Reporting System – Field Level data.**

Navy Comments. The Navy concurred with the finding and indicated that NAVFAC in coordination with DFAS has established a comprehensive program to address and correct the erroneous accounting data in STARS-FL. The priorities of this program are to correct the data in STARS-FL and to reconcile the processes involved with the transfer of data from FIS to STARS-FL.

DFAS Comments. DFAS generally concurred with the recommendation except the recommendation to establish milestones for programming and testing interfaces between STARS-FL and FIS. DFAS disagreed with the audit conclusion that understatements in unliquidated obligations and disbursements reported in STARS-FL occurred because interface programs between STARS-FL and FIS were not adequately tested before conversion to STARS-FL. The interfaces between FIS and STARS-FL were tested, and all interfaces passed acceptance testing prior to implementation. In reviewing the interface, documented post-implementation issues illustrate that STARS-FL account balances are inaccurate primarily due to valid transactions passing STARS-FL interface edits and then posting to the correct general ledger accounts with an incorrect line of accounting from FIS.

Regarding other parts of the recommendation, DFAS stated that several programs have been established to correct accounting data in STARS-FL.

NAVFAC and DFAS have identified issues that are causing incorrect general ledger balances, have developed a priority list for correcting the data in STARS-FL, and have committed significant resources to resolving the issues. DFAS also included as an attachment to its comments a listing of tasks with responsibility, priority, status, and other pertinent information along with schedules showing plans being taken to reduce the backlog.

Audit Response. Actions taken by NAVFAC and DFAS show that extensive and commendable work is being done by both organizations to correct the problems identified before the audit began and subsequent to the audit. Management comments were generally responsive, and actions taken and proposed satisfy the intent of the recommendation with one exception. The audit showed and working level personnel at both DFAS and NAVFAC stated that more extensive interface testing was necessary to ensure accounting information entered into FIS is correctly recorded in STARS-FL through the interface. Even though management stated that all interfaces passed acceptance testing, they acknowledged and subsequently identified other issues causing incorrect general ledger balances and have now committed significant resources to resolve those issues. We continue to believe that the interfaces should be fully tested to ensure that post implementation actions correct the deficiencies identified in this report. Acceptance testing, prior to implementation, did not ensure that obligation and accrual transactions were accurately recorded in STARS-FL. We request that DFAS reconsider its position on the need for additional interface testing and provide comments on the final report.

b. Perform the triannual reviews of unliquidated obligations required by DoD Regulation 7000.14-R.

Management Comments. The Navy and DFAS concurred and indicated that NAVFAC, with assistance from DFAS, will perform the triannual reviews of unliquidated obligations required by DoD Regulation 7000.14-R.

2. We recommend that the Director, Defense Finance and Accounting Service Norfolk, develop desk operating procedures that include procedures for researching and recording rejected transactions and unmatched disbursements and ensure that new employees are adequately trained in using those procedures so they can rapidly assume their duties.

Management Comments. DFAS concurred and has established written procedures for Air Force lines of accounting, including procedures for researching and recording rejected transactions and unmatched disbursements. New employees will be issued the written procedures and provided hands-on training to ensure duties are assumed rapidly to diminish any adverse impact to customers and DFAS operations.

Appendix A. Audit Process

Scope

Work Performed. During FYs 1998 through 2000, the Air Force provided approximately $327 million to NAVFAC for design and construction projects. We examined NAVFAC procedures and controls for recording obligation and accrual transactions in FIS. We reviewed DFAS Norfolk procedures for recording disbursements for Air Force-funded projects in STARS-FL. In addition, we reviewed the processes used to record transactions in STARS-FL that were initiated in FIS.

DoD-Wide Corporate-Level Government Performance and Results Act Coverage. In response to the Government Performance and Results Act, the Secretary of Defense annually establishes DoD-wide corporate level goals, subordinate performance goals, and performance measures. This report pertains to achievement of the following goal, subordinate performance goal, and performance measures.

> **FY 2001 DoD Corporate-Level Goal 2:** Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. **(01-DoD-02)**
>
> **FY 2001 Subordinate Performance Goal 2.5:** Improve DoD financial and information management. **(01-DoD-2.5)**
>
> **FY 2001 Performance Measure 2.5.1:** Reduce the number of noncompliant accounting and finance systems. **(01-DoD-2.5.1.)**.
>
> **FY 2001 Performance Measure 2.5.2:** Achieve unqualified opinions on financial statements. **(01-DoD-2.5.2.)**.

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objective and goal.

> **Financial Management Area. Objective:** Eliminate problem disbursements. **Goal:** Improve timeliness and accuracy of obligations. **(FM-3.3)**

General Accounting Office High Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the Defense Financial Management high-risk area.

Methodology

Our audit work consisted of an examination of procedures and controls for recording obligations, accruals, and disbursements for Air Force-funded construction projects administered by NAVFAC. We judgmentally sampled 13 funding authorizations involving $50.1 million of unliquidated obligations from a universe of funding authorizations with $185.6 million of unliquidated obligations as of September 30, 2000. The universe of funding authorizations, provided by DFAS Denver, was the file sent from NAVFAC to DFAS Denver for reporting the FY 2000 obligation data. The sample of funding authorizations was selected based on amount of unliquidated obligations and fiscal year of the appropriation.

We reviewed the obligations, accruals, and disbursements for 37 contracts associated with the 13 funding authorizations to determine whether they were adequately supported, properly recorded in the accounting system, and accurately reported for inclusion in the Statement of Budgetary Resources.

Computer-Processed Data. We relied on the computer-processed data from FIS to select the sample of funding authorization included in our review. We concluded that the data were sufficiently reliable to meet the audit objective. We did not rely on the obligation, accrual, and disbursement data recorded in STARS-FL and FIS. We tested that data to evaluate obligations and disbursements used in the compilation of the Air Force Statement of Budgetary Resources.

Audit Type, Period, and Standards. We performed this financial-related audit from November 2000 through April 2001 in accordance with audit standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD, subject to limitations discussed in this appendix. We did our work in accordance with generally accepted Government auditing standards except that we were unable to obtain an opinion on our system of quality control. The most recent external quality control review was withdrawn on March 15, 2001, and we will undergo a new review.

Contacts During the Audit. We visited or contacted individuals and organizations in DoD. Further details are available on request.

Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the management controls.

Scope of Review of the Management Control Program. We reviewed the adequacy of NAVFAC and DFAS Norfolk management controls over the unliquidated obligation balances and the recording of obligations and disbursements.

Adequacy of Management Controls. We identified material control weaknesses as defined by DoD Instruction 5010.40. Management controls at NAVFAC and DFAS Norfolk were not adequate to ensure that the recorded values of obligations, accrued expenditures, and disbursements in STARS-FL were correct. Recommendations 1.a., 1.b., and 2., if implemented, will improve the accuracy of recorded values in STARS-FL. A copy of the report will be provided to the senior official responsible for management controls in the Department of the Navy and DFAS.

Adequacy of Management's Self-Evaluation. NAVFAC identified obligation review as an assessable unit and performed a review during FY 2000. However, NAVFAC did not identify and report the material control weakness identified by audit and NAVFAC field organizations did not perform year-end reviews of unliquidated obligations recorded in STARS-FL.

Prior Coverage

The General Accounting Office, the Inspector General, DoD, and the Military Department audit agencies have conducted multiple reviews related to financial statement issues. General Accounting Office reports can be accessed on the Internet at http://www.gao.gov. Inspector General, DoD, reports can be accessed on the Internet at http://www.dodig.osd.mil/audit/reports. Naval Audit Service reports can be accessed on the Internet at http://www.hq.navy.mil/navalaudit. Air Force Audit Agency reports can be accessed on the Internet at http://www.afaa.hq.af.mil.

Appendix B. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Comptroller (Program/Budget)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Commander, Naval Facilities Engineering Command
Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

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

Other Defense Organizations

Director, Defense Finance and Accounting Service
  Director, Defense Finance and Accounting Service Cleveland
  Director, Defense Finance and Accounting Service Denver
  Director, Defense Finance and Accounting Service Norfolk

Non-Defense Federal Organization

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

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 Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform
House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform
House Subcommittee on Technology and Procurement Policy, Committee on Government Reform

Department of the Navy Comments

DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
1000 NAVY PENTAGON
WASHINGTON, D.C. 20350-1000

JUN 27 2001

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

Subj: DRAFT AUDIT REPORT ON THE UNLIQUIDATED OBLIGATIONS FOR AIR FORCE-FUNDED PROJECTS ADMINISTERED BY THE NAVAL FACILITIES ENGINEERING COMMAND (PROJECT NO. D2001FD-0014.001)

Ref: (a) DODIG memo of 26 Apr 01

Encl: (1) DON Comments on DODIG Draft Report D2001FD-0014.001

By reference (a), you requested comments regarding the subject audit. Comments were prepared in coordination with the Commander, Naval Facilities Engineering Command (COMNAVFACENGCOM) and are provided in enclosure (1).

Our point of contact is Mr. Gary Naumann who may be reached at (202) 685-6723.

Gladys J. Commons

GLADYS J. COMMONS
Principal Deputy
Assistant Secretary of the Navy
(Financial Management and Comptroller)

Copy to:
COMNAVFACENGCOM
NAVINSGEN
NAVAUDSVC

DEPARTMENT OF THE NAVY COMMENTS
ON
DODIG DRAFT AUDIT REPORT
"UNLIQUIDATED OBLIGATIONS FOR AIR FORCE-FUNDED PROJECTS ADMINISTERED BY THE NAVAL FACILITIES ENGINEERING COMMAND"
(PROJECT NO. D2001FD-0014.001)

Finding: Recording and Reporting Information Supporting Unliquidated Obligations

Recommendation 1(a): We recommend that the Commander, Naval Facilities Engineering Command, in coordination with the Defense Finance and Accounting Service:

a. Establish a comprehensive program for correcting the erroneous accounting data in the Standard Accounting and Reporting System - Field Level. The program should include milestones for:

- programming and testing the interfaces between the Facilities Information System and the Standard Accounting and Reporting System - Field Level,
- evaluating whether business practices need to be changed to implement the interface,
- eliminating the backlog in unrecorded transactions and correcting erroneous accounting information in Standard Accounting and Reporting System - Field Level, and
- validating the accuracy of the Standard Accounting and Reporting System - Field Level data.

Response. Concur: Commander, Naval Facilities Engineering Command (COMNAVFACENGCOM), in coordination with the Defense Finance and Accounting Service (DFAS), has established a comprehensive program to address and correct the erroneous accounting data in the Standard Accounting and Reporting System - Field Level (STARS-FL). The priorities of this program are to correct the data in STARS-FL and to reconcile the processes involved with the transfer of data from the Facilities Information System (FIS) to STARS. The Program will include milestones to ensure that these priorities are met.

Enclosure (1)

RECOMMENDATION 1(b). Perform the triannual reviews of unliquidated obligations required by DoD Regulation 7000.14-R.

Response. Concur: COMNAVFACENGCOM is performing and will continue to perform triannual reviews of unliquidated obligations as required by DOD Regulation 7000.14-R.

Enclosure (1)

Defense Finance and Accounting Service Comments

DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22240-5291

DFAS-DAS

JUN 27 2001

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE, OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Audit Report on Unliquidated Obligations for Air Force-Funded Projects Administered by the Naval Facilities Engineering Command (Project No. D2001FD-0014.001)

Our response to the subject audit is attached. The point of contact is Mr. David Arvin, (703) 607-2857 or DSN 327-2857.

Robert P. McNamara
Director for Accounting

Attachment:
As stated

cc:
DFAS-DDI
DFAS-AJIS/CL

DFAS Comments to Audit Report on Unliquidated Obligations for Air Force-Funded Projects Administered by the Naval Facilities Engineering Command (Project No. D2001FD-0014.001)

Recommendation 1.a. We recommend that the Commander, Naval Facilities Engineering Command, in coordination with the Defense Finance and Accounting Service, establish a comprehensive program for correcting the erroneous accounting data in the Standard Accounting and Reporting System – Field Level. The program should include milestones for:

- programming and testing the interfaces between the Facilities Information System and the Standard Accounting and Reporting System – Field Level,
- evaluating whether business practices need to be changed to implement the interface,
- eliminating the backlog in unrecorded transactions and correcting erroneous accounting information in Standard Accounting and Reporting System – Field Level, and
- validating the accuracy of Standard Accounting and Reporting System – Field Level data.

Management Comments. Partially concur. Several programs have been established for correcting accounting data. The post implementation issues are identified on the Web site https://mzd.mech.disa.mil. Based on these issues, Naval Facilities Engineering Command (NAVFAC), in coordination with DFAS, developed a list of 106 action items, many of which are closed (see Consolidated CDA Task List at Tab A). In addition, DFAS Norfolk developed a plan for correcting the erroneous accounting data in Standard Accounting and Reporting System – Field Level (STARS-FL) (see NAVFAC Backlog Plan at Tab B).

Our comments to the recommended milestones follow.

- Programming and testing the interfaces between the Facilities Information System and the Standard Accounting and Reporting System – Field Level.

Management Comments. Nonconcur. The interfaces between Facilities Information System (FIS) and STARS-FL were tested, and all interfaces passed acceptance testing prior to implementation. Therefore, we do not concur with the statement that "The understatements occurred because numerous obligation, accrual, and disbursement transactions were not recorded in STARS-FL primarily because interface programs between the STARS-FL and the FIS were not adequately tested before the conversion to STARS-FL."

- Evaluating whether business practices need to be changed to implement the interface.

Management Comments. Concur. In reviewing the interface, documented post-implementation issues illustrate that STARS-FL account balances are inaccurate primarily due to valid transactions passing the STARS-FL interface edits and then posting to the correct general ledger accounts with an incorrect line of accounting from FIS.

- Eliminating the backlog in unrecorded transactions and correcting erroneous accounting information in Standard Accounting and Reporting System – Field Level.

Management Comments. Partially concur. NAVFAC and DFAS have identified issues that are causing incorrect general ledger balances and have committed significant resources to resolving the issues. NAVFAC has the primary responsibility of correcting the identified issues and is coordinating its efforts with the two central design agencies and DFAS.

- Validating the accuracy of Standard Accounting and Reporting System – Field Level data.

Management Comments. Concur. NAVFAC, in coordination with DFAS, has developed a priority list for correcting the erroneous accounting data in STARS-FL.

Estimated Completion Date: Several initiatives to correct these identified issues are ongoing. The Consolidated CDA Task List, the NAVFAC Backlog Plan, the FIS Top 5 (Tab C), and the Post Implementation Log IDs (Tab D) have identified numerous actions with estimated completion dates to address these issues. We will ensure that actions for which DFAS is responsible are completed timely.

Some significant milestones are:

- NAVFAC Backlog Plan has an estimated completion date of August 1, 2001.
- DFAS Norfolk, DFAS Cleveland, Navy, Fleet Management Support Office, Naval International Training Center, and contractors have been meeting regularly to address interface and backlog issues, i.e., Web site LogIDs, point papers, partnership meetings/agreements, and teleconferences. DFAS has requested 12 additional personnel to more equitably address/distribute the current workload. Projected completion date is July 15, 2001.
- DFAS is partnering with Navy to address communication and inadequate training/lack of usage of STARS. Projected completion date for the Partnership Training Agreement is August 1, 2001.
- DFAS and Navy have been tasked to develop a plan of action to align NAVFAC under STARS – One Bill Pay. Projected suspense date for the Initial Report (Plan) is June 30, 2001. Projected timeframe for compliance is October 1, 2001.

Recommendation 1.b. We recommend that the Commander, Naval Facilities Engineering Command, in coordination with the Defense Finance and Accounting Service perform the triannual reviews of unliquidated obligations required by DoD Regulation 7000.14-R.

Management Comments. Concur. DFAS will provide assistance to the Navy in the performance of triannual reviews of unliquidated obligations.

Estimated Completion Date: Deferred to NAVFAC.

Recommendation 2. We recommend that the Director, Defense Finance and Accounting Service Norfolk, develop desk operating procedures that include procedures for researching and recording rejected transactions and unmatched disbursements and ensure that new employees are adequately trained in using those procedures so they can rapidly assume their duties.

Management Comments. Concur. DFAS Norfolk established written procedures for the Air Force lines of accounting, including procedures for researching and recording rejected transactions and unmatched disbursements. These procedures are being used. In the future, new employees will be issued the written procedures and provided hands-on training/guidance to ensure duties are assumed rapidly with minimum impact to the customers and DFAS operations.

Completion Date: February 16, 2001.

Audit Team Members

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report. Personnel of the Office of the Inspector, DoD, who contributed to the report are listed below.

Paul J. Granetto
Richard B. Bird
Marvin L. Peek
Joel K. Chaney
Gregory M. Mennetti
Judith A. Cook
Lisa C. Rose-Pressley