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

REPORT
NO. 90-029

December 29, 1989

MEMORANDUM FOR COMPTROLLER OF THE DEPARTMENT OF DEFENSE
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Report on the Survey of Foreign Military Sales Trust Fund Disbursement Reporting (Project 9FA-0045)

Introduction

This is our report on the Survey of Foreign Military Sales (FMS) Trust Fund (the Trust Fund) Disbursement Reporting. We made the survey from May to August 1989.

Scope of Survey

Our objective was to evaluate the controls over FMS Trust Fund disbursement reporting. Specific objectives were to determine whether all Trust Fund disbursements were being reported by the Military Departments (MILDEPS) and properly recorded at the Security Assistance Accounting Center (SAAC); to determine why the MILDEPS were losing either the country or case identity, or both, on disbursements made from the Trust Fund, and whether the MILDEPS were taking timely action to correct these disbursements; and to determine whether the accounting systems at the MILDEPS could accommodate decentralized disbursing from multiple trust funds and, if not, what changes were needed.

We reviewed procedures that SAAC, the MILDEPS, and the Defense Contract Administration Services Regions use to submit and process disbursement reports for FMS expenditures. We also reviewed internal controls over the disbursement reporting process.

This report contains unaudited data on current balances of undistributed disbursements. The report also contains MILDEPS' estimates of the costs of modifying systems to accommodate multiple trust funds. This performance survey was made in accordance with auditing standards issued by the Comptroller

General of the United States as implemented by the Inspector General, DoD. Activities visited during the survey are listed in Enclosure 2.

Background

Since 1982, DoD has planned to establish a new trust fund for foreign military sales. A new trust fund was thought to be needed, because DoD could not provide an accurate accounting as to how customer funds had been spent. As of December 31, 1987, records at the Security Assistance Accounting Center indicated that DoD had spent $229 million more than it could account for in deliveries to customers. The existing trust fund contains reporting errors that have accumulated, possibly since the trust fund was established. DoD has delayed the establishment of a new trust fund until an accurate and reliable accounting system could be established. As of January 31, 1989, foreign customers had nearly $13 billion on deposit in the trust fund including those in interest bearing accounts. About $4.7 billion were on deposit with the U.S. Treasury.

The U.S. Treasury maintains a single cash account for the FMS program. SAAC has the responsibility to reconcile the total Treasury cash balance with the subsidiary country and administrative account balances maintained in its automated financial system. Because SAAC was unable to balance the automated records with the Treasury cash balance, it also maintained a manual ledger for the subsidiary cash balances. One of the administrative accounts maintained in the manual ledger was titled "Undistributed Disbursements." This account was used as a clearing account for unidentified disbursements and interdepartmental billings. Theoretically, the monies in this account should balance out when unidentified disbursements are identified and charged to a particular country and when offsetting debits and credits are recorded for interdepartmental bills.

As of September 30, 1984, the net balance in the undistributed disbursement account was $257.4 million. Data in the manual ledger were not detailed enough to show how much of the $257.4 million was applicable to unidentified disbursements and how much was applicable to interdepartmental billings. The auditors, with agreement of the Security Assistance Accounting Center, estimated that the undistributed disbursements amounted to about $140 million.

At the time of our review, SAAC had implemented a subsystem of its automated accounting and billing system to improve controls over disbursement reporting. The subsystem was called Case Level Disbursement Reporting (CLD) and provided for disbursement accounting at the country and case level. Formerly, disbursement accounting was at the country level. From February

to April 1989, the MILDEPS submitted cumulative summary case-level financial data as of January 31, 1989, to SAAC for input into CLD. This effort was called "the load."

Army and Air Force officials were upgrading their systems to improve the accuracy of disbursement reporting. The Navy was upgrading its Management Information System - International Logistics (MISIL). The Air Force was developing a new system, called the Case Management Control System, and was developing new procedures to correct the rejected transactions. The Air Force was also moving its computer operation from San Antonio to Denver.

Prior Audit Coverage

On August 9, 1985, DoDIG issued Report No. 85-107, "Cash Collections into the Foreign Military Sales Trust Fund." This report stated that a net $257.4 million of disbursements and interdepartmental billings had been charged against the FMS Trust Fund without a corresponding charge to the foreign countries' cash balances. The reasons for the discrepancy were that MILDEPS submitted disbursement transactions that did not always identify the country account, and SAAC did not establish systematic procedures to clear the suspense account. The report recommended that the MILDEPS be required to submit detailed transaction listings for unidentified direct-cite disbursements, that the Undistributed Disbursement Account be reconciled, and the unreconcilable amounts be reported to the Assistant Secretary of Defense (Comptroller), now the Comptroller of the Department of Defense. On October 17, 1985, the Assistant Secretary of Defense (Comptroller) forwarded a memo to the Assistant Secretaries of the MILDEPS (Financial Management) requiring full compliance with cited sections of the FMS Financial Management Manual (DoD 7290.3-M).

Discussion

Because of the timing of our project, we were unable to determine whether current disbursements were being reported accurately or whether the MILDEPS were still losing country and case identity. Factors restricting our evaluation were the recentness of "the load" and of the MILDEPS' efforts to reconcile their submissions to SAAC's records, automated systems development efforts in the Navy and the Air Force, and the transfer of the computer operation in the Air Force. These circumstances prevented us from performing the necessary audit tests to determine whether disbursement reporting was complete and accurate and whether internal controls were effective. Accordingly, we terminated the project at the end of the survey phase. We anticipate that additional audit work in this area will be programed for fiscal year 1991.

Our review of the MILDEPS' position statements indicated that the systems in use could not accommodate multiple trust funds in their present configurations but could do so with

modifications. The Army estimated that its systems could be modified at a cost of $400,000, and that the modification would require 10 months. The Navy estimated the modification would require 14 months, but did not estimate the cost. The Air Force estimated a cost of $2.4 million to modify two major systems, but did not estimate the time required. The Air Force did not provide cost estimates for other subsystems that would be involved. The MILDEPS were preparing revised position statements on system changes, and expected to submit them to SAAC in September 1989.

Data entered into SAAC's records during "the load" were divided into various categories. Where possible, disbursements were identified as cross-disbursements, interfund, State Department, or intraservice (within the MILDEP or agency). Other categories identified whether the country was known, or whether the MILDEP records agreed with SAAC records for a particular country (unreconciled) or unknown (unexplainable differences). As of January 31, 1989, the total disbursements recorded during "the load" process was $106 billion. Of this amount, a net $226.3 million was undistributed at case level, $106.8 million was undistributed at country level, $143.6 million was unreconciled, and $18.6 million was unknown. These net amounts by category and MILDEP are presented in Enclosure 1.

A draft of this report was issued on October 2, 1989, to the Comptroller of the Department of Defense, the Assistant Secretaries of the Army and Navy (Financial Management), the Assistant Secretary of the Air Force (Financial Management and Comptroller), and the Director, Defense Logistics Agency. Since the draft report contained no recommendations, a response to the draft report was not required and no comments were received. Therefore, we are publishing this report in final form. Any comments on this final report should be provided within 60 days of the date of this memorandum.

The courtesies and cooperation extended to the audit staff are appreciated. If you have any questions concerning this report, please contact Mr. Byron B. Harbert at (202) 693-0653 (AUTOVON 223-0653) or Mr. David R. Stoker at (202) 694-1692 (AUTOVON 224-1692). The audit team members are listed in Enclosure 3. Copies of this report are being distributed to the activities listed in Enclosure 4.

Edward R. Jones
Deputy Assistant Inspector General
for Auditing

Enclosures

cc:
Director, Defense Security Assistance Agency
Director, Security Assistance Accounting Center

SCHEDULE OF UNDISTRIBUTED DISBURSEMENTS AS OF

JANUARY 31, 1989 1/

($ in Millions) 2/

UNDISTRIBUTED AT CASE LEVEL 3/

CATEGORY 4/	ARMY	NAVY	AIR FORCE	OTHER	TOTAL
Cross	$ 1.8	$ 0	$14.4	$0	$ 16.2
Interfund	28.5	0	14.1	0	42.7
State Dept.	.5	0	0	0	.5
Intraservice	44.7	120.4	.7	1.1	166.9
Totals	$75.5	$120.4	$29.3	$1.1	$226.3

UNDISTRIBUTED AT COUNTRY LEVEL 3/

CATEGORY 4/	ARMY	NAVY	AIR FORCE	OTHER	TOTAL
Cross	$ (.007)	$ 0	$ 9.9	$ 0	$ 9.9
Interfund	14.0	51.9	(.3)	0	65.5
State Dept.	0	1.2	(.003)	17.1	18.3
Intraservice	(.7)	(.6)	14.4	.003	13.1
Totals	$13.3	$52.5	$23.9	$17.1	$106.8

UNRECONCILED 3/

ARMY	NAVY	AIR FORCE	OTHER	TOTAL
$55.2	$35.8	$15.6	$37.1	$143.6

UNKNOWN 3/

ARMY	NAVY	AIR FORCE	OTHER	TOTAL
$3.1	$42.5	$5.2	$(32.2)	$18.6

Footnotes are on next page.

Footnotes:

1/ The amounts presented in this schedule resulted from the upload (from February 1989 to April 1989) of case-level disbursement data to the Security Assistance Accounting Center's records.

2/ Totals may not add correctly because of rounding.

3/ Categories of Undistributed Disbursements:

Undistributed disbursements are those disbursements that the Military Departments acknowledge having made, but have not yet been identified to a country or case.

Unreconciled disbursements represent the difference between the Security Assistance Accounting Center's records and the Department of Treasury's cash balance for the Foreign Military Sales Trust Fund Account.

Unknown disbursements are the disbursement amounts recorded by the Security Assistance Accounting Center for which the Military Departments do no acknowledge having made and for with the Military Departments have no records.

4/ Disbursement Categories:

Cross-disbursements are those made by one Military Department (MILDEP) or Defense agency for another.

Interfund disbursements are reimbursements for supply issues to a foreign customer made from one MILDEP or Defense agency on behalf of another.

State Department disbursement offices sometimes make payments pertaining to foreign military sales for the MILDEPS.

Intraservice disbursements are those made by a MILDEP or Defense agency for itself. They include disbursements made by the Defense Contract Administration Services Regions for the MILDEPS.

ACTIVITIES VISITED OR CONTACTED

Department of the Army

U.S. Army Finance and Accounting Center, Indianapolis, IN

Department of the Navy

Naval Accounting and Finance Center, Washington, DC
Naval Supply Systems Command, Washington, DC
Naval International Logistics Control Office, Philadelphia, PA
Naval Regional Finance Center, Washington, DC

Department of the Air Force

Security Assistance Accounting Center, Lowry Air Force Base, CO
Air Force Accounting and Finance Center, Lowry Air Force Base, CO

Defense Agencies

Headquarters, Defense Logistics Agency, Alexandria, VA
Defense Contract Administration Services Region, Boston, MA

AUDIT TEAM MEMBERS

Program Director	David R. Stoker
Project Manager	Byron B. Harbert
Auditors	Donald Cairns
	Gary Borovitcky
	Bucceroni Mason
	Eugene Bauer

FINAL 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)
Department of the Army Inspector General

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)
Auditor General, U.S. Air Force Audit Agency
Director, Security Assistance Accounting Center

Department of Defense

Director, Defense Logistics Agency
Director, Defense Security Assistance Agency

Non-DoD Activities

Office of Management and Budget
U.S. General Accounting Office, NSIAD Technical Information Center

Congressional Committees:

Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
Senate Ranking Minority Member, Committee on Armed Services
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Ranking Minority Member, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
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