Audit Report

OFFICE OF THE INSPECTOR GENERAL

CRITICAL MANAGEMENT DATA USED TO MANAGE THE DEFENSE FINANCE AND ACCOUNTING SERVICE

Report No. 94-137 June 16, 1994

Department of Defense

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Acronyms

DAO	Defense Accounting Office
DBMS	Defense Business Management System
DFAS	Defense Finance and Accounting Service
DLA	Defense Logistics Agency
DMDC	Defense Manpower Data Center
FAO	Finance and Accounting Office
FMFIA	Federal Managers' Financial Integrity Act
IG	Inspector General
MILSCAP	Military Standard Contract Administration Procedures
MOCAS	Mechanization of Contract Administration Services
OMB	Office of Management and Budget
PAR	Program Appraisal Review

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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June 16, 1994

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

SUBJECT: Audit Report on Critical Management Data Used to Manage the Defense Finance and Accounting Service (Report No. 94-137)

We are providing this final report for your review and comments. This report addresses the availability, adequacy, and usefulness of critical management data in the Defense Finance and Accounting Service. Comments from DFAS on a draft of this report were considered in formulating this report.

DoD Directive 7650.3 requires that all audit recommendations be resolved promptly. Therefore, the Director, Defense Finance and Accounting Service, should provide comments on the final report. See the chart at the end of the finding for the specific requirements for your comments. Comments must be received by August 15, 1994.

The courtesies extended to the audit staff are appreciated. If you have any questions about this audit, please contact Mr. F. Jay Lane, Program Director, at (703) 693-0430 (DSN 223-0430), or Mr. Carl F. Zielke, Project Manager, at (703) 693-0453 (DSN 223-0453). Please contact us if you have any suggestions or requests for future audits. Copies of this report will be distributed to the organizations listed in Appendix G. The audit team members are listed inside the back cover.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, Department of Defense

Report No. 94-137 **June 16, 1994**
Project No. 3FG-2008

CRITICAL MANAGEMENT DATA USED TO MANAGE THE DEFENSE FINANCE AND ACCOUNTING SERVICE

EXECUTIVE SUMMARY

Introduction. The Chief Financial Officers Act of 1990 requires annual audits of funds such as the Defense Finance and Accounting Service (DFAS) Revolving Fund. We conducted an audit of the FY 1992 DFAS financial statements and found that the records were not complete enough to generate meaningful statements. For FY 1993, we used an alternate approach and focused on reviewing critical management data.

The DFAS was created to provide finance and accounting services to DoD customers. The full cost of providing these services was to be charged back to the customers. The DFAS was established in January 1991 by consolidating the six finance and accounting activities that served the Army, the Navy, the Air Force, the Marine Corps, and the Defense Logistics Agency into five Centers. The DFAS Centers are located in Indianapolis, Indiana; Cleveland, Ohio; Denver, Colorado; Kansas City, Missouri; and Columbus, Ohio. For FY 1993, DFAS had a budget of approximately $1.6 billion and a staff of about 27,000 people. The DFAS reported a negative (net) ending balance of $138.6 million on its FY 1993 financial statements.

Objectives. The overall objective of the audit was to determine whether critical management data were available, accurate, and provided to DFAS managers to operate, evaluate, and make major financial and nonfinancial decisions. We also evaluated the usefulness and reliability of critical financial and performance data.

Audit Results. Critical management data were lacking in the area of mission accomplishment. Managers at Headquarters, DFAS, were not able to accurately assess overall performance and mission accomplishment with available data. While managers at Headquarters, DFAS, and the DFAS Centers stated that Program Appraisal Review (PAR) charts, one of the major performance reporting mechanisms for the DFAS Centers, were useful, 40 percent of the managers at Headquarters, DFAS, stated that the charts provided incomplete or inaccurate critical performance and financial information needed to operate, evaluate, and make major financial and nonfinancial decisions. However, improvements to the PAR charts are planned. Our attempts to verify the accuracy of the data reported on the PAR charts were unsuccessful, because there was no clear audit trail back to source documentation.

The FY 1993 DFAS financial statements contained only three performance measurements and those measurements pertained only to military retired pay. The financial statements therefore are narrowly focused and do not provide an accurate indication of DFAS mission accomplishment or the results of operations. See Part III, Finding and Recommendations, for further details.

Critical management data were accurate and reliable for making mission-oriented management decisions, according to managers at the five DFAS Centers; however, computer-generated reports from the systems were not always available on time and provided in a usable format. In most instances, the data had to be downloaded to personal computers and reconfigured to meet management's needs. For example, data from the Defense Business Management System, DFAS's accounting system, were used in reports that were untimely and lacked the detail needed at the user level. Critical management data were available, accurate, reliable, and useful for controlling funds. Data for the control of capital assets were accurate, useful, reliable, and available for assets acquired during and after FY 1993, but not for assets acquired prior to that date. Expenditures data used to calculate interest payments were useful, reliable, accurate, and available to managers; however, there were problems with the data used to track and monitor the interest payments. Part II of this report provides further details.

Internal Controls. The fact that the critical management data needed for evaluating mission performance were not available indicates a material internal control weakness. In addition, the DFAS lacked the necessary data to reconcile the "Fund Balances with Treasury" account, shown in its general ledger, with the Department of the Treasury cash book. Since the lack of reconciliation was reported as a deficiency in last year's financial statement audit, no recommendations are being made. The weakness in mission performance could result in erroneous decisions and incorrect information being reported on the financial statements. See Part I for the internal controls assessed, and the finding in Part II for a discussion of the material internal control weakness identified.

Potential Benefits of Audit. Recommendations in this report, when implemented, will improve the accuracy of accounting records, oversight of customer service, financial operations, and financial statements. No quantifiable monetary benefits will result from implementing the recommendations (see Appendix E for a summary of potential benefits).

Summary of Recommendations. We recommended additions to performance standards in the financial statements, modifications to management information reported to Headquarters, DFAS, on PAR charts, and supervision over implementation of the DFAS Center's customer service plans.

Management Comments. The Director, DFAS concurred with the finding in our draft report and generally concurred with the recommendations. He generally concurred with modifying Program Appraisal Review charts to measure three areas: resolution of material weaknesses identified by the internal management control program; progress in reducing operating costs by 50 percent; and identifying and recouping progress payments due from contractors. Therefore, we request that he review the audit response in Part III and provide comments on this final report by August 15, 1994. DoD Directive 7650.3 requires specific comments on each recommendation. See Part IV for the full text of comments from the Director, DFAS.

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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

The Defense Finance and Accounting Service (DFAS) was created to provide finance and accounting services to DoD customers. The DFAS was established in January 1991, consolidating the six finance and accounting activities that served the Army, the Navy, the Air Force, the Marine Corps, and the Defense Logistics Agency into five Centers. The DFAS Centers are located in Indianapolis, Indiana; Cleveland, Ohio; Denver, Colorado; Kansas City, Missouri; and Columbus, Ohio. A sixth, the Washington Center, was closed at the end of FY 1992.

Organizational changes were made during FY 1993, and DFAS continues to reorganize and consolidate operations in FY 1994. Headquarters, DFAS, and the DFAS Centers at Columbus and Denver underwent or are undergoing major reorganizations. Military retired pay operations are being consolidated at the DFAS-Cleveland Center, and military annuitant pay is being consolidated at the DFAS-Denver Center. DFAS plans to incorporate (or capitalize) nonappropriated fund accounting offices during FY 1994. There are approximately 360 offices, with total operating costs of $88 million. The plans have been approved by the DoD Comptroller, but none of the offices have been capitalized to date.

During FY 1993, DFAS capitalized 326 finance and accounting offices (FAOs), increasing its responsibilities and staff size by about 16,000 personnel. Total DoD disbursements for FY 1993 against all appropriations amounted to $279 billion. For FY 1993, DFAS had a budget of approximately $1.6 billion and employed about 27,000 people. The FY 1993 DFAS Revolving Fund's (the Fund's) financial statements reported a negative net position ending balance, or loss, of $138.6 million. According to personnel at Headquarters, DFAS, the loss was due primarily to the capitalization of the FAOs.

Objectives

The overall objective of the audit was to determine whether critical management data were available, accurate, and provided to DFAS managers to operate, evaluate, and make major financial and nonfinancial decisions. We also evaluated the usefulness and reliability of critical financial and performance data.

Scope and Methodology

Audit Approach. This audit was a modified approach to the auditing requirements of the Chief Financial Officers Act of 1990. We evaluated critical management data at the Defense Finance and Accounting Service rather than performing a financial statement audit that would result in an opinion on the financial statements. The relevance of this approach is underscored by the Government Performance and Results Act, Public Law 103-62, signed in August 1993, which requires Federal agencies to establish measurable goals and report on their results in achieving those goals. Our approach is further supported by the report of the National Performance Review, issued on September 7, 1993, which requires greater accountability to customers and respect for the public's funds.

This financial related audit was performed from May 1993 through March 1994. See Appendix F, Part IV, for a list of the organizations visited or contacted. The audit was made in accordance with the auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General (IG), DoD, and accordingly included such tests of the internal controls as were considered necessary. We tested compliance with laws and regulations designated by the Office of Management and Budget (OMB) and the DoD (see Appendix A of Part IV for the laws and regulations tested). Computer-based systems were not audited to evaluate data output, but we did evaluate internal controls related to preparing, controlling, and maintaining source documents.

Mission. An assessment was made of DFAS's ability to measure accomplishment of its mission and related goals and objectives. The assessment included a determination as to whether the mission, goals, and objectives could be measured and whether data were available to permit measurement. Also, we assessed the extent to which financial statements and the systems that produced those statements were used to make decisions about and measure accomplishment of DFAS's mission and the related goals and objectives.

The DFAS mission statement and its 10 organizational goals (Appendix B) are included in the strategic plan dated September 20, 1993.

Mission-Oriented Management Decisions. Interviews were conducted to determine the major types of decisions made for operations. These interviews were held with directors and midlevel managers at Headquarters, DFAS, and the five DFAS Centers. The interviews concentrated on determining the types of data needed to make informed decisions; whether data were available, accurate, and timely; and whether the data were used in making the decisions.

Funds Control. We evaluated data on the capital budget and operating expenses to determine whether managers could make decisions about the adequacy of controls over funds. Also, the development of the capital budget and the costs charged for DFAS's work were reviewed.

Control of Capital Assets. We assessed DFAS's controls over and protection of its capital inventory. The assessment evaluated whether data on inventory valuation and counts were available to allow managers to control the assets and make appropriate decisions in the event of significant loss. We also determined the extent to which financial statements and the systems that produced those statements were used to provide the information needed to control assets.

Expenditures. We examined management's major decisions on expenditures. Since no material problems were found with the accuracy of unpaid accrued expenditures or unliquidated obligations during our audit of the Fund's FY 1992 financial statements, these areas were not reviewed during this audit. However, tests were conducted at the DFAS-Columbus Center to determine the accuracy of interest payments made in 1993.

Internal Controls

Internal Control Objective. DFAS, in Section 2 of its Federal Managers' Financial Integrity Act (FMFIA) Annual Statement of Assurance for FY 1993, describes its internal control objective as follows:

> ...to provide reasonable assurance that:
>
> o obligations and costs comply with applicable laws;
>
> o funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
>
> o revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

Primary Mechanisms and Reports Used. Reports prepared by the internal review offices were the primary mechanism used to ensure that internal controls were in place at the five DFAS Centers and at Headquarters, DFAS, and to make decisions about whether they were operating effectively.

Types of Internal Reviews Performed. The DFAS performed 183 internal management control reviews at the five DFAS Centers and Headquarters, DFAS, in FY 1993. For example, the DFAS-Columbus Center performed a review of recertified checks and determined that referrals for potential fraud were not being made. The DFAS-Indianapolis Center reviewed the cost-effectiveness of processing transactions and determined that the procedures needed improvement. The DFAS-Denver Center reviewed cash management with the Department of the Treasury (the Treasury) and determined that early deposits of checks returned by the DFAS would reduce the amount of funds that the Treasury was required to borrow.

Material Weaknesses Identified by DFAS. The Annual Statement of Assurance for FY 1993 noted 17 material weaknesses within the DFAS. Ten of the 17 material weaknesses were to be corrected in FY 1994. Most of the problems identified were incorrect or untimely processing, recording, and reporting of financial information.

While these material weaknesses identified problems with the accuracy, availability, and timeliness of data, only five of them pertained directly to the Fund. The other weaknesses referred to general operational problems affecting the funds of DFAS customers. A list of the material weaknesses reported is in Appendix C.

The DFAS identified mission performance as an assessable unit in FY 1993 under the "Workload Management and Performance Measurement Program" unit. The first review in this area is not scheduled until FY 1994. Therefore, it was not identified as a material weakness by the DFAS in FY 1993.

Internal Controls Assessed. At Headquarters, DFAS, and the DFAS Centers, we reviewed policies and procedures used to ensure that:

o transactions were properly recorded and accounted for to maintain accountability over assets and permit preparation of reliable financial statements;

o funds, property, and other assets were safeguarded against loss from unauthorized use or disposition; and

o data that supported performance measurements were properly recorded to permit accurate reporting of organizational performance.

We also reviewed implementation of the DoD Internal Management Control Program as it applied to the audit objectives.

Internal Control Weaknesses. The audit identified a material internal control weakness as defined by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. Internal controls did not effectively ensure that critical management data were available, accurate, and provided to DFAS managers to evaluate mission performance. In addition, the DFAS lacked the necessary data to reconcile the "Fund Balances with Treasury" account, shown in its general ledger, with the Treasury's cash book. The lack of reconciliation is a repeat finding; therefore, no recommendations are being made. All recommendations in this report, if implemented, will assist in correcting the weakness in mission performance. No monetary benefits are attributable to correcting the internal control weakness in mission performance (see Appendix E); however, if not corrected, the weakness could cause erroneous information to be reported on the financial statements. A copy of the report will be provided to the senior official responsible for internal controls at the DFAS.

Prior Audits and Other Reviews

We identified five audit reports related to critical management data that were issued by the IG, DoD.

o Report No. 94-054, "Audit of Fund Control Over Contract Payments at the Defense Finance and Accounting Service - Columbus Center," March 15, 1994, found that the procedures used by the DFAS-Columbus Center for fund control over contract payments were not adequate. Specifically, obligation and disbursement data contained in the Mechanization of Contract Administration Services (MOCAS) system were not accurate. These conditions were caused by inaccurate entry of MOCAS data and by data problems that occurred during the electronic transfer of data between Military Standard Contract Administration Procedures (MILSCAP)-compatible systems and MOCAS. Further, the DFAS-Columbus Center had not developed an adequate in-house capability to reconcile obligations with disbursements. The report recommended termination of the MILSCAP interface, termination of the reconciliation services contract, completion of adjustments and corrections to contracts, and implementation of supervisory reviews to help ensure the accuracy of MOCAS data. DFAS management concurred with the need to terminate the reconciliation contract and the need for better supervisory reviews. However, management did not concur with the need to terminate the MILSCAP interface and only partially concurred with two additional recommendations.

o Report No. 94-048, "Audit of Uncleared Transactions By and For Others," February 23, 1994, found that increased management oversight was needed to eliminate delays in clearing transactions and to reduce undistributed disbursements valued at about $34.6 billion as of January 31, 1993. In addition, managers at Headquarters, DFAS, did not receive complete and accurate information on the status of undistributed disbursements, including uncleared transactions. The report recommended that the DoD Comptroller include in Volume 1, DoD Regulation 7000.14-R, the "DoD Financial Management Regulation," May 1993, detailed guidance for clearing transactions and reducing undistributed disbursements. The report also recommended that the DFAS improve procedures and controls over transactions that are not cleared promptly, and issue specific policies for reporting undistributed disbursements. The Deputy Comptroller, DoD, and the Director, DFAS, generally concurred with the findings and recommendations.

o Report No. 93-110, "Consolidating Financial Statements of the Defense Finance and Accounting Service Revolving Fund of the Defense Business Operations Fund - FY 1992," June 11, 1993, concluded that there were internal control weaknesses in reconciling the "Fund Balances with Treasury" account and in developing depreciation schedules. The report also noted that the DFAS was not in compliance with DoD Manual 7220.9-M, the "DoD Accounting Manual," and suggested that the DFAS reconcile the "Fund Balances with Treasury" account, match property records with financial records for capital assets, record depreciation, and record the transfer of capital assets in financial records. The DFAS also failed to disclose transactions by related parties, as required by Title 2 of the General Accounting Office's "Policy and

Procedures Manual for Guidance of Federal Agencies." The report contained no recommendations. (The lack of reconciliation of the "Fund Balances with Treasury" account is a repeat finding in this report.)

o Report No. 92-076, "Administration of the Contract Closeout Process within DoD," April 15, 1993, concluded that contract data in the DFAS-Columbus Center's 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 properly. The report recommended that the Defense Logistics Agency (DLA) emphasize the need to properly maintain and control documentation in administrative contracting officers' files. It further recommended that the DFAS-Columbus Center develop and implement procedures for better control and maintenance of complete and accurate finance files, train the appropriate personnel to properly input contract data into MOCAS, and collect overpayments. The Deputy Comptroller, DLA, and the Director, DFAS, generally concurred with the findings and recommendations.

o Report No. 92-028, "Merged Accounts of the Department of Defense," December 30, 1991, found that DoD's accounting and financial data were inaccurate. A substantial number of negative obligations existed, $1.8 billion 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 accounting accuracy in order to reduce DoD's undistributed disbursements. The Deputy Comptroller (Management Systems), DoD, generally agreed with the findings and partially agreed with the recommendations.

Part II - Availability, Accuracy, Reliability, and Usefulness of Data

Mission

Limited performance measurement data on the mission and the related goals and objectives were available and provided to managers at Headquarters, DFAS. For information on the accuracy and reliability of the data, refer to the finding in Part III. Our review evaluated the adequacy of measurements used by DFAS to assess accomplishment of the mission and to measure performance. DFAS's mission statement and 10 organizational goals (Appendix B) are included in the DFAS strategic plan, dated September 20, 1993. Except for the financial statements, there was no formal process for reporting on mission accomplishment or performance to the Comptroller of the Department of Defense (the DoD Comptroller) or other oversight officials.

Measuring Accomplishment. We examined the adequacy of three different types of measurements in this area: absolute, progressive and comparative. Accomplishment of the DFAS mission, as stated in the strategic plan, was not quantifiable; therefore, no absolute measurement of success in achieving the mission was possible.

A progressive measurement that would indicate improvement or regression in mission results is possible for the 10 goals in the strategic plan, but adequate data were not available. Personnel at Headquarters, DFAS, were developing benchmarks to measure performance based on private industry practices. These benchmarks will be used for internal management of the progressive and absolute measurements.

Comparative measurements in the DoD were not applicable for the DFAS, because no comparable organization exists.

Types of Performance Data. The Program Appraisal Review (PAR) charts were the primary performance data reported to Headquarters, DFAS, by the DFAS Centers. Sixty-six statistical charts had been prepared on specific aspects of organizational service (Appendix D). Twenty-eight charts contained quantitative information, such as the number of invoices processed or the amount of interest paid for the month; 17 charts addressed qualitative factors, such as timeliness of processing payments; and 21 charts contained both types of information.

As stated in the DoD "Guidance on Form and Content of Financial Statements for FY 1993/1994 Financial Activity," January 12, 1994, DFAS is to include performance measurements on its financial statements. At present, there are only three measurements of performance; each pertains to military retired pay. Based on DFAS's mission and organizational goals, the three performance

measurements did not accurately reflect the DFAS, as stated in the strategic plan. At a minimum, DFAS should develop performance measurements that will track customer satisfaction, reductions in negative unliquidated obligations, and unmatched disbursements. See the finding in Part III for further discussion of performance measurements.

Use of PAR Charts. We could not verify the accuracy of the data in the PAR charts back to the source documentation. However, we determined that PAR charts were generally useful to managers, although 40 percent of the managers at Headquarters, DFAS, believed the charts provided incomplete or inaccurate data. Each functional area at Headquarters, DFAS, was responsible for the review and use of its PAR charts. The functional directors review the charts and other available information, such as the quarterly prompt pay reports provided by the DFAS Centers. If there is a problem, they contact the responsible DFAS Center to develop a solution.

Planned Improvements. We received copies of documents at Headquarters, DFAS, that outlined planned improvements based on information in the PAR charts. One of the documents outlined proposed additions to the information in the PAR charts. For example, the DFAS-Columbus Center planned to measure delays in processing invoices, by type and responsible organization, to reduce the time and resources needed. These actions could result in a better presentation of the organizational work load and performance. The PAR charts are also used to brief customers at Headquarters, DFAS. Each quarter, the assistant secretary for financial management of each Military Department receives an operational review and analysis briefing. PAR charts are used extensively in these briefings.

Mission-Oriented Management Decisions

Management decision data were accurate and reliable; however, according to DFAS managers, reports generated by the DFAS financial system, the Defense Business Management System (DBMS), were not always available on time and provided in a usable format. To make the data usable and timely, managers at each DFAS Center had to download and reconfigure the data on personal computers. The managers could then generate reports to their specifications and have the data needed for daily operational decisions. For example, information about the operating and capital budget, such as account totals and expenditure targets, was accurate; however, the data were consolidated and reports were generated at the DFAS Center level, and did not include the details needed by mid- and lower-level managers.

While this was not considered a reportable weakness, managers had to use a time-consuming process in order to convert the data into a useful format. Previously, the DBMS had been selected as the DoD accounting system. However, that decision is being reconsidered. Until a final decision is reached, we are not making any recommendations to improve timeliness or reconfigure data.

The Defense Manpower Data Center (DMDC), Monterey, California, also generated management decision data. The DMDC produced monthly unit cost reports used by the DFAS Centers. (A detailed discussion of unit costs is in the Funds Control section below). These reports were used to verify costs and compare actual and budgeted production figures. Managers believed that these reports were usually a month behind schedule. When the data are not made available in a timely manner, managers must report estimated instead of actual monthly production figures to Headquarters, DFAS.

Funds Control

Major Funds Management and Control Processes. Data used to control and manage funds were available and reliable. Managers stated that the data provided were accurate and useful in making their operational decisions. During the audit of the Fund's FY 1992 financial statements, balances in unpaid noncapital accrued expenditures and unliquidated obligations were found to be accurate. Therefore, these areas were not reviewed during this audit. Instead, we reviewed the capital budget process, tracking of operating expenses, and the accuracy of unit costs.

Capital Budget Process. The DFAS Centers submit their prioritized budget requests to personnel at Headquarters, DFAS, who decide whether the requests are valid. Personnel at Headquarters, DFAS, may change the DFAS Centers' priority ratings, but the DoD Comptroller gives final approval to the budget. The DFAS Centers' FY 1993 capital budget of $195.4 million was divided into three areas: minor construction at $1.6 million, DFAS Center equipment at $3.6 million, and software development at $190.2 million.

The DFAS Centers do not have the authority to reprogram money between budget lines. If a change is needed during the year, a letter must be sent to Headquarters, DFAS, with justification. As a rule, no changes were allowed before the midyear review made between March and April. Personnel at Headquarters, DFAS, considered emergency requests, but the Deputy Director, Resource Management, was responsible for making the final decisions. Most of these requests occurred when contract costs exceeded original budget estimates. Personnel at the five DFAS Centers and Headquarters, DFAS, believed the fund data were adequate for their needs.

Tracking of Operating Expenses. Estimated expenditures are loaded in the DBMS system to allow managers to track actual operating expenses. During our audit of the FY 1992 DFAS financial statements, we did extensive testing on both unpaid accrued expenditures and unliquidated obligations at all DFAS Centers. No significant differences were found between the test results and amounts reported in DBMS.

Unit Costs. Unit costs are the amounts DFAS charges for each unit of service produced at the DFAS Centers, such as each payroll account maintained. The

unit costs are derived by dividing the total costs associated with the output by the projected number of outputs expected to be produced.

Procedures are in place to review the accuracy of the unit costs. Each business area manager works with an analyst assigned by the Resource Management Directorate at each DFAS Center to review actual and projected work counts and actual and budgeted costs on a monthly basis. If an analyst notices a deviation in the costs or work counts associated with a unit cost, he or she reviews the information with the business area manager. Attempts are made to resolve the problem before entering the data in the DBMS system.

The DAOs send their work counts to the Centers. The work counts for the DFAS Centers and the DAOs are calculated both manually and with computer-generated reports. Data on unit cost outputs are entered into DBMS by DFAS Center personnel.

Unit costs were identified as a problem in the "Defense Business Operations Fund Implementation Review Group Report," July 30, 1993. The report stated, "Some DBOF activities have unrealistic and meaningless unit cost goals..." and a committee was established to investigate overall cost reductions with an ultimate goal of lower unit costs. Accordingly, the DFAS must continually review its unit costs to ensure accuracy in customer billings and in controlling operating costs.

Control of Capital Assets

We tested the accuracy of the inventory value and number of assets reported in the DFAS inventory systems. Data on inventory value and numbers of capital assets acquired in FY 1993 were available, reliable, accurate, and provided to managers. For assets acquired before FY 1993, these data were incomplete. Information used to calculate value, such as original cost and date of initial use, was either missing from the data base or there was no supporting documentation, such as invoices and receiving reports, to verify the data. This problem was reported in Audit Report No. 93-110, "Consolidating Financial Statements of the Defense Finance and Accounting Service Revolving Fund of the Defense Business Operations Fund - FY 1992." No further recommendations are being made at this time.

Capital Asset Guidance. DoD Comptroller guidance issued on January 26, 1993, "Criteria for Capitalization of Assets," raised the capitalization threshold from $15,000 to $25,000; the useful life remained at 2 or more years. This guidance applies to any capital asset received on or after October 1, 1993. Inventory at the DFAS Centers consisted mainly of computer equipment, furniture, copiers, and printers.

Testing of Capital Assets. We limited our testing of capital assets to the DFAS-Columbus Center, DFAS-Cleveland Center, DFAS-Indianapolis Center, and DFAS-Denver Center. The DFAS-Kansas City Center and Headquarters,

DFAS, were not tested. The DFAS Centers send all information on capital assets, including description, price, and date of initial use, to the DFAS-Columbus Center, which includes this information in DFAS's financial statements.

The original acquisition cost of DFAS's total inventory of capital assets was $287.5 million. A judgmental sample of 106 items (based on dollar value), valued at $112.5 million, was selected at the 4 DFAS Centers for review of capital inventory and supporting documentation. All items except 1 were located; however, 43 items (40.5 percent) had no supporting documentation. Further, several items had minimal documentation to substantiate the dollar amount listed on the property book.

Systems Used. In FY 1993, the DFAS Centers reported their capital assets and related depreciation to DFAS-Columbus Center through their separate computer data bases. These systems originated before the DFAS Centers' inventories were capitalized in January 1991 and were local systems that did not directly access the DBMS at DFAS-Columbus Center. In addition, capital assets in the data base were not easily traceable because information such as serial numbers was missing. To alleviate this problem, DoD has chosen the Property Accountability System as the standard inventory system for all DoD activities. Under the Property Accountability System, information such as serial numbers will distinguish the items so that each asset can be traced. This system should be fully operational in time for preparation of the FY 1994 financial statements, and will eventually be linked to the DBMS accounting system.

Expenditures

Data provided to managers for calculating interest payments were available, accurate, reliable, and useful. The data provided to track and monitor interest expenses were available and used by managers; however, we could not determine whether all of the data were accurate.

As previously stated, during the audit of the Fund's FY 1992 financial statements, balances in unpaid accrued expenditures and unliquidated obligations were found to be accurate. Therefore, these areas were not reviewed in FY 1993. Accordingly, we limited our testing to FY 1993 interest expense payments of $9 million at the DFAS-Columbus Center.

Systems Used in Expenditure Decisions. We analyzed interest expense data and the systems used to account for interest paid at the DFAS-Columbus Center. The MOCAS system generates an "interest alert" figure to warn a user of a potential interest penalty on a recorded invoice. The Interest Monitoring and Reporting System reports actual interest expense for the DFAS-Columbus Center.

Of the $9.2 million of interest paid by the DFAS for FY 1993, the DFAS-Columbus Center paid $7.9 million. Therefore, we concentrated on the contract

interest paid at the DFAS-Columbus Center. The reported amount of interest paid appears on the DFAS Statement of Revenues and Expenditures as interest expense.

We tested the MOCAS system, which calculates the potential amount of interest payments to be made by each payment directorate at the DFAS-Columbus Center. The tests were performed on a sample of 30 payment vouchers with and without interest charges. The total interest paid on the sample of 30 vouchers was $56,000, and in all but 2 cases (amounting to $14,000 out of the $56,000), the interest was determined correctly. The two incorrectly calculated vouchers resulted in overpayments of $600. Further, our tests showed that the interest charges were incorrect because an incorrect number of days was used to calculate the interest.

For FY 1993, the interest payments reported by MOCAS for the five directorates at DFAS-Columbus Center were $7.1 million; the Interest Monitoring and Reporting System reported that these directorates paid $7.9 million. DFAS-Columbus Center personnel said that the $7.1 million represented "potential" interest penalties on recorded invoices and that the $7.9 million was the "actual" interest paid. The actual interest paid was the amount updated each time a payment was made. DFAS-Columbus Center personnel could not explain why the two numbers for FY 1993 differed, except that they were generated by different systems.

Based on our limited tests at DFAS-Columbus Center, we believe that interest payments for the DFAS were accurately calculated. However, the amount of interest payments reported by the MOCAS system was the same amount that the Resource Management Directorate, DFAS-Columbus Center, used to compile the PAR charts sent to Headquarters, DFAS. No reconciliations were made to evaluate and correct any differences between MOCAS and the Interest Monitoring and Reporting System. Therefore, while managers may have received sufficient information to make interest payments, we are not sure they received the correct information on the actual amount of interest paid. While the difference would have no material effect on operations, this information was used for planning purposes.

Use of Interest Data as Reported. The amount of interest payments at the DFAS-Columbus Center was very low for the $63.8 billion worth of contract payments made in FY 1993, and was not considered a material weakness. However, DFAS should consider the billions of dollars of unmatched disbursements. If unmatched disbursements are rising, the DFAS may be placing too much emphasis on avoiding interest payments at the expense of creating unmatched disbursements, a much more difficult issue to resolve. Personnel at Headquarters, DFAS, stated that, at present, this type of comparison is not possible, since there is no PAR chart that tracks data on unmatched disbursements. There are plans to include this type of data in the PAR charts in the future.

Part III - Finding and Recommendations

Management Information

Available information was not adequate for Headquarters, DFAS, management to objectively measure mission accomplishment. Performance measurements reported on financial statements did not address DFAS' success in meeting the mission or goals in the DFAS strategic plan. Program Appraisal Review (PAR) charts, the primary source data for the three current performance measurements, did not provide all the necessary information for additional performance measurements, and some information was inaccurate and unreliable. These conditions occurred because DFAS had not complied with DoD guidance implementing Office of Management and Budget (OMB) Bulletin No. 93-02, "Form and Content of Agency Financial Statements," October 22, 1992, which states that agencies should supplement core measurements with additional measurements to adequately describe program performance. DFAS believed that the three required core measurements were all that was necessary for financial statement reporting. In addition, no reconciliation process was in place to verify the accuracy of the data reported on the PAR charts. As a result, DFAS was unable to properly assess mission accomplishment, and users of the DFAS financial statements do not have information on DFAS's performance.

Background

The DoD Comptroller issued "Guidance on Form and Content of Financial Statements for FY 1993/1994 Financial Activity," which implements OMB Bulletin No. 94-01, "Form and Content of Agency Financial Statements." The DoD guidance includes core performance measurements for agency reporting. Three performance measurements for military retired pay are listed for DFAS:

- percentage of initial claims processed within 30 days,
- percentage of inquiries made of the total accounts maintained, and
- cost per retired military pay account.

These were the only measurements included in the DFAS financial statements for FYs 1992 and 1993. However, DoD guidance states that the required measurements should be supplemented as needed to adequately describe program performance.

The 5 DFAS Centers send a total of 66 different PAR charts each month to Headquarters, DFAS. Each DFAS Center sends only the charts that are applicable to its functions. The charts are sent to the Customer Service and Performance Assessment Deputate for distribution to the responsible functional areas, such as contract pay, military pay, and civilian pay. Any review and analysis of the charts takes place in the functional areas. If corrective actions are needed, the functional area directors initiate them.

Performance Measurements on Financial Statements

Measurements of Performance. The core performance measurements were not an accurate reflection of the DFAS as stated in the DFAS strategic plan of September 20, 1993. Based on the mission and goals, the core performance measurements should be supplemented as required by DoD guidance. All functional areas should be addressed in order to prepare financial statements that will be useful to all DFAS customers. The statements should allow the DoD Comptroller and Congress to better assess DFAS's mission accomplishment. At the time of our review, major services, such as contract payments and preparation of financial statements, were not included. The data used to calculate the first two performance measurements matched information on the system reports used to generate the data. However, we could not test system reports against source documentation because of the lack of an audit trail. Accordingly, we could not assess the accuracy of the data. The third performance measurement, unit cost, was not derived from a PAR chart, and was not tested.

Customer Service. Personnel at Headquarters, DFAS, are not ensuring consistent implementation of the customer service program. Customer service is one area of performance that was emphasized in the report of the National Performance Review. The report explains the concept of reinventing Government and includes measurements to require greater accountability to customers and respect for the public's funds. The DFAS should include measurements that show how successfully it meets its customers' needs and expectations in its daily operations. These measurements should be based, at least in part, on feedback from customers. A quality assurance program was recently begun to improve service and the handling of customer complaints. However, no usable data were available at Headquarters, DFAS, at the time of the audit. DFAS Regulation 5010.32-R, "Defense Finance and Accounting Service (DFAS) Customer Service Program," June 1993, outlines policy guidance for implementing the program. Each DFAS Center has the authority to implement the regulation according to local policies and procedures. Customer service program representatives at the DFAS Centers indicated that they are not getting the management support and personnel needed to fully implement the plan.

There is no oversight at Headquarters, DFAS, to ensure consistent implementation at all the DFAS Centers.

Validation of Data in the PAR Charts

The PAR charts were the only source of performance data that all five DFAS Centers regularly sent to Headquarters, DFAS. The charts did not take into account all functional areas of DFAS, and did not give a complete assessment of DFAS performance. For example, there were no charts to track accomplishment of goals, corrections of material weaknesses identified in the Annual Statement of Assurance, or success in producing timely financial statements. We reviewed source documents for 8 of 30 charts prepared at the DFAS-Columbus Center.

o Chart No. 8, "Civilian Pay - SF 2806/3100 Timeliness," reports transfers and separations from Government service that do not involve retirement benefit claims. It reports the percentage of retirement records transmitted within 30 days after the effective date of an action. Timeliness averaged 42 percent during a 7-month period, with a stated goal of 95 percent.

o Chart No. 9, "Civilian Pay - SF 1150 Timeliness," accounts for records of leave data transmitted within 30 days after the effective date of an action. The average timeliness during a 6-month period was 60 percent, with a stated goal of 95 percent.

o Chart No. 14, "Contractor Invoices, Cost Vouchers, Progress Payments - Average Days to Pay," reports the average number of days to pay contractor requests for payment. Reported information was within stated goals.

o Chart No. 15, "Travel Payments Processing Time," reports the average number of days to make travel advances and settlements. Reported information was within stated goals.

o Chart No. 22, "Travel Payments Workload," reports the number of vouchers on hand at the beginning of the month, received during the month, returned to travelers for various reasons, paid during the month, and on hand at monthend.

o Chart No. 27, "Contract Administration Services (CAS) Invoice Aging by Source of Workload," breaks out the CAS invoices by business area. It tracks beginning on-hand inventory, number of invoices received, number returned, number paid, and ending on-hand inventory by age: 1 to 30 days, 31 to 60 days, 61 to 90 days, and over 90 days.

o Chart No. 28, "CAS Interest Paid by Source of Workload," reports CAS interest paid by business area.

o Chart No. 40, "Out of Service Debt Collection," reports the percentage collection rate for out-of-service debt. The average percentage for the past 12 months was 85.3 percent, which exceeded the stated goal of 40 percent.

Accuracy of Charts. The sources for the information in Chart Nos. 14, 27, 28, and 40 were computer-generated reports from MOCAS and the Defense Debt Management System. The information is manually transferred to a local computer data base, where it is used to provide figures for the charts. While data from the charts we reviewed agreed with the system report totals, there is always a risk of error in the system reports or manual data transfers.

Two examples of system reporting errors were uncovered during our analysis of the Monthly Management Reviews, which are internal management reports at the DFAS-Columbus Center. The same data were used for PAR charts, which, along with the Monthly Management Reviews, were used in making management decisions. The initial reporting error involved the MOCAS system's inability to capture accurate data for lost discounts. The discounts associated with any automatic payments were not included in the number of discounts taken. Therefore, they were not subtracted from the number of discounts offered. As a result, the number of discounts lost was overstated. We did not determine the number or the dollar value of the overstatement; however, this condition represents a systemic deficiency that requires correction to improve the accuracy of the data in the PAR chart.

The MOCAS system was also incorrectly reporting the backlog of Contract Administration Services modifications. The Monthly Management Review for September 1993 showed a backlog of 8,699 modifications. The backlog existed partially because MILSCAP contracts were not deleted from the on-hand count after completion. In addition, the system did not report the work done under some employee access codes, and the backlog was not reduced by the number of actions that those employees had completed. The magnitude of the problem is not known, but system change requests have been submitted to investigate and correct both problems. Thus, managers were not always getting the accurate information needed.

Information in Chart Nos. 8, 9, 15, and 22 on work load and timeliness was based on manual counts for which there was no audit trail back to the source documents. Therefore, we could not verify that information. Timeliness fell significantly below the goal in Chart Nos. 8 and 9, but DFAS personnel stated that the process was not completely done in-house, and therefore was out of their control at some points.

In addition, we reviewed three PAR charts from September 1993 at the DFAS-Cleveland Center.

o Chart No. 5, "Retired Military Pay Timeliness Initial Payment," documents the percentage of initial payments made within 30 days of retirement. The average percentage for 7 months was 96.1 percent, with a stated goal of 98 percent.

o Chart No. 7, "Retired/Annuitant Telephone Inquiries," reports the percentage of callers who were connected with a customer service representative and the total number of calls received. The average percentage during FY 1993 was 91.6 percent, with a stated goal of 94 percent.

o Chart No. 18, "Payroll Electronic Fund Transfer Participation," reports quarterly the percentage of active duty, retired/annuitant, civilian, and guard/reserve personnel who participate in electronic fund transfer.

The data in Chart Nos. 5, 7, and 18 were based on a combination of computer-generated reports and manual calculations. We also obtained information on Chart No. 45, "Prompt Pay Interest," in conjunction with our review of interest expense at the DFAS-Columbus Center. Chart Nos. 5 and 7 are the source data for two of the three performance measurements on military retired pay that are reported on the DFAS financial statements. The data from these charts agreed with the system reports.

Usefulness of Charts. We discussed the use of the charts with managers at Headquarters, DFAS, and the DFAS Centers. While they all stated that the charts were useful, 40 percent of the managers at Headquarters, DFAS, believed that the charts did not provide all the information necessary for proper management, and that some of the charts were inaccurate or useless. For example, one director stated that Chart No. 28, "CAS Interest Paid by Source of Workload," was so inaccurate that the quarterly prompt pay reports were used instead. One of the areas of concern was the small number of qualitative factors addressed in the charts.

Conclusion

Based on the DFAS mission and goals, the core performance measurements reported on the DFAS financial statements should be supplemented as required by DoD guidance. All functional areas should be addressed so that the financial statements will give a complete and realistic portrayal of the agency and be more useful to all DFAS

customers. The PAR charts should be modified to include all data necessary to measure performance in all the functional areas. Of special concern is the area of customer service, which is stressed in the report of the National Performance Review.

Recommendations, Management Comments, and Audit Response

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

1. Develop and implement additional performance measurements for financial statements to accurately measure the accomplishment of mission and goals. Modify Program Appraisal Review charts to include all data necessary to measure performance in the areas listed below. Implement a reconciliation process to verify the accuracy of the data reported on the Program Appraisal Review charts. Areas of measurement should include:

o Reductions in the outstanding balances in undistributed and unmatched disbursements.

o Timeliness of financial statements prepared by the Defense Finance and Accounting Service.

o Customer satisfaction with services performed.

o Progress in standardizing policies.

o Progress in reducing operating costs by 50 percent.

o Reduction of the backlog of potential claims due the Government from contractors.

o Timeliness in collecting overpayments from contractors.

o Identification and recoupment of progress payments due from contractors.

o Deobligation or correction of accounting errors for unliquidated obligations on closed contracts.

o Accumulation and tracking of contingent liabilities to monitor the need for additional funding.

Management Comments. The Director, Defense Finance and Accounting Service (the Director), generally concurred with the recommendation. However, he nonconcurred or partially concurred with modifying Program Appraisal Review charts to measure resolution of material weaknesses identified by the internal management control program; progress in reducing operating costs by 50 percent; and identifying and recouping progress payments due from contractors.

Audit Response. We agree with the Director that the resolution of material weaknesses is tracked and monitored through the DoD and Defense Finance and Accounting Service's Internal Management Control Program. Therefore, we deleted this performance measurement from the recommendation.

The Director partially concurred with our recommendation to track progress in reducing operating costs by 50 percent. He stated that these data were tracked for the Defense Finance and Accounting Service; however, a significant part of the savings would come from the Services and Defense agencies and would require their cooperation. Since this is a goal in the Defense Finance and Accounting Service's Strategic Plan, we believe that progress in reducing operating costs must be tracked to measure the degree of accomplishment of the goal.

The Director nonconcurred with our recommendation to establish a performance measurement for identifying and recouping progress payments due from contractors and stated that the contract payment system automatically recoups outstanding progress payments. He also stated that the contract payment system automatically recoups outstanding progress payments, and that deficiencies in the system are being corrected so that unrecouped progress payments can be identified.

Implementing a change to the system may assist in identifying unrecouped progress payments; however, a performance measure is needed to periodically assess the progress made in recouping outstanding progress payments. Therefore, we recommend that the Director modify the Program Appraisal Review charts to include this performance measure and provide an estimated completion date. The full text of the Director's comments is in Part V.

2. Direct customer service and performance assessment personnel at Headquarters, Defense Finance and Accounting Service, to oversee implementation of the customer service plan at the Defense Finance and Accounting Service Centers to ensure consistency.

Management Comments. The Director, Defense Finance and Accounting Service, concurred with the recommendation and has taken or plans to take corrective action.

Audit Response. We consider the Director's comments responsive to our recommendation. The full text of the Director's comments is in Part V.

Response Requirements for Each Recommendation

Responses to the final report are required from the addressees shown for the items indicated with an "X" in the chart below.

		Response Should Cover:			
Number	Addressee	Concur/ Nonconcur	Proposed Action	Completion Date	Related Issues
1.	DFAS	X	X	X	IC*

*IC = Internal Controls

Part IV - Additional Information

Appendix A. Laws and Regulations

Prompt Payment Act of 1988, Public Law 100-496

Chief Financial Officers Act of 1990, Public Law 101-576

Office of Management and Budget (OMB) Bulletin No. 93-02, "Form and Content of Agency Financial Statements," October 22, 1992

OMB Circular No. A-123, "Internal Control Systems," August 4, 1986

OMB Circular No. A-125, "Prompt Payment," December 12, 1989

OMB Circular No. A-127, "Financial Management Systems," December 9, 1984

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987

DoD Manual 7110.1-M, "DoD Budget Guidance," October 30, 1980

DoD Manual 7220.9-M, "DoD Accounting Manual," October 1983

DoD Regulation 7000.14-R, "Financial Management Regulation - Budget Formulation and Presentation," Volumes 2A and 2B, June 1993

DFAS Regulation 5010.32-R, "Defense Finance and Accounting Service (DFAS) Customer Service Program," June 1993

DFAS Regulation 7045.17-R, "Defense Finance and Accounting Service (DFAS) Administration of Unit Cost," April 1993

Appendix B. Defense Finance and Accounting Service Mission and Goals as Stated in Strategic Plan

Defense Finance and Accounting Service Mission:

Provide effective and efficient finance and accounting services during times of peace and conflict.

Defense Finance and Accounting Service Goals:

1. Measure and improve the quality of service to customers.

2. Consolidate DoD finance and accounting functions.

3. Reduce Department-wide finance and accounting operating costs by fifty percent within the decade through standardization and consolidation.

4. Provide an environment that maximizes the opportunities for growth and development of all personnel. Manage change to ensure employees are treated fairly and with dignity.

5. Provide managers and authorized users with on-line access to financial information at all organizational levels.

6. Develop and operate standardized systems in each finance and accounting business area within five years.

7. Aggressively apply new methods and technologies to improve customer service and reduce operating costs.

8. Lead efforts to integrate financial services within and among other functional areas throughout the Department.

9. Ensure consistent implementation of finance and accounting policy throughout DoD.

10. Achieve national recognition for excellence in service and economy of operation.

Appendix C. Uncorrected Material Weaknesses

Title	Targeted Correction Date
Contingency Plans	FY 1994
Reporting and Recording Authorizations	FY 1994
Civilian Retirement Fund Reconciliations	FY 1996
Merged Accountability and Fund Reporting Reconciliation	FY 1995
Fraudulent Manual Payment Vouchers	FY 1994
Lack of Training and Standard Operating Procedures	FY 1994
Insufficient Controls Over Access Codes and Changing Addresses in the Commercial Accounts Processing System	FY 1995
Three-Month Backlog of Disbursement Postings	FY 1994
Vendor Overpayments	FY 1994
Funds Returned by Contractors	FY 1994
Untimely Submission of Check Issue Magnetic Tape to Treasury	FY 1994
Untimely Billing of Sales-Defense Fuel Supply Center	FY 1994
Degradation of Quality Assurance Program	FY 1994
Lack of Security Controls in Automated Information Systems	FY 1995

Title	Targeted Correction Date
Inadequate Accounting and Reporting for Defense Business Operations Fund	FY 2000
Control Deficiencies in Management of Newly Capitalized Accounting Systems	FY 1996
Unreliable Financial Reporting on Tactical Military Equipment	FY 1998

Appendix D. Program Appraisal Review Charts Submitted by Defense Finance and Accounting Service Centers

(X Indicates Submission by DFAS Center)

Chart No.*	Title	DFAS-CO	DFAS-CL	DFAS-DE	DFAS-IN	DFAS-KC
1	Active Military Pay Input Accuracy/Timeliness		X	X	X	X
2	Active Military Pay Transactions/Rejects		X	X	X	X
3	Post Separation Close Out		X	X	X	X
4	Guard and Reserve Pay Input Accuracy/Timeliness		X	X	X	X
4G	Guard Pay Input Accuracy/Timeliness				X	
4R	Reserve Pay Input Accuracy/Timeliness				X	
5	Retired Mil Pay Timeliness Initial Payment		X	X	X	X
5A	Retired Mil Pay Timeliness Initial Payment Title III (Res)				X	
6	Retired Mil Pay Timeliness 1st SBP Payment		X	X	X	X
7	Retired/Annuitant Telephone Inquiries		X	X	X	X
8	Civ Pay-SF 2806/3100 Timeliness	X	X			
9	Civ Pay-SF 1150 Timeliness	X		X		
10	Civ Pay-OPM Ret Pkg Timeliness	X		X		
11	Civ Pay-TSP Transactions Timeliness	X		X		
12	Civ Pay-OPM Ret Pkg Accuracy	X		X		
13	Civ Pay-TSP Tape Accuracy	X		X		
14	Contractor Invoices, Cost Vouchers, Progress Payments-Avg Days to Pay	X		X		
15	Travel Payments Processing Time	X		X	X	
16	Travel EFT Participation	X				
17	Contractor EFT Participation	X				
18	Payroll EFT Participation	X	X	X	X	X
19	Contractor Requests for Payment Progress Payments	X				
20	Contractor Requests for Payment Cost Vouchers	X				
21	Out of Service Debt Coll, Waiv & Termin	X	X	X		X
22	Travel Payments Workload	X			X	X
23	Outstanding Travel Advances	X				
24	Commercial Payments Workload				X	
	Commercial Payments Workload (O&M)	X				
	Commercial Payments Workload (S/F)	X				
	Commercial Payments Workload (CAS)	X				

Chart No.	Title	DFAS-CO	DFAS-CL	DFAS-DE	DFAS-IN	DFAS-KC
	Commercial Payments FMS - SDAF Workload			X		
	Commercial Payments FMS - CS&C Workload			X		
25	Contract Debt Workload	X			X	
26	Active Military Pay Reject Workload		X			X
27	CAS Invoice Aging By Source of Workload	X				
28	CAS Interest Paid By Source of Workload	X				
29	Incoming Dept Status/Outlay Rpts Timeliness		X	X	X	X
30	Outgoing Dept Status/Outlay Rpts Timeliness-External to DoD		X	X	X	
31	Outgoing Dept Status/Outlay Rpts Timeliness-Internal to DoD	X	X	X	X	X
30A/31A	Outgoing Dept Status/Outlay Rpts Timeliness			X		
32	Accounting Input Accuracy		X	X	X	X
33	Uncleared TBO > 120 Days	X	X	X	X	X
33A	Uncleared TBO > 120 Days - FMS			X		
34	Undistributed Disbursements > 120 Days	X	X	X	X	X
34A	Undistributed Disbursements > 120 Days - FMS			X		
35	Unliquidated Obligations M YEAR/ALL FUNDS TOTAL	X				
35A	Unliquidated Obligations Merged Year ("M") Account		X	X		
36	WH/Congressional Inquiries	X	X	X	X	X
37	ACCS Case Workload			X	X	
38	ACCS Case Distribution			X	X	
39	Separation Indebtedness		X	X		X
39A	AC Separation Indebtedness				X	
39R	RC Separation Indebtedness				X	
40	Out of Service Debt Collection	X	X	X	X	X
41	Corrections to Military Records		X	X	X	X
42	Active Military Pay Written Inquiries		X	X	X	X
43	Reserve Military Pay Written Inquiries		X	X	X	X
44	Retired/Annuitant Military Pay Written Inquiries		X	X	X	X
45	Prompt Pay Interest		X			X
45A	Prompt Pay Interest - SDAF			X		
46	Service Provider Performance Service Provider-DITSO	X	X	X	X	X
47	Service Provider Reliability Service Provider-DITSO	X	X	X	X	X
48	Undisbursed Balances for Unexpired Accounts		X	X	X	X
49	Undisbursed Balances for Expired Accts Not Closing This Year		X	X	X	X

Appendix D. Program Appraisal Review Charts Submitted by Defense Finance and Accounting Service Centers

Chart No.	Title	DFAS-CO	DFAS-CL	DFAS-DE	DFAS-IN	DFAS-KC
50	Undisbursed Balances for Expired Accts					
	Closing This Year	X		X	X	
	Undisbursed Balances for Merged Accts					
	Closing This Year			X		

* The report discusses 66 Program Appraisal Review (PAR) charts, although numbering by DFAS Centers indicates 50 charts. Duplicate charts with similar information may have the same number.

Abbreviations and Acronyms

AC	Active Cases
ACCTS	Accounts
ACCS	Automated Case Control System
Avg	Average
CAS	Contract Administration System
Civ Pay	Civilian Pay
Coll	Collection
CS&C	Commercial Sales and Credit
Dept	Department
DFAS	Defense Finance and Accounting Service
DFAS-CL	DFAS-Cleveland Center
DFAS-CO	DFAS-Columbus Center
DFAS-DE	DFAS-Denver Center
DFAS-IN	DFAS-Indianapolis Center
DFAS-KC	DFAS-Kansas City Center
DITSO	Defense Information Technology Service Office
EFT	Electronic Fund Transfer
FMS	Foreign Military Sales
Mil	Military
O&M	Operation and Maintenance
OPM	Office of Personnel Management
RC	Reserve Cases
Res	Reserve
Ret Pkg	Retirement Package
Rpts	Reports
SBP	Survivor Benefit Plan
SDAF	Special Defense Acquisition Fund
SF	Standard Form
S/F	Stock Fund
TBO	Transaction By Others
Termin	Terminations
TSP	Thrift Savings Plan
Waiv	Waivers
WH	White House

Appendix E. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
1.	Economy and efficiency. Improve measurement of accomplishment of mission and goals and verification of data accuracy reported on Program Appraisal Review charts.	Nonmonetary.
2.	Economy and efficiency. Improve consistency in implementation of the customer service plan.	Nonmonetary.

Appendix F. Organizations Visited or Contacted

Office of the Secretary of Defense

Comptroller of the Department of Defense, Washington, DC

Defense Agencies

Headquarters, Defense Finance and Accounting Service, Arlington, VA
- Defense Finance and Accounting Service Center, Cleveland, OH
  - Defense Accounting Office, Arlington, VA
  - Defense Accounting Office, Norfolk, VA
- Defense Finance and Accounting Service Center, Columbus, OH
- Defense Finance and Accounting Service Center, Denver, CO
  - Defense Accounting Office, Bolling Air Force Base, Washington, DC
  - Defense Accounting Office, Langley Air Force Base, VA
- Defense Finance and Accounting Service Center, Indianapolis, IN
  - Defense Accounting Office, Fort Belvoir, VA
- Defense Finance and Accounting Service Center, Kansas City, MO
  - Defense Accounting Office, Quantico Marine Corps Base, VA

Appendix G. Report Distribution

Office of the Secretary of Defense

Comptroller and Chief Financial Officer of the Department of Defense
Assistant to the Secretary of Defense (Public Affairs)

Department of the Army

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

Department of the Navy

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

Department of the Air Force

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

Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency
Director, Defense Logistics Studies Information Exchange
Inspector General, Central Imagery Office
Inspector General, Defense Intelligence Agency
Inspector General, National Security Agency

Non-Defense Federal Organizations

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

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 Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on Government Operations

Part V - Management Comments

Defense Finance and Accounting Service Comments

DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22240-5291

MAY 31 1994

MEMORANDUM FOR DEPUTY DIRECTOR, FINANCIAL MANAGEMENT DIRECTORATE, OFFICE OF THE INSPECTOR GENERAL

SUBJECT: Preparation of Response to OIG, DoD Draft Report, "Critical Management Data Used to Manage the Defense Finance and Accounting Service" (Project No. 3FG-2008)

Our detailed comments on the findings, recommendations, and internal control weaknesses in the report are attached.

for John P. Springett
Director

Attachment

Defense Finance and Accounting Service Comments on DoDIG Draft Report "Critical Management Data Used to Manage the Defense Finance and Accounting Service" (Project No. 3FG-2008)

CONCLUSION Based on the DFAS mission and goals, the core performance measurements reported on the DFAS financial statements should be supplemented as required by DoD guidance. All functional areas should be addressed so that the financial statements will give a complete and realistic portrayal of the agency and be more useful to all DFAS customers. The PAR charts should be modified to include all data necessary to measure performance in all the functional areas. Of special concern is the area of customer service, which is stressed in the report of the National Performance Review.

DFAS RESPONSE: Concur.

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

1. Develop and implement additional financial statement performance measurements to accurately measure accomplishment of mission and goals. Modify Program Appraisal Review charts to include all data necessary to measure performance in the areas listed below. Implement a reconciliation process to verify the accuracy of the data reported on the Program Appraisal Review charts. Areas of measurement should include:

o Reductions in the outstanding balances in undistributed and unmatched disbursements.

o Timeliness of financial statements prepared by the Defense Finance and Accounting Service.

o Resolution of material weaknesses identified by the internal management control program.

o Customer satisfaction with services performed.

o Progress in policy standardization.

o Progress in reducing operating costs by 50 percent.

o Reduction of the backlog of potential claims due the Government from contractors.

o Timeliness of collecting overpayments from contractors.

o Identification and recoupment of progress payments due from contractors.

o Deobligation or correction of accounting errors for unliquidated obligations on closed contracts.

o Accumulation and tracking of contingent liabilities to monitor the need for additional funding.

DFAS RESPONSE: Partial concur. This recommendation can be best addressed as three related recommendations: 1) develop additional financial statement performance measures, 2) modify current PAR charts, and 3) implement a reconciliation process for the PAR charts. They should be addressed individually since corrective actions will be separate and distinct and each will have different progress and completion milestones.

Expected completion dates:

1) develop additional financial statement performance measures - to be included in the financial statement for fiscal year 1995;
2) modify current PAR charts - beginning October 1, 1994, for fiscal year 1995 reporting; and
3) implement a reconciliation process for the PAR charts - beginning January 1, 1995, as part of the DFAS operational review program.

DFAS will be continuously vigilant to identify areas of measurement, however the following comments respond to the specific recommended areas of measurement:

o Reductions in the outstanding balances in undistributed and unmatched disbursements - concur. Considerable data is already being collected. DFAS currently has PAR charts for this measurement. In addition, it is prominently featured in quarterly Operational Review and Analysis Briefings to the military service assistant secretaries for financial management. A special project to reduce undistributed and unmatched disbursements at the document level is ongoing, with a target completion date of June, 1994.

o Timeliness of financial statements prepared by the Defense Finance and Accounting Service - concur. DFAS currently has PAR charts for this measurement.

o Resolution of material weaknesses identified by the internal management control program - nonconcur. All material weaknesses reported by DFAS are tracked and monitored through both the OSD and DFAS Federal Managers' Financial Integrity Act (FMFIA) program at the milestone level. To include the resolution of these weaknesses in the performance measurement program would be a duplication of effort and contrary to the Performance Review process.

o Customer satisfaction with services performed - concur. Some customer satisfaction surveys, both formal and informal, have been completed and others are in progress. DFAS has reported on its survey efforts to the Defense Performance Review and will provide customer service standards and survey results to the DPR for use in the DoD customer service plan, as required by

Executive Order 12862 "Setting Customer Service Standards."

o Progress in policy standardization - concur. Under the authority of DoD 7000.14 "DoD Financial Management Policy and Procedures" DFAS is issuing volumes of 7000.14-R "DoD Financial Management Regulation."

o Progress in reducing operating costs by 50 percent - partially concur. DFAS tracks this data for DFAS savings. However, a significant portion of the target savings in operating costs will come from the DoD-wide network. To track savings for non-DFAS finance and accounting activities would require the cooperation of the military services and defense agencies.

o Reduction of the backlog of potential claims due the Government from contractors - concur.

o Timeliness of collecting overpayments from contractors - concur.

o Identification and recoupment of progress payments due from contractors - nonconcur. The MOCAS contract administration/ payment system automatically recoups outstanding progress payments against delivery invoices. Prior system deficiencies are being rectified with the deployment of a system change request to MOCAS which will identify all outstanding unrecouped progress payments.

o Deobligation or correction of accounting errors for unliquidated obligations on closed contracts - request clarification. Based on the wording of this suggested performance area of measurement, we cannot comment on its usefulness. From an accounting standpoint a contract cannot be "closed" until any unliquidated obligations, or any overdisbursements, are reconciled and appropriate accounting adjustments processed. We request additional clarification before we can determine if it is appropriate for a routine, recurring performance measurement reporting system.

o Accumulation and tracking of contingent liabilities to monitor the need for additional funding - concur. DFAS can track contingent liabilities for the Financial Operations Business Area. Contingent liabilities must be determined by an agency's legal counsel, in accordance with DoD 7220.9-M, the DoD Accounting Manual.

2. Direct customer service and performance assessment personnel at Defense Finance and Accounting Service Headquarters to oversee implementation of the customer service plan at the Defense Finance and Accounting Service Centers to ensure consistency.

DFAS RESPONSE: Concur. DFAS Headquarters customer service and performance assessment personnel have used a variety of methods

to oversee the implementation of the DFAS customer service program at the DFAS Centers, ex: site visits, videoteleconferences, periodic reports on the status of initiatives, and personal reports from Center Directors (in the context of regular senior staff meetings). DFAS Headquarters will intensify its efforts to ensure consistent implementation of the DFAS total customer service program.

Expected completion date: January 31, 1995

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