Audit Report

OFFICE OF THE INSPECTOR GENERAL

DEFENSE COMMISSARY AGENCY FINANCIAL MANAGEMENT IMPROVEMENT PROGRAM

Report No. 94-157 June 30, 1994

Department of Defense

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Acronyms

DeCA	Defense Commissary Agency
FMIP	Financial Management Improvement Program

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

Report No. 94-157 June 30, 1994

MEMORANDUM FOR DIRECTOR, DEFENSE COMMISSARY AGENCY

SUBJECT: Audit Report on the Defense Commissary Agency Financial Management Improvement Program (Project No. 4LA-0009)

Introduction

We are providing this final report for your information and use. This audit was requested by the Comptroller of the DoD. This report discusses the results of our audit survey.

The Comptroller of the DoD initiated the Financial Management Improvement Program (FMIP) in November 1992, as a result of issues raised by the Inspector General, DoD. The Comptroller managed the FMIP until August 1993. In August 1993, the Comptroller delegated the management of the FMIP to DeCA.

Audit Results

Milestones were established by the FMIP participants to correct operational deficiencies in functional areas including accrued expenses, automated data processing, contract payments, fixed assets, inventory, and sales and deposits. DeCA made significant progress in the six FMIP functional areas. As of January 1994, the FMIP included 577 milestones, 480 (83 percent) of which were completed. DeCA improved internal controls and financial accounting procedures to the extent possible using current DeCA automated systems. DeCA completed only a limited number of automated data processing milestones because the required system changes were beyond its control. Some progress is still required in the sales and deposits functional area because DeCA did not significantly improve internal controls over the management of the vendor coupon program. We are reviewing the management of the vendor coupon program as a separate audit project.

Objective

The objective of the audit was to determine whether DeCA took action to implement the FMIP.

Scope and Methodology

We reviewed FMIP documentation, briefings, and detailed records, dated from April 1993 to January 1994. We did limited testing of vendor payments, inventory reconciliations at the service centers, controls over unmatched

treasury deposits, and fixed asset records. We did not rely on computer-processed data. We did not determine the effectiveness of all corrective actions implemented by DeCA. We visited the Office of the Comptroller of the DoD; the Defense Finance and Accounting Service Center, Columbus, Ohio; DeCA Headquarters, Fort Lee, Virginia; DeCA East Service Center, Petersburg, Virginia; and DeCA West Service Center, San Antonio, Texas.

This financial related audit was conducted from November 1993 through January 1994. The audit was conducted in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly, included such tests of internal controls as were considered necessary.

Internal Controls

We reviewed specific internal controls established by the FMIP. Internal controls were effective in that the audit disclosed no material deficiencies. However, as part of a separate audit, we will review the management of the internal controls within the vendor coupon program.

Prior Audits and Other Reviews

No prior reviews of the DeCA FMIP have been performed.

Background

With the transfer of the FMIP from the Comptroller of the DoD to DeCA in August 1993, the Director, DeCA, assigned responsibility for the FMIP to the Resource Management Directorate. Problem areas and milestones were tracked and periodically briefed to the Director, DeCA, and to other senior managers. As problem areas were identified they were added to the FMIP to determine necessary corrective actions with milestones for accomplishment.

Discussion

DeCA has made significant improvements in its financial and accounting practices in each of the six functional areas. Many of DeCA's automated systems were not designed specifically for commissary system use and DeCA is planning to replace those systems with new systems designed for specific commissary system use. DeCA implemented alternative manual procedures, when necessary, to overcome limitations of the current systems. Audit results for each functional area are discussed below.

Accrued Expenses. Previous audits showed that DeCA was not recording expenses during the period in which they were incurred and that DeCA did not process $64.56 million in yearend accruals because of limitations in DeCA's accounting system. DeCA was waiting until expenses were paid before recording an accounting entry. DeCA should have accrued expenses for the Operations and Surcharge Collections Funds when the expense was incurred, not paid. DeCA now requires that expenses, such as utilities and maintenance, are recorded when they are actually incurred rather than when paid.

Automated Data Processing. Previous audits identified password sharing and access control problems. DeCA's automated data processing section tracked system change requests and engineering change proposals that were necessary to improve procedures discussed in this and the other five functional areas. DeCA did not complete all FMIP actions related to automated data processing because many of the system changes that were required were beyond the control of DeCA. For example, changes to the Defense Business Management System requested by DeCA were not made because the Defense Finance and Accounting Service did not make DeCA FMIP requirements a priority.

Contract Payments. Previous audits revealed that DeCA was not paying vendors on time, making duplicate payments to vendors, losing discounts, and incurring unnecessary interest expense. We reviewed a nonstatistical sample of about 750 vendor payments made from October 1 through December 30, 1993. All payments were properly supported and paid. We also used computer techniques to review 600,000 payments, valued at about $1.6 billion, for duplicate payments. We did not identify any significant duplicate payments. During FY 1992 DeCA incurred about $8.9 million in interest expense and lost discounts. In FY 1993 interest expense and lost discounts decreased to $4.3 million, a 50-percent decrease.

Fixed Assets. Previous audits showed that DeCA was not recording fixed assets and related depreciation or construction-in-progress in its general ledgers. In February 1993, DeCA began recording equipment valued at more than $15,000 as a capital asset and applied depreciation to that equipment. DeCA also began recording construction-in-progress in the accounting records and recording real property maintenance as a capital expenditure. As of February 1994, more than 90 percent of the commissary stores had completed a physical inventory of their fixed assets.

Inventory. Previous audits showed that DeCA was not taking periodic physical inventories, reconciling store level records with official accounting records, and documenting inventory adjustments. Physical inventories were completed at all commissary stores during the spring of 1993. Each commissary store used the inventory values as the basis for adjusting the respective inventory accounts. DeCA service center personnel also began reconciling the store level inventory records with the official accounting records.

Sales and Deposits. Previous audit efforts revealed that DeCA controls over vendor coupon programs were inadequate; DeCA was posting sales transactions twice to its accounting system; and the U.S. Treasury and DeCA bank deposit records did not match. After August 1993, DeCA significantly decreased the number of multiple sales postings to the accounting system through the use of edit checks and standardized forms. DeCA also decreased the number of unmatched deposits between the bank records and the U.S. Treasury records. As of December 1993, 98 percent of all deposits were matched. As of December, 1993 DeCA had not completed 17 of 42 FMIP actions for improving vendor coupon program management. The vendor coupon automated system did not include adequate internal controls. The data used to manage the program were not accurate or complete.

Management Comments

The Director, Defense Commissary Agency, agreed with the audit results (Enclosure 1), and there are no unresolved issues. No additional comments are required.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. Robert J. Ryan, Audit Program Director, at (703) 604-9418 (DSN 664-9418) or Mr. Walter R. Loder, Audit Project Manager, at (703) 604-9413 (DSN 664-9413). Copies of this report will be distributed to the organizations listed in Enclosure 2. The audit team members are listed on the inside back cover.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Enclosures

Defense Commissary Agency Comments

DEFENSE COMMISSARY AGENCY
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FORT LEE, VIRGINIA 23801-6300

REPLY TO
ATTENTION OF

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JUN 8 1994

MEMORANDUM FOR INSPECTOR GENERAL, LOGISTICS SUPPORT DIRECTORATE, 400 ARMY NAVY DRIVE, ARLINGTON, VA 22202-2884

SUBJECT: Audit Report on the Defense Commissary Agency Financial Management Improvement Program (Project No. 4LA-0009)

Reference: DoDIG Memorandum, dtd May 13, 1994, SAB.

In response to referenced memorandum, we have reviewed the draft report and agree with the contents. We have recognized weaknesses in the vendor coupon program and have initiated actions to correct these problems. We will continue to work on improvements in the vendor coupon program.

If you have any questions, please contact Mr. Ben Mikell at (804) 734-8103.

Charles M. Wiker

CHARLES M. WIKER
Chief Executive Officer

ENCLOSURE 1

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