Audit Report

OFFICE OF THE INSPECTOR GENERAL

CASH MANAGEMENT WITHIN THE DEFENSE REUTILIZATION AND MARKETING SERVICE

Report No. 94-158 June 30, 1994

Department of Defense

Additional Copies

To obtain additional copies of this report, contact the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate, at (703) 604-8937 (DSN 664-8937) or FAX (703) 604-8932.

Suggestions for Future Audits

To suggest ideas for or request future audits, contact the Planning and Coordination Branch, Audit Planning and Technical Support Directorate, at (703) 604-8939 (DSN 664-8939) or FAX (703) 604-8932. Ideas and requests can also be mailed to:

Inspector General, Department of Defense
OAIG-AUD (ATTN: APTS Audit Suggestions)
400 Army Navy Drive (Room 801)
Arlington, Virginia 22202-2884

DoD Hotline

To report fraud, waste, or abuse, call the DoD Hotline at (800) 424-9098 or write to the DoD Hotline, The Pentagon, Washington, D.C. 20301-1900. The identity of writers and callers is fully protected.

Acronyms

DBOF	Defense Business Operations Fund
DFAS	Defense Finance and Accounting Service
DRMS	Defense Reutilization and Marketing Service
NSO	National Sales Office

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

June 30, 1994

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Audit Report on Cash Management Within the Defense Reutilization and Marketing Service (Report No. 94-158)

We are providing this report for your review and comments. It discusses the Defense Reutilization and Marketing Service's timeliness of processing sales proceeds generated from the sales of scrap material and the subsequent reimbursement made to either its Defense Business Operations Fund account or qualified DoD activities. Comments on a draft of this report were considered in preparing the final report.

DoD Directive 7650.3, requires that audit recommendations be resolved promptly. We request that the Defense Logistics Agency provide additional comments on the one open issue identified in the report by August 29, 1994.

The courtesies extended to the staff during the audit are appreciated. If you have any questions concerning this audit, please contact Mr. Stuart Dunnett, Audit Project Manager, in our Columbus office at (614) 337-8009. The distribution of this report is in Appendix D. The audit team members are listed on the inside back cover.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 94-158 **June 30, 1994**
(Project No. 2LE-2020.01

CASH MANAGEMENT WITHIN THE DEFENSE REUTILIZATION AND MARKETING SERVICE

EXECUTIVE SUMMARY

Introduction. This report is being issued as part of our Audit of the FY 1993 Financial Statements of the Defense Reutilization and Marketing Service (Project No. 2LE-2020). Sales proceeds generated from the sales of scrap material by the Defense Reutilization and Marketing Service (DRMS) are processed by the Defense Finance and Accounting Service, Columbus, Ohio, with subsequent reimbursement made to the Defense Business Operations Fund account or qualified DoD activities.

Objective. The primary objective of this phase of the audit was to evaluate whether sales proceeds that were deposited into cash suspense accounts were being reimbursed to the appropriate turn-in activities in a timely manner. The audit also evaluated applicable internal controls related to timely processing of sales proceeds to qualified recipients.

Audit Results. The Defense Finance and Accounting Service-Columbus retained pre-FY 1993 and FY 1993 sales proceeds in suspense accounts for extended periods rather than releasing the proceeds to qualified recipients in a timely manner. As a result, the funds could not be used by the qualified recipients for operating purposes.

Internal Controls. A material internal control weakness was identified. Controls were ineffective to ensure the timely reimbursement of sales proceeds. See Part I for details of the internal controls reviewed and management's implementation of the DoD Internal Management Control Program. See Part II for a discussion of the internal control weakness identified.

Potential Benefits of Audit. Monetary benefits of $30.5 million will be immediately realized by distributing sales proceeds being unnecessarily retained in two suspense cash accounts. Additionally, undetermined benefits will be realized by qualified recipients if sales proceeds are directly deposited into their accounts. Appendix B summarizes the potential benefits resulting from audit.

Summary of Recommendations. We recommended that the DRMS immediately close pre-FY 1993 sales contracts and transfer the outstanding sales proceeds to the DRMS Defense Business Operations Fund account. We also recommended that the National Sales Office deposit all sales proceeds generated from sales of scrap material directly into the accounts of qualified recipients. Additionally, we recommended that the DRMS review and release FY 1993 sales proceeds to qualified recipients.

Management Comments. The Defense Logistics Agency concurred with all recommendations, indicating that action will be taken to transfer all sales proceeds being retained in several suspense accounts maintained by the Defense Finance and Accounting Service-Columbus to the accounts of qualified recipients; to immediately deposit all future sales proceeds generated from the sales of scrap material into the accounts of qualified recipients; and to identify and transfer all sales proceeds being

retained in suspense accounts by local and regional accounting and finance offices to the accounts of qualified recipients. However, the Defense Logistics Agency stated that DoD policy requires that sales proceeds, not identified to a qualified recipient's account, should be deposited into the U.S. Treasury's Miscellaneous Receipts account. A discussion of management comments and audit response is in Part II. The complete text of management comments is in Part IV.

Audit Response. We consider the Defense Logistics Agency's comments to be responsive and agree that DoD policy states that sales proceeds not identified to a qualified recipient's account are to be deposited into the U.S. Treasury's Miscellaneous Receipts account. We believe that the Defense Logistics Agency should request the Comptroller of the DoD to provide an exemption from that DoD policy because the policy was established before the DRMS became a Defense Business Operations Fund activity. We request that the Defense Logistics Agency provide additional comments on that matter by August 29, 1994.

Table of Contents

Executive Summary i

Part I - Introduction 1

Background 2
Objectives 3
Scope and Methodology 3
Internal Controls 3
Prior Audits and Other Reviews 4

Part II - Finding and Recommendations 5

Processing of Sales Proceeds 6

Part III - Additional Information 13

Appendix A. Statistical Sampling Plan and Results 14
Appendix B. Summary of Potential Benefits Resulting from Audit 15
Appendix C. Organizations Visited or Contacted 16
Appendix D. Report Distribution 17

Part IV - Management Comments 19

Director, Defense Logistics Agency 20

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

Part I - Introduction

Background

The Defense Reutilization and Marketing Service (DRMS), under the direction of the Defense Logistics Agency, is responsible for the disposal of surplus personal property and hazardous materials generated by DoD activities. In FY 1992, DoD designated the DRMS as a business area under the Defense Business Operations Fund (DBOF) with a requirement to prepare audited financial statements starting in FY 1993. The mission of the DRMS is accomplished primarily through the reutilization, transfer, donation, sale of usable and scrap material, and issuance of disposal contracts for removal of hazardous waste materials. Surplus property that is not reutilized, not transferred to other Federal agencies, or not donated to state and local agencies may be offered for sale to the public through local and national sales under the Surplus Property Sales Program, which the DRMS operates.

In April 1992, DRMS reorganized its regional field offices, reducing the number from five to one, while creating Operations East and West and the National Sales Office (NSO). NSO was established to implement a national sales program that includes development of marketing strategies, preparation of sales catalogs, solicitation and evaluation of bids, and writing of sales contracts referred to it from the Defense Reutilization and Marketing Offices located worldwide. After the bid opening date on a solicitation, NSO personnel award contracts to the highest bidder, collect payments from the sales, prepare cash collection vouchers, deposit sales proceeds at the local accounting and finance office, direct the cognizant accounting and finance office to transfer cash proceeds to the Defense Finance and Accounting Service (DFAS)-Columbus, and provide documents to the DFAS-Columbus that include instructions for disposition of sales proceeds to either the DRMS DBOF or qualified recipients. For example, if an industrial funded activity has established a qualified recycling program, it will receive 100 percent of subsequent sales proceeds from the sale of scrap metals turned in by that activity.

NSO deposits sales proceeds obtained from the sales of scrap material into a Deposit Fund Sales Account (Suspense), a temporary holding account, until disposition instructions are provided to DFAS. Prior to the reorganization of DRMS, the suspense accounts were maintained at the accounting and finance offices collocated at the DRMS regions. In April 1992, fund balances for the suspense accounts were transferred to DFAS-Columbus. Because of subsequent problems encountered in trying to reconcile collections and disbursements, DFAS-Columbus developed the Defense Disbursing Analysis Reporting System to track FY 1993 transactions on an invitation-for-bid contract line basis.

Objectives

The primary objective of this part of the audit was to evaluate whether sales proceeds that were deposited into suspense accounts were being reimbursed to the appropriate turn-in activities in a timely manner. We also evaluated internal controls related to timely processing of sales proceeds to qualified recipients.

Scope and Methodology

We reviewed sales contracts and financial records pertaining to pre-FY 1993 sales proceeds on deposit in suspense accounts. We also reviewed FY 1993 NSO sales contracts posted into the Defense Disbursing Analysis Reporting System of the DFAS. The contracts covered the sales period from October 1992 through June 1993. From a total of 1,598 contract lines, valued at $28 million with collections greater than $1,000, we selected for review 180 contract lines, valued at $13.2 million (see Appendix A).

The technical staff of the Audit Planning and Technical Support Directorate assisted in this audit. Analysts in the Quantitative Methods Division assisted in formulating a stratified sampling plan and in computing projections.

We did not review the general and application controls of the computer-processed systems used by DFAS to control collection and distribution of DRMS controlled sales proceeds. Instead, we conducted substantive tests of the accuracy of sales transactions as detailed in Appendix A of this report.

This economy and efficiency audit was made from October 1992 through December 1993, in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. We also looked at applicable internal controls. Organizations visited or contacted during the audit are in Appendix C.

Internal Controls

We reviewed the National Sales Office's internal controls related to the distribution of proceeds generated from the sales of scrap and usable material. The audit identified a material internal control weakness as defined by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987.

Internal controls were not effective to ensure timely reimbursement of sales proceeds to qualified recipients. Recommendation 2., if implemented, will assist in correcting the weakness.

The material internal control weakness identified in this audit was not included as an assessable unit in the DRMS internal management control program and therefore not included as a material weakness in its FY 1992 Federal Manager's Financial Integrity Assurance Report. No determinable monetary benefits are associated with correcting the internal control weakness. A copy of this report will be provided to the internal control officer within the Office of the Secretary of Defense and the Defense Logistics Agency.

Prior Audits and Other Reviews

DRMS Internal Review Report No. 90-02, "Survey of Suspense Account Administration," February 1990, stated that regional sales offices were accumulating excessive sales proceeds in their Deposit Fund Sales Account (Suspense). Additionally, the regional sales offices were not following DoD instructions on direct deposit of sales proceeds to qualified recipients. The report recommended that the DRMS comply with established procedures identified in DoD Instruction 7310.1, "Disposition of Proceeds from DoD Sales of Surplus Personnel Property," July 10, 1989, and DRMS Handbook 4160.3, "Disposal Operating Procedures," September 1992, on minimizing the use of fund suspense accounts and to directly deposit sales proceeds to qualified recipients. As of the date of our audit, those recommendations had not been implemented.

Part II - Finding and Recommendations

Processing of Sales Proceeds

The Defense Finance and Accounting Service-Columbus retained pre-FY 1993 and FY 1993 sales proceeds in suspense accounts for extended periods rather than releasing the proceeds to qualified recipients in a timely manner. The condition occurred because the National Sales Office could not readily identify specific qualified recipients and did not authorize the Defense Finance and Accounting Service to release the funds. Further, the National Sales Office did not comply with existing procedures requiring direct deposits of FY 1993 sales proceeds to designated fund accounts. As a result, $30.5 million in suspense accounts could not be used by the qualified recipients or the Defense Reutilization and Marketing Service Defense Business Operations Fund for operating purposes.

Background

DoD Regulation. DoD Instruction 7310.1 states that amounts collected by the DoD Components in connection with the sale of excess and surplus property shall be deposited promptly to the appropriate account. The use of suspense accounts shall be minimal. If the account ultimately to be credited with the proceeds of a sale can be determined at the time funds are collected, the deposit shall be made immediately to that account.

DRMS Regulation. DRMS Handbook 4160.3 states that disposition of proceeds collected from successful bidders for property removed will be immediately deposited to the appropriate account. Specifically, the Handbook requires that sales proceeds received from sales of recyclable and usable material turned in by industrial funded activities should be immediately transferred to the designated account of the activities and not processed through a suspense account. Sales proceeds related to recyclable material including usable property downgraded to scrap upon receipt, are required to be directly deposited into a suspense account. Upon receipt of the total amount due from the bidder, total proceeds are to be transferred to the activity that turned in the property. The Handbook further requires that with some minor exceptions, sales proceeds related to "All other property, including Government furnished material/ equipment in the possession of contractors and all other property not otherwise identified...." are to be deposited immediately into a DRMS DBOF account.

NSO and DFAS Suspense Accounts. The accounts used by NSO and DFAS to retain sales proceeds are defined as follows.

Deposit Fund General Account (Suspense). DFAS uses this account as a temporary holding account for miscellaneous purposes. For example,

DFAS used the account to retain $1.5 million of pre-FY 1993 sales proceeds transferred from the Accounting and Finance Office-Memphis to DFAS-Columbus until final disposition of the funds could be determined.

Deposit Fund Sales Account (Suspense). NSO uses this account to retain bid deposits, sales proceeds, and refunds due contractors. NSO instructed DFAS-Columbus to deposit all sales proceeds into this account until it is given authorization to release the funds.

Budget Clearing Account (Suspense). DFAS is the primary user of this temporary holding account. Upon notification by NSO, DFAS transfers sales proceeds being held in NSO's Deposit Fund Sales Account (Suspense) into recycling activities' designated Budget Clearing Accounts for final distribution.

Pre-FY 1993 Sales Proceeds

DFAS-Columbus needlessly retained $13.1 million related to pre-FY 1993 sales proceeds. The condition occurred because NSO could not reconcile their financial records to identify specific qualified recipients and did not authorize DFAS-Columbus to release the funds. The $13.1 million of sales proceeds were deposited as shown in the table.

Pre-FY 1993 Proceeds

Suspense Account	Amount (millions)
Deposit Fund Sales Account	$ 7.6
Deposit Fund General Account	5.0
Budget Clearing Account	.5
Total	$13.1

Before the reorganization of DRMS in April 1992, suspense accounts were maintained regionally for processing the DRMS financial transactions, including the temporary holding of bid deposits and sales proceeds. Sales proceeds were generally held in a suspense account until contracts were closed out. After contracts were closed, sales proceeds were distributed to contractors that were due refunds, and any remaining amount was deposited into the U.S. Treasury.

DFAS-Columbus Accounts. Through discussions with DFAS-Columbus personnel, we determined that $7.6 million of pre-FY 1993 sales proceeds were being retained in NSO's Deposit Fund Sales Account (Suspense) and an additional $0.5 million in its Budget Clearing Account (Suspense) that was related to contracts administered by the DRMS Columbus Region, before the FY 1992 reorganization. DFAS personnel stated that extensive efforts were made, with assistance from NSO and the DRMS regional sales

offices, to determine to whom the sales proceeds were owed. The attempts were unsuccessful because of the lack of financial records and sales data to support pre-FY 1993 transactions.

Accounting and Finance Offices Accounts. Pre-FY 1993 sales proceeds were held in suspense accounts at two accounting and finance offices. As much as $5 million was retained at the Accounting and Finance Office-Memphis and the Accounting and Finance Office-Ogden.

Accounting and Finance Office-Memphis. The Accounting and Finance Office-Memphis retained approximately $1.5 million of pre-FY 1993 sales proceeds in its DRMS Deposit Fund General Account. Through discussions with personnel from NSO and the Memphis Accounting and Finance Office, we determined that both offices had requested a transfer of the $1.5 million to DFAS-Columbus, but deferred the transfer until both offices could reconcile the suspense account. As a result of our audit, on February 17, 1993, NSO transferred the funds to the DRMS Deposit Fund General Account (Suspense) at DFAS-Columbus. As of January 31, 1994, those funds were still on deposit at DFAS-Columbus.

Accounting and Finance Office-Ogden. DFAS-Columbus personnel informed us that a review of the Accounting and Finance Office-Ogden's financial records revealed that it had $3.5 million of pre-FY 1993 DRMS sales proceeds on deposit in its DRMS Deposit Fund General Account (Suspense). Accounting and Finance Office personnel informed DFAS-Columbus that financial and sales records were no longer available to determine to whom the sales proceeds were owed. Based on our audit results, the DFAS personnel recommended to DRMS that the funds on deposit in the DRMS suspense account be directly deposited into the DRMS DBOF account.

Because of the time constraints encountered during the audit, we were not able to determine whether additional funds were being retained in other accounting and finance offices servicing DRMS worldwide. We believe that DRMS should query those activities and immediately transfer pre-FY 1993 sales proceeds to readily identifiable recipients or to the DRMS DBOF account.

FY 1993 Sales Proceeds

DFAS-Columbus unnecessarily retained in the NSO's Deposit Fund Sales Account (Suspense) $17.4 million of sales proceeds collected during FY 1993 and owed to qualified recipients. The condition occurred because NSO was not directly depositing sales proceeds into the qualified recipient's account or DRMS DBOF account (even though reimbursable activities were immediately known) at the time of fund deposit and when contractor payments were received, but instead was depositing the proceeds into DFAS-Columbus suspense accounts.

DoD and DRMS regulations require that the use of a suspense account be kept to a minimum. Additionally, sales proceeds are to be deposited promptly into the appropriate account if a qualified recipient has been identified. However, NSO personnel deposited sales proceeds into its Deposit Fund Sales Account (Suspense) although the recipient was clearly identified before the sales. Therefore, the NSO actions were not in compliance with the DoD and DRMS policies and procedures.

For example, two sample contracts showed that sales proceeds were identifiable to qualified recipients at the time of deposit. Contract 31-3604-0125 was awarded to a scrap dealer contractor on November 19, 1992, for $239,439. By December 1992, the contractor had paid in full a net contract price of $239,439 and removed all property. As of March 1993, NSO had reimbursed two qualified recipients $30,870, and the balance of $208,569, owed to the DRMS DBOF Account, was still on hand. No action was taken to release the funds between December 1992 and March 1993, although the DRMS special funding document indicated that the remaining funds were owed to the DRMS DBOF account. When we brought this to the attention of NSO personnel, action was initiated to release the balance owed to the DRMS DBOF account. On May 18, 1993, $188,965 was released. As of September 30, 1993, $19,604 was still on deposit in the suspense account.

Contract 31-3633-0154 was awarded to a scrap dealer contractor in February 1993, for $144,687. As of March 31, 1993, the contractor had paid the full $144,687 and had removed the property. As of September 30, 1993, NSO had refunded to the contractor $6,924 and reimbursed $28,401 to two qualified recipients, and still owed $109,362 to two other qualified recycling activities and to the DRMS DBOF account.

As of September 30, 1993, $17.4 million of FY 1993 sales proceeds was on deposit at DFAS-Columbus in the NSO Deposit Fund Sales Account (Suspense). Discussions with the DFAS personnel indicated the reimbursable information was not readily available from deposit vouchers that NSO supplied to DFAS. Further discussions with the NSO personnel revealed that no automated financial records were available to readily identify the qualified recipients owed the $17.4 million in sales proceeds. However, funding documents manually prepared by the Defense Reutilization and Marketing Office personnel were on file at NSO, thereby providing sufficient information for NSO to reimburse qualified recipients.

Recommendations, Management Comments, and Audit Response

We recommend that the Director, Defense Reutilization and Marketing Service:

1. Direct the National Sales Office to suspend any further attempt to reconcile pre-FY 1993 sales proceeds and to authorize the Defense Finance and Accounting Service (DFAS) to transfer a total of $13.1 million from the Defense Reutilization and Marketing Service (DRMS) Deposit Fund Sales Account (Suspense) ($7.6 million), Budget Clearing Account (Suspense) ($0.5 million), and the DRMS Deposit Fund General Account (Suspense) ($5.0 million) to the DRMS Defense Business Operations Fund (DBOF) account.

2. Direct the National Sales Office (NSO) to deposit all sales proceeds, generated from the sales of material, directly into the designated accounts of qualified recipients, as required by the DoD and DRMS procedures. Sales proceeds not properly designated to a reimbursable account should be immediately deposited into the DRMS DBOF account.

3. Direct NSO to transfer the $17.4 million in FY 1993 sales proceeds related to completed contracts (sales proceeds collected and property removed) into qualified recipients' designated accounts within 60 days of the date of this report. Sales proceeds not identifiable to a qualified recipient, should be deposited into the DRMS DBOF account.

4. Direct all Defense Reutilization and Marketing Offices that have sales proceeds deposited at local and regional accounting and finance offices to:

a. Close all pre-FY 1993 sales contracts and directly deposit all related sales proceeds into readily identifiable qualified recipients' accounts or the DRMS DBOF.

b. Close all FY 1993 sales contracts that have been completed (sales proceeds collected and property removed) and directly deposit all related sales proceeds into qualified reimbursable recipient accounts or into the DRMS DBOF account within 60 days from the date of this report.

Defense Logistics Agency Comments. The Defense Logistics Agency (DLA) concurred with all recommendations, but stated that DoD policy requires that if qualified recipients are not identified, funds must be returned to the Miscellaneous Receipts of the Treasury (97R2651-Sale of Scrap and Salvage Materials, Defense) account. DLA also stated that requests for exemptions from the policy must be addressed to the Deputy Comptroller of the DoD (Management Systems) on a case-by-case basis with full justification provided. The complete text of management comments is in Part IV.

Audit Response. DLA's comments were responsive to our recommendations. However, DLA's response regarding depositing of sales proceeds into the U.S. Treasury's Miscellaneous Receipts of the Treasury account is contrary to its present operating procedures. According to DFAS-Columbus personnel, DLA instructed DFAS-Columbus to deposit all sales proceeds, not reimbursable to qualifying DoD Components, into the DRMS DBOF account 97X4930.5N54, "Sales of Scrap and Salvage Material," rather than into the U.S. Treasury Miscellaneous Receipts account, as required by DoD Instruction 7310.1. DFAS personnel further stated that the change in deposit accounts resulted when the DRMS became a DBOF activity. We believe that DLA should request the Comptroller of the DoD to provide an exemption from the policy, because the policy was established before DRMS became a DBOF activity. Accordingly, we request that DLA provide additional comments.

Part III - Additional Information

Appendix A. Statistical Sampling Plan and Results

We reviewed the DFAS-Columbus financial records that were related to FY 1993 contracts administered by the DRMS NSO. As of June 25, 1993, the DFAS-Columbus had received collections for 2,596 contract lines with collections valued at $27.1 million. We limited our universe to 1,598 contract lines, valued at $26.8 million, with collections greater than $1,000. Our Quantitative Methods Division used a stratified sampling plan to select 180 contract lines with collections valued at $13 million. We adjusted the collections for unrecorded and erroneous transactions. The adjusted value for the 180 contract lines was $13.2 million, as summarized in the table.

Summary of Collections Sampled

	Total Collections		Sample Universe	
Stratum	Number of Lines	Extended Value (million)	Number of Lines	Extended Value (million)
> $100,000	47	$ 9.1	47	$ 9.2
50,000-99,999	65	4.7	30	2.2
20,000-49,999	177	5.5	43	1.3
10,000-19,999	242	3.4	30	.4
1,000- 9,999	1,067	4.1	30	.1
Total	1,598	$26.8	180	$13.2

Based on the corrections to the sampled items, we projected, with a 95-percent confidence level, that our universe of $26.8 million should be adjusted to $28 million (+/- $0.8 million).

Appendix B. Summary of Potential Benefits Resulting from Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
1.	Economy and Efficiency. Reduce excess suspense account deposits under the control of DRMS. Transfer pre-FY 1993 sales proceeds to the DRMS DBOF account.	Funds put to better use. Transfer $13.1 million to the DRMS DBOF account from the DRMS suspense accounts.
2.	Internal Control. Improve controls over direct deposits of sales proceeds to qualified recipients to ensure prompt processing of sales proceeds.	Undeterminable. Timely processing of sales deposits will result in qualified recipients receiving proceeds promptly.
3.	Economy and Efficiency. Reduce FY 1993 suspense account deposits under the control of DRMS. Transfer funds to qualified recipients or to its DRMS DBOF account.	Funds put to better use. Transfer $17.4 million to designated accounts. Identified at the time of deposit.
4.	Economy and Efficiency. Reduce excess suspense account deposits under the control of local accounting and finance offices.	Funds put to better use. Undeterminable amount to be transferred to qualified recipients and the DRMS DBOF account.

Appendix C. Organizations Visited or Contacted

Defense Logistics Agency

Headquarters, Defense Logistics Agency, Alexandria, VA
Defense Reutilization and Marketing Service, Battle Creek, MI
  National Sales Office, Memphis, TN
  Defense Distribution Region East-Financial Service, Memphis, TN

Defense Finance and Accounting Service

Defense Finance and Accounting Service, Columbus, OH

Other Federal Agencies

Department of the Treasury, Washington, DC

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
Comptroller of the Department of Defense
Assistant to the Secretary of Defense (Public Affairs)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Auditor General, Naval Audit Service

Department of the Air Force

Auditor General, Air Force Audit Agency

Defense Organizations

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

Non-Defense Federal Organizations

Office of Management and Budget
U.S. General Accounting Office
- National Security and International Affairs Division, Technical Information Center
- National Security and International Affairs Division, Defense and National Aeronautics and Space Administration Management Issues
- National Security and International Affairs Division, Military Operations and Capabilities Issues

Chairman and Ranking Minority Member of each of the following Congressional Committees and Subcommittees:

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

Part IV - Management Comments

Defense Logistics Agency Comments

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
CAMERON STATION
ALEXANDRIA, VIRGINIA 22304-6100

IN REPLY REFER TO DDAI

MAY 1994

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING,
DEPARTMENT OF DEFENSE

SUBJECT: Cash Management within the Defense Reutilization and Marketing Service (Project No. 2LE-2020.01)

This is in response to your 18 March 1994 request.

Encl

JACQUELINE G. BRYANT
Chief, Internal Review Office

CC:
MM
FO
DRMS

FORMAT 1 OF 4

TYPE OF REPORT: AUDIT DATE OF POSITION:

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND #: Cash Management within the Defense Reutilization and Marketing Service (Project No. 2LE-2020.01)

RECOMMENDATION 1: We recommend that the Director, Defense Reutilization and Marketing Service direct the National Sales Office to suspend any further attempt to reconcile pre-FY 93 sales proceeds and to authorize the Defense Finance and Accounting Service (DFAS) to transfer a total of $13.1 million from the DRMS Deposit Fund Sales Account (Suspense) ($7.6 million), Budget Clearing Account (Suspense) ($.5 million), and the DRMS Deposit Fund General Account (Suspense) ($5.0 million) to the DRMS Defense Business Operations Fund (DBOF) account.

DLA COMMENTS: We concur with the recommendation that the Director, Defense Reutilization and Marketing Service direct the National Sales Office to suspend further attempts to reconcile pre-FY 93 sales proceeds. DoDI 7310.1, Disposition of Proceeds from the Sale of Surplus Personal Property identifies the accounts entitled to receive proceeds. If qualified recipients are not identified, funds must be returned to Miscellaneous Receipts of the Treasury (97R2651 - Sale of Scrap and Salvage Materials, Defense.) Requests for exceptions to this policy must be addressed to the Deputy Comptroller of the Department of Defense (Management Systems) on a case-by-case base with full justification (DoD 7220.9, Chapter 26, Paragraph D.

DISPOSITION:
(X) Action is ongoing. Estimated Completion Date: 31 July 1994
( ) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES:
( ) Nonconcur.
(X) Concur; however, weakness is not considered material.
( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Betty Mills, FOXA, x46222, 5/12/94
REVIEW/APPROVAL: J. Rountree, CAPT, USN, Acting Chief Financial Officer, FO, x46201, 5/16/94
COORDINATION: MMSLD
A. Broadnax, DDAI, x49607, 5/17/94
J Bryant, DDAI, 17 May 94

DLA APPROVAL:

23 MAY 1994

LAWRENCE P. FARRELL, JR.
Major General, USAF
Principal Deputy Director

FORMAT 2 OF 4

TYPE OF REPORT: AUDIT DATE OF POSITION:

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND #: Cash Management within the Defense Reutilization and Marketing Service (Project No. 2LE-2020.01)

RECOMMENDATION 2: We recommend that the Director, Defense Reutilization and Marketing Service direct the National Sales Office (NSO) to deposit all sales proceeds, generated from the sales of material, directly into the designated accounts of qualified recipients, as required by the DoD and DRMS procedures. Sales proceeds not properly designated to a reimbursable account should be immediately deposited into the DRMS DBOF account.

DLA COMMENTS: Concur with the recommendation with one exception. In accordance with DoD policy, proceeds not identified to a reimbursable account must be deposited to Miscellaneous Receipts of the Treasury (97R2651) unless the Deputy Comptroller of the Department of Defense (Management Systems) approves otherwise.

DISPOSITION:
(X) Action is ongoing. Estimated Completion Date: 31 July 1994
( ) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES:
( ) Nonconcur.
(X) Concur; however, weakness is not considered material.
( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Betty Mills, FOXA, x46222, 5/12/94
REVIEW/APPROVAL: J. Rountree, CAPT, USN, Acting Chief Financial Officer, FO, x46102, 5/16/94
COORDINATION: MMSLD
A. Broadnax, DDAI, x49607, 5/17/94
Bryant, DDAI, 17 May 94

DLA APPROVAL:

23 MAY 1994

LAWRENCE P. FARRELL, JR.
Major General, USAF
Principal Deputy Director

FORMAT 3 OF 4

TYPE OF REPORT: AUDIT DATE OF POSITION:

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND #: Cash Management within the Defense Reutilization and Marketing Service (Project No. 2LE-2020.01)

RECOMMENDATION 3: We recommend that the Director, Defense Reutilization and Marketing Service direct the National Sales Office to transfer the $17.4 in FY 93 sales proceeds related to completed contracts (sales proceeds collected and property removed) into qualified recipients' designated accounts within 60 days of the date of this report. Sales proceeds not identifiable to a qualified recipient, should be deposited into the DRMS Defense Business Operations Fund account.

DLA COMMENTS: Concur that the FY 93 sales proceeds related to completed contracts be deposited into qualified recipients' account within 60 days of the date of this report. In accordance with DoD policy, sales proceeds not identifiable to a qualified recipient must be deposited to Miscellaneous Receipts of the Treasury (97R2651).

DISPOSITION:
(X) Action is ongoing. Estimated Completion Date: 31 July 1994
( ) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES:
( ) Nonconcur.
(X) Concur; however, weakness is not considered material.
( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Betty Mills, FOXA, x46222, 5/12/94
REVIEW/APPROVAL: J. Rountree, CAPT, USN, Acting Chief Financial Officer, FO, x46201, 5/16/94
COORDINATION: MMSLD
A. Broadnax, DDAI, x49607, 5/17/94
[illegible], DDAI, 17 May 94

DLA APPROVAL:

2 3 MAY 1994

LAWRENCE P. FARRELL, JR.
Major General, USAF
Principal Deputy Director

FORMAT 4 OF 4

TYPE OF REPORT: AUDIT DATE OF POSITION:

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND #: Cash Management within the Defense Reutilization and Marketing Service (Project No. 2LE-2020.01)

RECOMMENDATION 4: We recommend that the Director, Defense Reutilization and Marketing Service direct all Defense Reutilization and Marketing Offices that have sales proceeds deposited at local and regional accounting and finance offices to:

a. Close all pre-FY 93 sales contracts and directly deposit all related sales proceeds into readily identifiable qualified recipients' accounts or the DRMS DBOF.

b. Close all FY 93 sales contracts that have been completed (sales proceeds collected and property removed) and directly deposit all related sales proceeds into qualified reimbursable recipient accounts or into the DRMS DBOF account within 60 days from the date of this report.

DLA COMMENTS: Concur with recommendation with one exception. In accordance with DoD policy, material sold must be identified as DBOF material before depositing funds into the DBOF account and unidentified property must be deposited into Miscellaneous Receipts (97R2651). Exception to this policy must be granted by the Deputy Comptroller of the Department of Defense (Management System).

DISPOSITION:
(X) Action is ongoing. Estimated Completion Date: 31 July 1994
( ) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES:
( ) Nonconcur.
(X) Concur; however, weakness is not considered material.
( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Betty Mills, FOXA, x46222, 5/13/94
REVIEW/APPROVAL: J. Rountree, CAPT, USN, Acting Chief Financial Officer, FO, x49607, 5/16/94
COORDINATION: MMSLD
A. Broadnax, DDAI, x49607, 5/17/94
[signature], DDAI, 17 May 94

DLA APPROVAL:

23 MAY 1994

[signature]

LAWRENCE P. FARRELL, JR.
Major General, USAF
Principal Deputy Director

Audit Team Members

Shelton R. Young
James B. Helfrich
Gordon P. Nielsen
Stuart D. Dunnett
Curt W. Malthouse
Timothy F. Soltis
Ronald L. Meade
Brian L. Henry
Melissa A. Sikora
Lusk F. Penn