

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**SELECTED FINANCIAL ACCOUNTS ON THE DEFENSE
LOGISTICS AGENCY DEFENSE BUSINESS OPERATIONS
FUND FINANCIAL STATEMENTS FOR FY 1993**

Report No. 94-167

June 30, 1994

Department of Defense

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Acronyms

DFAS	Defense Finance and Accounting Service
DLA	Defense Logistics Agency
DRMS	Defense Reutilization and Marketing Service
IG	Inspector General
OMB	Office of Management and Budget



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

June 30, 1994

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

SUBJECT: Audit Report on Selected Financial Accounts on the Defense Logistics Agency Defense Business Operations Fund Financial Statements for FY 1993 (Report No. 94-167)

We are providing this audit report for your information and use, and for use by the Congress. Financial statement audits are required by the Chief Financial Officers Act of 1990. We reviewed the fairness of financial statements and the adequacy of internal controls and compliance with laws and regulations.

This report summarizes our audits of selected financial data included in the FY 1993 financial statements for the Defense Logistics Agency Defense Business Operations Fund (the Fund). Separate reports on the financial data we examined were provided to the Comptroller of the DoD, Defense Logistics Agency, and Defense Finance and Accounting Service to give management an opportunity to correct conditions noted and, where appropriate, to revise the FY 1993 financial statements. Management did not revise the financial statements primarily because of administrative and time constraints. Part VI of the report provides summaries of the audit results, recommendations, and management comments contained in those reports.

We are expressing an adverse opinion on the financial data we examined because the fund balances with the Treasury; inventories; property, plant, and equipment; and accumulated depreciation accounts within the financial statements were not prepared in accordance with generally accepted accounting principles for Federal entities. Additionally, we identified material internal control weaknesses and lack of compliance with applicable laws and regulations.

This report contains no recommendation that is subject to resolution in accordance with DoD Directive 7650.3. Accordingly, comments are not required.

The courtesies extended to the audit staff are appreciated. If you have any questions about this report, please contact Mr. Charles F. Hoeger, Audit Program Director, or Mr. Bernard J. Siegel, Audit Project Manager, at (215) 737-3881 (DSN 444-3881). The distribution of this report is listed in Appendix F. The audit team members are listed on the inside back cover.

A handwritten signature in black ink that reads "Robert J. Lieberman".

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Audit Report No. 94-167
(Project No. 3LD-2022.01)

June 30, 1994

**SELECTED FINANCIAL ACCOUNTS ON THE DEFENSE
LOGISTICS AGENCY DEFENSE BUSINESS OPERATIONS FUND
FINANCIAL STATEMENTS FOR FY 1993**

EXECUTIVE SUMMARY

Introduction. The Chief Financial Officers Act of 1990 requires an annual audit of revolving funds, such as the Defense Logistics Agency Defense Business Operations Fund (the Fund). The Fund has five business areas funded through the Defense Business Operations Fund -- supply management, distribution depots, industrial plant equipment, reutilization and marketing, and clothing factory. Due to the size and complexity of the Fund's financial management system, we concluded that we could not provide an opinion on the Fund's financial statements taken as a whole. This report summarizes our audits of selected financial data included in the Fund's FY 1993 financial statements.

Objectives. The primary objective of those audits were to determine whether the fund balances with the Treasury account; inventory accounts; and property, plant, and equipment account on the Fund's FY 1993 financial statements are presented fairly in accordance with generally accepted accounting principles for Federal entities. We also evaluated the internal control structure for the financial data and assessed compliance with laws and regulations that could have a material effect on the financial data.

Scope and Methodology. We examined financial data for the fund balances with the Treasury account; inventory accounts; and property, plant, and equipment accounts that represented \$17.7 billion (86 percent) of the Fund's reported assets of \$20.5 billion. On March 8, 1994, we received the Fund's FY 1993 financial statements, dated February 2, 1994.

Separate reports on the financial data we examined were provided to the Comptroller of the DoD, Defense Logistics Agency, and Defense Finance and Accounting Service to give management an opportunity to correct conditions noted and, where appropriate, to revise the FY 1993 financial statements. Management did not revise the financial statements primarily because of administrative and time constraints. Part VI of the report provides summaries of the audit results, recommendations, and management comments contained in those reports.

Independent Auditor's Opinion. We are expressing an adverse opinion on the financial data we examined. The \$1 billion fund balances with the Treasury account; \$16.5 billion of inventory accounts; and \$196.3 million of property, plant, and equipment account (acquisition value of \$318.6 million and accumulated depreciation of \$122.3 million) were not prepared in accordance with generally accepted accounting principles for Federal entities.

Internal Controls. We identified internal control weaknesses that we consider to be material and reportable conditions under standards established by Office of Management and Budget Bulletin No. 93-06. Audit trails were not adequate, reconciliations were not performed to support reported amounts, and transactions were

not matched to the proper accounting period. Controls were not effective to ensure that the results of physical inventory counts were accurate and posted to the accountable records, and that general ledger account balances were reconciled with related subsidiary records to periodically verify the accuracy of subsidiary records with related supporting documents. Additionally, controls were not effective to provide reasonable assurance that material misstatements in the property, plant, and equipment and associated depreciation accounts would be prevented or detected in a timely manner. Part II contains our report on material internal control weaknesses.

Compliance with Laws and Regulations. Part III contains our report on compliance with laws and regulations. Material instances of noncompliance with laws and regulations were disclosed. We noted in Part II, "Report on Internal Controls," that requirements of the Federal Managers Financial Integrity Act, DoD Manual 7220.9-M, "DoD Accounting Manual," and Office of Management and Budget and DoD guidance on the form and content of financial statements were not effectively implemented. Because noncompliance with laws and regulations generally represents internal control weaknesses, those issues are discussed in Part II. Appendix D, lists the laws and regulations tested.

Management Comments. Comments were received from the Comptroller of the DoD and the Defense Logistics Agency to the reports issued on the fund balances with Treasury account; inventory accounts; and property, plant, and equipment account. The Defense Finance and Accounting Service responded to the property, plant, and equipment report. Part VI of this report provides summaries of the audit results, recommendations, and management comments contained in those reports. Additional comments have been requested. Unresolved issues will be mediated in accordance with DoD Directive 7650.3.

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

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**Part I - Independent Auditor's Opinion
on the Financial Statements**

Introduction

The Defense Logistics Agency (DLA) Defense Business Operations Fund (the Fund), is a revolving fund established under the administration and management of the Director, DLA, and consists of five business areas -- supply management, distribution depots, industrial plant equipment, reutilization and marketing, and clothing factory. The business areas are established to procure, store, and sell consumable supply items to DoD Components and other Government agencies; control and maintain industrial plant equipment for DoD Components and other users; dispose of excess and surplus materiel; and manufacture selected clothing items.

Most sales proceeds from supply management are retained in the Fund and are available for the procurement of replenishment stock for inventory and for the reimbursement of support services provided by other business areas. Sales proceeds from other business areas are reimbursements received from other Fund business areas and other DoD Components and are used to pay for the operations and maintenance costs of the business areas. The Fund reported \$20.5 billion of assets on the financial statements for FY 1993.

The Chief Financial Officers Act requires an annual audit of funds, such as the DLA Defense Business Operations Fund. The Defense Finance and Accounting Service (DFAS) maintains the official accounting records. The Principal Statements of the DLA Defense Business Operations Fund are the responsibility of the DLA and DFAS. Our responsibility is to express an opinion on those statements based on our audits. Financial statements are expected to provide information to DoD program managers, the Congress, and the public, facilitating both effective allocation of resources and assessment of management performance and stewardship.

Scope and Methodology

We examined selected financial data included in the Fund's financial statements and related notes to the financial statements of the DLA Defense Business Operations Fund for the year ended September 30, 1993.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures, related to the selected financial data, in financial statements, including accompanying notes. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Statement presentation. We believe that our audits provide a reasonable basis for our opinion. We analyzed the fund balances with the Treasury; inventory; and property, plant, and equipment data available from computer reports, records, and statistics that were used by DLA to manage financial assets. Except for our tests of physical inventory observations and selected tests of fund balances with the Treasury accounts; inventory other than

Independent Auditor's Opinion on the Financial Statements

stock on hand accounts; and property, plant, and equipment accounts, we did not independently determine the reliability of the computer-processed data. The financial statement audits were made from March 1993 through April 1994. A complete list of the locations we visited or contacted is in Appendix E, "Organizations Visited and Contacted."

This report summarizes our audits of selected financial data included in the Fund's FY 1993 financial statements. Due to the size and complexity of the Fund, we concluded that we could not provide an opinion on the Fund's financial statements taken as a whole. We evaluated financial data for the fund balances with the Treasury account; inventory accounts; and property, plant, and equipment account that accounted for \$17.7 billion (86 percent) of the Fund's reported assets of \$20.5 billion. Separate reports on the financial data we examined were provided to the Comptroller of the DoD, DLA, and DFAS to give management an opportunity to correct conditions noted and, where appropriate, to revise the FY 1993 financial statements.

Auditing Standards

We conducted our audits in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General (IG), DoD, and Office of Management and Budget (OMB) Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial data and related notes to the Principal Statements are free of material misstatement.

Accounting Principles

Accounting principles are currently being studied by the Federal Accounting Standards Advisory Board (the Board). Generally accepted accounting principles for Federal entities are to be promulgated by the Comptroller General of the United States; the Director, Office of Management and Budget; and the Department of the Treasury, based on advice from the Board. The Board issued a Statement of Federal Financial Accounting Concepts, No. 1, "Objectives of Federal Financial," on September 2, 1993. Those concepts provide general guidance to the Board itself as it deliberates on specific issues, as well as help others to understand Federal accounting and financial reports.

Additionally, the Board issued three Statements of Federal Financial Accounting Standards that will be effective for the fiscal year ending September 30, 1994. The three statements follow.

- o Statement of Federal Financial Accounting Standards, No. 1, "Accounting for Selected Assets and Liabilities," March 30, 1993.

Independent Auditor's Opinion on the Financial Statements

- o Statement of Federal Financial Accounting Standards, No. 2, "Accounting for Direct Loans and Loan Guarantees," August 23, 1993.

- o Statement of Federal Financial Accounting Standards, No. 3, "Accounting for Inventory and Related Property," October 27, 1993.

In the interim, Federal agencies are to follow the applicable accounting standards contained in agency accounting policies, procedure manuals, and related guidance. The summary of significant accounting policies included in the Notes to the Principal Statements describes the accounting principles and methods of applying those principles that management has concluded are the most appropriate for presenting the Fund's significant assets, liabilities, net position, results of operations, cash flows, and reconciliation to budget.

Adverse Opinion

We are expressing an adverse opinion on the financial data we examined, based on the following audit results.

- o The fund balances with the Treasury were not prepared in accordance with generally accepted accounting principles for Federal agencies; collections and disbursements data lacked audit trails; and required reconciliations were not performed. As a result, presentation related to DLA's cumulative \$1 billion for fund balances with the Treasury account in its FY 1993 statement of financial position, cash flow, and related footnotes are misleading and cannot be relied upon by users of the financial statements.

- o General ledger accounts, non-financial records, and year-end accounting adjustments did not reflect the correct value of inventory and other non-financial resources under the control and management of DLA. As a result, the asset balances presented on the financial statements were misstated; were not properly categorized; did not include all reportable inventories; and did not disclose all restrictions on the sale, use, or disposition of inventories and other non-financial resources. The reported \$16.5 billion of inventory was materially misstated because stock on hand for the reutilization and marketing business area was overstated by about \$5 billion and, based on our statistical projection, stock on hand for the supply management business area was understated by about \$442 million.

- o DLA property, plant, and equipment were reported as \$196.3 million (acquisition costs of \$318.6 million and accumulated depreciation of \$122.3 million). DLA did not comply with capital asset accounting and reporting policies and procedures and the reported acquisition costs were understated by at least \$229.4 million. In addition, at least \$24.5 million in equipment assets were inaccurately reflected in the financial records. As a result, the account balance was materially misstated.

Additional Information

Our audit was conducted for the purpose of forming an opinion on the financial data described above. During the audit, we reported deficiencies to the Comptroller of the DoD, DLA, and the DFAS in the form of draft audit reports (Part VI). Comments to the findings and recommendations in the individual reports were received from some of the addressees; however; management did not revise the financial statements primarily because of administrative and time constraints.

We also reviewed the financial information related to the selected financial data presented in management's Overview of the Fund. The information presented in the Overview is presented for the purpose of additional analysis. We have not examined that information; therefore, we are not expressing an opinion on it. See Part V of the report for the overview, supplemental financial and management information, and consolidated statements and notes to the financial statements of the Fund for FY 1993.

Additionally, we summarized financial data for the five DLA business areas that were presented in the financial statements and related notes to the financial statements. Part IV of the report contains those schedules that include the DLA Combining Statement of Financial Position - FY 1993 (Appendix A) and the DLA Combining Fund Balances with the Treasury - FY 1993 (Appendix B).

Part II - Internal Controls

Introduction

We audited the internal control structure for selected financial data included in the Fund's financial statements for the year ended September 30, 1993. Management of the Fund and DFAS are responsible for establishing an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable but not absolute assurance that the following are met.

- o Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets.

- o Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

- o Transactions, including those related to obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the financial statements, and any other laws and regulations that the OMB, entity management, or the IG, DoD, have identified as being significant for which compliance can be objectively measured and evaluated.

- o Data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information.

- o Answers questions as to whether performance measures exist and whether those performance measures are adequate to enable the fund to fulfill its purpose.

Objectives and Scope

An objective of the audits was to determine whether material internal control weaknesses existed. In planning and performing our audit of the Fund for the year ending September 30, 1993, we evaluated the Fund's internal control structure. The purposes of this evaluation were:

- o to determine our auditing procedures for expressing an opinion on the financial statements, and

- o to determine whether the internal control structure was established to ensure that the statements were free of material misstatements. That determination included obtaining an understanding of the internal control

policies and procedures, as well as assessing the level of control risk relevant to all significant cycles, classes of transactions, and account balances. For those significant control policies and procedures that had been properly designed and placed in operation, we performed sufficient tests to provide reasonable assurance that the controls were effective and working as designed.

For purposes of this report, we classified the significant internal controls, policies, and procedures into the following categories: fund balances with the Treasury; inventory accounts; property, plant, and equipment accounts; financial reporting; and transaction processing. We also evaluated the process by which DLA and DFAS implemented the DoD Internal Management Control Program as it relates to fund balances with the Treasury; inventory; and property, plant, and equipment.

We conducted our audits in accordance with generally accepted auditing standards, issued by the Comptroller General of the United States as implemented by the IG, DoD, and OMB Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Those standards require that we plan and perform audits to obtain reasonable assurance on whether the Principal Statements are free of material misstatements. We applied those standards to selected financial data included in the Fund's financial statements.

Prior Audit Reports and Other Reviews

During the last 3 years, eight audit reports and other reviews relating to the Chief Financial Officers Act and internal management control programs were conducted on various elements of the Fund. Each report evaluated the management controls used to ensure that selected account values presented on the financial statements were free of material errors and fully supported by subsidiary records and required documentation. The principal audit reports and other reviews are summarized in Appendix C.

Results of Audit

Internal control weaknesses existed that we consider to be material and reportable conditions under standards established by OMB Bulletin No. 93-06. Reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to effectively control and manage its resources and ensure reliable and accurate financial information to manage and evaluate operational performance. A material weakness is a reportable condition in which the design or operation of the internal control structure does not reduce to a relatively low level the risk that errors or irregularities could occur. Such errors would be in amounts material

Internal Controls

to the statements being audited, or material to a performance measure or aggregation of related performance measures, and not be detected within a timely period by employees in the normal course of performing their functions.

The audits disclosed material internal control weaknesses as defined by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. The following is a summary of material and reportable internal control weaknesses related to the financial data we examined. Part VI of this report contains a summary of the weaknesses that were reported in those and other financial related audit reports.

The audit reports generally showed that audit trails were not adequate, reconciliations were not performed to support reported amounts, and transactions were not matched to the proper accounting period. Controls were not effective to ensure that the results of physical inventory counts were accurate and posted to the accountable records, and that general ledger account balances were reconciled with related subsidiary records to periodically verify the accuracy of subsidiary records with related supporting documents. Additionally, controls were not effective to provide reasonable assurance that material misstatements in the property, plant, and equipment and associated depreciation accounts would be prevented or detected in a timely manner.

Fund Balance with the Treasury. The audit report stated that internal controls were not in place to ensure that fund balances with the Treasury were reported in accordance with generally accepted accounting principles. Specifically, internal controls were not implemented to ensure that audit trails for collections and disbursements were adequate and reconciliations were performed to support amounts reported to the Department of Treasury. Additionally, controls did not ensure that transactions were posted to the proper accounting period. (IG, DoD, Report No. 94-159)

Inventory. In the DoD Annual Statement of Assurance for FY 1993, the Secretary of Defense concluded that, except for the internal control weaknesses and financial management deficiencies noted in the Annual Statement of Assurance report, the methods and procedures in place were sufficient to safeguard the Department's resources. Controls, where deficient, were offset by other effective controls and reliable procedures that ensured DoD's ability to field forces and provide an appropriate response to actions directed by the President. The following is a list of reported financial management deficiencies relating to physical controls over inventory.

- o The quality of financial information was questionable.
- o Financial management practices were inadequate.
- o Property records and physical control of property were inadequate.
- o The maintenance of financial records for inventory and property was inadequate.

The audit report stated that the implementation of the DoD Internal Management Control Program and established controls were not adequate to ensure that the results of physical inventory counts were accurate and posted to the accountable records, and that general ledger account balances were reconciled with related subsidiary records to periodically verify the accuracy of subsidiary records with related supporting documents. Additionally, data presented on the financial statements of the Fund were not presented in accordance with applicable OMB and DoD guidance. (IG, DoD, Report No. 94-150)

Property, Plant, and Equipment. The DoD Annual Statement of Assurance for FY 1993 reported deficiencies in some internal controls, including property, plant, and equipment, but concluded that the control deficiencies were not of sufficient materiality to impede or endanger the DoD's ability to accomplish policy and mission objectives.

The audit report stated that internal controls were not adequate to ensure the accurate reporting of the property, plant, and equipment and associated depreciation accounts on the financial records. DFAS recognized and reported its inability to produce reliable financial statement data in its FY 1993 annual statement, as required by the DoD Internal Management Control Program. (IG, DoD, Report No. 94-149)

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

Part III - Compliance with Laws and Regulations

Introduction

We evaluated selected financial data included in the financial statements of the DLA Defense Business Operations Fund (the Fund) for material instances of noncompliance with laws and regulations for the year ended September 30, 1993. Such tests are required by the Chief Financial Officers Act of 1990. The laws and regulations reviewed are identified in Appendix D.

Objectives and Scope

An objective of our audits was to assess the Fund's compliance with laws and regulations for transactions and events that have a direct and material effect on financial data we examined. Material instances of noncompliance are failures to follow requirements, or violations of prohibitions contained in laws or regulations. Such failures or violations are those that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the Principal Statements or those whose sensitive nature would cause them to be perceived as significant by others.

Compliance with laws and regulations is the responsibility of the Fund and DFAS managers. As part of obtaining reasonable assurance about whether the selected financial data are free of material misstatements, we tested compliance with laws and regulations that may directly affect the financial data and other laws and regulations designated by OMB and DoD. The laws and regulations reviewed are identified in Appendix D. As part of our audits, we reviewed management's process for evaluating and reporting on internal control and accounting systems as required by the DoD Internal Management Control Program. We also compared the DoD Annual Statement of Assurance for FY 1993 with our evaluation of the Fund's policies, procedures, and systems for documenting and supporting financial, statistical, and other information presented to us in the Overview of the Fund's Principal Statements, as well as supplemental financial and management information. It was not our objective, however, to provide an opinion on overall compliance with such provisions.

We conducted our audits in accordance with generally accepted auditing standards issued by the Comptroller General of the United States as implemented by the IG, DoD, and with OMB Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Those standards require that we plan and perform audits to obtain reasonable assurance that the Principal Statements are free of material misstatements. We applied those standards to the selected financial data included in the Fund's financial statements.

Prior Audit Coverage

Compliance issues related to financial data were addressed in the same audit reports discussed in Part II of this report, "Report on Internal Controls."

Results of Audit

The results of our tests indicate that with respect to the items tested, except for noncompliance described in Part II of this report, "Report on Internal Controls," management complied in all material respects with the laws and regulations referred to in Appendix D. We considered the instances of material noncompliance in forming our opinion on the selected financial data included in the Fund's financial statements. With respect to items not tested, nothing was disclosed that caused us to believe that management had not complied, in all material respects, with the laws and regulations referenced above.

Part IV - Additional Information

Appendix A. Defense Logistics Agency Combining Statement of Financial Position - FY 1993

ASSETS (actual dollars)	Total	Supply Management	Distribution Depots	Industrial Equipment	Reutilization and Marketing	Clothing Factory
1 Financial Resources						
a Fund Balance with Treasury	1,043,713,352	695,753,198	346,835,336	10,995,314	(8,557,984)	(1,312,512)
b Cash						
c Foreign Currency						
d Other Monetary Assets						
e Investment, Non-Federal						
f Accounts Receivable, Non-Federal	121,218,706	121,023,698	45,015	120,962	29,031	
g Inventories Held For Sale, Net	16,343,576,759	11,198,238,446			5,145,338,313	
h Loans Receivable, Net - Non-Federal						
i Property Held For Sale						
j Other, Non-Federal						
k Intragovernmental Items						
(1) Accounts Receivable, Federal	2,332,564,801	1,557,217,103	712,329,406	5,558,640	57,405,205	54,447
(2) Loans Receivable, Federal						
(3) Investments, Federal						
(4) Other, Federal						
1 Total Financial Resources	19,841,073,618	13,572,232,445	1,059,209,757	16,674,916	5,194,214,565	(1,258,065)
2 Non-Financial Resources						
a Resources Transferrable to Treasury						
b Advances & Prepayments, Non-Federal	291,116,675	290,349,389	396,508	(3,775)	374,553	
c Inventories Not Held For Sale	125,852,814	118,166,323				7,686,491
d Property, Plant and Equipment, Net	196,254,634	60,549,576	54,915,496	92,740	78,273,156	2,423,666
e Other	95,557,539	79,491,639	16,065,900			
f Total Non-Financial Resources	708,781,662	548,556,927	71,377,904	88,965	78,647,709	10,110,157
3 Total Assets	20,549,855,280	14,120,789,372	1,130,587,661	16,763,881	5,272,862,274	8,852,092

Appendix A. DLA Combining Statement of Financial Position - FY 1993

LIABILITIES (actual dollars)	Total	Supply Management	Distribution Depots	Industrial Equipment	Reutilization and Marketing	Clothing Factory
4 Funded Liabilities						
a Accounts Payable, Non-Federal	542,555,097	362,234,110	167,959,521	12,036,994	110,531	213,941
b Accrued Interest Payable						
c Accrued Payroll and Benefits	29,056,661	10,801,520	15,393,569	172,312	1,891,494	797,766
d Accrued Entitlement Benefits						
e Lease Liabilities						
f Liabilities for Loan Guarantees						
g Deferred revenue - Non-Federal						
h Pensions and Other Actuarial Liabilities						
i Other Funded Liabilities, Non-Federal	2,980,511	2,980,511				
j Intragovernmental Liabilities						
(1) Accounts Payable, Federal	966,956,968	498,835,527	357,008,417	102,511	110,924,231	86,282
(2) Debt						
(3) Deferred Revenue	290,075,744	290,075,744				
(4) Other Funded Liabilities, Federal						
k Total Funded liabilities	1,831,624,981	1,164,927,412	540,361,507	12,311,817	112,926,256	1,097,989
5 Unfunded Liabilities						
a Accrued Leave	75,963,873	27,751,349	38,847,667	656,275	8,269,399	439,183
b Leave Liabilities						
c Debt						
d Pensions and Other Actuarial Liabilities						
e Other Unfunded Liabilities	103,459,314	11,601,227	74,658,087	2,200,000	15,000,000	
f Total Unfunded Liabilities	179,423,187	39,352,576	113,505,754	2,856,275	23,269,399	439,183
6 Total Liabilities	2,011,048,168	1,204,279,988	653,867,261	15,168,092	136,195,655	1,537,172

Appendix A. DLA Combining Statement of Financial Position - FY 1993

NET POSITION (actual dollars)	Total	Supply Management	Distribution Depots	Industrial Equipment	Reutilization and Marketing	Clothing Factory
7 Fund Balance						
a Revolving Fund Balances	18,718,230,299	12,955,861,960	590,226,154	4,452,063	5,519,936,019	7,754,103
b Trust Fund Balances						
c Appropriated fund Balances						
d Total Fund Balances	18,718,230,299	12,955,861,960	590,226,154	4,452,063	5,519,936,019	7,754,103
8 Less: Future Fund Requirements	178,423,186	39,352,576	113,505,753	2,856,275	23,269,399	439,183
9 Net Position	18,538,807,113	12,916,509,384	476,720,401	1,595,788	5,136,666,620	7,314,920
10 Total Liabilities and Net Position	20,549,855,280	14,120,789,372	1,130,587,661	16,763,881	5,272,862,274	8,852,092

Appendix B. Defense Logistics Agency Combining Fund Balances With the Treasury - FY 1993

FUND BALANCES WITH THE TREASURY (actual dollars)	Total	Supply Management	Distribution Depots	Industrial Equipment	Reutilization and Marketing	Clothing Factory
Operations						
Unobligated Balance Available:						
Available	(3,289,827,118)	(2,796,465,868)	(379,985,972)	(2,603,821)	(156,960,268)	46,188,811
Restricted						
Reserve for Anticipated Resources						
Obligated But Not Expensed Balance	(466,224,260)	(545,752,432)	(40,154,967)	882,389	153,858,444	(35,057,694)
Unfunded Contract Authority						
Unfunded Borrowing Authority						
Prior Year Balance (Trans-In)	2,203,223,362	1,441,430,129	766,976,276	12,716,746	(5,456,160)	(12,443,629)
Treasury Balance (Operations)	(1,552,828,016)	(1,900,788,171)	346,835,337	10,995,314	(8,557,984)	(1,312,512)
Materiel						
Unobligated Balance Available:						
Available	1,236,314,994	1,236,314,994				
Restricted						
Reserve for Anticipated Resources						
Obligated But Not Expensed Balance	3,868,610,731	3,868,610,731				
Unfunded Contract Authority						
Unfunded Borrowing Authority						
Prior Year Balance (Trans-Out)	(1,816,803,337)	(1,816,803,337)				
Adjustment for Difference Between Cash on Books and Obligated and Unobligated Balances	(691,581,019)	(691,581,019)				
Treasury Balance (Materiel)	2,596,541,369	2,596,541,369	0	0	0	0

Appendix B. DLA Combining Fund Balances With Treasury - FY 1993

FUND BALANCES WITH THE TREASURY (actual dollars)	Total	Supply Management	Distribution Depots	Industrial Equipment	Reutilization and Marketing	Clothing Factory
Operations and Materiel						
Unobligated Balance Available:						
Available	(2,053,512,124)	(1,560,150,874)	(379,985,972)	(2,603,821)	(156,960,268)	46,188,811
Restricted						
Reserve for Anticipated Resources						
Obligated But Not Expensed Balance	3,402,386,471	3,322,858,299	(40,154,967)	882,389	153,858,444	(35,057,694)
Unfunded Contract Authority						
Unfunded Borrowing Authority						
Prior Year Balance (Trans-In)	386,420,025	(375,373,208)	766,976,276	12,716,746	(5,456,160)	(12,443,629)
Adjustment for Difference Between Cash on Books and Obligated and Unobligated Balances	(691,581,019)	(691,581,019)				
Treasury Balance (Total)	1,043,713,353	695,753,198	346,835,337	10,995,314	(8,557,984)	(1,312,512)

Appendix B. DLA Combining Fund Balances With Treasury - FY 1993

UNDISTRIBUTED COLLECTIONS						
(actual dollars)						
	Total	Supply Management	Distribution Depots	Industrial Equipment	Reutilization and Marketing	Clothing* Factory
FY 1992 Collections						
Operations Trial Balance	430,829,327	120,526,407	95,481,218	16,126,699	198,695,003	
ACRS Cash System	<u>(641,790,944)</u>	<u>(940,086,751)</u>	<u>95,063,357</u>	<u>16,345,739</u>	<u>186,886,711</u>	
Undistributed Collections	(1,072,620,269)	(1,060,613,157)	(417,860)	219,040	(11,808,292)	
FY 1993 Collections						
Operations Trial Balance	2,161,131,852	394,767,561	1,375,856,800	41,579,163	348,928,328	
ACRS Cash System	<u>2,374,451,046</u>	<u>489,796,834</u>	<u>1,495,176,844</u>	<u>41,211,579</u>	<u>348,265,789</u>	
Undistributed Collections	213,319,194	95,029,273	119,320,044	(367,584)	(662,539)	
Total Undistributed Collections	(859,299,795)	(965,583,884)	118,902,184	(148,544)	(12,470,831)	(1,280)
UNDISTRIBUTED DISBURSEMENTS						
(actual dollars)						
	Total	Supply Management	Distribution Depots	Industrial Equipment	Reutilization and Marketing	Clothing* Factory
FY 1992 Disbursements						
Operations Trial Balance	1,768,871,163	820,462,070	737,431,480	27,394,161	183,583,452	
ACRS Cash System	<u>1,573,876,048</u>	<u>501,343,379</u>	<u>862,039,633</u>	<u>29,062,485</u>	<u>181,430,551</u>	
Undistributed Disbursements	(194,995,115)	(319,118,691)	124,608,153	1,668,324	(2,152,901)	
FY 1993 Disbursements						
Operations Trial Balance	3,641,409,923	1,872,826,733	1,414,357,819	27,233,008	326,992,363	
ACRS Cash System	<u>3,925,967,049</u>	<u>2,390,585,505</u>	<u>1,148,341,506</u>	<u>30,216,265</u>	<u>356,823,773</u>	
Undistributed Disbursements	284,556,627	517,758,272	(266,016,313)	2,983,258	29,831,410	
Total Undistributed Disbursements	89,561,512	198,639,581	(141,408,160)	4,651,582	27,678,509	
Net Undistributed Disbursements (Collections)	948,861,307	1,164,223,465	(260,310,344)	4,800,126	40,149,340	(1,280)

*Detailed collection and disbursement data for the clothing factory was not presented in the notes to the financial statements for FY 1993. The net balance was computed from summary data provided in the notes to the financial statements

Appendix C. Summary of Prior Audits and Other Reviews

During the last 3 years, seven audit reports relating to the Chief Financial Officers Act reviews were conducted on various elements of the Fund. The reported conditions, recommendations, and management comments are summarized below.

Fund Balances With Treasury

- o General Accounting Office (GAO) Report No. GAO/AFMD-93-52R (OSD Case No. 9339), "Defense Business Fund," March 1, 1993, stated that financial data cannot be relied upon. Specifically, significant differences existed between the Defense Business Operations Fund disbursements reported by the DoD and those reported by the Treasury. As of September 30, 1992, the difference between the two sets of records was approximately \$558 million. Additionally, significantly different amounts were reported for the Defense Business Operations Fund fiscal year net operating results in its financial and budget reports. For example, GAO noted that if the individual business areas' gains and losses were not netted against each other, the gross difference was over \$14 billion.

GAO concluded that successful implementation of the Defense Business Operations Fund will require substantial commitment to place a high priority on financial management, including developing performance indicators; enhancing existing financial systems in the short term to improve the accuracy of financial data and to develop and implement new systems that are capable of meeting the Defense Business Operations Fund's needs; and making a realistic evaluation of management and personnel resources required to accomplish the Defense Business Operations Fund's objectives. The report made no recommendations.

- o GAO Report No. GAO/AFMD-92-79 (OSD Case No. 9057-B), "Financial Management: Status of the Defense Business Operations Fund," June 15, 1992, stated that key policies are still being developed related to cash management and intrafund transactions within the Defense Business Operations Fund. GAO also reported that DoD has made limited progress in developing accurate and reliable cost accounting systems. GAO reported that DoD needed to implement a cash management policy to ensure efficient operations and to improve policies and procedures to report and account for intrafund transactions. The report made no recommendations.

Appendix C. Summary of Prior Audits and Other Reviews

o IG, DoD, Report No. 93-134, "Principal and Combining Financial Statements of the Defense Business Operation Fund - FY 1992," June 30, 1993, concluded that the reliability and usefulness of the principal and combining Defense Business Operations Fund statements are questionable. The auditors could not ascertain the overall accuracy of the financial statements, but did note material weaknesses in the internal control structure and major discrepancies in cash balances reported. The IG, DoD, reported footnote disclosure weaknesses and discrepancies between the financial statements and balances maintained by the Treasury. Specifically, cash transactions could not be verified and transactions made for or by others were not recorded in a timely manner. The report also stated that financial data were not reconciled to ensure consistent reporting of the same information. Further, the report stated that information in the Defense Business Operations Fund's cash status reports was inaccurate and that audit trails were inadequate.

The Comptroller of the DoD concurred with the finding that there were inadequate controls over cash and that reconciliations should be performed, and partially concurred that the cash status reports were inaccurate. The Comptroller asserted that when reconciliations are performed and data are not arbitrarily changed, the report is useful to managers. The Comptroller nonconcurred with the finding that audit trails were inadequate within the Defense Business Operations Fund, stating that "within current accounting systems, individual transactions retain an audit trail through the first level of summarization." The report made no recommendations.

Inventory Accounts

o IG, DoD, Report No. 93-164, "Financial Statements of the Defense Logistics Agency Supply Management Division of the Defense Business Operations Fund (Defense Fuel Supply Center Financial Data) for FY 1992," September 2, 1993, stated that the inventory financial data were generally accurate. However, data in the financial statements were not properly supported, and information in the Notes, overview, and supplemental financial and management information portions of the financial statements were incomplete and inaccurate. Recommendations were made to develop procedures to ensure that financial data are reconciled, supported, and accurate; that the financial statements are revised to include all required notes and supplemental information; and that the financial statements are reliable and accurate. Management nonconcurred with some of the noninventory findings and recommendations and stated that adjustments and disclosures identified would not be made to the FY 1992 comparative data presented in the FY 1993 financial statements and related notes.

Appendix C. Summary of Prior Audits and Other Reviews

o IG, DoD, Report No. 92-129, "Defense Stock Fund Financial Statements (Materiel Managed Under the Standard Automated Materiel Management System) for FY 1991," August 26, 1992, identified the need for accounting adjustments to the original FY 1991 financial statements, including adjustments increasing the inventory financial data by \$18 million. Additionally, the financial statements did not contain footnote disclosures related to inventory restrictions and unsupported account balances; and problems were identified with the physical inventory process. The report recommended that adjustments be made to the original financial statements. Management generally concurred with the recommended changes to the original financial statements and actions taken or planned to improve internal control deficiencies and operational issues were considered generally responsive.

Property, Plant, and Equipment

o IG, DoD, Report No. 94-035, "Financial Reporting Procedures For Defense Distribution Depots - Defense Logistics Agency Business Area of the Defense Business Operations Fund," February 8, 1994, identified significant weaknesses in internal controls that affect the reliability of financial data presented in financial statements. The report also identified the property, plant, and equipment account for FY 1992 as being significantly understated, because not all capital assets had been reported. The DoD Deputy Comptroller (Management Systems) commented that property used by Defense Business Operations Fund activities should be reported as an asset on the financial statement of the using activity.

o IG, DoD, Report No. 93-134, "Principal and Combining Financial Statements of the Defense Business Operations Fund - FY 1992," June 30, 1993, discussed above, also identified material weaknesses in the internal control structure of the Defense Business Operations Fund as related to capital asset accounting. The report stated that depreciation schedules were incorrectly developed because Army personnel did not record correct information and did not have an accounting system to compute depreciation. Another reason given was that Air Force personnel did not depreciate assets over the assets' useful life. Additionally, transactions were not executed in compliance with existing guidance; and reconciliations were not performed. The DoD Acting Chief Financial Officer generally agreed with the report and indicated that corrective actions would be implemented.

Federal Manager's Financial Integrity Act Reviews

o The DoD FY 1993 Federal Managers' Financial Integrity Act Annual Assurance Report, reported 12 material nonconformances to the GAO accounting principles, standards, and related requirements for the Defense Business Operations Fund. The nonconformances were the areas of general ledger control and financial reporting, accrual accounting, audit trails, cash procedures and accounts payable, and user information needs. The targeted correction date for those deficiencies is FY 1996, when the Defense Business Operations Fund Improvement Plan will be implemented. DoD reported that full achievement of the Defense Business Operations Fund's objectives hinges on standardized and modernized finance and accounting systems.

o The DFAS-Columbus Center Federal Managers' Financial Integrity Act Annual Assurance Report for FY 1993 reported 17 new material weaknesses and 5 prior material weaknesses still uncorrected. The system of internal accounting and administrative control at DFAS-Columbus was evaluated in accordance with guidelines issued by OMB, in consultation with the Comptroller General. New material weaknesses identified during FY 1993 included a 3-month backlog of disbursements within the Accounting and Support Division, Operations and Maintenance, a backlog of interfund bills, and the lack of a review of the unliquidated obligation general ledger account for accuracy and completeness. The expected correction date for those deficiencies is FY 1994. Uncorrected material weaknesses include a lack of reconciliation between general and subsidiary ledger accounts within the stock fund area; lack of controls to process transactions for others, transactions by others, and standard form vouchers; a lack of reconciliation between general and subsidiary ledger unliquidated obligations accounts; and a lack of research to clear large undistributed collection and undistributed disbursement balances.

Appendix D. Laws and Regulations Reviewed

Federal Managers' Financial Integrity Act of 1982, Public Law 97-255

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

Title 31, United States Code

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

Office of Management and Budget Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993

Office of Management and Budget Circular No. A-123, "Internal Control Systems," August 4, 1986

Office of Management and Budget Circular No. A-127, "Financial Management Systems," December 19, 1984

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

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

DoD Regulation 7420.13-R, "Stock Fund Operations," June 1986

DoD Guidance on Form and Content of Financial Statements for FY 1993 and FY 1994 Financial Activity, January 1994

Defense Logistics Agency Manual 7000.1, "Accounting and Finance Manual," August 1980

Appendix E. Organizations Visited or Contacted

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology, Washington, DC
Comptroller of the Department of Defense, Washington, DC
Office of the Deputy Comptroller of the Department of Defense (Management Systems), Washington, DC
Office of the Deputy Under Secretary of Defense for Logistics, Washington, DC

Department of the Army

U.S. Army Systems Command, Chambersburg, PA
U.S. Army Corps of Engineers, Sacramento, CA

Defense Logistics Agency

Headquarters, Defense Logistics Agency, Alexandria, VA
Defense Construction Supply Center, Columbus, OH
Defense Electronics Supply Center, Dayton, OH
Defense Fuel Supply Center, Alexandria, VA
Defense General Supply Center, Richmond, VA
Defense Industrial Supply Center, Philadelphia, PA
Defense Personnel Support Center, Philadelphia, PA
Defense Distribution Region East, New Cumberland, PA
 Defense Distribution Depot, Albany, GA
 Defense Distribution Depot, Anniston, AL
 Defense Distribution Depot, Charleston, SC
 Defense Distribution Depot, Cherry Point, NC
 Defense Distribution Depot, Columbus, OH
 Defense Distribution Depot, Jacksonville, FL
 Defense Distribution Depot, Letterkenny, PA
 Defense Distribution Depot, Memphis, TN
 Defense Distribution Depot, Richmond, VA
 Defense Distribution Depot, Susquehanna, PA
 Mechanicsburg Facility, Mechanicsburg, PA
 New Cumberland Facility, New Cumberland, PA
 Defense Distribution Depot, Warner Robins, GA
Defense Distribution Region West, Stockton, CA
 Defense Distribution Depot, Barstow, CA
 Defense Distribution Depot, McClellan, CA
 Defense Distribution Depot, Oakland, CA
 Defense Distribution Depot, Ogden, UT
 Ogden Facility, Ogden, UT
 Defense Distribution Depot, Oklahoma City, OK
 Defense Distribution Depot, Puget Sound, WA

Appendix E. Organizations Visited or Contacted

Defense Logistics Agency (cont'd)

Defense Distribution Depot, Red River, TX
Defense Distribution Depot, San Diego, CA
Defense Distribution Depot, San Joaquin, CA
Sharpe Facility, Stockton, CA
Tracy Facility, Tracy, CA
Defense Cold Storage Facility, Kaiserslautern, Germany
Headquarters, Defense Reutilization and Marketing Service, Battle Creek, MI
Defense Reutilization and Marketing Service, National Sales Office, Memphis, TN,
Defense Reutilization and Marketing Service, Operations East, Columbus, OH
Defense Reutilization and Marketing Office, Anniston, AL
Defense Reutilization and Marketing Office, Berlin, Germany
Defense Reutilization and Marketing Office, Camp LeJeune, NC
Defense Reutilization and Marketing Office, Cecil Field, FL
Defense Reutilization and Marketing Office, Chambersburg, PA
Defense Reutilization and Marketing Office, Charleston, SC
Defense Reutilization and Marketing Office, Chievres, Belgium
Defense Reutilization and Marketing Office, Columbus, OH
Defense Reutilization and Marketing Office, Crane, IN
Defense Reutilization and Marketing Office, Davisville, RI
Defense Reutilization and Marketing Office, Eglin Air Force Base, FL
Defense Reutilization and Marketing Office, Fort Belvoir, VA
Defense Reutilization and Marketing Office, Fort Benning, GA
Defense Reutilization and Marketing Office, Fort Campbell, KY
Defense Reutilization and Marketing Office, Fort Devens, MA
Defense Reutilization and Marketing Office, Fort Gillem, GA
Defense Reutilization and Marketing Office, Fort Jackson, SC
Defense Reutilization and Marketing Office, Fort Knox, KY
Defense Reutilization and Marketing Office, Fort Meade, MD
Defense Reutilization and Marketing Office, Jacksonville, FL
Defense Reutilization and Marketing Office, Keesler Air Force Base, MS
Defense Reutilization and Marketing Office, Key West, FL
Defense Reutilization and Marketing Office, Loring Air Force Base, ME
Defense Reutilization and Marketing Office, MacDill Air Force Base, FL
Defense Reutilization and Marketing Office, Mayport, FL
Defense Reutilization and Marketing Office, Mechanicsburg, PA
Defense Reutilization and Marketing Office, Montgomery, AL
Defense Reutilization and Marketing Office, Norfolk, VA
Defense Reutilization and Marketing Office, Patrick Air Force Base, FL
Defense Reutilization and Marketing Office, Pensacola, FL
Defense Reutilization and Marketing Office, Philadelphia, PA
Defense Reutilization and Marketing Office, Portsmouth, VA
Defense Reutilization and Marketing Office, Quantico, VA
Defense Reutilization and Marketing Office, Richmond, VA
Defense Reutilization and Marketing Office, Robins Air Force Base, GA
Defense Reutilization and Marketing Office, Scott Air Force Base, IL
Defense Reutilization and Marketing Office, Tampa, FL
Defense Reutilization and Marketing Service, Operations West, Ogden, UT
Defense Reutilization and Marketing Office, Alameda, CA

Defense Logistics Agency (cont'd)

Defense Reutilization and Marketing Office, Barstow, CA
Defense Reutilization and Marketing Office, Bupyong, Korea
Defense Reutilization and Marketing Office, Corpus Christi, TX
Defense Reutilization and Marketing Office, Duluth, MN
Defense Reutilization and Marketing Office, El Toro, CA
Defense Reutilization and Marketing Office, Fort Hood, TX
Defense Reutilization and Marketing Office, Fort Leonard Wood, MO
Defense Reutilization and Marketing Office, Fort Lewis, WA
Defense Reutilization and Marketing Office, Fort Ord, CA
Defense Reutilization and Marketing Office, Fort Riley, TX
Defense Reutilization and Marketing Office, Fort Sill, OK
Defense Reutilization and Marketing Office, George Air Force Base, CA
Defense Reutilization and Marketing Office, Guam
Defense Reutilization and Marketing Office, Hill Air Force Base, UT
Defense Reutilization and Marketing Office, Iwakuni, Japan
Defense Reutilization and Marketing Office, Jacksonville, AR
Defense Reutilization and Marketing Office, Kelly Air Force Base, TX
Defense Reutilization and Marketing Office, McConnell, KS
Defense Reutilization and Marketing Office, Mare Island, CA
Defense Reutilization and Marketing Office, Misawa, Japan
Defense Reutilization and Marketing Office, Nellis Air Force Base, NV
Defense Reutilization and Marketing Office, Oceanside, CA
Defense Reutilization and Marketing Office, Ogden, UT
Defense Reutilization and Marketing Office, Okinawa, Japan
Defense Reutilization and Marketing Office, Oklahoma City, OK
Defense Reutilization and Marketing Office, Port Hueneme, CA
Defense Reutilization and Marketing Office, Puget Sound, WA
Defense Reutilization and Marketing Office, Pusan, Korea
Defense Reutilization and Marketing Office, San Diego, CA
Defense Reutilization and Marketing Office, Sheppard Air Force Base, TX
Defense Reutilization and Marketing Office, Stockton, CA
Defense Reutilization and Marketing Office, Tooele Army Depot, UT
Defense Reutilization and Marketing Office, Travis Air Force Base, CA
Defense Reutilization and Marketing Office, Twentynine Palms, CA
Defense Reutilization and Marketing Office, Vandenberg Air Force Base, CA
Defense Reutilization and Marketing Office, Whidbey Island, WA
Defense Reutilization and Marketing Office, Whiteman Air Force Base, MO
Defense Reutilization and Marketing Service, European Region
Defense Reutilization and Marketing Office, Giessen, Germany
Defense Reutilization and Marketing Office, Hanau, Germany
Defense Reutilization and Marketing Office, Kaiserslautern, Germany
Defense Reutilization and Marketing Office, Kastel, Germany
Defense Reutilization and Marketing Office, Lajes, Portugal
Defense Reutilization and Marketing Office, Livorno, Italy
Defense Reutilization and Marketing Office, Nurenburg, Germany
Defense Reutilization and Marketing Office, Rota, Spain
Defense Reutilization and Marketing Office, Schweinfurt, Germany
Defense Reutilization and Marketing Office, Vicenza, Italy

Appendix E. Organizations Visited or Contacted

Defense Finance and Accounting Service

Headquarters, Defense Finance and Accounting Service, Arlington, VA
Defense Finance and Accounting Service, Defense Accounting Office, Arlington, VA
Defense Finance and Accounting Service, Columbus, OH
 Battle Creek Center, Battle Creek, MI
 Dayton Center, Dayton, OH
 Ogden Center, Ogden, UT
 Philadelphia Center, Philadelphia, PA
 Richmond Center, Richmond, VA
Defense Finance and Accounting Service, Indianapolis, IN

Non-Defense Federal Organizations

Department of State, Washington, DC
Department of the Treasury, Washington, DC

Appendix F. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
Assistant to the Secretary of Defense (Public Affairs)
Comptroller and Chief Financial Officer of the Department of Defense
Deputy Comptroller (Management Systems)
 Director, Management Improvement
Deputy Under Secretary of Defense for Logistics

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 Logistics Agency
 Commander, Defense Construction Supply Center
 Commander, Defense Electronics Supply Center
 Commander, Defense Fuel Supply Center
 Commander, Defense General Supply Center
 Commander, Defense Industrial Supply Center
 Commander, Defense Personnel Support Center
 Commander, Defense Distribution Region East
 Commander, Defense Distribution Region West
 Commander, Defense Reutilization and Marketing Service

**Part V - Defense Logistics Agency
Defense Business Operations
Fund Financial Statements -
FY 1993**

Defense Logistics Agency Defense Business Operations Fund Financial Statements - FY 1993

Financial statements reproduced here are excerpted from the Defense Logistics Agency Defense Business Operations Fund for FY 1993 and are the statements on which we are basing our opinion.

Additionally, we summarized financial data for the five DLA business areas that was presented in the financial statements and related notes to the financial statements. Part IV of the report contains those schedules that include the DLA Combining Statement of Financial Position - FY 1993 (Appendix A) and the DLA Combining Fund Balances with the Treasury - FY 1993 (Appendix B).

Defense Logistics Agency Consolidated Financial Statements - FY 1993



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
CAMERON STATION
ALEXANDRIA VIRGINIA 22304-6100



IN REPLY
REFER TO FOX

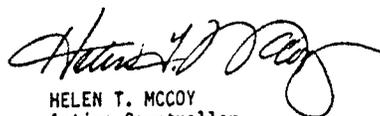
MEMORANDUM FOR COMPTROLLER OF THE DEPARTMENT OF DEFENSE

SUBJECT: Submission of Fiscal Year 1993 Financial Statements
Required by the Chief Financial Officers Act

The Defense Logistics Agency is responsible for submitting financial statements for our Defense Business Operations Fund (DBOF) business areas, the National Defense Stockpile Transaction Fund, and the William Langer Jewel Bearing Plant Revolving Fund. In addition, for FY 93 you asked that we prepare and transmit the Chief Financial Officers (CFO) reports for the Technical Information Services DBOF business area. The following items are enclosed for each of our reporting entities. The DFAS certification letter is also enclosed.

Overview
Principal Statements with Accompanying Notes
Checklist
Management Representation Letter
Legal Representation Letter

4 Encl



HELEN T. MCCOY
Acting Comptroller

CC:
DFAS-HQ-A (Ms. Shirley Evans/Mr. Ron Boothe)
DFAS-CO-A (Mr. Lee Krushinski/Mr. Wayne Ebaugh)
DFAS-CO-S (Ms. Faye Groves/Mr. Mike Pintar)
DNSC (Mr. Dick Connelly/Ms. Harriet Williams)
DTIC (Ms. Betty Fox/Mr. Terry Hetson)
MMSB
MMDB
FOB

DEFENSE LOGISTICS AGENCY

DEFENSE BUSINESS OPERATIONS FUND

**OVERVIEW
AND
SUPPLEMENTAL FINANCIAL
AND MANAGEMENT INFORMATION
FOR THE FISCAL YEAR 1993
FINANCIAL STATEMENTS**

Defense Logistics Agency Consolidated Financial Statements - FY 1993

DEFENSE LOGISTICS AGENCY DEFENSE BUSINESS OPERATIONS FUND FY 1993 OVERVIEW

Introduction

The Defense Business Operations Fund (DBOF) combined existing business-like operations into a single revolving fund. The DBOF operates under the concept that the costs of providing/receiving a product and/or service should be visible to both the customer and provider. The DBOF provides a management structure that allows more DoD managers and non-managers the ability to provide and receive the best support at the lowest cost. A major feature of this structure is charging customers the total cost of providing a product and/or service. Reimbursements from the customers provide the working capital for the fund.

These financial statements have been prepared to report on the financial position and the results of operation for the DLA business areas in the DBOF, pursuant to the requirements of the Chief Financial Officer Act of 1990. While the financial statements have been prepared from the books and records of the business areas in accordance with the formats prescribed by the Office of Management and Budget (OMB), the statements are different from the financial reports and statements (that are also prepared from the same books and records) used to monitor and control budgetary resources.

DLA Business Areas

The Defense Logistics Agency (DLA) has five business areas funded through the DBOF. The DLA business areas and their appropriation symbols are as follows:

o Supply Management	97X4930.5C
o Distribution Depots	97X4930.5B
o Industrial Plant Equipment	97X4930.5M
o Reutilization & Marketing	97X4930.5N
o Clothing Factory	97X4930.5Q

The Supply Management business area consists of inventory control points and supporting activities. The mission is to procure and manage the commodities and other items that the Services require. Operations (salaries and expenses), material (inventory items to be sold to the Military services), and depreciation of equipment and minor construction are costs associated with this business area. See the following pages for more detailed information.

Defense Logistics Agency Consolidated Financial Statements - FY 1993

The Distribution Depots business area receives, stores and distributes commodities, principal end items, and depot level repairables. The current depot structure consists of two Distribution Regions. These regions are responsible for the 30 sites encompassing approximately 60 locations. Revenue for this business area consists of payments from Supply Management for receipt and issue of material, and reimbursable funding from local activities for non-mission work. See the following pages for more detailed information.

The Industrial Plant Equipment business area is responsible for the maintenance and refurbishment of industrial plant equipment (IPE) in use at DoD industrial activities. This business area also repairs and overhauls equipment in the General Reserve of IPE before issuance to DoD activities. See the following pages for more detailed information.

The Reutilization and Marketing business area is responsible for the disposal and reuse of excess personal property generated by DoD components. Their mission is accomplished through redistribution, sale and disposal. They also have the mission of hazardous property disposal and the economic recovery of precious metals from excess and surplus precious metal bearing materials. See the following pages for more detailed information.

The Clothing Factory business area is responsible for manufacturing clothing and textiles items. It serves as a mobilization base to provide for rapid and effective supply of clothing items during emergency periods. This business area receives most of its workload and its revenue from sales to the DLA Supply Management business area. The operations of the Clothing Factory will be phased out during FY 1994 as the most recent BRAC decision approved it for closure. See the following pages for more detailed information.

Financial Performance (Unit Cost)

Each allotment of our business areas receives an annual operating budget (AOB) that provides total cost authority in unit cost terms, except for the Clothing Factory. The Clothing Factory's AOB provides total cost authority but not in unit cost terms. Unit cost resourcing provides the operating/cost authority within each activity. Cost authority or the amount "earned" depends on the actual workload times the unit cost goal.

Unit cost goal achievement can be used to measure financial performance. Goals are established and adjusted by DOD(C). Generally, actuals are higher than the goals when workload decreases below expected levels. In the Supply Management business area, actual costs are higher than goals when material costs exceed estimates. Our business areas FY 1993 goals and actuals are shown below:

Defense Logistics Agency Consolidated Financial Statements - FY 1993

Business Area:	Goal	Actual
Supply Management		
Fuel Costs per Barrel	\$29.71	\$31.97
Avg Non-Fuel Costs per Dollar of Sales	\$.8300	\$.8288
Distribution Depots		
Cost per Line Items Received & Shipped	\$29.00	\$27.75
Reutilization & Marketing		
Cost per Haz Line Items	\$265.33	\$265.65
Cost per \$ of Proceeds	\$.55	\$.55
Industrial Plant Equipment		
Cost per Repair/Rebuild	\$75.41	\$88.00
Clothing Factory		
Total Cost (in Millions)	\$35.1	\$35.8

The Supply Management and Distribution Depots business areas met their unit cost goals. The Reutilization and Marketing business area also met the goal for cost per dollar of proceeds, however they did not meet their goal for cost per hazardous line items. The Supply Management business area (Fuel) did not meet their goal. The actual unit cost includes maintenance and repair and minor construction costs while the goal did not. The goal was adjusted during the year by DoD(C). The Industrial Plant Equipment business area did not meet their goal of the cost per repair/rebuild. The Clothing Factory did not meet their total cost goal.

Defense Logistics Agency Consolidated Financial Statements - FY 1993

DEFENSE BUSINESS OPERATIONS FUND
FY 1993 OVERVIEW
SUPPLY MANAGEMENT BUSINESS AREA
DEFENSE LOGISTICS AGENCY

The Supply Management Business Area buys and manages approximately 3.5 million items used by the Military Services. These items account for \$10 to \$12 billion in sales each year and for about 80% of the Military Service requirements for consumables. Commodities include fuel, food, clothing, and medical supplies. In addition, this business area buys and supplies hardware and electronic items used in the maintenance and repair of military equipment.

The Services determine their requirements for supplies and material and establish their priorities. DLA supply centers consolidate the Services' requirements and procure the supplies in sufficient quantities to meet the Services' projected needs. This procurement function is a large task and critical to effective supply support and readiness of the Military forces. The supplies we procure are stored and distributed either through a complex of depots (Distribution Depots Business Area) or shipped directly from vendors to customers. The Supply Management Business Area consists of six inventory control points and supporting activities. Approximately 14,700 people work in this business area. Operations, material, and capital investment (equipment and minor construction) are costs associated with this business area. The material side of the business area consists of eight separate commodity groups and a retail operating division. The commodity groups are:

- o Clothing and Textiles
- o Medical
- o Subsistence
- o General
- o Industrial
- o Construction
- o Electronics
- o Fuel

The six DLA supply centers are:

Defense Construction Supply Center (DCSC), Columbus, OH;
Defense Electronics Supply Center (DESC), Dayton, OH;
Defense Fuel Supply Center (DFSC), Alexandria, VA;
Defense General Supply Center (DGSC), Richmond, VA;
Defense Industrial Supply Center (DISC), Philadelphia, PA
Defense Personnel Supply Center (DPSC), Philadelphia, PA.

Defense Logistics Agency Consolidated Financial Statements - FY 1993

Approximately three percent of the number of items that this business area manages are clothing, subsistence, medical, and petroleum products. These items, however, account for over 70 percent of the dollar value of Supply sales.

Supply Management Program Performance Measures

The program performance measures for this business area include:

- o Fill Rate/Stock Availability - An output measure that is defined as the percentage of demands processed by the supply system without interruption. It is a measure of timeliness, quantity, and customer satisfaction.
- o Stock Turn (Demand Base Consumables) - The ratio of annual sales to the average inventory value. We have also footnoted the charts to show what the Stock Turnover ratio would have been in FY 1992 and FY 1993 had Consumable Items not been transferred to DLA from the Services.
- o Product Quality Deficiency Reports (PQDRs)- This measures the percentage of deficiencies in customer receipts in comparison to total item issuances by the Inventory Control Point (ICP) in response to customer requisitions. It is a measure of customer satisfaction.
- o PQDR Processing Time: This measures the average time interval from receipt of a PQDR to the issuance of corrective action. It is a measure of timeliness and customer satisfaction.

Analysis of Program Performance Measures

Although the Fill Rate decreased from the 87.4 % to 87.5% range to 86.7%, we met the goal. The goal (as stated in the DBOF Milestone II Report) for this measure was 85%. We believe the actual decrease is the result of operating under a reduced material replacement rate. Since FY 1991, legislation has limited the percentage of inventory that may be replaced. Given the leadtimes to obtain many items of supply, much of the effect of these limitations will not be observed until the next few fiscal years.

In general, our stock turnover ratios have increased from previous fiscal years. The turnover ratio charts for the Construction, Electronics, General, and Industrial commodities have footnotes that show what the ratios would have been if the inventory that the Services transferred to us were not used in the computation. Net capitalizations of inventory were approximately \$2 billion in FY 1993. The consumable item

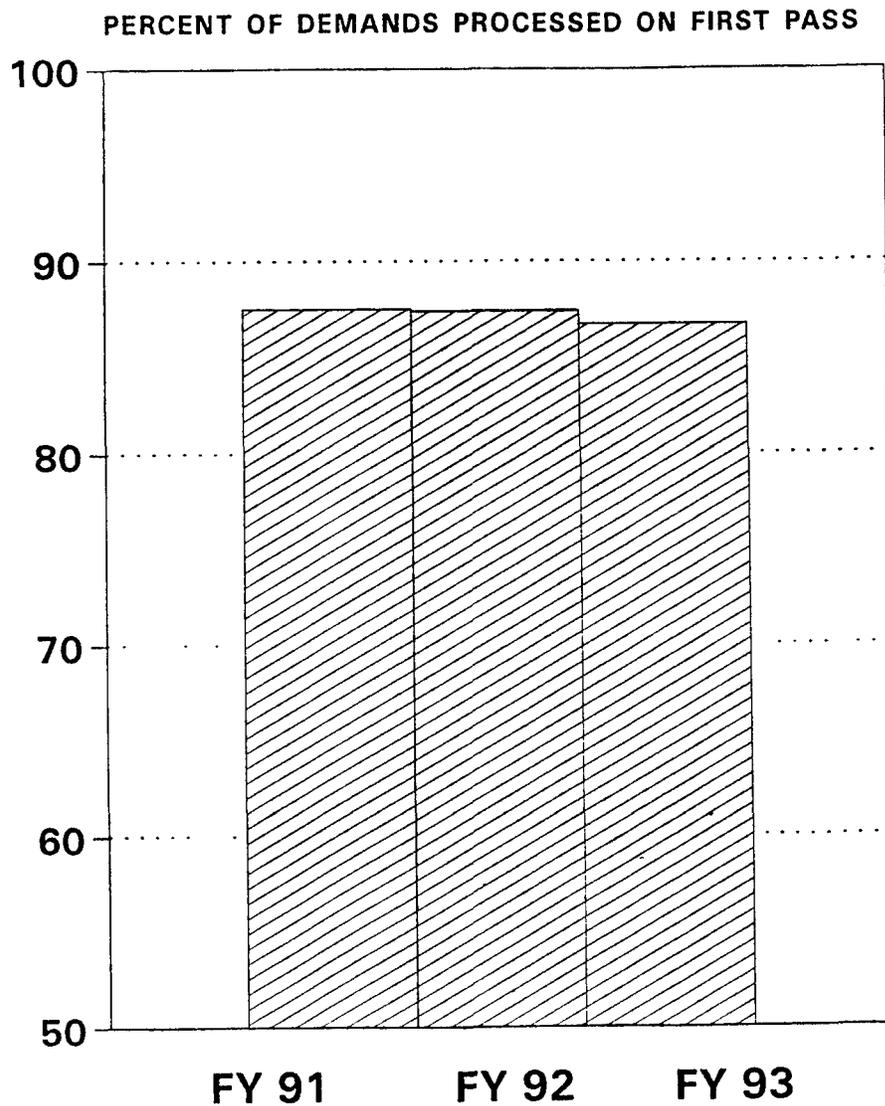
Defense Logistics Agency Consolidated Financial Statements - FY 1993

transfers amounted to approximately \$1.5 billion in FY 1992.

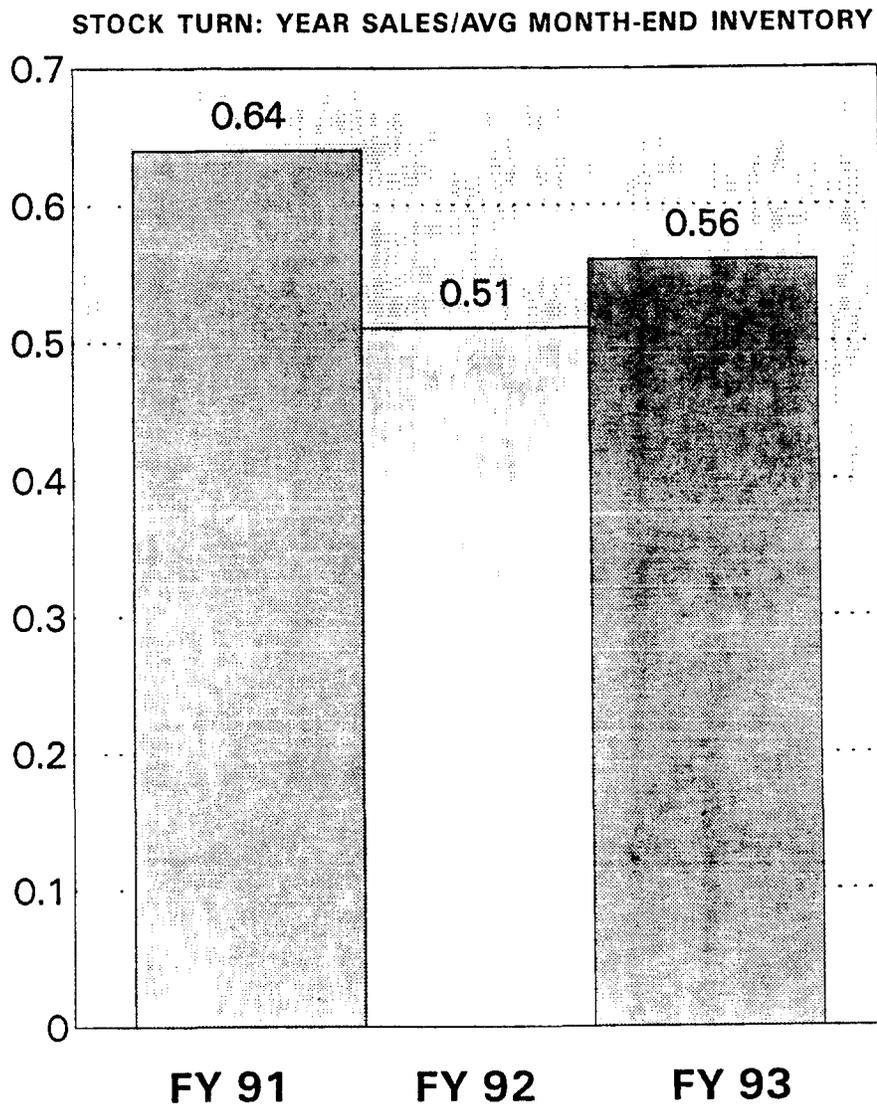
The Product Quality Deficiency Reports (PDQRs) ratio was .06%. This measures the percentage of deficiencies in customer receipts out of the total issuances. A goal has not yet been established.

The PDQRs Processing Time average was approximately 62 days. This measure is computed as an average. A goal has not yet been established.

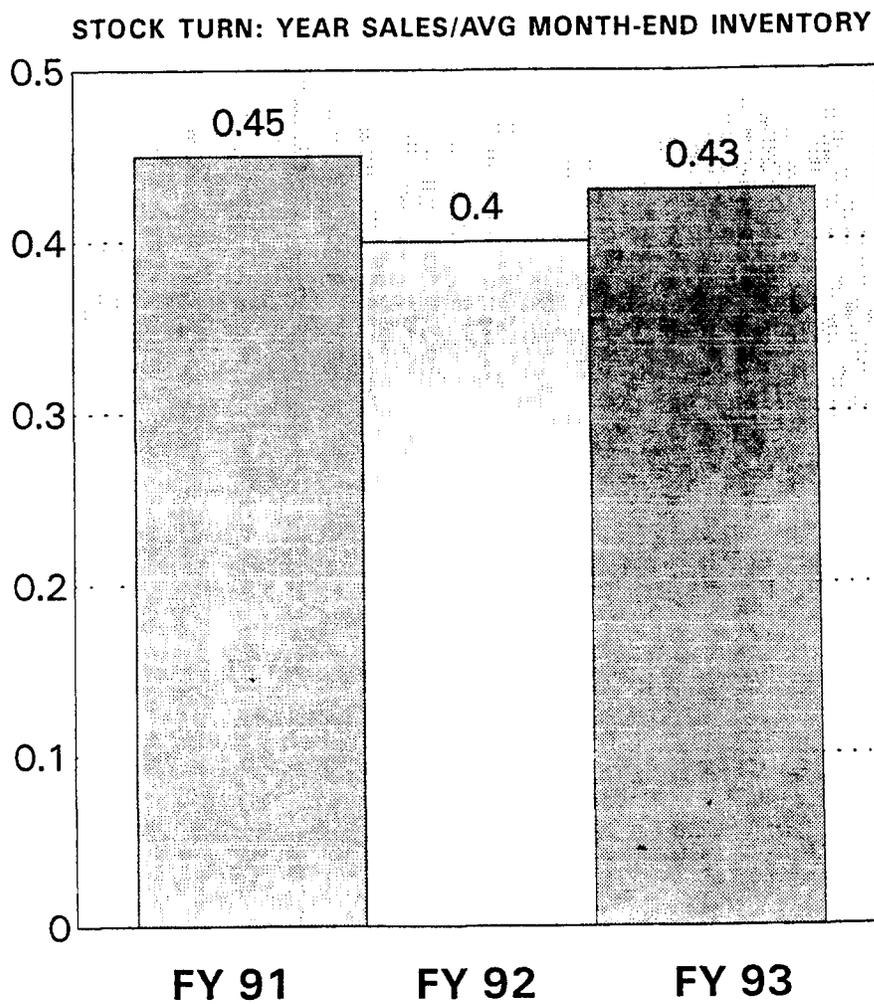
FILL RATE / STOCK AVAILABILITY SUPPLY MANAGEMENT



STOCK TURN SUPPLY MANAGEMENT - CLOTHING & TEXTILES



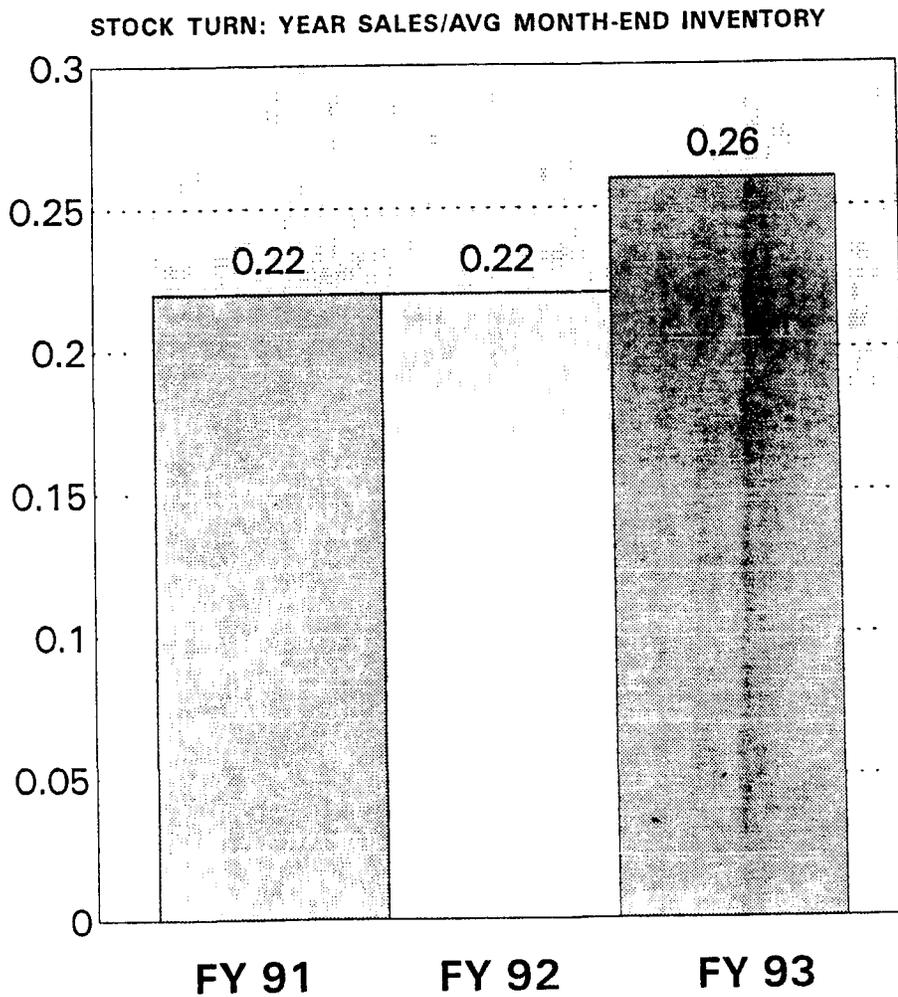
STOCK TURN SUPPLY MANAGEMENT - CONSTRUCTION



FY93 WITHOUT CIT IS .56
FY92 WITHOUT CIT IS .42

STOCK TURN

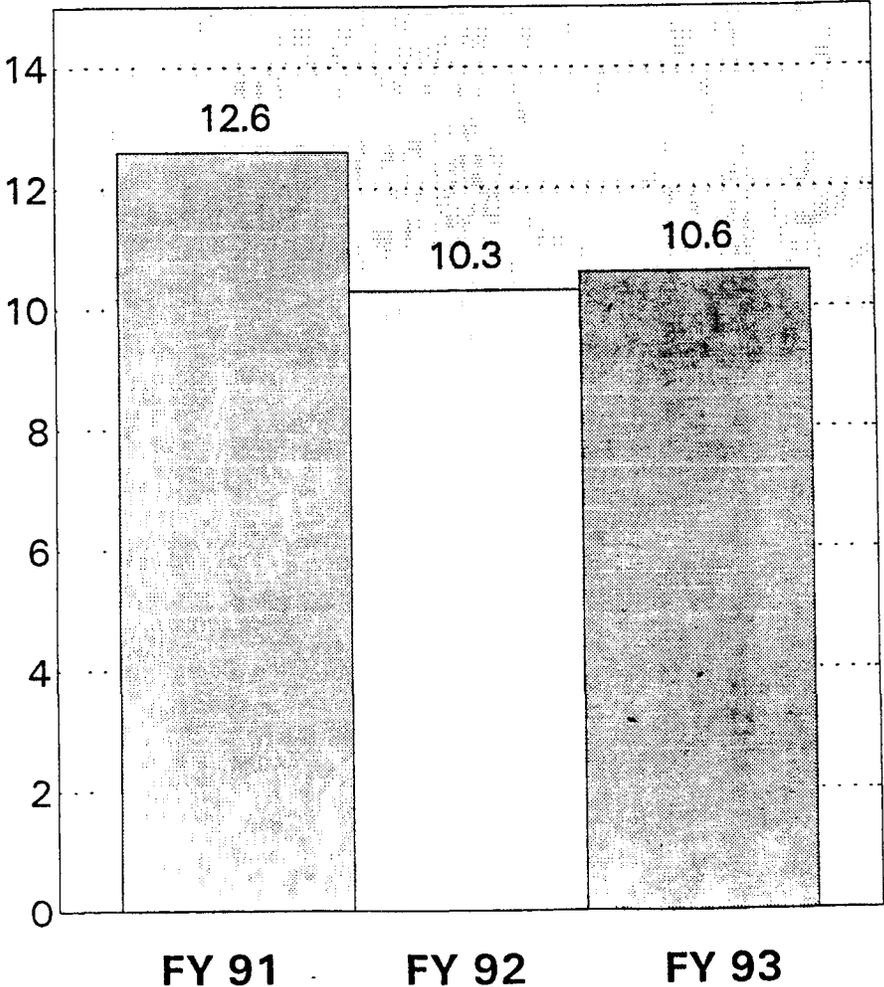
SUPPLY MANAGEMENT - ELECTRONICS



FY93 WITHOUT CIT IS .31
FY92 WITHOUT CIT IS .23

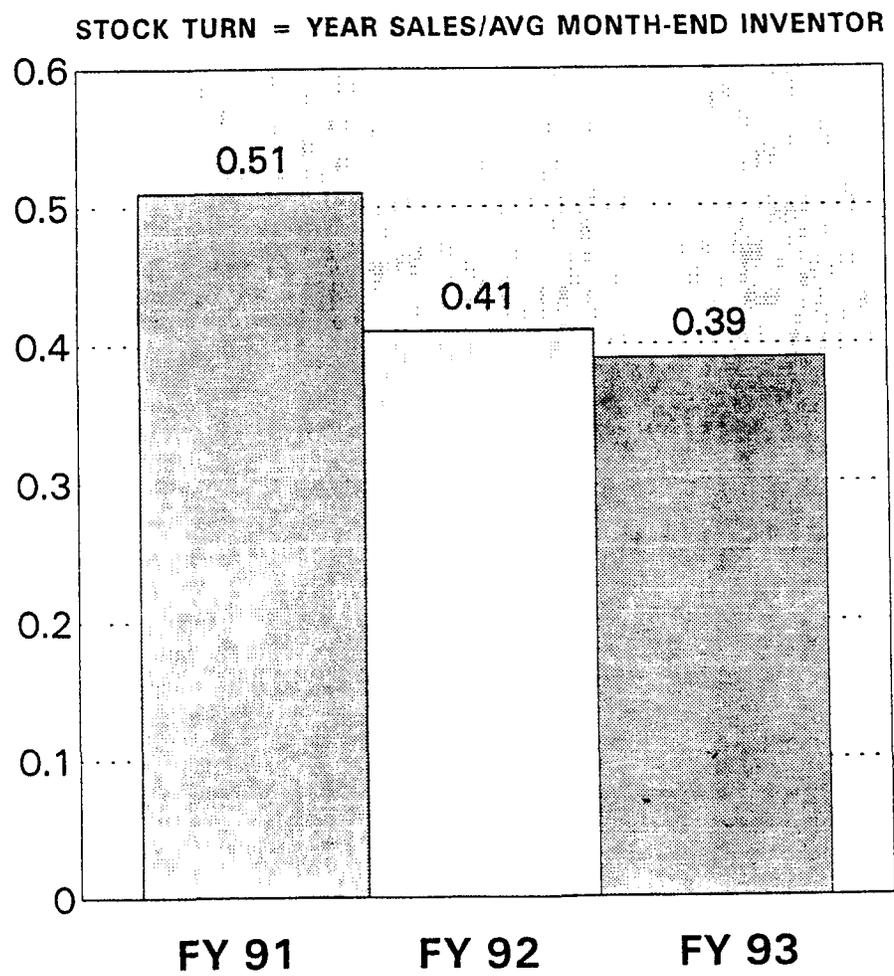
STOCK TURN SUPPLY MANAGEMENT - FUEL

STOCK TURN: YEAR SALES/AVG MONTH-END INVENTORY



STOCK TURN

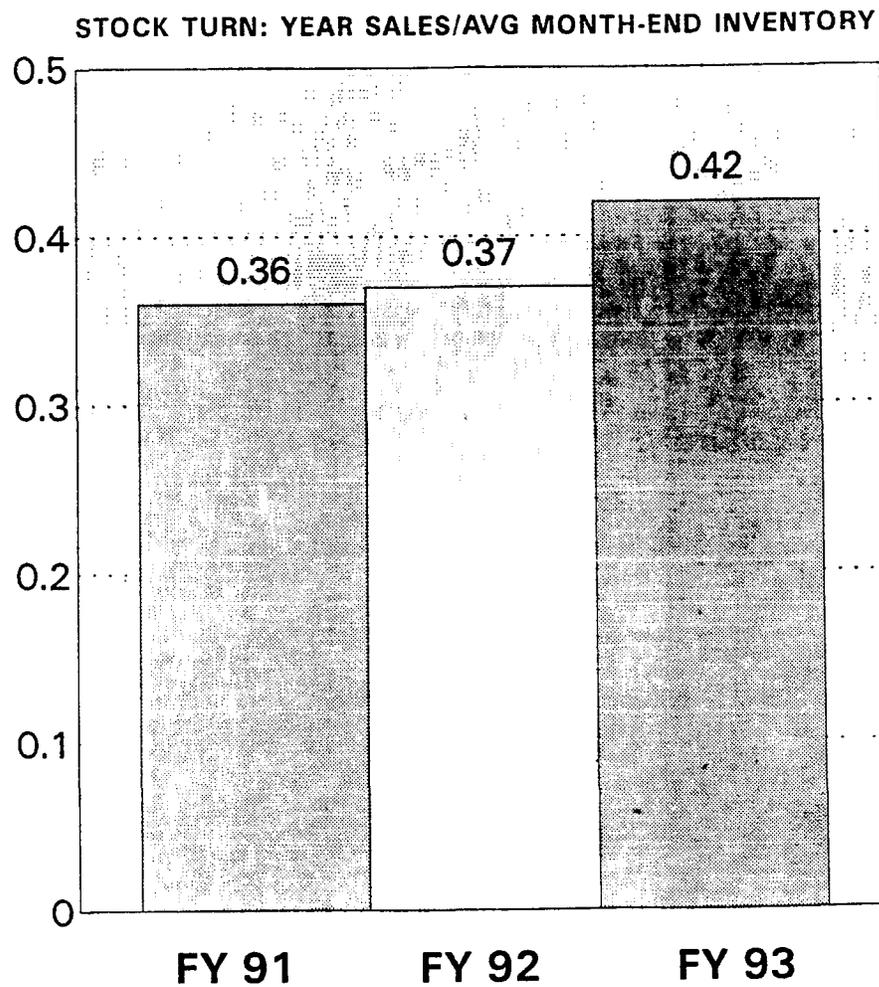
SUPPLY MANAGEMENT - GENERAL



FY93 WITHOUT CIT IS .61
FY92 WITHOUT CIT IS .47

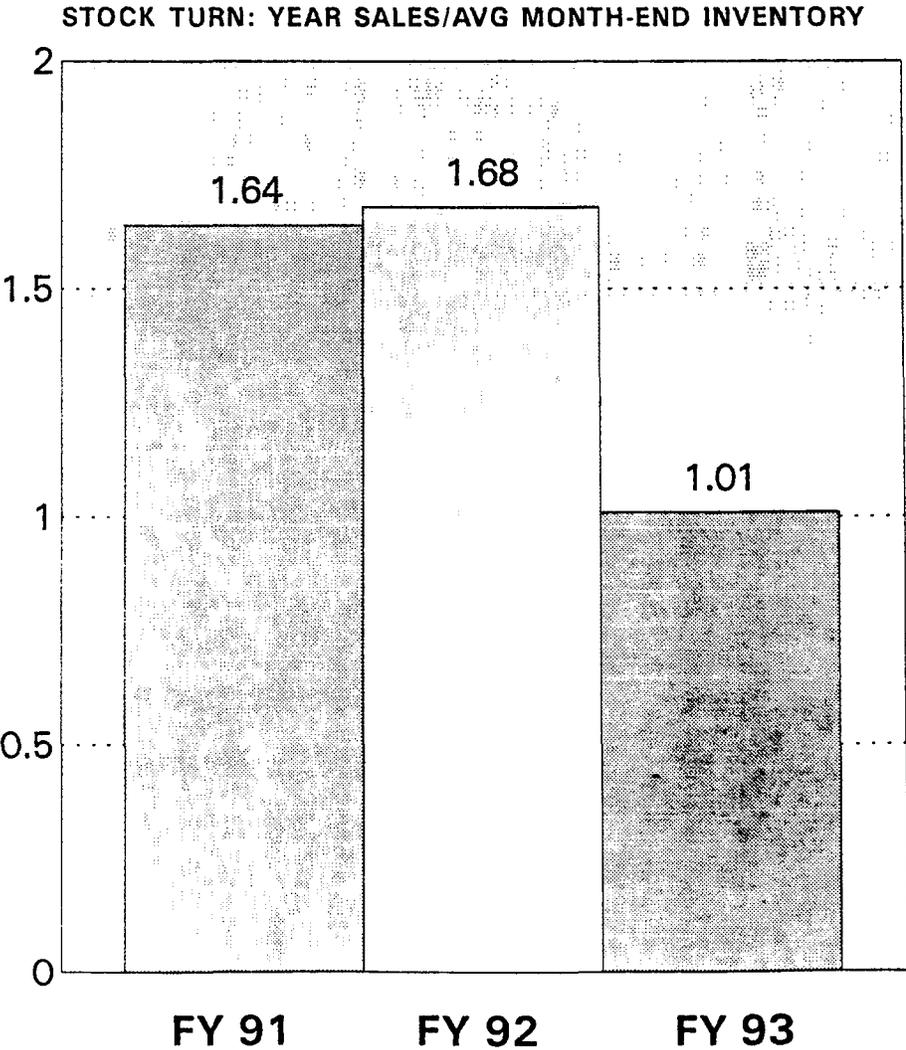
STOCK TURN

SUPPLY MANAGEMENT - INDUSTRIAL



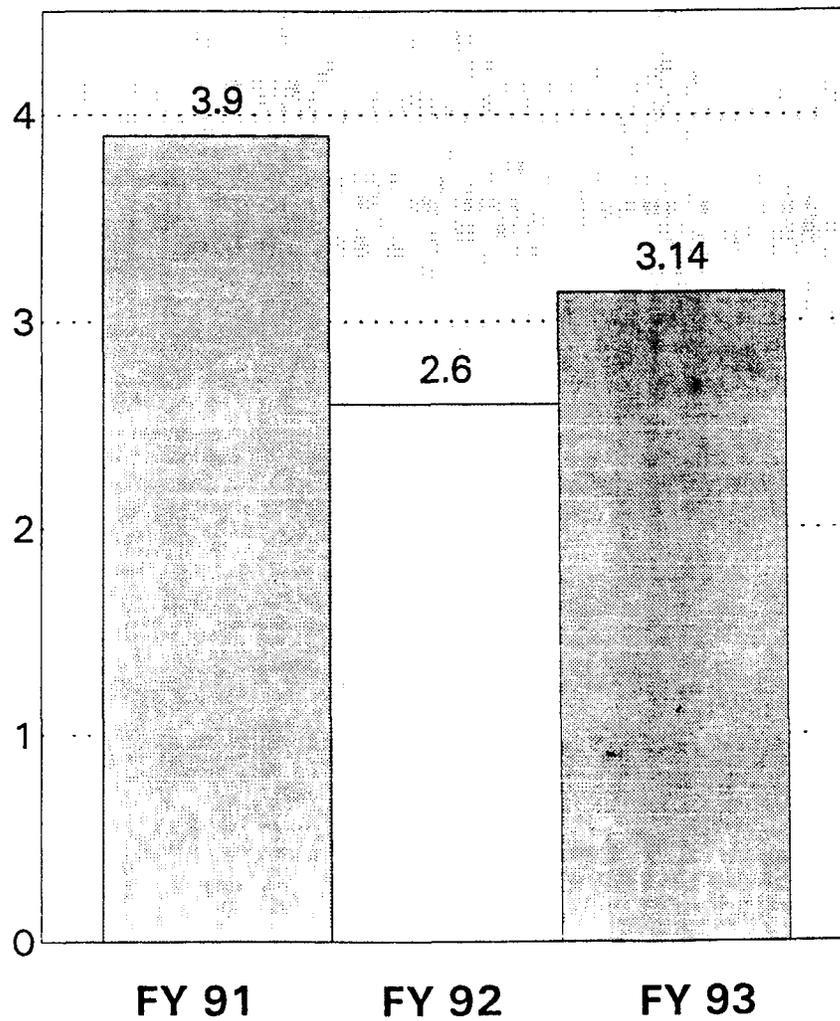
FY93 WITHOUT CIT IS .48
FY92 WITHOUT CIT IS .38

STOCK TURN SUPPLY MANAGEMENT - MEDICAL



STOCK TURN SUPPLY MANAGEMENT - SUBSISTENCE

STOCK TURN: YEAR SALES/AVG MONTH-END INVENTORY



Defense Logistics Agency Consolidated Financial Statements - FY 1993

DEPARTMENT-OF DEFENSE
 DEFENSE LOGISTICS AGENCY
 STATEMENT OF FINANCIAL POSITION
 AS OF SEPTEMBER 30, 1993

	1993 Consolidated	1992 Revised Consolidated
ASSETS:		
1. Financial Resources		
a. Fund Balances with Treasury	1,043,713,353	(401,089,089)
b. Cash		
c. Foreign Currency		
d. Other Monetary Assets		
e. Investments, Non-Federal		
f. Accounts Receivable, Net - Non-Federal	121,218,706	125,614,835
g. Inventories Held for Sale, Net	16,343,576,760	11,004,418,684
h. Loans Receivable, Net - Non-Federal		
i. Property Held for Sale		
j. Other, Non-Federal		
k. Intragovernmental Items:		
(1) Accounts Receivable, Federal	2,332,564,801	2,215,798,975
(2) Loans Receivable, Federal		
(3) Investments, Federal		
(4) Other, Federal		
Total Financial Resources	19,841,073,620	12,944,743,405
2. Non-Financial Resources:		
a. Resources Transferable to Treasury	291,116,675	347,936,980
b. Advances and Prepayments, Non-Federal	125,852,814	1,468,948
c. Inventories Not Held for Sale	196,254,634	111,583,023
d. Property, Plant and Equipment, Net	95,557,539	7,543,646
e. Other		
Total Non-Financial Resources	708,781,662	468,532,597
3. Total Assets	20,549,855,282	13,413,276,002

Defense Logistics Agency Consolidated Financial Statements - FY 1993

DEPARTMENT OF DEFENSE
 DEFENSE LOGISTICS AGENCY
 STATEMENT OF FINANCIAL POSITION
 AS OF SEPTEMBER 30, 1993

LIABILITIES	1993 Consolidated	1992 Revised Consolidated
4. Funded Liabilities:		
a. Accounts Payable, Non-Federal	542,555,097	392,262,942
b. Accrued Interest Payable		
c. Accrued Payroll and Benefits	29,056,661	17,945,926
d. Accrued Entitlement Benefits		
e. Lease Liabilities		
f. Liabilities for Loan Guarantees		
g. Deferred Revenue-Non-Federal		
h. Pensions & Other Actuarial Liabilities		
i. Other Funded Liabilities, Non-Federal	2,980,511	3,088,925
j. Intragovernmental Liabilities		
(1) Accounts Payable, Federal	966,956,968	1,054,258,853
(2) Debt		
(3) Deferred Revenue	290,075,744	238,494,921
(4) Other Funded Liabilities, Federal		
k. Total Funded Liabilities	1,831,624,981	1,706,051,567
5. Unfunded Liabilities:		
a. Accrued Leave	75,963,873	60,549,060
b. Lease Liabilities		
c. Debt		
d. Pensions and Other Actuarial Liabilities		
e. Other Unfunded Liabilities	103,459,314	0
f. Total Unfunded Liabilities	179,423,187	60,549,060
6. Total Liabilities	2,011,048,168	1,766,600,627
NET POSITION		
7. Fund Balances:		
a. Revolving Fund Balances	18,718,230,300	11,707,224,435
b. Trust Fund Balances		
c. Appropriated Fund Balances		
d. Total Fund Balances	18,718,230,300	11,707,224,435
8. Less Future Funding Requirements	179,423,187	60,549,060
9. Net Position	18,538,807,113	11,646,675,375
10. Total Liabilities and Net Position	20,549,855,281	13,413,276,002

Defense Logistics Agency Consolidated Financial Statements - FY 1993

DEPARTMENT OF DEFENSE
 DEFENSE LOGISTICS AGENCY
 STATEMENT OF OPERATIONS (AND CHANGES IN NET POSITION)
 FOR THE PERIOD ENDED SEPTEMBER 30, 1993

	1993 Consolidated	1992 Revised Consolidated
REVENUES AND FINANCING SOURCES		
1. Appropriations Expensed		
2. Revenues from Sales of Goods		
a. To the Public	202,723,670	10,302,717
b. Intergovernmental	13,506,514,915	13,055,411,701
3. Interest and Penalties, Non-Federal		
4. Interest, Federal		
5. Taxes		
6. Other Revenues and Financing Sources	58,269,320	28,018,476
7. Less: Taxes and Receipts Returned to the Treasury		
8. Total Revenues and Financing Sources	13,767,507,905	13,093,732,894
EXPENSES		
9. Program or Operating Expenses	4,143,268,010	3,166,152,922
10. Cost of Goods or Services Sold		
a. To the Public	210,641,867	10,302,717
b. Intragovernmental	12,615,823,823	10,113,723,864
11. Depreciation	37,813,708	924,669
12. Bad Debts and Writeoffs		31
13. Interest		
14. Other Expenses	474,253,298	547,394,013
15. Total Expenses	17,481,800,706	13,838,498,216
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Adjustments	(3,714,292,801)	(744,765,322)
17. Plus (Minus) Adjustments		
a. Extraordinary Items	1,109,182,379	(553,537,911)
b. Prior Period Adjustments	1,889,686,235	(1,434,791)
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(715,424,187)	(1,299,738,024)
19. Plus: Unfunded Expenses	179,423,187	60,549,060
20. Excess (Shortage) of Revenues and Financing Sources Over Funded Expenses	(536,001,000)	(1,239,188,964)
21. Net Position, Beginning Balance	11,646,675,374	0
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(715,424,187)	(1,299,738,024)
23. Plus (Minus) Equity Transfers	7,607,555,926	12,946,413,399
24. Net Position, Ending Balance	18,538,807,113	11,646,675,375

Defense Logistics Agency Consolidated Financial Statements - FY 1993

DEPARTMENT OF DEFENSE
 DEFENSE LOGISTICS AGENCY
 STATEMENT OF CASH FLOWS
 FOR THE PERIOD ENDED SEPTEMBER 30, 1993
 (In Dollars)

	1993 Consolidated	1992 Revised Consolidated
Cash Flows from Operating Activities:		
1. Sources Over Total Expenses	(715,424,187)	(1,299,738,024)
<hr style="border-top: 1px dashed black;"/>		
Adjustments Affecting Cash Flow:		
2. Appropriations Expensed		
3. Decrease (Increase) in Accounts Receivable	(52,692,662)	(801,281,071)
4. Decrease (Increase) in Loans Receivable		
5. Decrease (Increase) in Other Assets	(321,060,361)	(663,119,359)
6. Increase (Decrease) in Accounts Payable	73,739,964	(372,615,876)
7. Increase (Decrease) in Other Liabilities	66,578,886	(77,943,166)
8. Depreciation and Amortization	37,813,708	924,669
9. Other Unfunded Expenses	104,344,605	80,995,165
10. Other Adjustments	1,932,733,617	2,740,055,411
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11. Total Adjustments	1,841,457,757	907,015,773
	<hr style="border-top: 1px dashed black;"/>	
12. Net Cash Provided (Used) by Operating Activities	1,126,033,570	(392,722,251)
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Cash Flows from Non-Operating Activities:		
13. Proceeds from Sales of Investments		
14. Proceeds from Sales of Property, Plant and Equipment		
15. Purchases of Investments		
16. Purchases of Property, Plant and Equipment	92,320,217	8,366,838
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17. Net Cash Provided (Used) by Non-Operating Activities	(92,320,217)	(8,366,838)
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Defense Logistics Agency Consolidated Financial Statements - FY 1993

DEPARTMENT OF DEFENSE
 DEFENSE LOGISTICS AGENCY
 STATEMENT OF CASH FLOWS (PAGE 2)
 FOR THE PERIOD ENDED SEPTEMBER 30, 1993
 (In Dollars)

	1993 Consolidated	
CASH PROVIDED (USED) BY FINANCIAL ACTIVITIES		
18. Appropriations (Current Warrants)		
19 Add:		
a. Restorations		
b. Transfers of Cash from Others	781,918,457	
20. Deduct:		
a. Withdrawals		
b. Transfers of Cash to Others	380,829,368	
21. Net Appropriations	401,089,089	0
22. Borrowing from the Public		
23. Repayments on Loans		
24. Borrowing from the Treasury and the Federal Financing Bank		
25. Repayments on Loans from the Treasury and the Federal Financing Bank		
26. Other Borrowings and Repayments		
27. Net Cash Provided (Used) by Financing Activities	401,089,089	0
28. Net Cash Provided (Used) by Operating, Non-Operating and Financing Activities	1,444,802,442	(401,089,089)
29. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	(401,089,089)	0
30. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	1,043,713,353	(401,089,089)
	0	0
Supplemental Disclosure of Cash Flow Information		
31. Total Interest Paid	0	0
Supplemental Schedule of Financing and Investing Authority:		
32. Property and Equipment Acquired Under Capital Lease Obligations	0	0
33. Property Acquired Under Long-Term Financing Arrangements	0	0
34. Other Exchanges of Non-Cash Assets or Liabilities	0	0

Defense Logistics Agency Consolidated Financial Statements - FY 1993

DEPARTMENT OF DEFENSE
 DEFENSE LOGISTICS AGENCY
 STATEMENT OF BUDGET AND ACTUAL EXPENSES
 FOR THE PERIOD ENDED SEPTEMBER 30, 1993
 (In Dollars)

Program Name(s)	Resources	BUDGET		ACTUAL
		Direct	Obligations Reimbursements	Expenses
97X4930.5B	\$1,130,022,867		\$0	\$1,510,008,839
97X4930.5C	\$9,364,660,366	\$6,019,742	\$10,918,791,498	\$15,381,823,376
97X4930.5M	\$33,857,948		\$0	\$36,434,499
97X4930.5N	\$218,964,739		\$0	\$375,925,008
97X4930.5Q	\$77,790,276		\$0	\$33,599,326
Totals	\$10,825,296,196	\$6,019,742	\$12,874,786,439	\$17,481,800,705

Budget Reconciliations:

A. Total Expenses	\$17,481,800,705
E Add:	
1 Capital Acquisitions	\$82,320,217
(2) Loans Disbursed	\$0
(3) Other Unfunded Expenses	\$174,287,717
C Less:	
(1) Depreciation and Amortization	\$37,813,708
(2) Unfunded Annual Leave Expense	\$31,164,909
(3) Other Unfunded Expenses	\$4,856,423,762
D Expended Appropriations	\$12,813,006,260
E Less Reimbursements	\$13,766,422,287
F Expended Appropriation, Direct	(\$953,416,027)
	=====

FOOTNOTES TO DLA DBOF CONSOLIDATED
STATEMENT

Note 1. Significant Accounting Policies:

A. REPORTING ENTITY

The overall mission of the Defense Logistics Agency (DLA), as a combat support agency, is to provide effective and efficient worldwide logistics support to the Military Departments. DLA also provides support to other DoD components, Federal agencies, and selective foreign governments. DLA provides support in contracting, materiel management, distribution, contract administration and technical support. Much of DLA's mission is funded through the Defense Business Operations Fund (DBOF).

DLA has five business areas funded through DBOF:

- o Supply Management
- o Distribution Depots
- o Industrial Plant Equipment
- o Reutilization and Marketing Service
- o Clothing Factory

SUPPLY MANAGEMENT: This business area consists of inventory control points and supporting activities. Operations (salaries and expenses), materiel (inventory items to be sold to the Military Services), and depreciation of equipment and minor construction are costs associated with this business area. Materiel management is organized into eight separate commodity groups and a retail level stock fund. The commodity groups are:

- o Clothing and Textiles
- o Medical
- o Subsistence
- o General
- o Industrial
- o Construction
- o Electronics
- o Fuel

DISTRIBUTION DEPOTS: This business area receives, stores and distributes commodities, principal end items, and depot level repairables. The current depot structure consists of two Distribution Regions. These regions are responsible for the 30 sites encompassing approximately 60 locations (some sites have responsibility for multiple physical locations). Revenue for this business area consists of payments from Supply Management.

Defense Logistics Agency Consolidated Financial Statements - FY 1993

for receipt and issue of materiel, and reimbursable funding from local activities for non-mission work.

INDUSTRIAL PLANT EQUIPMENT: This business area is responsible for the maintenance and refurbishment of industrial plant equipment (IPE) in use at DoD industrial activities, and for the repairs and overhaul of equipment in the General Reserve of IPE before issuance to DoD activities.

REUTILIZATION AND MARKETING SERVICES: This business area is responsible for the disposal of excess personal property generated by DoD components. Their mission is accomplished through redistribution, sale and disposal. They also have the mission of hazardous property disposal and the economic recovery of precious metals from excess and surplus precious metal bearing materials.

CLOTHING FACTORY: This business area is responsible for manufacturing clothing and textile items. It serves as a mobilization base to provide for rapid and effective supply of clothing items during emergency periods. Items typically manufactured are those that may be required on short notice or with special measurement. This business area receives most of its workload and its revenue from sales to the DLA Supply Management business area. The Clothing Factory was approved for closure in the FY 1993 Base Realignment and Closure legislation.

B. Accounting Standards

These financial statements were prepared in accordance with OMB Bulletin 93-02 and supplemental DoD guidance. The accounting standards prescribed in the DoD Accounting Manual (DoD 7220.9-M) were followed, as appropriate. To the extent that guidance was not provided in DoD 7220.9-M, our business areas account for transactions in accordance with guidance promulgated by the GAO, OMB, Department of Treasury, the Federal Accounting Standards Advisory Board (FASAB) and commercial generally accepted accounting principles.

C. Budgets and Budgetary Accounting

Each business area receives an annual operating budget that provides total cost authority in unit cost terms. Unit Cost Resourcing provides the operating expense authority (for such items as salaries, nonlabor expenses, and materiel) within each business area and activities within the business areas. Cost authority or the amount "earned" depends on the actual work load times the unit cost goals.

Defense Logistics Agency Consolidated Financial Statements - FY 1993

Each business area can also receive a capital budget that provides the obligation authority for the purchase of equipment, minor construction, ADP and telecommunications, and software development.

D. Basis of Accounting

Transactions are recorded on an accrual basis and on a budgetary basis. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred rather than when paid. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds.

E. Revenues and Other Financing Sources

Revenues and financing sources for the DBOF business areas are as follows:

- o Supply Management - Reimbursements from customers for sales of inventory and services
- o Distribution Depots - Reimbursements from Supply Management for receipt and issue of materiel, and reimbursable funding provided by local activities for non-mission work
- o Industrial Plant Equipment - Reimbursements from customers for services provided
- o Reutilization & Marketing - Proceeds from the sale of property to the public along with reimbursements from the hazardous, toxic disposal, and the precious metals recovery programs
- o Clothing Factory - Reimbursements from customers (mainly DLA Supply Management) for work performed and services rendered. Revenues are recognized on a percentage of physical completion basis.

F. Accounting for Intra-Governmental Activities

DLA, as an agency of the Federal government, interacts with, and is dependent upon, other financial activities of the government as a whole. Therefore, these financial statements do not reflect the results of all financial decisions applicable to DLA as though the agency were a stand alone entity.

For example:

DLA's proportionate share of the public debt and related expenses of the Federal Government are not included in these financial statements because debt and related interest costs are

not apportioned to Federal agencies.

Financing for the Military construction is obtained through appropriations from the Congress. To the extent that this financing may have been obtained through the issuance of public debt, interest costs have not been capitalized since the Treasury Department does not allocate interest costs to the benefiting agencies.

Also, intra-DBOF transactions are not eliminated nor reported as specific policy has not yet been issued and the accounting systems used to record collections and disbursements are not yet designed to identify and retain the intrafund data when both the buyer and the seller are DBOF business areas.

G. Funds with the U.S. Treasury and Cash

DLA's DBOF business areas do not maintain nor manage cash. All DBOF cash is maintained at the appropriation level. Cash receipts and disbursements are processed by the Treasury, and the balance with the Treasury only represents the impact on DBOF (appropriation level) cash.

H. Foreign Currency

Gains and losses from foreign currency transactions are not recognized in the Supply Management Statement of Operations. They are absorbed by budgetary transactions in which obligations are increased or decreased to reflect foreign currency fluctuations. There are no foreign currency translation adjustments.

I. Accounts Receivable

As presented in the statement of financial position, accounts receivable include accounts and claim receivables. Allowances for uncollectible accounts are not established as they are considered immaterial to the total receivable amounts. The accounting systems classify receivables as: from Government sources and from Public sources.

J. Loans Receivable

Our business areas do not lend money.

K. Inventories

1. Supply Management

Inventories are valued at Latest Acquisition Cost (LAC). LAC is similar in theory to FIFO, in that, inventory on hand more closely resembles the most recent "market" price for that item. When a procurement is made, the purchase price for that NSN is recorded and the latest acquisition cost for that item is changed accordingly. The inventory unit price values and the ending inventory value are changed monthly.

The difference between contract cost (historical cost) and the inventory valued at latest acquisition cost is recorded in a price variance distribution account. The FASAB has proposed that this difference be recognized in an allowance account and to show the change in the allowance account as either part of cost of goods sold or as a non-operating change. As the FASAB has not yet published an official pronouncement on this issue, (whether the change in the allowance account is to be reported as a non-operating change or as an operating change) the financial statements do not report this amount.

Potential Reutilization Inventory (previously called potential excess inventory) are inventory items in excess of approved force acquisition objectives and approved force retention stock objectives. These assets are written down, using DoD guidance, to a percentage of LAC.

2. Distribution Depots

While this business area does the warehousing function for the DoD, it owns no material inventory. Inventory stored in the depots is owned and managed by other business areas (primarily Supply Management areas) and by accounts outside the DBOF.

3. Industrial Plant Equipment

While this business area repairs, overhauls, rebuilds, and modifies IPE, it owns no materiel inventory.

4. Reutilization and Marketing Services

Inventory consists of excess property/equipment that the DoD components have turned in for reutilization and/or disposal. Inventory is reported at original acquisition cost (historical cost). The inventory amount does not reflect the net realizable value of the inventory. Policies and procedures for an alternative valuation method need to be developed to provide a more realistic valuation of this material. We are reporting this inventory at original acquisition cost in accordance with DoD guidance.

5. Clothing Factory

The inventory of this business area consists of:

- o work in process
- o direct materials
- o operating supplies
- o repair parts inventory

L. Investments in U.S. Government Securities

Our business areas do not invest in U.S. Government securities.

M. Property, Plant and Equipment

Our business areas capitalize equipment according to DBOF policy, when the following criteria are met:

- o Acquisition cost, book value, or when applicable, an estimated fair market value is \$15,000 or more;
- o Estimated useful life is two years or more.

Capital assets/equipment in Supply Management, Distribution Depots, Reutilization and Marketing Services, and Industrial Plant Equipment business areas are accounted for in the Appropriation Accounting Subsystem of DBMS (Defense Business Management System). Capital assets for the Clothing Factory are accounted for on manual records. Capital assets are reported at their net book value, i.e.: the acquisition cost less any accumulated depreciation. The acquisition cost includes all the costs necessary to put the asset in place and in the form in which it will be used. Depreciation is recorded on a straight-line basis. The capital assets for our business areas include such items as ADP equipment, material handling systems, software, industrial equipment/factory equipment.

Real property is not capitalized by our DBOF business areas because United States Code, Title 10 provides that the real property facilities that DoD agencies use shall be under the jurisdiction of the Military Departments. Minor construction of facilities that the Services have "permitted" to us are capitalized and depreciated.

N. Prepaid and Deferred Charges

Payments before the receipt of goods and services are recorded as progress payments and advances at the time of prepayment. Expenses are recognized when the goods and/or services are received.

O. Leases

Defense Logistics Agency Consolidated Financial Statements - FY 1993

Our business areas are committed to operating leases and rental agreements. Generally, these leases and agreements are for the rental of equipment, space and operating facilities. Payments under these operating leases are expensed as incurred.

Our business areas may also be party (as lessee) to a limited number of leases that meet the capital lease criteria. However, our accounting systems do not allow for the identification of these arrangements as capital leases. Therefore, payments under these arrangements are not capitalized - they are expensed as incurred.

P. Contingencies

Our business areas are obligated for goods and services that have been ordered but not yet received and paid. Total gross unpaid obligations amounted to \$7,298,328,185 as of September 30, 1993.

The Agency is also party to various legal and administrative claims and actions. In our opinion, the resolution of these actions will not materially affect our operations or financial position. Therefore, no contingent liabilities have been recognized in the Statement of Financial Position.

Q. Accrued Leave

Civilian employee annual leave hours are accrued as earned and the accrued hours are reduced as leave is taken. Unused annual leave is reported as an unfunded expense and the liability is reduced as leave is taken. The balance for accrued leave reflects current pay rates. Sick leave and other types of nonvested leave are expensed as taken.

R. Equity

Equity consists of capitalized inventories and other capitalized assets, as well as, cumulative results of operations.

Note 2. Fund Balances with Treasury, Cash and Foreign Currency:

Defense Logistics Agency Consolidated Financial Statements - FY 1993

A. Fund Balances with Treasury:

Unobligated Balance Available:		
Available		\$(2,053,512,124)
Restricted		
Reserve for Anticipated Resources		
Obligated (but not expensed) Balance	3,402,386,471	
Unfunded contract Authority		
Unfunded Borrowing Authority		
Prior Year Balances (Transfers)	386,420,025	
Adjustment (See Supply Principal Notes)	(691,581,019)	
Treasury Balance		\$1,043,713,353

B. Undistributed Cash Balances:

Total Undistributed Collections:	\$(859,299,795)
Total Undistributed Disbursements:	\$ 89,561,512

C. Other Information: The majority of the negative undistributed collections resulted from differences between FY 1992 collections recorded on the books for Supply Management and those reported through the ACRS Cash Outlay Subsystem. DFAS is reviewing this issue for corrective action.

Note 3. Cash, Foreign Currency and Other Monetary Assets:

Not applicable.

Note 4. Investments:

Our business areas do not invest in securities.

Note 5. Inventories:

<u>Supply Management:</u>	<u>Inventory Amount at LAC</u>
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A. Inventory Categories:

(1) Inventory Held for Sale:

(a) Stock on Hand		
(\$12,181,515,803-\$1,232,217,621)		\$10,949,298,182
(b) Intransit from Procurement		105,244,176
(c) Intransit between Storage Points		141,167,527
(d) Intransit from Customers		2,528,561

Supply Total Inventory Held For Sale:	\$11,198,238,446
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(2) Inventory Not Held for Sale:

Defense Logistics Agency Consolidated Financial Statements - FY 1993

(a) With Contractors & Test Agencies	\$75,373,867
(b) In Process of Assembly & Disassembly	41,865,618
(c) Temporarily in Use	926,838

B. Restrictions on Use, Sale, or Disposition:

Prepositioned War Reserve Material is restricted. The fuels and subsistence commodities have War Reserve Material.

C. Other Information:

Inventories of \$12.5 billion represent the value of stocked DLA material at acquisition cost or net realizable value. Included in this amount is NSA inventory of \$0.016 billion. Potential Reutilization and Disposal Stock are valued in the Supply System Inventory Report (SSIR) at net realizable cash value. This valuation is accomplished by applying a salvage rate established annually by OASD. The total writedown of FY 1993 inventory was \$1.232 billion. See the Supply Management Principal Statements Notes for additional information.

Reutilization & Marketing Inventory at Historical Cost

A. Inventory Categories:

(1) Inventory Held for Sale	\$5,145,338,313
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B. Other Information: See Note 1 for additional information.

Clothing Factory

A. Inventory Categories:

(1) Inventory Held for Sale:	\$0
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(2) Inventory Not Held for Sale:

Direct Materials	\$3,943,769.55
Work-in-Process	2,130,993.64
Repair Parts	1,324,456.25
Operating Supplies	287,271.94

B. Restrictions on Inventory Use, Sale, or Disposition: None

C. Other Information: The Clothing Factory does not own finished goods inventory.

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Note 6. Loans and Loan Guarantees, Non Federal:

Our business areas do not operate loan nor loan guarantee programs.

Note 7. Property Held for Sale:

Our business areas do not sell property. Excess property/equipment is turned into the Defense Reutilization and Marketing Service where it becomes "inventory."

Note 8. Other Financial Resources - Non-Federal:

Our business areas do not have other financial resources.

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Note 9. Property, Plant and Equipment, Net:

Capital Asset Class	Depreciation Method	Service Life	Acquisition Value	Accumulated Depreciation	Net Book Value
Land - N/A					
Facilities	SL	20	\$2,483,107	\$846,552	\$1,636,555
Military Equipment N/A					
ADP Software	SL	5	\$10,931,112	\$5,712,146	\$5,218,966
Equipment	SL	6-10	\$305,158,136	\$115,759,023	\$189,399,113
Capital Lease Assets					
Other					
Natural Resources N/A					
Construction in Process N/A					
TOTAL			\$318,572,355	\$122,317,721	\$196,254,634

Legend:

Depreciation Method:

SL = Straight Line

Range of service Life:

5 = 5 Years

6-10 = 6 to 10 years

20 = 20 years

Other Information: We believe that the capital assets recorded in the general ledgers are understated by a material amount. We anticipate working with DFAS and devoting available resources to correct this problem in FY 1994.

Defense Logistics Agency Consolidated Financial Statements - FY 1993

Note 10. Other Non-Financial Resources:

A. Other Non-Financial Resources:

(1) Supply Management:	\$79,491,639
(2) Distribution Depots:	\$16,065,900
(3) Industrial Plant Equipment Center:	N/A
(4) Reutilization & Marketing:	N/A
(5) Clothing Factory:	N/A
Total:	\$95,557,539

B. Other Information: Reported as other non-financial resources is equipment that is not in use.

Note 11. Leases:

See Note 1. for details on our lease arrangements.

Note 12. Debt:

Our business areas do not borrow money under special financing authorities.

Note 13. Other Funded Liabilities:

Reported as Other Funded Liabilities , Non-Federal is the Supply Management business area account for contingent liabilities and accounts payable write-off reserve.

Note 14. Pensions and Other Actuarial Liabilities:

Our business areas do not administer the pension programs.

Note 15. Other Unfunded Liabilities:

Reported as Other Unfunded Liabilities is the Real Property Maintenance Reserve.

Note 16. Fund Balance:

A. Unexpended Appropriations:	
B. Invested Capital:	\$5,226,338,281
C. Cumulative Results of Operations:	(2,578,980,467)
D. Unfunded Leave:	75,963,873
E. Transfers:	2,229,263,183
F. Real Property Maintenance:	103,459,314
G. Material Equity:	13,662,186,116
H. Total Equity:	\$18,718,230,300

Defense Logistics Agency Consolidated Financial Statements - FY 1993

Note 17. Future Funding Requirements:

A. Actuarial Liabilities:	
B. Non-Actuarial Liabilities:	
(1) Annual Leave:	\$75,963,873
(2) Real Property Maintenance:	\$103,459,314
C. Total:	\$179,423,187

Note 18. Taxes:

Not applicable.

Note 19. Other Revenue and Financing Sources:

A. Other Revenues and Financing Sources:	\$58,269,320
B. Other Information: Reported as Other Revenue and Financing Sources is the Supply Management account for other income. See the Supply Management Principal Statements Notes for additional information.	

Note 20. Program or Operating Expenses:

A. Operating Expenses by Object Classification:	
(1) Personal Services and Benefits	\$1,742,482,349
(2) Travel and Transportation	46,373,397
(3) Rental, Communication and Utilities	76,545,566
(4) Printing and Reproduction	11,180,828
(5) Contractual Services	1,458,405,472
(6) Supplies and Materials	87,984,089
(7) Equipment not Capitalized	204,798,359
(8) Grants, Subsidies and Contributions	
(9) Insurance Claims and Indemnities	
(10) Other:	
Material Transportation (excluding FMS)	443,157,959
Repair Expense	15,024,321
(11) Total Expense (Obligations) by Object Class	\$4,085,952,340

B. Other Information: DBMS does not break out expenses by

Defense Logistics Agency Consolidated Financial Statements - FY 1993

object class. The footnote substitutes obligation data except for the Material Transportation and Repair Expense.

Note 21. Cost of Goods and Services Sold:

A.	Supply Mgmt.	Cloth. Factory	Total
To The Public:	\$ 210,602,993	\$38,874	\$210,641,867
Intragovernment:	\$12,580,522,526	\$35,301,297	\$12,615,823,823

B. See the individual Principal Statements Notes for additional information.

Note 22. Other Expenses:

A. Other Expenses:

(1) Real Property Maintenance:	\$104,678,000
(2) Change in Accrued Leave:	2,233,223
(3) Other:	367,342,075
Total:	\$474,253,298

B. Other Information: Reported as Other is the Supply Management business area other expense account balance which includes approximately \$99 million of RPM expense. See the Supply Notes for additional information.

The change in accrued annual leave represents the change attributable to the Defense Reutilization and Marketing Services (DRMS) business area. The other business areas presented the change in accrued leave as part of Line 9, Program or Operating Expenses. When this inconsistent reporting treatment of the change in accrued leave was discovered, the financial statements had already been sent from DFAS Columbus to DFAS HQ. We did not request DFAS to revise the DRMS statements as there was no impact on the total expense line and we did not believe the statements were materially affected by this inconsistency.

Note 23. Extraordinary Items and Prior Period Adjustments:

A. Extraordinary Items:

Potential Excess FY 1992:	\$2,341,400,000
Potential Excess FY 1993:	\$1,232,217,621
Recovery of Potential Excess:	\$1,109,182,379

B. Prior Period Adjustments: \$1,889,686,235

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C. Other Information: The majority, \$1,877,469,392, of the Prior Period Adjustment amount is attributable to the Supply Management business area. The amount represents a correction of an acquisition unit price problem and system problem that occurred at the end of FY 1992. See the Supply Management notes for additional information.

Note 24. Transfers (and Donations):

A. Increases:

(1) Transfers-In:	
(a) Cash	\$2,223,348,586
(b) Equipment	93,370,724
(c) DRMS Inventory	5,145,338,313
(d) Supply Cash & CIT, Net	151,954,462
(2) Total Increases:	\$7,613,012,085

B. Decreases:

(1) Transfers Out:	
Cash	\$(5,456,160)
(2) Total Decreases:	\$(5,456,160)

Note 25. Intrafund Eliminations:

Not applicable.

Note 26. Other Disclosures:

The FY 1993 Consolidated DLA DBOF Financial Statements correctly exclude the activity reported on the Principal Statements of the Technical Information Services (DTIC) business area. In FY 1992, DTIC was incorrectly included in DLA's statements. The FY 1993 Consolidated Statements report revised FY 1992 activity, removing the FY 1992 DTIC balances.

The increase (compared to FY 1992) in Consolidated Fund Balance with the Treasury, Line 1.a. of the Statement of Financial Position, was mainly attributable to reporting (through the ACRS Cash Book) approximately \$900 million of negative collections in FY 1992. Additionally, because "negative collections" increase reported accounts receivable and the FY 1992 undistributed amounts (differences between ACRS Cash Book and General Ledgers) have not yet been reconciled by DFAS, the FY 1993 (and FY 1992) Consolidated Accounts Receivable, Federal, Line 1.k.(1) of the Statement of Financial Position are

Defense Logistics Agency Consolidated Financial Statements - FY 1993

materially overstated.

The increase (compared to FY 1992) in Consolidated Inventories Held for Sale, Line 1.g. of the Statement of Financial Position, was mainly attributable to reporting DRMS inventory at acquisition cost on the financial statements in FY 1993.

The decrease (compared to FY 1992) in Consolidated Advances and Prepayments, Non-Federal, Line 2.b. of the Statement of Financial Position, was mainly attributable to some business areas' travel claims being settled before the advances were recorded as disbursements in FY 1993.

The increase (compared to FY 1992) in Consolidated Inventories Not Held for Sale, Line 2.c. of the Statement of Financial Position was mainly attributable to the reporting reclassification of Supply Management and Clothing Factory inventories.

The increase (compared to FY 1992) in Consolidated Property, Plant, and Equipment, Line 2.d. of the Statement of Financial Position was attributable to recording during FY 1993, capital assets that should have been transferred-in during FY 1992.

The increase (compared to FY 1992) in Consolidated Other Non-Financial Resources, Line 2.e. of the Statement of Financial Position was attributable to the reporting of equipment that was not in use as "other" in FY 1993.

The increase (compared to FY 1992) in Consolidated Other Unfunded Liabilities, Line 5.e. of the Statement of Financial Position was attributable to reporting the amount of the Real Property Maintenance Reserve (RPM) in FY 1993 as an unfunded liability. As the DoD CFO Guidance is not explicit on this issue and current DBOF policy is to record an RPM Reserve to offset a future expense, the amount of the RPM Reserve was reported as an accrued expense/unfunded liability and also included in the Fund Balances, Line 7.a. of the Statement of Financial Position.

The increase (compared to FY 1992) in Consolidated Revolving Fund Balances, Line 7.a. of the Statement of Financial Position, was mainly attributable to increasing DRMS reported equity by the dollar amount of inventory that was not reported in FY 1992.

The increase (compared to FY 1992) in Consolidated Revenue from the Sales of Goods, to the Public, Line 2.a. of the Statement of Operations, was mainly attributable to the Supply Management business area reporting all of its sales as intergovernmental in FY 1992.

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Other Adjustments, Line 10 of the Statement of Cash Flows, removes the effects of increases to Supply Management inventory (Line 5 Statement of Cash Flows) as a result of consumable items transfers from the Services. These transactions do not involve cash.

Other Unfunded Expenses, Line C.(3) of the Statement of Budget and Actual Expenses is mainly attributable to the Supply Management business area. We do not believe the caption "unfunded" is appropriate for the Supply Management business area because it implies these expenses will have to be recovered through future sales. These "unfunded expenses" are simply accounting expenses that were recognized during FY 1993 for which budgetary expenditures occurred in previous accounting periods. See the Supply Management Principal Statements Notes for additional information.

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DEFENSE BUSINESS OPERATIONS FUND
FY 1993 OVERVIEW
DISTRIBUTION DEPOTS BUSINESS AREA
DEFENSE LOGISTICS AGENCY

The Distribution Depots Business Area's mission is performed by a workforce of approximately 20,000 who handle 40 million transactions a year. The depots receive, stow and issue 8 million items valued at approximately \$99 billion.

The current depot structure consists of two Distribution Regions located at New Cumberland, Pennsylvania (DDRE) and Stockton, California (DDRW). All other sites report directly to one of the above Regions. The distribution depot system encompasses 30 sites but close to 60 locations. This is the result of some depots sites having responsibility for multiple physical locations.

These sites store a wide range of DoD commodities and end items for the support of the Military Services and authorized civil agency requisitioners within the designated geographical areas. In addition to handling general supplies, individual depots specialize in unusual or difficult-to-handle items within DoD. For instance, Mechanicsburg and Tracy provide direct supply support to the Defense Commissary Agency (DeCA). The Odgen, UT; Memphis, TN; and the Richmond, VA sites provide storage and transportation for the majority of DoD's packaged hazardous and flammable materials. Odgen also performs a specialized deployable medical hospital assembly operation unique in DoD. The mission of wholesale distribution of perishable food items requires a separate complex of refrigerated storage facilities throughout the U.S. and overseas. The majority are contractor-owned, contractor-operated facilities. There are four that are Government-owned facilities: Kaiserslautern, Germany; Tracy, California; Bayonne, New Jersey; and Williamsburg, Virginia.

Distribution Depots Program Performance Measures

The program performance measures for this business area include:

- o On-time Shipments - The average number of days to process customer orders/requisitions, measured from the date the order is received at the depot to the date the customer receives the material.

- o Inventory Accuracy - Measured in terms of Material Denials and Locator Accuracy

- oo Material Denial Rate - An effectiveness measure

Defense Logistics Agency Consolidated Financial Statements - FY 1993

that is defined as the ratio of the number of denials to the total number of issues for a given period. Denials occur because the required material, although recorded as available on the Stock Locator Record, either is not on-hand or cannot be found.

oo Locator Accuracy - The percentage of errors detected to the total number of locations surveyed. This measure the accuracy of the Stock Locator Records maintained by the depots.

Analysis of Program Performance Measures

On-time shipments based on 11.6 million orders (39% of the total orders) was 2.9 days for high priority orders and 10.1 days for routine orders. The performance met the time standards set by the DoD Uniform Material Movement and Issue Priority System (UMMIPS) in effect at the beginning of FY 1993.

The DLA standard for the Material Denial Rate is less than or equal to 0.8% The actual denial rate for FY 1993 was 0.75%.

The DLA standard for the Locator Accuracy Rate is 99%. The actual rate for FY 1993 was 98.3.

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DEFENSE BUSINESS OPERATIONS FUND
FY 1993 OVERVIEW
INDUSTRIAL PLANT EQUIPMENT BUSINESS AREA
DEFENSE LOGISTICS AGENCY

The Industrial Plant Equipment business area repairs current in-use industrial plant equipment (IPE), and supplies the needs of the Armed Forces in time of national emergency. The Defense Industrial Reserve Act (50 U.S.C. 451 et seq.) provides for an industrial reserve of machine tools. Since FY 1987, amendments to this act require the Services to pay for the repair, overhead, and storage of IPE transferred from the General Reserve. The Services must reimburse DLA for repaired equipment. Instead of receiving a "free issue", they make an economic decision to obtain repaired equipment or purchase new items.

The Office of Secretary of Defense (Production & Logistics), assigned single DoD Integrated Material Management of Industrial Plant Equipment (IPE) to DLA on August 11, 1991. In January 1992, DLA realigned the Defense Industrial Equipment Center (DIPEC) located in Memphis, Tennessee, and made it a subordinate activity of the Defense General Supply Center (DGSC). DGSC controls the two maintenance sites located in Mechanicsburg, Pennsylvania and Stockton, California. During FY 1993, the procurement of new IPE moved to the DLA Supply Management business area and storage of equipment moved to the DLA Distribution Depots business area.

This business area maintains records of IPE owned by DoD and maximizes the reutilization, as opposed to new procurement, of such equipment. IPE operates a system for the identification of military and industrial items and performs associated federal cataloging tasks. They also publish IPE handbooks and provide technical data in support of IPE acquisition, storage, maintenance, and movement.

Industrial Plant Equipment Program Performance Measure

The program measure for this business area is Quality Deficiency Reports (QDRs). It measures discrepancies as reported by customers whose equipment is under warranty. The measure represents the ratio of QDRs received compared to the number of warranties outstanding.

Analysis of Program Performance Measure

We did not receive information on this measure. We expect to provide this measure in future reports.

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DEFENSE BUSINESS OPERATIONS FUND
FY 1993 OVERVIEW
REUTILIZATION AND MARKETING BUSINESS AREA
DEFENSE LOGISTICS AGENCY

The primary mission of this business area is the reuse of excess and surplus property within the government and other authorized agencies and the disposal of remaining property through sales. Items not reutilized within DoD are screened for possible transfer to other Federal agencies or for donation to local governments. Surplus property not reutilized is then offered for sale to the public on a competitive basis. Overall command and control of this program is accomplished by the Defense Reutilization and Marketing Service (DRMS), which consists of a headquarters organization in Battle Creek, Michigan, and two operations offices, East and West. The mission of this organization is accomplished by individual Defense Reutilization and Marketing Offices (DRMOs) located on military installations throughout the world. DRMOs receive, classify, segregate, demilitarize, account for and report excess materiel for screening, lotting merchandising, and sales. Excess items received by the DRMOs are automatically referred to DoD item managers. By matching excess assets with requirements through the computerized Integrated Disposal Management System, materiel is transferred and reused within DoD.

DRMS also has the mission of hazardous property disposition. In this capacity, they handle the majority of DoD property governed by the Resource Conservation Recovery Act (RCRA) of 1976, as amended. The disposition of this hazardous property is accomplished according to its classification as hazardous waste or material. Approximately 100 percent of all hazardous waste is directly disposed of through contracts funded by the military services. However, hazardous material has reutilization value and goes through the same general procedures as all other DoD property, with the distinction that it receives much closer scrutiny before it is sold to the public.

The economic recovery of precious metals from excess and surplus metal-bearing material is also performed by DRMS. The recovered precious metal is used for the authorized internal purposes or as Government Furnished Material. The costs to recover this material are passed on to the users, but are lower than direct market purchase price of the material.

Reutilization and Marketing Program Performance Measures

The program performance measures for this business area include:

- o Scrap Turn Over - The number of bulk scrap sales during a 12-month period. It measures the sites effectiveness in removing their scrap pile.

o Hazardous Waste Held Over 90 Days - The number of units processed within 90 days divided by the total number of units received by the Defense Reutilization & Marketing Offices (DRMOs) and processed during that time. This measure addresses the backlog of hazardous waste at the DRMOs.

Analysis of Program Performance Measures

In FY 1993, the Scrap Turn Over rate was 3.78. The existing goal is 6.00. Consideration is being given to lowering this goal.

In FY 1993, Hazardous Waste Held Over 90 Days for Operations West was 13.04%. A goal is not yet available for this performance measure, but will be developed pending validation of Agency data. A sampling of a few DRMOs showed the percentage ranged from .56% to 9.05%.

Defense Logistics Agency Consolidated Financial Statements - FY 1993

DEFENSE BUSINESS OPERATIONS FUND
FY 1993 OVERVIEW
CLOTHING FACTORY BUSINESS AREA
DEFENSE LOGISTICS AGENCY

The Defense Personnel Support Center (DPSC) operates the nation's only Government-owned clothing manufacturing facility - the Defense Clothing Factory in Philadelphia, Pennsylvania. Approximately 1,200 workers manufacture clothing and textile items for all DoD Components. The factory, which occupies 500,000 square feet of space, typically manufactures items required by the Services on short notice, in small lots, with special measurement, or under other conditions in which procurement is not readily available from commercial sources. Its nine different sewing shops produce hard-to-fit clothing and critically needed military garments that normally amounts to three percent of the Services' annual needs.

Total sales for FY 1993 were approximately \$35.8 million. Nearly all of the sales were to the Clothing & Textiles portion of the DLA Supply Management Business Area.

As a result of the Base Realignment and Closure (BRAC) decision, the Clothing Factory is scheduled to close at the end of FY 1994. At that time, all of its operations will be discontinued, except for the Flag and Embroidery function which will be transferred to Clothing & Textiles (C&T), also located at the DPSC facility. Efforts currently underway to meet this deadline include: Special Pay Incentives (SPI), Voluntary Early Retirement, a drawdown on its inventory, and no new orders are being accepted. Only supplies needed to support the Factory's immediate operations are currently being purchased. Any material or equipment remaining at the closing date will be conveyed to the community either through no-cost, public-benefit transfers or negotiated purchases. DoD Directive 4160.21, DoD Personal Property Utilization and Disposal Program, requires all installations cited for closure to cooperate with the community in identifying related property that may be available for continued civilian use. Any related property remaining after the community screening will be considered excess and turned into the Defense Reutilization and Marketing Office (DRMO) for subsequent disposal.

Clothing Factory Program Performance Measures

The program performance measures for this business area include:

- o On-Time Delivery of Requisitions - Compares the actual

time to complete a requisition for special measurement items and unique items to the standard time.

o Quality Control Acceptance Rates - An effectiveness measure that is based on the percentage of lots received and the amount returned for rework.

Analysis of Program Performance Measures

In FY 1993, On-Time Delivery of Requisitions was 67.93 percent, a decrease of 13 percent as compared to FY 1992. This decrease is due to staff reductions and other problems relating to the pending closedown resulting from the BRAC's decision.

In FY 1993, the Quality Control Acceptance Rate was 99.0 percent as compared to 98.4 percent in FY 1992. The Clothing Factory has continually exceeded the established goal of less than 4 percent of the lots being returned for rework.

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DEFENSE LOGISTICS AGENCY
DEFENSE BUSINESS OPERATIONS FUND
SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION
FY 1993

Definitions

The following definitions of the financial performance measures stem from DoD guidance. We have provided them here to clarify the graphs on the following pages which depict these measures for each business area.

Definitions of Financial Performance Measures:

Net Operating Costs - The total expenses minus total revenue.

Current Ratio - An indicator of financial condition, it is calculated by dividing current assets by current liabilities.

Operating Results - The difference between net operating costs and appropriations. Since DBOF is not appropriated funds, it is the inverse of Net Operating Costs. It is calculated by subtracting total expenses from total revenue.

Financial Obligations - The total of current and long-term liabilities.

Capital Investments - The capital acquisitions divided by ending net book value.

Fund Balance - The Fund Balance with the Treasury is the impact on DBOF cash. It is the net of reported collections and disbursements.

FINANCIAL PERFORMANCE - SUPPLY MANAGEMENT

The Net Operating Cost in FY93 was \$3,537,953,655 compared to \$355,885,809 in FY92. One reason for the increase was that approximately \$2 billion (recorded value not realizable value) of excess inventory was transferred to property disposal. Conversely the Operating Result was -\$3,537,953,655. The graphs for these two measures do not include the extraordinary adjustments nor prior period adjustments totalling approximately \$2.9 billion. See the Notes to the principal statements for additional information.

The Financial Obligations (current and long-term liabilities) were \$1,204,279,988 in FY93 compared to \$1,358,053,161 in FY92. The Fund Balance was \$695,735,198 in FY93 compared to \$375,373,208 in FY92. The Current Ratio was 11.6507 in FY93 compared to 9.9995 in FY92. One of the reasons

Defense Logistics Agency Consolidated Financial Statements - FY 1993

the current ratio increased was that current assets (inventory) increased by the Consumable Items Transfers from the Services. The Capital Investment ratio was 50.74% in FY93 compared to 22.66% in FY92. Accounting problems exist in recording capital assets, so this measure should not be used for management decisions. See the Notes for additional information.

FINANCIAL PERFORMANCE - DISTRIBUTION DEPOTS

The Net Operating Cost in FY93 was \$52,893,521 compared to \$434,992,623 in FY92. One of the reasons the Net Operating Cost decreased compared to FY92 was that FY 92 accounting problems in recording revenue were corrected in FY93. Conversely the operating Result was -\$52,893,521 in FY93 compared to -\$434,992,623 in FY92.

The Financial Obligations (current and long-term liabilities) were \$653,867,260 in FY93 compared to \$297,805,174 in FY92. Some of the liabilities that increased from the 30 September 1992 balances were Accounts Payable, Accrued Payroll and Leave, and Real Property Maintenance. The Fund Balance was \$346,835,337 in FY93 compared to -\$766,976,276 in FY92. Increased emphasis was placed on billings and collections in FY93. The Current Ratio was 1.9602 in FY93 compared to -0.502 in FY92. The increase was due to the higher ending Fund Balance with the Treasury. The Capital Investment ratio was 2.65% in FY93 compared to .475% in FY92. Accounting problems exist in recording capital assets, so this measure should not be used for management decisions. See the Notes for additional information.

FINANCIAL PERFORMANCE - CLOTHING FACTORY

The Net Operating Cost in FY93 was -\$70,467 compared to \$1,018,125 in FY92. Conversely the Operating Result was \$70,467 in FY93 compared to -\$1,018,125 in FY92. The Financial Obligations (current and long-term liabilities) were \$1,537,172 in FY93 compared to \$1,999,491 in FY92. Some of the liabilities that decreased were accrued payroll and accrued leave. The Fund Balance with the Treasury was -\$1,312,512 in FY93 compared to -\$2,225,435 in FY92. The Current Ratio for FY93 was -1.1458 compared to the FY92 ratio of 3.548. The current ratio decreased because inventories were reclassified to non-current assets to reflect that these inventories were work-in-process and operating supplies. See the Notes for additional information. The Capital Investments ratio was 94.28% in FY93 compared to 27.97% in FY92. Accounting problems exist in recording capital assets, so this measure should not be used for management decisions. See the Notes for additional information.

Defense Logistics Agency Consolidated Financial Statements - FY 1993

FINANCIAL PERFORMANCE - REUTILIZATION AND MARKETING

The Net Operating Cost in FY93 was \$124,915,290 compared to -\$40,788,405 in FY92. Conversely the Operating Result was -\$124,915,290 in FY93 compared to the result in FY92 of \$40,788,405. The operating expenses increased due to the additional workload from the Military drawdown. The Financial Obligations (current and long-term liabilities) in FY93 were \$136,195,655 compared to \$98,748,108 in FY92. The Fund Balance with the Treasury was -\$8,557,984 at the end of FY93 compared to \$5,456,160 at the end of FY92.

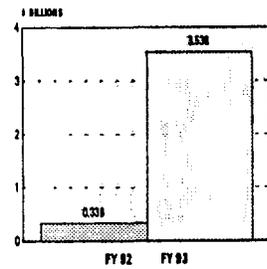
The Current Ratio for FY93 was 45.9966 compared to 1.5051 in FY92. This ratio was affected by the reporting of DRMS inventory on the financial statements in FY93. See the Notes for additional details. The Capital Investments ratio was 9% in FY93 compared to 0% in FY92. Accounting problems exist in recording capital assets, so this measure should not be used for management decisions. See the Notes for additional details.

FINANCIAL PERFORMANCE - INDUSTRIAL PLANT EQUIPMENT

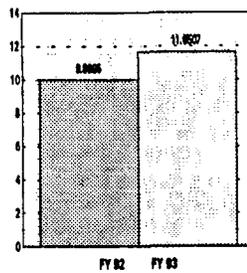
The Net Operating Cost in FY93 was -\$1,399,199 compared to \$13,657,170 for FY92. Conversely the Operating Result for FY93 was \$1,399,159 compared to -\$13,657,170 in FY92. The Financial Obligations (current and long-term liabilities) were \$15,168,093 for FY93 compared to \$9,994,693 for FY92. The increase was mainly due to the payables and real property maintenance accrued liability increasing. The Fund Balance for FY93 was \$10,995,314 compared to -\$12,716,746 for FY92. Advance billings were done in FY93 at the direction of DoD(C). The Current Ratio was 1.35 for FY93 compared to -0.4177 for FY92. The ratio was affected by the increase in Fund Balance. The Capital Investments ratio was 0% for both years as no capital acquisitions were reported. Accounting problems exist in recording capital assets, so this measure should not be used for management decisions. See the Notes for additional information.

SUPPLY MANAGEMENT BUSINESS AREA

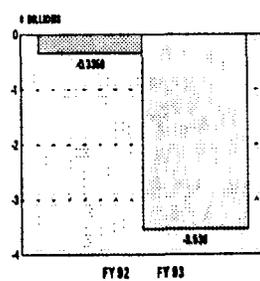
NET OPERATING COSTS
TOTAL EXPENSES - TOTAL REVENUE



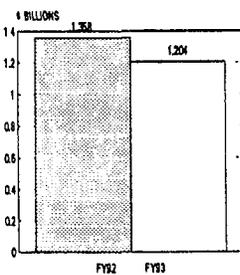
CURRENT RATIO
CURRENT ASSETS / CURRENT LIABILITIES



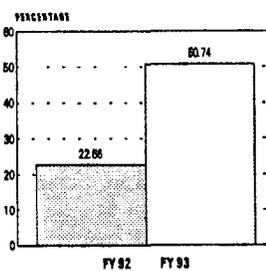
OPERATING RESULTS
TOTAL REVENUE - TOTAL EXPENSE



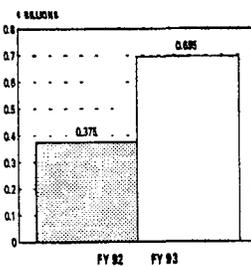
FINANCIAL OBLIGATIONS
CURRENT & LONG-TERM LIABILITIES



CAPITAL INVESTMENTS
ACQUISITIONS/ENDING NBV

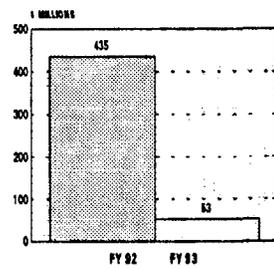


ENDING FUND BALANCE
WITH TREASURY

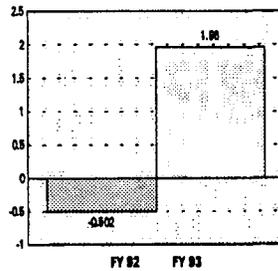


DISTRIBUTION DEPOTS

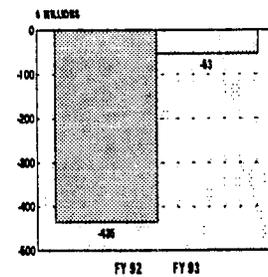
NET OPERATING COSTS
TOTAL EXPENSES - TOTAL REVENUE



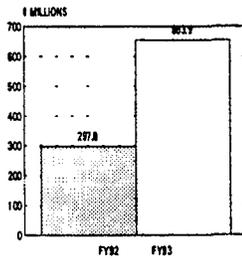
CURRENT RATIO
CURRENT ASSETS / CURRENT LIABILITIES



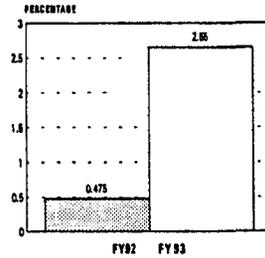
OPERATING RESULTS
TOTAL REVENUE - TOTAL EXPENSE



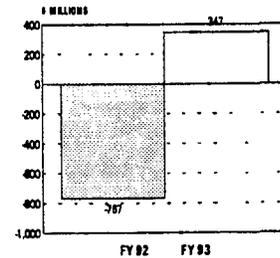
FINANCIAL OBLIGATIONS
CURRENT & LONG-TERM LIABILITIES



CAPITAL INVESTMENTS
ACQUISITIONS/ENDING NBV

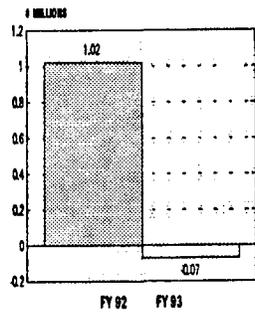


ENDING FUND BALANCE
WITH TREASURY

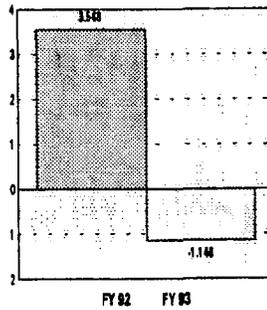


CLOTHING FACTORY

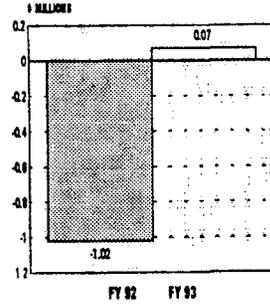
NET OPERATING COSTS
TOTAL EXPENSES - TOTAL REVENUE



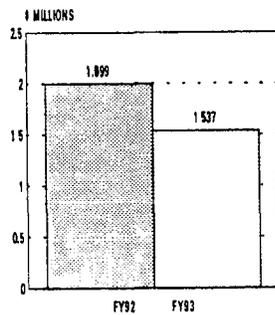
CURRENT RATIO
CURRENT ASSETS / CURRENT LIABILITIES



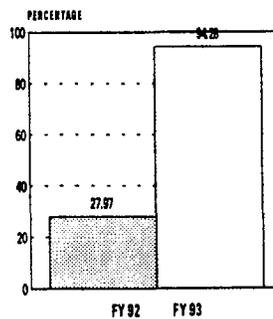
OPERATING RESULTS
TOTAL REVENUE - TOTAL EXPENSES



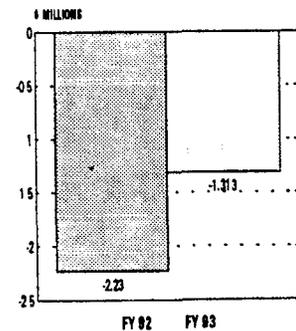
FINANCIAL OBLIGATIONS
CURRENT & LONG-TERM LIABILITIES



CAPITAL INVESTMENTS
ACQUISITIONS/NBV

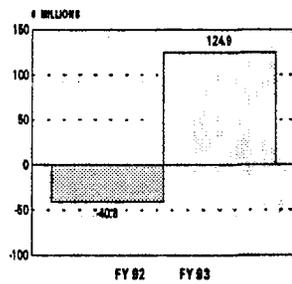


ENDING FUND BALANCE
WITH TREASURY

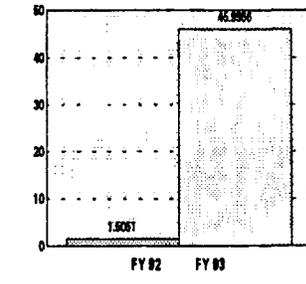


DEFENSE REUTILIZATION & MARKETING SERVICE

NET OPERATING COSTS
TOTAL EXPENSES - TOTAL REVENUE

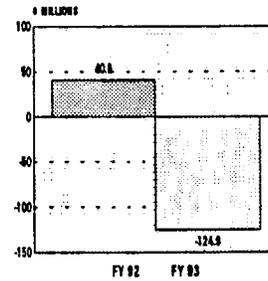


CURRENT RATIO
CURRENT ASSETS / CURRENT LIABILITIES

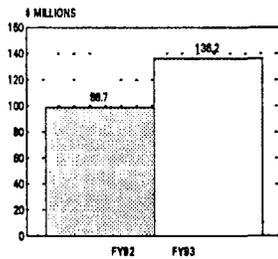


CHANGE DUE TO INVENTORY NOT REPORTED IN FY92

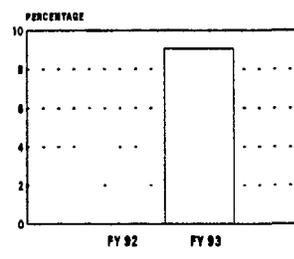
OPERATING RESULTS
TOTAL REVENUE - TOTAL EXPENSES



FINANCIAL OBLIGATIONS
CURRENT & LONG-TERM LIABILITIES

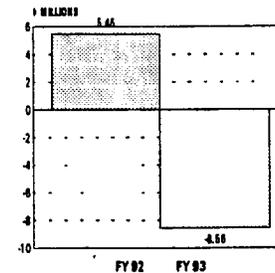


CAPITAL INVESTMENTS
ACQUISITIONS/ENDING NBV



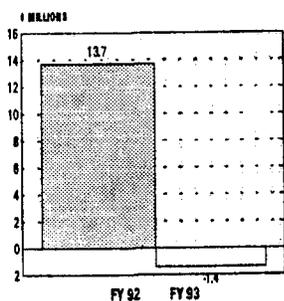
NO ACQUISITIONS REPORTED IN FY92

ENDING FUND BALANCE
WITH TREASURY

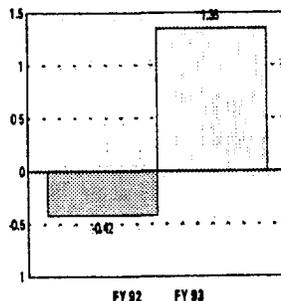


INDUSTRIAL PLANT EQUIPMENT

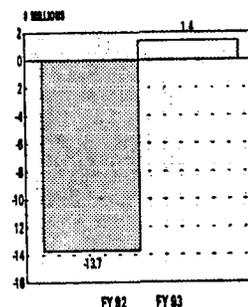
NET OPERATING COSTS
TOTAL EXPENSES - TOTAL REVENUE



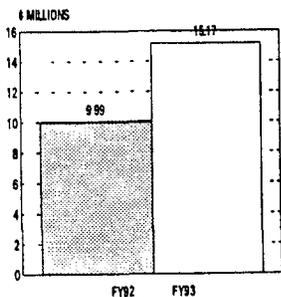
CURRENT RATIO
CURRENT ASSETS / CURRENT LIABILITIES



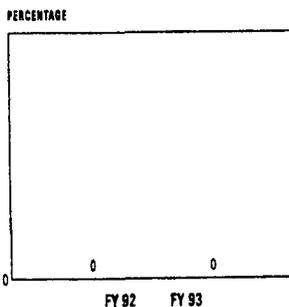
OPERATING RESULTS
TOTAL REVENUE - TOTAL EXPENSES



FINANCIAL OBLIGATIONS
CURRENT & LONG-TERM LIABILITIES

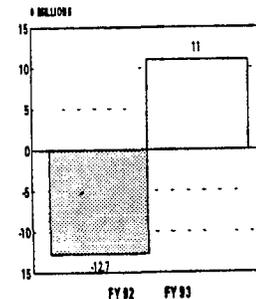


CAPITAL INVESTMENTS
ACQUISITIONS/ENDING NBV



NO ACQUISITIONS WERE REPORTED

ENDING FUND BALANCE
WITH TREASURY



**Part VI - Summaries of Results of Audits
for FY 1993**

Summaries of Results of Audits for FY 1993

This audit report is one of a series of audit reports prepared by the IG, DoD, in response to the Chief Financial Officers Act of 1990, which requires an annual audit of the financial statements of the Fund and a report containing an opinion of whether the financial statements are presented in all material aspects in accordance with applicable accounting standards, an evaluation of internal controls, and an assessment of compliance with applicable laws and regulations.

This report on the financial statements of the DLA Defense Business Operations Fund for FY 1993 was prepared based on the results reported in the following audit reports.

- o Fund Balances with the Treasury Account on the FY 1993 Financial Statements of the Defense Logistics Agency Business Areas of the Defense Business Operations Fund. (Report No. 94-159)

- o Inventory Accounts on the Financial Statements of the Defense Logistics Agency Business Areas of the Defense Business Operations Fund for FY 1993. (Report No. 94-150)

- o Property, Plant, and Equipment Accounts on the Financial Statements of the Defense Logistics Agency Business Areas of the Defense Business Operations Fund for FY 1993. (Report No. 94-149)

The results of other financial related audits of the Fund were reported in the following audit reports.

- o Cash Management Within the Defense Reutilization and Marketing Service. (Report No. 94-158)

- o Financial Statements of the Defense Reutilization and Marketing Service for FY 1993. (Report No. 94-164)

- o Management Data Used to Manage the Defense Logistics Agency Supply Management Division of the Defense Business Operations Fund. (Report No. 94-128)

Following are summaries of the audit results, recommendations, and management comments contained in the those reports. Unresolved issues will be mediated in accordance with DoD Directive 7650.3.

Fund Balances with the Treasury Account on the FY 1993 Financial Statements of the Defense Logistics Agency Business Areas of the Defense Business Operations Fund

Objectives. The overall objectives of the audit were to determine whether the fund balances with the Treasury account on the FY 1993 financial statements for the DLA business areas are presented fairly, in accordance with generally accepted accounting principles. The audit also evaluated applicable internal controls and compliance with applicable laws and regulations related to fund balances with the Treasury accounts.

Audit Results. The DLA's business area's fund balances with the Treasury were not prepared in accordance with generally accepted accounting principles for Federal agencies. As a result, presentation related to DLA's cumulative \$1 billion for fund balances with the Treasury accounts in its FY 1993 statement of financial position, cash flow, and related footnotes are misleading and cannot be relied upon by users of the financial statements.

Internal Controls. Internal controls were not in place to ensure that the amounts recorded as fund balances with the Treasury were reported in accordance with generally accepted accounting principles. Specifically, audit trails were not adequate, reconciliations were not performed to support reported amounts, and transactions were not matched to the proper accounting period.

Summary of Recommendations. We recommended that guidance be rescinded related to fund balances with the Treasury that were not in accordance with generally accepted accounting principles; that procedures and controls be established to provide adequate audit trails, reconciliations, and controls over appropriation limits; that sublimits be established for business areas; and that discrepancies be disclosed in the FY 1993 statements of cash flow and accompanying footnotes.

Management Comments. Comments from the Comptroller of the DoD were received too late to be included in the final report. The Director, DFAS, did not comment on the draft report. The Principal Deputy Director of DLA approved the use of appropriation sublimits on December 9, 1993, and stated that the DFAS was responsible for establishing and controlling the sublimits. The Principal Deputy Director believed that disclosures in the notes to the FY 1993 financial statements were adequate to influence the judgment of an informed reader about differences between DLA general ledger accounts and the reported fund balances with the Treasury accounts.

Audit Response. Comments received from the Comptroller of the DoD will be considered as the response to the final report. We requested that the Director, DFAS, provide comments on the recommendations. We also requested that DLA reconsider its comments on disclosures of fund balances in the statement of cash flows and notes to the financial statements.

Inventory Accounts on the Financial Statements of the Defense Logistics Agency Business Areas of the Defense Business Operations Fund for FY 1993

Objectives. The objectives of the audit were to determine whether the inventory accounts on the FY 1993 financial statement of the Fund were presented fairly in accordance with generally accepted accounting principles; to evaluate the internal control structure for inventories, including inventories held for sale and inventories not held for sale; and to assess compliance with applicable laws and regulations for those transactions and events that have a direct and material effect on the inventory accounts.

Audit Results. General ledger accounts, non-financial records, and yearend accounting adjustments did not reflect the correct value of inventory under the control and management of the DLA. As a result, the \$16.5 billion inventory balances reported on the financial statements were misstated; were not properly categorized; did not include all reportable inventories; and did not disclose all restrictions on the sale, use, or disposition of inventories and other non-financial resources. Inventory held for sale was materially misstated because stock on hand for the reutilization and marketing business area was overstated by about \$5 billion and, based on our projection, stock on hand for the supply management business area was understated by about \$442 million.

Internal Controls. The audit identified material internal control weaknesses in that controls were not adequate to ensure that the results of physical inventory counts were accurate and posted to the accountable records, and that general ledger account balances were reconciled with related subsidiary records to periodically verify the accuracy of subsidiary records with related supporting documents. Additionally, data presented on the financial statements of the Fund were not presented in accordance with applicable OMB and DoD guidance.

Summary of Recommendations. We recommended that procedures and controls be established to ensure that general ledger accounts, non-financial records, and year-end accounting adjustments reflect the correct value of inventory under the control and management of DLA. We recommended that physical inventory procedures and related reconciliations be properly performed; that subsidiary records and documentation provide adequate support for inventory accounts, other than stock on hand; and that valuations, categorization, and disclosures on the financial statements be performed in accordance with OMB and DoD guidelines. Additionally, we recommended that a method be developed to value reutilization and disposal inventory held by wholesale supply activities that accurately reflects the best estimate of net realizable value.

Management Comments. The Comptroller of the DoD concurred with the recommendations concerning inventory counts and support for inventory accounts, other than stock on hand. The Comptroller nonconcurred with the recommendations concerning valuation and disclosure of DLA inventory accounts.

DLA concurred with the recommendations concerning inventory counts and support for inventory accounts, other than stock on hand. Additionally, DLA concurred with the valuation, categorization, and disclosure issues identified in the report but nonconcurred that they were material internal control weaknesses. DLA will not revise the FY 1993 financial statements and related notes to the financial statement, including comparative FY 1992 financial data and disclosures, primarily because of administrative and time constraints. Comments were not received from the Defense Finance and Accounting Service.

Audit Response. Based on the Comptroller's comments we revised the report to clarify the discussion of property categorized as non-financial resources and the associated recommendations. The comments from DLA were responsive; however, the FY 1993 financial statements will not be revised. Recommendations regarding the valuation, categorization, and disclosure of inventory will be made to the FY 1994 financial statements.

We requested that the Comptroller of the DoD and DLA provide additional comments on the unresolved issues, and that the Defense Finance and Accounting Service provide comments to the final report.

Property, Plant, and Equipment Accounts on the Financial Statements of the Defense Logistics Agency Business Areas of the Defense Business Operations Fund for FY 1993

Objectives. The objectives of the audit were to determine whether the property, plant, and equipment account and associated depreciation accounts on the FY 1993 financial statement of the Fund were presented fairly in accordance with generally accepted accounting principles; to evaluate the internal control structure for the property, plant, and equipment account and associated depreciation accounts; and to assess compliance with applicable laws and regulations for those transactions and events that have a direct and material effect on the property, plant, and equipment account and associated depreciation accounts.

Audit Results. DLA property, plant, and equipment was reported at \$196.3 million (acquisition costs of \$318.6 million and accumulated depreciation of \$122.3 million). The acquisition costs were materially understated by at least \$229.4 million. In addition, at least \$24.5 million in equipment assets were inaccurately reflected in the financial records. As a result, the financial statements were inaccurate.

The useful life that DoD established for the depreciation of software programs did not properly match period expenses with revenues and overstated the cost of the Fund's operations. As a result, major software programs will be fully depreciated long before their economic life has expired, which would result in overcharging military unit customers.

Internal Controls. The audit identified material internal control weaknesses in that controls were not effective to provide reasonable assurance that material misstatements in the property, plant, and equipment and associated depreciation accounts would be prevented or detected in a timely manner.

Summary of Recommendations. We recommended that the Director, DLA, establish procedures to more effectively identify and report capital assets and reconcile capital asset data provided to the DFAS. We also recommended that the Director, DLA, in coordination with the Director, DFAS, revise the FY 1993 financial statements to show the effect of appropriately capitalizing assets and disclose in the footnotes to the revised statements the problems identified in the audit. Additionally, we recommended that the Comptroller of the DoD revise the depreciation policy for computer software programs to recognize costs over the estimated useful life of the programs, as identified in the economic analysis.

Management Comments. The Deputy Comptroller (Financial Systems) agreed in principle with our recommendation on software depreciation and stated that the current policy on the depreciation period for software will be reviewed by the Defense Business Operations Fund's Corporate Board. He stated that a more comprehensive response will be provided in response to the final report. DLA concurred with the requirement to report real property on its financial statements and the need to periodically reconcile property, plant, and equipment financial data with property records. DFAS nonconcurred and DLA partially concurred with revising the FY 1993 financial statements stating that because the statements had already been certified and published, corrections to the account balances would be disclosed in the FY 1994 financial statements.

Audit Response. The Deputy Comptroller's comments were responsive. We requested that we be informed of the date of the review and the Corporate Board's decision on the depreciation of software programs. DFAS and DLA's agreement to disclose corrective actions taken in the FY 1994 financial statements is an acceptable alternative to our recommendation.

Cash Management Within the Defense Reutilization and Marketing Service

Objective. The primary objective 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 DFAS-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. Internal controls were ineffective to ensure the timely reimbursement of sales proceeds.

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 materiel 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. DLA concurred with all recommendations, and stated that action would be taken to transfer all sales proceeds being retained in several suspense accounts maintained by the DFAS-Columbus to the accounts of qualified recipients, immediately deposit all future sales proceeds generated from the sales of scrap material into the accounts of qualified recipients, and 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.

Audit Response. We considered DLA's comments to be generally responsive. However, in its comments to our draft report, DLA stated that sales proceeds not identified to a qualified recipient's account are required to be deposited into the U.S. Treasury's Miscellaneous Receipts account. That statement was contrary to instructions issued by the DLA to DFAS-Columbus. Additional comments on this issue have been requested.

Financial Statements of the Defense Reutilization and Marketing Service for FY 1993

Objectives. The primary objective of the audit was to determine whether the FY 1993 financial statements for DRMS were presented fairly and in accordance with generally accepted accounting principles for Federal agencies. We assessed performance measures, financial records, and compliance with laws and regulations pertaining to the preparation of the financial statements to determine the usefulness of reported information.

Audit Results. The FY 1993 financial statements for DRMS were not prepared in accordance with generally accepted accounting principles, and key asset, revenue, and expense accounts were not adequately supported or compiled from the financial records. As a result, the FY 1993 financial statements cannot be relied upon for assessing the DRMS financial position, results of operations, or performance.

Internal Controls. The DRMS implementation of the DoD Internal Management Control Program was ineffective at reporting weaknesses related to the preparation of financial statements. Controls were not effective to ensure that financial statements were prepared in accordance with generally accepted accounting principles and that material internal control weaknesses identified by external and internal sources were corrected or reported to higher command levels.

Summary of Recommendation. We recommended that the Director, DRMS reassess the proposed fee for reutilization to consider an item's condition, develop a fee structure for the disposal programs that is based on operating costs, account for reimbursable sales as consignment sales, track operating costs by program, value inventory at net realizable value, and link sales revenue to related accounts. We recommended that the Director, DLA, transfer the accounting functions and related resources from the National Sales Office to the DFAS. We also recommended that the Director, DRMS reevaluate the inventory of assessable units to include preparation of financial statements, and assign the responsibility for implementation of the DoD Internal Management Control Program at a more appropriate management level.

Management Comments. The Principal Deputy Director of DLA responded to all of the recommendations. The Principal Deputy Director agreed with the need to put a fee structure in place for reutilization, donation, transfer, reimbursable sales, and hazardous disposal programs. However, the Principal Deputy Director stated that the DRMS could not unilaterally implement a fee structure and begin charging DoD Components and other customers for those services. He suggested that we redirect the recommendations to DoD.

Summaries of Results of Audits for FY 1993

The Principal Deputy Director agreed to make the accounting changes needed at the National Sales Office to account for sales revenue and related cash, accounts receivable, bad debts, and accounts payable; to restate the value of inventory and report cost of goods sold at net realizable value; to disclose pertinent information about suspense accounts; and to make the necessary changes in the Internal Management Control Program. However, he believed that it was premature to start tracking DRMS operating costs by program, that reimbursable sales need not be accounted for separately from nonreimbursable sales, and that the National Sales Office should retain its accounting functions rather than transferring the functions to DFAS.

Audit Response. Based on DLA's comments, we redirected several recommendations and requested that the Comptroller of the DoD provide comments on the unresolved issues. Additionally, we requested that DLA reconsider its comments on tracking operating cost by disposal program, and transferring accounting functions from the National Sales Office to DFAS and provide additional comments to the final report.

Management Data Used to Manage the Defense Logistics Agency Supply Management Division of the Defense Business Operations Fund

Objectives. The objectives of the audit were to determine whether critical management data were available and accurate and whether the Division's managers receive the data they need to operate, evaluate, and make financial and nonfinancial decisions.

Audit Results. The Division had a management information system that, except for management data related to unit cost, provided its managers reliable data that the managers used to operate, evaluate, and make financial and nonfinancial decisions. Unit cost reports provided to the Division's managers and the Comptroller of the DoD were inaccurate and untimely. Division and DoD personnel recognized that the unit cost data were inaccurate and used other sources for this information. However, the reports and the automated system used to generate the reports were not corrected.

Internal Controls. Internal controls and the implementation of the DoD Internal Management Control Program were not effective to ensure that unit cost management data reported to Division managers and the Comptroller of the DoD were accurate.

Summary of Recommendations. We recommended that the Director, DLA, establish internal controls to ensure that unit cost management reports are accurate and timely. We also recommended that procedures be developed to assign responsibilities and describe the process for accumulating, evaluating, and reporting unit cost data.

Management Comments. The Director, DLA, concurred with all recommendations, except the recommendation that procedures be established to coordinate and reconcile the development of cost data used in the surcharge rate charged to customers and the unit cost process. The Director nonconcurred and stated that there is no direct linkage between unit cost reports and the development of surcharge or cost recovery rates used in the pricing process. The Comptroller of the DoD also provided comments to the draft report that we considered in preparing the final report.

Audit Response. In response to comments from the Director, DLA, we revised the recommendation to have procedures established to require that DLA's accounting and budget divisions coordinate the development of unit cost goals.

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