Audit Report

CONTROL OVER OBLIGATIONS AT
WASHINGTON HEADQUARTERS SERVICES

Report No. D-2000-104 March 22, 2000

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Acronyms

DFAS	Defense Finance and Accounting Service
USD	Under Secretary of Defense
WHS	Washington Headquarters Services

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

March 22, 2000

MEMORANDUM FOR DIRECTOR, WASHINGTON HEADQUARTERS SERVICES

SUBJECT: Audit Report on Controls Over Obligations at Washington Headquarters Services (Report No. D-2000-104)

We are providing this report for review and comment. We conducted the audit in support of our annual audit of DoD Agency-wide financial statements for FY 1999, as required by the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. No comments were received on a draft of this report. Therefore, we request the Director provide comments on all recommendations by April 21, 2000.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Charles J. Richardson at (703) 604-9582 (crichardson@dodig.osd.mil) or Mr. Marvin L. Peek at (703) 604-9587 (mpeek@dodig.osd.mil). See Appendix B for the report distribution. The audit team members are listed inside the back cover.

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Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. D-2000-104 March 22, 2000
(Project No. 9FA-2018.03)

Controls Over Obligations at Washington Headquarters Services

Executive Summary

Introduction. We conducted the audit in support of our annual audit of the DoD Agency-wide financial statements for FY 1999, as required by the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994. The DoD Agency-wide financial statements include financial statements for a reporting entity entitled "Other Defense Organizations-General Funds." This report is the second in a series of reports discussing accounting for selected Other Defense Organizations. The first report dealt with recording and reviewing obligations for the Defense Advanced Research Projects Agency, the Ballistic Missile Defense Organization, and the Joint Staff. The Washington Headquarters Services is a Defense field activity supporting the Office of the Secretary of Defense, which is included in Other Defense Organizations - General Funds. During FY 1999, the Washington Headquarters Services received $2.4 billion in funding and reported $1.9 billion in obligations.

Objectives. The audit objectives were to document and evaluate procedures and controls for recording obligations and reviewing unliquidated obligations. We also assessed the Washington Headquarters Services management control program as it related to our objectives.

Results. Improvements were needed in promptly recording new obligations in the accounting system, reviewing the accuracy of the reported unliquidated obligations, and maintaining unpaid obligation balances for each canceled appropriation account, specifically:

- WHS accounting records used for reporting $1.3 billion in unliquidated obligations as of June 30, 1999, were unreliable. Review of $46.7 million of the $1.3 billion in unliquidated obligations showed that $22.4 million were not valid, and current information was not available to support $13.6 million. Also, Washington Headquarters Services did not maintain a perpetual general ledger controls balance of unliquidated obligations for closed appropriation accounts. As a result, there was an increased risk that the reported balance of $1.3 billion in unliquidated obligations was not

accurate and the lack of information for unliquidated obligations for closed appropriation accounts could prevent Washington Headquarters Services from tracking valid unpaid obligations for those accounts (finding A).

- The Washington Headquarters Services accurately recorded obligations sampled and maintained adequate supporting documentation for those obligations. However, Washington Headquarters Services did not always promptly record obligations in its accounting system. Analysis of $100 million of the $1.5 billion in obligations recorded during the first 9 months of FY 1999 showed that Washington Headquarters Services did not record $31 million within 10 days of their execution. As a result, reported obligations may not be complete (finding B).

Summary of Recommendations. We recommend that the Director, Washington Headquarters Services:

- revise the management control program for the Budget and Finance Directorate to include the process of reviewing obligations as a critical task and develop appropriate risk assessments and management controls to ensure that the detail reviews are conducted as required,

- periodically review the validity of unliquidated obligations and make corrections as warranted,

- maintain perpetual balances of unliquidated obligations for each canceled appropriation account, and

- require accounting personnel to record the date that they receive each obligation document and notify the offices executing obligations of the joint responsibility of ensuring prompt recording of obligations.

Management Comments. The draft report was issued December 22, 1999, and we received no management comments. We request that the Director, Washington Headquarters Services, respond to this final report by April 21, 2000.

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Background

Washington Headquarters Services. The Washington Headquarters Services (WHS) administers specified DoD-wide operational programs and provides administrative services and support to specified DoD organizations. The WHS maintains the official accounting records for funds that it receives, and it also provides accounting support to various funds allocated to the Office of the Secretary of Defense, the United States Court of Appeals for the Armed Forces, humanitarian assistance, the Pentagon Reservation Maintenance Revolving Fund, and the Building Maintenance Fund. Defense Finance and Accounting Service (DFAS) disbursing stations make the majority of disbursements of funds that WHS accounts for, except for disbursements for utilities, rent, and building maintenance. However, WHS personnel are responsible for recording all disbursements into its accounting system. During FY 1999, WHS reported $2.4 billion in funding and $1.9 billion in obligations.

WHS Allotment Accounting System. The WHS uses the WHS Allotment Accounting System to perform its general ledger accounting. That accounting system is an automated, transaction-driven accounting system using standard general ledger accounts that DoD used before FY 1999. The WHS Allotment Accounting System also is able to produce trial balances by fiscal year and appropriation. In FY 1999, DoD adopted the U.S. Government Standard General Ledger as the DoD standard. However, the WHS Allotment Accounting System had not changed its general ledger accounts to match the U.S. Government Standard General Ledger.

Objectives

The audit objectives were to document and evaluate procedures and controls for recording obligations and reviewing unliquidated obligations for WHS. We also assessed the WHS management control program as it related to our objectives. Appendix A discusses the audit scope and methodology and our review of the management control program.

A. Reliability of Unliquidated Obligations

WHS accounting records used for reporting $1.3 billion in unliquidated obligations as of June 30, 1999, were unreliable. Review of $46.7 million of the $1.3 billion in unliquidated obligations showed that $22.4 million had been fully disbursed and was not valid, and current information was not available to verify the validity of an additional $13.6 million. The records were not accurate or reliable because WHS did not receive timely and complete information on disbursements from DFAS disbursing stations, and WHS did not establish effective management control procedures to implement reviews of obligations according to DoD requirements. Also, WHS did not maintain general ledger balances of unliquidated obligations for closed appropriation accounts because it was not aware of the requirement. Instead, the WHS accounting personnel deobligated and removed entire balances of unliquidated obligations for appropriations to be canceled at the end of the year, and accounting personnel did not either explain or document the reasons for deobligating the funds. As a result, there was an increased risk that the reported balance of $1.3 billion in unliquidated obligations was not accurate and the lack of information for unliquidated obligations for closed appropriation accounts could prevent WHS from tracking valid unpaid obligations for those accounts.

Compliance With Required Reviews of Unliquidated Obligations

DoD Guidance. DoD Regulation 7000.14-R, "Financial Management Regulation," volume 3, "Budget Execution—Availability and Use of Budgetary Resources," December 1996, requires that DoD Components adequately review unliquidated obligations to support the annual certification of obligated balances required by each DoD Component. In a May 14, 1996, memorandum, the Under Secretary of Defense (Comptroller) (USD[Comptroller]) sent out guidance to DoD Components requiring that funds holders review the validity of recorded unliquidated obligations at least three times a year and provide reports to the USD(Comptroller) that the reviews of obligations have been conducted or explain why unliquidated obligations cannot be confirmed.[1] Funds holders have that responsibility because they initiate those actions that cause obligations to be incurred and are in the best position to determine the accuracy and status of such transactions. To accomplish the reviews, funds holders need to aggressively monitor and track the status of their obligations. Although WHS, as a funds

[1]USD(Comptroller) Memorandum, "Quarterly Reviews of Commitments and Obligations," May 14, 1996, requires funds holders to review unliquidated obligations of at least $50,000 for Operation and Maintenance Funds and other operational funds, and obligations of at least $200,000 for all other funds, three times each year. Obligations that do not meet those criteria should be validated at least annually to substantiate the reliability of year-end budgetary reporting.

holder, was not responsible for making most of the disbursements of WHS funds, WHS should be able to obtain documentation showing whether goods and services for obligations have been received.

The USD(Comptroller) did not incorporate its May 14, 1996, guidance on tri-annual reviews of obligations into the DoD Regulation 7000.14-R. However, the Deputy Comptroller (Program/Budget), USD (Comptroller), reiterated the importance of reviewing obligations in an August 17, 1999, memorandum to DoD Components, which cited the May 14, 1996, memorandum.

WHS Review Procedures. The WHS did not establish formal procedures to implement DoD guidance on required reviews of unliquidated obligations. Instead, on a monthly basis, WHS prepared a printout of obligations that had no activity for more than 90 days and sent the information to various action officers for verification. However, WHS did not maintain a current list of action officers responsible for executing obligations and providing the status of the obligations. As a result, WHS personnel were unable to determine the reasons why those obligations were dormant for more than 90 days. WHS accounting personnel stated that they did not complete the reviews because WHS did not have sufficient resources to fully implement the guidance on required reviews of obligations.

Reliability of Unliquidated Obligations

Based on audit tests, there is an increased risk that unliquidated obligations of $1.3 billion shown in WHS accounting records and reported in the Reports on Budget Execution as of June 30, 1999, were not accurate or reliable. Our review of 40 unliquidated obligations totaling $46.7 million showed the following:

Results of the Review of 40 Unliquidated Obligations

Description	Number	Amount	Percent
Valid	5	$ 10,666,917	23
Fully Disbursed	19	22,443,197	48
Unable To Verify	10	10,182,826	22
Contacts Not Located	6	3,439,711	7
Total	**40**	**$46,732,651**	**100**

As shown in the table, points of contact recorded on obligation documents or other action officers in the same offices executing the obligations could not provide current information on the status of the obligations for $10.2 million. In addition, neither WHS nor we could locate points of contact for $3.4 million of unliquidated obligations because the obligations were executed in prior years and personnel responsible for executing the obligations had transferred. The inability to obtain current information on the status of obligations highlights the need for continuous and timely review of unliquidated obligations.

Reasons for Unreliable Unliquidated Obligations

Delays and nonreceipt of disbursing information from DFAS disbursing stations were the primary cause of unreliable unliquidated obligations. However, the scope of this audit focused on the need for WHS to make required reviews of obligations. The absence of effective management control procedures to fully implement the DoD requirement to review obligations contributed to the unreliability of unliquidated obligations.

Disbursing Information. Delays in receipt of disbursing information from DFAS disbursing stations contributed to the unreliability of the $1.3 billion in unliquidated obligations. Our review of 51 disbursements, totaling $11.0 million, that were recorded in the WHS accounting system from FYs 1993 through 1998 showed that it took an average of 154 days (range of 34 to 471 days) after DFAS disbursing stations made the disbursements until WHS recorded the disbursements. Of the 51 disbursements, 20 disbursements, totaling $3.6 million, were not recorded until the next fiscal year. According to the WHS accounting personnel and a study of the Outlay Reporting Process performed by the Defense Modeling and Simulation Office Process Action Team, it could take more than 300 days for accounting offices to receive documentation on disbursements.

An undetermined amount of disbursements were never received by WHS personnel. For example, the Directorate of Contracting at Kirtland Air Force Base approved an invoice for $6.7 million for payment in December 1996, and the payment was made in January 1997. However, WHS never received any information regarding the disbursement, and therefore, it did not record the disbursement in its accounting records.

WHS Responsibilities. WHS was not responsible for making most disbursements and thus could not record disbursements based on information never received. However, improvements in management controls over unliquidated obligations could help WHS to promptly discover problems and take appropriate actions to obtain required documentation, which would increase the reliability of unliquidated obligations.

Requirements for Management Controls. Volume 3, DoD Regulation 7000.14-R, requires DoD Components to establish internal controls to ensure that an adequate review of obligated balances supports the certification for the liquidation of obligations.

WHS Management Control Program. Although the management control program for the WHS Budget and Finance Directorate (Directorate) showed eight assessable units, none of the assessable units discussed unliquidated obligations. The management control program also prescribed the schedules for conducting management control reviews, or other appropriate testing for each assessable unit based on its rating of risk. However, the Directorate had not established critical tasks for any of the assessable units. Also, the Directorate had not conducted any management control evaluations for its assessable units. Accordingly, the Directorate could not effectively evaluate the management controls of each assessable unit to determine whether adequate control techniques existed. Had the Directorate adequately developed the

critical tasks and conducted management control evaluations for its assessable units, it could have identified problems relating to recording and reviewing obligations identified in this report. During our audit, the management control officer provided a schedule of risk assessments to be conducted during FY 2000 for the eight assessable units. In addition, the WHS officials agreed to incorporate the tri-annual reviews of commitments and obligations in its revised management control program.

WHS Actions. WHS could not correct systemic problems in the delay or nonreceipt of disbursing information that DFAS disbursing stations made. DoD initiatives in requiring pre-validation of disbursements and fielding the Defense Cash Accounting System[2] will help reduce errors in processing disbursements at DFAS Centers and allow accounting offices, such as WHS, to obtain disbursement information promptly for entry into accounting records. However, establishing adequate management controls to ensure timely review of obligations as required by the USD(Comptroller) could increase the accuracy of unliquidated obligations while awaiting a permanent solution.

Maintaining Perpetual Balances of Unliquidated Obligations

The WHS did not maintain general ledger balances of unliquidated obligations for each closed (canceled) appropriation[3] because it was not aware of the requirement.

DoD Requirements. Volume 3, DoD Regulation 7000.14-R, requires DoD Components to maintain proper general ledger controls for valid unpaid (unliquidated) obligations and receivables for canceled appropriations. The regulation also requires that general ledger controls be maintained until all obligations are paid and accounts receivable collected. Maintaining the controls would ensure that valid liabilities continue to be tracked until satisfied even though the accounts are canceled. To further emphasize the requirement, volume 6B, DoD Regulation 7000.14-R, requires that accounts payable and receivable established under accounts that are now canceled be included in the financial statements.

Unliquidated Balances for Canceled Appropriation Accounts. The WHS had not established procedures to adequately maintain perpetual balances of unliquidated obligations for each canceled appropriation account as required by DoD guidance. Instead, the WHS accounting personnel deobligated and

[2]The Defense Cash Accounting System provides a single DoD-wide cash accountability system that consolidates, standardizes, simplifies, and improves automated support for all DFAS Centers. The Defense Cash Accounting System, when fully operational, will improve the timeliness and accuracy of detailed information related to cross disbursements that flow from the DFAS finance network to the DFAS accounting network

[3]Closed (or canceled) appropriations are defined in section 1552, title 31, United States Code, which requires that "on September 30th of the 5th fiscal year after the period of availability for obligation of a fixed appropriation account ends, the account shall be closed and any remaining balance (whether obligated or unobligated) in the account shall be canceled and thereafter shall not be available for obligations or expenditure for any purpose."

removed the entire balances of unliquidated obligations for appropriations to be canceled at the end of the year. However, WHS did not explain or document the reasons for deobligating those funds. For example, during FY 1998, WHS deobligated $26.2 million in unliquidated obligations from appropriations that were scheduled to cancel at the end of FY 1998 and removed the obligations from the general ledger. In addition, WHS automatically removed the balances of accounts payable[4] for appropriations to be canceled.

Without maintaining balances of unliquidated obligations for each canceled appropriation account, WHS did not have adequate information to determine whether any invoices submitted for payment would exceed the unexpended balance of the canceled appropriations. Also, without maintaining balances for canceled appropriations, WHS could not track valid unpaid obligations for canceled appropriations.

Recommendations

A. We recommend that the Director, Washington Headquarters Services:

1. Revise the management control program for the Budget and Finance Directorate to include the process of reviewing of obligations as a critical task and develop appropriate risk assessments and management controls to ensure that adequate reviews are conducted.

2. Prepare and follow written procedures for reviewing and verifying unliquidated obligations periodically. The procedures should include steps to:

a. Maintain a current list of points of contact who should be able to validate the status of each obligation.

b. Validate that balances reported in the accounting records are consistent with the current status of work performed.

c. Obtain billing and payment histories from contract administrative offices and disbursing stations to ensure that material or services received and disbursements made on a specific contract or obligation match the balances reported in the accounting office, if the balance is more than $100,000 and the account had no activity for at least a year.

3. Maintain perpetual balances of unliquidated obligations for each canceled appropriation account, to include audit trails of any adjustments made, as required by DoD Regulation 7000.14-R, "Financial Management Regulation," volume 3, chapter 10, December 1996.

[4]Unliquidated obligations include accounts payable (accrued expenditures unpaid) and undelivered orders.

Management Comments Required

The Director, Washington Headquarters Services, did not provide comments on a draft of the report. We request that the Director provide comments by April 21, 2000.

B. Prompt Recording of Obligations

WHS accurately recorded obligation transactions and maintained sufficient support for recorded obligations. However, WHS did not always promptly record obligations in its accounting system as required. Analysis of $100 million of the $1.5 billion in obligations recorded during the 9-month period ended June 30, 1999, showed that WHS did not record $31 million in obligations within 10 days of its execution. The delays occurred because:

- the offices that executed the obligations delayed in providing WHS with obligation data, and therefore, WHS was unable to include that amount in the reporting period, and
- WHS did not have effective procedures to record the date when it received obligation documents.

Until WHS establishes effective procedures to ensure prompt receipt and recording of executed obligations in accounting records, recorded obligations will not be complete, and resulting Reports on Budget Execution will not accurately reflect all transactions.

Policies for Recording Obligations

Volume 3, DoD Regulation 7000.14-R, requires that when an obligation is incurred, it is to be promptly recorded whether or not funds are available. The USD(Comptroller) provided additional guidance in a memorandum to Defense organizations, "Prompt Recording of Obligations in Official Accounting Systems," February 26, 1996. The memorandum states that obligations should be recorded at the time the legal obligation is incurred, or as close to the time of incurrence as possible. The memorandum allows up to 10 calendar days to record an obligation, except for obligations of at least $100,000, which should be recorded and included in the official accounting records in the same month that the obligation was incurred. Although the memorandum had not been incorporated into DoD Regulation 7000.14-R as a requirement, it provides a good measure for determining whether organizations are recording obligations promptly, as required by DoD Regulation 7000.14-R.

WHS Recording Obligations

The WHS accurately recorded obligation transactions and maintained supporting documentation for all obligations reviewed. However, accounting personnel at WHS did not always promptly record obligations.

A sample of 103 obligation transactions, totaling $100 million of the $1.5 billion recorded during the 9-month period ended June 30, 1999, showed that WHS did not record 49 obligations, totaling $31 million, within 10 days of their

execution. The delay in recording those obligations averaged 64 days following the date that obligations incurred. Of the obligations not promptly recorded, 28 obligations, totaling $13 million, were recorded 1 to 10 months late. Further review showed that delays in recording obligations had been a long-standing problem.

Review of an additional 92 obligations, totaling $76 million, incurred before FY 1999 showed that WHS did not record 21 obligations, valued at $23 million, in its accounting system until 1 to 20 months after the obligations were executed.

Documenting Reasons for Delays in Recording Obligations

WHS personnel were unable to record obligations promptly because the various offices in the Office of the Secretary of Defense that executed obligations did not always promptly forward necessary information for WHS to record the obligations in the accounting records. Review of the supporting documentation for the 49 obligations that WHS personnel did not record within a 10-day period showed that all but one of the obligations were executed by offices other than WHS.

Available documentation showed that the WHS generally recorded obligations promptly after they were received. However, because WHS did not have procedures for recording the date when it received obligation documents, WHS was unable to document the specific delays and notify various applicable personnel within the Office of the Secretary of Defense of specific delays encountered. The WHS should record the date that it receives obligation documents. Accordingly, WHS could then take action by notifying applicable offices of repeated problems in providing supporting documentation for obligations incurred.

Conclusion

Delays in recording obligations incurred cause available funding balances to be overstated and reported obligations to be understated and, therefore, can impair the reliability of Reports on Budget Execution and annual financial statements. About 25 percent of the sample obligations took from 1 to 20 months after the obligations were executed to be recorded into the official WHS accounting records. The WHS should increase efforts to ensure that personnel executing obligations promptly forward required information to WHS accounting personnel for entry into accounting records.

Recommendations

B. We recommend that the Director, Washington Headquarters Services:

1. Require accounting personnel to record the date that they receive each obligation document.

2. Identify the offices that are responsible for the untimely submission of the obligations based on analysis of information received from offices executing obligations.

3. Notify delinquent offices of the joint responsibility in meeting the DoD established timeframe for recording of obligations in the accounting system and elevate problems of late submissions to the appropriate Office of the Secretary of Defense staff offices.

Management Comments Required

The Director, Washington Headquarters Services, did not provide comments on a draft of the report. We request that the Director provide comments by April 21, 2000.

Appendix A. Audit Process

Scope

We reviewed the process that WHS used for recording and reporting obligations during FY 1999. The WHS reported $2.4 billion in direct and reimbursable funding and $1.9 billion in obligations incurred. We reviewed WHS standard operating procedures, funding authority, obligation documentation, disbursement vouchers, Reports on Budget Execution, trial balances, and obligations and unliquidated obligations reports.

DoD-Wide Corporate-Level Government Performance and Results Act Coverage. In response to the Government Performance and Results Act, the Secretary of Defense annually establishes DoD-wide corporate-level goals, subordinate performance goals, and performance measures. This report pertains to achievement of the following goal, subordinate performance goal, and performance measures:

- **FY 2001 Corporate-Level Goal 2**: Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. **(01-DoD-2)**
- **FY 2001 Subordinate Performance Goal 2.5:** Improve DoD financial and information management. **(01-DoD-2.5)**
- **FY 2001 Performance Measure 2.5.1:** Reduce the number of noncompliant accounting and financial systems. **(01-DoD-2.5.1)**
- **FY 2001 Performance Measure 2.5.2:** Achieve unqualified opinions on financial statements. **(01-DoD-2.5.2)**

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objectives and goals.

> **Financial Management Functional Area. Objective:** Strengthen internal controls. **Goal:** Improve compliance with the Federal Managers' Financial Integrity Act.
> **(FM-5.3)**

General Accounting Office High Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the Defense Financial Management high-risk area.

Methodology

Review of Obligations. We obtained the obligation data recorded in the WHS accounting system for the 9-month period ended June 30, 1999, and randomly selected 45 obligation document numbers (103 obligation transactions), valued at $100 million. Of the 103 obligation transactions, 34 were between $100,000 and $1,000,000. The remaining 69 were valued at greater than $1,000,000. We reviewed supporting documentation for the 103 obligation transactions to determine whether the 103 obligations were supported by required documentation, such as executed contracts, lease agreements, modifications, acceptances of military interdepartmental purchase requests, and miscellaneous obligations documents. Also, we compared the date on which the obligations were incurred with the date recorded in the WHS accounting system to determine whether obligations were promptly recorded in the accounting records.

Review of Unliquidated Obligations. We randomly selected 40 unliquidated obligation transactions, each with a value of at least $100,000, valued at $46.7 million from a database of $163.8 million in unliquidated obligations without any activity for at least 180 days as of June 30, 1999. (Total unliquidated obligations as of June 30, 1999, were $1.3 billion.) We contacted applicable action officers to verify the amounts reported by WHS. We also obtained supporting documentation from the action officers if the amounts differed from the amounts shown in the WHS accounting system.

Review of Unliquidated Obligations Subject to Cancellation. We reviewed the procedures used to identify unliquidated obligations subject to cancellation. In addition, we performed a limited review of seven appropriation accounts that were scheduled to be closed at the end of FY 1998. The seven appropriation accounts had a balance of approximately $33.3 million at the beginning of FY 1998.

Use of Computer-Processed Data. We relied on the WHS computer-processed data. We obtained information on obligations, disbursements, and unliquidated obligations from the Washington Headquarters Services Allotment Accounting System. We performed limited testing on the system by reconciling the trial balance to the Report on Budget Execution. Our limited assessments of the system showed that the proprietary data and the budgetary data generated by the system were reconciled. However, as shown in the report, the balances of unliquidated obligations could not be relied upon because the accounting records did not correctly show all disbursements made.

Audit Type, Dates, and Standards. We performed this financial-related audit from June through November 1999, in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD, based on the objectives of the audit and the limitations discussed in the scope and methodology. We included tests of management controls considered necessary.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD. Further details are available on request.

Management Control Program

DoD Directive 5010.38, "Management Control Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We reviewed the adequacy of WHS management controls over recording and reviewing obligations. Specifically, we reviewed WHS management controls over the prompt recording of obligations in the accounting records, timely reviewing and validating unliquidated obligations, and maintaining perpetual balances of unobligated and unliquidated amounts for each canceled appropriation. We reviewed management's self-evaluation applicable to those controls.

Adequacy of Management Controls. We identified management control weaknesses for WHS as defined by DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996. WHS management controls for reviewing and recording of obligations were not adequate to ensure that obligations were recorded within the prescribed timeframes and that unliquidated obligations were reviewed and validated, as required. Recommendations A.1., A.2., B.1., B.2., and B.3., if implemented, will improve management controls over reliability of the financial reporting. A copy of the report will be provided to the senior official responsible for management controls at WHS.

Adequacy of Management's Self Evaluation. The WHS did not identify the prompt recording of obligations in the accounting records and timely reviewing and validating of unliquidated obligations within its assessable units and, therefore, did not identify the material management control weaknesses identified by the audit.

Summary of Prior Coverage

The following four reports discuss financial and accounting information at WHS.

Inspector General, DoD, Report No. 98-143, "Information Assurance for the Defense Civilian Personnel Data System-Washington Headquarters Services," June 3, 1998.

Inspector General, DoD, Report No. 98-058, "Payroll Expenses Reported in FY 1996 for the Office of the Secretary of Defense," February 2, 1998.

Inspector General, DoD, Report No. 96-194, "Capitalization of Washington Headquarters Services Military Equipment," July 16, 1996.

Inspector General, DoD, Report No. 96-080, "Annual Reviews of User Accounting Controls for the Washington Headquarters Services Allotment Accounting System," February 29, 1996.

Appendix B. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
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Director, Defense Logistics Studies Information Exchange

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Naval Inspector General
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Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

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Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency
Director, National Security Agency
  Inspector General, National Security Agency
Director, Washington Headquarters Services
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Non-Defense Federal Organizations

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Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

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Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Management, Information, and Technology, Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform

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