Audit Report

OFFICE OF THE INSPECTOR GENERAL

VENDOR PAYMENTS - DEFENSE ACCOUNTING OFFICE, AIR FORCE DISTRICT OF WASHINGTON, FINANCE WASHINGTON

Report No. 95-231

June 12, 1995

Department of Defense

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Acronyms

DAO AFDW	Defense Accounting Office, Air Force District of Washington
DAO WHS	Defense Accounting Office, Washington Headquarters Services
DFAS	Defense Finance and Accounting Service
ICAPS	Installation Accounting Division Collection and Payments System
WAAS	Washington Headquarters Services Allotment Accounting System
WHS	Washington Headquarters Services

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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June 12, 1995

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Audit Report on Vendor Payments - Defense Accounting Office, Air Force District of Washington, Finance Washington (Report No. 95-231)

We are providing this audit report for review and comments. It discusses vendor payment procedures used by Defense Accounting Office, Air Force District of Washington, Finance Washington. Management comments on a draft of this report were considered in preparing the final report.

The Deputy Director for Finance, Defense Finance and Accounting Service provided the management comments for the Director, Defense Accounting Office, Air Force District of Washington, fully concurring with 13 of our 15 recommendations. Although partially concurring with Recommendation B.3., management proposed corrective action that meets the intention of our recommendation, and the comments are responsive. Management comments were not responsive to Recommendation C. We ask that management reconsider its position on Recommendation C. and require that the disbursing officer certify fund availability. DoD Directive 7650.3 requires that all audit recommendations be resolved promptly in the event of nonconcurrence or failure to comment. We request that management provide additional comments by August 11, 1995.

The courtesies extended the audit staff are appreciated. If you have any questions, please contact Mr. Raymond D. Kidd, Audit Program Director, at (703) 604-9110 (DSN 664-9110) or Mr. John A. Richards, Audit Project Manager, at (703) 604-9133 (DSN 664-9133). The distribution of this report is listed in Appendix G. The audit team members are listed inside the back cover.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, Department of Defense

Report No. 95-231 **June 12, 1995**
(Project No. 3FH-5025.02)

VENDOR PAYMENTS - DEFENSE ACCOUNTING OFFICE, AIR FORCE DISTRICT OF WASHINGTON, FINANCE WASHINGTON

EXECUTIVE SUMMARY

Introduction. On March 7, 1993, the Defense Finance and Accounting Service (DFAS) Denver Center capitalized part of the Washington Headquarters Services Directorate for Budget and Finance as the Defense Accounting Office, Washington Headquarters Services. On September 1, 1993, DFAS Denver Center assigned responsibility for the Defense Accounting Office, Washington Headquarters Services, to the Defense Accounting Office, Air Force District of Washington, located at Bolling AFB. The new office within the Pentagon, called Finance Washington, became Defense Accounting Office, Air Force District of Washington, Finance Washington. That office will be referred to as DAO Pentagon in this report. The DAO Pentagon had responsibility for the accounting functions of 13 agencies and activities serviced with total direct funding of $2.1 billion for FY 1994.

Objectives. The overall objective of the audit was to evaluate the adequacy of procedures that the DAO Pentagon used to prevent duplicate and erroneous payments and to detect and correct those payments. In addition, we evaluated the internal control structure of the DAO Pentagon and assessed compliance with applicable laws and regulations.

Audit Results. Procedures for preventing duplicate and erroneous payments and for detecting and correcting any such payments that could not be prevented were inadequate, and the propriety of payments was compromised.

o The DAO Pentagon made incorrect or improper payments, improperly certified vouchers, did not update the accounting system, and did not maintain proper supporting documents for obligations, accruals and disbursements. As a result, duplicate and erroneous payments of at least $629,000 were made during FY 1993 and the first two quarters of FY 1994; vouchers valued at $335,000 were not certified properly; transactions were not recorded in a timely manner; and obligation, accrual, and disbursement transactions totaling $102 million of the $107.9 million reviewed lacked supporting documentation. The inaccurate accounting system could not be relied on to make resource allocation decisions because of the potential for overobligation of funds. Also, failing to update the accounting system complicated ensuring the accuracy of payments by certifying officers (Finding A).

o The DAO Pentagon did not adequately use exception reports that identified accounting errors to ensure the integrity of accounting information. The exception reports identified errors made in the accounting records since March 1993 that were not corrected in a timely manner. Had management used the available exception reports, it could have determined the type of errors being made and initiated corrective action on both the errors and related internal control procedures (Finding B).

o Certifying fund availability was not consistently performed. As a result, it was unclear who was the official responsible for certifying expenditure of funds (Finding C).

o The DAO Pentagon had not implemented the DoD Internal Management Control Program. As a result, management lacked the benefit of a structured process for evaluating the internal control environment based on risk assessments that would identify weaknesses requiring corrective actions (Finding D).

Internal Controls. The audit identified material internal control weaknesses in processing commitments, obligations, accruals, and disbursements. Exception reports were not used to clear errors and fund certification was not effective. Finally, neither DFAS Denver Center nor Defense Accounting Office, Air Force District of Washington, performed risk assessments at the DAO Pentagon or implemented the DoD Internal Management Control Program. The major breakdown in internal controls at DAO Pentagon requires prompt and sustained corrective action to avoid further payment irregularities and potential violations of fiscal statutes. The requirement for the DoD to produce auditable financial statements covering the 13 agencies serviced by DAO Pentagon, starting in FY 1996, lends even more urgency to the need to take corrective action. See Part I for the internal controls assessed and the findings in Part II for details of the internal control weaknesses.

Potential Benefits of Audit. The audit identified $276,000 in duplicate payments that should be recouped. See Finding A and Appendix B for details. Recommendations in this report, if implemented, will result in compliance with regulations and improved management controls. For details of monetary benefits and other benefits associated with the report, see Appendix E.

Summary of Recommendations. We recommended that the Director, Defense Accounting Office, Air Force District of Washington, make improvements in accounting procedures, recoup duplicate payments, maintain adequate supporting documentation for accounting transactions, certify fund availability for supported activities, and implement the DoD Internal Management Control Program.

Management Comments. The Deputy Director for Finance, Defense Finance and Accounting Service agreed to improve accounting procedures, recoup duplicate payments, maintain adequate supporting documentation for accounting transactions, and implement the DoD Internal Management Control Program. However, the Deputy Director for Finance, Defense Finance and Accounting Service, did not agree to have the disbursing officer certify fund availability for supported activities. See Part II for a discussion of management's comments, and Part IV for the full text of the comments.

Audit Response. We request that DFAS reconsider its position on Recommendation C. in response to the final report. We ask that comments be provided by August 11, 1995.

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This report was prepared by the Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense.

Part I - Introduction

Background

Prior to March 7, 1993, the Washington Headquarters Services (WHS) Directorate for Budget and Finance provided accounting services for 17 agencies and field activities in the Washington, D.C., area. Sixty-four staff positions were distributed among five divisions: Program/Budget Division, Installation Accounting Division, Financial Systems Support Division, Travel Division, and Agency Accounting and Reporting Division. The Directorate for Budget and Finance personnel developed and used the Washington Headquarters Services Allotment Accounting System (WAAS) to record commitments, obligations, accruals, and disbursements; it used the Installation Accounting Division Collection and Payments System (ICAPS) to process payments. Data input into ICAPS was subsequently used to update the WAAS records. The Air Force District of Washington Accounting and Finance Office at Bolling Air Force Base processed the checks to make the actual payments.

On March 7, 1993, as part of Defense Management Report Decision 910, "Consolidation of DoD Accounting and Finance Operations," the Defense Finance and Accounting Service (DFAS) capitalized part of the WHS Directorate for Budget and Finance as the Defense Accounting Office at Washington Headquarters Services (DAO WHS). Based upon an agreement between DFAS headquarters and WHS, the DFAS capitalized nine positions, seven positions from the Installation Accounting Division and two positions from the Agency Accounting and Reporting Division. Capitalized positions were GS-5 through GS-11 accounting technician positions; no supervisory positions were capitalized. Upon capitalization, seven employees were transferred from WHS to the DAO WHS. Five were from the Installation Accounting Division and two were from the Agency Accounting and Reporting Division. Two positions remained vacant. DFAS headquarters assigned the DAO WHS to its DFAS Denver Center, which provided additional interim staff and management, called "Tiger Teams," to assist during the transitional period.

The DAO WHS assumed the responsibility to provide accounting services for 12 DoD agencies and activities. As identified by the DFAS and WHS capitalization agreement, the 12 agencies and activities were American Forces Information Service; Defense Technology Security Administration; Office of Economic Adjustment; Defense Medical Program Activity; Advanced Research Projects Agency; Defense Legal Services Agency; Defense Security Assistance Agency; Ballistic Missile Defense Organization (formerly Strategic Defense Initiative Organization); Office of the Joint Chiefs of Staff; the Office of the Inspector General, DoD; Corporate Information Management Initiative; and Section 6 DoD Schools. Hereafter in this report, those agencies and activities will be referred to as agencies. The WHS Directorate for Budget and Finance retained accounting responsibility for the Office of the Secretary of

Defense, WHS, and the non-DoD agencies it had been supporting, as well as the travel and payroll functions for the 12 DoD agencies serviced by the DAO WHS.

Direct funding for the 12 DoD agencies serviced by the DAO WHS totaled $2.9 billion for FY 1993. The DAO WHS used the WAAS as its official accounting system and the ICAPS for processing payments. The DFAS Denver Center Tiger Teams had no previous experience with the accounting and disbursing systems being used by the DAO WHS. The Defense Accounting Office at Air Force District of Washington (DAO AFDW), formerly Air Force District of Washington Accounting and Finance Office, at Bolling Air Force Base, continued making the actual payments. The additional staff provided by DFAS Denver Center assisted the DAO WHS, from March through November 1993 at a cost of about $217,000.[1]

On September 1, 1993, DFAS Denver Center assigned responsibility for the DAO WHS to the DAO AFDW located at Bolling AFB; the new office within the Pentagon, called Finance Washington, became Defense Accounting Office, Air Force District of Washington, Finance Washington. Hereafter, that office will be referred to as the DAO Pentagon. The DAO AFDW temporarily assigned a GS-12 from its Quality Assurance office to act as the supervisor for the DAO Pentagon. At the beginning of FY 1994, the DAO Pentagon gained responsibility for the accounting functions for a thirteenth agency, Office of Prisoners of War/Missing In Action. Direct funding for FY 1994 for the 13 agencies serviced totaled $2.1 billion. DFAS Denver Center provided additional Tiger Teams to assist the DAO Pentagon from March through September 1994 at an estimated cost of $205,000.[2] Portions of that team required training provided by WHS personnel on the unique accounting and disbursing systems used at the DAO Pentagon.

Objectives

The overall objective of the audit was to evaluate the adequacy of procedures that the DAO Pentagon used to prevent duplicate and erroneous payments and to

[1]The cost included $136,234 of travel and per diem and $80,721 in salaries. The estimated salary cost was based on 1,074 staff days at a standard GS-9 pay as provided by DFAS Denver Center.
[2]The cost included $142,997 of travel and per diem and $61,966 in salaries. The estimated salary cost was based on 791 staff days at a standard GS-9 pay as provided by DFAS Denver Center.

detect and correct those payments. In addition, we evaluated the internal control structure of the DAO Pentagon and assessed compliance with applicable laws and regulations.

Scope and Methodology

This audit was initiated based on our previous audit work performed in the audits of Vendor Payments at Defense Accounting Offices (Project No. 3FH - 5025) and Vendor Payments - Washington Headquarters Services, Support Services Division (Report No. 94-094) that indicated potential problems existed. The audit was divided into three sections: improper payments, exception reports, and FY 1993 yearend closeout. We audited only those aspects that relate to the DAO Pentagon: the functions of its customers and WHS were not audited. We did, however, contact the customers for which the DAO Pentagon provides accounting services. Appendix F provides a listing of the organizations visited or contacted.

Audit Period and Standards. This performance audit was made from February through December 1994 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, Department of Defense. Accordingly, we included such tests of internal controls as were considered necessary.

Universe and Sample. The review for improper payments due to accounting problems included transactions for both public vouchers and intergovernmental transfers. Those transactions, made from October 1, 1992, through March 7, 1994, were downloaded from the ICAPS disbursing system. We did not assess the accuracy of computer-processed information processed by the ICAPS because the information obtained was used only for testing the WAAS. Any inaccuracies in the information produced by the system would not affect the results of the audit and the report recommendations. However, since there was a backlog of transactions requiring input to the ICAPS, the audit universe was incomplete and we could not use statistical sampling.

The downloaded universe for public vouchers was 5,964 transactions valued at $53.5 million. A sample was judgmentally selected that included 47 transactions, valued at $578,000, that, due to having identical accounting data, seemed likely to duplicate another transaction. The universe for intergovernmental transfers was 5,057 transactions, valued at $628.7 million. A sample was judgmentally selected that included 40 transactions with a value

of $52.3 million that had matching accounting fields that made the transactions appear to be duplicate payments. Additionally, 200 public voucher transactions, valued at $2 million, were reviewed to determine whether obligations, accruals, and disbursements were supported and whether the accounting system, WAAS, had been updated. Further, 73 intergovernmental transfers, valued at $105.9 million, were reviewed to verify that disbursements were supported and that the accounting system, WAAS, had been updated.

The audit included an analysis of four types of WAAS exception reports that identified accounting imbalances requiring further review. We reviewed three accounts for FY 1993 and FY 1994 within each type. For further details addressing universe and sampling data, see Appendix A.

A limited review of the FY 1993 closeout was performed to determine the effects of the accounting problems identified during the audit. The review of the FY 1993 yearend closeout was limited to appropriations that expired September 30, 1993. A judgmental sample of obligation postings was chosen from the reported expiring direct obligations. The total of such reported obligations balances was $1.3 billion. Sample postings, consisting of 44 items (within 42 accounts) grossing $22.1 million, were chosen by high dollar values, positive or negative. In addition, we continued to analyze those 42 accounts for the period October 16, 1993, through March 21, 1994,[3] to determine the actions taken or the effects of subsequent postings.

Limitations. Because of the lack of supporting documentation, we could not verify that 51 of 175 (29 percent) of the obligations, 115 of 200 (58 percent) of the accruals, and 91 of 229 (40 percent) of the disbursements we sampled were valid transactions. For our review of exception reports, 13 of 24 (54 percent) of the accounts sampled did not have supporting documents available for review, and for FY 1993 closeout, 13 of 44 (30 percent) of the transactions were unsupported. In addition, we could not project any of our samples because of a 8-month backlog of transactions awaiting input into the WAAS. As of the beginning of our audit, management estimated the value of the backlogged transactions to be $500 million, which resulted in undervaluation of the reported total universe of transactions.

[3]The fund certification report with final FY 1993 closeout balances was dated October 15, 1993. March 21, 1994, was the review date for that portion of the audit.

Internal Controls

Adequacy of Internal Controls. The audit evaluated internal control policies and procedures for processing commitments, obligations, accruals, and disbursements. We identified material internal control weaknesses as defined by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987.

Material Internal Control Weaknesses Identified. Internal controls were not in place to ensure that direct payments were made correctly and properly, the accounting system was updated in a timely manner, fiscal yearend closeout procedures included all transactions for the appropriate fiscal year, or documentation was maintained (Finding A). Internal controls were not in place to ensure that errors were identified and corrected (Findings A and B). Also, certifying fund availability was not consistently performed (Finding C). Finally, neither DAO AFDW nor DFAS Denver Center had implemented the DoD Internal Management Control Program at DAO Pentagon (Finding D).

Recommendations A.2 through A.5, A.7 through A.9, B.1 through B.3, C, and D in this report, if implemented, will assist in correcting the weaknesses. Monetary benefits of $276,000, as well as nonmonetary benefits that can be realized by implementing the internal control-related recommendations, are described in Appendix E. A copy of the final report will be provided to the senior official responsible for internal controls within the DFAS Denver Center.

Prior Audits and Other Reviews

Since its activation in March 1993, no audits have been performed at DAO Pentagon. In addition, no audits have been performed at the Washington Headquarters Services that addressed the functions now being performed by the DAO Pentagon.

Part II - Findings and Recommendations

Finding A. Accounting Procedures

DAO Pentagon made incorrect or improper payments, improperly certified vouchers for payment, did not update Washington Headquarters Services Allotment Accounting System (WAAS), and recorded obligations, accruals, and disbursements that were not supported by documents. A lack of procedures and internal controls over processing and certifying payments, lack of experience of personnel with the accounting system in use, and failure to maintain supporting documents in an organized manner caused those conditions. As a result of the lack of internal controls over payments, at least $629,000 in duplicate and erroneous payments were made and vouchers valued at $335,000 were improperly certified and entered into the accounting system. Failing to update the accounting system complicated ensuring the accuracy of payments by certifying officers. Finally, the lack of supporting documentation made it impossible to determine whether $102 million of the $107.9 million in obligations, accruals, or disbursements reviewed were valid. Also, continuing to make duplicate and erroneous payments or failing to correct them could result in violation of the Antideficiency Act.

Background

Obligations are liabilities incurred for orders placed, contracts awarded, services received, or similar transactions. Obligations require payment during the same or a future accounting period. Accruals are liabilities incurred upon receipt of goods or services. Disbursements are payments made for goods or services received and should be recorded when vendor invoices are paid.

DAO Pentagon processed vendor payments using Standard Form 1080, "Voucher for Transfers Between Appropriations and/or Funds," for intergovernmental purchases of goods or services that constituted a "no check" transaction, and the Standard Form 1034, "Public Voucher for Purchases and Services Other Than Personal," for other purchases that constituted a "check" transaction.

Criteria. DoD Directive 7200.1, "Administrative Control of Appropriations," May 7, 1984, regulates fund control for all DoD Components. It requires DoD

Components to establish and maintain adequate systems of accounting and positive control of appropriations and other funds. The directive also implements the Antideficiency Act. The Antideficiency Act provided that in part, officers or employees of the U.S. Government are prohibited from making or authorizing an expenditure or obligation exceeding the amount available for such purpose.

DoD 7000.14-R, "Financial Management Regulation" volume 5, "Disbursing Policy and Procedures," December 1993, establishes the standards, responsibilities, procedures, and liability for disbursing officers throughout the DoD. That volume also addresses certification responsibilities and accounting system requirements. This regulation replaced the criteria established in DoD 7220.9-M, "DoD Accounting Manual." The DoD Accounting Manual was used as the applicable guidance for any transactions reviewed prior to December 1993. Volume 5 and the DoD Accounting Manual had nearly identical guidance.

Certification. Volume 5 requires the disbursing officer to ensure that all applicable laws are strictly observed when public funds are disbursed and collected. The disbursing officer is accountable for illegal, improper, or incorrect payments or for errors in accounts, even though the disbursing officer may have relied on work performed or certified by deputies, agents, and cashiers. Volume 5 requires that each transaction be supported by a written, printed, and signed voucher and a series of documents (for example, vendor invoices and receiving reports) that constitute a complete record of the transaction. Each document should be verified and certified by the responsible person who has knowledge of the fact. The signature of a certifying officer attests to the correctness of statements, facts, accounts, and amounts appearing on a voucher (or other supporting documents from which a voucher is prepared and payment made) when certified.

Volume 5 also requires that an appropriate official should appoint certifying officers by issuing a letter of appointment and completing a Signature Card (DD Form 577). The appointment letter should specify the extent of the authority to certify and state how certifications are to be made. All such appointments should be coordinated with the disbursing officer. A copy of the appointment letter and DD Form 577 should be furnished to the disbursing officer for verification purposes.

Accounting System. Volume 5 requires the Director, DFAS, to establish and enforce requirements, principles, standards, systems, procedures, and practices necessary to comply with accounting and finance

statutory and regulatory requirements. The Director, DFAS, is also responsible for providing finance and accounting services for DoD Components and certain other Federal activities.

Vendor Payments

DoD Directive 7000.14-R, volume 5, defines illegal, incorrect, or improper payments as an overpayment to a payee, two or more payments to a payee for the same entitlement, payment to the wrong payee, or payment made in violation of a regulation.

Incorrect and improper payments were made at the DAO Pentagon because internal controls were not in place to make sure that the payments were correct or to make sure supervisors checked technicians' work before that work was entered into the accounting system. During FY 1993 and the first two quarters of FY 1994, incorrect or improper payments, totaling at least $629,000, were made to payees for the same entitlement. Specifically, 28 payments and accruals, valued at $535,588, were duplicated. Appendix B shows the duplicate payments and accruals identified from our sample. Based on the underlying problems causing the duplicate payments and accruals shown on Appendix B, a review by management of FYs 1993 and 1994 transactions would readily identify the magnitude of errors requiring corrective actions.

Improper payments occurred when 20 payments and accruals, valued at $93,745, were charged to the wrong fiscal year appropriation. Specifically, 19 transactions, valued at $61,769, were charged to Operation and Maintenance[4] FY 1993 instead of FY 1994. One transaction, valued at $31,977, was charged to Research, Development, Test, and Evaluation[5] FY 1993 instead of FY 1992. The Research, Development, Test and Evaluation accounting error resulted in an FY 1993 negative unliquidated obligation. The obligation was established for FY 1992, while the disbursement was made against FY 1993, which had no matching obligation.

[4]An annual budget authority that is available for obligation during a specified fiscal year and expires at the end of that time.
[5]A budget authority available for obligation for 2 years that expires after 2 years.

Internal controls were not in place to ensure that payments were properly authorized, supported, and entered correctly into the WAAS system. No system was in place to detect accounting and input errors being made by accounting technicians. For example, supervisors were not reviewing technicians' work prior to the technicians entering the data. As a result, the ability to correct the incorrect and improper payments was impaired. Potential overexpenditures of appropriations and violations of the Antideficiency Act occurred, and duplicate payments went undetected and therefore unrecouped.

Voucher Certification

DoD 7000.14-R, volume 5, requires that each document be verified and certified by the responsible person who has knowledge of the fact. In addition, the DAO AFDW memorandum, dated January 25, 1994, further explained that certifying officers are responsible for the legality of proposed payments and are jointly liable with the Defense Accounting Officer and the financial services officer for any illegal or improper payments resulting from their certifications.

Payments were certified improperly because the certifying officers did not review the accounting system to match accruals and disbursements against obligations before certifying the payment vouchers. Specifically, certifying officials were not reviewing the WAAS to verify whether or not the required obligations and accruals were established prior to approving a disbursement.

Because the certifying officers did not review the accounting system to match accruals and disbursements against obligations, unobligated payments of $335,000 occurred. Twelve transactions, totaling $132,000, were accrued and disbursed without an obligation being established in the accounting system. Another 13 transactions, totaling $203,000, had been accrued and were awaiting disbursement without obligations.

Other vouchers were processed for payment improperly because accounting technicians did not follow the requirement to process only vouchers containing signatures that had been verified as belonging to the authorized certifying officials. DAO AFDW and the DAO Pentagon did not maintain the required documentation identifying the signatures of the authorized certifying officers. For the agencies that certified their own fund availability, the DAO Pentagon did not have Signature Cards (DD Forms 577) or letters identifying the authorized fund certification official. Although the DAO Pentagon personnel

could provide letters from four of the six agencies identifying the authorized official, no documents provided the required signature that was expected to be reviewed prior to processing payments. As a result, the accounting technicians had no means to ensure proper certification of the supporting documents or reject transactions not properly certified. In addition, not implementing this internal control increased the potential for fraudulent payments being processed.

Updating the Accounting System

DoD 7200.1 requires DoD Components and other organizational units to maintain an accounting system that provides full disclosure of the organizations' financial operations in a timely manner. The system is required to show the current and continuing available balances at each required stage of the funding operation. Also, the system is required to be capable of generating accurate financial reports and be reconcilable to the supporting documents.

The WAAS was not being adequately updated. The WAAS had not been updated because technicians and personnel brought in to clear the backlog were inexperienced in using the system. A backlog of "transactions by others"[6] existed for FY 1993 and the first two quarters of FY 1994. Management estimated that transactions were backlogged approximately 8 months. The backlog occurred because accounting technicians lacked experience and training using the WAAS. Tiger Teams, brought in to help clear the backlog, were also unfamiliar with the WAAS, hindering their efforts to assist DAO Pentagon in clearing the backlog. The WAAS also was not updated to correct several errors the DAO Pentagon's customers identified when reconciling the monthly DAO Pentagon reports with data from their in-house accounting systems. Agency management invested in the in-house tracking and accounting systems because of the unreliability of the reports produced by DAO Pentagon.

Appendix C shows errors reported to DAO Pentagon by customers. Those errors included missing commitments and obligations, duplicate postings of commitments and obligations, and postings to the wrong document number. Most of the errors were identified between November 1993 and March 1994 and had not been corrected as of April 1994.

[6]Disbursements and collections made citing funds that belong to other accountable stations.

Finally, of 273 obligation, accrual, and disbursement transactions reviewed, valued at $107.9 million, 32, valued at $587,000, had not been updated from ICAPS into the WAAS. Because the WAAS could not provide timely and accurate information, officials could not rely on the reports generated, including those needed for determining fund availability and those generated for fiscal yearend closeout. Accounting errors identified in the limited review of reported appropriation balances expiring in FY 1993 resulted in overstated or understated obligation balances. For example, during FY 1993, Research, Development, Test, and Evaluation accounts were overstated by $679,000 and understated by $568,000; Operation and Maintenance accounts were overstated by $81,000; and procurement accounts were understated by $35,000. In addition, from October 1993 through March 1994, an additional $1.3 million in overstated or understated obligations occurred in those accounts.

The failure to maintain an adequate accounting system constitutes a material breakdown in the internal controls at DAO Pentagon that increases the susceptibility to loss or waste of funds and violations of fiscal statutes.

Supporting Documentation

DoD 7220.9-M, "DoD Accounting Manual," required that an obligation should be recorded only upon receipt of the obligation documents from the activity. Accruals should be recorded upon receipt of goods or services. Disbursements should be recorded when payments on the vendor invoices are made. Examples of documents required to support transactions include memorandums, SF 1034 or SF 1080, vendor invoices, and receiving reports.

Supporting documentation was not adequately used to input accounting transactions or maintained in an organized manner. Due to the emphasis on inputting backlogged transactions and the lack of an adequate centralized storage facility, processed transactions were not filed in a timely manner. Obligations, accruals, and disbursements recorded in the WAAS were not always supported by documentation. Fifty-one (29 percent) of 175[7] obligations reviewed did not have the required obligation documents. Also, 115 (58 percent) of 200 accruals

[7]Obligations for 25 of the 200 sampled public vouchers had not been processed; therefore, test for supporting documentation was not done. See previous section paragraph on Voucher Certification.

reviewed did not have receiving reports. Finally, 91 (40 percent) of 229[8] disbursements reviewed did not have the required SF 1034 or SF 1080 and vendor's invoice. As a result, we could not determine whether $102 million in obligations, accruals, or disbursements was valid.

DAO Pentagon personnel attempted to find those documents both within the DAO Pentagon office and their Bolling AFB location. Of the documents that were found, some were stored in individual technicians' desk drawers and in boxes stored in the hallway outside the office. Therefore, the documentation was not available to those who needed to see it before recording transactions or for subsequent research and correction of accounting errors. As a result, additional incorrect or improper payments could go undetected and potential violation of fiscal statutes could not be identified.

Conclusion

Management needs to increase oversight and provide adequate training to reduce accounting errors, incorrect or improper payments, improper certifications, delays in postings, and inadequate filing procedures. In addition, management must improve internal controls over the accounting operations of the DAO Pentagon. The major breakdown in internal controls at DAO Pentagon requires prompt and sustained corrective action to avoid further payment irregularities and potential violations of fiscal statutes. The requirement for the DoD to produce auditable financial statements covering the 13 agencies serviced by DAO Pentagon, starting in FY 1996, lends even more urgency to the need to take corrective action.

[8]Disbursements for 44 of the 273 sampled public vouchers and intergovernmental transfers had not been made; therefore, test for supporting documentation was not done.

Recommendations, Management Comments, and Audit Response

We recommend that the Director, Defense Accounting Office, Air Force District of Washington:

1. Correct the accounting entries that resulted in the $629,000 in incorrect and improper payments identified in this audit and recoup overpayments.

Management Comments. DFAS concurred, stating duplicate payments were validated and recoupment actions were initiated. In addition, incorrect and improper payments were researched and corrective actions implemented.

2. Perform a review of fiscal year 1993 and 1994 transactions using exception reports and reconciliations of accounting information with defense activities supported to identify erroneous payments, determine the cause for the erroneous payments, and take appropriate corrective action, including recoupment of any overpayments.

Management Comments. DFAS concurred, stating that a joint review and validation of FY 1993 and 1994 transactions was initiated by DAO Pentagon and supported Defense agency associates. In addition, DAO Pentagon and supported Defense agency associates meet on a regular basis to resolve current and prior year accounting discrepancies. All erroneous payments identified during the ongoing joint reviews are corrected, including recoupment actions. Planned completion date is September 30, 1995.

3. Establish written local operating procedures for preventing duplicate and erroneous payments. These procedures should include, but not be limited to, checking for duplicate invoice numbers; checking for identical items or services received on the same day, for the same organization, but with a different invoice number; reconciling information on supporting documents to vouchers, such as appropriation data; and addressing any unique accounting procedures required for the different Defense agencies supported.

Management Comments. DFAS concurred, stating that written local procedures to minimize duplicate and erroneous payments were established.

4. Require supervisory review of supporting documentation before certifying vouchers for payment and inputting into the accounting and disbursement systems.

Management Comments. DFAS concurred, stating that internal controls have been implemented requiring supervisory review of supporting documentation before vouchers are certified and input to the accounting and disbursing systems.

5. Obtain copies of the signatures of all authorized certifying officers and maintain them at Defense Accounting Office, Air Force District of Washington and Defense Accounting Office, Pentagon to verify the validity of transactions.

Management Comments. DFAS concurred, stating that DD Form 577 was used to obtain copies of all authorized certifying officers signatures and these forms are maintained at DAO Bolling and at DAO Pentagon.

6. Provide training on the Washington Headquarters Services Allotment Accounting System capabilities and limitations and proper accounting procedures to all accounting technicians using the system.

Management Comments. DFAS concurred, stating that a new training program on the Washington Headquarters Services Allotment Accounting System capabilities and limitations and proper accounting procedures was implemented and all technicians have been trained.

7. Implement internal controls that require that the Washington Headquarters Services Allotment Accounting System be updated within 24 hours of receiving properly authorized supporting documents.

Management Comments. DFAS concurred, stating that internal controls have been implemented to ensure that the Washington Headquarters Services Allotment Accounting System is updated upon receipt of properly authorized supporting documents.

8. Implement internal controls requiring the maintenance of proper supporting documents, such as Standard Form 1034s, Standard Form 1080s, vendor invoices and receiving reports required to support the propriety of payments.

Management Comments. DFAS concurred, stating that internal controls have been implemented for proper maintenance of supporting documents required to support the propriety of payments.

9. Establish uniform filing procedures that ensure documents are filed at least weekly, and provide a centralized location for maintaining documents needed for future review.

Management Comments. DFAS concurred, stating uniform filing procedures have been established to file documents at least weekly. A centralized location for maintaining documents needed for future review will be provided following relocation to DFAS facilities in the Crystal Mall. Planned completion date is September 30, 1995.

Audit Response. Management comments are responsive to all of our recommendations.

Finding B. Exception Reports

Exception reports that identified accounts having out-of-balance conditions such as accruals greater than obligations and negative unliquidated obligations were not used. That condition occurred because DAO Pentagon and DFAS Denver Center Tiger Team personnel brought in to help reduce the backlog were untrained in and, therefore, unaware of the capabilities and limitations of the WAAS accounting system. Specifically, they did not know what exception reports to use and what they identified. Also, they did not know that the WAAS, unlike the Air Force system they normally used for Air Force customers, did not automatically provide "flags" identifying errors when processing transactions.[9] As a result, accounts having irregular balances as early as March 1993 remained uncorrected for more than a year. Also, trends identifying types of errors found on the reports were not analyzed and the resulting information used to initiate corrective actions. The lack of use of exception reports could permit payment irregularities to go undetected and materially weaken internal controls over payments.

Background

DoD 7000.14-R, "Financial Management Regulation" volume 1, "General Financial Management Information, Systems, and Requirements," May 1993, establishes the basic requirement for internal controls. That guidance states that transactions and significant events are to be recorded promptly and classified properly, transactions are to be documented and that documentation is to be made available for examination, and competent supervision is to be provided to the staff.

Exception Reports. There are 16 inquiry reports that the WAAS can produce upon request. Of those, seven reports provide detailed transaction information by appropriation and document number and would be the most useful for management. WAAS users designated those seven reports as exception reports.

[9]For example, the system would not automatically identify a duplicate invoice being input as a possible duplicate payment.

The seven exception reports are:

- o disbursements greater than accruals,
- o commitments greater than $5,000,
- o commitments equal to obligations,
- o obligations equal to disbursements,
- o negative unliquidated obligations (over-disbursed accounts),
- o commitments or obligations less than zero, and
- o accruals greater than obligations.

Each item listed on any of those reports requires research by the system user to evaluate the appropriateness of the account's standing. Research on the out-of-balance condition is necessary to determine whether an accounting error occurred.

Due to the magnitude of the items shown on the exception reports, we limited our review to four types of reports. The exception reports from which we selected our sample were:

- o commitments equal to obligations,
- o negative unliquidated obligations,
- o commitments or obligations less than zero, and
- o accruals greater than obligations.

Exception Report Imbalances

The WAAS issues exception reports, upon request, that provide managers a tool for identifying out-of-balance conditions that will require corrective actions by management. However, since DAO Pentagon managers were unfamiliar with the available products, no exception reports had been requested for over a year. Had they requested and used the exception reports, they would have been able to perform the required analysis on all out-of-balance conditions similar to the ones identified on the following reports.

Three reports in February, March, and April 1994 showed numerous out-of-balance conditions that management should have analyzed and corrected. Twenty-six accounts, valued at $1.5 million, had commitments equal to obligations. When an obligation is properly processed, the related commitment should automatically drop out of the data base and not show as an equal amount. In 971 accounts, negative unliquidated obligations valued at $22.3 million existed. In 186 accounts, negative commitment or obligation balances totaling $1.7 million existed. Finally, 1,106 accounts had either accruals or disbursements that exceeded obligations. The accruals exceeded obligations by $23.9 million. The disbursements exceeded obligations by $17 million. Appendix D provides the aging of those errors. DAO Pentagon should routinely request and use exception reports to correct accounting errors. Failure to do so represents a significant weakness in internal controls to prevent payment irregularities and ensure proper recording of obligations, accruals, and disbursements. In addition, had management been reviewing those reports, it would have discovered, during research to support the original entry, that supporting documentation was lacking for 13 (54 percent) of 24 accounts listed on the exception reports. As discussed in Finding A, DAO Pentagon personnel could not find supporting documentation because no established uniform filing system or local instructions requiring properly maintained supporting documents existed.

Exception Report Trends

Definite trends in the types of errors identified by the exception reports existed and provided an opportunity to DAO Pentagon to initiate corrective actions at the time transactions were processed rather than after the fact. Specifically, the DAO Pentagon accounting technicians used improper methods to reduce obligations, entered improper input codes, posted transactions to the wrong fiscal year, and split postings among different organization codes. Those problems were occurring on a regular basis and were indicative of the lack of verification to supporting documentation at the time transactions were processed. The problems also indicate a lack of understanding of the system in use.

A trend analysis would have had even greater value at the time management elected to process the 8-month backlog of unprocessed transactions. The knowledge gained from reviewing previous exception reports would have greatly reduced the number of out-of-balance conditions that occurred during the processing of the backlog. Management could have provided valuable information to the accounting technicians on how to avoid errors they had been making in previous months.

Conclusion

Exception reports can be effectively used both to identify accounting errors requiring research and correction, and more importantly, to perform trend analyses focused on ensuring that accounting transactions are input correctly in the first place. In fact, the key to accurate accounting in a cost-effective manner is proper recording of transactions at initiation based on proper supporting documentation. The standard Air Force accounting system provides improved capabilities for exception reporting to facilitate accurate accounting, which is currently hampered by maintenance of separate accounting systems that vary significantly in capability. Other deficiencies identified in this report could be precluded or corrected in a more timely manner with enhanced error detection and correction capabilities already available in the Air Force system. Since the WAAS system is not scheduled to be replaced until the year 2005, we believe serious consideration should be given to consolidating operations under DAO AFDW and eliminating the WAAS system within the DAO Pentagon. That consolidation would provide management with a single uniform accounting system that would facilitate accurate accounting and use of financial information.

Recommendations, Management Comments, and Audit Response

We recommend that the Director, Defense Accounting Office, Air Force District of Washington:

1. Correct the out-of-balance conditions shown on the current exception reports.

Management Comments. DFAS concurred and anticipates completing the review by September 30, 1995.

Audit Response. Management comments are responsive to our recommendation.

2. Train Defense Accounting Office, Pentagon management on the use of exception reports available through the Washington Headquarters Services Allotment Accounting System.

Management Comments. DFAS concurred, stating that all Defense Accounting Office, Pentagon management have been trained in the use of

exception reports available through the Washington Headquarters Services Allotment Accounting System.

Audit Response. Management comments are responsive to our recommendation.

3. Establish procedures that require Defense Accounting Office, Pentagon management to review exception reports at least weekly and take corrective actions to clear reported exceptions in a timely manner.

Management Comments. DFAS partially concurred with the recommendation, stating that review and research of exception reports have been accomplished on a monthly basis instead of weekly in order to establish a trend data. Management requested we revise our recommendations.

Audit Response. We consider the DFAS commitment to review exception reports at least monthly as responsive to the intent of the recommendation.

4. Conduct a study of consolidating the accounting functions performed by the Washington Headquarters Services Allotment Accounting System into the standard Air Force accounting system operated by the Defense Accounting Office, Air Force District of Washington.

Management Comments. DFAS concurred with the recommendation, stating that the DFAS Columbus Center has been tasked to perform a comprehensive review of all Defense Accounting Offices, including DAO Pentagon, for consolidation into a single operating location. Further, the DFAS Denver Center had previously performed a study to convert DAO Pentagon accounting functions into the standard Air Force accounting system operated by the Defense Accounting Office, Air Force District of Washington. However, DFAS Denver Center decided to wait for the completion of DFAS Columbus Center study before any action is taken.

Audit Response. The DFAS response met the intent of the recommendation. We request that a copy of the DFAS Columbus Center study be forwarded upon completion.

Finding C. Certification of Fund Availability

Certification of fund availability was not consistently performed. Specifically, 6 of the 12 DoD agencies certified their own funds, the DAO Pentagon certified funds for 3 agencies, and for 3 agencies, duplicate certifications were being accomplished. That inconsistency existed because certain agencies did not follow a September 13, 1993, memorandum from the DAO Pentagon that shifted the responsibility for fund certification from itself to the agencies based on regulatory guidance that addressed Air Force operations and funds. The agencies cited staffing shortages, lack of capability, and DoD and DFAS guidance that identified other appropriate officials as the required certifying officers. Also, in December 1993, the Under Secretary of Defense (Comptroller) issued regulatory guidance that eliminated any shift of responsibility from the DAO disbursing officers, thereby voiding the September 1993 DAO Pentagon memorandum. The December 1993 regulation states that it is the disbursing officer who is responsible for certification of funds; however, the regulation was not implemented by DAO Pentagon, which resulted in continued inconsistency in fulfilling certification responsibilities.

Background

Prior to the capitalization of the DAO Pentagon, WHS certified the availability of funds for all 17 agencies it supported. The DAO Pentagon continued to do so upon capitalization for the 12 agencies it supported. On September 13, 1993, the DAO Pentagon, under DFAS Denver Center direction, sent a memorandum to each agency stating that the DAO Pentagon would no longer certify the availability of funds for the agencies it supported and that the agencies would be required to conduct their own certifications. Not all of the agencies complied with this request, thereby leading to a variety of individuals certifying fund availability for the various agencies.

The Defense Security Assistance Agency, the Office of the Joint Chiefs of Staff, and the Corporate Information Management Initiative refused to conduct their own fund certifications; therefore, the DAO Pentagon was certifying the availability of funds for those agencies. However, the following agencies accepted the responsibility for fund certification: Armed Forces Information Service; Defense Medical Programs Activity; Advanced Research Projects Agency; Ballistic Missile Defense Organization; Office of Inspector General, DoD; and Section 6 Schools. DAO Pentagon personnel stated they also certify

the fund availability for Defense Legal Services Agency, while that agency stated its funds are certified by the Washington Headquarters Services, Directorate for Budget and Finance. Both the DAO Pentagon and the Office of Economic Adjustment stated they certify the Office of Economic Adjustment's fund availability, and, Defense Technology Security Administration personnel claimed that the fund certification duties for that agency are shared between the DAO Pentagon and the agency.

Guidance on Certifying Availability of Funds

Earlier Regulations. DoD regulations written before the DFAS was established, DoD 7220.9-M, "DoD Accounting Manual," October 1987, and DoD Directive 7200.1, "Administrative Control of Appropriations," May 7, 1984, state that the certification of fund availability should be completed by the fund administrator of the DoD Component. Also, Air Force Regulation 177-101, "General Accounting and Finance Systems at Base Level," February 1991, states that the responsibility for fund certification belongs to the holder of a funding document or an individual officially delegated the responsibility to administer a funding document. Prior to the establishment of the DAO Pentagon, the Directorate for Budget and Finance, WHS, was the holder of the funding document and the certifying official. In the case of the Air Force, the fund administrator would have been the Accounting and Finance Officer. Once DFAS was established, the certification responsibility moved from the Accounting and Finance Officer to the Financial Services Officer position under the control of the Base Commander. That system is currently in place at Bolling AFB where the DAO AFDW is located.

DFAS Guidance. DFAS took a position similar to that in the above regulations when it issued the "Implementation Plan for Consolidation of DoD Accounting and Finance Operations," July 1992. That plan states that the Military Departments are responsible for funds control to include funds distribution and the certification of fund availability. For the Air Force installations, that responsibility was delegated by the commander to an appointed financial services officer. The implementation plan further explains that DFAS, as the accountant for DoD, inherits an internal control responsibility to ensure integrity of the processes that cause the various accounts to indicate fund availability.

DoD Guidance. The most recent guidance, DoD 7000.14-R, "Financial Management Regulation" volume 5, "Disbursing Policy and Procedures," December 1993, states that determination and certification of fund availability is the responsibility of the disbursing officer making payment on the voucher. It

further establishes that the disbursing officer has the ultimate responsibility for determining the propriety of an expenditure of funds. This regulation supersedes all previous guidance in this area.

Conclusion

The unique organizational setup at the DAO AFDW makes it difficult to implement the current guidance in volume 5. Specifically, the DAO AFDW disbursing officer, located at Bolling AFB, has direct access only to the disbursing system that produces the check to pay vendors for supplies or services rendered. To obtain information on the obligations and accruals, the disbursing officer would have to be able to access the DAO Pentagon WAAS accounting system. Due to the access problem, the DAO AFDW disbursing officer issued a January 25, 1994, memorandum to the DAO Pentagon, stating that the DAO Pentagon certifying officials would be jointly and pecuniarily liable, along with the financial services officer and the Defense Accounting Office disbursing officer. In that particular memorandum, the disbursing officer was still referencing AFR 177-101. We disagree with the approach as outlined by DAO AFDW in that the responsibility has to be clearly assigned to one person. Of course, that individual should have the information necessary to make sound certifications. Also, we view this approach as contradictory to volume 5 of the Financial Management Regulation. The disbursing officer is the appropriate person to certify fund availability, and system access or changes required to implement DoD direction should not be the cause for noncompliance.

Recommendation, Management Comments, and Audit Response

We recommend that the Director, Defense Accounting Office, Air Force District of Washington, in his role as disbursing officer, assume responsibility for the certification of fund availability for all supported activities.

Management Comments. In comments dated April 17, 1995, the Deputy Director for Finance, Defense Finance and Accounting Service, did not concur with the recommendation, stating that existing fund control procedures require the component receiving the fund to certify fund availability.

Audit Response. The DFAS comments were not responsive and do not address the specific fund control procedures in existence or the regulatory basis for requiring certification of fund availability by an official other than the disbursing officer. The most recent guidance, DoD 7000.14-R, volume 5, shifts the responsibility for certification of funds to the disbursing officer making payment on the voucher. Therefore, the recommendation that the Director, DAO AFDW assume the responsibility for certification of funds is valid and needs to be addressed by the Director, DFAS. We agree that in the case of DAO AFDW, additional fund control procedures are required because of the organizational setup, but continue to view the disbursing officer as the appropriate official to certify fund availability prior to payment. The disbursing officer should obtain needed information from supporting activities prior to certification. The Director, DFAS is requested to reconsider his position and provide additional comments by August 11, 1995.

Finding D. Internal Management Control Program

DAO AFDW managers and DFAS Denver Center personnel did not implement the DoD Internal Management Control Program (Control Program) within the DAO Pentagon. Therefore, there were no risk assessments or management control reviews performed since March 1993 within the DAO Pentagon. That situation occurred because the DAO AFDW Quality Assurance manager and DFAS Denver Center Tiger Team personnel did not designate the DAO Pentagon or any of its functions as assessable units. In addition, the Control Program planning phase was greatly hindered by the lack of permanent and continuous supervision in the DAO Pentagon. As a result, management lacked the benefit of a structured process for evaluating the internal control environment based on risk assessments that would identify weaknesses requiring corrective actions.

Background

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, requires the following for all DoD components annually:

o organize the Internal Management Control process;

o segment the DoD Components into assessable units;

o conduct risk assessments on the assessable units;

o develop a Management Control Plan;

o take appropriate management actions, including the conducting of internal or alternative management control reviews as necessary;

o schedule and take corrective action;

o provide for quality control; and

o prepare reports.

Implementation Responsibility

In addition to the annual requirements, DoD Directive 5010.38 requires programs that are new or substantially revised to have the risk assessments performed during the Control Program planning. Since the DAO Pentagon went through two reassignments, DoD Directive 5010.38 required a risk assessment be done in March 1993, when DFAS Denver Center capitalized the DAO WHS and again in September 1993, when DAO AFDW became responsible for the operation. DAO AFDW was required to have the Control Program in place at the end of FY 1993. Although the DAO AFDW prepared an Annual Statement of Assurance on the Status of Internal Management Controls for FY 1993, dated October 5, 1993, the DAO Pentagon was not covered in that document. The DAO AFDW Quality Assurance managers, the designated Control Program managers, stated the omission occurred because they were not involved in the planning of the DAO Pentagon. Furthermore, the Quality Assurance manager indicated that he knew of no plans to designate assessable units at the DAO Pentagon and include them in the DAO AFDW Control Program for FY 1994.

WAAS Evaluation

The WAAS evaluation is the only portion of Control Program that was accomplished for the DAO Pentagon during FY 1993. The Directorate for Budget and Finance, WHS, included the WAAS in its Annual Statement of Assurance, dated October 20, 1993. Its overall certification was intended to represent only the operations of the WHS office. The WAAS was included in that certification because the WAAS software was developed by, and is the property of, the WHS. As such, whenever the WHS evaluates and reports on the WAAS, its report covers four of the five users of the system.[10] The WHS, therefore, is reporting on the reliability of the WAAS software design. Specifically, the WHS is responsible for ensuring that the WAAS software is well suited to achieving the guidelines set forth by the Comptroller General, Department of the Treasury, and Office of Management and Budget, as well as in the Joint Financial Management Improvement Program Core Financial

[10]Currently, WAAS software developed by WHS is used by WHS, DAO Pentagon, American Forces Information Service, DoD Dependent Schools, and Defense Information Systems Agency.

System Requirements and DoD 7000.14-R, "Financial Management Regulation" volume 1, "General Financial Management Information, Systems, and Requirements." No mention was made of any of the weaknesses identified in this report in the 1993 Annual Statement of Assurance, nor should there have been, since the reported weaknesses are not related to the actual automated accounting system.

Conclusion

The numerous deficiencies observed in accounting controls at the DAO Pentagon should have been routinely identified and corrected through the DoD Internal Management Control Program, but it was not implemented.

Recommendation, Management Comments, and Audit Response

We recommend that Director, Defense Accounting Office, Air Force District of Washington, implement the DoD Internal Management Control Program for the Defense Accounting Office, Pentagon and include the Defense Accounting Office, Pentagon in the Defense Accounting Office, Air Force District of Washington, Fiscal Year 1995 Statement of Assurance.

Management Comments. DFAS concurred, stating that the DoD Internal Management Control Program has been established and the DAO Pentagon will be included with the DAO AFDW beginning with FY 1995. Planned completion date is September 30, 1995.

Audit Response. Management comments are responsive to our recommendation.

Part III - Additional Information

Appendix A. Exception Reports Sampling Plan

Exception reports are created from the WAAS to identify potential accounting errors by category. Four of the 16 available reports were obtained from the Chief, Installation Accounting, Directorate for Budget and Finance, Washington Headquarters Services. Those reports were for commitments equal to obligations, negative unliquidated obligations, commitments or obligations less than zero; and accruals greater than obligations.

We randomly selected three accounts from FY 1993 and three accounts from the first two quarters of FY 1994 to verify the accuracy of the reports and perform additional research into the accounting errors causing the exceptions.

Commitments Equal Obligations. For FYs 1993 and 1994, 18 accounts, valued at $1 million, had commitments equal to obligations. The sample selected was all three FY 1993 accounts valued at $19,000 and 3 accounts, valued at $931,000, of the 15 FY 1994 accounts.

Negative Unliquidated Obligations. Reports listed 729 accounts with negative unliquidated obligations valued at $15.9 million: for FY 1993, 686 accounts valued at $9.6 million, and for FY 1994, 43 accounts valued at $6.3 million. The sample selected was valued at $1.7 million for FY 1993 and $6.1 million for FY 1994.

DAO Pentagon personnel were not able to locate a FY 1994 file that had a value of $33,783.

Commitments or Obligations Less Than Zero. For FY 1993, there was one account valued at $19,000 that had a commitment balance less than zero and 167 accounts, valued at $1.5 million, that had obligation balances less than zero.

FY 1994 had eight accounts, valued at $662,000, with commitment balances less than zero and 38 accounts, valued at $6.2 million, that had obligation balances less than zero.

The sample looked at two accounts valued at $75,000 that had negative commitment balances and four accounts items valued at $1.2 million that had negative obligation balances.

Accruals Greater Than Obligations. The reports listed 124 accounts, 91 accounts for FY 1993 and 33 accounts for FY 1994.

Sample selected:	Sample No.	Accrual Balance	Obligation Balance
FY 1993:	1	$ 113,609	$ 85,377
	2	226,000	200,000
	3	56,496	20,000
FY 1994:	4	167,017	0
	5	7,800	7,600
	6	1,574,428	0
		$2,145,350	**$312,977**

DAO Pentagon personnel did not have supporting files for samples No. 3 and 4.

Appendix B. Duplicate Payments/Accruals

Document Number	Schedule Number	Voucher Number	Amount
DDAB36001	193110039	SA02558	$ 7,270.00
DDTD32538	193070007	SA12287	368.00
DGAM21503	193070046	SA12428	66,597.02
DGAM21503	193070046	SA12428	92,072.98
DGAM30147	193060080	SA11900	6,648.49
DGAM70067	193060087	SA11907	4,276.09
DIAM30001	193090122	SA00959	25,676.30
DPAM11544	193050071	SA10580	58,546.58
DBAG10003	294010125	SA00000	5,510.00
DDAL35048	293110186	SA02772	525.00
DDAT36349	293060120	SA11478	99.00
DDAT36490	293060114	SA11472	2,495.00
DDAT37700	293110220	SA02954	3,000.00
DGAT34682	293120020	SA03068	735.00
DIAT32902	293060272	SA12237	795.00
DJAH30001	294020105	SA04811	456.00
DJAH30001	293070139	SA12732	650.35
DJAT38469	293120003	SA03062	275.00
Total Duplicate Payments Identified			$275,995.81
DBAM30006	193120017	Accrual	$ 268.00
DPAM90670	194020069	Accrual	56,927.06
DBAG20025	294010126	Accrual	7,138.00
DBAG20048	293110023	Accrual	100,000.00
DBAG30034	293090001	Accrual	60,769.45
DGAL40011	294020117	Accrual	2,057.74
DIAT40237	294020114	Accrual	180.00
DJAT38541	294010179	Accrual	275.00
DPRD30034	293110009	Accrual	5,545.28
DPRD30034	293110009	Accrual	26,431.26
Total Duplicate Accruals Identified			$259,591.79
Total Duplicate Payments/Accruals			**$535,587.60**

Appendix C. FY 1994 Accounting Transactions Not Corrected

(as of February 28, 1994)

Agency	Number	Type of Error	Amount
Advanced Research Projects Agency	68	Missing Commitments	$43,468,913
	3	Missing Withdrawal of Commitments	910,037
	8	Overcommitments	4,045,797
	2	Unvalidated Commitments	5,267,549
Total Adjustments to Agency Commitments			**$53,692,296**
	18	Missing Obligations	16,325,871
Total Adjustments to Agency Obligations			**$16,325,871**
Ballistics Missile Defense Organization	20	Duplicate Commitments	$16,333,050
	7	Missing Commitments	2,955,996
	1	Undercommitment Posted	191,372
Total Adjustments to Agency Commitments[1]			**$19,480,418**
American Forces Information Service[2]		Duplicate Commitments Posted	$ 30,000
	8	Commitments to be Deleted	685,743
Total Adjustments to Agency Commitments			**$715,743**
	31	Duplicate Obligations	39,517
	1	Obligation to be Deleted	10,000
	2	Obligations to be Posted	12,355
Total Adjustments to Agency Obligations			**$ 61,872**

Footnotes explained on next page.

[1]In addition, DAO Pentagon posted the wrong document numbers in 12 instances (dollar values not provided). As of March 28, 1994, although 37 of the identified errors were corrected, commitments were still overstated by $867,500.

[2]For the American Forces Information Service, DAO Pentagon posted to wrong document number, Organization Code, or Object Class in six instances (dollar value not provided). Six additional errors were not quantified; however, two lines had two errors each, for example, to decommit and obligate.

Appendix D. Entries Not Corrected for FYs 1993 and 1994

Type of Error	Number of Accounts	Total Amount
Commitments equal to Obligations		
Prior to February 1, 1994	3	$ 19,715
February 1 - March 7, 1994	10	822,613
March 7 - April 19, 1994	13	697,422
Total as of April 19, 1994	**26**	**$1,539,750**
Negative Unliquidated Obligations		
Prior to February 1, 1994	658	$ 9,996,769
February 1 - March 7, 1994	43	327,179
March 7 - April 19, 1994	270	11,987,761
Total as of April 19, 1994	**971**	**$22,311,709**
Negative Commitments or Obligations		
Prior to February 1, 1994	148	$ 511,380
February 1 - March 7, 1994	8	4,118
March 7 - April 19, 1994	30	1,220,450
Total as of April 19, 1994	**186**	**$1,735,948**

Type of Error	Number of Records
Accruals/Disbursements greater than Obligations	
Prior to February 1, 1994	188
February 1 - March 7, 1994	71
March 7 - April 19, 1994	847
Total as of April 19, 1994	**1,106***

*For the 1,106 records, accruals exceeded obligations by $23,856,581; and disbursements exceeded obligations by $17,043,043.

Appendix E. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and or/ Type of Benefit
A.1.	Compliance and economy and efficiency. Correcting duplicate and erroneous payments made will improve the accuracy of accounting records and will allow future disbursements to be paid accurately. Collecting the duplicate payments from the vendors will save the government future interest expense.	Funds put to better use. DAO Pentagon could recoup at least $276,000 in duplicate payments to vendors. (See table at end of Appendix for an explanation of benefits).
A.2.	Internal control and economy and efficiency. Reviewing transactions to identify all erroneous payments, determining the cause for the erroneous payments, and taking appropriate corrective action will improve accounting operations. Collecting the duplicate and erroneous payments from the vendors will save the government future interest expense.	Undeterminable. Funds put to better use. Amount will depend on the number of duplicate and erroneous payments identified in the review performed by DAO Pentagon on its FYs 1993 and 1994 vendor payments.
A.3.	Internal controls and compliance. Establishing written local operating procedures for preventing duplicate and erroneous payments will help improve the DAO Pentagon operations.	Nonmonetary.
A.4.	Internal controls. Requiring managers to review subordinates' work before certifying vouchers for payment will prevent duplicate and erroneous payments.	Nonmonetary.

Recommendation Reference	Description of Benefit	Amount and or/ Type of Benefit
A.5.	Internal controls and compliance. Obtaining copies of the signature cards of all authorized certifying officers will help management to identify unauthorized payments.	Nonmonetary.
A.6.	Efficiency. Providing training to all personnel on the accounting system and procedures will help improve the DAO Pentagon operations.	Nonmonetary.
A.7., A.8.	Internal controls and compliance. Implementing internal controls to ensure the accounting system is updated in a timely manner and payments are made with proper support, properly authorized, and goods or services are received and accepted, will prevent incorrect or improper payments.	Nonmonetary.
A.9.	Internal controls and compliance. Establishing uniform filing procedures and periodic review of the files will help ensure all required purchase documentation has been filed.	Nonmonetary.
B.1.	Internal controls. Researching and correcting all discrepancies currently listed on the exception reports will improve the accuracy of the accounting system.	Nonmonetary.
B.2.	Internal controls. Requiring management to become familiar with all products available from the WAAS will help management to determine the accuracy of the accounting data input by the accounting technicians.	Nonmonetary.

Appendix E. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and or/ Type of Benefit
B.3.	Internal controls and compliance. Establishing local operating procedures for reviewing available reports and reviewing the exception reports and account histories will improve the reliability of accounting system.	Nonmonetary.
B.4.	Economy and efficiency. Operating one system would be cost effective and improve the efficiency of the DAO Pentagon operations and the interaction between the disbursing and accounting functions.	Undeterminable. Exact amount of funds put to better use will depend on the system selected and the cost related to its operation.
C.	Internal controls and compliance. Establishing the disbursing officer as the responsible certifying official will help ensure accountability and bring DAO Pentagon into compliance with DoD directives.	Nonmonetary.
D.	Internal controls and compliance. Implementing the DoD Internal Management Control Program for the DAO Pentagon, and including it in the DAO AFDW FY 1995 Statement of Assurance, will improve management of DAO Pentagon.	Nonmonetary.

Estimated Monetary Benefits
(See Reference A.1.)

Appropriation Number	Amount
97101001720	$ 5,510.00
97301073020	13,757.00
97204002520	158,670.00
97304002520	7,383.49
97704002520	4,276.09
97301004120	26,471.30
97301001220	1,381.35
97104001320	58,546.58
Total Duplicate Payments	**$275,995.81**

Note: A breakdown of above appropriations is provided by document number in Appendix B.

Appendix F. Organizations Visited or Contacted

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller), Washington, DC

Defense Agencies

Advanced Research Projects Agency, Arlington, VA
Ballistic Missile Defense Organization, Washington, DC
Headquarters, Defense Finance and Accounting Service, Arlington, VA
  Defense Finance and Accounting Service Center, Columbus, OH
  Defense Finance and Accounting Service Center, Denver, CO
    Defense Accounting Office, Air Force District of Washington, Bolling Air Force Base, Washington, DC
    Defense Accounting Office, Arlington, VA
Defense Legal Services Agency, Washington, DC
Defense Security Assistance Agency, Arlington, VA

Other Defense Organizations

Office of the Joint Chiefs of Staff, Washington, DC
American Forces Information Service, Alexandria, VA
Corporate Information Management Initiative, Office of Assistant Secretary of Defense (Command, Control, Communications and Intelligence), Washington, DC
Department of Defense Education Activity - DoD Dependent Schools, Arlington, VA
Defense Medical Program Activity, Alexandria, VA
Defense Technology Security Administration, Arlington, VA
Office of Economic Adjustment, Arlington, VA
Directorate for Budget and Finance, Washington Headquarters Services, Washington, DC

Appendix G. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
  Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Under Secretary of Defense (Comptroller/Program/Budget)
Assistant to the Secretary of Defense (Public Affairs)
Deputy Assistant Secretary of Defense (Plans and Resources), Office of the Assistant Secretary of Defense (Command, Control, Communications and Intelligence)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Auditor General, Department of the Navy

Department of the Air Force

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

Defense Agencies

Director, Advanced Research Projects Agency
Director, Ballistic Missile Defense Organization
Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
  Director, Defense Finance and Accounting Service Denver Center
    Director, Defense Accounting Office, Air Force District of Washington
Director, Defense Legal Services Agency
Director, Defense Logistics Agency
Director, National Security Agency
  Inspector General, National Security Agency
Inspector General, Central Imagery Office
Director, Defense Security Assistance Agency

Other Defense Organizations

Director, Joint Staff
Director, American Forces Information Service
Director, Department of Defense Education Activity - DoD Dependent Schools
Director, Defense Medical Program Activity
Director, Defense Technology Security Administration
Director, Office of Economic Adjustment
Director, Directorate for Budget and Finance, Washington Headquarters Services

Non-Defense Organizations

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

Chairman and Ranking Minority Member of Each of the Following Congressional Committees and Subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight
House Committee on National Security

Part IV - Management Comments

Defense Finance and Accounting Service

DEFENSE FINANCE AND ACCOUNTING SERVICE
1931 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22240-5291

APR 17 1995

DFAS-HQ/F

MEMORANDUM FOR DEPUTY DIRECTOR, FINANCIAL MANAGEMENT,
INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Audit Report on Vendor Payments - Defense Accounting Office, Air Force District of Washington, Finance Washington (Project No.3FH-5025.02)

We reviewed subject draft report, dated January 31, 1995. Attached are our comments to recommendations A.1, A.2, A.3, A.4, A.5, A.6, A.7, A.8, A.9, B.1, B.2, B.3, B.4, C and D.

For additional information, my point of contact is Ms. Cheryl Ford, DFAS-HQ/F, on DSN 327-0528 or Commercial (703) 607-0528.

Roger W. Scearce
Brigadier General, USA
Deputy Director for Finance

Attachments:
As stated

DFAS Comments

Recommendation A.1: We recommend that the Director, Defense Accounting Office, Air Force District of Washington, correct the accounting entries that resulted in the $629,000 in incorrect and improper payments identified in this audit and recoup overpayments.

Comment: We concur. Duplicate payments identified in Appendix B of the draft report of audit were validated, and letters were sent to all applicable vendors requesting refunds. In addition to required recoupment actions, duplicate accruals were researched and corrective actions implemented. (ECD: May 31, 1995)

Recommendation A.2: We recommend that the Director, Defense Accounting Office, Air Force District of Washington, perform a review of fiscal year 1993 and 1994 transactions using exception reports and reconciliations of accounting information with Defense activities supported to identify erroneous payments, determine the cause for the erroneous payments, and take appropriate corrective action, including recoupment of any overpayments.

Comment: We concur. Review and validation of the accuracy of FY 93/94 transactions was initiated some months ago. DAO Pentagon and supported Defense agency associates meet on a regular basis to resolve current and prior year accounting discrepancies. Corrective action, including recoupment, is taken on all erroneous payments identified during these ongoing joint reviews. (ECD: September 30, 1995)

Recommendation A.3: We recommend that the Director, Defense Accounting Office, Air Force District of Washington, establish written local operating procedures for preventing duplicate and erroneous payments. These procedures should include, but not be limited to: checking for duplicate invoice numbers; checking for identical items or services received on the same day for the same organization but with different invoice numbers; reconciling information on supporting documents to vouchers (e.g., appropriation data); and addressing any unique accounting procedures required for the different Defense agencies supported.

Comment: We concur. Written local operating procedures have been established to minimize duplicate and erroneous payments. (Closed)

Recommendation A.4: We recommend that the Director, Defense Accounting Office, Air Force District of Washington, require supervisory review of supporting documentation before certifying vouchers for payment and input to the accounting and disbursement systems.

Comment: We concur. A system of internal controls has been implemented to include supervisory review of supporting documentation before vouchers are certified for payment and input to the Accounting and Disbursing systems. (Closed)

Recommendation A.5: We recommend that the Director, Defense Accounting Office, Air Force District of Washington, obtain copies of the signatures of all authorized certifying officers, and maintain them at the Defense Accounting Office, Air Force District of Washington and the Defense Accounting Office, Pentagon to verify the validity of transactions.

Comment: We concur. The Bolling DAO will obtain copies of all authorized certifying officers signatures and maintain them at DAO Bolling and at DAO Pentagon (WHS). This will be accomplished through the use of DD Form 577 procedures as outlined in the DoD Financial Management Regulation, Volume 5. (ECD: April 28, 1995)

Recommendation A.6: We recommend that the Director, Defense Accounting Office, Air Force District of Washington, provide training on the Washington Headquarters Services Allotment Accounting System capabilities and limitations and proper accounting procedures to all technicians using the system.

Comment: We concur. A new training program was implemented in October 1994 on the Washington Headquarters Services Allotment Accounting System (WAAS) capabilities, limitations, and proper accounting procedures. All technicians using this system have been trained. (Closed)

Recommendation A.7: We recommend that the Director, Defense Accounting Office, Air Force District of Washington, implement internal controls that require that the Washington Headquarters Services Allotment Accounting System be updated within 24 hours of receiving properly authorized supporting documents.

Comment: We concur. Internal controls have been implemented to ensure the WAAS is updated in a timely manner upon receipt of properly authorized supporting documents. (Closed)

Recommendation A.8: We recommend that the Director, Defense Accounting Office, Air Force District of Washington, implement internal controls requiring the maintenance of proper supporting documents, such as Standard Form 1034, Standard Form 1080, vendor invoices, and receiving reports required to support the propriety of payments.

Comment: We concur. A system of internal controls has been implemented to include assurance of proper maintenance of supporting documents to support propriety of payments. (Closed)

Recommendation A.9: We recommend that the Director Defense Accounting Office, Air Force District of Washington, establish

uniform filing procedures that ensure documents are filed at least weekly, and provide a centralized location for maintaining documents needed for future review.

Comment: We concur. Uniform filing procedures have been established to ensure documents are filed weekly. A centralized location for maintaining documents needed for future review will be provided following relocation of the DAO Pentagon to a larger facility. Plans are currently being worked to move this function to Defense Finance and Accounting Service (DFAS) facilities in the Crystal Mall, Alexandria, VA. (ECD: September 30, 1995)

Recommendation B.1: We recommend that the Director, Defense Accounting Office, Air Force District of Washington, correct the out-of-balance conditions shown on the current exception reports.

Comment: We concur. Research and correction of out-of-balance conditions is in progress. Current focus is on transactions for FY93 to present. FY92 and prior year out-of-balance conditions will be subsequently corrected before their respective funds are canceled.
(ECD: September 30, 1995)

Recommendation B.2: We recommend that the Director, Defense Accounting Office, Air Force District of Washington, train Defense Accounting Office, Pentagon management on the use of exception reports available through the Washington Headquarters Services Allotment Accounting System.

Comment: We concur. All managers have been trained on the use of exception reports available through the Washington Headquarters Services Allotment Accounting System. (Closed)

Recommendation B.3: We recommend that the Director, Defense Accounting Office, Air Force District of Washington, establish procedures that require Defense Accounting Office, Pentagon management to review exception reports at least weekly and take corrective actions to clear reported exceptions in a timely manner.

Comment: We partially concur. DAO Pentagon has been reviewing and researching exception reports and reporting status of the reports to DFAS-Denver since March, 1994. These actions have been accomplished on a monthly basis, as originally recommended by the Auditor during the time this audit was being conducted. As the frequency of these reviews is optional, we request this recommendation be changed from "weekly" to "monthly" as originally suggested. We feel that the frequency of monthly is more valuable in establishing trend data. (Closed)

Recommendation B.4: We recommend that the Director, Defense Accounting Office, Air Force District of Washington, perform a study of consolidating the accounting functions performed by the Washington Headquarters Services Allotment Accounting System into

the standard Air Force accounting system operated by the Defense Accounting Office, Air Force District of Washington.

Comments: We concur with the value of performing a study. The DFAS-Columbus Center has been tasked by DFAS-Headquarters to perform a comprehensive review of all Defense Agency Defense Accounting Offices for consolidation into a single operating location. The DAO, Pentagon is to be included in that study. The results of that initiative are to be briefed to the Director, DFAS in the near future. The DAO AFDW (DAO Bolling) is scheduled to be consolidated to a DFAS-Denver Operating Location (OPLOC). DFAS-Denver has previously reviewed the potential for converting support provided under the WAAS to the General Accounting and Finance System (GAFS). The Denver Center decided it would be more cost effective to await the DFAS-Columbus Center study prior to proceeding with any conversion plans. Converting the WAAS to GAFS and then possibly converting to yet another accounting system, as a result of the DFAS-Columbus initiative, would be unacceptably disruptive and not cost effective. (Closed)

Recommendation C. We recommend that the Director, Defense Accounting Office, Air Force District of Washington, in his role as Disbursing Officer, assume responsibility for the certification of fund availability for all supported activities.

Comment: We non-concur. Existing fund control procedures require the component receiving the appropriateion, allocation, or allotment to certify fund availability for obligation.

Recommendation D. We recommend that Director, Defense Accounting Office, Air Force District of Washington, implement the DoD Internal Management Control Program for the Defense Accounting Office, Pentagon and include the Defense Accounting Office, Pentagon in the Defense Accounting Office, Air Force District of Washington, Fiscal Year 1995 Statement of Assurance.

Comment: We concur. The DoD Internal Management Control Program was established for the Defense Accounting Office, Pentagon, on October 1, 1994. The FY95 Statement of Assurance for the Defense Accounting Office, Air Force District of Washington (DAO Bolling) will include operations of the Defense Accounting Office, Pentagon. (ECD: September 30, 1995)

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