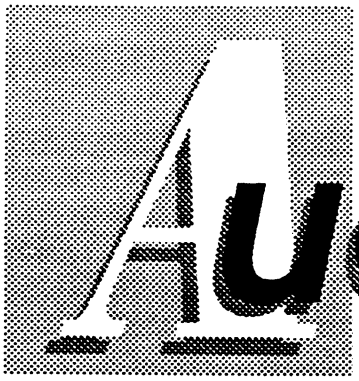

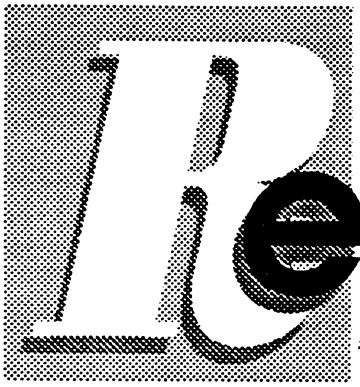

OFFICE OF THE INSPECTOR GENERAL

CENTRALLY MANAGED ALLOTMENT SYSTEM IN THE RESERVE COMPONENTS

Report No. 96-185 June 28, 1996

Department of Defense

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Acronyms

ANG	Air National Guard
ARNG	Army National Guard
CMA	Centrally Managed Allotment
DFAS	Defense Finance and Accounting Service
DJMS	Defense Joint Military Pay System
NGB	National Guard Bureau

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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June 28, 1996

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
ASSISTANT SECRETARY OF DEFENSE (RESERVE AFFAIRS)
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT AND COMPTROLLER)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)
CHIEF, NATIONAL GUARD BUREAU
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on Centrally Managed Allotment System in the Reserve Components (Report No. 96-185)

We are providing this audit report for review and comments. The audit was requested by the Under Secretary of Defense (Comptroller). We considered management comments on a draft of this report in preparing the final report.

DoD Directive 7650.3 requires that all audit issues and recommendations be resolved promptly. The Air National Guard did not comment on the material management control weakness. Therefore, we request that the Director, Air National Guard, provide comments on this report by August 28, 1996. We also request that the Chief, Army Reserve, provide additional comments on Recommendations 3.b. and 3.c. in response to the final report.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Richard B. Bird, Audit Program Director, at (317) 542-3859 (DSN 699-3859), or Mr. Edward A. Blair, Acting Audit Project Manager, at (216) 522-6091 (DSN 580-6091). See Appendix G for the report distribution. The audit team members are listed inside the back cover.

Robert J. Lieberman

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Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 96-185 **June 28, 1996**
(Project No. 5FI-5042)

Centrally Managed Allotment System in the Reserve Components

Executive Summary

Introduction. This audit was requested by the Under Secretary of Defense (Comptroller), who is considering a policy change that would direct all DoD Reserve components to use decentralized (designated) allotments instead of the present centrally managed (open) allotment accounting system for Reserve pay appropriations. The centrally managed allotment system has been cited as a cause of accounting errors and unmatched disbursements.

Most of the $8 billion spent annually for payment of about 927,000 Reservists is paid through centrally managed allotments. DoD considers centrally managed allotments a risk because controls are maintained at one level and obligations are incurred at another level. A centrally managed allotment is comparable to an open checking account, where checks may be written at any time without knowledge of the available balance.

DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 14, "Administrative Control of Funds and Antideficiency Act Violations," August 1, 1995, states that centrally managed allotments shall be established only when the administration of decentralized allotments is impractical. Any request to establish a centrally managed allotment must justify the need, delineate alternatives, and clearly show why a centrally managed allotment is the only practical procedure. A centrally managed allotment must be approved by the DoD Component head. Before approval, the head of the operating agency requesting the centrally managed allotment must provide specific written determination that adequate controls have been established to avoid overobligating or overexpending such an allotment. Each centrally managed allotment must be reviewed annually to determine whether it should be continued.

Audit Objectives. The primary audit objective was to review the centrally managed allotment system and its impact on appropriations for Reserve pay. We also identified the potential impact of implementing a decentralized allotment system. Although we did not evaluate the management control program as applicable to the audit objective, we identified a material management control weakness.

Audit Results. The Reserve components did not have adequate controls in place to manage Reserve pay. DoD did not have standard accounting systems that would support a conversion to decentralized allotments, thus strengthening the controls. Appendix D identifies some of the systems that Reserve components were using to support Reserve pay. None of the Reserve components fully complied with DoD policy. Reserve components could not provide documentation to support their justifications for establishing centrally managed allotments or for continuing to use them. Although decentralized allotments would provide better controls and allow Reserve components to better identify, research, and correct accounting errors and unmatched disbursements, the Reserve components cannot implement decentralized allotments at present. Appendix A discusses the material management control weakness we identified in the administration of centrally managed allotments for Reserve pay.

Summary of Recommendations. We recommend that the Under Secretary of Defense (Comptroller) establish a working group with the Assistant Secretary of Defense (Reserve Affairs), the Reserve components, and the Defense Finance and Accounting Service (DFAS) for converting Reserve and National Guard personnel appropriations to decentralized allotments. The goal of this working group should be the implementation of a standard funds control system for Reserve and National Guard personnel appropriations. The working group should provide periodic reports to the Under Secretary of Defense (Comptroller) on its progress. We also recommend that the heads of the DoD Reserve components establish procedures to ensure that all components comply with DoD Regulation 7000.14-R. If implemented, this recommendation will improve the Reserve components' controls over the current use of centrally managed allotments for Reserve and National Guard personnel appropriations.

We recommend that the Director, DFAS, approve, on a trial basis, the Army National Guard's request to convert from a centrally managed allotment to decentralized allotments for training pay for inactive-duty Reservists. We also recommend that the Director, DFAS, develop, implement, and coordinate necessary system changes to interim migratory accounting systems for personnel appropriations at both the National Guard Bureau and the Reserve components to accommodate decentralized allotments.

Management Comments. The Under Secretary of Defense (Comptroller) concurred with our findings and recommendations and has initiated action to establish the recommended working group; the Deputy Assistant Secretary of Defense for Reserve Affairs (Resources) and the DoD Reserve components have agreed to participate in the working group. The comments from the Assistant Secretary of the Navy (Manpower and Reserve Affairs) include the comments from the Naval Reserve and the Marine Corps Reserve. All of the Reserve components, except for the Army Reserve, concurred or partially concurred with the recommendation to establish procedures to ensure compliance with DoD Regulation 7000.14-R.

The Deputy Director for General Accounting, DFAS, concurred with the recommendations and agreed to participate in the working group, approve on a (trial basis) the system change to the Defense Joint Military Pay System, and develop and implement the necessary system changes to accommodate decentralized allotments.

We did not receive management comments from the Director, Air National Guard. For a summary of management comments, see Part I. For the complete text of management comments, see Part III.

Audit Response. Management comments were partially responsive. The Under Secretary of Defense (Comptroller); the Assistant Secretary of the Navy (Manpower and Reserve Affairs); the Director, Army National Guard; the Director, Naval Reserve; the Chief, Air Force Reserve; and the Marine Corps Reserve have taken or plan corrective actions. We request that the Chief, Army Reserve, provide additional comments on Recommendations 3.b. and 3.c. by August 28, 1996. We also request that the Director, Air National Guard provide written comments on this final report by August 28, 1996.

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Part I - Audit Results

Audit Background

DoD Reserve Components. The DoD Reserve components are the Army National Guard (ARNG), Army Reserve, Naval Reserve, Air National Guard (ANG), Air Force Reserve, and Marine Corps Reserve. Title 10, United States Code (U.S.C.), section 10102, states:

> The purpose of each reserve component is to provide trained units and qualified persons available for active duty in the armed forces, in time of war or national emergency, and at such other times as the national security may require, to fill the needs of the armed forces whenever, during and after the period needed to procure and train additional units and qualified persons to achieve the planned mobilization, more units and persons are needed than are in the regular components.

Decentralized Allotments. A decentralized allotment is a formal distribution of an allocation, authorized by the head of a Reserve component, which allows the head of a Reserve unit to incur obligations up to a specified amount. Each recipient of a designated allotment is legally responsible for violations of the Antideficiency Act. DoD prefers to use decentralized allotments for funds control because they are less risky than centrally managed allotments (CMAs).

Centrally Managed Allotments. CMAs are administered through an open allotment account number that permits Reserve component officials to charge the account for authorized purposes without further determination or certification of funds available for each transaction. When CMAs are used, the sponsors of appropriations are legally responsible for any violations of the Antideficiency Act. With CMAs for Reserve pay, obligations are estimated at headquarters, but are incurred by Reserve units. The units do not know whether funds are actually available and obligated to fund the charges. As a result, CMAs may cause violations of the Antideficiency Act. Because Reserve components have been using CMAs for Reserve pay for many years, officials could not determine when CMAs were initially established.

DoD Regulation 7000.14-R. DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 14, "Administrative Control of Funds and Antideficiency Act Violations," August 1, 1995, implements procedures for administrative control of appropriations. The regulation states that the head of an operating agency, with the specific written approval of a DoD Component head, may establish CMAs. These allotments shall be established only when the administration of decentralized allotments under normal operating procedures is impractical. Before approval, specific written determination shall be made that adequate controls have been established to avoid overobligating or overexpending such an allotment. Requests for the establishment of a CMA must fully justify the need, delineate alternatives, and clearly show why the CMA is the only practical procedure. Each CMA shall be reviewed annually to determine whether it should be continued. As part of the annual review, an

internal audit group shall evaluate whether control procedures are adequate to prevent violations of the Antideficiency Act, and shall make a recommendation as to whether continuation of the CMA is justified.

Antideficiency Act. The Antideficiency Act, codified in 31 U.S.C. 1341 and 1517, specifically prohibits Executive agencies from making or authorizing an expenditure exceeding an amount available in an appropriation or fund for the expenditure or obligation. An Antideficiency Act violation occurs when:

- o obligations that exceed amounts available are authorized or created;
- o funds are disbursed in excess of amounts available;
- o obligations or disbursements exceed statutory or regulatory limitations on an appropriation intended for a particular purpose; or
- o obligations are authorized or created before funds are available.

Defense Joint Military Pay System. The Defense Joint Military Pay System (DJMS), maintained by the Defense Finance and Accounting Service (DFAS), provides the Reserve components with the pay and accounting information needed for effective management of Reserve pay appropriations. Although the DJMS can produce accounting data, it is a finance system, not an official accounting system. Therefore, Reserve components must rely on their own internal systems to account for their Reserve pay allotments.

Under Secretary of Defense (Comptroller) Request for Assistance. In a memorandum dated May 26, 1995, the Under Secretary of Defense (Comptroller) (USD[C]) stated that he was considering a policy change that would require all Reserve components to use decentralized allotments for Reserve pay. The USD(C) requested that the Inspector General, DoD, provide an independent assessment of issues relating to CMAs.

Audit Objectives

The primary audit objective was to review the CMA system and its impact on appropriations for Reserve pay. We also assessed the potential impact of implementing a decentralized allotment system. Although we did not evaluate the management control program as applicable to the audit objective, we identified a material management control weakness (see Appendix A).

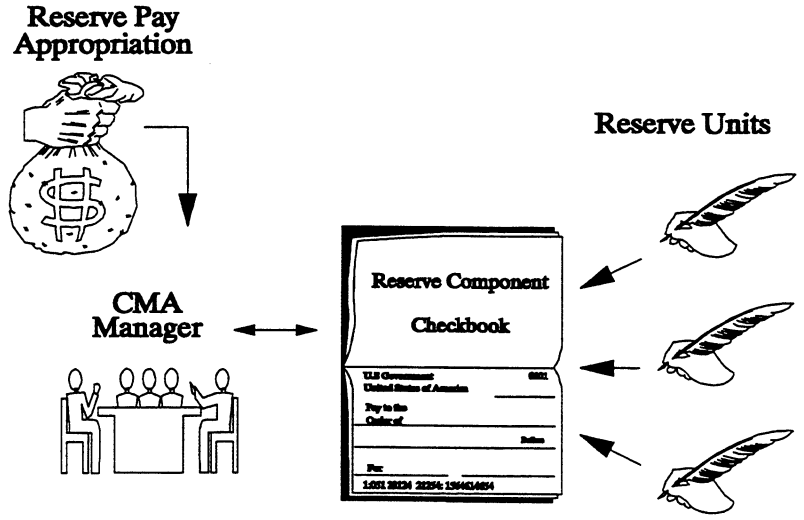
Controls Over Centrally Managed Allotments for Reserve Pay

The DoD Reserve components did not have adequate controls in place to manage Reserve pay. DoD did not have standard accounting systems that would support a conversion to decentralized allotments, thus strengthening the controls. The Reserve components were not following DoD guidance, which required the establishment and continued use of CMAs to be justified in writing. DoD guidance also required annual evaluations of control procedures established to prevent statutory violations; those evaluations were not performed. As a result, Reserve components were not ready to implement decentralized allotments, and risked additional violations of the Antideficiency Act.

Reserve Pay Allotments and the Risks of CMAs

Appendix C lists the types of Reserve pay, along with the corresponding type of allotment (centrally managed or decentralized) used by each Reserve component. Most of the approximately $8 billion spent annually to pay about 927,000 reservists is paid through the use of CMAs.

CMAs for Reserve pay present risks because although obligations are estimated at headquarters, they are incurred (used) at the Reserve units. A CMA can be compared to an open checking account. The figure, "Centrally Managed Allotments," illustrates the comparison and shows the risks presented by CMAs.



Centrally Managed Allotments. Allotments (checking accounts) are centrally managed at headquarters, while individual Reserve units can incur obligations (write checks) without knowing the account balance.

Accounting Errors, Unmatched Disbursements, and Overobligations

In a memorandum dated May 26, 1995, the Under Secretary of Defense (Comptroller) cited the CMA system used by the Reserve components as a root cause of accounting errors and unmatched disbursements. Table 1 shows the total undistributed disbursements reported for FY 1995. Undistributed disbursements are the difference between the total disbursements (or collections) recorded, and those not matched to obligations.

Table 1. FY 1995 Undistributed Disbursements Within the Reserve Pay Appropriations

Component	Reserve Pay Appropriation	Undistributed Disbursements (millions)
Army National Guard	2060	$ 43.50
Army Reserve	2070	26.40
Naval Reserve	1405	71.30
Air National Guard	3850	.99
Air Force Reserve	3700	6.70
Marine Corps Reserve	1108	9.60
Total		**$ 158.50**

ARNG officials felt that decentralized allotments would allow them to better match disbursements to obligations. Since decentralized allotments were rarely used for Reserve pay, we found no instances in which converting to decentralized allotments would significantly reduce accounting errors and unmatched disbursements. We agree that decentralized allotments would allow more detailed reconciliations than are currently being performed for CMAs. These detailed reconciliations would allow the Reserve components to better identify, research, and correct accounting errors and unmatched disbursements.

DFAS officials stated that by converting to decentralized allotments, they might prevent overexpenditures, but they still could not prevent overobligations. Consequently, these officials believed that the opportunity for overobligations would increase if more decentralized allotments were used. However, with decentralized allotments, legal responsibility is delegated to the heads of Reserve units. We believe this responsibility would help prevent overobligations.

Impact of Converting to Decentralized Allotments for Reserve Pay

During the 1990s, DoD will continue to experience significant downsizing, resulting in fewer DoD installations and reduced active-duty and Reserve forces. As the drawdown continues, DoD must continue to standardize its accounting practices and financial management systems. After interviewing DFAS and Reserve component personnel, we concluded that the DJMS and the Reserve components' accounting systems and personnel requirements would be significantly affected if allotments for Reserve pay were further decentralized.

Impact on Systems. System changes to DJMS and the Reserve components' accounting systems would be required before converting to decentralized allotments. Current systems are designed to monitor most Reserve pay categories through the use of CMAs.

System Changes and Standardization of the Reserve Components' Accounting Systems. We did not perform an in-depth review of the system changes that Reserve components and field activities would have to make before converting to decentralized allotments. Because the Reserve components had no standard DoD accounting system for managing CMAs, many different systems, some of which ran on desktop computers, were used. Appendix D lists some of the systems we identified. The Reserve components differed greatly in the extent and economic feasibility of the changes that would be needed before converting to decentralized allotments.

Although the Air Force Reserve used CMAs, officials believed that their internal management system was similar to a decentralized allotment system because budget officers in each unit were responsible for managing Reserve pay funds. Air Force Reserve officials suggested that if DoD converted to decentralized allotments for Reserve pay, the Air Force Reserve system could be a model for the other Reserve components. Because of potential violations of the Antideficiency Act within the Air Force Reserves and the lack of documentation of controls over CMAs, we cannot recommend that the Air Force Reserve system be used as a model.

The Army was developing an automated system for its Reserve components that would support the ARNG and the Army Reserve in monitoring unit status, mobilization planning, execution, deployment, and demobilization. Under the resource management function of the Reserve components' automated system, users would be able to distribute and control Reserve pay funds and communicate with the Army's Standard Finance System. We did not review this system because it was not operational during our audit. However, the Reserve components' automated system should be reviewed to determine whether any of its elements could be used by all Reserve components.

System Changes to the DJMS. If the Reserve components were required to use decentralized allotments, DJMS would have to be changed to convert each type of Reserve pay entitlement to be paid with CMA funds. Before this conversion occurs, each Reserve component should be allowed to

identify all system changes needed for a successful transition to decentralized allotments. DFAS officials stated that DJMS could be reprogrammed to accommodate decentralized allotments. However, programming changes would be extensive and might require additional software development. Since reprogramming would compete with other high-priority projects, DFAS officials estimated that full implementation would not be possible until FY 1998 or later.

The ARNG planned to test decentralized allotments, beginning with training pay for inactive-duty Reservists. In March 1994, the ARNG requested a change in DJMS to accommodate decentralized allotments for all training pay for inactive-duty Reservists. Because DoD is required to develop standardized systems, DFAS officials believed that a uniform policy for Reserve pay allotments should be implemented for all DoD Reserve forces. Consequently, as of December 31, 1995, the system change request had not been approved. Approving this request on a trial basis would allow DoD to test the feasibility of decentralized allotments before undertaking a full-scale implementation.

Impact on Work Load and Personnel. Reserve component officials agreed that keeping track of allotments was labor-intensive, and that converting to decentralized allotments would significantly increase the work load. They viewed this increased work load as a major disadvantage because it would result in the need for additional personnel and training.

Additional Personnel. All Reserve components had formal or informal structures at every level of command to manage staff days and budgetary requirements. These structures functioned with varying degrees of success. Although officials in all Reserve components agreed that decentralized allotments would require additional personnel, they could not quantify how many would be needed, and opinions on this issue differed among officials of the same Reserve component. Many officials preferred not to make any estimate. Some officials emphasized that because of the additional personnel required, converting to decentralized allotments could not be justified for economic reasons.

ARNG officials established a conversion task force because they believed that decentralized allotments were feasible. The task force was responsible for developing the necessary policies, procedures, and strategies to convert the ARNG pay appropriation from a CMA to a decentralized allotment. Although the task force intended to address the personnel issue, they had not reached any conclusions at the time of our audit.

To obtain a field-level perspective on decentralized allotments, we interviewed personnel from the U.S. Property and Fiscal Office of the Ohio ARNG. Officials there believed that additional personnel would be needed to properly manage allotments if a conversion took place. However, they could not quantify the number of additional personnel because they did not know what duties these employees would perform.

Additional Training. Decentralized allotments would require unit personnel to perform additional duties that they would not perform for CMAs. The extent of the training needed would depend on the experience of the personnel who administer the decentralized allotments. This issue must be considered, in conjunction with the need for additional personnel, before a conversion to decentralized allotments can take place.

Additional Concerns About Converting to Decentralized Allotments. In addition to concerns about systems and personnel, some Reserve component officials believed they would lose some of the advantages associated with CMAs. Appendix E identifies some advantages of CMAs as perceived by Reserve component officials.

Approvals, Procedures, and Justifications for CMAs

Because CMAs present the risk of Antideficiency Act violations, DoD has imposed a strict approval process for establishing them. However, the Reserve components have not complied with the approval process, which requires a written determination that adequate controls have been established to avoid overobligating or overexpending a CMA. Reserve components also could not provide documentation to support the establishment, procedures, and justifications for continued use of CMAs. Except for the ARNG, the Reserve components have not emphasized the risks of using CMAs and have not considered converting to decentralized allotments.

Establishment of CMAs. DoD Regulation 7000.14-R requires that CMAs be used only when all other methods of funds control are impractical. Each Reserve component must submit a request that justifies the need, delineates alternatives, and clearly shows why a CMA is the only practical procedure. All requests must be approved by the head of the DOD Component. The Reserve components could not provide copies of their requests or justify the establishment of their CMAs for Reserve pay. For example, officials of the Naval Reserve Force stated that they had inherited CMAs from the Bureau of Naval Personnel in 1977. Because of the lack of documentation to support CMAs, we could not determine whether alternative procedures were ever considered.

Operating Procedures for CMAs. Since each Reserve component had its own method of managing CMAs, we asked to see written procedures at each component. Operating procedures had not been documented, and procedures were not standardized among the Reserve components. Management of CMAs depended heavily on key personnel, rather than on a sound infrastructure with documented written processes. A sound infrastructure would not be adversely affected by the departure of key personnel.

Justification for Continued Use of CMAs. DoD Regulation 7000.14-R states that each CMA should be reviewed annually to determine whether it should be continued. The reviews must address the adequacy of control procedures

established to prevent violations of the Antideficiency Act. Because none of the Reserve components could provide copies of annual reviews, we concluded that the reviews were not being performed. Without these annual reviews, the Reserve components could not determine whether their controls adequately prevented violations of the Antideficiency Act. The Assistant Secretary of Defense (Reserve Affairs) should convey to the Reserve components the importance of these reviews for assessing the adequacy of CMA control procedures.

The Reserve components must take the required steps to comply with DoD Regulation 7000.14-R. By doing so, they will give management the information needed to continually evaluate and properly use approved CMAs.

Antideficiency Act Violations Within Reserve Pay Appropriations

After analyzing the recent violations and near-violations of the Antideficiency Act within Reserve pay appropriations, we concluded that controls over CMAs for Reserve pay were not adequate to prevent violations of the Act. Table 2 shows some of the Reserve components' violations or near-violations of the Antideficiency Act.

Table 2. Violations or Near-Violations of the Antideficiency Act

Reserve Component	Fiscal Year	Amount (millions)	Status
Army National Guard	1993	$ 29.6	Violation
Air Force Reserves	1993	5.5	Pending*
Naval Reserves	1994	12.0	Near-violation
Air National Guard	1994	4.0	Near-violation
Total		**$ 51.1**	

*Violation pending investigation.

Army National Guard. A violation of the Antideficiency Act was reported when the FY 1993 ARNG pay appropriation was overpopulated and overdisbursed. The appropriation was deficient by $29.6 million. As a result of the funding shortage, the payroll cycle was disrupted for National Guard members who performed services in good faith. Appendix B gives details of the violation.

The ARNG analyzed the effects of the FY 1993 appropriation and immediately took steps to ensure that future appropriations would not be overdisbursed. We

commend the ARNG for its efforts. However, management of the appropriation must continue to improve. A major priority of the ARNG was the implementation of a decentralized allotment system for all Reserve pay. The ARNG recognized that the risks of CMAs, combined with the monthly variables of personnel strengths and drill participation rates, made the continuation of CMAs infeasible. Senior ARNG officials believed that decentralizing the allotment to the 54 U.S. Property and Fiscal Offices would give the activities that execute ARNG programs more control over funds.

Air Force Reserve. During our audit, the Assistant Secretary of the Air Force (Financial Management and Comptroller) was investigating a potential $5.5 million violation of the Antideficiency Act in the FY 1993 Reserve Personnel, Air Force, appropriation. However, the investigation was not complete, and details of the cause of the alleged violation were not available.

Naval Reserve. The Naval Reserve prevented a violation of the Antideficiency Act in its FY 1994 Reserve Personnel, Navy, appropriation. In the last few weeks of FY 1994, congressional approval was obtained and $12 million was reprogrammed to avoid an overobligation. Although we did not extensively review the conditions leading to this near-violation, unanticipated expenditures for annual training and the Naval Reserve's continued inability to reduce its end strength were significant factors.

Unanticipated Expenditures for Naval Reserve Annual Training. Unanticipated expenditures for annual training occurred because the Naval Reserve budget office estimated about 1,650 annual training orders at a cost of $3 million. However, 7,300 orders, totaling about $14 million, were actually processed. Naval Reserve officials said the reason for the difference was increased support for the fleet in high-priority operations such as Bosnia and Haiti. These operations also required substantial overseas travel, which is much more expensive than annual training performed in the United States.

These unanticipated expenditures hampered the Naval Reserve's ability to effectively manage funds and increased the risk of a violation of the Antideficiency Act. The Naval Reserve had difficulty reacting to the unanticipated expenditures because they occurred late in the fiscal year. A period of 60 to 90 days passed between the date a Reservist completed travel for annual training and the date the travel data were transmitted from DFAS to the Naval Reserve's accounting system. Although subordinate commands executed the travel orders, they had limited financial responsibility under the CMA system, so there was no incentive to manage or save funds. Since the budget was based on averaging, units could send a Reservist to Europe or to Norfolk, Virginia, for the same average cost, and the CMA would absorb excess expenditures. Officials at subordinate commands felt that they could administer travel funds more efficiently than the managers at the Naval Reserve Force who monitor the CMAs. These officials favored decentralized allotments for annual training.

Lack of Reductions in Naval Reserve End Strength. The Naval Reserve did not reduce its end strength by approximately 20,000 personnel. The anticipated attrition did not occur among officers. Some Naval Reserve

officials stated that the plan to reduce end strength was too passive; it allowed attrition to dictate the outcome, and contributed to the funding shortfall by keeping more personnel on the payroll than the budget allowed.

Naval Reserve officials should have learned about this situation earlier in the fiscal year. Communication was lacking between the budget staff, personnel staff, and subordinate commands that executed the end-strength plan. The budget office issued drill pay by staff days and focused on expenditures. The personnel staff monitored end strength during the year, and offered incentives or reduced recruiting efforts when the drawdown was not meeting goals. However, subordinate commands were not required to reduce the number of paid staff days. One official told us that he did not try to reduce his end strength or staff days; he let Headquarters, Naval Reserve Force, solve the problem. Naval Reserve organizations must work together for effective financial management and to prevent violations of the Antideficiency Act.

ANG. The ANG had a near-violation of the Antideficiency Act in its FY 1994 National Guard Personnel, Air Force, appropriation. The ANG obtained $4 million without Congressional approval, thus avoiding an overobligation. Although we did not conduct an extensive review of the conditions leading to the near-violation, a lack of written procedures was a significant factor.

No written procedures existed for effective management of the ANG Reserve pay appropriation. An ANG official stated that this depended heavily on the employee who managed the appropriation.

At the time of the near-violation, the manager responsible for the CMA was new to the job. The manager explained that the DFAS Denver Center determined an estimated payment for retired pay accruals and deposited it monthly in support of the ANG member's Reserve pay. After payroll was complete and the actual amount was determined, an adjustment to the estimated monthly deposit might be required. The DFAS Denver Center underestimated the retired pay accrual, and the ANG did not know the actual amount due for FY 1994 until after the end of the fiscal year. A more experienced manager following written procedures might have anticipated the shortfall.

Army Reserve and Marine Corps Reserve. We were not aware of any actual or potential violations of the Antideficiency Act by the Army Reserve or the Marine Corps Reserve.

Conclusion

Reserve components do not have adequate controls in place to manage Reserve pay using CMAs. As financial resources decrease, monitoring Reserve pay appropriations will become more difficult. With CMAs, each Reserve component uses its own controls, which are often adjusted in reaction to a violation or near-violation of the Antideficiency Act. The lack of documentation for these controls and the lack of standardization among the

Reserve components present additional difficulties for CMAs or decentralized allotments because effective controls do not exist for either method. Implementing a uniform allotment policy and a standard DoD accounting system for Reserve pay will improve financial management by the Reserve components.

Converting to decentralized allotments would improve financial management and prevent statutory violations. However, before making this change, DoD must ensure that adequate systems and personnel are in place at each Reserve component and its field activities to account for decentralized allotments. Currently, these elements are not in place. The Reserve components should be allowed to identify all system changes and personnel and training requirements needed to implement decentralized allotments for Reserve pay.

Implementation of our recommendations will allow all Reserve components to share ideas, develop standard processes, and improve controls, instead of working independently and developing individual processes or solutions each time a problem occurs.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Under Secretary of Defense (Comptroller) establish a working group with the Assistant Secretary of Defense (Reserve Affairs), the Reserve components, and the Defense Finance and Accounting Service, for converting Reserve and National Guard personnel appropriations to decentralized allotments. The goal of this working group should be the implementation of a standard funds control system for Reserve and National Guard personnel appropriations. The working group should:

a. Conduct a review to:

(1) Identify integrated and interfaced Reserve pay accounting systems that can be modified to provide standard accounting for Reserve and National Guard personnel appropriations, using decentralized allotments.

(2) Identify system changes in the Reserve components' interim migratory accounting systems that will be required to convert Reserve and National Guard personnel appropriations to decentralized allotments.

(3) Determine the personnel and training requirements for conversion to decentralized allotments.

(4) Perform a cost-benefit analysis for conversion to decentralized allotments.

b. Provide periodic reports to the Under Secretary of Defense (Comptroller) on the working group's progress. The reports should make recommendations for implementing decentralized allotments. A final report with recommendations should be provided to the Under Secretary of Defense (Comptroller).

Under Secretary of Defense (Comptroller) Comments. The Deputy Chief Financial Officer, Office of the Under Secretary of Defense, concurred with the findings and recommendations and stated that efforts have been initiated to establish the recommended working group. The primary objective of the working group will be to improve financial management in the National Guard and Reserve appropriations.

Marine Corps Reserve Comments. The Marine Corps Reserve nonconcurred with Recommendation 1. A discussion of the Marine Corps Reserve comments is included in the audit response to Recommendation 3.

2. We recommend that the Under Secretary of Defense (Comptroller) review the working group's report (Recommendation 1.b.) before making any policy changes that affect funds control in Reserve and National Guard personnel appropriations.

3. We recommend that the heads of the Reserve components (Army National Guard, Army Reserve, Naval Reserve, Air National Guard, Air Force Reserve, and Marine Corps Reserve):

a. Participate in the working group established in Recommendation 1.

Army National Guard Comments. The Director, Army Comptroller, National Guard Bureau, concurred with the recommendation and stated that a member of the Comptroller Directorate, Army National Guard, should serve on the working group.

Army Reserve Comments. The Comptroller, Office of the Chief, Army Reserve, concurred with the recommendation to establish a working group and stated that the group should include representatives from each Reserve component and DFAS.

Naval Reserve Comments. The Director, Naval Reserve, Office of the Chief of Naval Operations, concurred with the finding and will participate in the working group.

Air Force Reserve Comments. The Chief of Air Force Reserve, Headquarters United States Air Force, concurred with the recommendation and will participate in the working group.

Marine Corps Reserve Comments. The Marine Corps Reserve concurred, provided that the working group's goal is to evaluate the advantages and disadvantages of centralized and decentralized allotments and determine the proper direction to take.

Audit Response. We agree that the working group should evaluate the advantages and disadvantages of converting to decentralized allotments. However, the Marine Corps must be prepared to standardize its procedures as appropriate, so that uniform controls exist throughout DoD. The Under Secretary of Defense (Comptroller) stated that the primary objective of the working group will be to improve financial management in the National Guard and Reserve appropriations. We agree with the overall goal; as recommended, the Under Secretary of Defense (Comptroller) should review the working group's recommendations before changing DoD policy.

b. Establish procedures to ensure compliance with DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 14, "Administrative Control of Funds and Antideficiency Act Violations," August 1, 1995, by developing requests that justify the need for each centrally managed allotment for Reserve and National Guard personnel appropriations, delineate possible alternatives, and clearly demonstrate why a centrally managed allotment is the only practical administrative procedure. Each centrally managed allotment should be reviewed annually to assess the adequacy of management control procedures and to determine whether it should be continued.

c. Report the results of the annual review required by DoD Regulation 7000.14-R to the Under Secretary of Defense (Comptroller) and the Assistant Secretary of Defense (Reserve Affairs).

Army National Guard Comments. The Director, Army Comptroller, National Guard Bureau, concurred with the recommendations and stated that the National Guard Bureau's Internal Review Office will review its centrally managed allotments annually.

Army Reserve Comments. The Comptroller, Office of the Chief, Army Reserve, neither concurred nor nonconcurred with Recommendations 3.b. and 3.c. He stated that following DoD guidance was illogical because no systems are in place to allow for decentralization; centrally managed allotments must continue, regardless of whether or not the requests are approved. He also stated that DoD guidelines should be held in abeyance and that DoD should issue blanket approvals for centrally managed allotments until the working group completes its study.

Audit Response. Following the DoD guidance is not illogical. The annual reviews required by DoD guidance will help identify control weaknesses that need to be addressed while the working group strives to implement a standard funds control system. Blanket approvals for centrally managed allotments should be addressed by the Under Secretary of Defense (Comptroller). However, annual reviews should continue in order to ensure that strong management controls are in place and corrective actions are taken. We request that the Army Reserve reconsider its position on following DoD guidance and provide additional comments on the final report.

Naval Reserve Comments. The Director, Naval Reserve, Office of the Chief of Naval Operations, concurred with the finding and stated that the Naval

Reserve has implemented strict managerial controls, including a working group, to address potential weaknesses in the oversight of centrally managed allotments. He stated that these actions meet the intent of the annual review required by DoD.

Audit Response. The Naval Reserve comments were partially responsive. We commend the Naval Reserve for its implementation of a working group. The working group may meet the intent of the "DoD Financial Management Regulation;" however, for the annual reviews to be useful, the results should be documented and submitted to the Under Secretary of Defense (Comptroller) and the Assistant Secretary of Defense (Reserve Affairs). DoD managers need the results of the annual reviews to make decisions regarding centralized and decentralized allotments in Reserve personnel appropriations.

Air National Guard Comments. The Director, Air National Guard, did not comment on a draft of this report. Therefore, we request that the Air National Guard provide comments on the final report.

Air Force Reserve Comments. The Chief, Air Force Reserve, Headquarters United States Air Force, concurred with the recommendations and estimated that the first report would be submitted to the Under Secretary of Defense (Comptroller) and the Assistant Secretary of Defense (Reserve Affairs) by July 31, 1997.

Marine Corps Reserve Comments. The Marine Corps Reserve concurred with Recommendation 3.b. with reservations. He stated, "Since centrally managed allotments have been in place for many years before DoD FMR Volume 14 was published in August 1995, it would seem logical that the CMA certification procedures would be grandfathered-in, rather than considered a violation of 'policy.'"

The Marine Corps Reserve partially concurred with Recommendation 3.c. They stated, "We agree that the current centrally managed allotments may need to be reviewed to determine that adequate controls are in place to avoid overobligation or overexpenditure. However, once that determination has been made, an annual review to determine if the CMA should be continued would be a needless paperwork drill." However, the Marine Corps Reserve felt that an annual review to ensure that control procedures are adequate to preclude violation of the Antideficiency Act should be continued.

Audit Response. The comments of the Marine Corps Reserve are partially responsive. Although the "DoD Financial Management Regulation," volume 14, was published in August 1995, the requirements for establishing and reviewing centrally managed allotments were stated in DoD Directive 7200.1, "Administrative Control of Appropriations," May 7, 1984. Any decision to "grandfather-in" approval of CMAs should be made by the Under Secretary of Defense (Comptroller).

In addition, the Marine Corps Reserve did not indicate whether he would submit the results of an annual review to the Under Secretary of Defense (Comptroller) and the Assistant Secretary of Defense (Reserve Affairs). The intent of the

annual review is to assess management control procedures established to avoid overobligating or overexpending CMAs. The decision to continue or discontinue the CMA should be based on the results of the review. This procedure is not "a needless paperwork drill." Recommendation 3.c. allows DoD to consider other alternatives that could improve budget execution by the Reserve components.

4. We recommend that the Director, Defense Finance and Accounting Service:

a. Participate in the working group established in Recommendation 1.

b. Approve, on a trial basis, the Army National Guard's system change request to convert from a centrally managed allotment to decentralized allotments for inactive-duty training, and accelerate necessary system changes.

c. Develop, implement, and coordinate necessary system changes to interim migratory accounting systems for personnel appropriations at both the National Guard Bureau and the Reserve components to accommodate decentralized allotments as needed.

Defense Finance and Accounting Service Comments. The Deputy Director for General Accounting concurred with the recommendations and agreed to participate in the working group, approve on a trial basis the system change to DJMS, and develop and implement the necessary system changes to accommodate decentralized allotments.

5. We recommend that the Assistant Secretary of Defense (Reserve Affairs) participate in the working group established in Recommendation 1.

Assistant Secretary of Defense (Reserve Affairs) Comments. The Deputy Assistant Secretary of Defense for Reserve Affairs (Resources) concurred with the recommendation.

Audit Response. On May 30, 1996, the Assistant Secretary of Defense for Reserve Affairs (Resources) held a meeting to review each Reserve component's accounting flow and open allotment structure, and the impact of a potential change from CMAs to decentralized allotments. Representatives from the Office of the Under Secretary of Defense (Comptroller) attended; many of the Reserve component officials who attended may become part of the formal working group to be established by the Under Secretary of Defense (Comptroller).

We commend the Deputy Assistant Secretary of Defense for Reserve Affairs (Resources) for her actions. The working group's report to the Under Secretary of Defense (Comptroller) should include recommendations that address the implementation of a standard funds control system, the feasibility of a transition

to decentralized allotments, and the strengthening of controls over Reserve pay. Until policy decisions are made, all Reserve components should establish procedures to ensure compliance with the "DoD Financial Management Regulation."

Part II - Additional Information

Appendix A. Scope and Methodology

Scope and Methodology

We reviewed the CMA system for Reserve pay at each of the six DoD Reserve components. Appendix D lists the Reserve pay systems we examined. Appendix F lists the organizations we visited or contacted. We interviewed Reserve component officials and evaluated the approvals, procedures, and justifications for CMAs. Our review was limited to assessing the potential impact of implementing a decentralized allotment system. We did not use computer-processed data or statistical sampling procedures to perform the audit. The scope of the audit was limited because we did not review the management control program.

This financial-related audit was made from July through December 1995, in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD.

Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, 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 Management Control Program. Because of the limited scope of the audit, we did not review the adequacy of the Reserve components' management control program as applicable to the audit objective. However, we identified a material weakness in management controls over CMAs for Reserve pay.

Adequacy of Management Controls. We identified a material management control weakness for the Reserve components, as defined by DoD Directive 5010.38. Reserve components did not ensure that annual reviews of control procedures for their Reserve pay CMAs were being performed as required by DoD Regulation 7000.14-R. Recommendations 3.b. and 3.c., if implemented, will improve the Reserve components' management controls over CMAs for Reserve pay. A copy of the report will be provided to the senior official responsible for management controls in the Office of the Assistant Secretary of Defense (Reserve Affairs).

Adequacy of Management's Self-Evaluation. We did not determine whether the Reserve components had identified the controls over CMAs for Reserve pay

as an assessable unit. However, DFAS and Army officials identified and reported material weaknesses in Reserve pay in their 1995 Annual Statement of Assurance. Management should state whether the Reserve components have identified this weakness and, if they have not, should ensure that the weakness is properly addressed in future Annual Statements of Assurance.

Appendix B. Summary of Prior Audits and Other Reviews

Inspector General, DoD

Report No. 95-301, "Major Deficiencies Preventing Auditors From Rendering Audit Opinions on DoD General Fund Financial Statements," August 29, 1995, summarized the major deficiencies in the Army and Air Force general fund financial statements. The report stated that inadequacies in accounting systems were the major reason that auditors could not render audit opinions, other than disclaimers, on FY 1993 and 1994 general fund financial statements. The summary report contained no recommendations.

Army Audit Agency

Report No. SR 95-720, "Selected National Guard Pay Issues," May 2, 1995, reported on actions taken by the National Guard Bureau (NGB) to correct the problems that resulted in a February 1994 Antideficiency Act violation of the FY 1993 pay appropriation. Corrective actions by the NGB strengthened management controls over the pay appropriation in some areas, but additional management emphasis was needed. The NGB needed to improve its plan to convert from centrally managed to decentralized allotments for training pay for inactive-duty Reservists. The NGB planned to test the conversion in FY 1995.

The report recommended that the NGB take the following actions:

o Designate a program manager at the NGB level to coordinate with State National Guard units on monitoring expenditures for inactive-duty training.

o Include elements such as number of officers and enlisted soldiers in the monthly report that the State National Guard units use to monitor their programs, and emphasize the necessity of consistent cutoff dates for the report.

o Review the personnel requirements that State National Guard units will need to monitor the program, and inform the State units of the NGB position on the need for additional personnel.

The NGB concurred with the recommendation and stated that plans to convert from centrally managed to decentralized allotments were pending because DFAS had not approved the requested change. A program manager at the NGB level had been selected, the monthly report was under review, and changes were

expected to be complete by the beginning of FY 1996. The NGB stated that if DFAS approved its request and programming occurred before December 1995, testing would begin in January 1996 in five or six states. In-process reviews would be held quarterly, and implementation could begin early in FY 1997.

Department of the Army

In its "Report of Antideficiency Act Violation" (Case No. 94-05), the Department of the Army reported a violation of 31 U.S.C. 1341 (a)(1)(A) in the FY 1993 National Guard Pay, Army, appropriation (appropriation number 2132060). The amount of the violation was $29.6 million. The NGB and DFAS suspended disbursement on additional obligations and asked Congress for the authority to reprogram funds. The Director, ARNG, ordered an investigation into the alleged violation. DFAS assisted in the investigation, which concluded that the violation was caused by inaccurate budget models, accounting errors, and poor business practices.

DFAS Indianapolis Center

The Comptroller, ARNG, asked the DFAS Indianapolis Center to assist in investigating the FY 1993 violation of the Antideficiency Act. The "After-Action Report, Overdisbursed Condition, National Guard Personnel, Army 2060 Fiscal Year 1993," stated that the following factors led to the overdisbursed condition:

o systemic deficiencies, which caused erroneous entitlements and erroneous payments for insurance, incentives, and subsistence allowances;

o incomplete analyses of accounting reports by the accounting division of the NGB comptroller directorate;

o communication problems between the NGB personnel, logistics, and comptroller directorates;

o communication problems between the accounting and budget divisions of the NGB comptroller directorate;

o weak feedback about budget execution from the states;

o failure to use or fully analyze the accounting reports, provided by the DFAS Indianapolis Center and other supporting activities and programs, which should be used to determine participation and subsistence rates;

o analyses of budget execution that were encumbered with institutional knowledge and predetermined rates and criteria, and did not address the issue of rising costs in relation to reduced end strength and changing missions;

o failure to promptly clear undistributed disbursements; and

o inadequate management controls over the analysis of budget execution.

Appendix C. Types of Allotments for Reserve Pay Appropriations

Payment Category	Army			Navy		Air Force			Marines	
	Active	Guard	Reserve	Active	Reserve	Active	Guard	Reserve	Active	Reserve
Active duty	CMA[1]			CMA		CMA			CMA	
Bonus	CMA	CMA	CMA	CMA	CMA	CMA	CMA	CMA	CMA	CMA
Inactive duty for training		CMA	CMA		CMA		CMA	CMA		CMA
Active duty for training		DA[2]	DA		CMA		CMA	CMA		CMA
Active duty for special work		DA	DA		CMA		N/A[3]	N/A		CMA
Annual training		DA	DA		CMA		CMA	CMA		CMA
Active Guard Reserve		CMA	CMA		CMA		CMA	CMA		CMA
Basic military training: Initial active duty and initial entry	CMA	CMA	CMA	CMA	CMA	CMA	CMA	CMA	CMA	CMA
Temporary tours of active duty		CMA	CMA		CMA		N/A	N/A		CMA

[1]CMA Centrally managed allotment
[2]DA Decentralized allotment
[3]N/A Not applicable

Appendix D. Reserve Pay Systems

This appendix lists some of the major finance, accounting, and personnel systems that the Reserve components were using to support Reserve pay. Other systems may exist, but we did not identify them.

Army National Guard

Standard Installation/Division Personnel System (SIDPERS)
State Accounting Budgeting Expenditure Reservation System (SABERS)
Automated Funds Control and Orders System (AFCOS)
Army National Guard Accounting System (ANGAS)
JUMPS Standard Terminal Input Subsystem (JUSTIS)

Naval Reserve

Reserve Information Management System (RIMS)

Air National Guard

Microsoft Excel (spreadsheet)

Air Force Reserve

Personnel Budgeting Analysis System (PBAS)
Travel Budget and Accounting System (TBAS)

Marine Corps Reserve

Marine Corps Total Force System (MCTFS)

Appendix E. Advantages of Centrally Managed Allotments

CMAs have advantages, some of which are discussed below. We are not suggesting that these advantages provide sufficient reasons to continue using CMAs for Reserve pay appropriations. The Reserve components are best qualified to determine the methods that should be used to manage Reserve pay appropriations. These advantages should be considered and compared to the effects of a change in policy.

Flexibility. Several Reserve component officials felt that the open allotment system allowed flexibility within the Reserve pay appropriations. As downsizing continues in the active components of the Armed Forces, many more Reservists will be needed for peacetime support. A flexible and responsive Reserve pay appropriation is essential to determining costs and desired end strengths. Some officials felt that if decentralized allotments were used, providing funds to units would take longer, and that the Reserve components should not have to switch funds from one unit to another when this situation could be avoided by keeping the funds in a centrally managed allotment.

Visibility of Allotments. Reserve component officials said visibility was improved when their open allotments were centrally managed at one location. Some officials felt strongly that the Reserve pay appropriation would be managed less efficiently under a decentralized allotment system. If designated allotments were used, managers at each unit would control their own portions of the overall appropriation. Officials argued that individual managers would not have the visibility provided by a centrally managed allotment.

"Safety Withhold" of Funds. Each Reserve component should withhold funds to cover any contingencies that may arise. With CMAs, the safety withhold is kept at one location. Fund managers maintained that a centralized safety withhold results in economies of scale. They also believed that with CMAs, a higher percentage of funds would be used and fewer funds would be returned at the end of each fiscal year. With decentralized allotments, each organization that had a designated allotment would need to maintain a safety withhold, and these amounts would no longer be centrally controlled. Determining the size of the withhold would be difficult, which could lead to underutilization of funds. Scarce funds would be wasted, and Reserve components could face future budget cuts.

ANG personnel said that with designated allotments, each of the 92 ANG units would have to maintain a safety withhold. They believed that a central withhold would be smaller than the total if all 92 units maintained their own safety withholds. If all 92 units withheld funds, money would be wasted and missions might not be fulfilled. At the end of FY 1995, the ANG had an unobligated fund balance of $1,231,800 in its Reserve pay open allotments. ANG personnel said that if designated allotments were used, each of the 92 units would have to

withhold approximately $500,000. At the end of the fiscal year, if each of the 92 units withheld $500,000, the ANG would have an unobligated fund balance of $46,000,000 ($500,000 multiplied by 92 units).

Cost Projections. ANG personnel believed that with a CMA, average cost rates could be calculated more accurately because of the large population. If the funds were divided into decentralized allotments, the accuracy of average cost rates would deteriorate as the population decreased in size.

Appendix F. Organizations Visited or Contacted

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller), Washington, DC
Assistant Secretary of Defense (Reserve Affairs), Washington, DC

Department of the Army

Army National Guard Readiness Center, Arlington, VA
  U.S. Property and Fiscal Office, Ohio Army National Guard, Columbus, OH
Chief of the Army Reserve, Washington, DC

Department of the Navy

Commander, Naval Reserve Force, New Orleans, LA
  Commander, Naval Air Reserve Force, New Orleans, LA
    Naval Air Station, New Orleans, LA
  Commander, Naval Surface Reserve Force, New Orleans, LA
Headquarters, U.S. Marine Corps, Washington, DC

Department of the Air Force

Air National Guard Readiness Center, Andrews Air Force Base, MD
Chief of the Air Force Reserve, Washington, DC
  Headquarters, Air Force Reserve, Warner Robins Air Force Base, GA

Other Defense Organizations

Defense Finance and Accounting Service, Arlington, VA
  Defense Finance and Accounting Service Cleveland Center, Cleveland, OH
  Defense Finance and Accounting Service Indianapolis Center, Indianapolis, IN
  Defense Finance and Accounting Service Kansas City Center, Kansas City, MO

Appendix G. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Acquisition and Technology)
  Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Comptroller (Program and Budget)
Assistant Secretary of Defense (Reserve Affairs)
Assistant to the Secretary of Defense (Public Affairs)

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Director, Army National Guard
Chief, Army Reserve
Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Director, Naval Reserve
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Director, Air National Guard
Chief, Air Force Reserve
Auditor General, Department of the Air Force

Other Defense Organizations

Chief, National Guard Bureau
Director, Defense Finance and Accounting Service
  Director, Defense Finance and Accounting Service Cleveland Center
  Director, Defense Finance and Accounting Service Denver Center
  Director, Defense Finance and Accounting Service Indianapolis Center
  Director, Defense Finance and Accounting Service Kansas City Center

Other Defense Organizations (cont'd)

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Director, National Security Agency
  Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency

Non-Defense Federal 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 III - Management Comments

Under Secretary of Defense (Comptroller) Comments

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

COMPTROLLER

MAY 29 1996

MEMORANDUM FOR ACTING DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE, OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Draft Audit Report on Centrally Managed Allotment System in the Reserve Components (Project No. 5FI-5042)

At the request of the Under Secretary of Defense (Comptroller), your memorandum of April 11, 1996, provided the subject draft audit report for review and comment.

As requested, we have reviewed the audit report and concur with its findings and recommendations. Efforts are underway to establish the recommended working group whose primary objective will be to improve financial management in the National Guard and Reserve appropriations.

On behalf of the Under Secretary of Defense (Comptroller), we appreciate the continued support of your office and the responsive manner in which your professional staff conducted the audit.

Questions regarding this draft audit report may be directed to Mr. De W. Ritchie, Jr. He may be reached on (703) 697-3135.

Alvin Tucker
Deputy Chief Financial Officer

cc: ASD(RA)
ASA(FM&C)
ASN(FM&C)
ASAF(FM&C)
DFAS
Chief, NGB
Dir, ANG
Dir, NAVRES
Chief, ANG
Cdr, MFR

Army National Guard Comments

DEPARTMENTS OF THE ARMY AND THE AIR FORCE
NATIONAL GUARD BUREAU
111 SOUTH GEORGE MASON DRIVE
ARLINGTON, VA 22204-1382

NGB-ARC-M (36-5d)

23 MAY 1996

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE INSPECTOR GENERAL, 400 ARMY NAVY DRIVE, ARLINGTON, VIRGINIA 22202-2884

SUBJECT: Audit Report on Centrally Managed Allotment System in the Reserve Components (Project No. 5FI-5042)

1. I reviewed your report and find the information and facts accurate and concur with your recommendations. I look forward to your support in working with DFAS to implement the changes required to convert to decentralized allotments. The Command response to the report is at enclosure one.

2. Point of contact for this action is Ms. Pat Condon, NGB-ARC-M, DSN 327-7534, COMM 703-607-7534.

FOR THE CHIEF, NATIONAL GUARD BUREAU:

MORGAN F. DENNY
Colonel, GS
Director, Army Comptroller

Encl

CF:
NGB-IR

17 MAY 1996

ARMY NATIONAL GUARD
COMMAND RESPONSE
TO
DRAFT AUDIT REPORT
OFFICE OF THE INSPECTOR GENERAL, DOD
CONTROLS OVER CENTRALLY MANAGED ALLOTMENTS FOR RESERVE PAY
PROJECT NO. 5FI-5042
11 APRIL 1996

The Army National Guard concurs with the information and facts contained in this report.

RECOMMENDATION 3: We recommend that the heads of the Reserve components (Army National Guard, Army Reserve, Naval Reserve, Air National Guard, Air Force Reserve, and Marine Corps Reserve):

a. Participate in the working group established in Recommendation 1.

CONCUR. A member of the ARNG Comptroller Directorate should be a member of the working group. Developing a standard system for accounting should be the main emphasis of the working group, although all areas recommended for review by the working group are important.

b. Establish procedures to ensure compliance with DOD Regulation 7000.14-R, "DOD Financial Management Regulation," volume 14, "Administrative Control of Funds and Antideficiency Act Violations," August 1, 1995, by developing requests that justify the need for each centrally managed allotment for Reserve and National Guard personnel appropriations, delineate possible alternatives, and clearly demonstrate why a centrally managed allotment is the only practical administrative procedure. Each centrally-managed allotment should be reviewed annually to assess the adequacy of management control procedures and to determine whether it should be continued.

CONCUR. The Army National Guard has taken numerous steps since the FY93 Antideficiency Violation to provide additional management control procedures in the centrally-managed allotment. We will have the National Guard Bureau Internal Review Office annually review the centrally-managed allotment to evaluate the adequacy of control procedures as required by DOD 7000.14-R.

17 MAY 1996

ARMY NATIONAL GUARD
COMMAND RESPONSE
TO
DRAFT AUDIT REPORT
OFFICE OF THE INSPECTOR GENERAL, DOD
CONTROLS OVER CENTRALLY MANAGED ALLOTMENTS FOR RESERVE PAY
PROJECT NO. 5FI-5042
11 APRIL 1996

c. Report the results of the annual review required by DoD Regulation 7000.14-R to the Under Secretary of Defense (Comptroller) and the Assistant Secretary of Defense (Reserve Affairs).

CONCUR. The results of the annual review required by DOD 7000.14-R will be reported.

ADDITIONAL COMMENTS:

Recommendation #4 to Director, Defense Finance and Accounting Service recommended approval on a trial basis of the Army National Guard's system change request to convert from a centrally-managed allotment to decentralized allotments for inactive-duty training, and accelerate necessary system changes. We concur with this recommendation, however, the Army National Guard should make the transition only after all preliminary steps have been completed. This includes completion of DFAS system changes to accommodate the change from centrally-managed allotment to decentralized allotment; change Joint Uniform Standard Terminal Input Subsystem (JUSTIS) and the State Accounting, Budgeting, Expenditure and Reservation System (SABERS) to provide states necessary tools for internal controls; determine impact of workload; size the number of personnel needed to complete the job; and provide any additional training.

DEPARTMENT OF THE ARMY
OFFICE OF THE CHIEF, ARMY RESERVE
WASHINGTON DC 20310-2400

DAAR-CO

14 May 1996

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE, ATTN: MR. LANE, 400 ARMY NAVY DRIVE, ARLINGTON, VA 22202-2884

SUBJECT: Comments on Draft Audit Report

1. Reference your draft audit report dated April 11, 1996, subject: Draft of a Proposed Audit Report, Centrally Managed Allotment System in the Reserve Components (Project No. 5FI-5042).

2. I appreciate the opportunity to comment on your draft audit report. Your team was very professional in their efforts.

3. FINDINGS/CONCLUSIONS:

a. I concur there are inadequate controls in place to eliminate all risk associated with Centrally Managed Allotments (CMA) and there are inadequate systems in place to support a change to decentralized allotments. However, we do have reasonable controls in place to provide acceptable risk. Through our reports on drill participation, accessions, manpower strength, DFAS accounting reports, internal trend analysis, etc., we are able to reliably estimate funding requirements to prevent violations. As stated in your report, these efforts are not formalized and documented. We can improve these systems to reduce the risk we face.

b. Intuitively, your conclusion that implementing a uniform allotment policy with a standardized DFAS accounting system for all of DoD should improve financial management of CMAs. However, there is no empirical data to support such an assumption.

4. RECOMMENDATIONS:

a. I strongly concur with your recommendation for OSD to host a working group, including representatives from each RC and DFAS, to study the best way to manage these funds and develop a coordinated solution to this issue. I feel this will result in strengthened controls for all appropriations concerned. It is especially important to include the cost benefit analysis you recommend. I feel the results of this analysis are critical to making the proper decision on this issue. The added costs of decentralization, under current conditions, makes it a poor choice for the given level of risk.

DAAR-CO 14 May 1996
SUBJECT: Comments on Draft Audit Report

b. Your recommendation to follow DoD guidance and get the CMAs approved is illogical. If you feel the CMAs shouldn't exist, then the system could not allow approval of CMAs based on the rules for approval. Since you point out there are no systems in place to allow us to decentralize at this point in time, there is no alternative allowing us to decentralize. So whether the requests are approved or disapproved, the CMAs will continue. There appears to be no point in seeking the approvals at this point. The DoD guidelines should be held in abeyance until the work group finishes its study and proper systems can be developed according to the findings of the study. DoD should issue blanket approvals until that time.

c. While I agree there are potential benefits to standardized systems; we do not want a system which is too rigid. Each RC element has unique situations and requirements which need to be taken into account. Before approval, the RCs must be given a chance to review the adequacy of the chosen system to meet their unique needs.

FOR THE CHIEF, ARMY RESERVE:

for PAUL D. RYSON
Comptroller

THE ASSISTANT SECRETARY OF THE NAVY
(MANPOWER AND RESERVE AFFAIRS)
1000 NAVY PENTAGON
WASHINGTON, D.C. 20350-1000

MAY 17 1996

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE INSPECTOR GENERAL

Subj: REVIEW OF DEPARTMENT OF DEFENSE INSPECTOR GENERAL DRAFT AUDIT REPORT ON CENTRALLY MANAGED ALLOTMENT SYSTEM IN THE RESERVE COMPONENTS (PROJECT NO. 5FI-5042)

As you requested, a review of the DODIG Draft Audit Report was conducted. Attached at Tabs A and B are comments from the Naval Reserve and Marine Corps Reserve. I concur with the comments provided. The Naval Reserve has been very proactive in the implementation of revised procedures resulting in the flawless execution of the FY 1995 budget. The Marine Corps Reserve has done an excellent job and their comments are germane to their system and performance.

My POC is CDR Mark Worrilow (693-0389).

BERNARD ROSTKER
Assistant Secretary of the Navy
(Manpower and Reserve Affairs)

Tab A - Naval Reserve Comments on the Department of Defense Inspector General Draft Audit Report on Centrally Managed Allotment System in the Reserve Components (Project No. 5FI-5042)

Tab B - Marine Corps Reserve Comments on the Department of Defense Inspector General Draft Audit Report on Centrally Managed Allotment System in the Reserve Components (Project No. 5FI-5042)

Copy to:
FMO-31
NAVINSGEN (02)

DEPARTMENT OF THE NAVY
OFFICE OF THE CHIEF OF NAVAL OPERATIONS
WASHINGTON, DC 20350-2000

IN REPLY REFER TO
7000
Ser N959/6U569858
02 MAY 1996

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL

THROUGH: ASSISTANT SECRETARY OF THE NAVY (MANPOWER AND RESERVE AFFAIRS)

SUBJECT: Audit Report on Centrally Managed Allotment System in the Reserve Components (Project No. 5FI-5042)

I concur with the findings of the draft DODIG audit. These findings accurately reflect the status of the Centrally Managed Allotment(CMA) System in FY 1994. Since the near violation in FY 1994, the Naval Reserve has implemented strict managerial controls and tracking which more accurately match obligations and expenditures. Our actions created a monthly working group and an additional O-6 billet specifically to address potential weaknesses in the oversight of the Centrally Managed Allotment System. I fully believe that these actions meet the intent and purpose of the annual program review. The results of our efforts resulted in flawless execution of the FY 1995 budget with similar results projected for FY 1996. The Naval Reserve looks forward to being a full participant in the working group and providing our unique and valuable insights in managing a CMA. Decentralizing Reserve Pay Systems may be the result of the working group and the solution to CMA weaknesses, but pending approval, the Naval Reserve will continue to provide professional and accurate oversight of its Centrally Managed Allotment System.

T. F. Hall

T. F. HALL
Rear Admiral, U.S. Navy
Director of Naval Reserve

Final Report Reference

MARINE CORPS COMMENTS
ON
DODIG DRAFT AUDIT REPORT
ON
CENTRALLY MANAGED ALLOTMENT SYSTEM
IN THE RESERVE COMPONENTS
DODIG 5FI-5042

1. Recommendation 1. "We recommend that the Under Secretary of Defense (Comptroller) establish a working group...for converting Reserve and National Guard personnel appropriations to decentralized allottments..."

a. Nonconcur as written.

b. The auditors' presumption that the advantages of decentralized allotments outweigh the disadvantages is not supported by the information contained in the report. Any working group formed should have the goal of weighing the pros and cons of centralized versus decentralized and determining the proper direction to take.

Page 11

c. An additional factor to consider is that the pros and cons may vary from Service to Service. As noted on page 13 of the draft report, the Marine Corps has not had an Antideficiency Act violation in its Reserve Personnel appropriation.

2. Recommendation 3.a. "We recommend that the heads of the Reserve components...participate in the working group established in Recommendation 1."

a. Concur, contingent upon our comments on Recommendation 1 above.

b. It is essential that this working group thoroughly study the feasibility of implementing decentralized managed allotments over centrally managed allotments. There are numerous pros and cons to this issue which need to be addressed and studied before a decision is reached. Given the turbulence in a reserve pay appropriation, any gains in ease of accountability for the funds must be weighed against losses in flexibility during execution.

3. Recommendation 3.b. "Establish procedures to ensure compliance with DoD Regulation 7000.14-R, 'DoD Financial

Management Regulation,' Volume 14...by developing requests that justify the need for each centrally managed allotment for Reserve and national Guard personnel appropriations, delineate possible alternatives, and clearly demonstrate why a centrally managed allotment (CMA) is the only practical administrative procedures. Each centrally managed allotment should be reviewed annually to assess the adequacy of management control procedures and to determine whether it should be continued."

a. Concur, with reservations.

b. Since CMAs have been in place for many years before DOD FMR Volume 14 was published in August 1995, it would seem logical that the CMA certification procedures would be grandfathered-in, rather than considered a violation of "policy."

4. Recommendation 3.c. "Report the results of the annual review required by DoD Regulation 7000.14-R to the Under Secretary of Defense (Comptroller) and the Assistant Secretary of Defense (Reserve Affairs)."

1. Partially concur.

2. We agree that the current centrally managed allotments may need to be reviewed to determine that adequate controls are in place to avoid overobligation or overexpenditure. However, once that determination has been made, an annual review to determine if the CMA should be continued would be a needless paperwork drill. An annual review to determine that control procedures continue to be adequate to preclude violation of the Antideficiency Act should be continued.

Final Report Reference

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE

06 MAY 1996

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

FROM: HQ USAF/RE
1150 Air Force Pentagon
Washington, DC 20330-1150

SUBJECT: DoD IG Draft Report on Centrally Managed Allotment System in the Reserve Components (Project No. 5FI-5042)

This is in reply to your request for Air Force comments on the subject report.

a. Recommendation 3a. Concur. We concur with your recommendation to establish a working group for converting Reserve and National Guard personnel appropriations to decentralized allotments and to be an active participant in this working group.

b. Recommendation 3b. Concur. We will document our procedures on managing a centralized management allotment (CMA) in accordance with DoD Financial Management Regulation 7000.14-R, volume 14. Estimated Completion Date for documenting our procedures in a CMA request is 31 Jul 96.

c. Recommendation 3c. Concur. Subsequent to establishing a CMA in 1996, we will conduct annual reviews in accordance with DoD Regulation 7000.14-R to determine whether to continue the CMA. We will report the results of these annual reviews to the Under Secretary of Defense (Comptroller) and the Assistant Secretary of Defense (Reserve Affairs). Estimated Completion Date for submitting our first report is 31 Jul 97.

Page 6

We take exception to comments on page 8 concerning our internal management system, Personnel Budgeting and Analysis System (PBAS), and recommend this reference be deleted. The auditors state they could not recommend PBAS as a model for managing decentralized allotments because of a potential violation of the Antideficiency Act and the lack of documentation of controls over CMAs. As shown on page 12 of the draft audit, the potential violation is pending investigation. Until this investigation is completed, no assumptions should be made as to the causes and specifically, the credibility of PBAS. In regard to the lack of documentation justifying a CMA, the audit verifies that none of the reserve components have complied with this requirement. We have not completed this justification because we understood we were already managing decentralized allotments.

PBAS captures all pay and allowances for our reservists and we are continuously working to enhance this system. We believe PBAS is a excellent tool in managing and accounting for reserve personnel costs and that it should be given serious consideration in DoD's efforts to develop a standard decentralized allotment system.

Our point of contact for this audit is Lt Col Jack White, AF/RECA, DSN 227-1060.

ROBERT A. MCINTOSH, Maj Gen, USAF
Chief of Air Force Reserve

Defense Finance and Accounting Service Comments

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

MAY -7 1996

DFAS-HQ/G

MEMORANDUM FOR THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE
ATTN: DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE

SUBJECT: Preparation of Response to DoD IG Draft Report, "Centrally Managed Allotment System in the Reserve Components," dated April 11, 1996 (Project No. 5FI-5042)

By memorandum dated April 11, 1996, comments were requested on the Inspector General draft audit response referenced above.

The detailed Defense Finance and Accounting Service (DFAS) response is attached. Only recommendations 4.a, 4.b and 4.c pertain to DFAS.

If you need additional information, my point of contact is Mr. John Bankson, DFAS-HQ/GB, (703) 607-5112.

for Thomas F. McCarty
Deputy Director for General Accounting

Attachment

DEFENSE FINANCE AND ACCOUNTING SERVICE

COMMENTS ON

DEPARTMENT OF DEFENSE
INSPECTOR GENERAL
DRAFT AUDIT REPORT
PROJECT NO. 5FI-5042
DATED APRIL 11, 1996

CENTRALLY MANAGED ALLOTMENT SYSTEM
IN THE
RESERVE COMPONENTS

* * * * *

Recommendations for Corrective Action (page 16)

Recommendation 4.a:
4. We recommend that the Director, Defense Finance and Accounting Service:

a. Participate in the working group established in Recommendation 1.

DFAS Response: Concur. The Defense Finance and Accounting Service will participate with the working group to be established by the Under Secretary of Defense (Comptroller).

Recommendation 4.b:
b. Approve, on a trial basis, the Army National Guard's system change request to convert from a centrally managed allotment to decentralized allotments for inactive-duty training, and accelerate necessary system changes.

DFAS Response: Concur. The Defense Finance and Accounting Service (DFAS) will approve on a trial basis the system change to the Defense Joint Military Pay System as requested by the Army National Guard. DFAS will work with the National Guard Bureau to accommodate any system changes within the National Guard's single accounting system for the Army National Guard (State Accounting Budget Expenditure Reservation System (SABERS)).

Recommendation 4.c:

c. Develop, implement, and coordinate necessary system changes to interim migratory accounting systems for personnel appropriations at both the National Guard Bureau and the Reserve components to accommodate decentralized allotments as needed.

DFAS Response: Concur. The Defense Finance and Accounting Service (DFAS) will participate with the working group, the National Guard Bureau, and the Reserve components to approve any other necessary system changes to the Defense Joint Military Pay System and the Marine Corps Total Force System. Additionally, DFAS, with the working group, will develop and implement, for the National Guard Bureau and Reserve components, the necessary system changes to accommodate decentralized allotments within their interim migratory accounting systems for pay transactions.

Assistant Secretary of Defense (Reserve Affairs) Comments

RESERVE AFFAIRS

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, DC 20301-1500

15 MAY 1996

MEMORANDUM FOR INSPECTOR GENERAL, DOD

SUBJECT: OASD/RA Comments on DoDIG Audit Report concerning Centrally Managed Allotment System in the Reserve Components (Project No. 5FI-55042)

We have reviewed the draft audit report, and concur with the recommendation of establishing a working group, chaired by USD Comptroller, to explore the feasibility of converting Reserve component appropriations to decentralized allotments. We believe OASD/Reserve Affairs, the Services, the Reserve components, and DFAS should all be part of the working group, and that membership should also include appropriate systems expertise to ensure a seamless interface with DJMS before any conversions occur.

We support initiatives which improve Reserve component budget execution effectiveness, and have reviewed the draft audit with interest. Recently, we completed a related audit investigating "problems" between DFAS and the Reserve components, which anecdotally suggested the open allotment process may cause funds control weaknesses. We agree with the general direction being taken in Project 5FI-5042 because we believe that the distributed account model is inherently safer than the open allotment method of dealing with Reserve component pay accounts.

Jennifer C. Buck
Deputy Assistant Secretary of Defense for
Reserve Affairs (Resources)

Audit Team Members

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

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