

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**DEFENSE LOGISTICS AGENCY PAST DUE
FEDERAL ACCOUNTS RECEIVABLE**

Report No. 98-052

January 22, 1998

Department of Defense

Additional Copies

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

Suggestions for Future Audits

To suggest ideas for or to request future audits, contact the Planning and Coordination Branch of the Analysis, Planning, and Technical Support Directorate at (703) 604-8908 (DSN 664-8908) or FAX (703) 604-8932. Ideas and requests can also be mailed to:

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

Defense Hotline

To report fraud, waste, or abuse, contact the Defense Hotline by calling (800) 424-9098; by sending an electronic message to Hotline@DODIG.OSD.MIL; or by writing to the Defense Hotline, The Pentagon, Washington, DC 20301-1900. The identity of each writer and caller is fully protected.

Acronyms

C&T	Clothing and Textile
CCC	Commodity Credit Corporation
CG	Comptroller General
DBOF	Defense Business Operations Fund
DFAS	Defense Finance and Accounting Service
DLA	Defense Logistics Agency
DoDAAC	DoD Activity Address Code
DPSC	Defense Personnel Support Center
ESOC	Emergency Support Operations Center
MOU	Memorandum of Understanding
O&M	Operations and Maintenance
USC	United States Code
USD(C)	Under Secretary of Defense (Comptroller)



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



January 22, 1998

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Audit Report on Defense Logistics Agency Past Due Federal Accounts
Receivable (Report No.98-052)

We are providing this final report for review and comment. The Under Secretary of Defense (Comptroller) and the Director, Defense Finance and Accounting Service, did not respond to the draft report. We considered comments from the Director, Defense Logistics Agency, in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Defense Logistics Agency comments were partially responsive. As a result of the comments, we added a new recommendation. We request that the Director, Defense Logistics Agency, provide comments on Recommendation A.7., the Under Secretary of Defense (Comptroller) provide comments on Recommendations A.2., A.4., A.5., and C.1. and the Director, Defense Finance and Accounting Service, provide comments on Recommendation C.2. by March 23, 1998.

We appreciate the courtesies extended to the audit staff. Direct questions on the audit to Mr. Byron B. Harbert, Audit Project Manager, at (303) 676-7405 (DSN 926-7405). See Appendix B for the report distribution. The audit team members are listed inside the back cover.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 98-052
(Project No. 5FD-2019.00)

January 22, 1998

**Defense Logistics Agency Past Due
Federal Accounts Receivable**

Executive Summary

Introduction. The issue of past due Federal accounts receivable was identified during our audit of accounts receivable in the FY 1996 Defense Business Operations Fund (DBOF) financial statements (the accounts receivable audit). This is the first of two reports addressing accounts receivable. A subsequent report will address misclassification of receivables. The Defense Logistics Agency (DLA) reported \$315 million of gross accounts receivable for the Supply Management Business Area as of September 30, 1996. The accounts receivable audit was initiated to support the Chief Financial Officers Act as amended by the Federal Financial Management Act. On December 11, 1996, the Under Secretary of Defense (Comptroller) announced that the DBOF would be realigned into five working capital funds, one of which would be a Defense agencies fund with cash managed by the DLA. That realignment does not affect the issues discussed in this report.

Audit Objectives. The overall objective of this audit was to determine whether the accounts receivable on the FY 1996 Consolidated Financial Statements of the DBOF are presented fairly in accordance with the "other comprehensive basis of accounting" described in Office of Management and Budget Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993. For this audit, we examined the aging and collection of past due accounts receivable. In addition, we assessed management controls as applicable to the overall audit objective.

Audit Results. The DLA had approximately \$78.2 million of past due Federal accounts receivable, as of September 30, 1996. All of the past due receivables were for materiel requisitioned through the DLA Emergency Support Operations Center (see table below).

Summary of Past Due Accounts Receivable			
<u>Program(s)</u>	<u>Customer(s)</u>	<u>Amount</u> <u>(millions)</u>	<u>Oldest</u> <u>Receivable</u>
Beef to Europe	Department of Agriculture	\$27.1	1990
Humanitarian Relief	Unknown	31.9	1982
Shelter for Homeless	DoD O&M	19.2	1986
Total		\$78.2	

Some of those receivables have existed and remained uncollected since 1982. As a result, the DLA did not collect amounts owed to the Supply Management Business Area of the DBOF (Finding A).

Part or all of \$19.2 million for the Shelter for the Homeless program not reimbursed to the DBOF may result in a potential violation of the Antideficiency Act (Finding B).

In addition, receivables due from Federal agencies for approximately \$13.2 million were inappropriately written off. As a result, the DLA did not collect amounts owed and the FY 1996 DBOF financial statements were understated by a like amount (Finding C). See Appendix A for a discussion of the management control program.

Summary of Recommendations. We recommend that the Director, Defense Logistics Agency, collect the past due accounts receivable and after the Under Secretary of Defense (Comptroller) issues revised policy, determine whether not collecting part or all of the \$19.2 million for the Shelter for the Homeless program results in a violation of the Antideficiency Act. In addition, we recommend the collection of \$13.2 million in receivables previously written off and rescind a regulatory provision that permitted the write-off of Federal debt. We recommend that the Under Secretary of Defense (Comptroller) issue accounting and billing policy for requisitions processed under the Shelter for the Homeless program, revise the policy for writing off past due receivables from Federal organizations, and collect the amounts owed by other Federal agencies if the Defense Logistics Agency and the Defense Finance and Accounting Service are unable to collect these amounts.

Management Comments. The Under Secretary of Defense (Comptroller) and the Director, Defense Finance and Accounting Service, did not comment on the draft report.

The DLA partially concurred with the recommendations to collect \$78.2 million from DoD and Federal debtors and to implement guidance to be issued by the Under Secretary of Defense (Comptroller), but nonconcurred that a potential Antideficiency Act violation may exist. The DLA proposed action to record \$31.9 million of past due accounts receivables as “free issues” because a review of supporting records showed no documentation exists that supports those receivables. See Part I for a complete discussion of management comments and Part III for the complete text of management comments.

Audit Response. Comments from the DLA were partially responsive. Comments regarding collecting \$27.1 million of past due accounts receivable, implementing guidance for initiating collection actions, correcting accounting entries, and investigating a potential Antideficiency Act violation are responsive to the recommendations. The DLA proposed an alternative action to record as “free issues” \$31.9 million of past due accounts receivables that are unsupported or lack documentation. The absence of adequate documentation does not qualify the applicable requisitions as nonreimbursable and does not justify writing off the related debts as “free issues.” Those DoD and Federal agencies may have been funded to reimburse the DLA for the materiel support provided. The DLA does not have the authority to write off debts owed by other DoD and Federal agencies. As a result, we added a recommendation for the DLA to request guidance from the Under Secretary of Defense (Comptroller) when past due accounts receivables cannot be supported or documented for billing and collection. We request comments from the Under Secretary of Defense (Comptroller), DLA, and the Defense Finance and Accounting Service by March 23, 1998.

Table of Contents

Executive Summary	i
Part I - Audit Results	
Audit Background	2
Audit Objective	2
Finding A. Past Due Federal Accounts Receivable	4
Finding B. Potential Antideficiency Act Violation	12
Finding C. Write-offs of Federal Receivables	16
Part II - Additional Information	
Appendix A. Audit Process	
Scope	20
Methodology	20
Management Control Program	21
Summary of Prior Coverage	21
Appendix B. Report Distribution	22
Part III - Management Comments	
Defense Logistics Agency Comments	26

Part I - Audit Results

Audit Background

The issue of past due Federal accounts receivable was identified during our audit of accounts receivable in the FY 1996 Defense Business Operations Fund financial statements (the accounts receivable audit). Gross intergovernmental accounts receivable for the Defense Logistics Agency (DLA) discussed in this report totaled \$315 million as of September 30, 1996. Of this amount, approximately \$78.2 million was past due. The accounts receivable audit was initiated to support the Chief Financial Officers Act of 1990 (Public Law 101-576, November 15, 1990) as amended by the Federal Financial Management Act of 1994 (Public Law 103-356, October 13, 1994).

Title 31, United States Code, Section 1535 (31 U.S.C. 1535), "Agency Agreements," gives the head of an agency or a major organizational unit within an agency the authority to place orders within the same agency or another agency for goods and services. According to 31 U.S.C. 1535, the ordering agency shall promptly pay the performing agency without an audit or certification of the voucher in advance of payment. In several Comptroller General (CG) decisions, the CG held that the ordering agency was required to reimburse the performing agency the actual cost of the item or service provided to avoid an unauthorized augmentation of the ordering agency's appropriation [64 Comp. Gen. 370 (1985) and 65 Comp. Gen. 635 (1986)]. The CG, in assessing the relative age of Federal accounts receivables, also held that the ordering agency must reimburse the performing agency, even though 12 years had elapsed since the work had been performed [72 Comp. Gen. 120 (1993)].

The DLA finance and accounting functions, which were previously located at the DLA supply centers, were transferred to the Defense Finance and Accounting Service (DFAS) beginning in 1991 and fully implemented in 1992. Since then, DFAS Columbus Center has maintained the accounting systems and records for the DLA Supply Management Business Area wholesale commodities, which include the Defense Construction, Electronic, Fuel, General, and Industrial Supply Centers, and the Defense Personnel Support Center (DPSC). The DPSC operates the wholesale buying and selling activities for the clothing and textile, medical, and subsistence commodities.

In December 1996, the Under Secretary of Defense announced that the Defense Business Operations Fund (DBOF) would be realigned into five working capital funds, including a Defense agencies fund. That realignment will not affect the issues raised in this report.

Audit Objectives

The overall objective of the accounts receivable audit was to determine whether accounts receivable on the FY 1996 DBOF consolidated financial statements are presented fairly in accordance with the "other comprehensive basis of accounting" described in Office of Management and Budget Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993. For

this part of the audit, we examined the aging and collection of past due accounts receivable. We examined DFAS Columbus Center accounting records for past due accounts receivables to determine whether unpaid balances were collected and written off in accordance with statutory and DoD policy. In addition, we assessed the management controls and compliance with laws and regulations related to the financial statements. See Appendix A for a discussion of the audit scope, methodology, management control program, and prior audit coverage. See the findings in Part I for details on the material weaknesses.

Finding A. Past Due Federal Accounts Receivable

The Defense Logistics Agency had approximately \$78.2 million of past due Federal accounts receivable for materiel requisitioned through the DLA Emergency Support Operations Center (ESOC). The DLA had past due accounts receivable of \$27.1 million for 85,000 pounds of beef purchased and shipped to U.S. military commissaries in Europe during FYs 1990 through 1992; \$31.9 million for materiel requisitioned in support of various reimbursable operational, emergency, and humanitarian programs; and \$19.2 million for bedding issued in support of the Shelter for the Homeless program. The accounts were past due because the DLA Comptroller and ESOC officials did not follow up with customers to obtain payment. Some of the past due accounts receivable have remained uncollected since 1982. In addition, guidance was needed from the Office of the Under Secretary of Defense (Comptroller) regarding the collection and potential write-off of past due Federal accounts receivable for the Shelter for the Homeless and other humanitarian programs. As a result, the approximately \$78.2 million owed to DBOF was not collected from the agencies that were funded to pay for the materiel. If not collected, the resulting loss would have to be recovered through an additional surcharge to DBOF customers for supply items.

Beef to Europe Program

Legislative Background. Public Law 101-220, "Agriculture Programs: Technical Corrections," December 12, 1989, section 2, states that the U.S. Department of Agriculture Commodity Credit Corporation (CCC) must make available a total of at least \$27.9 million (\$14 million for FY 1990, \$9.3 million for FY 1991, and \$4.6 million for FY 1992) for supplying American beef to U.S. commissaries in Europe. Public Law 101-220 further provides that the CCC payment could be withheld only if DoD did not pay the transportation costs of the beef shipments.

Memorandum of Understanding. In August 1990, the President of the CCC and the Director, DLA, signed a Memorandum of Understanding (MOU) to implement the provisions of Public Law 101-220. According to the MOU, DLA must provide an original invoice to the CCC along with copies of the suppliers' invoices to DLA for the purchase of the beef, shipping documents, and other documentation. The MOU also stated with respect to recordkeeping:

DLA agrees to maintain accurate records concerning its acquisition of Beef covered by this MOU. CCC agrees to promptly review documentary evidence presented by DLA concerning Beef covered by this MOU and, if such evidence is satisfactory to CCC, to make prompt payment of the subsidy due with respect to such Beef to DLA. DLA and CCC agree to quickly resolve discrepancies in documentary evidence to permit the prompt payment of subsidies by CCC to DLA.

Finding A. Past Due Federal Accounts Receivable

DLA Action. The DLA DPSC purchased and shipped to U.S. commissaries in Europe 85,000 pounds of beef costing \$27.1 million during FYs 1990, 1991, and 1992. The DPSC paid for the transportation of all beef shipped and submitted bills with supporting documentation to CCC for approximately \$11 million of beef that was shipped as of April 1991. The CCC did not pay those bills. On February 11, 1992, the DPSC Director for Planning and Resource Management notified the DLA Comptroller of his inability to collect the amounts owed from CCC and stated that he was currently withholding billings for an additional \$7.8 million of beef shipped from May through December 1991 because of the nonpayment. The DLA took no formal action to resolve the dispute with CCC until July 8, 1996, when the DLA Principal Deputy Director sent a letter requesting payment to the Under Secretary of Agriculture for Farm and Foreign Agricultural Services. The DLA Comptroller subsequently billed CCC for \$170,000 for FY 1990 purchases, \$1.1 million for FY 1991 purchases, and \$211,000 for FY 1992 purchases. Those billings included all of the documentation required by the MOU.

Department of Agriculture Action. According to Department of Agriculture officials, CCC did not pay DLA because DLA did not provide all the supporting documents required in the MOU, and the documents were not matched to the billings. (The MOU did not require the supporting documents to be matched to the billings.) Department of Agriculture officials stated that they had verbally contacted DLA and DPSC officials on numerous occasions about the discrepancies found in the billings for \$11 million but did not keep a record of those contacts. In response to the DLA Principal Deputy Director's letter of July 8, 1996, the Under Secretary of Agriculture for Farm and Foreign Agricultural Services replied in September 1996, stating that DLA had not provided the CCC with the documentation required by the MOU and that the subsidy rates for FYs 1991 and 1992 had not yet been established as required by the MOU.

Resolution. We met with the Director for Accounting Policy and attorneys from DoD Office of General Counsel, who agreed that neither DLA nor CCC had acted promptly to resolve the dispute in billing documentation and both needed to work cooperatively to properly reimburse DLA.

Operational, Emergency, and Humanitarian Programs

Background. DoD 7000.14-R, "Financial Management Regulation," Volume 11B, "Reimbursable Operations, Policy and Procedures--Defense Business Operations Fund," December 1994, Chapter 55, states that the DBOF Supply Management Business Area may issue materiel to meet certain operational, emergency, and humanitarian requirements with and without reimbursement. The DBOF may issue materiel without *immediate* reimbursement during domestic civil emergencies, civil disturbances, and military emergencies. Materiel may be issued *without reimbursement* when issued as part of drawdowns directed by the President or the Congress, designated as war reserve assets, needed to meet war reserve requirements, and for other reasons specified in DoD 7000.14-R.

Finding A. Past Due Federal Accounts Receivable

DLA Emergency Support Operations Center. The DLA ESOC serves as the DLA point of contact within the Directorate of Supply Operations to provide operational support in response to military contingencies and exercises, national and international crises, and other requests for extraordinary and emergency supply support. The ESOC mission includes providing command and control information to senior management, developing policies and procedures and resolving operational issues that may arise between DLA and its customers, and managing and controlling the DoD and DLA project codes used to identify operational missions and customers. The DPSC also has an ESOC that operates under the direction of the DLA ESOC.

The DLA ESOC played a significant role during Operation Desert Shield/Desert Storm (1990-1991), Hurricane Hugo (1991), Operation Just Cause (1990), and the drug enforcement efforts in Colombia (1989). In that role, the ESOC was responsible for all facets of supply operations, including the resolution of operational issues between DLA and its customers. Sometimes, to expedite materiel requisitions and deliveries, ESOC prepared requisitions for customers and used ESOC's DoD Activity Address Code (DoDAAC) for billing purposes. This meant that DFAS Columbus Center billed ESOC for payment although ESOC had neither the budget nor the funds to pay for billable materiel. ESOC officials observed in their July 1992 standard operating procedures their using the ESOC DoDAAC was necessary:

A dramatic example of this type of situation occurred during Operation Provide Comfort (OPC), which provided humanitarian relief to Kurdish refugees in 1991. U.S. European Command was the Unified Command responsible for OPC, but operationally and administratively was unable to prepare and submit the large volume of requisitions necessary to obtain the required supply support. Accordingly, the JCS J-4 tasked DLA to prepare and submit the requisitions using the ESOC DoDAAC, "SL4703."

Of the \$31.9 million past due, \$17.5 million applied to receivables originating after the ESOC standard operating procedures were issued in July 1992. Those procedures required ESOC staff to obtain written assurance from the customers that funds were available before processing the requisitions and to assure that the customer was billed for payment. We were unable to determine what procedures existed before July 1992 to assure that the \$14.4 million outstanding balance was collected.

DLA ESOC Past Due Accounts Receivable. The 46 past due accounts receivable totaling \$31.9 million were not collected because the DLA Comptroller and ESOC officials did not initiate action to bill customers or follow up with billed customers to obtain payment. In several instances, customers were billed but did not pay because they claimed they were not liable. However, for most of the billings, DLA officials did not know who to bill because they did not follow up with customers and notify DFAS Columbus Center of which organizations to bill. The general customers and age of the 46 past due accounts are provided in Table 1.

Finding A. Past Due Federal Accounts Receivable

Table 1. ESOC Humanitarian Past Due Accounts

<u>Customers</u>	<u>Number of Bills</u>	<u>Age of Accounts</u>	<u>Dollar Value (millions)</u>
DoD	34	2-14 years	\$14.6
Federal Agencies	8	3-6 years	11.9
United Nations	4	3-4 years	5.4
Total	46		\$31.9

Of the 46 past due accounts receivable, 5 billings for \$108,000 had project codes relating to operational missions (Operation "Desert Express" which was a special transportation mission, and Operation "Desert Shield/Storm" and related operations in Southwest Asia). In addition, ESOC processed two billings for \$36,500 that had a project code related to a combined humanitarian and operational mission (Operation "Restore Hope," which supported U.S. forces in Somalia).

DoD Customers. DoD organizations were apparently liable for reimbursing DLA for 34 of the 46 past due accounts receivable. For example, DLA personnel processed materiel requisitions using DoDAAC SL4703 to ship over \$12 million in materiel in support of "Operation Provide Comfort." The U.S. European Command received funding and delegated operational control of that effort. However, in most instances, billing information was inadequate, preventing us from determining whether some of the receivables were valid.

Federal Agencies. Federal agencies were apparently liable for 8 of the 46 past due accounts receivable. The Federal Emergency Management Agency owed DLA \$11.8 million for materiel provided for humanitarian assistance to victims of Hurricane Andrew in 1992. The U.S. Marshal's Service owed DLA \$2,000 for materiel support rendered during the Los Angeles civil disturbances in 1992. The Department of State owed DLA \$1,500 for materiel shipped to El Salvador in 1990. According to the Economy Act and prior Comptroller General decisions, amounts owed by other Government agencies require collection, even though some of the past due debts have been outstanding up to 14 years.

United Nations. The United Nations was apparently liable for 4 of the 46 past due accounts. The United Nations received materiel valued at \$5.4 million in support of forces in Cambodia and \$8,000 in support of forces in Somalia. According to an Office of the Under Secretary of Defense for Policy memorandum dated June 17, 1993, DLA support of United Nations forces in Somalia was reimbursable.

Finding A. Past Due Federal Accounts Receivable

Shelter for the Homeless Program

Legislation. The Secretary of a Military Department is authorized to provide shelter and other incidental services for the homeless by 10 U.S.C. 2546. Subparagraph (d) further states:

The Secretary concerned may provide bedding for support of shelters for the homeless that are operated by entities other than the Department of Defense. Bedding may be provided under this subsection without reimbursement, but may only be provided to the extent that the Secretary determines that the provision of such bedding will not interfere with military requirements.

Under Secretary of Defense (Comptroller). In a July 14, 1986, memorandum to the Deputy Comptroller, DLA, the Principal Deputy Assistant Secretary of Defense (Comptroller), now the Under Secretary of Defense (Comptroller), wrote:

The Defense Logistics Agency (DLA) is authorized under the authority of Section 2546 of 10 U.S.C., as amended by P.L. 99-167, December 3, 1985, to issue bedding to homeless shelters without reimbursement to the extent that the Director has determined that the issues will not interfere with military requirements. Henceforth, the standard price for those items that DLA has been directed to provide for the HSI [Homeless Support Initiative], other than those from the Reutilization Program, shall be charged to a DLA Operations and Maintenance subaccount line designated for that purpose to reimburse the stock fund. All other stock fund issues for the HSI shall be reimbursed from available Service/Agency operating funds.

Thus, while 10 U.S.C. 2546 provided for free issue to eligible shelters, the Under Secretary of Defense (Comptroller) (USD[C]) issued policy for the stock fund (now DBOF) to be reimbursed. However, the policy contained in the USD(C) memorandum was not published in DoD 7000.14-R. Legislative authority existed for the Shelter for the Homeless program, and Congress funded the program to reimburse DBOF through FY 1996.

Shelter for the Homeless Requisitions and Costs. Since January 1986, DLA issued bedding valued at over \$29.6 million to the Shelters for the Homeless program. The DPSC Clothing and Textile (C&T) division issued items valued at approximately \$23.6 million, while the Medical division issued items valued at around \$6 million. Of the \$29.6 million, \$19.0 million was recorded by the DFAS Columbus Center as a reimbursable sale, and \$10.6 million was recorded as nonreimbursable. The \$29.6 million includes \$985,000 in unrecorded surcharges and Government-furnished material to establish the standard price as required in the USD(C) memorandum. None of the items issued in support of the Shelter for the Homeless program were issued from the reutilization program.

Reimbursable Authority and Funding. According to the USD(C) memorandum of July 14, 1986, the stock fund was to be reimbursed at the standard price for the cost of the program by charging its cost against a DLA operations and maintenance (O&M) subaccount. However, the DPSC C&T

Finding A. Past Due Federal Accounts Receivable

and Medical division working capital funds were not reimbursed, even though the DLA O&M subaccount existed as of FY 1995. DLA and DPSC ESOC officials were not aware of the USD(C) 1986 policy memorandum because USD(C) officials did not publish the guidance from the policy memorandum in a DoD regulation. ESOC officials believed that DBOF was not to be reimbursed for materiel issued to shelters because 10 U.S.C. 2546 stated that bedding would be issued to homeless shelters without reimbursement. Consequently, DLA officials used the \$10.36 million allocated to their O&M subaccount during FYs 1992 through 1995 to reimburse DPSC for the manufacturing cost of non-military standard blankets for issue to the homeless and to reimburse the DPSC Medical working capital fund \$1.4 million for direct costs incurred in FY 1992. We were unable to determine whether any DoD O&M funds were available to reimburse the stock funds during FYs 1986 through 1991.

Costs in Excess of Reimbursable Authority and Funding. The DLA allocated \$10.36 million in DoD O&M funds during FYs 1992 through 1995 to the Shelter for the Homeless program. DLA allocated no funds to the program in FY 1996, although Congress appropriated \$400,000 for the program. In FYs 1992 through 1996, the DPSC C&T and Medical divisions issued approximately \$26.1 million of bedding, while only \$10.36 million of this amount was reimbursed. In addition, approximately \$3.5 million of issues from FYs 1986 to 1991 were not reimbursed. As a result, DBOF experienced a loss of approximately \$19.2 million from January 1986 through September 1996.

Potential Antideficiency Act Violations. Part or all of the \$19.2 million not reimbursed to DBOF may result in a potential violation of the Antideficiency Act. See Finding B for a discussion of this issue.

Conclusion

The DLA needs to take aggressive action to collect the \$78.2 million in past due accounts receivable owed by Federal debtors. Some of those debts date back to 1982. Neither the USD(C) nor the Comptroller General permit the write-off of delinquent Federal accounts receivable, regardless of age. The lack of adequate actions by DLA to maintain documentation of receivables and to collect past due receivables constitutes a material management control weakness. Implementing the recommendations would result in DLA collecting up to \$78.2 million of past due Federal accounts receivable owed to working capital funds within the Defense Business Operations Fund. The USD(C) needs to issue policy regarding reimbursement to DBOF for support provided under the Shelter for the Homeless program.

Finding A. Past Due Federal Accounts Receivable

Recommendations, Management Comments, and Audit Response

Added Recommendation. As a result of management comments, we added Recommendation A.7. to DLA to request guidance from the Under Secretary of Defense (Comptroller) regarding action to be taken on past due accounts receivables lacking documentation or support.

A.1. We recommend that the Director, Defense Logistics Agency, bill the Commodity Credit Corporation for the \$27.1 million in American beef that was purchased and shipped to U.S. military commissaries during FYs 1990 through 1992 as provided for in Public Law 101-220, "Agriculture Programs: Technical Corrections," December 12, 1989, section 2.

Management Comments. DLA partially concurred with the recommendation. DLA efforts to collect \$27.1 million of past due accounts receivable owed by the Commodity Credit Corporation have not been successful. If the next attempt by DLA is unsuccessful, DLA will request assistance from the Under Secretary of Defense (Comptroller).

Audit Response. The DLA comments satisfy the intent of the recommendation; therefore, no additional comments are required.

A.2. We recommend that the Under Secretary of Defense (Comptroller) follow up with the United States Department of Agriculture to collect the full amount owed by the Commodity Credit Corporation if the Defense Logistics Agency is not fully successful.

Management Comments Required. The Under Secretary of Defense (Comptroller) did not comment on a draft of this report. We request that the Under Secretary provide comments on this recommendation.

A.3. We recommend that the Director, Defense Logistics Agency, reconstruct the documentary evidence and bill customers (DoD, Federal agencies, and United Nations) for their share of the \$31.9 million in past due Federal accounts receivable. Sales of materiel requisitioned determined to be nonreimbursable should be reversed and recorded as "free issues."

Management Comments. DLA partially concurred with the recommendation. DLA officials reviewed the information available on the overaged accounts receivable to reconstruct the documentary evidence and determined that either no evidence existed or the documentation was inadequate to substantiate the accounts. The comments further stated that DLA will reverse the accounts receivable and record the transactions as "free issues."

Audit Response. The DLA comments to Recommendation A.3. are partially responsive. While the DLA response shows that an unsuccessful effort was made to identify or reconstruct the past due accounts receivable documentation, the DLA intent to treat these past due accounts receivables as "free issues" would be undertaken absent adequate regulatory guidance or criteria.

Finding A. Past Due Federal Accounts Receivable

Accordingly, we added Recommendation A.7. concerning the need for guidance on the action to be taken when billing documentation or support for past due accounts receivables do not exist. (See Finding C for a discussion of write-offs of Federal receivables.)

A.4. We recommend that the Under Secretary of Defense (Comptroller) issue accounting and billing policy for requisitions under the Shelter for the Homeless program. That policy should incorporate the provisions of 10 U.S.C. 2546 and be published in DoD 7000.14-R, Volume 11B, "Reimbursable Operations, Policy and Procedures--Defense Business Operations Fund," Chapter 55.

Management Comments Required. The Under Secretary of Defense (Comptroller) did not comment on a draft of this report. We request that the Under Secretary provide comments on the recommendation.

A.5. If the Under Secretary of Defense (Comptroller) determines that DBOF must be reimbursed for support provided under the Shelter for the Homeless program, we recommend that the Director, Defense Logistics Agency, identify the appropriation(s) responsible for reimbursing the DBOF and collect the \$19.2 million or other amount determined to be owed since 1986.

Management Comments. DLA concurred with the recommendation, stating that it will comply with the Under Secretary of Defense (Comptroller) guidance published in accordance with Recommendation A.4.

A.6. If the Under Secretary of Defense (Comptroller) determines that DBOF need not be reimbursed for part or all of the support provided in support of the Shelter for the Homeless program, we recommend that the Director, Defense Logistics Agency, request that the Defense Finance and Accounting Columbus Center correct the prior accounting entries that established the applicable accounts receivable.

Management Comments. DLA concurred with the recommendation, stating that it will comply with the Under Secretary of Defense (Comptroller) guidance published in accordance with Recommendation A.4.

A.7. We recommend that the Director, Defense Logistics Agency, request guidance from the Under Secretary of Defense (Comptroller) regarding the action to be taken when billing documentation or support for past due accounts receivables does not exist or is insufficient for billing purposes.

Finding B. Potential Antideficiency Act Violation

The DLA issued \$19.2 million of materiel to the Shelter for the Homeless program that was not reimbursed to DBOF. The DLA exceeded annual budget authority by \$15.7 million during FYs 1992 through 1996. The DLA also issued \$3.5 million of materiel from FY 1986 to FY 1991 that was not reimbursed. A USD(C) memorandum dated July 14, 1986, stated that the stock funds were to charge program costs to a DLA O&M subaccount. However, that policy was not formally issued by the USD(C) in a published directive. DLA and DPSC officials were not aware of the policy in the 1986 memorandum. As a result, all or part of the \$19.2 million of unreimbursed costs may result in a potential violation of the Antideficiency Act.

Regulations and Policy Guidance

Financial Management Regulation. DoD 7000.14-R, Volume 14, "Administrative Control of Funds and Antideficiency Act Violations," August 1995, restates applicable provisions of the Antideficiency Act, codified in 31 U.S.C.:

Section 1517(a) states that, "An officer or employee of the United States Government . . . may not make or authorize an expenditure or obligations exceeding -- (1) an apportionment; or (2) the amount permitted by regulations prescribed under section 1514(a) of this title."

Section 1514(a) states regarding an administrative division of apportionments that, "The system shall be designed to . . . restrict obligations or expenditures from each appropriation to the amount of apportionments or reapportionments of the appropriation"

Section 1512(b)(1) states that, "An appropriation subject to apportionment is apportioned by --

(A) months, calendar quarters, operating seasons or other time periods;

(B) activities, functions, projects, or objects; or

(C) a combination of the ways referred to in clauses (A) and (B) of this paragraph."

DoD 7000.14-R, Volume 14, Enclosure 2-1, describes a potential violation of Section 1517(a)(2) as follows:

Obligations authorized or incurred or expenditures made exceed . . . Any limitation imposed by an authorized official of the Department of Defense (DoD) or a DoD Component that is intended to restrict obligations of apportioned appropriations or funds.

Finding B. Potential Antideficiency Act Violation

Under Secretary of Defense (Comptroller). As noted in Finding A of this report, the USD(C) issued a July 14, 1986, memorandum providing guidance to DLA regarding issues to the Shelter for the Homeless program. The memorandum stated that bedding may be issued without reimbursement to the extent that the issues will not interfere with military requirements and that the standard price of the items issued should be charged to a DLA Operations and Maintenance subaccount to reimburse the stock fund (now DBOF).

DLA O&M Annual Operating Budget and Subaccount

DLA O&M Annual Operating Budget. Since FY 1992, DLA received DoD O&M funds (97x0100.5149-029) to pay for numerous operational programs and the Shelter for the Homeless program. The DLA annual operating budget for the Central Fund, Code ZK (97x0100.5149-029), was apportioned by total gross, direct, and reimbursable dollars; gross, direct, and reimbursable quarterly limitations; and quarterly limitations for specific programs, which included the Shelter for the Homeless program. Thus, the DLA annual operating budget was prepared and controlled as an apportionment of the annual appropriations as defined in 31 U.S.C. 1514(b)(1) and 1514(a).

Overexpenditures Pursuant to 31 U.S.C. 1517(a). Table 2 shows the DLA annual operating budget and materiel requisition costs for each fiscal year since 1992. Budget documents were not available before FY 1992.

Table 2. Shelter for the Homeless Annual Operating Budget, Cost, and Overexpenditure

<u>FY</u>	<u>Budget</u>	<u>Cost</u>	<u>Difference</u>
1992	\$ 1,237,000	\$ 2,824,485	\$ 1,587,485
1993	3,706,000	8,659,896	4,953,896
1994	1,917,000	6,115,467	4,198,467
1995	3,500,000	4,819,917	1,319,917
1996	0	3,682,681	3,682,681
Total	\$10,360,000	\$26,102,446	\$15,742,446

DLA Use of Annual Operating Budget Funding

The DLA used the annual operating budget authority during FYs 1993 through 1995 to reimburse DPSC for the contract costs of manufacturing nonmilitary standard blankets for issue to the Shelter for the Homeless program. Amounts

Finding B. Potential Antideficiency Act Violation

for Government-furnished material and surcharges applicable to these blankets totaling \$985,000, were not reimbursed. As a result, the DBOF was not reimbursed \$15.7 million for materiel issued to the Shelter for the Homeless program. The \$15.7 million unpaid balance included \$985,000 in additional costs to establish the standard price for the manufactured blankets. In addition, payments made dated January 1, 1995, to reimburse the DPSC Medical division for FY 1992 costs of \$1.4 million exceeded the \$1.237 million available to fund the program. Consequently, \$163,000 of the reimbursement may also be a potential violation of the Antideficiency Act.

Conclusion

The USD(C) memorandum dated July 14, 1986, stated that the stock fund was to charge the standard price of the materiel issued to support the Shelter for the Homeless program to a DLA O&M subaccount. A DLA O&M subaccount was established and funded annually through FY 1995. (Congress made \$400,000 available for the program in FY 1996, but DLA did not allocate the funds to the Shelter for the Homeless program.) The DLA Annual Operating Budget for the Central Fund, ZK, established funding limitations as defined in 31 U.S.C. 1512 and 1514. However, during FY 1992 through FY 1996, those limitations apparently were exceeded by \$15.7 million. In addition, in FY 1992, the \$1.4 million paid to reimburse the DPSC Medical division for materiel issued apparently exceeded the available budgetary resources of \$1.237 million by \$163,000. In Recommendation A.4., we recommended that the USD(C) issue accounting and billing policy for requisitions processed under the Shelter for the Homeless program. That policy should incorporate the provisions of 10 U.S.C. 2546 and be published in DoD 7000.14-R.

Management Comments on the Finding and Audit Response

Management Comments. DLA nonconcurred with the finding by stating that there is no evidence that a potential Antideficiency Act violation exists. DLA stated that Antideficiency Act limitations were not attached to DBOF operating authority and departmental guidance permitted the use of the operating authority for the Homeless Shelter Program. Regarding the DBOF reimbursement in FY 1992, DLA indicated that the total Central Fund budget authority was not exceeded even though the total program cost was \$1.4 million compared to the \$1.237 million reflected in the Central Fund budget authority.

Audit Response. Although DLA is correct in asserting that funding limits did not apply to DBOF, funding limits did apply to the O&M account, which should have reimbursed DBOF.

Recommendations, Management Comments, and Audit Response

B. If the Under Secretary of Defense (Comptroller) determines that DBOF must be reimbursed for support provided under the Shelter for the Homeless program, we recommend that the Director, Defense Logistics Agency, investigate potential Antideficiency Act violations, fix responsibility, and if any violation of the Antideficiency Act occurred, comply with reporting requirements in DoD Directive 7200.1, "Administrative Control of Funds and Antideficiency Act Violations."

Management Comments. DLA partially concurred with the recommendation, stating that it will investigate potential Antideficiency Act violations if USD(C) requires DBOF to be reimbursed for the cost of the Shelter for the Homeless program.

Audit Response. The DLA comments satisfy the intent of the recommendation; therefore, no additional comments are required.

Finding C. Write-offs of Federal Receivables

Two DPSC accounts receivable for \$13.1 million were written off by DFAS in 1991 without explanation. In addition, in February 1995, DFAS officials wrote off 27 billings valued at \$79,000 that were owed by 21 Federal agencies. Neither DFAS nor DPSC personnel could explain why the receivables, valued at \$13.1 million, were written off because the supporting documents were not available. However, DFAS officials wrote off the 27 billings based on their interpretation of DoD and DFAS regulations, which permitted the write-off of Federal debt. Our review of the applicable provisions of the DoD and DFAS regulations disclosed that the provisions may not have been in accordance with Federal law. As a result, working capital funds of at least \$13.2 million were not available to DBOF for intended purposes.

Laws, Comptroller General Decisions, and DoD and DFAS Regulations

DoD Financial Management Regulation. DoD 7000.14-R, Volume 11B, Chapter 54, provides policy for the write-off of uncollectible receivables from the public. The DoD policy was based on a supplement of the Treasury Financial Manual entitled, "Managing Government Credit." The supplement stated that an agency will consider a debt uncollectible, terminate collection action, and write off the debt when one or more of five criteria applied. Those criteria for write off existed when:

- (1) the debt was determined without merit,
- (2) the debt could not be substantiated,
- (3) the cost of recovery exceeded the amount of the debt,
- (4) the debtor can not be located, and
- (5) the agency cannot collect a substantial amount of the debt.

DoD 7000.14-R also states that:

While the above criteria is specified by Treasury for writing-off receivables due from the public, similar criteria can be applied to receivables due from other Federal governmental agencies.

Error in Guidance. Applying criteria for write-offs of public debt to Federal debt does not comply with 31 U.S.C. 1535, "Agency Agreements," and a related unpublished Comptroller General decision (B-260993, July 26, 1996). Only one of the five rules for write-offs of receivables from the public would apply to Federal receivables: "The debt was determined without merit."

Finding C. Write-offs of Federal Receivables

However, if a debt is determined without merit, a write-off would not apply. Instead, a reversal of the originally recorded sale and receivable would have to be made, because the receivable would have been recorded in error.

DFAS Regulations. DFAS Regulation 005, Enclosure 8, "Authority to Take Actions Under the Federal Claims Collection Act," April 8, 1991, authorized the Directors of the DFAS Centers to collect, compromise, suspend, or end collection action on claims of the United States. The authority was to be exercised in accordance with the Federal Claims Collection Standards, as codified in the Code of Federal Regulations, Title 4, Parts 101 through 105. However, according to Part 101, a claim was defined as ". . . an amount of money or property . . . owed to the United States from any person, organization, or entity, *except another Federal agency* (emphasis added)."

Write-off of Federal Receivables

FY 1991 Write-offs. According to DFAS accounting records, two DPSC accounts receivable for \$13.1 million were written off in 1991. One DPSC receivable for \$7.5 million, which originated in May 1991, was for items requisitioned in support of Operation "Provide Comfort," a reimbursable program. An April 1991 DPSC receivable of unknown origin for \$5.6 million was reportedly written off as of December 31, 1991. DFAS and DPSC Comptroller personnel could not locate the supporting documents to determine why either receivable was written off.

DFAS Write-off of Federal Receivables. Personnel at the DFAS Columbus Center improperly wrote off delinquent billings from Federal agencies. For example, in February 1995, the Director, DFAS Columbus Center, authorized the write-off of debts totaling \$79,000. Those debts covered 27 disputed and past due accounts receivable from Federal agencies. The Federal agencies that had amounts written off included the Army Corps of Engineers; Departments of Health and Human Services, Justice, Transportation, and Treasury; Federal Emergency Management Agency; General Services Administration; and National Aeronautics and Space Administration. According to the DFAS Columbus Center memorandum approving the action:

Correspondence and telephone conversations with responsible personnel at the activities concerned confirm the customer will not pay for the materiel. Reasons vary from non-receipt of materiel (timeframes to submit a request for credit have expired or request for credit was denied by the Supply Center because it was submitted after the timeframe had expired) to accounting records are no longer available making certification of payment impossible.

Conclusion

The Economy Act (31 U.S.C. 1535) and related Comptroller General decisions prohibit ordering agencies from withholding payment based on issues of

Finding C. Write-offs of Federal Receivables

voucher certification and the age of accounts. Moreover, an unpublished Comptroller General decision (B-260993, July 26, 1996) held that nonpayment by a Federal agency could result in an illegal augmentation of that agency's funds. Rules for writing off receivables from the public should not be used for writing off receivables from Federal agencies. Therefore, DoD 7000.14-R and DFAS Regulation 005 should be revised. Implementing the recommendations would result in the collection of up to \$13.2 million of past due accounts receivable owed to DBOF.

Recommendations for Corrective Action

C.1. We recommend that the Under Secretary of Defense (Comptroller) revise the policy for write-offs of Federal receivables contained in DoD 7000.14-R, "Financial Management Regulation," Volume 11B, "Reimbursable Operations, Policy and Procedures--Defense Business Operations Fund," December 1994, Chapter 54. The revision should incorporate applicable provisions of the Economy Act, relevant Comptroller General decisions, and other applicable laws.

Management Comments Required. The Under Secretary of Defense (Comptroller) did not comment on a draft of this report. We request that the Under Secretary provide comments on the recommendation

C.2. We recommend that the Director, Defense Finance and Accounting Service:

a. Collect the \$13.2 million in Federal receivables that have been written off.

b. Rescind the policy for writing off Federal receivables contained in Defense Finance and Accounting Service Regulation 005, Enclosure 8, "Authority to Take Actions Under the Federal Claims Collection Act," April 8, 1991. Upon issuance of revised policy in DoD 7000.14-R, "Financial Management Regulation," Volume 11B, "Reimbursable Operations, Policy and Procedures--Defense Business Operations Fund," December 1994, Chapter 54, the Director, Defense Finance and Accounting Service, should incorporate that policy in appropriate Defense Finance and Accounting Service regulations.

Management Comments Required. The Director, Defense Finance and Accounting Service, did not comment on a draft of this report. We request that the Director provide comments on the recommendation.

Part II - Additional Information

Appendix A. Audit Process

Scope

We reviewed past due Federal accounts receivable in conjunction with the audit of accounts receivable in the FY 1996 DBOF financial statements (the accounts receivable audit). As part of the accounts receivable audit, we examined the accounting records for the Defense Logistics Agency (DLA) Supply Management Business Area for the \$78.2 million in past due Federal accounts receivable reported from 1982 through November 1993 and the \$13.2 million reportedly written off. Our review of requisitions and the accounting methods used in conjunction with the Shelter for the Homeless program covered the period 1984 through 1995. The Defense Finance and Accounting Service (DFAS) Columbus Center maintained the accounting records for the DLA Supply Management Business Area.

Methodology

Audit Work Performed. We evaluated the DFAS Columbus Center accounting records for the DLA Supply Management Business Area and identified numerous past due Federal accounts receivable. The DLA Emergency Support Operations Center (ESOC) was the unit primarily responsible for generating the requisitions that led to the past due accounts through their use of the ESOC DoD Activity Address Code (DoDAAC) of "SL4703." Our contact with Office of the Under Secretary of Defense (Comptroller), DLA Comptroller, Office of the General Counsel, and ESOC personnel, and Defense Personnel Support Center (DPSC) officials provided additional information on the programs that resulted in the past due Federal accounts receivables. For those Federal accounts receivable that were written off, we followed up with DFAS Columbus Center officials to determine why the accounts were written off and the underlying statutory authority.

Audit Type, Period, and Standards. We performed this financial-related audit from May 1995 through May 1997. The audit was made in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the IG, DoD. Accordingly, we included tests of management controls considered necessary. We did not use computer-processed data for this audit.

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

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. We reviewed the adequacy of DLA management controls related to ESOC requisitions made in support of customers and the use of the ESOC DoDAAC. Specifically, we determined whether DLA ESOC personnel complied with their standard operating procedures and followed up with customers to assure that reimbursable support was correctly billed and paid for. In addition, we reviewed the policies and procedures followed by DFAS Columbus Center officials in approving the write-off of past due Federal accounts receivables.

Adequacy of Management Controls. We identified a material management control weakness as defined by DoD Directive 5010.38. Management controls at the DLA ESOC were not adequate to properly prepare and submit requisitions on behalf of customers or to take all necessary actions to collect past due accounts receivable. This weakness is material at the DLA level. Recommendations A.1, A.2, A.3, A.4, A.5, A.6, C.1, and C.2., if implemented, will assure the timely and accurate identification of programs as either reimbursable or nonreimbursable and facilitate collection of up to \$91.4 million of outstanding account balances. A copy of the report will be provided to the senior official responsible for DLA management controls.

Adequacy of Management's Self-Evaluation at DLA. DLA officials identified the ESOC as an assessable unit in the current management control program. However, ESOC officials did not review procedures for submitting requisitions on behalf of customers or for taking action to collect past due accounts. Consequently, ESOC officials did not identify the material management control weakness that we found.

Summary of Prior Coverage

Audit Report No. 97-178, "Internal Controls and Compliance With Laws and Regulations for the Defense Business Operations Fund Consolidated Financial Statements for FY 1996," June 26, 1997. We reported that we were unable to render an opinion on the FY 1996 Defense Business Operations Fund Consolidated Financial Statements. The disclaimer of opinion can be attributed to deficiencies in the internal control structure and compliance with laws and regulations. As a result, the financial position of the Defense Business Operations Fund could not be determined or presented in a fair and timely fashion.

*DoD Directive 5010.38 has been reissued as "Management Control Program," August 26, 1996. The audit was performed under the April 1987 version of the program.

Appendix B. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Director, Accounting Policy
Assistant Secretary of Defense (Public Affairs)
General Counsel of the Department of Defense
Director, Defense Logistics Studies Information Exchange

Joint Staff

Director, Joint Staff

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
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

Unified Commands

Commander in Chief, U.S. Atlantic Command
Commander in Chief, U.S. Central Command
Commander in Chief, U.S. European Command
Commander in Chief, U.S. Pacific Command
Commander in Chief, U.S. Southern Command
Commander in Chief, U.S. Special Operations Command
Commander in Chief, U.S. Transportation Command

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division,
General Accounting Office
United States Department of Agriculture
Office of the Inspector General

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 Government Management, Information, and Technology,
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

Defense Logistics Agency Comments



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD, SUITE 2533
FT. BELVOIR, VIRGINIA 22060-6221

IN REPLY
REFER TO DDAI

7 OCT 1997

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
DEPARTMENT OF DEFENSE

SUBJECT: Draft Report: Defense Logistics Agency Past Due Federal Accounts Receivable
(Project No. 5FD-2019.00)

This is in response to the July 28, 1997 request. If you have any questions, please contact Mrs.
LaVaeda Coulter, (703) 767-6261.

Encl


JEFFREY GOLDSTEIN
Chief (Acting), Internal Review

Subject: Defense Logistics Agency Past Due Federal Accounts Receivable
(Project No. 5FD-2019.00)

Finding A: Past Due Federal Accounts Receivable. The Defense Logistics Agency had approximately \$78.2 million of past due Federal accounts receivable for materiel requisitioned through the DLA Emergency Support Operations Center (ESOC). The DLA had past due accounts receivable of \$27.1 million for 85,000 pounds of beef purchased and shipped to U.S. military commissaries in Europe during FYs 1990 through 1992; \$31.9 million for materiel requisitioned in support of various reimbursable operational, emergency, and humanitarian programs; and \$19.2 million for bedding issued in support of the Shelter for the Homeless program. The accounts were past due because the DLA Comptroller and ESOC officials did not follow up with customers to obtain payment. Some of the past due accounts receivable have remained uncollected since 1982. In addition guidance was needed from the Office of the Under Secretary of Defense (Comptroller) regarding the collection and potential write-off of past due Federal accounts receivable for the Shelter for the Homeless and other humanitarian programs. As a result, the approximately \$78.2 million owed to DBOF was not collected from the agencies that were funded to pay for the materiel. If not collected, the resulting loss would have to be recovered through an additional surcharge to DBOF customers for supply items.

DLA Comments: Partially Concur. Please refer to the recommendation comments.

Action Officer: Ms. Karen Opie
Review/Approval: B. A. Blackman
Coordination: LaVaeda Coulter, DDAI, 767-6261

DLA Approval:



Defense Logistics Agency Comments

Subject: Defense Logistics Agency Past Due Federal Accounts Receivable
(Project No. 5FD-2019.00)

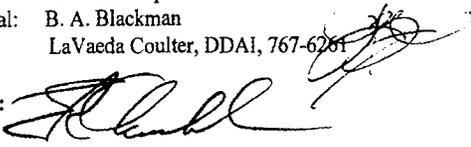
Recommendation A.1.: We recommend that the Director, Defense Logistics Agency, bill the Commodity Credit Corporation for the \$27.1 million in American beef that was purchased and shipped to U.S. military commissaries during FYs 1990 and 1992 as provided for in Public Law 101-220, "Agriculture Programs: Technical Corrections," December 12, 1989, section 2.

DLA Comments: Partially Concur. Several attempts to collect the \$27.1 million from the Commodity Credit Corporation (CCC), Department of Agriculture, have failed and we have no evidence to suggest that further attempts will be successful. Our attempts have included a DLA Comptroller and General Counsel, accompanied by the DoDIG, meeting with Department of Agriculture officials, matching documentation to bills as requested, and establishing subsidy rates for Fiscal Years 1991 and 1992. These attempts have resulted in the CCC remitting a mere \$170,196 of the \$27.1 million. We will make another attempt to resolve the issue and if unsuccessful, will request USD(C) intervention.

Disposition: Action is on going. ECD: 31 Mar 98

Monetary Benefits: \$27.1 million

Action Officer: Ms. Karen Opie
Review/Approval: B. A. Blackman
Coordination: LaVaeda Coulter, DDAI, 767-6261

DLA Approval: 

Subject: Defense Logistics Agency Past Due Federal Accounts Receivable
(Project No. 5FD-2019.00)

Recommendation A.3.: We recommend that the Director, Defense Logistics Agency reconstruct the documentary evidence and bill customers (DoD, Federal agencies, and United Nations) for their share of the \$31.9 million in past due Federal accounts receivable. Sales of materiel requisitioned determined to be nonreimbursable should be reversed and recorded as "free issues."

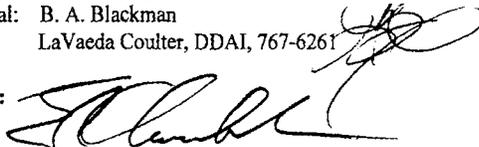
DLA Comments: Partially Concur. We have reviewed the information available on the overaged accounts receivable for the Operating, Emergency, and Humanitarian Programs in order to reconstruct the documentary evidence necessary for billing. Either no evidence exists or the documentation is inadequate to substantiate the accounts. Therefore, we will reverse the accounts receivable and record the transactions as "free issues." (Note: The audit report itself indicated that the documentation was lacking to the extent that a determination could not be made as to the validity of the accounts in question).

Disposition: Action is ongoing. ECD: 28 Feb 98

Monetary Benefits: 0

Action Officer: Ms. Karen Opie
Review/Approval: B. A. Blackman
Coordination: LaVaeda Coulter, DDAI, 767-6261

DLA Approval:



Defense Logistics Agency Comments

Subject: Defense Logistics Agency Past Due Federal Accounts Receivable
(Project No. 5FD-2019.00)

Recommendation A.5.: If the Under Secretary of Defense (Comptroller) determines that DBOF must be reimbursed for support provided under the Shelter for the Homeless program, we recommend that the Director, Defense Logistics Agency, identify the appropriation(s) responsible for reimbursing DBOF and collect the \$19.2 million or other amount determined to be owed since 1986.

DLA Comments: We will comply with USD(C) guidance.

Disposition: Action is on going. ECD: Upon receipt of USD(C) guidance.

Monetary Benefits: Dependent on USD(C) guidance.

Action Officer: Ms. Karen Opie

Review/Approval: B. A. Blackman

Coordination: LaVaeda Coulter, DDAI, 767-6261

DLA Approval:



Subject: Defense Logistics Agency Past Due Federal Accounts Receivable
(Project No. 5FD-2019.00)

Recommendation A.6.: If the Under Secretary of Defense (Comptroller) determines that DBOF need not be reimbursed for part or all of the support provided in support of the Shelter for the Homeless program, we recommend that the Director, Defense Logistics Agency, request that the Defense Finance and Accounting Columbus Center correct the prior accounting entries that established the applicable accounts receivable.

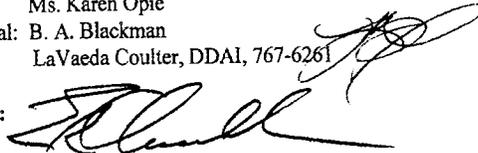
DLA Comments: We will comply with USD(C) guidance.

Disposition: Action is on going. ECD: Upon receipt of USD(C) guidance.

Monetary Benefits: \$0

Action Officer: Ms. Karen Opie
Review/Approval: B. A. Blackman
Coordination: LaVaeda Coulter, DDAI, 767-6261

DLA Approval:



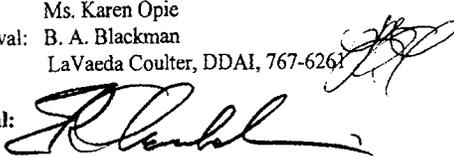
Defense Logistics Agency Comments

Subject: Defense Logistics Agency Past Due Federal Accounts Receivable
(Project No. 5FD-2019.00)

Finding B: Potential Antideficiency Act Violation. The DLA issued \$19.2 million of materiel to the Shelter for the Homeless program that was not reimbursed to DBOF. The DLA exceeded annual budget authority by \$15.7 million during FYs 1992 through FY 1996. The DLA also issued \$3.5 million of materiel from FY 1986 to FY 1991 that was not reimbursed. A USD(C) memorandum dated July 14, 1986, stated that the stock funds were to charge program costs to a DLA O&M subaccount. However, that policy was not formally issued by the USD(C) in a published directive. DLA and DPSC officials were not aware of the policy in the 1986 memorandum. As a result, all or part of the \$19.2 million of unreimbursed costs may constitute a violation of the Antideficiency Act.

DLA Comments: Nonconcur. There is no evidence that a potential Antideficiency Act violation exists. During the period in question, Antideficiency Act limitations were not attached to DBOF (now DWCF) operating authority and departmental guidance existed which permitted the use of that operating authority for the Homeless Shelter Program. Regarding the reimbursement to the DBOF in FY 1992 of \$1.4 million versus the \$1.237 million reflected on the Central Fund annual budget document, antideficiency act limitations are attached to the total authority reflected on that budget, not to each individual line. The total Central Fund budget authority was not exceeded in FY 1992.

Action Officer: Ms. Karen Opie
Review/Approval: B. A. Blackman
Coordination: LaVaeda Coulter, DDAI, 767-6261

DLA Approval: 

Subject: Defense Logistics Agency Past Due Federal Accounts Receivable
(Project No. 5FD-2019.00)

Recommendation B.1: If the Under Secretary of Defense (Comptroller) determines that DBOF must be reimbursed for support provided under the Shelter for the Homeless program, we recommend that the Director, Defense Logistics Agency, investigate potential Antideficiency Act violations, fix responsibility, and if any violation of the Antideficiency occurred, comply with reporting requirements in DoD Directive 7200.1, "Administrative Control of Funds and Antideficiency Act Violations."

DLA Comments: Partially Concur. If the USD(C) determines that the DWCF (formerly DBOF) must be reimbursed from Agency O&M authority during the period in question we will determine if a potential antideficiency act violation exists and fulfill the requirements of DoD 7000.14R, Financial Management Regulation, Volume 14, "Administration Control of Funds and Antideficiency Act Violations" dated August 1995.

Disposition: Action is on going. ECD: Dependent on receipt of USD(C) determination.

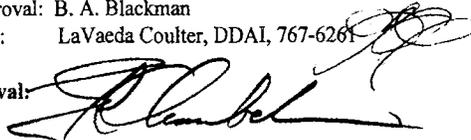
Monetary Benefits: \$0

Action Officer: Ms. Karen Opie

Review/Approval: B. A. Blackman

Coordination: LaVaeda Coulter, DDAI, 767-6261

DLA Approval:



Audit Team Members

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

F. Jay Lane
Byron B. Harbert
David M. Barbour
John W. Sullenberger
Deborah Curry