Audit Report

ACCOUNTING PROCEDURES AT DEFENSE FINANCE AND ACCOUNTING SERVICE OPERATING LOCATION NORFOLK AND THE NORFOLK NAVAL SHIPYARD

Report Number 98-192

August 25, 1998

Office of the Inspector General
Department of Defense

Additional Information and 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 or visit the Inspector General, DoD, Home Page at: www.dodig.osd.mil.

Suggestions for 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, D.C. 20301-1900. The identity of each writer and caller is fully protected.

Acronyms

DBOF	Defense Business Operations Fund
DFAS	Defense Finance and Accounting Service
DITSO	Defense Information Technology Services Office
FM&C	Financial Management and Comptroller
GAO	Government Accounting Office
IRS	Internal Revenue Service
NAS	Naval Audit Service
NAVSEA	Naval Sea Systems Command
NNSY	Norfolk Naval Shipyard
OPLOC	Operating Location
SYMIS	Shipyard Management Information System

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

August 25, 1998

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
COMMANDER, NAVAL SEA SYSTEMS COMMAND

SUBJECT: Audit Report on Accounting Procedures at Defense Finance and Accounting Service Operating Location Norfolk and the Norfolk Naval Shipyard (Report No. 98-192)

We are providing this report for information and use. The audit was performed in response to allegations reported to the Defense Hotline. Management comments were considered in preparing this report. Comments were received from the Under Secretary of the Navy (Financial Management and Comptroller) and Director, Defense Finance and Accounting Service.

DoD Directive 7650.3 requires that all recommendation be resolved promptly. The Defense Finance and Accounting Service comments were partially responsive. We request additional comments on Recommendation B.2.a. by October 23, 1998.

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 (703) 604-9175 (DSN 664-9175, e-mail rbird@dodig.osd.mil) or Mr. Joel K. Chaney, Audit Project Manager, at (216) 522-6091, extension 235 (DSN 580-6091, e-mail jchaney@dodig.osd.mil). See Appendix D 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. 98-192 **August 25, 1998**
Project No. 7FI-8010

Accounting Procedures at Defense Finance and Accounting Service Operating Location Norfolk and the Norfolk Naval Shipyard

Executive Summary

Introduction. The audit was conducted in response to allegations made to the Defense Hotline. The allegations addressed both accounting and personnel issues at the Defense Finance and Accounting Service (DFAS) Operating Location Norfolk, Norfolk, Virginia, and the Norfolk Naval Shipyard. The complainant alleged that management at Operating Location Norfolk did not fully disclose pertinent accounting data in the FY 1995 Norfolk Naval Shipyard's Financial and Operating Statements and as a result the accounting data were misrepresented. The complainant also alleged that management controls over Norfolk Naval Shipyard's accounting operations were inadequate. In FY 1995, the Norfolk Naval Shipyard reported assets of $428.8 million, revenues of $602.4 million, and net revenues of $103.7 million in its Financial and Operating Statements. In FY 1996, assets were reported at $413.3 million, revenues at $680 million, and net revenues at $34.1 million.

In December 1996, the Under Secretary of Defense (Comptroller) announced that the Defense Business Operations Fund would be realigned into separate Defense Working Capital Funds. The realignment does not affect the issues discussed in this report.

Audit Objectives. The primary audit objective was to determine whether irregularities in accounting procedures existed at the Operating Location Norfolk and the Norfolk Naval Shipyard. In addition, we were to evaluate the management controls associated with the accounting procedures. The allegations to the Defense Hotline addressed both accounting and personnel issues. Our review focused on the accounting issues; the U.S. Office of Special Counsel is addressing the personnel issues relating to adverse actions. Specifically, our objectives were to determine whether the Operating Location Norfolk and the Norfolk Naval Shipyard consistently and accurately accounted for the results of operations and adequately disclosed accounting data in the financial statements.

Audit Results. The Operating Location Norfolk recorded journal vouchers reflecting erroneous and unsupported gains in the Norfolk Naval Shipyard's general ledgers without obtaining or analyzing supporting documentation for these journal vouchers. The Norfolk Naval Shipyard developed the journal vouchers to improve its financial position by improperly recognizing $13.3 million of variance gains on its FY 1995 financial statements. The variance gains were recognized although customer orders had not been completed and final bills had not been issued at the end of FY 1995. Personnel at the Norfolk Naval Shipyard said the financial statements were adjusted in response to the Naval Sea Systems Command's emphasis of meeting its FY 1995 net revenue goal. The journal vouchers resulted in net revenue of $103.7 million, reported in the FY 1995 financial statements. The net revenue was overstated by $13.3 million (Finding A).

The Norfolk Naval Shipyard used inappropriate revenue recognition procedures during FYs 1995 and 1996. Those procedures did not implement accounting principles

established in DoD Regulation 7000.14-R (the Regulation) , the "DoD Financial Management Regulation," and were not consistent with the procedures of other Naval shipyards. As a result, the Financial and Operating Statements of the Norfolk Naval Shipyard for FYs 1995 and 1996 were not comparable to the statements of other shipyards, and the results of operations were incorrect (Finding B).

In September 1996, the Norfolk Naval Shipyard accrued liabilities for materials and contractual services and charged the costs to customer orders, although the materials and services were not provided on the customer orders. As a result, the Norfolk Naval Shipyard prematurely billed customers $2.5 million in October 1996 for work that had not been performed by September 30, 1996. In most cases, the materials and services were not provided on the customer orders until early 1997 (Finding C).

The findings substantiated allegations made to the Defense Hotline. We also partially substantiated an allegation concerning a $10 million overpayment made by the Norfolk Naval Shipyard to the Internal Revenue Service. See Appendix B for details of the allegations and audit results.

Summary of Recommendations. We recommend that the Commander, Naval Sea Systems Command, investigate the improper recognition of revenue and initiate appropriate disciplinary action, if warranted; and establish procedures to ensure that the Naval Shipyard accounting methods are consistent with other Naval shipyards and compliant with the accounting principles established in the Regulation. We recommend that the Director, DFAS, provide training to the Operating Location Norfolk personnel to ensure they are knowledgeable in shipyard accounting operations and DoD accounting procedures, and issue and enforce guidance defining the responsibilities of the DFAS Operating Location Norfolk. We also recommend that the Director, DFAS, direct the DFAS Operating Location Norfolk to ensure their customers comply with the Regulation and disclose deviations from the Regulation. We recommend that the Commander, Norfolk Naval Shipyard, strengthen controls over the accrual of contract costs and the charging of materials to customer orders.

Management Comments. The Navy agreed to investigate the improper recognition of revenue at Norfolk Naval Shipyard and initiate appropriate disciplinary action. DFAS developed a formal plan which includes training for Operating Location Norfolk personnel in shipyard accounting. DFAS Cleveland will issue guidance requiring Operating Location Norfolk to obtain and understand supporting documentation for all journal vouchers processed; assess the accuracy of the financial data received; research significant fluctuations in account balances; and footnote any deviations from accounting policy on its financial statements. The Navy stated it will ensure consistent application of its revenue recognition method throughout its Naval shipyard activities and has modified the Shipyard Management Information System to recognize revenue appropriately. In FY 1998, Naval Sea Systems Command will issue further guidance to the Naval Shipyard Activity as appropriate. DFAS stated it has a responsibility to review and analyze data provided by its customers and advise its customers of known noncompliance issues. However, DFAS also stated it is not appropriate for DFAS to review the financial operations of its customers. Norfolk Naval Shipyard provided training to reiterate proper accrual accounting procedures. See Part I for a complete discussion of management comments and Part III for the complete text of management comments.

Audit Response. The DFAS Operating Location Norfolk was not performing any reviews or analysis of the shipyards accounting practices. We request additional comments from DFAS by October 23, 1998.

Table of Contents

Executive Summary i

Part I. Audit Results

Introduction 2
Audit Background 2
Audit Objectives 3
Finding A. Revenue Recognition During FY 1995 4
Finding B. Method of Revenue Recognition 9
Finding C. Recognizing Expenses and Billing Customer Orders 14

Part II. Additional Information

Appendix A. Audit Process
Scope 20
Methodology 21
Management Control Program Review 22
Summary of Prior Coverage 22
Appendix B. Allegations and Audit Results 24
Appendix C. Revenue Variances Impact on Future Year Financial Statements 27
Appendix D. Report Distribution 29

Part III. Management Comments

Department of the Navy Comments 32
Defense Finance and Accounting Service Comments 37

Part I. Audit Results

Introduction

The audit was performed in response to allegations of management irregularities reported to the Defense Hotline. The allegations addressed both accounting and personnel issues at the Defense Finance and Accounting Service (DFAS) Operating Location (OPLOC) Norfolk, Virginia, and the Norfolk Naval Shipyard (NNSY). Our audit was limited to the accounting issues; the personnel issues relating to adverse actions are being addressed by the U.S. Office of Special Counsel. The complainant alleged that the OPLOC Norfolk was mismanaging its accounting operations for the NNSY by not fully disclosing pertinent accounting information in the NNSY Financial and Operating Statements for FY 1995. The financial and operating statements, with supporting schedules, were submitted to the Commander, Naval Sea Systems Command. The allegation was substantiated. The complainant alleged that the OPLOC Norfolk lacked management controls over its NNSY accounting operations. The allegation was substantiated. The complainant also alleged that the NNSY, along with the OPLOC Norfolk, inappropriately processed a $10 million refund that resulted from an overpayment made to the Internal Revenue Service (IRS) by NNSY. The allegation was partially. substantiated. The specific allegations and audit results are discussed in Appendix B.

Audit Background

Norfolk Naval Shipyard. The NNSY is part of the Depot Maintenance Business Area of the Navy Working Capital Fund. The primary missions of the NNSY are to dry-dock, repair, and modernize Navy ships and to provide logistics support for the Atlantic Fleet and other customers in the Mid-Atlantic region. In FY 1995, the NNSY reported assets of $428.8 million, revenues of $602.4 million, and net revenues of $103.7 million in its financial and operating statements. In FY 1996, assets were reported at $413.3 million, revenues at $680 million, and net revenues at $34.1 million. Table 1 shows the change in the accounts reported by the NNSY between FYs 1995 and 1996.

Table 1. NNSY Accounts in FYs 1995 and 1996

Account	FY 1995 (millions)	FY 1996 (millions)	Increase or Decrease
Assets	$428.8	$413.3	− 3.6 percent
Revenues	$602.4	$680.0	+12.9 percent
Net Revenue	$103.7	$34.1	− 67.1 percent

Defense Finance and Accounting Service. During FY 1992, DFAS assumed accounting and finance functions that were previously performed by the NNSY. At that time, a Defense Accounting Office was established in Norfolk, Virginia, to support the NNSY accounting operations. In FY 1995, personnel assigned to the Defense Accounting Office were reassigned to the OPLOC Norfolk. Subsequently, the OPLOC Norfolk assumed accounting responsibility for the Portsmouth and Puget Sound Naval Shipyards and for shipyards that are being phased out as DoD downsizes. The OPLOC Norfolk maintains the general ledger accounting records for the NNSY; prepares the NNSY Financial and Operating Statements for the Naval Sea Systems Command (NAVSEA); and prepares the Department of the Navy Industrial Business Information System trial balances, which are submitted to the DFAS Cleveland Center for the financial statements of the Navy Working Capital Fund.

Accounting Systems. The NNSY uses the Shipyard Management Information System (SYMIS) for accounting. SYMIS consists of two primary modules: financial applications and material management applications. The financial applications maintain the subsidiary ledgers that support the general ledgers. The OPLOC Norfolk uses spreadsheets to maintain the general ledgers for the NNSY. The OPLOC Norfolk manually records in the general ledger spreadsheets information from SYMIS monthly reports. The general ledger is not integrated within SYMIS.

Revenue Recognition. This report addresses three methods of revenue recognition: percentage-of-completion, completed-order, and income.

- With the percentage-of-completion method, the revenue earned on a customer order is recognized monthly, based on the ratio of costs incurred to date compared to the total costs estimated for the completed order.

- The completed-order method recognizes revenue earned and the associated costs incurred on a customer order at completion. A work-in-process account is used to accumulate costs until the order is completed.

- The income method recognizes revenue and the associated costs of a customer order throughout the duration of the order. These costs are recognized each time the customer is billed. The revenue recognized for each order equals the costs incurred on the order or the total price of the order, whichever is less. Gains or losses are not recognized until the order is completed.

Audit Objectives

The audit objective was to determine whether irregularities in accounting procedures existed at the OPLOC Norfolk and the NNSY, as reported to the Defense Hotline, and to evaluate management controls related to the audit objective. See Appendix B for a summary of the allegations made to the Defense Hotline and audit results. Specifically, our objectives were to determine whether the NNSY and the OPLOC Norfolk consistently and accurately accounted for the results of operations and adequately disclosed accounting data in the NNSY Financial and Operating Statements. See Appendix A for a discussion of the scope, methodology, and management control program.

Finding A. Revenue Recognition During FY 1995

The OPLOC Norfolk recorded journal vouchers that reflected erroneous and unsupported gains in the NNSY general ledger accounts. The OPLOC Norfolk recorded the journal vouchers, which were prepared by the NNSY, without obtaining or analyzing supporting documentation. The variance gains were recognized although customer orders had not been completed and final bills were not issued at the end of FY 1995. The NNSY personnel stated that the Financial and Operating Statements were adjusted in response to the NAVSEA emphasis on meeting its FY 1995 net revenue goal. The journal vouchers caused net revenue of $103.7 million to be reported in the NNSY FY 1995 Financial and Operating Statements. The reported net revenue was overstated by $13.3 million.

Policy for Recognizing Gains and Losses on Customer Orders

The "DoD Financial Management Regulation." The "DoD Financial Management Regulation," DoD Regulation 7000.14-R (the Regulation), volume 11B, "Defense Business Operations Fund," chapter 61, "Progress Billings, Reimbursement, and Revenue Recognition," December 1994, establishes specific methods of revenue recognition for each business area of the Defense Working Capital Funds and directs that revenue and associated costs be recognized in the same accounting period. Activities in the Depot Maintenance Business Area, which includes Naval shipyards, are to use either the percentage-of-completion method or the completed-order method.

The Regulation also requires depot maintenance activities such as the Naval shipyards to establish stabilized rates for budgeting, accounting, and billing customers. Stabilized rates are set at levels estimated to recover the full costs of services provided. The Regulation recognizes that gains or losses may occur with stabilized rates, as a result of variations in the depot maintenance program. However, those gains and losses are generally used to adjust stabilized rates in future years.

NAVSEA Instruction. NAVSEA Instruction No. 7670.1, "Naval Sea Systems Command Navy Industrial Fund Financial Management Systems and Procedures Manual," June 7, 1990, gives guidance for computing gains and losses on customer orders. The overall gain or loss consists of a stabilized rate variance and a fixed price variance. The stabilized rate variance measures the difference between the stabilized cost (the cost assigned to the customer order using stabilized rates) and the actual cost of the customer order. Fixed price variances are computed for fixed price customer orders. A fixed price variance is the difference between the stabilized cost assigned to the order and the fixed price of the order.

The NNSY adopted a method of revenue recognition referred to as the income method. Under the income method, the NNSY was to recognize revenue and the associated costs of a customer order throughout the duration of the order, each time the customer was billed. The amount of revenue recognized for each customer order was to equal the costs incurred on the order or the total price of the order, whichever was less. Variances (gains or losses) were not to be recognized until the order was completed and the final bill was sent to the customer.

Revenue Recognition by NNSY

For FY 1995, NAVSEA set a net revenue goal of $101 million for the NNSY. To meet this goal, the NNSY prepared two journal vouchers that inappropriately recognized stabilized rate gains and fixed price gains totaling $13.3 million for 104 customer orders. These vouchers were then provided to the OPLOC Norfolk without supporting documentation. These two journal vouchers increased net revenue and operating results by 15 percent for the period ending September 30, 1995.

FY 1995 Revenue Variances. The NNSY deviated from their normal methods of revenue recognition for nonshipwork customer orders when they prepared the journal vouchers. The method adopted recognized revenue in FY 1995 that should not have been recognized until the customer orders were completed in subsequent fiscal years.

In developing the journal vouchers, the NNSY acknowledged that they only judgmentally selected customer orders that were scheduled for completion on September 30, 1995, and showed stabilized rate gains and fixed price variance gains. Customer orders with variance losses were excluded. However, the customer orders selected were not completed and final bills were not issued by September 30, 1995. The gains were not earned and should not have been recognized in FY 1995. Under the income method of revenue recognition, variance gains and losses should not be recognized on customer orders until the work was completed and a final bill was issued.

For the period ending September 30, 1995, the NNSY prepared two journal vouchers reflecting the $13.3 million in variance gains as revenue. The adjustments allowed the NNSY to report net revenue of $103.7 million for FY 1995. The OPLOC Norfolk received and processed the journal vouchers in the NNSY general ledger. The OPLOC Norfolk did not questione or request supporting documentation for the variance gains, and none was provided. The general ledger, maintained by the OPLOC Norfolk, was used in preparing the NNSY Financial and Operating Statements. The general ledger balances were also submitted to the DFAS Cleveland Center for inclusion in the Navy Defense Business Operations Fund (DBOF) financial statements for FY 1995.

The journal voucher recorded at the end of FY 1995 significantly distorted the NNSY Statement of Operating Results and Changes in Net Position. We believe the NNSY personnel intentionally adjusted the net revenue for the shipyard. The NNSY actions to shift revenues to FY 1995 also impacted future year NAVSEA financial statements. A discussion of these future year revenue variances is contained at Appendix C.

NAVSEA Responsibilities. NAVSEA is responsible for ensuring its activities adhere to the appropriate accounting principles. NAVSEA should have ensured that the NNSY was following the revenue recognition policy established in the Regulation. However, NAVSEA exercised minimal oversight of accounting operations at the shipyards. Our discussions with the NAVSEA and the NNSY accounting personnel indicated that the NNSY adjusted its Financial and Operating Statements because of the NAVSEA emphasis on meeting its net revenue goal.

Responsibilities of DFAS

DFAS provides accounting support to the NAVSEA shipyards in accordance with the Regulation, volume 6, "Reporting Policy and Procedures," February 1996, chapter 2, "Departmental Financial Reports Roles and Responsibilities." The Regulation states that both DFAS and Navy customers are responsible for reviewing financial reports to assess the accuracy of the information, and for taking any corrective actions needed to improve the timeliness and quality of financial reports. DFAS is required to analyze monthly financial statements, perform trend analyses, and research significant fluctuations in dollar amounts. The Regulation also states that additional guidance will be developed to address the responsibilities for financial reports at the intermediate and installation levels. At the time of our audit, this supplemental guidance had not been developed or issued.

The DFAS has not developed or issued guidance defining the OPLOC Norfolk's responsibilities for oversight of the NNSY accounting operations and the preparation of the NNSY financial reports. Accounting personnel at the OPLOC Norfolk stated that they did not believe that the OPLOC Norfolk was responsible for analyzing the validity and accuracy of the shipyard's accounting data or for disclosing any deviations from accounting principles. Rather, they believed that their responsibility for the NNSY financial statements was limited to preparing the financial statements based entirely on the financial data provided by the NNSY. As a result, the OPLOC Norfolk did not exercise sufficient oversight of the NNSY accounting operations. Although the OPLOC Norfolk personnel were aware that the NNSY net revenue had increased by $16 million (from $87 million to $103 million) between the draft and final versions of the NNSY FY 1995 Financial and Operating Statements, they did not perform sufficient research to determine the cause of the increase or whether it was justified.

The OPLOC Norfolk's analyses of financial data, including significant fluctuations in account balances and the reconciliation of detailed records to control accounts, were inadequate. Our interviews with the OPLOC Norfolk personnel indicated that accounting personnel lacked the technical expertise to perform analyses or maintain sufficient controls to ensure the accuracy and validity of the NNSY accounting data and financial statements. The OPLOC Norfolk acted as an extension of the Comptroller, NNSY. This is significant because DFAS has recently made the OPLOC Norfolk responsible for accounting functions for all Naval shipyards except the Pearl Harbor Naval Shipyard in Hawaii.

Conclusion

The NNSY disregarded accounting principles for matching and consistency by using an improper method of revenue recognition. The improper method was used to recognize variance gains when accounting for nonshipwork customer orders. The NNSY inappropriately recognized $13.3 million of stabilized rate gains and fixed price variance gains for FY 1995. Improperly recognizing revenue would also result in the subsequent understatement of net revenue for FY 1996 and beyond when all customer orders were completed and reconciled. This resulted in overstatements of net revenue in the NNSY FY 1995 Financial and Operating Statements and in the accounting data provided to the DFAS Cleveland Center for preparation of the FY 1995 Navy DBOF financial statements. The OPLOC Norfolk did not require supporting data for adjustments to the draft financial statements or analyze the propriety of the adjustments. Because of management's intentions and because personnel lacked technical expertise, the OPLOC Norfolk performed very limited analyses of the accuracy of the NNSY FY 1995 Financial and Operating Statements before forwarding them to the DFAS Cleveland Center.

Recommendations and Management Comments

A.1. We recommend that the Commander, NAVSEA, investigate the improper recognition of revenue and initiate appropriate disciplinary action, if warranted.

Management Comments. The Department of Navy concurred with the recommendation. The NAVSEA will investigate the improper recognition of revenue and initiate appropriate disciplinary action.

A.2. We recommend that Director, DFAS:

a. Train the DFAS OPLOC Norfolk staff so that they are knowledgeable in shipyard accounting operations and DoD accounting procedures.

b. Issue and enforce guidance defining the responsibilities of the DFAS OPLOC Norfolk. The guidance should require the OPLOC Norfolk to:

(1) Obtain supporting documentation for all journal vouchers entered into the general ledger and obtain an understanding of the vouchers.

(2) Assess the accuracy of accounting information reported by the organizations that the OPLOC Norfolk supports. This should include analyses of financial reports, research of significant fluctuations in account balances, and reviews of journal vouchers at the end of each accounting period.

(3) Report the results of its analyses, and any deviations from established accounting principles used by the shipyard, in the certification letter that accompanies the Norfolk Naval Shipyard's Financial and Operating Statements.

Management Comments. The DFAS concurred and stated that a formal plan was developed including a training regimen for personnel responsible for Working Capital Fund accounting and that training was conducted during March 1997. The DFAS Cleveland Center will issue guidance requiring the OPLOC Norfolk to obtain and understand supporting documentation for all journal vouchers entered into the Working Capital Fund, to assess the accuracy of the financial data received from organizations it supports, to footnote any deviation from an established accounting policy and or procedure on the financial statements, and to report the footnote to the Activity, Major Command, and DFAS Cleveland Center.

Finding B. Method of Revenue Recognition

The NNSY used an inappropriate method of recognizing revenue. The revenue recognition method did not comply with DoD Regulation 7000.14-R (the Regulation), and was not consistent with the practices of other Naval shipyards. The NNSY did not disclose the alternate revenue recognition method in its notes to the financial statements, and the OPLOC Norfolk did not disclose the method in its certification letter for the financial statements. This occurred because the NAVSEA and the OPLOC Norfolk did not exercise sufficient oversight of accounting practices to ensure that the NNSY complied with the Regulation. As a result, the NNSY Financial and Operating Statements were not comparable to the statements of other shipyards, and the consolidated financial statements of the Depot Maintenance Business Area of the Navy DBOF were not prepared consistently in FYs 1995 and 1996.

Regulations and Accounting Policy

DoD Regulation 7000.14-R. The Regulation, volume 11B, chapter 61, directs that revenue and associated costs must be recognized in the same accounting period and that revenue recognized cannot exceed the amount specified in the job order. The Regulation establishes specific methods of recognizing revenue for each business area of the Working Capital Fund. Activities in the Depot Maintenance Business Area, which include Naval shipyards, are to use the percentage-of-completion method or the completed-order method, as appropriate.

The Regulation specifies that the percentage-of-completion method shall be used for all orders with an estimated value of $1 million or more and a planned production cycle of 12 months or more. With this method, the revenue earned on an order is recognized monthly, based on the following ratio:

$$\frac{\text{Costs incurred to date}}{\text{Total costs estimated for completed order}}$$

The Regulation specifies that the completed-order method shall be used for all orders that have an estimated value of less than $1 million, or a planned production cycle of less than 12 months. This method recognizes both the revenue earned and the associated costs incurred on an order at completion. A work-in-process account is used to accumulate costs until the order is completed.

NAVSEA Guidance on Revenue Recognition. On May 11, 1995, the Commander, NAVSEA, issued a memorandum directing Navy DBOF activities to implement the Regulation. Implementation would mean that Navy DBOF activities should use the percentage-of-completion and completed-order methods of revenue recognition beginning FY 1995.

Statement of Federal Financial Accounting Concepts. On September 2, 1993, the Federal Accounting Standards Advisory Board issued Statement of Federal Financial Accounting Concepts No. 1, "Objectives of Federal Financial Reporting." The concept recognizes that to be useful, financial reports should be consistent over time; when an accounting principle or reporting method is adopted, it should be used for all similar transactions unless and until there are good reasons to change. If and when an accounting principle is changed, the reason for the change and its nature and effect should be disclosed. The concept also recognizes that to be useful, financial reports should be comparable. To allow useful comparisons of costs or activities, differences among financial reports should be caused by substantive differences in the underlying transactions or organizations rather than by selecting different alternatives among accounting procedures or practices.

Revenue Recognition Practice

The NNSY did not fully implement the guidance in the Regulation for revenue recognition. The NNSY used the percentage-of-completion method to recognize revenue for major ship overhaul work, which typically involved customer orders exceeding $1 million and production cycles in excess of 90 days. The NNSY correctly computed a single percentage for all customer orders associated with a specific ship. Major ship overhaul work represented $556.6 million in FY 1996, or 82 percent of the NNSY revenue. The NNSY procedures for recognizing revenue and expenses generally complied with the intent of the Regulation.

For nonshipwork customer orders, the NNSY used either the completed-order method specified in the Regulation, or an alternative method referred to as the income method. These customer orders represented $123.4 million in FY 1996, or 18 percent of the NNSY revenue.

When using the completed-order method to recognize revenue, the NNSY generally complied with the Regulation. In some cases, however, these orders exceeded $1 million or had a production cycle in excess of 12 months, and the NNSY did not have a means of recognizing revenue for these customer orders using the percentage-of-completion method.

However, the NNSY did not comply with the Regulation when recognizing revenue based on the income method. The income method recognized revenue and associated costs throughout the life of the order at the time progress billings were sent to the customer. The revenue recognized for each customer order equaled the costs incurred on the order or the total price of the order, whichever was less. Under the income method, variances on customer orders, both gains and losses, were not recognized until a project was completed and the final bill was issued.

The income method did not satisfy the requirements of either the completed-order method or the percentage-of-completion method. The NNSY did not recognize the percentage of the variance earned in the year that the related expenses were recognized. On the other hand, the NNSY did not accumulate costs associated with the order in a work-in-process account and defer revenue recognition until the order was completed.

Prior Audit Coverage. As part of its audit of the FY 1995 Navy DBOF financial statements, the Naval Audit Service (NAS) reported the use of this unauthorized method of revenue recognition to the Comptroller, Norfolk Naval Shipyard, and the Director, OPLOC Norfolk (see Appendix A). The NAS could not measure the impact of the deviation from authorized methods of revenue recognition to determine whether it caused a material misstatement in the financial statements. Therefore, NAS did not recommend adjustments to the FY 1995 Navy DBOF financial statements.

FY 1996 Navy DBOF Financial Statements. In FY 1996, the revenue of all Naval shipyards, which constituted the Shipyard portion of the Depot Maintenance Business Area, accounted for approximately $3 billion, or 12.5 percent of the total revenue of the Navy DBOF. The Portsmouth Naval Shipyard and the Puget Sound Naval Shipyard did not use the income method of revenue recognition. Because of the inconsistency in accounting methods, the magnitude of the NNSY deviation could not be determined. The revenue recognition policy of the NNSY was not consistent with the policy adopted by the other Navy shipyards. As a result of the NNSY deviation from DoD-approved methods of revenue recognition, the FY 1996 Financial Statements for the Depot Maintenance Business Area were not consistently or accurately reported.

Oversight by NAVSEA and DFAS

The Regulation, volume 6, chapter 2, states that both DFAS and Navy customers are responsible for reviewing financial reports to assess their accuracy and for taking corrective actions when needed to improve the timeliness and quality of financial reports.

NAVSEA exercised minimal oversight of the NNSY accounting policy and procedures. The NAVSEA did not oversee shipyard operations to ensure that accepted accounting principles were adopted for the Depot Maintenance Business Area. Although NAVSEA directed the Naval shipyards to implement the Regulation, NAVSEA personnel did not ensure that the NNSY used authorized methods of revenue recognition.

DFAS has not defined the responsibilities of the Operating Locations for overseeing the financial reporting of the military activities they support. The OPLOC Norfolk was responsible for ensuring that the NNSY either used authorized methods of revenue recognition or disclosed the deviation from accounting principles in its Financial and Operating Statements. In January 1996, the NAS informed the OPLOC Norfolk that the NNSY was using noncompliant methods of revenue recognition. However, the NNSY did not adjust its Financial and Operating Statements for FYs 1995 and 1996, and did not disclose the noncompliance in the certification letters accompanying those statements.

Summary. The NNSY adopted a method of revenue recognition that was not authorized for use by depot maintenance activities. As a result, the NNSY Financial and Operating Statements were not comparable to the statements of other shipyards, and the financial statements of the Navy DBOF were not prepared consistently. In January 1996, this condition was reported to the Comptroller, NNSY, and the OPLOC Norfolk. The NNSY did not take corrective action, and the OPLOC Norfolk did not report the deviation from accounting principles in the notes to the financial statements or in the certification letter accompanying the statements.

Recommendations, Management Comments, and Audit Response

B.1. We recommend that the Commander, NAVSEA, establish procedures to:

a. Ensure NNSY's application of revenue recognition methods are consistent with those used by other Naval shipyards.

b. Ensure that the accounting operations of the NNSY, and other activities that constitute the Depot Maintenance Business Area of the Navy Working Capital Fund (formerly the Defense Business Operations Fund), comply with the accounting principles in the DoD Regulation 7000.14-R (the Regulation), the "DoD Financial Management Regulation."

Management Comments. The Navy concurred with the recommendations and stated that the NAVSEA discontinued use of the of the income billing method. During the second quarter of FY 1998, NAVSEA modified its SYMIS to apply the completed order revenue recognition method to orders previously using the income billing method. The revision conforms to SFFAS No. 7. Each shipyard is currently operating under the same version of SYMIS. NAVSEA plans to issue operational guidance to ensure Naval Shipyard activities use appropriate revenue recognition procedures and will review the use of these procedures during future command performance reviews.

B.2. We recommend that the Director, DFAS:

a. Direct the DFAS OPLOC Norfolk to review the financial operations of the activities it supports to ensure that the accounting principles used comply with the Regulation or have initiated action to comply with the Regulation.

Management Comments. The DFAS nonconcurred and stated that DFAS has a responsibility to review and analyze the data submitted by its customers and to advise its customers if the DFAS identifies a practice that is not in compliance with the Regulation. However, it is not appropriate for the DFAS to review the financial operations of its customers because DFAS is not in the chain of command of the customer organization.

Audit Response. Management comments were partially responsive. We agree with the DFAS position that DFAS has the responsibility to review and analyze the data submitted by its customers and advise them when an accounting practice in not in compliance. However, the DFAS OPLOC Norfolk was not performing the necessary reviews or analysis to make any determination on its customer's accounting practices. We request that DFAS provide comments on the final report. The comments should identify specific actions that DFAS will take to fulfill its responsibility to alert its customers when an accounting practice is not in compliance with the Regulation.

b. Disclose deviations from the Regulation in the notes to the financial statements or the certification letter accompanying the financial statements.

Management Comments. The DFAS partially concurred and indicated that the Cleveland Center will issue guidance to all of its network OPLOCs to footnote any deviation from an established accounting policy on the financial statements and forward copies to the activity, applicable Major Command, and the DFAS Cleveland Center. The DFAS Centers are responsible for disclosures on the financial statements with input from the military departments.

Audit Response. Management comments were responsive. The actions proposed by DFAS satisfy the intent of the recommendations.

Finding C. Recognizing Expenses and Billing Customer Orders

In September 1996, the NNSY inappropriately charged customers $2.5 million for contractual services and material that had not been provided. While those transactions did not cause a material misstatement of the NNSY Financial and Operating Statements, the inappropriate recognition of expenses violated accounting principles for matching revenue and expenses to the appropriate accounting period and caused premature billing of the customers. The inappropriate charges occurred because the Comptroller, NNSY, had not established procedures for supervisors to give their approval for contractual services to be accrued and charged to customer orders. As a result, the NNSY prematurely billed customers $2.5 million for costs that the NNSY had not incurred, and revenue and expenses were overstated for the period ending September 30, 1996.

Accrual of Expenses for Service Contracts

In September 1996, the Comptroller, NNSY, processed transactions that erroneously accrued costs for service contracts and prematurely charged the costs to customer orders. The "Navy Comptroller Manual," volume 5, July 29, 1981, specifies that costs on service contracts will be fully accrued for all services provided through the last day of the fiscal year. Accruals applicable to direct work should be charged to the appropriate customer order and transferred to work-in-process with other direct costs. However, the NNSY accrued costs for services that had not been performed as of September 30, 1996. As a result, the NNSY prematurely billed customers $2.4 million for services that had not been received, and revenue and expenses were recognized in an incorrect accounting period.

For example, in July 1996, the NNSY and NAVSEA negotiated amendments to a fixed-price customer order (Customer Order No. 534W7) to increase the work being performed on the order. The order was for the preparation of drawings and records. Between June 27 and September 23, 1996, the NNSY awarded 10 cost-reimbursable contracts for preparation of the drawings and records with estimated costs of $2,886,142. The contracts were not to be completed by September 30, 1996; in most cases, the contract performance period ended between November 1996 and April 1997.

In September 1996, the NNSY accrued expenses of $2,630,469 for the contracts. However, as shown in Table 3, $2,426,681 of the accrual was for services that had not been provided by September 30, 1996.

Table 3. Improper Accrual of Contract Costs

Contract Number	Date of Award	Amount of Contract	Costs Accrued Through Sept. 30, 1996	Improper Accrual Through Sept. 30, 1996
N00181-6169-4500	June 27, 1996	$ 274,853	$ 63,933	$ 40,407
N00181-6204-4500	Aug. 6, 1996	70,999	53,477	31,424
N00181-6219-4500	Aug. 13, 1996	94,390	67,159	36,430
N00181-6207-4500	Aug. 16, 1996	263,450	263,450	249,257
N00181-6207-4501	Aug. 16, 1996	354,281	354,281	322,371
N00181-6238-4501	Sept. 16, 1996	497,251	497,251	496,829
N00181-6237-4502	Sept. 19, 1996	377,999	377,999	331,680
N00181-6238-4500	Sept. 19, 1996	411,916	411,916	411,673
N00181-6237-4503	Sept. 23, 1996	175,004	175,004	170,205
N00181-6237-4504	Sept. 23, 1996	365,999	365,999	336,405
Total		$2,886,142	$2,630,469	$2,426,681

The accruals by the NNSY distorted its FY 1996 Financial and Operating Statements because the revenue and expenses were not reported in the correct accounting period. Although the contracts represented valid obligations, the accrued costs were not FY 1996 expenses. In addition, the NNSY prematurely billed NAVSEA by processing a final bill for the customer order on October 18, 1996. NAVSEA was charged for the accrued contractual services, although the services had not been performed.

Recording Expenses for Direct Material Costs to Customer Orders

In September 1996, personnel in the Office of the Comptroller, NNSY, recorded financial transactions that classified unused direct material and material commitments as excess to customer orders. Those transactions caused material commitments valued at $42,430 to be charged to the customer orders, although the material had not been received or issued to the orders. The customers were billed for the material in October 1996. In many cases, material was still back-ordered from the wholesale supply system in July 1997. Those transactions caused the NNSY to prematurely recognize revenues and expenses for customer orders. Revenues and expenses were not recognized in the accounting period in which the costs were incurred.

Policy on Charging Direct Material Costs to Customer Orders. The "Navy Comptroller Manual," volume 5, gives guidance for charging material costs to customer orders. Customer orders are normally charged when the material is released to the work center from the direct material inventory. Customer orders should be charged for the value of excess or unused direct material when the material:

- was not used due to customer action,
- was not needed to satisfy a foreseeable requirement at the shipyard, and
- cannot be returned to the wholesale supply system for credit.

NNSY Charging of Direct Material Costs. The NNSY did not comply with Navy policy for charging direct material costs to customer orders. When preparing to close customer orders and issue final bills, the NNSY declared material and material commitments, valued at $181,286, excess to customer orders. The NNSY then charged the material to the customer orders without screening it for alternate use or return to the supply system. In the case of the material commitments, which were usually requisitions to the DoD supply system, the transactions caused the NNSY to recognize expenses for material that had not been received by the shipyard or issued to customers.

For example, the Commander in Chief, U.S. Atlantic Fleet, issued a cost-reimbursable work request to the NNSY for services of the Calibration and Material Laboratory (Work Request No. 71YH2). As of September 16, 1996, the NNSY had obligated $181,286 for material commitments to support the customer order. At the end of September 1996, personnel in the Office of the Comptroller, NNSY, recorded excess material transactions that charged the material to the customer order. For accountability purposes, the material commitments were reassigned to an excess job order. We reviewed 28 requisitions and purchases by the NNSY that accounted for $56,797 of the $181,286 in material commitments. As of September 30, 1996, material for 20 of the 28 purchases, valued at $42,430, had not been received by the shipyard or issued on the work request.

On October 18, 1996, the NNSY issued a progress billing on the customer order for the material commitments. Thus, the U.S. Atlantic Fleet was prematurely billed for material that had not been provided on the order. In addition, the NNSY recognized revenues and expenses related to the material in October 1996, which was not the correct accounting period.

Conclusion

The costs of contractual services and direct material are not costs of the customer order until the services are provided on the order or until the material is received and issued to the customer. The transactions processed by the NNSY caused premature billing of customers. In addition, because revenues and expenses were not recorded in the accounting period in which the costs were incurred, those transactions distorted the NNSY FY 1996 Financial and Operating Statements.

Recommendations, Management Comments, and Audit Results

C. We recommend that the Commander, NNSY, establish procedures requiring supervisors to review and approve the accrual of contract costs and charging material to customer orders.

Management Comments. The Department of Navy partially concurred. The Navy stated that NNSY deviated from approved Navy guidelines for closing customer orders and costing excess material and outstanding commitments. Training was held April 10, 1998, for senior managers and fund administrators on accounting for accruals and charging excess material to customer orders. The Navy disagrees that supervisors should review and approve each accrual. Supervisors will oversee the fund administrators' performance.

Audit Response. Management comments were responsive. The actions proposed satisfy the intent of the recommendation.

Part II. Additional Information

Appendix A. Audit Process

Scope

Work Performed. The audit was performed as a result of allegations to the Defense Hotline. The allegations addressed both accounting and personnel issues at the NNSY and the OPLOC Norfolk. We limited the scope of our audit to the accounting issues reported to the Defense Hotline; the personnel issues are under review by the U.S. Office of Special Counsel.

We reviewed accounting procedures and controls at both the NNSY and the OPLOC Norfolk for the recording and reporting of financial data in the NNSY Financial and Operating Statements for FYs 1995 and 1996. Specifically, we reviewed journal voucher transactions for revenue recognition in September 1995 and system transactions for closing customer orders in September 1996. We also reviewed the OPLOC Norfolk's controls over compiling the NNSY Financial and Operating Statements. Our review of the management control program for the OPLOC Norfolk and the NNSY was limited to accounting allegations reported to the Defense Hotline.

DoD-wide Corporate Level Government Performance and Results Act (GPRA) Goals. In response to the GPRA, the Department of Defense has established 6 DoD-wide corporate level performance objectives and 14 goals for meeting these objectives. This report pertains to achievement of the following objectives and goals:

> **Objective:** Fundamentally reengineer the Departments and achieve a 21st century infrastructure. **Goal:** Reduce costs while maintaining required military capabilities across all DoD mission areas. **(DoD-6)**

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

- **Financial Management Functional Area. Objective:** Strengthen Internal Controls **Goal:** Improve compliance with the Federal Financial Management Improvement Act. **(FM-5.3)**

- **Financial Management Functional Area. Objective:** Reengineer DoD business practices. **Goal:** Standardize and enhance DBOF operating procedures. **(FM-4.2)**

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

Audit Type, Dates, and Standards. This financial-related audit was conducted from March 1997 through January 1998 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD.

Contacts During the Audit. We performed the majority of our work at the NNSY and the OPLOC Norfolk. Additional work was accomplished at the DFAS Cleveland Center, NAVSEA, and other Naval shipyards. Further details are available on request.

Methodology

We categorized the accounting allegations reported to the Defense Hotline into three areas: Disclosure, Internal Controls, and Roles and Responsibilities. Appendix C discusses the details of the allegations and audit results for each area. We reviewed pertinent public laws, DoD regulations, and instructions applicable to the areas, and we interviewed responsible NNSY officials and OPLOC Norfolk personnel involved in accounting for the NNSY operations.

We reviewed the NNSY FY 1995 Financial and Operating Statements, which identified unreconciled amounts in the work-in-process account. We reviewed the work-in-process general ledger account and its reconciliation. As part of the reconciliation, we reviewed journal vouchers totaling $13.3 million that were recorded by the NNSY to recognize gains on 104 customer orders in September 1995. We judgmentally selected and reviewed 22 of the 104 customer orders valued at $9.5 million. We reviewed the methods that the NNSY used to recognize revenue during FYs 1995 and 1996.

We reviewed five customer orders with estimated costs of $22.7 million, for which transactions were recorded in September 1996. These transactions classified material and material commitments associated with the customer orders as being excess to the requirements of the orders. We interviewed accounting and supply personnel who were responsible for processing the customer orders. We also interviewed personnel in the Calibration and Material Laboratory, as well as engineering and planning personnel.

We also reviewed allegations that a $10 million overpayment made by the NNSY to the IRS was inappropriately handled. We contacted personnel from the OPLOC Norfolk and the NNSY who were responsible for processing and accounting for the overpayment. Appendix B gives more details. In addition, we interviewed OPLOC Norfolk personnel regarding the unreconciled balance in the Statement of Cash Flows presented in the NNSY Financial and Operating Statements for FYs 1995 and 1996.

Use of Computer-Processed Data. We relied on computer-processed data from the SYMIS to evaluate the accounting allegations. The SYMIS is the accounting system used by the NNSY. We used the data to provide a basis for understanding accounting transactions and the effect of the transactions on the NNSY Financial and Operating Statements. We identified no errors that would prevent us from relying on the computer processed data to meet our audit objectives or that would alter the conclusions in this report.

Management Control Program Review

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

Scope of Review of Management Control Program. We evaluated management controls over the aspects of accounting and financial reporting related to the allegations. We did not review management's self-evaluation. The Naval Audit Service is reviewing the overall implementation of the management control program, to include management's self-evaluation, as part of our joint audit of the Navy Working Capital Fund.

Adequacy of Management Controls. We identified material management control weaknesses as defined by DoD Directive 5010.38. DFAS did not establish controls to ensure that journal vouchers prepared by the NNSY were adequately supported and justified, and performed very limited analyses of the financial data provided by the NNSY. The NAVSEA and the OPLOC Norfolk did not establish procedures to ensure that the NNSY complied with accounting principles in DoD Regulation 7000.14-R. The NNSY did not establish controls to ensure that accruals of service contract costs were accurate and valid. The control weaknesses that we identified, and our recommendations for improvements, are discussed in Part I. The recommendations, if implemented, will improve accounting and financial reporting for the NNSY. A copy of the final report will be provided to the senior official responsible for management controls.

Summary of Prior Coverage

NAS Report No. 035-96, "Fiscal Year 1995 Consolidating Financial Statements of the Department of Navy Defense Business Operations Fund," May 31, 1996. The NAS reported that on the FY 1995 Consolidating Financial Statements of the Navy DBOF, work-in-process accounts were understated at nine activities by a net $37 million. The misstatements occurred because revenue recognition was incorrectly applied, reported amounts were not reconciled with supporting subsidiary ledgers, and uncollectible cost overruns were not written off in the period when they occurred. The NAS recommended that the Director, DFAS, require subordinate activities to reconcile work-in-process accounts on a quarterly basis. The NAS also recommended that the Assistant Secretary of the

Navy (Financial Management and Comptroller [FM&C]) direct Naval aviation depots to discontinue using the completed-order method of recognize revenue at the job order level, and direct Navy DBOF activities to stop retaining cost overruns on fixed-price orders in work-in-process accounts; instead, they should reflect overruns as expenses in the period incurred.

The Assistant Secretary of the Navy (FM&C) nonconcurred with the recommendation, stating that DoD Regulation 7000.14-R permitted Naval aviation depots to use the completed order-method to recognize revenue at the job order level. The issue remains open between the Assistant Secretary of the Navy (FM&C) and the NAS. No actions have been taken. The Assistant Secretary of the Navy (FM&C) agreed that cost overruns on fixed-price orders should not be retained in work-in-process accounts and directed that these cost overruns be shown as expenses in the period incurred.

As part of the audit, the NAS also reported to the NNSY and OPLOC Norfolk that the NNSY used a method of revenue recognition that was not authorized by DoD Regulation 7000.14-R, and that although the work-in-process general ledger account had not been reconciled to the subsidiary ledger, the OPLOC Norfolk had made no attempt to determine why the account was out of balance.

Appendix B. Allegations and Audit Results

Our audit of accounting procedures at the OPLOC Norfolk and the NNSY was initiated as a result of allegations reported to the Defense Hotline on January 3, 1996. The allegations were initially referred to the Defense Criminal Investigative Service. The Defense Criminal Investigative Service reviewed the allegations and found no criminal intent. The complaints, which included both personnel and accounting allegations, were referred to the auditors on February 25, 1997. Our audit was limited to the accounting allegations. The U.S. Office of Special Counsel is addressing the personnel issues.

Personnel Allegations. The personnel allegations stated that employees of the OPLOC Norfolk were subject to adverse personnel actions and were removed from their accounting positions because they refused to deviate from accounting standards, as requested by the management of the OPLOC Norfolk and the NNSY. The complainant also alleged that supervisory accounting personnel at the OPLOC Norfolk were subsequently replaced by personnel who had minimal knowledge of shipyard accounting and could not provide adequate oversight of the NNSY accounting operations, and that errors were not disclosed and were not corrected promptly. DFAS management stated that the realignment actions were based on other personnel issues and were not related to methods of accounting and financial reporting. The personnel allegations that related to adverse actions are being addressed by the U.S. Office of Special Counsel.

Accounting Allegations. We interpreted, analyzed, and evaluated the allegations based on documentation and other information received during our audit. We categorized the accounting allegations into three areas. The accounting allegations and audit results for each area are as follows.

Allegation 1. The complainant alleged that DFAS serves the same purpose as a certified public accounting firm and is required "to fully disclose the financial results of the shipyard." The complainant alleged that the OPLOC Norfolk management did not fully disclose pertinent accounting information in the NNSY FY 1995 Financial and Operating Statements because the NNSY management did not want the OPLOC Norfolk to disclose the information.

Audit Results. The allegation was partially substantiated. We identified material misstatements of accounting data that were not disclosed by the OPLOC Norfolk or the NNSY in the Financial and Operating Statements. The OPLOC Norfolk and the NNSY are responsible for reporting complete and accurate data in the NNSY Financial and Operating Statements. The OPLOC Norfolk and the NNSY did not fulfill their responsibilities for accurate preparation of the NNSY FY 1995 Financial and Operating Statements, and did not fully disclose accounting operations. The NNSY manipulated accounting data to present a more advantageous view of the NNSY operations in FY 1995. The OPLOC Norfolk did not require supporting documentation for accounting adjustments and did not review or analyze the NNSY FY 1995 Financial and Operating Statements before issuing them. The OPLOC Norfolk did not review changes between the draft and final versions of the NNSY FY 1995 Financial and Operating Statements. Between the draft and final versions, the NNSY prepared journal vouchers to improperly adjust the net revenue reported in the Financial and Operating Statements. The OPLOC Norfolk recorded the journal vouchers without adequately reviewing the propriety of the vouchers. In addition, the OPLOC Norfolk did not adequately compare the financial records from separate accounting periods to detect unusual trends in accounts.

Although the journal vouchers represented a significant change in revenue recognition methodology, the NNSY and the OPLOC Norfolk did not disclose the change in the NNSY Financial and Operating Statements or provide any justification for it. DoD Regulation 7000.14-R states that DoD Components are responsible for ensuring that financial reports make all appropriate disclosures considered necessary to fairly present the DoD Component's financial position. DoD Regulation 7000.14-R also states that the financial reports should be consistent between reporting periods.

We did not find any specific evidence that the NNSY instructed the OPLOC Norfolk to disclose only limited information in the NNSY FY 1995 Financial and Operating Statements.

Allegation 2. The complainant alleged that the OPLOC Norfolk and the NNSY lacked management controls over the compilation of the NNSY financial data and the reporting of data in the NNSY Financial and Operating Statements.

Audit Result. The allegation was substantiated. Both the OPLOC Norfolk and the NNSY lacked management controls. Shipyard accounting operations at the OPLOC Norfolk lacked controls to ensure the accurate preparation and disclosure of financial information in the NNSY Financial and Operating Statements. Shipyard accounting personnel lacked sufficient training for preparing the Statement of Cash Sources and Application of Funds. The Statement of Cash Sources and Application of Funds continues to have an unreconciled amount, which was adjusted by the OPLOC Norfolk to balance the statement. The unreconciled amount was not disclosed in the OPLOC Norfolk's certification of the NNSY Financial and Operating Statements. For FY 1995, the unreconciled amount not disclosed was $3,782,535; for FY 1996, the amount was a negative $2,872,513.

The NNSY management lacked sufficient management controls to ensure that accounting data were complete and accurate. Accounting data were adjusted to meet management's operational goals. The NNSY did not have adequate controls over transactions entered directly into its accounting system.

The NNSY and the OPLOC Norfolk did not perform any trend analyses or reviews of the NNSY Financial and Operating Statements. The OPLOC Norfolk personnel also lacked sufficient understanding of the NNSY accounting practices, which affected their ability to accurately analyze and disclose financial data and maintain the NNSY general ledger account.

The OPLOC Norfolk personnel also lacked both the understanding and the documentation to support the preparation of the NNSY Financial and Operating Statements and perform trend analyses. They were unable to discuss the principles of revenue recognition and were not aware of current financial reporting standards. The OPLOC Norfolk accounting supervisor required little or no supporting documentation for voucher adjustments and had a minimal understanding of the journal vouchers that were posted to the general ledger. In addition, no standard operating procedures existed for the OPLOC Norfolk. The NNSY did not consistently maintain supporting documentation for accounting transactions posted in the accounting system or in journal vouchers.

Allegation 3. The complainant alleged that the NNSY and the OPLOC Norfolk inappropriately processed a $10 million refund from the IRS that was a result of an overpayment made to IRS by NNSY.

Audit Results. The allegation was partially substantiated. Defense Accounting Office, Norfolk, Virginia, was established during FY 1992, becoming OPLOC Norfolk in FY 1995 and assumed responsibility for the NNSY accounting and finance functions previously performed by the NNSY. The NNSY payroll function was transferred to OPLOC Charleston, South Carolina in June 1993 although the accounting for the payroll transactions were assumed by OPLOC Norfolk. Our review did not include auditing OPLOC Charleston.

The OPLOC Norfolk and the NNSY took over three years to correct a $10 million withholding tax issue with the Treasury and the IRS. The DFAS Deputy Director stated that during this time the transaction was reported as a reconciliation item. The issue arose when the NNSY erroneously prepared the payroll certification and summary report for the pay period ending May 15, 1993. The NNSY accounting records did not reflect the error. The NNSY records reflected the amount the should have been paid to the IRS. The error was discovered by Defense Information Technology Services Organization (DITSO) Pensacola when reconciling the federal tax withholdings. DITSO Pensacola reported the error to the NNSY in February 1994. In March 1994, the NNSY requested that the IRS issue a reimbursement for the overpayment. The IRS issued a check payable to the NNSY on October 25, 1994. The OPLOC Norfolk deposited the check on December 16, 1994. However, the deposit was not properly reflected in the NNSY accounting records until January 31, 1997. The NNSY Financial and Operating Statements reported an unreconciled difference between the NNSY accounting records and Treasury records during that period. The OPLOC Norfolk and the NNSY were uncertain how to account for the deposit since the overpayment was not initially recorded in the NNSY accounting records. The DFAS and the NAVSEA did not provide clear or timely guidance to the OPLOC Norfolk or the NNSY to resolve the overpayment.

Appendix C. Revenue Variances Impact on Future Year Financial Statements

The NNSY deviated from their normal methods of revenue recognition for nonshipwork customer orders in FY 1995. NNSY prepared the journal vouchers to recognize revenue in FY 1995 that should not have been recognized until the customer orders were completed and final billed. The customer orders were completed and final billed in FYs 1996 and 1997. This distorted net revenue was reported by the NNSY in both FY 1995 and in the fiscal years the customer orders were completed.

As discussed in Finding A, the journal vouchers prepared by the NNSY shifted $13.3 million of revenue to FY 1995 that should have been recognized in FYs 1996 and 1997. The premature recognition of revenue in FY 1995 reduced the net revenue reported in the subsequent years. As a result, the NNSY operating results for FYs 1995, 1996, and 1997 were distorted.

Our review also determined that the gains recognized on customer orders in FY 1995 were overstated. The customer orders were not completed at September 30, 1995, and additional expenditures were needed to complete the customer orders. The actual gain or loss on the customer orders was less than the gain recognized in FY 1995.

Comparison of Variance. We selected a judgmentally sampled 22 of the 104 customer orders to determine the actual variance, stabilized rate gains and fixed price variance gains, when the orders were completed. The 22 customer orders accounted for $9.5 million of the $13.3 million in variance gains. The actual variance for the 22 customer orders was $3,769,315 less than the gain recognized in FY 1995.

Of the 22 customer orders, 9 orders were substantially complete by September 30, 1995. The orders were completed without incurring significant additional expense and final bills were issued in October or November 1995. For those customer orders, the stabilized rate gains and fixed price variance gains closely approximated the actual gains when the customer orders were closed and final bills were issued. The gains for the nine customer orders were understated by $66,799.

However, 13 of the 22 customer orders were not substantially complete by September 30, 1995. These 13 customer orders were completed and final bills were issued between February 1996 and May 1997. The NNSY incurred additional costs to complete the customer orders. As a result, the stabilized rate and fixed price variances gains reported in the NNSY FY 1995 Financial and Operating Statements were greater than the gains when the customer order was completed. Table 2 shows that for the 13 orders, stabilized rate and fixed price variances in FY 1995 were overstated by $3,836,114.

Table 2. Comparison of Actual and Recognized Variances

Date Completed	Customer Order Number	Gains Recognized in FY 1995	Actual Gain or Loss	Overstatement
Feb. 2, 1996	53Y2E	$ 652,448	$ 47,911	$ 604,538
Feb.16, 1996	53Y1N	145,823	67,000	78,823
Feb.16, 1996	81EH3	219,891	221,559	($1,667)
Feb.16, 1996	81EH6	($2,309)	13,411	($15,720)
Feb.23, 1996	81EH4	684,860	692,971	($8,111)
Feb.23, 1996	81EH5	845,393	868,118	($22,725)
Feb.23, 1996	5300G	647,923	370,292	277,631
Feb.23, 1996	531J3	568,787	69,262	499,525
Feb.23, 1996	531J9	297,535	5,844	291,691
Feb.23, 1996	5336E	2,049,482	416,007	1,633,475
Feb.20, 1996	5343J	90,657	50,531	40,125
Mar. 8, 1996	81EH2	781,620	789,723	($8,103)
May 1, 1997	73LP8	506,971	40,338	466,632
Total		**$7,489,081**	**$3,652,967**	**$3,836,114**

For example, in December 1994, NAVSEA issued customer order no. 73LP8 to the NNSY for the restoration of radar equipment. The order was amended to include additional radar equipment in May 1995, and the fixed price order amount was increased to $853,700. On September 30, 1995, the NNSY had incurred costs of $346,729 for the order. The NNSY recognized stabilized rate and fixed price gains totaling $506,970 for the order at September 30, 1995. However, the order was not completed in September 1995. Much of the material that the NNSY needed to perform the repair was back-ordered on September 30, 1995, and some was not received until July 1996. The order was completed and the final bill issued on May 23, 1997, approximately 21 months after the end of FY 1995. When the order was completed, the NNSY had incurred actual costs of $813,362. As of May 1997, the stabilized rate and fixed price variances for the order totaled a gain of $40,338. The actual gain was $40,338 which resulted in an overstatement of $466,632 in the NNSY FY 1995 Financial and Operating Statements. Except for our judgmental sample of customer orders, we performed no additional verifications of financial statements for FY 1996 or beyond.

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Comptroller (Program/Budget)
Assistant Secretary of Defense (Public Affairs)
Assistant Secretary of Defense (Reserve Affairs)
Director, Defense Logistics Studies Information Exchange

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Commander, Naval Sea Systems Command
Commander, Norfolk Naval Shipyard
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

Other Defense Organizations

Director, Defense Finance and Accounting Service
  Director, Defense Finance and Accounting Service Cleveland Center
    Director, Defense Finance and Accounting Service Operating Location Norfolk
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 and Individuals

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 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

Department of the Navy Comments

DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
1000 NAVY PENTAGON
WASHINGTON, D.C. 20350-1000

14 MAY 1998

MEMORANDUM FOR DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR GENERAL FOR AUDITING

Subj: DODIG DRAFT REPORT: ACCOUNTING PROCEDURES AT DEFENSE FINANCE AND ACCOUNTING SERVICE OPERATING LOCATION NORFOLK AND THE NORFOLK NAVAL SHIPYARD (PROJECT NO. 7FI-8010)

Ref: (a) DODIG memo of 3 Mar 98

Encl: (1) Department of the Navy Comments

We have reviewed the findings and recommendations forwarded by reference (a). Detailed comments are provided by enclosure (1).

My point of contact for this subject is Mr. Larry Braverman, FMO-311, at (202)685-6745.

Gladys J. Commons

GLADYS J. COMMONS
Assistant Secretary of the Navy
(Financial Management and Comptroller)
Acting

Copy to:
NAVINSGEN (NIG 42)
NAVSEASYSCOM (OON3)

Final Report Reference

NAVY RESPONSE TO
DODIG DRAFT AUDIT REPORT ON
ACCOUNTING PROCEDURES AT DEFENSE FINANCE AND ACCOUNTING
SERVICE OPERATING LOCATION NORFOLK AND
THE NORFOLK NAVAL SHIPYARD
PROJECT NO. 7FI-8010

Finding A: Revenue Recognition During FY 1995

General comments on the draft report:

Page 6, paragraph 3, Revenue Recognition by NNSY, indicated that the Norfolk Naval Shipyard had prepared two unsupported journal vouchers. Revised Page 5

Navy response: Supporting documentation was available and is maintained for these and all other journal vouchers submitted to the Defense Finance and Accounting Service (DFAS) Operating Location Norfolk.

Page 7, paragraph 3, NAVSEA responsibilities. Revised Page 6

Navy response. The Department of the Navy (DON) generally agrees with the finding except the description of the Naval Sea Systems Command (NAVSEA) responsibilities with respect to its role in defining accounting principles. The report states that "NAVSEA is responsible for ensuring that accounting principles are clearly defined and that NAVSEA activities adhere to those principles." While NAVSEA is responsible for ensuring that NAVSEA activities adhere to existing accounting principles, NAVSEA is not responsible for defining or clarifying those accounting principles.

By the Department of Defense (DOD) Financial Management Regulation DOD 7000.14-R, Volume 1, Chapter 1, the Deputy Chief Financial Officer (CFO) in the Office of the Under Secretary of the Defense (Comptroller) is responsible for overseeing and implementing accounting policy and the Director, DFAS is responsible for overseeing and implementing accounting operations within the DOD on a day-to-day basis. The Heads of the DOD Components direct and manage financial management activities consistent with financial management policies prescribed by the CFO, DOD, and other policies prescribed by the Heads of the DOD Components.

Enclosure (1)

The foreword of the DoD Financial Management Regulation DoD 7000.14-R states that "The Heads of DoD Components shall not issue supplementary directives/regulations without the prior written approval of the Office of the Under Secretary of Defense (Comptroller)."

Recommendation A.1.: We recommend that the Commander, Naval Sea Systems Command investigate the improper recognition of revenue and take appropriate disciplinary action, if warranted.

Navy response to Recommendation A.1.: Concur. The Naval Sea Systems Command's Office of the Inspector General will conduct an investigation and recommend disciplinary action, where appropriate. The estimated completion date is 31 December 1998.

Finding B: Method of Revenue Recognition.

Recommendation B.1: We recommend that the Commander, Naval Sea Systems Command, establish procedures to:

a. Ensure Norfolk Naval Shipyard's application of revenue recognition methods are consistent with those used by other Naval shipyards.

Navy response to Recommendation B.1.a.: Concur. The DON agrees that revenue recognition procedures should be consistent within the Naval Shipyard Activity Group. The Naval Shipyard Activity Group uses the percentage of completion method for scheduled availability work and modified percentage of completion method for miscellaneous work. Further, NAVSEA has discontinued the income billing method described in the report.

At the time of the audit, Naval Shipyards used the percentage of completion method only on large shipwork customer orders (scheduled availability work regardless of value or duration). For miscellaneous work (high volume, low dollar value, non-shipwork orders), revenue was recognized using the completed order method or the income billing method. As the report describes, the income billing method did not recognize gains or losses until the order was completed.

2 Enclosure (1)

During second quarter Fiscal Year 1998, NAVSEA completed actions to revise the financial application of the Shipyard Management Information System (SYMIS). The revision automates the use of a "modified percentage of completion" method for miscellaneous work, replacing the income billing or completed order methods. The modified percentage of completion method reflects billed income (revenue) and incurred costs (expenses) monthly throughout the execution of the order. Associated gains or losses are reflected in the operating results for that monthly accounting period.

This conforms with generally accepted accounting principles, and Office of Management and Budget (OMB) Statement of Federal Financial Accounting Standards (SFFAS) Number 7, which says that when services are provided to another Government entity, revenue should be recognized when the services are performed.

Each Shipyard is now using the same edition of the SYMIS financial application, ensuring that consistent revenue recognition procedures will be applied uniformly within the activity group. NAVSEA will issue operational guidance to the Naval Shipyards by 15 May 1998 to ensure a complete understanding of the Naval Shipyard Activity Group revenue recognition procedures. These procedures are based on the accounting principles in DoD 7000.14-R. Also, NAVSEA will review revenue recognition procedures in future individual Shipyard Command Performance Reviews conducted twice annually.

Recommendation B.1.:

b. Ensure that the accounting operations of the Norfolk Naval Shipyard, and other activities that constitute the Depot Maintenance Business Area of the Navy Working Capital Fund (formerly the Defense Business Operations Fund), comply with the accounting principles in DoD 7000.14-R, the "DoD Financial Management Regulation."

Navy response to Recommendation B.1.b.: Concur. Beginning with the second quarter of Fiscal Year 1998 the procedures of the Naval Shipyard Activity Group comply with the revenue recognition accounting principles in DoD 7000.14-R.

Consistent with that guidance, all Naval Shipyards use the percentage of completion method on scheduled availability orders and use the aforementioned modified percentage of completion method on miscellaneous orders. This approach exceeds the minimum requirements outlined in DoD 7000.14-R and is more accurate, since it increases the amount of work included in a percentage of completion method. This helps ensure that the appropriate cost and revenues are reflected in the financial results (current period net income/loss) for the period in which the work was accomplished.

As stated in B.1.a. above, NAVSEA will issue operational guidance to the Naval Shipyards by 15 May 1998 to ensure complete understanding of Naval Shipyard Activity Group revenue recognition procedures. NAVSEA will review use of these procedures during future shipyard Command Performance Reviews.

Finding C: **Recognizing Expenses and Billing Customer Orders**

Recommendation C: **We recommend that the Commander, Norfolk Naval Shipyard, establish procedures requiring supervisors to review and approve the accrual of contract costs and charging material to customer orders.**

Navy response to Recommendation C: Partially concur. During the period discussed in the audit report, Norfolk Naval Shipyard deviated from the approved Navy guidelines for closing customer orders and charging of excess material and outstanding commitments. The Shipyard completed initial training for senior managers and current funds administrators on 10 April 1998, reiterating the procedures for accrual of contract costs and charging material to customer orders to conform with Navy guidelines. The Shipyard has provided guidance and training that accruals may only be established for the value of the service received; and, will continue to do so as new personnel are assigned. The Shipyard does not agree that supervisors should review and approve each accrual. The funds administrators provide funds authorization and control for the Shipyard Commander on each customer order, and have the primary responsibility and authority to establish the appropriate accruals. Supervisors will review proper establishment of accruals and regularly oversee funds administrators' performance.

4 Enclosure (1)

Defense Finance and Accounting Service Comments

DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22240-5291

JUN 2 1998

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

SUBJECT: Audit Report on Accounting Procedures at Defense Finance and Accounting Service Operating Location Norfolk and the Norfolk Naval Shipyard (Project No. 7FI-8010)

Your memorandum of March 3, 1998, requested that the Defense Finance and Accounting Service respond to the subject report. Our comments are attached.

My point of contact is Mr. David Moy on (703) 607-5008.

Roger W. Scearce
Brigadier General, USA
Deputy Director

Attachment:
As stated

Audit Report on Accounting Procedures at Defense Finance and Accounting Service Operating Location Norfolk and the Norfolk Naval Shipyard (Project No. 7FI-8010)

General Comments:

To put the significance of the complainant's concerns into the proper perspective, DFAS believes that the report should reflect that the primary basis of the allegations involved only two transactions, one for a $13.3 million revenue recognition issue and another for a $10 million unresolved Norfolk Naval Shipyard (NNSY) receipt from the Internal Revenue Service (IRS). These transactions occurred in the 1995 and 1993 time frames. The 1993 IRS transaction occurred prior to OPLOC Norfolk having accounting responsibilities for NNSY.

While the transactions in question occurred in 1995 and 1993, the audit was conducted in 1997 which is not stated in the report. As a result of the concept of operations between DFAS and the shipyards and of training conducted in 1997, DFAS does analyze the propriety of shipyard adjustments.

Regarding page 26 of the draft, the NNSY and OPLOC Norfolk did not make an overpayment of $10 million to the IRS. Therefore, the assertions are only partially substantiated. Furthermore, NNSY and OPLOC Norfolk continued to disclose the $10 million payroll withholding tax issue as a cash reconciliation statement item until January 31, 1997, when a final accounting adjustment was processed. The report fails to clarify the nature of the transaction as not being an overpayment and that the transaction was carried as a reconciliation item.

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

a. Train the DFAS Operating Location Norfolk staff so that they are knowledgeable in shipyard accounting operations and DoD accounting procedures.

DFAS Response: Concur. A formal plan was developed for the consolidation of the Norfolk Naval Shipyard accounting into the OPLOC Norfolk. This plan included a training regimen for the personnel responsible for the Working Capital Fund (WCF) accounting. Training was conducted during March 1997 which included a computer-driven WCF accounting course, classroom work

Attachment

in WCF accounting and training in actual shipyard reports using computer source reports, journal entries, and shipyard financial statements. Action is complete.

b. Issue and enforce guidance defining the responsibilities of the Defense Finance and Accounting Service Operating Location Norfolk. The guidance should require the Operating Location Norfolk to:

(1) Obtain supporting documentation for all journal vouchers entered into the general ledger and obtain an understanding of the vouchers.

DFAS Response: Concur. The DFAS Cleveland Center will provide guidance to accounting personnel at the OPLOC Norfolk and at all other DFAS Cleveland Center network OPLOCs, requiring the OPLOCs to obtain and understand supporting documentation for all journal vouchers entered into the WCF.

Estimated Completion Date: August 31, 1998.

(2) Assess the accuracy of accounting information reported by the organizations that the Operating Location Norfolk supports. This should include analyses of financial reports, research of significant fluctuations in account balances, and reviews of journal vouchers at the end of each accounting period.

DFAS Response: Concur. The DFAS Cleveland Center will issue guidance requiring OPLOC Norfolk to assess the accuracy of the financial data it receives from the organizations it supports, to obtain supporting documentation for all journal vouchers entered into the WCF activity general ledger, and to research for the reasons for significant fluctuations in account balances.

Estimated Completion Date: August 31, 1998.

(3) Report the results of its analyses, and any deviations from established accounting principles used by the shipyard, in the certification letter that accompanies the Norfolk Naval Shipyard's Financial and Operating Statements.

DFAS Response: Partially concur. The DFAS Cleveland Center will issue guidance to all its network OPLOCs to footnote any deviation from an established accounting policy and or procedure

2

on the financial statements and forward copies to the WCF activity, the applicable major command, and the DFAS Cleveland Center.

Estimated Completion Date: August 31, 1998.

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

a. Direct the Defense Finance and Accounting Service Operating Location Norfolk to review the financial operations of the activities it supports to ensure that the accounting principles used comply with DoD 7000.14-R or have initiated action to comply with DoD 7000.14-R.

DFAS Response: Nonconcur. The DFAS has the responsibility to review and analyze the data submitted by its customers. We also have a responsibility to advise our customers when we identify a practice that is not in compliance with DoD FMR 7000.14-R. Since DFAS is not in the chain of command of the customer organization, we do not agree it is appropriate for us to review the financial operations of our customers.

b. Disclose deviations from DoD 7000.14-R in the notes to the financial statements or the certification letter accompanying the financial statements.

DFAS Response: Partially concur. The DFAS Cleveland Center will issue guidance to its network OPLOCs to footnote any deviation from an established accounting policy and or procedure on the financial statements and forward copies to the WCF activity, the applicable major command, and the DFAS Cleveland Center. The DFAS Centers are responsible for disclosures on the financial statements with input from the military departments.

Estimated Completion Date: August 31, 1998.

3

Audit Team Members

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD produced this report.

F. Jay Lane
Salvatore D. Guli
Richard B. Bird
Joel K. Chaney
Suellen R. Brittingham
Riccardo R. Buglisi
Daniel K. Birnbaum
Richard Kutchey
Susanne B. Allen