Audit Report

ACCOUNTING ADJUSTMENTS TO THE NATIONAL GUARD
AND RESERVE EQUIPMENT APPROPRIATION
BY THE ARMY NATIONAL GUARD

Report Number 99-087 February 24, 1999

Office of the Inspector General
Department of Defense

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Acronyms

ARNG	Army National Guard
DFAS	Defense Finance and Accounting Service
IG	Inspector General
MDW	U.S. Army Military District of Washington
NGRE	National Guard and Reserve Equipment

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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February 24, 1999

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit of Accounting Adjustments to the National Guard and Reserve Equipment Appropriation by the Army National Guard (Report No. 99-087)

We are providing this report for information and use. We conducted the audit in response to a complaint made to the Defense Hotline and a subsequent request from Representative Robert L. Ehrlich, Jr. We considered management comments on a draft of this report in preparing the final report.

The comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Charles J. Richardson at (703) 604-9582 (DSN 664-9582) (crichardson@dodig.osd.mil) or Mr. Marvin L. Peek at (703) 604-9587 (DSN 664-9587) (mpeek@dodig.osd.mil). See Appendix D for the report distribution. The audit team members are listed inside the back cover.

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Report No. 99-087 **February 24, 1999**
(Project No. 8FA-2018)

Accounting Adjustments to the National Guard and Reserve Equipment Appropriation by the Army National Guard

Executive Summary

Introduction. The audit was conducted in response to a complaint to the Defense Hotline and a subsequent Congressional request from Representative Robert L. Ehrlich, Jr. The complainant alleged that the Army National Guard submitted fraudulently certified accounting reports to the Defense Finance and Accounting Service (DFAS) Indianapolis Center that failed to show a possible violation of the Antideficiency Act. The complainant also alleged that the National Guard was not taking appropriate corrective actions in response to Inspector General, DoD, Report No. 97-116, "Allegations of Improper Accounting for the National Guard and Reserve Equipment Appropriation at the Army National Guard," March 31, 1997.

Objectives. The audit objectives were to determine whether the allegations were valid; to evaluate the information reported by the Army National Guard for the National Guard and Reserve Equipment Appropriation on the budget execution reports; and to determine the status of corrective action in response to Inspector General, DoD, Report No. 97-116. We also assessed management controls and compliance with laws and regulations.

Results. The allegations were partially substantiated. See Appendix B for details regarding the Hotline allegation and audit results. The Army National Guard did not take corrective actions as agreed in response to Inspector General, DoD, Report No. 97-116. However, the Army National Guard's FY 1998 Annual Statement of Assurance, issued during the audit, correctly identified material management control weaknesses in accounting processes, systems, and data, and in processing potential Antideficiency Act violations.

The Army National Guard made $38.2 million in unsupported accounting adjustments to budget execution reports for FYs 1990 through 1994 National Guard and Reserve Equipment Appropriations at the end of FY 1997. The adjustments were made so that budget execution data submitted by the Army National Guard to the DFAS Indianapolis Center would agree with appropriation data maintained and reported by the DFAS Indianapolis Center. As a result, Army National Guard records for the National Guard and Reserve Equipment Appropriation were not reliable because the required reconciliation procedures were not implemented, and potential violations of the Antideficiency Act may continue to occur because Army National Guard accounting records are unreliable.

Actions in Process. Prior to the audit, the Army National Guard, in May 1998, began investigating a possible violation of the Antideficiency Act, and issued a Preliminary Review Report in September 1998. The Report concluded that, although no overobligation or overexpenditure of the National Guard and Reserve Equipment Appropriation occurred at the apportionment level, multiple violations of the

Antideficiency Act were reflected in Army National Guard accounting records. The Report stated that the violations were caused by failure to comply with regulations and procedures at every level of the organization. The Report also identified numerous accounting problems, including the failure of accounting personnel and supervisors to develop and follow basic accounting procedures, to establish internal controls, and to comply with regulations. At the conclusion of the investigation, the investigating officer will prepare a final report with recommendations for corrective action, to include disciplinary actions for responsible personnel, if appropriate. We will monitor the results of the completed investigation and the recommendations made by the investigation team.

Summary of Recommendations. We recommend that the Director, Army National Guard:

- appoint an independent team of experienced accounting personnel to prepare a complete reconciliation of the National Guard and Reserve Equipment Appropriation for all fiscal years and make necessary adjustments and corrections;

- establish procedures to coordinate with the DFAS Indianapolis Center to ensure that funding, obligations, and disbursements are reconciled each month;

- implement procedures to ensure the completion of required joint reviews of the National Guard and Reserve Equipment Appropriation to reconcile accounting records and program management records;

- ensure that personnel who perform accounting functions are adequately qualified and trained; and

- provide the Inspector General, DoD, with results of administrative reviews of personnel responsible for initiating improper authorizations for expenditures.

We also recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) provide oversight and reporting procedures to verify that Army National Guard management establishes and implements effective controls over the National Guard and Reserve Equipment Appropriation.

Management Comments. The Army National Guard fully concurred with all recommendations, and stated that actions were underway to complete reconciliations, conduct joint reviews, and make necessary adjustments and corrections. The Army National Guard also agreed to expeditiously report any possible Antideficiency Act violations identified, develop necessary training for its personnel, and provide the results of its review of personnel responsible for initiating improper expenditures. The Assistant Secretary of the Army (Financial Management and Comptroller) concurred and stated that his office will oversee and follow-up on corrective actions by the Army National Guard to ensure corrective actions are completed. See the Management Comments section at the end of the report for a complete text of the management comments.

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Background

The audit was conducted in response to a repeated complaint to the Defense Hotline and a subsequent request from Representative Robert L. Ehrlich, Jr. The complaint alleged that the Army National Guard (ARNG) submitted fraudulent certified accounting reports for FY 1997. The complaint also stated that the ARNG knowingly misstated material accounting facts in the management response to Inspector General (IG), DoD, Report No. 97-116, "Allegations of Improper Accounting for the National Guard and Reserve Equipment Appropriation at the Army National Guard," March 31, 1997, and did not implement reported corrective actions. In addition, the complaint alleged that the ARNG made arbitrary changes to accounting reports to avoid reporting a potential Antideficiency Act violation in the National Guard and Reserve Equipment (NGRE) Appropriation.

Prior Audit Report on 1996 Hotline Complaint. IG, DoD, Report No. 97-116, addressed a May 1996 Hotline complaint alleging that the ARNG had not reported an Antideficiency Act violation. The audit report was based on the review of the ARNG process for recording and reporting FY 1995 financial transactions executed with funds from the FY 1991 NGRE Appropriation. The audit generally substantiated the allegations and made recommendations for corrective actions. Additional details on the report are shown in Appendix A.

NGRE Appropriation. The NGRE Appropriation[1] is used for the procurement of aircraft, missiles, tracked combat vehicles, ammunition, other weapons, and other procurements for National Guard and Reserve components. The NGRE Appropriation is a multiple-year appropriation available for obligation for 3 fiscal years. The Appropriation, as are other appropriations, is closed 5 years after obligational authority expires. Congress approves the NGRE Appropriation to annually provide funds for the ARNG and other Guard and Reserve components to purchase military equipment in support of the ARNG Five Year Plan. At the beginning of each fiscal year, funds for the ARNG apportionment from the NGRE Appropriation are provided to the ARNG program manager in a Funding Authorization Document. The ARNG program manager for the NGRE Appropriation issues Military Interdepartmental Purchase Requests, DD Form 448, as funds are available. The ARNG program manager initiates obligation documents after approval by the ARNG Comptroller Directorate.

Criteria for Controlling the Use of Appropriations

Public Law. Title 31, United States Code (U.S.C.), title 31, section 1341(a)(1)(A), "Limitations on Expending and Obligating Amounts," states that an officer or employee of the Federal Government may not make or authorize an expenditure or obligation exceeding an amount available in an appropriation. 31 U.S.C. 1517(a), "Prohibited Obligations and Expenditures," states that an officer or employee of the Federal Government may not make or authorize an expenditure or obligation exceeding an apportionment. Those sections are part of

[1] A new NGRE Appropriation (also identified as Treasury Symbol 0350) is passed each year. Thus, there are multiple NGRE Appropriations. However, in this report, the term "NGRE Appropriation" refers to the collective NGRE appropriations.

the Antideficiency Act, which was established to provide effective controls over the use of appropriations. In addition to Federal statutes, the DoD has developed and implemented the following guidance for the administrative control of funds and appropriations.

DoD Regulation 7000.14-R. DoD Regulation 7000.14-R, "Financial Management Regulation," volume 14, "Administrative Control of Funds and Antideficiency Act Violations," August 1995, establishes policy and procedures for the administrative control of funds and establishes procedures for DoD Components to use in identifying, investigating, reporting, and processing violations of the Antideficiency Act. DoD Regulation 7000.14-R also states that DoD officials who are issued apportionments shall ensure that general and specific internal controls are in place and operating. In addition, Key Accounting Requirement 8, "Audit Trails," shown in DoD Regulation 7000.14-R, volume 1, states that financial transactions accounting systems must be adequately supported.

DoD Directive 7200.1. DoD Directive 7200.1, "Administrative Control of Appropriations," May 4, 1995, regulates fund control for all DoD Components. The Directive requires DoD Components to establish and maintain adequate systems of accounting and positive control of appropriations and other funds.

Defense Finance and Accounting Service Indianapolis Regulation 37-1. Defense Finance and Accounting Service (DFAS) Indianapolis Center Regulation 37-1, "Finance and Accounting Policy Implementation," September 18, 1995, implements DoD Regulation 7000.14-R for Army organizations and establishes accounting and fund control policy and procedures for all levels of Army resource management. DFAS Indianapolis Center Regulation 37-1 requires recipients of appropriated funds to perform joint reviews of obligated balances to ensure the accuracy of obligated balances and to support funds certifications. DFAS Indianapolis Center Regulation 37-1 also requires a joint review by the ARNG program manager and the applicable accounting office.

Objectives

The audit objectives were to determine whether the allegations were valid, to evaluate the information reported by the Army National Guard for the NGRE Appropriation on the budget execution reports, and to determine the status of corrective actions in response to IG, DoD, Report No. 97-116. We also assessed management controls and compliance with laws and regulations.

Unsupported Accounting Adjustments to the NGRE Appropriation

The ARNG made $38.2 million in unsupported accounting adjustments to budget execution reports as of September 30, 1997, for FYs 1990 through 1994 NGRE Appropriations. The adjustments were made so that ARNG budget execution data would agree with DFAS Indianapolis Center budget execution report balances for funds received. The ARNG could not support the accounting adjustments because it had not performed the required reconciliation procedures, and accounting personnel lacked sufficient training, experience, and supervision. Also, the ARNG did not fully implement agreed-upon recommendations in IG, DoD, Report No. 97-116. As a result, ARNG accounting records for the NGRE Appropriation were not reliable, and management controls were not in place to prevent potential violations of the Antideficiency Act.

Unsupported Adjustments to ARNG Accounting Records

DFAS Indianapolis Center notified the ARNG Fiscal and Accounting Division in monthly status reporting during FY 1997, that the appropriation balances for the FYs 1990 through 1994 NGRE Appropriations did not agree with DFAS Indianapolis Center balances. Accordingly, at the end of FY 1997, ARNG accounting personnel adjusted the records and reports submitted to the DFAS Indianapolis Center for the FYs 1990 through 1994 NGRE Appropriations to agree with DFAS Indianapolis Center FY 1997 balances of funds received for year-end reporting. ARNG accounting personnel revised the "Status of Approved Resources" reports (feeder reports for budget execution reports prepared by DFAS Indianapolis Center) without supporting documentation and did not attempt to reconcile the differences to verify that the DFAS Indianapolis Center's balances were correct. The table below shows a summary of 124 accounting adjustments ARNG personnel made to their accounting records at the end of FY 1997 to make the balances for funds received agree with the DFAS Indianapolis Center's balances.

Adjustments to Available Fund Balances for NGRE Appropriations as of September 30, 1997

Fiscal Year	Available Fund Balance in ARNG Records	ARNG Adjustments	Available Fund Balance as Revised
1990	$ 3,201,553	$ (651,608)	$ 2,549,945
1991	(9,448,304)	15,170,933	5,722,629
1992	34,957,683	(14,786,854)	20,170,829
1993	4,334,050	7,627,178	11,961,228
1994	(57,331)	(5,175)	(62,506)
Total Absolute Value of Adjustments		**$ 38,241,748**	

As shown in the table, the ARNG made over $38.2 million of accounting adjustments without supporting documentation. The adjustments to the NGRE Appropriation changed the balance for FY 1991 from a negative available balance to a positive balance, thus avoiding the identification of a potential Antideficiency Act violation as of September 30, 1997. However, the DFAS Indianapolis Center notified the ARNG in November 1997 that a large number of disbursements were in process, with amounts that would exceed available funds. As a result, an Antideficiency Act Investigation Team investigated the potential violation. The results of the investigation are described below. The FY 1994 NGRE Appropriation showed a negative available balance before and after the ARNG made the adjustment as of September 30, 1997.

As of June 1998, the FY 1994 NGRE Appropriation continued to show a negative available balance. However, ARNG did not report a potential Antideficiency Act violation because DFAS records reported the FY 1994 NGRE Appropriation with a positive available balance. The Army should report a potential violation of the Antideficiency Act, as required, if the reconciliation recommended in this audit shows a negative available balance.

Antideficiency Act Investigation Team

DFAS Indianapolis Center Regulation 37-1 states that on learning of or detecting a possible violation of the Antideficiency Act, resource management personnel will immediately notify the commander responsible for the allotment involved in the alleged violation. The Regulation also requires the commander to send a flash report to the Assistant Secretary of the Army (Financial Management and Comptroller) within 30 days and appoint an investigating officer.

In December 1997, the Chief, National Guard Bureau, reported to the Office of the Deputy Assistant Secretary of the Army for Financial Operations a potential Antideficiency Act violation in the FY 1991 NGRE Appropriation. Initially, the ARNG requested coordination with the DFAS Indianapolis Center to review the NGRE Appropriation and to make appropriate accounting adjustments to determine whether a violation had occurred.

ARNG issued a preliminary report in April 1998 that was nonconclusive. As a result, the Chief, National Guard Bureau, appointed an Antideficiency Act Investigation Team in May 1998 to determine whether violations to the Antideficiency Act concerning the FY 1991 NGRE Appropriation occurred. The Antideficiency Act Investigation Team issued a Preliminary Review Report in September 1998, stating that it appeared that no overobligation or overexpenditure had occurred at the apportionment level. However, the accounting records showed multiple violations of the Antideficiency Act[2] at every other level and numerous accounting and control deficiencies, including:

[2]The Army Deputy General Counsel reviewed the Preliminary Review Report and stated that there was sufficient evidence in the report to warrant proceeding to a final investigation. However, the Deputy General Counsel stated that it is likely that certain allegations related to obligations made in advance of apportionment will not result in reportable violations. Also, other potential violations related to the use of funds may either be justified corrected with additional fact-finding.

- failure of accounting personnel and supervisors to follow basic accounting procedures and to comply with regulations;
- failure to develop adequate accounting procedures and internal controls to ensure proper expenditure of funds and accurate financial information;
- obligations recorded multiple times, bogus disbursements and obligations posted in trying to correct problems, and corrections not made for problems identified during reconciliations;
- lack of supporting documentation or audit trails to identify adjustments and to revise fictitious transactions;
- changes made to certified accounting reports, but not made to accounting records;
- transactions held in "suspense" for extended periods not reflected in accounting records; and
- improper use of over $5 million for the Counterdrug program on items outside of the approved procurement plan, such as approving incremental upgrades to multiple OH-58 aircraft using several years of procurement funds, rather than fully upgrading a lesser number of aircraft (a violation of DoD full-funding policy.)

As required by DoD Regulation 7000.14-R, the second phase of the investigation will assign responsibility to one or more individuals so that appropriate administrative or disciplinary action may be imposed. Recommendations for other corrective actions should also be made, as appropriate. After the second phase of the investigation is completed, the investigating officer will submit the final report through command channels to the Assistant Secretary of the Army (Financial Management and Comptroller). Because the investigation was in process during the audit, we did not duplicate the work and are not making recommendations on specific violations identified by the Investigation Team. However, as part of our followup procedures, we will review the results of administrative reviews of personnel responsible for initiating improper authorizations for expenditures. In addition, we will monitor ARNG actions taken in response to the final report on the Antideficiency Act Investigation.

Many of the errors identified in the Preliminary Review Report were made prior to the transfer of the accounting function from the U. S. Army Military District of Washington (MDW) to the ARNG. However, ARNG personnel made errors in posting obligations and disbursements to the NGRE Appropriation during FYs 1994 through 1998 after accounting responsibility for the appropriation had been transferred to the ARNG. The investigation team performed commendably in reconciling the FY 1991 NGRE Appropriation and in summarizing the problems. To correct the problems, the ARNG should appoint another independent team to complete the task of reconciling the NGRE Appropriation for years subsequent to FY 1991.

Accounting and Reconciliation Procedures

Transfer of Account Management for the NGRE Appropriation from MDW. In April 1994, MDW transferred all accounting responsibility for the NGRE Appropriation to the ARNG. The transfer was complicated by the movement of NGRE Appropriation financial data between two financial management systems: the State Accounting, Budgeting, Expenditure, and Reservations System used by ARNG, and the Standard Finance System used by MDW. As shown in IG, DoD, Report No. 97-116, MDW did not provide adequate supporting documentation for the financial data transferred to the ARNG. Inadequate supporting documentation and inadequate coordination of financial documentation between MDW and the ARNG resulted in posting errors that created the appearance of overobligations of prior-year appropriations.

ARNG Management of the NGRE Appropriation. At the beginning of each fiscal year, the ARNG program manager received a funding authorization document and reserved the funds. The authorization was entered into the ARNG accounting system by the accounting technician. The ARNG program manager issued Military Interdepartmental Purchase Requests to the Army Major Commands that performed the procurement. After the Major Commands approved the Military Interdepartmental Purchase Requests, personnel in the ARNG Fiscal and Accounting Division obligated the funds in the ARNG accounting system. Contracting personnel at the Army Major Commands submitted all requests for payment for NGRE Appropriation procurements to DFAS Columbus Center. When the DFAS Columbus Center made payments, it was responsible for submitting supporting documentation to the ARNG, showing the material acceptance reports and the vouchers charging the NGRE Appropriation. On receipt of supporting documentation from the DFAS Columbus Center, ARNG accounting personnel were required to enter the disbursements into the ARNG accounting system.

DFAS Indianapolis Center Accounting for the NGRE Appropriation. DFAS Indianapolis Center prepared consolidated "Report(s) on Budget Execution" for the NGRE Appropriation. To support those reports, the ARNG provided DFAS Indianapolis Center with a monthly "Status of Approved Resources" report that showed the status of funding, obligations, and disbursements. The DFAS Indianapolis Center also received disbursement information from the DFAS Columbus Center on a monthly basis. Based on available information, the DFAS Indianapolis Center sent the ARNG a monthly after-action report to verify known obligations and disbursements for the NGRE Appropriation and to assist ARNG in reconciling its records with the Indianapolis Center.

ARNG and DFAS Indianapolis Center Reconciliation Procedures. The ARNG received the after-action reports about 3 weeks after the submission of the previous month's "Status of Approved Resources" report. The ARNG should have made appropriate adjustments based on the reconciliation and informed the DFAS Indianapolis Center of any errors in the after-action report. However, when the ARNG reviewed the after-action reports, accounting personnel were preparing to send the current monthly "Status of Approved Resources" report; therefore, they did not make corrections or determine the causes of reported differences. As a result, subsequent after-action reports sent by the DFAS Indianapolis Center included uncorrected errors from previous reports as well as new errors. Review of after action-reports for October 1997 through April 1998 showed that

differences between DFAS Indianapolis Center records and ARNG records were reported each month. According to DFAS Indianapolis Center personnel who prepared the after-action reports, ARNG personnel did not explain the differences or make appropriate adjustments.

ARNG and Program Management Reconciliation Using Joint Reviews. DFAS Indianapolis Center Regulation 37-1 requires recipients of appropriated funds to perform joint reviews of obligated balances to ensure the accuracy of obligated balances and to support fund certifications. The regulation also requires a joint review by the ARNG program manager and the applicable accounting office. The joint reviews are to ensure:

- the proper recording of all known commitments, obligations, orders, earnings, disbursements, and collections;
- that amounts reported are correct and in agreement with subsidiary records;
- the validation of documents in the subsidiary ledgers at least once each fiscal year; and
- the maintenance of working papers and records to support subsequent audits and reconciliations.

On the completion of each review, a Finance and Accounting Division representative at ARNG must certify the accuracy of the financial reports. Although the joint reviews are supposed to be held quarterly, the program manager for the NGRE Appropriation was not included on the FY 1998 schedule for the last two quarterly reviews and had to contact the resource management branch to be included.

Training and Experience of Accounting Personnel

The Preliminary Review Report highlighted numerous accounting irregularities and internal deficiencies. We determined that a lack of sufficient training and inexperienced accounting personnel and management contributed to the problems found. As of September 30, 1998, eight employees (six Service members and two civilians) were assigned to the ARNG Finance and Accounting Division with direct input into the management and accounting for NGRE Appropriations.

- Although six had advanced degrees, only one had a degree in accounting.
- Only one employee had received accounting training during the past 2 years.

- Personnel in leadership positions were experienced in logistics, information management, and communications, rather than accounting.

- None of the personnel had received formal training in the accounting system used by the ARNG.

Additional training in accounting principles and Government accounting practices, along with training on the use of the ARNG accounting system, will help improve the accounting and management of the NGRE appropriation.

Corrective Actions From Prior Audit Report

IG, DoD, Report No. 97-116 stated that the ARNG did not develop procedures to ensure that accounting adjustments to record budget transactions were authorized, approved, or adequately documented. The report recommended that the Comptroller, ARNG:

- Develop and implement procedures to ensure that material accounting adjustments to record budget transactions are properly authorized and approved and adequately documented.

- Establish management control procedures to ensure the proper reporting of potential Antideficiency Act violations.

In response to the report, the ARNG agreed to develop and implement the recommended procedures to ensure accounting adjustments were properly authorized, approved, and documented. However, the ARNG stated that procedures were already in effect to detect and report potential violations of the Antideficiency Act.

The audit showed that the FY 1997 accounting adjustments were incorrectly authorized and approved because the adjustments were not adequately documented and supported. As a result of the prior audit, ARNG management improved some documentation procedures and hired a contractor to work on accounting problems with the NGRE appropriation. However, additional improvements were needed to correct the material weaknesses and to prevent the recurrence of Antideficiency Act violations. At the end of our audit, ARNG management issued its FY 1998 Annual Statement of Assurance that reported material management control weaknesses in the operation of the Headquarters, ARNG, Finance and Accounting Office, including:

- incomplete and inaccurate financial databases;

- insufficient training and experience of accounting personnel;

- noncompliant accounting systems; and

- processing potential Antideficiency Act violations.

Correction of the material management control weaknesses in the FY 1998 Annual Statement of Assurance should ensure that corrective actions are taken for both the prior audit (IG, DoD, Report No. 97-116) and the current audit.

Conclusion

Numerous accounting errors and management control deficiencies were identified in IG, DoD, Report No. 97-116, the current audit, and the Preliminary Review Report. Many of the accounting deficiencies occurred before accounting responsibility was transferred from MDW to the ARNG in April 1994. However, as documented by IG, DoD, Report No. 97-116, and the Preliminary Review Report, errors in accounting for the NGRE Appropriation continued after the transfer of accounting operations from MDW. This audit report does not include recommendations on the Antideficiency Act violations because of the ongoing investigation by the special team appointed by the Chief, National Guard Bureau. Because of the seriousness of the violations discussed in the Preliminary Review Report and the continuing lack of accurate financial records for the NGRE Appropriation, the Assistant Secretary of the Army (Financial Management and Comptroller) must ensure that the ARNG management establishes and implements effective internal controls over accounting for the NGRE Appropriation.

Because of the passage of time since transactions were recorded in accounting records and the absence of supporting documentation for numerous unsupported transactions posted to clear negative unliquidated balances, it may be difficult to correct and reconcile ARNG accounting records. However, unless the ARNG immediately invests resources to perform the required reconciliations and establishes necessary management controls, the status of the NGRE Appropriation will remain unreliable, and possible violations of the Antideficiency Act may continue to occur.

Recommendations and Management Comments

1. We recommend that the Director, Army National Guard:

a. Appoint an independent team of experienced accounting personnel to perform a complete reconciliation of the National Guard and Reserve Equipment Appropriation for all fiscal years, make the necessary adjustments and corrections, and begin an Antideficiency Act investigation for any potential deficiency.

b. Establish procedures and controls to reconcile balances each month in the National Guard and Reserve Equipment Appropriation, provided by the Defense Finance and Accounting Service Indianapolis Center, with accounting information in the Army National Guard accounting system.

c. Implement procedures to ensure that joint reviews required by Defense Finance and Accounting Service Indianapolis Center Regulation 37-1 are completed by the program managers and the Finance and Accounting Division of the Army National Guard Comptroller Directorate to reconcile all obligations and disbursements against the National Guard and Reserve Equipment Appropriation.

d. Establish procedures to verify that management and accounting technicians receive adequate training in Government accounting principles and procedures and in the use of the Army National Guard accounting system.

e. Provide the Inspector General, DoD, with the results of administrative reviews of personnel responsible for initiating improper authorizations for expenditures and any disciplinary actions implemented.

Management Comments. The ARNG fully concurred with all of the recommendations and stated that a reconciliation team and will reconcile the NGRE appropriation for all prior Fiscal Years by the end of FY 1999. The ARNG will conduct joint reviews, resolve differences between ARNG and DFAS records on a monthly basis, and brief the ARNG Comptroller at the conclusion of each joint review cycle. The ARNG also stated that it is currently developing individual training plans for management and accounting technicians, and the ARNG expects those training plans to be complete by March 1, 1999. In addition, the ARNG agreed to provide the IG, DoD, with the results of its administrative review of personnel responsible for initiating improper authorizations in its response to the final audit report.

2. We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) provide oversight and reporting procedures to verify that the Army National Guard management establishes and implements effective controls over the National Guard and Reserve Equipment Appropriation.

Management Comments. The Assistant Secretary of the Army (Financial Management and Comptroller) concurred with the recommendation and stated that the Army will oversee and follow-up on ARNG corrective actions to ensure completion.

Appendix A. Audit Process

Scope

We reviewed the ARNG process for recording and reporting FY 1997 financial transactions executed with funds from the NGRE Appropriation for FYs 1990 through 1994. Specifically, we examined 124 ARNG transactions adjusting $38.2 million for the balance for the NGRE Appropriation before submitting the final copy of the "Status of Approved Resources" report as of September 30, 1997. We later expanded the scope to examine DFAS Indianapolis Center procedures in reconciling ARNG financial reports with records maintained by the DFAS Indianapolis Center. We did not review individual transactions posted to the ARNG accounting system, other than the year-end transactions, because of the detailed review being conducted by the Antideficiency Act Investigation Team.

Use of Computer-Processed Data. We relied on computer-processed transaction data from the ARNG State Accounting, Budgeting, Expenditure, and Reservations System to evaluate accounting adjustments made by ARNG personnel at the end of FY 1997. The computer-processed data were not reliable because of lack of ARNG documentation as to authorization, approval, and reasons for the accounting adjustments. However, we used the data to perform the audit because we determined that the ARNG used the data to prepare its FY 1997 "Status of Approved Resources" report.

Audit Period, Standards, and Locations. We performed this financial-related audit from June through October 1998 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly included such tests of management controls as were considered necessary.

DoD-wide Corporate Level Government Performance and Results Act Goals. In response to the Government Performance and Results Act, 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 objective and goal:

> **Objective:** Fundamentally reengineer the Department 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 objective and goal:

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

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

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

Methodology

To evaluate the ARNG process for recording FY 1997 accounting adjustments to the NGRE Appropriation funds, we:

- reviewed pertinent public laws, DoD regulations, DFAS Indianapolis instructions, and ARNG policies and procedures;
- verified documentation provided by the complainant for validity and accuracy;
- reviewed and discussed ARNG internal procedures and practices for coordination between the ARNG Comptroller and ARNG program manager for the NGRE Appropriation;
- interviewed responsible ARNG officials to determine the procedures used to initiate, authorize, approve, and record adjustments to accounting transactions;
- obtained an ARNG official listing of ARNG accounting adjustments made to FY 1997 budget transactions;
- compared the ARNG list of transactions and ARNG "Status of Approved Resources" reports with documentation provided by the complainant;
- traced the ARNG list of accounting adjustments to accounting adjustments on appropriate monthly transaction registers;
- analyzed accounting adjustments documented on monthly transaction registers for October 1996 and September 1997;
- interviewed DFAS Indianapolis Center personnel responsible for preparing after action-reports that are sent to ARNG personnel for the purpose of reconciling funding differences; and
- analyzed appropriate documents and interviewed appropriate officials responsible for the Antideficiency Act investigation of the FY 1991 NGRE Appropriation.

Management Control Program

DoD Directive 5010.38, "Management Control Program," August 26, 1996, requires DoD organizations to implement a comprehensive strategy for management controls that provides reasonable assurance that revenues and expenditures applicable to DoD operations are properly recorded and accounted for to permit preparation of accounts and reliable financial reports. DoD Instruction 5010.40, "Management Control Program Procedures," August 28, 1996, requires each DoD Component to develop a management control program that establishes the management control process; segments the organization into assessable units; and evaluates, identifies, and reports on management control weaknesses. DoD Directive 5010.38 also states that specific DoD policies for evaluating accounting system controls are in DoD Regulation 7000.14-R, volume 1, chapter 3, May 1993. Accounting system managers are to perform annual reviews of accounting system controls to determine compliance with key accounting requirements specified in DoD Regulation 7000.14-R.

Scope of Review of Management Control Program. We reviewed the ARNG Comptroller Directorate's FY 1997 review of accounting system procedures and controls to determine whether the ARNG:

- evaluated budget execution and financial reporting procedures for compliance with DoD financial management guidance and Federal statutes;
- identified material departures from DoD financial management guidance and Federal statutes; and
- recorded a plan of corrective action for identified material departures.

As shown in Appendix C, the Antideficiency Act Investigation Team also noted several violations of internal controls, citing ARNG failure at every level to comply with regulations and procedures.

Adequacy of Management Controls. We identified material management control weaknesses, as defined by DoD Directive 5010.38. The ARNG did not develop procedures to ensure that automated accounting adjustments to record budget transactions were adequately documented and supported. Recommendations in this report, when fully implemented, will correct the material weaknesses. A copy of the report will be provided to the senior official responsible for management controls in the ARNG.

Adequacy of Management's Self-Evaluation. The ARNG self-evaluation in support of the FY 1997 Annual Statement of Assurance was totally ineffective. Of specific concern was the ARNG failure to establish controls over the NGRE Appropriation, although the prior audit identified those weaknesses. However, the FY 1998 Annual Statement of Assurance issued on October 14, 1998, identified material management control weaknesses in the ARNG Comptroller Division, including incomplete and inaccurate financial databases, lack of training and an inexperienced workforce, noncompliant accounting systems, and

inadequate processing of Antideficiency Act violations. We will monitor the correction of those material management control weaknesses that the ARNG has identified.

Summary of Prior Audit Coverage

IG, DoD, Report No. 97-116, "Allegations of Improper Accounting for the National Guard and Reserve Equipment Appropriation at the Army National Guard," March 31, 1997. The audit was performed in response to a complaint made to the Defense Hotline. The complainant alleged that the Army National Guard submitted to the DFAS Indianapolis Center an FY 1995 consolidated budget execution report that did not accurately reflect the FY 1991 NGRE Appropriation. The complainant also alleged that the Army National Guard deobligated funds before the end of FY 1995 and then reobligated funds at the start of FY 1996. The complainant further alleged that the ARNG did not report the potential Antideficiency Act violation resulting from the overobligations, as required by Federal statutes.

The report states that the ARNG made material accounting adjustments, reducing recorded obligations against the FY 1991 appropriation, before submitting FYs 1994 and 1995 budget execution reports to ensure that the reports did not show overobligations of FY 1991 funds. The ARNG subsequently made accounting adjustments reobligating the FY 1991 funds after submitting FYs 1994 and 1995 budget execution reports. In addition, the ARNG obligated $13.6 million of FY 1996 appropriated funds to offset apparent FY 1991 overobligations, but did not report a potential Antideficiency Act violation. Timely and effective reviews would have precluded unneeded encumbrance of FY 1996 funds for a 5-month period.

The report recommended that the ARNG:

- review and immediately revise the practices that ARNG officials used to make inappropriate accounting adjustments;
- develop and implement procedures to ensure adequate and timely reviews of overobligations and overdisbursements, and ensure that material accounting adjustments to recorded budget transactions are properly authorized, properly approved, and adequately documented; and
- establish management control procedures to ensure the proper reporting of potential Antideficiency Act violations.

However, as shown in the Finding portion of the current audit report and summarized on page 8, the ARNG did not adequately implement the audit recommendations from the prior audit report. The ARNG FY 1998 Annual Statement of Assurance identified as material management control weaknesses, the deficiencies discussed in the prior and current audit reports. Correction of those deficiencies should ensure that necessary actions are taken for both reports.

Appendix B. Hotline Allegations and Audit Results

Subsequent to the Hotline allegations reported in IG, DoD, Report No. 97-116, "Allegations of Improper Accounting for the National Guard and Reserve Equipment Appropriation at the Army National Guard," an additional complaint was submitted to the Defense Hotline. The allegations and audit results as discussed in the current audit report are summarized below:

Allegation 1. The ARNG continues to submit fraudulently prepared certified accounting records.

Audit Results. We determined that the ARNG changed the year-end "Status of Approved Resources" reports for FY 1997 to make the funds received match the DFAS Indianapolis Center's budget execution records. Although there was no evidence of fraudulent intent, the ARNG adjusted its records without supporting documentation, as discussed in the Finding of this report.

Allegation 2. ARNG accounting staff may be attempting to avoid an overobligation by not accruing civilian payroll obligations for the last 12 days of FY 1997 and not reporting an overdisbursement of the FY 1997 Military Construction appropriation by $383.56.

Audit Results. The ARNG did not use the correct procedures to obligate payroll expenses during FY 1997, and funds for the last payroll of FY 1997 were not correctly obligated. However, review of the ARNG Status of Approved Resources report as of October 31, 1997 showed that ARNG had sufficient funds available after obligating and disbursing funds to pay for the last payroll for FY 1997. Therefore, the allegation, while correctly pointing out that obligations were not correctly recorded, could not be substantiated. Also, although an overdisbursement of the FY 1994 Military Construction Appropriation in the amount of $383.56 was reported in FY 1997, ARNG personnel identified the error and made a correcting transaction in FY 1998.

Allegation 3. ARNG knowingly misstated material accounting facts in its management response to IG, DoD, Report No. 97-116 because ARNG knew that its unliquidated liability was greater than what was shown in the letter responding to the audit report.

Audit Results. We could not substantiate whether ARNG "knowingly" misstated material accounting facts in its management response to IG, DoD, Report No. 97-116. However, based on the changes the ARNG made to its accounting records at the end of FY 1997 without supporting documentation and the numerous errors found by the Antideficiency Act Investigation Team, available funds balances shown in the ARNG response to IG, DoD, Report No. 97-116 were incorrect.

Allegation 4. Corrective actions that ARNG stated would be done in its response to IG, DoD, Report No. 97-116 were never implemented.

Audit Result. The allegation was partially substantiated. The ARNG implemented changes that required approvals prior to making accounting adjustments and corrections. However, as shown in the report, the ARNG made adjustments to its "Status of Approved Resources" report for September 30, 1997, without supporting documentation, so that the available funds would equal the available funds shown by the DFAS Indianapolis Center. Also, the ARNG did not report a possible Antideficiency Act violation for the FY 1994 NGRE Appropriation, which showed an apparent overobligation of $62,506.

Appendix C. 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)
Director, Defense Logistics Studies Information Exchange

Department of the Army

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

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

Other Defense Organizations

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

Non-Defense Federal Organizations

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

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

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

Honorable Robert L. Ehrlich, Jr., U.S. House of Representatives

Department of the Army Comments

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
FINANCIAL MANAGEMENT
109 ARMY PENTAGON
WASHINGTON DC 20310-0109

REPLY TO ATTENTION OF

February 4, 1999

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Audit of Accounting Adjustments to the National Guard and Reserve Equipment Appropriation by the Army National Guard (Project No. 8FA-2018)

The Department of Defense Inspector General subject audit report included recommendations for the Assistant Secretary of the Army (Financial Management and Comptroller) (ASA (FM&C)) and the Army National Guard (ARNG). The DODIG recommended the ASA (FM&C) provide oversight and reporting procedures to verify that ARNG management establishes and implements effective controls over the National Guard and Reserve Equipment Appropriation. We concur with the ARNG comments which are attached. This memorandum will address the recommendation directed to the ASA (FM&C).

The DODIG audit report identified weaknesses in the management control of the National Guard and Reserve Equipment Appropriation. The ARNG made improper accounting adjustments resulting in potential violations of the Antideficiency Act. The Chief, National Guard Bureau, in his Annual Assurance Statement also reported the management control weaknesses identified in this audit report. Further, the Secretary of the Army considered one of the weaknesses (Processing of Potential Antideficiency Act Violations) significant enough to report to the Secretary of Defense. We have oversight for the correction of this weakness through the semi-annual review conducted by the Senior Level Steering Group.

The ARNG is currently finalizing the formal Antideficiency Act investigation report related to this audit. The final report, including corrective actions, is due in this office by the end of February 1999. We will oversee and follow-up on ARNG corrective actions to ensure completion.

If you have any questions, please contact Ms. Barbara Jefferson at (703) 697-2687, DSN 227-2687, email: Jeffers@hqda.army.mil or fax (703) 695-2028.

Ernest J. Gregory
Acting Principal Deputy Assistant Secretary of the Army
(Financial Management and Comptroller)

Attachment

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National Guard Bureau Comments

DEPARTMENTS OF THE ARMY AND THE AIR FORCE
NATIONAL GUARD BUREAU
1411 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22202-3231

NGB-IR-C

26 January 1999

MEMORANDUM THRU The Director of the Army Staff

MEMORANDUM THRU The Assistant Secretary of the Army for Financial Management and Comptroller.

MEMORANDUM FOR Inspector General, Department of Defense

SUBJECT: Audit of Accounting Adjustments to the National Guard and Reserve Equipment Appropriation by the Army National Guard (Project No. 8FA-2018)

1. Reference : SAAG-PMO-L, Memorandum, SAB, dated 8 Dec 98.

1. The Army National Guard's comments and reply to subject report is at Enclosure 1.

2. The POC for this report is Mr. Lane G. Haskew, 703-681-5988 or Mrs. Patricia Gallop, 703-681-5992.

FOR THE CHIEF, NATIONAL GUARD BUREAU:

1 encl.

for WALTER T. MORRISON
Director, NGB Internal Review

ARMY NATIONAL GUARD
COMMAND REPLY

11 January 1999

Accounting Adjustments to the National Guard and Reserve Equipment Appropriation by the Army National Guard

Finding: The ARNG made 38.2 million in unsupported accounting adjustments to budget execution reports as of September 30, 1997, for FYs 1990 through 1994 NGRE Appropriations. The adjustments were made so that ARNG budget execution data would agree with DFAS Indianapolis Center budget execution report balances for funds received. The ARNG could not support the accounting adjustments because it had not performed the required reconciliation procedures, and accounting personnel lacked sufficient training, experience, and supervision. Also, the ARNG did not fully implement recommendations in IG, DoD, Report No. 97-116. As a result, ARNG accounting records for the NGRE Appropriation were not reliable, and management controls were not in place to prevent potential violations of the Antideficiency Act.

Additional Facts: The National Guard Bureau (NGB) concurs that unsupported accounting adjustments were made to budget execution reports as of September 30, 1997, and that DoD IG Report No. 97-116 recommendations were not fully implemented. The following comments are submitted for additional accuracy and objectivity as they relate to the findings.

The Army National Guard and DFAS-IN have tried unsuccessfully for the past couple of years to adjust the 1990 through 1994 NGRE account balances to align them with DFAS-IN. This action was taken in concert with DFAS-IN to address problem NGRE account balances that were transferred to the Army National Guard in 1994 from Military District of Washington (MDW). These balances were never properly reconciled, and attempts to adjust have just compounded the problem.

The joint reviews were scheduled and conducted 3 times yearly as required by DFAS-IN Reg 37-1, but the program manager and accounting technician were not held accountable for the accuracy of the NGRE account reconciliation

Key supervisory accounting personnel positions were unfilled at the time that the unsupported adjustments were made to the NGRE account balances. The long standing nature of these vacancies and other personnel turbulence contributed to DoD IG Report No. 97-116 recommendations not being fully implemented.

The following comments address the 5 DOD IG Recommendations:

Recommendation 1: Appoint an independent team of experienced accounting personnel to perform a complete reconciliation of the National Guard and Reserve Equipment Appropriation for all fiscal years, make the necessary adjustments and corrections, and begin an Antideficiency Act investigation for any potential deficiency.

Command Comments: Concur. The action is currently underway. A 3 person reconciliation team has been formed with a Certified Public Accountant as the team leader and a DFAS-IN Accountant as a team member. The reconciliation of NGRE for all prior FYs will take until the end of FY99 to accomplish. Any possible Antideficiency Act violations identified will be reported expeditiously.

Recommendation 2: Establish procedures and controls to reconcile balances each month in the National Guard and Reserve Equipment Appropriation, provided by the Defense Finance and Accounting Service Indianapolis Center, with accounting information in the Army National Guard accounting system.

Command Reply: Concur. The reconciliation team will reconcile NGRE through FY98 as part of their charter. Effective immediately the ARNG NGRE Program Manger has agreed to participate monthly with the ARNG accounting technician to resolve FY99 NGRE corrective actions that are received from DFAS-IN after end of month processing. ARNG NGRE Program Manager will also require agencies to furnish copies of receiving reports and payment vouchers. Any FY99 NGRE errors identified in DFAS-IN end of month reports will be worked and resolved immediately. ARNG Comptroller will be briefed monthly on out of balance conditions and status of corrective action.

Recommendation 3: Implement procedures to ensure that joint reviews required by Defense Finance and Accounting Service Indianapolis Center Regulation 37-1 are completed by the program managers and the Finance and Accounting Division of the Army National Guard Comptroller Directorate to reconcile all obligations and disbursements against the National Guard and Reserve Equipment Appropriation.

Command Reply: Concur. Effective 1 January 1999, the reconciliation of the FY99 NGRE account has been assigned to a contract accounting reconciliation person who will conduct the NGRE reconciliation. That individual will concentrate on FY99 and work with the ARNG reconciliation team, the ARNG NGRE program manager, and the ARNG accounting technician to research and reconcile prior NGRE FYs. ARNG Comptroller will be briefed at conclusion of each joint review cycle on results and status of corrective action.

Recommendation 4: Establish procedures to verify that management and accounting technicians receive adequate training in Government accounting principles and procedures and in the use of the Army National Guard accounting system.

Command Reply: Concur. Currently developing individual training plans for all management and accounting technicians. The training plans will be completed by 1 March 1998.

Recommendation 5. Provide the results of administrative reviews of personnel responsible for initiating improper authorizations for expenditure and the disciplinary actions implemented.

Command Reply: Concur. Administrative review is ongoing, completion is expected by 1 March 1999. Results will be provided in ARNG response to the final report on this matter.

Audit Team Members

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

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