

Audit



Report

MANAGEMENT CONTROLS OVER DEFENSE LOGISTICS AGENCY
SYSTEMS DESIGN CENTER CONFERENCE FUNDS

Report No. 99-200

July 2, 1999

Office of the Inspector General
Department of Defense

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Acronyms

DCIS	Defense Criminal Investigative Service
DFAS	Defense Finance and Accounting Service
DLA	Defense Logistics Agency
DSDC	Defense Logistics Agency Systems Design Center
JTR	Joint Travel Regulation
MIPR	Military Interdepartmental Purchase Request
WCF	Working Capital Fund



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July 2, 1999

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY
COMMANDER, DEFENSE LOGISTICS AGENCY
SYSTEMS DESIGN CENTER

SUBJECT: Audit Report on Management Controls Over Defense Logistics Agency
Systems Design Center Conference Funds (Report No. 99-200)

We are providing this audit report for information and use. We performed the audit in response to an allegation from the Defense Logistics Agency (DLA) that DLA Systems Design Center personnel were not adequately controlling the funds collected for three training conferences. We considered management comments on a draft of this report when preparing the final report.

Comments on the draft report met 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. James L. Kornides at (614) 751-1400, extension 11, (jkornides@dodig.osd.mil), or Mr. Stuart D. Dunnett at (614) 751-1400, extension 14, (sdunnett@dodig.osd.mil). See Appendix B for the report distribution. The audit team members are listed inside the back cover.

A handwritten signature in cursive script, reading "David Steensma", is positioned above the typed name.

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 99-200
(Project No. 8FJ-5031)

July 2, 1999

Management Controls Over Defense Logistics Agency Systems Design Center Conference Funds

Executive Summary

Introduction. The Defense Logistics Agency Systems Design Center (DSDC) is a Defense Logistics Agency (DLA) central design activity that develops, maintains, and provides technical support for various automated information systems used in DoD and other Federal agencies. In support of its mission, DSDC sponsored training conferences to enhance participants' knowledge of the systems that DSDC maintains. DSDC training conferences were held in April 1995 and June 1996. A third conference, planned for July 1997 and partially funded, was canceled. The audit was initiated in response to an allegation from the Defense Logistics Agency that DSDC personnel were not adequately controlling the funds collected for the three training conferences.

Objectives. The audit objectives were to evaluate DSDC management of the funds collected and used to sponsor its three training conferences, and to assess compliance with applicable laws and regulations. We also determined whether DSDC complied with the Joint Travel Regulation governing the reimbursement of travel and per diem expenses. In addition, we reviewed management controls over accounting for funds that DSDC used to sponsor and conduct training conferences.

Results. The allegation was substantiated. DSDC personnel did not adequately manage the funds obtained for the training conferences. Specifically, DSDC personnel inappropriately deposited, into a credit union, the \$270,258 collected from conference attendees. Also, conference organizers collected \$208,713 of fees that exceeded the amounts authorized by DLA regulations; inappropriately converted \$99,741 of agency funding documents into cash; did not deposit \$27,428 of fees collected from non-Federal attendees into the U.S. Treasury; inappropriately retained \$44,451 of funds from one fiscal year to the next; and did not establish a deposit fund account to temporarily hold \$124,680 in fees collected from exhibitors. Excess fees of \$116,527, collected from both Federal and non-Federal sources, were also inappropriately transferred into the DLA Working Capital Fund. In addition, DSDC improperly permitted 32 employees to be reimbursed for \$7,192 of travel and per diem expenses incurred at their permanent duty stations. As a result, DSDC was in violation of section 3302, title 31, United States Code; DoD Regulation 7000.14-R, the "DoD Financial Management Regulation;" the Joint Travel Regulation; and possibly the Anti-Deficiency Act. For details of the audit results, see the Finding section. See Appendix A for details on the management control program.

Summary of Recommendations. We recommend that the Director, Defense Logistics Agency, pursuant to DoD Regulation 7000.14-R, volume 14, conduct a preliminary review of the funds expended for the conferences to determine whether a potential Anti-Deficiency Act or other funding violation occurred, and initiate appropriate action. The review should also determine whether the hotel service charges, telephone

expenditures, and unrelated expenditures listed in Table 2 (a total of \$16,601) included personal or entertainment expenses that may have been inappropriately funded. In addition, we recommend that the Director, DLA, enforce the provisions of section 3302, title 31, United States Code; DoD Regulation 7000.14-R; and the Joint Travel Regulation, and closely monitor subordinate activities to ensure that they follow established procedures when planning and conducting training conferences. We recommend that the Director, DLA, review, revise, and reiterate, as appropriate, agency guidance regarding training conferences. We also recommend that the Director, DLA, deposit \$27,428, the registration fees from non-Federal attendees, into the U.S. Treasury as miscellaneous receipts. We also recommend that the Director, DLA, deposit into the U.S. Treasury as miscellaneous receipts \$116,527, which was improperly used to augment the DLA Working Capital Fund.

Management Comments. The Deputy Director, DLA, concurred with the finding and recommendations. The Deputy Director stated that the DLA will conduct a preliminary review to determine whether a violation of the Anti-Deficiency Act occurred and will develop concise guidance for personnel who plan and conduct conferences. Actions to deposit fees into the U.S. Treasury General Fund will depend on information obtained during the review of the potential Anti-Deficiency Act violation. See the Finding section of this report for a discussion of management comments and the Management Comments section for the complete text of the comments.

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Background

The Defense Logistics Agency Systems Design Center (DSDC) is a Defense Logistics Agency (DLA) central design activity that develops, maintains, and provides technical support for various automated information systems used in DoD and other Federal agencies. In support of its mission, DSDC sponsored training conferences to enhance participants' knowledge of the systems that DSDC maintains. DSDC training conferences were held in April 1995 and June 1996. A third conference, planned for July 1997 and partially funded, was canceled.

For the conference held in 1995, DSDC focused the agenda on the Mechanization of Contract Administration Services system. In 1996, the conference had a broader range of general computing topics and included areas such as multimedia computing, enterprise management, and data collection and reporting.

On May 8, 1997, the DLA Office of Counsel for the Columbus Region, Columbus, Ohio, requested that the Defense Criminal Investigative Service (DCIS) investigate possible inappropriate activities related to the 1995, 1996, and 1997 DSDC conferences. On July 25, 1997, the DCIS requested audit assistance in investigating whether DSDC personnel had adequately controlled funds collected for the three conferences.

Objectives

The audit objectives were to evaluate DSDC management of funds collected and used to sponsor its three training conferences and to assess compliance with applicable laws and regulations. We also determined whether DSDC complied with the Joint Travel Regulation (JTR) governing the reimbursement of travel expenses related to the conferences. In addition, we reviewed the management controls over accounting for funds that DSDC used to sponsor and conduct training conferences. Appendix A discusses the audit scope and methodology and the review of the management control program.

Managing Defense Logistics Agency Systems Design Center Conference Funds

DSDC personnel did not adequately manage the funds they obtained for the training conferences they sponsored. Specifically, DSDC personnel inappropriately deposited, into a credit union, the \$270,258 collected from conference attendees. Also, conference organizers established fees that they knew would exceed the costs of the conferences, inappropriately converted agency funding documents into cash, did not deposit fees collected from non-Federal participants into the U.S. Treasury, inappropriately retained funds from one fiscal year to the next, and did not establish a deposit fund account to temporarily hold fees collected from exhibitors. Excess fees collected from Federal and non-Federal sources were inappropriately transferred into the DLA Working Capital Fund (WCF). In addition, DSDC permitted 32 employees to be reimbursed for \$7,192 of travel and per diem expenses incurred at their permanent duty stations, contrary to the JTR and published decisions of the Comptroller General. These conditions occurred because DSDC personnel developed their own guidelines for managing conference funds and their travel to the conference locations, rather than following the procedures in DoD Regulation 7000.14-R, the "DoD Financial Management Regulation," and the JTR. As a result, DSDC was in violation of section 3302, title 31, United States Code (U.S.C.), DoD 7000.14-R; DLA regulations; the JTR; and possibly the Anti-Deficiency Act.

Policies Governing Conference Funds

Custodial Responsibilities Under Public Law. Section 3302 of title 31, U.S.C., states that an official or agent of the U.S. Government having custody or possession of public money shall keep the money safe without:

- lending the money,
- using the money,
- depositing the money in a bank, or
- exchanging the money for other amounts.

Disposition of Conference Fees. In the absence of statutory authority to the contrary, an agency must deposit fees collected from outside sources in the U.S. Treasury as miscellaneous receipts, as prescribed in 31 U.S.C. 3302. Section 4109 of title 5, U.S.C., "Government Employees Training Act," provides a statutory basis for DSDC to provide training to other Federal agencies on a reimbursable basis. Consequently, fees collected by DSDC from

such agencies could properly be credited to appropriations used for training. There is no similar statutory authority, however, with respect to private sector attendees. The Comptroller General has stated in a number of decisions that fees collected from such attendees must be deposited in the U.S. Treasury as miscellaneous receipts.

DoD Policy on Safeguarding Funds. DoD Regulation 7000.14-R, volume 5, chapter 1, section 010301, "Disbursing Policy and Procedures," December 1993, as revised in May 1996,¹ states that disbursing officers are required to keep safe all the public funds collected or otherwise placed in their possession and custody. Lending, using, and depositing public funds in banks is prohibited.

Additionally, individuals other than disbursing officers who receive funds belonging to the United States are required to promptly turn over such funds to their disbursing officer or to deposit the funds in an authorized general depository.

DoD Policy on Disposition of Collected Fees. DoD Regulation 7000.14-R, volume 11A, "Reimbursable Operations Policy and Procedures," May 1998, states that collections of fees and charges will normally be deposited to "Miscellaneous Receipts of the Treasury" unless otherwise authorized by law or regulation.

According to DoD Regulation 7000.14-R, volume 12, "Special Accounts, Funds and Programs," September 1996,² and the DLA Accounting and Finance Manual 7000.1, September 1984, a deposit fund account should be used to account for collections that are either held temporarily and later refunded, or held by the Government as banker or agent for others and paid out at the direction of the depositor.

DoD Policy on Anti-Deficiency Act Violations. DoD 7000.14-R, volume 14, "Administrative Control of Funds and Anti-Deficiency Act Violations," August 1995, establishes procedures for DoD Components to use in identifying, investigating, reporting, and processing violations of the Anti-Deficiency Act.

DLA Policy on Civilian Employee Development and Training. DLA Regulation 1430.12, "Civilian Employee Development and Training," November 24, 1987, establishes DLA policy, procedures, and responsibilities for civilian employee development and training. DLA Regulation 1430.12 states that payment for training from one DoD Component to another DoD Component shall be made by DD Form 448, "Military Interdepartmental Purchase Request (MIPR)." Certification for payment for training at non-Government facilities may be certified on DD Form 1556, "Request, Authorization, Agreement, Certification of Training and Reimbursement."

¹ The December 1993 version was applicable to the 1995 conference, and the May 1996 version was applicable to the 1996 conference. However, the procedures in section 010301 did not change.

² Volume 12 was revised in November 1998, after the period covered by our audit scope.

DLA Policy on Travel. DLA Regulation 5000.01, "Travel," December 6, 1988, implements the Joint Federal Travel Regulation, volume 1, "Uniformed Service Members," and JTR volume 2, "Department of Defense Civilian Personnel." DLA Regulation 5000.01 establishes policy, assigns responsibilities, and prescribes procedures for the preparation, authorization, and issuance of military and civilian travel orders for temporary duty. In addition, the DLA Regulation provides basic guidance for preparing claims for reimbursement of funds for the performance of travel and establishes controls on official temporary duty travel.

Depositing Conference Funds

Use of a Credit Union. During the 3 years that they planned and managed training conferences, DSDC personnel did not follow the laws and regulations cited. Instead, they deposited \$270,258 collected for training conferences into the Columbus Metro Federal Credit Union, Columbus, Ohio.

Credit Union Transactions. DSDC personnel maintained three separate accounts in the Columbus Metro Federal Credit Union for the 1995, 1996, and 1997 conferences. Table 1 is a summary of the transaction activity for the accounts.

Table 1. Deposits and Withdrawals in the Credit Union				
Year	Account No.	Deposits	Withdrawals	To DLA WCF*
1995	304303	\$ 63,520	\$ 27,647	\$ 35,873
1996	313375	83,667	19,363	64,304
1996	312857	70,820	40,769	10,500
1997	312857	52,251	65,952	5,850
Totals		\$270,258	\$153,731	\$116,527

*Deposits made to the DLA WCF, account 97X4930 5F50.001.

Controlling the Funds

In addition to opening a credit union account, DSDC personnel collected fees of \$208,713 that exceeded the amounts authorized by DLA regulations; inappropriately converted \$99,741 of agency funding documents into cash; did not deposit \$27,428 of fees collected from non-Federal participants into the U.S. Treasury; inappropriately retained \$44,561 of funds from one fiscal year to the next; and did not establish a deposit fund account to temporarily hold \$124,680 in fees collected from exhibitors. Excess fees of \$116,527, collected from both Federal and non-Federal sources, were also inappropriately transferred into the DLA WCF.

Collecting and Using Fees. Of the \$270,258 deposited into the Columbus Metro Federal Credit Union, \$107,322 was received from Government

attendees, \$152,108 from non-Government sources (\$27,428 from attendees and \$124,680 from exhibitors), \$5,345 from no-shows, \$2,241 from a luncheon unrelated to the conference, \$1,900 from sources that could not be determined, \$520 from additional guests attending the banquet, and \$822 from other sources.

DSDC personnel spent \$153,731 of the \$270,258, as shown in Table 2. DSDC personnel also paid other conference expenses, totaling \$89,364, directly from the DLA WCF. These expenses are discussed later in the report.

Table 2. How the Conference Fees Were Spent

Type of Goods or Services	Account 304303 (1995)	Account 313375 (1996)	Account 312857 (1996)	Account 312857 (1997)	Total
Food	\$19,919	\$13,550	\$16,966	\$ 0	\$ 50,435
Beverages (non-alcoholic)	1,846	1,940	7,324	0	11,110
Hotel service charges	4,018	2,788	4,854	0	11,660
Tax	78	0	65	0	143
Gifts	316	0	117	637	1070
Administrative	547	15	85	5	652
Security	300	0	0	0	300
Return of duplicate fees	540	1,070	0	0	1610
Engineering	83	0	750	0	833
Decorations	0	0	2,605	0	2,605
Telephone	0	0	2,150	0	2,150
In-room charges*	0	0	1,977	0	1,977
Guest speaker	0	0	830	0	830
Repair of exhibit booth	0	0	2,496	112	2,608
Unrelated	0	0	550	2,241	2,791
Christmas cards	0	0	0	175	175
Audiovisual equipment	0	0	0	205	205
Brochures	0	0	0	5,844	5,844
Concept 2000	0	0	0	5,200	5,200
Return of exhibitor fees	0	0	0	50,000	50,000
Cancellation fees	0	0	0	1,533	1,533
Totals	\$27,647	\$19,363	\$40,769	\$65,952	\$153,731

*Includes alcoholic beverages, snacks, valet parking, and taxes.

The Office of General Counsel, Inspector General, has advised that appropriated funds cannot be used for some expenditures listed in Table 2. Among the expenses that constituted personal expenses or entertainment, for which appropriated funds cannot be used, are gifts, decorations, Christmas cards, and in-room charges for alcoholic beverages, which totaled \$5,827. Consequently, there is a potential for Anti-Deficiency Act violations. Also, because the conferences were Government-sponsored, \$143 in taxes should not have been paid; the Federal Government is not liable for payment of state and local taxes.

We did not determine whether the telephone, hotel service charges, and unrelated expenses included or constituted personal expenses. These potentially questionable charges, totaling \$16,601, should be reviewed by DLA to determine whether they included personal expenses and whether they were appropriately funded. DSDC management approved the collection of a registration fee that was prohibited by DLA regulations. DLA Regulation 5000.1, paragraph III.-E.-1., permits collecting a registration fee to cover food and beverage costs for a conference, but states that the host activity will provide for all other costs. According to conference documents, the registration fee was necessary to cover the costs of the banquet, audiovisual equipment, supplies, and general costs associated with the conference.

The registration fees ranged from \$180 to \$199 in 1995 and from \$225 to \$275 in 1996. The fee varied according to the number of people attending and the time of payment. Original planning documents for the 1995 conference estimated that 58 percent of the registration fee would cover the food and beverage costs, and the remainder would cover other costs. DSDC, as the host activity, did not provide for the other costs listed in Table 2 and, instead, charged participants for the additional costs by raising the participation fees. The \$208,713 is the difference between the allowed food and beverage costs of \$61,545 and the \$270,258 that was collected.

Agency Funding Documents. Conference organizers converted agency funding documents into cash. Of the \$270,258 deposited to the credit union, \$107,322 was received from Government attendees, of which \$99,741 was received on DD Forms 1556, "Request, Authorization, Agreement, Certification of Training and Reimbursement," and the remainder, \$7,581, was received by personal check or cash. The DD Forms 1556 were processed through DFAS disbursing offices. The disbursing office personnel deposited the funds in the DSDC account and issued a Government check payable to the DSDC Conference. DSDC deposited the checks in the Columbus Metro Federal Credit Union. DLA Regulation 1430.12 does not authorize the conversion of either MIPRs or DD Forms 1556 to cash. DSDC required that payment be made by either cash, check, or certified DD Form 1556.

Depositing Funds in the U.S. Treasury. DSDC personnel did not deposit fees collected from non-Federal participants in the U.S. Treasury. Also, conference organizers did not establish a deposit fund account to temporarily hold fees collected from exhibitors. Of the \$270,258 deposited into the credit union, \$152,108 was received from sources outside the Government: \$27,428 from conference attendees and \$124,680 from conference exhibitors. The Comptroller General has addressed the issue of the disposition of conference fees received from private attendees in a number of decisions. One of those decisions, 1977-B-190244, stated,

With regard to the proper disposition of fees, any fees charged to those from outside the Federal Government who attend the conferences must be deposited in the Treasury as Miscellaneous Receipts unless the Department has specific independent authority to retain the proceeds

DSDC did not have the authority to deposit any of the funds from outside sources into the credit union, and should have deposited the \$27,248 received from non-Federal attendees into the U.S. Treasury's miscellaneous receipts account.

Retaining Funds and Depositing Funds in the DLA WCF. Conference organizers retained \$44,561 (see Table 3, Remaining Balances for 1995 and 1996) from one fiscal year to the next. Also, excess fees collected from Federal and non-Federal sources were transferred into the DLA WCF. The Government Employees Training Act requires the costs of training programs to be absorbed from the appropriations available for each fiscal year.

At the end of each year, extra money from conference fees was available in the credit union. Table 3 depicts how DSDC personnel augmented the DLA WCF by retaining profits from the conferences.

Year	Deposits to DLA WCF	Paid on Government Purchase Orders	Remaining Balance
1995	\$ 35,873	\$12,632	\$23,241
1996	64,304	42,984	21,320
1997	16,350	33,748	(17,398)
Totals	\$116,527	\$89,364	\$27,163

Money deposited to the DLA WCF was received from conference attendees and outside sources. The amount paid on Government purchase orders was used to offset expenses of the conferences. The balance remaining should have been deposited in the U.S. Treasury as miscellaneous receipts.

DLA Regulation 5000.1 requires the host activity to pay all conference costs except for food and beverages. The deposit of the excess registration fees in the WCF and their use in defraying conference costs violated this regulation. The DSDC personnel improperly augmented the DLA WCF. DSDC correspondence indicated that the WCF was used to pay vendors who provided services for the conference. If the money had been deposited to the U.S. Treasury account as required, it would not have been available for use. Of the total deposited in the DLA WCF, \$89,364 was used to pay vendors for items related to the conferences, including \$33,973 for audiovisual equipment and \$13,243 for rental of the conference rooms. At the time of our audit, a balance of \$27,163 remained in the DLA WCF that should have been deposited into a U.S. Treasury account.

Other Management Control Issues

Improper Use of DD Form 1556. DSDC requested that reimbursement be made on a DD Form 1556. DD Form 1556 is used to certify payment of

training for DoD personnel. The first conference, which pertained to the Mechanization of the Contract Administration Services system, appeared to concern a course or block of instruction pertaining to training, as defined in 5 U.S.C. 4101. However, the second conference appears to have involved general computing subjects that may have been more in the nature of orientation or informational sessions as opposed to training. If so, DSDC should have used its own funds to defray the costs of the conference and should not have charged attendees. We did not review the actual conference events or interview the attendees; therefore, we could not fully determine whether the conference constituted training. This matter should be resolved by DLA in its review of the circumstances, funding, and expenditures regarding the conferences.

Non-Government Participants. The Comptroller General has determined that non-Government employees may attend a Government-sponsored training event on a space-available basis. However, the training would usually involve subjects that would be of use to the non-Government attendees and might facilitate a Government objective. The conferences' subject matter did not appear to satisfy these factors. We did not review the actual conference events or interview the attendees to determine whether the attendance of non-Government personnel was warranted. The propriety of the attendance of non-Government personnel should be reviewed by DLA, and proper guidance should be issued.

Missing Receipts for Attendees. DSDC personnel did not have adequate controls over the numerical receipts given to attendees as proof of payment. According to DSDC records, the paid attendance was 306 in 1995 and 313 in 1996. DSDC provided copies of the receipts given to each of the attendees. We sorted the receipts sequentially and found that 127 more receipts may have been issued. DSDC personnel could not account for the missing receipts.

Procedures Established

DSDC personnel violated Federal law and the DoD Regulation 7000.14-R by implementing their own procedures. Those procedures stated that a credit union account should be established to hold all conference money collected, and outlined steps for converting DD Forms 1556 into cash, depositing cash and checks into the credit union, and transferring funds from the credit union back into the DSDC financial system.

DSDC personnel said that these procedures were implemented to pay for conference food and beverage expenses that could not be contracted for by the Government. As shown earlier in Table 2, the funds were also used to procure other services and resulted in excess revenues. DSDC did not have the funds available in its budget to pay for the conferences, and these procedures were developed to supplement funds obtained through the normal budget process.

Travel Claims at Permanent Duty Stations

Section 4109 of title 5, U.S.C., "Government Employees Training Act," authorizes an agency to prescribe regulations for payment of necessary employee training expenses. The General Accounting Office has construed the Act to authorize payment for meals and refreshments for those attending training programs at their permanent duty stations if the agency determines that providing such items is necessary and will facilitate the objectives of the training conference. For the most part, attendance must be mandatory, and training-related activities must continue during the meals. The JTR, chapter 4, part L, prohibits employees from receiving per diem at their permanent duty stations. However, the Commander, DSDC, improperly authorized the reimbursement of travel and per diem expenses for 32 employees required to work at the 1996 conference site, which was located in the same geographical area as their permanent duty station.

The Commander, DSDC, inappropriately classified the employees as trainees to circumvent the JTR prohibition of per diem at permanent duty stations. Employees working at the conference were permitted to receive reimbursement for lodging, meals, mileage, and parking expenses. A total of \$7,192 was paid by DFAS to 32 employees. DFAS personnel paid the claims without questioning the validity of the vouchers. The DFAS general counsel agreed that the payments were improper and has delayed collection actions pending the completion of a DCIS investigation.

Conclusion

DSDC did not comply with Federal statutes, DoD regulations, and DLA regulations when managing its training conferences. DSDC personnel developed their own procedures to manage funds for the training conferences. These procedures did not conform to DoD Regulation 7000.14-R, which implements public law. DSDC also allowed personnel to be reimbursed for travel and per diem expenses incurred at their permanent duty stations, contrary to the JTR and decisions of the Comptroller General.

Recommendations

We recommend that the Director, Defense Logistics Agency:

1. Pursuant to DoD 7000.14-R, the "DoD Financial Management Regulation," volume 14, conduct a preliminary review of funds expended for the conferences to determine whether a potential Anti-Deficiency Act or other funding violation occurred, and initiate appropriate action. The review should also determine whether the hotel service charges, telephone

expenditures, and unrelated expenditures listed in Table 2 (a total of \$16,601) included personal or entertainment expenses that may have been inappropriately funded.

Management Comments. The Deputy Director, DLA, concurred and stated that DLA will conduct a review to determine whether a violation of the Anti-Deficiency Act occurred and will proceed accordingly. Actions should be completed by January 20, 2000.

2. Enforce the provisions of section 3302, title 31, United States Code, DoD Regulation 7000.14-R; and the Joint Travel Regulation, and closely monitor subordinate activities to ensure that they follow established procedures when planning and conducting training conferences.

Management Comments. The Deputy Director, DLA, concurred and stated that DLA will develop guidance for personnel who plan and conduct conferences. Actions should be completed by January 20, 2000.

3. Review, revise, and reiterate, as appropriate, the Defense Logistics Agency guidance regarding training conferences.

Management Comments. The Deputy Director, DLA, concurred and stated that DLA will develop concise guidance for managers who plan and conduct vendor meetings and training conferences. Actions should be completed by January 20, 2000.

4. Deposit \$27,428, the registration fees of non-Federal attendees, into the U.S. Treasury General Fund as miscellaneous receipts.

Management Comments. The Deputy Director, DLA, partially concurred and stated that action taken on this matter will depend on the information obtained during the review of the potential Anti-Deficiency Act violation. Actions should be completed by January 20, 2000.

5. Deposit into the U.S. Treasury General Fund as miscellaneous receipts \$116,527 that was improperly used to augment the Defense Logistics Agency Systems Design Center Working Capital Fund in violation of agency regulations, which provided that working capital funds would only be used to defray food and beverage expenses.

Management Comments. The Deputy Director, DLA, partially concurred and stated that action taken on this matter will depend on the information obtained during the review of the potential Anti-Deficiency Act violation. Actions should be completed by January 20, 2000.

Appendix A. Audit Process

Scope and Methodology

The scope of this audit included the review of transaction histories and monthly bank statements for three bank accounts; three hotel invoices; and two cartons of registration documents for the period 1995 through 1997, received from the DLA Systems Design Center in Columbus, Ohio. We interviewed DSDC personnel and reviewed travel vouchers submitted by 32 DSDC personnel assigned to work at the 1996 conference.

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 objective and goal.

Objective: Fundamentally reengineer DoD 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 Functional Area. Objective: Strengthen internal controls. **Goal:** Improve compliance with the 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 Financial Management high-risk area.

Use of Computer-Processed Data. We did not review any computer-processed data during the audit.

Audit Type, Date, and Standards. This financial-related audit was performed from November 1997 through April 1999 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 visited or contacted individuals and organizations within the DoD. Further details are available on request.

Management Control Program

DoD Directive 5010.38, "Management Control Program," and DoD Instruction 5010.40, "Management Control Program Procedures," August 26, 1996, require 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 the Management Control Program. We reviewed the adequacy of management controls over the accounting for funds used to sponsor and conduct training conferences by DSDC. Those controls consisted primarily of the procedures in 31 U.S.C. 3302, DoD Regulation 7000.14-R, and the JTR, as implemented by DLA and DSDC.

Adequacy of the Management Controls. The management controls were considered adequate. However, DSDC developed procedures and processes that circumvented the management controls. This resulted in a material management control weakness. Recommendations 2. and 3., if implemented, will improve compliance with existing controls. A copy of the report will be provided to the senior official responsible for management controls in DLA.

Adequacy of Management's Self-Evaluation. DLA officials did not identify management of training conferences as an assessable unit; therefore, they did not identify or report the material management control weaknesses found during the audit.

Prior Audit Coverage

No audits have been conducted on this subject in the last 5 years.

Appendix B. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
Deputy Comptroller (Program and Budget)
Deputy Chief Financial Officer
Assistant Secretary of Defense (Public 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)
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 Criminal Investigative Service
Director, Defense Finance and Accounting Service
Director, Defense Finance and Accounting Service Columbus Center
Director, Defense Logistics Agency
Commander, Defense Logistics Agency Systems Design Center

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

Defense Logistics Agency Comments



Y REPLY
REFER TO

DDAI

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HEADQUARTERS
8725 JOHN J. KINGMAN ROAD, SUITE 2633
FT. BELVOIR, VIRGINIA 22060-6221

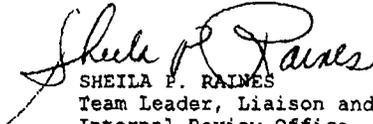
JUN 17 1999

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING,
DEPARTMENT OF DEFENSE

SUBJECT: Draft Audit Report on Management Controls Over Defense
Logistics Agency Systems Design Center Conference Funds
(Project No. 8FJ-5031)

This is in response to your May 7, 1999, request. If you have
any questions, please contact Zora Henderson, (703) 767-6272.

Encl


SHEILA P. RAINES
Team Leader, Liaison and Policy
Internal Review Office

JUN 15 1999

SUBJECT: Management Controls Over Defense Logistics Agency Systems Design Center Conference Funds (Project No. 8FJ-5031)

FINDING: Managing DSDC Conference Funds.

DSDC personnel did not adequately manage the funds they obtained for the training conferences they sponsored. Specifically, DSDC personnel inappropriately deposited, into a credit union, the \$270,258 collected from conference attendees. Also, conference organizers established fees that they knew would exceed the costs of the conferences, inappropriately converted agency funding documents into cash, did not deposit fees collected from non-Federal participants into the U.S. Treasury, inappropriately retained funds from one fiscal year to the next, and did not establish a Deposit Fund Account to temporarily hold fees collected from exhibitors. Excess fees, collected from Federal and non-Federal sources, were inappropriately transferred into the DSDC Working Capital Fund. In addition, DSDC permitted 32 personnel to be reimbursed for \$7,192 of travel and per diem expenses incurred at their permanent duty stations, contrary to the DoD JTR and published decisions of the Comptroller General. These conditions occurred because DSDC personnel developed their own guidelines for managing conference funds and their travel to the conference locations, rather than follow established procedures outlined in the DoD Financial Management Regulation and the JTR. As a result DSDC was in violation of title 31, United States Code (U.S.C.), section 3302; the DoD Financial Management Regulation; the DLA Regulations; the JTR, and possibly the Anti-Deficiency Act.

DLA COMMENTS: Partially concur. Action taken will depend upon information obtained during the preliminary review.

RECOMMENDATION 1.a: Pursuant to Volume 14 of the DoD Financial Management Regulation, conduct a preliminary review of the funding expenditures of the conferences to determine whether a potential Antideficiency Act or other funding violation occurred, and to take appropriate action. The review should also determine whether the hotel service charges, telephone expenditures, and unrelated expenditures listed in Table 2 (\$16,601 total) included personal or entertainment expenses which may have been inappropriately funded.

DLA COMMENTS: Concur. We shall begin the preliminary review in accordance with Chapter 3, Volume 14 of the DoD Financial Management Regulation. If after completion of the preliminary review there exists evidence of a violation, we will undertake a formal investigation and report.

RECOMMENDATION 1.b: Enforce the provisions of Title 31, United States Code, Section 3302, DoD Regulation 7000.14-R and the Joint Travel Regulation and closely monitor subordinate activities to ensure they follow established procedures when planning and conducting training conferences.

DLA COMMENTS: Concur. DLA also will develop concise guidance for personnel who plan and conduct conferences.

RECOMMENDATION 1.c: Review, revise, and reiterate, as appropriate, DLA's guidance regarding training conferences.

DLA COMMENTS: Concur. DLA will develop concise guidance for managers who plan and conduct vendor meeting and training conferences.

RECOMMENDATION 1.d: Deposit \$27,428, the registration fees of non-Federal attendees, into the United States Treasury General Fund as miscellaneous receipts.

DLA COMMENTS: Partially concur. Action taken on this matter will depend upon the information obtained during the preliminary review.

SUBJECT: Management Controls Over Defense Logistics Agency Systems Design Center Conference Funds (Project No. 8FJ-5031)

RECOMMENDATION I.e: Deposit into the United States Treasury as miscellaneous receipts \$116,527, which was improperly used to augment the DSDC Working Capital Fund in violation of DLA's regulation which provided that working capital funds would only be used to defray food and beverage expenses.

DLA COMMENTS: Partially concur. Action will depend upon information obtained during the preliminary review.

DISPOSITION: Action is ongoing. ECD: January 20, 2000.

ACTION OFFICER: Arthur Cohen, CI, 767-2170

REVIEW/APPROVAL: CAPT T. Case, CI

COORDINATION: Zora Henderson, DDAI

DLA APPROVAL:



E.R. CHAMBERLIN
Rear Admiral, SC, USN
Deputy Director

Audit Team Members

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

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