

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**ACCOUNTING FOR UNLIQUIDATED OBLIGATIONS
FOR THE DEFENSE FUEL SUPPLY CENTER**

Report No. 96-231

September 25, 1996

Department of Defense

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Acronyms

DFAMS	Defense Fuels Automated Management System
DFAS	Defense Finance and Accounting Service
DFSC	Defense Fuel Supply Center
DLA	Defense Logistics Agency
IG	Inspector General
MIPR	Military Interdepartmental Purchase Request
USD(C)	Under Secretary of Defense (Comptroller)



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



September 25, 1996

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Audit Report on Accounting for Unliquidated Obligations for the Defense
Fuel Supply Center (Report No. 96-231)

We are providing this audit report for review and comments. This audit report is related to the "Audit of Liabilities on the FY 1996 Consolidated Financial Statements of the Defense Business Operations Fund" and addresses the recording of an invalid obligation at the Defense Fuel Supply Center. We considered management comments on a draft of this report in preparing the final report.

DoD Directive 7650.3 requires that all audit recommendations be resolved promptly. We request that the Director, Defense Logistics Agency reconsider the position taken on Recommendation 1. and provide additional comments by October 25, 1996.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Richard B. Bird, Audit Program Director, at (703) 604-8868 (DSN 664-8868) or Mr. Jack L. Armstrong, Audit Project Manager, at (317) 542-3846 (DSN 699-3846). See Appendix F for the report distribution. The audit team members are listed inside the back cover.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, Department of Defense

Report No. 96-231
Project No. 5FI-2017

September 25, 1996

Audit Report on Accounting for Unliquidated Obligations for the Defense Fuel Supply Center

Executive Summary

Introduction. This audit report is related to the "Audit of Liabilities on the FY 1996 Consolidated Financial Statements of the Defense Business Operations Fund." This report addresses the recording of an invalid obligation at the Defense Fuel Supply Center, Alexandria, Virginia. The Defense Finance and Accounting Service (DFAS) Columbus Center, Columbus, Ohio, and the Defense Fuel Supply Center share responsibility for accurate accounting information and financial reporting.

Verifying unliquidated obligations is necessary to identify funds reserved for possible invalid expenditures, and to ensure accurate reporting on financial reports and related footnotes. For FY 1995, the Defense Fuel Supply Center reported \$3.52 billion in unliquidated obligations, or 44 percent of the \$7.94 billion in unliquidated obligations reported by the Defense Logistics Agency (DLA).

Audit Objectives. The objective of this audit report is to address an invalid obligation. See Part II, Appendix A, for a discussion of the scope and methodology. We did not address the adequacy of the management control program because it will be discussed in a later report on the Defense Fuel Supply Center's accounts payable and undelivered orders. Appendix B summarizes prior audits and other reviews related to the audit objective.

Audit Results. The Defense Fuel Supply Center requested that the DFAS Columbus Center record an invalid obligation. As a result, more than \$216.7 million that could be used for other requirements was erroneously encumbered. Also, accounting records supporting the certification of unliquidated and canceled obligation balances were inaccurate.

Summary of Recommendations. We recommend that the Director, DLA, cancel the \$216.7 million obligation of the Defense Fuel Supply Center's funds. We also recommend that the Director, DFAS, establish procedures for questioning, following up, and documenting actions taken on unsupported obligations submitted by fund holders.

Management Comments. The Principal Deputy Director, DLA, nonconcurrent with canceling the obligation of \$216.7 million of Defense Fuel Supply Center funds because the obligation was valid and required to cover disbursements that exceed obligations. The Principal Deputy also indicated that the actions taken on the obligation in question were in support of Under Secretary of Defense (Comptroller) guidance on problem disbursements. The Deputy Director for Accounting, DFAS, concurred in principle with the recommendation to DFAS and stated that the DFAS Columbus Center will be advised of its responsibility to ensure that obligation adjustments are properly supported.

Audit Response. The Principal Deputy Director, DLA, misinterpreted the Under Secretary of Defense (Comptroller) guidance. The guidance requires that new obligations be recorded when problem disbursements were over 180 days old, research actions to correct accounting errors have been completed, and corrections are no longer pending by DFAS. DFSC identified \$220.4 million of pre-April 1994 unmatched disbursements that were attributed to an accounting error or lack of documentation. The adjustment for these accounting errors was made by DFAS Columbus on May 28, 1996. The DLA was unable to demonstrate a valid DFSC requirement for the \$216.7 million we identified. As such, the obligation was not made in accordance with DoD policy and should be cancelled. We request that the Director, DLA reconsider the DLA position and provide additional comments by October 25, 1996. The comments of the Deputy Director for Accounting, DFAS, were responsive and met the intent of the recommendation.

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Part I - Audit Results

Audit Background

This audit report is related to the "Audit of Liabilities on the FY 1996 Consolidated Financial Statements of the Defense Business Operations Fund." The Defense Finance and Accounting Service (DFAS) Columbus Center, Columbus, Ohio, and the Defense Fuel Supply Center (DFSC), Fort Belvoir, Virginia, share responsibility for accurate accounting information and financial reporting.

Accounting Responsibilities. The DFAS Columbus Center was established in January 1992 to consolidate accounting functions previously carried out by the Defense Logistics Agency (DLA) and other DoD activities such as the Defense Exchange and Commissary Agency. The accounting and reporting functions of the Defense Fuel Supply Center were transferred to the DFAS Columbus Center in June 1994. The DFAS Columbus Center operates and maintains the financial accounting systems and is responsible for the continued integrity of information after it is entered into the systems.

DFSC is one of eight supply centers in the DLA supply management business area. DFSC procures, receives, stores, and distributes various petroleum products for DoD. DFSC is responsible for the accuracy and timeliness of financial information in the accounting systems and financial statements.

Accounting System. The Defense Fuel Automated Management System (DFAMS) is used to process, record, and report DFSC financial information. DFAMS records its transactions in general ledger accounts. The accounts to be debited or credited are determined by a series of numerical document and account codes in DFAMS transactions. DFAMS transactions should be supported by source documentation and identified by codes.

The DFAS Columbus Center uses journal vouchers to record financial data that are not processed through DFAMS. The trial balance should show financial data from both DFAMS and the journal vouchers. Journal vouchers are also used to correct financial data originally processed by DFAMS. All journal vouchers should be supported by detailed calculations, listings, or source documentation.

Unliquidated Obligations. Unliquidated obligations represent the net difference between the total funds obligated for a purchase or expense and the total funds disbursed for goods or services received. Verifying unliquidated obligations is necessary to identify funds reserved for possible invalid obligations, and to ensure accurate reporting on financial statements and related

footnotes. At the end of FY 1995, DFSC reported \$3.52 billion in unliquidated obligations, or 44 percent of the \$7.94 billion in unliquidated obligations reported by DLA (see Appendix C).

Audit Objective

The objective of this audit report is to address an invalid obligation. Part II, Appendix A, discusses our scope and methodology. We will address the adequacy of the management control program in a later report on accounts payable and undelivered orders of the DFSC. Appendix B summarizes prior audits and other reviews related to the audit objective.

Management Controls Over Unliquidated Obligations

The DFAS Columbus Center recorded an invalid obligation at the request of DFSC. The obligation was invalid because the Under Secretary of Defense (Comptroller) (USD[C]) policies for supporting and recording the obligation were not followed. As a result, more than \$216.7 million that could be used for other requirements was erroneously encumbered. Also, accounting records supporting the certification of unliquidated and canceled obligation balances were inaccurate.

Guidance for Recording and Supporting Obligations

Title 31, United States Code (U.S.C); the "DoD Financial Management Regulation," DoD Regulation 7000.14-R; and memorandums from the USD(C) give the requirements for valid and supported obligations and for reconciling and verifying unliquidated obligations.

Public Law. Title 31, U.S.C., section 1554, requires obligation data to be certified for accuracy and completeness by agency heads as of the end of each fiscal year. The certification should include unliquidated and canceled obligation balances, and should state that the obligation balances are supported and proper.

Financial Management Regulation. DoD Regulation 7000.14-R, volume 1, "General Financial Management Information, Systems, and Requirements," May 1989, describes a military interdepartmental purchase request (MIPR) as an order for one DoD activity to procure services, supplies, or equipment from another DoD activity. In accordance with the Economy Act (title 31, U.S.C., section 1535), an MIPR may be adjusted downward when the obligated appropriation is no longer valid. MIPRs are issued only for a valid need in the fiscal year of issue. DoD Regulation 7000.14-R, volume 6, "Reporting Policy and Procedure," February 1996, requires DoD Components to adequately document adjustments to accounting reports.

Memorandums From the Under Secretary of Defense (Comptroller). A memorandum from the USD(C), subject: "Roles and Responsibilities of DoD Components and the Defense Finance and Accounting Service Relative to Finance and Accounting Operations and Departmental Reports," November 15, 1995, required that management controls and audit trails be established. The memorandum required that subsidiary records and financial reports for unliquidated obligations be reconciled at least monthly. DFAS is responsible for ensuring that the amounts reported are verified against official source documentation. Any unreconciled differences must be investigated. DoD

Management Controls Over Unliquidated Obligations

Components are responsible for ensuring accuracy, completeness, timeliness, and support for customer-generated transactions. DFSC must document changes to source data and provide those changes to DFAS.

A memorandum from the USD(C), subject: "Obligation of Amounts for Unmatched Disbursements and Negative Unliquidated Obligations," June 30, 1995, required that unmatched disbursements more than 180 days old be covered by a new obligation. DoD Components must obligate new funds for these unmatched disbursements by October 1, 1996.

Unliquidated Obligations

DFSC requested that the DFAS Columbus Center record an invalid obligation. The following table shows the chronology of events for the obligation.

Chronology of Events	
<u>Date in 1995</u>	<u>Event</u>
September *	DFAS Columbus reconciles an unliquidated obligation of the DFSC.
September 22	DFSC personnel agree with the obligation adjustment.
September 29	DFAS Columbus reduces total obligations by \$280.4 million.
September 30	FY 1995 ends.
October 2	DFSC requests that DFAS Columbus record a \$250 million obligation.
October 5	DFAS Columbus records the \$250 million obligation.
October 6	DFSC prepares an MIPR.
*	Precise date is not known.

The obligation was invalid because USD(C) policies for supporting and recording the obligation were not followed. Guidance from the USD(C) contains procedures for reviewing unliquidated obligations, maintaining proper supporting documentation, and identifying unmatched disbursements.

Review of Unliquidated Obligations by the DFAS Columbus Center. The DFAS Columbus Center had reviewed unliquidated obligations of the DFSC as part of its management control responsibilities. In September 1995, the DFAS Columbus Center found \$280.4 million in obligations that exceeded valid

Management Controls Over Unliquidated Obligations

requirements. On September 29, 1995, the DFAS Columbus Center canceled \$280.4 million in obligations of DFSC funds. On October 5, 1995, a \$250 million obligation was posted to DFSC accounting records for FY 1995.

We reviewed the two transactions. The canceled obligation for \$280.4 million had the necessary supporting documentation, but the \$250 million obligation was not adequately supported. The only support that the DFAS Columbus Center could provide for the \$250 million obligation was a DFSC memorandum, subject: "FY 95 Obligation," October 2, 1995. The memorandum stated that the obligation was needed to cover problem disbursements (unmatched disbursements) and that an MIPR had been established. As of April 30, 1996, no expenses had been charged or disbursements made against the \$250 million obligation. Personnel at the DFAS Columbus Center said the \$250 million obligation was posted because of DFSC instructions.

Supporting Documentation. The DFSC had not identified a specific requirement for the obligation. In its October 2, 1995, memorandum to the DFAS Columbus Center, DFSC stated that an MIPR and a list of unmatched disbursements existed. However, DFSC could provide us only with the MIPR. The MIPR was dated October 6, 1995, 4 days after DFSC sent the memorandum to the DFAS Columbus Center.

DFSC used the MIPR improperly. The MIPR was not used for goods or services, but to cover unliquidated obligations, negative unliquidated obligations, and prior-year adjustments. MIPRs should be issued before goods or services are provided; they should not be used for improperly defined items or requirements.

Unmatched Disbursements. We reviewed a DLA "Problem Disbursement Report," February 28, 1996, which found that DFSC had a net negative balance of \$187.1 million in unmatched disbursements more than 180 days old. It is our opinion that the USD(C) March 31, 1996 guidance does not require obligation of funds to cover net negative (unsupported) disbursements. The DFAS Columbus Center identified \$33.3 million in potential unmatched disbursements more than 180 days old that could require new obligations.

DFAS had not reported any unmatched disbursements for DFSC to the USD(C) and had not identified any new obligations. Personnel at Headquarters, DFAS, stated that some disbursements were not reported because of the large negative balance of unmatched disbursements and because 3 to 9 months was required for documentation to be received and reconciled. DFAS personnel stated that by October 1, 1996, they would match disbursements more than 180 days old to obligations or would establish new obligations.

Conclusion

Invalid obligations encumber funds that could be used for valid purposes. The questioned obligation of \$216.7 million (a \$250 million obligation, less \$33.3 million of in-transit disbursements) should be canceled. Although DFAS and DFSC may match the \$33.3 million of in-transit disbursements to an obligation, we adjusted the obligation to reflect the amount of in-transit disbursements in case the disbursements are not matched to obligations. DLA should also determine valid and specific requirements for the funds.

Because of the invalid obligations, the accounting records that supported the certification of unliquidated and canceled obligation balances were inaccurate. DFAS performs an important management control function by reviewing the validity of unliquidated obligations. DFAS should reinforce the policy of the USD(C) that only supported obligations are to be recorded. Specifically, DFAS should establish procedures for questioning, following up, and documenting actions taken on unsupported obligations submitted by fund holders.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Director, Defense Logistics Agency, cancel the \$216.7 million obligation of Defense Fuel Supply Center funds.

Management Comments. The Principal Deputy Director, DLA (the Principal Deputy Director), nonconcurrent with the recommendation and with the statement that the obligation was invalid. The Principal Deputy Director stated that the \$250 million obligation was needed to cover disbursements that exceeded obligations. Management comments cited guidance in USD(C) memorandums dated March 31, 1994, and June 30, 1995.

The Principal Deputy Director stated that the FY 1996 DD 1176 (Report on Budget Execution) indicated that \$250 million was a reasonable estimate of funding for the unresolved disbursements. Since September 30, 1995, the problem disbursements have not been less than \$250 million, and problem disbursements that existed before April 1, 1994, have totaled \$287 million. The Principal Deputy Director also stated that as of September 30, 1995, pre-April 1, 1994, disbursements exceeded obligations by a total of \$591.8 million and were not supported by documentation.

The Principal Deputy Director stated that the MIPR previously used to justify the obligation was canceled. However, the DFSC received a letter authorizing the obligation. See Part III for the full text of the Principal Deputy Director's comments.

Audit Response. The Principal Deputy Director's comments were not responsive to the recommendation. The Principal Deputy Director misapplied

Management Controls Over Unliquidated Obligations

the USD(C) memorandums to this obligation, and management comments are not in compliance with USD(C) guidance. Prior to FY 1995, DFSC had obligated funds to cover pre-April 1, 1994, unmatched disbursements, but research done by the DFAS Columbus Center showed that these unmatched disbursements were unsupported and invalid. As a result, the new obligation of \$250 million is not needed.

The USD(C) memorandums dated June 30, 1995, and March 31, 1994, did not require that new obligations be recorded until the problem disbursement was over 180 days old, DLA research had been completed, and no further actions were pending by DFAS to correct accounting errors.

As management comments stated, the June 30, 1995, memorandum from the USD(C) required that DoD Components, in conjunction with DFAS, submit a plan to resolve pre-April 1, 1994, problem disbursements. On October 4, 1995, DLA submitted its plan, which included DFSC. Paragraph 10 of the plan stated that the DFSC general ledger would be adjusted for unsupported amounts.

On March 25, 1996, the Director, DFAS Columbus Center, requested authority to correct the undistributed disbursement account because of unsupported pre-April 1, 1994, unmatched disbursements. On May 16, 1996, the Office of the Comptroller, DLA, gave permission to correct the accounting records, stating, ". . . this is appropriate since there are no vouchers either identified or available to support the validity of the unmatched disbursements." On May 28, 1996, the DFAS Columbus Center made a general ledger adjustment totaling \$353 million of pre-April 1, 1994, unmatched disbursements.

Management comments also misrepresented the amount of pre-April 1, 1994, unmatched disbursements at DFSC. DLA comments stated that pre-April 1, 1994, unmatched disbursements totaled \$591.8 million; however, only \$220.4 million belonged to DFSC. The DFAS Columbus Center attributed that amount to an accounting error or lack of documentation, and corrected the error on May 28, 1996.

DLA has not demonstrated a valid DFSC requirement for the obligation. Canceling the MIPR solves the problem of the use of one improper document; however, a memorandum without additional support is not adequate. The \$250 million obligation is not in accordance with DoD policy or title 31, U.S.C., section 1554. We request that the Director, DLA, reconsider this position and provide additional comments on the final report.

2. We recommend that the Director, Defense Finance and Accounting Service, establish procedures for questioning, following up, and documenting actions taken on unsupported obligations submitted by fund holders.

Management Comments. The Deputy Director for Accounting, DFAS (the Deputy Director), concurred in principle with the recommendation. The Deputy Director stated that the USD(C) requires DFAS to ensure that supporting documents are on file, and if not, to contact the appropriate fund

Management Controls Over Unliquidated Obligations

holder. The Deputy Director also stated that the DFAS Columbus Center will be advised of its responsibility to ensure that obligation adjustments are properly supported. See Part III for the full text of the Deputy Director's comments.

Part II - Additional Information

Appendix A. Scope and Methodology

Scope. This audit report is related to the "Audit of Liabilities on the FY 1996 Consolidated Financial Statements of the Defense Business Operations Fund." This report addresses the recording and validity of two DFSC obligation transactions. Other results from the audit and observations related to the Management Control Program will be included in other reports.

Methodology. We reviewed the journal vouchers for two obligation transactions. One transaction canceled \$280.4 million in obligations, and the other obligated \$250 million. We verified the journal voucher and any available supporting documentation at the DFAS Columbus Center and DFSC. We also reviewed laws and regulations applicable to the two transactions.

We reviewed the DFAS Columbus Center's reconciliations of unliquidated obligations for September 30, 1995. We compared the reconciliation to the general ledger and the trial balance.

We reviewed DLA "Problem Disbursement Reports" for July 31, 1995, and February 29, 1996. The "Problem Disbursement Reports" were verified against other schedules and listings from the DFAS Columbus Center.

Use of Computer-Processed Data. Generally, we did not rely on computer-processed data. We used a computer-processed list of unmatched disbursements. We did not test the reliability of that list.

Audit Period, Standards, and Locations. We performed this financial-related audit of two obligation transactions from March 1 through April 30, 1996. The audit was made in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General (IG), DoD. Accordingly, we included such tests of management controls as were considered necessary. Appendix E lists the organizations we visited or contacted.

Appendix B. Summary of Prior Audits and Other Reviews

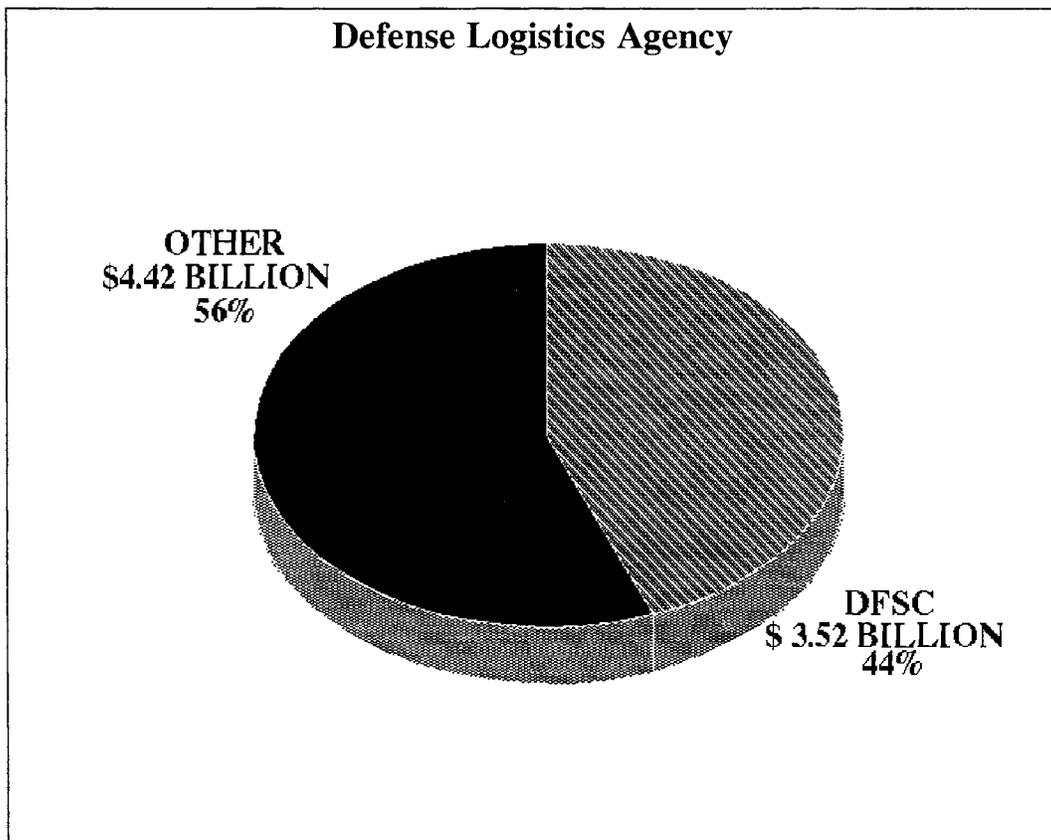
The following IG, DoD, reports addressed management control issues related to unliquidated obligations at DFSC.

IG, DoD, Audit Report No. 93-164, "Financial Statements of the Defense Logistics Agency Supply Management Division of the Defense Business Operations Fund (Defense Fuel Supply Center Financial Data) for FY 1992," was issued on September 2, 1993. This report disclaimed an opinion on the DFSC financial data included in the DLA Supply Management Division's financial statements. The report stated that significant deficiencies in the internal control structure, related to financial data and supporting records on unliquidated obligations, contributed to the inability of the IG, DoD, to express an opinion. The report also stated that DFSC and DFAS had inadequately implemented the DoD management control program. Management agreed with the report and stated that corrective actions would be taken.

IG, DoD, Audit Report No. 92-129, "Defense Stock Fund Financial Statements (Material Managed Under the Standard Automated Material Management System) for FY 1991," was issued on August 26, 1992. The report stated that DFSC was not performing reconciliations to ensure that general ledger accounts were accurate and supported by subsidiary records. Management concurred and stated that corrective actions were being taken. Subsequent audits found that reconciliations were still not being performed.

IG, DoD, Inspection Report No. 88-INS-06, "Defense Management of Wholesale Fuels," was issued on September 29, 1988. The report concluded that the lack of integrated, automated financial and disbursement systems affected the ability of DFSC to ensure the accuracy of financial accounting records, hindered the reconciliation of financial records, affected cash flow, and increased the possibility of overpayment of funds. DLA agreed with the report's conclusion and stated that DLA was correcting system deficiencies. Subsequent audits found that problems still existed with accounts payable records.

Appendix C. Unliquidated Obligations as of September 30, 1995



Appendix D. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and Type of Benefit
1.	Economy and efficiency. Reduce amount of obligated funds.	\$216.7 million put to better use, Stock Fund Appropriation* (97X4930).
2.	Management controls. Ensure the proper recording of obligations and improve recordkeeping and reporting.	Nonmonetary.

*DoD audit policy prescribes reporting of the deobligation of invalid obligations as monetary benefits, regardless of the availability for new obligations of the appropriations funding the invalid obligations.

Appendix E. Organizations Visited or Contacted

Office of the Secretary of Defense

Deputy Under Secretary of Defense (Comptroller), Washington, DC

Other Defense Organizations

Defense Finance and Accounting Service, Arlington, VA

Defense Finance and Accounting Service Columbus Center, Columbus, OH

Defense Logistics Agency, Fort Belvoir, VA

Defense Fuel Supply Center, Fort Belvoir, VA

Appendix F. Report Distribution

Office of the Secretary of Defense

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Assistant to the 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 Contract Audit Agency
Director, Finance and Accounting Service
Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, National Security Agency

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

Non-Defense Federal Organizations and Individuals (cont'd)

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal
Justice, Committee on Government Reform and Oversight
House Committee on National Security

Part III - Management Comments

Defense Finance and Accounting Service Comments



DFAS-HQ/AFC

DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22240-5291

JUL 24 1996

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

SUBJECT: Draft Audit Report on Accounting for Unliquidated
Obligations at the Defense Fuel Supply Center (Project
No. 5FI-2017)

In your memorandum of May 21, 1996, you requested comments
on Recommendation 2 which stated:

We recommend that the Director, Defense Finance and
Accounting Service, establish procedures for questioning,
following up, and documenting actions taken on unsupported
obligations submitted by fund holders.

We concur in principle with the recommendation. An Under
Secretary of Defense (Comptroller) (USD) (C) policy memorandum of
May 14, 1996, states that funds holders are responsible for
conducting reviews of unliquidated obligations irrespective of
whether the funds holder or the accounting office actually enters
obligations into the official accounting system. A USD(C)
memorandum of November 15, 1995, on the Roles and Responsibilities
of the DoD Components and the DFAS requires DFAS activities to
ensure that supporting documents are on file and, if such
documents are unavailable, DFAS should contact the appropriate
fund holder activity or office to obtain the necessary documents.

This audit finding and recommendation are related to
one specific obligation recorded by the DFAS Columbus Center.
The DFAS Columbus Center will be reminded by July 31, 1996, of
its responsibility to ensure that obligation adjustments are
properly supported.

If you need additional information, the point of contact is
Bharpur Grewal, 607-1525.



Thomas F. McCarty
Deputy Director for Accounting

Defense Logistics Agency Comments



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

IN REPLY
REFER TO DDAI

JUN 21 1996

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING,
DEPARTMENT OF DEFENSE

SUBJECT: Draft Audit Report on Accounting for Unliquidated
Obligations at the Defense Fuel Supply Center
(Project No. 5FI-2017)

This is in response to your May 21, 1996, subject draft
report.

JACQUELINE G. BRYANT
Chief, Internal Review Office

Encl

Subject: Accounting for Unliquidated Obligations at the Defense Fuels Supply Center
(Project No. 5FI-2017)

Recommendation No. 1: We recommend that the Director, Defense Logistics Agency, cancel the \$216.7 million obligation of Defense Fuels Supply Center funds.

DLA Comments:

Nonconcur. We strongly disagree that the \$250 million obligation in question was invalid or that funds were erroneously encumbered. The Comptroller of the Department of Defense, in his memorandum of March 31, 1994, Subject: Negative Unliquidated Balances/Disbursements in Excess of Obligations, directed that when disbursements exceed recorded obligations at the obligation level that, "...to the extent any availability exists in the appropriation, such funds are required to be reserved, committed or obligated until the condition is satisfactorily resolved." On June 30, 1995, the Comptroller further directed that to the extent disbursements made prior to April 1, 1994, exceeded obligations, and remained unresolved on September 30, 1996, funds would be required to be obligated.

For the month ending September 30, 1995, our pre April 1, 1994 disbursements in excess of recorded obligations in the former Stock Fund (DBOF 97X4930) appropriation related to materiel totaled \$591.8 million. We were also advised by the Defense Finance and Accounting Service-Columbus Center that there was little, if any, detailed supporting documentation for these disbursements that would enable us to match them to a specific existing obligation. As of the end of fiscal year 1995, data shown on our DD Form 1176 (Report on Budget Execution) indicated \$250 million was a reasonable estimate of the available funding authority that could be reserved to resolve our problem disbursements. Given the level and circumstances surrounding the pre April 1, 1994, unresolved disbursements, and the direction that funds be obligated not later than September 30, 1996, we obligated unencumbered Defense Fuel Supply Center earnings in accordance with the Comptroller's March 1994 guidance.

During the period of time since the initial decision was made to reserve funds to resolve our problem disbursements, monthly analyses have been conducted to validate the requirement to continue to encumber these funds. At no time since September 30, 1995, have our problem disbursements totaled amounts lower than \$250 million. As of the end of March 1996, our disbursements in excess of recorded obligations in the DBOF 97X4930 appropriation related to materiel totaled \$287 million in pre-April 1, 1994 disbursements. We will continue to monitor unresolved disbursements and unencumber the funds in question at such time that conditions warrant.

To address your concern that a Military Interdepartmental Purchase Request (MIPR) was not the appropriate funding document, we canceled it and provided the Defense Finance and Accounting Service with a letter authorizing the obligation.

Defense Logistics Agency Comments

DISPOSITION:

- () Action is on going. ECD:
- (X) Action is considered complete.

Action Officer: Barbara Donegan/Richard Sninsky, FOXS
Review/Approval: J.D. McCarthy, CAPT, SC, USN, Comptroller
Coordination: B. A. Blackman, FOX
JBT, DDDI, 13 June 96

DLA Approval:


R. E. McCOY
Major General, USA
Principal Deputy Director

JUN 21 1996

Audit Team Members

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

F. Jay Lane
Richard B. Bird
Jack L. Armstrong
Leslie M. Barnes
John E. Aber
James W. Chunn
Audrey M. Spear
Susanne B. Allen