Audit Report

OFFICE OF THE INSPECTOR GENERAL

INTERNAL CONTROLS AND COMPLIANCE WITH LAWS AND REGULATIONS FOR THE FY 1996 FINANCIAL STATEMENTS OF THE "OTHER DEFENSE ORGANIZATIONS" RECEIVING DEPARTMENT 97 APPROPRIATIONS

Report No. 97-155 June 11, 1997

Department of Defense

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Acronyms

DFAS	Defense Finance and Accounting Service
DIA	Defense Intelligence Agency
KAR	Key Accounting Requirement
NSA	National Security Agency
OCHAMPUS	Office of the Civilian Health and Medical Program of the Uniformed Services

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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ARLINGTON, VIRGINIA 22202-2884

June 11, 1997

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Audit Report on Internal Controls and Compliance with Laws and Regulations for the FY 1996 Financial Statements of the "Other Defense Organizations" Receiving Department 97 Appropriations (Report No. 97-155)

We are providing this audit report for review and comment. This audit was performed in response to the Chief Financial Officers Act of 1990 and the Federal Financial Management Act of 1994.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. Because the Defense Finance and Accounting Service did not comment on a draft of this report, we request that it provide comments on the final report by July 11, 1997.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Charles J. Richardson, Audit Program Director, at (703) 604-9582 (DSN 664-9582) or Mr. Hoa H. Pham, Acting Audit Project Manager, at (703) 604-9588 (DSN 664-9588). See Appendix C for the report distribution. Audit team members are listed inside the back cover.

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Report No. 97-155 **June 11, 1997**
Project No. 7RF-2009

Internal Controls and Compliance with Laws and Regulations for the FY 1996 Financial Statements of the "Other Defense Organizations" Receiving Department 97 Appropriations

Executive Summary

Introduction. We performed the audit in response to the requirements of the Chief Financial Officers Act of 1990 (Public Law 101-576) and the Federal Financial Management Act of 1994 (Public Law 103-356). Public Law 103-356 requires DoD and other Government agencies to prepare consolidated financial statements for FY 1996 and each succeeding year. In his memorandum dated June 6, 1995, the DoD Deputy Chief Financial Officer notified DoD Components of the FY 1996 requirement to prepare and submit financial statements in accordance with the Federal Financial Management Act of 1994. The Defense Finance and Accounting Service Indianapolis Center is responsible for preparing the Chief Financial Officers financial statements for the Department 97 general fund appropriations beginning in FY 1996. To meet that requirement, the Deputy Director for Accounting Operations, Defense Finance and Accounting Service Indianapolis Center, receives the adjusted trial balance and budget execution report submissions of the supporting accounting offices of the Defense organizations, consolidates the financial information, and prepares the principal financial statements for the "Other Defense Organizations." During FY 1996, the Defense organizations were appropriated $39 billion, and their financial statements showed total assets of $47 billion, liabilities of $3 billion, and a net position of $44 billion.

Audit Objectives. The overall audit objective was to assess internal controls and compliance with laws and regulations and to review and evaluate the adjustments to the FY 1996 "Other Defense Organizations" financial statements. Our audit of the "Other Defense Organizations" principal financial statements was delayed until January 9, 1997, because of difficulties that the Defense Finance and Accounting Services Indianapolis Center had in completing adjustments to the consolidated "Other Defense Organizations" principal financial statements. We received the final version of the "Other Defense Organizations" principal financial statements on February 11, 1997. Consequently, we were unable to complete our review of the final adjustments for inclusion in this audit report. A subsequent report will address the adjustments.

Audit Results. The consolidated principal statements for the "Other Defense Organizations" were not an accurate and reliable representation of the financial operations of the Defense organizations and funds that received Department 97* general fund appropriations. Unless improvements in accounting systems and management controls are made, the "Other Defense Organizations" FYs 1997 and 1998 financial statements will not be reliable (Finding A).

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*Department 97 general fund appropriations are those appropriations specifically allocated to Defense organizations and Military Departments.

The Defense Finance and Accounting Service Indianapolis Center and the accounting offices supporting the Defense organizations and funds receiving Department 97 appropriations were unable to fully comply with applicable laws and regulations. As a result, the Defense organizations receiving Department 97 general funds were not in full compliance with the Chief Financial Officers Act and the Federal Managers' Financial Integrity Act (Finding B).

The management control program could be improved by correcting material weaknesses related to reconciliations of expenditure data to the budget data and subsequently to the Department of the Treasury data for the Fund Balance with Treasury account and to full disclosure of auditor recommended adjustments.

Summary of Recommendations. We recommend that the Director, Defense Finance and Accounting Service Indianapolis Center, maintain records for audit trails of all adjustment transactions; reconcile the current year Department 97 expenditure data for the Fund Balance With Treasury account to the Department of the Treasury data; and document the review process used and the decision made regarding the auditors' recommended adjustments to the principal statements, including the footnotes. Those recommendations and recommendations in previous audit reports should also correct the problems discussed in Finding B.

Management Comments. The Director, Defense Finance and Accounting Service Indianapolis Center, did not comment on a draft of this report. Therefore, we request that the Director, Defense Finance and Accounting Service Indianapolis Center, provide comments on this report by July 11, 1997.

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Part I - Audit Results

Audit Background

Requirements for Financial Statements. The Financial Officers Act of 1990 (the Act), Public Law 101-576, requires executive departments and agencies to prepare financial statements for each of their trust funds, revolving funds, and commercial activities. The Act also requires the Inspector General to audit or arrange for the audit of all financial statements prepared under the Act. The resulting audit reports must include a report on the adequacy of internal controls of the reporting entity and a report on the compliance with laws and regulations that could have a material effect on the financial statements. The Act, as amended by the Federal Financial Management Act of 1994, requires DoD and other Government agencies to prepare consolidated financial statements for FY 1996 and each succeeding year.

The consolidated DoD financial statements for FY 1996 includes the financial information for a reporting entity entitled "Other Defense Organizations." The "Other Defense Organizations" include the financial information for various Defense organizations that received Department 97* general fund appropriations. In FY 1996, 35 Defense organizations were appropriated $39 billion of Department 97 funds for the performance of their missions and functions.

Financial Reports. The Defense Finance and Accounting Service (DFAS) Indianapolis Center provides finance and accounting support to all DoD organizations to include the Defense agencies. The support includes maintaining accounting records and preparing financial statements from general ledger records and status of appropriation financial data submitted by the accounting offices that support the Defense organizations. The DFAS Indianapolis Center is responsible for compiling the financial information submitted on behalf of the "Other Defense Organizations." The FY 1996 "Other Defense Organizations" financial statements prepared by the DFAS Indianapolis Center report that the "Other Defense Organizations" had assets of $47 billion, liabilities of $3 billion, and a net position of $44 billion.

Audit Objectives

The overall audit objective was to assess internal controls and compliance with laws and regulations. We will review and evaluate the adjustments to the FY 1996 "Other Defense Organizations" financial statements and include the results in a subsequent report. Appendix A discusses the audit scope and methodology and the review of the management control program. Appendix B provides details on related prior audits and other reviews.

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*Department 97 general fund appropriations are those appropriations specifically allocated to Defense organizations and Military Departments.

Finding A. Internal Control Improvements Needed

The consolidated principal statements for the "Other Defense Organizations" were not an accurate and reliable representation of the financial operations of the Defense organizations and funds that received Department 97 general fund appropriations. The principal statements for the "Other Defense Organizations" were inaccurate and unreliable because the accounting offices that support the Defense organizations did not have complete general ledger accounting control systems and other internal controls needed to produce accurate and reliable financial statements. Specifically, the Defense organizations' financial information did not properly value and account for property, plant, and equipment; did not account for receivables; did not accrue liabilities until disbursements were recorded; and did not record accounts payable.

In addition, the lack of reliable accounting and financial information caused the DFAS Indianapolis Center to make yearend adjustments to the accounts in the consolidated financial statements. The adjustments were not supported with audit trails to documented transactions.

The DFAS Indianapolis Center lacked the internal controls needed to ensure that:

o the process used to receive, adjust, and consolidate Defense organizations' financial information generated from general ledger adjusted trial balances and certified budget execution reports was thoroughly documented;

o monthly reconciliations were performed of expenditure data to the budget data and subsequently to the Department of the Treasury data to determine the causes of the differences between DoD records and Department of the Treasury records for the Fund Balance With Treasury account; and

o a formal process is used for reviewing auditor-recommended adjustments for making footnote disclosures to the principal statements, and documenting the review and decision process.

Until improvements in accounting systems and internal controls are made, the "Other Defense Organizations" future financial statements will not be reliable.

Complete General Ledger Accounting Control Systems

The U.S. Standard General Ledger, developed by the Department of the Treasury, is intended to standardize accounting transactions. An accounting system that is developed in accordance with the U.S. Standard General Ledger accounts will assist managers in accessing specific financial information and in ensuring that the information is in a format useful for decisionmaking purposes. The financial data produced and reported by the "Other Defense Organizations" or their supporting accounting offices were not reliable due to the lack of complete general ledger accounting control systems.

DoD Accounting Systems and Auditable Financial Statements. In October 1994, the General Accounting Office requested that DoD perform an assessment of the DoD ability to prepare auditable DoD-wide financial statements, beginning in FY 1996. In his memorandum dated January 24, 1995, the Under Secretary of Defense (Comptroller) responded that the DoD accounting systems are not designed to generate auditable financial statements and have demonstrated that a number of DoD Components experienced widespread deviations from generally accepted accounting principles and DoD policy. The problems with accounting systems remain a serious challenge to DoD and realistically will require a number of years to correct.

Standard General Ledger Control. Key Accounting Requirement (KAR) 1, "General Ledger Control and Financial Reporting," requires that an accounting system have general ledger control and maintain a DoD-approved general ledger account structure for assets, liabilities, equity, expenses, losses, gains, transfers in and out, and other financial resources. However, financial audits performed at the Defense organizations during FYs 1995 and 1996 showed that the Defense organizations or their supporting accounting offices did not use accounts listed in the standard general ledger to prepare their financial data. Only 10 of the 29 Defense organizations were supported by accounting offices that used complete general ledger accounting control systems as the basis for preparing FY 1995 adjusted trial balances. The accounting offices that supported the remaining 19 Defense organizations did not use complete general ledger accounting control systems for transactional accounting as the basis for preparing adjusted trial balances. We determined that for FY 1995, at least $19.0 billion of $37.0 billion and for FY 1996, at least $18.5 billion of $39.0 billion of the Department 97 general fund appropriation were not accounted for on complete general ledger accounting control systems.

Accuracy and Reliability of the Defense Organizations Financial Information

The FY 1996 "Other Defense Organizations" financial statements did not contain accurate financial information because the Defense organizations' transactional accounting was not supported by standard general ledger control systems and because the Defense organizations' internal controls were not adequate in the areas of accounting for property and inventory, receivables, accrued liabilities, and accounts payable. In FY 1995, we performed audits of financial information prepared for 29 Defense organizations and reported that the financial information was unreliable and did not comply with the KARs established in DoD 7000.14-R, "DoD Financial Management Regulation," volume 1, May 1993. In FY 1996, audits of the financial information prepared for 31 Defense organizations showed a continued lack of complete general ledger accounting control systems and internal controls.

Property, Plant, and Equipment. Audits of the property, plant, and equipment at nine Defense organizations showed that the property, plant, and equipment was not properly valued and accounted for because the property management systems were not in compliance with KAR 2, "Property and Inventory Accounting." KAR 2 states that the property management system must account in quantitative and monetary terms for the procurement, receipt, issue, and controls of plant, property, equipment, inventory, and material. The property management system must include accounting controls over inventory ledgers that identify the item, its location, quantity, acquisition date, cost, and other information. Subsidiary property records are reconciled periodically to general ledger accounts. Previous audits identified the following conditions at Defense organizations.

o Defense organizations capitalized military equipment acquisitions that should have been expensed. For example, Inspector General, DoD, Report No. 97-044, "Army National Guard Military Equipment," December 11, 1996, states that the Army National Guard FY 1995 general ledger military account, Equipment in Use, included the cost of equipment with a unit cost that did not meet the DoD capitalization threshold. Also the Army National Guard misstated military equipment in transit as equipment in use.

o Defense organizations did not maintain complete and accurate property records, as illustrated in Inspector General, DoD, Report No. 97-082, "Property Accountability for the Department of Defense Education Activity," January 28, 1997. The report states that the DoD Dependents Schools' control over accountable property was inadequate and that the related property records were not reliable. As a result, about $28.7 million of $110 million of accountable property was not located or was improperly accounted for within the DoD Dependents Schools.

o Defense organizations either did not report or duplicated reporting of military equipment acquisitions. For example, Inspector General, DoD, Report No. 97-047, "Consolidated Financial Report on the National Guard and Reserve Equipment Appropriation for the Army National Guard," December 13, 1996, states that the Army National Guard FY 1995 general ledger included duplicate reporting of military equipment, misstated liabilities, and used budgetary accounts incorrectly. In addition, the Army National Guard did not record accounts payable upon evidence of equipment receipt.

Accounts Receivable. KAR 3, "Accounting for Receivables Including Advances," states that the accounting system must accurately and promptly account for all accounts receivable (all debts to the U.S. Government) to provide timely and reliable financial status. Accounts receivable shall be reduced upon collection of funds, and uncollectible amounts should be written off. Also, advances shall be recorded as assets until receipt of goods and services. The system must maintain control over advances made to employees, contractors, and all others and should be recorded and reconciled to a general ledger control account.

Audits of accounts receivable performed at the Defense Intelligence Agency (DIA) and the Office of the Civilian and Medical Program of the Uniformed Services (OCHAMPUS) showed that the accounting offices supporting those organizations did not properly record their receivables. The accounting offices recognized income and receivables prior to completion of reimbursable work orders. Also, the accounting office for the DIA did not record checks received for reimbursable work performed at DIA. In addition, DIA did not promptly review and reconcile outstanding travel advances or correctly record travel advance settlements. The OCHAMPUS accounting staff did not record the proper accounting transaction for an undetermined amount paid to and due back from contractors.

Inspector General, DoD, Report No. 97-045, "Financial Accounting at the Defense Intelligence Agency," December 12, 1996, states that DIA FY 1996 financial records did not contain accurate financial information. The accounting records were inaccurate because the DIA incorrectly accounted for income and receivables prior to completion of a reimbursable work order. Inspector General, DoD, Report No. 97-059, "Financial Management for the Office of the Civilian Health and Medical Program of the Uniformed Services," December 27, 1996, states that OCHAMPUS accounting staff did not record the proper accounting transactions for an undetermined amount paid to and due back from contractors.

Accrued Liabilities. Audits of accrued liabilities performed at the DIA, National Security Agency (NSA), and OCHAMPUS showed that the financial data produced and reported by the DIA, NSA, and OCHAMPUS could not be relied on to prepare accurate financial statements because their accounting systems were not in compliance with KAR 5, "Accrual Accounting." KAR 5 states that accrual accounting must recognize the accountable aspects of financial transactions or events as they occur. Transactions may be recorded in accounting records as they occur or be adjusted to the accrual basis at each month's end. Unpaid personnel compensation and benefits that have been earned as of the end of the pay year must be accrued in full or in part. Accrued payroll for civilian and military salaries and wages, unfunded annual leave, and annual leave must be recorded and reconciled with the actual payroll. The audits showed the following.

o Inspector General, DoD, Report No. 97-045 states that DIA FY 1996 financial records did not contain accurate financial information. The accounting records were inaccurate because DIA did not properly accrue liabilities and expenses in the General Accounting and Reporting Subsystem for funds appropriated after FY 1993 and did not validate liabilities shown in the Air Force Base Level General Accounting and Finance system for funds appropriated before FY 1994. Also, DIA accounts payable for funds appropriated prior to FY 1994 were not reliable because DIA recorded liabilities before receiving invoices and did not perform followup on unpaid accounts payable.

o Inspector General, DoD, Report No. 96-213, "Financial Accounting at the National Security Agency," August 20, 1996, states that the National Security Agency had not completely programmed the accounting system. The accounting system did not produce the information needed for developing financial statements, did not reconcile balances in support records to control accounts in the general ledger, did not record expenses and liabilities until disbursements were made, and did not calculate and record accrued payroll liabilities.

o Inspector General, DoD, Report No. 97-059, "Financial Management at the Office of the Civilian Health and Medical Program of the Uniformed Services," December 27, 1996, states that the OCHAMPUS FYs 1994 and 1995 trial balance information was inaccurate and unreliable because it did not always account for the accrual of the reimbursable program expenses.

Accounts Payable. Audits at three Defense organizations showed that their accounts payable balances could not be relied on to prepare accurate financial statements because the accounting systems were not in compliance with KAR 9, "Cash Procedures and Accounts Payable." KAR 9 requires that the accounting system be designed to verify timely payments based on properly approved disbursement documents. Accounts payable should be recorded when goods or services are received.

o Inspector General, DoD, Report No. 97-047 states that the Army National Guard, did not record accounts payable upon evidence of receipt of equipment and recorded accounts payable for transactions that did not establish Government liabilities. For example, the Army National Guard recorded $5.1 million of liabilities that were, in fact, disbursements.

o Inspector General, DoD, Report No. 97-045 states that DIA had a backlog in recording disbursements by others. The DIA was not promptly recording disbursements by others and as of June 30, 1996, DIA had disbursements of $114.0 million in disbursement vouchers awaiting processing, $87.9 million of disbursements in transit, and $20.6 million of unreconciled differences in disbursements in transit. The backlog caused the asset, liability, and expense account balances to be misstated.

Yearend Adjustments to Department 97 Financial Statements

Adjusting to Budget Execution Report Information. Due to the lack of reliable accounting and financial information, the DFAS Indianapolis Center could not use the data in the Defense organizations' general ledger submissions as the source for preparing the principal statements for the "Other Defense Organizations." Instead, the DFAS Indianapolis Center used the account balances in certified budget execution reports as the basis of adjustments to prepare the "Other Defense Organizations" principal statements. However, using the budget information to produce the principal statements resulted in a series of adjustments and offsetting adjustments. The adjustments were necessary because the amounts recorded in the certified budget execution reports differed from the amounts recorded in the Defense organizations' general ledger accounts.

The Lack of Audit Trails for Summary Adjustments. Audit trails should allow a transaction to be traced from initiation through processing to financial reports. As of January 17, 1996, the DFAS Indianapolis Center made four sets of adjustments that reduced the "Other Defense Organizations" total assets by $15.2 billion, total liabilities by $2.3 billion, and net position by $12.9 billion. The adjustments were made to have the adjusted trial balances amounts agree with the amounts in the certified budget execution reports. However, an audit trail to the supporting documentation for those adjustments does not exist. That practice is not in compliance with KAR 8, "Audit Trail," which states that the financial transactions on accounting system processes must be adequately supported with pertinent source documents.

The DFAS Indianapolis Center Internal Control Structure

System Documentation. Inspector General, DoD, Report No. 97-079, "Documentation of the Federal Financial System Process at the Defense Finance and Accounting Service Indianapolis Center," January 24, 1997, states that the DFAS Indianapolis Center erroneously omitted certain financial information for the National Guard and Reserve equipment expenses when preparing the FY 1995 trial balance for the National Guard and Reserve equipment appropriation. As a result, expenses on the FY 1995 trial balance were understated and on the FY 1996 financial statements, equity will be overstated by $70.1 million. This problem occurred because the DFAS Indianapolis Center did not follow KAR 10, "System Documentation." Consequently, the DFAS Indianapolis Center did not have documented procedures for checking the completeness of the financial data extracted from the DFAS Indianapolis Center micro-based system developed specifically for Department 97 general fund appropriations.

The DFAS Indianapolis Center uses the a micro-based system to receive, adjust, and consolidate the monthly general ledger trial balances submitted by fiscal stations for Department 97 general fund appropriations. However, the DFAS Indianapolis Center had not prepared the required narrative description of that system to demonstrate to system users, auditors, and evaluators the system's conceptual processes and procedures. Also, the DFAS Indianapolis Center did not document descriptions of system interfaces with other financial systems, internal controls and safeguards, and the process for consolidating the general ledger trial balances reported by fiscal stations for Department 97 appropriations on the financial statements. Implementation of the recommendations in Report

No. 97-079 will correct the internal control problems associated with the lack of documented processes related to Department 97 data reception, adjustment, and consolidation.

Fund Balance With Treasury Account Reconciliation Process. The DFAS Indianapolis Center had not developed an adequate process for reconciling the differences for the Department 97 expenditure data to the Department 97 budget data and subsequently to the Department of the Treasury Government On-Line Accounting Link System data. As a result, the financial reports prepared by the DFAS Indianapolis Center do not contain a reliable amount for the Fund Balance With Treasury account.

As of October 1, 1996, the differences between the Department 97 accounting records and the Department of the Treasury records for the Fund Balance With Treasury account was $19 billion. However, the DFAS Indianapolis Center personnel had not performed the reconciliation as required by the Statement of Federal Financial Accounting Standards No. 1, "Accounting for Selected Assets and Liabilities," March 30, 1993. Statement No. 1 requires Federal entities to explain any discrepancies between the Fund Balance with Treasury amount in their general ledger accounts and the balances in the Department of the Treasury's accounts and to explain the causes of the discrepancies in the footnotes to the financial statements. Also, discrepancies due to time lag should be reconciled, and discrepancies due to errors should be corrected when financial reports are prepared.

The DFAS Indianapolis Center had not reconciled the above differences to determine the cause of the differences and to take appropriate corrective actions because the DFAS Indianapolis Center did not have adequate accounting information needed to identify the in-float disbursements, collections, and accounting and payment errors to each Defense organization. In the absence of adequate accounting information, the DFAS Indianapolis Center considered the differences as undistributed disbursements. Accordingly, the differences would be resolved when the Defense organizations recorded all the in-float disbursements and collections in their accounting records. As of October 1, 1996, the DFAS Indianapolis Center's reconciliation research was limited to the periods of 1987 through 1988, 1989 through 1990, and the merge (M) year, because those periods have a negative balance.

Process for Considering Interim Audit or Adjustments to Financial Statement Footnotes. In June 1996, the DFAS Indianapolis Center provided a detailed schedule for the FY 1996 Chief Financial Officers reporting actions to the DoD audit community and for subsequent reviews of preliminary financial statements by the DFAS Headquarters and the Office of the Under Secretary of Defense (Comptroller), Deputy Chief Financial Officer. According to the schedule, the DFAS Indianapolis Center would provide the second version of the FY 1996 Chief Financial Officers reports to auditors for review by December 23, 1996, and requested that the auditors provide recommended adjustments to the DFAS Indianapolis Center by January 15, 1997, for DFAS consideration. However, the DFAS Indianapolis Center was unable to complete the details to the footnotes due to difficulties that the DFAS Indianapolis Center had with completing adjustments to the consolidated "Other Defense Organizations" principal statements.

On January 21, 1997, the DFAS Indianapolis Center provided the auditors with the details to footnote 1, "Summary of Significant Accounting Policies." On January 22, 1997, we submitted our recommended adjustments to footnote 1 to make the footnote more clear and complete.

When the DFAS Indianapolis Center completed its final set of footnotes to the principal statements, the footnotes did not contain the auditor-recommended adjustments. The DFAS Indianapolis Center did not discuss the recommended adjustments with the auditors. We believe that the DFAS Indianapolis Center should establish formal procedures for reviewing auditor-recommended adjustments with the auditors and for documenting the review process used and the decisions made regarding the auditor-recommended adjustments.

Effects of Using the Data From Unreliable and Incomplete Accounting Systems

The accounting offices supporting the Defense organizations receiving Department 97 general fund appropriations generally provided unreliable financial information to the DFAS Indianapolis Center for use in the "Other Defense Organizations" financial statements. The source of the financial information generally was not from complete general ledger accounting controls systems. Accordingly, the DFAS Indianapolis Center could not rely on the financial information obtained from the accounting offices to prepare accurate financial statements required by the Chief Financial Officers Act. Until improvements in accounting systems and internal controls are made, accurate and reliable FYs 1997 and 1998 financial statements required by the Chief Financial Officer Act are unlikely.

Recommendations for Corrective Action

We recommend that the Director, Defense Finance and Accounting Service Indianapolis Center:

1. Maintain records for audit trails in accordance with Key Accounting Requirement 8, "Audit Trails," for all adjustments, and fully disclose in the footnote to the principal statements the lack of audit trails as a result of making summary adjustments to principal financial statements.

2. Develop and implement management control procedures specifically for the preparations of the "Other Defense Organizations" financial statements to:

a. Reconcile on a monthly basis the current year expenditure data to the budget data and to the Department of the Treasury data for the Fund Balance With Treasury account.

b. Determine the causes for the undistributed disbursements on a monthly basis.

3. Establish formal procedures for reviewing auditor-recommended adjustments with the auditors and for documenting the review process used and the decisions made regarding the auditor-recommended adjustments to the principal statements and to the footnotes to the principal statements.

Finding B. Compliance With Laws and Regulations

The DFAS Indianapolis Center and the accounting offices supporting the Defense organizations and funds receiving Department 97 appropriations were unable to fully comply with applicable laws and regulations. More specifically:

o the DFAS Indianapolis Center was unable to prepare completely audited financial statements for the "Other Defense Organizations" as required by the Chief Financial Officers Act; and

o the accounting organizations supporting the Department 97 Defense organizations were unable to provide reliable financial information as required by the Federal Managers' Financial Integrity Act.

The lack of compliance with laws and regulations was caused primarily by unreliable financial information generated from incomplete general ledger accounting control systems. As a result, the Defense organizations receiving Department 97 general funds were not in full compliance with the Chief Financial Officers Act and the Federal Managers' Financial Integrity Act.

Chief Financial Officers Act

Inspector General, DoD, Report No. 97-110, "Material Accounting and Management Control Weaknesses in the Defense Agencies' FYs 1995 and 1996 Financial Information," March 17, 1997, shows that the accounting offices supporting the "Other Defense Organizations" were unable to fully comply with the Chief Financial Officers Act of 1990 (Public Law 101-576). Public Law 101-576 established the requirements for Federal organizations to submit audited financial statements to the Director, Office of Management and Budget. The "Other Defense Organizations" financial statements contained unreliable financial information from inadequate financial accounting systems that were noncompliant with the KARs established in DoD 7000.14-R, "DoD Financial Management Regulation," volume 1, chapter 3, May 1993. The noncompliance related to the following 10 KARs:

o General Ledger Control and Financial Reporting (KAR 1),

o Property and Inventory Accounting (KAR 2),

o Accounting for Receivables Including Advances (KAR 3),

o Accrual Accounting (KAR 5),

- o System Controls (KAR 7),
- o Audit Trails (KAR 8),
- o Cash Procedures and Accounts Payable (KAR 9),
- o System Documentation (KAR 10),
- o System Operations (KAR 11), and
- o Use Information Needs (KAR 12).

Audits performed at the accounting offices supporting Department 97 organizations during FY 1996 showed a continued lack of complete general ledger control systems and internal controls.

o Inspector General, DoD, Report No.97-079, "Documentation of the Federal Financial System Process at the Defense Finance and Accounting Service Indianapolis Center," January 24, 1997, states that the DFAS Indianapolis Center process of receiving, adjusting, and consolidating the general ledger trial balances from fiscal stations is not documented as required by the DoD Financial Management Regulation.

o Inspector General, DoD, Report No. 97-017, "Consolidated FY 1995 Financial Report on Defense Organizations Receiving Department 97 Appropriations," October 31, 1996, states that the accounting organizations supporting 19 Defense organizations used data from sources other than a general ledger accounting control system to prepare their FY 1995 adjusted trial balances. Also, the DFAS Indianapolis Center did not have complete information on all FY 1995 Department 97 funds received by the Defense organizations. In addition, the DFAS Indianapolis Center had not established the management controls necessary to ensure that all Department 97 fund recipients provided complete financial information for the preparation of the consolidated Defense organizations' financial reports.

o Inspector General, DoD, Report No. 96-212, "Capitalization of DoD General Property, Plant, and Equipment," August 19, 1996, states that in accounting for assets, the DoD Components capitalized and retained in the financial record low-cost items that were below the current capitalization threshold.

Until these problems are resolved, the accounting offices supporting the "Other Defense Organizations" and the DFAS Indianapolis Center will not be able to produce reliable financial statements that conform to the Chief Financial Officers Act requirements.

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act of 1982 requires that the head of each executive agency provide an annual statement of assurance to the President and the Congress, stating whether the goals of the Act are being met. In FY 1996, DoD and DFAS reported internal control weaknesses involving noncompliance with prescribed accounting principles, standards, and related requirements. The specific weaknesses most directly related to the "Other Defense Organizations" financial statements are discussed below.

DoD FY 1996 Annual Statement of Assurance. The DoD FY 1996 Annual Statement of Assurance included two material weaknesses that directly affected the accuracy and reliability of the "Other Defense Organizations" principal statements.

Inadequate Financial Accounting Process and System. In identifying the financial accounting process and system weakness, DoD recognizes that DoD accounting systems are not in compliance with generally accepted Government accounting standards or with internal control objectives. As a result, the quality of financial information is frequently not reliable and the compilation of accurate financial statements is impeded, in part, by the lack of adequate financial information. This weakness was identified during FY 1991 by the DoD financial manager; General Accounting Office reports; Inspector General, DoD, reports; and DoD Component audit organization reports. The FY 1996 statement establishes October 1, 2001, as the beginning of the first complete fiscal year under the new system architecture that may produce auditable financial statements

Unreliable Financial Reporting of Personal and Real Property. Recent audits identified unreliable financial balances for real and personal property. As a result, the DoD cannot adequately account for real and personal property and provide assurance for the adequacy of controls as required by the Federal Managers' Financial Integrity Act, which requires that property and other assets be safeguarded against waste, loss, misuse, or misappropriation. This weakness was identified during FY 1991 by the DoD financial manager, and since 1991, General Accounting Office reports; Inspector General, DoD, reports; and DoD Component audit organizations have also reported material weaknesses. In identifying the weakness in financial reporting of personal and real property, DoD recognizes that general ledger control over property is inadequate. The initial target date for DoD-wide implementation of the DoD Property Accountability System was September 1997. However, Military Department implementation has slipped until September 2000 because the use of multiple migratory accounting systems caused the need for developing more interfaces than initially anticipated. The DoD FY 1996 Annual Statement of Assurance still establishes September 1997 as the completion date for the DoD Property Accountability System at the Defense agencies.

DFAS FY 1996 Annual Statement of Assurance. The FY 1996 DFAS Annual Statement of Assurance reported 46 uncorrected material weaknesses. Of the 46 weaknesses, 12 have a direct effect on the accounting data used by the

DFAS Indianapolis Center to prepare the "Other Defense Organizations" and the DoD consolidated principal financial statements. The 12 weaknesses are:

o a lack of interface between contract payment systems and accounting systems,

o inadequate general ledger control and unreliable financial reporting,

o unreliable financial reporting of personal and real property,

o undistributed and unmatched cross-disbursing and interfund transactions,

o lack of merged accountability and fund reporting reconciliations,

o inadequate tracking of closed account obligations,

o either untimely or nonexistent required reconciliation and analysis procedures,

o inadequate property and inventory accounting,

o lack of adequate control over property management,

o lack of general ledger control and reconciliation,

o incomplete trial balance reporting for Defense agencies, and

o continuation of problems disbursements.

Conclusion

The FY 1996 financial information produced and reported for the "Other Defense Organizations" is not in full compliance with regulatory and statutory requirements and, therefore, is of limited use for the FY 1996 principal statements. Accordingly, the financial information could not be used to generate auditable financial statements. We make no recommendations in this report because the material accounting system and management control weaknesses were previously identified in our prior audit reports or were disclosed in the DoD and the DFAS Annual Statements of Assurance. Recommendations in our prior audit reports and in Finding A of this report, if implemented, will result in improved financial accounting processes and systems and compliance with applicable laws and regulations.

Part II - Additional Information

Appendix A. Audit Process

Scope and Methodology

We reviewed the FY 1996 "Other Defense Organizations" financial statements provided to us as of January 9, 1997. The DFAS Indianapolis Center consolidated 682 adjusted trial balances that 23 supporting accounting offices submitted on behalf of 35 Defense organizations and funds. The 35 Defense organizations were appropriated $39 billion in FY 1996, and the financial statements showed total assets of $47 billion. We reviewed the supporting documentation for the adjustments that the DFAS Indianapolis Center made to the individual trial balances and to the consolidated financial statements. Our audit concentrated on the internal controls applicable to the financial statements and adjustments provided to us from January 9, through February 27, 1997. We also reviewed the DoD and the DFAS FY 1996 Annual Statement of Assurance and prior audit reports.

Use of Computer-Processed Data. We used computer-processed data without confirming the reliability of the data because the accounting systems in DoD that support the "Other Defense Organizations" financial statements have serious limitations. The lack of reliable financial information is described as a material management control deficiency in the DoD Annual Statement of Assurance. The lack of reliable financial information was further confirmed in Finding A of this report. The lack of reliable information did not adversely affect our analysis.

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

Audit Period and Standards. We performed this financial-related audit from January 3, 1997, through March 5, 1997, in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls considered necessary.

Management Control Program

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

Scope of Review of the Management Control Program. We reviewed the adequacy of the DFAS Indianapolis Center management control program over receiving, compiling, adjusting, and reporting of the FY 1996 "Other Defense Organizations' principal statements. We relied on the work performed during previous audits to assess the adequacy of the management control programs applicable to the quality of the financial information supplied to the DFAS Indianapolis Center for compilation into the consolidated "Other Defense Organizations" principal statements.

Adequacy of Management Controls. We identified material management control weaknesses, as defined by DoD Directive 5010.38, at the DFAS Indianapolis Center. The DFAS Indianapolis Center management controls for departmental financial reporting were not adequate to ensure that all adjustments to the FY 1996 "Other Defense organizations" principal statements were sufficiently researched, supported, reconciled, and documented. Also, management controls did not ensure that adjustments were properly disclosed and explained in the footnotes to the principal statements. The recommendations, if implemented, will correct the deficiencies. A copy of this report will be provided to the senior DFAS official responsible for management controls.

Adequacy of Managements' Self-Evaluation. Management's self-evaluation did not detect and report the management control weaknesses identified in this report because the DFAS Indianapolis Center did not assess the reconciling and adjusting of the Defense organizations' adjusted trial balances as part of the DFAS Indianapolis Center management control program.

Appendix B. Summary of Prior Audits and Other Reviews

The Office of the Inspector General, DoD, issued 20 reports in FYs 1995 through 1997 that relate to accounting controls applicable to the preparation of financial statements as part of the Chief Financial Officers Act of 1990.

Inspector General, DoD, Report No. 97-110, "Material Accounting and Management Control Weaknesses in the Defense Agencies' FYs 1995 and 1996 Financial Information," March 17, 1997. The report summarized accounting system and internal control weaknesses identified during audits of Defense agencies' FYs 1995 and 1996 financial data. The report states that the Defense agencies' FYs 1995 and 1996 accounting system weaknesses were primarily related to four key accounting requirements:

- o general ledger control and financial reporting;
- o property and inventory accounting;
- o system controls (fund and internal); and
- o accrual accounting.

The audits also identified Defense agency accounting system weaknesses in six additional key accounting requirements: accounting for receivables, including advances; audit trails; cash procedures and accounts payable; system documentation; system operations; and user information needs. Consequently, general ledger account data were not reliable and may adversely affect the accuracy and reliability of Defense agency financial statements.

The Defense agencies took aggressive actions to correct certain FY 1994 material accounting system and management control weaknesses. However, actions to correct other weaknesses were in process, not started, or may not be completed until FY 1998 at the earliest. The DoD management improvement initiatives will significantly improve the accuracy and integrity of financial and related information. However, several initiatives need to be tested and implemented to fully measure their success. The report contains no recommendations.

Inspector General, DoD, Report No. 97-140, "Financial Management at the American Forces Information Service," May 7, 1997. The report states that the adjusted trial balance for the American Forces Information Service did not comply with prescribed DoD accounting standards. Also, the accounting offices and the Armed Forces Information Service did not maintain audit trails. Further, the report states that the Armed Forces Radio and Television Service Broadcast Center did not account for and properly report funds disbursements and account payable. As a result, the Armed Forces Information Service FY 1995 trial balance information was not fully supported and financial data cannot be depended on to produce reliable financial statements required by the Chief

Financial Officers Act. The report recommended that the Directors, Defense Finance and Accounting Service Indianapolis Center, Rome Operating Location, and Seaside Operating Location, and Armed Forces Information Service, maintain records for audit trails in accordance with DoD Key Accounting Requirement 8, "Audit Trails." The Director, Armed Forces Information Service, initiated action to obtain yearend and monthly trial balances. As of June 9, 1997, the Director, Defense Finance and Accounting Service Indianapolis Center, Rome Operating Location and Seaside Operating Location, had not commented on the audit report.

Inspector General, DoD, Report No. 97-082, "Property Accountability for the Department of Defense Education Activity," January 28, 1997. The report states that the DoD Dependents Schools-Europe control over accountable property was inadequate and that the related property records were not reliable. As a result, about $28.7 million of $110.7 million of accountable property was either not located or improperly accounted for at the DoD Dependents Schools-European Service Center and the DoD Dependents Schools-European schools.

The report recommends that the DoD Education Activity establish a plan for managing property acquisitions and equitable property distributions. The DoD Education Activity initiated a program to manage property acquisitions and to equitably distribute equipment acquisitions.

Inspector General, DoD, Report No. 97-079, "Documentation of the Federal Financial System Process at the Defense Finance and Accounting Service Indianapolis Center," January 24, 1997. The report states that the DFAS Indianapolis Center process of receiving, adjusting, and consolidating the general ledger trial balances from fiscal stations is not documented as required by the DoD Financial Management Regulation. As a result, general ledger account balances cannot be readily and may not be effectively tested to ensure reliability of the general ledger trial balances reported for Department 97 appropriations. The report recommended that the DFAS Indianapolis Center document the process for receiving, adjusting, and consolidating the general ledger trial balances received from fiscal stations. The Director, DFAS Indianapolis Center agreed to document the process of receiving, adjusting, and consolidating the general adjusted trial balances received to formulate the "Other Defense Organizations" financial statements.

Inspector General, DoD, Report No. 97-059, "Financial Management for the Office of the Civilian Health and Medical Program of the Uniformed Services," December 27, 1996. The report states that the OCHAMPUS did not properly process accounting transactions, establish and use subsidiary ledgers, make closing entries, and prepare financial reports and statements according to DoD financial regulations. As a result, the OCHAMPUS monthly trial balances contained inaccurate and unreliable financial information. The report recommended that OCHAMPUS, establish general ledger and financial statement training, and document accounting policies and procedures. The report also recommended that the OCHAMPUS initiate additional accounting and control procedures, adjust accounting records, and establish and maintain subsidiary ledgers. The Office of the Assistant Secretary of Defense (Health Affairs) concurred with the recommendations.

Inspector General, DoD, Report No. 97-047, "Consolidated Financial Report on the National Guard and Reserve Equipment Appropriation for the Army National Guard," December 13, 1996. The report states that the Army National Guard FY 1995 general ledger included duplicate reporting of military equipment, misstated liabilities, and used budgetary accounts incorrectly. In addition, the Army National Guard did not record accounts payable upon evidence of equipment receipt. As a result, the FY 1995 general ledger account for military equipment was overstated by $427.1 million, accounts payable was overstated by a total of $5.1 million, and allotments received were misclassified as Anticipated Earned Authority-Defense Business Operations Fund. The report recommended that the Army National Guard make appropriate adjusting accounting entries and establish management controls for recording and reporting financial information for the National Guard and Reserve Equipment Appropriation. The Army National Guard agreed to make the suggested accounting entries and to establish management controls for recording and reporting financial information.

Inspector General, DoD, Report No. 97-045, "Financial Accounting at the Defense Intelligence Agency," December 12, 1996. The report states that DIA FY 1996 accounting records did not contain accurate financial information. The accounting records were inaccurate because the DIA did not include up to $222.5 million in disbursements by others; did not comply with DoD capitalization thresholds; incorrectly accounted for income and receivables prior to completion of reimbursable work orders; did not properly accrue liabilities and expenses; and did not verify the validity of travel advances. As a result, the DIA financial information reported to the DFAS Indianapolis Center was not reliable. The report recommended that DIA establish controls and standard operating procedures to correct accounting weaknesses. The DIA generally concurred with the recommendations and stated that corrective actions have been or would be implemented.

Inspector General, DoD, Report No. 97-044, "Army National Guard Military Equipment," December 11, 1996. The report states that the Army National Guard's FY 1995 general ledger military account, Equipment in Use, included the cost of equipment with a unit cost that did not meet the DoD capitalization threshold. Also, the Army National Guard misstated military equipment in transit as equipment in use. As a result, the Army National Guard FY 1995 general ledger account, Equipment in Use, was overstated by $10.3 billion, and Equipment in Transit was understated by $1.2 billion. The report recommends that the Army National Guard record and report the value of military equipment using established capitalization thresholds, make adjusting entries, and document accounting procedures for recording and reporting military equipment transactions. The National Guard Bureau concurred with the recommendations.

Inspector General, DoD, Report No. 97-039, "Defense Logistics Agency General Fund Equipment Account," December 5, 1996. The report states that the DFAS Columbus Center erroneously included Defense Business Operations Fund equipment balances on the FY 1995 Defense Logistics Agency General Fund trial balance. Consequently, the FY 1995 yearend balance of $411 million of the Defense Logistics Agency General Fund Equipment account was materially misstated. The report recommended that the DFAS Columbus Center adjust the Defense Logistics Agency General Fund Equipment account balance to delete the Defense Business Operations Fund equipment accounts. The report also states that the DFAS Columbus Center and Defense Logistics Agency did not periodically compare the Defense Logistics Agency General Fund Equipment account with custodial records. Consequently, the Defense Logistics Agency General Fund Equipment account balance was not reliable, was not auditable, and may be overstated by at least $85.2 million. The report recommended that the DFAS Columbus Center provide equipment account balances to General Fund organizations as the Defense Property Accounting System is implemented. The Defense Logistics Agency and the DFAS Columbus Center agreed to take corrective action on the recommendation.

Inspector General, DoD, Report No. 97-025, "Consolidated Financial Report on the National Guard and Reserve Equipment Appropriations for the Army Reserve," November 19, 1996. The report states that the DFAS Indianapolis Center omitted expense information in preparing the FY 1995 Army Reserve trail balance for the National Guard and Reserve Equipment Appropriation. As a result, expenses on the FY 1995 trial balance were understated, and on the FY 1996 financial statements, equity will be overstated by $70.1 million. The report recommended that the DFAS Indianapolis Center improve its procedures for extracting Army Reserve financial information and establish management controls to verify the completeness of financial information used to prepare financial statements and adjust the FY 1996 Army Reserve trial balance accordingly. Also, the report recommended that the DFAS Indianapolis Center adjust the Appropriated Capital account balance by $70.1 million for the FY 1996 National Guard and Reserve Equipment Appropriation. The DFAS Indianapolis Center agreed and initiated corrective action.

Inspector General, DoD, Report No. 97-020, "Capitalization of Defense Technology Security Administration Equipment," November 4, 1996. The report states that the Defense Technology Security Administration FY 1995 general ledger military equipment account, Equipment in Use, included the cost of equipment and software with a unit cost that did not meet the DoD capitalization threshold and included contract services that were not part of the acquisition costs of equipment. As a result, the Defense Technology Security Administration overstated general ledger asset accounts and general ledger equity accounts by $1.6 million in FY 1995. The report recommended that the Washington Headquarters Services reestablish controls in the Washington Headquarters Services Allotment Accounting System and revise operating procedures to correctly report the amount of the Defense Technology Security Administration capitalized equipment. The Washington Headquarters Services agreed with the recommendations and has initiated corrective actions.

Inspector General, DoD, Report No. 97-024, "General Fund Trial Balance of the Defense Logistics Agency at September 30, 1995," November 15, 1995. The report states that the DFAS Columbus Center had not identified and corrected imbalances, totaling $543 million, between the general and supporting subsidiary ledgers, and imbalances, totaling $894 million, between equivalent proprietary and budgetary general ledger accounts. In addition, the DFAS

Columbus Center accounting system did not provide an audit trail to identify and correct the imbalances. Consequently, the Defense Logistics Agency trial balance was unreliable and unauditable, and there was no assurance that the resultant Defense Logistics Agency financial statements were accurate. The report recommended that the DFAS Columbus Center accelerate implementation of accounting system changes needed to readily identify and correct account imbalances, provide the needed audit trail to correct identified imbalances, and reconcile accounts so that the Defense Logistics Agency FY 1996 financial statements can be reliable. The DFAS Columbus Center stated that it is committed to identifying and correcting the cause of the imbalance.

Inspector General, DoD, Report No. 97-017, "Consolidated FY 1995 Financial Report on Defense Organizations Receiving Department 97 Appropriations," October 31, 1996. The report states that the accounting organizations supporting 19 Defense organizations used data from sources other than a general ledger accounting control system to prepare their FY 1995 adjusted trial balances. Also, the DFAS Indianapolis Center did not have complete information on all FY 1995 Department 97 funds received by the Defense organizations. In addition, the DFAS Indianapolis Center had not established the management controls necessary to ensure that all Department 97 fund recipients provided complete financial information for the preparation of the consolidated Defense organization financial reports. As a result, $19 billion of FY 1995 Department 97 funding was not controlled through a general ledger accounting control system and about $820 million of the FY 1995 funding was omitted from the Defense organizations' FY 1995 adjusted trial balance submissions to the DFAS Indianapolis Center. Further, more than 50 percent of the FY 1996 Department 97 appropriation will not be controlled by a general ledger accounting control system. The report recommended that the Director, DFAS Indianapolis Center, establish procedures and management controls for ensuring that all Department 97 fund recipients provide financial reports in compliance with the Federal Agencies' Centralized Trial-Balance System and the Federal Financial Management Act requirements. The Director, DFAS Indianapolis Center, concurred with the recommendations and agreed to establish the necessary management controls to ensure that all fund recipients submit adjusted trial balances.

Inspector General, DoD, Report No. 96-213, "Financial Accounting at the National Security Agency," August 20, 1996. The report states that the financial accounting system used by NSA was capable, if modified, of producing information necessary for financial statements required by the Chief Financial Officers Act. However, NSA must correct deficiencies in the accounting system and establish effective management controls for producing accurate financial statements for inclusion in the DoD consolidated statements. The report states that NSA had not programmed the accounting system to produce information necessary for developing accurate financial statements and that recorded balances of equipment, real property, and inventory were incorrect, misstated, or not supported. As a result, the general ledger and supporting information could not be relied on for information necessary to produce accurate financial statements required by the Chief Financial Officers

Act. The report recommended that NSA reprogram its accounting system to produce required information for financial statements. The NSA fully concurred with the recommendations.

Inspector General, DoD, Report No. 96-212, "Capitalization of DoD General Property, Plant, and Equipment," August 19, 1996. The report states that in accounting for assets, the DoD Components capitalized and retained in the financial records low-cost items that were below the current capitalization threshold. Therefore, the $9.6 billion value of equipment reported in the Military Equipment account for FY 1995 is of limited utility for financial management purpose. The report recommended that the Chief Financial Officer direct the DoD Components to apply one capitalization threshold to general property, plant, and equipment accounts and to adjust financial records accordingly. The Chief Financial Officer generally concurred with the report recommendation and is evaluating actions to change the DoD capitalization threshold.

Inspector General, DoD, Report No. 96-181, "Management Control Environment for the Department of Defense Education Activity," June 28, 1996. The report states that the DoD Education Activity did not have a general ledger accounting system because the DoD Education Activity did not adequately plan for the development of a general ledger accounting system and did not place a high priority on correcting previously identified accounting system deficiencies. As a result, the DoD Education Activity was unable to provide the information necessary to produce auditable and accurate financial statements required by the Chief Financial Officers Act. The DoD Education Activity has initiated action to establish a general ledger accounting system.

Inspector General, DoD, Report No. 96-161, "Compilation of FY 1995 and FY 1996 DoD Financial Statements at the Defense Finance and Accounting Service, Indianapolis Center," June 13, 1996. The report states that the DFAS Indianapolis Center consistently and accurately compiled financial data from field entities and other sources into the FY 1995 consolidated financial statements for the Army General Fund. The efficiency of and internal control environment for the compilation processes significantly improved since FY 1993 (the last time the compilation process was reported on). However, improvements in the compilation process were still needed. The DFAS Indianapolis Center could have better explained in footnotes that variances of up to $6 billion in financial statement line items from year to year occurred, because FY 1995 financial data were not comparable to FY 1994 financial data. Also, controls over making 15 auditor-recommended adjustments for about $19.5 billion and over preparing 165 accounting adjustment vouchers needed improvement.

The report recommends that the Director, DFAS Indianapolis Center, improve internal controls over the processes used to compile the Chief Financial Officers Act financial statements. The Director, DFAS, concurred with the audit recommendations.

Inspector General, DoD, Report No. 96-159, "Quick-Reaction Report on Potential Antideficiency Act Violations at the Department of Defense Education Activity," June 13, 1996. The report states that the DoD Education Activity inappropriately used $4.1 million and potentially some or all of another $24.9 million of Operation and Maintenance funds, rather than Procurement funds, to purchase capital equipment and software. As a result, Antideficiency Act violations may have occurred. Also, the DoD Education Activity obligated and disbursed foreign currency fluctuation funds in excess of funds allocated, resulting in a potential Antideficiency Act violation. The Office of Under Secretary of Defense (Comptroller) agreed to investigate the potential Antideficiency Act violation related to foreign currency fluctuation funds and to form a task group to develop additional guidance on defining computer systems.

Inspector General, DoD, Report No. 95-301, "Major Deficiencies Preventing Auditors From Rendering Audit Opinions on DoD General Fund Financial Statements," August 29, 1995. The report identifies four major deficiencies that prevented auditors from rendering audit opinions on Army and Air Force general fund financial statements. The four deficiencies were that adequate accounting systems were not in place, assets were not adequately reported or properly valued, disbursements and collections were not adequately accounted for, and contingent liabilities were not recognized or adequately disclosed. The report contains no recommendations because applicable recommendations were made in other reports.

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
Director, Washington Headquarters Services
  Director for Budget and Finance, Washington Headquarters Services

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Unified Command

Commander in Chief, U.S. Special Operations Command

Other Defense Organizations

Director, American Forces Information Service
Director, Ballistic Missile Defense Organization
President, Defense Acquisition University
Director, Defense Advanced Research Projects Agency
Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
  Director, Defense Finance and Accounting Service Indianapolis Center

Other Defense Organizations (cont'd)

Director, Defense Health Program
Director, Defense Information Systems Agency
Director, Defense Intelligence Agency
  Inspector General, Defense Intelligence Agency
Director, Defense Investigative Service
Director, Defense Legal Services Agency
Director, Defense Logistics Agency
Director, Defense Medical Program Activity
Director, Defense Prisoner of War/Missing in Action Office
Director, Defense Special Weapons Agency
Director, Defense Technology Security Agency
Director, Department of Defense Education Activity
Director, Federal Energy Management Program
Director, National Security Agency
  Inspector General, National Security Agency
Director, Office of Civilian Health and Medical Program of the Uniformed Services
Director, Office of Economic Adjustment
Director, On-Site Inspection Agency

Non-Defense Federal Organizations and Individuals

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

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

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

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