

Audit



Report

TRENDS AND PROGRESS IN REDUCING PROBLEM
DISBURSEMENTS AND IN-TRANSIT DISTRIBUTION

Report No. 99-135

April 16, 1999

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Acronyms

DFAS	Defense Finance and Accounting Service
FMS	Foreign Military Sales
GAO	General Accounting Office
MOCAS	Mechanization of Contract Administration Services
NULO	Negative Unliquidated Obligation
UMD	Unmatched Disbursement
USD(C)	Under Secretary of Defense (Comptroller)



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April 16, 1999

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT AND COMPTROLLER)
ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on Trends and Progress in Reducing Problem Disbursements
and In-Transit Disbursements (Report No. 99-135)

We are providing this report for review and comment. The Under Secretary of Defense (Comptroller) provided an interim response to a draft of this report on behalf of his office and the Defense Finance and Accounting Service.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Under Secretary of Defense (Comptroller) comments were partially responsive to Recommendation A.1. Therefore, we request that the Under Secretary of Defense (Comptroller) provide additional comments to Recommendation A.1. The Director, Defense Finance and Accounting Service, did not separately comment on the draft report and is requested to provide comments to Recommendations A.2. and B. We request that management provide the comments by May 28, 1999.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Richard B. Bird at (703) 604-9175 (DSN 664-9175) (rbird@dodig.osd.mil) or Mr. Carmelo G. Ventimiglia at (317) 510-3852 (DSN 699-3852) (cventimiglia@dodig.osd.mil). See Appendix F for the report distribution. Audit team members are listed inside the back cover.

A handwritten signature in black ink that reads "Robert J. Lieberman".

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 99-135
(Project No. 8FI-2019)

April 16, 1999

Trends and Progress in Reducing Problem Disbursements and In-Transit Disbursements

Executive Summary

Introduction. To maintain proper fiscal control and have reliable information on amounts available for obligation and expenditure, DoD needs to be able to match disbursements reported to the U.S. Treasury with obligations shown in DoD accounting records. Because the disbursing and accounting functions are performed by separate activities that are not linked in fully integrated systems and often are not collocated, disbursement data must “transit” to the accountable stations. Excessive delays and errors can occur in recording the disbursements in the accounting systems. The Defense Finance and Accounting Service (DFAS) uses the term “aged in-transit disbursements” to denote excessive delays. If attempts to match disbursement and obligation data fail, the term “problem disbursements” is used. The DoD has been working to reduce aged in-transit and problem disbursements for several years. DFAS reported a decrease in aged in-transit disbursements from \$16.9 billion in June 1993 to \$9.6 billion in June 1998. DFAS also reported a reduction in problem disbursements from \$34.3 billion in June 1993 to \$11.1 billion in June 1998. Appendix C defines the technical terms used in this report.

Audit Objectives. Our primary audit objective was to evaluate trends and progress in reducing problem disbursements and in-transit disbursements. We also determined how compliance with accounting policies and procedures for researching and correcting problem disbursements affect the reported progress. We did not review the management control program related to the overall audit objective because DFAS has reported the lack of an effective interface between payment systems and accounting systems as a material weakness since FY 1990.

Audit Results. DoD reported progress in reducing the dollar values of disbursements that had not been matched with corresponding obligations in accounting records. Between June 30, 1996, and June 30, 1998, DFAS reported that problem disbursements decreased by \$1.9 billion, from \$13 billion to \$11.1 billion. Aged in-transit disbursements decreased by \$13.3 billion, from \$22.9 billion to \$9.6 billion between June 30, 1997, and June 30, 1998. The Navy, the Air Force, and the Marine Corps reported progress in reducing delays in properly matching disbursements to corresponding obligations. However, no progress was made in reducing aged in-transit disbursements and problem disbursements for the Army and some Defense agencies. For those entities, aged in-transit disbursements increased \$0.6 billion between June 1997 and June 1998, and problem disbursements increased \$2.2 billion between June 1996 and June 1998. Because DoD continued to have at least \$20.7 billion in disbursements that were not properly recorded in accounting records, financial

statements showing the status of budgetary resources were unauditible and may have been materially misstated. Risk of over disbursement and Antideficiency Act violations remains unacceptably high (Finding A).

Problems in reporting accurate and consistent data also contributed to difficulties in monitoring progress in reducing aged in-transit disbursements and problem disbursements (Finding B).

Summary of Recommendations. We recommend that the Under Secretary of Defense (Comptroller) (USD[C]) enforce the DoD policy to cover overaged problem disbursements by administrative obligations, if the overaged problem disbursements are not covered by pending adjustments. We also recommend that the USD(C) coordinate with the DoD Components and DFAS to prioritize and implement effective solutions for eliminating existing problem disbursements and preventing the creation of new problem disbursements. We recommend that the Director, DFAS, promptly post all supported adjustments needed to correct problem disbursements and report as pending adjustments only those adjustments that plan to be posted to the accounting records within 30 days. We also recommend that the Director, DFAS, strengthen quality control procedures over the collection, compilation, and reporting of problem disbursements; report and track progress in correcting all disbursements not properly accounted for in official accounting records; and disclose the impact in monthly reports of changes in computing the dollar values of aged in-transit disbursements and problem disbursements.

Management Comments. The USD(C) did not agree with the initial recommendation to ensure DoD Components follow existing policy by withholding or withdrawing funds when a DoD Component fails to record obligations to cover overaged problem disbursements. He also noted withholding or withdrawal of funds could result in an unintended Antideficiency Act violation. However, he agreed that identifying obstacles to establishing obligations for problem disbursements was a realistic approach for developing short-term solutions. Although not required to comment, the Assistant Secretary of the Army (Financial Management and Comptroller) stated that diverting funds from on-going Army programs to comply with the DoD policy would decrease readiness and reduce modernization efforts, and that a better solution would be to fix processes and systems. A discussion of the management comments is in the Finding section of the report and the complete text of the comments is in the Management Comments section.

Audit Response. Improving systems is the long-term solution for eliminating problem disbursements. Until then, existing processes must be improved and effective solutions implemented. We disagree that the withholding or withdrawal of funds could result in an unintended Antideficiency Act violation, since it is obvious that only unobligated funds could be reprogrammed for that purpose. We modified the wording of the recommendation, but still believe that the policy should be applied uniformly across the Department. If it is not complied with, we also believe that a senior official should explicitly take responsibility for any Antideficiency Act violations. We request that the USD(C) reconsider his comments and both he and the Director, Defense Finance and Accounting Service, provide comments on the final report by May 28, 1999.

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Background

Problem disbursements increase the risk of making fraudulent or erroneous payments without detection and increase the possibility that cumulative amounts of disbursements will exceed appropriated amounts and other legal spending limits. Problem disbursements affect reports prepared to monitor the obligation and expenditure of budgetary resources and decrease the reliability of DoD financial statements. To track progress in reducing disbursements reported to the U.S. Treasury that had not been matched with the original obligations in the official accounting records, DoD initially reported problem disbursements as in-transit disbursements, unmatched disbursements (UMD), and negative unliquidated obligations (NULO).¹ Appendix C defines the technical terms used in this report.

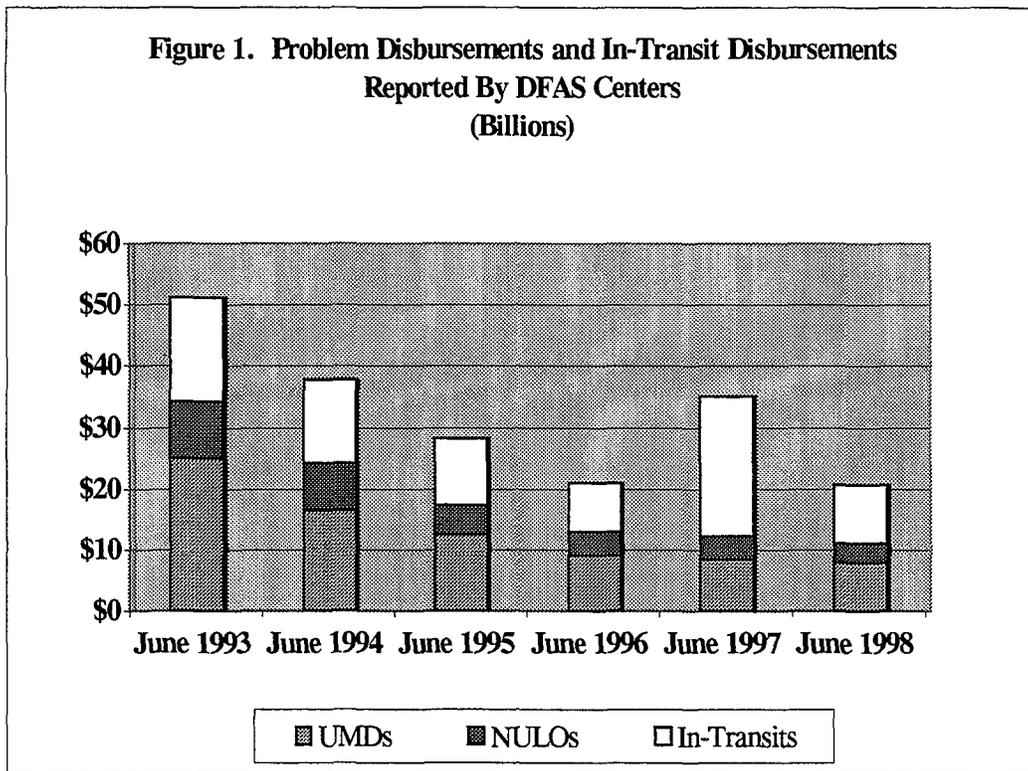
Policy Guidance. On March 31, 1994, the Under Secretary of Defense (Comptroller) (USD[C]) began issuing policies and procedures aimed at eliminating the creation of new problem disbursements and researching and correcting existing problem disbursements. On June 30, 1995, the USD(C) expanded and clarified accounting policies and procedures for researching and correcting in-transit disbursements, UMDs, and NULOs. Defense Finance and Accounting Service (DFAS) personnel and the fund holders in the DoD Components were assigned joint responsibility for researching and correcting problem disbursements. The policies and procedures applied to all types of funds and provided a controlled process for resolving the large number of disbursements not properly matched to the original obligations. Fund holders were to administratively set aside obligations to cover all problem disbursements that were not properly matched to the original obligations within 180 days (commonly referred to as overaged problem disbursements) unless correcting adjustments were pending. Establishing administrative obligations ensures that funds are set aside in the event that research shows the problem disbursements to be correct and the original obligations are either not recorded or inaccurately recorded in accounting records. However, establishing administrative obligations does not correct a problem disbursement. To avoid the need to set aside additional funds that may already exist in accounting records, fund holders need to research and correct problem disbursements. Criteria were established to allow approvals of requests to discontinue unsuccessful research efforts. In December 1996, the USD(C) discontinued the practice of including in-transit disbursements as problem disbursements. DoD Regulation 7000.14-R, the “DoD Financial Management Regulation,” volume 3, “Budget Execution-Availability and Use of Budgetary Resources,” December 1996, incorporated these policies and procedures.

Reported Information. The five DFAS Centers (DFAS Cleveland Center, Cleveland, Ohio; DFAS Columbus Center, Columbus, Ohio; DFAS Denver Center, Denver, Colorado; DFAS Indianapolis Center, Indianapolis, Indiana; and DFAS Kansas City Center, Kansas City, Missouri) collected information monthly on in-transit disbursements, UMDs, and NULOs. DFAS headquarters

¹The terms “in-transit disbursements” and “unmatched disbursements” also refer to collections that have not been properly posted in accounting records.

personnel used the information from the DFAS Centers to report the dollar values of aged in-transit disbursements and problem disbursements to the USD(C). The reports were used to monitor progress in reducing aged in-transit disbursements and problem disbursements. Periodically, the data from the reports were used to inform Congress of the extent of DoD problems with disbursements. DFAS began reporting this information in June 1993. Between June 1993 and June 1998, the total dollar value of aged in-transit disbursements, UMDs, and NULOs was reduced from \$51.2 billion to \$20.7 billion.² About \$4.1 billion of the reduction was realized when the Navy suspended research in FY 1996 on certain in-transit disbursements, UMDs, and NULOs. The USD(C) suspended, on a one-time basis, the requirement to research certain old transactions.

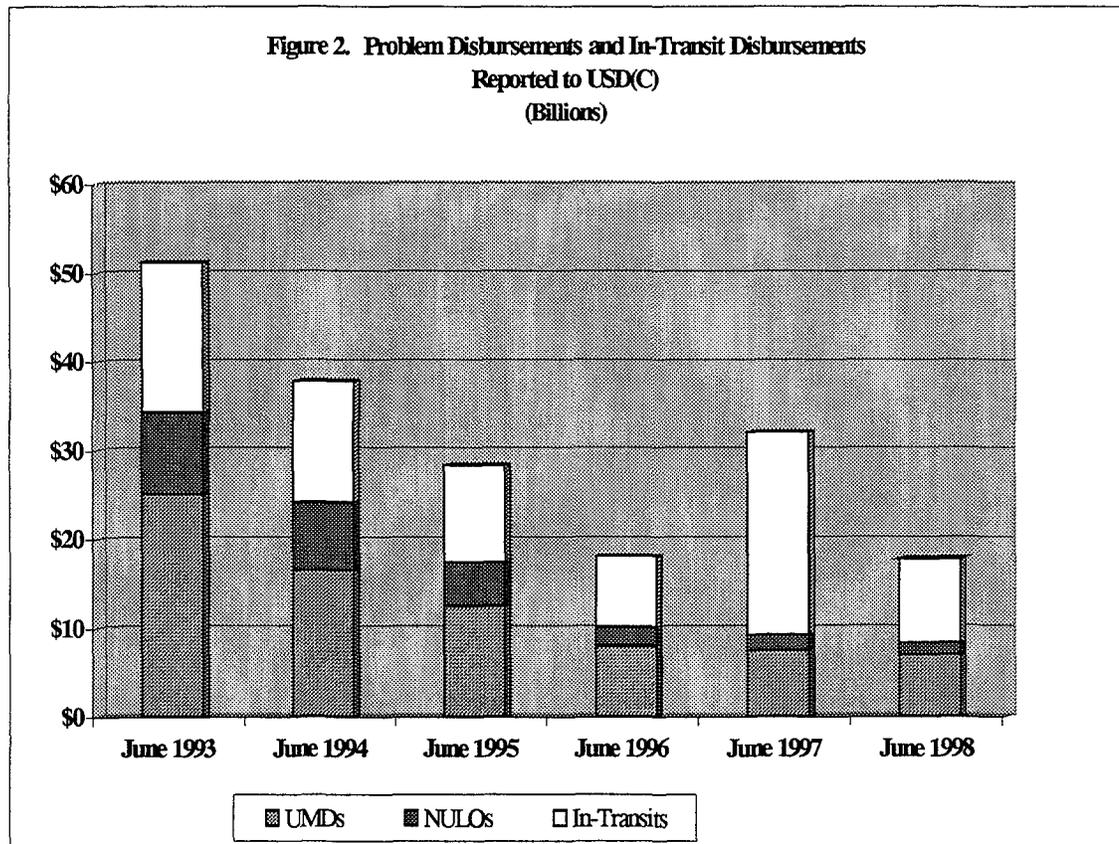
Figure 1 shows the dollar values of aged in-transit disbursements, UMDs, and NULOs reported annually as of June each year since June 1993.



The amounts reported by the DFAS Centers from June 1996 through June 1998 in Figure 1 include the in-transit disbursements, UMDs, and NULOs for which administrative obligations had been established or correcting adjustments were pending. However, DFAS headquarters personnel excluded the amounts reported as administrative obligations and pending adjustments when reporting

²In June 1998, DFAS Cleveland Center personnel discontinued reporting Disbursing Officer suspense accounts as in-transit disbursements. Aged in-transit disbursements for June 1998 excluded \$1 billion in Disbursing Officer suspense accounts (see Finding B).

the dollar values of aged in-transit disbursements and problem disbursements to the USD(C). They considered that the aged in-transit disbursements and problem disbursements were covered by obligations or would be corrected soon. The adjustments to the amounts reported by the DFAS Centers (\$21 billion in June 1996, \$35.1 billion in June 1997, and \$20.7 billion in June 1998) changed the reported values to \$18.1 billion in June 1996, \$32 billion in June 1997, and \$17.8 billion in June 1998 as shown in Figure 2.



Objectives

Our primary audit objective was to evaluate trends and progress in reducing problem disbursements and in-transit disbursements. We also determined how compliance with accounting policies and procedures for researching and correcting problem disbursements affected the reported progress. See Appendix A for a complete discussion of the scope and methodology. See Appendix B for a summary of prior coverage.

A. Progress in Reducing Problem Disbursements and Aged In-Transit Disbursements

DoD reported progress in reducing the dollar values of disbursements that had not been matched with corresponding obligations in accounting records. Between June 30, 1996, and June 30, 1998, DFAS reported that problem disbursements (UMDs and NULOs) decreased by \$1.9 billion, from \$13 billion to \$11.1 billion. Reductions in aged in-transit disbursements and problem disbursements were reported for all DoD entities except the entities reported by the DFAS Indianapolis Center. Further reductions in problem disbursements were not realized because:

- the USD(C) did not take sufficient actions to ensure that existing guidance for researching and correcting problem disbursements was followed,
- DFAS did not fully determine the underlying causes of problem disbursements, and
- the USD(C) did not successfully coordinate with the DoD Components and DFAS to prioritize and implement effective solutions for eliminating existing problem disbursements and preventing the creation of new problem disbursements.

Changes made in June 1997 in the reporting of in-transit disbursements made it very difficult to fairly assess progress in reducing aged in-transit disbursements during the 2-year period. However, aged in-transit disbursements decreased by \$13.3 billion, from \$22.9 billion to \$9.6 billion, between June 30, 1997, and June 30, 1998.

Because DoD continued to have at least \$20.7 billion in disbursements that were not properly recorded in accounting records, financial statements showing the status of budgetary resources were unauditable. An unacceptable risk of overdisbursements and Antideficiency Act violations also persisted.

Reporting Requirements

The five DFAS Centers submit reports and other supporting detailed data monthly to DFAS headquarters on in-transit disbursements and problem disbursements. Various aging categories have been established for reporting information. The information on in-transit disbursements is reported by each DFAS Center. The information reported on problem disbursements is reported by each DFAS Center and by reporting entity. The seven reporting entities are the Army, Navy, Air Force, Marine Corps, Defense agencies, foreign military sales (FMS), and DoD funds allocated to the Services.

Change in Reporting Aged In-Transit Disbursements. Before June 1997, DFAS headquarters reported aged in-transit disbursements at modified absolute dollar values. In response to GAO Report No. 97-59, GAO/AIMD (OSD Case No. 1316), "Improved Reporting Needed for DoD Problem Disbursements," May 1997, DFAS headquarters subsequently issued new requirements for reporting in-transit disbursements. The new report format required that in-transit disbursements be reported at an absolute amount and at a net amount. In response to guidance issued by the USD(C) in December 1996, the new report also required identification of the reasons for delayed processing of in-transit disbursements so that initiatives for eliminating in-transit disbursements could be developed. The reporting of aged in-transit disbursements in absolute amounts and in the new reporting format began with the June 1997 report submission.

Guidance for Researching and Correcting Problem Disbursements. DoD Regulation 7000.14-R, volume 3, requires accountable stations to research and attempt to correct problem disbursements within 120 days of the dates of the disbursements. If corrective actions are not identified within 120 days, the accountable stations are to forward a list of problem disbursements, along with any documentation supporting their research, to the appropriate fund holder for use in performing further research. The accountable stations are to inform the fund holders that administrative obligations must be established to cover problem disbursements that cannot be corrected within the next 60 days, unless adjustments to correct the problem disbursements have been submitted to DFAS to be recorded. DoD Regulation 7000.14-R, volume 3, allows fund holders to obtain approval for discontinuing unsuccessful research efforts.

Monitoring Compliance With Guidance. One of the end-of-month reports prepared by the DFAS Centers provides the dollar values of:

- overaged problem disbursements for which administrative obligations are required,
- overaged problem disbursements for which administrative obligations have been established,
- correcting adjustments that are pending, and
- overaged problem disbursements for which administrative obligations have not yet been established.

Other reports identify the dollar value of problem disbursements that occurred before April 1, 1994, and the dollar value of problem disbursements for which research efforts have been discontinued. Similar reports were prepared for in-transit disbursements.

Goals. Although DFAS did not have formal agency-wide goals, the In-Transit Program Manager established aggressive internal goals for reducing aged in-transit disbursements and problem disbursements for FY 1998. By September 30, 1998, the internal goal was to reduce the net dollar value of aged in-transit disbursements by 50 percent and the absolute dollar value of problem disbursements by 25 percent. A goal was not established for reducing the absolute dollar value of aged in-transit disbursements because DFAS chose to focus on the net effect of the unrecorded disbursements and collections. The FY 1998 DFAS strategic plan

contained a goal of reducing problem disbursements by 52 percent by FY 2005. DoD established a formal goal of reducing both aged in-transit disbursements and problem disbursements by 10-percent in FY 1999.

Trends of Aged In-Transit Disbursements and Problem Disbursements

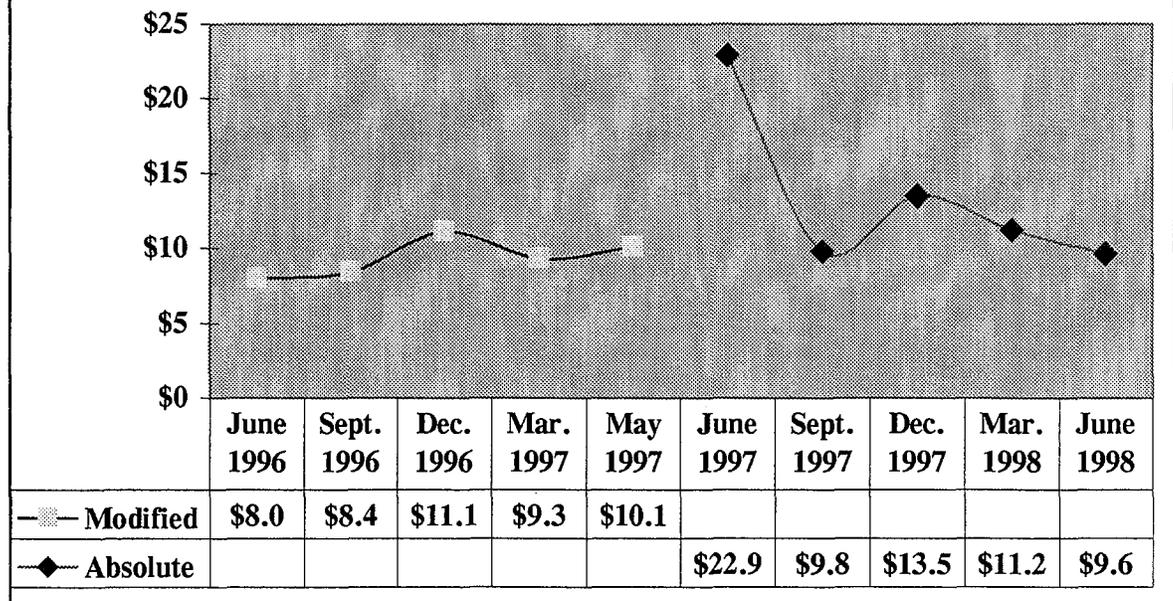
DFAS reports indicated that between June 30, 1996, and June 30, 1998, the combined total of aged in-transit disbursements and problem disbursements was reduced only marginally from \$21 billion to \$20.7 billion. However, the reported progress made in reducing disbursing problems was understated because of changes in reporting. DFAS reported that aged in-transit disbursements increased from \$8 billion to \$10.1 billion between June 30, 1996, and May 31, 1997. Between June 30, 1997, when the reporting of the dollar value of aged in-transit disbursements was changed from a modified absolute amount to an absolute amount, and June 30, 1998, aged in-transit disbursements decreased from \$22.9 billion to \$9.6 billion. The amounts reported before June 1997 were not adjusted to reflect either the absolute amounts or the net amounts because DFAS headquarters personnel decided that it was not worthwhile to recompute the amounts. They also discontinued reporting the modified absolute amounts after May 1997. The DFAS Centers also made other changes that affected the reporting of problem disbursements. Between June 30, 1996, and June 30, 1998, problem disbursements decreased from \$13 billion to \$11.1 billion. Changes in reporting made comparisons with previous time periods and assessments of progress very difficult.

Aged In-Transit Disbursements. The extent of progress made in reducing aged in-transit disbursements during the past 2 years was not clear based on the data reported by DFAS. The change in reporting that occurred in June 1997 made comparisons between reporting months very difficult because the amounts reported before June 1997 were not adjusted, and DFAS headquarters discontinued reporting the modified absolute amounts. Data were available in June 1997 to show the significance of the different reporting. The DFAS Centers reported that aged in-transit disbursements totaled \$22.9 billion when reporting absolute amounts, but only \$6.2 billion when reporting modified absolute amounts and \$4.4 billion when reporting net amounts.

To better show the trends in aged in-transit disbursements, we reviewed the two periods of time in which the reporting was the same: June 1996 through May 1997 when reporting modified absolute amounts, and June 1997 through June 1998 when reporting absolute amounts. Figure 3 shows the trends in aged in-transit disbursements.³

³Aged in-transit disbursements for June 1998 excluded \$1 billion in Disbursing Officer suspense accounts. DFAS Cleveland Center personnel also revised reported data for September 1997. Consequently, the dollar value of aged in-transit disbursements for September 1997 was reduced from \$14.3 billion to \$9.8 billion.

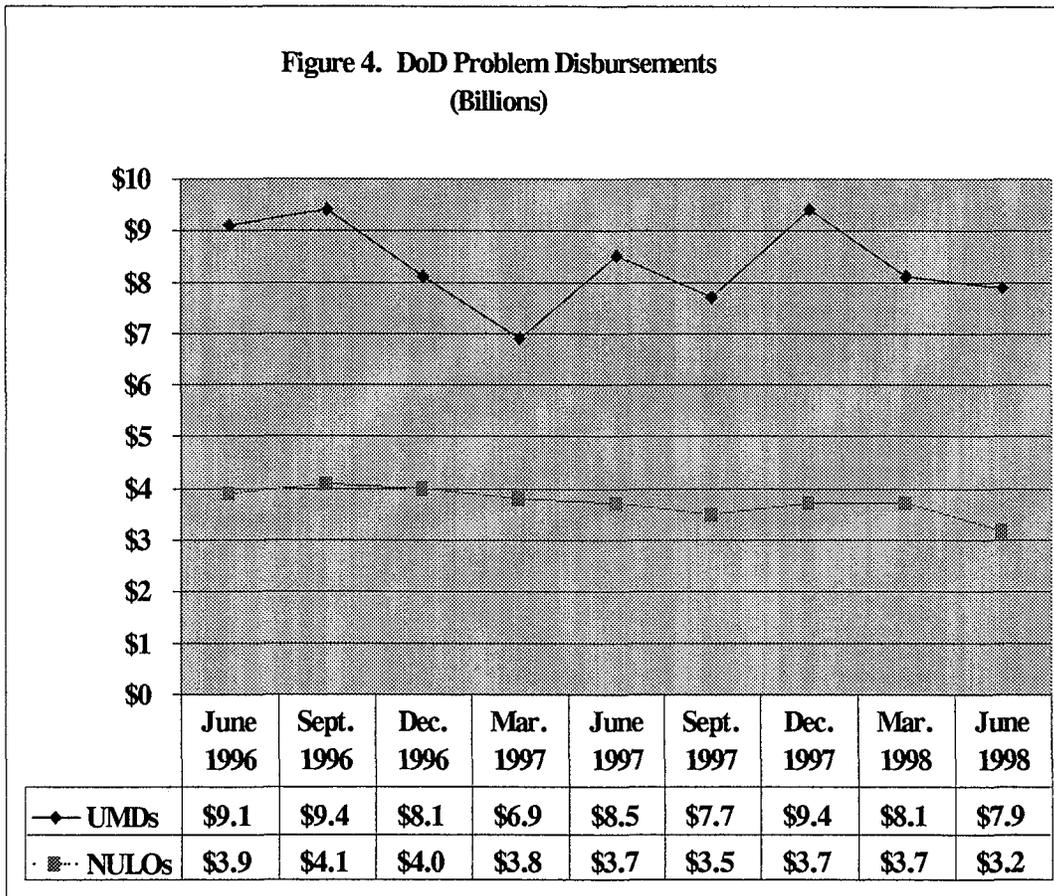
**Figure 3. DoD In-Transit Disbursements
(Billions)**



The data show that between June 1996 and May 1997, the modified absolute amount of aged in-transit disbursements increased from \$8 billion to \$10.1 billion, an increase of 26 percent. However, between June 1997, when DFAS began reporting in-transit disbursements at an absolute amount, and June 1998, aged in-transit disbursements decreased from \$22.9 billion to \$9.6 billion, a reduction of \$13.3 billion. Increased management attention on reducing existing in-transit disbursements and changes in business processes have been effective in reducing aged in-transit disbursements since June 1997. A discussion of the major initiatives is in Appendix D.

Problem Disbursements. DFAS reported some progress in reducing problem disbursements between June 30, 1996, and June 30, 1998. During that period, total problem disbursements were reduced from \$13 billion to \$11.1 billion. UMDs decreased by \$1.2 billion, and NULOs decreased by \$0.7 billion. Figure 4 shows the progress made by DoD in reducing UMDs and NULOs.

Figure 4. DoD Problem Disbursements
(Billions)



The initiatives aimed at eliminating in-transit disbursements have also helped to reduce problem disbursements. However, the benefits of these initiatives have been partially offset by better reporting of problem disbursements, especially by the DFAS Indianapolis Center. Because the effects of changes in reporting were not applied to previous reporting months, fully determining the progress in reducing problem disbursements would have been very difficult. In addition, some of the reported progress, about \$1.2 billion of the \$1.9 billion reduction in the dollar value of problem disbursements, resulted when the Navy discontinued research on problem disbursements. As DFAS and the DoD Components have recognized, problem disbursements need to be further reduced by significant amounts.

Progress in Achieving DFAS Goals. As of June 30, 1998, problem disbursements needed to be reduced by about \$2 billion to achieve the internal DFAS goal of reducing problem disbursements by 25 percent in FY 1998. Some progress was reported in meeting the DFAS goal of reducing problem disbursements by 52 percent between FY 1998 and FY 2005. Also, although the absolute dollar value of aged in-transit disbursements had decreased by \$0.2 billion, from \$9.8 billion to \$9.6 billion, the net dollar value of aged in-transit disbursements was \$3.4 billion, \$0.1 billion less than on September 30, 1997.

Further Reductions Possible in Problem Disbursements. Since FY 1990, DoD personnel have been reviewing the causes of problem disbursements and developing courses of actions to reduce their creation. To more effectively focus on in-transit disbursements and problem disbursements, the Director, DFAS, established two separate Program Management Offices. In February 1997, he established the In-Transit Disbursement Program Management Office and the Problem Disbursements Program Management Office. The In-Transit Disbursement Program Management Office has been effective in changing business practices to ensure that disbursements reported to the U.S. Treasury are provided to accountable stations in a more timely manner (see Appendix D for a discussion of major initiatives). Efforts to reduce in-transit disbursements are commendable and should continue. Some of these initiatives have also helped to reduce problem disbursements.

The Problem Disbursements Program Management Office carried out limited efforts to identify causes and solutions for problem disbursements. Because of changes in personnel, that office was combined with the In-Transit Disbursement Program Management Office. DFAS Center personnel and financial managers of the DoD Components have spent much time and effort reviewing the causes of problem disbursements and developing courses of action to reduce their creation. However, they have not succeeded in eliminating existing problem disbursements and preventing the creation of new problem disbursements. DFAS did not take sufficient actions to fully determine the underlying causes of problem disbursements. Consequently, problem disbursements continue to be created. In January 1999, DFAS began to require each of the DFAS Centers to identify the underlying causes of and completed actions for problem disbursements that had been researched and corrected. The USD(C) should coordinate with the DoD Components and DFAS to prioritize and implement effective solutions for eliminating existing problem disbursements and preventing the creation of new problem disbursements.

Progress Made by Reporting Entities

DFAS reported that most of the reporting entities made progress in reducing aged in-transit disbursements and problem disbursements. Progress in reducing both categories of disbursing problems was reported for the Navy, the Air Force, the Marine Corps, and FMS. However, limited progress was reported for the Army, the Defense agencies, and DoD funds allocated to the Services. We assessed progress in reducing problem disbursements between June 30, 1996, and June 30, 1998. Because of the actions taken by DFAS to improve reporting by fully disclosing absolute amounts, we began in June 1997 to track progress in reducing aged in-transit disbursements. We assessed progress in reducing aged in-transit disbursements between June 30, 1997, and June 30, 1998. Appendix E discusses the progress made by each of the reporting entities.

Reporting by the DFAS Indianapolis Center. The DFAS Indianapolis Center reported that no progress had been made in reducing problem disbursements for most of the reporting entities for which it did the reporting. Progress was not apparent because improved reporting, including the use of more accurate and complete data and different aging criteria, caused the dollar value of problem disbursements and aged in-transit disbursements to increase. The DFAS

Indianapolis Center reported that aged in-transit disbursements and problem disbursements increased for the Army. The DFAS Indianapolis Center also reported increases in some categories for Defense agencies, the Army portion of FMS, and DoD funds allocated to the Army. Additional changes in the DFAS Indianapolis Center's methods of reporting aged in-transit disbursements and UMDs will make tracking progress difficult (see Finding B). The DFAS Indianapolis Center recognized the need to increase management attention to in-transit disbursements and problem disbursements.

Army. Between June 30, 1996, and June 30, 1998, UMDs increased 533 percent from \$0.3 billion to \$1.9 billion. Most of the increase was attributed to efforts to improve the accuracy of reporting. Between April and July 1997, UMDs increased by \$1.5 billion, primarily because the DFAS Indianapolis Center changed the reporting of transactions for others on partially cleared transmittal letters from in-transit disbursements to UMDs. Unlike the other DFAS Centers, the DFAS Indianapolis Center did not account for transactions for others on a transaction basis. (A discussion of the process used by the DFAS Indianapolis Center to track the dollar value of uncleared transactions is on page 17 of this report.) As a result, transmittal letters were used to track the dollar value of uncleared transactions. The changes in reporting by the DFAS Indianapolis Center were made in response to Inspector General, DoD, Report No. 98-030, "Hotline Allegations on Army National Guard Appropriations," December 3, 1997. In addition, the DFAS Indianapolis Center identified Army activities that were not previously reported and changed procedures for aging UMDs to agree with DFAS guidance. The DFAS Indianapolis Center reported that Army NULOs increased from \$201 million to \$323 million, about 61 percent, between June 1996 and June 1998. That increase was also attributed to improved reporting by the DFAS Indianapolis Center.

Conversely, the dollar value of aged in-transit disbursements reported for Army organizations decreased 36 percent from \$1.4 billion in June 1996 to \$0.9 billion in June 1998. The reported overall progress in reducing in-transit disbursements was primarily due to a significant reduction of in-transit disbursements as a result of the reclassification of transactions for others on partially cleared transmittal letters from in-transit disbursements to UMDs. Unlike the other DFAS Centers, the DFAS Indianapolis Center did not change its reporting of aged in-transit disbursements from a modified absolute amount to an absolute amount in accordance with DFAS guidance. In September 1998, the DFAS Indianapolis Center changed the methodology for reporting the absolute dollar value of UMDs and the absolute and net dollar values of aged in-transit disbursements (see Finding B).

Reporting for Others. The DFAS Indianapolis Center reported similar trends in reporting for the other entities for which it reported. For the Defense agencies reporting through the DFAS Indianapolis Center, UMDs increased \$431 million (230 percent) between June 1996 and June 1998. This trend contrasted with the Defense agencies reporting through the DFAS Columbus Center. UMDs decreased by \$157 million, or 84 percent, during the same period. The increase occurred because the DFAS Indianapolis Center improved its reporting by incorporating data from its network that were not previously reported, and by reporting partial clearances that were previously reported as aged in-transit disbursements. (A discussion of UMD reporting by the DFAS Indianapolis Center is on page 18 of this report.) A similar situation occurred with the UMDs for FMS and DoD funds allocated to the Army. Better reporting also resulted in an

increase in the NULOs for Defense agencies reporting through the DFAS Indianapolis Center. The aged in-transit disbursements reported by the DFAS Indianapolis Center for Defense agencies also increased.

Recent Emphasis. In June 1998, the DFAS Indianapolis Center established a problem disbursement team to work on initiatives to eliminate in-transit disbursements and reduce problem disbursements. This emphasis should lead to improved business processes and reduced in-transit disbursements and problem disbursements.

Navy. The DFAS Cleveland Center reported significant reductions in UMDs and NULOs for the Navy between June 30, 1996, and June 30, 1998. For the Navy, UMDs decreased from \$6 billion in June 1996 to \$4 billion in June 1998, a reduction of \$2 billion (33 percent). NULOs decreased from \$2.5 billion in June 1996 to \$1.7 billion in June 1998, a reduction of \$0.8 billion (32 percent). Although increased management emphasis resulted in the reduction in problem disbursements, about \$1.2 billion of the \$2.8 billion decrease in problem disbursements was related to the Navy discontinuing research on problem disbursements. Although the Navy reduced UMDs and NULOs, the Navy had \$5.7 billion (51 percent) of the DoD total of \$11.1 billion of UMDs and NULOs as of June 1998. Also, about \$1.9 billion of the \$5.7 billion was related to disbursements that were made before April 1, 1994. The Navy, in conjunction with the DFAS Cleveland Center, should thoroughly research problem disbursements that were made before April 1, 1994, and should correct the problem disbursements or conclude that further research cannot be completed because of insufficient documentation and would not be cost-effective. The likelihood of locating the supporting documentation required to research and resolve problem disbursements diminish with time.

Similarly, although aged in-transit disbursements for the Navy were reduced by \$9.9 billion between June 1997 and June 1998, the remaining balance of \$4.3 billion is about 45 percent of the \$9.6 billion in DoD aged in-transit disbursements. The inflow of new in-transit disbursements continues to be a significant obstacle to reducing the amounts. In June 1998, the inflow was \$1.1 billion. Until DFAS fully implements existing initiatives and develops others, the DFAS Cleveland Center will continue to report large balances of aged in-transit disbursements.

Enforcing DoD Guidance

Reductions in problem disbursements could be realized if actions were taken to enforce the guidance in DoD Regulation 7000.14-R, volume 3.

Establishing Obligations for Disbursements Not Matched to Corresponding Obligations. DoD fund holders did not fully comply with the policies and procedures partially designed to reduce problem disbursements. DoD Regulation 7000.14-R, volume 3, requires fund holders to establish administrative obligations for disbursements that have not been matched to obligations within 180 days from the dates of disbursements. Administrative obligations are to be established in the same appropriation account as the disbursement is charged. As of June 30, 1998, DFAS reported that fund holders needed to obligate \$3.8 billion

to cover overaged problem disbursements. However, about \$2.8 billion was obligated, leaving a shortfall of about \$1 billion. Closed or closing aged in-transit disbursements totaling \$316 million also needed to be covered by administrative obligations. However, \$165 million (52 percent) of the \$316 million was covered by administrative obligations.

Since June 1996, DoD fund holders have not obligated all the funds required to cover overaged problem disbursements. Fund holders had various reasons for not complying, including the lack of available funds to cover the remaining in-transit disbursements. We were often told that fund holders did not obligate all the funds necessary to cover unmatched disbursements because they viewed the problems as accounting errors that DFAS either caused or was responsible for correcting. Further, sufficient controls did not exist to ensure that fund holders complied with the guidance. However, some steps have been taken to ensure that overaged problem disbursements are covered by obligations in accounting records. One notable action was taken by the Office of Financial Operations, Assistant Secretary of the Navy (Financial Management and Comptroller). In September 1996, that office began establishing summary obligations at the department level by appropriation account for overaged problem disbursements that were charged to Navy general fund appropriation accounts and had not been covered by the Navy fund holders. However, in June 1998, the Navy had \$195 million in UMDs and NULO that had not been covered by administrative obligations. The Office of the Under Secretary of Defense (Comptroller) should require the Assistant Secretary (Financial Management and Comptroller) of each Military Department and the Comptroller of each Defense agency with overaged problem disbursements and aged in-transit disbursements to coordinate with DFAS and develop a detailed plan to overcome obstacles that prevent fund holders from establishing administrative obligations. The plan should include, as an interim measure, the requirement to establish summary obligations at the department level for overaged problem disbursements.

Guidance on Pending Adjustments. DFAS personnel and fund holders did not follow the guidance in DoD Regulation 7000.14-R, volume 3, chapter 11, "Cash, Unmatched Disbursements, and Negative Unliquidated Obligations," on pending adjustments to overaged problem disbursements. The purpose of the guidance was to ensure that obligations were established to cover disbursements that had not been promptly posted to accounting records, unless correcting adjustments to overaged problem disbursements were expected to be posted within 30 days. For example, Navy fund holders classified overaged problem disbursements on contracts being reconciled by the DFAS Columbus Center as having pending adjustments even though contract reconciliations often took more than 6 months to complete. Contrary to guidance, DFAS Cleveland Center personnel delayed the recording of corrections pending the completion of contract reconciliations. The DFAS Denver Center also misused the classification of pending adjustments when compiling the data reported by its Operating Locations. For example, for the DFAS Denver Center's Dayton, Ohio, Operating Location, we compared the transactions coded as pending adjustments as of March 31, 1998, with those coded as pending adjustments on September 30, 1996. Problem disbursements valued at \$35.3 million were still on the list from September 30, 1996. Some of the corrective action packages indicated that the problem disbursements were on contracts being reconciled. Other corrective action packages did not identify the actions that had been taken to research and correct the problem disbursement or provide the recommended correcting accounting adjustments. DFAS personnel should have immediately rejected the unsupported corrective actions. Identifying

these corrective actions as pending adjustments was contrary to DoD Regulation 7000.14-R, volume 3. Consequently, the need to establish additional administrative obligations was not recognized by fund holders and was not reflected in DFAS reports. All problem disbursements not covered by administrative obligations because of pending adjustments should be reviewed. As of June 30, 1998, DFAS reported about \$628 million in pending adjustments to overaged problem disbursements. Only those corrective actions to overaged problem disbursements that are to be posted to accounting records within 30 days should be reported as pending adjustments and used to offset the requirement to establish administrative obligations.

Conclusion

DoD continues to make progress in reducing aged in-transit disbursements and problem disbursements. However, the extent of that progress, especially since June 1996, is unclear because of the numerous changes in reporting that have occurred. Although each change was made to improve reporting, the changes complicate the assessment of progress. Making further changes should be tempered against the need to stabilize reporting so that progress can be adequately assessed.

Since June 30, 1996, the DoD reporting entities have made varying degrees of progress in reducing aged in-transit disbursements and problem disbursements. However, as of June 30, 1998, DoD reporting entities had \$9.6 billion in aged in-transit disbursements and \$11.1 billion in problem disbursements that needed to be resolved, including \$2 billion in problem disbursements that were made before April 1, 1994. Many of the initiatives undertaken by DFAS will help to eliminate in-transit disbursements and reduce the inflow of new problem disbursements. However, the problems associated with the current processes and systems will not be overcome until DFAS achieves the shared data environment and business process improvements expected from the Defense Procurement Payment System (see Appendix D).

Existing problem disbursements and aged in-transit disbursements can be resolved only by researching and correcting them or obtaining approval for discontinuing research. The requirement to establish administrative obligations for overaged problem disbursements should be enforced because it provides an incentive to research and correct the overaged problem disbursements and ensures that obligations are in accounting records to cover the problem disbursements. However, establishing administrative obligations does not correct the problem disbursements. When a fund holder has significant disbursements that have been made but not properly accounted for, this adversely affects the reliability of reports prepared to monitor obligation and expenditure of budgetary resources and decreases the accuracy of DoD financial statements and reports to Congress. Further effort is essential to achieving the modest FY 1999 goal of a 10-percent reduction in aged in-transit disbursements and problem disbursements.

Recommendations, Management Comments, and Audit Response

A.1. We recommend that the Under Secretary of Defense (Comptroller):

a. Enforce the DoD policy to cover overaged problem disbursements by administrative obligations, if the overaged problem disbursements are not covered by pending adjustments.

b. Require that the Assistant Secretaries of the Army, Navy, and Air Force (Financial Management and Comptroller) and the Comptrollers of Defense agencies, in coordination with the Defense Finance and Accounting Service, develop a plan that identifies the obstacles to establishing administrative obligations for overaged problem disbursements and aged in-transit disbursements and that contains steps and milestones for overcoming those obstacles.

c. Coordinate with the DoD Components and the Defense Finance and Accounting Service to prioritize and implement effective solutions for eliminating existing problem disbursements and preventing the creation of new problem disbursements.

Under Secretary of Defense (Comptroller) Comments. The Under Secretary of Defense (Comptroller) provided an interim response that indicated nonconcurrency with Recommendation A.1.a., which in draft form provided for withholding or withdrawing funds, and concurrence with Recommendation A.1.b. He stated that withholding or withdrawing funds when DoD Components fail to record obligations to cover overaged problem disbursements is not a feasible solution because that action, by itself, does not ensure that funds are obligated in accordance with current policies. Further, the withholding or withdrawal of funds could result in unintended Antideficiency Act violations. However, the Under Secretary of Defense (Comptroller) agreed that identifying obstacles to establishing obligations for problem disbursements was a realistic approach to developing desirable short-term solutions. The Under Secretary of Defense (Comptroller) did not comment on Recommendation A.1.c.

Army Comments. Although not required to comment, the Assistant Secretary of the Army (Financial Management and Comptroller) provided comments to Recommendation A.1. The Army disagreed with Recommendations A.1.a. and A.1.b., stating that diverting funds from on-going Army programs would decrease readiness and reduce modernization efforts. The Army stated that a better solution would be to fix processes and systems and allow the financial management community to correct existing problem disbursements. The Army agreed with Recommendation A.1.c. and stated that DoD needs a well coordinated and well thought out plan that identifies the root causes of problem disbursements, assigns responsibilities for corrective actions, and establishes timelines for completion of assigned tasks.

Audit Response. There is a consensus that improving systems is the long-term solution for eliminating problem disbursements. Until then, existing processes and

systems must be improved and effective solutions must be developed and implemented for eliminating existing problem disbursements. With the initial issuance of guidance almost 4 years ago, the Under Secretary of Defense (Comptroller) recognized the need to incentivize the DoD Components to research and correct problem disbursements. Sound fiscal management of funds also requires that obligations be established to cover overaged problem disbursements and aged in-transit disbursements that cannot be promptly matched to corresponding detail obligations in official accounting records. The DoD Components never fully complied with the Under Secretary of Defense (Comptroller) guidance and the extent of compliance has decreased even further since June 1998. As of January 31, 1999, the Defense Finance and Accounting Service reported that fund holders did not cover \$1.4 billion of the \$3.6 billion in overaged problem disbursements.

The Under Secretary of Defense (Comptroller) comments were partially responsive. We slightly modified Recommendation A.1.a., although we did not agree that withdrawing or withholding unobligated funds could possibly result in deficient accounts. We request reconsideration of the management position.

We understand the Army's dissatisfaction with the prospect of tying up a significant amount of funds to cover accounting problems. However, the alternative is to ignore the exposure to overdisbursements, and Antideficiency Act violations. If the DoD policy is not implemented, a senior official should accept responsibility for subsequent Antideficiency Act violations.

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

a. Post within 30 days the proposed correcting accounting adjustments unless they are in error or unsupported.

b. Report as pending adjustments only those correcting accounting adjustments to overaged problem disbursements that plan to be posted to accounting records within 30 days.

Defense Finance and Accounting Service Comments. The Director, Defense Finance and Accounting Service, did not provide comments to Recommendation A.2. We request that the Director, Defense Finance and Accounting Service, provide comments in response to the final report.

B. Reporting Issues

DFAS encountered problems in reporting accurate and consistent data. The reporting problems occurred because quality control procedures over the collection, compilation, and reporting of the magnitude of DoD disbursing problems did not ensure the credibility of the data. In addition, DFAS personnel did not ensure that reporting guidance was followed, and discontinued the reporting of about \$1 billion in Disbursing Officer suspense accounts. As a result, DoD did not have reliable information for evaluating efforts to reduce disbursements that had not been properly matched with corresponding obligations in accounting records.

Using the Data Submitted by the DFAS Centers

The accuracy of the information on problem disbursements and aged in-transit disbursements could be improved with better controls over the quality of the data reported by the DFAS Centers. Of the 25 monthly reports prepared by DFAS headquarters personnel between June 1996 and June 1998, 8 reports contained inaccurate information.

- DFAS headquarters personnel inappropriately changed the information reported by the DFAS Indianapolis Center for Defense agencies. In the reports for June through October 1996, DFAS headquarters personnel reclassified about \$498 million in UMDs to aged in-transit disbursements. However, in November 1996, they stopped reclassifying the UMDs. DFAS headquarters personnel could not explain why they changed the information furnished by the DFAS Indianapolis Center.
- DFAS headquarters reported that in June 1997, aged in-transit disbursements totaled \$21.9 billion. However, in August 1998, after we questioned the accuracy of the reported total, DFAS headquarters personnel recomputed the dollar value at \$22.9 billion. The June 1998 report reflected the change in the reported dollar value of aged in-transit disbursements for June 1997.
- DFAS headquarters personnel placed \$237 million of in-transit disbursements related to FMS in the incorrect aging category for in-transit disbursements. As a result, the in-transit disbursements were not considered old enough to be reported as aged in-transit disbursements and were inappropriately excluded from the DFAS headquarters report. The DFAS Denver Center reported the in-transit disbursements in September 1997 in an aging category that required them to be reported by DFAS headquarters.
- DFAS headquarters personnel used part of a prior month's in-transit disbursements file instead of part of the October 1997 in-transit

disbursements file furnished by the DFAS Indianapolis Center. As a result, DFAS headquarters overstated the dollar value of aged in-transit disbursements for the Army by \$1.4 billion.

- When computing the absolute dollar value of aged in-transit disbursements for June 1998, DFAS Indianapolis Center personnel inappropriately included a negative \$22.5 million as one of the appropriation totals. The negative amount was in the files furnished to DFAS headquarters in support of the reported amounts. Only positive dollar values should have been used to compute absolute dollar values. Consequently, aged in-transit disbursements were understated by \$45 million.

Controls should be improved to ensure that DFAS headquarters personnel correctly use the information furnished by the DFAS Centers in computing the absolute dollar value of aged in-transit disbursements and problem disbursements. Unless abnormal conditions warrant corrections or are otherwise justified, DFAS headquarters should use the data as submitted. The data from the DFAS Centers should be reconciled with the data in the DFAS headquarters reports.

Computing Unmatched Disbursements and Aged In-Transit Disbursements

The DFAS Indianapolis Center did not properly compute the dollar values of UMDs and aged in-transit disbursements for reporting entities. Consequently, the previously reported progress in reducing UMDs and aged in-transit disbursements was overstated. For example, when DFAS Indianapolis Center personnel recomputed the June 30, 1998, baselines used to establish Army goals, UMDs increased from \$2.3 billion to \$3 billion, and the net dollar value of aged in-transit disbursements increased from \$0.3 billion to \$0.5 billion.

Process Used by DFAS Indianapolis Center. In the financial network served by the DFAS Indianapolis Center, disbursement and collection transactions that could not be readily matched to corresponding obligations remained uncleared until the accountable station either accepted the transactions and processed a clearance for the transactions or rejected the transactions back to the disbursing station. The DFAS Indianapolis Center summarized and reported disbursement and collection transactions on transmittal letters. Because of the lack of detailed transaction data at the DFAS Indianapolis Center, transmittal letters were used to track the dollar value of uncleared transactions. In May 1997, the DFAS Indianapolis Center began reporting transactions on partially cleared transmittal letters as UMDs. Transmittal letters that indicated no disbursements had been cleared were considered in-transit disbursements.

Unmatched Disbursements. When reporting transactions on partially cleared transmittal letters as UMDs, DFAS Indianapolis Center personnel incorrectly subtracted negative balances from positive balances at the appropriation level. That practice was contrary to DFAS guidance and understated the dollar value of UMDs. When DFAS Indianapolis Center personnel recomputed the June 1998 baseline used to establish Army goals, UMDs increased by about \$0.7 billion.

Table 1 shows how the DFAS Indianapolis Center would have used data on a partially cleared transmittal letter to compute the absolute value of UMDs.

Treasury Index	Fiscal Year	Appropriation	Charges	Clearances
21	6	2020	\$100	\$0
21	7	2020	75	0
21	8	2020	(50)	0
21	7	2040	\$0	\$75

By adding and subtracting the positive and negative balances of the charges (\$100 plus \$75 minus \$50 equals \$125) and subtracting the clearances (\$75), DFAS Indianapolis Center personnel would have reported a total of \$50 in UMDs. However, this would have understated the absolute value of UMDs.

After our discussions with personnel at the DFAS Indianapolis Center and DFAS headquarters, the DFAS Indianapolis Center changed its methodology for reporting UMDs. The new methodology adds the absolute values of all charges (\$225) and subtracts the clearances from the charges (\$225 minus \$75). The DFAS Indianapolis Center would report \$150 as an unmatched disbursement. The clearance of the \$75 charge against a different appropriation would indicate that the charge was made to the incorrect appropriation. However, the accountable station would have posted the charge against a corresponding obligation in the accounting records. Consequently, an unmatched disbursement would not exist because the disbursement was posted against a corresponding obligation. However, the disbursement would be considered an undistributed disbursement until the DFAS Indianapolis Center corrected the reporting of the disbursement to the U.S. Treasury.

Aged In-Transit Disbursements. The DFAS Indianapolis Center also understated the absolute dollar value of aged in-transit disbursements for the Army by about \$0.2 billion in June 1998. In May 1997, DFAS headquarters issued guidance on reporting the absolute dollar value of aged in-transit disbursements. The guidance stated that negative balances should not be subtracted from positive balances unless the negative and positive balances were related to the same transaction. Instead, the absolute value of the negative balance should be added to the other positive balances. DFAS Indianapolis Center personnel subtracted the negative balances from the positive balances of different appropriation accounts on transmittal letters without assurance that the negative charges were offsets to the charges of the same appropriation. In the example shown in Table 1, if the transmittal letter indicated that no disbursements had been cleared, the DFAS Indianapolis Center would have added the positive balances then subtracted the negative balances of the charges (\$100 plus \$75 minus \$50) and reported \$125 as the dollar value of in-transit disbursements. Instead, the absolute dollar value of the negative \$50 charge should have been added to the positive balances (\$100 plus \$75) and \$225 should have been reported as the dollar value of in-transit disbursements. Offsetting negative balances against positive balances was unjustified unless documentation existed to indicate that the negative and positive balances were for the same transaction.

Corrective Action. By inappropriately adding and subtracting the positive and negative dollar values of disbursements and collections on transmittal letters, the DFAS Indianapolis Center understated the absolute dollar value of UMDs by at least \$0.7 billion and aged in-transit disbursements by at least \$0.2 billion. In October 1998, we met with personnel from the DFAS Indianapolis Center and DFAS headquarters to discuss the problem of understatements. As a result, the DFAS Indianapolis Center changed the methodology for reporting the absolute dollar value of UMDs and the absolute and net dollar values of aged in-transit disbursements. The changes were reflected in reports for September 1998. The DFAS Indianapolis Center also restated, based on June 1998 data, the goals previously established for the Army and for FMS and DoD funds allocated to the Army. As a result, UMDs increased from \$2.3 billion to \$3 billion, and the net dollar value of aged in-transit disbursements increased from \$0.3 billion to \$0.5 billion. DFAS Indianapolis Center personnel did not compute the change in UMDs and aged in-transit disbursements for the Defense agencies for which they reported. DFAS headquarters personnel also stated that they would develop a means of tracking undistributed disbursements through another reporting process. Because DFAS personnel made appropriate changes in computing the absolute dollar value of UMDs and aged in-transit disbursements, we are not recommending changes.

Disbursing Officer Suspense Accounts

The DFAS Cleveland Center excluded one major type of suspense account from its computation of aged in-transit disbursements. Guidance issued July 24, 1998, by the Director, DFAS, authorized the DFAS Cleveland Center to stop reporting Disbursing Officer suspense accounts as in-transit disbursements. About \$1 billion in Disbursing Officer suspense accounts was not reported in June 1998.

DFAS Guidance. DFAS headquarters personnel stated that the change was based on the guidance in DoD Regulation 7000.14-R, volume 3. The Regulation defines an in-transit disbursement as “a disbursement transaction that has been transmitted by a disbursing office to an accounting office, but has not yet been received by the accounting office.” DFAS headquarters personnel stated that because the responsibility for clearing some of the transactions in the Disbursing Officer suspense accounts should more appropriately rest with the disbursing station rather than the accountable station, they did not fit the definition of in-transit disbursements. The DFAS Cleveland Center excluded amounts in Disbursing Officer suspense accounts for June 1998 and revised the reported amount of aged in-transit disbursements for September 1997. The dollar value of aged in-transit disbursements for September 1997 was reduced by \$4.5 billion. Because of the amount of work involved, the DFAS Cleveland Center did not recalculate the effect of this change on the data reported for October 1997 through May 1998 as well as months before September 1997.

Nontemporary Holding Accounts. Disbursing Officer suspense accounts, like other suspense accounts, were used to record receipt or disbursement transactions for which the disbursing officer was either unable to determine, or had not yet attempted to determine, the correct fund or appropriation citation. Suspense accounts are temporary holding accounts that must be quickly cleared to permit proper accounting. Based on the information reported by the DFAS Cleveland

Center, most of the amounts in the Disbursing Officer suspense accounts were not temporary. About \$4 billion of the \$4.5 billion in Disbursing Officer suspense accounts as of September 30, 1997, was related to transactions that took place before April 1, 1994.

Conclusion. The change in guidance excluded Disbursing Officer suspense accounts from the broader definition of in-transit disbursements that had been used in DFAS guidance. The DFAS guidance considered all disbursements that had been reported to the U.S. Treasury, but had not been received or processed by an accountable station as in-transit disbursements. DFAS should report and track progress in correcting the disbursements and collections in Disbursing Officer suspense accounts.

Summary

Problems in reporting accurate and consistent data also contributed to difficulties in monitoring progress in reducing aged in-transit disbursements and problem disbursements. Quality control procedures over the collection, compilation, and reporting of problem disbursements should be strengthened. DFAS headquarters personnel should reconcile the data from the DFAS Centers with the compiled data in the DFAS headquarters reports and ensure that data submitted by the DFAS Centers conforms to guidance.

Changes in the methodology and reporting of the dollar values of UMDs and aged in-transit disbursements further complicated the process of tracking progress in reducing the dollar values of disbursements that had not been properly matched with corresponding obligations in accounting records. However, the changes made by DFAS Indianapolis Center personnel in computing the dollar values of UMDs and aged in-transit disbursements were needed to fully quantify the magnitude of problems and make data more comparable with the information reported by the other DFAS Centers.

The change made by the DFAS Cleveland Center in computing aged in-transit disbursements did not provide users of the DFAS reports with information to fully measure progress in reducing problems in properly accounting for disbursements. As of June 30, 1998, DFAS reported that disbursements that had been reported to the U.S. Treasury but not properly accounted for totaled about \$20.7 billion. Changes made by the DFAS Centers, such as developing another process for tracking undistributed disbursements and excluding Disbursing Officers suspense accounts from in-transit disbursements, made comparisons with prior reporting periods very difficult. DFAS should obtain and report information on all disbursements that have been reported to the U.S. Treasury but not properly accounted for in official accounting records. When comparing progress between current and prior periods, DFAS should fully disclose changes in reporting that would make reportable information comparable.

Recommendations, Management Comments, and Audit Response

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

1. Strengthen quality control procedures over the collection, compilation, and reporting of problem disbursements by reconciling the data from the Defense Finance and Accounting Service Centers with the compiled data in the Defense Finance and Accounting Service headquarters reports and ensuring that data submitted by the Defense Finance and Accounting Service Centers conforms to guidance.

2. Report and track progress in correcting all disbursements, including Disbursing Officer suspense accounts and other undistributed disbursements that have been reported to the U.S. Treasury but not properly accounted for in official accounting records.

3. Disclose the impact in monthly reports of changes in computing the dollar values of aged in-transit disbursements and problem disbursements to make meaningful comparisons of reporting information in monthly reports.

Defense Finance and Accounting Service Comments. The Director, Defense Finance and Accounting Service, did not comment on a draft of this report. We request that the Director, Defense Finance and Accounting Service, provide comments in response to the final report.

Army Comments. Although not required to comment, the Assistant Secretary of the Army (Financial Management and Comptroller) agreed with the recommendations to improve the collection, compilation, and reporting of aged in-transit disbursements and problem disbursements. The Army also stated that reporting unmatched disbursements at an absolute amount may overstate unmatched disbursements. The Army preferred reporting unmatched disbursements at a net amount.

Audit Response. The reporting of unmatched disbursements at an absolute amount provides DoD managers with a better indication of the dollar value of unmatched disbursements that need to be researched and corrected. However, we recognize that the computed absolute dollar value of unmatched disbursements is imprecise because the Defense Finance and Accounting Service Indianapolis Center did not account for transactions on a transaction basis. The Defense Finance and Accounting Service Centers report monthly on both net amount and absolute amount of unmatched disbursements. Financial managers should use the net amounts of the unmatched disbursements in managing appropriation accounts and in determining the dollar value of overaged unmatched disbursements for which administrative obligations must be established.

Appendix A. Audit Process

Scope

Work Performed. We reviewed monthly reports and other supporting data from the DFAS Cleveland, Columbus, Denver, Indianapolis, and Kansas City Centers that identified the dollar values of in-transit disbursements and problem disbursements (UMDs and NULOs) between June 30, 1996, and June 30, 1998. We determined how DFAS headquarters personnel used the information reported by the DFAS Centers in preparing the reports that DFAS headquarters submitted to the USD(C). As of June 30, 1998, the DFAS Centers reported about one million in-transit disbursements, valued at \$24.1 billion (absolute value), and 904,863 problem disbursements, valued at \$11.1 billion. Of the \$24.1 billion, \$9.6 billion were aged in-transit disbursements. About \$6 billion of the \$11.1 billion in problem disbursements was more than 180 days old. DoD fund holders were required to establish a net amount of \$3.8 billion in administrative obligations to cover the \$6 billion in overaged problem disbursements. We also determined how compliance with accounting policies and procedures for researching and correcting problem disbursements affected the progress reported in reducing in-transit disbursements and problem disbursements. Specifically, we reviewed the information reported on the dollar values of in-transit disbursements and problem disbursements for which the DoD Components discontinued research, established administrative obligations, or had adjustments pending. DFAS reported that research had been discontinued on \$1.2 billion in disbursements between June 30, 1996, and June 30, 1998. Administrative obligations had been established or correcting adjustments were pending for \$2.8 billion of the \$3.8 billion in overaged problem disbursements as of June 30, 1998.

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

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

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

Objective: Eliminate problem disbursements. **Goal:** Improve the processing and control over cross-disbursements. **(FM-3.2)**

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

Methodology

We accumulated information on in-transit disbursements and problem disbursements by the reporting entities identified on the reports of the DFAS Centers. Information on DoD field activities was included with the Defense agencies. Data for three of the seven reporting entities were reported by more than one DFAS Center. Table 2 identifies the DFAS Centers that submitted data for each reporting entity for June 1998.

Reporting Entity	DFAS Cleveland	DFAS Columbus	DFAS Denver	DFAS Indianapolis	DFAS Kansas City
Army				X	
Navy	X				
Marine Corps					X
Air Force			X		
FMS	X		X	X	
Defense Agencies		X		X	
DoD Funds	X		X	X	X

We then analyzed the data for each of the seven reporting entities. We reconciled the data reported by the DFAS Centers with the data reported by DFAS headquarters. For each of the reporting entities, we determined the trends in the dollar values of aged in-transit disbursements and problem disbursements. For aged in-transit disbursements, we limited our trend analyses to the months in which the DFAS Centers reported aged in-transit disbursements as absolute dollar values. By reviewing information and holding discussions with DFAS personnel, we determined the reasons for the trends and the ongoing or planned initiatives to eliminate or reduce in-transit disbursements and problem disbursements.

We reviewed guidance issued by the USD(C), DFAS, the Military Departments, and the Defense agencies related to problem disbursements and in-transit

disbursements. We determined how compliance with policies and procedures affected the progress reported in reducing problem disbursements and in-transit disbursements.

Use of Computer-Processed Data. Computer-processed data were the source of the information used to report the dollar values of problem disbursements and in-transit disbursements on the monthly reports prepared by the DFAS Centers. Data on problem disbursements and in-transit disbursements were extracted from accounting systems and through other means. We did not test the reliability of the data. In prior audits, we performed limited testing by tracing back to source documents some data that the DFAS Centers used in their reports. We determined that the information on the source documents agreed with the computer-processed data.

Audit Period and Standards. We performed this financial-related audit from June 1998 through January 1999 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We included tests of management controls considered necessary.

Management Control Program. We did not review the management control program related to the overall audit objective because DFAS has reported the lack of an effective interface between payment systems and accounting systems as a material weakness since FY 1990. In its FY 1998 Annual Statement of Assurance, DFAS reported problems in properly matching disbursements to corresponding obligations in accounting records as a material management control weakness.

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

Appendix B. Summary of Prior Coverage

General Accounting Office

GAO Report No. AIMD-99-19 (OSD Case No. 1642), "Problems in Accounting for Navy Transactions Impair Funds Control and Financial Reporting," January 1999.

GAO Report No. AIMD-97-59 (OSD Case No. 1316), "Improved Reporting Needed for DoD Problem Disbursements," May 1997.

GAO Report No. AIMD-97-45 (OSD Case No. 1300), "Improved Management Needed for DoD Disbursement Process Reforms," March 1997.

GAO Report No. AIMD-96-82 (OSD Case No. 1149), "DoD Needs to Lower the Disbursement Prevalidation Threshold," June 1996.

GAO Report No. AIMD-95-7 (OSD Case No. 9618-A), "Status of Defense Efforts to Correct Disbursement Problems," October 5, 1994.

Inspector General, DoD

Inspector General, DoD, Report No. 98-031, "The DoD Contract Fund Reconciliation Process," December 5, 1997.

Inspector General, DoD, Report No. 98-030, "Hotline Allegations on Army National Guard Appropriations," December 3, 1997.

Inspector General, DoD, Report No. 96-156, "Implementation of the DoD Plan to Match Disbursements to Obligations Prior to Payment," June 11, 1996.

Inspector General, DoD, Report No. 96-145, "Obligation Management of Navy Appropriations," June 6, 1996.

Inspector General, DoD, Report No. 96-141, "Overdisbursed and Unreconciled DoD Contracts at the Defense Finance and Accounting Service Columbus Center," June 4, 1996.

Inspector General, DoD, Report No. 95-046, "Data Input Controls for the Mechanization of Contract Administration Services System," November 30, 1994.

Inspector General, DoD, Report No. 94-048, "Uncleared Transactions By and For Others," March 2, 1994.

Appendix C. Definitions of Technical Terms

Administrative Obligation. Unless an adjustment to a problem disbursement is pending, the fund holder should administratively record an obligation in the amount of each problem disbursement that has not been corrected within 180 days of the date of the disbursement. That obligation is referred to as an administrative obligation. Administrative obligations may be established at the detailed transaction level or at the summary level.

Fund Holder. A fund holder is an individual holding an administrative subdivision of funds or an operating target. The fund holder is responsible for incurring obligations against the administrative subdivision or operating target and for managing the use of those funds.

In-Transit Disbursement. An in-transit disbursement is a disbursement that DoD has reported to the U.S. Treasury, but either has not been received or has not been processed by an accountable station. The majority of these disbursements will be properly posted to accounting records when accountable stations process the disbursements.

Aged In-Transit Disbursements. DFAS headquarters personnel required the DFAS Centers to submit reports and other supporting data on in-transit disbursements based on various aging categories. Depending on the category of the in-transit disbursement, DFAS personnel generally considered in-transit disbursements to be aged if they had not been received or processed by an accountable station within 60 to 120 days. In-transit disbursements were aged if they were over 60 days old and the disbursing and accountable stations were assigned to the same DFAS Center, or if they were over 120 days old and the disbursing station was assigned to one DFAS Center and the accountable station was assigned to another DFAS Center, DoD Component, or Federal agency.

Valuing In-Transit Disbursements. DFAS has used various methods to value in-transit disbursements. Before June 1997, DFAS headquarters reported aged in-transit disbursements at modified absolute dollar values. In May 1997, GAO questioned the reporting of aged in-transit disbursements at modified absolute amounts because that practice understated the magnitude and seriousness of long-standing disbursing problems in DoD. The reporting of aged in-transit disbursements at an absolute amount was recommended. Using absolute amounts was the same practice used for reporting NULOs and UMDs. However, the reporting changes made it very difficult to fairly assess progress in reducing aged in-transit disbursements in months before June 1997 with June 1997 and subsequent months.

Absolute Dollar Value. The absolute amount is the numerical total of unprocessed in-transit disbursements at the lowest level available, without offsetting the positive values with negative values. Typically, the positive dollar values of disbursements would be added to the absolute dollar values of otherwise negative amounts of collections, reimbursements, and adjustments.

Net Dollar Value. The net dollar amount is computed by offsetting positive values with negative values. Typically, collections, reimbursements, and adjustments would be offset against disbursements.

Modified Absolute Dollar Value. The modified absolute amount is the nonstandard combination of absolute and net dollar values of in-transit disbursements.

Negative Unliquidated Obligation. A negative unliquidated obligation occurs when a disbursement is received, matched to an obligation, and posted to the appropriation by the accountable station, but the recorded disbursement exceeds the recorded obligation. NULOs were considered overaged when the disbursements exceeded the recorded obligations for 180 days or more.

Pending Adjustment. A pending adjustment is an adjustment that has been submitted to DFAS for posting in the official accounting records, but has not yet been posted. If the adjustment is erroneous, the adjustments should be rejected back to the submitter within 5 days or otherwise posted to the accounting records within 30 days.

Problem Disbursement. A disbursement that has not been matched to a corresponding obligation in official accounting records is considered a problem disbursement. Problem disbursements are categorized as UMDs or NULOs. DoD no longer considers in-transit disbursements to be problem disbursements.

Unmatched Disbursement. An unmatched disbursement occurs when an accountable station cannot match a disbursement to a corresponding obligation in the accounting records. For example, a disbursement is unmatched if one or more of the accounting line elements related to the disbursement, such as appropriation, fiscal year, and program code, does not match the information in the accounting records. UMDs are considered overaged when they are not properly matched to original obligations within 180 days.

Appendix D. Major Initiatives

Since FY 1990, DFAS has worked on numerous initiatives aimed at reducing or eliminating in-transit disbursements and problem disbursements. Primary emphasis has been on changing existing business processes to accelerate the posting of disbursements and collections to accounting systems and to improve the accuracy of disbursing and accounting information. The major initiatives are discussed here.

Centralized Disbursing. The goal of centralized disbursing is to centralize all disbursing functions at one site, using one disbursing station. One of the primary objectives for centralizing disbursing operations is to reduce transactions for others. Centralized disbursing requires the data to be entered only once, thus reducing chances of input errors. In addition, a point of contact is identified when entering centrally disbursed transactions. The point of contact facilitates quicker research and resolution of problem disbursements. In the current environment, centralized disbursing does not prevalidate disbursements with obligations. However, another initiative, the Operational Data Store, will allow centralized disbursing to prevalidate disbursements. The DFAS Indianapolis Center began implementing centralized disbursing in April 1996. Eventually, centralized disbursing is expected to be fully implemented throughout DFAS.

Defense Cash Accountability System. The Defense Cash Accountability System should improve the timeliness of recording in-transit disbursements by electronically transmitting collections, disbursements, and reimbursements between DFAS disbursing and accountable stations. This will be done by moving from dependence on paper to an automated process that electronically transmits collections, disbursements, and reimbursements between DFAS disbursing and accountable stations. In addition, transactions will be subject to edits that will improve the acceptability of the transactions into the accounting systems. Deployment of Phase 1 of the Defense Cash Accountability System occurred in March 1999.

Defense Procurement Payment System. The problems associated with the current processes and systems will not be overcome until the shared data environment and business process improvements expected from the Defense Procurement Payment System are achieved. This system encompasses contract and vendor payments, grants and agreements, and related accounting and disbursing functions or interfaces. The Defense Procurement Payment System will interface with the procurement community's Standard Procurement System. Preventing UMDs and eliminating NULOs are two benefits expected to be achieved. Initial fielding of the Defense Procurement Payment System is scheduled for November 1999. Full implementation of the system is planned for August 2002.

On-Line Payment and Collection. The On-Line Payment and Collection system establishes a standardized interagency billing and adjustment procedure using a telecommunications network. The system allows disbursement and collection transactions to be routed to accountable stations within 24 to 72 hours. That practice reduces in-transit disbursements. The processed information also includes a point of contact and a phone number at the

originating office. Because the disbursements are processed more quickly, problem disbursements can be identified, researched, and corrected sooner. The first trading partnership agreements between DFAS organizations using the On-Line Payment and Collection system were signed in September 1997.

Prevalidation. The prevalidation process requires disbursing officials to determine, before making payments, that each line of accounting to be charged represents a valid obligation, and that the unliquidated obligation balance is equal to or greater than the proposed disbursement. In verifying the unliquidated obligation balance, officials must also consider other proposed disbursements that were previously validated but not recorded as disbursed. The FY 1995 Department of Defense Appropriations Act required that invoice payments exceeding \$5 million be prevalidated beginning on July 1, 1995. The legislation also required that the dollar threshold for prevalidating invoice payments be lowered to \$1 million effective October 1, 1995. The Department of Defense Appropriations Act, FY 1996, amended the FY 1995 legislation by keeping the threshold at \$5 million. Senate Report No. 104-286, which accompanied the Department of Defense Appropriations Act for FY 1997, required the prevalidation of all invoices paid by the DFAS Columbus Center on contracts issued on or after October 1, 1996. The Mechanization of Contract Administration Services (MOCAS) system is the primary DoD contract entitlement and payment system used by the DFAS Columbus Center. The FY 1997 legislation also required the threshold for contract payments made using the MOCAS system be lowered to \$3 million by June 30, 1997.

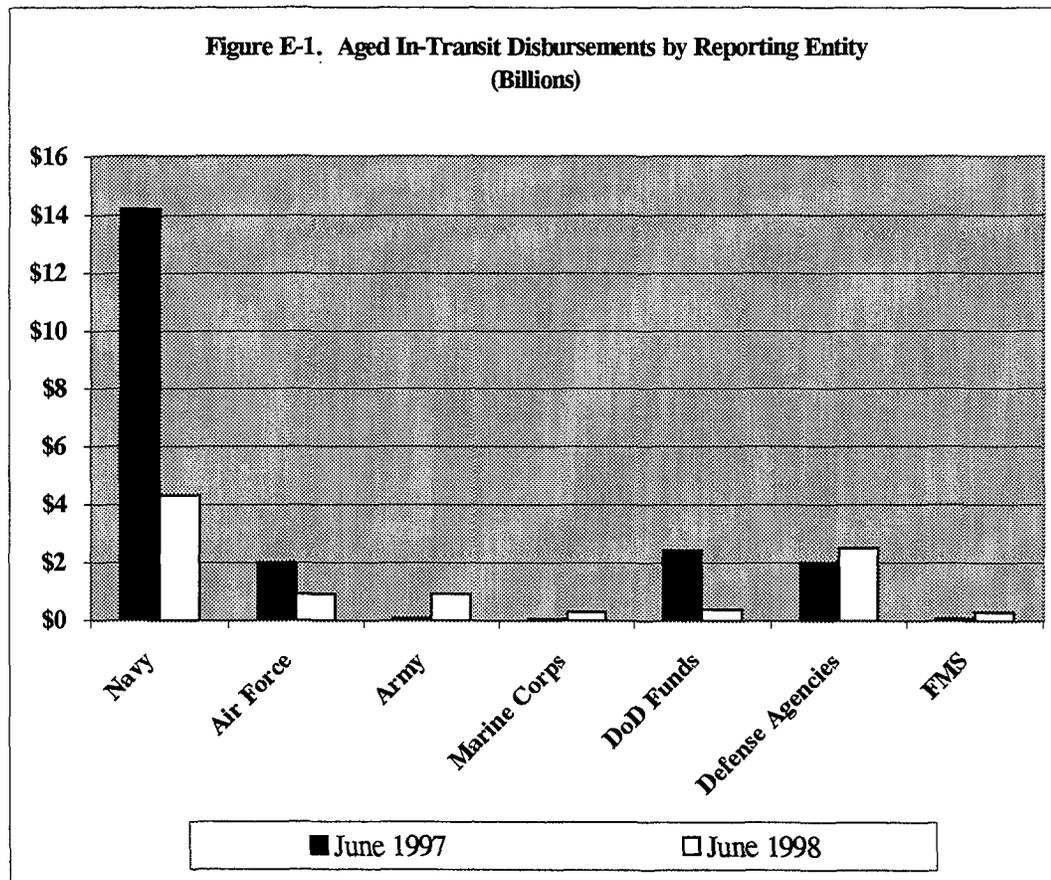
In response to the FY 1997 legislation, the USD(C) developed two plans for matching disbursements to particular obligations before making the disbursements. The first plan provided a reasonable approach for lowering the threshold to \$1 million at the DFAS Columbus Center. The second plan provided for lowering the threshold to zero dollars by October 1, 1998, for all contract and vendor payments paid by other than the MOCAS system. This plan proved to be optimistic. For contracts awarded before FY 1997, contract payments made by the MOCAS system would be incrementally decreased to zero by June 30, 2000. The Department of Defense Appropriations Act for FY 1998 established the dollar threshold at \$1 million. For contracts issued after October 1, 1996, the DFAS Columbus Center was prevalidating all invoices valued at \$2,500 or more using the MOCAS system. However, on December 17, 1998, the USD(C) temporarily raised the threshold to \$500,000. On March 9, 1999, the temporary increase in the threshold was extended for another 90 days. DoD intends to prevalidate all payments to contractors and vendors after system enhancements are made.

Transaction For Others Cell. The Transaction for Others Cell within a disbursing station receives invoices from contractors and accesses the entitlement system supporting the lines of accounting associated with the invoices. "Transactions for others" thus become "transactions for self." This significantly reduces the time transactions are in transit between the disbursing station and the accountable station and reduces, but does not eliminate, problem disbursements. Problem disbursements should be reduced to the extent that the payments are prevalidated. Initial use of the Transactions For Others Cell began in April 1997, and in April 1998, DFAS expanded the use of the initiative. About 25 of the 233 sites connected as of June 30, 1998, had been connected before April 1, 1998.

Appendix E. Progress Reported by Entities

The DFAS Centers reported that most of the reporting entities made progress in reducing aged in-transit disbursements, UMDs, and NULO. Progress in reducing both categories of disbursing problems was reported by the Navy, the Air Force, the Marine Corps, and FMS. However, limited progress was reported for the Army, Defense agencies, and DoD funds allocated to the Services.

Aged In-Transit Disbursements. Changes in reporting the dollar values of aged in-transit disbursements made assessing progress difficult. DFAS reported aged in-transit disbursements for each DoD entity at a modified absolute amount for the period June 30, 1996, to May 30, 1997, and at an absolute amount between June 30, 1997, and June 30, 1998. Because of the change in reporting, we analyzed the progress made beginning in June 1997. Figure E-1 shows the progress each entity made in reducing aged in-transit disbursements.



Navy. The DFAS Cleveland Center reported that the Navy made significant progress in reducing aged in-transit disbursements. From June 1997 to June 1998, aged in-transit disbursements decreased by \$9.9 billion from \$14.2 billion to \$4.3 billion. About \$1 billion of the reduction was caused by discontinuing the reporting of Disbursing Officer suspense accounts as in-transit disbursements (see Finding B). Progress in reducing aged in-transit disbursements can be attributed to the management emphasis on reducing in-transit disbursements.

Air Force. Aged in-transit disbursements decreased from about \$2 billion in June 1997 to \$877 million in June 1998, a reduction of about 55 percent. The decrease was attributed to management interest in the clearance of suspense accounts and the development of initiatives to reduce the number of transactions for others.

Army. Aged in-transit disbursements increased from \$0.8 billion in June 1997 to \$0.9 billion in June 1998. The DFAS Indianapolis Center reported aged in-transit disbursements for the Army at a modified absolute dollar value (Finding B).

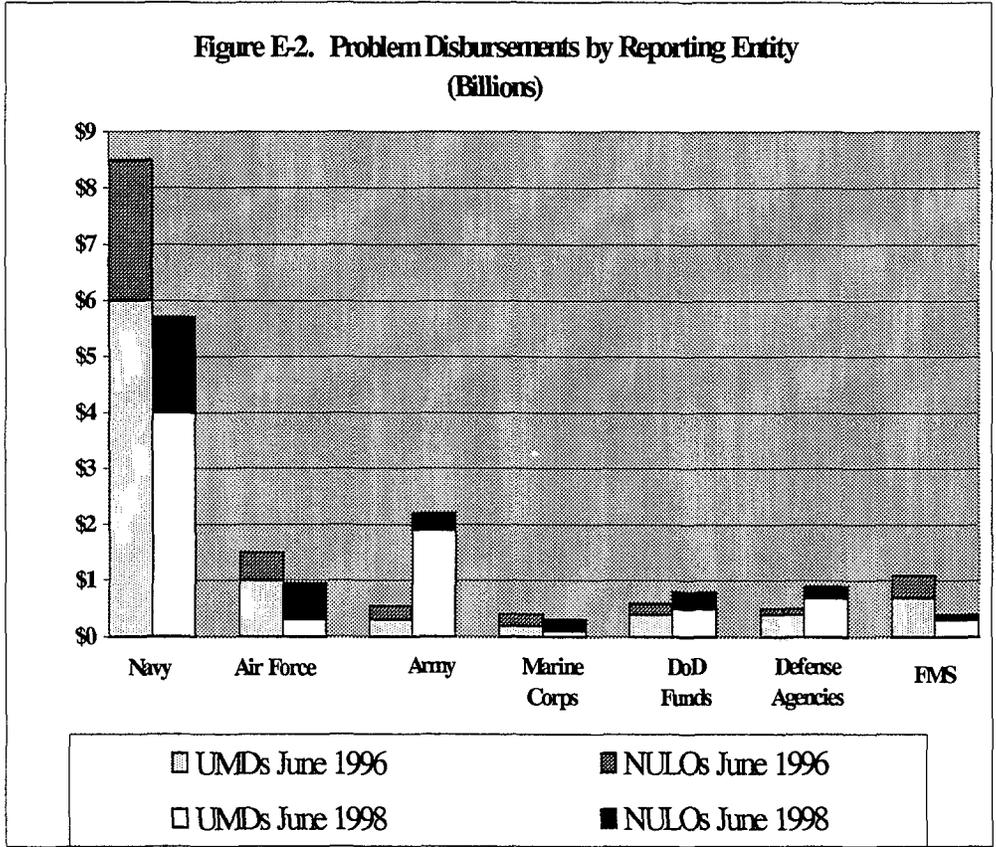
Marine Corps. Aged in-transit disbursements decreased from \$0.7 billion to \$0.3 billion, a reduction of about \$400 million (57 percent). The reduction was the result of increased management emphasis on clearing aged in-transit disbursements and correcting system errors that would not allow in-transit disbursements to be processed.

DoD Funds Allocated to the Services. Aged in-transit disbursements for DoD funds allocated to the Services decreased from \$2.4 billion to \$0.4 billion between June 1997 and June 1998, a reduction of 83 percent. Progress in reducing aged in-transit disbursements was attributed to management emphasis on reducing in-transit disbursements.

Defense Agencies. Aged in-transit disbursements reported for the Defense agencies increased from \$2 billion to \$2.5 billion, an increase of 25 percent. The DFAS Columbus Center reported that for the Defense agencies for which it reported, aged in-transit disbursements decreased from \$470 million to \$392 million. For the Defense agencies for which the DFAS Indianapolis Center reported, aged in-transit disbursements increased from \$1.6 billion to \$2.1 billion, an increase of 31 percent.

Foreign Military Sales. Aged in-transit disbursements for FMS decreased from \$0.7 billion to \$0.3 billion, a reduction of 57 percent.

Problem Disbursements. Most of the DoD entities made progress in reducing UMDs and NULOs between June 30, 1996, and June 30, 1998. The information reported for the Army, DoD funds allocated to the Services, and Defense agencies indicated a lack of progress. Figure E-2 shows the progress made by each entity.



Navy. For the Navy, UMDs and NULOs decreased between June 1996 and June 1998. UMDs decreased from \$6 billion to \$4 billion, a reduction of 33 percent. NULOs decreased from \$2.5 billion to \$1.7 billion, a reduction of 32 percent. However, a significant part of the reductions was attributed to the Navy discontinuing research on \$1.2 billion in problem disbursements. Management emphasis has also resulted in reductions in problem disbursements. For example, in July 1997, the Navy and DFAS Cleveland Center personnel emphasized the need to reduce high-dollar-value problem disbursements. As a result, UMDs were reduced by \$943 million. In August 1997, UMDs decreased by \$414 million after management devoted resources to researching and correcting certain types of UMDs. Recent trends indicate more progress in reducing the newer UMDs. Between September 1997 and June 1998, UMDs less than 181 days old decreased by 20 percent, while older UMDs (those more than 180 days old that were made since March 31, 1994) increased by 60 percent. Further, between March 1998 and June 1998, NULOs increased by about 36 percent.

Air Force. Overall, problem disbursements decreased by \$638 million, or 40 percent. The DFAS Denver Center reported that the Air Force made significant progress in reducing UMDs. Between June 1996 and June 1998, UMDs decreased by \$689 million, or about 66 percent. Increased emphasis on clearing rejected contract payment notices led to the reduction. Rejected contract payment notices accounted for a majority of the Air Force UMDs. DFAS Denver Center personnel identified and implemented system changes to allow previously rejected transactions to be posted to the accounting records. The system changes significantly reduced UMDs, but increased the dollar value of NULOs. Primarily as a result of the system changes, the NULOs for the Air Force increased by \$51 million, or 10 percent. The system changes allowed more accurate accounting for problem disbursements.

Army. UMDs for the Army increased significantly. Between June 1996 and June 1998, the DFAS Indianapolis Center reported that UMDs increased from \$0.3 billion to \$1.9 billion, or 533 percent. Most of the increase was attributed to improved reporting. Between April 1997 and July 1997, UMDs for the Army increased by \$1.5 billion when the DFAS Indianapolis Center reclassified partial clearances from aged in-transit disbursements to UMDs. Other reporting changes occurred when the DFAS Indianapolis Center identified Army activities that had not been reported previously and changed its aging procedures to agree with DFAS guidance. The NULOs for the Army increased from \$201 million to \$323 million, or 61 percent. The increase was also primarily attributable to more complete and better reporting of NULOs.

Marine Corps. The Marine Corps reduced UMDs from \$251 million to \$98 million, or 61 percent. NULOs also decreased from \$154 million to \$130 million, or 16 percent. The Marine Corps reported progress in reducing UMDs, despite system changes made by the DFAS Kansas City Center. Changes to the Standard Accounting and Reporting System-One Bill Pay increased the number of UMDs. The DFAS Kansas City Center also converted to the new Standard Accounting, Budget and Reporting System 2. The conversion initially caused both UMDs and NULOs to increase because the system recognized UMDs and NULOs that had not been reported previously.

DoD Funds Allocated to the Services. The DFAS Centers reported increases in UMDs and NULOs for DoD funds allocated to the Services. UMDs increased from \$0.4 billion to \$0.5 billion, and NULOs increased from \$0.2 billion to \$0.3 billion.

UMDs decreased from \$354 million to \$251 million for three (the Navy, the Air Force, and the Marine Corps) of the four Services. The reductions reported for the Navy, the Air Force, and the Marine Corps were the result of management emphasis on researching and correcting UMDs. The \$103 million reduction reported for the Navy, the Air Force, and the Marine Corps was offset by a \$191 million increase for the Army. The DFAS Indianapolis Center

reported that UMDs for the Army increased from \$64 million to \$255 million, or 298 percent. The increase in UMDs for the Army was primarily attributed to the reclassification of aged in-transit disbursements to UMDs.

NULOs related to DoD funds allocated to the Services increased by \$97 million. The Navy decreased NULOs by \$6 million, but for the Army, the Air Force, and the Marine Corps, NULOs increased by \$103 million. The primary reasons for the increases were improved reporting of contract payment notices and the consolidation of finance and accounting operations into Operating Locations under the DFAS Centers.

Defense Agencies. The Defense agencies have not made progress in reducing problem disbursements. The DFAS Centers reported that problem disbursements increased by about \$0.3 billion. For the Defense agencies reporting through DFAS Indianapolis Center, UMDs increased by \$431 million, or 230 percent, but the Defense agencies reporting through the DFAS Columbus Center reduced UMDs by \$157 million, or 84 percent. The increase occurred because the DFAS Indianapolis Center improved its reporting of UMDs. Similarly, NULOs of the Defense agencies reporting through the DFAS Indianapolis Center increased by \$35 million, or 27 percent, while NULOs for Defense agencies reporting through the DFAS Columbus Center decreased by \$7 million, or 15 percent.

Foreign Military Sales. Two of the three DFAS Centers reported progress in reducing UMDs for FMS. The DFAS Cleveland Center and the DFAS Denver Center reported that UMDs decreased by \$472 million. However, the DFAS Indianapolis Center reported that UMDs increased by \$145 million. The change in reporting of partial clearances from aged in-transit disbursements to UMDs contributed to the increase reported by the DFAS Indianapolis Center. Each of the three DFAS Centers reported a reduction in NULOs for FMS. Overall, NULOs decreased by about \$107 million.

Appendix F. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Director for Accounting Policy
Assistant Secretary of Defense (Public Affairs)
General Counsel

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, Ballistic Missile Defense Organization
Director, Defense Advanced Research Projects Agency
Director, Defense Commissary Agency
Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Information Systems Agency
Director, Defense Intelligence Agency
Inspector General, Defense Intelligence Agency
Director, Defense Legal Services Agency
Director, Defense Logistics Agency
Director, Defense Security Cooperation Agency
Director, Defense Threat Reduction Agency
Director, National Imagery and Mapping Agency
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Non-Defense Federal Organizations and Individuals

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

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

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

Under Secretary of Defense (Comptroller) Comments



COMPTROLLER

UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

APR -9 1999



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

SUBJECT: Draft Audit Report on Trends and Progress in Reducing Problem Disbursements
and In-Transit Disbursements (Project No 8FI-2019)

This is a joint Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) and
Defense Finance and Accounting Service interim response to the subject draft audit report

The Department has made significant progress in reducing the amount of problem
disbursements. This progress has been achieved through manual intervention and research.
However, the primary cause of problem disbursements is that automated systems used by the
Department's accounting and disbursing offices cannot effectively communicate with each other.
The long-term solution is a systems solution, which the Department is aggressively pursuing.
The systems solutions being pursued by the Department include the following:

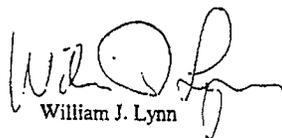
- The Department is pursuing a contract database that would be shared by two future standard
systems--the Standard Procurement System and the Defense Procurement Payment System.
The shared database would be the single source for all contract management, payment, and
accounting data for contracts.
- For other than contracts, the Department is pursuing a similar approach whereby a standard
disbursement system would be used throughout the Department and would be properly
interfaced with the Department's accounting systems. Additionally, the Department has an
extensive business process reengineering effort under way to improve its disbursement
process and its ability to match disbursements to obligations in a more timely manner.
- The Department anticipates that its business process reengineering effort, the implementation
of the two new systems (the Standard Procurement System and the Defense Procurement
Payment System) and its prevalidation initiative will be the catalysts for a continuation of a
steady reduction in problem disbursements.

In spite of the significant progress made by the Department, more needs to be done to
reduce problem disbursements in the interim period while system changes are being
implemented. However, the withholding or withdrawal of funds when a Department of Defense
Component fails to record obligations, as recommended in the report, is not a feasible solution.
The withholding or withdrawal of funds, by itself, does not ensure that funds are obligated in

accordance with current policies. Additionally, the withdrawal of funds could result in unintended Antifefficiency Act violations.

Although this office believes that the long-term solution is system changes, identifying obstacles to establishing obligations for problem disbursements, as recommended in the report, is a realistic approach to developing desirable short-term solutions. In the meantime, this office will continue to review current policies to determine if other interim changes are justifiable and if they would be beneficial.

The OUSD(C) appreciates the opportunity to comment on the draft report. My point of contact on this matter is Ms. Sally Matiella. She may be reached by e-mail: matiells@osd.pentagon.mil or by telephone at (703) 697-8281.



William J. Lynn

Department of the Army Comments



REPLY TO
ATTENTION OF

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

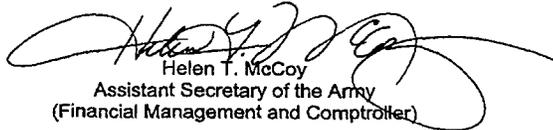
March 22, 1999

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

SUBJECT: Draft Audit Report on Trends and Progress in Reducing
Problem Disbursements and In-Transit Disbursements
(Project No. 8FI-2019)

I have reviewed the subject draft report and have asked my Deputy Assistant Secretary of the Army (Financial Operations) to meet with your Director of Finance and Accounting on March 29, 1999. The recommendations you offer present even greater problems than the issues they seek to correct, in my view. Our specific comments to each are provided.

Questions concerning these comments should be directed to my action officer, Mr. Ron Jones at (703) 693-5670 or email jonesrh@hqda.army.mil.


Helen T. McCoy
Assistant Secretary of the Army
(Financial Management and Comptroller)

Attachment

CF:
USD(C)
Director, DFAS-HQ

Printed on  Recycled Paper

Comments

Draft Audit Report on Trends and Progress in Reducing Problem Disbursements and In-Transit Disbursements (Project No. 8FI-2019)

Recommendation A.1.a. Recommend that the Under Secretary of Defense (Comptroller) establish a policy of withholding or withdrawing the funds necessary to cover overaged problem disbursements if DoD fund holders do not establish administrative obligations or if the overaged problem disbursements are not covered by pending adjustments.

ASA(FM&C) comments. Nonconcur. Notwithstanding the procedural validity of pulling back funds to cover overaged problem disbursements, the simple fact of diverting millions or billions of dollars from ongoing Army programs, will result in a devastating decrease in readiness and/or modernization. As of January 1999, Army had unmatched disbursements (UMDs) of \$2.8 billion (net) and negative unliquidated obligations (NULO) of \$875 million (net), of which \$242 million (net) and \$46 million (net) respectively, are overaged and would require obligation

We see this recommendation not as a fiscal stewardship issue but rather as one of systems integration, interoperability and availability. A better solution is to: i) fix the accounting processes and systems first to avoid problem disbursements; and ii) allow the financial management community to work down the existing mass of problem disbursements. In most instances the original obligation is posted in the accounting system. Interoperability problems prevent that obligation from being matched to the proper disbursement. Aside from the programmatic effect of diverting funds to administratively cover problem disbursements, the additional workload required to identify and make available these funds have the effect of decreasing the amount of time these same analysts have to research existing problem disbursements.

Recommendation A.1.b. Recommend that the Under Secretary of Defense (Comptroller) require that the Assistant Secretaries of the Army, Navy, and Air Force (Financial Management and Comptroller) and the Comptrollers of Defense Agencies, in coordination with the Defense Finance and Accounting Service, develop a plan that identifies the obstacles to establishing administrative obligations for overaged problem disbursements and aged in-transit disbursements and that contains steps and milestones for overcoming those obstacles.

ASA(FM&C) comments. Nonconcur with the recommendation as written, for reasons given in A.1.a above. However, if the words "establishing administrative

obligations for" are deleted, and the word "eliminating" is added, then it becomes a valuable recommendation the Army would concur with.

Recommendation A.1.c. Recommend that the Under Secretary of Defense (Comptroller) coordinate with the DoD components and the Defense Finance and Accounting Service to prioritize and implement effective solutions for eliminating existing problem disbursements and preventing the creation of new problem disbursements.

ASA(FM&C) comments. Concur. We agree that a well-coordinated and well-thought out plan is sorely needed which: i) pinpoints true root causes, not just the effect or symptom of a problem; ii) assigns specific responsibilities between USD(C), DFAS and the Services; iii) estimates in dollar values the projected reductions in problem disbursements to be achieved by the specific actions; and iv) lays out realistic timelines for task completion. The thrust of the audit recommendations should be to encourage leadership on the part of USD(C) and not compliance mandates on administrative obligations that cannot be implemented.

Recommendation B. This recommendation lists various actions by the Director, Defense Finance and Accounting Service, to strengthen collection, compilation, and reporting of problem disbursements.

ASA(FM&C) comments. Concur, except for reporting methodology. The DFAS methodology to report UMDs in absolute value may be flawed and may overstate UMDs. The DFAS uses the net value methodology to manage in-transit disbursements. We believe this methodology is more appropriate than the absolute value methodology and should also be applied to UMDs.

Audit Team Members

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

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