DEPARTMENT OF DEFENSE

SUMMARY REPORT

DEMONSTRATION PROJECT FOR UNIFORM FUNDING OF MORALE, WELFARE, AND RECREATION ACTIVITIES

Report No. 99-206 July 8, 1999

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Acronyms

AAA	Army Audit Agency
AFAA	Air Force Audit Agency
APF	Appropriated Fund
ASD(FMP)	Assistant Secretary of Defense (Force Management Policy)
IMPAC	International Merchant Purchase Authorization Card
MCNAFAS	Marine Corps Nonappropriated Fund Audit Service
MWR	Morale, Welfare, and Recreation
NAF	Nonappropriated Fund
NAS	Naval Audit Service

INSPECTOR GENERAL
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July 8, 1999

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (FORCE MANAGEMENT POLICY)

SUBJECT: Summary Report on the Demonstration Project for Uniform Funding of Morale, Welfare, and Recreation Activities (Report No. 99-206)

We are providing this summary report for your information and use. The review was requested by your predecessor. The Office of the Inspector General coordinated the results of several audits that were completed by the Army Audit Agency, Naval Audit Service, Air Force Audit Agency, and Marine Corps Nonappropriated Fund Audit Service. This report contains no recommendations and written comments are not required.

As you requested, the results of the Service audit organization efforts were provided informally to your staff throughout the Uniform Resource Demonstration project. In addition, my staff presented a formal briefing on the objectives and results of the review of the Uniform Resource Demonstration project to senior DoD management on April 1, 1999. The final reports from the Service audit organizations are included as exhibits to this summary report.

We appreciate the courtesies extended to the Service audit organization personnel and the representative from the Inspector General, DoD. Questions on the summary report should be directed to Mr. Michael A. Joseph (mjoseph@dodig.osd.mil) at (757) 766-2703. See Appendix D for the report distribution. The Inspector General, DoD, and Service audit organization team members are listed inside the back cover.

David K. Steensma

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Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 99-206 **July 8, 1999**
(Project No. 9LF-9022)

Summary Report on the Demonstration Project for Uniform Funding of Morale, Welfare, and Recreation Activities

Executive Summary

Introduction. Section 335 of the "National Defense Authorization Act for Fiscal Year 1996" established the requirement for DoD to conduct a 2-year demonstration project to determine the feasibility of uniform funding of morale, welfare, and recreation (MWR) activities at military installations. Under the Uniform Resource Demonstration project (the demonstration project), the appropriated funds available for the MWR programs were expended following the laws and regulations applicable to nonappropriated funds. The DoD-wide demonstration project was conducted at six installations: two Army, two Navy, one Air Force, and one Marine Corps.

In May 1996, the Assistant Secretary of Defense (Force Management Policy) established procedures to conduct the demonstration project, including a requirement for Army Audit Agency, Naval Audit Service, Air Force Audit Agency, and Marine Corps Nonappropriated Fund Audit Service (the Service audit organizations) audits. On February 9, 1998, the Assistant Secretary expanded the auditors' role in the demonstration project and requested that the Inspector General, DoD, coordinate an effort to review the project.

Objectives. The overall objective was to evaluate the demonstration project for the uniform funding of MWR activities. Specifically, the Service audit organizations evaluated baseline and/or project documentation at the six demonstration locations. Additionally, the organizations evaluated the management controls established to ensure that appropriated funds, used during the demonstration project to facilitate the hiring of employees and procurement of property and services, were used as permitted by section 35 of the "National Defense Authorization Act for Fiscal Year 1996." The Office of the Inspector General, DoD, coordinated the joint review effort.

Results. The demonstration project provides DoD with a reasonable basis for decisionmaking regarding the feasibility of using uniform funding to support MWR programs DoD-wide. Specifically:

- data provided in demonstration site final reports were reasonably accurate and sufficient, after audit adjustments were made, to support decisionmaking and

- management controls over appropriated funds were adequate and funds generally were used for authorized purposes and in accordance with applicable laws and regulations.

Based on the demonstration project, DoD can report to Congress that the use of uniform funding to support MWR programs provides the opportunity for improved MWR services through efficiencies in procurement and personnel processes. However, we believe the report to Congress should recognize that other ongoing initiatives affected the assessment of the demonstration project. Additionally, DoD-wide implementation of the uniform funding concept requires resolution of several issues identified during the demonstration project. The issues included accountability and reporting requirements related to the disbursement of appropriated funds to nonappropriated fund activities, personnel practices and liability issues, and the perception that permanent implementation of uniform funding would result in a loss of appropriated fund support to nonappropriated fund activities.

Management Actions. Throughout the demonstration project, the Service auditors coordinated their results with managers at the demonstration sites. Demonstration site annual reports were adjusted to correct inaccuracies identified by the auditors. Additionally, the Service auditors raised systemic issues to the demonstration project working groups through the Office of the Inspector General, DoD, representative. The Army chaired a task group at the end of the demonstration project to address all issues identified during the demonstration project by the auditors and the demonstration participants. Because the issues identified by the Service auditors are being addressed, we made no recommendations in this report.

Limitations. At some demonstration sites, limited numbers of comparable personnel or procurement transactions were processed. Additionally, some demonstration sites did not provide specific examples in the narrative portions of the annual reports. Accordingly, the Service auditors' conclusions on specific measures of success at individual demonstration sites are based on small sample sizes or other information, when possible. Despite limitations on available data at individual sites, we believe sufficient data were available for the overall demonstration to provide DoD with an adequate basis for decisionmaking.

Management Comments. Because this report contains no recommendations, management comments are not required.

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Exhibits

1. Army Audit Agency Report No. 99-193, "FY 1998 Annual Validation-Demonstration Project for Uniform Funding of Morale, Welfare, and Recreation Activities," March 15, 1999.
2. Naval Audit Service Report No. 035-99, "Uniform Resource Demonstration Project at Selected Morale, Welfare, and Recreation Activities," May 11, 1999.
3. Air Force Audit Agency Memorandum, "Uniform Resource Demonstration Test Project (Project 98051019)," June 29, 1999.
4. Marine Corps Nonappropriated Fund Audit Service Report No. 01502990124, "Financial Related Audit of Uniform Resource Demonstration Test," December 2, 1998.

Background

The "National Defense Authorization Act for Fiscal Year 1996" (the Act) required the Secretary of Defense to "...conduct a demonstration project to evaluate the feasibility of using only nonappropriated funds to support morale, welfare, and recreation programs at military installations in order to facilitate the procurement of property and services for those programs and the management of employees used to carry out those programs." To accomplish the procurement and personnel objectives of the demonstration project, the Act stated:

> a) procurements of property and services for MWR [morale, welfare, and recreation] programs may be carried out in accordance with laws and regulations applicable to procurements paid for with nonappropriated funds; and
>
> b) appropriated funds available for such programs may be expended in accordance with laws applicable to expenditures of nonappropriated funds as if the appropriated funds were nonappropriated funds.

On May 30, 1996, the Assistant Secretary of Defense (Force Management Policy) (ASD[FMP]) provided procedures to conduct the demonstration project at six installations to evaluate the feasibility of uniform funding to support morale, welfare, and recreation (MWR) programs. For purposes of this report, uniform funding refers to the use of appropriated funds (APF) consistent with laws and regulations applicable to nonappropriated fund (NAF) activities. The procedures included a requirement that each DoD Component conduct an audit of the demonstration project. The ASD(FMP) stated that the demonstration project would begin October 1, 1996, and conclude on September 30, 1998.

In September 1997, the Joint Audit Planning Group for Quality of Life began working with the Office of the ASD(FMP) to determine the appropriate role for the audit community in the demonstration project.

On February 9, 1998, the then Acting ASD(FMP) amplified the audit requirements and requested that the Army Audit Agency (AAA), Naval Audit Service (NAS), Air Force Audit Agency (AFAA), and Marine Corps Nonappropriated Fund Audit Service (MCNAFAS), (hereafter referred to as the Service audit organizations) validate project data reported by the six military installations and evaluate the management controls over APFs used during the demonstration project. Because the Service audit organizations were involved with the project to varying degrees at that time, the audit role was clarified through discussions between the Joint Audit Planning Group for Quality of Life and personnel from the Office of the ASD(FMP).

Demonstration Project Sites. Six installations participated in the demonstration project: Fort Campbell, Kentucky; White Sands Missile Range, New Mexico; Naval Submarine Base Bangor, Washington; Naval Submarine Base, Kings Bay, Georgia; Nellis Air Force Base, Nevada; and Marine Corps Air Ground Combat Center, Twenty-nine Palms, California.

Morale, Welfare, and Recreation Activities. MWR organizations provide for the comfort and mental and physical improvement of authorized DoD personnel, by providing recreational and self-development programs, resale merchandise and services, or general welfare. Depending on the nature of individual types of MWR activities, some will be operated and maintained wholly or predominately with APFs, while others will be operated and maintained wholly or predominately with NAFs. NAFs are cash and other assets received from sources other than funds appropriated by Congress. NAFs are Government funds and are used for the collective benefit of military personnel and their dependents and authorized civilians.

Objectives

The overall objective was to evaluate the demonstration project for the uniform funding of MWR activities. The Service audit organizations evaluated baseline and/or project information at the six demonstration sites. Additionally, the organizations evaluated the management controls established to ensure that APFs, used during the demonstration project to facilitate the hiring of employees and procurement of property and services, were used as permitted by the Act. The final reports from the Service audit organizations on the six demonstration sites are at Exhibits I through IV. A representative from the Office of the Inspector General, DoD, as chair of the Joint Audit Planning Group for Quality of Life, served as a facilitator in coordinating the joint review effort. See Appendix A for a discussion of the review scope and methodology and Appendix C for a list of related reports issued by the Service audit organizations.

Adequacy of the Demonstration Project

The demonstration project provides DoD with a reasonable basis for decisionmaking regarding the feasibility of using uniform funding to support MWR programs DoD-wide. Specifically:

- data provided in demonstration project site final reports were reasonably accurate and sufficient, after audit adjustments were made, to support decisionmaking and
- management controls over APFs were adequate and funds generally were used for authorized purposes and in accordance with applicable laws and regulations.

Based on the demonstration project, DoD can report to Congress that the use of uniform funding to support MWR programs provides the opportunity for improved MWR services through efficiencies in procurement and personnel processes. However, we believe the report to Congress should recognize that other ongoing initiatives affected the assessment of the demonstration project. Additionally, DoD-wide implementation of the uniform funding concept requires resolution of several issues identified during the demonstration project.

Background

The ASD(FMP) issued instructions for implementation of the demonstration project on May 30, 1996. The guidance included test site nomination criteria; procurement, personnel, and financial guidance; reporting and oversight procedures; and project milestones. The ASD(FMP) directed the establishment of five working groups with membership from the Office of the Secretary of Defense and the Services. The groups were child care, finance, MWR programs, personnel, and procurement. The Office of the Deputy Assistant Secretary of Defense (Personnel Support, Families, and Education) was responsible for coordinating the demonstration project.

Demonstration Project Provides a Reasonable Basis for Decisionmaking

The demonstration project provides DoD with a reasonable basis for decisionmaking on the future use of uniform funding to support MWR programs. The May 30, 1996, guidance from the ASD(FMP) included detailed reporting requirements for the six demonstration sites. However, the guidance did not include specific goals or performance measures. The audit community questioned the lack of specific performance measures and questioned the usefulness of some of the data required of the demonstration sites. As a result, audit representatives worked with the demonstration project working groups to establish specific goals and measures of success for personnel and procurement areas. See Appendixes A and B for a discussion of the performance measures.

Issues related to child development and MWR programs involved personnel or procurement issues rather than unique child development and MWR program issues.

As a result, separate goals, performance measures, and reports were not considered necessary for 1998. That decision was consistent with the Act, which emphasized that the demonstration project was to evaluate whether uniform funding facilitated the procurement of property and services and the management of employees. The finance area represented the fiscal and management control constraints within which the demonstration project must operate. Accordingly, separate goals and measures of success were not developed; however, the finance group continued with the unique reporting requirements that it deemed necessary to facilitate final report preparation and to assist in ensuring proper use of APFs during the demonstration project.

In addition, the audit representatives coordinated with the demonstration project working groups to determine the most appropriate sources and scope of information required to complete each of the measures of success. The 1998 demonstration project site reports were based on the revised reporting requirements. We believe the demonstration project, with its focus on the measures of success, provides DoD with a reasonable basis on which to make decisions regarding the future of uniform funding for MWR programs DoD-wide.

Accurate and Sufficient Information

Data provided in the FY 1998 demonstration project site reports were reasonably accurate, after audit modifications were made, to support decisionmaking by DoD managers regarding the future of uniform funding for MWR programs. Additionally, we believe that despite limited transactions related to some measures of success, the demonstration process provided sufficient data to support decisionmaking.

The Service auditors evaluated the accuracy of the 1998 annual reports that were prepared based on reporting requirements established to address the measures of success. The AFAA worked on the Air Force demonstration project site report as it was being prepared and provided corrections to MWR management before the annual report was submitted. For example, the initial test report for FY 1998 overstated appropriated and nonappropriated fund procurement actions and related monetary values, and omitted processing times. Air Force management corrected the errors and used procurement lead times that the auditors calculated based on purchase requests and purchase orders.

The other Service audit organizations reviewed the reports and provided suggested modifications after the demonstration project sites officially submitted the reports. For example, NAS reported that procurement data in the original 1997 and 1998 reports at one demonstration site was inaccurate, unsupported, or unavailable. The NAS auditors were able to reconstruct most of the required test data.

Each of the Service audit organizations concluded, after suggested modifications or resubmissions were made, that the information in the annual reports was accurate. The reports from the Service audit organizations on the 1998 demonstration project site reports are in the exhibits.

The demonstration project working groups reached conclusions about the measures of success based on site visits, site reports, customer surveys, and audit reports. We believe this mix of information provided sufficient data to support decisionmaking despite the fact that, at individual sites, limited personnel or procurement transactions were processed for specific measures or that specific narrative examples were not

provided in the demonstration project site annual reports. For example, to evaluate the timeliness of procurement processes for APF and NAF, the Service auditors attempted to validate procurement cycles for International Merchant Purchase Authorization Card (IMPAC) purchases independent of non-IMPAC purchases. At one Navy site, NAS excluded IMPAC purchases from the comparison because MWR organizations did not maintain supporting documentation. However, a similar comparison of cycle times for IMPAC purchases was made at the other Navy demonstration site, as well as the two Army demonstration project sites. Similarly, the auditors were asked to validate narrative examples associated with the measure of success for the ease of procurement transactions. Although the narrative of the Army site reports did not contain specific examples related to the measure, AAA was able to validate the Army conclusion by flow charting the APF and NAF procurement processes.

Adequacy of Management Controls Over APFs

The Service auditors reviewed management controls over the demonstration project to determine whether funds were properly spent on qualified MWR expenses and whether nonappropriated fund laws and regulations were followed at the demonstration sites. The auditors identified control deficiencies that related to inadequate guidance and supervision, missing documentation, and improper recording of transactions; however, the Service audit organizations determined that the deficiencies were not material. They concluded that controls were adequate over the use of APFs during the demonstration project and that funds were generally used for authorized purposes and in accordance with appropriate laws and regulations. The Service audit organization reports in Exhibits I through IV discuss the management controls.

Effect of Concurrent Initiatives on the Demonstration Project Assessment

The report to Congress should recognize that other factors beyond the control of demonstration project working groups affected the assessment of the demonstration project. For example, the IMPAC was implemented concurrently with the demonstration project for procurement of supplies and services. Use of the IMPAC shortened procurement delivery times. However, the demonstration project NAF IMPAC process was generally faster than the APF IMPAC process.

DoD procurement offices underwent significant reengineering efforts to increase operational efficiencies. For example, the use of electronic mail and the Internet, an emphasis towards paperless contracting, and an increase in limits on government credit cards contributed to shorter procurement processing times for commercial items. While the NAF procurement process was shorter than the APF process during the demonstration project, the timing differences between the APF and NAF procurement processes may be reduced as a result of such reengineering efforts.

Resolution of Issues Required for Implementation of the Uniform Funding Concept

The joint review identified several issues that needed to be addressed if the uniform funding concept was to be implemented on a permanent basis. The issues were:

- accounting requirements for tracking funds,
- disbursement of APFs to NAF organizations and related accountability issues,
- on-the-job accidents and related insurance issues,
- hiring personnel above approved full-time equivalent authorizations, and
- concern about losing APF support.

Reporting requirements during the demonstration project were significant and demanded the manipulation of data from all existing accounting systems except the Army. If implemented on a permanent basis, reporting requirements should be modified to allow the Services to use existing systems to satisfy reporting requirements. That is reasonable considering the Service audit organizations deemed management controls adequate to protect Government resources.

When APF funds were disbursed to MWR organizations, issues surfaced related to the accountability, insurance, maintenance, and disposal of assets acquired with such funds. For example, if such assets are disposed of, does the APF or MWR organization receive the proceeds.

A third issue involved on-the-job accidents and related insurance issues for employees paid with APFs disbursed to the MWR organizations during the demonstration project. The question was asked who was liable for the injuries suffered by such an employee. Another issue concerned the authority to use the disbursed APFs to hire above the level of full-time equivalents authorized for the entity that disbursed the APF.

The final issue was the concern that APF support would be lost because of how the execution of full-time equivalents related to the disbursed APF funds would be reported. We recognize that the uniform funding concept should not necessarily result in additional protection of APF support to MWR organizations. However, we do not believe that the demonstration project was intended to increase the risk of losing APF support.

All except the last of the above issues are directly related to the classification of funds. During the demonstration project, APFs disbursed to MWR organizations were treated as if they were NAFs. That resulted in confusion over how the MWR organizations were to account for and spend the funds. The Army was chairing a task group to review the issues the auditors identified and other issues identified throughout the demonstration project. One proposal, subject to legal review, was whether APFs, disbursed to MWR organizations should become NAFs and lose their APF identity. The proposal differed from the demonstration project in which APFs were treated as

NAFs. If the proposal were adopted, the first four issues listed above could be resolved easily. Because the Army is working the issues, no recommendations are being made in this report.

Conclusion

Based on the demonstration project, DoD has a basis to report to Congress that the use of uniform funding provides the opportunity for improved MWR services through efficiencies in procurement and personnel processes. The Service audit organizations validated demonstration site reports that the demonstration project generally improved MWR services as gauged by product or service value, timeliness, and ease of operation.

AAA auditors reported that the FY 1998 annual evaluation reports from Fort Campbell, Kentucky, and White Sands Missile Range, New Mexico, showed that the demonstration project for the uniform funding process generally improved MWR services as gauged by best value of product and employee services, and by quicker and easier procurement and hiring processes. The NAS report on Naval Submarine Bases Bangor, Washington, and Kings Bay, Georgia, stated that the nonappropriated fund procurement and personnel hiring processes were notably faster and easier than appropriated fund procurement and personnel processes. The AFAA concluded that procurement and personnel data resulted in measurable efficiencies in two of five measures of success reviewed, but demonstration site data was inconclusive or unavailable to evaluate the other three measures. Although the MCNAFAS report on the Marine Corps Air Ground Combat Center, Twenty-nine Palms, California, did not specifically address the measures of success, the supporting documentation related to the report concluded that the demonstration project provided opportunities for improved procurement processing. Specifics on the results from the Service audit organizations are in the exhibits.

Appendix A. Review Process

Scope and Methodology

Work Performed. The demonstration project was conducted at six demonstration sites from October 1, 1996, through September 30, 1998. The audits of the individual demonstration sites and the Services' input to the interim and annual reports were performed by the Service audit organizations. The Service auditors validated financial reports, selected project baselines, statistics, and survey information of the demonstration project. A representative from the AAA took the lead in coordinating the audit effort of the individual demonstration sites. The specific scope and methodology of each Service audit organization are included in the reports in Exhibits I through IV.

A representative from the Office of the Inspector General, DoD, as chair of the Joint Audit Planning Group for Quality of Life, coordinated the review effort. The Office of the Inspector General representative also served as a conduit to bring systemic issues identified by the Service auditors to the attention of the demonstration project working groups throughout the demonstration process. The Office of the Inspector General representative assessed the adequacy of the overall demonstration project process using input from the Service auditors and knowledge of the process gained through coordination with the demonstration project working groups. Finally, the Office of the Inspector General representative and Service auditors assisted management throughout the process.

Measures of Success. In February 1998, the Inspector General, DoD, and the Service audit organization representatives assisted demonstration project working groups in revising reporting requirements necessary for the objective evaluation of the demonstration. Those efforts resulted in the development of specific measurement criteria for the six demonstration sites. The measures of success were developed for two of the working groups, procurement and personnel. The demonstration site reporting requirements were modified to incorporate the measures of success.

The measures of success provided the basis for evaluating value, timeliness, and ease of use of APF versus NAF procurement and personnel processes. In addition, for procurement, there was a measure of success related to the timeliness of vendor payments. Sources of information, including the audit role, were defined for each of the measures. For example, to determine procurement timeliness, demonstration project sites were required to report cycle times for APF and NAF procurement transactions processed in support of MWR organizations. In addition, the demonstration project site reports were to include narrative examples highlighting the differences in the two procurement processes. Also, MWR managers and procurement office managers were to report their perceptions on the timeliness of the procurement process via a customer survey. The audit role was to validate the cycle times for procurement actions reported in the demonstration project site reports. Again, the auditors provided only one of several sources used to determine the measures of success. For example, the auditors did not have a role in determining the personnel measure on "easier." A complete list of the procurement and personnel measures of success and the audit role for each measure is in Appendix B.

Limitations to Scope. Section 335 of the Act required the Secretary of Defense to compare the cost of using APF and NAF personnel in support of MWR programs to the cost of using only NAF personnel. The Office of the Inspector General, DoD, and the Service audit organizations did not validate the comparison of personnel cost because the comparison had not been performed when our review was conducted. Additionally, the Service audit organizations did not form a conclusion on the procurement measure of success for timeliness of vendor payments because the demonstration sites did not have the documentation necessary to perform the calculation. Because the Marine Corps did not participate in the personnel portion of the demonstration, the MCNAFAS effort was limited to procurement and finance issues, with a focus on management controls and financial reporting. The MCNAFAS final report does not directly address the measure of success; however, MCNAFAS supporting documentation provides evidence that the uniform funding concept provides opportunities for procurement efficiencies. Finally, for various measures of success, varying numbers of personnel or procurement transactions were processed or specific examples were not provided in the narrative portions of the demonstration project site reports. Accordingly, sample sizes for validation of some of the measures of success by the Service auditors were limited. In addition, documentation practices varied at the demonstration sites and, as a result, audit conclusions could not be reached for every measure of success at every demonstration project site. The scope sections of the individual audit reports in the exhibits discuss the details of the information validated and methodologies used by each of the Service audit organizations. Regardless of the limitations at individual demonstration sites, sufficient data were available for the overall demonstration to provide DoD with an adequate basis for decisionmaking.

DoD-wide Corporate Level Goals. In response to the Government Performance and Results Act, DoD 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:** Maintain highly ready joint forces to perform the full spectrum of military activities. **Goal:** Maintain highly ready joint forces to perform the full spectrum of military activities by improving force management procedures throughout DoD. **(DoD-5.3)**

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

> **Financial Management Functional Area. Objective:** Reengineer DoD business practices. **Goal:** Standardize, reduce, clarify, and reissue financial management policies. **(FM-4.1)**

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

Review Dates and Standards. The Service auditors conducted their audits of the demonstration project at various times between February 1997 and April 1999. Specific dates for each Service audit organization are in the exhibits.

The Office of the Inspector General served in a coordination role from September 1997 through May 1999. The Service audit organizations conducted their audits in

accordance with auditing standards issued by the Comptroller General of the United States. Their audits included a review of the management controls established over the use of APFs as if they were NAFs during the demonstration project.

Contacts During the Audit. Individuals were visited or contacted in the Office of the Secretary of Defense and the Services. Further details are available on request.

Appendix B. Measures of Success

I. Goal: To better meet the needs of the MWR programs by facilitating procurement of property and services for those programs and the management of employees used to carry out those programs.

II. Objectives: Uniform funding will result in improved MWR service as gauged by: best value in products and employees, more timely hiring and purchases, and simpler and easier procurement and personnel process.

III. Measures of Success: Based on evaluation of results, the demonstration project process would be judged a success based on the following measures:

A. Procurement

1. Best Value.

- The product is appropriate for its intended use.
  - Supporting information — customer survey, narrative examples (installation reports)
  - Audit role — validation of examples, as requested.

- The price of the product is reasonable.
  - Supporting information — customer survey, survey of procurement office(s), narrative examples (installation reports).
  - Audit role — validation of examples, as requested.

- Change in the resources to provide best value is reasonable.
  - Supporting information — numbers of procurement staff, numbers of procurement actions (over $2,500) (installation reports), survey question (procurement offices).
  - Audit role — validation of demonstration site statistics.

2. Timely.

- The product was received in a more timely manner.
  - Supporting information — procurement cycle time (installation reports) compared to DoD standard, narrative examples (installation reports), customer survey, and survey of procurement office.
  - Audit role — verify cycle time (APF versus NAF) at selected sites. Compare timeframes (APF and NAF procurement) on a selected service contracts.

3. Easier.

- The procurement process is simpler and more flexible.
  - Supporting information — customer survey questions, procurement offices survey, narrative examples

- (installation reports), flow chart of procurement processes (APF and NAF).
- Audit role — flow chart APF and NAF processes.

4. Timeliness of Vendor Payments.

   - The NAF procurement process allows more timely vendor payments, thus allowing discounts and avoiding penalties.
     - Supporting information — comparison of data on lost discounts and penalties under APF procurement versus discounts and avoided penalties under NAF system.
     - Audit role — provide the evaluation.

B. Personnel

1. Best Value.

   - The manager can better meet the customer demand with appropriate staff.
     - Supporting information — APF full-time equivalents set aside, NAF employees hired against demonstration project funds (break out by type of appointment, that is, flex and regular)(installation reports), customer survey questions on quality of hires.
     - Audit role — validation of statistics at demonstration site.

2. Timely.

   - The manager can fill vacancies in a more timely manner.
     - Supporting information — number of vacancies by type (APF, NAF, and NAF-demonstration project filled), length of vacancies (installation reports), customer survey question on timeliness of hiring, personnel narrative.
     - Audit role — validation of statistics at demonstration site.

3. Easier.

   - The NAF personnel system is simpler and more flexible.
     - Supporting information — customer survey questions on hiring flexibility and personnel narrative.
     - Audit role — none.

Appendix C. Summary of Prior Coverage

Army

AAA Report No. AA 99-193, "FY 98 Annual Validation-Demonstration Project for Uniform Funding of Morale, Welfare, and Recreation Activities," March 15, 1999.

AAA Report No. AA 99-31, "FY 98 Semiannual Validation-Demonstration Project for Uniform Funding of Morale, Welfare, and Recreation Activities," November 6, 1998.

AAA Report No. AA 98-255, "FY 97 Validation-Demonstration Project for Uniform Funding of Morale, Welfare, and Recreation Activities," June 26, 1998.

AAA Report No. AA 98-51, "Baseline Validation-Demonstration Project for Uniform Funding of Morale, Welfare, and Recreation Activities," December 23, 1997.

Navy

NAS Report No. 035-99, "Uniform Resource Demonstration Project at Selected Morale, Welfare, and Recreation Activities," May 11, 1999.

Air Force

AFAA Memorandum, "Uniform Resource Demonstration Test Project (Project 98051019)," June 29, 1999

AFAA Report No WN099035, "Uniform Resource Demonstration Test Project," May 17, 1999.

AFAA Management Advisory Service Letter, Demonstration Project Procedures for Uniform Funding of MWR Activities Program Evaluation, Project 98250009, August 10, 1998.

AFAA Report No. WN098025, "Uniform Resource Demonstration Test Project," August 10, 1998.

Marine Corps

MCNAFAS Report No. 01502990124, "Financial Related Audit of Uniform Resource Demonstration Test," December 2, 1998.

MCNAFAS Report No. 01502980124, "Financial Related and Compliance Audit on Command MWR Uniform Resource Demonstration Test for October 1, 1996 to September 30, 1997," December 15, 1997.

MCNAFAS Report No. 01502970124, "Financial Related and Compliance Audit on Command MWR Uniform Resource Demonstration Test for October 1, 1996 to March 31, 1997," May 12, 1997.

Appendix D. Report Distribution

Office of the Secretary of Defense

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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

Exhibit 1. AAA Report No. 99-193, "FY 1998 Annual Validation-Demonstration Project for Uniform Funding of Morale, Welfare, and Recreation Activities," March 15, 1999.

U.S. Army Audit Agency

FY 98 Annual Validation—Demonstration Project for Uniform Funding of Morale, Welfare and Recreation Activities

15 March 1999

Audit Report: AA 99-193

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DEPARTMENT OF THE ARMY
U.S. ARMY AUDIT AGENCY
Office of the Deputy Auditor General
Installations Management
3101 Park Center Drive
Alexandria, VA 22302-1596

15 March 1999

Assistant Secretary of the Army (Financial Management
and Comptroller)

This is the report on our audit of the annual FY 98 test evaluation data for the Demonstration Project for Uniform Funding of Morale, Welfare and Recreation Activities that your office requested. It is the fourth in a series of reports we prepared on the Demonstration Project undergoing testing at White Sands Missile Range and Fort Campbell. The audit is a result of a directive from the Office of the Secretary of Defense to test uniform funding at six Defense installations during FYs 97 and 98.

This report isn't subject to the official command-reply process required by AR 36-2.

I appreciate the courtesies and cooperation extended to us during the audit.

FOR THE AUDITOR GENERAL:

for STEPHEN E. KEEFER
Deputy Auditor General
Installations Management

For more information about this audit, please call the Health and MWR Division at (703) 681-9941. For extra copies of this report, please call (703) 681-9863.

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Generally yes. The evaluation reports provided examples and support for improvements in the procurement and hiring processes because of the Demonstration Project. The limited data and examples that the installations provided showed that the processes under the Demonstration Project were more efficient.

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Was there adequate financial accountability and management control over Demonstration Project funds, and was financial data reported accurately in the installation evaluation reports?

Yes. The Army established adequate controls over use of Demonstration Project funds (appropriated funds used during the project). Funds generally were used for authorized purposes and in accordance with laws and regulations related to nonappropriated funds. Also, use of appropriated Demonstration Project funds didn't affect the budget process.

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INTRODUCTION

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WHAT WE AUDITED

We audited the Army's FY 98 annual evaluation data reports for the Demonstration Project for Uniform Funding of Morale, Welfare and Recreation Activities. The Army's Demonstration Project test installations were White Sands Missile Range and Fort Campbell.

As part of a DOD test, beginning in FY 97 the installations could use nonappropriated fund rules to spend appropriated funds that were authorized and allocated for morale, welfare and recreation programs. Procedures established by the Assistant Secretary of Defense identified the baseline data (FY 96) and test evaluation data (FYs 97 and 98) that the installations were required to submit. We validated the:

- Baseline data (see Audit Report: AA 98-51, 23 December 1997).
- FY 97 evaluation data (see Audit Report: AA 98-255, 26 June 1998).
- FY 98 semiannual evaluation data (see Audit Report: AA 99-31, 6 November 1998).

The FY 98 annual evaluation report restated the data and examples included in the FY 98 semiannual report.

We staffed the results in this report with the Office of the Assistant Secretary of the Army (Financial Management and Comptroller), U.S. Army Community and Family Support Center, White Sands Missile Range, and Fort Campbell and incorporated their comments.

We observed that the nonappropriated and appropriated fund personnel at both installations showed a lot of patience, a positive attitude and a great deal of cooperation during the test of the Demonstration Project. They implemented a new program with guidance that wasn't always clear or specific and with massive reporting requirements. They volunteered their programs to participate in the test and assisted us in our validation of the test results.

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RESULTS IN BRIEF

The FY 98 annual evaluation reports prepared by Fort Campbell and White Sands Missile Range showed that the Demonstration Project for Uniform Funding process generally improved morale, welfare and recreation services as gauged by best value of product and employee services, and by quicker and easier procurement and hiring processes. The limited data and examples that the installations provided showed that the processes under the Demonstration Project were more efficient. Specifically, the data:

- Reported by both installations for appropriated fund contracting office actions and nonappropriated fund contracting office actions, line items and leadtimes was generally accurate. After taking our sample, we revised the leadtimes for appropriated fund contracting office actions. The statistics showed that the procurements were faster using the Demonstration Project.

- Provided in the procurement narratives showed that the nonappropriated fund contracting process was cheaper, faster and easier because of the Demonstration Project. The activity managers also liked the one-stop shop better than using two systems. However, during the Demonstration Project period, appropriated fund contracting offices reorganized, streamlined and used new purchasing methods. The Demonstration Project didn't measure these offsetting improvements.

- Reported by both installations for appropriated fund hiring actions were generally accurate. Personnel hiring actions generally complied with the Demonstration Project guidelines established by DOD.

- Provided in the personnel narratives showed that the nonappropriated fund hiring process was cheaper, faster, easier and more flexible. Also, the activity managers were more directly involved in the hiring process. Both installations had prepared narrative statements. Some of the narratives relied on the experience and knowledge of the preparer or the activity managers. The FYs 97 and 98 statistics included in the narrative were generally accurate. However, the evaluation reports included data before the Demonstration Project for comparison purposes. Supporting documentation for the earlier data wasn't always available.

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- Obtained to evaluate the efficiencies resulting from taking advantage of prompt payment discounts or from avoiding penalties by using the nonappropriated fund procurement process instead of the appropriated fund process wasn't conclusive. Although the installations provided some discount and penalty data in their reports, and the Defense Finance and Accounting Offices supporting the installations were able to provide some information, the data didn't conclusively show that use of the Demonstration Project caused changes in the discounts and penalties.

Adequate financial accountability and management controls existed over Demonstration Project funds, and financial data was accurately reported in the evaluation reports.

The Army established adequate controls over use of Demonstration Project funds (appropriated funds used during the project). Funds were used for authorized purposes and in accordance with laws and regulations related to nonappropriated funds. We also found that the use of appropriated Demonstration Project funds didn't affect the budget process.

The financial information reported by the installations in Schedule A was accurate. Also, although the statements included in the finance narrative section of the evaluation reports were generally positive about the Demonstration Project, they were often more qualitative than quantitative and based on the author's experience and knowledge.

BACKGROUND

Section 335 of the National Defense Authorization Act for Fiscal Year 1996 required the Secretary of Defense to evaluate the feasibility of uniform funding to support morale, welfare and recreation programs at military installations. The purpose of the project was to determine if uniform funding helped improve the management and efficiency of morale, welfare and recreation programs; the procurement of property and services; and the management of employees. Under the Demonstration Project, the appropriated funds available for morale, welfare and recreation programs were expended following the laws and regulations applicable to nonappropriated funds.

During 1996 the Assistant Secretary of Defense selected six DOD installations to test the project, including two Army installations: White Sands Missile Range and Fort Campbell. The DOD procedures to conduct the

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Demonstration Project required an audit of the baseline and evaluation data that the installations submitted.

The DOD Community and Family Policy Coordinating Committee, Morale, Welfare and Recreation Subcommittee, was tasked to review the implementation and results of the Demonstration Project. Five working groups (finance, child development, personnel, procurement, and morale, welfare and recreation programs), with representation from each Military Service, were established to assist the subcommittee.

The Demonstration Project ended on 30 September 1998. During FY 99 both installations adopted a similar approach to funding that had been tested concurrently. The Morale, Welfare and Recreation Utilization, Support and Accountability Practice (the "USA Funding Practice") allows commanders and nonappropriated fund resource managers to execute a memorandum of agreement to use nonappropriated funds to provide appropriated fund-authorized services in support of morale, welfare and recreation programs, with subsequent payment to the nonappropriated fund instrumentality for the services from appropriated funds.

RESPONSIBILITIES

The Assistant Secretary of Defense was responsible for developing the overall procedures for the Demonstration Project, and the MWR Subcommittee is responsible for reviewing the implementation and reporting the results of the project.

Community and Family Support Center has primary responsibility for developing and promulgating appropriate Army policy, pursuant to approval by the Secretary of the Army. The Support Center also establishes objectives, guidance and procedures for the management and operation of Army morale, welfare and recreation programs and nonappropriated fund instrumentalities. The Support Center is responsible for coordinating and overseeing the Army installations' data submissions for the Demonstration Project.

For the Demonstration Project, White Sands Missile Range and Fort Campbell were responsible for:

- Operating a full complement of morale, welfare and recreation program activities.

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- Presenting the required baseline and evaluation data using the specified DOD standard guidelines for the duration of the test.

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OBJECTIVES AND CONCLUSIONS

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A - MEASURES OF SUCCESS FOR PROCUREMENT AND PERSONNEL SERVICES

OBJECTIVE

Based on the FY 98 annual evaluation reports prepared by White Sands Missile Range and Fort Campbell, did the Demonstration Project for Uniform Funding of Morale, Welfare and Recreation Activities result in improved morale, welfare and recreation services as gauged by best value of product and employee services, and by quicker and easier procurement and hiring processes?

CONCLUSION

Generally yes. The evaluation reports provided examples and support for improvements in the procurement and hiring processes because of the Demonstration Project. The limited data and examples that the installations provided showed that the processes under the Demonstration Project were more efficient. Specifically, the data:

- Provided in the procurement narratives showed that the nonappropriated fund contracting process was cheaper, faster and easier because of the Demonstration Project. The activity managers also liked the one-stop shop better than using two systems. However, during the Demonstration Project period, appropriated fund contracting offices reorganized, streamlined and used new purchasing methods. The Demonstration Project didn't measure these offsetting improvements.

- Reported by both installations for appropriated fund contracting office actions and nonappropriated fund contracting office actions, line items and leadtimes was generally accurate. After taking our sample, we revised the leadtimes for appropriated fund contracting office actions. The statistics showed that the procurements were faster using the Demonstration Project.

- Provided in the personnel narratives showed that the nonappropriated fund hiring process was cheaper, faster, easier and

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more flexible. Also, the activity managers were more directly involved in the hiring process. Both installations had prepared narrative statements. Some of the narratives relied on the experience and knowledge of the preparer or the activity managers. The FYs 97 and 98 statistics included in the narrative were generally accurate. However, the evaluation reports included data before the Demonstration Project for comparison purposes. Supporting documentation for the earlier data wasn't always available.

- Reported by both installations for appropriated fund hiring actions were generally accurate. Personnel hiring actions generally complied with the Demonstration Project guidelines established by DOD.

- Obtained to evaluate the efficiencies resulting from taking advantage of prompt payment discounts or avoiding penalties by using the nonappropriated fund procurement process instead of the appropriated fund process wasn't conclusive. Although the installations provided some discount and penalty data in their reports, and the Defense Finance and Accounting Offices supporting the installations were able to provide some information, the data didn't conclusively show that use of the Demonstration Project caused changes in the discounts and penalties.

Our detailed discussion on these conditions begins on page 16.

BACKGROUND

From February through April 1998, the DOD Inspector General and auditors from the Military Services helped the Program Manager for the Demonstration Project revise the data to be requested from the installations for the FY 98 semiannual and annual reports for objective evaluation of the Demonstration Project. Their efforts resulted in the development of measures of success for two broad categories: procurement and personnel.

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Procurement

The four measures of success for procurement are:

- **Best Value:** Were the products acquired under the Demonstration Project appropriate for their intended use, were the prices of the products reasonable, and was the change in the resources to provide best value reasonable?

- **Timely:** Were products received more promptly under the Demonstration Project?

- **Easier:** Was the Demonstration Project procurement process simpler and more flexible?

- **Timeliness of Vendor Payments:** Did the Demonstration Project procurement process allow for quicker vendor payments, thus increasing discounts and avoiding penalties?

Personnel

The three measures of success for personnel are:

- **Best Value:** Could managers better meet customer demand under the Demonstration Project with nonappropriated fund staff?

- **Timely:** Could managers fill vacancies more quickly under the Demonstration Project?

- **Easier:** Was the nonappropriated fund personnel system simpler and more flexible?

Evaluating the Measures

Conclusions about the measures of success will depend on a number of sources, such as:

- Surveys of customers and procurement offices that the DOD working group was responsible for preparing and sending to the test installations.

- Statistical portions of the semiannual and annual evaluation reports that the test installations were required to prepare.

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- Narrative portions of the test installation evaluation reports.

- Other data available at the test installations and other activities.

At a meeting on 8 May 1998, the Program Manager for the Demonstration Project gave the test installations revised reporting guidance that included the requirement to provide the appropriate data needed for evaluating the measures of success. Our audit responsibility was to validate the data submitted by the test installations in the semiannual and annual evaluation reports.

DISCUSSION

This section discusses two areas:

- Procurement.

- Personnel.

Procurement

To evaluate the Demonstration Project procurement process, the DOD working group was responsible for preparing surveys and sending them to customers and procurement offices at the test installations. In the narrative portion of the yearend reports, the test installations were to include examples of improvements in support services or equipment purchases that had been acquired through the appropriated fund contracting office, but are now acquired through the nonappropriated fund contracting office. Specifically:

- Each example was to address the efficiencies associated with using the nonappropriated fund contracting office. The examples were to show how the Demonstration Project had affected procurement leadtime, the ability to obtain best value, the procurement process, procurement flexibility, and procurement workload.

- The installations were also required to include statistical data (reported in a template) about services and equipment/other purchases for both the appropriated and nonappropriated fund contracting process. The installations were to report the number of

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actions/line items and days for each process. From that data they were to compute leadtimes for request to award and award to delivery. This data was to identify the differences in efficiency between the two contracting processes. A copy of the installations' reports are in Annex B.

Best Value

We reviewed the narrative portions of the installation reports and identified examples where best value of procurement were cited:

- The Missile Range didn't provide any specific examples of purchases previously made with appropriated funds, but now made with demonstration funds. Instead, they included comments to convey that each procurement action was accomplished as efficiently as possible. Personnel said that historical source data for similar purchases wasn't readily available.

- The Fort Campbell nonappropriated fund procurement office provided seven examples to demonstrate how best value was obtained. For three examples (provided in the semiannual report), we evaluated comparable appropriated fund data which showed that the Demonstration Project provided the best value. The installation didn't provide comparable appropriated fund data for the other examples. It included comments such as "this action was competed for best price."

We also evaluated the support for the number of procurement staff reported in the installation reports. Installation personnel said that the staff and related cost data reported by both test sites was generally a best estimate based on available data. We reviewed the supporting data and concluded that the estimates were reasonably accurate. Here's what we found:

- For the Missile Range nonappropriated fund procurement office, all procurements were affected by U.S. Army Materiel Command-Headquarters Contract Office at Alexandria, Virginia. That office had one contract specialist dedicated for Missile Range procurement actions. Salary and benefit estimates were made based on the dedicated contract specialist's wages. The Missile Range Directorate of Contracting estimated appropriated fund labor costs based on an average GS-11 cost for 10 days.

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- Fort Campbell estimated nonappropriated fund costs based on the number of personnel needed to handle the workload. The Fort Campbell Directorate of Contracting estimated appropriated fund staff costs based on the number of transactions affected and the staff used. The installation included benefit factors used for commercial activities studies at Fort Campbell.

Timely Receipt of Services and Equipment

We reviewed the narrative portions of the installation reports and found that the Missile Range didn't provide specific examples of timely receipt of services and equipment. Instead, it reported that each action was handled as efficiently as possible.

The Fort Campbell nonappropriated fund procurement office provided seven examples to demonstrate how much timelier the Demonstration Project was. For three examples (provided in the semiannual report), we evaluated comparable appropriated fund data which showed that the Demonstration Project provided more timely receipt of services and equipment. The other examples merely stated the procurement leadtimes. The installation didn't provide comparable appropriated fund data for the other examples.

We also evaluated the support for the number of procurement actions/line items reported in the installation reports. Both installations reported accurate data for the nonappropriated fund contracting office actions/line items and leadtimes. The corresponding data reported for the appropriated fund contracting office was found to be correctly categorized as either services or equipment/other. However, our review of the supporting documentation identified several problems with the reported statistics for leadtimes:

- The Missile Range reported 74 nonappropriated fund procurement actions for services with an average leadtime of 6.12 days from request to award. For equipment and other procurements, command reported 25 actions with an average leadtime of 3.08 days from request to award and 13.6 days from award to delivery. Documentation provided by command supported these statistics.

- The Missile Range reported 683 appropriated fund procurement actions for services with an average leadtime of 18 days and 535 appropriated fund equipment/other actions with an average leadtime of 16 days from request to award. We sampled service and equipment/other actions and reviewed supporting

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documentation. The sample results showed that leadtimes were misstated (see Annex B). Even after the required corrections, procurement processes under the Demonstration Project were faster than those processes for appropriated funds.

- The Missile Range didn't include award to delivery statistics for equipment/other appropriated procurements in the evaluation report because the Contracting System had no requirement to track equipment/other leadtime data from award to delivery. However, when we took our sample to validate procurement controls, we also calculated award to delivery times for actions when receiving reports included the delivery time and found an average award to delivery time of 20 days. The procurement process under the Demonstration Project was faster than the process for appropriated funds.

- The Missile Range reported credit card actions for 1 April through 30 September 1998. We reviewed supporting documentation for reported cardholder actions and found some discrepancies. When we discussed this with command, it agreed that the reported data wasn't accurate. The revised, supported data (see Annex B) shows that credit card processes under the Demonstration Project were faster than with appropriated funds. However, command said this was due to the type of orders processed with appropriated fund cards—not to the Demonstration Project process. Command didn't provide data to support this statement.

- Fort Campbell reported 3,139 nonappropriated fund procurement line items for services with an average leadtime of 2.60 days and 725 nonappropriated fund equipment/other line items with an average leadtime of 4.42 days from request to award and 25.48 days from award to delivery. Our review of supporting documentation showed that these statistics were reasonably accurate.

- Fort Campbell reported 1,108 appropriated fund actions for services with an average leadtime of 25.51 days and 2,735 equipment/other actions with an average leadtime of 15.64 days from request to award. We sampled service and equipment/other actions and reviewed supporting documentation that substantiated this data. Procurement processes under the Demonstration Project were faster than those processes for appropriated funds.

- Fort Campbell didn't report a statistic for award to delivery because appropriated fund supply personnel said the data wasn't

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available in the Contracting System. We also reviewed receiving reports and confirmed that they didn't include delivery dates required to compute award to delivery statistics.

- Fort Campbell reported credit card actions for 1 April through 30 September 1998. Our review of the supporting documentation verified that the data was accurate. The support showed that leadtimes for nonappropriated and appropriated fund credit card actions were generally the same.

The nonappropriated fund contracting process was faster than the appropriated fund contracting process for the limited examples provided. However, personnel in the Fort Campbell appropriated fund contracting office said that since the cited purchases were made, the office underwent significant restructuring efforts that might make it more efficient than the examples showed. Specifically, Fort Campbell cited the use of electronic mail and the Internet, movement towards paperless contracting, increase of government credit card limits, differing uses of the government credit card, shorter processing times for commercial items, and improved construction contract vehicles. The Demonstration Project didn't measure these offsetting improvements.

Ease of the Procurement Process

We reviewed the narrative portions of the installation reports and found that the Missile Range didn't provide specific examples of the ease of the procurement process for executing services and equipment purchases. The Missile Range stated that it saw no difference in flexibility between appropriated and nonappropriated fund procurement processes. The installation didn't provide any supporting data for this statement.

Fort Campbell cited seven examples of using the nonappropriated fund procurement processes. We evaluated three of the examples in the semiannual report that showed that the Demonstration Project was faster. The installation provided no comparable appropriated fund data for the other examples. It made statements such as they "opted for the simpler method."

For the semiannual report, we interviewed activity managers responsible for requesting the purchases cited in the examples and found that they liked using the nonappropriated fund procurement process instead of the appropriated fund process. They particularly liked the fact that the nonappropriated fund contracting office was a "one-stop shop."

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We compared the procurement processes for appropriated and nonappropriated funds and found that the appropriated fund contracting process had more approval steps. Flow charts of the two processes are in Annex C. Here's what we found:

- Fort Campbell's Nonappropriated Fund Procurement Accountability and Tracking Program, which includes the ability to electronically approve an action at each level of the approval chain, allows a procurement to theoretically be approved in a matter of minutes. This allows the nonappropriated fund procurement office to begin researching the action much faster and translates to shorter leadtimes overall.

- The Fort Campbell nonappropriated fund procurement office had also begun using new applications of the government credit card: The Visa card, the Payment Vehicle Visa Card and Visa checks. Each of these new payment methods allows for quicker payment of procurement debts.

- Personnel in Fort Campbell's Directorate of Contracting said that the appropriated fund procurement process was changing to make the procurement process faster and more user-friendly for the customer, as we discussed earlier. The Demonstration Project didn't measure these offsetting improvements.

Timeliness of Vendor Payments

The data obtained to evaluate the efficiencies resulting from taking advantage of prompt payment discounts or from avoiding penalties by using the nonappropriated fund procurement process instead of the appropriated fund process wasn't conclusive. Although the installations provided some discount and penalty data in their reports, and the Defense Finance and Accounting Offices supporting the installations were able to provide some information, the data didn't conclusively show that use of the Demonstration Project caused changes in the discounts and penalties.

Personnel

To evaluate the Demonstration Project personnel management process, the DOD working group surveyed customers and personnel offices at the test installations. The test installations were to include in the narrative portion of the annual reports examples of how the project affected:

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- Personnel hiring and management processes.

- Time needed to fill vacant positions.

- Management's ability to obtain the best value in staffing the organization.

- Personnel workload.

In addition, the installations were to include statistical data about staffing levels, the number of new hires, and the number and length of vacancies (see Annex B).

Both the Missile Range and Fort Campbell had used Demonstration Project funds to hire nonappropriated fund employees. Managers from both installations agreed that the program had many benefits in the area of best value, timeliness, ease and flexibility.

Both installations had prepared narrative statements that were generally based on the experience and knowledge of the preparer or based on meetings with activity managers. Statistics from FYs 97 and 98 included in the narrative were generally accurate. However, the evaluation reports included data before the Demonstration Project for comparison purposes. Supporting documentation for the earlier data wasn't always available. For example:

- The Missile Range reported that it took 10.5 days to fill 14 temporary summer lifeguard positions. (Records show that it actually took an average of 16.9 days from the date the action was initiated until it was completed.) The installation compared this to taking 120 days "as reported in baseline data." Supporting documentation for the 120 days wasn't available.

- Fort Campbell said it took up to a year to fill a GS-9 child care position before the Demonstration Project. It said it filled similar positions during FY 98 within 60 days. Command had no supporting documentation for the initial year timeframe. As we discuss later, it took an average of 47.8 days to fill 19 Demonstration Project positions during FY 98. Four of those were child care positions, which took an average of 72 days to process and fill.

Both examples appear favorable to the Demonstration Project, but only half the reported data was supported. The historical data was based on the knowledge and memory of the preparer or activity manager.

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Fort Campbell didn't prepare the personnel actions portion of the FY 98 annual evaluation report. During our audit, we gathered and summarized the source documentation needed for the personnel actions, and Fort Campbell accepted and used those statistics for the evaluation report.

- The Missile Range had a hiring freeze during FY 98. Consequently, the personnel actions part of the evaluation report showed that no full-time vacancies were filled. This situation diminished the value of the test results. However, we found that the Missile Range hired 14 temporary summer lifeguards, which took an average of 16.9 days to fill.

Best Value

Activity mangers at both installations emphasized that the Demonstration Project gave them the ability to be directly involved in the hiring process, including interviewing candidates and selecting the person they believed to be best suited for the position. Also, positions were advertised locally, which gave the personnel office a broader range of candidates from which to select. Activity managers said the appropriated fund system allowed them little or no input into the hiring and selection processes. In some cases, personnel selected from stopper lists or other priority placement processes didn't have experience in the position for which they were hired.

Timeliness and Ease

Both installations reported that it was faster and easier to hire for nonappropriated fund positions than for appropriated fund positions. Also, workloads didn't significantly change. Here's what we found:

- The Missile Range didn't fill any full-time permanent positions during FY 98. But, based on 16 positions (7 of which were key management positions) filled during FY 97, it took an average of 29 days to fill the nonappropriated fund positions and about 4 months to fill the 2 appropriated fund positions through the central registry.

- The Missile Range reported that the nonappropriated fund personnel office had to process personnel actions and maintain records for the 16 new hires during FY 97 that the appropriated fund personnel office would have handled if the Demonstration

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Project had not been in place. However, the increased workload on the nonappropriated fund side meant an offsetting decreased workload for the appropriated fund side. As a result, there was little net change in the workload.

- Fort Campbell Child and Youth Services managers said that 2 years ago it took 1 year to fill several positions. They said similar positions were filled under the Demonstration Project within 60 days. Although we validated 72 days, the Demonstration Project process was faster.

- Fort Campbell filled 21 authorized appropriated fund vacancies with Demonstration Project-funded employees during FY 98. Records were available for 19 of these positions, which showed that it took an average of 47.8 days from the date the actions were initiated until they were completed. The actions included 15 full-time, 1 part-time and 5 flextime employees. Also, six of the actions were to convert flextime employees to regular full-time positions. This saved recruiting time because they were already on board. Without these actions, the average days would have been about 10 days higher.

- Fort Campbell reported that most of the workload increase was related to the test itself. Much of this work, such as making changes to personnel databases, won't need to be repeated. Installation personnel said they expect little change in the workload if the Demonstration Project becomes permanent.

Flexibility

Since the Demonstration Project started in FY 97, both installations had used demonstration funds to hire nonappropriated fund personnel to fill appropriated fund positions. For example:

- Although the Missile Range didn't hire any new employees during FY 98, it hired 16 Demonstration Project-funded employees during FY 97. It also chose to continue to keep one wage grade position as an appropriated fund position instead of filling it as a nonappropriated fund position because it didn't believe the wage grade salary would convert to the nonappropriated fund system. However, the Demonstration Project allowed management the flexibility to hire a person at a lower or higher rate than dictated by the appropriated fund system. Management could have reprogrammed any money saved because of a lower salary for other uses.

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- Some activities at Fort Campbell used Demonstration Project funds to hire nonappropriated fund employees at a lower rate than was budgeted for the appropriated fund slot. They also didn't have to pay personnel during the hiring process (while the positions were vacant). This generated "hire-lag" dollars, which were then reprogrammed for other uses. For example, Youth Services hired a youth computer lab specialist to help enhance computer skills for young people.

Also, as noted in our review of the FY 97 evaluation reports, because the need for some child and youth services personnel fluctuates daily or weekly, these positions were well suited for flextime employees. This made for more efficient use of both time and funding. (See Audit Report: AA 98-255.) By making good management decisions, both installations have been able to better use available funding or to generate "hire-lag" dollars and improve their program.

Potential Problems

The Demonstration Project had raised some personnel issues that could be potential problems. Because Fort Campbell had more personnel actions, most of the potential problems were identified there. The Fort Campbell narrative and our interviews with some activity managers showed the following:

- At the post library, nonappropriated fund employees were hired to perform the same or similar tasks as appropriated fund employees who were being paid more. The pay disparity caused morale problems and employee turnover. To cope with the problem, the manager has emphasized to job applicants that a pay difference could exist among employees.

- Also, the Demonstration Project test caused morale, welfare and recreation civil service (appropriated fund) employees to fear that their positions will be converted to nonappropriated fund positions.

To minimize these potential effects, we suggested in our report of FY 98 semiannual evaluation data that these issues be raised to the DOD working group responsible for the personnel area. (See Audit Report: AA 99-31.)

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B - FINANCIAL ACCOUNTABILITY AND CONTROLS OVER APPROPRIATED FUNDS

OBJECTIVE

Was there adequate financial accountability and management control over Demonstration Project funds, and was financial data reported accurately in the installation evaluation reports?

CONCLUSION

Yes. The Army established adequate controls over use of Demonstration Project funds (appropriated funds used during the project). Funds were used for authorized purposes and in accordance with laws and regulations related to nonappropriated funds. Also, use of appropriated Demonstration Project funds didn't affect the budget process.

The financial information reported by the installations in Schedule A was accurate. Also, although the statements included in the finance narrative section of the evaluation reports were generally positive about the Demonstration Project, they were often more qualitative than quantitative and based on the author's experience and knowledge.

Our detailed discussion on these conditions follows.

DISCUSSION

This section discusses six areas:

- Accounting controls.
- Tests of Demonstration Project fund use.
- Budget process.

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- Schedule A.
- Finance narrative.
- Other Demonstration Project considerations.

Accounting Controls

During our audit of the FY 97 evaluation reports, we reviewed and tested the general controls in place covering use of funds, procurement, property accountability and personnel actions. We also identified, reviewed and tested the specific controls that U.S. Army Community and Family Support Center established over Demonstration Project funds. We concluded that the controls were generally sufficient, and the accounting process ensured that demonstration funds were properly accounted for and could be fully tracked. (See Audit Report: AA 98-255.)

During our review of the FY 98 evaluation reports, we assessed the accounting processes in place and found that they were generally the same as those used during FY 97. We reconciled the Demonstration Project fund account to source documents at both installations and found that accounting for all Demonstration Project funds for FY 98 was proper. Nothing came to our attention to indicate that the controls weren't operating as intended.

Tests of Demonstration Project Fund Use

We tested the funding controls established for the Demonstration Project to make sure that procurements of property and services and management of employees was done in accordance with laws, regulations and guidance. The two installations used Demonstration Project funds only for qualified morale, welfare and recreation costs in accordance with established guidance.

In addition, we followed up on two minor problems in the areas of property accountability and hiring of personnel that we identified during our review of the FY 97 reports.

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Procurements

Procurements at the Missile Range and Fort Campbell were in accordance with nonappropriated fund procurement laws and regulations. Non-labor procurements accounted for about 54 percent of the Demonstration Project expenditures for the Missile Range (about $593,971 of about $1,110,645) and for about 74 percent of the project expenditures for Fort Campbell (about $1,881,482 of about $2,538,934). We reviewed supporting documentation for about 68 percent ($404,434) of the non-labor procurements at the Missile Range and for about 59 percent ($1,113,357) of the non-labor procurements at Fort Campbell. Nothing came to our attention to indicate that the procurements weren't made in accordance with nonappropriated fund laws and regulations as defined in AR 215-1 (The Administration of Army Morale, Welfare and Recreation Activities and Nonappropriated Fund Instrumentalities) and AR 608-10 (Child Development Services).

Property Accountability

During FY 97 both installations had trouble ensuring that accountable property purchased with Demonstration Project funds was recorded in the expendable ledger. We suggested that Community and Family Support Center have the Defense Finance and Accounting Service-Indianapolis Center, Nonappropriated Fund Financial Services, Texarkana, Texas, emphasize establishment of proper accountability. Consequently, during our review of the FY 98 annual report, we performed additional tests to evaluate property accountability:

- At the Missile Range, we selected accountable property valued at $49,926 that was purchased during the period. This was about 83 percent of the $59,646 in Demonstration Project accountable property acquired during the period. All the items had been accounted for in the expendable ledger, or command had issued memorandums directing Financial Services to add the items to the ledger.

- At Fort Campbell, we reviewed accountable property purchases valued at $239,689 for three activities. This was about 53 percent of the $452,492 of accountable property purchased during the period. The majority of our sample had been purchased in the first half of the year, and we had identified coding problems with the items in our semiannual report. These problems had been corrected by yearend. At yearend, we found only $16,407 (about 6.8 percent of our sample) not in the expendable ledger.

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Personnel Hiring

Controls over personnel hiring actions were adequate. Hiring actions generally complied with the Demonstration Project guidelines established by DOD. The Missile Range used Demonstration Project funds to hire 14 temporary summer lifeguards. Although the temporary positions weren't in authorization documents, we concluded that the use of the funds for this purpose was valid based on requirements. And the Missile Range had Community and Family Support Center approval to use Demonstration Project funds for this purpose.

Budget Process

The nonappropriated, Demonstration Project and appropriated fund financial plan and execution data that the Missile Range and Fort Campbell included in the FY 98 annual reports was accurate and supported. For FY 98, requirements were reduced to reporting only the initial budget figures for nonappropriated, Demonstration Project and direct appropriated fund baseline budgets for operating expenses and depreciation in the semiannual report. Installations weren't required to report actual costs to date or to resubmit their budgets at yearend. Any significant changes to budgets should have been reflected in the yearend finance narrative. We reconciled the planned costs recorded in the initial financial plan and execution to the actual costs at yearend and investigated significant changes. All major changes were adequately documented and justified. Use of Demonstration Project funds didn't affect the budget process.

Missile Range

In its original submission of the financial plan (budget) in the FY 98 semiannual report, the Missile Range incorrectly included cost of goods sold. The Missile Range corrected the report and resubmitted it when we pointed out the error.

At midyear we had compared the FY 98 baseline budget with the most recent revision and found that the adjustments were supported. We reported our results in Audit Report: AA 99-31.

The Missile Range didn't submit a yearend financial plan because it wasn't required. However, we compared the revised midyear nonappropriated and Demonstration Project budget with actual yearend expenses

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and found that the Morale, Welfare and Recreation Program had received $181,635 in yearend funds.

Fort Campbell

As part of the FY 98 annual evaluation report, Fort Campbell submitted a financial plan and execution, which included the initial budget for all categories and the actual amount spent for other direct appropriated funds (see Annex B). We identified total funding for all categories and found that the actual funding for all morale, welfare and recreation activities increased by about $872,000.

Adequate supporting documentation existed for all major changes. Changes between budgets and actual expenses were due to special programs, reimbursements for use of facilities, installationwide budget cuts, or changes to reflect more realistic operations.

This reduction in funding breaks down as follows:

- The actual other direct appropriated funds (primarily labor costs) was about $222,000 below the initial projections (see Annex B). This was primarily due to filling vacated appropriated fund positions with nonappropriated fund Demonstration Project employees.

- Demonstration Project funds were increased by about $1.2 million. This included the $222,000 decrease in appropriated funds (since nonappropriated fund employees were now hired to fill those vacated positions) and about $971,000 in additional funds received for special programs.

- Total nonappropriated fund expenses increased by about $1.1 million. This was made possible by the increase of about $1.2 million in Demonstration Project funds received and a decrease of about $100,000 in actual nonappropriated fund expenses.

Schedule A

FY 98 reporting requirements for Schedule A decreased to require reporting of only other direct appropriated fund support costs.

At both the Missile Range and Fort Campbell, we traced the reported Schedule A amounts to documents and database queries provided by

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nonappropriated fund financial management offices. We also traced the totals to the 218 reports (Status of Approved Resources) provided by the installations' resource management office. We found only minor errors and concluded that the Schedule A amounts were accurate and supported.

Finance Narrative

Both test installation reports included finance narratives as required. They were generally based on the author's experience and knowledge. Most of the statements included in the narratives were positive about the Demonstration Project:

- At the Missile Range, most of the statements were general and subjective in nature, and supporting documentation wasn't available to validate them.

- At Fort Campbell, the narrative generally contained adequate supporting documentation. Some answers were based on meetings with activity managers. We concluded that the answers given provided a meaningful evaluation of the Demonstration Project.

Other Demonstration Project Considerations

The Demonstration Project ended on 30 September 1998. During FY 99 both installations adopted a similar approach to funding that had been tested concurrently. The Morale, Welfare and Recreation Utilization, Support and Accountability Practice (the "USA Funding Practice") allows commanders and nonappropriated fund resource managers to execute a memorandum of agreement to use nonappropriated funds to provide appropriated fund-authorized services in support of Morale, Welfare and Recreation programs, with subsequent payment to the nonappropriated fund instrumentality for these services from appropriated funds.

During discussions with personnel at both installations, we learned that they preferred the Demonstration Project to the USA Funding Practice because with the USA Funding Practice they:

- Encountered cash management problems because installations received reimbursement for monthly expenses up to 6 weeks after they were incurred.

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- Had to execute memorandums of agreement, which was additional and unnecessary paperwork.

- Feared they would lose appropriated funding for former appropriated fund positions filled with USA Funding Practice personnel because the appropriated fund positions, once converted to non-appropriated fund positions, could not be converted back to appropriated fund positions.

On the positive side, they were relieved to have a similar program they could use to follow up the Demonstration Project test. For example, they didn't have to resolicit all contracts with the appropriated funding contracting office.

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ANNEXES

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AUDIT SCOPE AND METHODOLOGY

We performed the audit:

- From December 1998 through February 1999.
- In accordance with generally accepted government auditing standards and included the tests of management controls that we considered necessary under the circumstances.

The audit covered transactions representative of operations current at the time of the audit.

The audit consisted of reviewing and verifying the FY 98 annual reports submitted by White Sands Missile Range and Fort Campbell. We audited the reports for accuracy and completeness and to verify that the reports were prepared in accordance with the newly established measures of success. To evaluate the accuracy and completeness of the reports, we reviewed the procedures that the installations used to prepare the reports and the available supporting and source documentation.

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FY 98 YEAREND DATA AS REPORTED

The following are the reports that had been submitted by the installations at the time of our site visits. If, during our validation, we found a significantly different statistic, we placed an * next to the installations' figures in the reports below and annotated our figures.

Acronyms used in the installations' evaluation reports include:

ADP	Automatic Data Processing
AFNAF	Air Force Nonappropriated Fund Purchasing Office
APF	Appropriated Fund(s)
BASOPS	Base Operations
CAPR	Capability Requirements (used for automatic data processing purchases)
CGS	Cost of Goods Sold
CPMC	Capital Purchases and Minor Construction
CPS	Commercial Processing System (used with IMPAC)
CYS	Child and Youth Services
DOC	Directorate of Contracting
DFAS	Defense Finance and Accounting Services
DPCA	Directorate of Personnel and Community Activities
DRM	Directorate of Resource Management
EEO	Equal Employment Opportunity
EOR	Element of Resource
FAPABS	FORSCOM Automated Program and Budget System
FMBS	Financial Management Budget System
FSSD	Financial and Support Services Division
GLAC	General Ledger Account Code
GL	NAF Department Code for Demonstration Resources
GN	NAF Department Code for APF Support Shortfall
GS	General Schedule (wage schedule used for appropriated fund employees)
GSA	General Services Administration
HRBC	Human Resources Business Center (formerly DPCA)
IMPAC (VISA)	International Merchants Purchase Authorization Card (government credit card, currently a Visa card)
IMWRF	Installation Morale, Welfare and Recreation Fund
MACOM	Major (Army) Command, two of which are:
AMC	U.S. Army Materiel Command, the parent command of White Sands Missile Range

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FORSCOM	U.S. Army Forces Command, the parent command of Fort Campbell
MDEP	Management Decision Package (a budgeting tool described in DFAS-Indianapolis Center Manual 37-00-**), three of which are:
QDPC	Community Support Activities
QYDP	Youth Development Program
QCCS	Child Development Services
MWR	Morale, Welfare and Recreation
NAF	Nonappropriated Fund(s)
NAFPO	Nonappropriated Funds Purchasing Office
RFP	Request for Proposal
RIMP	Risk Management Program
TDA	Table of Distribution and Allowances, an authorization document for FORSCOM units
TDY	Temporary Duty
TLMS	Time Labor Management System
URD/URDT	Uniform Resource Demonstration (Test)

Copies of the installations' evaluation reports begin on the next page.

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PROCUREMENT ACTIONS
DOD COMPONENT: U.S. Army
INSTALLATION: White Sands Missile Range, NM
REPORTING ELEMENT: All

For the Period Covering: 1 October 199[7] to 30 September 1998

APF

	Installation	MWR	NAF (Includes URD)
SERVICES			
(a) Total Number of Actions	683	3.0	74
(b) Process Cycle Lead-Time Request to Award	18.0 *(11)	7.0	6.12
OTHER			
(a) Total Number of Actions	535	0	25
(b) Process Cycle Lead-Time Request to Award	16.0	0.0	3.08
[Award] to Delivery	NA *(20)	0.0	13.6
PROCUREMENT STAFF	minimal	0	.3
Cost of Staff			
Wages	4.6	0	13.3
Benefits	1.2	0	3.4

For the Period Covering: 1 April 1998 to 30 September 1998

IMPAC PROCUREMENT ACTIONS						
(a) Total Number of Actions	NA	*(119)	12	*(40)	145	*(703)
(b) Process Cycle Lead-Time						
Request to Award	NA	*(1.0)	4.06	*(3.23)	1.68	*(1.97)
Award to Delivery	NA	*(9.99)	7.37	*(5.93)	4.18	*(4.23)

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PROCUREMENT REPORT NARRATIVE

1. Please identify any major examples of support services or other purchases that used to be procured through APF contracting that are now procured through NAF contracting office. Determine the efficiencies (if any) associated with using the NAF contracting office. For each example provided, include how URD has impacted:

a. procurement cycle time
b. your ability to obtain the "best value"
c. the procurement process, and
d. procurement flexibility

PROCUREMENT CYCLE TIME:
For service contracts, the procurement cycle varies from APF to NAF. The average contract lead time for APF service contracts is 18.0 days *(*Auditors' note: we computed 11 days)* vs 6.12 days for procurements made via the AMC NAF Contracting.

For orders placed for non-service contract, the lead time also varies between APF and NAF. Average lead time for APF is 16.0 days while NAF is 3.08 days. A comparison cannot be made for request to delivery because the APF contracting office does not keep this type of data on procurement transactions *(*auditors' note: we computed 20 days)*

The IMPAC procurement action data shows the lead-time for APF credit cards higher than NAF but it is because of the type of orders placed against the APF cards, not because the APF system. The lead time would not change if an order is placed with NAF vs APF card. *(*Auditors' note: emphasis added. However, command didn't provide supporting documentation for this statement.)*

BEST VALUE: With limited APF resources available, it is very important to get the most for your dollar. The AMC NAF Contracting Office periodically makes consolidated buys for all AMC installations and are given a better price because they can purchase in bulk, ie: computers and vehicles. Also, NAF purchases may be made utilizing the Commanders Smart Buy Program in which discounts have already been negotiated by the Air Force Nonappropriated Fund Purchasing Office (AFNAF). The AFNAF provides catalogues on supplies and equipment for lodging, golf, food service and recreation. Orders are placed against existing contracts and all price comparison and contracting is already accomplished for you. Procurement [of] these items is simply and less time consuming than through the regular procurement system because of the work is already done. In some cases, the AFNAF price is better than that offered by GSA.

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PROCUREMENT PROCESS: White Sands NAF procurement is handled centrally by the AMC NAF Contracting Office. A Contract Specialist is assigned to do all procuring for the installation, whether it is a service contract, supplies or equipment. Unlike APF procurement where the Directorate of Contracting will handle all service type contract and some supply/equipment contracts and the Logistics Directorate handles all other supply and equipment purchases requests. Knowing who will handle your contracting is a great benefit; the lines of communication are open and there is feedback between one another. Also, the AMC NAF Contracting Office provides electronically the status of each procurement actions and is updated daily which the user can check and instantly know the status of an action. The APF procurement system does not have an electronic way of checking on the status of an order and a lot of time can be wasted when trying to find the status of an order.

PROCUREMENT FLEXIBILITY: For the type of purchases made at White Sands Missile Range, I see no[w] difference in procurement flexibility between APF and NAF.

2. How has workload been affected? Distinguish between reporting requirements for URD test and actual procurement actions, and between IMPAC procurements and traditional procurement methods.

Other than providing data for the URD report, the workload has not increased because of URD. Since the onset of the URD, White Sands procurement has been accomplished by the AMC NAF Contracting Office and therefore a comparison cannot be done on amount of workload for the contract specialist because she has always handled NAF and URD for White Sands. For White Sands personnel, as discussed in other sections of this narrative, procurement is simplified, therefore less time consuming.

3. Please identify, if any, APF funds that are still being expended by installation APF contracting offices in support of MWR (i.e., ongoing maintenance contracts)?

There are no APF funds being expended by installation APF contracting offices in support of MWR. However, the Mission Linen and Uniform Contract is still being handled by the APF contracting office. This contract is for the entire installation that requires linen and uniform services. The MWR portion of the contract of the contract is paid with NAF URD funds. The contract simply states that NAF Financial Services will be the paying office for line items in the contract that belong to MWR.

4. Please provide any other comments, issues, concerns, etc., as they relate to the procurement process under this test.

No additional comments to mention since the mid-year procurement narrative.

PERSONNEL ACTIONS

DOD COMPONENT: Army
INSTALLATION: White Sands Missile Range, NM
REPORTING ELEMENT: All
FOR THE PERIOD 1 October 1997 TO 30 September 1998

		Number	
Authorizations (FTE) [1]		62.5	
Vacancies to be filled [2]		6.0	
		Number [2]	**Average Days to fill'**
APF Vacancies filled with			
NAF/URD		14	10.5 days*(16.9 days)
Type of Appointment	Regular	Flexible	
		14	* 0 days

*(*Auditors' note: The DA 4017's and DA 3434's showed that these positions were for flexible employees.)*

Notes:

1. Civilian APF slots authorized on a valid authorization document (such as Table of Distribution and Allowances) in support of Morale, Welfare, and Recreation activities.

2. Include all vacancies, even if filled multiple times. For example, if one position was filled three times, report 3 vacancies to be filled, report three vacancies filled with NAF or APF.

3. Average calendar days elapsed from date recruitment action initiated on vacant position to date action complete. Average calendar days equals number of calendar days elapsed divided by the number of actions.

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PERSONNEL REPORT NARRATIVE

1. Personnel Hire Actions

a. What is the impact on days to fill vacant positions under the test? Provide specific examples of impact on days to fill.

During FY98, White Sands Missile Range did not fill any vacant positions through URD or the APF hiring process due to a hiring freeze at the installation. We did, however, hire 14 temporary summer hire positions that took an average of 10.5 days *(*auditors' note: we computed an average of 16.9 days)* to fill compared to the average of 120 days as reported in the baseline data days *(*auditors' note: support for the 120 days wasn't available).*

b. Provide specific examples of how URD has impacted your ability to obtain the best value in staffing the organization.

No additional comments from the mid-year report.

c. Provide specific examples of how URD has impacted personnel hiring and management processes.

No additional comments from the mid-year report.

2. How has the workload been affected? Distinguish between increased workload requirements to meet URD reporting requirements and that required to process personnel actions.

No additional comments from the mid-year report.

3. Are APF funds still being expended for personnel in support of MWR programs? If so, please identify the number and types of positions and amount of funds expended?

a APF authorizations assigned to MWR that are filled with APF employees.

White Sands Missile Range has a total of 48 positions that are filled with APF employees assigned in a variety of MWR positions from the Directors' (GS-13) position to clerk typists (GS-03) positions. Total APF salary for FY98 was $2.1 M.

b. Vacancies that have been filled by APF employees rather than NAF employees.

No vacancies were hired during FY98 with APF employees rather than NAF employees.

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c. Number of NAF employees hired with APF funds. (Set aside for URD funds).

Fourteen temporary employees were hired during the summer with URD funds. Also, out of the original sixteen positions hired through URD, fourteen of these positions are still on board. Total URD salary for FY98 was $506.8k.

4. Please provide any other comments, issues, concerns, etc. as they relate to the personnel hiring process under this test.

No additional comments on the personnel hiring process under this test.

SCHEDULE A - EXPENSE SUMMARY
DOD COMPONENT: U.S. Army
INSTALLATION: White Sands Missile Range, NM
REPORTING ELEMENT: All

(*Auditors' note: We compiled the following summary from the individual activity Schedule As that the Missile Range reported; see next page for Library sample.)

For the Period 1 October 1997 to 30 September 1998

Summary Schedule A

White Sands Missile Range FY 98 (in 1,000s)

Category	Activity	Military Labor	Civilian Labor	Benefits	Total
A	Bell Gym	$ -	$ 107.6	$ 22.6	$ 130.2
A	Library	0.0	69.1	25.0	94.1
A	Community Recreation	0.0	89.5	15.9	105.4
		$ -	$ 266.2	$ 63.5	$ 329.7
B	Arts & Crafts	$ -	$ 93.2	$ 18.3	$ 111.5
B	Auto Crafts	0.0	110.4	23.9	134.3
B	Recreational Swimming	0.0	0.0	0.0	0.0
B	Outdoor Recreation	0.0	29.6	6.5	36.1
B	Bowling	0.0	35.3	8.5	43.8
B	Child Development Center	0.0	473.8	147.7	621.5
B	Youth Services	0.0	83.1	33.0	116.1
B	Family Child Care	0.0	32.6	8.0	40.6
B	School Age Services	0.0	21.3	5.7	27.0
B	Information, Tickets, Reservations	0.0	0.0	0.0	0.0
		$ -	$ 879.3	$ 251.6	$ 1,130.9
C	Community Club	$ -	$ 88.6	$ 15.7	$ 104.3
C	Guest House	0.0	0.0	0.0	0.0
C	Golf Course	0.0	49.8	18.4	68.2
		$ -	$ 138.4	$ 34.1	$ 172.5
Overhead	Financial Management	$ -	$ 147.3	$ 24.3	$ 171.6
Overhead	Assistant Director	0.0	258.8	59.5	318.3
		$ -	$ 406.1	$ 83.8	$ 489.9
	TOTAL SCHEDULE A	$ -	$ 1,690.0	$ 433.0	$ 2,123.0

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SCHEDULE A - EXPENSE SUMMARY
DOD COMPONENT: U.S. Army
INSTALLATION: White Sands Missile Range, NM
REPORTING ELEMENT: Library - Category A
For the Period 1 October 1997 to 30 September 1998

Cost Expense Captions	Other Direct Appropriated Support
Military Personnel	0.0
Civilian Personnel	
Salaries and Wages	69.1
Services and Benefits	25.0
Utilities and Rents	0.0
Communications	0.0
Maintenance and Repair (Including Minor Construction)	0.0
Supplies and Equipment	0.0
Transportation of Persons	0.0
Transportation of Things	0.0
Reimbursed Common Services	0.0
NAF Depreciation	0.0
All Other Expenses (Specify)	
Contracts (URD Transfers)	0.0
TOTAL EXPENSES	**94.1**
CAPITAL EXPENDITURE CAPTIONS	
Construction of Facilities	
Appropriated	0.0
Nonappropriated	
Equipment (Investment Type)	0.0
TOTAL COSTS	**94.1**

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FINANCE NARRATIVE

1. Did participation in URD cause a change in the level of APF provided to your installation? Specifically, was the MWR program decremented during the course of the project? If so, by how much for FY97 and how much for FY98.

The APF support for MWR was not decremented during the course of the project. In FY98, we received over $180k in additional funds to be used through URD at the end of the fiscal year.

2. How has the financial management workload been affected? Distinguish between URD reporting requirements and day-to-day financial management operations. If it was affected to a significant degree, can you quantify it by mandays of effort for the period?

As discussed in the mid-year report, the overall workload was not affected for the financial management office, the workload just shifted. More NAF than APF work because of the URD project.

3. Has the NAF financial system provided greater visibility and accountability of APF support (URD Demo funds) than before the test? If yes, was it due to the URD test itself or due to internal adjustments that could have been made whether the test occurred or not?

No changes to report since the mid-year URD financial narrative.

4. Provide timeline comparisons before and during URD on the timeliness of budget development, and financial reporting. For example, prior to URD how many days did it take after the end of a reporting period to receive an APF obligation report? How many days lapsed for receipt of the NAF report?

No changes to report since the mid-year URD financial narrative.

5. Discuss the effect of the URD process on your day-to-day financial management operations (in particular, discuss the effect on the processes and reports used in managing dual sources of funding)?

No additional comments from the mid-year report.

6. Are managers more satisfied with the financial service that you are able to provide under the URD process? Is it because of the process itself or because of changes that could have been made whether the test occurred or not?

I believe the mangers are more satisfied with the financial service provided by this office. I have not received any negative comments from the managers regarding the URD process. Perhaps the surveys the mangers completed would provide additional comments.

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7. Has the URD process impacted your ability to perform APF financial analysis? Is so, please explain.

The URD process did not impact my ability to perform APF financial analyses. As reported in the mid-year report, historical data should be easier to obtain using the NAF financial reporting procedures.

8. Has the URD affected your ability to maximize discounts taken on vendor payments and/or late payments under the Prompt Payment Act? If so, please discuss and provide key examples. Please provide a total dollar impact for this reporting period if available.

	APF	NAF
Discounts Lost	$ 0.00	$ 11.67
Prompt Pay Penalties	$23,859.00	$ 68.18
Discounts Taken	$ 0.00	$582.45

During FY98, the APF accounting services moved from White Sands Missile Range to Rock Island DFAS in June 1998. The figures reported above for APF data is from June - September 1998 only. The data for April - May is not available due to the records not being transferred to DFAS Rock Island. The data provided by DFAS Rock Island shows that we paid more penalties during the June - September timeframe than reported on the mid-year report, but as explained by Mr. Bohl at the DFAS Rock Island office, this is not unusual when the accounting services are transferred off post. The data for NAF is for period covering April - September 1998 and is very similar to the data reported for the first [half] of the fiscal year.

*(*Auditors' note: We calculated the following total for the entire fiscal year:)*

	APF	*NAF*
Discounts Lost	***$ 0.00***	***$ 13.38***
Prompt Pay Penalties	***$ 23,875.73***	***$ 90.55***
Discounts Taken	***$ 21,694.02***	***$ 1,315.87***

9. Please provide any other comments, issues, concerns, etc. as they relate to the financial management process under this test.

No additional comments from mid-year report.

10. If URD were made permanent, what accounting or reporting requirements should be changed or eliminated

No changes required.

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PROCUREMENT ACTIONS
DOD COMPONENT: US ARMY
INSTALLATION: Fort Campbell, KY
REPORTING ELEMENT: ALL

FOR THE PERIOD COVERING: 1 October 1997 TO 30 Sep 1998

SERVICES	APF	MWR	NAF(includes URD)
Process Cycle Lead-time			
Request to Award (Average Days)	25.51		2.60
(a) Total number of Actions	1,108		3,139
(b) Total number of Days	28,263		8,153
EQUIPMENT/OTHER			
Process Cycle Lead-time			
Request to Award (Average Days)	15.64		4.42
Award to Delivery (Average Days)			25.48
(a) Total number of Actions	2,735		725
(b) Total number f Days	42,780		21,676
Request to Award			3,202
Award to Delivery			18,474

PROCUREMENT STAFF

	URD[1]	NAF (Total Staff)[2]	MWR APF[3]	APF (Total Staff<100K S&E)[4]
Wages	27,288	113,702	409	131,398
Benefits	11,445	47,367	133	53,668
TOTAL	38,733	161,069	542	185,066

[1] Four individuals @ 24% = .96 person
[2] Four individuals
[3] .0192 person
[4] Total APF Labor on <1OOK Services and Equipment Actions

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PROCUREMENT REPORT NARRATIVE

1. Please identify any major examples of support services or equipment purchases that used to be procured through APF contracting that are now procured through the NAF contracting office. Determine the efficiencies (if any) associated with using the NAF contracting office. For each example provided, indicate how URD has impacted:

EXAMPLE # 1 - Contract # NAFFC1-98-C-0001 (Chemicals for Swimming Pools).

Awarded for $ 32,224.00

a. Procurement Cycle Time: 72 total days - 20 days from request to award and 52 days from award to first delivery (Contractor could have made delivery sooner, however, re-supply was not needed sooner). ***(*Auditors' note: At midyear, we found that it actually took 1 day from request to award and 1 day from award to delivery. A comparable appropriated fund procurement took 4 and 17 days, respectively.)***

b. Ability to obtain the "best value": This action was competed for best price.

c. Procurement Process: A Request for Proposal (RFP) was issued which resulted in a awarded contract.

d. Procurement Flexibility: Situation called for a competed requirements contract.

EXAMPLE #2 - Purchase Order # NAFFC I -98-M-0 199 (Supplies to Mark Athletic Fields - Amount: $ 13,516.40

a. Procurement Cycle Time: 35 total days - 14 days from request to award and 21 days from award to first delivery.

b. Ability to obtain the "best value": Competed buy in order to obtain best price/value.

c. Procurement Process: Competed Purchase Order

d. Procurement Flexibility: Could have been either a purchase order or a contract - opted for simplest method

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EXAMPLE #3 - Delivery Order # NAFFC1-98-F-0166 (Boats)
Amount: $ 21,846.00

a. Procurement Cycle Time: 43 total days - 5 days from request to award and 38 days from award to delivery. ***(*Auditors' note: At midyear, we found that a similar appropriated fund contract took 12 days from request to award and 34 days from award to delivery.)***

b. Ability to obtain the "best value": Order was placed against an AFNAFPO Commander's Smart Buy Contract that had already been competed.

c. Procurement Process: Simply issued a delivery order against a previously competed contract.

d. Procurement Flexibility: N/A

EXAMPLE # 4 - Delivery Order # NAFFCI-98-F-0158 (Renewal of Book Subscription) Amount: $ 9,280.80

a. Procurement Cycle Time: 2 days - 1 day from request to award and 1 day from award to delivery ***(*Auditors' note: At midyear, we found that a comparable appropriated fund contract took 6 days from request to award and 1 day from award to delivery.)***

b. Ability to obtain the "best value":

c. Procurement Process: Simply issued a delivery order against an already competed GS contract.

d. Procurement Flexibility: N/A

EXAMPLE # 5 - VISA ORDER # NAFFC1-98-V-0170 (Trip Package to Include Transportation/Admission) - Amount $ 3,400.00

a. Procurement Cycle Time: 31 total days - 31 days to award and payment (advance payment for July 98 trip)

b. Ability to obtain the "best value": Under competition level - market research performed to determine price reasonableness

c. Procurement Process: Telephonic Order

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d. Procurement Flexibility: NAF Contracting personnel have VISA cards and maximize their utilization. (The APF DOC does not have or use VISA cards to make purchases for supported activities.) Therefore, selected the VISA process over a Purchase Order to expedite action and progress toward a paperless environment.

EXAMPLE #6 - VISA Order # NAFFC1-98-V-0321 (Renewal of Library Ed via ProQuest Direct and General Periodicals on Disc) Amount: $9,250.00

a. Procurement Cycle Time: 12 total days - 12 days to award and payment (Advance payment for renewal beginning 1 Oct 98).

b. Ability to obtain the "best value": N/A - Subscription renewal

c. Procurement Process: Issued VISA telephonic order on renewal.

d. Procurement Flexibility: As the NAF Contracting office maximizes usage of the VISA card, the VISA process was selected over a Purchase Order to expedite purchase and progress toward a paperless environment. (The APF Contracting office does not utilize VISA for procurements.)

EXAMPLE # 7 - Contract NAFFC1-98-C-0021 - Endeavor Information Systems (Library Automation System) - Amount: $ 95,225.00

a. Procurement Cycle Time: Purchase request was entered on the NAF Procurement System on May 4, 1998, but they still had to develop the statement of work and identify the required capabilities of the new automation system. Completed statement of work received in NAF Procurement Office on 6 July 1998 and we issued a Request for Proposal on 17 July 1998. The RFP closed on 17 August 1998. Evaluations were completed and the contract was awarded on 4 Sep 1998. Expected delivery time: end of Jan 1999. Even though the purchase request was entered on May 4, the actual requirements were not fully developed until July 1998 --- 7/6/98 through 4 Sep 98 is 61 days and 4 Sep 98 through 31 Jan 99 is 149 days which equals a total of 210 days.

b. Ability to obtain the "best value" Five responses to our solicitation were received - one was determined to be out of the competitive range and the other four offers were evaluated. The evaluation process addressed cost, technical information and past performance. Based upon all information supplied and reviewed, the NAF Contracting Officer determined the "best value" for the library would result in an award to Endeavor.

c. Procurement Process: The previous library automation system was purchased in 1995 (delivered in 1996) by the APF DOC at Ft. Campbell, KY by means of a Capabilities Request (CAPR). [On this solicitation], the HRBC automation staff worked with library personnel in the development of the work statement and attempted to ensure the end result would meet the true needs of the library. Once the work statement was completed, it was incorporated into a Request for Proposals and issued for competition.

d. Procurement Flexibility: The previous library automation system was purchased via a delivery order against an established GSA contract; however, in light of the fact that in less than two years library personnel realized the system needed to be replaced, we knew we needed to explicitly identify the true requirements. We could have simply issued a delivery order against a GSA contract also, but we chose to issue a RFP and evaluate the offers in relation to the specifications in the statement of work. Budget dollars are becoming scarce and we made a conscious effort to "wisely" spend the library's money and obtain a system that would serve them and could grow with them for many years.

2. How has workload been affected? The actual procurement workload has increased by approximately 24%; however, including time spent collecting data and preparing reports the increased workload would be approximately 28- 30%.

3. Please identify, if any, APF funds still being expended by installation APF contracting office in support of the MWR (e.g. ongoing maintenance contracts)?

   Checked with DOC personnel and Yvonne Cook-there are none.

4. Please provide any other comments, issues, concerns, etc., as they relate to the procurement process under this test?

   Personnel from the activities participating in the URD test have expressed many positive statements concerning the URD. We asked:

   "What do you like about the URD process? Please identify two or three specific points."

   - Joe Schippers (Intramural Sports) "The system is much easier, NAF Contracting processes and gets delivery much quicker. I like working one-on-one with NAF Contracting personnel and I like the delivery control."

   - Larry Gabbert (Gear-To-Go) "The process is quicker and very efficient. NAF Contracting personnel are outstanding, they always get the Manager's approval on any change in specs --- under the old system you never knew what you would get or when. Delivery is controlled - doesn't get lost all over post."

- Cindy Clack (Aquatics) "It has made purchasing supplies and equipment much easier than before. The paperwork process has been dramatically simplified. Before, my purchase requests had to go through many hands. At any point it could be stopped and held (for whatever reason) and it could be months before my supplies were received. I've even had occasions where my orders were never completely processed and my supplies were never received. It's easy to track my purchase requests now, before it was nearly impossible. It has made record keeping much easier."

- Jerry Canady (Auto Craft Shops) " Quick service, working one-on-one with NAF Contracting personnel, being able to see what you are getting, delivery (items are not lost."

"Is there anything you do not like about the URD process? Please be specific."

- Joe Schippers (Intramural Sports) "No - I like it!"

- Larry Gabbert (Gear-To-Go) "No - it's great!"

- Cindy Clack (Aquatics) "No - continue."

- Jerry Canady (Auto Craft Shops) "No"

They are very happy with the URD procurement process and the fact they now have a "one stop shop" in the NAF Procurement Office. NAFPO personnel have been very pleased with the test and would definitely like to see the URD process continue.

NAF payment procedures takes full advantage of any prompt payment discounts offered. In addition to the $ 232.02 saved on Example #4 in item 1 above, we have saved $125.13 in prompt payment discounts on sports officials requirements during the 1" & 2nd Qtr FY98.

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5. CREDIT CARD DATA SUMMARY:

We selected fourteen credit card holders from each of the three categories (APF, NAF, and URD) to assist in tracking transaction data for April 98 thru. Sep 98. The following is the result of the information submitted:

		Actions	Days to Award	Days to Deliver	
NAF					
Apr		70	101	400	
May		66	67	217	
Jun		95	112	256	
Jul		77	78	221	
Aug		62	63	209	
Sep		45	47	102	
URD					
Apr		118	118	351	
May		119	132	309	
Jun		117	134	347	
Jul		90	104	274	
Aug		47	49	138	
Sep		52	57	213	
	TOTAL	958	1062	3037	
			Avg: 1.108	3.170	*(4.2 days)
APF					
Apr		55	111	282	
May		61	71	160	
Jun		51	57	143	
Jul		63	75	227	
Aug		44	57	147	
Sep		70	70	401	
	TOTAL	344	427	1360	
			Avg: 1.241	3.953	*(5.1 days)

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PERSONNEL ACTIONS
DOD COMPONENT: ARMY
INSTALLATION: FORT CAMPBELL, KY
REPORTING ELEMENT: ALL
FOR THE PERIOD COVERING: 1 OCT 97 TO 30 SEP 98

	Number
Authorizations (FTE)	114
Vacancies to be filled [2]	21

	Number[2]	Average Days to fill[3]
APF Vacancies filled with		
NAF/URD	21	47.8
Type of Appointment	Regular	Flexible
	16 *	5

** We found that these were:*
15 Regular Full-Time
1 Regular Part-Time

Notes:.

1. Civilian APF slots authorized on a valid authorization document (such as Table of Distribution and Allowances) in support of Morale, Welfare, and Recreation activities.

2. Include all vacancies, even if filled multiple times. For example, if one position was filled three times, report 3 vacancies to be filled, report three vacancies filled with NAF or APF.

3. Average calendar days elapsed from date recruitment action initiated on vacant position to date action complete. Average calendar days equals number of calendar days elapsed divided by the number of actions.

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PERSONNEL REPORT NARRATIVE
FORT CAMPBELL, KY
1 OCT 97-30 SEP 98

1a. What is the impact on days to fill vacant positions under this test? Provide some specific examples of impact on days to fill. **Answer:** Many of the activities have not had any vacancies, therefore they could not respond in this area. The Child and Youth Services and the Library were the two areas with the most URD employees. The Director, Child & Youth Services responded very positively. She gave an example of several GS-09 positions that took 1 year to fill before URD *(*auditors' note: There was no supporting documentation for this timeframe.)*. She can now have these type positions filled within 60 days *(*auditors' note: We found that the four child care positions filled in FY 98 took an average of 72 days to fill)*. During the URD test there has been an almost constant turnover in the Library management personnel. As a result, they felt they could not provide a fair assessment of the hiring process before URD vs hiring through the NAF procedures. Although the Chief, Recreation Division has had limited experience in the hiring of URD employees, he feels that the turn around time from announcing to filling vacancies has been shortened. The Dir, DW Rec Ctr gave an example that in FY 96 it took one year to get a GS-5 position filled. During the open discussion with personnel from the Child & Youth Services, a comment was made that in FY 95-96 it took nine months to get an employee on board. Under the URD, that same position was filled and the employee was on board in six weeks.

b. Provide specific examples of how URD has impacted your ability to obtain the best value in staffing the organizations. **Answer:** (1) Using hire-lag dollars, a Youth Computer Lab Specialist was hired as an overhire in FY 98. This person assists the HRBC ADP staff in maintaining computer challenges within Youth Services. The computer lab is used by children/teens to enhance their computer skills, school studies and projects and for recreation. (2) This test has provided the Child & Youth Services director with the ability to hire NAF employees for professional positions, which has opened up the door to "outside" candidates. As a result, she has been able to reach the "right" person for the "right" job. (3) Under the APF system there were times when a referral list would be provided with on one or two names and the Manager would not feel that the individuals were appropriate for the position.

c. Provide specific examples of how URD has impacted personnel hiring and management processes. **Answer:** (1) URD has allowed managers the flexibility to hire qualified employees at a lower beginning wage. This has provided the manager the ability to generate hire-lag dollars that can be used for over-hires against TDA requirements. Managers may also fill the vacancy as a flexible or part-time employee. Although this is available on the APF side, it was rarely used at Fort Campbell. The Library personnel have expressed their concerns over the pay disparity between the GS employee and the NAF employee doing identical work. However, this is not the result of the URD test. The

NAF employees are hired at a wage comparable to the surrounding locality. If this test is successful and implemented, this issue would lessen as the MWR transitioned towards an all NAF workforce. (2) A recent transfer of responsibilities for the Aquatics Section enabled the Sport & Recreation Division to fill a position with a highly qualified and locally available employee.

2. How has workload been affected? Distinguish between increase workload required to meet URD reporting requirements, and that required to process personnel actions.
Answer: Being in this test program has not affected the workload in the NAF Personnel Branch except for the need to compile, retain, and report required data to evaluate the test. The increased workload in the NAF Personnel Branch during the test period was caused by the development of data bases in order to have needed data available at all times. Changes in the needed/wanted data and inability of our computer system to handle all of the information stored in the database are other factors that caused an increase in our workload.

3. Are APF funds still being expended for personnel in support of the MWR program? If so, please identify the numbers and types of positions and amount of funds expended for:

A. APF authorizations assigned to MWR that are filled with APF employees: Approximately 89

B. Vacancies that have been filled by APF employees rather than NAF employees: 0

C. Number of NAF employees hired with URD funds: 21

8 - Bgn FY 98

21 - New hires (I Oct 97 - 30 Sep 98)

16 - Lifeguards (Moved to dept code "GN" in Apr 98)
1 - Computer Specialist (Over hire position)

During the first six months of FY 98, there was 31 Uniform Resource Demonstration employees on board. However, in Apr 98, sixteen lifeguards were moved from department code "GL" to department code "GN". In FY 97 these positions were funded through the "GL" department code using hire-lag dollars. At the beginning of FY 98, these lifeguard positions should have been changed to department code "GN". However, this change was not requested until Apr 98. This resulted in the overstatement of the number of URD employees that should have been on-board on 31 Mar 98.

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Until Aug 98, the computer specialist position was reflected as a "GL" position. However, this is an over hire position that is not against an authorization and should not have been reflected in department code "GL". This was corrected in Aug 98, so the FY 98 figures reflected do not include either the lifeguard or computer specialist positions.

4. Please provide any other comments, issues, concerns, etc., as they relate to the personnel hiring process under this test. **Answer:** The only concern I have is the APF supervisors who cannot realize the savings that can be accomplished by the hiring of NAF vs APF. If they do hire NAF they want to pay the same salary as they would a GS employee instead of paying a salary comparable to the local economy. This not only impacts the dollars being paid out; but, if an identical position was filled in the same activity but using NAF funds, the funds may not be available to pay at the higher level and thus cause a morale problem again. Also, this could impact on other activities as their employees become aware of the higher salaries being paid in another activity and begin to feel they should be paid the higher salary also. However, I see this issue lessening as we go towards a total NAF workforce in MWR.

If the test is accepted as permanent, I am concerned about how the transferring of current APF employees to NAF will be handled. I believe they should be grandfathered in order to retain the knowledge those individuals possess (those APF employees close to retirement would probably retire, accept other positions, or resign if forced to accept NAF employment), maintain morale, and for continuity of the MWR operations.

FINANCE NARRATIVE
FORT CAMPBELL, KY
SEP 98

1. Did participation in URD cause a change in the level of APF provided to your installation? Specifically, was the MWR program decremented during the course of the project? If so, by how much for FY 97 and how much for FY 98? **Answer:** Discounting the Special Quality of Life funds that were received in FY 97 and FY 98, the following APF funding from the Installation DRM was received for the MWR activities:

	Instl Direct Funded	Initial FAPABs	Delta
FY 97	$52449K	6,007K	($ 558K)
FY 98	$5,238K	6,850K	($1,612K)

During this period, APF dollars reflected on the FORSCOM Automated Program and Budget System (FAPABS) for MDEP's QDPC, QYDP and QCCS were increased by higher headquarters to the installation. However, as a result of lessening APF dollars, dollars to support Quality of Life were often the target of reduction to help fund other Base Operation (BASOP) functions. This is not the result of the URDT, this is the result of the continuing decline in APF dollars to support BASOP's as a whole.

URDT allowed the managers the flexibility to utilize APF dollars in a manner that assisted them in enhancing the efficiencies and effectiveness of their programs. I feel that in a time of declining APF dollars, URD is a process that provides a tool to the managers that allows them to maintain their current level of service with less dollars.

2. How has the financial management workload been affected? Distinguish between URD reporting requirements and day-to-day financial management operations. If it was affected to a significant degree, can you quantify it by mandays of effort for the period? **Answer:** In FY 97 approximately 33% or a per month average of 56 hours of Fort Campbell's URD project officer's time was spent doing the following functions in support of URD:

a. Meeting reporting requirements - 7% or 17 days
b. Developing and updating spreadsheets used to track available URD dollars - 13% or 33 days.
c. Approximately 7% or 18 days were spent on URD budget revisions, briefings, working with the Army Audit Agency and coordinating with outside government

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agencies to establish new funding procedures. An example is the establishment of procedures to pay EEO investigator expenses. These expenses are authorized to be paid from APF for both APF and NAF employees. Before URD an APF accounting citation was provided on a memorandum. When the travel was finalized, the Defense Finance & Accounting Service would charge the account per the accounting citation. Under URD a Memorandum of Understanding was developed and procedures established to ensure the expenses were paid from the URD account by the NAF Financial Services Office. d. Researching and receiving clarification from higher headquarters on various situations that occurred during the first six months of the test - 6% or 17 days.

During FY 98 the time expended on supporting the test has been dramatically reduced. The change in the financial reporting requirements for the FY 98 semiannual report decreased the time spent in its development at the Installation level. The time spent in FY 97 to develop tracking mechanisms and establish procedures was not required in FY 98.

3. Has the NAF financial system provided greater visibility and accountability of APF support (URD demo funds) than before the test? If yes, was it due to the URD test itself or due to internal adjustments that could have been made whether the test occurred or not? **Answer:** This positive change was the result of both the Garrison re-engineering and the URD test at Fort Campbell in FY 97.

Garrison re-engineering: Prior to the Garrison re-engineering, the APF budget support for DPCA was part of the DRM office. As a result, we did not have readily available all of the APF information such as the FAPABS, direct input into the APF budget process for the MWR accounts, knowledge of obligations for each activity, etc. Under the Garrison re-engineering, the APF budget personnel were moved back to the Business Center. The entire budget responsibility for both APF and NAF are overseen by one individual.

URDT: With the exception of the GS civilian pay, the NAF income statement has become a tool that the managers can use to track their expenditures. The fact that the GS civilian pay is not identified on the NAF income statement continues to be a shortcoming that the managers have expressed their concern over. To compensate for this, spreadsheets have been developed at FSSD that reflect the APF and URD expenditures on a monthly basis. This information is provided to the manager. This financial data is often referred to when preparing for financial briefings to the command group. Visibility of APF increased in the area of swimming, particularly where support for military aquatics training was greatly impacted by the loss of APF positions in the Aquatics Section. Accountability of APF dollars to support military training was also strengthened.

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4. Provide a timeline comparison before and during URD on the timeliness of budget development, and financial reporting. For example, prior to URD how many days did it take after the end of a reporting period to receive an APF obligation report? How many days lapsed for receipt of the NAF report? **Answer:** URD has not changed the Manager's requirement to develop an APF budget to meet the requirements of the Installation DRM. The APF dollars required to support the MWR programs must still be submitted as part of the Installation's APF budget to the MACOM. The impact statements that are sometimes required must still be written to meet the DRM need. In the FY 97 narrative I had felt that under URD the managers were required to duplicate the budget process because they had to develop the budget to meet the APF requirements and also reflect the phasing of that budget on FMBS. However, after working with the APF budget process for the past 12-months, the NAF phasing is not duplicative work as a similar process would have been required when preparing the Phased Obligation Plan of the APF dollars. Although the NAF URD budget is reflected in the various GLAC's rather than the seven basic elements of resource (EOR's) on the APF side, this does not result in an additional workload on the manager.

Feedback from the activity managers varied. Some reported that before URD they never received information concerning their Rind availability or were notified just before the end of the FY that they had a large amount of funds that had to be spent in a short time period. As a result, they would buy in large quantity just to spend the money. Having worked directly with the APF budget analysts within the past year, the month-end data is normally available by the 5th workday of the following month. Most of the budget analysts have developed status reports that are provided to the Directors. According to some of the responses received from the Managers, they did not see these reports. Of the Managers that did receive a status report, they said it was cumbersome and was not easy to read. The NAF statement is usually received within 12 workdays of the following month and is immediately sent to the Managers. Although it takes longer to produce the NAF report, the Managers like the fact that all of their financial data is provided to them in the same format. For those managers that have a large GS payroll, they would like to see a method developed that would allow them to see the GS payroll cost on the NAF financial statements.

5. Discuss the effect of the URD process on your day-to-day financial management operations (in particular, discuss the effect on the processes and reports used in managing dual sources of funding). **Answer**: When funds become available from APF, documents must be prepared to request a check from the DFAS-Rome accounting office. In turn, documents must be issued to APF providing funds for the GS civilian payroll. The FSSD office tracks by pay period the GS civilian

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payroll to include a month-end accrual so that the GS civilian payroll can be estimated before the actual invoice is received. As discussed in paragraph 3, the FSSD office has developed spreadsheets to help project shortfalls or excess funding. The ability to document and compare APF and NAF expenditures is important. This ability provides greater efficiencies at every decision-making level.

6. Are activity managers more satisfied with the financial service that you are able to provide under the URD process? Is it because of the process itself or because of changes that could have been made whether the test occurred or not? **Answer:** I met with 12 managers to discuss in an open forum their thoughts on the URD process as a whole. Most agreed that it was a combination of both URDT and the Garrison re-engineering effort. In some areas the URDT forced internal changes that benefited the operation. Activity managers are more satisfied due to "One Stop Service" for all questions and answers pertaining to financial management processes. Along with offices that are co-located, the quick response saves time and energy for the activity managers along with all internal customers.

7. Has the URD process impacted your ability to perform APF financial analyses? If so, please explain. **Answer:** Yes. Once the GS civilian pay has been factored in, we have the visibility of the full cost to operate the various Category A and B activities. This enables us to respond to the Command Group and higher headquarters inquiries concerning the funding requirements for these activities. We can easily identify and project hire-lag dollars that are generated and use these dollars to cover shortfalls in other areas that have been incurred as the result of reduced funding. The URD process impacted the ability to perform APF financial analysis for activity managers by enabling them to quickly analyze comparative data. Previously, this was more time consuming and laborious to track down data that was somewhere between procurement, budgeting, finance and accounting, and suppliers.

TDY - The steps involved in obtaining a travel order through the NAF system is much easier. Again, URDT allowed the manager the flexibility to deal with one source in obtaining an approved document. The travel settlement process is much quicker with NAF than APF.

Credit Card Purchases - The CYS Director commented that her credit card expenditures were more visible. Under URDT she has access to run reports showing the expenditures made with the credit card. Under the APF credit card system there were no reports available. You had to track it yourself or rely on reports from the DRM budget office, reports that most managers did not receive.

8. Has the URD affected your ability to maximize discounts taken on vendor payments and/or avoid late payments under the Prompt Payment Act? If so,

please discuss and provide key examples. Please provide a total dollar impact for this reporting period if it is available. **Answer:** Yes. Unlike APF, NAF receives a rebate from USBank, Commercial Processing System (CPS) for prompt payment of the IMPAC statement each month. In FY 98, this equated to $1.0K We did not incur any late payments under the Prompt Payment Act. However, we were able to realize $9.0K in vendor discounts on such items as sports officials, book subscriptions for the Library, contracts to install equipment at the two Child Development Centers, etc.

9. Please provide any other comments, issues, concerns, etc. as they relate to the financial management process under this test. **Answer:** (a) Under the URD test we are allowed to insure equipment purchased with URD funds. As a result, when a piece of watercraft that was purchased in FY 97 was damaged recently, I was able to file an insurance claim with RIMP and the repair costs were covered under insurance. Had this been under the former APF system, the repair costs would have been paid from the nonpay dollars provided to the activity. In some cases this could have caused an over obligation of funds or completely exhausted their nonpay dollars. (b) The Managers are very pleased with the results of the URD test. It has provided them the flexibility to execute their APF dollars in a more efficient manner. In this day of shrinking APF dollars it is imperative that they get the most for their money. URD has allowed them the opportunity to hire qualified employees at a rate lower than the GS rate, but -still comparable with the surrounding community. In turn, this has provided them with additional dollars for over-hires or to support nonpay requirements that would have otherwise been unfunded. The financial management processes have been simplified, and backed by knowledgeable and customer oriented service personnel. By having one source, timeliness and quality of service has improved. (c) The main area of concern continues to be the impact on the GS civilian employee if URD is approved and implemented. Many of the long time GS employees do not want to be forced into converting to NAF.

10. If URD were made permanent, what accounting or reporting requirements should be changed or eliminated? **Answer:** (a) The establishment of a method that would allow for the visibility of the GS civilian labor on the NAF income statement would be advantageous to the Manager. Since the GS civilian labor cost is reflected on the MWR portion of the 218 Report, an adjustment would have to, be made so the labor cost is not overstated when it is reviewed at higher headquarters. (b) Year-end procedures would need to be developed to track purchases that would require the establishment of an Accounts Payable in the current FY when the actual delivery of goods would not occur until the next FY. Without an automated purchasing system, this would be a difficult task (c) An additional fixed asset indicator needs to be established. It is currently difficult to track exactly what fixed assets have been purchased. Although we are using the

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department code on the fixed asset report, the URD assets are intermingled with the non-URD assets. If an indicator of "U" was established and used as the sixth digit of the asset number in place of "F" or "E", it would group all of the URD assets together and it would be easier to track the URD property. (d) The Financial Management Budget System must be updated to allow the FMD the option to generate an IMWRF rollup of all URD budgets. Currently, I must print each department code "GL" budget and manually add the numbers to get an IMWRF URD total. There should also be a print option that allows you to print all budgets with a specific department code. Currently, I have to identify each individual location code that has a "GL" budget and print it. This process must be repeated for each URD budget. (e) Time Labor Management System (TLMS) needs to be modified to allow the Managers a method in which they can calculate the cost of the non-GL NAF employees. Currently, the system can only provide a total NAF labor cost. There is no mechanism in place to distinguish between "GL" and "non-GL" employees. There are occasions when a manager is required to submit the dollar amount for only the "NAF" employees.

Yvonne Cook
FSSD
DSN 635-5582

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SCHEDULE A SUMMARY
APPROPRIATED AND NONAPPROPRIATED EXPENSE SUMMARY
DOD COMPONENT: ARMY
INSTALLATION: FORT CAMPBELL, KY
CATEGORY: ALL
FOR THE PERIOD: 1 OCT 97- 30 SEP 98

PROGRAM/ACTIVITY	UNIFIED RESOURCE DEMONSTRATION FUND AMOUNTS	TOTAL NAF*	OTHER DIRECT APPROPRIATED SUPPORT
CATEGORY A	$0	$0	$870,035
CATEGORY B	$0	$0	$2,607,516
CATEGORY C	$0	$0	$0
OVERHEAD/COMMON SUPPORT	$0	$0	$192,458
TOTAL	$0	$0	$3,670,009 *

*INCLUDES DEPR; EXCLUDES CPMC

11/27/98
9:15 AM

FINANCIAL PLAN AND EXECUTION
DOD COMPONENT: ARMY
INSTALLATION: FORT CAMPBELL, KY
CATEGORY: ALL
FOR THE PERIOD: 1 OCT 97- 30 SEP 98

Program/Activity	NAF Less URD*	Planned URD Support Demonstration	Other Direct APF	NAF Less URD	Actual URD Support Demonstration	Other Direct APF
Category A	$392,618	$371,576	$748,200	$0	$0	$870,035
Category B	4 807,438	928,674	2.944,750	0	0	2,607,519
Category C	8,459,075	0	0	0	0	0
Overhead/Common Support	2,609,589	45,875	198,925	0	0	192,457
TOTAL	$16,268,720	$1,346,125	$3,891,875	$0	$0	$3,670,010 *

*INCLUDES DEPRECIATION, EXCLUDES CPMC & CGS

** Auditors' note: Differences are due to rounding.*

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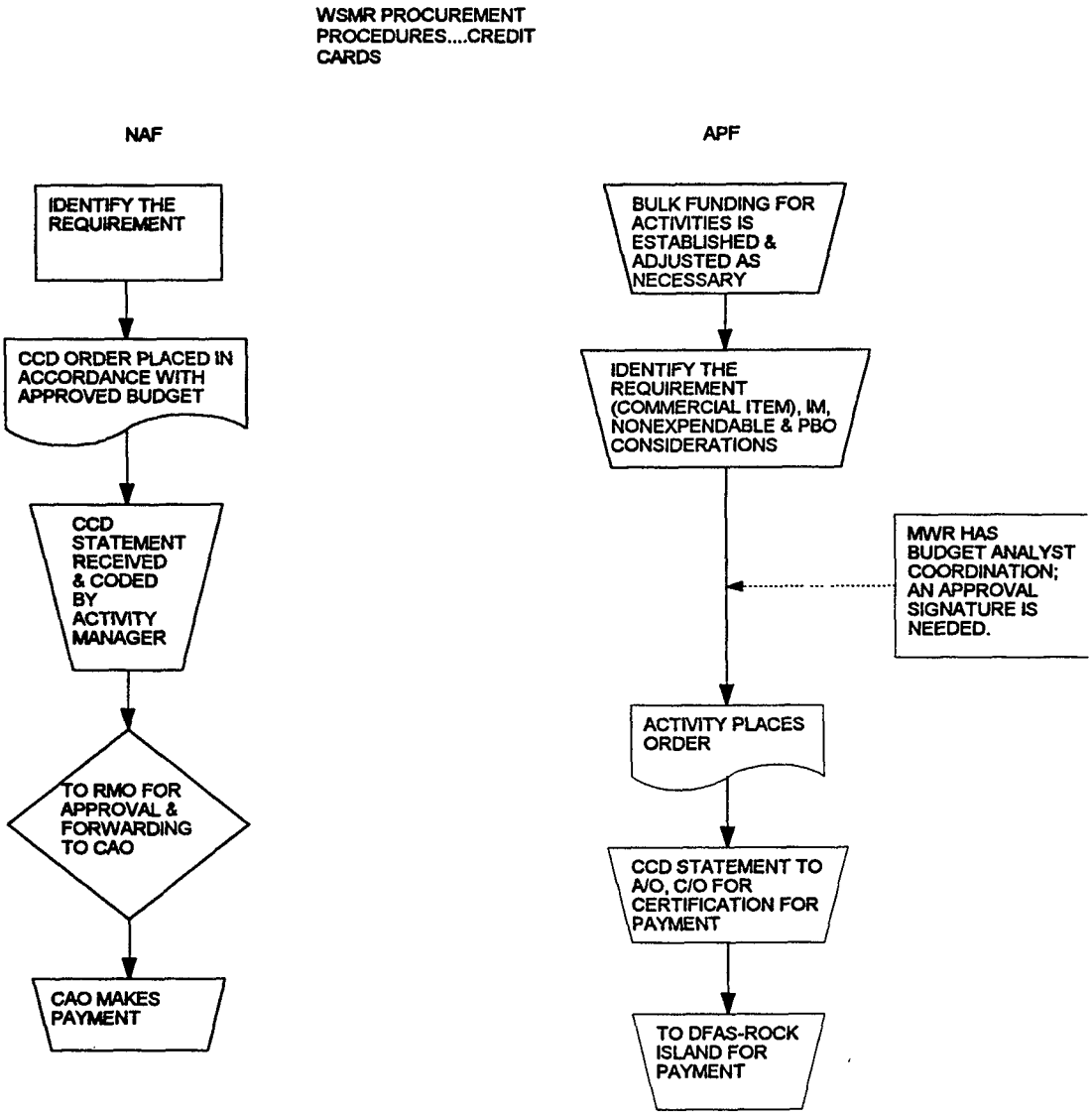
PROCUREMENT PROCESS FLOW CHARTS

The following flowcharts depict the differences between appropriated fund and nonappropriated fund procurement processes at both White Sands Missile Range and Fort Campbell:



LEGEND

WSMR - WHITE SANDS MISSILE RANGE
NAF - NONAPPROPRIATED FUND
CCD - CREDIT CARD
RMO - RESOURCE MANAGEMENT OFFICE
CAO -CENTRAL ACCOUNTING OFFICE
APF - APPROPRIATED FUND
IM - INFORMATION MANAGEMENT
PBO - PROPERTY BOOK OFFICE
MWR - MORALE, WELFARE & RECREATION
A/O - APPROVING OFFICIAL
C/O - CERTIFYING OFFICIAL
DFAS - DEFENSE FINANCE & ACCOUNTING SERVICE

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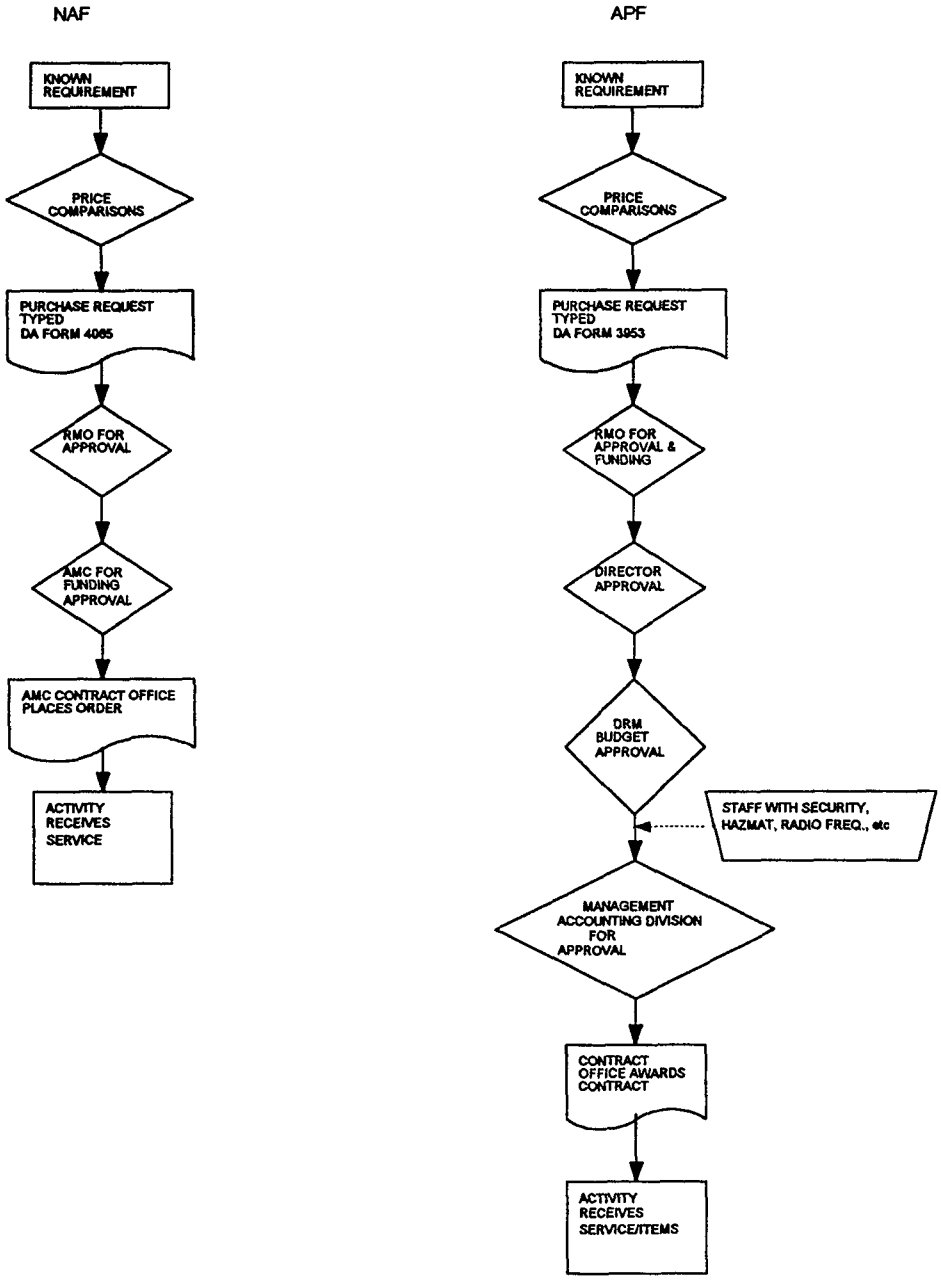
WSMR PROCUREMENT PROCEDURES
SERVICES IN EXCESS OF $2,500



LEGEND

NAF - NONAPPROPRIATED FUND
APF - APPROPRIATED FUND
RMO - RESOURCE MANAGEMENT OFFICE
AMC - ARMY MATERIEL COMMAND
CAO - CENTRAL ACCOUNTING OFFICE
DRM - DIRECTORATE RESOURCE MANAGEMENT
HAZMAT - HAZARDOUS MATERIAL
FREQ - FREQUENCY
MAD - MANAGEMENT ACCOUNTING DIVISION

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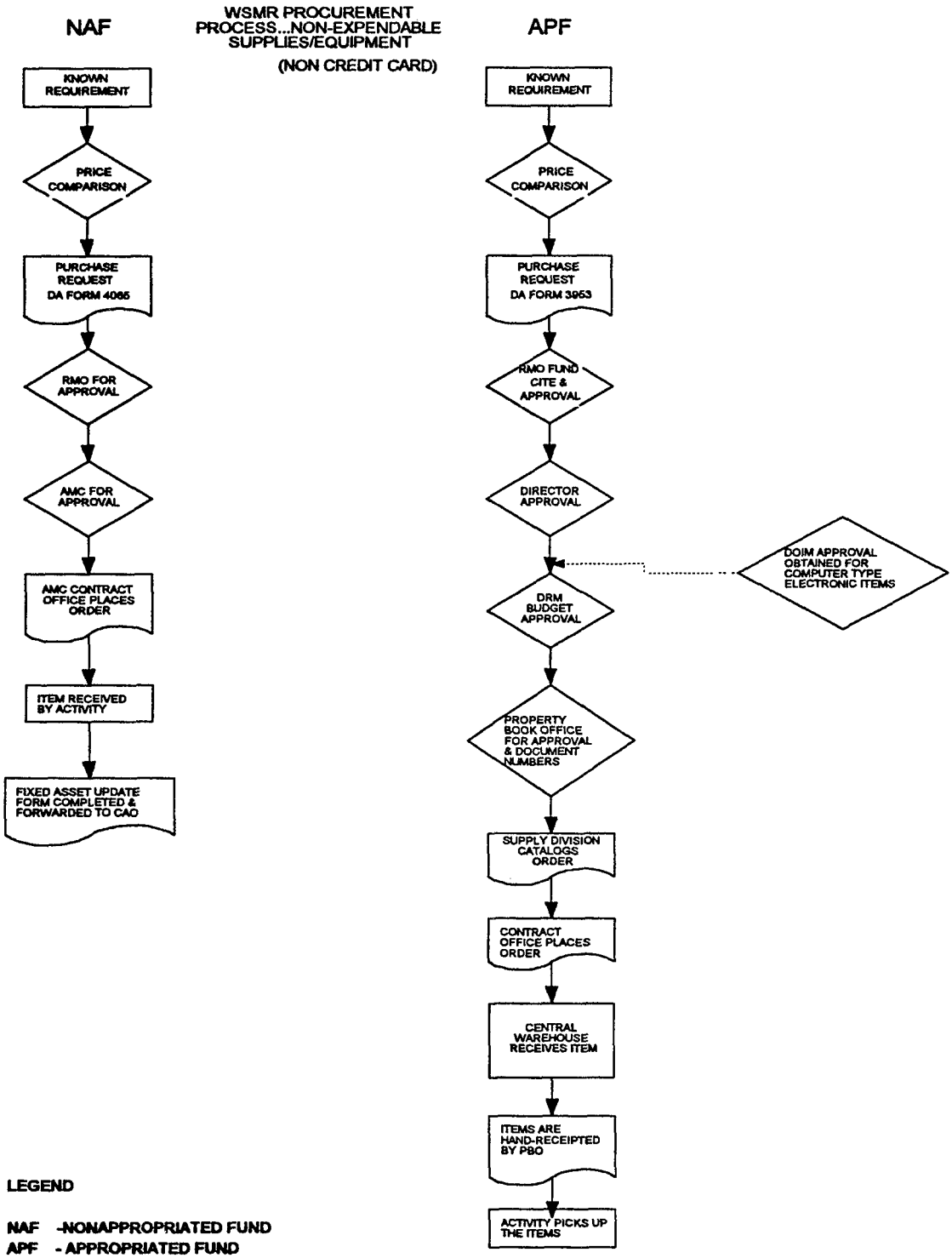

LEGEND

NAF -NONAPPROPRIATED FUND
APF - APPROPRIATED FUND
AMC - ARMY MATERIEL COMMAND
CAO - CENTRAL ACCOUNTING OFFICE
CITE - CITATION
DOIM - DIRECTORATE OF INFORMATION MANAGEMENT
DRM - DIRECTORATE RESOURCE MANAGEMENT
PBO - PROPERTY BOOK OFFICE

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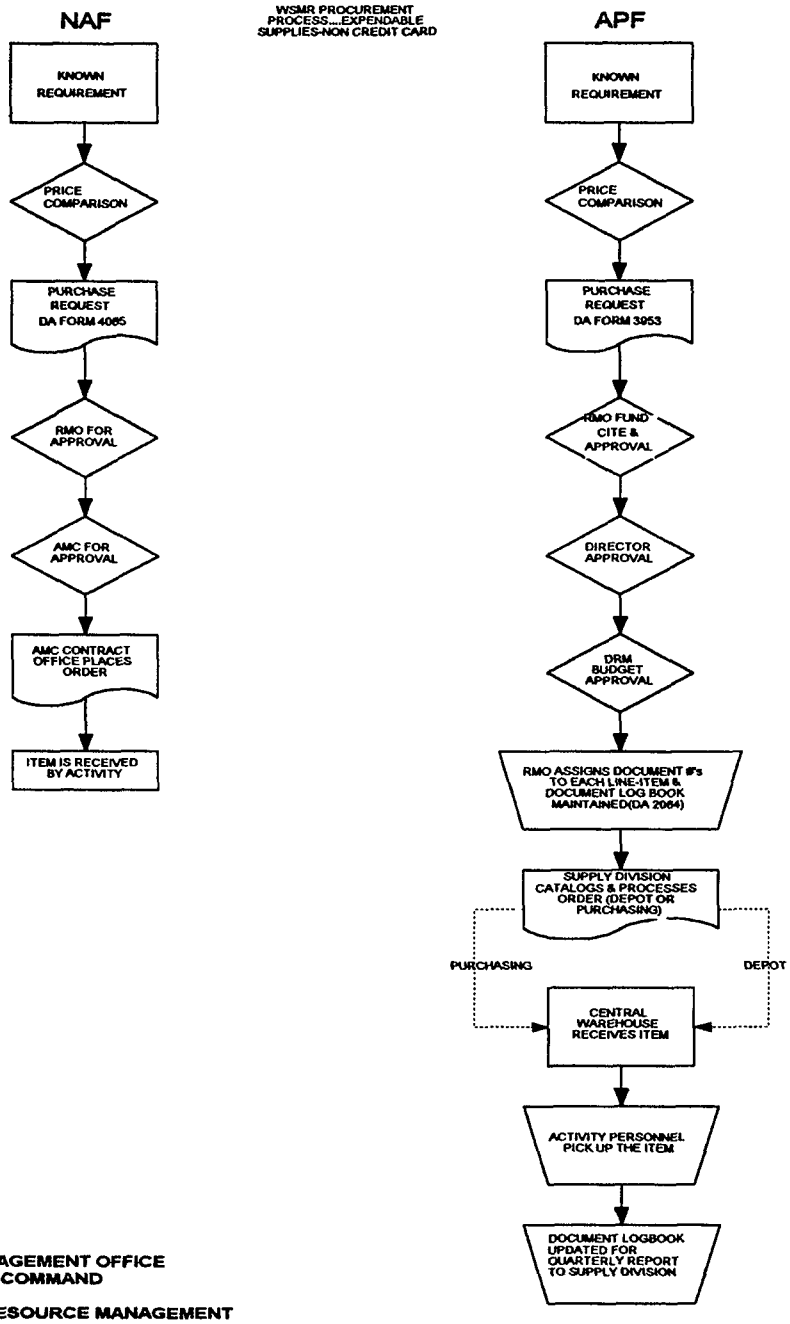

LEGEND

RMO - RESOURCE MANAGEMENT OFFICE
AMC - ARMY MATERIEL COMMAND
CITE - CITATION
DRM - DIRECTORATE RESOURCE MANAGEMENT

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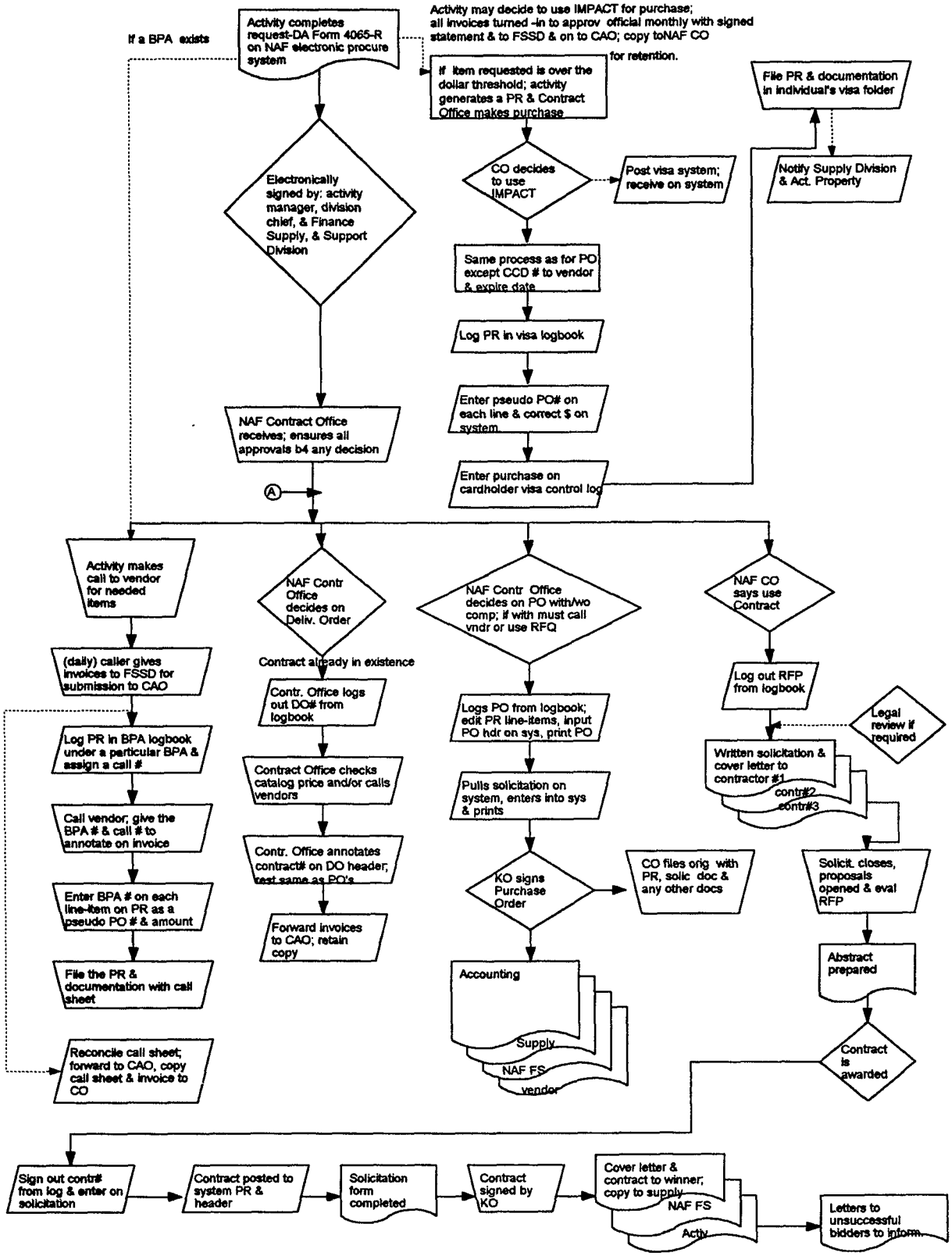
NAF PROCUREMENT PROCESS FT CAMPBELL, KY



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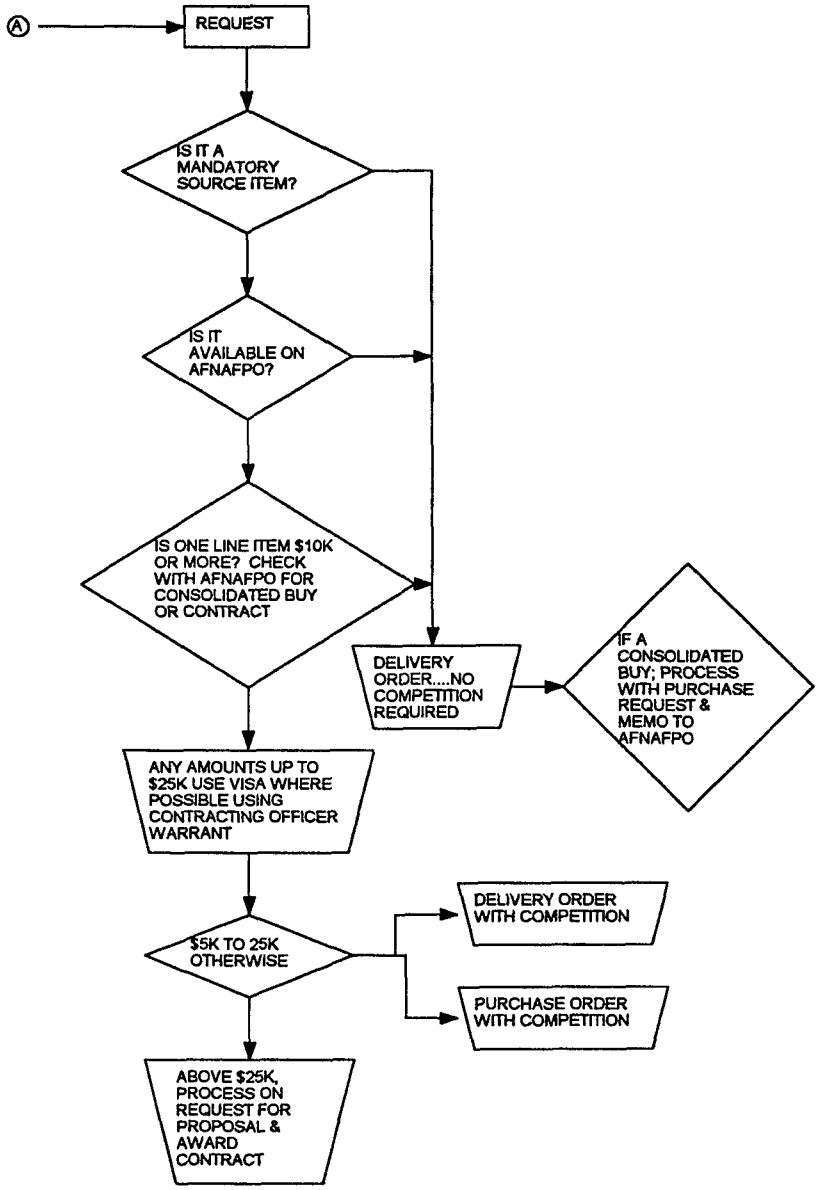
NAF DECISION CHART



LEGEND FOR NAF CHARTS

NAF	**- NONAPPROPRIATED FUND**
AFNAFPO	**- AIR FORCE NONAPPROPRIATED FUND PURCHASE ORDER**
BPA	**- BLANKET PURCHASE ORDER**
FSSD	**- FINANCIAL & SUPPORT SERVICES DIVISION**
CAO	**- CENTRAL ACCOUNTING OFFICE**
PR	**- PURCHASE REQUEST**
PO	**- PURCHASE ORDER**
CO	**- CONTRACT OFFICE**
DO	**- DELIVERY ORDER**
IMPAC	**- INTERNATIONAL MERCHANT PURCHASE AUTHORIZATION CARD**
CCD	**- CREDIT CARD**
RFQ	**- REQUEST FOR QUOTE**
KO	**- CONTRACTING OFFICER**
FS	**- FINANCIAL STATEMENTS**
RFP	**- REQUEST FOR PROPOSAL**
CONTR	**- CONTRACT**

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APPROPRIATED FUND PURCHASE PROCESS
Fort Campbell, KY

Someone in a unit/activity determines need for item/service and submits written request to person responsible for ordering.

Responsible person researches request; determines proper method of submission (DA Form 3953, DD Form 1348-6, DA Form 2765-1, or IMPAC credit card); coordinates as appropriate with RBC ISSD, DOC, and account analyst (RMO); obtains necessary purchase authority (telecom, training aids, ADPE, construction materials, printing, etc.); and obtains price, suggested sources, and approval

DA Form 3953

Prepare 3953 for services or for supply items only as listed in CAM Reg 715-1 or those requiring additional services such as imprinting; obtain approval signatures of initiator, supply officer if appropriate, commander/director, and fund certifier; and submit to DOC

DOC logs in and forwards to Buyer who researches, places on bid if necessary, and issues order

Contractor fulfills the order.

When service/item is received, responsible person submits receiving report to DFAS-Rome with copy furnished account analyst (RMO).

DD Form 1348-6 or DA Form 2765-1

For supplies/equipment, prepare either 1348-6 per item for local purchase or 2765-1 per item for Depot purchase, obtain document number, and obtain approval signatures for Priority 02, large dollar items, or others if necessary

DD Form 1348-6

1348-6 is used for supplies/equipment bought through DOC as local purchase if (1) there is no good stock number, (2) there is an urgent need and the item is not immediately available through the Depot, (3) there is an urgent need and the monthly credit card limit has been exceeded

Submit to RBC ISSD Customer Service who sends to Detail Edit who sends to Local Purchase who sends on transmittal letter to DOC

DOC orders item

Vendor ships item to RBC ISSD Central Receiving who coordinates with Local Purchase to process receipt for payment to vendor

Unit's/Activity's responsible person keeps check on their bin at Central Receiving for arrival of order If order is large and won't fit in bin, Central Receiving will call customer of arrival

If an accountable item, unit's/activity's responsible person will provide RBC ISSD Property Book Office with paperwork so accountability is maintained

DA Form 2765-1

2765-1 is used for supplies/equipment which have a good stock number to be bought through the Depot.

Submit to RBC ISSD Customer Service who clocks in and sends to Key Punch for loading on a disk to be sent electronically to the Depot.

Depot ships item to RBC ISSD Central Receiving

Unit's/Activity's responsible person keeps check on their bin at Central Receiving for arrival of order If order is large and won't fit in bin, Central Receiving will call customer of arrival

Receipt is input by customer.

IMPAC Credit Card

Submit request to cardholder for services or for non-standard, non-Depot-stocked supplies/equipment under $2500 appropriate for credit card purchase If accountable (nonexpendable) installation property, cardholder sends memo first to RBC ISSD Property Book Office for assignment of document number.

Service/item is delivered by the vendor as instructed by the cardholder or is personally picked up by the cardholder and should appear on the next statement.

Cardholder verifies that received items are correct on the monthly statement and forwards the statement and backup to the approving official who processes through the account analyst (RMO) to DOC One-Stop for sending to DFAS-Rome for payment.

If an accountable item, unit's/activity's responsible person will provide RBC ISSD Property Book Office with paperwork so accountability is maintained

LEGEND

IMPAC - International Merchant Purchase Authorization Card
RBC ISSD - Readiness Business Center, Installation Supply and Services Division
DOC - Directorate of Contracting
RMO - Resource Management Office
ADPE - Automated Data Processing Equipment
CAM Reg - Fort Campbell Procurement Regulation
DFAS-Rome - Defense Finance Accounting Service at Rome, New York

Research done by: Mary Kay Beaty-Appropriated Fund Budget Analyst
Mark Fullrell - Installation Supply & Services Division
Carl Heckmann - Directorate of Contracting

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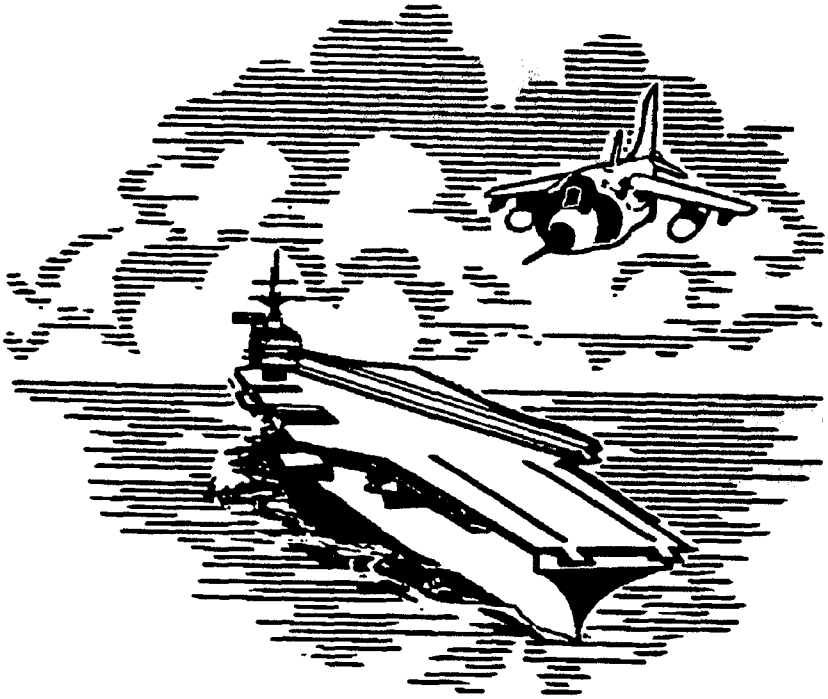
Exhibit 2. NAS Report No. 035-99, "Uniform Resource Demonstration Project at Selected Morale, Welfare, and Recreation Activities," May 11, 1999.

Naval Audit Service
NAVAUDSVC P-7520.1

Audit Report



Uniform Resource Demonstration Project at Selected Morale, Welfare, and Recreation Activities

035-99 11 May 1999

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NAVY
AUDITOR GENERAL OF THE NAVY
5611 COLUMBIA PIKE
ROOM 506B, NASSIF BUILDING

7547/98-0016
WSD/sal
11 May 99

From: Auditor General of the Navy
To: Assistant Secretary of Defense (Force Management Policy)
Commanding Officer, Naval Submarine Base, Kings Bay (Code RS5)
Commanding Officer, Naval Submarine Base, Bangor (Code B00IG)

Subj: **UNIFORM RESOURCE DEMONSTRATION PROJECT AT SELECTED MORALE, WELFARE, AND RECREATION ACTIVITIES (035-99)**

Ref: (a) SECNAV Instruction 7510.7E, "Department of the Navy Internal Audit"

1. We have completed the subject audit, as requested by the Assistant Secretary of Defense (Force Management Policy). The audit objectives were to validate Uniform Resource Demonstration (URD) Project data reported by the two Navy installations (Naval Submarine Bases, Kings Bay, GA and Bangor, WA), and to evaluate internal controls over appropriated funds used during the URD Project. The URD Project was authorized by Section 335 of the National Defense Authorization Act for Fiscal Year 1996.

2. Although both Navy installations' URD reports contained inaccurate data, we corrected or reconstructed the data. The data indicated that the URD Project was successful because nonappropriated fund procurement and personnel processes were quicker and easier than related appropriated fund processes.

3. Section B of the audit report provides details about the accuracy of the URD test data, the measures of success used for the procurement and personnel areas, and our review of financial accountability and internal controls over the reporting of URD funds. Since this audit was a validation of data for a test project that has concluded, recommendations are not applicable. However, we have included Lessons Learned to identify issues to be addressed should the URD Project be implemented within the Navy. Further, we requested and received confirmation from both Navy test installations as to the accuracy of the report.

4. We have briefed each command and the Department of Defense URD Working Groups, which included Navy representation, on the results of our audit and provided corrected and validated reports for their review. An executive level group, convened by the Acting Deputy Assistant Secretary of Defense (Personnel Support, Families and

Education), was also briefed on audit results not only for the two Navy installations, but also for one Marine Corps, one Air Force, and two Army installations involved in the URD Project test. The executive level group will use the audit and URD Working Group information to formulate the Department of Defense position that will serve as the basis for the URD final report to Congress.

5. We appreciate the support, responsiveness, and assistance of officials from the two Navy test installations (Naval Submarine Bases, Bangor and Kings Bay) and the Naval Personnel Command (NPC-65).

6. Any requests for this report under the Freedom of Information Act must be approved or denied by the Auditor General of the Navy as required by reference (a).

Shirley A. Ledbetter

SHIRLEY A. LEDBETTER
By direction

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Exhibits

A: Uniform Resource Demonstration Project Reporting Requirements

B: Uniform Resource Demonstration Project Measures of Success

Section A
Introduction

Background

Uniform Resource Demonstration (URD) Project and Audit Request

Section 335 of the National Defense Authorization Act for Fiscal Year (FY) 1996 authorized the URD Project. The Department of Defense (DOD) implemented a test of the URD Project at six military service installations from 1 October 1996 through 30 September 1998. The intent of the URD Project was to evaluate the feasibility of uniform funding to support Morale, Welfare, and Recreation (MWR) programs by allowing the expenditure of appropriated funds, following the laws and regulations applicable to nonappropriated fund (NAF) activities. Two Navy installations, Naval Submarine Base (NAVSUBASE) Bangor, WA and NAVSUBASE Kings Bay, GA, participated in the test project.

The 30 May 1996 and 9 February 1998 Assistant Secretary of Defense (Force Management Policy) memorandums requested audit assistance in validating installation data submissions and evaluating related internal controls of the URD Project. The 30 May 1996 memorandum provided detailed reporting guidance. However, between January and May 1998, significant changes were made to that guidance for application during FY 1998 reporting. As a result, our audit concentrated on the validation of the FY 1998 reported data and FY 1997 reported data to the extent that it pertained to the revised reporting requirements for FY 1998.

This audit was of a test project that is being considered for implementation within the DOD. An executive level group will use the audit information to help formulate the DOD position that will serve as the basis for the URD final report to Congress. Since this audit was a validation of data for a test project that has concluded, recommendations would not be applicable.

Changes to the Reporting Requirements

In May 1998, the Assistant Secretary of Defense (Force Management Policy) implemented significant changes to the URD reporting requirements. The changes consisted of: (1) a substantial revision to, and decrease in, the information required to be reported by the service installations; and (2) the issuance of a measures of success document for the areas of: procurement, personnel, and financial. The service installations were given 60 days to submit the semiannual FY 1998 revised URD data.

Objectives

The audit objectives were to:

- Validate URD Project data reported by the two Navy installations, focusing on: (a) processes used in URD Project management and reporting; (b) benefits and costs related to the URD Project; and (c) impact on MWR program customers.

- Evaluate internal controls over appropriated funds used during the URD Project to ensure those funds were used to facilitate procurement of property and services and management of employees in support of MWR programs, as permitted by Section 335 of the Act. The objectives included: (a) evaluation of whether the funds were only used for MWR costs that qualified for such use; (b) assessment of whether NAF-related laws and regulations were followed in spending and accounting for appropriated funds in support of MWR programs; and (c) evaluation of processes involved with programming, budgeting, and allocating appropriated funds used in the URD Project, including year-end review of funding and reallocations.

Scope and Methodology

Scope and Audit Approach

The audit objectives were applied to the FY 1998 URD reporting requirements and to FY 1997 URD Project data, but only as the FY 1997 data pertained to the revised requirements for FY 1998. We made two visits each to NAVSUBASE Bangor and NAVSUBASE Kings Bay.

The audit began on 2 February 1998, but was suspended shortly thereafter to await the revised reporting formats. Audit work resumed on 20 July 1998 and concluded with the issuance of the preliminary draft report on 22 April 1999.

We determined Navy installation compliance with URD guidance provided by Assistant Secretary of Defense (Force Management Policy) memorandum of 30 May 1996, and by the Navy Personnel Command guidance. The Navy guidance was in the form of "Appropriated Fund Procedures" and "Accounting Procedures for Unified Funding Project."

For each of the areas for review: procurement, personnel, and financial, we validated the applicable URD reports identified in Exhibit A. We also reviewed internal controls that were in place to safeguard and account for URD funds.

Since this is the first Navy audit of the URD Project, audit followup is not applicable.

Audit Techniques and Data Quality

We obtained source documents from the two Navy installations to support their MWR program input into the URD reports. (For some reported procurement information, source documents were not available to use in the validation process and where we could, we reconstructed information.) We obtained, reviewed, and analyzed installation computer-generated procurement spreadsheets to support information in the URD reports. Auditors also prepared computer spreadsheets to assist in the organization and analysis of procurement, personnel, and financial data. We interviewed MWR managers and procurement, personnel, and financial staff personnel to obtain opinions and information on the reported data, benefits, and shortcomings of the URD Project.

For our review of the FY 1998 and applicable FY 1997 procurement information on the URD reports, we obtained the logs used to track NAF and URD purchases. We validated procurement lead-time calculations that the activity made from these logs to record in the URD reports. We then judgmentally selected a sample of procurement transactions to validate the information recorded in the procurement logs. We also reviewed the propriety of selected URD procurements for qualified Category A and B expenses[1]. Finally, we traced selected transactions back to the NAF financial records.

For validation of FY 1998 and applicable FY 1997 information on the personnel URD reports, we obtained 100 percent of the personnel documentation in support of the reported actions. We reviewed the propriety of URD funds used for all NAF labor. We also traced personnel related financial information back to the payroll records and NAF financial accounting records.

In the financial area, we reviewed obligation logs; URD spreadsheets (used to track the movement of URD funds); Base Level Accounting System (BLAS) reports; Recreation and Mess Central Accounting System (RAMCAS) reports; and related documentation, such as detail general ledgers, general journal vouchers, and adjusting journal vouchers. We selected several URD expense accounts to validate partial or total amounts expended against original source documents. We tested judgmentally selected transactions for qualified URD expenses and proper accounting. Also, we matched URD financial reports to the various sources of information, that is, to RAMCAS reports, activity budget documents, and appropriated fund reports such as the OP-34 (budget exhibit) (Appropriated Fund Support for MWR Activities) and Manage-to-Payroll Report (Civilian Labor).

Relative to the financial area, we prepared spreadsheets on NAF and URD payroll expenses (salary and fringe benefits) based on 100 percent of supporting documentation. We also validated 100 percent of the URD travel and training expenses. We relied on

---

[1] Category A refers to mission sustaining programs such as physical fitness, sports, and athletics, etc., and Category B refers to basic community support programs such as child development programs, youth activities, etc.

official appropriated fund and NAF accounting reports during our validation work. These reports included:

- Sub-Activity Group/Functional Category Expense Element Reports (Navy Comptroller Form 2171)
- Manage-to-Payroll Reports
- Quarterly Execution OP-34 Reports
- Labor Distribution Worksheets for FY 1997 and FY 1998 Apportionment Budget
- MWR NAF and URD Budgets
- RAMCAS reports
- BLAS reports

Accordingly, for the purpose that we used data from the above noted reports, we determined the data to be reliable. Finally, we relied on appropriated fund International Merchant Purchase Authorization Card (IMPAC) and Other Procurement lead-time information, provided on tally sheets by the Fleet and Industrial Supply Center Puget Sound Detachment, Bangor, for comparison to the NAF IMPAC and Other Procurement lead-times.

Internal Controls and Regulatory Compliance

We evaluated internal controls over the URD Project relative to ensuring that: (1) URD funds were properly spent on qualified MWR Category A and B expenses; (2) NAF-related laws and regulations were followed in spending and accounting for appropriated funds in support of MWR programs; and (3) year-end reviews of appropriated funding and reallocations were performed. We also reviewed compliance with Assistant Secretary of Defense (Force Management Policy) and Navy guidance specific for the URD Project.

Audit Standards

We conducted the audit in accordance with generally accepted government auditing standards.

Conclusions

Procurement

The NAF procurement process was notably faster and easier than the appropriated fund procurement process, even with the implementation of IMPAC during the 2-year URD test period. Internal controls related to procurement were adequate.

Personnel

The hiring process was significantly faster and easier under NAF procedures than using appropriated fund procedures. Additionally, the URD Project provided MWR management flexibility in spending labor dollars. However, there was management concern about losing appropriated fund visibility and resulting funding support for appropriated fund positions converted to NAF under the URD Project. We found that internal controls related to personnel were adequate.

Financial

Better accounting guidance was needed for URD funds within the NAF accounting system. There was also a need to match URD expenditures to obligations to ensure that the balance of URD funds available for expenditure was accurate. We identified deficiencies in the financial area that occurred due to inadequate supervision, missing documentation, and improper recording of transactions.

Overall

We found that URD funds provided to the two Navy installations in FY 1997 and FY 1998 were fully obligated by the end of each fiscal year. URD funds were mainly expended on qualified operating expenses and customers were satisfied with the URD Project. Internal controls were mainly in place to safeguard the URD funds, although we did identify nonmaterial problems with using URD funds for unauthorized expenses.

Section B
Accuracy of Uniform Resource Demonstration Project Test Data, Measures of Success, and Lessons Learned

Finding 1
Procurement

Synopsis

During the Uniform Resource Demonstration (URD) Project test, the Morale, Welfare, and Recreation (MWR) activities at two Navy test installations, Naval Submarine Bases (NAVSUBASEs) Kings Bay, GA and Bangor, WA, averaged 19 days procurement lead-time using nonappropriated fund (NAF) procedures. In contrast, using appropriated fund (APF) procedures, procurement lead-times at NAVSUBASEs Kings Bay and Bangor averaged 66 and 51 days, respectively. These averages excluded International Merchant Purchase Authorization Card (IMPAC) purchases. At Bangor, NAF IMPAC procurement lead-time averaged 4 days compared to the APF IMPAC procurement lead-time of 17 days. At both installations, internal controls were adequate. As indicated, the NAF process was quicker and easier than the more complex APF process. It should be noted that the numbers above are based on our validation, and they differ with what the installations reported. We found that with the exception of the Fiscal Year (FY) 1997 procurement lead-times, Kings Bay's numbers required only slight adjustments. However, Bangor's numbers were not supported, and changed significantly as a result of our reconstruction.

Discussion of Details

Pertinent Guidance

Overall, Assistant Secretary of Defense (Force Management Policy) memorandum of 30 May 1996 required that, under the URD test, APFs were to be: (1) used for operating expenses that were eligible for APF support; (2) spent using NAF procedures and regulations; and (3) obligated by the end of the fiscal year. The memorandum also required four semiannual URD reports on procurement over the 2-year test period. The Assistant Secretary of Defense (Force Management Policy) provided reporting requirements as follows:

FY 1997 Reporting Requirements. For FY 1997, the Kings Bay and Bangor MWR activities were required to track the number of NAF (including URD) and APF

procurement actions, as well as the dollar values and average lead-times, and to submit the results in two semiannual reports. Procurement lead-time was defined as "request to delivery." MWR activities were also required to report on the number of personnel on the procurement staff. The revised reporting requirements in FY 1998 did not require information on dollar values, so we did not attempt to validate that data in the FY 1997 reports.

FY 1998 Reporting Requirements. In FY 1998, the MWR activities were required to prepare two semiannual procurement action reports. They were required to track NAF (including URD) IMPAC and Other Procurement actions, excluding blanket purchase agreements. Other Procurement actions were to be tracked by services and equipment. They were also asked to obtain similar APF procurement data from the base supply source, if possible. The MWR activities were to determine the average procurement lead-times from "request to award" and "award to delivery" and report on procurement staff numbers and costs.

Bureau of Naval Personnel (BUPERS) Instruction 7043.1A is the procurement policy for Navy NAF activities. Enclosure (1), paragraphs106 through 109, provide guidance relative to contracting authority, separation of duties, and training required.

Audit Results

Kings Bay and Bangor MWR activities were required to submit URD Project test results on procurement actions and procurement narratives in four semiannual reports covering FY 1997 and FY 1998 for a total of eight reports for each installation. We validated six of these reports for each activity by reviewing procurement and receiving logs; various purchase documents (including requests, invoices, and contracts); IMPAC procurement logs; training records; and contract warrants. We also interviewed MWR management and procurement personnel. We made a significant number of changes to the reports. We provided corrected and reconstructed reports to Kings Bay and Bangor, the Navy Personnel Command (NAVPERSCOM) (NPC-65), and to the Department of Defense (DOD) chairperson of the URD Procurement Working Group.

NAVSUBASE Kings Bay

We determined that the FY 1997 and FY 1998 Other Procurement data reported by Kings Bay was mainly accurate and supported. However, the FY 1998 NAF and APF IMPAC procurement data could not be validated because supporting documentation was not retained by the MWR activity, and we could not reconstruct the data. Also, FY 1998 APF data was not available from the Fleet and Industrial Supply Center (FISC) Jacksonville Detachment, Kings Bay.

We determined that for 1,221 NAF and URD procurement actions over the 2-year test period, the average procurement lead-time was 19 days. By comparison, we obtained information on eight APF procurements processed by FISC Jacksonville Detachment, Kings Bay in FY 1996 and FY 1997 and determined the average processing lead-time to be

66 days. Kings Bay had reported 1,317 NAF/URD procurement actions for the 2-year test period with the average lead-time reported in FY 1997 of 2 days and in FY 1998 of 17 to 22 days, and 3 APF procurement actions in FY 1997 with an average lead-time of 6 days.

The following example illustrates the procurement lead-time difference. In FY 1996, NAVSUBASE Kings Bay Supply Department took about 5 months to process an MWR sports official contract, from the date of request to award date. In FY 1997, under the URD Project and using NAF procedures, the MWR activity processed a comparable sports official contract in 38 days.

For FY 1997, Kings Bay overstated the number of personnel on the procurement staff by one. However, for FY 1998 it accurately reported the number of personnel and the correct cost of the procurement staff. Statements in the procurement narratives for both years were mainly supported through interviews with procurement staff and MWR management.

NAVSUBASE Bangor

We determined that for FY 1997 and FY 1998, the procurement data for Bangor were mainly inaccurate, unsupported, or unavailable. For example, although URD and NAF procurement data were required to be reported, NAF data were not tracked. We were able to reconstruct most of the required test data.

Both NAF and APF IMPAC data were available at Bangor. We determined that there were 582 NAF IMPAC procurements in FY 1998 with an average procurement lead-time of 4 days. (IMPAC data were not required to be reported for FY 1997.) The FISC Puget Sound Detachment, Bangor provided data for 991 APF IMPAC procurement actions, which averaged 17 days procurement lead-time. It should be noted that the FISC Puget Sound Detachment, Bangor, discussed next, provided IMPAC and Other Procurement data on tally sheets which could not be validated by us because there was no connection to the original source documents. Tally sheet information was for the 6-month period ended 31 March 1998.

Through reconstruction, we determined that there were 459 URD Other Procurement actions over the 2-year test period that averaged 19 days procurement lead-time from request to delivery. By comparison, the FISC Puget Sound Detachment, Bangor provided procurement information on 43 APF Other Procurements (not for the MWR activity) which showed the average procurement lead-time was 51 days.

We determined that there were two personnel on the procurement staff for the 2-year test period, although Bangor incorrectly reported four in FY 1998. Bangor accurately reported costs for the two procurement staff personnel in FY 1998.

Statements in the procurement narrative report for FY 1997 were very general, but supported through procurement staff and MWR management interviews. However, the procurement narrative reports for FY 1998 mid-year and year-end were duplicates, and we

found that statements regarding a staff increase of one were not accurate. Additionally, we were unable to validate statements about a sports official contract, as the source documents were not retained by the activity.

Internal Controls

For both MWR activities, we examined internal controls and determined that adequate separation of procurement-related duties existed. We also determined that personnel involved with purchase requests, ordering, and receiving functions were officially authorized, and training records and contract warrants were current as required by BUPERS Instruction 7043.1A.

We did note that for URD Other Procurements at both MWR activities, expenditures were not reconciled (matched) with obligations. As a result, the procurement staff did not maintain an accurate balance of URD funds available for expenditure.

Measures of Success

The Measures of Success were set up in FY 1998 as part of the revised reporting requirements. The criteria used to measure the success of the URD Project related to procurement are defined in Exhibit B, and discussed in summary below.

Best Value. Kings Bay and Bangor both claimed that best value of the product was not affected under the URD Project, as they had learned to be very specific when dealing with APF purchasing to ensure product quality. Overall, best value was not an issue for the MWR activities.

Timely. IMPAC and Other Procurements using NAF procedures were awarded and delivered faster than IMPAC and Other Procurements using APF procedures for both MWR activities.

Easier. In interviews, both MWR activities claimed that the NAF procurement process was easier and more flexible than the APF procurement process. We made a flowchart of the APF and NAF procurement processes and identified several differences between the two processes that accounted for the longer procurement cycle time under APF procedures. For example, NAF procurements were exempt from Federal Acquisition Regulations, Small Business Act, and other governmental contract requirements, while APF procurements were not. Also, under the NAF process merchandise was delivered directly to the end user whereas, under the APF process, merchandise was delivered to a FISC warehouse before final delivery to the end user. Another difference was that more than one NAF line item could be ordered on one procurement request but, under the APF process, only one line item per purchase request was allowed. Finally, both MWR activities claimed that having direct contact with vendors was a benefit, as it provided management with status on orders, quick resolution of problems, and assurance of receiving correct items.

Timeliness of Vendor Payments. Kings Bay and Bangor were not required to track this information. We could not ascertain from the financial data, how much, if any, was lost in discounts or paid in penalties under APF procedures versus any discounts lost or penalties avoided under NAF procedures.

Lessons Learned

In the APF world, it is common knowledge that expenditures are matched to obligations, and at the end of an accounting period the financial reports will show total expenditures and outstanding obligations (for which expenditures have not yet been recorded or matched). This allows for a more exact measure of funds available for further obligation. However, in the NAF world, the procurement staff only kept track of URD funds obligated, and the accounting system only recorded the expenditures. There was no system set up to reconcile the expenditures to the obligations. Thus, at any given time, the procurement staff did not know the balance of URD funds that were truly available for further obligation. Should URD be implemented in the Navy, guidance for matching expenditures to obligations should be provided to Navy activities to ensure that all available URD funds are spent.

Finding 2
Personnel

Synopsis

Under the URD Project test, we found that the average time to fill personnel vacancies was significantly shorter using NAF procedures (52 days) than using APF procedures (122 days). We found that the saved APF labor dollars from gapped (vacant) APF positions were used efficiently, that is, to pay for encumbered (filled) NAF positions, and provided MWR management with the ability to operate more like a business by hiring flexible employees as needed. Through flowcharting the NAF and APF personnel processes, we identified steps that caused the APF hiring process to take longer than the NAF hiring process. We reviewed internal controls related to the personnel process and found them to be adequate. It should be noted that for both MWR activities, we made numerous changes to the URD personnel reports based on our validation of the data.

Discussion of Details

Pertinent Guidance

Overall, Assistant Secretary of Defense (Force Management Policy) memorandum of 30 May 1996 provided that qualified NAF civilian personnel could be supported by URD Project resources during the 2-year test. The memorandum also allowed that URD Project resources could be used to fund the cost of a NAF position that was created to perform duties of an unencumbered (not filled) APF position supporting MWR functions. Such unencumbered APF positions set aside during the URD Project would be retained on the official manning document until conclusion of the URD Project. Semiannual reports were required on personnel results over the 2-year test period. The Assistant Secretary of Defense (Force Management Policy) provided reporting requirements as follows:

FY 1997 Reporting Requirements. For FY 1997, MWR activities were required to track and report semiannually on the number of NAF and APF personnel actions, including position vacancies, positions established, accessions, separations, promotions, and awards, as well as the number of days to complete these personnel actions. They were also required to report semiannually on several statistics related to personnel strength such as number of positions that were career, term, temporary, seasonal, and flexible. We validated FY 1997 personnel data as it pertained to the FY 1998 reporting requirements.

FY 1998 Reporting Requirements. For FY 1998, the reporting requirements were significantly reduced. MWR activities were required to report their authorized full-time equivalent positions, the number of vacancies to be filled, the number of vacancies filled

under APF and under NAF/URD procedures, the types of appointment for the filled vacancies, and how long it took to fill the positions.

Audit Results

Kings Bay and Bangor MWR activities were required to submit URD Project test results on personnel actions and personnel narratives in four semiannual reports in FY 1997 and FY 1998. We validated the number of full-time equivalent positions from the personnel strength reports required in FY 1997 (the number of full-time equivalent positions was required on the personnel action report in FY 1998). In all, we validated information from 10 reports each for Kings Bay and Bangor by reviewing Personnel Action Forms and various financial reports and interviewing MWR management and personnel staff. We made numerous changes to the semiannual reports of Kings Bay and Bangor for the 2-year test period. We provided corrected reports to Kings Bay and Bangor, to NAVPERSCOM (NPC-65), and to the DOD chairperson of the URD Personnel Working Group.

NAVSUBASE Kings Bay

We determined that the FY 1997 and FY 1998 personnel action data reported by Kings Bay contained minor errors in the number of authorized full-time equivalent and APF actions reported, and significant errors in the reported average number of days to fill APF vacancies.

We validated that Kings Bay had 20 APF vacancies during the 2-year test period. Kings Bay filled 12 vacancies under NAF procedures with URD funds, 1 under NAF procedures with NAF funds, 4 under APF procedures with APF funds, and 3 remained vacant at the end of the test period. It took a total of 767 days to fill 13 vacancies under NAF procedures for an average of 59 days, compared to 578 days to fill 4 vacancies under APF procedures for an average of 145 days. APF vacancies reported by Kings Bay varied from our validated numbers by one on each semiannual report. Kings Bay also reported the average number of days to fill APF vacancies under APF procedures was 30 days.

The MWR activity began the test with 98 full-time equivalent positions. We validated the number of authorized full-time equivalent positions for each 6-month reporting period as follows: 93.4 for period ended 31 March 1997, 92.4 for period ended 30 September 1997, 99.75 for period ended 31 March 1998, and 90 for period ended 30 September 1998. Note: full-time equivalent positions were decreased by eight from the beginning of the test to the end of the test, as further discussed in Lessons Learned.

We validated statements in the personnel narrative reports based on interviews with MWR management and personnel staff. Kings Bay officials identified timeliness in the recruiting process and efficiency in hiring personnel as flexible employees (using labor dollars saved from gapped APF positions) as benefits of using NAF procedures vice APF procedures. They also claimed that NAF procedures provided the MWR management

latitude for making personnel changes such as reassigning two employees into vacant positions from positions where they were no longer needed.

NAVSUBASE Bangor

We determined that the FY 1997 and FY 1998 personnel action data reported by the Bangor activity contained minor errors in the number of authorized full-time equivalent positions. However, we found significant errors in the number of reported APF vacancies to be filled, APF vacancies filled, and the average number of days to fill APF vacancies.

We validated that Bangor had 21 APF vacancies over the 2-year test period. Bangor filled 7 vacancies under NAF procedures using URD funds in FY 1997 and used saved labor dollars from 2 APF vacancies to fund 10 encumbered NAF positions. It took a total of 276 days to fill seven APF vacancies under NAF procedures, which was an average of 39 days. At the end of FY 1997, Bangor lost eight full-time equivalent positions as discussed in Lessons Learned. In FY 1998, Bangor had 14 APF vacancies, including 2 from FY 1997 that were not filled and 10 seasonal lifeguard positions. Bangor filled 13 vacancies under APF procedures with APF funds. The 10 summertime lifeguard positions took from 6 to 11 days to fill. Because these were recurring seasonal positions and there was always an abundance of young people vying for such positions, we considered the number of days to fill the positions appropriately low, and not truly indicative of the average time to fill an APF position. Therefore, we excluded them from the computation of the average number of days to fill APF positions. Accordingly, we determined that it took Bangor a total of 275 days to fill the three vacancies under APF procedures, for an average of 92 days. One APF position was vacant the entire test period. An example of the differences between what Bangor reported and what we reconstructed would be the FY 1998 personnel action information. Bangor reported zeros for APF vacancies to be filled, APF vacancies filled, and average days to fill APF vacancies.

The MWR activity used URD funds from the gapped (vacant) APF positions to pay for qualified (Category A and B) labor costs. For example, the funds from the APF vacancy that remained vacant the entire 2-year test period were used to fund eight flexible NAF positions.

In validating statistical information in the personnel narrative reports, we made changes as noted in the personnel action reports. Additionally, we determined that the fringe benefit rate for APF labor was 21 percent, not 40 percent as reported. The personnel narrative report for the 6-month period ended 30 September 1997 pointed out some major concerns with converting APF positions to NAF under the URD Project. For example, providing funding to the MWR activity for vacant APF positions would be at the discretion of the commanding officer. Also, full-time equivalent numbers for converted positions would lose visibility causing the base comptroller difficulty in retaining funding support for converted positions. The personnel narrative report also stated that the MWR activity's full-time equivalent positions were cut by nine URD positions (we validated a cut of eight), and that any further APF vacancies would be filled through normal civil service channels. We agreed with these statements although, support from within the

Navy could alleviate these concerns as discussed in Lessons Learned. We validated that there were no APF vacancies processed under the URD Project in FY 1998. Other nonstatistical statements in the personnel narrative reports were either supported by interviews with MWR management or we accepted the statements based on logic.

Internal Controls

For both MWR activities, we made a flow chart of the personnel process and determined that there was adequate separation of duties. Personnel actions appeared to be properly documented and executed by authorized personnel, and we found no evidence of any violations of NAF laws and regulations. Access to personnel records was appropriately limited to authorized individuals.

Measures of Success

The criteria used to measure the success of the URD Project related to the personnel processes are defined in Exhibit B, and discussed in summary below.

Best Value. MWR management at NAVSUBASEs Kings Bay and Bangor claimed that being able to use NAF procedures under the URD Project provided them with more control and flexibility over filling APF vacancies. Specifically, Kings Bay MWR management used URD funds to recapture NAF labor expenses, which qualified for APF support. For example, URD funds paid for three encumbered NAF positions that were qualified for APF support. Additionally, URD funds paid for 38 NAF flexible positions (lifeguards). MWR management at Bangor was able to use APF funds from an unencumbered APF position to pay two NAF encumbered positions, which qualified for APF support. Bangor MWR management also used funds from another APF vacancy to hire eight NAF flexible employees.

Timely. We validated MWR management claims that hiring under the NAF personnel process was quicker than using the APF personnel process. At Kings Bay, the average time to fill the 13 APF vacancies under NAF procedures over the 2-year test period was 59 days, compared to 145 days average to fill the 4 APF vacancies under APF procedures. Bangor experienced similar efficiencies where the average number of days to fill seven vacancies under NAF procedures in FY 1997 was 39 days compared to an average of 92 days for the three APF vacancies filled under APF procedures in FY 1998.

Easier. We made a flow chart of the APF and NAF personnel hiring processes and identified differences between the two processes that accounted for the longer hiring time under APF procedures. The APF process had three additional steps, including forwarding requests to fill personnel vacancies to the Human Resource Office. Another additional step was that the Human Resource Office was required to check a stopper list before it could announce and fill a vacancy, which the MWR activity was not required to do for NAF hires. Additionally, under NAF procedures, open announcements were allowed, which gave MWR management a ready list of applicants to pick from and expedite the hiring process.

Lessons Learned

The Kings Bay MWR activity began the URD Project with 98 full-time equivalent positions. Kings Bay converted nine APF positions to NAF positions and, as prescribed by Assistant Secretary of Defense (Force Management Policy) guidance, it set aside corresponding full-time equivalent positions. The MWR activity retained these positions on the official manning documents until conclusion of the URD Project test. However, at the end of the test (30 September 1998) the full-time equivalent positions and related funding were frozen. According to the Commanding Officer, NAVSUBASE Kings Bay, this soft hiring freeze was directed by the Commanding Officer, Naval Base Jacksonville, FL, who gave all base commanding officers under his command the guidance that they were to limit new hiring to mission essential positions until the regionalization effort was more stable. This action forced the MWR activity to use NAF funds to pay for the eight converted positions. In January 1999, the MWR activity began receiving the APF labor funding for the converted positions under the Utilization Support and Accountability Program. However, MWR management felt that receipt of the APF labor funding would not have been delayed had they not converted APF positions to NAF under the URD Project.

The Bangor MWR activity converted seven APF vacancies to NAF positions and used funds from two more APF positions to fund NAF labor during the first year of the URD Project test. At the end of the first year, the MWR activity's full-time equivalent positions were decreased by eight. The NAVSUBASE Bangor Comptroller and Budget Officer claimed the decrease in the MWR activity's full-time equivalent positions was not a result of the URD Program, but "resulted from NAVCOMPT laying a general under-execution tax on CINCPACFLT, which they then applied to all activities throughout the fleet, including Bangor." The Comptroller and Budget Officer stated that they "did not believe that the tax at Bangor was directly related to URD." The perception of the MWR management was that the decrease was due to the lost visibility of the full-time equivalent positions when the APF positions were converted to NAF positions under the URD Project. Consequently, MWR management at Bangor refused to convert any more positions in the second year of the test. It should be noted that the Comptroller continued to fund the MWR activity for the converted positions with nonlabor dollars in FY 1998, that is, the MWR activity did not lose funding related to the decreased full-time equivalent positions, but there is no guarantee as to how long that will continue. In fact, the MWR activity is at greater risk for losing these nonlabor dollars, than the funds for the remaining 63 APF funded (labor dollars) full-time equivalent positions.

Should the URD Project be implemented for use within the Navy, APF positions converted to NAF positions, and resulting APF support should be identified and protected as labor dollars. Otherwise, there is little incentive for MWR activities to convert APF dollars into more efficient NAF dollars, at the risk of losing APF related to the conversion.

Finding 3
Financial

Synopsis

Kings Bay and Bangor MWR activities mainly obligated and expended URD funds as required. However, we were unable to track all URD funds through the expense-based NAF accounting system at Kings Bay because it did not accrue/record obligations of URD funds in FY 1997, unlike Bangor. We determined that Navy guidance on accounting for URD funds did not direct the accrual of URD obligations in the NAF accounting system. In addition, Bangor's financial reports contained erroneous and unsupported URD and NAF data, and APF data was inconsistent between FYs 1997 and 1998 reports and with APF data reported by the other five participating installations. Additionally, we identified $90,750 in URD funds that Bangor spent on indirect expenses, contrary to Navy guidance. MWR management at Kings Bay and Bangor did not always have an accurate balance of URD funds available to obligate because there was no reconciliation of URD expenditures to obligations. Overall, we found that internal controls were in place to protect and account for URD funds, and to ensure URD funds were spent on authorized expenses.

Discussion of Details

Pertinent Guidance

Overall, Assistant Secretary of Defense (Force Management Policy) memorandum of 30 May 1996, required the submission of semiannual Balance Sheets, Income Statements, Schedule A Expense Summaries, Financial Plan and Execution Summaries, and Financial Narratives for the URD Project test period. The two summary reports identified NAF, URD, and APF expenses for the MWR activity. The memorandum also required that URD Project funds be obligated by the end of the year in which the funds expired.

Reporting Requirements. Although URD Project reporting requirements changed in FY 1998, the reporting requirements for the financial area remained the same as they were in FY 1997, with one exception. The responsibility for reporting the NAF and URD information on the Schedule A Expense Summary and the Financial Plan and Execution Summary changed from the two MWR activities to NAVPERSCOM (NPC-65).

NAVPERSCOM provided guidance for the URD Project in the form of "Appropriated Fund Procedures" and "Accounting Procedures for Unified Funding Project."

DOD Instruction 1015.10, enclosure (6), provides guidance on which costs NAF shall be used for, and NAVSO P-1000 defines which MWR costs are authorized to receive APF support.

Audit Results

Due to time constraints, we limited our review to FY 1997 and FY 1998 year-end Schedule A Expense Summaries, Financial Plan and Execution Summaries, and the Financial Narratives (also referred to as URD financial reports) for a total of six reports at each activity. We validated URD test data by reviewing obligation logs; Recreation and Mess Central Accounting System (RAMCAS) reports; Base Level Accounting System (BLAS) reports; general journal vouchers and original supporting source documents; URD, NAF, and APF; OP-34 Reports; Manage-to-Payroll reports; and other supporting documents. We interviewed MWR management and accounting and procurement staff.

We made a significant number of changes to the Kings Bay and Bangor URD financial reports for both test years. We provided corrected and reconstructed reports to Kings Bay and Bangor, to NAVPERSCOM (NPC-65), and to the DOD chairperson of the URD Financial Working Group.

NAVSUBASE Kings Bay

We reviewed FY 1997 and FY 1998 URD funding received ($703,807 and $604,750, respectively) by Kings Bay. We reviewed original source documentation for 100 percent of the NAF and URD labor and fringe benefit expenses, URD travel and training expenses, and selected URD supply transactions. With the exception of a few immaterial errors, we found NAF-related laws and regulations were followed in spending the URD funds.

Navy guidance on "Accounting Procedures for Unified Funding Project" did not require the accrual of URD obligations in the NAF expense-based accounting system. Kings Bay only recorded URD expenditures in the month the item or service was received. At the end of FY 1997 there was $243,000 in URD funds obligated, but not yet expended, and therefore not reflected in the FY 1997 URD financial reports. In order to keep the FY 1997 URD funds separate from FY 1998 URD funds, Kings Bay expended the $243,000 in outstanding URD obligations in FY 1998 through prior year accounts. This created another problem since prior year accounts were not set up to separately identify URD funds (department code 89). During the normal course of recording NAF and URD prior year transactions, there is a "netting" of the debits and credits. This, coupled with the fact that the NAF accounting system was not set up to separately identify URD from NAF in the prior year accounts and that the accounting system did not distinguish between the year the money was received and the year it was spent, caused the following adverse situations:

- FY 1997 URD funds paid for FY 1998 URD expenses and vice versa.
- URD funds paid for Category A and B activities' NAF expenses (no violation).
- NAF dollars paid for URD expenses.

For example, we identified $900 in FY 1998 URD funds that were inadvertently used to pay for FY 1997 NAF labor (Category A and B).

We reviewed all general journal vouchers that expended the $243,000 from the outstanding FY 1997 URD obligations. We identified numerous accounting entries that were in error on these general journal vouchers, as enumerated in the bullets in the previous paragraph. Based on conversations with the accounting staff, we determined that the accounting technician did not fully understand the accounting procedures used to track the URD funds and expenditures. Additionally, we found that documentation was not always attached in support of the general journal voucher entries. These issues contributed to a difficult and time-consuming reconstruction process and, at times, the complete loss of an audit trail. Consequently, we were unable to track URD expenditures after 30 September 1997 through the NAF accounting system and provide documented assurance that URD funds were fully expended. However, based on the total FY 1997 and FY 1998 NAF expenditures for Category A and B, which exceeded the URD funding received for each year by more than the authorized[2] APF support amounts, we believe that URD funds for both years were fully expended for authorized purposes. This situation occurred due to inadequate Navy guidance relative to accounting for URD funds. We found no evidence that URD funds were spent for any unauthorized purpose (Category C).

We validated the FY 1997 and FY 1998 actual APF and NAF amounts reported in the Schedule A Expense Summary and the Financial Plan and Execution Summary. We found that the MWR activity had support for the Planned NAF amounts but did not have support for Planned URD and APF reported amounts on the Financial Plan and Execution Summary. We could not reconstruct this information.

Programs and expense elements for the NAF, URD, and APF columns in the URD financial reports were standardized; however, the two MWR activities did not always report the programs and expense elements consistently. For example, in FY 1998 Kings Bay reported the Physical Fitness and the Aquatic Training Program APF expenses together, but the NAF and URD expenses for the Physical Fitness were reported separately from the Aquatics Training Program which was reported under Sports and Athletics program. We made program and expense element adjustments to the FY 1997 and FY 1998 URD financial reports to maintain consistency in reporting.

Statements in the FY 1997 narrative report identified economic efficiencies and benefits of the URD Project relative to procurement and personnel, which we validated in the Procurement and Personnel findings of this report. It was also mentioned that guidance on the URD Project was minimum and subject to interpretation. Through interviews and knowledge gained during the onsite visits, we determined that the information in the FY 1998 narrative reports was reasonable except for one claim. The narrative stated that the tracking system for APF expenditures allowed MWR financial management to know the amount of obligated and unobligated APF funds at any given time. They were referring to

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[2] Category A is authorized 100 percent APF support and Category B is authorized a minimum of 65 percent APF support.

the procurement logs, which recorded obligations and showed a balance of funds left to obligate. However, we determined that expenditures were not matched to the obligations in this log and therefore it was an inadequate tracking system for URD funds.

NAVSUBASE Bangor

We reviewed FY 1997 and FY 1998 URD funding received ($1,331,000 and $1,269,000, respectively) and determined that URD funds were fully obligated and were mainly spent for authorized Category A and B expenses. However, we identified $90,750 in URD funds that was spent on unauthorized indirect expenses and $18,756 that was charged to ineligible, prior year, and/or incorrect labor related expenses. We determined that Bangor's definition of direct and indirect APF support was inconsistent with that of the other installations in the URD Project test. We reviewed 100 percent of the NAF and URD labor and fringe benefit expenses; URD travel, training, rent, and utility expenses; and selected URD supply transactions. With the exception noted above, we found NAF-related laws and regulations were followed in spending and accounting for the URD funds.

We made significant changes to the FY 1997 and FY 1998 Schedule A Expense Summary and Financial Plan and Execution Summary as follows:

- In FY 1997, NAVSUBASE Bangor Comptroller defined direct APF support as all expenses paid for out of the "MW" control number, which included civilian labor, fringe benefits, utilities, rents, communications, and maintenance and repair. In FY 1998, it was redefined to exclude base operating support type costs. For consistency in URD reporting, the definition of direct APF support was standardized to be civilian labor and related fringe benefits and any cost that MWR management budgeted, controlled, and was responsible for. Subsequently, we changed all reported Planned and Actual APF Support amounts in Bangor's FY 1997 and FY 1998 URD financial reports.

- We made other changes to the FY 1997 and FY 1998 URD financial reports, based on our validation. We found inconsistencies with program reporting, unsupported and transposed numbers, erroneous amounts (compared to the amount in the supporting documentation), and amounts that were double from unsupported amounts in the semiannual report. We obtained supporting documentation from the Comptroller and MWR activity and ultimately changed over 50 percent of the numbers in the FY 1997 URD financial reports, and 100 percent of the numbers in the FY 1998 URD financial reports.

We provided the reconstructed FY 1997 and FY 1998 Schedule A Expense Summary and Financial Plan and Execution Summary reports to MWR management for its review. MWR management agreed with the changes and submitted the FY 1998 reports to

NAVPERSCOM (NPC-65). We provided the FY 1997 and FY 1998 corrected reports to NAVPERSCOM (NPC-65) and the DOD chairperson of the URD Financial Working Group.

We identified $80,780 in Base Operating Services Contract costs and $9,970 in utility costs (both indirect expenses) that were paid for with URD funds in FY 1998. Per Navy guidance for the URD Project, URD funds were not to be used for indirect expenses. DOD Instruction 1015.10, enclosure (6), Note 7, states that NAF funds shall not be used for service costs such as security, pest control, and maintenance of common grounds for Category A, B, and C activities. Enclosure (6) also authorizes APF support for utilities for Category A and B activities. NAVSO P-1000, paragraph 075522.3, states that all MWR activities, regardless of category, are authorized to receive APF common support associated with protecting the health and safety of participants, employees, resources, and property. The Base Operating Services Contract costs were for services such as pest control, locksmith, sanitation inspections, facility structure, and component work Category C activities and for Category A and B vehicle maintenance. The utility costs were for Category A and B activities. Relative to the Base Operating Services Contract costs, we were told that the MWR Director had requested that the Comptroller pay these costs with APF, but the Comptroller refused, so the Director paid the costs with URD funds. Relative to the utility costs, MWR management told us they paid the utility costs with URD funds rather then asking the Comptroller to pay the costs, because they believed that if the Comptroller paid the bill, their MW/URD funds would be reduced accordingly.

We identified $10,883 of salary expenses in FY 1997 and FY 1998 URD funds that paid for either ineligible expenses (FY 1996 costs), prior year expenses (FY 1998 funds for FY 1997 expenses), and/or incorrect expense elements (salary expense should have been charged to benefit expense). We identified an additional $7,873 of URD fringe benefit costs that were erroneously charged to URD salary expense.

We determined that the OP-34 Report was misleading. As directed by the Assistant Secretary of Defense (Force Management Policy) memorandum of 30 May 1996, URD Project funds were obligated and recorded in APF as a single obligation for the full amount of the periodic contributions. This occurred as a contract expense (Expense Element "Q") in the Standard Accounting and Reporting System-Field Level (APF accounting system for the Navy). However, the OP-34 Report, which shows APF funding support for MWR and Child Development Center activities by expense element, is manually prepared based on the expenses shown in the 2171Expense Report, which is generated by the Standard Accounting and Reporting System-Field Level. Thus, the full amount of the URD funds provided to the MWR activity shows up in one lump sum under the "Other Expenses" (E/E "Q" is rolled up into "Other Expenses"). This was misleading to users of the OP-34 Report. Communication between the MWR activity and the Comptroller's office relative to the expense elements that URD funds were spent on would alleviate this problem.

Financial Narrative Reports

The FY 1997 financial narrative report contained some erroneous personnel-related data that we corrected in the Personnel finding in this report. We did not obtain support for any other statements in the report. We determined that the information in the FY 1998 financial narrative report was reasonable, with one exception. In response to the question about managers' satisfaction with the URD process, MWR management stated that the same timeliness of the procurement actions would have been realized using IMPAC. We took exception to this based on data that we gathered that showed that 31 percent of the procurement transactions under URD were not IMPAC, and were also timely compared to APF non-IMPAC purchases.

Financial Accountability and Internal Controls

Overall, we found that internal controls were in place to protect and track URD funds, ensure propriety of expenditures, and detect errors and noncompliance. We found that separation of duties in the procurement, personnel, and financial areas were adequate at both MWR activities. We also found internal control situations that were unique to each MWR activity as follows:

- For Kings Bay, we found that NAF-related laws and regulations were followed in spending the URD funds. Although Navy guidance relative to accounting for the URD funds was followed, the guidance was inadequate as discussed in Lessons Learned. Supervision over the accounting technician's work was not always adequate, documentation for transactions was missing or not correctly recorded, and transactions were not always properly classified.

- For Bangor, we found that supervision was adequate and NAF-related laws and regulations were followed, except for payments of indirect and ineligible costs with URD fund. We found a few instances where documentation for transactions was missing and transactions were not correctly recorded. We also found that URD financial reports were inaccurate because MWR management failed to use the source documents to support the reported information.

The budget process for APF did not change with the implementation of the URD Project. There were year-end reviews of APF used in the URD Project at both MWR activities and both MWR activities fully obligated APF received prior to year-end, precluding any need for reallocation of funds.

Lessons Learned

Kings Bay and Bangor MWR activities did not reconcile URD expenditures to obligations. As a result, MWR management did not have an accurate balance of URD funds available for obligation and could not easily identify obligations that had expended. Additionally, Navy guidance on accounting for URD funds did not address recording outstanding URD obligations at the end of the year, in the expense-based NAF accounting

system, in order to zero out the Unearned Income APF Support (256) account. These problems should be remedied, should URD be implemented within the Navy.

One suggestion would be to set up a system to reconcile expenditures to obligations thereby giving management an accurate balance of URD funds available to obligate. Such a system would also provide information on obligations that are outstanding near year-end, so that these obligations could be accrued as expenses in the NAF accounting system and allow for zeroing out the 256 account.

Exhibit A

Uniform Resource Demonstration Project Reporting Requirements

(based on Fiscal Year 1998 revisions)

Report	Fiscal Year 1997 2/				Fiscal Year 1998			
	31 March 1997		30 September 1997		31 March 1998		30 September 1998	
	Kings Bay	Bangor	Kings Bay	Bangor	Kings Bay	Bangor	Kings Bay	Bangor
Balance Sheet 1/	Y	Y	Y	Y	Y	Y	Y	Y
Income and Expense Statement 1/	Y	Y	Y	Y	Y	Y	Y	Y
Procurement Actions	Y	Y	R	R	R	R	R	R
Procurement Narrative	Y	Y	R	R	R	R	R	R
Personnel Actions								
Program Total	R	R	R	R	R	R	R	R
Category A	Y	N	Y	N	X	X	X	X
Category B	Y	N	Y	N	X	X	X	X
Category C	Y	N	Y	N	X	X	X	X
Child Development Program	Y	N	Y	N	X	X	X	X
Personnel Narrative	R	R	R	R	R	R	R	R
Personnel Strength 3/	R	R	R	R	X	X	X	X
Financial Plan and Execution Summary	Y	Y	R	R	Y	Y	R	R
Schedule A, Expense Summary								
Program Total	Y	Y	R	R	Y	Y	R	R
Category A	Y	Y	R	R	Y	Y	R	R
Category B	Y	Y	R	R	Y	Y	R	R
Category C	Y	Y	R	R	Y	Y	R	R
Child Development Program	Y	Y	R	R	Y	Y	R	R
Financial Narrative	Y	Y	R	R	Y	Y	R	R

Legend:
Y - Activities were required to complete these reports.
N - Activities were required to complete these reports, but they did not.
R - Activities were required to complete these reports, and the auditors reviewed these reports.
X - Activities were not required to complete these reports.

Footnotes:
1/ Not required for review by auditors.
2/ Including the Personnel Strength report listed above, there were 10 reports initially required that were dropped from the Fiscal Year 1998 reporting requirements. Nine of these reports are not shown in the Fiscal Year 1997 reporting requirements here.
3/ We validated the Fiscal Year 1997 full-time equivalent positions from this report.

Exhibit B

Uniform Resource Demonstration Project
Measures of Success

Goal: To better meet the needs of the Morale, Welfare, and Recreation (MWR) programs by facilitating procurement of property and services for those programs and the management of employees used to carry out those programs.

Objective: The Uniform Resource Demonstration (URD) process will result in improved MWR service as gauged by: best value in products and employees, more timely hiring and purchases, and simpler and easier procurement and personnel processes.

Measures of Success: Based on evaluation of results, the URD process would be judged a success based on the following measures.

- **Procurement**

✓ **Best Value**

The product is appropriate for its intended use.
- **Supporting information** - customer survey, narrative examples (installation reports).
- Audit validation of examples, as requested.

The price of the product is reasonable.
- **Supporting information** - customer survey, survey of procurement office(s), narrative examples (installation reports).
- Audit validation of examples, as requested.

Delta in the resources to provide best value is reasonable.
- **Supporting information** - Statistics: numbers of procurement staff, numbers of procurement actions (over $2,500) (installation reports), survey question (procurement offices).
- Audit validation of statistics (to include validation of baseline data).

✓ **Timely**

The product was received in a timely manner.
- **Supporting information** - Statistics: Procurement cycle time (installation reports), comparison to be made to DOD standard, narrative examples (installation reports), customer survey, and survey of procurement office.

- **Audit** - Verify cycle time (baseline actual times versus nonappropriated funds (NAF) at selected sites. Compare timeframes (appropriated funds (APF) and NAF procurement) on a selected service contract.

✓ **Easier**

The procurement process is simpler and more flexible.

- **Supporting information** - Customer survey questions, procurement offices survey, narrative examples (installation reports), flow chart of procurement processes (APF and NAF).
- Audit - Will flow chart APF and NAF processes.

✓ **Timeliness of vendor payments**

The NAF procurement process allows more timely vendor payments, thus allowing discounts and avoiding penalties.

- **Supporting information** - Comparison of data on lost discounts and penalties under APF procurement versus discounts and avoided penalties under NAF process.
- Auditors will provide this evaluation.

- **Personnel**

✓ **Best Value**

The manager can better meet the customer demand with appropriate staff.

- **Supporting information** - Statistics: (1) APF full-time equivalent's set aside, (2) NAF employees hired against URD funds (break out by type of appointment, that is, flexible and regular) (installation reports), customer survey questions on quality of hires.
- Audit validation of statistics.

✓ **Timely**

The manager can fill vacancies in a more timely manner.

- **Supporting information** - Statistics: (1) numbers of vacancies by type (APF, NAF, and NAF-URD filled), (2) length of vacancies (installation reports), customer survey question on timeliness of hiring, Personnel narrative.
- Audit validation of statistics.

✓ **Easier**

The NAF personnel system is simpler and more flexible.

- **Supporting information** - Statistics: customer survey questions on hiring flexibility, Personnel narrative.

Financial Accountability and Internal Controls

- Audit evaluation will include:

  ✓ Evaluate whether URD funds used for authorized purposes.

  ✓ Assess whether NAF-related laws and regulations were followed in spending and accounting for APF.

  ✓ Evaluate budget processes for APF used in the URD Project, including year-end review of funding and reallocations.

Other Observations

- Financial management services have been improved under URD Project.

Exhibit 3. AFAA Memorandum, "Uniform Resource Demonstration Test Project (Project 98051019)," June 29, 1999.

DEPARTMENT OF THE AIR FORCE
AIR FORCE AUDIT AGENCY

29 June 1999

MEMORANDUM FOR AF/ILV

FROM: AFAA/FS
5023 4th Street
March ARB CA 92518-1852

SUBJECT: Uniform Resource Demonstration Test Project (Project 98051019)

1. This memorandum presents our evaluation of the Uniform Resource Demonstration test project for morale, welfare, and recreation programs at Nellis AFB, as requested by the Assistant Secretary of Defense (Force Management Policy). The demonstration project evaluated the expenditure of appropriated funds available for morale, welfare, and recreation programs following the laws and regulations applicable to nonappropriated funds. We evaluated the accuracy of the demonstration test data reported to the Assistant Secretary of Defense (Force Management Policy) officials and the effectiveness of internal controls used to manage appropriated funds. Also, in conjunction with management, we participated in developing five factors for determining whether morale, welfare, and recreation programs achieved efficiencies from the demonstration project.

2. Uniform Resource Demonstration test data collected for Fiscal Years 1997 and 1998 and reported to Assistant Secretary of Defense (Force Management Policy) officials were generally accurate, although we did identify errors that were subsequently corrected. Also, internal controls over the appropriated funds used during the test period were adequate. In addition, two of the five measured factors indicated the demonstration project may have achieved efficiencies. However, Air Force Services officials were undecided whether these benefits provided sufficient justification for full program implementation. Attachment 1 provides details of the review.

3. Management took action to correct the inaccurate or missing data during the review. Therefore, we are not making any recommendations in this report. Management did provide comments to the issues addressed in this memorandum, concurring with the audit results but providing extensive comments describing how apparent efficiencies may be caused by factors not directly related to the test. Attachment 2 provides verbatim management comments.

4. If you have any questions, please contact me at DSN 947-7011 or have your staff contact my Associate Director for Personnel, Services, and Health Care, Ms. Maria Young, DSN 947-5019, e-mail maria.young@afaa.march.af.mil.

EARL J. SCOTT
Assistant Auditor General
(Financial and Support Audits)

Attachments:
1. Summary of Audit Results
2. Management Comments

cc:
SAF/AG
AFAA/DO

UNIFORM RESOURCE DEMONSTRATION TEST PROJECT

BACKGROUND

Air Force morale, welfare, and recreation (MWR) programs are funded with both appropriated and nonappropriated funds, each having unique criteria and financial rules. The Fiscal Year (FY) 1996 National Defense Authorization Act required DoD officials to conduct a demonstration project to evaluate the feasibility of using only nonappropriated funds to support MWR programs in order to facilitate the procurement of property and services and the management of employees. Under the Uniform Resource Demonstration (URD) project, the appropriated funds available for the MWR programs were expended following the laws and regulations applicable to nonappropriated funds. The DoD-wide URD project was conducted at six military installations. One Air Force base (Nellis) participated in the test that covered FYs 1997 and 1998.

The Assistant Secretary of Defense (Force Management Policy) (ASD[FMP]) requested the service audit agencies evaluate the accuracy of URD reported data and assess applicable internal controls. In addition, the audit organizations, in conjunction with ASD(FMP), military services, and DoD Inspector General (DoDIG) personnel, developed specific measurement criteria to evaluate URD program efficiencies.

OBJECTIVES AND SCOPE

Objective. We performed this audit because improved MWR funding procedures could enhance operating efficiency and lead to better troop services. We evaluated the accuracy of the demonstration test data reported to ASD(FMP) officials and the effectiveness of internal controls used to manage appropriated funds. Also, we evaluated selected test results for efficiencies.

Scope. We accomplished audit work only at Nellis AFB as the URD test included only one Air Force base. To accomplish our objectives, we obtained and reviewed test related data, and followed professional auditing standards as follows.

Test Data. We compared financial data in FYs 1997 and 1998 URD evaluation reports related to appropriated and nonappropriated fund and demonstration project financial operating statements. For procurement cycle times, we reviewed AF Forms 9, Purchase Request, and related purchase orders for all normal (i.e., non-year-end money) FYs 1997 and 1998 appropriated and nonappropriated

fund procurement actions. To calculate personnel hiring times, we reviewed Standard Forms 52, Requests for Personnel, Nonappropriated Fund Personnel Action Requests, and Promotion Certificates for all routine (nonseasonal) fill actions during FYs 1997 and 1998. We evaluated the efficiencies achieved during the test project by comparing and contrasting nonappropriated and appropriated procurement and personnel hiring actions and procedures during the test period. We also reviewed all customer satisfaction questionnaires completed by all 14 MWR activity managers.

Auditing Standards. We conducted this audit in accordance with generally accepted government auditing standards and evaluated management controls related to URD evaluation and data reporting and the following internal controls related to appropriated fund expenditures and usage: documentation, recording of transactions and events, and execution of transactions and events. Although this audit relied on computer-generated data to support audit findings and conclusions, we did not evaluate the adequacy of Windows Based Budget Automated System and Nonappropriated Fund Management Information System controls. However, we established data reliability by examining source documents related to URD fund deposits and selected expenses. We concluded the data were sufficiently reliable to support audit conclusions. We reviewed URD test data for the 2-year test period (1 October 1996 through 30 September 1998) and accomplished our audit from February 1998 through April 1999. We did not identify any Air Force Audit Agency, DoDIG, or General Accounting Office audits occurring within the past 5 years that had the same or similar objectives as this audit.

CONCLUSIONS

Air Force Deputy Chief of Staff, Installations and Logistics, Directorate of Services, officials accurately reported data and results of the demonstration test to ASD(FMP) officials. In addition, internal controls in place for safeguarding appropriated funds expended during the test period were adequate, and two of five success measures indicated the test may have achieved efficiencies. These issues are discussed in more detail below.

RESULTS

Data Evaluation. Air Force Directorate of Services officials accurately reported the FYs 1997 and 1998 URD test data to ASD(FMP). Specifically, our review of Nellis AFB reports disclosed that financial data for the 2-year test period were accurate and supported. However, procurement and personnel data contained errors that were detected during the audit and subsequently corrected by Nellis AFB services personnel. Details follow:

Financial Data. Air Force Directorate of Services officials reported URD expenses of $17.8 million for FY 1997 and $21.7 million for FY 1998. Based on detailed tests conducted, these amounts generally agreed with appropriated and nonappropriated fund operating statements, with minor variances noted. For example, dollar value errors were less than 2 percent in FY 1997 and zero in FY 1998.

Procurement Data. Services officials initially reported test data for FY 1998 that overstated appropriated and nonappropriated fund procurement actions and related monetary values (as indicated in Table 1) and omitted processing times. This condition occurred because Nellis AFB services personnel interpreted ASD(FMP) guidance differently than intended. Services personnel subsequently corrected the errors, used auditor-calculated procurement lead times based on purchase requests and purchase orders, and resubmitted data to ASD(FMP).

	Initial Reporting		Final (After Audit Review)	
	Procurement Actions	Procurement Dollar Value	Procurement Actions	Procurement Dollar Value
Appropriated Funds	13	$197,060	9	$119,800
Nonappropriated Funds	19	$ 74,760	16	$ 66,100
Total	32	$271,820	25	$185,900

Table 1. Fiscal Year 1998 Procurement Actions.

Personnel Data. Services officials did not properly report appropriated fund personnel hiring data for FY 1998. Specifically, 41 appropriated fund personnel hires were reported to ASD(FMP) rather than the correct number of 16. In addition, the average time period needed to fill the positions was omitted. This condition occurred because Nellis AFB services personnel included FY 1997 data in the FY 1998 hiring report, and the average was not computed. Again, Air Force management re-submitted the test report with corrected data.

Internal Controls. Nellis AFB services personnel formulated and implemented a structure of adequate internal controls for safeguarding appropriated funds used during the test period. Specifically, based on a review of more than $.4 million from the URD project test period funds of $2.9 million, installation personnel properly used FYs 1997 and 1998 appropriated funds.[1]

[1] The MWR activities receive funding from both appropriated and nonappropriated funds. Public law restricts the use of appropriated funds for specific activities and specific type of items. For example, golf courses receive no appropriated funds.

Success Measures. Nellis AFB services test data reports indicated the URD may have achieved measurable efficiencies by decreasing the time for procurement processing and personnel accessions. However, the Nellis AFB URD test data were either inconclusive or unavailable to evaluate customer satisfaction with procured items, management satisfaction with new hires, and timeliness of vendor payments.

Efficiencies. Nellis Services URD procurement and personnel action data indicated the use of nonappropriated fund usage rules resulted in apparent measurable efficiencies in two areas as discussed below.

Procurement Process Timeliness. Nellis AFB services personnel awarded nonappropriated fund purchase orders more expeditiously than those purchases processed using appropriated fund rules. A comparison of 21 nonappropriated fund purchases with 12 appropriated fund purchases disclosed a difference of over 40 days as indicated in Table 2.

	Nonappropriated Funds		Appropriated Funds		
	Number of Purchases	Average Days	Number of Purchases	Average Days	Difference
1997*	6	6	3	54	48
1998*	15	5	9	45	40

Table 2. Procurement Timeliness.

* Audit calculated the procurement cycle times using routine purchases only. Purchases such as year-end buys were excluded.

Personnel Fill-Action Timeliness. Nellis services personnel achieved a more rapid nonappropriated fund personnel fill-action rate than that experienced using appropriated fund rules. Our comparison of 18 nonappropriated fund with 23 appropriated fund actions disclosed a difference in FY 1998 of 50 days, as shown in Table 3.

	Nonappropriated Funds		Appropriated Funds		
	Number of Fill-Actions	Average Days	Number of Fill-Actions	Average Days	Difference
1997	13	14	11	18	4
1998	5	24	12	74	50

Table 3. Personnel Fill-Action Timeliness.

Other. Nellis AFB services URD procurement best value, personnel best value, and timeliness data were either inconclusive or not available, as discussed below.

Procurement Best Value. Nellis services personnel properly included procurement processing cost data in the URD test reports. However, they did not include customer satisfaction and pricing data because the nonappropriated fund purchases were unique and no similar purchases using appropriated fund procedures were available.

Personnel Best Value. Nellis AFB services managers using URD test procedures reported a higher level of satisfaction with nonappropriated fund employees hired during the test period. However, the support was exclusively anecdotal and therefore, unauditable.

Payment Timeliness. Nellis AFB services officials did not include prior-year data in URD reports; therefore, a comparison was not possible.

Audit Comment. Management corrected the procurement and personnel data errors and resubmitted the data to ASD(FMP) during the audit. Therefore, no recommendations are included in this report.

Management Comments. Management agreed with the audit results but felt an explanation was necessary to support their undecided position on whether the test results provide sufficient justification for full program implementation. Verbatim management comments are at Attachment 2.

Evaluation of Management Comments. We fully support management's prerogative to appraise the value of the URD test, and to consider all other related factors in determining whether the URD concept will be in the interest of the Air Force. This report does not present an evaluation or conclusion on whether the test provided enough information to recommend implementation. Our objective included the evaluation of test data for accuracy and internal controls for adequacy. Although we did provide results regarding five of the seven measures developed jointly between DoD management (including Air Force Services) and audit; our conclusions merely present the results derived from the data.

Air Force Audit Agency
Report of Audit, Uniform Resource Demonstration Test Project
(Project 98051019)

Management Comments: Concur. AF/ILV stated: The audit states, without further explanation, that Air Force Services officials were undecided whether the apparent efficiencies provided sufficient justification for full program implementation. We need to explain why. We believe that differences between the appropriated fund (APF) and nonappropriated fund (NAF) systems, and the apparent efficiencies, may be caused by factors that are not directly related to the test. For example:

a. Procurement Process Timeliness: The audit concluded that purchases under NAF rules took far less time than those made under APF rules. However, another section of the report concluded that it was not possible to evaluate procurement best value "because the nonappropriated fund purchases were so unique no similar purchases using appropriated fund procedures were available." The audits also showed that NAF procurement achieved those time savings by skipping some required steps. The accounting office did not properly support price reasonableness by obtaining the required quotes. Had this step been included, the processing time would have been greater due to the time involved in obtaining second bids. In addition, due to lack of training, local NAF contracting personnel had unusually low contracting authority. As a result, many of the purchases which (under existing authority) could have been made under the NAF system, instead had to be made by the APF contracting office anyway since their personnel had higher contracting warrants. Finally, the audit clearly shows that the purchases made under APF rules were significantly higher in value than the NAF purchases; it is reasonable to conclude that high-cost contracts would take longer to process.

b. Personnel Best Value: We question the conclusion here because a higher level of management satisfaction does not necessarily translate into "best value." In addition, we do not believe the APF system was used to its full potential when the APF contract was in effect. There is no indication in the base audit reports that the role of the Quality Assurance Evaluator was effectively used by management. If so, the workforce flexibility and employee performance under the APF contract might have been just as effective as the NAF system employee/supervisor relationship. Unfortunately, this is not discussed in the report which makes the comparison difficult to assess which system is better.

c. Personnel Fill-Action Timeliness: The data used to compare the efficiency between NAF and APF personnel fill actions is not all inclusive. The report does

not indicate the type of management experience or skill level required for the positions being filled. Many NAF positions are entry-level positions which do not require extensive experience or management background, while many APF positions tend to require management experience and higher level of job expertise. This difference in requirement could easily affect the time it takes to locate, screen, and select the appropriate candidate. Additionally, entry-level NAF positions do not require worldwide advertisement, a step which is frequently required for many higher-level and career positions on the APF side. Finally, the APF system is currently experiencing significant delays as a result of regionalization and the fielding of a new personnel system. This is clearly reflected in the difference between the 1997 and 1998 data. It is possible that, if the APF system had not changed so radically, it might have matched the level of NAF performance.

We are also concerned that using NAFs in support of APF requirements runs the risk that over time, APF support may decrease because the distinctions are blurred between the two types of funding. APF resource allocation is a competitive process and risking troop dollars, on the assumption that NAFs can also be used, is not prudent. It could drive behavior that spends NAFs, because it is easier, without regard to the fact that APFs are authorized and should be used.

Bottomline: The report portrays the NAF system as more efficient compared to the more complex APF systems. This is an easy conclusion to make when differences in context and process are not specified. Rather than trying to find a way around inefficient APF processes, the NAF system might better serve as a model to streamline existing APF processes that would make substantial improvements to the support provided to all customers of the APF processes, not only the ones who could get around the problem using another source of funds.

Exhibit 4. MCNAFAS Report No. 01502990124, "Financial Related Audit of Uniform Resource Demonstration Test," December 2, 1998.

Independent Auditor's Report

MARINE CORPS NONAPPROPRIATED FUND AUDIT SERVICE

Western Region

Rpt#01502990124 2 December 1998

Financial Related Audit of Uniform Resource Demonstration Test

Marine Corps Air Ground Combat Center
Twenty-nine Palms, California 92278-5001

Marine Corps Nonappropriated Fund Audit Service (MCNAFAS)
Western Region, Box 555219
Camp Pendleton, California 92055-5219

"THIS REPORT NOT RELEASABLE NOR CAN IT BE DISCLOSED TO PERSONNEL OUTSIDE OF THE MARINE CORPS WITHOUT PRIOR APPROVAL OF CMC (P&R)"

UNITED STATES MARINE CORPS
MARINE CORPS NONAPPROPRIATED FUND AUDIT SERVICE
WESTERN REGION
BOX 555219
CAMP PENDLETON, CA 92055-5219

IN REPLY REFER TO:

7510
MCNAFAS
2 Dec 98

From: Regional Director

To: Commanding General, Marine Corps Air Ground Combat Center, Twenty-nine Palms, California 92278-5001

Subj: **INDEPENDENT AUDITOR'S REPORT #01502990124 - COMMAND MWR ACTIVITY - UNIFORM RESOURCE DEMONSTRATION TEST (URDT) FINAL REPORT SUBMISSION**

Ref: (a) ASD Memo, Demonstration Project Procedures for Uniform Funding of Morale, Welfare, and Recreation (MWR) Activities of 30 May 1996

(b) MCO 7510.2E

1. Per the references, we have completed a financial related and compliance audit on the Command's Uniform Resource Demonstration Test and annual report submission. The audit was conducted during the period 26 October through 19 November 1998 for the audit period 1 October 1997 through 30 September 1998. The purpose of our audit was to evaluate compliance with directives and assess the accuracy of URDT financial data.

2. We conducted our audit per generally accepted government auditing standards. Those standards require that we plan and perform the audit to provide sufficient, competent, and relevant evidence to achieve the objectives of the audit. We evaluated internal controls and performed test of controls as we considered necessary. We believe that our audit provides a reasonable basis for our conclusions. Follow-up on the reported findings and recommendations will be conducted during subsequent audits.

3. The contents of this report were discussed with the Chief of Staff; Comptroller; and MWR Director, Management Analyst, and Controller.

4. The points of contact for this office are Chief Warrant Officer Smith or Captain Alexander. They can be reached at DSN 365-5625 or 9067.

Subj: INDEPENDENT AUDITOR'S REPORT #01502990124 - COMMAND MWR ACTIVITY - UNIFORM RESOURCE DEMONSTRATION TEST (URDT) FINAL REPORT SUBMISSION

5. We appreciate the cooperation and courtesies extended from the Command and MWR management and staff. Their assistance contributed significantly to the successful completion of this URDT audit.

/s/
DONALD C. SCOTT

Copy to:
Dir, MCNAFAS

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EXECUTIVE SUMMARY

Background

The Assistant Secretary of Defense (ASD) memorandum dated 30 May 1996, established DoD procedures to conduct a Demonstration project for uniform funding of MWR activities. MCAGCC Twenty-nine Palms, CA was one of six installations selected to participate in the project. The purpose was to evaluate the feasibility of using only nonappropriated funds (NAF) to support MWR programs at military installations in order to facilitate procurement of property and services at those installations and the management of employees to carry out those programs. The Demonstration project which began 1 October 1996 and concluded 30 September 1998 requires a final report to be provided to Congress by 31 December 1998. On 1 October 1998, the Demonstration project was replaced with the Utilization, Support, and Accountability (USA) program.

Under the Demonstration project, the appropriated funds (APF) available for the MWR programs will be expended following the laws and regulations applicable to NAF.

APF and NAF support will be programmed, budgeted, accounted, and reported according to the DoD 7000.14-R "DoD Financial Management Regulation" and DoD Instruction 7000.12 " Financial Management of Morale, Welfare, and Recreation Activities."

Demonstration project resources shall only be used to support authorized expenditures, provided such transactions are also for purposes that are a proper function of the MWR program. Resources shall conform with DoD Instruction 1015.10 "Programs for Military Morale, Welfare, and Recreation" and DoD Instruction 6060.2 "Child Development Programs (CDPs)."

Demonstration project resources are to be provided to the MWR program on a periodic basis (quarterly, monthly, etc.) rather than immediately before or after the expenses are incurred.

Objectives

To determine if the Command is in compliance with URDT policies and procedures and if the control structure over the URDT is adequate to meet program policies and procedures.

To determine if the URDT financial reports presented by MWR fairly reflect results of the test.

To determine whether corrective action had been completed on previously reported audit findings from Independent Audit Report #01502980124.

Conclusions Except as noted in Section A, the command is in compliance with applicable policies and procedures, and the internal control structure over the URDT is adequate to meet program policies and procedures.

The information contained in the financial reports is generally presented in accordance with the requirements of the ASD memorandum and fairly represents the results of URDT for the period of 1 October 1997 through 30 September 1998. No assurance is given on the NAF financial statements as a whole.

Two of the three conditions reported in our previous URDT audit report #01502980124 of 15 December 1997 are considered unresolved.

Section A - Internal Controls and Compliance

Objective

To determine if the Command is in compliance with URDT policies and procedures and if the control structure over the URDT is adequate to meet program policies and procedures.

Methodology

We evaluated internal controls which included obtaining an understanding over financial reporting, testing and evaluating the design and operating effectiveness of the internal control structure, and such other procedures as we considered necessary. We also tested for compliance with the following regulations related to URDT:

ASD Memo on Demonstration Project Procedures for Uniform Funding of MWR of 30 May 1996.

DoD Instruction 7000.12, "Financial Management of Morale, Welfare, and Recreation Activities," May 27, 1987.

DoD Instruction 6060.2, "Child Development Programs (CDPs)," January 19, 1993.

DoD Instruction 1330.20, "Reporting of Morale, Welfare and Recreational (MWR) Activities," September 4, 1980.

MWRINST 7000.3A International Merchant Purchase Authorization Card (IMPAC) Program dtd 24 Jan 97

DoD 7000.14-R, "Financial Management Regulation," Volume 13, Nonappropriated Funds Policy and Procedures, August 22, 1994

DoD Instruction 1015.10, "Programs for Military, Welfare, and Recreation (MWR)," November 3, 1995.

DoD Instruction 1401.1, "Personnel Policy for Nonappropriated Fund Instrumentalities," November 15, 1985.

DoD Instruction 4105.67 "Nonappropriated Fund Procurement Policy," October 2, 1981.

DoD "Child Development Program Quarterly Execution Report," Report Control Symbol DD P&R (Q) 1878

MWRINST 7000.2A Standard Operating Procedure (SOP) for MWR and Child Development Program (CDP) APF Uniform Resource Demonstration Test (URDT)

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the internal control structure over financial reporting to future periods is subject to the risk that procedures may become inadequate due to changes in conditions or that the effectiveness of the design and operations of controls may deteriorate.

Conclusion

The Command is in compliance with applicable policies and procedures, and the internal control structure over the URDT is adequate to meet program policies and procedures except as noted in this report. The following two conditions were reported in our previous URDT audit report #01502980124.

A1 - TAD

We tested 35, or 26%, of the 134 travel transactions that occurred during the audit period and noted errors in the following areas: supporting documents were not attached to expenditure vouchers (e.g. 1351, lodging receipts, etc.);

incorrect calculation of travel settlement; and no audit trail to determine if orders were executed or canceled.

Table 1

Attribute	Percentage
Missing Supporting Documentation	51%
Incorrect Computations	45%
No Trail to Show Disposition of Orders	18%

According to the MWR Controller, the internal control weaknesses resulted from having two accounting clerks responsible for processing travel claims without establishing accountability for all documents supporting travel. Further, after posting to the accounting records, the documents were transferred to yet another clerk for scanning and filing. Amidst these transfers, travel claims were either returned to the claims clerk minus essential source documents or not returned at all.

Chapter 301 of the Federal Travel Regulations (FTR) requires that all claims for the reimbursement of traveling expenses be submitted on authorized reimbursement forms and supported by travel authorization and receipts. Although the URDT program is not continuing, the failure to establish adequate procedures over travel transactions will lead to inappropriate travel settlements and expenditures for the Utilization, Support, and Accountability (USA) program.

Recommendation 1. The MWR Controller establish a system that provides for effective tracking and maintenance of documents supporting disbursements made for travel.

Command Response. Concur. Maintenance and tracking mechanisms have been instituted in the following manner:

The claim clerks will receive, compute and submit all travel claims (APF and NAF). Once the claim has been liquidated, transaction data (payment voucher number or collection voucher receipt) will be recorded on a DD1351-2. A copy of the DD1351-2 will be forwarded to the APF accounting technician for posting to the general journal. Starting on 6 November 1998, the travel clerk personally scans all travel documents to a disk file. This will ensure that source documents remain intact and complete.
Corrective measures have been fully implemented to meet the standards of the FTR and the requirements of the Utilization, Support and Accountability (USA) Practice that has replaced URDT.

A2 - Split Purchases

Purchasing agents and credit card holders used split purchases to circumvent purchasing procedures. We examined purchases made during the audit period and identified six vendors (presented in Table 2) from which split purchases were made, thereby circumventing purchasing limitations.

Table 2

Vendor	Description	Date	Amount
MGE UPS System	Maintenance Agreement	10/02/97	$3,575.36
	Maintenance Agreement	10/18/97	$3,575.36
Micron Electronics	Computers	03/05/98	$4,060.60
	Computers	03/05/98	$2,030.30
	Computers	03/23/98	$1,753.97
MITY-LITE	Supplies	08/11/98	$4,086.16
	Supplies	08/11/98	$2,505.86
Office Depot	Office Supplies	09/04/98	$2,491.26
	Office Supplies	09/10/98	$89.70
	Office Supplies	09/10/98	$1,216.64
	Office Supplies	09/11/98	$2,453.77
	Office Supplies	09/15/98	$1,066.78
	Office Supplies	09/16/98	$1,594.00
STEP 2	Riding Toys	08/18/98	$4,882.00
	Riding Toys	09/16/98	$2,491.00
Wilson Sports	Practice Balls	08/10/98	$4,457.10
	Pants	08/30/98	$3,777.84

CMC letter 4226/MWS/17 Oct 96 requires competition for purchases over $5,000 unless single source negotiation is authorized by paragraph 40303 of MCO P1700.27. Circumventing purchasing solicitation requirements reduces the likelihood that MWR and the CDP receive the best price on purchases. Additionally, these procedures increase the opportunity and appearance of inappropriate vendor relationships.

The MWR has implemented procedures for identifying and taking corrective action when employees fail to comply with purchasing regulations or misuse the government credit cards as outlined above. MWR cardholders are counseled if a split purchase transaction occurs and the card is withdrawn after the second infraction. However, the CDP has no such procedure in place, so employees who misuse government credit cards to circumvent purchasing regulations are not identified nor is corrective action taken.

Recommendation 2. That the CDP's system of monitoring, identifying and correcting misuse of government credit cards be mirrored after the system in use by the MWR.

Command Comments. Concur. The MWR policy will be presented to the CDP for implementation.

Auditor's Comment. Command comment adequately addresses the condition. With the upcoming merger of MWR with family programs, which includes CDP, operating policies could be more uniformly applied. This will allow for credit card purchases for all activities to receive the same level of scrutiny and consistently applied controls.

Section B - Financial Reports

Objectives To determine if the URDT financial reports presented by MWR fairly reflect results of the test.

Methodology We used sampling techniques to examine 64 percent of URDT transactions submitted for MWR and 79 percent of transactions for the CDP. Our verification was limited to URDT transactions only, and accordingly, no assurance is given on NAF financial statements as a whole.

Results Management compiled financial URDT financial reports manually from the activities financial records. Table 3 below is a summary of the financial reports which were audited and are presented in management's final report.

Table 3

	Summary APF Expense Totals for MWR		**Summary APF Expense Totals for CDP**	
COST EXPENSE CAPTION	TOTAL MWR	OTHER DIRECT APF	TOTAL CDP	OTHER DIRECT APF
Civilian Personnel (Salaries & Wages)		$1,394,129		$637,274
Civilian Personnel (Services & Benefits)	$1,252	344,715		153,643
Utilities & Rents			$751	
Communications	200.00		21.00	
Maintenance & Repair	146,580		23,000	
Supplies & Equipment	1,033,248		115,423	
Transportation of Persons	69,770		11,170	
Transportation of Things	26,675		113.00	
NAF Depreciation				
All Other Expenses	227,081	14118.00	117,520	
Totals	$1,504,806	$1,752,962	$267,998	$790,917

Conclusion The information contained in the financial reports is generally presented in accordance with the requirements of the ASD memorandum and fairly represents the results of URDT for the period of 1 October 1997 through 30 September 1998. No assurance is given on the NAF financial statements as a whole.

Section C - Follow-up on Previously Reported Conditions

Objectives To determine whether corrective action had been completed on previously reported audit findings from Independent Audit Report #01502980124.

Methodology During our financial related and compliance audit of the URDT, we identified one Independent Audit Report which fell within the scope of our audit follow-up. We performed such tests as we considered necessary to determine whether management had taken action to implement recommendations to satisfactorily resolve each finding.

Conclusion Corrective action was completed on one finding with two recommendations. The remaining two findings are considered unresolved and have been addressed in Section A of this report.

Independent Audit Report #01502980124 of 15 Dec 97

		Recommendation #	
Finding #	Condition	Resolved	Unresolved
A1	Temporary Additional Duty		1
			2
A2	Temporary Quarters Subsistence Expenses	3	
		4	
A3	Split Purchases		5
			6

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The Readiness and Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report. The Service audit organizations prepared the reports in the exhibits.

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