



United States Government Accountability Office  
Washington, DC 20548

November 29, 2004

The Honorable Donald H. Rumsfeld  
Secretary of Defense

Subject: *Military Personnel: DOD Needs to Strengthen the Annual Review and Certification of Military Personnel Obligations*

Dear Mr. Secretary:

Each year, Congress appropriates billions of dollars to pay and support U.S. military personnel at home and overseas. In fiscal year 2003, military personnel (MILPERS) appropriations amounted to more than \$109 billion.<sup>1</sup> Once the funds are appropriated, the military services are responsible for ensuring that the funds are properly obligated and disbursed. Their efforts include conducting an annual review and certification to ensure that obligations are still needed in the amounts and for the purposes obligated and that disbursements are supported by a proper obligation of funds. The end-of-the-fiscal-year review is critical to the next year's budget formulation process because the services use the obligations for the most recent fiscal year completed as a point of reference in developing their new budgets, and Congress uses this information as a point of comparison in its review of the new budget requests.

In our prior work for the House and Senate appropriation and authorization committees, reviewing the services' budget justifications, we found that although the services were conducting annual reviews and certifications, the services did not review transactions by matching obligations to individual disbursements in all of the years that disbursements can occur, as required by the Department of Defense (DOD) Financial Management Regulation.<sup>2</sup> We also found that the services disbursed some obligations for purposes other than those reported in their budget submission, but their year-end reviews did not show how these funds were actually disbursed. Specifically, the year-end reviews did not

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<sup>1</sup> MILPERS appropriations are used for pay, benefits, incentives, allowances, housing, subsistence, travel for military personnel, and reserve training.

<sup>2</sup> DOD 7000.14-R, vol. 3, chapter 8, paragraph 080402.B(2), November 2000; chapter 11, paragraph 110301, January 2001.

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provide transparency over disbursements that occurred after the first year of the appropriation. As a result of our work, the report by the conferees for the House and Senate defense appropriations committees for fiscal year 2004 directed “the Secretary of Defense to ensure that the services strengthen the annual review process by including a review of the accuracy of prior year appropriations below the budget activity level. To facilitate this review, the financial management improvement initiative should include financial decision-making processes that provide transparency of disbursements at the same level as the budget submission.”<sup>3</sup> In its report for fiscal year 2005, the House Appropriations Committee reiterated this direction.<sup>4</sup>

For this letter, we examined whether the military services are reviewing the accuracy of their MILPERS obligation balances as required by DOD’s Financial Management Regulation and as directed by congressional conferees, and, if not, what factors are preventing the services from doing this.

To answer this objective, we reviewed applicable Office of the Secretary of Defense (OSD) regulations and the services’ procedures for performing the reviews; interviewed OSD officials in the Office of Accounting, Finance, Policy and Analysis, within the office of the Under Secretary of Defense (Comptroller/Chief Financial Officer), as well as service Comptroller officials; and reviewed Defense Finance and Accounting Service (DFAS) financial reports. We conducted our review from August 2004 to October 2004 in accordance with generally accepted government auditing standards. We determined that the data used in this letter are generally reliable for the purposes for which we used them. (See encl. I for more information on our scope and methodology.)

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## Results in Brief

The military services are not matching obligations to disbursements at the individual disbursement transaction level in all of the years that disbursements can occur as required by the Financial Management Regulation. Additionally, the services are not reporting the obligation balances at the budget submission level as directed by congressional conferees. This has made it difficult, if not impossible, for decision makers to oversee how the services actually use MILPERS funds. One reason for

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<sup>3</sup> H.R. Conf. Rep. No. 108-283, 62 (2003).

<sup>4</sup> H.R. Rep. No. 108-553, 20 (2004).

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this is that OSD has not provided the services with explicit instructions in the Financial Management Regulation requiring them to review MILPERS obligations at the budget justification level, especially as related to disbursements made after the first year of the appropriation. Moreover, OSD has not effectively monitored the services' compliance with the Financial Management Regulation's requirement to review obligation balances. Unless the services strengthen their year-end reviews and certification processes, the actual use of MILPERS funds will continue to be masked and the baseline for future budget requests may be inaccurate. In addition, OSD has not ensured that the detailed financial data from DFAS that the services need to conduct their reviews have been readily available. DFAS only produces the detailed data for the first year of the appropriation. Nevertheless, some of the services have begun to gather MILPERS budget execution data at the budget justification level for all years of the appropriation. For example, the Army and Marine Corps have started to obtain needed data from DFAS to improve their review and follow the congressional direction. Until all the services can strengthen their budget execution accounting and related year-end review process to ensure that their MILPERS obligations are valid, accurate, and matched to individual disbursements and summarized at the level at which funds were justified to Congress, decision makers will find it difficult, if not impossible, to properly oversee how the services actually use the appropriations. As a result, neither DOD nor the Congress has reliable information on the status of MILPERS appropriations and future budget submissions could be over- or understated.

We are recommending that OSD clarify the Financial Management Regulation provisions applicable to the year-end review and certification process for MILPERS obligations, monitor the services' annual review results, and take steps to ensure that the services have the financial information they need to conduct proper reviews.

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## Background

MILPERS appropriations are available for obligation for a period of 1 year (or for the duration of the fiscal year in which the budget authority was appropriated). However, the appropriated funds remain available for 5 additional fiscal years for the payment of obligations (e.g., for permanent change-of-station contracts or pay adjustments that were incurred during the year of appropriation). Thus, the military services can disburse MILPERS obligations over a period of up to 6 years. For example, about 94 percent of fiscal year 2003 MILPERS obligations were disbursed during the first year. The remaining 6 percent, or about \$6.5 billion, was not disbursed (i.e., remained as unliquidated obligations) and is available to

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disburse for up to 5 additional fiscal years. MILPERS obligations differ from other obligations such as for operations and maintenance and procurement where payments are made for specific transactions, such as under a contract. MILPERS individual payments are made against a planned level of obligations for like items,<sup>5</sup> such as incentive bonuses and payroll checks. The MILPERS fund manager allots an amount to DFAS to expend for like disbursements.

The annual review and certification process for MILPERS appropriations serves as an important oversight and internal control tool for decision makers in OSD, the military services, and the House and Senate appropriation and authorization committees, as well as input to financial statements, to ensure that appropriated funds are properly obligated and disbursed at the end of each fiscal year. OSD officials responsible for Financial Management Regulations (the Office of Accounting, Finance, Policy and Analysis) within the office of the Under Secretary of Defense (Comptroller/Chief Financial Officer) stated that the services are required to review commitments and obligation transactions for timeliness, accuracy, and completeness and ensure that unliquidated amounts are valid.<sup>6</sup> The review covers the obligation balances for each year, starting with the appropriation year plus 5 years to expend until the appropriation cancels.<sup>7</sup> Only the first year of the appropriation is reviewed at the line item level. The subsequent 5 years of obligations can only be reviewed at the budget activity and subactivity level because of data limitations. Based on this review, the services must then certify to the President and the Secretary of the Treasury<sup>8</sup> that obligations are accurate and that disbursements from the account are supported by an obligation and are otherwise proper.<sup>9</sup> When the year-end reviews identify funds that are no

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<sup>5</sup> OSD and service officials referred to this as an open allotment where the fund manager provides DFAS with authority to make appropriate disbursements for transactions that meet the criteria.

<sup>6</sup> DOD 7000.14-R, vol. 3, chapter 8, paragraph 080401, and paragraph 080403, November 2000.

<sup>7</sup> As of October 2004 (fiscal year 2005), for example, the services would have obligation balances subject to review for prior-year appropriations for fiscal years 2000, 2001, 2002, 2003, and 2004.

<sup>8</sup> 31 U.S.C. § 1554(b)(1).

<sup>9</sup> 31 U.S.C. § 1554(b)(2)(E).

longer needed, the services should deobligate the funds and make them available for other permissible purposes.<sup>10</sup>

In our prior work on MILPERS budgets, we found that the obligations reported at the end of the appropriation year were not always disbursed as reported. In researching some of the differences, we also found that the services' obligation reviews for the 5 years after the obligations were made could not identify the changes at the same level of detail as that used in the budget request to Congress. Moreover, the reports used for the review did not provide information on where the funds were moved or an audit trail to the disbursements.

DOD submits its MILPERS budget request, including a report of actual obligations for the fiscal year just completed, at three levels of detail. The broadest level is the budget activity (BA), followed by subactivity groups (SAG) and line items.<sup>11</sup> As an example, table 1 shows these three levels in the Air Force's fiscal year 2003 budget request to Congress. The fiscal year 2003 budget data is the most recent year available for which the services have certified their obligations as valid and accurate.

**Table 1: Examples of Levels of Budget Submission in the Air Force's Fiscal Year 2003 MILPERS Budget Justification Book**

Dollars in millions				
Levels of budget submission	Title	Actual FY 2001	Estimate FY 2002	Requested FY 2003
Budget activity	Pay and allowance for officers	\$6,129.5	\$6,609.0	\$7,204.3
Subactivity group	Basic allowance for housing, officers	642.8	717.8	778.9
Line item	Domestic with dependents, officers	421.4	473.4	517.7

Source: Air Force.

<sup>10</sup> Funds also can be released to OSD for transfer into the Foreign Currency Fluctuation account if they are transferred within 2 years after the appropriation year; this account exists to minimize the effect to the Operations and Maintenance and the MILPERS accounts of unanticipated declines in the value of the dollar vis-à-vis foreign currencies.

<sup>11</sup> The services use different terms to denote these levels. For example, the Air Force refers to subactivity groups as project codes and line items as subproject codes; the Army refers to them as subactivity groups and program elements; the Navy refers to them as subactivity groups and summary account identifiers; and the Marine Corps refers to them as subactivity groups and line items. We use budget activity, subactivity, and line item to generically describe these various levels within a budget request.

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- The Air Force requested nearly \$7.2 billion in the Pay and Allowance budget activity for officers. Within this broad budget activity were several SAGs, one of which was Basic Allowance for Housing. Finally, within this SAG were several different line items, one of which was Domestic with Dependents.
  - The Air Force also included the amount it certified as obligated for each of the three levels of detail for (1) the fiscal year that was just completed (2001) as a point of comparison for the budget request and (2) the estimate of how much it planned to use for the current fiscal year (2002).

Table 2 shows how the military services would review their obligations at the three levels of budget detail for the prior-year 2001 appropriation and the subsequent 5 years before the appropriation cancelled. For example, the services would track the fiscal year 2001 obligations at all three levels of detail, but they would track the fiscal year 2002 to fiscal year 2006 obligations at only the budget activity and subactivity levels and not at the line item level. Thus, the way that obligations are disbursed after the initial year of appropriation is not transparent. For example, Congress and decision makers in OSD and the services would assume that the \$421.4 million obligation for the line item “Domestic with Dependents” which was certified as correct at the end of the fiscal year would disburse for this purpose. However, because disbursements are not tracked at this level after the first year, the Air Force cannot determine if the \$421.4 million obligated was actually disbursed for Domestic with Dependents in fiscal years 2002 through 2006. Consequently, if the \$421.4 million is not dispersed, or is dispersed differently, the baseline of the budget will be incorrect and may mask true requirements and actual spending patterns.

**Table 2: Financial Tracking of Services' Disbursements to Obligations for Fiscal Year 2001 Appropriations**

Levels of budget submission	Title	Financial tracking of disbursements to obligations					
		Fiscal year of appropriation	5 years to expend (fiscal years)				
			2001	2002	2003	2004	2005
Budget activity	Pay and allowance for officers	Yes	Yes	Yes	Yes	Yes	Yes
Subactivity group	Basic allowance for housing, officers	Yes	Yes	Yes	Yes	Yes	Yes
Line item	Domestic with dependents, officers	Yes	No	No	No	No	No

Source: GAO analysis of DOD information.

Note: The line item level is usually a summary level of like disbursements. Fiscal years 2005 and 2006 are displayed as if the services followed the current reporting format.

The Army had financial information at the line item level, but the information was cumbersome to crosswalk to the budget submission level of detail. Starting in fiscal year 2004, a new accounting structure will allow the Army to compare disbursement data to the budget submission level of detail.

**Services Are Not Reviewing the Accuracy of Obligations Because OSD Has Not Provided Instructions, Monitored Compliance, or Ensured Access to Detailed Data**

The military services are not reviewing the accuracy of their MILPERS obligation balances, as required by the Financial Management Regulation and as directed by congressional conferees. OSD has not provided the services with explicit instruction in the Financial Management Regulation to guide them in their year-end reviews and has not effectively monitored their compliance with the regulation as it is currently written. Also, OSD has not ensured that the services have available the detailed financial data they need for their annual reviews. Despite this, some of the services have begun to gather the necessary financial reporting data. Until the services can strengthen their year-end review process, the actual use of MILPERS funds will continue to be masked and the baseline for budget requests may be inaccurate. Additionally, it will be difficult, if not impossible, for decision makers to oversee properly how the services actually use MILPERS funds.

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## OSD Has Not Provided Clear Guidance or Monitored Annual Reviews

DOD's Financial Management Regulation sets out general instructions on the review process that DOD components are to follow. The services are responsible for conducting reviews of outstanding commitments and obligation transactions for timeliness, accuracy, and completeness.<sup>12</sup> As part of this process, they are to perform a review of obligations that have not disbursed (unliquidated obligations).<sup>13</sup> Even though DOD's Financial Management Regulation requires that the services review and match individual disbursements to obligations,<sup>14</sup> it does not provide explicit instructions requiring them to review MILPERS appropriations at the transaction level until the appropriation cancels.

OSD officials who are responsible for the financial management regulation on obligation reviews told us that they are considering revisions that would require the services to review MILPERS obligations three times a year, as they require for other appropriation accounts. The triannual review would enhance DOD's and the services' ability to ensure that individual disbursements are being matched to obligations and are complying with DOD regulations and sound accounting and internal control requirements. Showing budget execution data at the same level of detail at which it was requested would be useful for both agency and congressional oversight and financial decision-making. However, OSD officials said that specific instructions on how MILPERS obligations should be reviewed are not needed because they believe the regulation is adequate. We found that the regulations do not specifically state how MILPERS obligations are to be reviewed. Specific language on how MILPERS obligations reviews are to be conducted would make clear to the services how detailed the reviews should be. But the officials agreed that a revision requiring DOD components to submit copies of their review results to OSD for monitoring purposes is needed.<sup>15</sup> In addition, OSD officials told us they are considering whether to follow the congressional conferee's direction, which calls for providing transparency of

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<sup>12</sup> DOD 7000.14-R, vol. 3, chapter 8, paragraph 080401, November 2000.

<sup>13</sup> DOD 7000.14-R, vol. 3, chapter 8, paragraph 080403, November 2000.

<sup>14</sup> DOD 7000.14-R, vol. 3, chapter 11, paragraph 110302(D), January 2001.

<sup>15</sup> The regulation requires the services' fund managers to confirm to their assistant secretaries (Financial Management and Comptroller) that a review has been performed, but it does not require them to notify OSD. DOD 7000.14-R, vol. 3, chapter 8, paragraph 080405(B), November 2000.

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disbursements at the same level (line item level) as the budget submission until the appropriation cancels.

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**OSD Has Not Ensured Availability of Detailed Financial Data, but Services Have Taken Steps to Obtain Data**

The financial information provided by DFAS does not provide the detailed information that the services need to match obligations to disbursements at the budget submission (or line item) level for the 5 years after the year of appropriation, nor does it provide an audit trail to the individual disbursements, required for sound management and internal control. The services' fund holders use monthly reports (Accounting Report M-1002)<sup>16</sup> provided by DFAS to review their obligation balances and disbursements. While these reports contain summaries of obligations and disbursements for all 6 years of the appropriation, they do not include data down to the line item level (budget submission level) for any of the years. For the first year of appropriation, the services have relied on other financial data (i.e., summaries of like items) to perform their year-end reviews to the line item level. However, they do not have similar data to make the review at the line item level for the subsequent 5 years that funds can be disbursed or until the appropriation cancels.<sup>17</sup> Moreover, OSD and service officials acknowledge that there is no requirement that the services use funds remaining after the year of appropriation for the purposes obligated and reported in the budget submission. If funds are used differently than reported, the actual use of funds is masked, and the baseline for the budget requests may be inaccurate and/or misleading. For example, obligated MILPERS funds that are not disbursed for officers' basic pay in the year of appropriation could be used for another authorized purpose for that year of appropriation, such as enlisted personnel bonuses, within the next 5 years of availability. However, current financial reports would not show this variance. As a result, the reported obligations in the budget submission may not represent how the services actually expend the funds and may not be an accurate point of comparison for future budget requests.

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<sup>16</sup> DOD 7000.14-R, vol. 6A, chapter 4, paragraph 0406, January 2002.

<sup>17</sup> DOD is also working to implement a new military personnel and payroll system—the Defense Integrated Military Human Resource System (DIMHRS). DIMHRS eventually will provide uniform personnel and payroll services to each of the Services, the Reserves, and the Air and Army National Guard, but this review did not cover the extent it will interface with the DFAS financial systems and provide the type of reports discussed in this letter.

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Recently, the military services have taken steps—albeit different ones—to get access to the detailed financial information they need to strengthen their review of the accuracy of obligation balances. Officials in each service provided the following descriptions on what they are currently doing and their limitations for making a more detailed review.

- The Air Force has started to review the accuracy of prior-year obligations, but it does not yet have the financial information needed to make the review at the line item level. Air Force comptroller officials told us that DFAS will be able to provide financial reports at the line item level by November 2005 and will be able to match obligations to disbursements at this level beginning in fiscal year 2006.
- Beginning with the fiscal year 2004 appropriations, the Army has been able to match disbursements to obligations at the line item level because the service built a data warehouse that can be used to research and summarize obligations and disbursements. Army officials told us that, starting with the fiscal 2004 MILPERS appropriation, they would be able to produce financial reports at the budget submission level.
- The Marine Corps has a different DFAS system than the other services. It has an integrated personnel and pay system and data history that allows it to compare disbursements to obligations at the most detailed level of each individual disbursement. The Marine Corps also has a data warehouse that can be used to research obligations and individual disbursement transactions that make up the financial reports. Officials told us that, although they do not currently get financial reports from DFAS at the line item level after the year of appropriation, DFAS could revise its reporting format to provide such detail for a one-time cost of about \$90,000. With revised reports (M-1002) and the data warehouse, the Marine Corps could review and certify the accuracy of outstanding obligations at the line item level and research related transactions by matching disbursements to obligations.
- Although the Navy has taken a number of steps to improve its review of the accuracy of obligations in the year of appropriation, Navy officials told us they have no plans to request a change in the monthly account reports (M-1002) to show obligations and disbursements at the line item level for the additional 5 years. Navy comptroller officials do not view the improved oversight that such information would provide as either necessary or required.

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## Conclusions

Each year, transparency over the disbursement of several billion dollars of MILPERS appropriations is placed at risk because the military services are not reviewing the accuracy of their obligation balances at the level of detail required by DOD's Financial Management Regulation and as directed by congressional conferees. Although the services conduct the annual reviews, it is OSD's responsibility to ensure that the services have clear guidance and sufficiently detailed data to undertake these reviews at the level of detail required. Although three of the four services have initiated steps to obtain financial data at the necessary level of detail, their efforts have varied. Until OSD can ensure that the services are doing the reviews as required, the actual use of some MILPERS funds will continue to be masked and the baseline for budget requests may be inaccurate.

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## Recommendations for Executive Action

We are making two recommendations to ensure that the services are reviewing the accuracy of MILPERS obligations and disbursements as required. You should direct the Under Secretary of Defense (Comptroller/Chief Financial Officer) to require

- the Office of Accounting, Finance, Policy and Analysis to monitor the services' review results and to clarify the regulation that applies to the review and certification of the accuracy of MILPERS obligations, by including MILPERS accounts in its triannual review requirements and providing specific guidance to the services to match obligations to individual disbursement transactions until the appropriation cancels and
- the Defense Finance and Accounting Service to change the format in the monthly financial reports for MILPERS appropriations to include information at the line item level (budget submission level) for all 6 years that funds can be disbursed until the appropriation cancels.

Title 31 U.S.C. § 720 requires the head of a federal agency to submit a written statement of the actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Reform no later than 60 days after the date of this letter. A written statement must also be sent to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of this letter.

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## Agency Comments and Our Evaluation

The Under Secretary of Defense (Comptroller) provided written comments to a draft of this letter. The Department of Defense's comments are included in enclosure II. DOD concurred with both of our recommendations. DOD concurs with the intent to clarify the requirements of the year-end certification process by requiring triannual reviews for MILPERS accounts. DOD stated that it will include MILPERS appropriations in the triannual review requirements of the Department of Defense Financial Management Regulation. DOD also concurs with the intent to ensure that the services have the financial information they need to conduct proper reviews of MILPERS accounts. DOD stated that it will direct the departments of the Navy and the Air Force, in conjunction with the Defense Finance and Accounting Service, to conduct a study of the feasibility of modifying the financial systems to record and report prior year disbursements at the budget submission level.

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We are sending copies of this letter to House and Senate appropriation and authorization committees. We will also make copies available to others upon request. In addition, this letter is available at no charge on GAO's Web site at <http://www.gao.gov>. If you have any questions concerning this letter, please contact me on (202) 512-5559. Key contributors to this assignment were Don Snyder, Tom Pantelides, Gary Billen, Pawnee Davis, and Nancy Benco.

Sincerely yours,



Derek B. Stewart, Director  
Defense Capabilities and Management

Enclosures

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# Enclosure I: Scope and Methodology

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To identify the reasons why the military services were not properly conducting annual reviews of MILPERS obligation balances, we reviewed applicable Financial Management Regulations, the services' procedures for performing the reviews, and monthly financial reports issued by DFAS. We reviewed the results of our prior budget justification issue papers that were provided to the House and Senate appropriation and authorization committees. We also interviewed Air Force, Army, Navy, and Marine Corps comptroller officials to determine what actions they were taking to improve their year-end review and certification process and what limitations they were encountering in these efforts, including problems in obtaining needed financial information from DFAS. To determine the ability of DFAS to provide the military services with needed financial information, we interviewed DFAS and service officials responsible for financial information used in the review of obligations and disbursements and reviewed existing financial reports on the status of MILPERS appropriations and obligations. We conducted our review from August 2004 to October 2004 in accordance with generally accepted government auditing standards. We determined that the data used in the letter are generally reliable for the purposes for which we used them.

# Enclosure II: Comments from the Department of Defense



COMPTROLLER

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

NOV 23 2004

Derek B. Stewart, Director  
Defense Capabilities and Management  
United States Government Accountability Office  
Washington, DC 20548

Dear Mr. Stewart:

This is the Department of Defense response to the Government Accountability Office (GAO) draft report, "Military Personnel: Annual Review and Certification of Military Personnel Obligations" (GAO-05-87R). The Department appreciates the opportunity to review the draft report and provide comments.

I agree with the intent of the recommendations to clarify the requirements applicable to the year-end certification process by requiring triannual reviews and to ensure that the Services have the financial information they need to conduct proper reviews. More detailed comments are at the enclosure.

My point of contact for this matter is Mr. Oscar Covell. He may be reached by e-mail: [oscar.covell@osd.mil](mailto:oscar.covell@osd.mil) or by telephone at (703) 697-6149.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Henke".

Robert J. Henke  
Principal Deputy

Enclosure:  
As stated

GAO DRAFT REPORT / DATED OCTOBER 28, 2004  
GAO-05-87R (CODE 350489)

MILITARY PERSONNEL: Annual Review and Certification  
of Military Personnel Obligations

DEPARTMENT OF DEFENSE COMMENTS TO THE  
RECOMMENDATIONS

To ensure that the Services are reviewing the accuracy of MILPERS obligations and disbursements as required, you should direct the Under Secretary of Defense (Comptroller/Chief Financial Officer) to require:

**RECOMMENDATION 1:** The Office of Accounting and Finance Policy and Analysis to clarify the regulation that applies to the review and certification of the accuracy of MILPERS obligations, by including MILPERS accounts in its triannual review requirements and providing specific guidance to the Services to match obligations to individual disbursement transactions until the appropriation cancels, and to monitor the Services' review results. (p. 12/GAO Draft Report)

**DoD RESPONSE:** Concur. We will clarify the guidance in the Department of Defense Financial Management Regulation (DoDFMR) during the second quarter of Fiscal Year (FY) 2005 to include the Military Personnel appropriations in the triannual review requirements.

**RECOMMENDATION 2:** The Defense Finance and Accounting Service to change the format in the monthly financial reports for MILPERS appropriations to include information at the line item level (budget submission level) for all 6 years that funds can be disbursed until the appropriation cancels. (p. 12/GAO Draft Report)

**DoD RESPONSE:** Concur. As stated in the report, the Department of the Army has recently modified its procedures to record and report disbursements for prior year entitlement obligations at the line item level on the DD Compt 1002, "Appropriation Status by Fiscal Year Program and Subaccounts," for its Military Personnel appropriations. Consequently, the Under Secretary of Defense (Comptroller) will direct the Departments of the Navy and the Air Force, in conjunction with the Defense Finance and Accounting Service (DFAS), to conduct a feasibility study of the cost and time required to modify financially related systems to record and report disbursements for prior year entitlement obligations at the line item level and forward the results to this office by January 31, 2005.

Note: Page numbers in the draft letter may differ from those in this letter.



COMPTROLLER

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

NOV 23 2004

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

SUBJECT: Government Accountability Office (GAO) Draft Report: "MILITARY  
PERSONNEL: DoD Needs to Strengthen the Annual Review and  
Certification of Military Personnel Obligations," dated October 28, 2004  
(GAO Code 350489/GAO 05-87R)

The attached GAO draft audit report revealed that the Military Services track current fiscal year obligations at the line item level for the military personnel appropriations while expired year obligations are tracked at only the budget activity level. The GAO concluded that disbursements made during the expired years of an appropriation are not matched to line item obligations. The GAO also concluded the Military Services are not reviewing the accuracy of their Military Personnel appropriations as required by Volume 3, Chapter 8, of the Department of Defense Financial Management Regulation (DoDFMR).

The GAO observed that the Department of the Army has developed a data warehouse to produce prior year financial reports at the line item level. This action was necessary because the Army's entitlement systems do not provide information regarding prior year obligation adjustments to accounting systems.

The Departments of the Navy and the Air Force, in conjunction with the Defense Finance and Accounting Service (DFAS), are to conduct a feasibility study of the cost and time required to modify financially related systems to record and report disbursements for prior year entitlement obligations at the line item level. I encourage you to the extent possible to capitalize on the Army's accomplishments in this matter. The results of your study are to be forwarded to this office by January 31, 2005.

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**Enclosure II: Comments from the Department  
of Defense**

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My point of contact is Mr. Oscar G. Covell. He may be reached by e-mail:  
oscar.covell@osd.mil or by telephone at (703) 697-6149.



Robert J. Henke  
Principal Deputy

Attachment:  
As stated

cc:  
Deputy Comptroller (Program/Budget)  
Assistant Secretary of the Army (Financial Management & Comptroller)

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