

DOCUMENT RESUME

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[Centralization of the Billing and Collecting Functions of the Foreign Military Sales Program]. FGMSD-77-46; B-174901. September 16, 1977. 5 pp.

Report to Secretary, Department of Defense; by D. L. Scantlebury, Director, Financial and General Management Services Div.

Issue Area: Accounting and Financial Reporting (2800).
Contact: Financial and General Management Studies Div.
Budget Function: Miscellaneous: Financial Management and Information Systems (1002).

Organization Concerned: Department of the Navy; Department of the Army; Department of the Air Force.

Congressional Relevance: House Committee on Armed Services; Senate Committee on Armed Services.

Although centralization can improve accounting systems and financial management, there are a number of weaknesses in the Air Force Accounting and Finance Center's billing and collecting system which the Security Assistance Accounting Center used as a model for its centralized system and certain other problems in the Army's and Navy's systems which could adversely affect the centralized system. Findings/Conclusions: An improved system is needed to control the reporting of foreign military sales deliveries. The Air Force billing process did not insure that funds were received from foreign governments before incurring costs on their behalf. The Air Force accounting system also lacked adequate controls to insure that actual costs incurred for foreign military sales were billed to foreign governments. Recommendations: The Security Assistance Accounting Center should: establish a system to identify deliveries that are not reported or are reported at incorrect prices; change forecast procedures to make sure that forecasts for all costs to be incurred are included in billing statements; establish systems to assure that all costs are properly billed to foreign governments; and establish controls to assure that revised Department procedures for collecting overdue and delinquent accounts are implemented and to take appropriate action on accounts now in a delinquent status. To help assure that the Security Assistance Accounting Center takes necessary action to improve the billing and collecting system and to evaluate the effectiveness of the system's changes made since centralization, the Secretary of Defense should direct the Defense Audit Service to review the Center's billing and collecting system. (SC)



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

B-174901

SEP 16 1977

03459

The Honorable
The Secretary of Defense

Dear Mr. Secretary:

During our survey of the military services' systems for accounting, billing, and collecting for foreign military sales, the Department of Defense centralized the billing and collecting functions of the foreign military sales program by establishing the Security Assistance Accounting Center. We believe centralization can improve accounting systems and financial management.

We noted, however, weaknesses in the Air Force Accounting and Finance Center's billing and collecting system, which the Security Assistance Accounting Center used as a model for its centralized system, and certain other problems in the Army's and Navy's systems which could adversely affect the centralized system. We did not fully develop the extent of or determine the causes for these weaknesses, because during our survey the Department recognized that improvements were needed in billing and collecting for foreign military sales and established the Security Assistance Accounting Center.

The problems summarized below were discussed in detail with Security Assistance Accounting Center officials in Denver, Colorado, who promised to look into them and take necessary corrective action. Officials said that many significant changes to improve the billing and collecting system have already been made and that further changes are underway and planned.

SCOPE OF SURVEY

We analyzed Defense regulations, interviewed officials, made limited tests of transactions, and reviewed the work of the military services' internal audit agencies. We made the survey at the Headquarters, Department of Defense, Army, Navy, and Air Force, Washington, D. C.; Air Force Accounting and Finance Center, Denver, Colorado; the Navy International Logistics Control Office, Bayonne, New Jersey; the Army Tank-Automotive

Matériel Readiness Command, Warren, Michigan; and the San Antonio Air Logistics Center, Kelly Air Force Base, Texas. We curtailed the survey at the time the decision was made to centralize the billing and collecting system.

WEAKNESSES IN BILLING
AND COLLECTING SYSTEMS

We observed that:

1. An improved system was needed to control the reporting of foreign military sales deliveries. The Air Force billing center was, at times, not notified that Defense articles and services had been provided to foreign governments. In the Air Force system, organizations providing articles and/or services to foreign governments were to notify the billing center. If the center was not notified, foreign governments were not billed. We identified six items costing \$24,000 and services costing \$6,000 that the Air Force provided to a foreign government in fiscal year 1975 but were not reported to the Air Force Accounting and Finance Center and, therefore, were not billed. Officials agreed to look into this and to bill foreign governments appropriate amounts.

A similar problem existed in the Army. The Tank-Automotive Matériel Readiness Command had not reported all deliveries made to foreign governments to the Army's billing center. We noted an item valued at \$32,086 which the Command had not reported to the billing center and, therefore, was not billed. After we told Command officials about this, they billed and collected the \$32,086.

We also identified some cases where the reporting of delivery information to the billing center was appreciably delayed. For example, 5 to 7 months elapsed before the billing center was notified that the Tank-Automotive Matériel Readiness Command had provided 1,151 trucks valued at \$10.9 million.

2. The Air Force billing process did not insure that funds were received from foreign governments before incurring costs on their behalf. Foreign customers are generally required to deposit in advance with the U.S. Government an amount equal to the forecast of deliveries for the next succeeding calendar quarter. Billing procedures, however, did not require payment of forecasted amounts until the second month of the quarter for which the funds were requested. As a result, the United States normally incurred 2 months' costs before receiving foreign country's funds. Security Assistance Accounting Center officials said that the billing process has been changed so that foreign customers would be required to pay forecasted amounts before the start of the calendar quarter for which the funds were requested.

Air Force billing procedures also did not insure that forecasts for all costs to be incurred were included in the quarterly billing statement. Organizations furnishing articles and/or services to foreign governments were responsible for providing forecasts to the billing center. The billing center, in turn, was responsible for consolidating this information and preparing the forecast that is included on the billing statement sent to the foreign country. The billing center, however, did not have a system to (1) control the receipt of forecasts, (2) follow-up on forecasts not received, and (3) estimate amounts of forecasts not received.

3. The Air Force accounting system lacked adequate controls to insure that actual costs incurred for foreign military sales were billed to foreign governments. We noted three cases where foreign governments were billed the estimated contract price rather than the actual cost. The estimated price on each case was \$80,000, whereas the actual price for each case was over \$90,000. Officials agreed to look into this and to bill foreign governments appropriate amounts.

Also, the accounting system did not have controls to detect and correct erroneous credits given foreign governments. We noted that in one case a foreign government was given a credit of \$16,200 more than the amount billed and in another case a transaction to correct a \$10,000 erroneous customer credit was never processed. The Air Force corrected the errors and recovered the \$26,200.

4. Procedures for collecting overdue and delinquent debts needed improvement. The Air Force Accounting and Finance Center did not systematically follow-up on overdue and delinquent debts and did not keep records to control follow-ups. The Navy had the same problem. The Navy reported foreign indebtedness of \$123 million as of December 31, 1975, of which \$60.3 million was overdue. Of this amount, about \$51.8 million was from 90 days to 1 year overdue; \$7.8 million between 1 and 5 years; and \$700,000 over 5 years. These debts represented valid claims against the foreign governments and because the amounts were not paid, the Treasury may have had to borrow additional funds and incur interest costs to meet the day-to-day cash requirements of the United States.

We noted that in June 1977 the Department revised its Instruction 2140.4, which includes procedures and guidance regarding delinquent debts. We believe this action will improve the collection of delinquent debts under the foreign military sales program.

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We believe the problems noted above should be resolved and are offering some suggestions for improvement. Specifically, the Security Assistance Accounting Center should:

- Establish a system to identify deliveries that are not reported or are reported at incorrect prices.
- Change forecast procedures to make sure that forecasts for all costs to be incurred are included in billing statements.
- Establish systems to assure that all costs are properly billed foreign governments.
- Establish controls to assure that revised Department procedures for collecting overdue and delinquent accounts are implemented and take appropriate action on accounts now in a delinquent status.

RECOMMENDATION

To help assure that the Security Assistance Accounting Center takes necessary action to improve the billing and collecting system and to evaluate the effectiveness of the system's changes made since centralization we recommend that you direct the Defense Audit Service to review the Center's billing and collecting system.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and 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 report.

We would appreciate being informed of actions taken or planned on our recommendation and would be pleased to discuss these matters with you or your representatives. We consider the Department's ongoing effort to improve financial management of the foreign military sales program a step in the right direction and appreciate the courtesies shown our staff during the survey.

We are sending copies of this report today to the House Committee on Government Operations and the Senate Committee on Governmental Affairs; the House and Senate Committees on Appropriations and Armed

Services; the Director, Office of Management and Budget; the Secretaries of the Army, Navy, and Air Force; and the Director, Defense Security Assistance Agency.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "D. L. Scantlebury". The signature is written in dark ink and is positioned above the typed name.

D. L. Scantlebury
Director