



United States
General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

B-258074

August 11, 1994

The Honorable Deborah P. Christie
Assistant Secretary of the
Navy for Financial Management

Mr. Jay Williams, Director
Defense Finance and Accounting
Service, Cleveland Center

As part of the planning phase for our audit of the Navy's fiscal year 1995 financial operations, we have analyzed the changes in financial data included in the Navy's annual financial reports to the Department of the Treasury. The purpose of this letter is to advise you of significant discrepancies between the amounts shown for property, plant, and equipment on the Standard Form (SF) 220s, "Report on Financial Position," for fiscal years 1993 and 1992, and the supporting documentation used to compile these amounts. Because these differences have a material effect on the amounts reported, we are recommending corrective actions to resolve the discrepancies and prevent similar errors in the future.

Under 31 U.S.C. 3513(a) and the Treasury Financial Manual, federal agencies are responsible for annually preparing and submitting to Treasury timely and reliable financial reports which fully disclose, among other things, their financial position and results of operations. The Navy's SF-220 is intended to portray the financial position of the Navy. The Defense Finance and Accounting Service (DFAS), Cleveland Center, prepares the Navy's SF-220 by compiling information submitted by the various Navy commands. DFAS then forwards the report to both the Assistant Secretary of the Navy for Financial Management and to Treasury. Treasury uses the report to prepare consolidated governmentwide financial reports, which provide information to the Congress and the public about overall government performance and stewardship.

According to our review, the valuations reported on the fiscal years 1993 and 1992 SF-220s for property, plant, and equipment were \$163.3 billion and \$17.7 billion, respectively, less than the amounts shown in the supporting information various Navy commands submitted to DFAS. For example, for fiscal year 1993, the commands reported to DFAS property, plant, and equipment valued at \$378.1 billion. However, the amount shown on the SF-220 was \$214.8 billion. The enclosure to this letter provides details on these differences.

The differences occurred because the DFAS accounting technicians who compiled the information submitted by the commands entered erroneous amounts on data sheets used to consolidate the information and prepare the SF-220. In most cases, although the commands had submitted the amounts as billions, the technicians mistakenly entered the amounts as millions.

Although the Deputy Director for Accounting Operations at DFAS, Cleveland Center told us that he had reviewed the technicians' work, his review did not identify these discrepancies. We believe these errors may not have been detected because neither DFAS nor the Office of the Assistant Secretary of the Navy for Financial Management compared different years' SF-220s to identify significant variances in the individual line items, which probably would have highlighted these errors. We identified these errors by comparing the SF-220s for fiscal years 1992 and 1993 and investigating the reasons for the huge differences in the amounts reported for property, plant, and equipment. For example, the amount on the fiscal year 1992 report was \$372.6 billion, while the amount on the fiscal year 1993 report was \$214.8 billion--a \$157.8 billion, or 42 percent, decrease.

If the data in the SF-220 and resulting governmentwide reports are significantly inaccurate, analyses performed by users of these reports will be of questionable value. Therefore, we recommend that the Director, DFAS, Cleveland Center, amend the Navy's fiscal year 1993 report of financial position to correct the errors we identified. We also recommend that the Director, DFAS, Cleveland Center, ensure that controls over the development of the SF-220 are improved by requiring his Deputy Director for Accounting Operations (1) to have the amounts compiled for the report be independently verified and (2) independently compare--in cooperation with the Office of the Assistant Secretary of the Navy for Financial Management--

the amounts reported on the current year's SF-220 with amounts reported in prior years and investigate the reasons for any significant differences. Such a review would help prevent errors of the type we identified in the future.

We have not audited the subject reports. Therefore, although implementing these recommendations should ensure the reported data are more consistent with the previous year's report, it will not necessarily ensure that the reported amounts will be correct and supportable. However, we plan on evaluating the reliability of the Navy's fiscal year 1995 financial reports as part of our ongoing audit.

We are also sending copies of this letter to the Secretary of the Navy; the Fiscal Assistant Secretary, Department of the Treasury; the Commissioner, Financial Management Service; the Comptroller, Department of Defense; and the Director, Defense Finance and Accounting Service.

Please contact me at (202) 512-9095 or Gerald Thomas, Assistant Director, at (202) 512-8841, if you wish to discuss these or other related matters. In any event, we would appreciate your informing us within 30 days of this letter's date, of the actions you plan to take regarding the matters we have discussed.



David M. Connor
Director, Defense Financial Audits

Enclosure

PROPOSED ADJUSTMENTS TO NAVY'S FISCAL YEAR 1993 SF220
BASED ON DOCUMENTED DFAS CLERICAL ERRORS

FY93 CATEGORY	REPORTED AMT BY COMMAND	REPORTED AMT BY DFAS	ERROR UNDERSTATED BY	DFAS REPORTED TOTAL	ADJUSTMENT REQUIRED TO CORRECT	CORRECTED TOTAL
NAVFAC						
MILITARY CONSTRUCTION						
U.S.	\$6,386,008,000	\$6,386,008	\$6,379,621,992			
TERRITORIES/POSSESSION OVERSEAS	142,833,000 328,379,000	142,833 328,379	142,690,167 328,050,621			
SUBTOTAL NAVFAC LINE 7G	\$6,857,220,000	\$6,857,220	\$6,850,362,780	\$6,857,220	\$6,850,362,780	\$6,857,220,000
ADJUSTMENT TO LINE 7G					\$6,850,362,780	
NAVAIR						
AIRCRAFT MISSILE INVENTORY						
IN-HOUSE MAINT						
U.S.	\$129,737,912,000	\$129,737,912	\$129,608,174,088			
FOREIGN POSSESSIONS	2,821,095,000 2,762,460,000	2,821,095 2,762,460	2,818,273,905 2,759,697,540			
SUBTOTAL LINE 7B	\$135,321,467,000	\$135,321,467	\$135,186,145,533	\$135,321,467	\$135,186,145,533	\$135,321,467,000
AIRCRAFT SUPPORT EQUIP						
U.S.	\$3,712,402,000	\$3,712,402	\$3,708,689,598			
FOREIGN POSSESSIONS	1,303,590,000 140,122,000	1,303,590 140,122	1,302,286,410 139,981,878			
SUBTOTAL LINE 7B	\$5,156,114,000	\$5,156,114	\$5,150,957,888	\$5,156,114	\$5,150,957,888	\$5,156,114,000
AIR LAUNCHED MISSILES						
U.S.	\$5,174,148,000	\$5,174,148	\$5,168,971,854			
FOREIGN POSSESSIONS	343,993,000 6,535,860,000	343,993 6,535,860	343,649,007 6,529,324,140			
SUBTOTAL LINE 7B	\$12,053,999,000	\$12,053,999	\$12,041,945,001	\$12,053,999	\$12,041,945,001	\$12,053,999,000
UNINSTALLED ENGINES						
U.S.	\$4,109,699,000	\$4,109,699	\$4,105,589,301			
SUBTOTAL LINE 7B	\$4,109,699,000	\$4,109,699	\$4,105,589,301	\$4,109,699	\$4,105,589,301	\$4,109,699,000
ADJUSTMENT TO LINE 7B					\$156,484,637,721	

FY93	
ADJUSTMENT TO LINE 7G	\$6,850,362,780
ADJUSTMENT TO LINE 7B	\$156,484,637,721
TOTAL AMOUNT OF ERRORS	\$163,335,000,501

GRAND TOTALS FOR SF220	FY93	LINE 7B	LINE 7G
REPORTED BY DFAS	\$214,811,156,828	\$155,559,856,211	\$28,251,904,886
PLUS ADJUSTMENTS	\$163,335,000,501	\$156,484,637,721	\$6,850,362,780
CORRECTED TOTALS	\$378,146,156,329	\$312,348,493,932	\$35,702,267,666