



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

Accounting and Information
Management Division

B-274856

February 20, 1997

The Honorable John J. Hamre
The Under Secretary of Defense (Comptroller)

Dear Dr. Hamre:

We are completing our review of the accuracy and completeness of the Department of Defense's (DOD) reporting on the amount of its problem disbursements. As you know, problem disbursements are specific disbursements that have not been properly matched with corresponding obligations. Matching disbursements with obligations is an important control for ensuring that funds are used in accordance with the purposes and limitations specified by the Congress. Without such matching, there is risk that (1) fraudulent or erroneous payments may be made without being detected and (2) cumulative amounts of disbursements may exceed appropriated amounts and other legal limits. DOD has numerous important initiatives under way to resolve its long-standing problems in this area, which we support.

The Defense Finance and Accounting Service (DFAS) is responsible for producing a monthly report on the amount of problem disbursements. In turn, the data from these reports are presented to the President, Congress, DOD top managers, and others for use in monitoring DOD's progress in eliminating these problems. We are issuing this interim report because we are concerned that your December 6, 1996, memorandum, which directed that certain problem disbursements be excluded from the monthly reporting, adversely affects the reports' accuracy, completeness, and usefulness as an oversight tool. The Director, DFAS, implemented the change and excluded certain transactions from the monthly report, beginning with the November 1996 problem disbursement report. We are bringing our concerns to your attention at this time so that you may reconsider this change before DOD's Annual Report to the President and the Congress, expected to be issued in February, is finalized.

GAO/AIMD-97-36R DOD Problem Disbursements

158190

IN-TRANSITS ARE A KEY PROBLEM DISBURSEMENT CATEGORY

Prior to the November 1996 report, three categories of problem disbursements were included in the monthly reports: (1) unmatched disbursements, which are transactions that were not matched to obligations because the obligations had not been identified in the accounting records, (2) negative unliquidated obligations, which are disbursements that have been posted to specific obligations by the accounting station, but exceeded the obligations, and (3) in-transits, which are disbursements and collections that have been reported to Treasury, but have either not been received by the accounting station or have been received but not processed or posted by the accounting station. For the in-transit category, DFAS reports as problem disbursements only those (1) over 60 days old when the disbursing and accounting stations are assigned to the same DFAS Center or (2) over 120 days old made by a disbursing office assigned to one DFAS Center and accounted for by a station assigned to another DFAS Center, DOD component or Federal agency.

We fully agree with the portions of your December 6, 1996, memorandum that deal with the development of more detailed information to track in-transits, such as by type of transaction and by origination. In earlier discussions with your staff and DFAS officials, we suggested that more basic information is needed about the sources and causes of all problem disbursements. We are also in full agreement with your decision to identify a single DFAS coordinator for fixing the in-transit disbursement problem. We will continue to assess the Department's efforts as it strives to resolve this long-standing and complex problem.

Your memorandum further directs that the current reporting process be stopped and that a new methodology be developed for reporting in-transits. This is where we have concern. DFAS officials have advised us that it may be several months before a new methodology is developed and, in the interim, in-transits have already been dropped from the monthly reports, as stated above. The memorandum states that "In-transits represent a different kind of problem, and one that has been masked by grouping them in with NULOs [negative unliquidated obligations] and UMDs [unmatched disbursements]." DOD included in-transits in its problem disbursement reports in response to our recommendation in an October 1994 report,¹ and we believe that the rationale for doing so remains valid today, as discussed below.

¹Financial Management: Status of Defense Efforts to Correct Disbursement Problems (GAO/AIMD-95-7, October 5, 1994).

Prior to our 1994 report, DOD did not include disbursement transactions in its reports if matching efforts had not yet been attempted, regardless of how old the transactions were. At that time, DOD officials indicated that such transactions were excluded because data were not readily available to show how long the transactions had remained outstanding. However, in an April 21, 1994, memorandum, the DFAS Deputy Director for General Accounting required the DFAS Centers to maintain aging schedules for disbursements and stated that it should never take over 60 days for disbursement transactions to be forwarded to and received by an accounting station for matching. Following this guidance, the DFAS Centers reported that as of April 30, 1994, their records included at least \$14.8 billion of disbursements that were over 60 days old and had not yet been received by an accounting station. DOD's official response to our 1994 report, a letter dated April 17, 1995, from the Deputy Chief Financial Officer, clearly states: "The Department agrees that in-transit transactions over 60 days old are disbursing problems."

More current data indicate that this category remains a serious problem. As of May 31, 1996, DOD's reported problem disbursement balance of \$18 billion included \$7.7 billion of in-transits. According to DOD's aging information on these transactions, \$3.8 billion, or about 50 percent, were over 180 days old. Even more significantly, \$1.4 billion were originally processed before April 1, 1994, yet still remained in the "in-transit" category over 2 years later. Clearly, these are problem transactions that should be monitored, and maintaining their visibility by including them in monthly reports that are received by top DOD managers and eventually reported to the President and Congress is an important means of ensuring that they are resolved.

Thus, we are concerned that your December 6 memorandum characterizes as a "mistake" the decision made 2 years ago to report in-transits along with unmatched disbursements and negative unliquidated obligations. We do not take exception to allowing a "normal" processing time before considering an in-transit transaction a problem disbursement. DOD officials told us that DOD reluctantly accepts the current 60- and 120-day processing times due to limitations of existing systems, but that this will be addressed as part of DFAS's efforts to reengineer the disbursement and collection reporting process. However, a transaction that an accounting station has not even attempted to match with an obligation within DOD's 2- or 4-month "grace period" is clearly a problem disbursement that should be reported, researched, and resolved.

In addition, the reasons stated in your December 6 memorandum for previously including in-transits in problem disbursement reports remain valid today: "... to make sure that the Services (and DFAS, for that matter) didn't report artificial

progress in resolving NULOs and UMDs by putting them back into the processing cycle where they would show up as in-transit disbursements. I felt by reporting all three together I would keep the pressure on everyone to get at the underlying problems." The possibility of "recycling" transactions to the in-transit category is again a concern now that in-transits have been dropped from DFAS's monthly reports as directed by your memorandum.

Moreover, eliminating the in-transit category from the problem disbursement report removes from scrutiny not only those in-transits that DOD had been reporting on, but also the additional transactions that we found as part of our ongoing work. As early as September 1996, we had briefed DOD officials on our preliminary results of testing the May 31, 1996, reported problem disbursement balance. These results showed that the \$18 billion total was understated by at least \$25 billion, most of which related to in-transits.

CONCLUSIONS

An important step towards effective resolution of DOD's problem disbursements is accurate and complete information on the scope and magnitude of the problem. An accurate benchmark of the amount of problem disbursements is necessary to ensure that visibility over this issue is maintained and that DOD managers as well as the President and the Congress have the complete and consistent information necessary to monitor the Department's progress in resolving its problems over time.

RECOMMENDATIONS

We recommend that you (1) direct the Director, Defense Finance and Accounting Service, to report in-transit transactions, in accordance with the Department's 60- and 120-day criteria, along with unmatched disbursements and negative unliquidated obligations in the monthly problem disbursement reports and (2) ensure that in-transits are included as problem disbursements in all external reporting, including DOD's annual report to the President and the Congress.

AGENCY COMMENTS AND OUR EVALUATION

In written comments on a draft of this letter (see enclosure), the Department of Defense partially concurred with our recommendations. DOD agreed to continue reporting in-transits with unmatched disbursements and negative unliquidated obligations in external communications. DOD did not agree to reestablish the reporting of in-transits along with unmatched disbursements and negative unliquidated obligations in its monthly problem disbursement reports. DOD

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contended that the visibility of in-transit problem disbursements would not be lost because DFAS continues to prepare separate monthly reports on in-transit disbursements for internal management review and analysis.

We reaffirm our position that DOD needs to consistently and completely report the Department's problem disbursements regardless of the type. Because the monthly internal reports serve as the basis for external reporting on problem disbursement issues, the intent of our recommendation was to ensure that the monthly reports are as complete and accurate as possible. Our primary concern is that the President, the Congress, and other interested decisionmakers continue to have a complete picture of the Department's problem disbursements, including over-aged in-transits, to ensure that focus is maintained on resolving these problems. As long as DOD's monthly reporting mechanism provides accurate and consistent information on all types of problem disbursements, we would consider DOD's actions responsive to our recommendation.

This report contains recommendations to you. Within 60 days of the date of this letter, we would appreciate receiving your written statement on actions taken to address these recommendations.

We are sending copies of this letter to the Chairmen and Ranking Minority Members of the Senate Committee on Armed Services, the House Committee on National Security, the Senate Committee on Governmental Affairs, the House Committee on Government Reform and Oversight, and the Director of the Office of Management of Budget. We are also sending a copy to the Secretary of Defense. Copies will also be made available to others upon request.

Please contact me at (202) 512-9095 if you or your staff have any questions. David Childress, Miguel Castillo, and Cecelia Ball were major contributors to this letter.

Sincerely yours,



Lisa G. Jacobson
Director, Defense Financial Audits

Enclosure

COMMENTS FROM THE DEPARTMENT OF DEFENSE

COMPTROLLER

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



FEB 18 1997

Mr. Gene L. Dodaro
Assistant Comptroller General
Accounting and Information Management Division
U. S. General Accounting Office
Washington, DC 20548

Dear Mr. Dodaro:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "FINANCIAL MANAGEMENT: DoD Problem Disbursement Reporting," dated January 24, 1997 (GAO Code 918861/OSD Case 1285).

The Department disagrees with the GAO's proposed recommendations to reestablish the reporting of in-transit disbursements and ensure that these transactions are included as problem disbursements in DoD's Annual Report to the President and the Congress. The rationale, included in my memorandum of December 6, 1996, on this subject, remains valid. Unmatched disbursements (UMDs) and negative unliquidated obligations (NULOs) are transactions that fundamentally are different from in-transit disbursements. Usually unmatched and NULO transactions can be identified specifically to a contract or even posted in an accounting system. In-transits usually lack specific identification to other than an appropriation and maybe an accounting station, but neither have been received nor processed and posted by an accounting station. Therefore, the Department needs to collect data separately for those transactions so that we can better define the underlying causes and develop potential solutions.

The in-transit disbursement process needs a business process reengineering (BPR) evaluation to minimize these transactions. Such an evaluation is in process. One BPR initiative involves providing access to the Financial Reporting System at the activities that process significant disbursements on behalf of the Navy. Another more comprehensive BPR initiative involves developing a data warehouse to collect disbursements that an accounting station can identify and post.

I have directed the Director of the Defense Finance and Accounting Service (DFAS) to stop aggregating in-transit disbursements with NULOs and UMDs and to develop a new methodology for reporting in-transits. In the meantime, the DFAS continues to prepare monthly reports on in-transit disbursements for internal management review and analysis. The Department will provide the GAO and the Congress copies of that report. Until I can approve a new methodology for tracking in-transit disbursements, the current internal reporting will remain in place and, therefore, the Department has not lost visibility over in-transit disbursements.

We will continue to report in-transits along with the problem disbursements in external communications.

Sincerely,

John J. Hamre

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