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Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**FINANCING COMPUTER SYSTEMS AND OTHER
EQUIPMENT AT THE DEFENSE CONTRACT
MANAGEMENT COMMAND**

Report No. 97-163

June 16, 1997

Department of Defense

AQI00-01-0215

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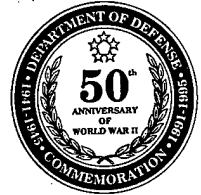
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Acronyms

DBOF	Defense Business Operations Fund
DCMC	Defense Contract Management Command
DCMD	Defense Contract Management District
DLA	Defense Logistics Agency
LAN	Local Area Network
MIPR	Military Interdepartmental Purchase Request
O&M	Operation and Maintenance



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884



June 16, 1997

**MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY
COMMANDER, DEFENSE CONTRACT MANAGEMENT
COMMAND**

**SUBJECT: Audit Report on Financing Computer Systems and Other Equipment at the
Defense Contract Management Command (Report No. 97-163)**

We are providing this audit report for review and comment. This report is one in a series of reports on our assessment of internal controls and the compliance of the Defense Logistics Agency and the Defense Finance and Accounting Service with laws and regulations relating to financial management at the Defense Logistics Agency (Project No. 6LA-2005). We have issued final reports on the Defense Logistics Agency general fund trial balance, the general fund equipment account, the preparation of the general fund financial statements, and the Defense Contract Management Command capitalization of fixed assets. Management comments on a draft of this report were considered in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Director, Defense Logistics Agency either concurred or partially concurred with all recommendations. We request that the Defense Logistics Agency provide an update on the ongoing review in its comments on the final report by August 15, 1997; and provide a statement of corrective action when the review is completed.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Garry A. Hopper, Acting Audit Program Director at (703) 604-9612 (DSN 664-9612) or Mr. Gerald L. Werking, Acting Audit Project Manager at (703) 604-9536 (DSN 664-9536). See Appendix D for the report distribution. The audit team members are listed on the inside back cover.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 97-163
(Project No. 6LA-2005.04)

June 16, 1997

Financing Computer Systems and Other Equipment at the Defense Contract Management Command

Executive Summary

Introduction. This report is one in a series of reports on our assessment of the internal controls and the compliance of the Defense Logistics Agency (DLA) and the Defense Finance and Accounting Service with laws and regulations relating to financial management at DLA (Project No. 6LA-2005). We have issued four final reports, a report on the DLA general fund trial balance at September 30, 1995; a report on the DLA general fund equipment account; a report on the preparation of the general fund financial statements; and a report on the Defense Contract Management Command capitalization of fixed assets.

We evaluated the accounting and funds controls over fixed assets, relating to acquisition, at the Defense Contract Management Command. The custodial records reported approximately \$48 million of total property in FY 1996. The Defense Contract Management Command is a major business element of DLA and is funded with appropriated funds. This report discusses potential Antideficiency Act violations occurring within the Operation and Maintenance appropriation.

Audit Objectives. The audit objective was to determine whether DLA had implemented effective management control procedures and complied with laws and regulations in accounting for and reporting on certain accounting transactions. Specifically, we evaluated the accounting and funds controls over the acquisition of fixed assets.

Audit Results. The Defense Contract Management Command used approximately \$8.5 million of appropriated Operation and Maintenance funds, rather than appropriated Procurement funds, to acquire fixed assets from FY 1989 through FY 1996. As a result, Antideficiency Act violations may have occurred.

Summary of Recommendations. We recommend that the Director, DLA, make necessary accounting adjustments and investigate and report on potential Antideficiency Act violations. Also, we recommend that the Director, DLA, and the Commander, Defense Contract Management Command, establish management controls to ensure the use of appropriated funds are consistent with the authorized purpose of the appropriation.

Management Comments. The DLA agreed to establish management controls to ensure funds are used for the purpose for which they were appropriated. The expected completion date is February 28, 1998. It partially concurred with the recommendations to make necessary accounting adjustments and investigate potential Antideficiency Act violations. It stated that it had begun a preliminary review of a potential Antideficiency Act violation, in accordance with chapter 3, volume 14, DoD Financial Management Regulation. If after completion of the preliminary review there exists evidence of a

violation, it will undertake a formal investigation and report. The expected completion date is February 28, 1998. See Part I for a summary of management comments and Part III for the complete text of management comments.

Audit Response. The DLA comments were responsive. DLA has not completed its review to determine whether a potential Antideficiency Act violation exists. We request that DLA provide an update on the ongoing review in its comments on the final report by August 15, 1997. To obviate the need for a separate followup inquiry, we also request that DLA provide the results of the review and any related actions when the review is completed.

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Part I - Audit Results

Audit Background

The Chief Financial Officers Act of 1990; Public Law 101-576; and United States Code, title 31, sections 3515 and 3521 (31 U.S.C. 3515 and 3521), require audits of financial statements of Defense agencies. They require Government agencies, including DoD, to prepare annual financial statements. Further, the laws require the financial statements to be audited in accordance with generally accepted government auditing standards.

Defense Logistics Agency General Fund. The Defense Logistics Agency (DLA) General Fund appropriations for FY 1996 consist of Military Construction; Operation and Maintenance (O&M); Procurement, Defense-wide; and Research, Development, Test, and Evaluation. In addition, DLA maintains a revolving fund, the Defense Business Operations Fund (DBOF). The General Fund appropriations are used mainly to support the Defense Contract Management Command (DCMC) and its field activities, primarily the Defense Contract Management Districts (DCMD) East, International, and West. The DCMC provides worldwide contract administration services in support of DoD Components, other Federal agencies, and international organizations.

Guidance Contained in United States Code. The 31 U.S.C. 1301, commonly called the "purpose statute," prohibits an agency from using appropriations for other than the intended purpose. The statute prohibits funds appropriated for one purpose to be used for other purposes. For example, appropriated O&M funds cannot be used to acquire investment items that require the use of appropriated Procurement funds.

Antideficiency Act. The Antideficiency Act was codified into 31 U.S.C., and its provisions were incorporated into a number of sections of that title. The sections of the public law in title 31 (listed below) are still referred to collectively as the Antideficiency Act in regular usage and in this report.

Limitation of Funds. The 31 U.S.C. 1341(a), "Limitation on Expending and Obligating Amounts," prohibits an officer or employee of the Federal Government from making or authorizing an expenditure or obligation exceeding an amount available in an appropriation or fund. Exceeding an apportionment limitation of the funds administratively imposed on a DoD Component may also constitute a violation of the Antideficiency Act under 31 U.S.C. 1517(a).

Reporting Antideficiency Act Violations. The 31 U.S.C. 1351, requires the head of an agency to report violations of section 1341(a). A similar reporting requirement exists for violations of section 1517(a). In either case, the agency must report all relevant facts and a statement of actions taken to the President and to the U.S. Congress.

Implementation of Antideficiency Act. The 31 U.S.C. 1514(a), requires agency heads to establish systems of administrative control to implement the Antideficiency Act.

Guidance Requested from the Office of the Secretary of Defense. Inspector General, DoD, Report No. 97-078, "Report on Potential Antideficiency Act Violations at the Department of Defense Education Activity," January 23, 1997, recommended formulation of specific policy guidance from OSD on financing the acquisition of automatic data processing equipment (see page 9 for a full discussion).

Audit Objectives

The audit objective was to determine whether the DLA had implemented effective management control procedures and complied with laws and regulations in accounting for and reporting on certain accounting transactions. Specifically, we evaluated the accounting and funds controls over the acquisition of fixed assets. Appendix A discusses the scope and methodology. Appendix B provides a summary of prior coverage related to the audit objectives.

Fixed Asset Acquisition

The DCMC used approximately \$8.5 million of appropriated Operation and Maintenance funds, rather than the required appropriated Procurement funds, to acquire fixed assets. Appropriated Operation and Maintenance funds rather than appropriated Procurement funds were used because management controls were inadequate to ensure that the appropriation was used only for its intended purpose. As a result, potential Antideficiency Act violations may have occurred.

Guidance on Fixed Asset Acquisition

Government-wide Guidance. Office of Management and Budget Circular No. A-11, part 3, "Planning, Budgeting, and Acquisition of Fixed Assets," July 16, 1996, reaffirms the Administration's full funding policy, provides additional guidance on fixed assets, and requires agencies to submit information on fixed assets with their budget submissions. The Circular defines full funding as meaning that the full amount of budget authority is available before initiating or signing any contract to acquire the asset or any economically and programmatically separable segment (or module) of the asset. This requires that appropriations for the full costs of asset acquisition be provided up front to help ensure that all costs and benefits are fully taken into account when decisions are made about providing resources, rather than funding in increments without certainty that future funding will be available.

DoD Financial Management Regulation. DoD Regulation 7000.14-R, "DoD Financial Management Regulation," (DoD Financial Regulation) volume 2A, chapter 1, "Funding Policies," May 1994, provides policies and guidance on the use of appropriated O&M and appropriated Procurement funds. Appropriated O&M funds are generally used for operating expenses, although they may also be used for military construction and the acquisition of investment items below certain dollar thresholds. Chapter 1, section 010201 C.1, provides that appropriated O&M funds are used to finance the cost of resources consumed in operating and maintaining DoD, including the cost of personnel services, supplies, and utilities. Chapter 1, section 010201 C.2, provides that appropriated Procurement funds are used when the acquisition cost of a fixed asset of DoD, such as real property and equipment, equals or exceeds the congressionally established expense and investment thresholds, and the fixed asset has a useful life of at least 2 years. Chapter 1, section 010201 C.2, also states that the acquisition cost of a fixed asset includes the cost of the item, labor, and incidental material required to install it. When applying the dollar threshold, the acquisition of the fixed asset may not be fragmented, or acquired in a piecemeal fashion, so as to circumvent the expense and investment policy. This requirement is reiterated in the new Office of Management and Budget Circular No. A-11.

Expense and Investment Threshold. Each year Congress specifies the expense and investment threshold requiring the use of appropriated Procurement funds. Pertinent thresholds were \$5,000 before FY 1992; \$15,000 for FYs 1992 and 1993; \$25,000 for FY 1994; \$50,000 for FY 1995; and \$100,000 for FY 1996.

Replacement Equipment. The DoD Financial Regulation, volume 2A, chapter 1, section 010201 D.2, provides special guidance concerning procurement of replacement general purpose communications and automatic data processing equipment. The guidance states that upgrades to an existing system involving multiple equipment component changes to improve system performance will be treated as new equipment procurement in determining the applicability of the expense and investment criteria.

Antideficiency Act Violations. The DoD Financial Regulation, volume 14, "Administrative Control of Funds and Antideficiency Act Violations," August 1995, provides guidance on violations of the Antideficiency Act. The DoD Financial Regulation provides guidance on the type of funds that should be used to finance the operation and maintenance of an agency and the acquisition of fixed assets. If improper funds are used for an acquisition and corrective action is not possible, then an Antideficiency Act violation may occur. The DoD Financial Regulation provides:

A DoD activity used operation and maintenance funds, rather than other procurement funds to purchase a data processing local area network (LAN). Even though the hardware components and LAN operating system software were purchased separately, the components and the software together constituted a system with an aggregate cost in excess of the expense/investment threshold specified by the Congress for the required use of procurement appropriation funds. A violation of Title 31, United States Code, section 1517, occurred because the DoD activity did not have the required amount of other procurement funds at the time of purchase.

Use of Appropriated O&M Funds to Acquire Fixed Assets

The DCMC used about \$8.5 million of appropriated O&M funds, rather than appropriated Procurement funds, to acquire fixed assets. DCMC may have violated the Antideficiency Act because individual procurement actions were in support of a system configuration and exceeded the expense and investment threshold that Congress specified. Although various DBOF accounting subheads were cited, appropriated O&M funds were used to reimburse the DBOF for the asset purchases. The following table shows the fiscal year and dollar value by each DCMC organization, citing appropriated O&M funds, and by the DLA Contracting Office, citing DBOF funds.

Fixed Asset Acquisition

Fixed Asset Acquisitions by Fiscal Year (\$ in thousands)					
<u>FY</u>	<u>East</u> ¹	<u>West</u> ²	<u>Int'l</u> ³	<u>DLA</u> ⁴	<u>Total Funds</u>
1989	\$ 102.0				\$ 102.0
1990		\$ 88.4			88.4
1991	17.6				17.6
1992	24.8			\$1,196.5	1,221.3
1993	177.8		\$50.9	458.1	686.8
1994	530.4				530.4
1995	1,017.7			2,197.9	3,215.6
1996				<u>2,655.1</u>	<u>2,655.1</u>
Total	<u>\$1,870.3</u>	<u>\$88.4</u>	<u>\$50.9</u>	<u>\$6,507.6</u>	<u>\$8,517.2</u>

¹East - DCMD-East cited appropriated O&M funds.
²West - DCMD-West cited appropriated O&M funds.
³Int'l - DCMD-International cited appropriated O&M funds.
⁴DLA - DLA cited DBOF funds.

Fixed Assets. The DCMC issued 31 delivery orders and 3 military interdepartmental purchase requests (MIPR) from FY 1989 through FY 1996 authorizing the use of appropriated O&M funds rather than appropriated Procurement funds. DoD Financial Regulation requires that appropriated Procurement funds be used when the acquisition cost of a fixed asset, such as equipment, exceed the congressionally established expense and investment threshold and has a useful life of 2 years. Although the items purchased under the 31 delivery orders and 3 MIPRs met the criteria of a fixed asset, appropriated O&M funds were used for the purchase. Specifically, 10 delivery orders were issued for individual computer components in support of the LAN and the wide area network computer systems, 10 delivery orders and 1 MIPR were issued for assets in support of other systems, 3 delivery orders were issued for stand-alone assets, and 8 delivery orders and 2 MIPRs were issued for the Standard Procurement System in FY 1996. All assets met the criteria for fixed assets and exceeded the expense and investment threshold that Congress specified.

Computer Components in Support of LAN and Wide Area Networks. A total of 10 delivery orders were issued for computers and computer components, including communication servers; replacement personal computers; printers; and multiplex equipment, for contract administrators to access the LAN and wide area network systems. The DoD Financial Regulation used the purchase of a LAN operating system as an example of a purchase requiring the use of appropriated Procurement funds. Further, the DCMC Information Resource Management Plan states various initiatives that employ information resources to meet the DCMC mission objectives. The initiatives outline the procurement of computer systems and not individual pieces of computer equipment for the contract administrators to access the LAN and wide area network systems. When implemented, the initiatives will provide contract

administrators with the computers, workstation configuration, network access, and telecommunications needed to perform contract administration services. Network users require compatible, networking solutions that include 28.8 kilobits per second lines, improved communication servers for LAN and wide area network access, and network management tools that can measure network performance.

Computer Communications Servers. The DLA Contracting Office issued 6 delivery orders for 265 communications servers valued at approximately \$2.4 million to be delivered to DCMC organizations. DCMD-East and DCMD-West officials indicated that the servers were new rather than replacement equipment. Appropriated Procurement funds were required for the communication servers because the servers met the criteria for a fixed asset and function only within a computer system. Of the six delivery orders, three, valued at \$1.7 million, gave DBOF fund citations.

Personal Computers. The DLA Contracting Office issued a delivery order citing DBOF funds for 1,028 personal computers, valued at approximately \$2.2 million. DCMD-West officials stated that the personal computers with Pentium chips, were replacement equipment for older 286 and 386 computers. However, the DoD Financial Regulation states that appropriated Procurement funds are required for replacement equipment that upgrades the existing system to improve system performance.

Computer Printers DCMD-East. The DCMD-East issued two delivery orders for laser printers authorizing appropriated O&M funds. Specifically, a delivery order was issued for one laser printer in FY 1993 for \$30,450 that met the criteria for a fixed asset and exceeded the \$15,000 expense and investment threshold. Another delivery order was issued for six printers in FY 1989, valued at \$101,970 (\$16,995 each) that met the criteria for a fixed asset. Appropriated Procurement funds were required for the printers because the printers functioned within a computer system and each printer exceeded the \$5,000 expense and investment threshold.

Multiplex Equipment at DCMD-West. In FY 1990, the DCMD-West issued a delivery order for time-division multiplexing equipment valued at \$88,372. Appropriated Procurement funds were required because the equipment exceeded the expense and investment threshold of \$5,000. Further, the use of appropriated O&M funds and appropriated Procurement funds for the same assets were inconsistent because time-division multiplexing equipment purchased in FY 1989 cited appropriated Procurement funds.

Assets in Support of Other Systems. A total of 10 delivery orders and 1 MIPR were issued for assets in support of other systems that met the criteria for a fixed asset. The orders also exceeded the expense and investment threshold that Congress specified. The orders were for systems and not individual pieces of equipment.

Telephone, Security, Workstation, and Satellite Systems. The DCMD-East issued four delivery orders in FY 1995 to convert a primary computer facility into administrative office space for the Defense Contract

Fixed Asset Acquisition

Management Area Operations Cleveland. The DCMD-East issued one order to purchase a telephone system for \$102,376, one order to purchase a security system for \$221,436, and two orders to purchase system furniture workstations and design services for \$511,807. Those systems purchases met the criteria for a fixed asset and exceeded the \$50,000 expense and investment threshold, which required appropriated Procurement funds. In FY 1991, DCMD-East also issued a delivery order for a satellite system for \$17,550 that exceeded the \$5,000 expense and investment threshold.

Video and Audio-Visual Systems. The DCMD-East issued five delivery orders that exceeded the FY 1993 expense and investment threshold. Specifically, DCMD-East issued two delivery orders for a video data system for \$16,256, two delivery orders for a video editing system for \$40,187, and a delivery order for a video system valued at \$24,791. In FY 1993, the DCMD-International issued one MIPR to acquire an audio-visual system for \$50,872 that exceeded the \$15,000 expense and investment threshold.

Stand-Alone Equipment. The DCMD-East issued three delivery orders authorizing appropriated O&M funds for equipment that met the criteria for a fixed asset and the acquisition cost exceeded the threshold in the year acquired. For example, in FY 1992, DCMD-East purchased a fork lift truck for \$24,800. In FY 1993, DCMD-East purchased a fork lift truck and a digital color copier for \$24,900 and \$41,200, respectively. The purchase exceeded the \$15,000 expense and investment threshold for both FYs 1992 and 1993.

As a result of this audit, the DCMD-East acknowledged that it inappropriately used appropriated O&M funds. DCMD-East requested revisions to its annual operating budget for FYs 1993 and 1994 to increase appropriated Procurement funding and to decrease the appropriated O&M funding for the fixed assets procured in FYs 1993 and 1994 by \$208,958 and \$25,170, respectively.

Standard Procurement System. In FY 1996, the DCMC obligated \$48.1 million of appropriated O&M funds and \$3.8 million of appropriated Procurement funds for the Standard Procurement System. The DCMC Information Resource Management Plan states that the Standard Procurement System is a DoD-wide automated information service that, when completed, will incorporate all aspects of procurement and contract administration. In FY 1996, the DCMC also authorized appropriated O&M funds rather than appropriated Procurement funds to purchase \$2.7 million of components for the Standard Procurement System, which met the criteria for a fixed asset.

The DCMC issued eight orders and 2 MIPRs for the Standard Procurement System citing \$2.7 million of appropriated O&M funds. Of the eight delivery orders, one was for a super-mini computer, hubs, router, and communication components valued at \$262,813. Another delivery order was for personal computers valued at \$195,300. In addition, six delivery orders were for servers valued at \$971,150. Further, DCMC issued the MIPRs to the General Services Administration for the purchase of hardware for an imaging project, valued at \$1,225,890. Although DCMC cited appropriated O&M funds, the procurements exceeded the \$100,000 expense and investment threshold that Congress specified as requiring appropriated Procurement funds.

Adequacy of Management Controls

The DoD Financial Regulation requires DoD officials to whom funds are entrusted or issued, to maintain management control systems to ensure that all proposed obligations of funds are reviewed. The review is to ensure that the purpose of the obligation is consistent with the authorized purposes of the fund or account. The procurement of fixed assets with appropriated O&M funds was not consistent with the purpose of the O&M appropriation.

Inspector General, DoD, Report No. 97-078, reported a similar problem. The report stated that the Department of Defense Education Activity used appropriated O&M funds for other than their intended purpose. The appropriated O&M funds were used because the Domestic Dependent Elementary and Secondary Schools and the Department of Defense Dependents Schools misclassified computer equipment as stand-alone components. The report recommended that the Under Secretary of Defense (Comptroller) and the Deputy Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) jointly study and provide specific guidance on the definition, acquisition, and appropriate funding for automated data processing equipment including LANs within DoD. Management comments on the recommendation should provide DoD-wide guidance on this issue.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Director, Defense Logistics Agency:

a. Make the necessary accounting adjustments to deobligate \$8,517,075 of Operation and Maintenance funds, as listed in Appendix C; and obligate \$8,517,075 of Procurement funds.

b. Investigate and report on potential Antideficiency Act violations if sufficient funds are not available in the FY 1989 through FY 1996 Procurement account to fund the obligations.

Management Comments. The DLA partially concurred with the recommendations stating, "We will make the accounting adjustments which the results of the actions associated with Recommendation 1.b. indicate are appropriate. We have begun a preliminary review of a potential Antideficiency Act violation, in accordance with Chapter 3, Volume 14, DoD Financial Management Regulation. An extensive amount of additional information must still be gathered and analyzed. If after completion of the preliminary review there exists evidence of a violation, we will undertake a formal investigation and report."

Fixed Asset Acquisition

Audit Response. The DLA comments are responsive. We request that DLA provide an update on the ongoing review in response to this final report. We also request that DLA provide the results of the review and describe any related action when the review is completed.

2. We recommend that the Director, Defense Logistics Agency, and the Commander, Defense Contract Management Command, establish management controls to ensure that the use of appropriated funds are consistent with the authorized purpose of the appropriation.

Management Comments. The DLA concurred, stating that management controls will be established to ensure funds are used for the purpose for which they were appropriated. The estimated completion date is February 28, 1998.

Part II - Additional Information

Appendix A. Audit Process

Scope and Methodology

We reviewed FY 1996 custodial records reflecting approximately \$48 million of total property for DCMC. We compared the custodial records to the expense and investment dollar threshold for the year purchased to determine whether the value of the property recorded on the custodial records equaled or exceeded the threshold. We judgmentally selected and reviewed delivery orders of property from FY 1989 through FY 1995, valued at approximately \$6 million. We also reviewed orders obligated in FY 1996, valued at approximately \$2.7 million, for the Standard Procurement System. We interviewed operating personnel about the acquisition of fixed assets.

Use of Computer-Processed Data. To achieve the audit objective, we used computer-processed data contained in the DCMD property accountability databases. The data were generally reliable. We used the data for comparison, sampling selection, and informational purposes only. We did not use statistical sampling procedures to conduct this audit.

Use of Legal Assistance. Personnel from our Office of the Deputy General Counsel reviewed the report.

Audit Period and Standards. We performed this financial related audit from January through October 1996. The audit was performed in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD. Further details are available on request.

Appendix B. Summary of Prior Audits and Other Reviews

During the last 5 years, the Office of the Inspector General, DoD, issued reports on DLA and DCMC that may affect how financial data are collected, analyzed, and reported for the DLA General Fund.

Inspector General, DoD

Inspector General, DoD, Report No. 97-107, "Defense Contract Management Command Capitalization of Fixed Assets," March 10, 1997. The report stated that the DCMC did not capitalize fixed assets. Specifically, computer systems valued at \$5.5 million and other systems valued at \$0.8 million were not recorded in the general ledger Fixed Assets accounts. The report recommended that the DCMC establish appropriate accounting controls to ensure that equipment procurements are analyzed to determine whether the procurement meets the capitalization criteria before entering data into the accounting system. The report also recommended that DCMD record the computer systems and other systems in the general ledger account. The DLA agreed to establish accounting controls to ensure that equipment acquisitions are analyzed to determine whether the capitalization criteria is met before the transaction is entered into the accounting system. It also partially concurred with the recommendation to record computer systems and other systems in the fixed assets general ledger account. It further stated that the results of its analysis indicate that the equipment financed with procurement funds met the capitalization criteria. Therefore, it will capitalize those assets.

Inspector General, DoD, Report No. 97-073, "Reliability of the FY 1995 Financial Statements for the Defense Logistics Agency General Fund," January 15, 1997. The report stated that the Defense Finance and Accounting Service (DFAS)-Columbus Center did not prepare reliable FY 1995 financial statements for three DLA General Fund appropriations. Specifically, supporting notes to the financial statements did not provide full disclosure for one asset account, three account balances were questionable, and four account balances contained recording errors. The report recommended that the DFAS-Columbus Center disclose material differences between the summary disbursement and collection reports to the Treasury, use general ledger accounts as data sources for annual financial statements and fully and clearly disclose adjustments to the account balances, and perform quality control reviews of the annual financial statements. DFAS concurred with all recommendations and stated that General Ledger account balances will be used to prepare the annual financial statements. The DFAS-Columbus Center will establish procedures to ensure that adjustments made from the reconciliation process are disclosed in the footnotes to the annual financial statements. DFAS further stated that the completed financial statements would be selected randomly for detailed reviews.

Appendix B. Summary of Prior Audits and Other Reviews

Inspector General, DoD, Report No. 97-039, "Defense Logistics Agency General Fund Equipment Account," December 5, 1996. The report stated that the DFAS-Columbus Center erroneously reported the DLA General Fund equipment account on the FY 1995 adjusted trial balances. Also, neither the DFAS-Columbus Center nor DLA performed periodic comparisons of the DLA General Fund Equipment account with custodial records. The report recommended that the DFAS-Columbus Center adjust the DLA General Fund account balance to delete DBOF equipment accounts. The report further recommended that DFAS-Columbus Center and DLA provide equipment account balances to general fund organizations for annual reconciliations with actual custodial records. DFAS concurred with the recommendations stating that records in the Defense Property Accounting System were used to validate accounting records to equipment on hand per the organizations' custodial equipment records. DFAS also stated that it will provide the general fund organizations copies of the account balances annually. In addition, DLA concurred with the recommendation and gave the estimated completion date; however, it did not state the planned action to be taken. The final report requested DLA to provide additional comments on its planned action.

Inspector General, DoD, Report No. 97-024, "General Fund Trial Balance of the Defense Logistics Agency at September 30, 1995," November 15, 1996. The report stated that the DFAS-Columbus Center did not reconcile the DLA General Ledger accounts before preparing and certifying the FY 1995 DLA trial balance. The DFAS-Columbus Center accounting system did not readily permit identification of imbalances. In addition, the DFAS-Columbus Center accounting system did not provide an adequate audit trail to identify the cause of and to correct the imbalance. The report recommended that the DFAS-Columbus Center accelerate the schedule for implementing accounting system changes needed to readily identify and correct account imbalances and perform needed reconciliations to ensure that DLA FY 1996 financial statements would be more reliable. DFAS concurred with the recommendations, stating that software would be installed to implement the DoD Standard General Ledger and allow segregation of proprietary accounts. The final report requested DFAS to provide clarification regarding the specific actions to identify and correct imbalances.

Inspector General, DoD, Report No. 93-174, "The Internal Management Control Program at the Defense Contract Management Command," September 30, 1993. The report stated that 23 DCMC districts and field offices did not adequately implement the Internal Management Control program. Also, the DCMC did not have a system to track costs for internal control functions, such as risk assessments and control reviews. Of the risk assessments, 36 percent were not properly completed; and 89 percent of the internal management control reviews were either not performed, not adequate, or not documented. The automated and manual risk assessment questionnaires for measuring vulnerability were inadequate and ineffective. The report made no recommendations because the DCMC took corrective action during the audit.

Appendix C. Appropriations Used to Acquire Fixed Assets

Contract/Delivery Order Number	Appropriation	Date of Order	Subhead/Limit	Fixed Assets	Amount
DBOF: ⁴					
DAH94-90-D-0012/YKCR	97X4930	Sep. 28, 1992	5CAO.040	Servers	\$1,196,477
DAH94-90-D-0012/YKGY	97X4930	Apr. 15, 1993	5CAO.040	Servers	408,330
DAH94-90-D-0012/YKHU	97X4930	Sep. 14, 1993	5CAO.040	Servers	49,768
DAH94-95-D-0006/YK08	97X4930	Aug. 30, 1995	5CAO.009	Personal computers	2,197,864
F19630-93-D-0001/VC2F	97X4930	Mar. 22, 1996	5CAO.009	Supermini computer	262,813
GS09K-96BHC-0084/0912-96-605502	97X4930	Jun. 11, 1996	5CAO.009	Servers	687,128
F34608-94-D-0011/YK15	97X4930	Jul. 30, 1996	5CAO.009	Servers	152,743
AQ6H2A2MPAP592 ⁵	97X4930	Sep. 18, 1996	5CAO.009	Imaging equipment	1,143,390
DAH94-95-D-0005/YK39	97X4930	Sep. 18, 1996	5CAO.009	Personal computer	195,300
GS-35F-3013D/					
S0506A-96-F-5020	97X4930	Sep. 25, 1996	5CAO.009	Servers	55,338
AQ6H2A2MPAP592-01	97X4930	Sep. 27, 1996	5CAO.009	Imaging equipment	82,500
GS-35F-4036D/					
S0506A-96-F-5024	97X4930	Sep. 28, 1996	5CAO.009	Servers	30,174
GS-35F-3114D/					
S0506A-96-F-5035	97X4930	Sep. 30, 1996	5CAO.009	Servers	6,584
GS-35F-4131D/					
S0506A-96-F-5037	97X4930	Sep. 30, 1996	5CAO.009	Servers	39,183
Subtotal DBOF					\$6,507,592
Total					\$8,517,075

¹The accounting classification identifies who is responsible for using the funds and the type of funds. For example appropriations 9790100 and 97X4930: The first two digits indicate the bureau/department Number (97-Defense Agencies). The next digit "9" and "X" indicate the fiscal year and period of availability of the appropriation, respectively (1989 and that the funds do not expire, that is, DBOF). The last four digits of the appropriation indicates the type of funds. For example, 0100 indicates O&M funds and 4930 indicates funds within the DBOF.

²The subhead/limit identifies the funding activity. For example, 5149 represents the DLA Administrative Support Center funds, 5163 represents DCMD-East funds, 5169 represents DCMD-West funds, 5107 represents DCMC International Office funds, and 5CAO.040 and 5CAO.009 represents the DLA Administrative Support Center funds within the DBOF supply business area.

³A MIPR for the DLA Defense Electronic Supply Center to procure computer equipment for DCMC International Office. The purchase order was not obtained.

⁴DCMC reimbursed the DBOF with O&M funds.

⁵A MIPR to General Services Administration, Federal System Integration and Management Center, Federal System Acquisition Center.

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense for Policy
Under Secretary of Defense (Comptroller) and Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Director for Accounting Policy
Director, Administration and Management
Assistant Secretary of Defense (Public Affairs)

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy
Superintendent, Naval Postgraduate School

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service

Appendix D. Report Distribution

Other Defense Organizations (cont'd)

Director, Defense Finance and Accounting Service-Columbus Center
Director, Defense Logistics Agency
Commander, Defense Contract Management Command
Commander, Defense Contract Management District-International Office
Commander, Defense Contract Management District-East
Commander, Defense Contract Management District-West
Director, National Security Agency
Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency
Inspector General National Imagery and Mapping Agency

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
General Accounting Office
National Security and International Affairs Division
Technical Information Center
Inspector General, Department of Education

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight
House Subcommittee on Government Management Information and Technology, Committee on Government Reform and Oversight
House Committee on National Security

Part III - Management Comments

Defense Logistics Agency Comments



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD, SUITE 2533
FT. BELVOIR, VIRGINIA 22060-6221

IN REPLY
REFER TO

DDAI

12 2 MAY 1997

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING,
DEPARTMENT OF DEFENSE

SUBJECT: Financing Computer Systems and Other Equipment at the Defense Contract
Management Command, Project No. 6LA-2005.04

Enclosed is our response to your request of 3 March 1997. Should you have any
questions, please contact Mrs. LaVaeda Coulter, (703) 767-6261.


JEFFREY GOLDSTEIN
Acting Chief, Internal Review

Subject: Financing Computer Systems and Other Equipment at the Defense Contract Management Command, 6LA-2005.04

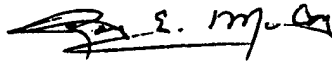
Finding: Fixed Asset Acquisition. The DCMC used approximately \$8.5 million of appropriated Operation and Maintenance funds, rather than the required appropriated Procurement funds, to acquire fixed assets. Appropriated Operation and Maintenance funds rather than appropriated Procurement funds were used because management controls were inadequate to ensure that the appropriation was used only for its intended purpose. As a result, potential Antideficiency Act violations may have occurred.

DLA Comments: Partially concur. Our specific comments are provided under the context of the recommendations.

Internal Management Control Weakness: Partially concur; weakness may be reported in the DLA Annual Statement of Assurance.

Action Officer: Richard Sninsky, FOXS
Review/Approval: B.A. Blackman, FOX
Coordination: LaVaeda Coulter, DDAI, 767-6261

DLA Approval: *Oliver Coulter 20 MAY 97*



RAY E. MCCOY
Major General, USA
Principal Deputy Director

Defense Logistics Agency Comments

Subject: Financing Computer Systems and Other Equipment at the Defense Contract Management Command, 6LA-2005.04

Recommendation 1.a: Recommend that the Director, Defense Logistics Agency make the necessary accounting adjustments to deobligate \$8,517,075 of Operation and Maintenance funds, as listed in Appendix C; and obligate \$8,517,075 of Procurement funds.

DLA Comments: Partially concur. We will make the accounting adjustments which the results of the actions associated with Recommendation 1.b. indicate are appropriate.

Disposition: Action is on going. ECD: 28 February 1998

Action Officer: Richard Sninsky, FOXS
Review/Approval: B.A. Blackman, FOX
Coordination: LaVaeda Coulter, DDAI, 767-6261

DLA Approval:

Albert E. Coleman 20 MAY 97



RAY E. MCCOY
Major General, USA
Principal Deputy Director

Subject: Financing Computer Systems and Other Equipment at the Defense Contract Management Command, 6LA-2005.04

Recommendation 1.b: Recommend that the Director, Defense Logistics Agency investigate and report on potential Antideficiency Act violations if sufficient funds are not available in the FY 1989 through FY 1996 Procurement account to fund the obligations.

DLA Comments: Partially Concur. We have begun a preliminary review of a potential Antideficiency Act violation, in accordance with Chapter 3, Volume 14, DoD Financial Management Regulation. An extensive amount of additional information must still be gathered and analyzed. If after completion of the preliminary review there exists evidence of a violation, we will undertake a formal investigation and report.

Disposition: Action is on going. ECD: 28 February 1998

Action Officer: Richard Sninsky, FOXS
Review/Approval: B.A. Blackman, FOX
Coordination: LaVaeda Coulter, DDAI, 767-6261

DLA Approval:

Ray E. McCoy 20 MAY 97

RAY E. MCCOY
Major General, USA
Principal Deputy Director

Defense Logistics Agency Comments

Subject: Financing Computer Systems and Other Equipment at the Defense Contract Management Command, 6LA-2005.04

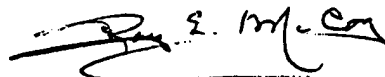
Recommendation 2: Recommend that the Director, Defense Logistics Agency and the Commander, Defense Contract Management Command, establish management controls to ensure that the use of appropriated funds are consistent with the authorized purpose of the appropriation.

DLA Comments: Concur. Based on the findings of the preliminary review, management controls will be established to ensure funds are used for the purpose for which they were appropriated.

Disposition: Action is on going. ECD: 28 February 1998

Action Officer: Richard Sninsky, FOXS
Review/Approval: B.A. Blackman, FOX
Coordination: LaVaeda Coulter, DDAI, 767-6261

DLA Approval:

Oliver E. Coleman 20 MAY 97


RAY E. MCCOY
Major General, USA
Principal Deputy Director

Audit Team Members

This report was prepared by the Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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