

**Audit**



**Report**

OFFICE OF THE INSPECTOR GENERAL

MAJOR ACCOUNTING AND MANAGEMENT CONTROL  
DEFICIENCIES IN THE DEFENSE BUSINESS  
OPERATIONS FUND IN FY 1995

Report No. 97-006

October 15, 1996

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**Department of Defense**

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### **Acronyms**

DBOF	Defense Business Operations Fund
DFAS	Defense Finance and Accounting Service
DLA	Defense Logistics Agency
PP&E	Property, Plant and Equipment
USD(C)	Under Secretary of Defense (Comptroller)



**INSPECTOR GENERAL**  
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October 15, 1996

**MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)  
AND CHIEF FINANCIAL OFFICER  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE**

**SUBJECT: Audit Report on Major Accounting and Management Control  
Deficiencies in the Defense Business Operations Fund in FY 1995  
(Report No. 97-006)**

We are providing this report for management's information and use. The report identifies and summarizes the major accounting and management control deficiencies in the management control structure of the Defense Business Operations Fund that prevent timely development and reliable presentation of its financial statements. Where applicable, the report also identifies corrective actions taken or under way to eliminate the deficiencies.

The courtesies extended to the audit staff are appreciated. Questions on the audit should be directed to Mr. Raymond D. Kidd, Audit Program Director, at (703) 604-9110 (DSN 664-9110), or Mr. John M. Seeba, Audit Project Manager, at (703) 604-9134 (DSN 664-9134). See Appendix H for the report distribution. The audit team members are listed inside the back cover.

Robert J. Lieberman  
Assistant Inspector General  
for Auditing

## Office of the Inspector General, DoD

Report No. 97-006  
(Project No. 5FH-2006.02)

October 15, 1996

### Major Accounting and Management Control Deficiencies in the Defense Business Operations Fund in FY 1995

#### Executive Summary

**Introduction.** The Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, requires an annual audit of the financial statements of trust and revolving funds, such as the Defense Business Operations Fund (the Fund). The Fund was established as a revolving fund in FY 1992 and consists of various business areas such as supply management and depot maintenance. Operational and cost management responsibilities rest with the Military Departments and Defense agencies. The FY 1995 Defense Business Operations Fund Statement of Financial Position identified assets of \$93.5 billion and liabilities of \$20.3 billion. As previously reported, for FY 1995 as in previous years, we have been unable to render an opinion on the financial statements because of the lack of a sound management control structure and significant deficiencies in the Fund's accounting systems. This report is intended to provide information from a global perspective to DoD managers, and to assist them in identifying and remedying significant accounting and management control deficiencies that are impeding favorable audit opinions for the Fund.

**Audit Objectives.** The objective of the audit was to identify and summarize the Fund's major accounting and management control deficiencies that prevented the timely development and reliable presentation of its financial statements.

**Audit Results.** We identified significant accounting and management control deficiencies in the Fund that prevented the timely development and reliable presentation of the financial statements. The deficiencies identified by auditors can be grouped into the following major management control structure categories:

- accounting systems,
- control procedures, and
- control environment.

Identified problems corresponded to approximately 20 percent of total assets and 16 percent of total revenues. The deficiencies resulted in auditor-recommended adjustments of \$67.4 billion to the Fund's FY 1995 financial statements and the supporting accounting records. Management has advised that corrective actions affecting \$23.4 billion of the recommended adjustments have been implemented. However, the actions necessary to improve the management control structure are generally not amenable to quick implementation and require long-term planning and

commitment. Many of the deficiencies we noted in last year's report remain uncorrected, as acknowledged by the Under Secretary of Defense (Comptroller) in his Management Representation Letter.

The Fund's financial statements will be of limited use unless the weaknesses in the management control structure are corrected. Of greater significance, however, is the fact that DoD management lacks sound information from financial reports to use in decisionmaking. Further, successful implementation of the Fund's two-phased migratory systems strategy for improving its accounting systems is explicitly linked to independent improvements in the management control structure. See Part I for a discussion of the audit results.

**Summary of Recommendations.** This report contains no recommendations because numerous recommendations were made in the financial statement audit reports in Appendix B. Those reports made the following general recommendations to improve the management control structure:

- improve the management control structure at all Fund accounting levels, including Service-controlled feeder accounting systems;
- improve management controls for documentation and audit trails;
- develop and publish management control procedures, ensure distribution to all users, and follow up to ensure consistent implementation;
- improve management controls for Property, Plant and Equipment;
- improve management controls for inventory;
- develop and improve documentation on critical accounting processes to assist personnel in preparing financial information; and
- confront and correct auditor-identified control weaknesses more aggressively.

**Related Reports.** We will issue a separate report evaluating the Fund's interim migratory systems strategy. In that report, we will review the completeness of the strategy and the reasonableness of time frames and cost estimates.

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## **Part I - Audit Results**

### Audit Background

The Chief Financial Officers Act, as amended by the Federal Financial Management Act of 1994, requires an annual audit of financial statements for revolving funds such as the Defense Business Operations Fund (DBOF). Preparation of the financial statements is the responsibility of the Defense Finance and Accounting Service (DFAS). The DoD Components and DFAS are jointly responsible for the information in the statements. The Under Secretary of Defense (Comptroller) (USD[C]) and the DBOF Corporate Board (the Corporate Board) oversee the DBOF, and the Military Departments and Defense agencies are responsible for management and operations. Our responsibility is to render an opinion on those statements based on our audit. This report complements our report on the DBOF financial statements (Inspector General, DoD, Report No. 96-178, "Internal Controls and Compliance With Laws and Regulations for the Defense Business Operations Fund Consolidated Financial Statements for FY 1995," June 26, 1996). Appendix C outlines the financial statement reporting structure for the DBOF. To streamline the audit process for FY 1996, audit managers have been assigned DBOF-wide material accounts or financial statement categories. These accounts or categories have been selected based on materiality and will allow us to build expertise in those areas. This process will enable us to provide senior DoD management with a global picture of the achievements and systemic weaknesses of DBOF. The process will also provide greater consistency when comparing systemic management control weaknesses identified in consecutive years.

**Disclaimer of Opinion.** We were unable to render an opinion on the DBOF Consolidated Financial Statements for FY 1995.

**DBOF History.** Congress created the DBOF on October 1, 1991, by combining DoD- and Service-owned revolving funds previously called the stock and industrial funds. Subsequently, the DFAS, the Defense Information Systems Agency, the Defense Commissary Agency, the Defense Technical Information Center, the U.S. Transportation Command, the Joint Logistics Systems Center, and a Defense Logistics Agency function (the Defense Reutilization and Marketing Service) were added to the DBOF. Appendix C shows the reporting entities that make up the DBOF.

**Purpose of DBOF.** The DBOF is intended to establish incentives to control resources more efficiently and provide improved financial management tools. DBOF organizations should use those tools to identify the total costs of business operations that produce goods and services for customers. The DBOF management process was created to:

- foster a businesslike buyer-seller approach that enables customers to make economical buying decisions and forces sellers to become more cost-conscious;

- identify the full costs of items, measure performance on the basis of cost and output goals, and improve efficiency and productivity;
- consolidate cash control and reduce required cash balances; and
- provide timely and accurate information so that decisionmakers can measure business performance.

**Corporate Board.** The DBOF Corporate Board was established in 1993 to develop, review, and recommend DBOF policies and procedures; to review business areas for inclusion or exclusion from the DBOF; and to evaluate business performance. The Corporate Board also reviews and recommends actions to improve the DBOF financial systems. In February 1994, the Corporate Board approved a two-phased migratory system strategy for the DBOF. The first phase is the interim phase, which consolidates DBOF accounting systems by components or business areas and converts key legacy systems to interim migratory systems. The second phase is the transition from interim systems to final migratory systems. A migratory system is an existing or planned and approved automated information system that has been designated to support a functional process on a DoD-wide basis. A legacy system is an existing system that is scheduled to be phased out with the full implementation of the migratory system.

**DBOF Status Report.** In March 1996, the Office of the USD(C) issued the "Defense Business Operations Fund Status Report." The report provided a detailed history of the implementation of the DBOF through FY 1995, discussed future plans for the DBOF, and described actions that have been accomplished since 1993 to improve DBOF operations. The report summarizes the major improvements in the DBOF as follows.

- Managers DoD-wide are aware of the total costs incurred in providing products and services to their customers, and customers are aware of the total costs of the services and products that they request and receive.
- DoD has developed detailed functional and technical requirements for financial systems and applied the requirements against the numerous DBOF financial systems. This effort will reduce the number of DBOF financial systems from more than 80 to approximately 17.
- The DoD Components and organizations in the Office of the Secretary of Defense are jointly developing standardized policies for DBOF business areas.

Although some improvements have been made in the DBOF, numerous problems still exist, as shown by the findings discussed in this report.

## **Audit Results**

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**DBOF Management Representation Letter.** In his Management Representation Letter dated February 23, 1996, the USD(C) acknowledged and summarized significant procedural and systemic deficiencies in the DBOF accounting and financial management systems. Some of these deficiencies included:

- The lack of a fully integrated accounting and reporting system to systematically summarize financial information and provide consistency in financial reporting or comparability of information on DBOF operations;
- Incomplete incorporation of the U.S. Government Standard General Ledger into DFAS accounting systems;
- Inadequate internal controls over material financial statement accounts, major errors in the valuation and classification of accounts, insufficient reporting and documentation for normal transactions and adjustments, ineffective reconciliations of accounts, and failure to follow accounting procedures; and
- Incomplete compliance with many accounting requirements set forth by the Office of Management and Budget and DoD. Areas of noncompliance included: accounting systems; standard general ledger; Property, Plant & Equipment (PP&E); inventory valuation; cash reconciliations; and accounting estimates.

## **Audit Objective**

The objective of this audit was to identify and summarize the major accounting and management control deficiencies preventing the timely development and reliable presentation of the DBOF financial statements. See Appendix A for the audit process. See Appendix B for prior audit coverage related to the audit objective.

## **Audit Assistance**

We relied on audits performed by the Army Audit Agency, the Naval Audit Service, and the Air Force Audit Agency. See Appendix D for specific areas and the scope of information reviewed by those audit organizations. The information presented in this report is a summary of the most significant accounting and management control deficiencies reported by the IG, DoD, and the Service audit organizations.

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## **Defense Business Operations Fund Accounting and Management Controls**

The DFAS continues to prepare financial statements that do not fairly present the financial position of the DBOF. The financial statements are unreliable, inconsistent, and inaccurate. This situation has been primarily caused by management's inability to implement a management control structure that enables DBOF accounting systems to effectively compile and report accurate financial information. DBOF accounting systems were developed prior to the formation of the DBOF and before the consolidation of accounting and finance organizations into the DFAS. Generally, DBOF accounting systems were designed without incorporating many accounting principles and without recognizing the importance of a universally reliable management control structure. Inadequate management control procedures and a poor control environment have also hindered the production of meaningful DBOF financial statements.

As a result, Congress and DoD managers have not been able to effectively use the DBOF financial statements and underlying systems for management oversight. Further, inadequate management controls, if not corrected, could adversely affect the implementation of the DBOF migratory systems strategy. We have issued disclaimers of opinion for the past 4 years on the DBOF Consolidated Financial Statements.

### **Management Control Structure**

This report discusses accounting and management control deficiencies that adversely affected the collection and preparation of reliable financial information for use by management. The deficiencies relate to an overall management control structure that is inadequate. A management control structure includes management's plan of organization, methods, and procedures used to reasonably ensure that management's objectives are met. The American Institute of Certified Public Accountants "Codification of Statements on Auditing Standards," sections 319.06 through 319.11, January 11, 1994, describes the elements of a management control structure that management should use to achieve its control objectives. Specifically, a management control structure consists of accounting systems, control procedures, and the control environment. Each element is closely related to the others and helps ensure adequate control over the integrity and validity of information that an organization produces. The absence or inadequacy of any element makes the overall management control structure ineffective. Appendix F describes these elements in greater detail.

## **Defense Business Operations Fund Accounting and Management Controls**

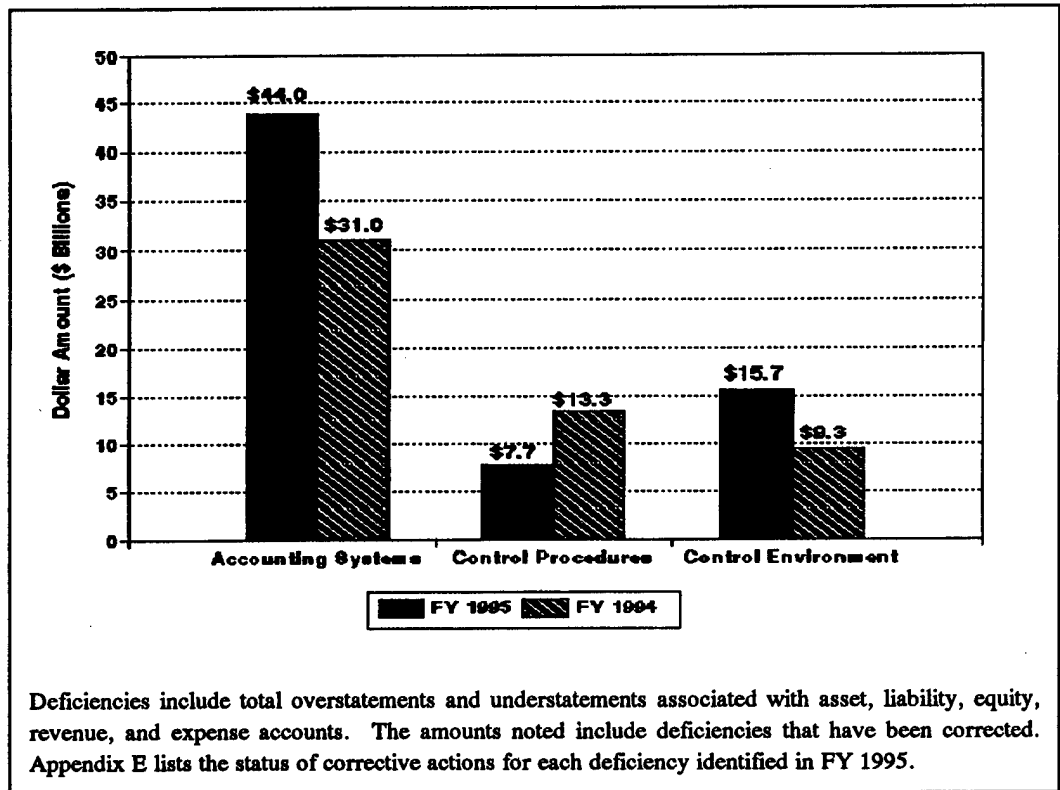
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Without an adequately functioning and universally understood management control structure, management has little chance of achieving its objectives effectively and economically. Specific control weaknesses or related issues identified in the DBOF management control structure include:

- accounting systems:
  - supporting suites of systems;
  - standard general ledger;
  - documentation and audit trails;
  - intrafund transactions;
- control procedures:
  - guidance;
- control environment:
  - PP&E;
  - inventory valuation;
  - personnel;
  - previously noted control weaknesses.

The recognition of significant accounting and management control deficiencies grew out of issues identified during our FY 1995 annual audit of the DBOF financial statements. We identified accounting and management control deficiencies that resulted in auditor-recommended adjustments totaling approximately \$67.4 billion. Although corrective actions for \$23.4 billion of the recommended adjustments have been accomplished, significant problems remain. Figure 1 shows the monetary amount associated with each control element deficiency. Figure 2 shows asset-related account deficiencies in relation to total DBOF assets (\$18.8 billion out of \$93.5 billion) and liability-related deficiencies in relation to total DBOF liabilities (\$1.9 billion out of \$20.3 billion). Appendix E shows the organization that identified the deficiency, describes the deficiency, and gives the amount and the status of corrective actions. Of equal concern is the potentially significant number of adjustments for deficiencies not identified by auditors.

## Defense Business Operations Fund Accounting and Management Controls



**Figure 1. Control Deficiencies by Category for FYs 1994 and 1995**

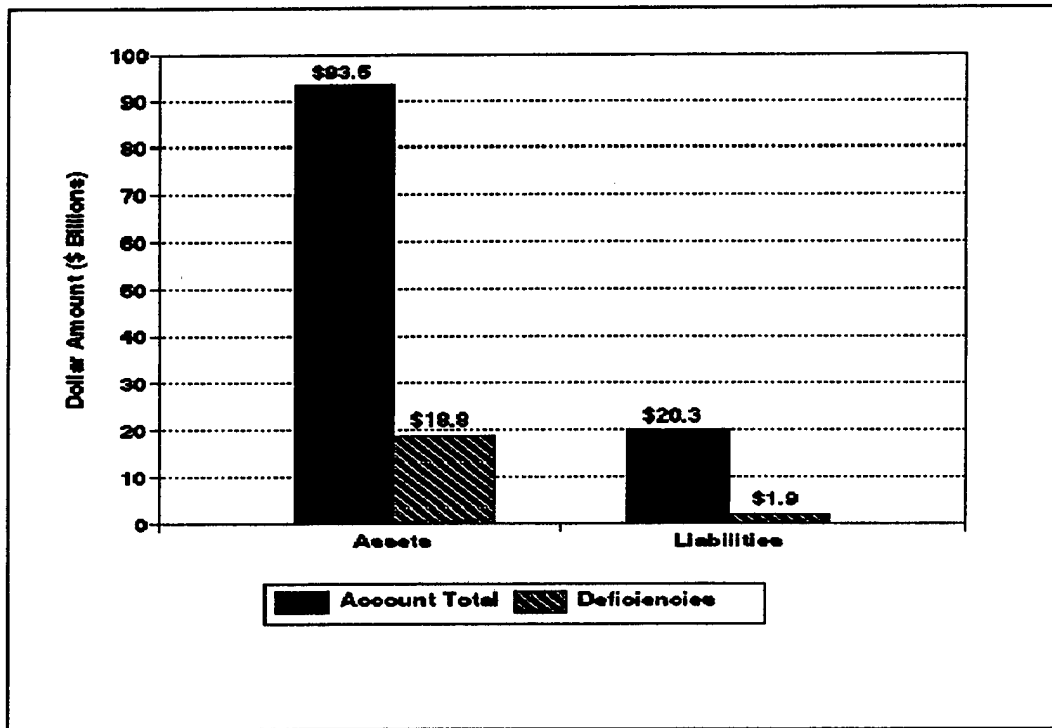


Figure 2. Asset- and Liability-Related Deficiencies in Relation to Total Assets and Total Liabilities

## Accounting Systems

Significant management control weaknesses continue to plague DBOF accounting systems. An accounting system consists of the methods and records used to identify, assemble, analyze, record, and report an organization's transactions and maintain accountability for its assets, liabilities, revenues and expenses. As noted in many audit reports, management control weaknesses in DBOF accounting systems hindered the manipulation of relevant data and prevented the effective development and use of financial statements. Auditors have identified \$44 billion of deficiencies associated with management control weaknesses in accounting systems. The management control structure inherent in existing accounting systems is so weak that reliable and auditable financial statements will probably not be available until at least FY 2002, after DBOF has completely converted from legacy systems to interim migratory systems.

DoD senior management has acknowledged the presence of severe control flaws in the DBOF accounting systems and has taken determined action to upgrade the systems and eliminate the weaknesses. In the FY 1995 DBOF Management Representation Letter, February 23, 1996, the USD(C) indicated that he was

## Defense Business Operations Fund Accounting and Management Controls

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aware that accounting systems do not provide consistency in reporting or allow for comparison of operational data. He noted that DBOF organizations generally do not have reporting systems that effectively and systematically summarize financial information.

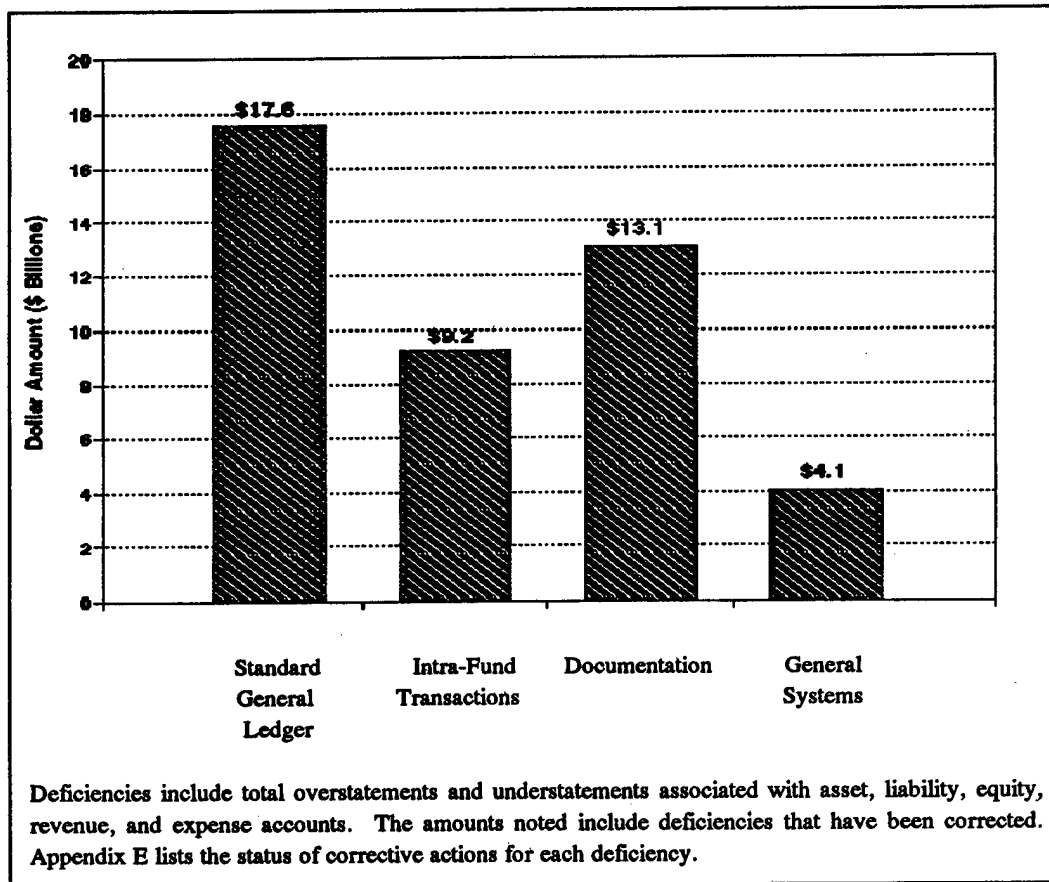
To help remedy control weaknesses in the DBOF accounting systems and accumulate standardized data for use in preparing financial statements, DoD is implementing a two-phased system migration plan to reduce the number of systems used in DBOF. In the first phase, this approach will reduce over 80 DBOF accounting systems to approximately 17 interim migratory systems. The interim migratory systems strategy assigns no more than one system to each business area within a DoD Component as the interim migratory system and designates the remaining nonselected systems as legacy systems. The legacy systems will be converted to the interim migratory systems. The functional enhancement of selected interim migratory systems began in 1995. The second phase of the system migration plan is the transition from the interim systems to an undetermined but smaller number of migratory systems.

Audits have noted that the present DBOF accounting systems contain significant management control weaknesses in the following areas: suites of systems supporting interim migratory systems; standard general ledger; documentation and audit trails; and intrafund transactions. Management control weaknesses in these areas must be eliminated before any reliance can be placed on the DBOF financial statements.

**Supporting Suites of Systems.** The interim migratory system strategy is based on the continued use of several dozen Service-owned feeder systems. For example, even after the software for the interim migratory system, the Standard Army Finance Inventory Accounting and Reporting System-Modernization is enhanced, it will be supported by over a dozen financial and logistics feeder systems. The Air Force Standard Material Accounting Subsystem, another interim migratory system, will receive data from approximately six feeder systems. Thus, although DoD managers have rightly claimed that DBOF is moving towards the use of 17 interim migratory systems, many existing subsidiary systems will remain in place to supply data to the interim migratory systems.

Moreover, senior DoD financial managers also have expressed their concerns regarding the quality of data that the interim migratory systems will receive from the Service-owned feeder systems. Senior DoD financial managers have also perceived resistance to the implementation of the interim migratory systems from mid-level Service financial managers. Additionally, auditors have noted general and application control problems in some of the systems supporting the interim migratory systems. These problems could delay efforts to implement sound management controls in the DBOF accounting systems. If the interim migratory systems do not receive unaltered, standardized data from the Service-owned feeder systems, the information that is reported on the financial statements will be suspect. Therefore, a strong management control structure must be built into all transaction and review levels of the DBOF accounting framework.

## Defense Business Operations Fund Accounting and Management Controls



**Figure 3. Control Deficiencies in Accounting Systems**

**Standard General Ledger.** A major control weakness in the development and use of reliable financial statements is the lack of a universally implemented standard general ledger. We believe that the DBOF financial statements will not be fairly presented until the DoD implements a transaction-driven, integrated accounting system based on standard general ledger accounting. A universally implemented standard general ledger will ensure that all DoD accounting and finance offices use the same accounts as the basis for their financial statements. As shown in Figure 3, auditors have noted \$17.6 billion in deficiencies attributable to the lack of a standard general ledger. In one example, the Army Cost of Goods Sold was overstated by about \$8.9 billion. This overstatement occurred because the DFAS Indianapolis Center did not have cognizance over certain Army general ledger accounts that should have been crosswalked into DoD Standard General Ledger accounts. Additionally, \$307 million of Federal accrued liabilities was improperly recorded on Navy financial statements because the Navy Chart of Accounts did not provide a separate subsidiary ledger for organizations to record Federal accrued liabilities.

DoD requires the use of its Standard General Ledger for managing data and developing financial reports. Further, the interim financial migratory system plan is designed to incorporate the DoD Standard General Ledger into each interim migratory system. We applaud the DFAS effort on this vital issue. A

## Defense Business Operations Fund Accounting and Management Controls

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universally implemented standard general ledger is an indispensable management control that cannot be overemphasized and should remain a high priority of senior DoD financial managers.

**Intrafund Transactions.** Inadequate management controls over accounting for intrafund transactions contributed to significant errors on the financial statements. Figure 3 shows approximately \$9.2 billion associated with intrafund transaction deficiencies. Intrafund transactions occur when sales are made or services are rendered to an organization within the same fund. Intrafund transactions should be eliminated when preparing consolidated financial statements because funds are being transferred within the same fund. In several situations, the controls and mechanisms used to track and account for these transactions were nonexistent or only partially developed.

For example, \$8.4 billion of total revenues of \$13.3 billion for the Defense Logistics Agency (DLA) should have been eliminated from the consolidated DBOF financial statements for FY 1995. Officials at the DFAS Columbus Center had not established procedures to recognize amounts for elimination because they believed, incorrectly, that the data were not available. Additionally, in a footnote to its financial statements, DLA stated that it had not separately identified DBOF intrafund transactions for any of its business areas. The DLA footnote stated that the official accounting guidance for this reporting requirement, and the current accounting systems used to record collections and disbursements, were not designed to identify and retain the necessary information. Thus, the DBOF Consolidated Financial Statements do not reflect the required elimination of intrafund transactions within DLA. Without intrafund eliminating entries to the Statement of Financial Position, the overall financial statements are inconsistent and misleading. Also, the DFAS Indianapolis Center failed to correctly eliminate intrafund sales transactions of \$848 million because it did not know the correct amounts to use. Further, the Navy did not include the data required for intrafund transaction eliminations in its FY 1995 financial statements.

DoD financial managers attributed part of the inability to identify intrafund transaction eliminations to a lack of official accounting guidance. The revision of DoD Regulation 7000.14-R, "Financial Management Regulation," volume 11B, December 1994, is expected to include a chapter on accounting for intrafund transactions, but the USD(C) does not plan to issue the revision in the near future. The February 23, 1995, DBOF Management Representation Letter acknowledged that the DBOF financial statements should account for billions of dollars of intrafund transactions relating to collections and disbursements. DBOF financial statements will remain distorted until comprehensive guidance for intrafund transactions is issued and fully implemented. The financial statements will also have limited value for DoD managers until accounting systems are reconfigured to deal with intrafund transactions. However, improved guidance would provide urgently needed management control policies and procedures as well as increased visibility over these transactions. They can be implemented without waiting for a total upgrade of the enhanced accounting systems, which are part of the DBOF interim migratory strategy.

## Defense Business Operations Fund Accounting and Management Controls

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**Documentation and Audit Trails.** Many DBOF accounting and financial systems were characterized by insufficient management controls over transaction documentation and audit trails. As shown in Figure 3, audit reports identified \$13.1 billion associated with documentation deficiencies. Inadequate management controls over the documentation of accounting transactions result in missing or improper documentation. Insufficient documentation slows the accounting process and can result in unsupported or inaccurate accounting transactions, with adverse consequences for the preparation and use of financial statements. Insufficient documentation also negatively affects the fairness of the presentation of account balances. The reasons for the widespread documentation problems were similar to those we noted in past audits, and included weak management controls relating to nonexistent or incomplete guidance, insufficient procedures, inadequate management oversight, and obsolete or noncompliant accounting systems.

In the DBOF Management Representation Letter for FY 1995, the USD(C) acknowledged that adequate documentation to support the validity and accuracy of transactions is not always obtained or maintained. Additionally, weak management controls over documentation and audit trails are plainly evident at all accounting levels. Specific examples of management control problems include the following:

- \$1 billion in sales and \$1.6 billion in purchase balances could not be validated at the Air Force Air Logistics Centers because of missing or partial documentation.

- DFAS supervisors did not accomplish operational reviews to verify that accounting adjustments were properly approved and system error transactions were corrected as required by DFAS Denver Center guidance. As a result, sufficient documentation was not available to support 36 accounting adjustments valued at \$9.9 billion.

- Adequate support did not exist for a \$250 million obligation that the DFAS Columbus Center posted to the records of the Defense Fuel Supply Center.

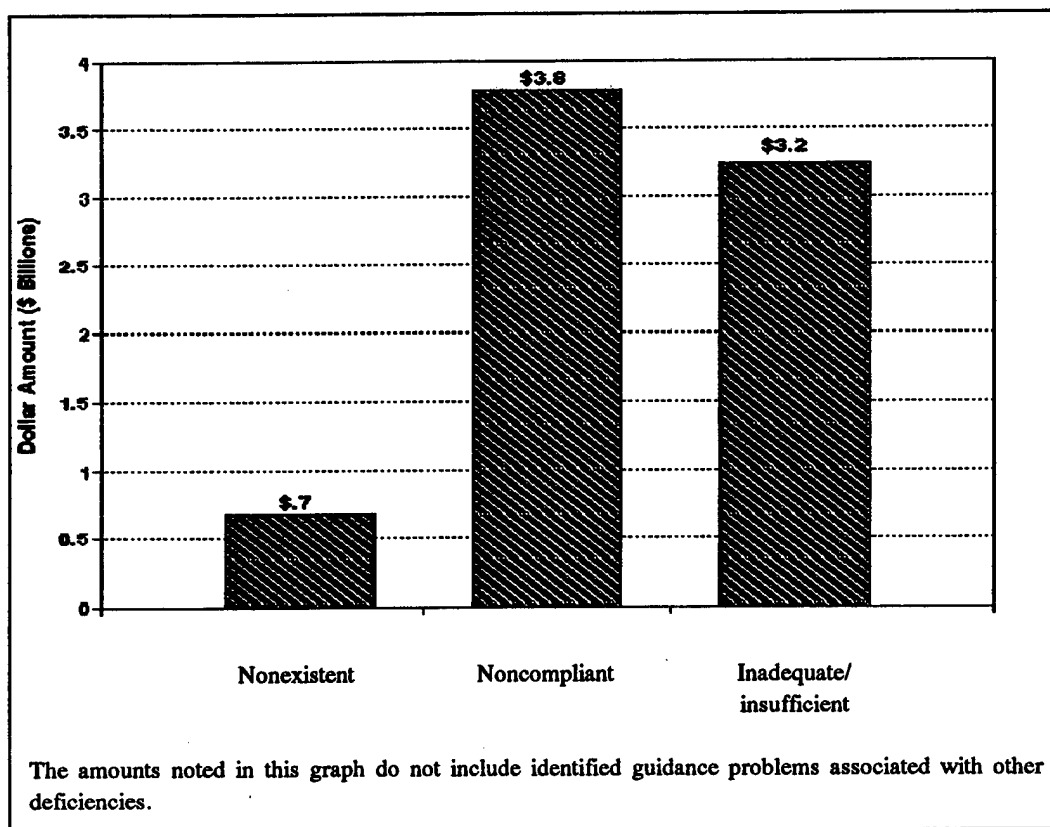
The problem in documentation is compounded because correcting accounting records and preparing financial statements depends heavily on manual adjustments. The accuracy of the DBOF financial statements will remain questionable as long as significant documentation problems continue. Improvements in accounting systems and in the policies and procedures of the management control structure can diminish these problems. Management control weaknesses in documentation and audit trails need to be addressed concurrently with the implementation of the interim migratory systems strategy.

## Management Control Procedures

Management control procedures are the policies and procedures used by management, in addition to accounting systems and the control environment, to achieve the organization's objectives. The FY 1995 audit reports noted serious weaknesses in management control procedures, including inadequate guidance, that contributed to the perpetuation of unreliable financial statements. Moreover, inadequate management control procedures will also hinder implementation of the interim migratory systems strategy.

**Guidance.** Many accounting problems at DoD organizations and on DBOF financial statements were directly attributable to deficient management control procedures. Audits identified adjustments totaling \$7.7 billion that were attributable to faulty guidance, as shown in Figure 4. Appropriate guidance at all accounting levels is essential for building and maintaining a sound management control structure. Audits consistently show that comprehensive and timely guidance is fundamental for the compilation of accurate data, and for the subsequent presentation of reliable and timely financial statements. Nonetheless, weaknesses in control procedures were widespread among all Military Departments and DoD agencies audited and were among the deficiencies most noted by DoD auditors. Weaknesses in the management control structure attributable to poor procedures occurred because DBOF accounting guidance was not always properly distributed, followed, up-to-date, or even developed in some cases. Figure 4 divides the control procedure problem into several subcategories and pinpoints specific weaknesses. Figure 4 shows auditor-recommended adjustments of \$.7 billion associated with nonexistent guidance, \$3.8 billion with lack of compliance, and \$3.2 billion with insufficient or inadequate guidance.

## Defense Business Operations Fund Accounting and Management Controls



**Figure 4. Deficiencies in Control Procedures**

DoD attempted to bolster DBOF management control procedures by issuing the DoD Regulation, 7000.14-R, volume 11B. However, audits and followup reviews revealed that universal weaknesses in guidance continued. For example, as noted in previous audit reports, many Navy organizations continued to rely on the Navy Comptroller Manual, although new DoD guidance was available and took precedence. Moreover, much of the revised policy that replaced the Navy DBOF guidance was insufficient, and Navy financial managers either developed their own procedures or ignored the need for procedures. Further, some Navy personnel did not use DoD guidance until directed to do so by Navy managers.

Also, because the DoD "Guidance on Form and Content of Financial Statements" and DoD Regulation 7000.14-R gave incorrect procedures for presenting operating expenses, the IG, DoD, auditors noted a \$1.1 billion misstatement on the Defense Commissary's FY 1995 Statement of Operations. Likewise, use of Air Force Materiel Command guidance caused DFAS personnel to improperly measure contract maintenance costs included in the financial reports. As a result, the financial reports misstated the work-in-process amount, and overstated reported expenses and accrued liabilities by as much as \$436 million.

Deficiencies in management control procedures occurred principally because the procedures for distribution were faulty, implementation was irregular, and the

guidance was insufficient or had not been developed. The changing DoD environment and the magnitude of the problem have impeded attempts by senior financial managers to write and disseminate timely and pertinent guidance. Moreover, institutional resistance to change has hampered implementation of revised operating procedures. As a result, serious weaknesses in control procedures continue. This has directly contributed to the inability of DBOF to produce fairly presented financial statements. Substantial improvement in the writing and distribution of management control procedures is crucial to the success of the interim migratory systems strategy. Improvement of management control procedures must coincide with the implementation of the interim migratory systems strategy. Otherwise, accounting field offices will have new systems with which to work, but will lack the management control procedures they need to understand and operate the newly enhanced systems. Without a significant improvement in management control procedures, the interim financial migratory system strategy will be doomed to failure.

### Control Environment

Severe deficiencies in the DBOF control environment have added to the difficulty of producing accurate and fairly presented financial statements. Defects in the control environment have also weakened the overall management control structure and have diminished the ability of DBOF to attain its objective of precisely identifying and reporting costs. The control environment represents the organization's management approach that establishes, enhances, or mitigates the effectiveness of specific policies and procedures. It reflects the overall attitude, awareness, and actions of managers and others concerning the importance of control and its emphasis in the organization.

Auditors assessed weaknesses in the control environment by noting control deficiencies in the significantly material areas of PP&E and the reporting and valuation of inventory. Control weaknesses in these accounts resulted in \$15.7 billion in auditor-recommended adjustments. The deficiencies materially affected the preparation of financial statements because the accounts are very large in relation to total assets. The PP&E and inventory accounts represent approximately 82 percent of total DBOF assets. These deficiencies reveal the inability of DoD management to address the considerable control weaknesses in these large accounts. Further, auditors identified control environment weaknesses in the areas of personnel and management's failure to correct deficiencies previously noted by auditors. The success of the interim migratory systems strategy is especially linked to improvements in the control environment. Control environment weaknesses will not disappear with the implementation of the interim financial migratory strategy; they will require constant management emphasis.

**Property, Plant and Equipment.** An ineffective control environment allowed inadequate accounting to continue for many PP&E items. PP&E represents approximately 13 percent of total DBOF assets. Because PP&E had a high level of materiality on the financial statements, disregarded or improperly

## Defense Business Operations Fund Accounting and Management Controls

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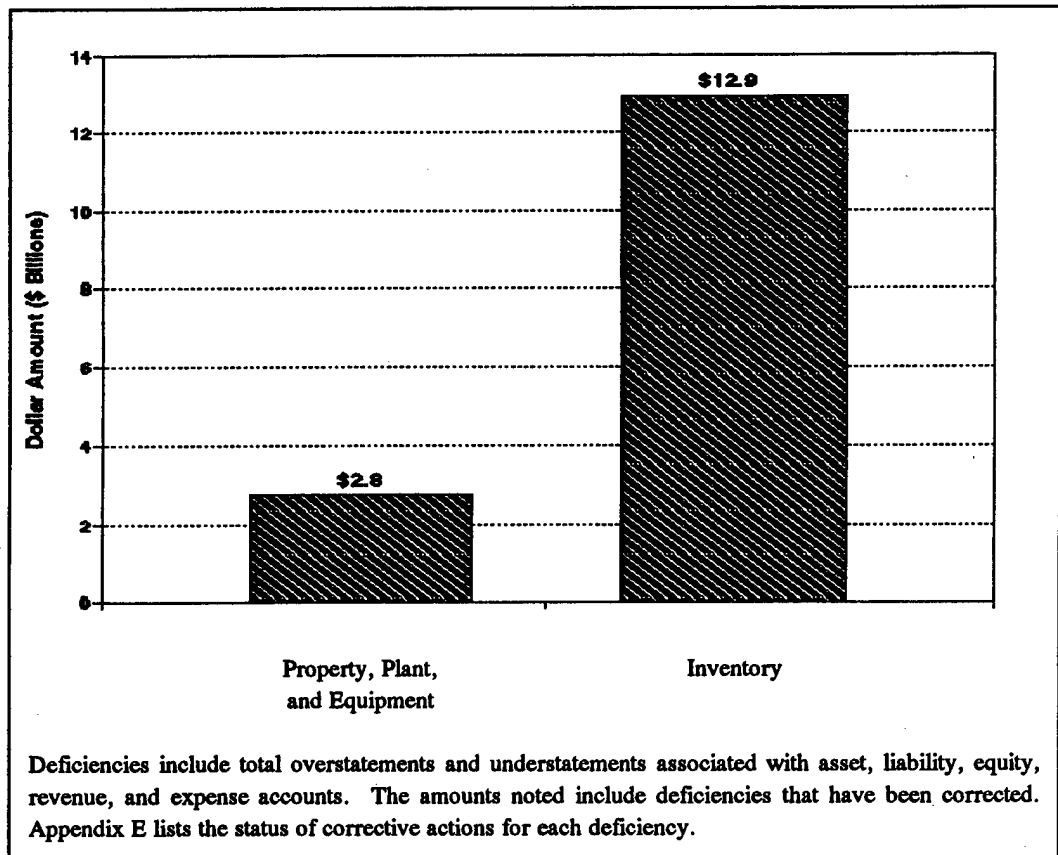
valued PP&E assets greatly distorted the financial statements. This distortion occurred because assets were improperly capitalized, incorrectly recorded, or lacked cost documentation. In some cases, asset depreciation was inaccurately calculated because the useful life of assets was incorrectly estimated. Inexact application of depreciation procedures also contributed to errors in depreciation accounts. In other instances, fixed assets were received or removed without informing the accounting department. For example, Navy DBOF organizations understated PP&E, Net, by \$1.3 billion because assets were not reported accurately and capital leases were not capitalized as required.

Poor or nonexistent procedures contributed to many problems with fixed assets and asset depreciation. Additionally, the lack of documentation for older assets caused problems in accounting for PP&E assets. Deficiencies affecting PP&E totaled approximately \$2.8 billion, as shown in Figure 5. The total amount of adjustments associated with PP&E accounting problems was not available because DoD managers were unable to determine overall fixed asset balances or assign proper values to PP&E; therefore, the amount noted in the table is significantly understated.

DoD management has responded to property accountability weaknesses by electing to migrate to a DoD-wide standard property accountability system, designated as the Defense Property Accountability System. This system was developed to maintain property accountability and depreciation accounts, schedule preventive maintenance, and monitor the use of equipment. Originally scheduled for implementation throughout DoD by 1997, the estimated completion date for fielding the system is now late 2000. The slippage in implementation occurred because when the system was selected, it was expected to interface with single, standard systems in associated business areas (that is, accounting, procurement, and supply, etc.). However, because DoD has chosen multiple systems in these areas, many additional interfaces need to be built, resulting in incremental systems deployment. DoD managers have also encountered institutional resistance to implementing the system. Thus, control environment weaknesses indicate the need for management's constant attention to the PP&E account. Although the Defense Property Accountability System is not a DBOF interim migratory system, its successful implementation will be a major influence on the ability of DBOF to produce accurate and useful financial statements.

**Valuation and Reporting of Inventory.** Significant weaknesses in the control environment caused inventory valuation problems in several DBOF business areas. Inventories represent approximately 69 percent of the DBOF's assets. The valuation problems resulted in auditor-identified weaknesses of \$12.9 billion (see Figure 5). The problems were specifically caused by incorrect physical inventory counts, errors in transaction processing and recordkeeping, retention and incorrect reporting of excess inventories, faulty inventory guidance, incorrect implementation of guidance, and improper inventory revaluation. Moreover, valuation and reporting problems in DoD inventory accounts contributed to inaccurate financial statements.

## Defense Business Operations Fund Accounting and Management Controls



**Figure 5. Deficiencies in the Control Environment**

Extensive inventory problems were noted throughout the DBOF. Auditors were unable to verify the fair presentation of \$29.2 billion<sup>2</sup> of inventory in the Air Force Supply Management Business Area. This occurred not only because of the generally poor condition of accounting systems and subsidiary accounting records, but also because the weak management control structure prevented auditors from using appropriate procedures to determine balances.

Air Force accounting systems provided poor general ledger control over Air Logistics Command assets in the possession of contractors. Additionally, auditors were unable to substantiate the value of the Operating Materials and Supplies for the Air Force Depot Maintenance Business Area account. Auditors stated that the misstatements and audit problems occurred because management had not established an accounting system to maintain a subsidiary record at cost and had not implemented interim procedures to stop the continued inflation in the account. Auditors also reported that \$12.9 billion of inventory on the FY 1995 Navy DBOF Consolidating Financial Statements was not adequately supported. Therefore, they were not able to establish the reasonableness of that amount.

<sup>2</sup>This amount was not included in the total deficiencies amount for FY 1995.

## Defense Business Operations Fund Accounting and Management Controls

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Because of the high proportion of inventory to overall DBOF assets, sustained material weaknesses in the control environment regarding inventory will continue to affect the fair presentation of DBOF financial statements. Inventory problems will also make the goals of accurate cost recognition and cost planning more difficult to achieve. Moreover, correcting control environment weaknesses that affect inventory is vital to the success of the interim migratory systems strategy and must occur during implementation of the strategy.

**Personnel.** We have noted critical personnel weaknesses in the management control environment throughout the entire DBOF. Management's attitude towards personnel may be the most important component of the management control environment. However, personnel deficiencies are often not easily measured or readily identified. Deficiencies include poor training or a lack of training, ineffective communications between various management levels, excessive manual transactions, insufficient management oversight, and management's inability to respond to a rapidly changing accounting environment. For example, some audit reports have documented the widespread failure of accounting personnel to understand the basic accounting theories and principles that support transaction entries. Auditors have also reported that organizations have not established clear boundaries between Service and DFAS responsibilities and functions. Further, the development and use of financial statements has been adversely affected by the loss of experienced personnel because of downsizing and retirement. This loss of experience, or corporate memory, is a major problem because operating procedures and instructions have not been documented. Trained and experienced personnel are essential for the successful implementation of a complex plan such as the interim migratory systems strategy. Improvements in the management control environment will not occur without enhanced management attention to personnel weaknesses.

**Previously Noted Control Weaknesses.** Follow-up audits and reviews have revealed management's inability to correct control weaknesses reported in the audits of previous fiscal years. An aggressive approach to correcting the errors previously noted is an integral part of an effective management control environment. In IG, DoD, Report No. 95-294, "Major Accounting Deficiencies in the Defense Business Operations Fund in FY 1994," August 18, 1995, auditors reported \$53.6 billion in accounting and management control deficiencies, of which approximately \$20 billion had been corrected at the time of issue. However, since that report was issued, auditors have noted that many of the \$34 billion in uncorrected deficiencies had still not been corrected. Further, a follow-up review by Army auditors showed that appropriate actions were not always taken to implement the recommendations from prior audits of DBOF financial statements. Generally, organizations did not assess whether corrective actions were effective before closing out audit recommendations. As a result, problems that affected the reliability of data used in financial statements and that were reported during prior Army audits remained uncorrected. Additionally, both the Naval Audit Service and the Air Force Audit Agency reported that many issues identified in earlier audits had not been corrected. Thus, in our view, a more aggressive management approach is required to correct audit-identified weaknesses in the control environment.

A more focused and sustained approach to correcting identified deficiencies is critical to the successful implementation of the interim migratory systems strategy.

### Conclusion

This summary of accounting and management control deficiencies in the DBOF is the result of a review of various DBOF audits conducted during FY 1995. We identified several major categories of accounting and management control deficiencies totaling approximately \$67.4 billion. The deficiencies seriously affected the three main elements of the DBOF management control structure. Deficiencies in accounting systems totaled \$44 billion; management control procedures, \$7.7 billion; and in the control environment, \$15.7 billion. These deficiencies prevented the accurate compilation of accounting data and the development and presentation of complete, accurate, reliable, and timely financial statements. Moreover, auditors have reported little or no change from prior audits in the range and depth of DBOF control weaknesses. DoD financial managers have acknowledged the seriousness of the weaknesses within the DBOF management control structure and have developed the two-phased migratory systems strategy as part of their plan to strengthen the overall accounting structure. In this report, we concentrated on identifying specific accounting and management control deficiencies to suggest that management focus its limited resources on weaknesses where corrections may result in the highest immediate rewards. Management should:

- improve the management control structure at all DBOF accounting levels, including Service-controlled feeder accounting systems;
- improve management controls over documentation and audit trails;
- develop and publish accounting guidance, ensure distribution to all users, and follow up to ensure consistent implementation;
- improve management controls for PP&E;
- improve management controls for inventory;
- develop and improve documentation on critical accounting processes to assist personnel in preparing financial information; and
- confront and correct auditor-identified control weaknesses more aggressively.

We believe that by focusing on the three main components of the management control structure, management can address many of the problems identified and should not wait for complete implementation of the interim migratory systems strategy.

## **Defense Business Operations Fund Accounting and Management Controls**

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Further, the success of the interim migratory strategy is ultimately linked to independent improvements in the DBOF management control structure. Nonetheless, the weak management control structure will prevent the issuing of reliable and auditable financial statements until at least FY 2002. We plan to report annually on accounting and management control deficiencies that significantly hinder the compilation of accurate accounting data and prevent useful and accurate DBOF financial statements from being produced. Our recent shift to the DBOF corporate audit approach will allow easier comparison of deficiencies by DBOF-wide account or financial statement category. This approach will provide greater consistency when comparing management control weaknesses identified in material accounts for consecutive years. Further, senior DoD management will see more easily the successes and systemic weaknesses of DBOF.

## **Part II - Additional Information**

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## Appendix A. Audit Process

**Statements Reviewed.** We reviewed FYs 1994 and 1995 financial statement audit reports on DBOF from the IG, DoD; the Army Audit Agency; the Naval Audit Service; and the Air Force Audit Agency. We also reviewed General Accounting Office audit reports on DBOF. Appendix B lists the reports we reviewed. The amounts noted for each deficiency were taken from FY 1995 audit reports. This portion of the DBOF audit was limited to identifying and summarizing the major accounting and management control deficiencies that prevented accurate development and reliable presentation of the DBOF financial statements. We defined a major deficiency as a problem that would materially distort or render unusable the DBOF financial statements. A deficiency, as defined in this report, could consist of a large number of separate accounting errors at the transaction level. We also contacted DoD officials responsible for ensuring that corrective actions were taken or under way.

**Audit Period, Standards, Locations, and Management Control Program.** We performed this program audit from March 1996 through June 1996. The audit was made in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the IG, DoD. Issues pertaining to management controls were taken from the audit reports we reviewed and from independently conducted research. We did not use computer-processed data or statistical sampling procedures to conduct this audit. Appendix G lists the organizations we visited or contacted.

**Compliance With Laws and Regulations.** We noted issues pertaining to compliance with laws and regulations only when such deficiencies were already included in the audit reports we reviewed. As part of our evaluation of the DBOF accounting systems, we also reviewed management's most recent Annual Statements of Assurance and supplemental financial and management information.

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## Appendix B. Prior Audits and Other Reviews

### Inspector General, DoD

IG, DoD, Report No. 95-294, "Major Accounting Deficiencies in the Defense Business Operations Fund in FY 1994," August 18, 1995. The IG, DoD, reported that the DFAS had not been able to prepare financial statements that fairly present the DBOF financial position since its establishment in 1991. The financial statements prepared were untimely, unreliable, inconsistent, and inaccurate. As a result, Congress and DoD managers could not effectively use the DBOF financial statements and underlying systems for management oversight. The unauditable financial systems also reflected the inadequate internal control structure within DBOF, which negatively affected day-to-day operations. Major deficiencies identified during the audit were grouped into accounting system characteristics and overall management issues. The DBOF accounting and financial systems compiled information inefficiently. A major obstacle to the development and use of reliable financial statements was the lack of a universally implemented standard general ledger. The DoD Standard General Ledger was partially implemented in a few DoD accounting systems; other systems used crosswalks in an attempt to recategorize data. Insufficient documentation and poor audit trails characterized many DBOF accounting and financial systems. Additionally, inadequate accounting for intrafund transactions contributed to significant distortions on the financial statements. The report stated that several DFAS centers either did not have in place or did not fully use automated reasonableness and edit checks. Failure to use such checks resulted in incorrect financial statements, and excessive time and effort was spent in correcting avoidable accounting problems. Also, footnote disclosures to the financial statements issued by the DFAS centers did not provide accurate overviews and supplemental information.

Deficiencies existed in the overall management of the DBOF accounting and finance systems. Many accounting problems at DoD organizations and on DBOF financial statements were caused by deficient DBOF guidance. The guidance was not always properly distributed or understood, was not up to date, or had not been developed. Additionally, inadequate accounting for many items of PP&E materially distorted the preparation and presentation of the FY 1994 DBOF financial statements. Also, because of inaccurate valuation in DoD inventory accounts and misclassification in other line item accounts, preparation of financial statements was flawed, and financial statements were not usable. Finally, development and use of the financial statements were adversely affected by problems with accounting personnel, such as inadequate training, shortages of support personnel, poor communication between field offices and headquarters, loss of corporate knowledge, and a lack of documented procedures. The USD(C) concurred with the report.

## Appendix B. Prior Audits and Other Reviews

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IG, DoD, Report No. 95-267, "Defense Business Operations Fund Consolidated Statement of Financial Position for FY 1994," June 30, 1995. The IG, DoD, was unable to render an opinion on the DBOF FY 1994 Consolidated Statement of Financial Position because of the lack of a sound internal control structure, noncompliance with regulations, and deficiencies in the accounting systems, all of which prevented the preparation of accurate financial statements. Material internal control weaknesses were found in each of the accounts reviewed. The Air Force Inventory In-Transit account for business organizations had a negative balance. A negative balance in an inventory account indicates an internal control problem in the accounting system that produces those figures; therefore, the system cannot be relied on. Several conditions were noted in the accounts receivable of the DLA Distribution Depot and Air Force Depot Management business areas. For example, misstatements occurred because transactions were unsupported and unverified; the incorrect recording of Accounts Receivable caused overstatements in the account; weak internal controls caused reimbursements to be collected but not posted or recorded; and funding documents were not received, which prevented the organizations from billing customers. The DLA PP&E account was materially understated. The Navy PP&E account was overstated because assets could not be located, costs were unsupported, and assets were incorrectly recorded. The IG, DoD; the Naval Audit Service; and the Air Force Audit Agency found reportable conditions in Accounts Payable that affected the reliability of the balances. The conditions included accounting errors, negative balances, Accounts Payable disbursements that were not posted to the Accounts Payable balance, Accounts Payable disbursements that were not recorded, and a lack of supporting documentation. The Army Other Intragovernmental Liabilities account contained invalid transactions, but adjustments were made to the financial statements before the year-end account balances were submitted to the DFAS Indianapolis Center. The Navy Other Liabilities account was overstated because of system-wide processing problems. The Navy did not include the required Intrafund Elimination note to the financial statements because the Navy did not have the procedures needed to collect the data.

The IG, DoD, reported several instances of noncompliance with laws and regulations. DoD did not comply with the Federal Financial Management Act of 1994, which established a deadline of March 31, 1995, for Government agencies to provide unaudited FY 1994 financial statements to OMB. This delay was caused in part by the Navy. The IG, DoD, report stated that the systems for accounting and internal controls did not completely or accurately disclose the financial position of the DBOF organizations as required by title 31, United States Code. The FY 1994 DFAS Annual Statement of Assurance reported that the majority of the financial management systems did not meet the requirements of OMB Circular A-127. One of the systems used by Army Supply Management was not using standard general ledger accounts, as required by the "DoD Accounting Manual." Most Army depot maintenance organizations did not have an accounting system that allowed them to compute depreciation on separate buildings, as required by the "DoD Financial Management Regulation." Also, the Army did not revalue inventory to its latest acquisition cost at year's end. The Navy and two Defense Accounting Offices used estimated figures, contrary to the guidance in the "DoD Accounting Manual," which prohibits estimates in the Statement of Accountability. The USD(C) generally concurred with the

report. The Navy objected to the IG, DoD, statement that the audit was impeded in part because Navy management made repeated adjustments to the Navy DBOF financial statements. The IG, DoD, responded that the Navy disregarded the requirement to submit the FY 1994 DBOF financial statements to OMB by March 31, 1995, as required by the Federal Financial Management Act of 1994.

**IG, DoD, Report No. 94-161, "Consolidated Statement of Financial Position of the Defense Business Operations Fund for FY 1993," June 30, 1994.** The IG, DoD, was unable to render an opinion on the DBOF FY 1993 Consolidated Statement of Financial Position because the auditors found significant internal control deficiencies and significant instances of noncompliance with regulations. The IG, DoD, reported internal control problems in four accounts of the DBOF financial statements. In the DBOF Fund Balance With Treasury account, the DoD definition of this account was not consistent with accounting principles, which made the balance misleading. Also, individual organizations could not reconcile their own portions of the account because the information was integrated with other Fund Balance With Treasury information. Misstatements were reported for the DLA and the Navy for this account. The Inventory Held for Sale, Net, account and the Inventory Not Held for Sale account also had many problems. In addition to valuation and classification problems, material discrepancies were found for these accounts within various organizations. For the Inventory Not Held for Sale account, negative inventory balances were reported, and the accuracy of the War Reserve Assets could not be verified. The Army and the Air Force did not keep appropriate source documentation for items included in the PP&E account, which made those portions of the account unauditible. Also, the Air Force did not report all PP&E in the DBOF financial statements. Additionally, the PP&E account for the Joint Logistics Systems Center was misstated because that activity had not implemented an effective internal control program.

The IG, DoD, reported numerous instances of noncompliance with regulations. The DFAS Indianapolis Center did not use an integrated general ledger to produce the FY 1993 financial statements, as required by OMB guidance, and several Army DBOF supply systems did not use the standard general ledger system required by the "DoD Accounting Manual." The IG, DoD, also reported that the DLA did not have an effective internal management control program over the reporting of results for physical inventories. Also, the Army valued all inventory at standard price, while the DLA valued reutilization and marketing inventories at standard price. Neither of those valuation policies adhered to the Statement of Federal Financial Accounting Standards No. 1, "Accounting for Selected Assets and Liabilities," March 30, 1993. The IG, DoD, also reported that most Army Depot Maintenance organizations did not have accounting systems that allowed them to compute depreciation for individual buildings, as required by the DoD Accounting Manual. Finally, the Notes to the FY 1993 DBOF Financial Statements did not comply with the "DoD Guidance on Form and Content of Financial Statements for FY 1993 and FY 1994 Financial Activity," January 12, 1994. The financial statements included only 4 notes instead of the required 26 notes. No recommendations were made in this report; therefore, management comments were not required, and none were received.

## Appendix B. Prior Audits and Other Reviews

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IG, DoD, Report No. 93-134, "Principal and Combining Financial Statements of the Defense Business Operations Fund - FY 1992," June 30, 1993. The IG, DoD, was unable to render an opinion on the DBOF FY 1992 Principal and Combining Financial Statements because audit trails were inadequate, accounting systems were inadequate, significant internal control deficiencies existed, significant instances of noncompliance with regulations were found, and legal and management representation letters were not received. The IG, DoD, reported many material internal control weaknesses that affected the reliability of the DBOF financial statements for FY 1992. Transactions were not properly recorded and accounted for because controls over cash were inadequate, transactions by and for others were not recorded in a timely manner, intrafund transactions were not eliminated or reported, and certain accounts were not properly accounted for. DoD management was unable to ensure that assets were safeguarded from unauthorized use because supporting documentation was lacking; also, the capital asset and inventory accounts were not correctly valued, and we could not determine their existence. Transactions did not comply with existing guidance. Reconciliations, uniform accounting systems, and a standard general ledger system were lacking, and the weekly flash cash reports were unreliable.

Several instances of noncompliance with laws and regulations materially affected the reliability of the DBOF financial statements for FY 1992. For FY 1992, the accounting systems for DBOF did not meet the requirements of the Budget and Accounting Procedures Act of 1950 and GAO Title 2, "Policy and Procedures Manual for Guidance of Federal Agencies." The DBOF did not fully comply with OMB Bulletin No. 93-02, "Form and Content of Agency Financial Statements," which implemented the Chief Financial Officers Act of 1990, and quarterly and annual reports to the Department of the Treasury on Accounts and Loans Receivable Due from the Public were not accurately prepared. Air Force Supply Management did not properly follow requirements of the "DoD Accounting Manual." Real properties were improperly shown as assets on the DBOF financial statements and did not comply with Real Property Ownership under United States Code, title 10, section 2682. Finally, the DFAS Columbus Center and the Defense Commissary Agency were not fully complying with the Prompt Payment Act. No recommendations were made in this report; therefore, management comments were not required. We received comments from the Acting Chief Financial Officer, DoD. Management generally agreed with the report, but took exception to reportable conditions on inadequate audit trails and reported instances of noncompliance with the Budget and Accounting Procedures Act, OMB Bulletin 93-02, and the National Defense Authorization Act. We did not agree with those management comments.

## **Related Prior Audit Reports**

<u>Report No.</u>	<u>Title</u>	<u>Date</u>
<b>General Accounting Office</b>		
AIMD-95-79	DBOF: Management Issues Challenge Fund Implementation (OSD Case No. 9859)	March 1, 1995
AIMD-94-80	Financial Management, Status of the Defense Business Operations Fund (DBOF)* (OSD Case No. 9339-D)	March 9, 1994
<b>Inspector General, Department of Defense</b>		
96-198	Defense Logistics Agency Revenue Eliminations	July 22, 1996
95-294	Major Accounting Deficiencies in the DBOF in FY 1994	August 18, 1995
95-267	DBOF Consolidated Statement of Financial Position for FY 1994	June 30, 1995
95-072	Defense Finance and Accounting Service Work on the FY 1993 Air Force DBOF Financial Statements	January 11, 1995
95-067	Defense Finance and Accounting Service Work on the Air Force FY 1993 Financial Statements	December 30, 1994
95-066	Application Controls - Navy Inventories	December 30, 1994
95-034	Development of Property, Plant and Equipment Systems	November 21, 1994
95-023	Application Controls Over Selected Portions of the Standard Army Intermediate Level Supply System	November 4, 1994
94-199	Research on Accounting and Financial Reporting at the Defense Information Services Organization	September 30, 1994

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\*Acronyms used in report titles for brevity.

## Appendix B. Prior Audits and Other Reviews

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<u>Report No.</u>	<u>Title</u>	<u>Date</u>
94-183	Controls Over Commissary Revenues	September 6, 1994
94-168	Defense Finance and Accounting Service Work on the Army FY 1993 Financial Statements	July 6, 1994
94-167	Selected Financial Accounts on the Defense Logistics Agency DBOF Financial Statements for FY 1993	June 30, 1994
94-163	Management Data Used to Manage the U.S. Transportation Command and the Military Department Transportation Activities	June 30, 1994
94-161	Consolidated Statement of Financial Position of the DBOF for FY 1993	June 30, 1994
94-159	Fund Balances With Treasury Accounts on the FY 1993 Financial Statements of the Defense Logistics Agency Business Areas of the DBOF	June 30, 1994
94-150	Inventory Accounts on the Financial Statements of the Defense Logistics Agency Business Areas of the DBOF for FY 1993	June 28, 1994
94-149	Property, Plant and Equipment Accounts on the Financial Statements of the Defense Logistics Agency Business Areas of the DBOF for FY 1993	June 28, 1994
94-147	Joint Logistics System Center's Financial Statements for FY 1993	June 24, 1994
94-128	Management Data Used to Manage the Defense Logistics Agency Supply Management Division of the DBOF	June 14, 1994
94-082	Financial Management of the DBOF, FY 1992	April 11, 1994
93-164	Financial Statements of DLA Supply Management Division of the DBOF (Defense Fuel Supply Center Financial Data) for FY 1992	September 2, 1993

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<u>Report No.</u>	<u>Title</u>	<u>Date</u>
93-153	DBOF Communication Information Services Activity Financial Statements for FY 1992	August 6, 1993
93-151	Compliance With the Federal Managers' Financial Integrity Act at the Defense Commercial Communications Office	July 26, 1993
93-147	Defense Commissary Resale Stock Fund Financial Statements for FY 1992	June 30, 1993
93-134	Principal and Combining Financial Statements of the DBOF for FY 1992	June 30, 1993
 <b>Army Audit Agency</b>		
AA 96-185	DBOF Supply Management, Army FY 1995 Statement of Operations	April 30, 1996
AA 96-186	DBOF Depot Maintenance, Army FY 1995 Statement of Operations	April 30, 1996
NR 95-430	Army DBOF FY 94 Financial Statements	July 19, 1995
NR 94-471	Army DBOF FY 93 Financial Statements: Report of Management Issues	September 29, 1994
NR 94-470	Army DBOF FY 93 Financial Statements: Audit Opinion	June 30, 1994
NR 94-457	DBOF, FY 92 Financial Statements: Common Management Issues	March 30, 1994
NR 94-456	DBOF, Transportation, Army FY 92 Financial Statements: Report of Management Issues	March 30, 1994
NR 94-454	DBOF, Depot Maintenance, Army FY 92 Financial Statements: Report of Management Issues	March 30, 1994
NR 93-463	DBOF Depot Maintenance, Army FY 92 Financial Statements: Audit Opinion	June 30, 1993

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<u>Report No.</u>	<u>Title</u>	<u>Date</u>
NR 93-462	DBOF Transportation, Army FY 92 Financial Statements: Audit Opinion	June 30, 1993
<b>Naval Audit Service</b>		
035-96	FY 1995 Consolidating Financial Statements of the Department of the Navy DBOF	May 31, 1996
044-95	FY 1994 Consolidating Financial Statements of the Department of the Navy DBOF	May 30, 1995
010-95	Sponsor-Funded Equipment at Selected Navy DBOF Activities	December 2, 1994
053-H-94	Fiscal Year 1993 Consolidating Financial Statements of the Department of the Navy DBOF	June 29, 1994
053-H-93	Fiscal Year 1992 Consolidating Financial Statements of the Department of the Navy DBOF	June 30, 1993
<b>Air Force Audit Agency</b>		
95068020	Review of Selected Accounts, Supply Management Business Area, FY 1995	August 20, 1995
95068021	Review of Selected Accounts, Depot Maintenance Business Area, FY 1995	September 13, 1995
94068027	Followup Audit--Review of Prior Year DBOF Recommendations	October 25, 1995
94068042	Followup Audit--Review of Prior Year DBOF Recommendations	August 18, 1995
94068039	Review of Selected Accounts, Depot Maintenance Service Business Area, FY 1994	July 28, 1995
94068041	Review of Selected Accounts, Supply Management Business Area, FY 1994	June 27, 1995

## Appendix B. Prior Audits and Other Reviews

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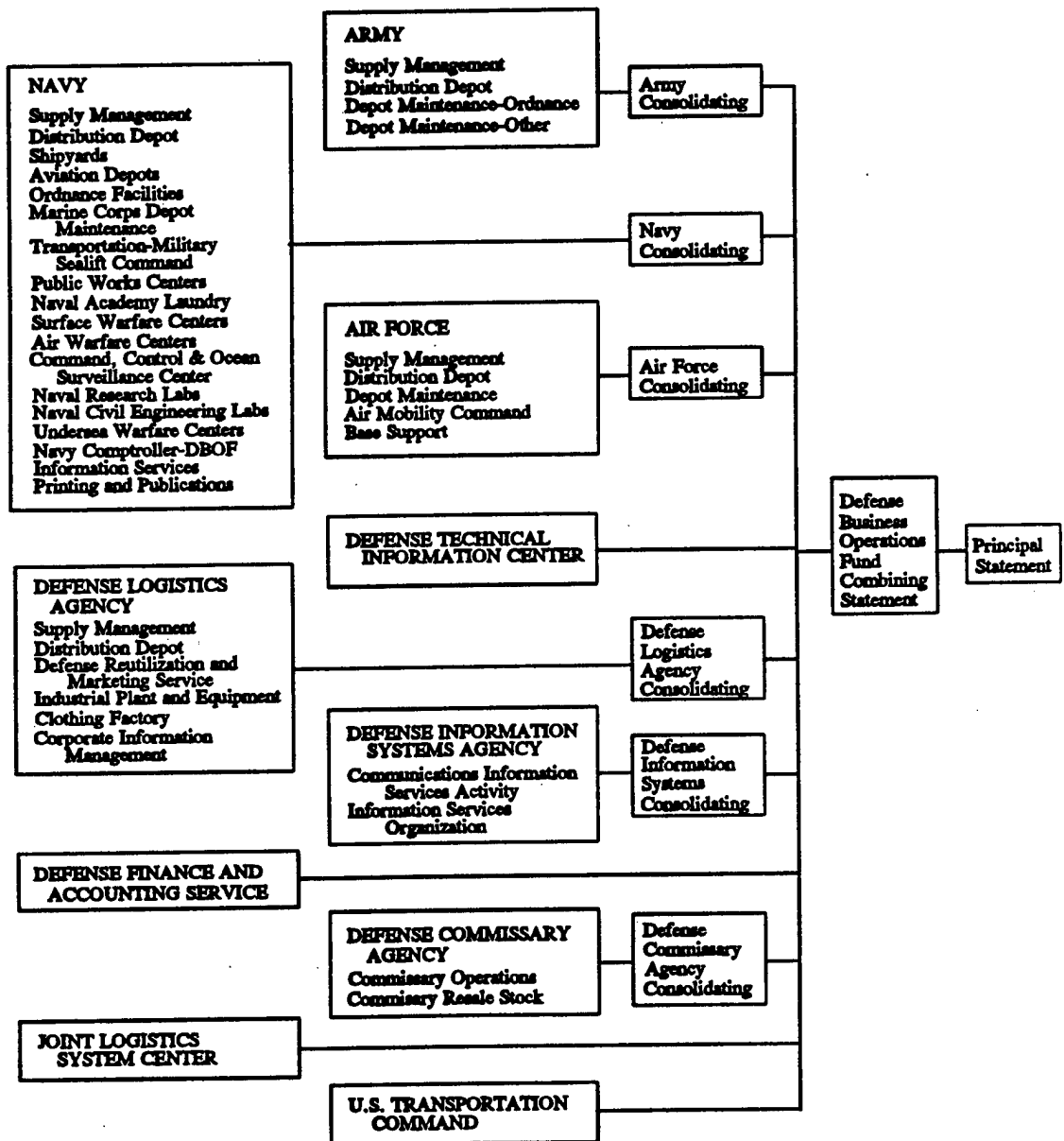
<u>Report No.</u>	<u>Title</u>	<u>Date</u>
93066011	Review of Application Controls Within the Depot Maintenance Equipment Program	November 16, 1994
93066012	Review of Application Controls Over Time and Attendance Reporting in Air Force Materiel Command Depot Maintenance Activities	November 4, 1994
93066024	Review of Application Controls Within the Financial Inventory Accounting and Billing System	October 3, 1994
94068020	Opinion on Air Force DBOF, Fiscal Year 1993 Fund Balance With Treasury	June 30, 1994
94068019	Opinion on Air Force DBOF, Fiscal Year 1993 Property, Plant, and Equipment Balances	June 30, 1994
94068018	Opinion on Air Force DBOF, Fiscal Year 1993 Inventories Not Held for Sale Balance	June 30, 1994
94068017	Opinion on Air Force DBOF, Fiscal Year 1993 Inventories Held for Sale Balance	June 30, 1994
94068025	Air Force Depot Maintenance Service, Fiscal Year 1993 Material In-Transit Balances	April 1, 1994
93068005	Internal Controls and Management Issues Related to Laundry and Dry Cleaning Service, DBOF, Fiscal Year 1992 Financial Statements	September 7, 1993
92066008	Review of the Design and Development Activities for the Depot Maintenance Management Information System	August 18, 1993
93068024	Opinion on Air Force Consolidating Statements, DBOF, Fiscal Year 1992 Financial Statements	June 30, 1993
93068012	Opinion on Air Force Distribution Depot, DBOF, Fiscal Year 1992 Financial Statements	June 30, 1993

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<u>Report No.</u>	<u>Title</u>	<u>Date</u>
93068011	Opinion on Air Force Supply Management, DBOF, Fiscal Year 1992 Financial Statements	June 30, 1993
92068003	Opinion on Laundry and Dry Cleaning Service, DBOF, Fiscal Year 1992 Financial Statements	June 30, 1993
92068002	Opinion on Air Force Depot Maintenance Service, DBOF, Fiscal Year 1992 Financial Statements	June 30, 1993
92071002	Opinion on Air Force Transportation, DBOF, Fiscal Year 1992 Financial Statements	June 29, 1993
92066010	Review of General and Application Controls Within the Contract Depot Maintenance Production and Cost System	April 1, 1993
92066002	Review of General and Application Controls Within the Equipment Inventory, Multiple Status and Utilization Reporting Subsystem	April 1, 1993
92062001	Review of Depot Maintenance Industrial Fund Revenue Accounts, Fiscal Year 1992 Financial Statements	February 28, 1993

# Appendix C. Financial Statement Reporting Structure for the Defense Business Operations Fund



# Appendix D. Summary of Work Performed by Others

Component	Business Area	FY 1995 Reported Assets	FY 1995 Reported Expenses	Scope of Audit Work Performed	Organizations Performing Audit Work	Audit Report Number	
Army	Supply Management	\$11,696,253,000	\$10,388,443,000	Limited <sup>1</sup>	Army Audit Agency	AA 96-185 AA 96-177 Unaudited	
	Depot Maintenance-Ordnance	800,980,000	586,045,000	None		AA 96-186	
	Depot Maintenance-Other	1,746,781,000	1,688,041,000	Limited <sup>1</sup>	Army Audit Agency	AA 96-177 Unaudited	
	Corporate Level Consolidating	330,612,000 14,504,221,000 <sup>2</sup>	0 10,710,652,000 <sup>2</sup>	None Limited <sup>3</sup>	Army Audit Agency	AA 96-177 AA 96-100 AA 96-178	
Navy	Supply Management	14,396,045,000	5,792,895,000	Limited <sup>4</sup>	Naval Audit Service	035-96 Unaudited	
	Distribution Depot	95,848,000	109,279,000	None		035-96	
	Depot Maintenance-Shipyards	2,154,940,000	2,788,386,000	Limited <sup>4</sup>	Naval Audit Service	035-96 Unaudited	
	Depot Maintenance-Aviation	1,553,340,000	1,140,792,000	Limited <sup>4</sup>	Naval Audit Service	035-96 Unaudited	
	Depot Maintenance-Ordnance	586,389,000	606,552,000	None		035-96	
	Depot Maintenance-Other (Marine Corps)	17,397,000	185,122,000	None		035-96	
	Transportation-Military Sealift Command	1,406,898,000	1,069,353,000	Limited <sup>4</sup>	Naval Audit Service	035-96 Unaudited	
	Base Support	1,047,026,000	1,969,462,000	Limited <sup>5</sup>	Naval Audit Service	035-96 Unaudited	
	Logistics Support Activities	124,156,000	350,512,000	None		035-96	
	Research and Development	3,286,319,000	8,106,654,000	Limited <sup>5</sup>	Naval Audit Service	Unaudited	
	Information Services	69,524,000	280,823,000	None		Unaudited	
	Defense Printing Service	128,472,000	402,079,000	None		Unaudited	
	Component	795,746,000	0	None		Unaudited	
	Consolidating	27,716,168,000 <sup>2</sup>	22,801,909,000 <sup>2</sup>	None		Unaudited	
	Air Force	Supply Management	29,100,391,000	15,710,552,000	Limited <sup>6</sup>	Air Force Audit Agency	95068020
		Depot Maintenance	2,927,212,000	4,277,333,000	Limited <sup>6</sup>	Air Force Audit Agency	95068021 Unaudited
Transportation-Air Mobility Command		(205,707,000)	0	None		Unaudited	
Base Support Consolidating		31,787,708,000 <sup>2</sup>	819,000 <sup>2</sup> 16,116,957,000 <sup>2</sup>	None None		Unaudited	
Defense Logistics Agency	Supply Management	11,290,529,000	12,863,549,000	None		Unaudited	
	Distribution Depots	1,020,792,000	1,604,201,000	None		Unaudited	
	Reutilization and Marketing Service	633,854,000	367,538,000	None		Unaudited	
	Industrial Plant and Equipment Center Clothing Factory Consolidating	138,778,000 7,775,000 13,091,728,000	10,870,000 (606,000) 14,845,552,000	None None Limited <sup>7</sup>	IG, DoD	Unaudited Unaudited 5FD-2020.01	

<sup>1</sup>The audit was limited to a review of selected accounts on the Statement of Operations and follow-up work on previously identified problems related to the Statement of Financial Position.  
<sup>2</sup>Amounts do not agree with the sum of the subparts.  
<sup>3</sup>Same as Footnote<sup>1</sup> for Supply Management and Depot Maintenance, Other; and summary-level review of the draft (consolidating and business area) financial statements for compliance with form and content guidance.  
<sup>4</sup>The audit was limited to a review of selected accounts on the Statement of Financial Position and the Statement of Operations.  
<sup>5</sup>The audit was limited to a review of selected internal controls for selected accounts on the Statement of Financial Position and the Statement of Operations.  
<sup>6</sup>The audit was limited to a review of Revenue elimination entries.  
<sup>7</sup>The audit was limited to a review of the internal controls of selected accounts within the Airlift Services Division for the Statement of Financial Position and the Statement of Operations.

## Appendix D. Summary of Work Performed by Others

Component	Business Area	FY 1995 Reported Assets	FY 1995 Reported Expenses	Scope of Audit Work Performed	Organization Performing Audit Work	Audit Report Number
Defense Technical Information Center	Consolidating	\$ (19,064,000)	\$ 12,506,000	None		Unaudited
Defense Information Systems Agency	Communications Information Services Activity	466,809,000	1,820,181,000	None		Unaudited
	Defense Megacenters	355,320,000	713,221,000	None		Unaudited
	Consolidating	822,129,000	2,533,402,000	None		Unaudited
Defense Finance and Accounting Service	DFAS Financial Operations	805,192,000	1,804,686,000	None		Unaudited
Defense Commissary Agency	Commissary Operations	(506,314,000)	1,073,422,000	None		Unaudited
	Retail Stocks	705,884,000	5,541,875,000	None		Unaudited
	Consolidating	199,570,000	6,615,297,000	None		Unaudited
Joint Logistics Service Center	Consolidating	845,841,000	29,755,000	None		Unaudited
U.S. Transportation Command	Consolidating	2,620,144,000	4,666,010,000	Limited <sup>8</sup>	Air Force Audit Agency	95068001
Corporate Account	Consolidating	137,019,000	0	None		Unaudited
Departmental	Consolidating	0	0	None		Unaudited
<b>Total</b>		<b>\$93,464,956,000<sup>2</sup></b>	<b>\$80,136,989,000<sup>2</sup></b>			

- <sup>1</sup>The audit was limited to a review of selected accounts on the Statement of Operations and follow-up work on previously identified problems related to the Statement of Financial Position.
- <sup>2</sup>Amounts do not agree with the sum of the subparts.
- <sup>3</sup>Same as Footnote <sup>1</sup> for Supply Management and Depot Maintenance, Other, and summary-level review of the draft (consolidating and business area) financial statements for compliance with form and content guidance.
- <sup>4</sup>The audit was limited to a review of selected accounts on the Statement of Financial Position.
- <sup>5</sup>The audit was limited to a review of selected accounts on the Statement of Financial Position and the Statement of Operations.
- <sup>6</sup>The audit was limited to a review of selected internal controls for selected accounts on the Statement of Financial Position and the Statement of Operations.
- <sup>7</sup>The audit was limited to a review of Revenue elimination entries.
- <sup>8</sup>The audit was limited to a review of the internal controls of selected accounts within the Airlift Services Division for the Statement of Financial Position and the Statement of Operations.

## Appendix E. Deficiencies Identified in FY 1995

### Deficiencies Identified in FY 1995 by Inspector General, DoD<sup>1</sup>

<u>Source</u>	<u>Description</u>	<u>Amount (thousands)</u>	<u>Corrected</u>
IG, DoD, Report No. 96-198	DLA Revenues were overstated because revenues from DLA sales to intra-DBOF customers were not eliminated from the amount reported in the FY 1995 financial statements.	\$ 8,400,000	No
IG, DoD, Project No. 5FI-2016	DFAS centers inconsistently reported the financial data in general ledger account code 6900, Other Expenses, on the Statement of Operations.	547,700	No
	The DFAS Columbus Center misclassified operating expenses due to conflicting guidance.	1,100,000	No
	The dollar amount for Other Expenses varied significantly between the financial statements and Accounting Report 1307.	2,500,000	No
IG, DoD, Project No. 5FI-2017	The DFAS Columbus Center recorded an invalid obligation because USD(C) policies for supporting and recording the obligation were not followed.	216,700	No

<sup>1</sup>This appendix shows deficiencies with high dollar amounts. It presents most of the deficiencies reported by the IG, DoD, and the Service audit agencies.

**Appendix E. Deficiencies Identified in FY 1995**

<u>Source</u>	<u>Description</u>	<u>Amount (thousands)</u>	<u>Corrected</u>
<b>Deficiencies Identified in FY 1995 by Army Audit Agency</b>			
<b>Army Audit Agency Report AA 96-186</b>			
<b>Finding A. Reporting Operating Results</b>	<b>Operating results for pricing were not accurate because appropriate measures were not taken to ensure that accurate computations of operating results for pricing were made.</b>	<b>\$ 191,600</b>	<b>No</b>
<b>Finding B. Revenue Recognition</b>	<b>Revenue was understated by using the DoD completed-order revenue recognition method rather than the Army's completed-unit revenue recognition method.</b>	<b>111,000</b>	<b>No</b>
<b>Army Audit Agency Report AA 96-185</b>			
<b>Finding A. Cost of Goods Sold and Other Expenses</b>	<b>The beginning balance of Allowance for Unrealized Holding Gains and Losses was overstated.</b>	<b>8,927,000</b>	<b>Partly (\$5.4 Billion)</b>
	<b>The ending balance of Allowance for Unrealized Holding Gains and Losses was understated.</b>	<b>6,075,000</b>	<b>Partly (\$1.4 Billion)</b>
	<b>Realized Gains and Losses was Understated.</b>	<b>202,000</b>	<b>No</b>
	<b>Other Expenses was understated.</b>	<b>2,155,000</b>	<b>Partly (\$1.8 Billion)</b>
<b>Finding B. Eliminating Entries</b>	<b>Revenue and Cost of Goods Sold were overstated due to inaccurate elimination of intrafund sales transactions.</b>	<b>848,000</b>	<b>Yes</b>
<b>Finding C. Prior Period Adjustments</b>	<b>Prior period adjustments understated Revenues and Expenses, causing overall results to be overstated.</b>	<b>404,500</b>	<b>Yes</b>

## Appendix E. Deficiencies Identified in FY 1995

<u>Source</u>	<u>Description</u>	<u>Amount (thousands)</u>	<u>Corrected</u>
<b>Deficiencies Identified in FY 1995 by Naval Audit Service</b>			
Naval Audit Service Report No. 035-96			
Finding 1. Fund Balance With Treasury	Estimates of sales collections were inappropriately included in the Fund Balance With Treasury account.	\$ 153,300	No
Finding 2. Accounts Receivable, Net, Federal	Accounts Receivable, Net, Federal was misstated due to the use of estimates, incorrectly posting transactions, not reporting receivables, and reporting receivables that were not owed.	262,400	No
	Accounts Receivable, Net, Federal, could not be validated due to a lack of supporting documentation.	31,756	No
Finding 5. Work in Process	Work in Process was misstated because revenue recognition was incorrectly applied, reported amounts were not reconciled with supporting subsidiary ledgers, and uncollectible cost overruns were not written off in the period they occurred.	84,800	No
Finding 7. Property, Plant and Equipment	Property, Plant and Equipment was understated due to inaccurate reporting.	1,305,883	No
Finding 8. Accounts Payable, Federal	Accounts Payable, Federal, accounts were simultaneously overstated and understated.	110,893	No
Finding 10. Accounts Payable, Non-Federal	Accounts Payable, Non-Federal, accounts were simultaneously overstated and understated due to untimely processing of payments and liabilities, misclassification of transactions, inadequate records, and accounting system deficiencies.	96,227	No
Finding 14. Cash Balance	Fund Balance With Treasury was overstated due to the use of estimates. Actual balances would have been negative, representing a possible Antideficiency Act violation.	129,400	No

## Appendix E. Deficiencies Identified in FY 1995

Source	Description	Amount (thousands)	Corrected
Finding 15. Cash Reconciliation	Collections and Disbursements were overstated.	\$ 2,300,000	No
Finding 16. Inventory Valuation	The Navy's Inventory, Net, account was not adequately supported or based on DoD guidance.	12,900,000	No

### Deficiencies Identified in FY 1995 by Air Force Audit Agency

**Air Force Audit Agency Project  
95068020**

Tab D. Equipment	AFMC <sup>2</sup> and DFAS did not capitalize and record the value of ADP software in financial records as directed by DoD Regulation 7000.14. ADP Software was understated.	\$ 396,400	Yes <sup>3</sup>
	Associated depreciation was not recorded for ADP Software.	350,300	Yes
	Management could not verify the accuracy of ADP software and hardware. Also, AFMC supply management did not retain supporting documentation for software and hardware capitalized.	220,600	Yes
Tab F. System Documentation	Sales could not be validated due to lack of current documentation for the Financial Inventory Accounting and Billing System.	1,000,000	Yes
	Purchases could not be validated due to lack of current documentation for the Financial Inventory and Billing System.	1,600,000	Yes
Tab G. Accounting Adjustments	Sufficient documentation was not available to support 36 accounting adjustments.	9,931,000	Yes

<sup>2</sup>Air Force Materiel Command

<sup>3</sup>Management stated in its comments to the Air Force Audit Agency that the deficiencies noted in Project 95068020 will be corrected by October 1, 1996. The Air Force Audit Agency has not done follow-up work to verify these corrections.

## Appendix E. Deficiencies Identified in FY 1995

<u>Source</u>	<u>Description</u>	<u>Amount (thousands)</u>	<u>Corrected</u>
<b>Air Force Audit Agency Project 95068021</b>			
Tab A. Disbursements	DFAS personnel did not validate billings prior to payment.	\$ 235,000	No
Tab B. Material In-Transit to Supply	AFMC did not have sufficient accounting records to validate the Material In-Transit account.	193,000	No
	AFMC financial management systems did not correctly process noncreditable Government Furnished Material returns from contractors, resulting in understated expenses.	221,600	No
Tab C. Property, Plant and Equipment	AFMC and depot maintenance organizations understated facilities, equipment, and computer software because they did not follow DoD policy.		
	o Facilities	83,000	No
	o Equipment	366,000	No
	o Software	330,000	No
	DFAS personnel did not reconcile differences between trial balance amounts and associated subsidiary records, as required by DoD policy.	282,000	No
Tab E. Accounts Payable	The DFAS Columbus Center Mechanization of Contract Administration Services accounting system did not report Depot Maintenance Service Business Area accounts payable for financial reporting.	80,100	No
Tab F. Revenue	DFAS organizations did not properly measure organic revenue and contract maintenance revenues included in the Depot Maintenance Service Business Area financial reports.		
	o Organic Revenue	11,400	No
	o Contract Revenue	1,100,000	No

## Appendix E. Deficiencies Identified in FY 1995

<u>Source</u>	<u>Description</u>	<u>Amount (thousands)</u>	<u>Corrected</u>
Tab G. Cost of Goods and Services Sold	Accrued expenses were overstated due to inaccurate estimates of total costs.	436,500	No
	DFAS personnel did not deobligate unnneeded funds in a timely manner.	39,300	No

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## Appendix F. Internal Control Structure

An organization's internal control structure\* consists of policies and procedures that provide reasonable assurance that its objectives will be achieved. In a financial statement audit, the auditors test the organization's ability to process, summarize, and report financial data consistent with auditing standards. The internal control structure is divided into three elements: the control environment, the accounting system, and the control procedures.

**Control Environment.** The control environment represents the organization's management approach that establishes, enhances, or mitigates the effectiveness of specific policies and procedures. The organizational structure, the board of directors, methods of assigning authority and responsibility, management's methods for monitoring and following up on performance, and personnel policies and practices are a few examples of management's affect on the control environment. The control environment reflects the overall attitude, awareness, and actions of the board of directors, management, owners, and others concerning the importance of control and its emphasis in the organization.

**Accounting System.** The accounting system of an organization consists of the methods and records that identify, assemble, analyze, classify, record, and report transactions and maintain accountability for pertinent assets, liabilities, revenues, and expenses. Generally, an effective accounting system will ensure that an adequate audit trail exists to fully support a transaction.

**Control Procedures.** Control procedures are the policies and procedures used by management, in addition to the control environment and accounting system, to achieve the organization's objectives. Authorizing transactions and organizations, segregating duties, safeguarding assets, independent checking on performance, and proper valuation of recorded amounts are a few examples of control procedures.

A proper internal control structure lays the foundation for efficient and effective operations. By establishing the elements of a proper internal control structure management enhances its ability to obtain accurate, timely information to make informed decisions. With the firm commitment of management, a strong internal control structure can overcome existing deficiencies in an accounting system and permit the preparation and presentation of financial statements that are fairly stated.

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\*This definition of an internal control structure is from the American Institute of Certified Public Accountants "Codification of Statements on Auditing Standards," sections 319.06 through 319.11, January 1, 1994. In our opinion, this definition is all-inclusive and is synonymous with the definition of management controls as stated in Office of Management and Budget Circular No. A-123, June 21, 1995.

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## **Appendix G. Organizations Visited or Contacted**

### **Office of the Secretary of Defense**

Office of the Under Secretary of Defense (Comptroller), Washington, DC  
Director of Revolving Funds, Office of the Deputy Comptroller (Program/Budget),  
Washington, DC  
Director of Accounting Policy, Office of the Deputy Chief Financial Officer,  
Washington, DC

### **Department of the Army**

Army Audit Agency, Alexandria, VA  
Army Audit Agency, Letterkenny Army Depot, Chambersburg, PA

### **Department of the Navy**

Naval Audit Service, Arlington, VA  
Naval Audit Service, Southeast Region, Virginia Beach, VA

### **Department of the Air Force**

Air Force Audit Agency, Wright-Patterson Air Force Base, OH

### **Other Defense Organizations**

Headquarters, Defense Finance and Accounting Service, Arlington, VA  
Defense Finance and Accounting Service Cleveland Center, Cleveland, OH  
Defense Finance and Accounting Service Columbus Center, Columbus, OH  
Defense Finance and Accounting Service Denver Center, Denver, CO  
Defense Finance and Accounting Service Indianapolis Center, Indianapolis, IN  
Defense Logistics Agency, Fort Belvoir, VA

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## **Appendix H. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense for Acquisition and Technology  
Deputy Under Secretary of Defense (Logistics)  
Director, Defense Logistics Studies Information Exchange  
Under Secretary of Defense (Comptroller)  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)  
General Counsel of the Department of Defense  
Assistant to the Secretary of Defense (Public Affairs)

### **Department of the Army**

Assistant Secretary of the Army (Financial Management and Comptroller)  
Auditor General, Department of the Army  
Commander, U.S. Army Corps of Engineers

### **Department of the Navy**

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

### **Department of the Air Force**

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

### **Unified Command**

Commander in Chief, United States Transportation Command

## **Other Defense Organizations**

Director, Defense Finance and Accounting Service  
  Director, Defense Finance and Accounting Service Cleveland Center  
  Director, Defense Finance and Accounting Service Columbus Center  
  Director, Defense Finance and Accounting Service Denver Center  
  Director, Defense Finance and Accounting Service Indianapolis Center  
Director, Defense Contract Audit Agency  
Director, Defense Information Systems Agency  
Director, Defense Logistics Agency  
Director, Joint Logistics Systems Center  
Director, Defense Commissary Agency

## **Non-Defense Federal Organizations**

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

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 National Security  
House Committee on Government Reform and Oversight  
House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight

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