



**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE**

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September 11, 1991

MEMORANDUM FOR COMPTROLLER OF THE DEPARTMENT OF DEFENSE
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL
MANAGEMENT)
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL
MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE LOGISTICS AGENCY
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Report on the Audit of Foreign Military Sales Trust
Fund Disbursement Reporting (Report No. 91-118)

Introduction

This is our final report on the Audit of Foreign Military Sales Trust Fund Disbursement Reporting, provided for your information and use. The audit was made from August 1990 through March 1991. The overall objective of the audit was to determine whether disbursements from the Foreign Military Sales (FMS) Trust Fund were promptly and accurately reported to the Defense Finance and Accounting Service - Denver Center, formerly the Security Assistance Accounting Center (SAAC). Specifically, we evaluated the quality of the documentation and determined whether finance and accounting offices reported disbursements with sufficient detail to identify the country and case. We also evaluated internal controls established by applicable DoD Components and determined whether the audited activities corrected reporting errors promptly. In addition, we evaluated the Defense Logistics Agency's (DLA's) implementation of the internal management control program required by the Federal Managers' Financial Integrity Act (FMFIA) as it pertained to the audit objectives.

Discussion

During FY 1990, DoD disbursed \$9.3 billion for FMS transactions. The Military Departments and SAAC have implemented internal controls to ensure prompt and accurate reporting of FMS Trust Fund disbursements. Transaction records were generally supported by valid documentation that also identified countries and cases properly.

The Army and the Air Force were promptly correcting errors in disbursement records; however, the Navy was not promptly correcting disbursement transactions. For the 4-month period ending October 31, 1990, the Navy's undistributed balance rose from \$144.3 million to \$155.0 million, a \$10.7 million increase. We did not consider \$10.7 million growth in undistributed disbursements significant compared to the

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\$2.5 billion the Navy had disbursed for FMS in FY 1990. Navy regulations require undistributed or unmatched disbursement transactions to be resolved within the next billing cycle. The Navy's undistributed balances increased because these transactions were commingled with other rejected financial transactions, and were not given a high priority for correction. In addition, the contractor did not meet the contract requirements for correcting disbursement transactions in a timely manner. Management was aware of the contractor's performance because an internal review report from the Navy International Logistics Control Office identified the problem of correcting disbursement transactions. Management took action by requiring the contractor to develop a new quality control plan that included an improved system to monitor disbursement transactions and process them promptly.

DLA had implemented the internal management control program required by FMFIA as it pertained to the audit objectives.

Scope of Audit

This program audit was made from August 1990 through March 1991 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD, and accordingly included such tests of internal controls as were considered necessary. Activities visited or contacted during the audit are listed in Enclosure 2.

We reviewed 15,406 net disbursement transactions, valued at \$774.3 million, that were reported to SAAC during June 1990. Using these disbursement transactions, we evaluated the Military Departments' procedures for recording and reporting, and determined the accuracy of documentation. In addition, we obtained SAAC's cumulative list of undistributed disbursement transactions as of June 1990. We used the list to determine whether the Military Departments corrected errors promptly.

Internal Controls

We evaluated the internal controls used by SAAC and the Military Departments to determine whether FMS disbursements were accurately and promptly recorded and reported to SAAC and the Treasury of the United States. We evaluated reconciliations among disbursing stations, requests for authority to make expenditures, and reconciliations between SAAC and the Treasury of the United States. We also reviewed procedures and controls for the Positive Transaction Control and the Case Level Disbursement systems to determine whether the Military Departments' disbursement reporting to SAAC had improved and how effective it was. The internal controls applicable to FMS Trust Fund disbursements were deemed effective in that no material deficiencies were disclosed by the audit.

Background

Through the FMS Program, eligible foreign governments purchase Defense articles, services, and training from the U.S. Government. The Arms Export Control Act of 1976, as amended, authorizes the sale of Defense articles and requires the purchasing government to pay all costs associated with a sale. The FMS Trust Fund is credited with receipts from purchasing governments, and funds are held in trust by the Treasury of the United States. SAAC manages the FMS Trust Fund through centralized accounting. The Military Departments and the Defense Logistics Agency use established financial systems to make disbursements from the FMS Trust Fund. The disbursement transactions are then reported to the Treasury of the United States and to SAAC. During FY 1990, DoD disbursed \$9.3 billion for FMS transactions.

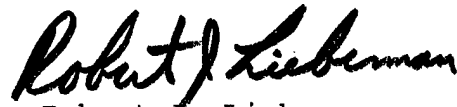
To ensure that FMS disbursements have accurate country and case information, the Military Departments use automated systems to validate disbursement transactions. If a disbursement transaction cannot be identified to a valid country and case, SAAC and the Military Departments classify the disbursement as undistributed.

Prior Audits and Other Reviews

United States General Accounting Office (GAO) Report AFMD-88-75, "Foreign Military Sales: Redirection of Accounting Improvement Efforts Is Appropriate," September 15, 1988, OSD Case No. 7772, identified major accounting and internal control weaknesses that impair DoD's ability to properly manage the FMS Trust Fund and give accurate statements to customers. According to the GAO, inadequate controls existed over the accuracy of data that the Military Departments submitted to SAAC, and SAAC could not reconcile country-level balances in the FMS Trust Fund with each country's subsidiary case balances. The report recommended that the Secretary of Defense make the Air Force responsible for FMS accounting and reconciliation procedures and clarify the role of the Defense Security Assistance Agency's Reconciliation and Case Closure Board in the reconciliation process. The Secretary of Defense concurred with the recommendation. Satisfactory progress has been made in improving reconciliation procedures.

We provided a draft of this report to the addressees on June 19, 1991. Because we made no recommendations, no comments were required from management, and none were received. Therefore, we are publishing this report in final form. Any comments on this final report should be provided by October 9, 1991.

The courtesies extended to the audit staff are appreciated. Please contact Mr. Alvin L. Madison, Program Director, at (703) 614-1681 (DSN 224-1681) or Mr. F. Jay Lane, Project Manager, at (703) 693-0651 (DSN 223-0651) if you have any questions concerning this report.



Robert J. Lieberman
Assistant Inspector General
for Auditing

Enclosures

cc:

Secretary of the Army
Secretary of the Navy
Secretary of the Air Force
Director, Defense Security Assistance Agency

SUMMARY OF POTENTIAL MONETARY AND OTHER
BENEFITS RESULTING FROM AUDIT

<u>Recommendation</u> <u>Reference</u>	<u>Description of Benefits</u>	<u>Amount and/or</u> <u>Type of Benefit</u>
Not applicable	None identified	Not applicable

ENCLOSURE 1

ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Comptroller of the Department of Defense, Washington, DC

Department of the Army

U.S. Army Tank and Automotive Command, Warren, MI

Department of the Navy

Assistant Secretary of the Navy (Financial Management)

Naval Supply Systems Command, Washington, DC

Navy International Logistics Control Office, Philadelphia, PA

Aviations Supply Office, Philadelphia, PA

Naval Publications and Forms Center, Philadelphia, PA

Department of the Air Force

2750th Air Base Wing, Wright-Patterson Air Force Base, OH

Bolling Air Force Base, Washington, DC

Defense Logistics Agency

Headquarters, Defense Logistics Agency, Alexandria, VA

Defense Contract Management Region, Philadelphia, PA

Defense Construction Supply Center, Columbus, OH

Defense Electronics Supply Center, Dayton, OH

Defense Finance Center, Columbus, OH

Defense Industrial Supply Center, Philadelphia, PA

Defense Personnel Support Center, Philadelphia, PA

Other Defense Activities

Defense Finance and Accounting Service - Denver Center,
Denver, CO

Defense Finance and Accounting Service - Indianapolis Center,
Indianapolis, IN

Defense Finance and Accounting Service - Washington Center,
Washington, DC

Defense Security Assistance Agency, Washington, DC

Office of the Assistant Inspector General for Criminal
Investigation, Washington, DC

Office of the Assistant Inspector General for Inspections,
Washington, DC

ACTIVITIES VISITED OR CONTACTED (cont'd)

Non-DoD Activities

General Accounting Office, Washington, DC
Treasury of the United States, Washington, DC
Office of Management and Budget, Washington, DC

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Department of the Air Force

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Assistant Secretary of the Air Force (Financial Management and
Comptroller)

Defense Logistics Agency

Headquarters, Defense Logistics Agency

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Office of Management and Budget
U.S. General Accounting Office, NSIAD Technical
Information Center
Treasury of the United States

Congressional Committees:

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Senate Committee on Armed Services
Senate Committee on Governmental Affairs
Senate Ranking Minority Member, Committee on Armed Services
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Ranking Minority Member, Committee on Appropriations
House Committee on Armed Services
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Committee on Government Operations

INTERNET DOCUMENT INFORMATION FORM

A . Report Title: Report on the Audit of Foreign Military Sales Trust Fund Disbursement Reporting

B. DATE Report Downloaded From the Internet: 07/06/00

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D. Currently Applicable Classification Level: Unclassified

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F. The foregoing information was compiled and provided by:
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