

GAO

Report to the Chairman, Subcommittee  
on Oversight and Investigations,  
Committee on Energy and Commerce,  
House of Representatives

May 1991

# FINANCIAL AUDIT

## Status of Air Force Actions to Correct Deficiencies in Financial Management Systems



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**Accounting and Financial  
Management Division**

B-234326

May 16, 1991

The Honorable John D. Dingell  
Chairman, Subcommittee on Oversight  
and Investigations, Committee  
on Energy and Commerce  
House of Representatives

Dear Mr. Chairman:

In your January 7, 1991, letter, you requested that we brief your staff on several issues presented in our report entitled, Financial Audit: Air Force Does Not Effectively Account for Billions of Dollars of Resources (GAO/AFMD-90-23, February 23, 1990). In a later discussion with the Subcommittee, we agreed to report to you on the current status of (1) any follow-up actions related to an undocumented and unexplained \$2.4 billion adjustment made by the Air Force Systems Command's Space Division and (2) the corrective actions planned by the Department of Defense (DOD) and the Air Force in response to the 26 recommendations presented in the report.

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**Results in Brief**

Space Division officials are still unable to provide documentation or an explanation for the \$2.4 billion adjustment. Subsequent to our report, Space Division personnel attempted to research the adjustment, but researchers could explain only \$81 million of the amount. The staff and managers involved with the adjustment are no longer working at the Space Division, and there was no documentation to explain the adjustment.

In commenting on our February 1990 report, the DOD Comptroller stated that Defense Management Report (DMR) initiatives would partly or wholly implement corrective actions for 17 recommendations. We followed up with DOD officials responsible for those DMR initiatives relating to our recommendations and were informed that the initiatives were progressing. However, we were provided with neither a specific plan of action nor milestones for the initiatives.

An August 1990 Air Force action plan contained planned corrective actions for most of our 26 recommendations. We recently met with officials of the Defense Finance and Accounting Service (DFAS), Denver

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Center<sup>1</sup> to determine the status of planned corrective actions. Generally, we found that the Air Force had failed to implement corrective actions in accordance with its action plan and as a result, only limited progress has been made in rectifying the deficiencies we previously reported.

Several events have occurred which will affect the nature and timing of Air Force and DOD actions. First, the Chief Financial Officers Act of 1990 requires (1) the Air Force, beginning with fiscal year 1992, to prepare and submit financial statements to the Office of Management and Budget and (2) the DOD Inspector General or an independent external auditor to issue a report on the audit of the statements. Second, DOD has established a single organization for all accounting and finance activities throughout the Department. Accordingly, the Air Force Accounting and Finance Center is now a component of that DOD organization, and DOD will be responsible for directing any actions to address our recommendations. Third, DOD has initiated a long-term effort to improve financial management which includes establishing a single accounting system to serve all DOD organizations.

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## Background

Through the 1980s, there were mounting concerns over the federal government's declining fiscal condition and the ineffective management and control over its financial operations. During this period, we conducted a number of audits of federal agencies' financial management operations, including audits of the Air Force for fiscal years 1988 and 1989.

Major portions of our work during those two audits were conducted at the Air Force Systems Command (AFSC). Our report entitled, Financial Audit: Financial Reporting and Internal Controls at the Air Force Systems Command (GAO/AFMD-91-22, January 23, 1991) discusses the results of our review of AFSC's financial operations for the 2 years. In that report, we stated that AFSC's trial balances reported to DFAS, Denver Center, contained account balances which were often unsupported, inaccurate, and/or questionable.

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<sup>1</sup>As discussed later in the report, in January 1991, DOD established DFAS, a single organization for all finance and accounting activities within the Department. The Air Force Accounting and Finance Center was made a component of the new organization and is now known as the DFAS, Denver Center. Information presented in this report which relates to Air Force systems, plans, and actions instituted before the organization of DFAS are attributed to the Air Force. Discussions held since January 20, 1991, with Finance Center officials are attributed to DFAS officials.

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In our February 1990 report, we made 26 recommendations to the Secretary of the Air Force for improving financial management systems and internal controls. In August 1990, the DOD Comptroller concurred or partially concurred with all of our recommendations. Also, during that month the Air Force provided us its action plan for correcting the problems we reported.

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## Objectives, Scope, and Methodology

Our objectives were to follow up on the status of the \$2.4 billion adjustment and the corrective actions implemented in response to our recommendations. During January 1991, we met with the responsible DOD and Air Force officials and discussed these issues. We analyzed the Air Force's corrective action plan and ascertained, primarily through interviews with Air Force and DOD officials, the progress made in implementing the proposed actions. We did not evaluate the effectiveness of the completed actions.

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## Officials Still Unable to Document or Explain the \$2.4 Billion Adjustment by the Space Division

During our 1988 audit, we found that adjustments totaling billions of dollars were made to account balances without supporting documentation. Air Force officials could not provide explanations for many of the adjustments. A primary example cited in our report was the Space Division's trial balance for March 31, 1988, in which the general expenses control account balance differed from its subsidiary records by \$2.4 billion. In order to get the account balances to agree, the trial balance amount for the Other Operating Gains and Losses account generated by the computerized accounting system was arbitrarily decreased by \$2.4 billion. After our February 1990 report was issued, the Space Division attempted to research the adjustment, but with no audit trail or documentation, researchers could only explain \$81 million of the adjustment.

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## Accurate Trial Balances Are Needed for Effective Management

Trial balances are a primary source of information for the Air Force's financial statements and reports. Once prepared, trial balances need to be analyzed to detect any accounting errors, questionable account balances, or unexplained variances in account balances.

The Air Force's policies recognize the need to have accurate trial balances, but these policies were not followed in a number of instances we identified. Air Force Regulation 177-101, General Accounting and Finance Systems at Base Level, specifies that the Accounts Control Section of the Accounting and Finance Office is responsible for establishing and maintaining general ledgers and ensuring that general ledger

account balances and the ensuing trial balances are accurate and supported by reliable documentation. Furthermore, the regulation states that organizations responsible for maintaining accounting records should (1) ensure that account balances are supported by detailed records, (2) investigate unusual and unreasonable balances, and (3) make necessary adjusting and correcting entries before the trial balances are prepared. In addition, Air Force Regulation 177-130 requires major commands to review trial balances for accuracy and completeness before reporting the information to the Air Force Accounting and Finance Center (now DFAS, Denver Center).

The Air Force Accounting and Finance Center (now DFAS, Denver Center) prepares the Air Force's consolidated financial statements and reports. The financial statements and reports are developed from information obtained from a variety of sources, including the trial balances submitted by AFSC.

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### **Space Division's Trial Balances Were Incomplete and Inaccurate**

The March 1988 Space Division trial balance clearly showed a typed-over \$2.4 billion change. The change apparently was not questioned or investigated by responsible officials as required by Air Force regulations. Further, AFSC headquarters staff did not identify or question the change. They received the trial balances from subordinate organizational units, consolidated them, and reported the information to the Air Force Accounting and Finance Center. The review of the trial balances required by Air Force Regulation 177-130 was apparently not performed, or not performed effectively.

According to Air Force regulations and AFSC officials, the Chief of Accounts Control at the Space Division was responsible for ensuring that account balances and trial balances were accurate, reliable, and properly documented and supported. The individual who was Chief of Accounts Control when the March 31, 1988 and September 30, 1988, trial balances were prepared and submitted to AFSC headquarters is no longer employed at the Space Division. The Space Division has been unable to explain or document why the \$2.4 billion discrepancy occurred in the March 31, 1988, trial balance, even though staff have subsequently researched the problem.

We also reviewed Space Division year-end trial balances issued previously (September 30, 1987) and subsequently (September 30, 1988) to

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the March 31, 1988, report. Our review showed that similar out-of-balance conditions did not exist in the 1987 year-end trial balance. However, our review of the year-end trial balance for 1988 showed that the report did not contain any expense and revenue accounts, including the Other Operating Gains and Losses account which, 6 months before, had been arbitrarily reduced by \$2.4 billion. The then-Chief of Accounts Control stated that he did not prepare a trial balance worksheet nor include the accounts in the trial balance as required by Air Force regulations. According to an AFSC official, command headquarters staff did not notice that the accounts were omitted and, therefore, the problem was not corrected. As a result, the financial reports and statements prepared from these trial balances were inaccurate and unreliable.

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### Progress Made to Improve Internal Control Environment at the Space Division

Since our report, the Space Division has placed a greater priority on the accuracy and reliability of trial balances. Particularly, the Space Division has focused on developing stronger internal controls for future financial reports. During our fiscal year 1989 audit, we were provided supporting documentation for the March and September 1989 trial balances. In addition, required adjustment folders contained journal vouchers including explanations for all adjustments made to the computer generated amounts.

The Space Division has been reorganized to establish upgraded positions for qualified, competent staff. Thirteen additional positions were established at higher grade levels. For example, within the accounts control section, one person has been assigned to maintain the trial balance, and another has been assigned to monitor merged accountability and financial reporting transactions. As of January 1991, the Space Division managers and staff involved with the \$2.4 billion adjustment no longer work at the Space Division, except for the former accounting and finance officer, and he is no longer in that position.

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### Status of Actions on GAO's Recommendations

In our February 1990 report, we made 26 recommendations to the Secretary of the Air Force. On August 17, 1990, the DOD Comptroller concurred or partially concurred with all of our recommendations. Furthermore, the DOD Comptroller agreed that the Air Force accounting system needed improvement and stated that DMR initiatives, the long-term financial management improvement effort, will resolve a number of the problems we reported. In August 1990, the Air Force provided us its action plan, which contains specific steps it planned to take in response to our recommendations. To date, limited progress has been

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made by DOD and the Air Force in implementing our recommendations. However, events which have occurred subsequent to the issuance of our report will substantially affect the manner in which our recommendations are addressed.

First, on November 15, 1990, the President signed into law the Chief Financial Officers Act of 1990, Public Law 101-576. This law provides for the establishment of a leadership structure for improving financial management in the executive branch, the development of a comprehensive financial management reform plan, preparation and audit of financial statements for revolving-type funds and commercial-like activities, and preparation and audit of agencywide financial statements on a pilot basis for 10 major departments and agencies.

The CFO Act requires (1) the Air Force to prepare and submit to the Office of Management and Budget by March 31, 1993, consolidated financial statements for fiscal year 1992 and (2) the DOD Inspector General or an independent external auditor to issue a report on the audit of those statements by June 30, 1993. Our recommendations prescribed actions needed to produce auditable financial statements. Thus, DOD and the Air Force will need to make substantial progress on our recommendations in order to develop auditable financial statements for fiscal year 1992.

Second, on January 20, 1991, DOD established a single organization for all finance and accounting activities throughout the Department. This organization, known as the DFAS, is comprised of a headquarters and the various finance and accounting centers previously operated by the military departments and the Defense Logistics Agency. The Air Force Accounting and Finance Center is now a component of DFAS and is known as DFAS, Denver Center. DFAS will operate under the direction of the DOD Comptroller with an integral part of its mission being the improvement of financial management within DOD. DFAS will also be responsible for executing statutory and regulatory financial reporting requirements and preparing consolidated financial statements, including those of the Air Force. Thus, actions requiring major system changes to accomplish many of the 26 recommendations will have to be taken or directed by DFAS rather than the Air Force.

Third, DOD has initiated a comprehensive, long-term effort to streamline its administrative operations in response to the President's call for improved DOD management in his February 1989 address to the Congress. Following the President's request, DOD completed the Defense



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Management Report in July 1989 which identified a number of measures to improve management and conserve resources. One of the initiatives, known as Corporate Information Management, embodies a number of objectives, including: (1) ensuring the standardization, quality, and consistency of data from DOD's management information systems, (2) identifying and implementing management efficiencies, and (3) eliminating duplicate efforts in systems development.

A long-range goal of these initiatives is establishing a single accounting system to service all DOD organizations including the three military departments. Consequently, DOD directed the military departments to reduce the number of system development efforts. The Base Level Accounting and Reporting System project, which the Air Force had underway during our financial audit and about which we made several recommendations, was canceled. The DOD responses and the Air Force's action plan cited the recommendations that the DMR initiatives would address. However, it should be noted that the DMR is in the initial phase of a long development process and tangible benefits from the initiatives are unlikely to be realized for several years.

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### Limited Progress Made to Correct Financial Accounting Problems

We followed up with DOD and Air Force officials to ascertain the status of corrective actions implemented in response to our recommendations. Generally, we found that only limited progress has been made in implementing planned corrective actions. DOD is in the early stages of implementing its DMR initiatives. These are long-term proposals, and relatively few corrective actions are expected to be realized soon. Actions contained in the Air Force's corrective action plan were originally planned to be completed in December 1993. However, many of the Air Force's interim actions are behind schedule, which will likely delay completion of its plan. Appendix I provides DOD's responses to our recommendations and the current status of actions taken on them.

In our view, the Air Force has not sufficiently emphasized correcting the deficiencies in its financial management systems which we reported in February 1990. Few of its planned corrective actions had been implemented as scheduled. Although DOD envisions that the DMR initiatives will resolve many of the problems we reported, the Air Force still needs to take aggressive actions to improve its internal controls and the quality of financial data in existing systems. The systems to be developed under the DMR initiatives will not be operational for years. Therefore, the Air Force will have to continue to use its existing systems for

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management purposes, making it quite important that it immediately correct, to the fullest extent possible, existing deficiencies.

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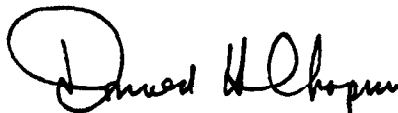
## Comments of Cognizant Officials

We requested written comments from DOD and Air Force, but none were provided. However, we discussed the contents of this report with DOD and Air Force officials and their comments have been incorporated where appropriate.

As agreed with your office, unless you announce the contents of the report earlier, we will not distribute it until 30 days after it is issued. At that time, we will send copies to the Secretaries of the Air Force and Defense and the Directors of the Office of Management and Budget and Defense Finance and Accounting Service.

Please contact David M. Connor, Director, Defense Financial Audits, at (202) 275-7095 if you or your staff have any additional questions concerning these issues.

Sincerely yours,



Donald H. Chapin  
Assistant Comptroller General



# Status of DOD and Air Force Actions Resulting From GAO's February 1990 Report

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Our February 1990 report made 26 recommendations to the Secretary of the Air Force for improving the Department's accounting and financial information by

- using existing financial information to monitor and manage its operations;
- developing more accurate financial information;
- strengthening internal controls to include performing reconciliations and documenting adjustments;
- accurately accounting for costs of weapons systems;
- developing financial information for inventory management; and
- developing a new accounting system.

On August 17, 1990, the DOD Comptroller concurred or partially concurred with all 26 recommendations. For 17 recommendations (numbers 1 through 3, 8, 9, 12, 13, 16 through 19, and 21 through 26) DOD cited Defense Management Report initiatives as being partly or wholly responsive to the problems we reported. Generally, as a result of DMR initiatives, DOD directed the military services to suspend duplicate systems development efforts. The Air Force did suspend development of a new general ledger accounting system about which we made several recommendations.

An Air Force corrective action plan provided to us on August 10, 1990, addresses, either directly or indirectly, most of the recommendations, including some where DMR initiatives were cited as the solution for the problems. The Air Force considers this plan an interim solution because, as previously noted, the DMR is a long-term program and is now in its early stages. Specific DMR actions responsive to the recommendations are unlikely to occur in the near term. The following summarizes the recommendations and status of the Air Force actions. Our discussions for several recommendations are combined because the Air Force's plan identified an action to address more than one recommendation.

**Recommendation 1:** We recommended that the Secretary of the Air Force develop an overall plan specifying corrective actions and milestones for the Air Force to produce consolidated financial statements in accordance with generally accepted accounting principles that will be submitted for independent audit.

**DOD Response:** DOD partially concurred with this recommendation. The Air Force will continue to submit financial statements (reports) required by the Department of the Treasury. DOD further stated that the Air

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Force will comply with DMR actions, goals, and milestones in producing financial statements/reports.

Current Status of Air Force Actions: During our 1989 audit, we determined that the Air Force's reports to Treasury, i.e. Report on Financial Position (SF 220) and Report on Operations (SF 221), were unreliable and inaccurate because of incorrect asset values, incomplete data, and the failure to eliminate intra-agency balances. The Air Force recalled and revised its fiscal year 1989 Treasury reports and recorded approximately \$62 billion of GAO-proposed adjustments to the reports. (See also recommendation number 9.)

The Air Force indicated that complete implementation of its overall action plan, scheduled for December 1993, would improve its financial statements. However, the Chief Financial Officers Act of 1990, enacted November 16, 1990, requires that the Air Force develop consolidated financial statements for fiscal year 1992 and have them audited. Accordingly, DOD and the Air Force will need to ensure that their corrective actions will enable the Air Force to produce auditable financial statements by March 31, 1993.

Recommendation 2: We recommended that the Secretary of the Air Force give high priority to developing an integrated accounting system capable of generating reliable financial management reports on a timely basis.

DOD Response: DOD partially concurred with this recommendation and stated that a DMR initiative provides for the development of DOD-wide financial management requirements. The DOD Comptroller is responsible for systems development and enhancement in DOD. That initiative will reportedly provide for a standardized and integrated capability to produce reliable financial reports within DOD.

Current Status of Air Force Actions: As part of an interim solution to improve the accuracy of its financial information, the Air Force reviewed its regulations for recording accounting entries and issued a Technical Bulletin emphasizing the importance of an accurate general ledger for Treasury reporting. The Air Force also planned to train its personnel on this matter but, according to a DFAS official, training materials, which were scheduled to be published in September 1990, were still being reviewed in January 1991. A DFAS official stated that other actions are "on hold" and will result in further slippage of planned milestones.

Recommendations 3, 5, 6 and 7: We recommended that the Secretary of the Air Force direct the Chief Financial Officer to

- develop management reports designed to assist in achieving cost-effectiveness and efficiency;
- investigate unusual and abnormal balances;
- perform a periodic comparative analysis of account balances from one period to the next and follow up and explain significant variances; and
- perform, to the fullest extent possible in light of existing systems deficiencies, comparative analyses of operating units across time periods and of other cost centers to determine efficiency of operations.

DOD Response: DOD partially concurred with recommendation number 3 regarding development of management reports to assist in achieving cost-effectiveness and efficiency and stated that adequate data are available within the Air Force to assist in this effort. DOD also indicated that the DMR initiatives provide for the development of DOD-wide financial management requirements. DOD concurred with recommendations 5, 6, and 7.

Current Status of Air Force Actions: For these four recommendations, the Air Force stated that it would review regulations and, where appropriate, recommend changes and issue correspondence to financial managers in order to improve the analysis of financial data. The Air Force planned to (1) analyze guidance in regulations regarding the use of financial data, (2) establish guidelines for reasonableness checks of financial data, and (3) publish Technical Bulletin items regarding these issues by January 1991. However, we found that as of January 1991, the Air Force has not completed these actions. DOD and Air Force officials stated that as of March 21, 1991, the Air Force had analyzed the guidance in its regulations but had not completed the remaining actions.

Recommendation 4: We recommended that the Secretary of the Air Force direct the Chief Financial Officer to correct deficiencies identified in existing systems to the fullest extent possible.

DOD Response: DOD concurred with this recommendation and stated that the Air Force will correct existing deficiencies to the extent possible.

Current Status of Air Force Actions: The Air Force action plan did not directly address our recommendation but listed several issues we reported, such as (1) untimely inventory adjustments within AFLC, (2) inappropriate inventory adjustments to inventory records by AFLC,

(3) inaccurate inventory records and (4) undepreciated general fund assets. However, the Air Force did not concur that numerous transactions within these areas, such as adjustments to inventory records and reversals of previously recorded transactions, were not always recorded in an accurate and timely manner, and thus stated that no actions were planned. We recently issued a report that discusses weaknesses in controls and accounting for inventories at the Air Logistics Centers.<sup>1</sup> That report discusses items 1, 2, and 3 above in greater detail. According to DOD officials, a feasibility study of depreciating equipment which was planned by the Air Force will not be conducted. Instead, DOD officials stated that DOD will conduct a feasibility study of depreciating assets. The study is intended to be completed by December 1993 subject to standards issued by the Federal Accounting Standards Advisory Board. Therefore, no action has been taken to date on the recommendation.

Recommendation 8: We recommended that the Secretary of the Air Force accumulate and report actual costs of equipment, such as vehicles, machinery, and furniture, in accordance with generally accepted accounting principles.

DOD Response: DOD partially concurred with the recommendation and indicated that DMR initiatives provide for the development of DOD-wide financial management requirements. The initiatives will reportedly include requirements that actual acquisition costs of equipment be accumulated and reported in accordance with generally accepted accounting principles.

Current Status of Air Force Actions: The Air Force stated that in order to capture actual acquisition costs for equipment, changes would be necessary in its automated systems. The Air Force action plan indicated that by January 1991, the Air Force would draft computer systems requirement documents identifying the changes needed within the accounting systems. According to the plan, the required systems modifications would be completed by December 1991.

We found that the systems requirement documents have been drafted but further actions have been curtailed. According to DFAS officials, the DOD Comptroller directed the Air Force not to proceed with this part of its action plan because alternate methods are being considered to obtain historical costing and to resolve problems in accounting for property.

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<sup>1</sup>Financial Audit: Financial Reporting and Internal Controls at the Air Logistics Centers (GAO/AFMD-91-34, April 5, 1991).

**Recommendation 9:** We recommended that the Secretary of the Air Force direct the Chief Financial Officer to generate more reliable and complete financial information for reports to the Department of the Treasury and for annual consolidated financial statements.

**DOD Response:** DOD concurred with this recommendation and stated that appropriate action would be initiated consistent with executive branch requirements. DOD further stated that in the long-term, DMR initiatives would provide for the development of DOD-wide financial management functional requirements that include the capability to produce reliable and complete financial reports and statements.

**Current Status of Air Force Actions:** Based on our analysis of the Air Force's fiscal year 1989 Treasury reports, we reported in a letter to the Commander of the Air Force Accounting and Finance Center (GAO/AFMD-90-109ML, July 20, 1990) that billions of dollars of adjustments were needed to improve the accuracy of those reports. After receiving our report, the Air Force revised its reports and recorded approximately \$62 billion of our proposed adjustments.

The Air Force action plan contains a number of corrective actions related to this recommendation, such as inter-agency eliminations. As of January 1991, the Air Force had made some progress in implementing the proposed actions within its estimated milestones. It has also defined the requirements for automating the preparation of Treasury financial reports and developed procedures for including losses resulting from aircraft and missile crashes and dispositions. The AFAFC (DFAS, Denver Center) drafted general procedures for eliminating inter-agency transactions and balances from Treasury financial reports.

**Recommendations 10 and 15:** We recommended that the Secretary of the Air Force direct the Chief Financial Officer to

- report the internal control problems with reconciliations and documentation of adjustments in Federal Managers' Financial Integrity Act (FMFIA) reports to the Secretary of Defense and
- report unsupported adjustments and reconciliation internal control problems, if applicable, in future FMFIA reports.

**DOD Response:** DOD concurred with both recommendations and stated that appropriate material weaknesses in internal controls would be evaluated and considered in future Air Force FMFIA reports. The Air Force's action plan indicated that it would (1) conduct special internal control



reviews for the fiscal year 1990 FMFIA report by July 1990 and (2) emphasize, for its fiscal year 1991 internal control reviews, the internal control weaknesses we found.

Current Status of Air Force Actions: The Air Force did not perform the special control reviews or report the internal control problems we identified in its fiscal year 1990 FMFIA report. According to a DFAS official, the internal control weaknesses presented in our report were considered for the 1990 FMFIA report. However, reportedly because of time constraints, the Air Force did not conduct the additional reviews nor include these weaknesses in its FMFIA report. We believe that the problems disclosed in our February 1990 report should have been included in the Air Force's December 1990 FMFIA report. The Air Force is developing compliance review guides for fiscal year 1991 internal control reviews. The guides were expected to be completed by March 1991.

Recommendation 11: We recommended that the Secretary of the Air Force direct the Chief Financial Officer to reconcile subsidiary records periodically to the control accounts and correct errors and weaknesses.

DOD Response: DOD concurred with this recommendation and noted that current DOD and Air Force regulations require periodic reconciliations.

Current Status of Air Force Actions: The Air Force has reviewed its pertinent regulations and issued a message to personnel responsible for the reconciliations that (1) clarifies procedures regarding the reconciliation of payroll and personnel records and (2) reemphasizes compliance with the requirement to prepare inventory reports of discrepancies. Additionally, the Air Force Logistics Command directed its entities to validate Stock Fund receivables, advised personnel of documentation requirements for receivables, and directed accounting personnel to investigate abnormal balances.

Recommendation 12: We recommended that the Secretary of the Air Force direct the Chief Financial Officer to reconcile disbursements with obligations and promptly correct any errors.

DOD Response: DOD concurred with this recommendation and stated that the most significant problems in reconciling disbursements with obligations exist with payments made for the Air Force by other entities. DOD further stated that solutions to the problem will be pursued as part of DMR initiatives.

Current Status of Air Force Actions: Similarly, the Air Force stated that the reconciliation problems between disbursements and obligations are long-standing problems caused almost entirely by the separation between paying offices of the Defense Logistics Agency's (DLA) Defense Contract Management Regions and the Air Force's accountable stations. The Air Force indicated that revisions to both DLA and Air Force systems and interfaces would be evaluated to alleviate reconciliation barriers.

The Air Force's action plan addressing this recommendation indicated that by January 1991, the Air Force would analyze the adequacy of guidance in regulations and existing procedures and processes, establish standards for recording transactions, publish articles in newsletters and Technical Bulletins, and obtain staff recommendations for system changes.

According to a DFAS official, as of January 1991, the Air Force had analyzed relevant guidance in its regulations but had not established standards for recording transactions, published articles in newsletters and Technical Bulletins, or obtained staff recommendations for system changes as planned. A DFAS official stated that the original milestones, which were September 1990, had been too optimistic as a result of the Air Force Accounting and Finance Center's conversion to DFAS.

Recommendations 13 and 14: We recommended that the Secretary of the Air Force direct the Chief Financial Officer to

- document all adjustments to subsidiary records and control accounts and
- enforce the Air Force's requirements that supervisors and managers review and approve all significant adjustments.

DOD Response: DOD concurred with these recommendations and stated that DMR initiatives are expected to help resolve the problems regarding documentation for adjustments.

Current Status of Air Force Actions: Air Force regulations have for some time required that adjustments be documented and properly approved by managers. A DFAS official indicated that as of January 1991, the Air Force had reviewed and analyzed its existing regulations for clarity and completeness and published articles in Technical Bulletins stressing to personnel the Air Force's regulatory requirements and the need for and

importance of adequate supporting documentation and management review/approval of adjustments.

Recommendation 16: We recommended that the Secretary of the Air Force direct the Chief Financial Officer to accumulate and report actual costs of weapon systems, which include acquisition costs, government furnished material, operating and maintenance costs, and modifications.

DOD Response: DOD concurred with this recommendation but noted that cost data required to meet congressional requirements for Air Force weapon systems are currently being obtained from sources other than the asset accounts in the Air Force accounting system. In addition, DOD stated that in the long-term, DMR initiatives would provide for the future development of DOD-wide financial management requirements, including a system capability to accumulate and report actual costs.

Current Status of Air Force Actions: The Air Force's action plan reflects DOD's position that the DMR is considered the "long-term fix" for the problem of accumulating and reporting actual costs for weapon systems. However, in addressing the issue, the Air Force planned by January 1991 to conduct feasibility studies of (1) using financial data from the Aerospace Vehicle Inventory Status Utilization Reporting System (AVISUR) and other sources for better valuations and (2) capitalizing modification costs. As of January 1991, neither study had been conducted. According to a DFAS official, the first study was postponed because AVISUR is scheduled to be replaced in the summer of 1991. The second study reportedly has been delayed until it is approved by DFAS. Additionally, DOD officials stated that DFAS is evaluating ways to resolve problems in accounting for property.

Recommendation 17: We recommended that the Secretary of the Air Force direct the Chief Financial Officer to report actual and planned cost data (for weapon systems) to the Congress so better decisions can be made on program funding.

DOD Response: DOD concurred with this recommendation and, as noted with recommendation number 16, stated that applicable data from sources other than the Air Force asset accounts are used to provide the Congress with required financial information. DOD further stated that DMR initiatives are intended to be the "long-term fix" for the problem of accuracy of financial data for weapon systems.

Current Status of Air Force Actions: The Air Force indicated that it would review and revise, if necessary, Selected Acquisition Report (SAR) preparation procedures and instructions in order to ensure accurate information is included in submissions to the Congress. The Assistant Secretary of the Air Force for Acquisition issued a memorandum dated January 20, 1991, which established procedures to be followed for preparing and submitting the current and future SAR to the Congress.

Recommendations 18 and 19: We recommended that the Secretary of the Air Force direct the Chief Financial Officer to

- account and report on satellites either through revisions to existing systems or a new system to provide oversight of these assets and
- establish and implement procedures to identify and record, in the accounting records, equipment (primarily aircraft engines) paid for and accepted by the Air Force but held by contractors.

DOD Response: DOD concurred with these recommendations and stated that DMR initiatives are intended to develop a DOD-wide standard accounting module to record the cost of government property.

Current Status of Air Force Actions: The Air Force plan contained actions intended to implement procedures for satellite accountability. In September 1990, the Air Force Systems Command developed procedures to record the value of satellites in the general ledger. These procedures were approved by the AFAFC (now DFAS, Denver Center) in October 1990. Furthermore, the Air Force indicated that it has now recorded in the Comprehensive Engine Management System the aircraft engines which we identified as being in contractors' possession but not in the Air Force's accounts.

Recommendation 20: We recommended that the Secretary of the Air Force require the Chief Financial Officer to establish a policy to value unserviceable items to reflect the estimated costs of repair.

DOD Responses: DOD partially concurred with this recommendation and stated that it would consider a revised valuation policy as part of the DMR effort.

Current Status of Air Force Actions: In its annual inventory report to DOD, the Air Force has begun providing estimates of the value of unserviceable inventories by decreasing the values for the estimated cost of repair. According to an Air Force official, the Air Force expects that by

1993, it will have implemented a fully automated process to value unserviceable items to reflect the estimated cost to repair.

Recommendation 21: We recommended that the Secretary of the Air Force require the Chief Financial Officer to adopt an improved standard cost accounting system integrated with the general ledger which provides for accurate determination of standard costs based on replacement costs, identification of inflation growth, and variance analysis with respect to purchase prices, material usage, and repair costs.

DOD Response: DOD partially concurred with this recommendation and stated that a DMR initiative to develop standard financial management requirements is expected to meet the Department's needs in this area.

Current Status of Air Force Actions: The Air Force action plan contained no specific actions directly related to this recommendation and, therefore, it has taken no actions.

Recommendation 22: We recommended that the Secretary of the Air Force require the Chief Financial Officer to initiate a special effort to reduce unrequired inventory and deal with the root causes of this problem.

DOD Response: DOD partially concurred with this recommendation but stated that it did not agree that the inventory we referred to was excess to requirements. DOD further stated that acquisition officials have initiated actions to improve inventory management through DMR initiatives. According to officials, DOD is in the process of implementing an overall plan to reduce inventory that involves a comprehensive evaluation of material requirements and the inventory management process.

Current Status of Air Force Actions: As part of an ongoing project, the Air Force initiated a program which involves warehouse reviews for excess items at all Air Logistics Centers. As a result, the Air Force sent more than \$600 million worth of items to disposal and freed up over 1.2 million cubic feet of storage space.

Recommendation 23: We recommended that the Secretary of the Air Force make improving accounting practices and financial management systems an Air Force-wide priority effort, supported by adequate resources.

**DOD Response:** DOD concurred with this recommendation and stated that the DMR initiatives have been established to develop standard DOD-wide functional requirements for accounting systems and practices.

**Current Status of Air Force Actions:** The Air Force is relying on DMR initiatives to produce improved financial systems in the future.

**Recommendation 24:** We recommended that the Secretary of the Air Force direct the Chief Financial Officer to develop a comprehensive plan for improving and integrating the Air Force's financial management and accounting systems.

**DOD Response:** DOD concurred with this recommendation and stated that a DMR initiative was expected to provide for such improvement and integration.

**Current Status of Air Force Actions:** Air Force also indicated that it considered the DMR to be the "long-term fix," and has taken no action. Additionally, a primary objective of the Chief Financial Officers Act is to improve financial management systems within the government.

**Recommendation 25:** We recommended that the Secretary of the Air Force review the systems requirements of the Base Level Accounting and Reporting System (BLARS) and all related systems to ensure that they are complete and that they address all the Air Force's concerns about its operations and the problems addressed in our report.

**DOD Response:** DOD concurred with this recommendation and stated that a DMR initiative would alleviate the need for the Air Force to pursue the development of the BLARS system.

**Current Status of Air Force Actions:** At the direction of DOD, the Air Force terminated its BLARS effort. As a result, no actions were planned or taken by the Air Force on this recommendation, but system development efforts will be planned and considered by DOD.

**Recommendation 26:** We recommended that the Secretary of the Air Force ensure that a project management structure and plan are in place to avoid the potential pitfalls that have caused problems in past systems development efforts. This structure must include adequate representation and participation by top management and functional users in all phases of the development effort.

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**Appendix I  
Status of DOD and Air Force Actions  
Resulting From GAO's February 1990 Report**

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**DOD Response:** DOD concurred with this recommendation and, as with other recommendations, stated that a DMR initiative to develop standard DOD-wide requirements and systems was being established.

**Current Status of Air Force Actions:** According to a DFAS official, no separate actions are warranted by DFAS, Denver Center.





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