

June 1993

FINANCIAL
MANAGEMENT

Navy Records Contain
Billions of Dollars in
Unmatched
Disbursements



**Accounting and Financial
Management Division**

B-251553

June 9, 1993

Admiral Frank B. Kelso
Acting Secretary of the Navy

Dear Admiral Kelso:

During previous audit work, Navy officials advised us that the Department could not match numerous payments for goods and services with the corresponding obligations. The proper matching of disbursements with recorded obligations is an important control used to ensure that agency funds are used in accordance with the purposes and limitations specified by the Congress. Without such matching, the Navy has a substantial risk that (1) fraudulent or erroneous payments may have occurred without being detected, and (2) cumulative amounts of disbursements might have exceeded appropriation and other legal limits.

This report addresses the dollar value, age, and causes of unmatched disbursements¹ in the Standard Accounting and Reporting System, a major Navy accounting system. It also evaluates Navy procedures for matching such disbursements with obligations and the adequacy of Navy's corrective action plans.

The Standard Accounting and Reporting System (STARS), which annually accounts for nearly \$57 billion, or 57 percent, of the Navy's overall budget, contained \$12.3 billion in unmatched disbursements as of February 19, 1992. (The total value of such disbursements increased to \$13.6 billion as of December 19, 1992.) Almost \$5 billion had been unmatched for over 2 years. Of the total amount of unmatched disbursements, \$3.9 billion of individual disbursements of \$1 million or more had been unmatched with obligations for over 6 months. However, the problem may be much larger because we found instances where Navy personnel arbitrarily matched obligations and disbursements. Such practices cause additional unmatched disbursements, and therefore perpetuate and may exacerbate the problems caused by unmatched disbursements. The Navy's failure to properly match all disbursements with related obligations creates a weak control environment which increases the risk that funds may be spent in violation of the limitations specified by the Congress, and that fraudulent or erroneous payments may occur and not be detected.

¹The term unmatched disbursements, as used in this report, also includes refunds and credits that have not been matched with previously recorded obligations.

In addition to the arbitrary matching of disbursements, we found that unmatched disbursements were caused by lax compliance with internal controls, or the lack of adequate controls over (1) recording obligations in the accounting system prior to disbursing funds, (2) detecting and correcting errors in the disbursement process, and (3) posting accurate and complete accounting information in systems that support the disbursement process.

Although Navy officials acknowledged that unmatched disbursements have been a long-standing systemic problem, current initiatives are not likely to resolve the problem because they do not address its basic causes, as outlined above. These unmatched disbursements significantly impair the Navy's ability to ensure that funds are safeguarded and spent in accordance with legal requirements. However, despite the increased risk of improper or irregular payments, and the large amount of funds involved, the Navy has not disclosed unmatched disbursements as a material internal control weakness in its reports to the Department of Defense (DOD) pursuant to the Federal Managers' Financial Integrity Act of 1982 (31 U.S.C. 3512 (c) and (d)). The Navy's failure to acknowledge this material control problem could hamper efforts to resolve the problem. A necessary first step in resolving serious problems is to acknowledge their existence. Only then can effective corrective actions be identified and implemented.

We are making a number of recommendations to strengthen the Navy's regulations and procedures in resolving unmatched disbursements and preventing future ones. We are also recommending that the Navy report unmatched disbursements as a material internal control weakness in its annual Federal Managers' Financial Integrity Act report to DOD.

Appendix I contains detailed background on the Navy's process for handling disbursements; our objectives, scope, and methodology section; and a more detailed discussion of our findings, conclusions and recommendations.

Agency Comments and Our Evaluation

In commenting on a draft of this report, DOD concurred with our recommendations, with one exception. It did not agree that unmatched disbursements should be reported as a material internal control weakness in the Navy's Federal Managers' Integrity Act reports. DOD stated that we had not shown that unmatched disbursements are not valid disbursements. In our view, DOD's position is tantamount to stating that no

weakness needs to be acknowledged until substantial losses occur. The dollar value, number of transactions, age, and upward trend of the Navy's unmatched disbursements clearly underscore that a material weakness exists in the disbursement process and, in our opinion, the problem should be fully disclosed in the subject reports.

DOD raised no substantive disagreements with the facts regarding the magnitude of unmatched disbursements in STARS. However, DOD stated that the existence of unmatched disbursements, in and of themselves, did not necessarily indicate that serious weaknesses existed in the disbursement process or that improper payments had occurred.

While unmatched disbursements do not necessarily represent improper payments, we strongly disagree with DOD's contention that such disbursements do not indicate serious weaknesses in the process. Also, the Department should not automatically assume that the disbursements were proper. Our work has shown that disbursing errors, such as contractor overpayments, actually occur within the DOD disbursement processes. Therefore, unless the Navy promptly matches the disbursements with related obligations, it lacks assurance that overpayments or other improper payments have not occurred.

The major points conveyed in DOD's comments and our full response are presented in the last major section of appendix I, and the full text of DOD's comments is presented in appendix II.

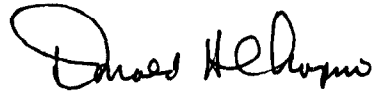
This report contains recommendations to you. The head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on these recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Secretary of Defense; the Assistant Secretary of Navy (Financial Management); the Directors of the Defense Finance and Accounting Service and the Defense Logistics Agency; the Director of the Office of Management and Budget; the Chairmen and Ranking Minority Members of the Senate Committee on Governmental Affairs, House Committee on Government Operations, House Committee on Ways and Means, and the Subcommittee on

Oversight, House Committee on Ways and Means; and other interested parties. We will also make copies available to others upon request.

This report was prepared under the direction of David M. Connor, Director, Defense Financial Audits, who may be reached at (202) 512-7095 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix III.

Sincerely yours,



Donald H. Chapin
Assistant Comptroller General

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Abbreviations

ACRN	accounting classification reference number
DFAS	Defense Finance and Accounting Service
DOD	Department of Defense
OMB	Office of Management and Budget
STARS	Standard Accounting and Reporting System

Navy Records Contain Billions in Unmatched Disbursements

The following sections provide greater detail on the way in which the Navy's disbursing process works; our report objectives; and our report findings, conclusions, recommendations, and agency comments.

Background

Federal executive agencies, including the Department of the Navy, are responsible for ensuring that their funds are expended in accordance with the purposes and limitations specified by the Congress. For example, under 31 U.S.C. 1301, agencies may only use appropriations for their intended purposes. Further, the Antideficiency Act (31 U.S.C. 1341 and 1517) prohibits agencies from over-obligating or over-expending their appropriations, apportionments, and administrative divisions of funds. To implement these requirements, DOD Directive 7200.1 specifies the requirements for accounting and fund control systems for DOD. The Directive states that these systems are to ensure that funds are used only for congressionally authorized purposes, and that payments are not made in excess of amounts available.

In order to comply with legal and regulatory requirements, DOD organizations' accounting and fund control systems must be able to record disbursements as expenditures of appropriations and as reductions of previously recorded obligations. Proper matching of disbursements with related obligations is necessary to ensure that the agency has reliable information on the amount of funds available for obligation and expenditure.

In this regard, the Navy has administrative control procedures designed to prevent unauthorized disbursements and purchases and to ensure that it does not obligate or spend more funds than the Congress has appropriated. These control procedures require Navy organizations to (1) commit or administratively reserve funds based on firm procurement directives, orders, requisitions, or requests, (2) record obligations in appropriation account(s) when they place an order, award a contract, receive a service, or execute similar transactions, and (3) match disbursements with the related obligations in the accounting records as payments are made. Navy funding organizations¹ are responsible for executing the first two control procedures, while Navy accounting organizations are generally responsible for carrying out the third procedure.

¹Funding organizations, as used in this report, refer to Navy "administering offices." These organizations, which include Navy systems commands, are responsible for preparing and executing approved budgets, ensuring funds are used only for appropriate purposes, and ensuring accurate and timely reporting of program and funding status.

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The Navy has 22 funding organizations, including 9 that are considered to be major from a financial management standpoint. The nine are the (1) Naval Sea Systems Command, (2) Naval Air Systems Command, (3) Naval Supply Systems Command, (4) Space and Naval Warfare Systems Command, (5) Naval Facilities Engineering Command, (6) Strategic Systems Project Office, (7) Bureau of Medicine and Surgery, (8) Chief of Naval Operations, and (9) Chief of Naval Research.

Although Navy funding organizations commit and obligate funds, other Navy and DOD offices actually disburse the funds. Disbursing offices are required to ensure that payments are made only for goods and services authorized by purchase orders, contracts, or other authorizing documents; the government received and accepted the goods and services; and payment amounts are accurately computed. They are also responsible for ensuring that accounting data on payment supporting documents are complete and accurate.

Disbursing offices submit daily and monthly disbursement reports to 12 regional Navy processing centers. These processing centers examine and consolidate information from disbursing office reports and process the payment information through the Navy's Financial Reporting System which reports the disbursements to a second system, the Centralized Expenditure/Reimbursement Processing System. This latter system, which generates the Navy's monthly consolidated Statement of Accountability that is submitted to Treasury, contains information on the dollar amount of issued checks, cash on hand, and other data Treasury needs to prepare financial statements and reports for the U.S. government.

After generating the Treasury reports, the Centralized Expenditure/Reimbursement Processing System reports the disbursements to the Standard Accounting and Reporting System (STARS) and other Navy accounting systems to update accounting records at the individual contract level. At this point, accounting organizations, which may be part of processing centers (as is the case for the accounting organization for STARS), then attempt to carry out the Navy's third administrative control procedure by matching disbursements with the proper obligations.

Matching disbursements with obligations in STARS is generally an automated process. STARS sends those disbursements that it cannot match

to its suspense file² where they remain until investigated and manually matched by its accounting organization.

Objectives, Scope, and Methodology

Our objectives were to identify the dollar value, age, and causes of unmatched disbursements in the Navy STARS and to evaluate the Navy's procedures and plans for resolving them. We reviewed unmatched disbursements identified by STARS because it accounts for nearly 57 percent of the Navy's overall annual budget. This system also supports the nine major Navy funding organizations.

To determine the magnitude of unmatched disbursements, we analyzed tapes from STARS summarizing unmatched disbursements by age, dollar amount, funding organizations, and reasons for being rejected as unmatched. This system accounts for all Navy procurement and research, development, test, and evaluation appropriations; part of the Navy's operations and maintenance appropriations; and minor DOD appropriations.

To identify procedures for matching unmatched disbursements with obligations, we interviewed Navy accounting and funding organization personnel and reviewed available documentation regarding unmatched disbursements that were subsequently matched. We also interviewed Navy funding and accounting organization officials to identify initiatives to eliminate unmatched disbursements.

We identified the causes for the unmatched disbursements by interviewing Navy funding, processing center, and accounting personnel about (1) procedures for ensuring obligations were recorded accurately and timely, (2) procedures for monitoring the status of funds under contracts, (3) edits in the Navy's Financial Reporting System, and (4) procedures for matching unmatched disbursements. We also interviewed Defense Finance and Accounting Service (DFAS) disbursing office personnel at the Columbus, Ohio, Center to identify procedures for making payments and to obtain their views on causes for Navy unmatched disbursements. We discussed polices and procedures for accounting and finance centers with DFAS headquarters personnel in Arlington, Virginia.

²STARS rejects disbursements as unmatched if (1) obligations are not sufficient to cover the disbursements or (2) differences in accounting data on disbursement and obligation records exist.

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Additionally, we identified causes for unmatched disbursements by

- matching STARS and payment system computer records on obligations and disbursements,
- comparing obligations in the STARS to amounts recorded in contract files maintained by funding and disbursing organizations, and
- reviewing disbursing office contract and payment files.

We worked at two of the major Navy funding organizations, the Naval Sea Systems Command and Naval Air Systems Command, both located in Arlington, Virginia. These two organizations had the highest dollar amount of unmatched disbursements in STARS when we conducted our work.

We performed our field work between May 1991 and April 1992 in accordance with generally accepted government auditing standards.

**Billions of Dollars of
Unmatched
Disbursements Exist
in the Standard
Accounting and
Reporting System**

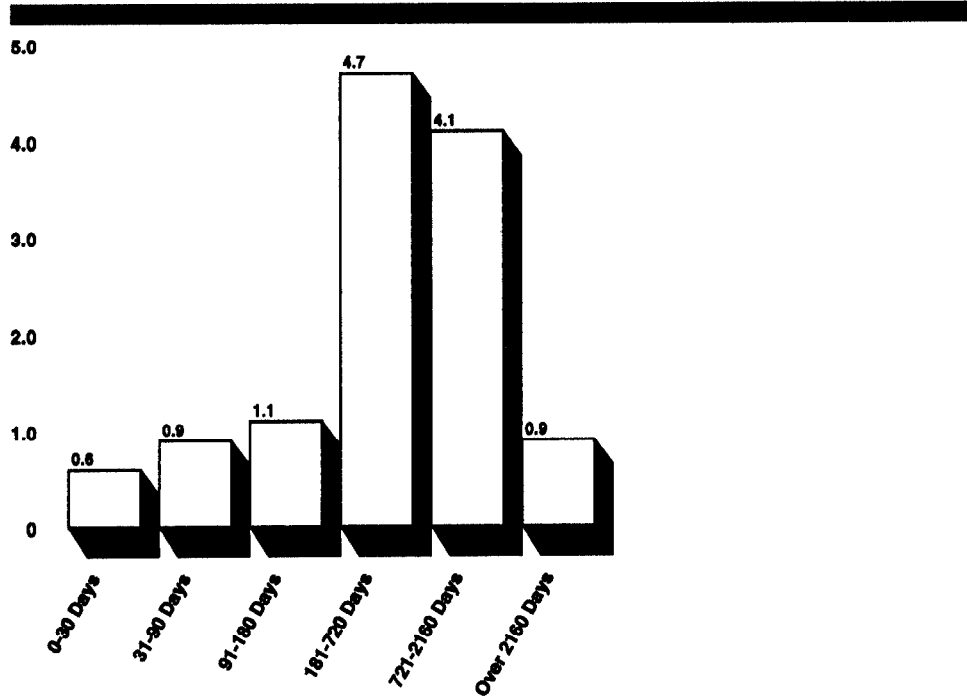
As of February 19, 1992, STARS's unmatched disbursements totaled \$12.3 billion. This amount increased by about \$1.3 billion (10.6 percent) to \$13.6 billion during the 10-month period from February 19, 1992, to December 19, 1992. The Navy Comptroller Manual (volume 2, chapter 9) requires prompt matching of disbursements with obligations to ensure that disbursements are valid and accounting records are accurate. The Navy's inability to promptly match billions of dollars of disbursements with proper obligations shows that serious problems exist with its controls over the disbursement process.

During fiscal year 1991, nearly \$6 billion in disbursements were rejected by STARS as being unmatched with obligations.³ As of February 19, 1992, about 79 percent of the total amount of unmatched disbursements had been unmatched for over 6 months. Figure 1 shows the age of unmatched disbursements in STARS as of February 19, 1992.

³According to a former accounting organization supervisor, STARS annually rejects approximately \$6 billion (6 percent of the Navy's total appropriations) in unmatched disbursements.

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**Figure I.1: Age of Unmatched
Disbursements as of February 19,
1992 (Dollars in billions)**



Note: Dollars are rounded.

Our analyses showed that about 43 percent of the total value of unmatched disbursements consisted of individual disbursements of \$1 million or more. Of these, 1,439 disbursements totaling \$3.9 billion were over 6 months old and accounted for almost 32 percent of the total value of unmatched disbursements.

Table 1 presents the range of dollar values for unmatched disbursements in STARS as of February 19, 1992.

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**Table I.1: Range of Dollar Values for
Unmatched Disbursements in STARS
as of February 19, 1992**

Dollars in billions			
Dollar value	Number of disbursements	Total dollar value	Percent of dollar value
From \$10,000 to \$99,999	62,756	\$2.1	17.1
From \$100,000 to \$499,999	15,022	3.2	26.0
From \$500,000 to \$999,999	2,376	1.7	13.8
\$1 million or more	1,866	5.3	43.1
Total	82,020	\$12.3*	100.0

*The total value of unmatched disbursements in STARS as of December 19, 1992, had increased to \$13.6 billion.

Finally, our analysis showed that \$10.9 billion, or 89.3 percent, of the dollar value of these unmatched disbursements belongs to three funding organizations—\$5.3 billion, \$4.7 billion, and \$0.9 billion to the Naval Air Systems Command, Naval Sea Systems Command, and Space and Naval Warfare Systems Command, respectively.⁴

**Unmatched
Disbursements Have
Several Causes**

Unmatched disbursements were largely caused by lax compliance with existing guidance, procedural requirements, and internal controls, and in some cases a need for stronger controls, over (1) recording obligations in STARS prior to making contract payments, (2) detecting and correcting errors in the Navy's disbursement process, (3) posting accurate and complete accounting information in systems that support the disbursement process, and (4) inappropriate procedures for resolving unmatched disbursements. The complex and diffused Navy disbursement process involving multiple organizations, split responsibilities, large volumes of transactions and dollar values make it particularly important that strong control procedures be in place and all involved parties follow the procedures.

**Funding Organizations Did
Not Always Obligate Funds
Promptly**

Of the \$12.3 billion in unmatched disbursements in STARS as of February 19, 1992, \$3.7 billion, or 30 percent, had been rejected by an automated edit routine because obligations were not sufficient to cover the cited disbursements. While we could not determine how much of this amount resulted from delays in recording obligations compared to disbursing office errors or other control weaknesses, Navy officials

⁴The Naval Air Systems Command buys aircraft; the Naval Sea Systems Command buys ships and submarines; and the Space and Naval Warfare Systems Command buys space, electronic warfare, and other systems for the Navy.

advised us that not recording obligations in a timely manner was a major cause of the unmatched disbursements in STARS.

According to the Navy Comptroller Manual, funds should generally be committed upon approval of firm procurement directives, orders, requisitions, or requests. Funds are then obligated when an order is placed, a contract is awarded, or similar transactions requiring future disbursement of funds are entered into. The manual also requires commitment documents to be audited at least twice each fiscal year to ensure that funds do not remain inappropriately committed. Officials at Naval Sea Systems Command and Naval Air Systems Command told us they are also required to follow up on funds that have not been obligated within 30 days after being committed to determine whether commitments are still appropriate or whether amounts should be obligated.

Despite these requirements, Navy funding and accounting organization officials told us that late recording of obligations was still a major cause of unmatched disbursements. They provided us examples showing where funds remained inappropriately committed but unobligated in STARS for months. In one example, a field activity of one funding organization issued a \$252,326 delivery order on August 23, 1989, but the funding organization did not obligate the funds in STARS until January 10, 1991—nearly 17 months later. In another case, a field activity awarded a purchase order on March 14, 1990, for \$112,324, but the funding organization did not obligate funds until January 10, 1991, approximately 10 months after the contract was awarded. Failure by the funding organization to conduct the required reviews of commitments, in both cases, allowed the delay in recording obligations to go undetected and, therefore, uncorrected.

Navy Controls Are Not Adequate to Ensure Prompt Detection and Correction of Disbursing Office Errors

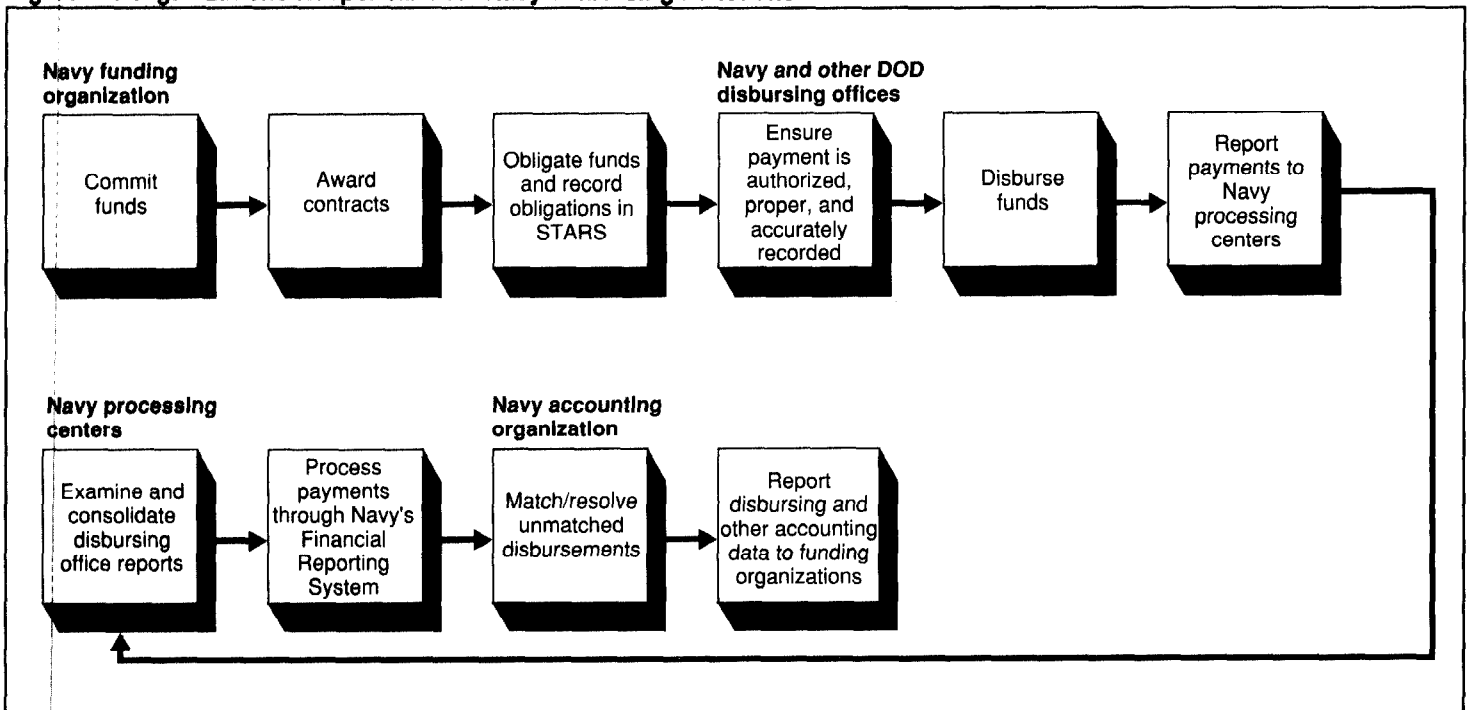
The Navy's present disbursement structure does not lend itself to the prompt detection and correction of disbursing office errors. We have previously reported that DOD disbursing offices have made errors that resulted in (1) contractors being overpaid, (2) the wrong appropriation and military service being charged with payments, and (3) obligations and disbursing records being incompletely and incorrectly processed.⁵

⁵Financial Management: Air Force Records Contain \$512 Million in Negative Unliquidated Obligations, (GAO/AFMD-89-78, June 30, 1989); Financial Management: Army Records Contain Millions of Dollars in Negative Unliquidated Obligations, (GAO/AFMD-90-41, May 2, 1990); and Financial Management: Air Force Systems Command Is Unaware of the Status of Negative Unliquidated Obligations, (GAO/AFMD-91-42, August 29, 1991).

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According to Title 7 of GAO's Policy and Procedures Manual for Guidance of Federal Agencies Fiscal Guidance, to the extent possible, responsibility for agency fiscal operations should be adequately segregated to "reduce the risk of error, waste, and wrongful acts." Also, according to this guidance, agencies' internal controls should be properly implemented, and identified errors should be promptly resolved. While key duties related to the disbursement of Navy funds are performed by separate organizations, Navy's overall internal controls and procedures are not adequate to ensure that disbursing office errors are promptly resolved. As a result, these errors—which sometimes involve duplicate and other improper payments—may go undetected and/or uncorrected for extended time periods. Figure I.2 identifies the responsibilities of organizations involved in the Navy disbursement process.

Figure I.2: Organizations Responsible for Navy Disbursing Functions



Navy funding organizations are responsible for complying with statutory provisions regarding the obligation and expenditure of funds. To ensure funds are spent only for authorized purposes, those organizations assign

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accounting data elements to contract line items to identify the (1) military service, (2) funding appropriation(s), (3) appropriation availability period, and (4) other data needed to track the source, imposed limitations, and the actual use of funds. Under the Navy's current disbursement structure, however, funding organizations have little control over the disbursement process since other Navy and DOD organizations pay, process, and account for disbursements. Because funding organizations which issued the contracts are not provided copies of payment supporting records, they have no way of knowing whether disbursing offices (1) made payments in accordance with the contract accounting structure, (2) paid improper amounts for items, (3) paid for unauthorized items, or (4) made other errors.

Instead, under the Navy's current structure, after disbursing offices pay for goods or services, they submit payment vouchers and other documents supporting those payments to Navy processing centers which neither receive nor have copies of authorizing contracts necessary to confirm the accuracy and validity of the payments. Therefore, processing center personnel cannot ensure that payments were proper or that accounting data were accurate. Further, as discussed under the next caption, we found that processing center personnel made additional errors during processing. Some of these errors make it very difficult to detect and correct disbursing office errors.

In addition, processing center personnel for STARS are not required to send supporting records for payments to the system's accounting organization. As a result, the accounting organization does not have the records to properly investigate disbursements which were rejected as unmatched with obligations since that organization has neither the authorizing contracts nor the supporting payment records necessary to make proper matches. The diffused nature of the Navy's disbursement process to a number of organizations increases the need for stringent internal control procedures to ensure that errors and other irregularities are prevented and/or quickly detected.

We confirmed that disbursing office errors, such as duplicate payments and overpayments, were still a problem. We obtained records from one disbursing office showing that cumulative overpayments on its Navy contracts totaled \$85 million as of June 30, 1992. Various factors led to these overpayments, but the responsible Navy accounting organization was largely unaware that the overpayments had occurred prior to their

being identified by the disbursing office. The disbursing office has initiated collection action on the overpayments.

**Accounting Data Accuracy
Not Maintained**

The Navy Comptroller Manual requires that the accuracy of accounting data be maintained during processing. However, processing center personnel sometimes enter incomplete and inaccurate information into the Financial Reporting System. As a result, the data in this system contain errors which create additional unmatched disbursements when the data are eventually passed on to STARS.

According to STARS records, unmatched disbursements involving invalid contract numbers accounted for \$3.4 billion of the \$12.3 billion unmatched as of February 19, 1992. Our detailed analyses of payment records showed that numerous disbursements could not be matched with proper obligations simply because processing center personnel had entered obviously incorrect data, such as the authorizing contract numbers.

For example, while the Navy's standard contract numbering structure requires 13 to 15 characters (depending on the contract type), to identify the Navy funding activity, fiscal year, and type of contract, we found that 5,865 disbursements totaling \$813 million could not be matched with obligations because processing personnel had entered "No Doc" (that is, no document number) as the contract numbers. In addition, 3,934 disbursements totaling \$610 million could not be matched with related obligations because the contract number field contained fewer than 13 characters. Examples of these characters entered in the Financial Reporting System as authorizing contract numbers included "*****"; "..."; "N"; "Not Shown"; "Diskette"; and "F-101-90."

According to processing center personnel, errors, such as invalid contract numbers, were not adequately researched and corrected because it is time-consuming to do so. They said that stringent Treasury end-of-month reporting deadlines, coupled with a large volume of work, make it difficult for personnel to properly research and correct all errors. Treasury reports are due by the tenth working day following the close of the reporting month, and, according to a processing center supervisor, approximately 60 percent of the estimated 200,000 disbursement transactions processed each week have some type of error requiring correction.

Unmatched Disbursements Were Not Properly Resolved

Procedures followed by accounting personnel responsible for matching STARS' unmatched disbursements did not provide assurance that disbursements were reconciled to proper obligations. The accounting organization had a staff of nearly 30 people assigned solely to resolve unmatched disbursements. Although operating procedures require personnel to (1) review the disbursement vouchers, (2) request copies of authorizing documents, such as contracts, and (3) obtain assistance from funding organizations and disbursing offices as necessary to correctly match disbursements with obligations, these procedures were rarely followed.

Instead, accounting organization personnel often "resolved" unmatched disbursements using methods that offered little assurance of accuracy. For example, the primary technique for matching disbursements that STARS rejected because the amounts exceeded obligations was to judgmentally reallocate funds from an accounting classification reference number (ACRN)⁶ which had sufficient funds to the ACRN with insufficient funds, instead of specifically determining the cause for the insufficiency. According to STARS records, unmatched disbursements involving insufficient funds totaled \$3.7 billion as of February 19, 1992.

The reallocation of funds was generally done either because the (1) personnel did not have and did not request the contract and supporting disbursement information, and/or (2) time required to research and properly correct the erroneous conditions was considered excessive. Matching is often a labor-intensive effort because some contracts have so many ACRNs with erroneous obligation and disbursement totals that the contracts have to be completely reconciled before specific unmatched disbursements can be properly matched with proper obligations.

Although accounting organization personnel told us they generally only reallocated funds within the same contract (for example, from one ACRN to another), we could not confirm this statement. The accounting organization normally did not maintain records showing how unmatched disbursements were matched with obligations.

Moreover, the arbitrary allocations can actually cause additional unmatched disbursements. Arbitrarily allocating the disbursements causes some unliquidated obligation balances to be erroneously low. As discussed above, erroneously low obligation balances are one cause of unmatched

⁶The Navy and other DOD components obligate funds by ACRNs. ACRNs are set up to account for specific items under contracts and serve as a quick reference to identify the source and use of funds.

disbursements. In addition, arbitrary allocations of disbursements against ACRNs on a single contract can create risks of violating statutory restrictions on using appropriations. Large weapon system contracts are usually funded by several appropriations, each with separate legal restrictions on how the funds may be spent. An arbitrary allocation of disbursements does not take into account the impact of these restrictions. Thus, the reallocations perpetuate, and may exacerbate, rather than resolve, the problems caused by unmatched disbursements. These problems include

- lack of assurance that funds have been spent in accordance with the limitations specified by the Congress and
- an increased risk that erroneous and fraudulent payments may occur and not be detected.

Planned Initiatives Will Not Eliminate Unmatched Disbursements

Navy officials acknowledged that unmatched disbursements have been a long-standing systemic problem. However, the Navy did little to address the problem prior to November 1990. In addition, the accounting organizations' projects implemented since that time have not eliminated the problem, as evidenced by the \$13.6 billion of unmatched disbursements as of December 19, 1992. Further, we do not expect the projects planned at the completion of our audit work to eliminate unmatched disbursements since the projects generally do not address control weaknesses creating the unmatched disbursements. Instead, the implemented and planned projects are aimed largely at dealing with existing unmatched disbursements rather than preventing their occurrence. Much greater emphasis is needed to instill the discipline needed to prevent unmatched disbursements from occurring in the future.

On November 5, 1990, the Congress passed the National Defense Authorization Act for Fiscal Year 1991 (Public Law 101-510). This act served as a catalyst for increased Navy emphasis on matching the unmatched disbursements in STARS. The act limited the time that expired appropriations⁷ are available for disbursement to 5 years. After that time, up to 1 percent of current appropriations (but not more than the amount of the original appropriation) can be used to make required payments. Prior to the act's passage, the Navy could make payments from unpaid obligations of expired appropriations indefinitely.

⁷DOD, including the Navy, receives appropriations with different periods of availability for obligations, normally 1, 2, or 3 years. At the end of the period of availability, the budget appropriations expire and may not be used to incur new obligations.

Because of Navy concerns over the potential impact of the 1990 legislation, the STARS' accounting organization implemented two efforts to reduce unmatched disbursements. First, it asked funding organizations to help it match some unmatched disbursements with obligations. Second, it changed STARS' programming so that the system searches its data base to identify obligations recorded for unmatched disbursements which were rejected because of insufficient obligations. These initiatives and the accounting organization's normal matching efforts resulted in a \$300 million reduction in unmatched disbursements in STARS between September 1990 and September 1991. According to accounting organization reports, the \$300 million represents only 10 percent of the \$3 billion increase that occurred during the 3 preceding fiscal years.

In addition, the STARS accounting organization had two other projects planned at completion of our field work. One project will create an automated interface between STARS and a field activity procurement system. This project is intended to result in more timely recording of obligations for field activity contracts. However, this change may result in only a small improvement because according to STARS records, the vast majority of the unmatched disbursements involve headquarters, not field activity, contracts. The second project involves a computer program to identify "likely" matches based on accounting data elements recorded on obligation and disbursement records. However, this project will not help resolve unmatched disbursements resulting from insufficient funds or erroneous contract numbers. According to STARS records, unmatched disbursements falling into these categories totaled \$7.1 billion, 58 percent of the \$12.3 billion in unmatched disbursements as of February 19, 1992.

Navy Did Not Report Unmatched Disbursements as a Material Internal Control Weakness

Although the Navy has had billions of dollars in unmatched disbursements for years, it has not disclosed the problem as a material weakness in its reports to DOD pursuant to the Federal Managers' Financial Integrity Act of 1982 (31 U.S.C. 3512 (c) and (d)). That act requires DOD and other federal agencies to establish internal accounting and administrative controls that among other things, provide reasonable assurance that obligations and costs comply with applicable laws. The act, and implementing Office of Management and Budget (OMB) guidance, also require agencies to annually assess and report on whether their internal controls provide this assurance and meet the other objectives of internal controls.

The magnitude of unmatched disbursements in STARS indicates that the Navy has a material weakness in its controls over disbursements. At the

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Unmatched Disbursements**

time we conducted our field work, OMB guidance to federal agencies described a material weakness as

"... a situation in which the designed procedures or degree of operational compliance therewith does not provide reasonable assurance that the objectives of internal control specified in the [Federal Managers' Financial Integrity] Act are being accomplished."

On August 8, 1992, OMB provided federal agencies new guidance on determining whether material control weaknesses and system nonconformances exist within agencies' financial operations. According to this guidance, a material weakness or system nonconformance exists, when, among other things, the weakness (1) violates statutory or regulating requirements and (2) significantly weakens safeguards against waste, loss, unauthorized use or misappropriation of funds, property, or other assets. In our view, the Navy's high level of unmatched disbursements constitutes a material internal control weakness.

The Navy's failure to acknowledge and report unmatched disbursements as a material weakness in its reports to DOD pursuant to the Federal Managers' Financial Integrity Act of 1982 may hamper its resolution efforts. A necessary first step in resolving serious problems is to acknowledge their existence. Then after identifying a problem, effective correction actions may be developed and implemented.

Conclusions

Although the accounting organization has taken steps towards reducing unmatched disbursements in STARS since November 1990, weaknesses still exist in the Navy's disbursement process as indicated by the backlog of \$12.3 billion of such disbursements in STARS as of February 19, 1992. Based on this backlog and the value of unmatched disbursements generated annually, STARS unmatched disbursements will continue to be a significant problem for a long time.

The Navy has fundamental and material weaknesses in its accounting controls over billions of dollars in obligations and disbursements. These weaknesses limit the Navy's ability to ensure that appropriated funds have been spent in accordance with statutory provisions. We believe that the Navy's problem with unmatched disbursements represents a high-risk situation which requires your immediate attention. While the Navy's initiatives and planned projects, when fully implemented, will likely eliminate some unmatched disbursements, the problem will not be

adequately resolved until the weaknesses in control procedures which allow the unmatched disbursements to occur are corrected.

Recommendations

We recommend that you direct the Assistant Secretary of the Navy (Financial Management) to (1) enforce existing regulations and/or procedures requiring Navy organizations to research and properly resolve existing unmatched disbursements and (2) establish milestones for achieving this objective. We also recommend that you report unmatched disbursements as a material weakness in the Navy's annual Federal Managers' Financial Integrity Act report to DOD.

We further recommend that you direct the Assistant Secretary of the Navy (Financial Management) to provide sufficient resources, including training and management oversight, to the accounting organizations responsible for resolving unmatched disbursements to competently address the problem.

To prevent future unmatched disbursements, we recommend that you direct the Assistant Secretary of the Navy (Financial Management) to emphasize to all funding and accounting offices the importance of recording all obligations promptly and accurately in the accounting system.

We also recommend that you direct the Assistant Secretary of the Navy (Financial Management) to emphasize to all funding, disbursing, and accounting offices the importance of

- entering disbursements correctly in the Navy's financial reporting system, which provides data to the accounting system, and
- using authorized contract numbers and payment supporting documentation to correctly match unmatched disbursements with related obligations.

To ensure that disbursing office errors are promptly detected and corrected, we recommend that you direct the Assistant Secretary of the Navy (Financial Management) to modify Navy regulations and procedures to require that copies of necessary documentation, including contracts, acceptances and invoices, be made available to and used by the organizations responsible for resolving unmatched disbursements.

Agency Comments and Our Evaluation

In commenting on a draft of this report, DOD raised no substantive disagreements with the facts regarding the magnitude of unmatched disbursements in STARS. However, DOD only partially concurred with four findings, did not concur with two findings, and fully concurred with two findings. DOD concurred with five recommendations, partially concurred with one, and nonconcurred with another. The major points conveyed in DOD's comments and our response are summarized below. The full text of DOD's comments is presented in appendix II.

DOD stated that the existence of unmatched disbursements, in and of themselves, did not necessarily indicate that serious weaknesses existed in the disbursement process or that improper payments had occurred. While we agree that unmatched disbursements do not necessarily represent improper payments, the Department should not automatically assume that the disbursements were proper. Our work has shown that disbursing errors, such as contractor overpayments, actually occur within the DOD disbursement processes. Furthermore, the DFAS, Columbus Center (Ohio) is a major disbursing office for the Navy and in its fiscal years 1991 and 1992 Federal Managers' Financial Integrity Act reports disclosed that its disbursement process can allow duplicate and erroneous contractor payments. As we mentioned in this report, Navy records show that as of February 19, 1992, over \$3.7 billion of the unmatched disbursements in STARS were unmatched because of insufficient funds at some accounting level. Additionally, Navy records show that unmatched disbursements in STARS grew by 10.6 percent, from \$12.3 billion to \$13.6 billion, between February 1992 and December 1992. Therefore, unless the Navy promptly matches the disbursements with related obligations, it lacks assurance that overpayments or other improper payments have not occurred.

DOD also stated that unmatched disbursements are temporary, and that many disbursements had been matched at the contract, appropriation, and program levels. We agree that the existence of an unmatched disbursement should be a temporary condition. However, our analysis of STARS data revealed that as of December 19, 1992, 45,467 disbursements totaling about \$5.7 billion had been unmatched for over 2 years. Of these transactions, 10,256 disbursements totaling about \$1.2 billion were over 2,160 days (6 years) old. These data show that within STARS, many unmatched disbursements are not quickly resolved. Further, we do not agree that the unmatched disbursements had been previously matched against the proper contracts, appropriations, and programs. In fact, the \$12.3 billion in unmatched disbursements had been reported to the Treasury as funds disbursed before the Navy attempted to determine

whether the disbursements were proper. Moreover, the "matching" of disbursements to the proper appropriation or contract without matching against the proper obligation does not ensure that the Navy is complying with legal spending limits. The Antideficiency Act requires the Navy to limit expenditures not only to the total appropriations available, but also to the limits on available funds specified by agency fund control regulations (31 U.S.C. 1517(a)(2)). Under DOD regulations, the Antideficiency Act prohibitions apply to "[a]ny limitation imposed by an authorized official that is intended to provide a limitation on the obligation of apportioned funds" (DOD Directive 7200.1, enclosure 5, paragraph K.2.d). Thus, DOD's assertion that Navy's disbursements are "matched" with the proper appropriation does not ensure that the Navy has complied with all applicable legal requirements. From a fiduciary and financial management aspect, this situation should not be tolerated.

DOD further stated that the dollar value of unmatched disbursements in STARS as of February 19, 1992, was less significant in relation to the total disbursements (reportedly over \$675 billion) made during the period covered by the disbursements. DOD's comparison of the amount of unmatched disbursements would deemphasize the need for the prompt matching of these disbursements. In fact, the proper matching of disbursements with obligations is a key Navy control designed to prevent unauthorized disbursements and purchases, and to ensure that the Navy does not obligate or spend more funds than the Congress has appropriated. In our opinion, the overall dollar value, the age of some unmatched disbursements, and the rate at which the amount of such disbursements is increasing confirms that the problem is significant and deserves immediate and concerted attention by Navy and DOD management. Also, to conclude that the \$12.3 billion in unmatched disbursements is immaterial in relation to total funds disbursed, in our opinion, would be misleading and irresponsible.

Additionally, DOD stated that the changes needed to resolve unmatched disbursements are complex, difficult, and costly and that we did not consider the impact ongoing DOD initiatives would have on eliminating the primary causes of unmatched disbursements. Our recommendations primarily address near-term actions necessary to strengthen controls. These efforts will not necessarily require costly system interfaces or other complex operations. Based on DOD's descriptions, we believe the new initiatives could yield positive results if sustained over time. While we recognize that efforts to correct the deficiencies which lead to unmatched disbursements may have accelerated since we completed our audit work,

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the success of such efforts can be assessed only by future reviews or evaluations. We believe it is especially disturbing that even given DOD's reported emphasis on resolving unmatched disbursements, the value of such disbursements increased at an alarming rate (\$1.3 billion) over 10 months during 1992, raising questions regarding the effectiveness of DOD's reported efforts.

DOD did not concur with our recommendation that the Navy should report unmatched disbursements as a material weakness in its annual Federal Managers' Financial Integrity Act report. DOD stated that it does not agree that Navy unmatched disbursements represent a material internal control weakness and that we had not shown that unmatched disbursements are not valid disbursements. DOD's position is tantamount to stating that no weakness needs to be acknowledged until substantial losses occur. The dollar value, number of transactions, age, and upward trend of the Navy's unmatched disbursements clearly underscore that a material weakness exists in the disbursement process and, in our opinion, the problem should be fully disclosed in the Navy's annual Federal Managers' Financial Integrity Act report.

Comments From the Department of Defense

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON, DC 20301-1100

MAR 22 1993

(Management Systems)

Mr. David M. Connor
Director, Defense Financial Audits
Accounting and Financial Management
Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Connor:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "FINANCIAL MANAGEMENT: Navy Records Contain Billions of Dollars in Unmatched Disbursements," dated January 27, 1993 (GAO Code 918752), OSD Case 9315. The Department partially concurs with the report.

Unmatched disbursements, in and of themselves, are not evidence that payments were improper. To the contrary, most unmatched disbursements are matched with valid obligations. In that regard, the Department notes that the GAO does not conclude that the DoD unmatched disbursements are invalid disbursements. Additionally, although the GAO does not identify the level at which disbursements are not matched, it should be emphasized that many unmatched disbursements already are matched at, and have been identified to and reported against, the proper contract, appropriation and program. Many such disbursements are unmatched only at a more detailed contract line item and/or detailed obligation line item level within the proper contract, appropriation, and program.

Further, the GAO does not consider a number of ongoing DoD initiatives to resolve unmatched disbursements and eliminate the primary causes of unmatched disbursements. Those initiatives include (1) establishing a joint Navy-Defense Finance and Accounting Service task force to direct and oversee the reconciliation of obligation records, work performed, and unmatched disbursements in the Navy; (2) addressing ways to improve the accuracy and timeliness of contracting data provided to disbursing offices; (3) establishing a Defense Finance and Accounting Service task group to clear unmatched disbursements on a more timely basis; (4) beginning a joint Office of the DoD Comptroller and Office of the Under Secretary of Defense (Acquisition) effort to improve the quality of disbursement and obligation data; (5) pursuing Corporate Information Management initiatives that will virtually eliminate unmatched disbursements in the Department; and (6) developing other actions that will resolve and prevent unmatched disbursements.

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The failure to match a disbursement precisely to an obligation in the accounting system is not evidence, and does not necessarily mean, that (1) the payment was not proper, (2) it was not based on a legal obligation to pay, or (3) it was not supported by a valid contract with proper evidence of items received. Rather, unmatched disbursements usually are evidence of various clerical or administrative errors that have occurred in the communication of data involving valid disbursements. In and of themselves, such errors are not evidence the process that results in disbursements is seriously flawed or has inadequate internal controls.

Additionally, it should be recognized that a disbursement, and the matching of that disbursement to obligation records, is the culmination of a series of events, some of which are outside the control of accounting and disbursing offices. The Department recognizes that, in addition to the corrective actions being taken within the disbursing and accounting offices, additional corrective actions must be taken by other organizations, such as DoD contracting and contract administration offices and program managers. As corrective actions and process improvements are implemented, they will be coordinated with appropriate offices to better ensure that all sources of errors are addressed.

The resolution and prevention of unmatched disbursements is complicated by inadequate communication--e.g., lack of standard systems to transmit data electronically among financial and non-financial systems and organizations. While the Department recognizes that the receipt of accurate and timely financial management data in an electronic manner (e.g., electronic data interchange) would decrease unmatched disbursements significantly in the Navy, it also recognizes that some financial management policies, procedures and, in particular, accounting and disbursing systems, need improvement to reduce unmatched disbursements substantially throughout the Department. The changes needed by financial, contracting, and program management systems to correct unmatched disbursements are complex, difficult, and costly to achieve. Nevertheless, the Department will continue to implement short- and long-term initiatives to improve financial management and procurement procedures that affect obligation and disbursement processes.

Detailed DoD comments on the specific findings and recommendations of the report are provided in the enclosure. The Department appreciates the opportunity to comment on the draft report.

Sincerely,



Alvin Tucker
Deputy Comptroller
(Management Systems)

Enclosure

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GAO DRAFT REPORT--DATED JANUARY 27, 1993
(GAO CODE 918752) OSD CASE 9315

"FINANCIAL MANAGEMENT: NAVY RECORDS CONTAIN BILLIONS
OF DOLLARS IN UNMATCHED DISBURSEMENTS"

DEPARTMENT OF DEFENSE COMMENTS

* * * * *

FINDINGS

FINDING A: Fund Control. The GAO reported that the Navy administrative control procedures are designed to prevent unauthorized disbursements and purchases and to ensure that more funds are not obligated or spent than the Congress appropriated. The GAO reported that disbursing offices submit daily and monthly disbursement reports to 12 regional Navy processing centers where the reports are examined and consolidated--and the payment information processed through the Navy Financial Reporting System. The GAO further reported that the Financial Reporting System, in turn, reports the disbursements to the Centralized Expenditure/Reimbursement Processing System. The GAO observed that the Centralized Expenditure/Reimbursement System generates the Navy monthly consolidated Statement of Accountability--which is submitted to Treasury and which contains information on (1) the dollar amount of issued checks, (2) the cash on hand, and (3) other data Treasury needs to prepare financial statements and reports for the U.S. Government.

The GAO explained that the Centralized Expenditure/Reimbursement Processing System reports the disbursements to the Standard Accounting and Reporting System and other Navy accounting systems to update accounting records at the individual contract level. The GAO noted that accounting organizations then attempt to match disbursements with the proper obligations--with unmatched disbursements held in suspense until investigated and manually matched by the appropriate accounting organization. (pp. 3-7/GAO Draft Report)

DoD RESPONSE: Concur.

FINDING B: Billions of Dollars of Unmatched Disbursements Exist In the Standard Accounting and Reporting System. The GAO reported that, as of February 19, 1992, the Standard Accounting and Reporting System unmatched disbursements totaled \$12.3 billion. The GAO pointed out that current Navy procedures require prompt matching of disbursements with obligations to ensure that disbursements are valid and accounting records are accurate. The GAO concluded that the inability to match promptly billions

Now on pp. 8-11.

of dollars of disbursements with proper obligations shows that serious problems exist with Navy controls over the disbursement process. The GAO found that during FY 1991, nearly \$6 billion in disbursements were rejected by the Standard Accounting and Reporting System as being unmatched with obligations. The GAO further found that, as of February 19, 1992, about 79 percent of the total amount of unmatched disbursements had been unmatched for over 6 months.

The GAO reported that about 43 percent of the total value of unmatched disbursements consisted of individual disbursements of \$1 million or more. The GAO found that 1,439 disbursements totaling \$3.9 billion were over 6 months old and accounted for almost 32 percent of the total value of unmatched disbursements. The GAO analysis also showed that \$10.9 billion, or 89.3 percent of the dollar value of the unmatched disbursements, belongs to three funding organizations--\$5.3 billion at the Naval Air Systems Command, \$4.7 billion at the Naval Sea Systems Command, and \$0.9 billion at the Space and Naval Warfare Systems Command, respectively. (pp. 8-11, p. 26/GAO Draft Report)

Now on pp. 11-13.

DoD RESPONSE: Partially concur. Unmatched disbursements in the Navy's Standard Accounting and Reporting System involve significant dollar amounts. However, the existence, by itself, of unmatched disbursements does not mean that the process that results in disbursements is fraught with serious weaknesses in internal controls. The failure of a disbursement to initially match an obligation in the accounting system does not necessarily mean that a payment was not properly and correctly made by the disbursing office based on a valid contract with proper evidence of material received. Nor does it mean that an obligation was not properly recorded prior to the disbursement. Rather, unmatched disbursements often are representative of various clerical or administrative errors that have occurred in the communication of data, including data from sources external to the accounting and disbursing offices.

The current process involves significant non-automated transmissions of financial data that require disbursing and accounting offices to input millions of characters of financial management data manually into their systems to match with respective obligations. Given the large volume of transactions, even a small proportion of errors in this manual effort can result in a substantial dollar amount of unmatched disbursements that then must be manually researched and resolved. However, front-end edits and other internal control measures in the Standard Accounting and Reporting System usually detect and prevent errors that result from this archaic, labor-intensive method of inputting accounting data.

Additionally, not all amounts compared by the GAO appear to be comparable. For example, according to the report, field work was performed between May 1991 and April 1992, but disbursing office record information was not obtained until after June 30,

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1992. Further, the report compares the reported balance of unmatched disbursements (\$12.3 billion) against a notional \$57 billion accounted for annually in the Standard Accounting and Reporting System. Viewing unmatched disbursements in relationship to the total universe of disbursements from which the unmatched disbursements were drawn is a more meaningful relationship. When unmatched disbursements are compared to total disbursements on this comparable basis, the relative amount of unmatched disbursements is much less significant than presented in the GAO report. For example, the \$12.3 billion identified in the report is an amount accumulated over a number of years. The total universe of disbursements during the same period the unmatched disbursements were generated is estimated to be in excess of \$675 billion. Such a comparison indicates that, while unmatched disbursements are a large dollar amount (\$12.3 billion), they represent less than 2 percent of the disbursements in the applicable universe that generated those unmatched disbursements.

An unmatched disbursement generally is a temporary condition. When unmatched disbursements occur, they are researched and matched. A review of FY 1991 and FY 1992 disbursements shows that the difference between new unmatched disbursements and previously unmatched disbursements that were matched during the same period represents only 1.6 percent of disbursements in FY 1991 and 1.3 percent of disbursements in FY 1992.

Unmatched disbursements are not necessarily evidence that payments were improper. In this regard, the Department notes that the GAO report does not conclude that the DoD unmatched disbursements represent invalid disbursements. Rather, as stated above, unmatched disbursements often are errors that have occurred in the communication of data involving valid disbursements. Additionally, although the GAO report does not identify the level at which disbursements are unmatched, it should be emphasized that many unmatched disbursements already are matched at, and have been identified to and reported against, the proper contract, appropriation, and program. Many such disbursements are unmatched only at a more detailed contract line item level within the proper contract, appropriation, and program.

Further, the GAO report does not recognize that many of the unmatched disbursements are associated with the reversal of progress payments. Progress payment postings are temporary in nature and are reversed upon final payment for deliveries. When contractors submit invoices for progress payments, followed by a final billing upon delivery, there is a reversal of previous progress payments. At that time, both a debit and credit expenditure record could be submitted to the Standard Accounting and Reporting System for processing by the disbursing network. If the debit transaction is posted prior to the credit transaction, the transaction will be rejected, and unmatched amounts will occur.

FINDING C: Funding Organizations Did Not Always Obligate Funds Promptly. The GAO found that, as of February 19, 1992--of the \$12.3 billion in unmatched disbursements in the Standard Accounting and Reporting System, \$3.7 billion (or 30 percent) had been rejected by an automated edit routine because obligations were not sufficient to cover the cited disbursements. While the GAO could not determine how much of the amount resulted from delays in recording obligations as compared to disbursing office errors or other control weaknesses, according to Navy officials, not recording obligations in a timely manner was a major cause of the unmatched disbursements in the Standard Accounting and Reporting System.

The GAO asserted that, generally, funds should be committed upon approval of firm procurement directives, orders, requisitions, or requests--and should be obligated when an order is placed, a contract is awarded, or similar transactions requiring future disbursement of funds is entered into. The GAO pointed out Navy procedures also require that commitment documents be audited at least twice each fiscal year to ensure funds do not remain inappropriately committed. The GAO reported that, in addition, officials at the Naval Sea Systems Command and the Naval Air Systems Command are also required to follow up on those funds, which have not been obligated within 30 days after being committed, to determine whether commitments are still appropriate or whether amounts should be obligated.

The GAO reported that, according to Navy funding and accounting organization officials, the late recording of obligations was still a major cause of unmatched disbursements. The GAO noted that Navy officials provided examples showing where funds remained inappropriately committed, but unobligated in the Standard Accounting and Reporting System for months and months. The GAO concluded that failure by the funding organization to conduct the required reviews of commitments allowed the delay in recording obligations to go undetected and, therefore, uncorrected. (pp. 12-13, p. 26/GAO Draft Report)

DoD RESPONSE: Partially concur. Funding organizations within the Navy should have conducted, but did not always conduct, required reviews of commitments to fully obligate applicable amounts. However, the failure of funding organizations to conduct such reviews is a major cause of unmatched disbursements in the Standard Accounting and Reporting System. Nor does the Department agree that the primary cause of unmatched disbursements is a delay in recording obligations.

Now on pp. 13-14.

See comment 1.

When a contract is awarded, contract data--including the funding organizations' lines of accounting--are keyed into an accounting system. Each line of accounting on a contract represents a separate obligation of a funding organization's resources. In contracts for major weapons systems, numerous lines of accounting, i.e., obligations, may be annotated on one contract. When a disbursing office receives an invoice for a progress or final payment, it is incumbent upon the contractor, administrative contracting officer, or program manager to indicate the appropriate lines of accounting--as indicated on the contract--that the disbursing officer should cite when making a disbursement. If the detailed line of accounting data available to the disbursing officer is not precisely the same as the detailed obligation data shown on the contract for the item, a disbursement made in complete conformance with contract requirements may not match the related obligation, and an unmatched disbursement most likely will result. This situation does not mean that funds were not obligated, but rather that additional effort is required to match the disbursement to the related obligation.

FINDING D: Navy Controls Are Not Adequate To Ensure Prompt Detection and Correction of Disbursing Office Errors. The GAO concluded that the present Navy disbursement structure does not promote the prompt detection and correction of disbursing office errors. The GAO referenced several prior reports (OSD Cases 8091, 8258, and 8736) in which it had found the DoD disbursing offices made errors that resulted in (1) contractors being overpaid, (2) the wrong appropriation and Military Services being charged with payments, and (3) obligations and disbursing records being incompletely and incorrectly processed. The GAO reported that, while key duties related to the disbursement of Navy funds are performed by separate organizations, overall internal controls and procedures are not adequate to ensure disbursing office errors are promptly resolved. The GAO concluded that, as a result, the errors--which sometimes involve duplicate and other improper payments--may go undetected and/or uncorrected for extended time periods.

The GAO found that, under the current Navy disbursement structure, funding organizations have little control over the disbursement process--since other Navy and DoD organizations pay, process, and account for disbursements. The GAO pointed out, because the funding organizations that issued the contracts are not provided copies of payment supporting records, the organizations have no way of knowing whether disbursing offices (1) made payments in accordance with the contract accounting structure, (2) paid improper amounts for items, (3) paid for unauthorized items, or (4) made other errors. The GAO further found that, instead, under the current Navy structure--after disbursing offices pay for goods or services--payment vouchers and other documents supporting those payments are submitted to Navy processing centers, which neither receive nor have copies

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of authorizing contracts necessary to confirm the accuracy and validity of the payments. The GAO asserted processing center personnel cannot, therefore, ensure that payments were proper or that accounting data were accurate.

The GAO also found that processing center personnel for the Standard Accounting and Reporting System are not required to send supporting records for payments to the system accounting organization--and, as a result, the accounting organization does not have the records to properly investigate disbursements rejected as unmatched with obligations, since that organization has neither the authorizing contracts nor the supporting payment records necessary to make proper matches. The GAO concluded that the diffused nature of the Navy disbursement process to a number of organizations increases the need for stringent internal control procedures to ensure that errors and other irregularities are prevented and/or quickly detected.
(pp. 13-17, p. 26/GAO Draft Report)

Now on pp. 14-17.

DoD RESPONSE: Partially concur. The Department agrees that additional controls are necessary to ensure prompt detection and correction of unmatched disbursements in the Navy. However, the basic Navy structure for processing payments is sound. The processing and recording of accounting transactions for Navy contracts are based on the principle of separation of duties. Commitments and obligations are recorded by funding organizations based on copies of commitment requests and contract documents. Funding organizations are responsible for maintaining valid records to reflect available funds, commitments, and obligations. The GAO did not indicate that this process results in disbursements that are not made in conformance with contract requirements, but only that it results in some disbursements that are not initially matched to detailed obligations. In many cases, when ultimately matched, the disbursements turn out to have been paid initially against the correct contract and appropriation, but posted against the wrong detail line of accounting on the contract.

The disbursing office making payments is responsible for ensuring that each payment is correct. Contractor invoices are validated and paid by matching requests for payment to applicable contract information and receiving reports. In instances when the disbursing and accounting offices are co-located, or otherwise have ready access to the same database, the disbursing office also can match the disbursement to the obligation record. When payments are made by a disbursing office for an accounting office that is not co-located, or does not otherwise have ready access to the same accounting database, the disbursing officer must perform the same validations as discussed above, with the exception of matching the obligation in the accounting system prior to making the disbursement. Instead, the disbursing office must transmit the disbursement information to the applicable accounting office to be matched with the accounting records. In the latter circumstance, the accounting office must

process the payment information and match the disbursement to the correct detailed obligation record. When an unmatched disbursement occurs, the accounting office should contact the disbursing office and request documentation supporting the mismatched payment to determine the correct obligation against which the disbursement should be recorded.

A principal duty of an accounting organization is not, nor should it be, reviewing disbursements for accuracy. It is the responsibility of the individual who certifies receipt and acceptance of the goods or service to ensure that a contractor is entitled to a payment. The disbursing officer is pecuniary liable for disbursements. Therefore, he or she must ensure that such disbursements are based on evidence--i.e., existence of a contract and a certification of receipt and acceptance of an item prior to payment. The accounting office is responsible for periodically reviewing the validity of obligations, matching disbursements with valid obligations, and providing other accounting services to funding organizations--not reviewing disbursements for accuracy. The separation of duties in the current structure provides the basic structure necessary to effectively manage Navy contracts. To mandate a second review by the accounting office would be a duplication of effort that is unnecessary, not cost effective, and a violation of the basic internal control concept of separation of duties.

Changes in financial, acquisition, and program management systems that are needed to increase the accuracy of information provided to disbursing offices will be difficult and costly to achieve. Resolution of this problem currently is being addressed by the Department. The Department's Corporate Information Management initiatives are expected to virtually eliminate unmatched disbursements. (See also the DoD response to Recommendation 7.)

FINDING E: Accounting Data Accuracy Not Maintained. The GAO reported that, according to the records of the Standard Accounting and Reporting System, unmatched disbursements involving invalid contract numbers accounted for \$3.4 billion of the \$12.3 billion unmatched as of February 19, 1992. The detailed GAO analyses of payment records showed that numerous disbursements could not be matched with proper obligations simply because processing center personnel had entered obviously incorrect data as the authorizing contract numbers. The GAO found that, while the Navy standard contract numbering structure requires 13 to 15 characters to identify the Navy funding activity, fiscal year, and type of contract, there were 5,865 disbursements, totaling \$813 million, that could not be matched with obligations because processing personnel had entered "No Doc" (that is, no document number) as the contract numbers. In addition, the GAO found that there were 3,934 disbursements, totaling \$610 million, that could not be matched with related obligations because the contract number field

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Now on p. 17.

contained fewer than 13 characters. The GAO asserted that, according to processing center personnel, errors (such as invalid contract numbers) were not adequately researched and corrected because it was too time-consuming to do so. The GAO reported processing center personnel explained that stringent Treasury end-of-month reporting times, coupled with a large volume of work, made it difficult to conduct proper research and correct all errors. (pp. 17-19, p. 26/GAO Draft Report)

DoD RESPONSE: Concur. Because of the lack of readily available information, administrative errors, and for other reasons, disbursements have been posted without correct document numbers. Such conditions result in unmatched disbursements. However, over the past few years, process improvements have been made to increase the volume of disbursement data automatically entered into the financial reporting system. This has reduced the need for manual data entries and, hence, reduced the chance of entry errors. Additionally, the establishment of Financial Information Processing Centers has allowed the Department of the Navy to develop system improvements that reduce the manual input of financial data in the processing of disbursement transactions. The reduction of manual entry also reduces the risk of administrative or clerical errors, including key entry problems. Further, financial information now is communicated more frequently from one processing organization to another using digital data transmissions.

FINDING F: Unmatched Disbursements Were Not Properly Resolved. The GAO reported that accounting organization personnel often "resolved" unmatched disbursements using methods that offered little assurance of accuracy. For example, the GAO found that the primary technique for matching disbursements rejected by the Standard Accounting and Reporting System because the amounts exceeded obligations was to reallocate funds judgmentally from an accounting classification reference number--one that had sufficient funds to the accounting classification reference number with insufficient funds, instead of specifically determining the cause for the insufficiency. The GAO reported that the Standard Accounting and Reporting System indicated, unmatched disbursements involving insufficient funds totaled \$3.7 billion as of February 19, 1992. The GAO found that the reallocation of funds was generally done either because the (1) personnel did not have, and did not request, the contract and supporting disbursement information, and/or (2) time required to research and properly correct the erroneous conditions was considered excessive.

The GAO reported that, although accounting organization personnel advised that generally funds were only reallocated within the same contract, the statement could not be confirmed because the accounting organization normally did not maintain records showing how unmatched disbursements were matched with obligations. The GAO pointed out that the arbitrary allocations

Now on p. 17.

contained fewer than 13 characters. The GAO asserted that, according to processing center personnel, errors (such as invalid contract numbers) were not adequately researched and corrected because it was too time-consuming to do so. The GAO reported processing center personnel explained that stringent Treasury end-of-month reporting times, coupled with a large volume of work, made it difficult to conduct proper research and correct all errors. (pp. 17-19, p. 26/GAO Draft Report)

DoD RESPONSE: Concur. Because of the lack of readily available information, administrative errors, and for other reasons, disbursements have been posted without correct document numbers. Such conditions result in unmatched disbursements. However, over the past few years, process improvements have been made to increase the volume of disbursement data automatically entered into the financial reporting system. This has reduced the need for manual data entries and, hence, reduced the chance of entry errors. Additionally, the establishment of Financial Information Processing Centers has allowed the Department of the Navy to develop system improvements that reduce the manual input of financial data in the processing of disbursement transactions. The reduction of manual entry also reduces the risk of administrative or clerical errors, including key entry problems. Further, financial information now is communicated more frequently from one processing organization to another using digital data transmissions.

FINDING F: Unmatched Disbursements Were Not Properly Resolved. The GAO reported that accounting organization personnel often "resolved" unmatched disbursements using methods that offered little assurance of accuracy. For example, the GAO found that the primary technique for matching disbursements rejected by the Standard Accounting and Reporting System because the amounts exceeded obligations was to reallocate funds judgmentally from an accounting classification reference number--one that had sufficient funds to the accounting classification reference number with insufficient funds, instead of specifically determining the cause for the insufficiency. The GAO reported that the Standard Accounting and Reporting System indicated, unmatched disbursements involving insufficient funds totaled \$3.7 billion as of February 19, 1992. The GAO found that the reallocation of funds was generally done either because the (1) personnel did not have, and did not request, the contract and supporting disbursement information, and/or (2) time required to research and properly correct the erroneous conditions was considered excessive.

The GAO reported that, although accounting organization personnel advised that generally funds were only reallocated within the same contract, the statement could not be confirmed because the accounting organization normally did not maintain records showing how unmatched disbursements were matched with obligations. The GAO pointed out that the arbitrary allocations

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The GAO reported that, on November 5, 1990, the Congress passed the National Defense Authorization Act for Fiscal Year 1991, which served as a catalyst for increased Navy emphasis on matching the unmatched disbursements in the Standard Accounting and Reporting System. The GAO explained that the Act limited the time that expired appropriations are available for disbursement to 5 years--and, after that time, only up to 1 percent of current appropriations can be used to make required payments. The GAO pointed out that, prior to the passage of the Act, the Navy could make payments from unpaid obligations of expired appropriations indefinitely.

The GAO observed that, because of Navy concerns over the potential impact of the 1990 legislation, the Standard Accounting and Reporting System accounting organization:

- Asked funding organizations to help match some unmatched disbursements with obligations; and
- Changed the Standard Accounting and Reporting System programming so that the system searches the data base to identify obligations recorded for unmatched disbursements which were rejected because of insufficient obligations.

The GAO found that the cited initiatives and the accounting organization's normal matching efforts resulted in a \$300 million reduction in unmatched disbursements in the Standard Accounting and Reporting System between September 1990 and September 1991. The GAO asserted, however, that according to accounting organization reports, the \$300 million represents only 10 percent of the \$3 billion increase that occurred during the three preceding fiscal years.

The GAO reported that, at the time of the completion of the GAO field work, the Standard Accounting and Reporting System accounting organization had two other projects planned--(1) one project will create an automated interface between the Standard Accounting and Reporting System and a field activity procurement system to result in more timely recording of obligations for field activity contracts, and (2) the second project involves a computer program to identify "likely" matches based on accounting data elements recorded on obligation and disbursement records. The GAO concluded that the first project will probably result in only a small improvement because the vast majority of the unmatched disbursements involve headquarters contracts, not field activity contracts. The GAO further concluded that the second project will not help resolve unmatched disbursements resulting from insufficient funds or erroneous contract numbers. (pp. 21-24, p. 26/GAO Draft Report)

DoD RESPONSE: Nonconcur. The Department recognizes the difficulty in achieving the total elimination and prevention of unmatched disbursements. Such an objective necessitates both short-term and long-term changes. One major cause of unmatched

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disbursements is a lack of timely and accurate communication of information among and between program managers, DoD contracting and contract administration offices, contractors, accounting offices, disbursing offices, and others. Another major cause of unmatched disbursements is payment systems that do not support payments at the level of obligation detail required. These major causes are complicated and amplified by a lack of standard systems to transmit data electronically among accounting, disbursing, and other external offices and systems. As a result, disbursing offices do not always receive accurate data in the timeframe needed to allow disbursements to be matched initially with an obligation.

In the long run, the DoD Corporate Information Management initiative is expected to provide the capability to eliminate many unmatched disbursements and other problems through the sharing of common databases. In fact, the Corporate Information Management principles require the integration of program management, funding, contracting, accounting and disbursing data to manage the Department programs more effectively. The use of integrated databases ultimately should eliminate the primary causes of unmatched disbursements.

In the nearer term, the Department is addressing ways to improve the accuracy and timeliness of contract data available to disbursing offices. This data currently is a vital link in the process used to identify payments to applicable detailed obligation records. In this regard, it should be recognized that a disbursement, and the matching of that disbursement to obligation records, is the culmination of a series of events--some of which are outside the control of accounting and disbursing offices. The Department recognizes that, in addition to the corrective actions being taken within the accounting and disbursing offices, additional corrective actions must be taken by other organizations, such as DoD contracting and contract administration offices and program managers. As corrective actions and process improvements are implemented, they will be coordinated with appropriate offices to better ensure that all sources of errors are addressed. However, full implementation of these new policies and procedures will require (1) complex and costly systems changes to the DoD existing financial and acquisition systems, and (2) a substantial period of time to implement.

The Department takes exception to the GAO characterization that the Navy "changed the Standard Accounting and Reporting System programming so that the system searches the database to identify obligations recorded for unmatched disbursements which were rejected because of insufficient obligations." The term "insufficient obligations" implies that funds are not available to cover disbursed amounts. Yet, the GAO does not show that unmatched disbursements exceed available obligated resources. When an unmatched disbursement condition exists, the obligation against which a disbursement may initially have been posted can

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be greater or lesser than the disbursement. However, this does not mean that obligations are excessive or insufficient. It merely means that there is a mismatch and additional research is required to correctly identify the applicable disbursement to the appropriate obligation. One indication that an unmatched condition may exist is when the amount of a disbursement exceeds the obligation against which it initially is matched. While recent programming changes may allow such mismatches to be identified on an automated basis, this is not an indication either that the obligation to which the disbursement should have been matched, or the obligation to which the disbursement was initially (but incorrectly) matched is insufficient to pay for the applicable purpose for which it was obligated.

FINDING H: Navy Did Not Report Unmatched Disbursements As A Material Internal Control Weakness. The GAO reported that, although the Navy has had billions of dollars in unmatched disbursements for years, the problem has not been disclosed as a material weakness in reports to the DoD pursuant to the Federal Managers' Financial Integrity Act of 1982. The GAO concluded the magnitude of unmatched disbursements in the Standard Accounting and Reporting System indicates that the Navy has a material weakness in the controls over disbursements. The GAO further concluded that Navy failure to acknowledge and report unmatched disbursements as a material weakness to the DoD pursuant to the Federal Managers' Financial Integrity Act of 1982 may hamper resolution efforts. (pp. 24-26/GAO Draft Report)

DoD RESPONSE: Nonconcur. The Department recognizes that the Navy did not report unmatched disbursements as a material internal control weakness. However, the Department does not agree that the Navy unmatched disbursements is a material internal control weakness. Therefore, this condition is not a reportable matter.

The GAO has not reported that the Navy unmatched disbursements are not valid disbursements. As stated previously, the failure of a disbursement initially to match an obligation in the accounting system does not necessarily mean that a payment was not properly and correctly made by the payment office, based on a valid contract with proper evidence of material received. Nor does it mean that an obligation was not properly recorded prior to the disbursement. Rather, unmatched disbursements often are representative of various clerical or administrative errors that have occurred in the communication of data involving valid disbursements. Such errors do not necessarily indicate that the process that results in disbursements is fraught with serious weaknesses in internal controls.

That the presence of unmatched disbursements, as observed by the GAO, was not reported in the Navy annual statement of assurance reflects, in large part, a difference of opinion between the GAO and the Department regarding the implication,

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and the relative materiality, of unmatched disbursements. The final determination as to whether an internal management deficiency is a material weakness is a management judgment which must be based on the relative impact of the weakness. As stated above, unmatched disbursements often are representative of various clerical or administrative errors that (1) have occurred in the communication of data involving valid disbursements, and (2) have not yet been corrected. However, as stated previously, an unmatched disbursement is not necessarily an invalid disbursement or a disbursement in excess of actual obligations.

Additionally, it should be reemphasized that nearly all unmatched disbursements have been identified to, and reported against, the proper appropriation. Many unmatched disbursements remain unmatched only at detailed contract line item levels. These levels usually are within, and well below, the proper appropriation level, and properly reported at the appropriation level.

* * * * *

RECOMMENDATIONS

RECOMMENDATION 1: The GAO recommended that the Secretary of the Navy direct the Assistant Secretary of the Navy (Financial Management) to (1) enforce existing regulations and/or procedures requiring Navy organizations to research and properly resolve existing unmatched disbursements, and (2) establish milestones for achieving this objective. (p. 27/GAO Draft Report)

DoD RESPONSE: Concur. On February 16, 1993, a joint Navy-Defense Finance and Accounting Service task force was formed to research and resolve unmatched disbursement amounts. This task force will direct and oversee the reconciliation of obligation records, work performed, and unmatched disbursements. One objective of this task force will be to reduce current outstanding unmatched disbursements to a net balance of \$1.0 billion by September 30, 1993. As lessons are learned from the reconciliation processes, solutions will be developed and implemented that reduce recurring unmatched disbursement problems. Also, a formalized detailed plan will be developed, by June 30, 1993, to implement procedures that reduce recurring mismatch problems.

Additionally, it should be recognized that a disbursement, and the matching of that disbursement to obligation records, is the culmination of a series of events, some of which are outside the control of accounting and disbursing offices. The Department recognizes that, in addition to the corrective actions being taken within the disbursing and accounting offices, additional corrective actions must be taken by other organizations, such as

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DoD contracting and contract administration offices and program managers. As corrective actions and process improvements are implemented, they will be coordinated with appropriate offices to better ensure that all sources of errors are addressed.

RECOMMENDATION 2: The GAO recommended that the Secretary of the Navy report unmatched disbursements as a material weakness in the Navy annual Federal Managers' Financial Integrity Act report to the DoD. (p. 27/GAO Draft Report)

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DoD RESPONSE: Nonconcur. The failure of a disbursement initially to match an obligation in the accounting system does not necessarily mean that a payment was not properly and correctly made by the payment office, based on a valid contract with proper evidence of material received. Nor does it mean that an obligation was not properly recorded prior to the disbursement. Rather, unmatched disbursements often are representative of various clerical or administrative errors that have occurred in the communication of data involving valid disbursements. Such errors do not necessarily indicate that the disbursement process is fraught with serious weaknesses in internal controls.

That the presence of unmatched disbursements, as observed by the GAO, was not reported in the Navy annual statement of assurance reflects, in large part, a difference of opinion between the GAO and the Department regarding the implication, and the relative materiality, of unmatched disbursements. The final determination as to whether an internal management deficiency is a material weakness is a management judgment that must be based on the relative impact of the weakness. As stated above, unmatched disbursements often are representative of various clerical or administrative errors that (1) have occurred in the communication of data involving valid disbursements, and (2) have not yet been corrected. However, as stated previously, an unmatched disbursement is not necessarily an invalid disbursement, or a disbursement in excess of actual obligations.

Additionally, it should be reemphasized that many unmatched disbursements have been properly identified to, and reported against, the proper appropriation. Many unmatched disbursements remain unmatched only at detailed contract line item levels. These levels usually are within, and well below, the proper appropriation level.

RECOMMENDATION 3: The GAO recommended that the Secretary of the Navy direct the Assistant Secretary of the Navy (Financial Management) to provide sufficient resources, including training and management oversight, to the accounting organizations responsible for resolving unmatched disbursements to competently address the problem. (p. 27/GAO Draft Report)

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DoD RESPONSE: Concur. The Department of the Navy and the Defense Finance and Accounting Service will ensure that their funding organizations apply additional resources, as required, to reduce, in a timely and efficient manner, the number of unmatched disbursements. As stated in the DoD response to Recommendation 1, the joint Navy-Defense Finance and Accounting Service task force will research and resolve unmatched disbursement amounts. In addition, within the Defense Finance and Accounting Service, another task group, that includes personnel who input data into the Standard Accounting and Reporting System, was also established on February 16, 1993, to clear unmatched disbursements. This group will be resourced sufficiently and trained properly so that unmatched disbursements can be corrected on a more timely basis. The status of unmatched disbursements will be monitored closely by the Navy and the Defense Finance and Accounting Service to assure the desired results.

Further, by May 28, 1993, the Department of the Navy and the Defense Finance and Accounting Service also will (1) direct that procedures to correct mismatched disbursements be followed, and (2) require that supporting documentation be thoroughly researched to determine the correct detailed obligations for unmatched disbursements.

RECOMMENDATION 4: The GAO recommended that the Secretary of the Navy direct the Assistant Secretary of the Navy (Financial Management) to emphasize to all funding and accounting offices the importance of recording all obligations promptly and accurately in the accounting system. (p. 27/GAO Draft Report)

DoD RESPONSE: Concur. The Department of the Navy and the Defense Finance and Accounting Service will reemphasize in a memorandum, to funding organizations and accounting offices, the importance of recording obligations promptly and accurately. This action will be completed by May 28, 1993.

RECOMMENDATION 5: The GAO recommended that the Secretary of the Navy direct the Assistant Secretary of the Navy (Financial Management) to emphasize to all funding, disbursing, and accounting offices the importance of entering disbursements correctly in the Navy financial reporting system, which provides data to the accounting system. (pp. 27-28/GAO Draft Report)

DoD RESPONSE: Concur. The Department of the Navy and Defense Finance and Accounting Service organizations involved in disbursing, disbursing data flow, and disbursement recording processes will be reminded of the importance of assuring transaction data accuracy and entering transaction data correctly in the financial reporting system. The target date for completion of this action is late Spring 1993.

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RECOMMENDATION 6: The GAO recommended that the Secretary of the Navy direct the Assistant Secretary of the Navy (Financial Management) to emphasize to all funding, disbursing, and accounting offices the importance of using authorized contract numbers and payment supporting documentation to correctly match unmatched disbursements with related obligations. (pp. 27-28/ GAO Draft Report)

DoD RESPONSE: Concur. By June 30, 1993, the Department of the Navy and the Defense Finance and Accounting Service will review, identify, and implement improvements for processing disbursement transactions to better ensure that contract numbers and applicable detailed obligation record numbers are recorded accurately in the records of disbursing offices and transmitted to accounting offices once disbursements are made.

Also, by June 30, 1993, the Department of the Navy and the Defense Finance and Accounting Service will revise procedures to ensure that disbursements are posted in the official accounting records under the correct detailed obligation record.

RECOMMENDATION 7: The GAO recommended that the Secretary of the Navy direct the Assistant Secretary of the Navy (Financial Management) to revise Navy regulations and procedures to require either (1) disbursing offices to provide funding organizations copies of payment supporting records, or (2) copies of authorizing contracts and payment supporting records to be provided to accounting organizations. (p. 28/GAO Draft Report)

DoD RESPONSE: Partially concur. The Department acknowledges that copies of records that support payments (including contracts, acceptances, and invoices) may be required when research is needed to correct unmatched disbursements.

The sending of all documentation related to each payment to all organizations involved, however, does not appear to be a cost effective or efficient way to resolve or preclude unmatched disbursements. Such action would involve considerable additional costs, and likely require additional personnel to copy, transmit, receive, reconcile, and file documents that, in effect, would result in a massive duplication of records maintained at other locations. Since the vast majority of disbursements are matched properly, the proposed massive distribution of documentation seems to be an unnecessary, and wasteful effort. Conversely, each office should receive all required information appropriate to the particular responsibilities assigned to that office. When additional information is needed to correct unmatched disbursements, such additional information should be requested. The communication of contract information among program management, funding, contracting, paying, and accounting offices, on an as-needed basis--electronically, or hardcopies in exceptional circumstances--will

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provide information necessary for timely detection and correction of unmatched disbursements within the current Navy structure and processes.

Under the Corporate Information Management initiatives, the Department is moving towards more efficient and effective use of electronic transmissions to pass data without the movement of hardcopy documents. The GAO recommendation would be a significant step back from the DoD goal of improving the efficiency of DoD processes and would be contrary to the Paperwork Reduction Act.

Other DoD initiatives include (1) improving the return of erroneous payments within the Navy network to disbursing offices for correction; (2) improving a mechanized interface with the field level procurement systems to help eliminate the cause of delayed obligation recordings; (3) enhancing the disbursing module at the Defense Finance and Accounting Service - Columbus Center; and (4) establishing new Navy procedures requiring hardware funding organizations to limit line items on contracts. Additionally, a formalized detailed plan, expected to be completed by June 30, 1993, will include procedures to require paying offices (rather than accounting offices) to determine the distribution of payments to line items on a contract when there is a question regarding the validity of the payment.

The following are GAO's comments on the Deputy Comptroller's, Department of Defense, letter dated March 22, 1993.

GAO's Comments

1. Navy records showed that as of February 19, 1992, \$7.1 billion (58 percent of the \$12.3 billion) of disbursements were unmatched in STARS because funds/obligations were not sufficient to cover the disbursements and because cited contract numbers were invalid.
2. Our report acknowledges that most reallocations occur within the same contract. Contrary to the DOD statement, the transaction history report does not provide an adequate audit trail. For example, it does not show manual changes which may have been made to disbursement data in order to make it match an obligation. Such an audit trail should exist.
3. Navy unmatched disbursements continue to increase at a significant rate despite reported increased management emphasis. The Corporate Information Management initiative is not expected to produce solutions to the problem of unmatched disbursements until several years in the future. Consequently, the Navy needs to implement stronger actions now to reduce unmatched disbursements.
4. We modified this recommendation to reflect the fact that only copies of documentation necessary to resolve unmatched disbursements should be made available to and used by the organizations responsible for resolving such disbursements.

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