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Report to the Congress

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FINANCIAL
MANAGEMENT

Fiscal Year 1992 Audit
of the Defense
Cooperation Account





United States
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Comptroller General
of the United States

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To the President of the Senate and the
Speaker of the House of Representatives

Sections 2608 and 2350g of 10 U.S.C. authorize the Secretary of Defense to accept any contribution of money, real or personal property, services, and supplies from any person, foreign government, or international organization. The legislation also required the General Accounting Office to conduct an annual audit of such contributions. This report discusses the Department of Defense's administration of contributions accepted as of September 30, 1992.

We are sending copies of this report to interested congressional committees, the Secretary of Defense, the Secretary of State, and the Director, Office of Management and Budget. Copies will be made available to others on request.

This report was prepared under the direction of Joseph E. Kelley, Director-in-Charge, International Affairs Issues, who may be reached on (202) 512-4128 if you or your staff have any questions. Major contributors are listed in appendix II.

for 

Charles A. Bowsher
Comptroller General
of the United States

Executive Summary

Purpose

During fiscal year 1992, foreign governments, private organizations, and individuals contributed over \$5 billion to the Department of Defense (DOD), primarily to defray the costs of Operations Desert Shield and Desert Storm. The Congress, concerned that contributions accepted by DOD be adequately controlled and disbursed, enacted legislation that requires GAO to annually audit contributions to DOD. To comply with this requirement, GAO reviewed contributions accepted during fiscal year 1992 to determine whether DOD had administered these contributions in accordance with applicable legislative and accounting requirements. This is GAO's second audit of this account. GAO issued the first report on May 11, 1992.¹

Background

Sections 2608 and 2350g of 10 U.S.C. authorize the Secretary of Defense to accept any contribution of money, real or personal property, services, and supplies from any person, foreign government, or international organization. The legislation also requires DOD to report quarterly to the Congress on these contributions and to prescribe regulations governing contributions.

The law also established a special Department of the Treasury account, referred to as the Defense Cooperation Account, and requires DOD to credit all contributions of money and proceeds from the sale of any property received from these contributions to this account. At DOD's request, Treasury is authorized to invest account funds in securities, provided that any interest or other income accrues to the account. Account funds may be made available only through congressional action. Further, to comply with the Budget and Accounting Procedures Act of 1950 and other government accounting requirements, DOD is required to establish and document internal controls and procedures for administering the account.

As of September 30, 1992, DOD had accepted about \$53.7 billion in contributions from foreign governments and \$688,000 from private individuals and organizations. Of these contributions, over \$5 billion in cash and in-kind contributions were received in fiscal year 1992. Foreign contributions consisted of cash and in-kind support, such as equipment and transportation. Contributors this fiscal year were Saudi Arabia, Kuwait, Japan, Korea, Norway, and Belgium. Private contributions consisted of cash donations.

¹Operations Desert Shield/Storm: Foreign Government and Individual Contributions to the Department of Defense (GAO/NSIAD-92-144, May 11, 1992).

Results in Brief

DOD credited all cash contributions to the Defense Cooperation Account and administered these funds in accordance with applicable legislative and accounting requirements. Through various memoranda, DOD also established procedures for tracking, reporting, and valuing in-kind support. In a prior review, GAO found some reporting discrepancies, which DOD corrected. DOD's fiscal year 1992 reports to the Congress reflected adjustments made to the estimated value of in-kind contributions.

DOD's formal regulations on the Defense Cooperation Account and related contributions of money and goods have not been issued. This lack of formal guidance may have contributed to initially depositing the proceeds from the sale of contributed goods into an account other than the Defense Cooperation Account.

Principal Findings

Administration of Cash Contributions

During fiscal year 1992, deposits to the Defense Cooperation Account totaled about \$5.3 billion, including about \$4.9 billion in cash contributions, \$363 million in interest income, and \$11.2 million from the sale of donated equipment. During fiscal year 1992, DOD transferred about \$10.8 billion to DOD accounts and other agencies to fund incremental costs of Desert Shield and Desert Storm as well as other related costs. At the end of fiscal year 1992, funds remaining in the account consisted of securities investments of about \$2 billion and a cash balance of about \$11.2 million.

Account funds were deposited, invested, and transferred in accordance with legislative requirements. Specifically, DOD

- credited all foreign government and individual contributions and interest earned to the account and
- transferred account funds to DOD and other accounts, as specified by the Congress. GAO was unable to confirm the specific application of account funds because DOD's systems lack the capability to reliably determine incremental costs.

In addition, at DOD's request, Treasury invested account funds only in U.S. securities. Cash contributions to DOD were deposited in the Defense

Cooperation Account in a timely manner; however, a transfer of the proceeds from the sale of contributed goods was not timely.

DOD implemented adequate accounting procedures and internal controls to administer the account. For example, accounting personnel adequately documented and processed account transactions in a timely manner and implemented safeguards to limit access to the account.

**Accounting and Valuation
of In-Kind Contributions**

As of September 30, 1992, foreign governments had contributed in-kind goods and services valued at about \$5.7 billion, of which about \$200 million was contributed during fiscal year 1992. DOD implemented procedures to track and report these contributions, including a centralized reporting system. In 1992, DOD adequately reported in-kind contributions.

In fiscal year 1991, DOD developed a methodology for valuing and reporting in-kind contributions. DOD relied mostly on information provided by the contributing country in estimating the value of in-kind contributions. DOD's fiscal year 1992 reports to the Congress included a decrease of over \$100 million in the value of in-kind contributions reported to the Congress in fiscal year 1991.

**Delays in Issuing
Accounting Regulations**

DOD drafted regulations governing the Defense Cooperation Account, and related accounting procedures, including the deposit of the proceeds from the sale of donated goods. These regulations were in draft at the conclusion of GAO's prior audit and have not yet been issued.

DOD auctioned some of the equipment donated for use in Operations Desert Shield and Desert Storm. The law requires that receipts from the sales of in-kind contributions be deposited in the Defense Cooperation Account. In a January 1991 memorandum, the Deputy Secretary of Defense directed that the proceeds from the sale of contributed goods be sent to the Comptroller for deposit into the Defense Cooperation Account. However, a regulation implementing this requirement has not been issued. This lack of formal guidance may have contributed to a 3-month delay in depositing \$11.2 million derived from the sale of the auctioned goods in the Defense Cooperation Account.

**Minimal Contributions and
Account Activity**

Fiscal year 1992 contributions to DOD and related Defense Cooperation Account transactions are considerably less than in fiscal year 1991. For

example, in fiscal year 1991, other nations contributed \$43 billion and private individuals and organizations contributed \$687,000. Interest income on the account was \$415 million. During fiscal year 1992, other nations contributed \$4.9 billion and individual contributions were about \$1,800. Interest income was \$363 million. Transfers from the account have declined from \$36 billion in fiscal year 1991 to \$10.8 billion in fiscal year 1992. Total fiscal year 1991 transactions were 279, and GAO sampled 172. There were only 116 fiscal year 1992 transactions. Only \$37.5 million remained in the Defense Cooperation Account as of March 31, 1993.

In-kind contributions also declined during fiscal year 1992. In fiscal year 1991 the total was \$5.5 billion versus about \$200 million in fiscal year 1992.

Recommendation to the Secretary of Defense

GAO recommends that DOD issue its financial management regulations on the Defense Cooperation Account and related contributions of money and goods.

Recommendation to the Congress

GAO believes that DOD has adequate internal controls to properly manage funds remaining in the Defense Cooperation Account. Because of the decrease in contributions and fund balance, GAO recommends that the Congress amend 10 U.S.C. 2608(i) and 2350g(d), which currently require that GAO conduct an annual audit of the Defense Cooperation Account and related activities. Specifically, GAO suggests that the law provide GAO with audit authority without specifying the frequency of the audits.

Agency Comments

DOD concurred with the report's contents and suggested some minor modifications, which GAO has incorporated where appropriate. (See app. I.) DOD did not specifically comment on the recommendations.

Contents

Executive Summary		2
Chapter 1		8
Introduction	Acceptance of Contributions	8
	Foreign Government Contributions	8
	Individual Contributions	9
	Objectives, Scope, and Methodology	9
Chapter 2		11
Cash Contributions to the Defense Cooperation Account	Account Activity	11
Chapter 3		16
In-Kind Contributions to the Department of Defense	Legislative Requirements and Acceptance of In-Kind Contributions	16
Chapter 4		19
Regulations and Legislative Changes Needed	Sales of Donated Goods	19
	Conclusions	21
	Recommendation to the Secretary of Defense	22
	Recommendation to the Congress	22
Appendixes	Appendix I: Comments From the Department of Defense	24
	Appendix II: Major Contributors to This Report	25
Tables	Table 1.1: Foreign Government Pledges and Contributions to the United States	9
	Table 2.1: Defense Cooperation Account: Cash Transaction Summary	12
	Table 3.1: In-kind Contributions to DOD, Fiscal Year 1992	16
	Table 4.1: Comparative Transactions for Fiscal Years 1991 and 1992	21

Abbreviations

DOD	Department of Defense
GAO	General Accounting Office

Introduction

Sections 2608 and 2350g, 10 U.S.C. allow the Secretary of Defense to accept any contribution of money, real or personal property, services and supplies from any person, foreign government, or international organization. Funds are to be deposited into the Defense Cooperation Account and the Department of Defense (DOD) is required to report quarterly to the Congress on the receipt of property over \$1 million. The Congress established the Defense Cooperation Account in October 1990 as a way for DOD to accept and control the anticipated foreign contributions in support of Operation Desert Shield. A much smaller gift fund, which had been established to allow patriotic citizens to make donations, was abolished and the funds were transferred to the Defense Cooperation Account.

Under 10 U.S.C. 2608(i) and 2350g(d) we are required to conduct an annual audit of the money and property accepted by DOD. Our report on fiscal year 1991 contributions was issued on May 11, 1992.¹ This report presents the results of our work for fiscal year 1992.

Acceptance of Contributions

As of September 30, 1992, DOD had accepted \$53.8 billion in foreign and private contributions, of which about \$5.1 billion was received in fiscal year 1992. In fiscal year 1992, foreign governments had contributed \$4.9 billion in cash and about \$212 million in in-kind goods and services, such as equipment and transportation, in support of Operations Desert Shield and Desert Storm. Fiscal year 1992 foreign government contributors were Saudi Arabia, Kuwait, Korea, Japan, Norway, and Belgium. Private contributions were only \$1,758 during the fiscal year.

Foreign Government Contributions

In August and September 1990, high-level officials from DOD and the Departments of State and Treasury appealed to the international community to respond to the Iraqi invasion, including providing support for U.S. military efforts. In response, allies pledged about \$54 billion for the war effort, of which about \$49 billion was received through the end of fiscal year 1991. The remainder of the amount pledged was received during fiscal year 1992.

See table 1.1 for a summary of foreign government pledges and contributions to the United States.

¹Operations Desert Shield/Storm: Foreign Government and Individual Contributions to the Department of Defense (GAO/NSIAD-92-144, May 11, 1992).

Table 1.1: Foreign Government Pledges and Contributions to the United States

Dollars in millions

Contributor	Pledges			Contributions		
	1990 ^a	1991 ^b	Total	Cash ^b	In-kind ^b	Total
Saudi Arabia	\$3,339	\$13,500	\$16,839	\$12,809	\$4,046	\$16,855
Kuwait	2,506	13,550	16,056	16,015	43	16,058
United Arab Emirates	1,000	3,088	4,088	3,870	218	4,088
Japan	1,680	8,332	10,012	9,441 ^c	571	10,012
Germany ^d	1,072	5,500	6,572	5,772 ^c	683	6,455
Korea ^e	80	275 ^f	355	150	101	251
Other ^g	3	26	29	8	22	30
Total	\$9,680	\$44,271	\$53,951	\$48,065	\$5,684	\$53,749

^a1990 pledges covered August through December 1990; 1991 pledges covered January through March 1991.

^bContributions are as of September 30, 1992.

^cOf these amounts, \$961 million and \$272 million were specified by Japan and Germany, respectively, for transportation expenses.

^dThe amount contributed is less than pledged; however, according to DOD, Germany has fulfilled its commitment because it made available ammunition, valued at over \$200 million, that DOD chose not to accept due to termination of the war.

^eThe commitment has been fulfilled. The total commitment could not be fully used by DOD for Operations Desert Shield/Desert Storm. Therefore, Korea has agreed to provide in-kind support for non-Desert Shield/Desert Storm projects in fiscal year 1992 in an amount equivalent to the difference.

^fIncludes \$25 million pledged in 1990, but reserved for 1991.

^gIncludes Italy, Oman, Qatar, Bahrain, Belgium, Denmark, Norway, and Luxembourg.

Individual Contributions

Fiscal year 1992 contributions by individuals declined significantly from the \$517,000 contributed between August 1990 through September 30, 1991, in response to Operations Desert Shield/Storm. In fiscal year 1992, there were 37 private contributions that totaled \$1,758.

Objectives, Scope, and Methodology

We reviewed contributions of money, property, services, and supplies accepted by DOD between October 1, 1991, and September 30, 1992. Our objectives were to determine whether DOD had administered these contributions in accordance with applicable legislative and accounting requirements.

To review cash contributions, we interviewed officials and reviewed documents at DOD. We reviewed all (116) of the Defense Cooperation Account transactions for the fiscal year ending September 30, 1992. The transactions included 14 foreign government contributions, 21 individual contributions, 66 securities purchases, sales, or maturities, 11 transfers of funds, and 4 miscellaneous transactions. To verify transfers of funds from the Defense Cooperation Account, we visited the military services and the Department of Veterans Affairs.

To review in-kind contributions, we interviewed officials and reviewed records at DOD in Washington, D.C., and the U.S. Central Command in Tampa, Florida.

DOD provided written comments on a draft of this report in which they agreed with the report's contents. We conducted our review between August 1992 and May 1993 in accordance with generally accepted government auditing standards.

Cash Contributions to the Defense Cooperation Account

DOD administered cash contributions in accordance with legislative and accounting requirements. Specifically, it deposited all contributions and earned interest in the Defense Cooperation Account and transferred funds only to authorized accounts. Further, DOD processed transactions in an accurate and timely manner and established adequate internal controls. In addition, at DOD's request, Treasury invested account funds in U.S. securities. With the exception of one delayed deposit—a unique situation—we did not identify any deficiencies in the handling of account funds in both fiscal year 1991 and 1992.

Account Activity

Subsections of 10 U.S.C. 2601 require DOD to credit cash contributions to the Defense Cooperation Account, authorize investment of account funds in U.S. securities, and require interest earned to be deposited in the account. The law also requires DOD to prescribe regulations governing contributions.

Further, DOD is required to follow various government accounting requirements. For example, the Budget and Accounting Procedures Act of 1950, Office of Management and Budget Circular A-123, and DOD Directive 7040.6 require that DOD establish, document, and operate adequate accounting and internal control systems to safeguard assets against waste and unauthorized use. Internal controls include separation of duties, verification of work, and prompt recording of transactions.

At the end of fiscal year 1991, \$7.5 billion remained in the Defense Cooperation Account. During fiscal year 1992, deposits to the account totaled \$5.3 billion, including \$4.9 billion in foreign and private contributions and \$363 million in interest income. Foreign contributors were Saudi Arabia, Kuwait, Japan, Belgium, and Norway.

Through three appropriation acts, the Congress authorized DOD to transfer up to \$14.5 billion from the account to other DOD accounts and other agencies,¹ primarily for incremental costs² of Desert Shield and Desert Storm, including \$115 million for Kurdish relief and the Kurdish protection force, during fiscal year 1992.

¹Transfer authorities and amounts were: P.L. 102-27 (Apr. 10, 1991)—\$9.7 million; P.L. 102-229 (Dec. 12, 1991)—\$10.4 billion; and P.L. 102-368 (Sept. 23, 1992)—\$4.1 billion.

²DOD defines incremental costs as additional costs resulting directly from the Persian Gulf crisis that would not have been incurred otherwise.

Chapter 2
Cash Contributions to the Defense
Cooperation Account

DOD transferred about \$10.8 billion from the Defense Cooperation Account, including about \$10.7 billion to other DOD accounts and \$34.2 million to other agencies. Funds remaining in the account included about \$2 billion Treasury securities and about \$11.2 million cash.³

Table 2.1 describes the account activity during fiscal year 1992 and the status as of September 30, 1992.

Table 2.1: Defense Cooperation Account: Cash Transaction Summary
(Fiscal Year 1992)

Dollars in thousands	
Fund balance as of October 1, 1991	\$ 7,503,092
Contributions and income	
Saudi Arabia	\$ 2,757,241
Kuwait	2,125,000
Japan	24,457
Belgium	2,505
Norway	891
Total	4,910,094
Private contributions (net) ^a	1
Sale of contributed equipment	11,200
Interest income	362,709
Total	5,284,003
Total available for transfer	\$12,787,096
Transfers to U.S. Agencies	
Appropriation transfers	
DOD Operations & Maintenance	\$ 6,215,062
Military personnel	2,409,291
Procurement	1,950,200
Research, development, and testing	106,300
Other	40,000
Total	10,720,853
U.S. Coast Guard	14,490

(continued)

³Generally, the cash balance in the Defense Cooperation Account is less than \$5,000—the amount DOD can invest in Treasury securities. However, the account manager was unaware of the exact timing of the transfer of \$11.2 million from the Defense Logistics Agency and had to await documentation on the availability of the funds for investment. See chapter 4 for a discussion of these funds derived from the sale of equipment donated to DOD for Desert Shield and Desert Storm.

Chapter 2
Cash Contributions to the Defense
Cooperation Account

Dollars in thousands

Department of Education	9,098
Department of Veterans Affairs	10,600
Total	\$10,755,041

Fund balance as of September 30, 1992 ^b	\$ 2,032,055
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Analysis of fund balance

Securities investments (cost) ^c	\$ 2,020,852
Cash balance	\$11,202

^aA 1991 contribution of \$1,000 improperly sent to DOD was returned to the Internal Revenue Service in fiscal year 1992.

^bFigures do not add due to rounding.

^cDOD's financial statements report securities holdings at a par value of \$2,031,925,000 less the unamortized discount of \$6,313,371.

**Compliance With
 Legislative Requirements**

DOD complied with legislative requirements for depositing, investing, and transferring account funds. For example, it established adequate procedures to deposit cash contributions in the account. As of September 30, 1992, DOD reported 35 deposits to the account—14 from foreign contributions and 21 from private contributions. Our review of these transactions showed that foreign governments generally transferred funds by wire and private contributors generally sent checks directly to DOD or made contributions at U.S. embassies. One foreign government contribution made in a local currency was wired to an account at the Federal Reserve Bank of New York, converted to U.S. dollars, then deposited in the Defense Cooperation Account. Foreign government contributions made in U.S. dollars were wired directly to the account. In three separate instances, contributions were received through overseas posts for a total of \$207. The funds were transferred through the U.S. Treasury to the Defense Cooperation Account.

At DOD's direction, Treasury invested Defense Cooperation Account funds in U.S. securities and deposited interest earned on these investments to the account. As of September 30, 1992, DOD processed 66 securities transactions, including purchases, sales, and maturities. Our review of these transactions showed that Treasury, as instructed by DOD, invested

the related funds in U.S. securities and, as needed, sold the securities to fund authorized transfers from the account. In each case, the principal and interest were deposited to the account.

DOD also transferred funds from the account in accordance with congressional appropriations. Our review confirmed that, as of September 30, 1992, DOD had transferred about \$10.8 billion from the account to authorized accounts, including about \$10.7 billion to DOD accounts and \$34.2 million to other agencies. The Congress specified that funds transferred to DOD accounts were to be used for incremental costs of Operations Desert Shield/Storm. Transferred funds were deposited in those accounts that DOD used to fund such costs. However, we were not able to confirm the specific application of these funds to incremental costs, because, as we reported in September 1991, and confirmed during this review, DOD's financial systems lack the capability to determine these costs with reliability.⁴ We verified the transfer of \$10.6 million to the appropriate Department of Veterans Affairs accounts.

Compliance With Accounting Requirements

DOD administered the account in accordance with government accounting requirements. For example, DOD adequately documented and processed foreign government contributions to the account. In fiscal year 1992, foreign governments made 14 contributions. Eleven of these were made directly to the account in U.S. dollars. Our examination of bank messages and Treasury deposit tickets confirmed the receipt and deposit of these contributions as reported by DOD. Two contributions were made by check. One government also made a contribution in their local currency. DOD, the Federal Reserve Bank of New York, and the Treasury Department converted this contribution to U.S. dollars in a timely manner, accurately calculated exchange and interest rates, adequately documented the transaction, and promptly reported results. Our review also showed that DOD processed and documented individual contributions in a timely and accurate manner.

In one instance, \$11.2 million received in June 1992 from the sale of donated equipment was deposited to another DOD account and was not transferred to the Defense Cooperation Account until September 30, 1992. The funds were not invested in Treasury securities until October 2, 1992. This is the only transaction of this nature during our last two audits and the only example of untimely and initially incorrect handling of any funds

⁴Operations Desert Shield/Storm: Costs and Funding Requirements (GAO/NSIAD-91-304, Sept. 24, 1991).

related to foreign contributions. This matter is discussed further in chapter 4.

With the above exception, DOD properly administered securities investments, including arranging with Treasury for timely purchases and sales and accurately reporting and depositing interest income to the account. For example, our review of 14 foreign government contributions and 22 security maturities showed that DOD invested account funds within 1 to 2 days of receipt, adequately documented each transaction, and verified Treasury's calculation of earned interest credited to the account.

DOD established adequate internal controls for administering the account. For example, DOD personnel limited access to the computers maintaining the account through use of passwords, verified each other's computer inputs for accuracy and timeliness, and compared internal DOD records with monthly Treasury statements on security holdings to ensure reporting accuracy.

DOD's Federal Managers' Financial Integrity Act Annual Statement of Assurance indicates that the accounting system used to maintain the Defense Cooperation Account conforms with the act's requirements. In addition, DOD's Office of the Inspector General conducted a review of another fund maintained in the same accounting system. An official from that Office said that no problems were found with the accounting system or the related accounting transactions.

DOD developed and documented standard operating procedures, which were followed by the Defense Finance and Accounting Service in maintaining the Defense Cooperation Account. The procedures included guidelines for accepting and depositing contributions and maintaining financial records. However, DOD-wide guidance on contributions and on the account was issued in memorandums. This guidance has yet to be formalized as a DOD directive. This matter is discussed further in chapter 4.

In fiscal year 1991, we sampled 172 of 279 Defense Cooperation Account transactions and this year, we reviewed all 116 transactions. With the exception of the single delayed deposit discussed earlier, we did not identify any weaknesses in the processing of cash transactions.

In-Kind Contributions to the Department of Defense

In accordance with legislative requirements, DOD established procedures to track, report, and value in-kind contributions. DOD also prepared required reports on contribution quantities and value. During our audit of fiscal year 1991 contributions, we detected some inaccuracies in certain reports, which DOD corrected. DOD developed a methodology for valuing contributions, but experienced some difficulties because cost data from contributing countries were not always available. In these cases, DOD estimated the value using standard U.S. cost factors and other information. As a result, the estimated value may differ from the actual cost incurred by the contributor.

Legislative Requirements and Acceptance of In-Kind Contributions

Section 2608 and 2350g of 10 U.S.C. authorize DOD to accept contributions of real or personal property, supplies, and services and to use such items without specific authorization in any program, project, or activity, except in a manner that would result in the violation of any applicable prohibition or limitation. The legislation also requires DOD to prescribe regulations governing contributions and to periodically report on contributions of property, supplies, and services, including a description of those items valued at more than \$1 million. In computing the value, DOD is to aggregate the value of similar items and components that, if assembled, would comprise all or a substantial part of an item of equipment or a facility.

During fiscal year 1992, DOD had accepted in-kind contributions of property, goods, and services valued at about \$212 million. These contributions were made by foreign governments in support of Operations Desert Shield and Desert Storm. In-kind contributors were Saudi Arabia, Kuwait, and Korea. Table 3.1 summarizes the value and type of in-kind support contributed to DOD.

Table 3.1: In-Kind Contributions to DOD, Fiscal Year 1992

Dollars in thousands	
Type	Value
Billeting	\$ 6,664
Food/water	27,184
Petroleum, oil, and lubricants	139,715
Laundry/dry cleaning	826
General supplies	246
Utilities	45
Miscellaneous material	20,000
Air/sea lift	17,250
Total	\$211,930

Tracking and Reporting of In-Kind Contributions

In accordance with legislative requirements, DOD established procedures for administering in-kind contributions. DOD designated the U.S. Transportation Command at Scott Air Force Base in the United States to track airlift and sealift contributions and the U.S. Central Command headquarters in Saudi Arabia to track goods and services. During Operations Desert Shield and Desert Storm, these commands matched foreign offers with DOD requirements and arranged deliveries, with assistance from other commands, including the U.S. Military Airlift Command; U.S. Military Sealift Command; U.S. Forces, Japan; the European Command; and U.S. Forces, Korea.

Final reports on in-kind contributions by the Transportation and Central Commands were sent to the DOD Comptroller's Office in March and April 1992, respectively, because further in-kind contributions were not anticipated. Therefore, our description of DOD's valuation and reporting on in-kind contributions is based on our fiscal year 1991 audit. At that time, DOD required the Transportation and Central Commands to record the receipt of in-kind contributions and report on the status of such receipts. Further, DOD directed that goods accepted as gifts were to become U.S. government property and controlled in accordance with DOD property record regulations.

The Transportation Command relied on the U.S. Military Airlift Command, U.S. Military Sealift Command, U.S. Forces, Korea, and U.S. Forces, Japan, to track the number of donated airlift and sealift missions. Using this information, the Transportation Command prepared and submitted monthly reports to DOD.

The Central Command required reporting units to maintain records and report in-kind contributions monthly. Central Command headquarters and the Army, Air Force, Marine Corps, and Navy units in Saudi Arabia and other Persian Gulf locations maintained records and reported monthly on the quantities and types of food, fuel, water, equipment, vehicles, and other donated items. Their records included daily logs that reflected the number of meal recipients, fuel consumption reports, and shipping documents for equipment deliveries. Using information submitted monthly by the units, Central Command prepared and submitted monthly reports to DOD.

In accordance with legislative requirements, DOD reported to the Congress on the status of in-kind contributions. These reports, submitted monthly,¹ were based on the information compiled by the Transportation and Central Commands. Each report provided the cumulative value of all contributions of property, services, and supplies, including those contributions with a value of more than \$1 million. As necessary, DOD adjusted the reported values each month to reflect corrections and additions to prior reports.

Valuation of In-Kind Support

In accordance with legislative requirements, DOD developed a methodology for valuing in-kind contributions that aggregated items and components of similar value. Specifically, Transportation Command grouped and valued in-kind transportation contributions in two categories—airlift and sealift. Central Command identified 29 categories of in-kind goods and services and required the units to value and report contributions accordingly. The valuation of in-kind contributions was based mostly on information provided by the contributing country. Our fiscal year 1991 audit report covered the valuation of in-kind contributions. We did not cover this matter during this review due to the limited amount of contributions and the cessation of field-level reporting in April 1992—before we started our audit.

We reviewed Central Command's reports and records on in-kind contributions and compared them with DOD's reports to the Congress. The reports to the Congress generally reflected the reports from the field, although adjustments have been made by DOD's Comptroller. During fiscal year 1992, DOD adjusted its in-kind reports for changes in the valuation of contributions reported in fiscal year 1991. For example, the estimated value of transportation and weapons provided by Germany was reduced by about \$100 million from the 1991 reports. The value of vehicles was adjusted down by \$4.1 million. Reported Japanese in-kind contributions were reduced when the U.S. orders against contracts fell short of anticipated requirements. As a result, Japan made an additional \$25 million cash contribution.

¹Because of the decrease in contribution activity, DOD's fiscal year 1993 reports to the Congress will be made quarterly, as required by the law.

Regulations and Legislative Changes Needed

The Defense Cooperation Account was established by the Congress in October 1990 for the deposit of funds contributed by our allies, in support of Operations Desert Shield and Desert Storm. However, DOD has yet to formalize the regulations that govern the handling of contributions and the Defense Cooperation Account. Proceeds from the sale of contributed goods were not promptly deposited into the Defense Cooperation Account. This may have resulted from the lack of implementing regulations.

Our review of fiscal year 1992 contributions and activity related to the Defense Cooperation Account have shown a marked decrease in comparison with fiscal year 1991. Without some change in circumstances, we believe fiscal year 1993 transactions will be minimal. Coupled with the lack of problems identified during our two audits and the internal controls in place, we believe the Congress should eliminate the required annual GAO audit.

Sales of Donated Goods

Under 10 U.S.C. 2608(a), the Secretary of Defense is allowed to accept money and property contributions. Section 2608(b)(2) also provides that the proceeds from the sale of any donated property be credited to the Defense Cooperation Account. DOD did not have formal policies and procedures in place for implementing this legal provision when, in 1992, it sold items that had been left in Saudi Arabia and turned over to the disposal system at the conclusion of Operation Desert Storm. A 3-month delay in depositing \$11.2 million to the Defense Cooperation Account may have resulted from this lack of guidance.

DOD initiated Operation Desert Auction to sell materials that were sent to Saudi Arabia for Operation Desert Storm and later turned over to the disposal system. Phases I and II of the auction were held from May 17 to 25, 1992, and June 28 to July 2, 1992. In October 1992, we reported¹ that \$11.2 million was received from the sale of materials donated by Germany. These funds were received by DOD in June 1992 and deposited by the Defense Logistics Agency into the Defense Business Operations Fund. The funds were not transferred to the Defense Cooperation Account until September 30, 1992. The funds were not invested in interest-bearing Treasury securities until October 2, an approximate 3-month delay.

In a January 1991 memorandum, the Deputy Secretary of Defense issued guidance on the gifts of goods in support of Operations Desert Shield and

¹Operation Desert Storm: Disposal and Sale of Excess Items (GAO/NSIAD-93-18FS, Oct. 13, 1992).

Desert Storm. The memorandum directed that the sales of goods received as gifts be remitted to the DOD Comptroller for deposit in the Defense Cooperation Account. DOD Directive 5025.1 requires that guidance, which is issued as a memorandum because of time constraints, be reissued as a DOD issuance within 90 days. In March 1991, we obtained a draft DOD directive, which would have formalized DOD's guidance on contributions for defense programs if it had been issued. The draft DOD directive remains unissued.

More recently, DOD circulated a proposed change in its property disposal regulations for comment. This change will require that funds generated from the sale of contributed goods be deposited into the Defense Cooperation Account. This procedure, if followed, should eliminate depositing funds in the wrong account.

We were told that the overall guidance on contributions for Defense programs will be included in new DOD regulations on finance and accounting. The new regulations are being issued as a result of a reorganization of DOD's finance and accounting programs. The DOD Comptroller's Office has expedited the drafting and coordination of the portion of the regulations pertaining to the Defense Cooperation Account and expects the regulations to be issued in the near future.

Minimal Contributions and Account Activity

Both cash and in-kind contributions to DOD declined considerably in fiscal year 1992, from fiscal year 1991. For example, in fiscal year 1991, other nations contributed \$43 billion and private individuals and organizations contributed \$687,000. During fiscal year 1992, foreign contributions were \$4.9 billion and individual contributions were about \$1,800. In 1991, the total in-kind contributions were \$5.5 billion versus about \$200 million in 1992.

Due to decreased contributions, Defense Cooperation Account activity also decreased in fiscal year 1992. Transfers from the account have declined from \$36 billion in 1991, to \$10.7 billion in fiscal year 1992. We sampled 172 of the 279 fiscal year 1991 transactions. We reviewed all 116 fiscal year 1992 transactions. Only \$37.5 million remained in the Defense Cooperation Account as of March 31, 1993. Table 4.1 shows a comparison of contributions and related activity for fiscal years 1991 and 1992.

Chapter 4
Regulations and Legislative Changes Needed

**Table 4.1: Comparative Transactions
for Fiscal Years 1991 and 1992^a**

Dollars in thousands		
	Fiscal year 1992	Fiscal year 1991
Contributions and income		
Foreign contributions	\$4,910,094	\$43,153,689
Private contributions (net) ^b	1	687
Sale of contributed equipment	11,200	
Interest income	362,709	415,343
Total	\$5,284,003	\$43,569,719
Transfers to U.S. Agencies		
Appropriation transfers DOD	\$10,720,853	\$35,539,844
Other agencies and organizations	34,188	526,784
Total	\$10,755,041	\$36,066,628
Fund balance		
Securities investments (cost)	\$2,020,852	\$7,503,088
Cash balance	11,202	4
Total fund balance as of September 30	\$2,032,055	\$7,503,092
In-kind contributions	\$212	\$5,472,436

^aFigures may not add due to rounding.

^bA 1991 contribution of \$1,000 improperly sent to DOD was returned to the Internal Revenue Service in fiscal year 1992.

Conclusions

DOD has had over 2 years to issue formal regulations governing contributions and the Defense Cooperation Account; however, it has delayed doing so, pending the reissuance of its accounting regulations. While we understand DOD's rationale for wanting to include this matter in a single accounting directive, we believe that formal guidance is needed to ensure proper internal control over contributions. Although the lack of regulations did not have any effect on the handling of cash contributions, it may have contributed to the delay in the deposit of proceeds from the sale of contributed goods being placed into the Defense Cooperation Account.

Fiscal year 1992 contributions to DOD have declined substantially. The end of Operations Desert Shield and Desert Storm have resulted in a decrease

in transfers of funds from the Defense Cooperation Account to other DOD appropriations. Only \$37.5 million remains in the Defense Cooperation Account. Barring any change in circumstances, we do not believe that the account will grow substantially. We believe internal controls are adequate to manage the Defense Cooperation Account and to ensure that the funds are only transferred from the fund in accordance with congressional appropriations. Therefore, we do not believe that annual audits of contributions to DOD are necessary.

**Recommendation to
the Secretary of
Defense**

We recommend that the Secretary of Defense issue financial management regulations on the Defense Cooperation Account and related contributions of money and goods.

**Recommendation to
the Congress**

We recommend that the Congress amend 10 U.S.C. 2608(i) and 2350g(d), which currently require that we conduct an annual audit of the Defense Cooperation Account and related activities. Specifically, we suggest that the law provide us with audit authority without specifying the frequency of the audits.

Comments From the Department of Defense



COMPTROLLER OF THE DEPARTMENT OF DEFENSE
WASHINGTON, DC 20301-1100

JK

JUN 28 1993

Mr. Frank C. Conahan
Assistant Comptroller General
National Security and International
Affairs Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "FINANCIAL MANAGEMENT: Fiscal Year 1992 Audit of the Defense Cooperation Account," dated May 19, 1993 (GAO Code 465301/OSD Case 9418).

The DoD has reviewed the draft report and concurs without further comment. A few minor factual clarifications were provided separately to your organization. The Department appreciates the opportunity to review and comment on the draft report.

Sincerely,

Alice C. Maroni
Principal Deputy Comptroller

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