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**FINANCIAL
MANAGEMENT**

**Challenges Confronting
DOD's Reform Initiatives**

Statement of Charles A. Bowsler
Comptroller General of the United States



063638/154308

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the status of the Department of Defense's (DOD) efforts to reform its financial management operations. These reforms will play a critical role in making sure that every possible defense dollar goes toward maintaining the readiness of the fighting forces while reducing the costs of DOD's support operations. In today's environment, it is absolutely essential that DOD has good financial management information to make sound resource allocation decisions, safeguard its huge investment in assets, and control its operating costs.

DOD has now recognized the seriousness of its financial management problems and the urgency of taking corrective action. However, achieving real improvements in DOD's financial management operations represents one of the government's most difficult challenges. DOD was accountable for over \$1 trillion in assets, over 3 million military and civilian personnel, and \$272 billion in expenditures in fiscal year 1994, which represented approximately 50 percent of the government's discretionary spending. As recognized by Secretary Perry and highlighted in our high-risk series,¹ DOD has serious, long-standing problems in correctly disbursing billions of dollars in payments to vendors and providing reliable financial and cost information to those responsible for carrying out and overseeing DOD's missions and programs.

Today, I will discuss DOD's plans for reforming its financial management operations and our suggestions to build on these improvement efforts. This Subcommittee's assistance in providing continuing oversight and leadership will be vital to the success of these efforts.

DOD'S EFFORTS TO REFORM FINANCIAL MANAGEMENT

Secretary Perry's annual report to the Congress and the President² did an excellent job in laying out the need for financial management reform and in identifying the underlying causes necessitating that reform. Basically, the Secretary stated that DOD's financial management structure was characterized by multiple organizations having multiple processes. He further stated that, over time, these processes produced "business practices that were complex, slow, and error-prone." Exacerbating the problem are some 250 separate accounting systems which in turn have different data standards and are largely incompatible.

The Secretary also laid out his blueprint for reforming the Department's financial management operations. The blueprint focuses on six key elements:

¹High-Risk Series: An Overview (GAO/HR-95-1, February 1995).

²Annual Report to the President and the Congress (William J. Perry, February 1995).

- consolidate finance and accounting operations,
- consolidate finance and accounting systems,
- establish pre-validation for disbursements,
- reengineer DOD business practices,
- strengthen internal controls, and
- improve management incentives.

We support this blueprint. It appropriately builds upon the reforms mandated by the Chief Financial Officers (CFO) Act, the Government Performance and Results Act, and the Government Management Reform Act. If properly implemented, DOD's reform efforts can substantially improve financial management operations.

Consolidate Finance and Accounting Operations

In an effort to improve departmentwide financial management operations, in January 1991, DOD established a single organization--the Defense Finance and Accounting Service (DFAS)--which assumed responsibility for DOD finance and accounting. Operating under the direction and control of the DOD Comptroller, DFAS has assumed responsibility for all DOD accounting systems and is intended to increase the quality, efficiency, and effectiveness of overall DOD financial management. DFAS is also attempting to improve its own cost-effectiveness by reorganizing and downsizing.

While DFAS is intended to significantly enhance the efficiency and effectiveness of DOD financial management operations, our work and that of DOD audit organizations have identified a number of problems--most of which were inherited from the military services when DFAS was established. DOD must overcome these problems to fulfill DFAS' goals. For example, financial audit work by us and DOD auditors has noted that:

- responsibilities for the quality of financial data and systems were not clearly delineated between DFAS and the military services;
- controls were lacking and/or inadequate to ensure the propriety of transactions, account balances, adjustments, and overall financial statement and report preparation processes, necessitating, for example, over \$160 billion in amendments to Navy's financial reports filed with Treasury for fiscal year 1993;
- financial management personnel requirements--both in terms of numbers of staff and their qualifications--necessary to carry out financial management functions were not identified by DFAS; and

- inadequate documentation was maintained to support financial data.³

It is clearly evident that DFAS has many improvements to make in its systems and operations before the efficiencies envisioned by the consolidation of the DOD financial operations are realized. We made several recommendations in this area to clarify organizational responsibilities and to ensure compliance with the existing accounting policy and internal control requirements. We are continuing to monitor the effectiveness of DOD actions in these areas as part of our ongoing CFO audits.

Since its creation, DFAS has explored several consolidation initiatives and recently announced plans to consolidate over 300 defense accounting offices into 5 large existing finance centers and 20 new sites called operating locations. If successful, the consolidation is expected to allow DFAS to reduce the number of DOD financial management personnel from 46,000 to about 23,000--a 50-percent reduction. DFAS officials recognize that consolidation alone, however, will not result in productivity gains. DFAS must also reengineer and standardize its processes and systems so that it can perform finance and accounting functions adequately with fewer people.

We see DFAS' effort to consolidate activities and reduce personnel as a necessary step toward a more effective and efficient accounting service. We have an ongoing review to evaluate whether DFAS has taken the most cost-effective actions in this area and will provide the Subcommittee a copy of our report shortly.

Consolidate Finance and Accounting Systems

DOD has acknowledged that its financial management systems are antiquated and cannot be relied upon to provide DOD management and the Congress with accurate and reliable information for use in decision-making. DOD has a major effort underway to consolidate over 250 finance and accounting systems in use today to standard, integrated systems.⁴

³Financial Management: Immediate Actions Needed To Improve Army Financial Operations and Controls (GAO/AFMD-92-82, August 7, 1992), Financial Management: Strong Leadership Needed To Improve Army's Financial Accountability (GAO/AIMD-94-12, December 22, 1993), Audit of the Army's FY 93 Financial Statements: Audit Opinion (Army Audit Agency HQ-94-450, 30 June 1994), and Defense Finance and Accounting Service Work on the Army FY 1993 Financial Statements (DOD IG Report No. 94-168, July 6, 1994).

⁴Finance systems process payments to DOD personnel and contractors, whereas accounting systems accumulate and record operating and capital expenditures, appropriations, revenues, and other receipts.

To date, a number of standard systems have been selected, including those used for civilian pay, military retiree and annuitant pay, military pay, transportation payments, debt management, and contractor payments. The implementation of these standard systems--if successful--is expected to reduce DOD's cost of operating redundant systems that perform the same functions. To illustrate, 3 years ago, DOD had 18 separate military payroll systems; today, there are 11; and by 1996, DOD hopes to reduce the number of systems to two or three.

While progress has been made in consolidating finance systems, obstacles hinder the streamlining of DOD's accounting systems. For example, as discussed in our March 1995 report,⁵ one of the primary challenges still confronting DOD is the improvement and standardization of the Defense Business Operations Fund's (DBOF) accounting systems. Currently, about 80 disparate and unlinked systems are producing DBOF accounting data. For the most part, these are the same antiquated systems which DBOF inherited from the old industrial and stock funds. Based on DFAS' analyses, 17 systems were recommended as the DBOF interim migratory systems.

According to DOD's preliminary estimate, it will cost \$94.5 million to enhance the 17 systems to meet DBOF's minimum functional requirements. DOD acknowledges that these costs will probably be higher. However, DOD's estimate does not include the following costs: (1) improvements needed to meet minimum technical requirements, (2) data conversion from the existing systems to the interim migratory systems, (3) development of interfaces with nonfinancial systems, such as logistics and personnel, which generate much of DOD's financial data, (4) training of personnel who will operate and enter data into the interim migratory systems, and (5) replacement of 63 existing systems with the 17 interim migratory systems. The DOD Comptroller has directed that either a cost analysis or functional economic analysis be performed to more precisely determine the total costs to enhance these systems. Because of the poor condition of the systems and the magnitude of the total cost to upgrade the selected systems, we have recommended that a functional economic analysis be performed for each of the systems selected as a DBOF interim migratory system.⁶

It could be several years until DOD implements new and improved systems. Until this occurs, DOD will have to rely on its existing systems and reports produced from

⁵Defense Business Operations Fund: Management Issues Challenge Fund Implementation (GAO/AIMD-95-79, March 1, 1995).

⁶A cost analysis is not as detailed as a functional economic analysis. It includes estimates of the costs to (1) enhance the system to meet minimum functional and technical requirements, (2) develop interfaces, (3) deploy the systems, and (4) develop implementation milestones. It does not include an analysis of (1) alternatives, (2) benefits/costs, or (3) life cycle costs.

those systems for decision-making. Thus, DOD needs to concurrently pursue short-term efforts to improve the quality of the information in its systems, such as (1) following and enforcing current accounting policies and procedures, (2) reviewing and analyzing its monthly reports to identify inaccuracies, and (3) taking the steps needed to correct the identified problems.

DOD Disbursements

DOD recognizes that it has a serious problem of not being able to properly match disbursements with obligations. Without such matching, there is a substantial risk that (1) fraudulent or erroneous payments may be made without being detected and (2) cumulative amounts of disbursements may exceed appropriated amounts and other legal limits. As of March 1995, DOD determined that problem disbursements total about \$28.8 billion. Of this amount, \$17.3 billion or 60 percent were problem disbursements that remained uncorrected for at least 180 days or longer. Resolving these problem disbursements is critical to improving DOD financial management because of the significant amount of funds DOD obligates and disburses each year.

To attempt to correct this problem, DOD has adopted a policy of requiring funds not to be disbursed until the proposed payments are prematched to the obligation data in the official accounting systems. Beginning in July 1995, DOD will require such validations for all payments over \$5 million. In October 1995, that threshold will drop to include all payments over \$1 million. DOD is developing plans to expand this validation requirement to cover all payments. We believe that this initiative is moving DOD in the right direction.

The initiative should help ensure that the (1) disbursements are properly matched to the corresponding obligations and (2) obligation and disbursement data are recorded accurately in the accounting records. A key component of the initiative is to electronically move the obligation and disbursement data between the accounting and disbursing systems to perform the validation. If the project is not completed by July 1995, DOD plans to do the validation manually. However, it may prove difficult to perform the validation manually when the threshold drops to \$1 million, increasing the number of transactions to be validated fivefold to about 17,000 annually. We have efforts underway evaluating DOD's actions to resolve this problem and will provide the Subcommittee a copy of the report when it becomes available.

With regard to the existing problem disbursements, on May 5, 1995, the DOD Comptroller issued guidance which suspended the research to resolve negative unliquidated obligations and unmatched disbursements for disbursements and collections that (1) were charged to a direct appropriation that was cancelled or expired before March 31, 1994, and (2) met at least one of the following general criteria: (a) exceeding the records retention period of 6 years and 3 months,

(b) relating to contracts that have been audited and closed, or (c) falling below the small purchase threshold. This is to be a one-time exception to the requirement to research transactions, and it expires on September 30, 1995. The DOD Comptroller said that this decision was made because it was not cost-effective to try to reconstruct all of the old records that are incomplete and in some cases no longer exist. We have just received the May 5 guidance and will be following up on this matter.

A related disbursement problem, which continues to be widespread and serious, is the overpayment of contractors. Our current work shows that the DFAS-Columbus Center still cannot readily detect overpayments because of significant errors in automated payment records; and, accordingly, relies heavily on contractors to do so. While contractors generally notify the Center of overpayments, they may not return them unless instructed to do so. We found that, as of July 1994, selected large and small defense contractors were holding about \$231.5 million in contract overpayments. One overpayment of \$7.5 million had been outstanding about 7 years, costing the government about \$5 million in interest.

In addition, when it is notified by contractors, the Center is not promptly recovering overpayments, resulting in delays for payment recovery of over a year in some cases. Moreover, overpayments of about \$178 million identified by contract audits have not been recovered, and the Center has not produced records showing what recovery actions, if any, have been taken for these overpayments. We are currently determining why these overpayments have not been recovered.

Reengineer Business Practices

DOD's financial management is severely hampered by its complex, duplicative business processes, many of which have been developed in piecemeal fashion over decades. DOD correctly recognizes that poor business processes produce poor financial management systems and operations.

We recently reported that DOD's administrative travel processes were overly complicated with over 700 processing centers, 1,300 pages of regulations, and a byzantine process that required the traveler to go through some 40 steps to get travel approval and reimbursement.⁷ The result: DOD spent over 30 percent of each travel dollar on administrative cost. By contrast, companies with the best travel processes have one disbursing center, 10 to 20 pages of regulations, and 10 or fewer process steps. These companies spend as little as 1 percent of their travel dollar on administrative costs without sacrificing cost-effective internal controls.

⁷Travel Process Reengineering: DOD Faces Challenges in Using Industry Practices to Reduce Costs (GAO/AIMD/NSIAD-95-90, March 2, 1995).

The potential for savings is enormous. DOD has recognized that it could save hundreds of millions of dollars yearly by reengineering its travel process and has such an effort underway. Further, by simplifying the travel process, DOD's financial reporting and systems would also be simplified, making it less difficult to provide timely, accurate data. DOD has in place a task force charged with reengineering and simplifying administrative travel processes. Making the fundamental process improvements necessary to achieve real progress will be difficult and will require sustained management involvement. Currently, that involvement is being provided.

The potential for savings in other areas may be even greater. DOD may well have similar opportunities in many of its functional business areas. While DOD's mission is unique, its back-office functions (for example, payroll/personnel systems) and many of its support functions are similar to those carried out in the private sector. DOD is now planning to evaluate the potential for reengineering a number of these areas. We support these efforts and will continue to evaluate DOD's progress in fundamentally improving its business processes.

Strengthen Internal Controls

Strong internal controls are critical to effectively controlling and accounting for an estimated \$1 trillion in DOD assets worldwide. Without effective internal controls, DOD cannot ensure that assets are properly controlled and protected against fraud, waste, and mismanagement. Secretary Perry has directed that senior managers play a more active role in identifying, reporting, and correcting poor controls. He has also pointed out that the CFO Act has (1) contributed to the recognition and understanding of the scope and depth of the financial management problems that DOD must overcome and (2) provided a mechanism to measure progress.

We endorse the thrust of DOD's efforts in this area. In the past, we were critical of DOD's failure to acknowledge its fundamental internal control deficiencies in its Federal Managers' Financial Integrity Act (FMFIA) reporting. However, more recently, we have been encouraged by DOD's more complete and realistic reporting on its internal control weaknesses.

The importance of Secretary Perry's recognition of the CFO Act as a vehicle for improving DOD's financial operations and as a framework for measuring progress also cannot be overstated. We have strongly endorsed the Congress' recent efforts to improve governmentwide financial management through the Government Management Reform Act. This legislation expanded the CFO Act pilot requirements for agencywide annual audited financial statements to all 24 CFO Act departments and agencies, and established a requirement for auditing the federal government's fiscal year 1997 financial statements. These audits will provide an important vehicle for DOD to obtain an annual, independent "scorecard" evaluation of the adequacy and

effectiveness of its controls and safeguards for protecting the hundreds of billions of dollars of taxpayer resources entrusted to DOD, and for ensuring that DOD accurately reports on its financial condition and operations.

However, as portrayed in Secretary Perry's blueprint, DOD faces a daunting challenge if it is to realize demonstrable improvements in this area. While his recognition of the extent and nature of the challenge facing DOD is an extremely important first step, much more is needed. If DOD is to achieve the CFO mandate for the successful completion of a comprehensive financial statement audit for fiscal year 1996, disciplined adherence to a tight timetable for specific actions must be achieved.

As shown in the attachment to this testimony, none of the military services or major DOD components have produced reliable financial statements since the passage of the CFO Act in 1990. Our financial audits, as well as those of DOD auditors, have pointed out pervasive, long-standing problems in the military services' financial operations. Our preliminary observations from our ongoing financial audit of the Navy's financial operations indicates similar conditions exist for the Navy, including:

- an absence of transaction-driven general ledgers which are a prerequisite for establishing rudimentary double-entry accounting control,
- inaccuracies in recording quantities and values for many assets, including hundreds of billions of dollars of weapon systems and equipment, and
- billions of dollars in financial reporting errors which were not detected or corrected because required reviews were not performed.

However, in addition to the Secretary's blueprint, we would like to point out two encouraging developments with regard to DOD's CFO Act implementation. First, I commend DOD's audit community for its efforts in support of the CFO Act, including assuming responsibility for financial audits of the Army and Air Force, developing its information systems auditing capability, and devising an approach for auditing all major DOD components for fiscal year 1996. Second, Army's proactive approach to implementing the CFO Act has been noteworthy. After our audit of the Army's fiscal year 1991 financial statements, its top leadership made strong, visible commitments to addressing the act's objectives. This momentum continues today. The Army's advice is now sought by other DOD components seeking to upgrade their financial reporting capabilities.

Improve Management Incentives

One of the major management initiatives that DOD has undertaken to reduce the cost of its infrastructure was the establishment of DBOF in October 1991. By consolidating the nine existing industrial and stock funds operated throughout DOD,

the Department intended to focus management attention on the total costs of carrying out certain critical DOD business operations and to help manage those costs more effectively. This goal mirrors the objectives of the National Performance Review, which is aimed at achieving cost efficiencies in the federal government.

DBOF is modeled after business-like operations in that it maintains a buyer-seller type of relationship with its customers, primarily the military services. For fiscal year 1996, DBOF is estimated to have revenues of \$75 billion, which makes it equivalent to one of the largest corporations in the world. DBOF provides such essential goods and services as the (1) overhaul of ships, tanks, and aircraft and (2) sale of over 5 million types of vital inventory items, such as landing gears for aircraft. Many of these goods and services are essential to maintaining the military readiness of our country's weapons systems. Unlike a private sector enterprise which has a profit motive, DBOF is to operate on a break-even basis by recovering the current costs incurred in conducting its operations.

Since its inception, DBOF has been plagued with numerous problems. To specifically address these problems, in September 1993, the Deputy Secretary of Defense and the Secretaries of the Army, Navy, and Air Force approved the Defense Business Operations Fund Improvement Plan, which identified the specific actions and milestones for addressing the problems that hindered DBOF's operations. In February 1995, DOD reported to the congressional defense committees that it had made "tremendous progress in rectifying or reducing many of the problems in the Plan." For the reasons highlighted as follows and discussed in detail in our March 1995 report,⁸ we disagree with DOD's assessment.

DBOF has not been able to meet its financial goal of operating on a break-even basis. During the first 3 years of operations--fiscal years 1992 through 1994--DBOF reported a cumulative loss of about \$1.2 billion. Of that amount, the Navy, the Army, and DOD components reported losses of \$1 billion, \$255 million, and \$291 million, respectively, whereas the Air Force reported a gain of \$407 million. The reported \$1 billion loss in the Navy component is a net figure--seven Navy business areas reported losses of \$1.6 billion and three business areas reported gains of \$600 million. Most of the reported losses can be attributed to four business areas: (1) shipyards, (2) aviation depots, (3) ordnance, and (4) research and development. These activities had reported losses of \$763.4 million, \$395.4 million, \$207.7 million, and \$172.7 million, respectively.

In accordance with DOD's policy, the prices charged DBOF customers are to be increased to recover these losses. We have recommended to the Congress that DOD not increase prices to recover prior year losses. We have taken the position that

⁸GAO/AIMD-95-79.

DBOF, not the customer, should be required to request additional funds through the appropriation process to recover losses. As part of the justification, DOD should explain variances between the budgeted and actual results of operations for each business area. Our approach would provide additional congressional oversight over the operations of DBOF by giving the Congress an opportunity to review DBOF operations, determine if additional funds are actually needed, and evaluate the effectiveness of DOD's management of DBOF. It would also provide a strong incentive to properly set prices and focus attention on the current cost of operations.

Credible cost data on operating results are essential. These data are considered in setting the prices DBOF will charge its customers and, in turn, the basis for establishing the customer's budget request. The Department of Defense Financial Management Regulation states that a primary objective of DOD accounting systems is to provide needed actual accounting data for use in budget formulation. In addition, the financial management data are to be recorded and reported in the same manner throughout DOD components, and the accounting information is to be synchronized with budgeting information.

However, our analysis of DBOF's financial and budget reports have shown that they differ by billions of dollars for net operating results. DBOF's fiscal year 1993 financial and budget reports differed by \$5.9 billion, whereas the fiscal year 1994 reports differed by \$4.4 billion. Without reliable information on the net operating results, DOD is not in a position to know if the prices being charged DBOF's customers are reasonable, since the net operating results is a key factor in setting the prices. Given the current environment, it is conceivable that some prices might be too high, while others might be too low to recover the costs of providing goods and services. DOD has recognized that it has a problem with its budgeting and financial reports and has begun to take action to address this problem. DOD has recognized that it needs to issue guidance to the DOD components that specifies the expenses/losses that will not be recovered in the prices charged customers.

We are also concerned about DOD's management of DBOF's cash. When DBOF was established, the responsibility for managing cash was placed under the Office of the Secretary of Defense (Comptroller). One of the benefits that has resulted from the establishment of DBOF was the reduction in the amount of cash needed for day-to-day operations. However, on February 1, 1995, the management of cash and related Antideficiency Act limitations was returned to the military service and DOD component level. This change is a major departure from the benefits of a single cash balance DOD cited in establishing DBOF and could result in DBOF's cash requirements increasing. In addition, because of the policy change, the Army, Navy, and Air Force components of DBOF have again advanced billed customers. According to DOD, about \$2.7 billion was advanced billed in the beginning of 1995--meaning customers are paying for goods and services before they are rendered which is not a business-like practice. This increased the amount of advance billings to \$4.5 billion

as of April 1995. We have recommended that DOD reverse the decision to transfer the management of DBOF cash to the military services and DOD components.

CONCLUSIONS

Mr. Chairman, reforming DOD's financial management operations is a formidable challenge, but certainly achievable. It will require a significant investment of time and money, but the anticipated cost savings and improved management controls make the investment worthwhile. In addition to the recommendations noted above, I suggest that DOD take the following four steps over the next several months to help turn Secretary Perry's blueprint into substantive improvements.

- Determine what skills are required to ensure that the plan is developed and implemented. Ensuring that DOD has the appropriate number of staff with the requisite skills will be key to the success of the reform initiative.
- Provide to the Congress by October 1, 1995, more specific details on how DOD's reform blueprint will be implemented. This should be provided at two levels. First, a strategic overview providing more detail on the linkage between the individual reform elements, organizational responsibility, potential costs, and identification of barriers/impediments which could require congressional attention. Second, a tactical plan for fiscal year 1996 which provides specific details for each element on expected objectives to be reached, steps required to meet those objectives, milestones for each step, and performance measures so that progress can be tracked and evaluated. When a detailed plan is made available to us, we will provide an evaluation to the Subcommittee.
- Clean up the existing data in the financial systems and place special emphasis on ensuring that basic accounting policies and procedures are followed so as to improve data accuracy in the current systems while new systems are under development.
- Establish an independent, outside board of experts to provide counsel, oversight, and perspective to reform efforts.

Ultimately, success in meaningful financial management reform requires the sustained attention, cooperation, and commitment from top management across the Department. Continued oversight from this Subcommittee can assist DOD in carrying out the objectives of its reform blueprint. We intend to continue to monitor the plan's progress and provide specific evaluations of many of the plan's individual components including financial audits, systems reviews, disbursement improvement initiatives, and reengineering efforts.

Mr. Chairman, this concludes my testimony. I will be happy to answer questions that you or Members of the Subcommittee may have.

REPORTING ON FISCAL YEARS 1993 AND 1992 DOD FINANCIAL STATEMENTS*

Reporting Entity	Fiscal Year 1993 Reports	Fiscal Year 1992 Reports
Department of the Army	Disclaimer	Disclaimer
Department of the Navy	No audit performed	No audit performed
Navy Management Fund	Adverse opinion ^b	No audit performed
U.S. Naval Academy Gift Fund	Qualified opinion ^b	No audit performed
U.S. Naval Academy Museum Fund	Qualified opinion ^b	No audit performed
Department of the Air Force	Disclaimer	Disclaimer
Defense Business Operations Fund ^c	No major component of DBOF received an unqualified opinion ^c	No major component of DBOF received an unqualified opinion ^c
William Langer Jewel Bearing Plant Revolving Fund	No audit performed	No audit performed
National Defense Stockpile Transaction Fund	No audit performed	Disclaimer
Pentagon Reservation Maintenance Revolving Fund	Adverse opinion	Disclaimer
Emergency Response Fund, Defense	No audit performed	Disclaimer
Homeowners Assistance Fund, Defense	Adverse opinion	Adverse opinion
DOD Military Retirement Trust Fund	No audit performed	Unqualified opinion
Voluntary Separation Incentive Trust Fund	Adverse opinion	No audit performed
DOD Education Benefits Fund	Adverse opinion	Disclaimer
National Security Education Trust Fund	Unqualified opinion	Qualified opinion
Defense Commissary Surcharge Account	Management data audit	Disclaimer
Defense Security Assistance Agency	Management data audit	No opinion rendered
Special Defense Acquisition Fund	Management data audit	Disclaimer ^b
Foreign Military Loan Liquidating Account	Management data audit	Unqualified ^b
Foreign Military Financing Direct Loan Financing Account	Management data audit	No audit performed ^b
Foreign Military Sales Trust Fund	Management data audit	Adverse opinion ^b

Table Notes:

The terms disclaimer, adverse opinion, qualified opinion, and management data audit are defined as follows.

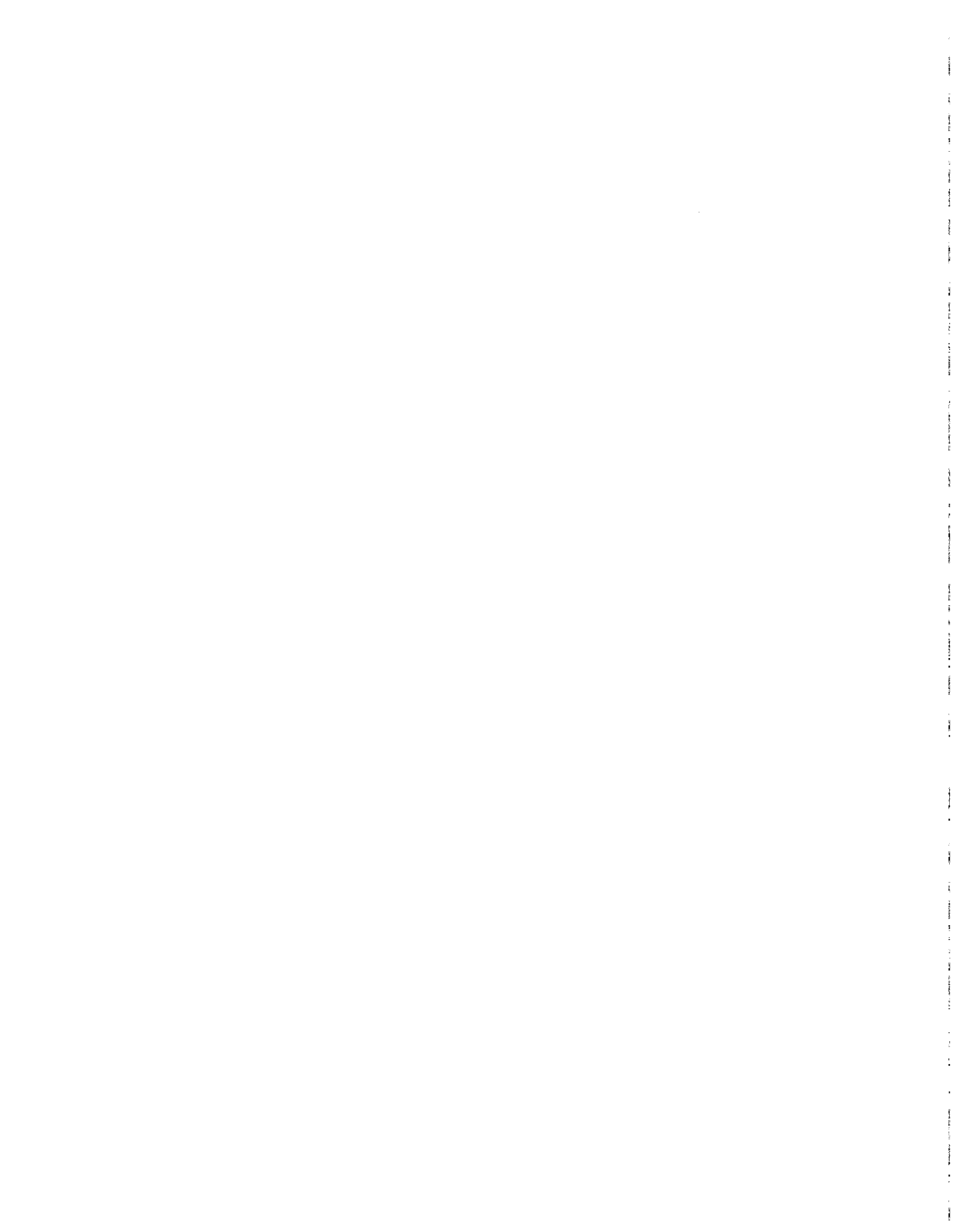
- *Disclaimer*--The auditor does not express an opinion on the financial statements.
- *Adverse opinion*--In the auditor's opinion, the financial statements do not fairly present the entity's financial position, the results of operations, and/or the cash flows of the activity in conformity with generally accepted accounting principles.
- *Qualified opinion*--The auditor takes exception to the fairness of the presentation of the financial statements and points out the particular areas believed not to be a fair presentation of the financial position, the results of operations, and the cash flows of the activity in conformity with generally accepted accounting principles.
- *Management data audits*--These audits determine whether critical management data are available that are needed to run, evaluate, and make major decisions about the activity financed by the Fund. The audit work will include both financial and nonfinancial data. Reports are issued to appropriate audiences in lieu of financial statement audit reports.

^aDOD's Inspector General indicated that fiscal year 1994 opinions should be released within a month.

^bActivity is not a "Reporting Entity" as defined by OMB Bulletin 94-01 and DOD guidance.

^cBeginning in fiscal year 1994, DBOF will be audited as one component of the Department of Defense. In fiscal year 1993, the following components were audited separately: Army-DBOF, Navy-DBOF, Air Force DBOF, Defense Logistics Agency DBOF, and Joint Logistics Systems Center DBOF. These components received disclaimers, no opinions, or adverse opinions. Transportation Command DBOF and Defense Finance and Accounting Service DBOF received management data audits. No audits were performed for Defense Technical Information Center DBOF, Defense Information Systems Agency DBOF, and Defense Commissary Agency DBOF.

Source: DOD's report on audited financial statements for fiscal year 1993 as submitted to OMB. (Required by OMB Bulletin No. 93-18, "Audited Financial Statements" of June 25, 1993, and OMB Memorandum on Submission of Annual Financial Statements" of February 7, 1994).



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