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General Accounting Office  
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Accounting and Information  
Management Division

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February 12, 1996

Mr. Steve E. Turner, Director  
Defense Finance and Accounting  
Service - Kansas City Center  
1500 East 95th Street  
Kansas City, Missouri 64197-0001

Dear Mr. Turner:

On November 9, 1995, members of my staff briefed you on several accounting and financial reporting issues noted in our recent work at the DFAS-Kansas City Center. Our work was performed as part of our overall review of the Navy's financial operations and was done in accordance with generally accepted government auditing standards. This letter summarizes our findings, the suggestions that we made, and actions you agreed to for improving the quality of data used to manage, monitor, and report on the Marine Corps' financial operations and condition. The specific areas we discussed follow.

Allowance for doubtful accounts. In past years, the allowance for doubtful accounts for the Marine Corps was developed using a formula-based methodology which did not provide for analyzing actual delinquencies and past loss experience. Thus, as we agreed, the allowance did not provide a useful indicator of accounts receivable collectibility for either financial reporting or debt management purposes. We suggested that DFAS-Kansas City revise the methodology for calculating the allowance to include an analysis of past bad debt experience and an aging of the receivables, as called for in the Department of Defense (DOD) Financial Management Regulation, Volume 4, Chapter 3. You agreed to adopt a methodology for developing the allowance that incorporates this DOD guidance.

Accrued interest on doubtful accounts receivable. DFAS-Kansas City's current practice is to record and include in its financial reports interest accruing on its entire accounts receivable balance, including that portion whose ultimate collectibility is doubtful. Because it is unlikely that the government will recover interest on underlying debt which is uncollectible, including such interest as

income in the financial reports is misleading. We suggested that DFAS-Kansas City change its practice to conform with Statement of Federal Financial Accounting Standards no. 1, "Accounting for Selected Assets and Liabilities" (FASAB 1). This standard specifies that interest revenue accrued on doubtful receivables should not be recognized as income in the financial statements. However, we recognize the need to maintain balances for interest accruing on doubtful receivables. As provided by FASAB 1, such amounts accrued but not recognized as income should be disclosed in the footnotes to the financial statements. You agreed to take corrective action on this matter along the lines we suggested.

Ammunition held in inventory. DFAS-Kansas City's practice has been to exclude the value of Marine Corps ammunition in developing external financial reports. We pointed out that in accordance with FASAB 3, "Accounting for Inventory and Related Property," the value of ammunition held for later distribution to end users should be treated as an asset for financial reporting purposes. Accordingly, we suggested that the value of such ammunition, which we estimated—based upon Marine Corps ammunition records—to be in the \$6.0 billion range at September 30, 1995, be included in financial reporting. You agreed that the ammunition should be reported as inventory on the financial statements.

Accrued, unfunded annual leave. We also pointed out that the DOD Financial Management Regulation, Volume 4, Chapter 10, as well as FASAB 1, require civilian and military unfunded leave to be included as a liability for external financial reporting, which DFAS-Kansas City was not doing. We suggested that the Operations and Maintenance Appropriation Trial Balance be used to obtain the civilian portion. The trial balance showed this amount to be \$65.3 million as of September 30, 1995. We also suggested that the appropriate payroll systems be queried to determine the amount to be reported for the military portion, which we estimated—based upon records of year-end leave balances and pay tables—to be over \$200 million as of September 30, 1995. You agreed to include unfunded leave in Marine Corps financial reports.

Outstanding travel advances. According to DFAS-Kansas City records, outstanding travel advances amounted to \$43.2 million, of which \$26.6 million—about 60 percent—had been delinquent for over 1 year as of June 30, 1995, the most current figures available at the time of our briefing. Taken at face value, a delinquency rate of this magnitude raises serious questions over the effectiveness with which the travel advance process is being managed. However, our work noted that errors such as duplicate postings and unmatched items may have resulted in this amount being overstated. To ascertain the correct travel advance balance and delinquency rate, we suggested that DFAS-Kansas City research and





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