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FINANCIAL MANAGEMENT

DOD Needs to Lower the Disbursement Prevalidation Threshold





**United States
General Accounting Office
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**Accounting and Information
Management Division**

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The Honorable C. W. Bill Young
Chairman, Subcommittee on National Security
Committee on Appropriations
House of Representatives

The Honorable Steve Horn
Chairman, Subcommittee on Government,
Management, Information and Technology
Committee on Government Reform and Oversight
House of Representatives

The Honorable John Glenn
Ranking Minority Member
Committee on Governmental Affairs
United States Senate

The Honorable Barbara Boxer
The Honorable Charles E. Grassley
The Honorable William V. Roth, Jr.
United States Senate

This report responds to your requests that we assess the Department of Defense's (DOD) efforts to reduce problem disbursements and its implementation of section 8137 of Public Law 103-335, Department of Defense Appropriations Act, 1995, which required that each disbursement exceeding \$5 million be matched to the appropriate obligations in DOD's official accounting records before the disbursement is made.

The Congress passed section 8137 (and its successor, section 8102 of Public Law 104-61, Department of Defense Appropriations Act, 1996) to help ensure that DOD prematch, or prevalidate, disbursements with recorded obligations, which is an important control for ensuring that agency funds are used as authorized by the Congress and the Department. 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. In reducing these risks, the provisions of the act aim to strengthen accountability over DOD's disbursement process, which has been plagued by long-standing problems.

This review was conducted jointly with Defense's Office of Inspector General (IG), and the IG has issued a separate report on DOD's implementation of the prevalidation program.¹ The IG recommended a number of specific actions to improve the prevalidation program. These included correcting system weaknesses, providing additional training to accounting and disbursing personnel working in the prevalidation program, and developing useful performance indicators for monitoring the progress of the program. We agree with the recommendations contained in the IG's report, and, likewise, the IG agrees with the recommendations contained in this report.

Results in Brief

DOD implemented the prevalidation program to confirm that it had sufficient obligations to cover invoices exceeding \$5 million before payment, as Public Law 103-335 required. This helped to identify errors and fix problem disbursements earlier in the payment and accounting process. In addition, Defense has lowered the \$5 million threshold to \$1 million at all disbursement locations, except for the Defense Finance and Accounting Service's (DFAS) Columbus Center. Also, for eight primary contract accounting systems and its contract paying system at the DFAS Columbus Center, DOD has automated the prevalidation process to better handle the volume of transactions.

Nevertheless, while these new prevalidation controls were in effect, DOD's efforts to correct existing problem disbursements were overshadowed by the inflow of new problematic transactions. For example, DOD reports show that during the period of October 1995 through January 1996, DOD corrected \$19.5 billion of problematic disbursements; however, it incurred an additional \$21.8 billion of new problem balances during the same period—a \$2.3 billion net increase. This is chiefly the result of long-standing system weaknesses throughout the disbursement process and failure to comply with basic accounting procedures, both of which are offsetting gains made by correcting existing balances in the latter stages of the process.

DOD's implementation of the prevalidation program is also limited in its ability to resolve Defense's annual multibillion-dollar disbursement problems because there currently is no plan to lower the prevalidation threshold further at DFAS Columbus, which is responsible for almost 40 percent of DOD's \$160 billion annual contractor and vendor payments.

¹Implementation of the DOD Plan to Match Disbursements to Obligations Prior to Payment (DOD IG Project No. 5FI-2031, draft report).

Without lowering the threshold, tens of billions of dollars in disbursement transactions will be processed absent this important accounting control. During the period July 1, 1995—the statutory date when DOD was to begin prevalidation efforts—through January 31, 1996, the Center processed 521,262 disbursements totaling \$37.1 billion. Of these, only 1,157 disbursements, totaling \$12.3 billion, or about one third of the total dollar disbursements, exceeded \$5 million and were prevalidated.

To effectively resolve disbursement problems, Defense management must embark on short-term efforts to ensure that the prevalidation program covers as many transactions as practical and basic accounting procedures are followed until DOD has fully implemented its long-term efforts to correct serious weaknesses in accounting and contracting systems.

Background

Federal agencies, including DOD, are responsible for ensuring that they use appropriated funds only for purposes, and within the amounts, authorized by the Congress. DOD Directive 7200.1, May 4, 1995, states the policy that DOD organizations are to establish positive control of, and maintain adequate systems of accounting for, appropriations and other funds. The Directive also states that financial management systems are to provide a capability for DOD officials to be assured of the availability of funds before incurring an obligation or making a payment.

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

Problems in DOD's Disbursement Process

Problem disbursements occur when (1) the wrong appropriation account or customer is charged when a payment is made, (2) information on an obligation, payment, or collection transaction is inaccurately or incompletely processed, or (3) a contractor is paid too much. In October 1994, we reported² that DOD's records included at least \$24.8 billion of such problem disbursements as of June 30, 1994, and that long-standing systemic control weaknesses were keeping DOD from solving its disbursement process problems. We also pointed out that persistent

²Financial Management: Status of Defense Efforts to Correct Disbursement Problems (GAO/AIMD-95-7, October 5, 1994).

management emphasis was essential to resolving the problem. Specifically, we recommended that DOD management undertake long-term efforts, such as correcting system weaknesses involving the contract payment and accounting systems, and pursue short-term efforts to improve the quality of information in its systems. These short-term actions could be as simple as complying with existing guidance and procedural requirements for (1) recording obligations prior to making contract payments, (2) detecting and correcting errors in the disbursement process, and (3) posting accurate and complete accounting information in systems that support the disbursement processes.

We also previously reported that since we did not audit the \$24.8 billion problem disbursement figure, DOD's total problem disbursements could be greater. Acting on our recommendations, DOD subsequently determined that its records contained at least \$37.8 billion of problem disbursements as of June 30, 1994. As of January 31, 1996, DOD reported that it had reduced the \$37.8 billion of problem disbursement balances to \$25.4 billion.

Prevalidation Legislation

Also concerned about DOD's problem disbursements, the Congress passed section 8137 of Public Law 103-335, to improve accountability over DOD disbursements. The law directed the Secretary of Defense to require that each disbursement in excess of \$5 million be matched to a particular obligation before the disbursement is made. This requirement had to be implemented by July 1, 1995.

The legislation further required that the Secretary of Defense lower the dollar threshold for matching disbursements and obligations to \$1 million no later than October 1, 1995. Subsequently, section 8102 of Public Law 104-61, the Department of Defense Appropriations Act, 1996, superseded the earlier legislation and eliminated the requirement that the threshold be lowered to \$1 million. However, section 8102(d), like section 8137(e) of the earlier legislation, provided that the Secretary of Defense could establish a threshold lower than the statutory threshold.

In addition, the legislation directed the Secretary to ensure that a disbursement in excess of the threshold amounts not be divided into multiple disbursements to avoid prematching requirements. It also required (1) DOD to develop and submit an implementation plan to the Congress and (2) the DOD Inspector General to review the plan and submit an independent assessment to the congressional defense committees. On

February 28, 1995, DOD submitted its plan—which was a general overview plan describing processes and milestones for automating the prevalidation process and lowering the prevalidation threshold to \$1 million—to the Congress, and the DOD IG provided the defense congressional committees with its independent assessment, which generally agreed with the plan and DOD’s overall approach for implementation.

Objectives, Scope, and Methodology

Our objectives were to (1) assess DOD’s progress in reducing problem disbursements and (2) review DOD’s implementation of the requirement in section 8137 of Public Law 103-335 and section 8102 of Public Law 104-61 that DOD match disbursements over \$5 million with obligations in the official accounting records prior to making payments.

This review was a joint effort between the DOD IG and GAO. The DOD IG was generally responsible for completing the field work at Army and Navy activities and supporting locations while GAO was generally responsible for completing the field work at Air Force and Marine Corps activities and supporting locations. We combined our efforts to complete work at other DOD locations visited during the review. In conducting our review, we focused primarily on the DFAS Columbus Center because it is DOD’s largest contract paying activity. For example, during fiscal year 1995, DOD paid contractors and vendors \$160 billion. Of this amount, \$61 billion, or 38 percent, was paid by DFAS Columbus.

We conducted our review between June 1995 and April 1996 in accordance with generally accepted government auditing standards. Appendix I contains further details of our scope and methodology. We requested comments from the Secretary of Defense or his designee. On May 23, 1996, officials of the Office of the Secretary of Defense (Comptroller) and DFAS, who are responsible for DOD disbursements, provided us with oral comments. Their comments have been incorporated where appropriate and are discussed in the “Agency Comments” section.

DOD Problem Disbursements Persist

Using the June 1994 problem disbursement balance of \$37.8 billion as a baseline, DOD began to report reductions in problem disbursement balances, reaching a low in September 1995 of \$23.1 billion.³ Between

³In accordance with May 5, 1995, DOD Comptroller guidance, DOD removed about \$4.1 billion of problem disbursements from its September 1995 report. The \$4.1 billion of problem disbursements are no longer being reported because DOD determined there was little or no probability of ever resolving these balances.

September 1995 and January 1996,⁴ DOD's reported problem disbursement balances fluctuated between \$23.1 billion and \$26.1 billion as shown in table 1.

Table 1: DOD Reported Problem Disbursements From September 1995 Through January 1996 as of the End of Each Month

Dollars in billions					
Month Year	September 1995	October 1995	November 1995	December 1995	January 1996
Totals	\$23.1	\$24.5	\$24.6	\$26.1	\$25.4

According to the leader of the DOD team established to address problem disbursements, the problem disbursements have increased since September 1995 because the inflow of new problem balances continues to offset any gains made by correcting existing balances. As table 2 shows, the inflow of problem disbursements between October 1995 and January 1996 eclipsed the value of problem disbursements that were resolved by \$2.3 billion. Although DOD did not have data readily available to show how much of the \$21.8 billion of the new problem disbursements was caused by DFAS Columbus, DOD officials acknowledged that tens of thousands of transactions, totaling billions of dollars, were attributable to disbursements made by the Columbus Center. The team leader also told us that the inflow of new problem disbursements has not slowed down because the same long-standing weaknesses regarding system problems and failure to comply with basic accounting procedures, which we previously reported in 1994, generally still exist. For example, he stated that the lack of integrated accounting and disbursing systems was one of the primary causes of disbursement problems. The lack of integrated systems resulted in data entry errors because the same data had to be manually entered into two or more systems.

The DOD IG also pointed out in an August 1995 report⁵ that Army and Air Force accounting personnel were not complying with accounting regulations and procedures for documenting, validating, reconciling, and reporting transactions that affect obligations. For example, the IG noted that (1) accounting personnel were arbitrarily posting payments to any available unliquidated contract obligation and (2) much of the disbursement information received from the DFAS Columbus Center was not accurate and did not include sufficient information to record payments. The IG noted that such failures to comply with accounting

⁴Data for January 1996 was the most recent available.

⁵DOD IG Major Deficiencies Preventing Auditors From Rendering Audit Opinions on DOD General Fund Financial Statements (Report No. 95-301, August 29, 1995).

policies and procedures resulted in disbursement problems that, in turn, prevented auditors from rendering audit opinions, other than disclaimers, on the Army's and Air Force's financial statements.

Table 2: DOD Reported Increase in Problem Disbursements Between October 1995 and January 1996

Dollars in millions			
DOD component	New problem disbursements	Corrected problem disbursements	Increase (decrease)
Navy	\$8,465	\$6,999	\$1,466
Air Force	5,642	5,368	274
Army	1,804	985	819
Marine Corps	631	696	(65)
Other DOD	5,228	5,402	(174)
Total	\$21,770	\$19,450	\$2,320

The DOD team leader also told us that DOD is starting to have difficulties in reducing the older problem disbursement balances already included in its accounting records. For example, between October 1995 and January 1996, DOD reports showed that problem disbursements over 180 days old had increased from \$12.9 billion to \$14.1 billion. According to the team leader, over time, DOD activities have selected the easier problem disbursement transactions for review. Consequently, the remaining older, unresolved problem disbursements balances represent some of the more difficult balances to reconcile. We are currently reviewing DOD problem disbursements to identify the specific root causes for problematic transactions.

Prevalidation Useful in Identifying Disbursement Errors

Fundamental accounting controls require that the proper funds available for a payment are identified before the payment is made. Prevalidating disbursements to obligations helps to ensure that this is done, but DOD has not followed this basic accounting procedure. To help ensure implementation of this control feature, the Congress has included in DOD's appropriation acts for the past 2 fiscal years a requirement that DOD prematch disbursements exceeding \$5 million with obligations in the official accounting records.

The prevalidation process has demonstrated that it is a useful tool to help identify and prevent errors from being recorded in the official accounting records. However, as discussed earlier, to prevent errors from occurring in the first place, DOD must address short-term and long-term efforts targeted at improving the quality of information in its systems. The cornerstone of

DOD's long-term effort is its ongoing development of the Standard Procurement System (SPS) and the Defense Procurement Payment System (DPPS).⁶ However, DOD estimates that these systems will not be fully operational until at least the year 2001.

In discussing this with DOD officials, they said that in the interim, DOD will concurrently pursue various short-term efforts to improve the quality of information on the amount of funds obligated and disbursed. For example, DOD officials stated that they are in the process of implementing automated interfaces between the contract writing, disbursing, and accounting systems to eliminate data errors generated during the manual entry of data. DOD officials stated that they plan to begin implementing the electronic exchange of data by the end of calendar year 1996.

Description of the Prevalidation Process

DOD had automated prevalidation to electronically process certain disbursement data between the DFAS Columbus Center's disbursing system, known as the Mechanization of Contract Administration Services (MOCAS), and eight DOD primary contract accounting systems. As of January 1996, 56 DOD locations were using the eight contract accounting systems to prevalidate disbursements with MOCAS. Consistent with the authority contained in section 8137(e) of Public Law 103-335 and section 8102(d) of Public Law 104-61, DOD required all activities, except the DFAS Columbus Center, to lower the prevalidation threshold from \$5 million to \$1 million, on October 1, 1995.

The disbursement process starts when a contractor submits an invoice or other formal request for payment to a disbursing office. Prior to starting the prevalidation process, the disbursing office is required to determine if the contractor is entitled to the payment. To do this, the disbursing office must ensure that the (1) payments are made only for goods and services authorized by purchase orders, contracts, or other authorizing documents, (2) government received and accepted the goods and services, and (3) payment amounts are accurately computed. They are also responsible for ensuring that accounting data on payment supporting documents are complete and accurate.

After determining that the contractor is (1) entitled to the payment and (2) the accounting data are complete and accurate, the disbursing office initiates action to prevalidate the payment by matching the disbursement

⁶The SPS and DPPS are two DOD long-term system development efforts aimed at streamlining and standardizing contracting and disbursing systems within DOD.

with an obligation in the official accounting record. These procedures, as described below, are followed for both the automated and manual prevalidating of disbursements. For the automated process, information needed to prevalidate a disbursement is electronically sent from the disbursing system to the funding station's accounting system. For the manual process, information is exchanged through the use of telephones, fax machines, and mail.

First, the disbursing activity provides the accountable station, or stations if the payment is for services or supplies related to two or more DOD activities, with data showing how much it plans to pay and how the payment is to be charged to the obligations in the accountable station(s) records. The accountable station compares this data with its obligations and sends back a notice to the disbursing activity either authorizing or rejecting⁷ the payment. If the payment is authorized, the accountable activity is to reserve an amount of unliquidated obligations to cover the amount of payment. After receiving authorization to make a payment, the disbursing activity will make the payment and notify the accountable station that the payment has been made. Several days later, the disbursing activity formally reports to the accountable station on the payment. This final report is currently not part of the automated process on prevalidating disbursements.

Figures 1 and 2 illustrate the additional role played by the accounting station when disbursements are prevalidated.

⁷In those instances where the accountable station notifies the disbursing activity that it is rejecting a payment, a manual research must be performed by either the disbursing or accounting activity to identify and correct the problem causing the rejection of authorization to pay. Common reasons for negative responses include insufficient funds in the accounting system to cover the amount of the disbursement and incorrect cites of appropriations, including charging the wrong appropriation.

Figure 1: Disbursements Without Prevalidation

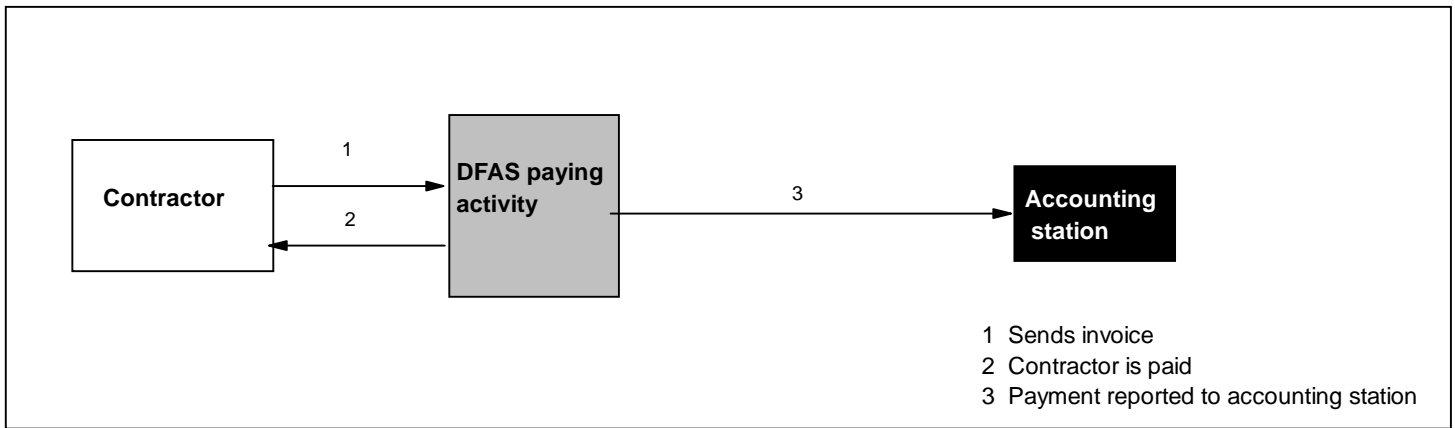
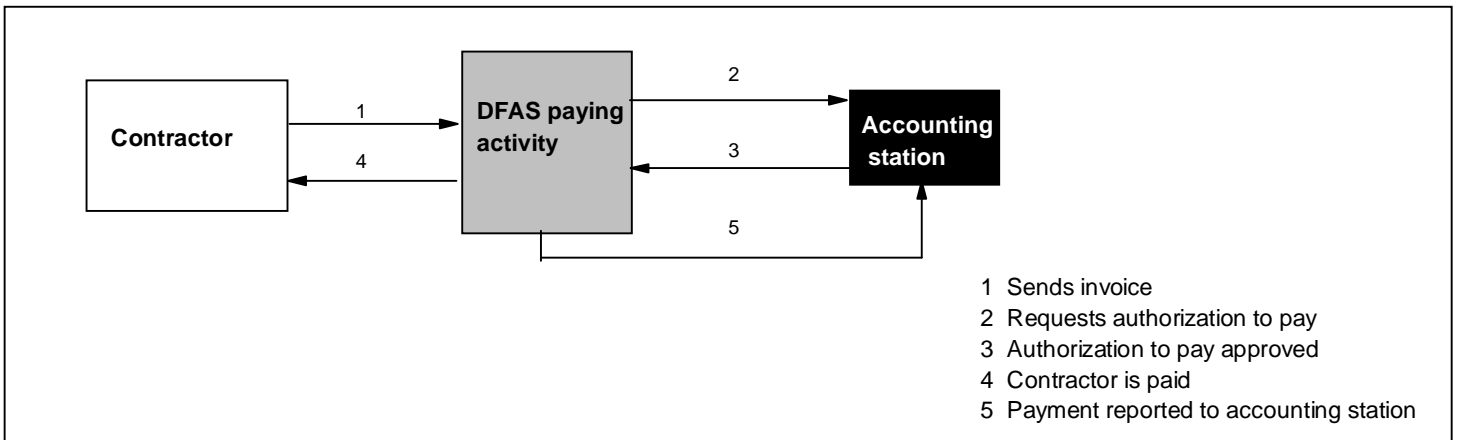


Figure 2: Disbursements With Prevalidation



DOD Successfully Automates Prevalidation Process Between Major Contract Paying and Accountable Activities

Our review disclosed that DOD generally had successfully implemented the automated prevalidation process. However, we and DOD’s IG did find deficiencies in the DFAS automated programs used to prevalidate disbursements related to Army and Air Force⁸ funds that could result in material weaknesses which would undermine the intent of prevalidation if

⁸We and the DOD IG did not find any significant weaknesses with the DFAS programs for payments related to Navy and Marine Corps funds.

not promptly corrected. The most significant weakness was the lack of controls to ensure that Air Force and Army obligations could not be used to cover more than one payment.

For example, the Air Force's Central Procurement Accounting System (CPAS) did not maintain the reservation of funds until the final payment data were received from MOCAS. As a result, the same obligation balances could be used to prevalidate more than one disbursement. Our review of about \$66 million of over \$1.4 billion problem disbursement balances at one DOD location that operated CPAS found a \$3.4 million payment that had been prevalidated but could not be recorded in CPAS once the payment was made. Our analysis disclosed that another \$107,000 payment had also been processed and recorded against the same \$3.4 million of CPAS obligation balances. Because the \$107,000 payment reduced the available obligation balance below the \$3.4 million necessary to record the initial prevalidated payment, there were not sufficient obligations in the CPAS accounting system to cover the \$3.4 million prevalidated payment. DFAS officials agreed with our analysis and were still reviewing the two payment transactions to determine causes of the problem and necessary corrective actions.

We met with DFAS headquarters' officials to discuss the problems both we and the DOD IG found during our review of the automated programs. The officials agreed that these were serious problems and have taken actions or plan to take actions to correct the identified problems. For example, DFAS has approved a system change request to resolve the problems we identified with CPAS and told us that it should be corrected by June 1996. However, the DFAS officials could not tell us when this problem would be resolved for the Army. The DOD IG has made specific recommendations to address these problems in its report on the prevalidation program.

Prevalidation Threshold Needs To Be Lowered

Although section 8102 of DOD's Appropriations Act for Fiscal Year 1996 required DOD to prevalidate only disbursements in excess of \$5 million, on October 1, 1995, DOD lowered the prevalidation threshold to \$1 million at all activities except the DFAS Columbus Center. DFAS officials told us that the threshold was not lowered to \$1 million at the DFAS Columbus Center because of concerns that the Columbus Center could not absorb the increase in the volume of payments that would have to be prevalidated at the \$1 million level. For example, they estimated that the number of invoices they would have to prevalidate annually would increase from about 1,800 at the \$5 million level to about 11,200 at the \$1 million level.

The \$1 million threshold level would still only cover about 50 percent of the dollar value of payments at DFAS Columbus. According to the officials, since the DFAS Columbus Center administers some of the most complex contracts in DOD, it requires more time to process and prevalidate payments than it does at the other DOD activities which have much simpler contracts.

DFAS officials told us that it is not uncommon for a voucher examiner at the DFAS Columbus Center to allocate a payment across 30 or 40 appropriation fund cites in order to record the payment. Conversely, other DOD activities generally only have to allocate a payment against one or two appropriation fund cites. Our analysis of about 1,400 disbursements prevalidated at the DFAS Columbus Center confirmed what the officials told us about the complexity of processing and prevalidating payments. We found hundreds of payments that were spread across multiple appropriation fund cites ranging from two to over 100 appropriation fund cites. For example, one \$6 million payment had been spread across 107 appropriation fund cites, all of which had to be approved before payment could be made.

However, since prevalidation at DFAS Columbus is made only for payments exceeding \$5 million, large numbers of transactions, amounting to tens of billions of dollars, are excluded from this important accounting control. Our review of the DFAS Columbus Center's disbursement data between July 1, 1995, and January 31, 1996, disclosed that the Columbus Center made 521,262 disbursements totaling \$37.1 billion. Of these, only 1,157 disbursements totaling \$12.3 billion were prevalidated. This is less than one-fourth of one percent of the total payments and only about one-third of the total dollars. Our analysis of calendar year 1995 disbursement data disclosed that the DFAS Columbus Center paid about 1.2 million invoices totaling at least \$55 billion. As shown in table 3, if DFAS Columbus had been prevalidating disbursements for the entire year, only about 1,800 payments totaling \$15.1 billion would have been subject to prevalidation at the \$5 million level.

Table 3: DFAS Columbus Center Payments for Calendar Year 1995

Dollars in billions			
Dollar ranges	Cumulative number of payments	Cumulative dollar value of payments	Cumulative percent of dollars
Over \$ 5 million	1,791	\$15.1	27
Over \$4 million	2,348	16.6	30
Over \$3 million	3,367	18.8	34
Over \$2 million	5,442	22.0	40
Over \$1 million	11,236	27.6	50
Over \$0	1,156,936	55.1	100

Source: DFAS Columbus Center.

DFAS Columbus officials acknowledged that they were not prevalidating many payments by doing only those above the \$5 million level and that errors were still occurring at levels below that threshold. The officials acknowledged that lowering the threshold would help prevent additional errors from being passed on to the accountable stations. Although, the DFAS Columbus Center had planned to lower the threshold to \$4 million on February 26, 1996, the DOD Comptroller directed the Center not to lower the threshold. In discussing this matter with the DFAS Director, he informed us that DOD was in compliance with the prevalidation legislation and that DOD made a policy decision to keep the \$5 million threshold at DFAS Columbus. He noted, however, that one factor considered when deciding not to lower the threshold was that DFAS Columbus was not currently meeting DOD's payment performance goals for progress payments and cost vouchers.⁹

For example, as of December 1995, DFAS Columbus reported that it was taking an average of 16 days to pay a progress payment and 15 days to pay a cost voucher. He said that when DFAS Columbus reduces the overall number of days it takes to pay progress payments and cost vouchers, DOD would consider lowering the threshold. However, he told us that DOD did not have a plan that specified the exact payment period the Columbus Center needed to reach before the prevalidation threshold could be lowered. In discussing a draft of this report with DOD officials, they agreed that they should begin reducing the threshold at the DFAS Columbus Center. They stated that they will start by reducing the threshold to \$4 million but had not yet decided when this would take place. They also

⁹Progress payments and cost vouchers are two forms of contract financing payments. The Defense Federal Acquisition Regulation Supplement sets a goal of paying progress payments within 7 days and cost vouchers within 14 days.

stated that they intend to develop a plan to continuously lower the threshold.

Our review of the prevalidation process at DFAS Columbus showed that prevalidation did add time to the overall payment process. For example, we found that under the best of circumstances, when no errors or rejections occurred, prevalidation took about 3 days. Our analysis of 586 DFAS Columbus payments (progress and cost vouchers which were prevalidated as of March 1996) showed that, when errors and rejections are included, prevalidation took an average of 5 to 6 days overall. DOD could not provide comparable data, as of December 1995, for transactions before prevalidation for us to determine whether DOD was taking longer to pay an invoice as a result of prevalidation or if payment delays were due to problems other than those that occurred during the prevalidation process. However, DFAS Columbus reports on payments overall show that, between September 1995 and February 1996, it had reduced the payment period for progress payments from about 14 days to about 11 days and for cost vouchers from 17 to about 16 days. In addition, our analysis of DFAS Columbus payment data disclosed that

- as of May 1, 1996, there were only four invoices, totaling \$46 million, ranging from about 30 days to 118 days old that had either been rejected or were awaiting further confirmation from the accounting station and
- lowering the threshold to \$4 million would result in the prevalidation of only 557 more payments annually—or about two additional invoices a day—totaling \$1.5 billion.

Columbus officials told us that with the recent automation of the prevalidation process, they believe that they could now handle the workload at the \$4 million threshold level. According to the officials, they had reassigned 25 people in February 1996 to work on the prevalidation program at the Columbus Center to assist with (1) managing the program, (2) reconciling, researching, tracking, and following up on rejected transactions, and (3) reporting to DFAS headquarters on program results. We agree that Columbus could handle the additional workload at the \$4 million level. However, as previously shown in table 3, this would only increase the percentage of the dollar amount of disbursements that are prevalidated from 27 percent to 30 percent.

Conclusions

The prevalidation program allowed DOD to identify errors and prevent problem disbursements from being recorded in DOD's official accounting

records. However, unless the \$5 million threshold is lowered at DFAS Columbus, and the \$1 million threshold is lowered at the other payment centers, tens of billions of dollars in transactions will continue to bypass this important control. Until a detailed plan is developed to ensure that all payments are properly prevalidated before taxpayer funds are disbursed, the full benefits of prevalidation will not be realized.

More importantly, even at its best, prevalidation will not solve Defense's disbursement problems as evidenced by \$21.8 billion of new problem disbursements that surfaced between October 1995 and January 1996. Because prevalidation is an effort to impose quality near the end of the disbursement process, it does not address the root problems inherent in poor systems and processes as well as failure to follow fundamental internal controls. DOD's problems with accounting for and reporting on disbursements will not be resolved until (1) weaknesses in control procedures that allow problem disbursements to occur are corrected and (2) improvements are made to DOD's contract pay, disbursing, and accounting processes and systems.

Recommendations

Prevalidating all disbursements is important, especially in the short term, to protect the integrity of DOD's disbursement process while long-term improvements are made to DOD's contract pay, disbursing, and accounting processes and systems. Accordingly, we recommend that the Secretary of Defense direct the DOD Comptroller to develop a plan to meet this target. As a first step, the Comptroller should reduce the threshold at the DFAS Columbus Center to \$4 million and continuously lower the threshold in accordance with the plan. We also recommend that the Secretary of Defense direct the Comptroller to develop similar plans for prevalidating all disbursements at all the other DOD disbursing activities. These plans should incorporate the DOD IG's recommendations.

Further, we recommend that the Secretary of Defense direct the Comptroller to ensure that existing accounting policies and procedures are followed in recording obligations, detecting and correcting errors, and posting complete and accurate accounting information in systems supporting the disbursement process.

Agency Comments

On May 23, 1996, we discussed a draft of this report with officials of the Secretary of Defense (Comptroller) and DFAS who are responsible for DOD disbursements and have incorporated their views where appropriate. In

general, these officials agreed with the report's findings, conclusions, and recommendations. Regarding the recommendations, they stated that DOD plans to reduce the threshold at the DFAS Columbus Center to \$4 million and that they intend to develop a plan to continuously lower the threshold at both the Columbus Center and other DOD disbursing activities.

We are sending copies of this report to the Ranking Minority Members of the Subcommittee on National Security, House Committee on Appropriations, and the Subcommittee on Government, Management, Information and Technology, House Committee on Government Reform and Oversight; the Chairman of the Senate Committee on Governmental Affairs; the Secretary of Defense; the Director of the Office of Management and Budget, and other interested parties. We will make copies available to others upon request.

Please contact me at (202) 512-6240 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix I.

A handwritten signature in black ink, appearing to read 'J. Brock Jr.', with a long horizontal flourish extending to the right.

Jack L. Brock Jr.
Director, Defense Information and Financial
Management Systems

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Abbreviations

CPAS	Central Procurement Accounting System
DFAS	Defense Finance and Accounting Service
DOD	Department of Defense
DPPS	Defense Procurement Payment System
IG	Inspector General
MOCAS	Mechanization of Contract Administration Services
SPS	Standard Procurement System

Objectives, Scope, and Methodology

Our objectives were to (1) assess DOD's progress in reducing problem disbursements and (2) review DOD's implementation of the requirements in section 8137 of Public Law 103-335 and section 8102 of Public Law 104-61, for DOD to match disbursements over \$5 million with obligations in the official accounting records prior to making payments.

This review was a joint effort between the DOD IG and GAO. The DOD IG was generally responsible for completing the field work at Army and Navy activities and supporting locations while GAO was generally responsible for completing the field work at Air Force and Marine Corps activities and supporting locations. Discussions related to Army and Navy prevalidation issues are based primarily on the DOD IG's work. To satisfy ourselves as to the sufficiency, relevance, and competence, of the IG's work at Army and Navy, we reviewed the IG's audit program, workpapers, and draft report. We also combined our efforts with the IG to complete work at other DOD locations visited during the review.

To assess DOD's progress in resolving problem disbursements, we met with the DFAS officials responsible for managing problem disbursements to discuss and assess their various initiatives aimed at reducing problem disbursement balances. We (1) analyzed various DOD reports on problem disbursements to identify and document any changes in problem disbursement balances, (2) spoke with DFAS officials to identify systemic problems hindering DOD's ability to reduce problem disbursement balances, and (3) reviewed internal DOD audit reports and the Secretary of Defense's fiscal year 1995 Annual Statement of Assurance under the Federal Manager's Financial Integrity Act. To assess the DOD progress in addressing these weaknesses, we spoke with DFAS officials at DFAS centers and headquarters and reviewed various progress reports and other internal documents of disbursement problems and corrective actions taken or planned. The dollar values of disbursements discussed in this report were obtained from agency reports or compiled from agency records. We did not verify the accuracy of disbursement data included in agency reports or records because the data consisted of hundreds of thousands of disbursement transactions. Consequently, we cannot provide any assurance that the \$25.4 billion of problem disbursements that had not been properly matched to obligations as of January 31, 1996, are correct.

To determine if DOD's implementation of the prevalidation program complied with legislative requirements, we reviewed DOD's implementation plan and other DOD policies and procedures for implementing the program. We also visited various activities and observed their prevalidation

processes. At these locations, we judgmentally selected large dollar transactions for detailed analysis. Our analysis included reviewing the official accounting records to determine if the payment had been properly validated and correctly posted to the accounting records. We met with responsible DFAS and military service officials to discuss and resolve identified discrepancies.

Our work and that of the DOD IG was performed at the offices of the DOD Comptroller, Washington, D.C.; Assistant Secretary of the Army (Financial Management and Comptroller), Washington, D.C.; DFAS Headquarters, Arlington, Virginia, and the following DFAS Centers: DFAS Columbus, Columbus, Ohio; DFAS Cleveland, Cleveland, Ohio; DFAS Indianapolis, Indianapolis, Indiana; DFAS Kansas City, Kansas City, Missouri; and DFAS Denver, Denver, Colorado. We also performed work at the Air Force Materiel Command and DFAS Dayton Operating Location, Dayton, Ohio; DFAS Operating Location, Charleston, South Carolina; DFAS Operating Location, Norfolk, Virginia; DFAS Operating Location and Defense Megacenters, St. Louis, Missouri; Defense Accounting Office, U. S. Army Missile Command and Defense Megacenters, Huntsville, Alabama; Assistant Secretary of the Navy (Financial Management and Comptroller), Washington, D.C.; Navy Strategic Systems Program Office, Arlington, Virginia; Navy International Logistics Command, Philadelphia, Pennsylvania; Quantico Marine Base, Quantico, Virginia; and Camp Lejeune Marine Base, Jacksonville, North Carolina.

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