

GAO

Accounting and Information
Management Division

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**Defense Financial Audits
Issue Area**

Active Assignments

Foreword

This report was prepared primarily to inform Congressional members and key staff of ongoing assignments in the General Accounting Office's Defense Financial Audits issue area. This report contains assignments that were ongoing as of August 17, 1998, and presents a brief background statement and a list of key questions to be answered on each assignment. The report will be issued quarterly.

This report was compiled from information available in GAO's internal management information systems. Because the information was downloaded from computerized data bases intended for internal use, some information may appear in abbreviated form.

If you have questions or would like additional information about assignments listed, please contact Lisa Jacobson, Director, on (202) 512-9095; or George Stalcup, Associate Director, on (202) 512-9095.

Dear Mr. [Name],
I have your letter of the 15th and am glad to hear that you are well.
I am sorry that I cannot do more for you at present.

I have been very busy lately and have not had time to write to you.
I will try to get back to you as soon as possible.

I am sure that you will understand my position.
I will be in touch with you again soon.

Yours faithfully,
[Name]

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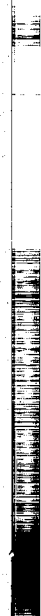
The first part of the report deals with the general situation in the country. It is noted that the economy is showing signs of recovery, but that there are still many difficulties. The government is working to improve the situation and to provide relief for the people.

The second part of the report deals with the financial situation. It is noted that the government has a large deficit, but that it is working to reduce it. The report also discusses the need for more funds and the possibility of borrowing.

The third part of the report deals with the social situation. It is noted that there are many people who are unemployed and that there is a need for more jobs. The government is working to create jobs and to provide social services.

The fourth part of the report deals with the political situation. It is noted that there are many different groups and parties in the country, but that they are all working towards the same goal. The government is working to bring about a coalition and to provide a stable government.

The fifth part of the report deals with the international situation. It is noted that the country is facing many challenges from the outside world. The government is working to improve its relations with other countries and to provide aid to those in need.



Defense Financial Audits

FINANCIAL CONDITION AND PERFORMANCE-DFA

TITLE: NAVY PROCEDURES FOR RECORDING OBLIGATIONS FOR PROBLEM DISBURSEMENTS (919052)

KEY QUESTIONS : In June 1995, the Comptroller of DOD issued detailed guidance for researching and resolving problem disbursements, including in-transit transactions. The policy, which was revised to allow more time to research in-transits, requires that obligations be posted for unresolved in-transits by June 30 of the 5th year after the related appropriation accounts have expired--90 days before the appropriation accounts are to be cancelled. To what extent has the lack of supporting documentation a) prevented identification of Navy's in-transit disbursements to existing obligations? b) resulted in the recording of new obligations to resolve problem in-transits? c) impaired the reliability of obligations and expenditures recorded in Navy's accounts and reported to Treasury?

TITLE: REVIEW OF DOD'S ENVIRONMENTAL LIABILITY FOR THE CLEANUP/DISPOSAL OF FACILITIES (919134)

KEY QUESTIONS : DOD faces significant liabilities for the disposal/demolition of property, plant, and equipment (PP&E), including facilities (plant, equipment, and related property, as appropriate). Federal Accounting Standards require federal agencies to estimate a liability for the disposal of facilities including hazardous materials. One method of facilities disposal is demolition and DOD and the military services have set up programs to identify unneeded facilities that could be demolished. Q1 Should the projected or estimated cost of demolishing unneeded facilities be reported in the DOD and military services' financial statements as a liability?

TITLE: HRA 19: REVIEW OF DOD'S FY 98 CONSOLIDATED FINANCIAL STATEMENTS TO SUPPORT THE GOVERNMENTWIDE FINANCIAL AUDITS (919209)

KEY QUESTIONS : In line with the CFO Act's requirement for GAO to audit the annual governmentwide consolidated financial statements (the first audit--FY 1997--has been completed), we will begin our work for fiscal year 1998 under this job code. DOD is significant to these statements, with approximately \$1 trillion in assets and liabilities and about \$252 billion in net costs. (1) Do DOD's financial systems substantially comply with federal requirements and standards, including the Standard General Ledger? (2) Are there inconsistencies between the entity's consolidated overview, other supplemental information, and the statements? (3) Do any subsequent events have a material effect on the financial statements? (4) Did the auditors identify all laws and regulations and any noncompliance?

TITLE: HRA 19:AUDIT PROCEDURES FOR GAO, OIG, AND AUDIT SERVICES REVIEWING THE DEFENSE FUND BALANCE (919211)

KEY QUESTIONS : The DOD IG audited DOD's FY '97 financial statements & GAO reviewed that work in accordance with FAM 650. DOD reported a 9/30/97 Fund Balance with Treasury of \$169.5 billion. Given the expected disclaimer of opinion, auditors performed some audit procedures on FBWT, but they did not (1) address ending balance assertions, (2) determine if DOD or Treasury should adjust their records for differences between transactions reported by the services & those processed by Treasury, or (3) test FBWT transactions to determine whether the proper appropriation was cited. On this job, we will develop audit plans to test internal controls, address areas not previously covered, determine what level of involvement is needed from each audit agency & how to coordinate the work done by various audit teams.

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TITLE: HRA 19: REVIEW OF THE FY 98 CONSOLIDATED GOVERNMENTWIDE PP&E LINE ITEM (919214)

KEY QUESTIONS : The CFO Act, as expanded, requires GAO to audit the annual consolidated financial statements of the federal government. In FY97, GAO reported significant deficiencies pertaining to the reported \$1,017 billion of government owned property, plant, and equipment (PP&E), 81percent of which was reported by DOD. In FY98, we will determine for significant agencies whether (1) PP&E balances are fairly stated in all material respects and, if not, what corrective actions can be taken, (2) whether material weaknesses in internal controls continue to impair the auditability of the PP&E line item, and (3) whether material PP&E related laws and regulations were identified, tested, and any instances of noncompliance properly reported.

TITLE: HRA 7: REVIEW OF THE FY 98 GOVERNMENTWIDE CONSOLIDATED INVENTORY AND RELATED PROPERTY LINE ITEM (919224)

KEY QUESTIONS : The CFO Act, as amended by GMRA, requires GAO to audit the annual consolidated financial statements of the federal government. In FY 1997, agencies reported \$209 billion of inventory and related property, of which DOD and DOE held 95 percent. Accordingly, inventory is a material line item to DOD and DOE as well as to the consolidated statements. For FY 1998, we will determine for DOD, DOE, and other agencies whether: (1) inventory and related property are fairly stated in all material respects; (2) internal controls are in place and operating effectively; (3) significant laws and regulations that could impact this line item are being complied with and noncompliances, if any, are being properly reported.

TITLE: AUDIT OF THE FISCAL YEAR 1998 CONSOLIDATED GOVERNMENT-WIDE INTERNATIONAL AFFAIRS LINE ITEM (919233)

KEY QUESTIONS : The International Affairs line item covers AIMD's work related to the fiscal year 1998 financial audits and related work at several agencies, primarily the Department of State and the U.S. Agency for International Development (AID), as well as the Departments of Treasury and Agriculture. (1) Are FY 1998 international affairs line item and related disclosures fairly stated on the government-wide consolidated statements? (2) Are there material weaknesses in internal controls that continue to impair the auditability of the International Affairs Line Item?, and (3) Were significant laws and regulations relating to the line item identified, tested, and instances of noncompliance properly reported?

TITLE: REVIEW OF THE FY 98 NATIONAL DEFENSE NET COSTS LINE ITEM (919272)

KEY QUESTIONS : The CFO Act, as amended by GMRA, requires GAO to audit the annual consolidated financial statements of the federal government. In FY 1997, national defense net costs totaled approximately \$235 billion--DOD reported approximately \$225 billion and DOE reported nearly \$10 billion. (FEMA, Justice, Transportation and others reported insignificant amounts.) Therefore, national defense net costs are material to DOD, DOE and federal government as a whole. For FY 1998, we will determine whether (1) national defense net costs are fairly stated in all material respects; (2) relevant internal controls are in place and operating effectively; and (3) DOD and DOE are in compliance with applicable, significant laws and regulations.

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TITLE: REVIEW OF DOD SUPPLY SYSTEM INVENTORY REPORTING (SSIR) (919279)

KEY QUESTIONS : The DOD Supply System Inventory Report (SSIR) is a report sent annually by DOD to the Congress providing summary statistics on Army, Navy, Marine Corps, Air Force and the Defense Logistics Agency supply systems inventories. Previous work by GAO and others identified significant discrepancies between inventories reported in the SSIR and those in financial statements, indicating that DOD may be inconsistently compiling and reporting data for the SSIR. Under this assignment, we will determine (1) which laws, regulations, or accounting standards cover the preparation of the SSIR and what do congressional users understand the report to represent?; (2) from where SSIR information is derived; and (3) whether SSIR information is prepared in compliance with federal accounting standards.

TITLE: REVIEW OF THE CONSOLIDATED FINANCIAL STATEMENT GENERAL SCIENCE, SPACE, AND TECHNOLOGY LINE ITEM (919293)

KEY QUESTIONS : The Chief Financial Officers (CFO) Act of 1990, as amended by the Government Management Reform Act of 1994, requires GAO to audit the consolidated financial statements of the U.S. government. The approximately \$16.7 billion General Science, Space, and Technology line item for fiscal year 1997 resulted from the government's costs attributable to general science, space flight, and technology research and development programs. (1) Is the FY 1998 General Science, Space, and Technology line item fairly stated on the government-wide consolidated financial statements? (2) Are NASA, NSF, and DOE management's assertions about the effectiveness of internal controls fairly stated? (3) Are agencies in compliance with significant provisions of laws and regulations relating to this line item?

FINANCIAL OPERATIONS-DFA

TITLE: ASSESSMENT OF CHANGES FO REPORTED DISBURSEMENT DATA WHEN RECORDED IN ACCOUNTING SYSTEMS (918916)

KEY QUESTIONS : In 1993, GAO reported that Army accounting stations were changing appropriation citations 17 percent of the time when recording disbursements in accounting systems. By changing the appropriation being charged, accounting stations could be jeopardizing compliance with Title 31 of the U.S. Code, which requires that funds be spent only for the purpose for which they were appropriated. The requestor is concerned that these practices may still be occurring and asked us to review Air Force, Army, and Navy accounting. (1) Are payment transactions recorded differently in accounting and disbursing systems? (2) What kinds of differences exists? (3) What reasons can be given for the differences? (4) How should the disbursement have been recorded?

TITLE: REVIEW OF CONTRACTS ASSOCIATED WITH A 1992-93 AIR FORCE CASE (918919)

KEY QUESTIONS : In 1992 and 1993, a civilian employee of the Air Force, embezzled \$504,461 from DOD. The employee was indicted and pleaded guilty in June 1996. Evidence obtained by requestor's staff indicates that the company directly involved in one of the schemes submitted false invoices and received approximately \$322,032 in erroneous payments which were subsequently returned to the government. (1) What are the historical billings, payments, deliveries, etc. under the contract? (2) Were the contract deliverables that the government paid for received by the government? (3) Did on-going GAO work at the DFAS Dayton OpLoc identify internal control weaknesses related to the recent matter at that location? (4) What internal control weaknesses were observed at the locations covered by this review?

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OTHER ISSUE AREA WORK - DFA

TITLE: ANALYSIS OF SELECTED AIR FORCE PAYMENT VOUCHERS (918934)

KEY QUESTIONS : On April 23, 1998, we were asked to review selected Air Force payment vouchers at DFAS-Denver to determine compliance with internal controls over payments. (1) What are the legal internal control requirements and accounting internal control requirements for proper payment of invoices? (2) Do the selected vouchers comply with legal and accounting internal control requirements for proper payment of invoices?

TITLE: RESPONSES TO INQUIRES FROM THE RESULTS CAUCUS (918938)

KEY QUESTIONS : In May 1997, House Majority Arney and Rep. Pete Sessions sent a letter to GAO announcing the formation of the Results Caucus, and asking for information on GAO's high-risk program. Since that time we have provided ongoing assistance to the Caucus primarily in the form of briefings on individual high-risk areas, and in assisting the Caucus in their dealings with the cognizant executive agency. This assignment includes the staffdays for the remainder of fiscal year 1998 to assist the caucus.

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