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Accounting and Information
Management Division

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February 4, 2000

The Honorable William J. Lynn
Under Secretary of Defense (Comptroller)

Subject: Internal Controls: DOD Records Retention Practices Hamper Accountability

Dear Mr. Lynn:

In the course of conducting audit work related to problems in accounting for Navy transactions,¹ we identified a records retention issue. We briefed DOD officials on our concerns on records retention in March 1998 and were advised that corrective actions would be taken. Specifically, when we reviewed Navy disbursements, we found that certain disbursing officer accounting records were not available for review. Defense Finance and Accounting Service (DFAS) Norfolk Operating Location officials cited a Department of Defense Financial Management Regulation (FMR) which calls for copies of disbursing officer records to be destroyed after 1 year. We found that what the disbursing officers viewed as their copies included original detailed transaction records, which they also ceased maintaining after 1 year.

An Under Secretary of Defense (Comptroller) official agreed that this regulation should be clarified to help ensure compliance with the federal records retention policy established by the National Archives and Records Administration, which requires that these original disbursing records be maintained for 6 years and 3 months. However, DOD records retention regulations had not been changed as of November 24, 1999. The purpose of this letter is to recommend a change in DOD's Financial Management Regulation concerning disbursing officer records retention to help ensure that these records are available for financial management and audit purposes.

Detailed Transaction Records
Not Available

Our January 1999 report on problems in accounting for Navy transactions focused on in-transit disbursements that had not been matched to a Navy obligation within 120 days of the transaction. These unmatched disbursements prevent accurate funds control and financial accounting and create opportunities for fraud and improper payments. To resolve problem

¹ *Financial Management: Problems in Accounting for Navy Transactions Impair Funds Control and Financial Reporting* (GAO/AIMD-99-19, January 19, 1999).

in-transit disbursements, accurate, detailed accounting data for each in-transit disbursement must be identified and matched with the correct obligation and appropriation.

As part of our effort to assess the feasibility of resolving unmatched disbursements, we reviewed a sample of 140 Navy transactions at the DFAS Norfolk Operating Location. These transactions related to payroll amounts deposited in automated teller machine (ATM) accounts for service members stationed on ships. Navy disbursing officers were able to provide vouchers for 135 of 140 sample transactions. However, these vouchers consisted of summary totals and did not contain necessary detailed supporting information. Detailed transaction records were not available for 119 of the 135 vouchers because, according to disbursing officers, DOD regulations require that disbursing offices maintain copies of transaction records, including original records, for only 1 year:

During a subsequent review of Marine Corps check issue discrepancies, our Office of Special Investigations reviewed Marine disbursing officer records for Camp Pendleton, California, and Camp Lejeune, North Carolina. Our investigators requested supporting documentation for 14 checks out of a total of 132 checks over 180 days old that were issued by Camp Pendleton, but were not reported to Treasury. Of the 14 checks reviewed, 13 checks were for payment of ships' payroll and one check was for purchases from a foreign port. Disbursing officer records showing deposit transactions for payroll distributions to individual service members' ATM accounts were not available.

Disbursing officers at Camp Pendleton cited the DOD FMR as the reason original disbursing office records were not maintained beyond 1 year. On October 7, 1999, Treasury advised us that Camp Pendleton had resolved the check issue discrepancies we identified. However, our investigators concluded that the lack of detailed disbursing officer records make it difficult to determine if payroll distributions are proper. While Camp Lejeune had no check issue discrepancies, disbursing office officials at Camp Lejeune told our investigators that they retain disbursing records in accordance with the 1-year requirement in the DOD FMR.

DOD's FMR Records Retention Guidance Should Be Revised

Federal records retention policy calls for different records retention periods for original transaction records and copies of transaction records. Title 8 of GAO's *Policy and Procedures Manual for Guidance of Federal Agencies* calls for records to be retained in conformance with the minimum applicable General Records Schedule requirements established by the National Archives and Records Administration. General Records Schedule 6 covers accountable officers' records and defines an accountable officer to include disbursing officers. General Records Schedule 6 states that original records of accountable officers should be held for audit by GAO and calls for these records to be destroyed 6 years and 3 months after the period covered by the accounts. General Records Schedule 6 calls for

Also, chapter 21 should be revised to give specific guidance for the retention of original disbursing office records, including transaction detail for amounts deposited in ATM accounts for service members on ships, and provide guidance to differentiate original records from copies. In addition, we recommend that the Under Secretary of Defense (Comptroller) validate that disbursement offices have properly implemented the revised DOD records retention regulations.

Agency Comments

We requested comments on a draft of this report on December 14, 1999, from the Under Secretary of Defense (Comptroller) or his designee. We had not received comments by the time we finalized our report.

Scope and Methodology

This report is based in part on our previous work related to our assessment of the funds control and financial reporting implications of the Navy's long-standing inability to properly resolve in-transit transactions. Our earlier findings are based on work performed at the Norfolk operating location of DFAS Cleveland in support of our January 1999 report. Our recent findings are based on work performed at the U.S. Marine Corps Camp Pendleton, California, and Camp Lejeune, North Carolina, Disbursing Offices from July 1999 through September 1999. We performed our Navy audit work in accordance with generally accepted government auditing standards. Our work at the Marine Corps disbursing offices was performed by our Office of Special Investigations in accordance with investigative standards established by the President's Council on Integrity and Efficiency.

This letter contains recommendations to you. Within 60 days of the date of this letter, we would appreciate receiving your written statement on actions taken to address these recommendations.

We are sending copies of this letter to the Honorable William S. Cohen, Secretary of Defense; the Honorable Jacob J. Lew, Director of the Office of Management and Budget; and interested congressional committees. Copies will be made available to others upon request.

“memorandum copies” of certain accountable officers’ records to be destroyed when 1 year old.

However, DOD’s FMR volume 5, chapter 20, “Assembly and Transmittal of Financial Reports,” states “Original financial reports must be maintained for the statutory six-year period. . . After the six-year retention period, the original records will be destroyed.” FMR volume 5, chapter 20, provides for original records to be maintained 3 months less than called for by General Records Schedule 6.

Of much greater concern, the FMR provides incomplete guidance for the retention of disbursing office records, resulting in original transaction records not being maintained after 1 year. FMR volume 5, chapter 21, “Disbursing Office Records,” calls for a 1-year retention period but makes no reference to original disbursing office records and provides no guidance for the retention of original disbursing office records. DOD FMR volume 5, chapter 21, states, “Copies of vouchers, books, records, and any other associated papers shall be retained as government property. . .for a period not less than one year. . .Retained records shall be destroyed when one year old,” without stating the 6-year and 3-month retention period for original records. In the Navy and Marine Corps examples discussed above, officials cited FMR volume 5, chapter 21, as the reason original transaction records were not maintained after 1 year. The lack of specific guidance distinguishing between copies--meaning duplicates--and original records results in confusion as to the proper retention period for original disbursing office records.

Conclusions

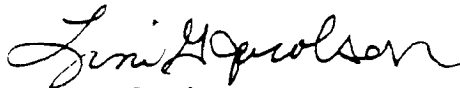
DOD has not ensured that its disbursing office records retention practices are consistent with federal records retention policies. As a result, detailed accounting data are not always available to support disbursements and provide accountability. Without disbursing office records, such as vouchers and other supporting documentation, DOD runs the risk that fraud or improper payments may occur and not be detected. DOD financial managers also need access to this documentation to research individual transactions as part of their financial management responsibilities, including resolving problem in-transit disbursements. In addition, the lack of supporting documentation can impair the ability to audit DOD’s and its component agencies’ financial statements.

Recommendations

We recommend that the Under Secretary of Defense (Comptroller) revise DOD’s Financial Management Regulation to ensure that its records retention guidance is consistent with the National Archives and Records Administration’s General Records Schedule 6 and GAO’s *Policy and Procedures Manual for Guidance of Federal Agencies*, Title 8. Specifically, the records retention guidance provided in DOD’s Financial Management Regulation, volume 5, chapters 20 and 21, should be revised to clarify that disbursing officers must maintain original records for the 6-year and 3-month period prescribed in General Records Schedule 6, and that copies of records that may be destroyed after 1 year are limited to duplicate records.

Please contact me at (202) 512-9095, or Gayle Fischer, Assistant Director, at (202) 512-9577, if you have any questions concerning this report. Tim Fairbanks, Douglas Ferry, Ken Hill, and John Ryan were key contributors to this assignment.

Sincerely yours,



Lisa G. Jacobson
Director, Defense Audits

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