

GAO

Report to the Secretary of Defense

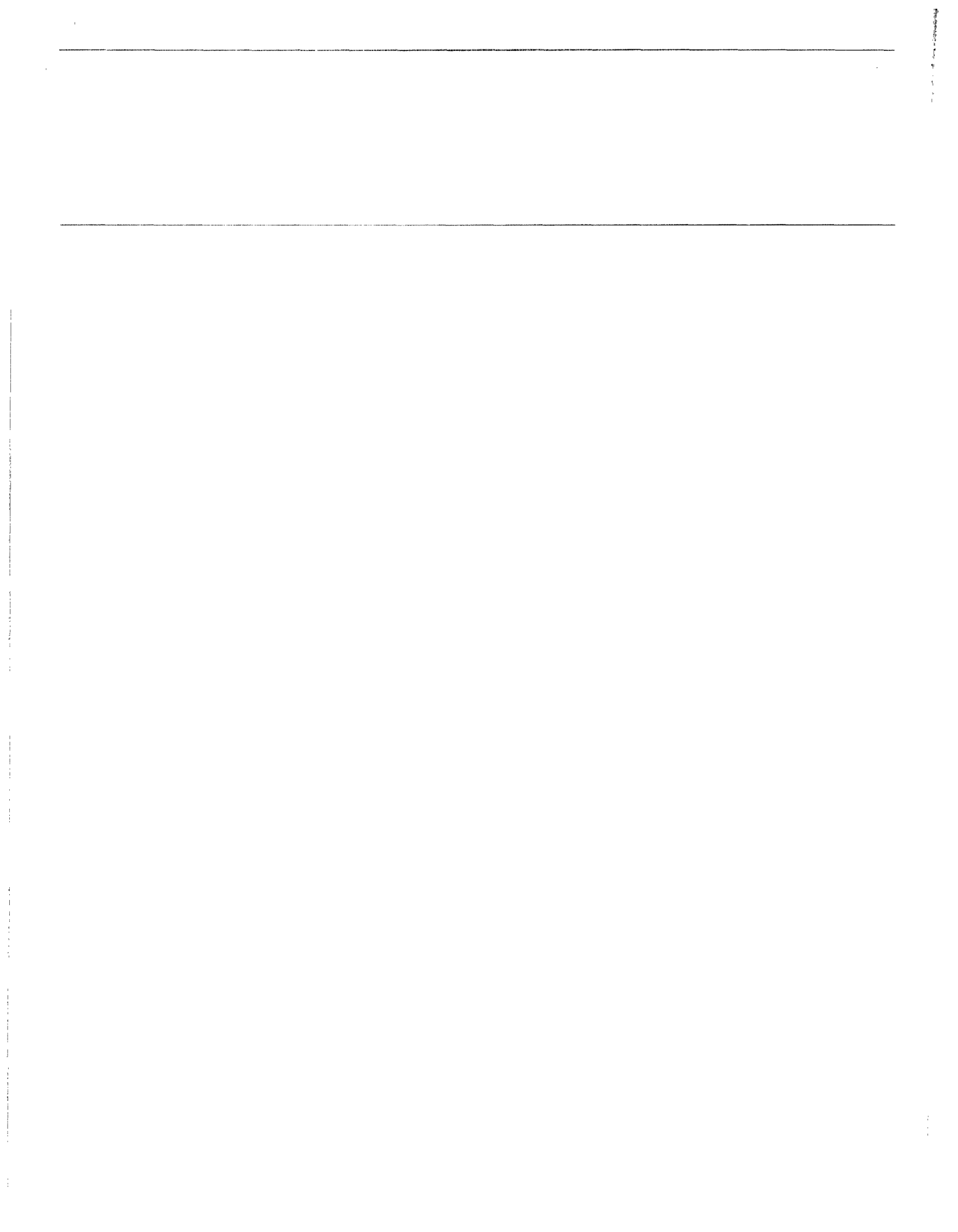
November 1990

**FINANCIAL  
MANAGEMENT**

**Problems in  
Accounting for DOD  
Disbursements**



142619



**Accounting and Financial  
Management Division**

B-239403

November 9, 1990

The Honorable Richard B. Cheney  
The Secretary of Defense

Dear Mr. Secretary:

Recognizing the need to update and improve its financial management operations and standardize its accounting information, the Department of Defense (DOD) has recently initiated a Department-wide management improvement project—the Corporate Information Management initiative (CIM), which includes a financial operations functional work group. DOD was considering another initiative independent of the CIM—the Single Numbering project—also aimed at improving the consistency of data in DOD financial management systems. The Single Numbering project has been suspended due to resource constraints but is expected to be pursued commencing January 1991. These projects, if implemented as currently envisioned, will help solve DOD's current problems in reliably matching cross-disbursements with related obligations. Cross-disbursements are those disbursements made by one organization on behalf of another.

Earlier GAO reviews of payments made under procurement contracts by the Defense Contract Administration Service Regions (DCASRs) for the military services disclosed problems in matching cross-disbursements with related obligations. The problems have been caused in large part by the military services' failure to use uniform procurement information, including accounting and financial data.

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**Results in Brief**

We found that the services' failure to use uniform financial information causes serious problems in accounting for cross-disbursements. The use of nonstandard data makes the processing of the services' cross-disbursement transactions extremely complex and results in clerical processing errors. Incomplete or erroneous cross-disbursement information results in millions of dollars of disbursements remaining unmatched with obligations. As of September 30, 1989, the services had \$54 million in cross-disbursements from the Department of State alone that could not be matched with obligations. Data on total cross-disbursements provided by the Army as of December 1989, and by the Air Force as of February 1990, showed they had an aggregate of almost \$6 billion of such disbursements unmatched with obligations. Of that amount, \$440 million was over 180 days old.

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This report includes recommendations to the Secretary of Defense to ensure that the Single Numbering project is an integral part of both CIM and the systems that support the accounting and finance systems resulting from CIM.

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## Background

DOD agencies and the services routinely make cross-disbursements on behalf of and against each other's obligations. For example, service procurement offices contract with commercial vendors for equipment and other goods and services and establish obligations related to these contracts. A large number of these contracts are administered by the DCASRS, which make payments to the contractors on behalf of the services and report the payments to the services. In fiscal year 1989, DCASRS administered approximately 279,000 contracts on behalf of the services and disbursed over \$50 billion in contract payments.

Similarly, State routinely makes cross-disbursements on behalf of the services through its overseas activities in locations and instances where the services do not have disbursing offices. These disbursements include payments to service employees for travel expenses and payroll and to foreign vendors for such things as aircraft ground handling and refueling and for the procurement of miscellaneous goods and services. Overall, State disburses about \$200 million annually on behalf of the services.

State primarily makes cross-disbursements through its Financial Management Centers. Generally, the centers receive payment requests and supporting documentation from overseas service representatives. Before making the payments, the centers ensure that payments are properly authorized by the service representatives, that required supporting documentation is present, and that payments are requested under valid appropriations. After determining the validity of the requested payments, the centers extract disbursement data from the source documents for processing through State's overseas accounting system to make the payments and report the transaction data to the Department of Treasury and the appropriate service accounting and finance centers.<sup>1</sup>

The services' accounting and finance centers use the information from State to record the disbursements in their accounting systems and match

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<sup>1</sup>Specifically, the centers produce a report called the Voucher Auditor's Detail report, which contains detailed information from supporting transaction documents such as purchase orders, vendor invoices, and disbursement vouchers.

them with related obligations. Specifically, these centers process and report the cross-disbursement information to the appropriate service components on whose behalf State has made the disbursements. These components match the cross-disbursements, based on accounting codes and other identifying information, with appropriate obligations to determine the status of their appropriated funds.

In 1966, DOD developed standard contract accounting information and processing requirements and required the services to follow them. These requirements were contained in MILSCAP (Military Standard Contract Administration Procedures) and were intended to simplify, standardize, and automate the processing of procurement contract information, including financial data, to minimize processing errors.

Over 20 years later, in 1988, DOD established its standard accounting classification code structure, which includes seven standard data fields and is designed to identify obligations and disbursements according to (1) the organizational component that established the obligation and on whose behalf the disbursement was made and (2) the specific obligation related to the disbursement. The code structure also provides for a Component Requirements Section which DOD components may structure to meet their internal financial and related accounting, reporting, and management information needs.

In October 1989, as part of a major management improvement initiative, DOD established its CIM program to more effectively use information systems through the standardization of information. The CIM program encompasses standardizing accounting and finance information as well as information used in other functional areas, such as warehousing and inventory management. DOD also plans a Single Numbering project to develop a standard numbering or code structure to link planning, programming, and budgeting with budget execution and accounting. A standard numbering or code structure is an essential foundation for a DOD-wide financial management system.

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## Objectives, Scope, and Methodology

We undertook this work to review the services' problems in accounting for cross-disbursements. While we looked at previously reported problems with DCASRS, our work focused primarily on cross-disbursements that the Department of State makes on behalf of the services. Through interaction with the DOD Comptroller community, we became cognizant of problems the services were experiencing with disbursement information they received from State. The objectives of our

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review were to (1) determine if the underlying causes of such problems were similar to the causes we reported in the past and (2) identify and evaluate corrective actions under way.

To determine the services' problems in accounting for State cross-disbursements and their underlying causes, we obtained the views of cognizant DOD and State Comptroller officials and reviewed pertinent documentation. Work was performed at the Air Force Accounting and Finance Center in Denver, Colorado; the Department of State's Office of the Comptroller, in Rosslyn, Virginia; and DOD's Comptroller Office of Accounting Policy at the Pentagon. We also held discussions with accounting officials at the Army Finance and Accounting Center in Indianapolis, Indiana; the Navy Accounting and Finance Center located in Crystal City, Virginia; and the Navy Regional Finance Center in Great Lakes, Illinois. Our discussions with State regarding the services' cross-disbursement information problems were held with headquarters officials from State's Office of Financial Systems. We also reviewed correspondence between State and DOD regarding the cross-disbursement problems.

Our review of documentation included past GAO reports that address the services' cross-disbursing problems and documentation of corrective actions jointly developed by Air Force and State Comptroller officials to alleviate problems the Air Force currently has with State cross-disbursement information. We also reviewed relevant DOD Inspector General audit workpapers and military service and State Department Federal Managers' Financial Integrity Act reports.

To identify and evaluate corrective actions under way to resolve the cross-disbursing problems, we held discussions with cognizant DOD and State officials. We held discussions with members of a DOD working group responsible for solving the services' problems with cross-disbursement transactions from State. We also discussed with Office of the Secretary of Defense officials, Defense-wide initiatives to update accounting information standards and requirements which, when implemented, are to solve, among other things, the services' problems in accounting for cross-disbursements from all sources.

We conducted our review in accordance with generally accepted government auditing standards. The Departments of Defense and State provided written comments on a draft of this report. These comments are presented in the report as appropriate and are included in appendixes I and II.

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## Long-Standing Problems in Accounting for Cross-Disbursements

The services' problems in accounting for cross-disbursements arise whether the organizations making the disbursements are DOD agencies or another federal agency.

DOD officials acknowledge that the underlying causes of the cross-disbursement problems are (1) the services' nonuniform implementation of standard accounting information requirements and (2) the services' failure to implement a prior DOD project, MILSCAP, which was aimed at overcoming the problems associated with nonstandard information. To date, however, DOD has been unable to establish servicewide implementation of accounting information requirements and standards.

In commenting on this report, DOD concurred with the underlying causes of the services' cross-disbursement problems as presented herein. DOD also noted that there are other contributing factors to the problems such as common processing errors and inadequate communication between the services and the organizations making the disbursements.

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## Services Experience Problems With DCASR Cross-Disbursement Information

We have repeatedly reported that due to the use of nonstandard financial information, the services have been unable to accurately match cross-disbursement information on procurement contracts made by DCASRs with the correct obligations.

Our reports on the cross-disbursement problems stressed the need to implement standard information requirements to reduce the numerous errors that were being made because of the complexity of processing contract obligation and cross-disbursement information. Specifically, we reported the following problems and DOD's reaction to our findings:

- In 1980, that the services' failure to fully implement MILSCAP caused substantial errors in reporting, recording, and controlling contract obligations and disbursements. Specifically, the use of nonstandard procedures resulted in numerous errors by clerks in interpreting a variety of nonstandard forms, codes, and financial transactions. As a result, about \$83 million in contract disbursements were charged to the wrong appropriation and/or customer, and obligations were being incorrectly recorded by DCASRs.<sup>2</sup>

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<sup>2</sup>Defense's Accounting For Its Contracts Has Too Many Errors—Standardized Accounting Procedures Are Needed (FGMSD-80-10, January 9, 1980).

- In 1986, that the services continued to experience problems in accounting for cross-disbursements made by DCASRs and that more standardization was needed to alleviate processing errors. These problems included disbursements being charged to wrong appropriations, missing and/or incomplete payment data, and payment data being sent to the wrong service component. The report pointed out that DCASR personnel processing contract financial data needed a basic knowledge of the services' accounting systems and regulations to facilitate the recording of contract financial data, which was often a confusing and difficult process. DOD concurred with us that greater standardization of contract data was needed and that implementing the standard procedures—MILSCAP—would resolve the problems.<sup>3</sup>
- In 1989, that due to processing errors, approximately \$119 million in disbursements that DCASRs made on behalf of the Air Force was recorded in excess of available obligations.<sup>4</sup>

We made recommendations in two of these reports to standardize information through fully implementing MILSCAP. In commenting on the third report, DOD stated that (1) the further standardization of accounting data for obligation and disbursement documents and (2) the implementation of MILSCAP would alleviate the reported errors.

### Services Experience Similar Problems With Cross-Disbursement Information Received From State

As with DCASRs' cross-disbursements, the services cannot reliably match all State cross-disbursements with related obligations because State's cross-disbursement information does not always include all the data needed to identify (1) the service component on whose behalf the disbursements were made and/or (2) the specific obligations to which the disbursements relate. Missing or incomplete information may include appropriation data, voucher or document numbers, bureau control numbers, purchase order or travel order numbers, social security numbers, and aircraft tail numbers. Most often, the complete accounting station identification information is not received.

Incomplete cross-disbursement information results in millions of dollars of cross-disbursements remaining unmatched with specific obligations. For example, as of September 30, 1989, the services had \$54 million in State cross-disbursements that could not be matched with obligations.

<sup>3</sup>Management Review: Progress and Challenges at the Defense Logistics Agency (GAO/NSIAD-86-64, April 7, 1986).

<sup>4</sup>Financial Management: Air Force Records Contain \$512 Million in Negative Unliquidated Obligations (GAO/AFMD-89-78, June 30, 1989).



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State cannot consistently send all the cross-disbursement information the services need because uniform implementation of DOD's standard accounting classification code structure has not occurred, and, as a result, the codes for any particular type of disbursement transaction are different for each of the services. Also, State does not always know for all types of disbursements each service's transaction information requirements.

DOD's accounting classification code structure allows up to 94 characters broken down into seven fields and is designed to provide the means to uniquely identify and match appropriated funds, obligations, and disbursements. According to both service and DOD Comptroller officials, the services have not implemented the code structure uniformly, as shown in the following examples:

- Field six was reserved for the accountable station code, but one service might use this field for the accountable station code while another may use field four for that purpose. This same situation exists for other fields in the code structure.
- For any field, the services use different types of characters—alpha versus numeric, for example—to represent essentially the same transaction information.
- Different terms are used for the same type of information. For example, the Army uses the term “fiscal station” for the component responsible for establishing obligations and accounting for related disbursements, while the Air Force uses the term “accounting and disbursing station,” and the Navy uses the term “authorized accounting activity.”

To further complicate the cross-disbursement accounting problems, the code structure provides for a Component Requirements Section to record additional information to meet each service's unique accounting and financial management information requirements. This section is unstructured, and each service is free to use it for as much information as needed. Given the diversity of each service's assigned missions and resulting operations, the variations in the Component Requirements Section can be great.

State officials told us that for the Army and Navy, they do not know exactly what data are to be extracted from transaction source documents and how these data are to be recorded and reported to the services. While these services have provided State with certain guidance for processing their cross-disbursement information, the guidance does

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not provide State with enough details about their information requirements. Because of the differences in the services' information requirements and the lack of adequate guidance, State cannot ensure that the information it sends the services is accurate, complete, and properly formatted. The Air Force, on the other hand, has provided State with detailed cross-disbursement guidelines which clearly set forth the information Air Force needs by type of transaction.

In providing report comments, DOD pointed out that Army, like the Air Force, has provided State with detailed instructions for use in processing Army cross-disbursements. State officials have reiterated that Army's instructions do not provide sufficient processing guidance and that Army and State need to jointly develop an action plan, as has already been done with Air Force, to resolve the cross-disbursing problems.

Overall, our examination of data obtained disclosed that the nonstandard implementation of DOD accounting standards and requirements and the resulting variations in the services' accounting information needs preclude State from effectively reporting cross-disbursement information to the services. DOD acknowledges that, just as with the earlier failure to fully implement MILSCAP, the services have not uniformly implemented DOD's standard accounting classification code structure because to do so, technically complex and costly system modifications would be required.

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### DOD-wide Cross-Disbursement and Related Undistributed Disbursement Problems

The services' different accounting information requirements make it difficult for organizations such as State and DCASRS to identify (1) the service component for which cross-disbursements were made and (2) the specific obligations to which the cross-disbursements relate. These difficulties result in millions of dollars of undistributed disbursements.

Undistributed disbursements are those that have not yet been matched with related obligations. Undistributed disbursements do not necessarily result from missing, incomplete, or erroneous information. They can also result from the time lag associated with processing disbursements through an accounting system.

We believe, however, that undistributed disbursements remaining outstanding after 180 days indicate incomplete or erroneous information, as evidenced by the following examples.

- As of December 1989, the Army had approximately \$4.9 billion in undistributed disbursements resulting from cross-disbursing activities. Of this amount, about \$208 million was over 180 days old; \$154 million involved disbursements made by organizations outside the Army.<sup>5</sup>
- As of February 1990, Air Force undistributed disbursements for cross-disbursements made by organizations outside the Air Force totaled approximately \$770 million. Of this amount, about \$232 million was over 180 days old.

We were unable to obtain similar data for the Navy, as it does not age its undistributed disbursements nor does it break out that portion attributable to cross-disbursing activities.

## Defense Initiatives to Improve Financial Management

DOD acknowledges that the overall lack of uniformity in service accounting and finance operations has resulted in problems in matching cross-disbursements. The services have developed different operating philosophies and accounting procedures because of their different interpretations of DOD policies and procedures. Further, DOD recognizes that the standardization of procedures and information requirements is essential to implementing DOD-wide standard accounting information, operations, and systems.

DOD has a major recent management initiative—CIM—aimed in part at improving the effectiveness and efficiency of financial operations through standardizing information and consolidating financial operations and related systems to reduce unnecessary operational redundancies. DOD also plans a Single Numbering project which will focus on improving the usefulness and consistency of data used in DOD's various planning, budgeting, and accounting systems.

## CIM Program and Related Financial Management Improvements

CIM's overall objective is to develop standard, uniform information requirements and data formats to eliminate the multiple information systems that currently support the same functional areas. Under the CIM program, a review of information requirements according to specified functional areas is being performed to determine levels of information compatibility and redundancy.

<sup>5</sup> Army's undistributed disbursement data include cross-disbursements that take place within the Army—one Army activity disbursing for another—as well as cross-disbursements other entities make on Army's behalf, such as State and DCASRs.

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To implement CIM, DOD has established groups of individuals from various DOD components who will address information standardization issues within the groups' assigned functional areas. Currently, there are eight groups, one of which is addressing the standardization of information in the functional area of financial management.

Closely related to the CIM program is a financial management initiative to improve the effectiveness and efficiency of DOD's financial operations through consolidating related accounting and finance activities. Under this initiative, DOD is planning the establishment of a single DOD-wide accounting and finance organization and the consolidation of a number of accounting activities and related systems. DOD's intention is to facilitate the uniform implementation of DOD accounting and finance policies and standards, such as the information standards to be developed under the CIM program.

Overall, DOD realizes that control of its accounting and finance operations and related supporting systems through a single organization is essential to ensuring that DOD-wide standard financial information, operations, and systems are implemented and remain standard. Both CIM and the consolidation initiatives are viewed as a way of ultimately implementing a single, integrated DOD-wide financial management system.

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## Single Numbering Project

DOD's programming, planning, and budgeting system (PPBS) and related activities currently rely on three separate or nonintegrated data bases. As such, DOD components have developed data bases and coding structures to meet their individual PPBS requirements. In addition, because DOD component financial systems are not designed to provide budget execution data at the level of detail required by PPBS, other processes outside the formal accounting systems are used to obtain desired information.

This use of different systems with inadequate information linkage makes it difficult to readily identify identical resources even within the same component. As a result, both consistency and integrity of financial data throughout DOD's PPBS process, including budget execution, are lacking.

To alleviate this situation, DOD plans to develop a single, uniform numbering or coding structure. This initiative is aimed at using such a coding structure to link planning, programming, and budgeting phases with budget execution and accounting. DOD envisions that such a structure

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would allow comparable or standard data to be captured and used throughout DOD's PPBS phases and in DOD's accounting systems, with the result that better, more timely, and accurate data would be available for management decision-making. We believe the Single Numbering project, as envisioned by DOD, should address, among other issues, the financial management problems that DOD's standard accounting code structure was intended to solve but has not yet accomplished.

While a single numbering system or coding structure is needed to link PPBS with budget execution and accounting, such a structure should also be made an integral part of any DOD effort to standardize financial information or develop standard systems. Consequently, the Single Numbering project should not be pursued separately from DOD's CIM initiative to standardize accounting and finance information DOD-wide.

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## Conclusion

The services have experienced long-standing, continuing problems in accounting for cross-disbursements. These problems occurred with both DCASRS and the Department of State. They exist, in a large part, due to the complexity of processing cross-disbursement information which results from the services' failure to uniformly implement DOD-wide accounting information standards and processing requirements.

The standardization of accounting information and related procedures is essential to reducing the complexity of processing cross-disbursement transactions. DOD's current CIM initiative to develop standard financial information requirements and data formats will simplify the processing of transactions, thus alleviating the services' cross-disbursement problems. However, the Single Numbering project should be an integral element of the CIM.

Through these initiatives, DOD can better ensure the implementation of DOD-wide standard accounting information requirements and standard, integrated systems. The foundation for those initiatives must be based on a standard coding structure such as that planned under DOD's Single Numbering project.

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## Recommendations

We recommend that the Secretary of DOD

- require that a single numbering structure be made an integral part of DOD's CIM program and

- incorporate the single numbering coding structure in all service feeder systems that will support—provide information to—the DOD-wide standard accounting and finance systems to be developed as a result of the CIM program.

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## Agency Comments

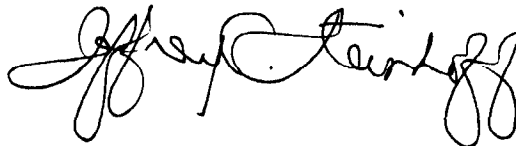
The Departments of State and Defense concurred with our findings and recommendations. DOD agreed that the lack of data standardization within the services causes problems in processing and accounting for cross-disbursements. Corrective actions DOD plans to take will adequately respond to our report recommendations. (See appendix I.)

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We are sending copies of this report to the Secretary of State and other interested parties. We will also make copies available to others upon request.

Please contact me at (202) 275-9454 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix III.

Sincerely yours,



Jeffrey C. Steinhoff  
Director, Financial Management  
Systems and Audit Oversight



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## Abbreviations

CIM	Corporate Information Management Initiative
DCASRS	Defense Contract Administration Service Regions
DOD	Department of Defense
MILSCAP	Military Standard Contract Administration Procedures
PPBS	programming, planning, and budgeting system





# Comments From the Department of Defense



OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON, DC 20301-1100

(Management Systems)

OCT 2 1990

Mr. Jeffrey C. Steinhoff  
Director, Financial Management  
Systems and Audit Oversight  
Accounting and Financial Management  
Division  
U. S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Steinhoff:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) Draft Report entitled -- "FINANCIAL MANAGEMENT: Current Initiatives Could Help Solve Standardization Problems," dated August 2, 1990 (GAO Code 903104/OSD Case 8105-A).

The Department concurs with the draft report findings and recommendations. The detailed DoD comments on the report findings and recommendations are provided in the enclosure. The DoD appreciates the opportunity to comment on the draft report.

Sincerely,

*for Alvin Tucker*  
Alvin Tucker  
Deputy Comptroller  
(Management Systems)

Enclosure

GAO DRAFT REPORT - DATED AUGUST 2, 1990  
GAO CODE 903104 - OSD CASE 8105-A

**"FINANCIAL MANAGEMENT: CURRENT INITIATIVES COULD  
HELP SOLVE STANDARDIZATION PROBLEMS"**

**DEPARTMENT OF DEFENSE COMMENTS**

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**FINDINGS**

- **FINDING A: Standardization of Accounting Structures.** The GAO observed that the DoD Agencies and the Services routinely make cross-disbursements on behalf of and against each other's obligations. The GAO noted that, in FY 1989, the Defense Contract Services Administration Regions administered approximately 279,000 contracts on behalf of the Services and disbursed over \$50 billion in contract payments.

The GAO also pointed out that the Department of State routinely makes cross-disbursements on behalf of the Services through its overseas activities in locations and instances where the Services do not have disbursing offices. The GAO explained that those disbursements include payments to Service employees for travel expenses and payroll and to foreign vendors--covering such things as aircraft ground handling and refueling and the procurements of miscellaneous goods and services. The GAO estimated that, overall, the Department of State disburses about \$200 million annually on behalf of the Military Services.

The GAO observed that, in 1966, the DoD developed standard contract accounting information and processing requirements and directed the Services to follow them. The GAO pointed out, however, that it was not until 20 years later, in 1988, that the DoD established its standard accounting classification code structure, which includes seven standard data fields and is designed to identify obligations and disbursements according to (1) the organizational component that established the obligation and on whose behalf the disbursement was made and (2) the specific obligation related to the disbursement.

The GAO also pointed out that, in October 1989, as part of a major management improvement initiative, the DoD established its Corporate Information Management Program, one of the objectives of which is to use information systems more effectively through the standardization of information.

**DoD RESPONSE:** Concur.

- **FINDING B: Services Experience Problems With Defense Contract Administration Service Region Cross-Disbursement Information.** The GAO reiterated that, due to the use of nonstandard financial information, the Services have been unable to accurately match cross-disbursement information on procurement contracts made by contract administrators with the correct obligations.

According to the GAO, prior reports on the cross-disbursement problems stressed the need to implement standard information requirements to reduce the numerous errors that were being made because of the complexity of processing contract obligation and the cross-disbursement information. Previously, the GAO found the following:

- The Services' failure to implement the Military Standard Contract Administration Procedures fully caused substantial errors in reports, recording, and controlling contract obligations and disbursements (Defense's Accounting for Its Contracts Has Too Many Errors--Standardized Accounting Procedures Are Needed, FGMSD-80-10, dated January 9, 1989). In that report, the GAO found that the use of nonstandard procedures resulted in numerous errors by clerks in interpreting a variety of nonstandard forms, codes, and financial transactions. The GAO estimated that about \$83 million in contract disbursements were charged to the wrong appropriation and/or customer--and obligations were being incorrectly recorded by contract administrators.
- The Services also continued to experience problems in accounting for cross-disbursements made by contract administrators and, therefore, more standardization was needed to alleviate processing errors (MANAGEMENT REVIEW: Progress and Challenges at the Defense Logistics Agency, GAO/NSIAD-86-64/OSD Case 6882, dated April 7, 1986). The GAO identified problems with (1) disbursements being charged to wrong appropriations, (2) missing and/or incomplete payment data, and (3) payment data being sent to the wrong Service component. The Department concurred that a greater standardization of contract data was needed and indicated that implementing the standard procedures--Military Standard Contract Administration Procedures--would resolve the problems.
- Approximately \$119 million in disbursements that Defense Logistics Agency contract administrators made on behalf of the Air Force was recorded in excess of available obligations (FINANCIAL MANAGEMENT: Air Force Records contain \$512 million in Negative Unliquidated Obligations, GAO/AFMD-89-78/OSD Case 8091, dated June 30, 1989).

The GAO indicated that recommendations in two of the cited reports were made to standardize information through fully implementing the Military Standard Contract Administration Procedures. According to the GAO, in commenting on the third report, the DoD stated that (1) further standardization of accounting data for obligation and disbursement documents and (2) the implementation of the Military Standard Contract Administration Procedures would alleviate the reported errors. The GAO concluded that problems in processing cross-disbursements nevertheless continue to exist, in part, due to the complexity of processing cross-disbursement information, which results from the Services' failure to uniformly implement the DoD-wide accounting information standards and processing requirements.

**DoD RESPONSE:** Concur. Problems in processing cross-disbursements are due, in part, to the use of nonstandard accounting data. However, other problems, such as common errors and inadequate communication, are also causes. Efforts have been initiated to resolve those problems. For example, in response to a recent GAO report (FINANCIAL MANAGEMENT: Army Records Contain Millions of Dollars in Negative Unliquidated Obligations, GAO/AFMD-90-41/OSD Case 8258, dated May 2, 1990), representatives from Headquarters, Department of the Army, the Defense Logistics Agency Comptroller, and the Army Materiel Command agreed to establish a review committee of senior Army and Defense Logistics Agency accounting managers and a working subcommittee. The committees are responsible for ensuring the adequacy of communication and cooperation, identifying problems, proposing solutions, and implementing corrective actions. In response to another GAO report (FINANCIAL MANAGEMENT: Air Force Records contain \$512 million in Negative Unliquidated Obligations, GAO/AFMD-89-78/OSD Case 8091, dated June 30, 1989), the Air Force is also working with representatives of the Defense Logistics Agency to resolve problem areas within Military Standard Contract Administration Procedures.

- **FINDING C: Services Experience Similar Problems with Cross-Disbursing Information Received From State.** The GAO found that the Services cannot reliably match all State cross-disbursements with related obligations because State's cross-disbursement information does not always include all the data needed to identify (1) the Service component on whose behalf the disbursement the disbursements were made and/or (2) the specific obligations to which the disbursements related. According to the GAO, missing or incomplete information may include appropriation data, voucher or document numbers, social security numbers, and aircraft tail numbers. The GAO explained, however, that most often the complete accounting station identification information is not received.

The GAO pointed out that incomplete cross-disbursement results in millions of dollars of cross-disbursements remaining unmatched with specific obligations. As an example, the GAO estimated that, as of September 30, 1989, the Services had \$54 million in Department of State cross-disbursements that could not be matched.

The GAO found that the nonstandard implementation of DoD accounting standards and requirements and the resulting variations in the Service's accounting information needs preclude the Department of State from effectively reporting cross-disbursement information to the Military Services. The GAO reported the DoD acknowledges that, just as with the earlier failure to implement the Military Standard Contract Administration Procedures fully, the Services have not uniformly implemented the DoD standard accounting classification code structure--because to do so would require technically complex and costly system modifications.

**DoD RESPONSE:** Concur. Nonstandard accounting data makes it difficult for the Department of State to effectively report cross-disbursement information. However, the Army, like the Air Force, has provided the Department of State with detailed processing instructions, as well as offered on-site assistance if needed.

- **FINDING D: DoD-Wide Cross-Disbursement and Related Undistributed Disbursement Problems.** The GAO observed that the Services' different accounting information requirements make it difficult for organizations, such as the Department of State and the Defense Contract Administration Service Regions, to identify (1) the Service Component for which cross-disbursements were made and (2) the specific obligations to which the cross-disbursements relate. According to the GAO, those difficulties result in millions of dollars of undistributed disbursements.

The GAO explained that undistributed disbursements are those disbursements that have not yet been matched with related obligations. The GAO noted that undistributed disbursements do not necessarily result from missing, incomplete, or erroneous information. The GAO pointed out that they can also result from the time lag associated with processing disbursements through an accounting system. The GAO concluded, however, that undistributed disbursements remaining outstanding after 180 days is nonetheless indicative of incomplete or erroneous information. The GAO identified \$440 million of undistributed disbursements that were over 180 days old in the Army and the Air Force. The GAO reported that the Army had \$208 million, \$154 million of which involved disbursements made by organizations outside the Army. The GAO estimated the Air Force

undistributed disbursements from outside the Air Force at \$232 million.

**DoD RESPONSE:** Concur.

- **FINDING E: Defense Initiatives to Improve Financial Management--Corporate Information Management Program and Related Financial Management Improvements.** The GAO observed that the overall objective of the Corporate Information Management program is to develop standard, uniform information requirements and data formats to eliminate the multiple information systems that currently support the same functional areas. The GAO explained that, under the Corporate Information Management program, a review of information requirements according to specified functional areas is being performed to determine levels of information compatibility and redundancy.

The GAO indicated that the DoD has established groups of individuals from various DoD Components who will address information standardization issues within the group's assigned functional area. The GAO noted that, currently, there are eight groups--one of which is addressing the standardization of the information in the functional area of financial management.

The GAO also identified a financial initiative to improve the effectiveness and efficiency of the DoD financial operations through consolidating related accounting and finance activities. According to the GAO, the DoD is planning the establishment of a single DoD-wide accounting and finance organization and the consolidation of a number of accounting and financial policies and standards, such as the information standards to be developed under the Corporate Information Management program.

The GAO concluded the DoD realizes that control of its accounting and financial operations and related supporting systems through a single organization is essential to ensure that DoD-wide standard financial information, operations, and systems are implemented and remain standard.

**DoD RESPONSE:** Concur.

- **FINDING F: Defense Initiatives to Improve Financial Management--Single Numbering Project.** The GAO explained that the DoD programming, planning, and budgeting system and related activities currently rely on three separate or nonintegrated data bases. The GAO pointed out that, as such, the DoD Components have developed data bases and coding structures to meet their individual system requirements. The GAO also found that, because the DoD Component financial systems are not designed to provide

budget execution data at a level of detail required by the programming, planning, and budgeting system, other processes outside the formal accounting systems are used to obtain desired information.

According to the GAO, this use of different systems with inadequate information linkage makes it difficult to identify identical resources readily--even within the same Component. The GAO concluded that, as a result, both consistency and integrity of financial data throughout the DoD programming, planning, and budgeting process, including budget execution, are lacking.

The GAO observed that the DoD plans to develop a single uniform numbering or coding structure to alleviate that situation. The GAO noted that this initiative is aimed at using such a coding structure to link planning, programming, and budgeting phases with budget execution and accounting. According to the GAO, the DoD envisions that such a structure would allow comparable or standard data to be captured and used throughout the planning, programming, and budgeting phases and in the DoD accounting systems, with the result that better, more timely and accurate data would be available for management decision-making. The GAO concluded that the Single Numbering Project should address, among other issues, the financial management problems that the DoD standard accounting code structure was intended to solve, but has not yet accomplished.

The GAO concluded that a single numbering system coding structure is not only needed to link the planning, programming, and budgeting system with budget execution and accounting--but should also be made an integral part of any DoD effort to standardize financial information or develop standard systems. The GAO pointed out that, currently, the Single Numbering Project is being pursued separately from the DoD's Corporate Information Management initiative to standardize accounting and finance information DoD-wide.

**DoD RESPONSE:** Concur.

\* \* \* \* \*

**RECOMMENDATIONS**

- **RECOMMENDATION 1:** The GAO recommended that the Secretary of Defense require that a single numbering structure be made an integral part of the DoD Corporate Information Management program.

**DoD RESPONSE:** Concur. The DoD Corporate Information Management program will develop the functional requirements for a single numbering structure to link planning,



programming, and budgeting phases with budget execution and accounting. That task is expected to commence in January 1991.

- **RECOMMENDATION 2:** The GAO recommended that the Secretary of Defense incorporate the single numbering coding structure in all Service feeder systems that will support-- i.e., provide information to--the DoD-wide standard accounting and finance systems to be developed as a result of the Corporate Information Management program.
  
- **DoD RESPONSE:** Concur. The DoD will study the feasibility of incorporating the functional requirements for a single numbering structure in all feeder systems that support the DoD-wide standard accounting and finance systems developed as a result of the Corporate Information Management program. However, conversion of data received from feeder systems to a single numbering coding structure may be more cost-beneficial. Resolution is expected by June 1991.

# Comments From the Department of State



United States Department of State

Washington, D.C. 20520

OCT - 4 1990

Mr. Jeffrey C. Steinhoff  
Director, Financial Management  
Systems and Audit Oversight  
General Accounting Office  
Washington, DC, 20548

Dear Mr. Steinhoff:

We have reviewed your draft report to the Secretary of Defense entitled, Financial Management: Current Initiatives Could Help Solve Standardization Problems and are in general agreement with the findings in the report.

Thank you for providing us the opportunity to review and comment on the the report prior to its publication in final.

Sincerely yours,

A handwritten signature in cursive script that reads "Elizabeth A. Gibbons".

Elizabeth A. Gibbons  
Associate Comptroller  
Office of Financial  
Management

# Major Contributors to This Report

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