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United States
General Accounting Office

European Office

c/o American Consulate General
APO New York 09213

B-249197

January 5, 1993



148407

General David M. Maddox
Commander-in-Chief
U.S. Army, Europe (USAREUR)

Dear General Maddox:

We recently completed a comprehensive review of the U.S. Army's financial management systems and operations. The primary objectives of our review were to assess the Army's internal control systems and audit the Army's fiscal year 1991 financial statements pursuant to the Chief Financial Officers Act of 1990 (Public Law 101-576). Our reports on the overall results of this review were issued in August 1992.¹

As a part of that review, we performed audit work at the 5th Regional Finance and Accounting Office (5th RFAO), headquartered at V Corps (Fifth Corps), Frankfurt, Germany, and selected finance support units and engineering and logistics organizations within V Corps. This letter provides additional details on the results of our internal control reviews at the 5th RFAO and V Corps locations we visited.

Specifically, we found the following internal control weaknesses.

- Ineffective internal controls throughout the V Corps' real property financial reporting process resulted in year-end account balances not reflecting all capitalized costs.

¹Immediate Actions Needed to Improve Army Financial Operations and Controls (GAO/AFMD-92-82) and Examination of the Army's Financial Statements for Fiscal Year 1991 (GAO/AFMD-92-83).

GAO/AFMD-93-6ML

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- Not following established reporting guidance resulted in understating the value of the Corps' nontactical equipment by about \$39 million.
- Computer system coding errors resulted in unreliable stock-funded inventory reporting.
- Weak controls over the preparation of travel vouchers, accounting for blank Treasury checks and cash, and time and attendance and payroll deduction computations put V Corps and the finance support units at risk for loss or fraud.

These weaknesses indicate that greater command attention is needed to ensure proper accountability and safeguarding of resources. We believe these internal control weaknesses will be of particular concern to you since you recently assumed command of the U.S. Army Forces in Europe. Enclosures I through IV provide detailed information on the internal control problems we found and our suggested improvement actions.

We conducted audit work at 5th RFAO and V Corps from January 1991 through April 1992. We performed our work in accordance with generally accepted government auditing standards. Enclosure V lists the locations visited during the course of our audit work.

We have discussed the issues in this letter with your staff and V Corps officials and have incorporated their comments where appropriate. Please inform us of the actions you intend to take on these matters within 30 days.

We thank you and your staff for the courtesy and cooperation extended to us during our audit. If you wish to discuss any

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of these issues further, please contact Ms. Cherie' Starck of my staff at ETS 320-7511.

Sincerely yours,



William J. Anderson
Assistant Comptroller General
Director, European Office

Enclosures

GAO/AFMD-93-6ML

RECORDED REAL PROPERTY COSTS WERE UNRELIABLE

Recorded cost information for the Army's investment in improvements to structures and facilities at installations in V Corps was not reliable. The Army's need for reliable cost information is particularly relevant because the United States is negotiating reimbursements for installations being turned over to the German government.

We also found that the real property costs reported by the 5th RFAO to the Defense Finance and Accounting Service (DFAS) for inclusion in the Army's consolidated financial statements were not reliable. The problems we found were due to ineffective internal controls throughout the real property financial reporting process in V Corps. These critical weaknesses included (1) not reporting real property costs, (2) inaccurately and not promptly reporting of real property costs, (3) not submitting required quarterly financial record updates, and (4) not reporting host nation investment costs. U.S. Army, Europe (USAREUR) headquarters' officials acknowledged that the computerized real property data base was unreliable and have begun gathering accurate data for all real property in USAREUR.

SOME REAL PROPERTY COSTS RECORDED LATE, OTHERS NOT RECORDED AT ALL

The Directorates of Engineering and Housing (DEH) in the Corps' base support battalions did not (1) promptly prepare the required documents for projects built by contractors and (2) prepare the required documents for projects constructed with in-house resources. Because these documents serve as the basis for recording costs in the real property data base, real property costs were understated.

When capital improvement construction projects are completed, the DEHs are required by Army regulations to prepare a Department of Defense Form 1354, "Transfer and Acceptance of Military Real Property." Real property staff are then required to extract cost data from the form and enter it into the Integrated Facilities System, which serves as the Army's real property data base.

We compared recorded project completion dates on Forms 1354 with the dates the Forms 1354 were prepared for 88 projects at three base support battalions as of August 15, 1991. This comparison showed that the required 1354s for 43 projects were not prepared for a year or longer after project completion. For 16 of those

43, the forms were not prepared until 5 to 12 years after recorded project completion dates.

USAREUR representatives from the Office of the Deputy Chief of Staff, Engineer, told us that construction costs were being submitted more promptly after our review. However, our follow-up work showed that DEHs were still not accurately and promptly reporting the costs of completed projects. Specifically, out of 51 projects completed between October 1989 and March 1991 at the Baumholder, Frankfurt, and Wiesbaden DEHs, only 21 of 31 Forms 1354 for projects completed by contractors had been prepared and entered into the real property data base. In addition, we found that none of the 20 projects at the Baumholder, Frankfurt, and Wiesbaden DEHs completed between October 1989 and March 1991 using in-house resources had been prepared and entered into the real property data base.

Base support battalion DEH officials told us that reporting real property costs had never been a priority because the Army did not use historical costs in DEH operations or performance assessment decisions. The officials also said that they were unaware that Army regulations required reporting projects completed using in-house resources.

COSTS NOT ALWAYS ACCURATELY
TRANSCRIBED FROM SOURCE DOCUMENTS
INTO THE REAL PROPERTY DATA BASE

We compared the real property data in the Baumholder, Frankfurt, and Wiesbaden DEHs' data bases as of August 15, 1991, with the corresponding Forms 1354 for 88 projects. Capitalized construction cost entries for nine projects overstated the amounts from the supporting Forms 1354 by about \$292,000. DEH officials said the difference arose from errors which occurred as a result of data entry mistakes or from not adjusting estimated costs when final cost figures became available.

REAL PROPERTY ACCOUNT BALANCES
NOT PERIODICALLY REPORTED

Between April 1989 and August 1991, the V Corps generally did not follow Army regulations and other guidance which required that DEHs report quarterly real property account balances to the appropriate regional finance and accounting office (RFAO). This information was subsequently reported to DFAS for use in preparing the Army's fiscal year 1992 financial reports.

Although the 5th RFAO was aware that DEHs were not reporting complete and accurate real property information, it did not bring the matter to the attention of V Corps or USAREUR headquarters, and it did not footnote or provide any explanation to DFAS that its reported general ledger was inaccurate.

In September 1991, in response to our concerns, the V Corps headquarters' DEH reported \$1.2 billion to the 5th RFAO as the V Corps support battalions' real property at the end of fiscal year 1991. This amount was derived from the DEHs' real property data base which, as discussed above, was incomplete and inaccurate. Additionally, V Corps headquarters' DEH officials told us they did not report real property valued at \$1.8 million because they were unsure how to allocate costs among general ledger real property accounts.

HOST NATION INVESTMENT IN
REAL PROPERTY NOT REPORTED

Under Army Regulation 37-1, the Army's general ledger accounts must reflect the value of all real property owned or controlled by the U.S. Army, including property furnished by foreign governments under Status of Forces Agreements. The costs of foreign government furnished property must be reflected on balance sheets both in the applicable real property asset account (land, buildings, or other structures and facilities) and in an off-setting liability account (property furnished by others). Prior to our audit, DEHs in V Corps had not reported host nation investment costs of real property furnished by foreign governments to the 5th RFAO, which maintains the general ledger for the V Corps.

In response to our inquiries, the V Corps headquarters' DEH identified approximately \$145 million of real property furnished by foreign governments. This amount was included in the \$1.2 billion figure reported to the 5th RFAO in September 1991 as the real property balance for all V Corps base support battalions for fiscal year-end 1991. However, USAREUR officials told us that, based on ongoing efforts to correct the cost information shown in the Army's real property data base, the value of foreign government-provided property identified thus far may be materially understated.

**EFFORTS UNDERWAY TO
GATHER ACCURATE DATA**

USAREUR headquarters' officials from the Office of the Deputy Chief of Staff, Engineer, told us that the real property data base could not be relied upon to provide important information because of the severity of data inaccuracies, such as inaccuracies in the cost information on facilities and structures for base-closure negotiations.

To improve accuracy, 16 full-time USAREUR staff members began updating and correcting the data base in late 1990, based on physical inspections and pertinent record review for 435 Army installations that are scheduled to be returned to Germany before October 1993. As of August 1992, responsible USAREUR officials told us that they decided to update and correct the data base for all of the approximately 800 installations in Europe, including those being retained by the Army. According to a USAREUR headquarters' official, the effort is expected to continue until 1995. Already, however, USAREUR has identified a considerable amount of unrecorded United States investment.

SUGGESTED ACTIONS

We suggest that you direct the Deputy Chiefs of Staff for Engineering and Resource Management to

- provide the DEHs specific instructions on how to record and report all applicable real property costs using Form 1354, including the costs of projects constructed with in-house resources and host nation real property investments;
- follow existing Army guidance for updating real property costs in the Integrated Facilities System data base and reporting reliable real property costs; and
- continue reviewing and updating of the real property data base for all installations in USAREUR.

In addition, we suggest that you direct the Commander, 5th Finance Group, to instruct the Finance and Accounting Officer, 5th RFAO, to (1) promptly report any instances of noncompliance with real property reporting guidance by the DEHs to USAREUR headquarters for resolution and (2) footnote the general ledger to identify known real property data inaccuracies.

VALUE OF NONTACTICAL EQUIPMENT NOT
ACCURATELY REPORTED

The \$86.7 million in equipment at nontactical Army units (nontactical equipment),¹ which the 5th RFAO reported for use in developing the Army's consolidated financial statements, was understated by a net amount of about \$39 million. Generally, such financial reporting problems could have been avoided by following required reporting procedures.

We reviewed the equipment balances reported to the 5th RFAO at the end of fiscal year 1991 by 5 of the 12 V Corps nontactical organizations² and found significant weaknesses in control over financial reporting. As a result of these weaknesses, the 5th RFAO understated the value of the V Corps' nontactical equipment by about \$45 million at these locations. In addition, the 5th RFAO overstated the value of the V Corps' nontactical equipment by an estimated \$6 million as a result of reporting equipment that was already reported by other Army components or systems.

V CORPS DID NOT FOLLOW ARMY
REPORTING GUIDANCE

Army regulations require finance and accounting officers to maintain financial records for nontactical equipment. In 1988, the Department of the Army's Office of the Director of Finance and Accounting issued a Memorandum of Instruction on Property Accounting providing guidance on the roles and responsibilities of logistics organizations and finance and accounting offices in developing and supporting the financial records. The memorandum states that property book officers should annually report all nontactical equipment valued at \$5,000 or more per item to the appropriate finance and accounting office. The memorandum also provides a checklist of procedures for finance and accounting

¹Nontactical units are authorized and provided equipment and their resources using a table of distribution and allowances (TDA).

²While we did not review for the remaining seven locations, property book officers told us their organizations experienced similar problems to those found at the locations we visited.

office staff to use in annually updating their lists of nontactical equipment. The checklist procedures include

- preparing a control list of (1) all nontactical host and tenant organizations and (2) the responsible property book officers,
- providing each property book officer a disposition form with specific instructions and a due date for reporting year-end nontactical equipment values, and
- monitoring property book officer reporting of nontactical equipment.

Instead of using the checklist procedures, the 5th RFAO asked the V Corps' Assistant Chief of Staff for Logistics (Corps Logistics) to request the fiscal year-end data from all applicable property book officers. A 5th RFAO official told us that Corps Logistics was asked to do so because the Finance and Accounting Office staff did not know which organizations were considered nontactical and, thus, would have had to obtain the list from Corps Logistics anyway.

In addition, the Common Table of Allowance 50-909 Update requires that any high-value equipment (equipment valued at \$5,000 or more per item) authorized through Common Table Allowances³ be accounted for and reported on the same basis as nontactical equipment. However, property book officers did not follow this guidance. As discussed below, we identified several deficiencies that resulted from not following existing Army reporting and authorization guidance.

Value of Some Equipment Not Reported or Not Updated

We found that about \$41 million for equipment values was not reported or updated as of September 30, 1991. The Real Property

³The Common Table of Allowances authorizes commanders to acquire certain common items of field and garrison furnishings and equipment.

Maintenance Activity in Giessen, Germany,⁴ had not reported about \$39 million in nontactical equipment. Officials at the 5th RFAO told us that they did not try to obtain information on equipment at the Real Property Maintenance Activity because they were not aware that the activity was accountable for nontactical equipment.

In addition, the Frankfurt and the Fulda base support battalions did not report \$2 million in equipment obtained during fiscal year 1991 to the 5th RFAO. As a result, the 5th RFAO simply used the Frankfurt and Fulda support facilities fiscal year 1990 year-end equipment as their basis for reporting fiscal year 1991 values.

Equipment Authorized Under
Common Table of Allowances
Not Reported Accurately

We found that the property book values reported by the Baumholder and the Mainz base support battalions were understated by of approximately \$4 million because some equipment valued at \$5,000 or more per item and authorized under the Common Table of Allowances was not reported. Specifically, the Baumholder and Mainz support battalions did not report over \$3 million and \$1 million, respectively, in equipment authorized under Common Table of Allowances which met the \$5,000 criteria.⁵

Duplicate Reporting of Some Equipment

We found instances in which the same nontactical equipment was reported by two RFAOs. About \$5.7 million represented equipment at the Wildflecken base support battalion. This battalion was under the V Corps' jurisdiction during fiscal year 1990 and was transferred to the 7th Army Training Command's jurisdiction during fiscal year 1991. Both the 5th RFAO and the 7th RFAO, which had financial reporting responsibility for the 7th Army Training Command at the end of fiscal year 1991, reported the

⁴For authorized equipment, the Real Property Maintenance Activity manages a centralized property book for all the V Corps' base support battalion DEHs.

⁵We also found that the equipment reported by the Mainz facility was understated by an estimated \$1 million because it did not use current unit prices to report the value of its equipment.

equipment to DFAS in fiscal year 1991.

An additional estimated \$335,000 represented equipment that should not have been reported to the 5th RFAO because it was already reported through the Continuing Balance System which is used by tactical units to account for the value of nontactical equipment they hold. Information in this system represents the source for the value of tactical units' equipment used in preparing of the Army's financial statements. This error occurred because V Corps Logistics requested nontactical equipment values from each of the 778 addressees in the V Corps' mailing list,⁶ instead of from only the 12 V Corps' nontactical organizations.

SUGGESTED ACTIONS

We suggest that you direct the Commander, V Corps, to instruct the 5th RFAO to follow existing guidance on developing and annually updating a list identifying all organizations that maintain property books for nontactical equipment within the reporting responsibility of the 5th RFAO.

In addition, we suggest that you direct the Commander, V Corps, to instruct the Finance and Accounting Officer, 5th RFAO, to follow the checklist reporting procedures in the Memorandum of Instruction on Property Accounting, by doing the following:

- (1) identifying each organization responsible for reporting fiscal year-end nontactical equipment values,
- (2) specifying on the disposition form sent to each property book officer that all nontactical equipment valued at \$5,000 or more per item is to be reported, and
- (3) monitoring the responsible reporting organizations to ensure that the value of all nontactical property books are reported.

We also suggest that you direct the Commander of V Corps to instruct the property book officers responsible for Common Table of Allowance equipment valued at \$5,000 or more per item to account for such equipment on the same basis as nontactical equipment.

⁶The Command Channel Distribution Scheme.

ADP WEAKNESSES ADVERSELY AFFECTED RELIABILITY
OF REPORTED INVENTORIES

Our review of inventory balances at 2 of V Corps 38¹ supply organizations showed that an automated data processing (ADP) program coding error adversely affected the reliability of reported stock-funded inventories. As a result, significant abnormal account balances were reported. For example, one V Corps stock fund general ledger reported an abnormal credit (negative) balance for inventory of about \$450,000, when the actual inventory on hand recorded in the subsidiary accounts was about \$1.5 million. We focused our review on the amount of stock-funded inventory reported through the Standard Army Financial Inventory Accounting and Reporting System (STARFIARS).

A DFAS official with cognizance over STARFIARS told us that problems with data in STARFIARS were caused, at least in part, by an ADP coding error that can be corrected at the local level. This error caused STARFIARS to post transactions to the wrong general ledger accounts and create imbalances between the summary and subsidiary accounts.

In addition, we found that the 5th RFAO did not correctly post the needed adjustments to its general ledger required as a result of the ADP coding error. For example, the 5th RFAO did not process the reconciliation report showing differences between on-hand inventory in the supply system and the accounting system until after the month-end general ledger. Consequently, adjustments which should have been reflected in the current stock fund inventory reports were not identified until after the month-end general ledger was reported to DFAS.

5th RFAO officials told us the ADP coding error in STARFIARS was corrected. Consequently, they informed us that month-end adjustments were no longer needed.

¹V Corps has two retail stock fund supply organizations which are under the cognizance of the Logistics Support Activity (Roedelheim) and the 19th Corps Materiel Management Center, respectively. The 36 remaining V Corps supply organizations were established with Operations and Maintenance, Army (OMA) funds rather than stock funds. Under Army policy, such OMA-funded inventory is not recorded on the installation's general ledger.

SUGGESTED ACTIONS:

We suggest that you direct the Commander, V Corps, to instruct the Finance and Accounting Officer, 5th RFAO, to

- monitor the revised STARFIARS ADP modifications to ensure that they have resolved the coding error and eliminated the need for month-end adjustments to reported stock fund inventories and
- promptly investigate and take appropriate actions to correct any reported abnormal account balances, including any credit (negative) stock fund inventories.

WEAKNESSES FOUND IN CONTROLS OVER TRAVEL PAY.BLANK CHECKS, CASH, AND CIVILIAN PAY

Controls at various finance support units (FSU) in V Corps were not adequate to ensure that (1) travel funds were available and that travel was properly authorized, (2) current per diem rates were used in completing travel reimbursements, (3) required cash audits were performed, and (4) civilian time cards and payroll deductions were properly approved and accurate. For the most part, these weaknesses resulted from not following existing Army regulations.

We reviewed internal controls for the processing and payment of travel vouchers at the 39th and the 117th FSUs within the 5th Finance Group. We reviewed internal controls for cash collections and disbursements at four disbursing offices: the 5th Regional Finance and Accounting Office, the 8th FSU, the 39th FSU, and the 117th FSU. We reviewed internal controls over civilian payroll at the Civilian Payroll Division of the 266th Theater Finance Command.

The following are examples of the weaknesses we found.

- Certifying officials signed only 11 of the 36 temporary travel orders we reviewed, even though they are required to sign all orders to ensure that funds are available.
- Because travel offices did not receive monthly per diem rate updates until several days after they went into effect, travel clerks used incorrect rates for 6 of the 37 travel vouchers we reviewed.
- At the 8th FSU and the 117th FSU disbursing offices, we found that in 3 of 8 cases tested, the end of March 1991 check control log showed more checks were issued than were recorded in the "Recapitulation of Block Control Level Totals of Checks Issued" (Form 1179). According to FSU officials, the difference was due to checks being written after the automated check register used to prepare the Form 1179 had been closed on some days.

- At three FSUs, five related finance support teams, and five government agents¹ with cash holding authority of \$10,000 or more, we found that 7 of 26 required quarterly cash audits had not been performed and that 2 of the 3 FSUs did not obtain or maintain the reports for the 19 audits conducted on their finance support teams or government agents as required by Army Regulation 37-103, paragraph 4-28b(5).
- Our March 9, 1991, sample of 38 civilian payroll payments processed by the 266th Theater Finance Command showed that 3 supporting time cards were missing and that the Command did not have authorizations on file for 22 of the supervisors who signed the remaining 35 time cards as required by Army Pamphlet 37-2.
- Data entry errors or not obtaining or properly maintaining supporting authorization documentation, as required by Army regulations, resulted in incorrect or unauthorized civilian payroll deductions for three employees.

SUGGESTED ACTIONS

We suggest that you direct the Commander, 5th Finance Group, to

- (1) request the Commanders of the FSUs to instruct travel branch chiefs to follow existing regulations requiring
 - all travel orders to be signed by certifying officials and
 - travel clerks to receive and use per diem information that is updated the first of every month and
- (2) request the Commanders of the FSUs to instruct the cash control officers to
 - keep the automated check register open until the end of the business day so that the register reflects all checks written during the day and

¹Government agents are holders of Department of Defense Form 1081, "Statement of Agent Officer's Account," who are sent to the field to cash soldiers' checks and exchange dollars for local currency.

- ensure that the quarterly cash audits are conducted for the FSU, finance support teams, and government agents and that the audit reports are maintained as required by Army regulations.

We also suggest that the Commander, USAREUR, direct the Commander, 266th Theater Finance Command, to instruct the Payroll Division Directors to follow existing regulations requiring

- accurate and complete listings of supervisors authorized to sign time cards and
- payroll clerks to obtain and retain supporting authorization documentation and review proposed civilian payroll deductions before processing.

USAREUR LOCATIONS VISITED BY GAO

REGIONAL FINANCE AND ACCOUNTING OFFICES:

5th RFAO
266th Theater Finance Command

FINANCE SUPPORT UNITS (FSU):

8th FSU (Baumholder)
22nd FSU (Fulda)
39th FSU (Hanau)
117th FSU (Wiesbaden)
201st FSU (Frankfurt)
503rd FSU (Giessen)

MILITARY COMMUNITY DIRECTORATES OF ENGINEERING AND HOUSING:

Baumholder
Frankfurt
Fulda
Giessen
Hanau
Mainz
Wiesbaden

CIVILIAN PERSONNEL OFFICES:

Baumholder
Frankfurt
Giessen
Wiesbaden

LOGISTICS UNITS:

Class IX Supply Service Activity (Giessen)
Logistics Support Activity (Roedelheim)
Real Property Maintenance Activity (Giessen)
Service Supply Center (Wiesbaden)
3rd Corps Support Command
8th Infantry Division
19th Corps Materiel Management Center (Hanau)
814th Engineering Company

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