

147111



United States
General Accounting Office

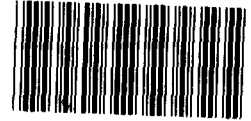
Far East Office

P.O. Box 50187
Honolulu, HI 96850

B-242974

July 8, 1992

Lieutenant General Johnnie H. Corns, USA
Commander, U.S. Army Pacific
Fort Shafter, Hawaii 96858-5100



147117

Dear General Corns:

We recently completed a comprehensive review of the U.S. Army's financial management systems and operations. The primary objectives of this review were to assess the Army's internal control systems and audit the fiscal year 1991 financial statements pursuant to the Chief Financial Officers Act of 1990 (Public Law 101-576). Within your command, most of our work was conducted at the U.S. Army Support Command Hawaii (USASCH), which provides management services and logistics support to the Army's Hawaii region.

As discussed with your staff, we generally found that financial reporting and internal controls provided reasonable assurance that internal control objectives were achieved for many aspects of your operations. However, we identified several controls that need to be strengthened to ensure that all transactions are accurately reported and properly supported by documentation. Although not material to the Army's fiscal year 1991 financial statements, we believe inaccurate financial information at the installation level can cause the Army's overall financial reports to be misleading and can negatively affect decisions that are based in whole or in part on these reports. Specifically, we found the following.

- There was no assurance that account balances were correct for equipment, real property, and outstanding travel advance accounts on the installation general ledger trial balance, as of September 30, 1991.
- The causes for "abnormal" account balances¹ and large unexplained variances between fiscal year-end 1990 and 1991 for some stock fund general ledger balances were not determined.

¹ Generally, specific classes of accounts will carry normal or predictable balances. An "abnormal" account balance usually refers to a credit balance in an account which normally has a debit balance, such as a credit balance in an asset account.

054902/147117

B-242974

- The cost of accrued annual leave for civilian employees was not recorded on the installation general ledger.
- Supporting documentation was not maintained for inventory receipt, issue, and disposal transactions, or for supplemental civilian payroll payments.

We are bringing these matters to your attention so you can ensure that corrective action is taken. We conducted our work from January 1991 through April 1992 in accordance with generally accepted government auditing standards.

GENERAL LEDGER ACCOUNT BALANCES
MAY NOT BE CORRECT

The equipment, real property, and travel advance account balances on the installation general ledger contained many errors, including under- and overreporting of property balances, unsupported adjustments, and slow processing of travel documents.

Equipment Account Balances

The \$274 million balance in the equipment accounts² may be incorrect because property book balances were not properly maintained, reviewed, or reported. At the installation level, the dollar value and location of equipment is to be recorded in property books by property book officers. Army Regulation 37-1 requires property book officers to report the total dollar value of equipment, with a unit acquisition cost or estimated fair market value of at least \$5,000 and an estimated service life of 2 or more years, to the Finance and Accounting Office (FAO) at fiscal year-end. The \$5,000 threshold is used by the Army to capitalize and report its equipment on the general ledger.

USASCH officials did not have a complete listing of the number, type, and dollar value of property books whose balances were reported to the USASCH FAO and, thus, could not ensure that all required reports were received. Through interviews and review of Army documents, we identified 27 Table(s) of Distribution and Allowance (TDA) property books within the Hawaii region. Ten TDA property book officers

² Installation general ledger equipment accounts reviewed included accounts 1762 (Equipment in Use) and 1763 (Equipment With Contractors, Testing Agencies, Defense Industrial Facilities, and Others).

reported to the FAO the dollar value of all equipment, including equipment with a unit price of less than \$5,000. This occurred because the FAO did not mention the \$5,000 or more dollar threshold when it issued instructions to property book officers on reporting equipment dollar values. Seven other property book officers did not report their equipment dollar values to the FAO even though they had equipment with a unit price of \$5,000 or more. The remaining 10 property books were not required to be reported because they did not have equipment with a unit acquisition cost or estimated fair market value of at least \$5,000.

In addition to these reporting problems, we found that FAO officials did not review property book officer reports for reasonableness by comparing them to other information, such as previous reports. Moreover, the FAO used prior-year amounts to record equipment dollar values when property book officers did not report or did not report in a timely manner. As a result of these problems, some property book dollar values were incorrect, unsupported by current reports, or not included in equipment account balances.

Operational problems with a new computer system resulted in inaccurate reports for two property books maintained by the Directorate of Logistics (DOL) which had begun converting its two property books to a new computer system during the summer of 1991. As of February 1992, neither property book was fully operational. At Kapalama Military Reservation, which maintained one of the newly automated property books, DOL officials could not obtain from the new computer system a reliable equipment dollar value for the end of fiscal year 1991. However, they reported a \$47,585,958 value of equipment to the FAO at fiscal year-end.

DOL officials could not provide supporting documentation for the \$47,585,958; therefore, we attempted to assess the reasonableness of this reported balance by comparing it to the latest available property book printout, dated June 6, 1991, from the old computer system used to maintain the property book prior to implementation of the new system. Using the dollar values provided on the printout, we estimated that equipment with a unit price of \$5,000 or more totaled about \$26 million at June 6, 1991. Therefore, we believe the \$47,585,958 that DOL reported at year-end may be significantly overstated. DOL officials could not assist us in further verifying their equipment balance.

Also, we noted that the FAO recorded a fiscal year 1991 adjusting entry (net decrease) of \$2,440,021 to general ledger account 1762 (Equipment in Use) in order to correct

recording errors made in prior years. Because the FAO did not make this adjustment until fiscal year 1992, the reported year-end balance for this account for fiscal year 1991 was overstated.

Proposed Actions

To better ensure the accuracy of property data, we suggest that you direct USASCH to

- establish and maintain an accurate listing of all TDA property books within the Hawaii region;
- specify to property book officers that they either report the dollar value of TDA equipment with a unit cost of \$5,000 or more, or forward a statement that none of the equipment on their books meets the \$5,000 reporting criteria;
- review equipment dollar values reported by property book officers for reasonableness and follow up on possible irregularities; and
- maintain the old property book systems until the new systems have been tested and are completely operational.

Real Property Account Balances

There is no assurance that the \$774 million USASCH reported for buildings, other structures, and facilities in real property account balances³ is correct, primarily because balances reported on the general ledger were increased by an unsubstantiated adjustment of \$67 million to make them agree with the subsidiary ledger. Army Regulation 37-1 requires that differences identified between the general ledger and the Integrated Facilities System (IFS), which accounts for real property transactions, be researched and substantiated by reviewing documentation supporting the transaction(s) in question. Such a reconciliation entails identifying discrepancies, determining their cause, and, if appropriate, adjusting account balances. USASCH officials said they did not resolve discrepancies because the two systems had not been reconciled for years and the process of reviewing many years' worth of real property documents to determine if the dollar values had been correctly entered into the IFS and

³ Installation general ledger accounts reviewed included accounts 1730 (Buildings) and 1740 (Other Structures and Facilities).

subsequently into the general ledger would be too time-consuming.

Instead of attempting such a reconciliation, USASCH made an unsubstantiated \$67 million adjustment to eliminate the variance between general ledger real property accounts and the IFS. USASCH officials said that this was done in response to a July 23, 1991, memo from the Defense Finance and Accounting Service which directed commands to verify, reconcile, and update the general ledger real property accounts with the IFS data base.

Even though USASCH was using the same source documents, primarily the DD Form 1354, Transfer and Acceptance of Military Real Property, to update both the IFS and the general ledger, USASCH officials could not explain why the balances for real property in the two systems did not agree. Moreover, during our testing of internal controls we found that real property transactions prepared by the Directorate of Public Works were not always recorded promptly, and, in some cases, were not recorded for years. For example, 2 of the 30 facilities we sampled, valued at \$2,207,940 and \$366,868, were not recorded on the IFS until 3 and 6 years, respectively, after the projects were completed and accepted. This occurred because the Directorate of Public Works did not prepare the DD Form 1354s for input into the IFS, and ultimately the general ledger, as soon as the projects were completed and accepted.

Improving the accuracy of the real property data within the IFS would not only facilitate reconciliation with the installation's general ledger, but would also improve the basis for decisions, such as a need for maintenance, that USASCH's real property managers make when relying on the IFS data.

Proposed Actions

To ensure that the data maintained in the IFS and real property general ledger accounts are accurate, we suggest that you direct USASCH to

- verify current IFS balances by comparing IFS data with supporting documentation and adjust any erroneous amounts and, if supporting documentation is unavailable, substantiate the data through other existing documents, engineering estimates of the assets' dollar values, or some other reasonable alternative; and

B-242974

- establish or strengthen controls to ensure that transactions are accurately documented and recorded promptly.

Travel Advances-Direct Account Balance

The balance reported in account 1411.10 (Travel Advances-Direct) was incorrect because the Travel Branch failed to process outstanding travel advances and the Accounting Branch failed to process travel vouchers promptly.

Our review of a judgmental sample of 30 outstanding travel advances totaling about \$25,000 showed that approximately \$19,800, or more than 75 percent of the balance, had been collected, but remained on accounting records as uncollected. According to USASCH officials, the backlog of unrecorded collections occurred because of (1) slow processing of travel advance repayments and travel vouchers, (2) lack of clear delegation of collection responsibility, (3) lack of staff resources, and (4) lack of account reconciliation between the Accounting and Travel branches.

These weaknesses not only increased the backlog of outstanding travel advances, they also provided opportunities for fraudulent and erroneous transactions to occur. For example, we identified three cases in which travelers received a total of \$3,346 in travel advances at their temporary duty locations but did not report the receipt of the travel advance on their travel vouchers. We brought this to the attention of USASCH officials who stated that the outstanding travel advances will be deducted from the travelers' pay and that they would investigate the matter.

Proposed Actions

To alleviate these internal control weaknesses, the FAO took corrective action to reduce its backlog by assigning responsibility for collection activities to the Travel Branch and tasking the Travel and Accounting branches to work together to research and resolve outstanding travel advances. To further address these weaknesses, we suggest that you direct USASCH to ensure that the backlog of unrecorded collections is reduced and Accounting and Travel branches' accounts are reconciled.

ABNORMAL ACCOUNT BALANCES AND LARGE UNEXPLAINED VARIANCES WERE NOT INVESTIGATED

The FAO did not investigate general ledger accounts which either had an "abnormal" account balance or large variances

B-242974

between fiscal year-end 1990 and 1991. Such abnormalities and variances indicate that errors may have occurred.

In comparing the fiscal year 1991 ending account balances in the installation and stock fund general ledgers to the corresponding fiscal year 1990 ending balances, we found that 2 general ledger accounts had abnormal account balances and 44 accounts varied by over \$1 million or by 10 percent or more between fiscal years. We found that variances appeared reasonable for 41 of the 46 accounts, based on our interviews, review of written responses to our inquiries regarding the 46 accounts, supporting documentation, and other audit work. However, USASCH officials could not explain or provide supporting documentation for the 5 remaining stock fund accounts shown below.

<u>Stock fund account number and title</u>	<u>Fiscal year-end balance debit (credit)</u>		<u>Remarks</u>
	<u>1990</u>	<u>1991</u>	
7291.21, Inventory Losses- Incoming Shipments, Defense Logistics Agency	\$490,787	\$1,062,563	Variance of 117 percent
7291.53, Inventory Losses- Discount on Returns, Other (normal debit balance)	(\$28,303)	(\$5,291)	Abnormal balances both years
7291.81, Inventory Losses- Physical Inventory Adjustment	\$301,481	\$2,729,659	Variance of 805 percent
7293.01, Other Losses-Other Expenses, Current Year	\$563,584	\$1,401,694	Variance of 149 percent
7293.02, Other Losses-Other Expenses, Prior Years (normal debit balance)	(\$2,780,815)	(\$2,775,262)	Abnormal balances both years

By analyzing the abnormal accounts and variances identified above, USASCH could identify their cause and take any needed corrective action. For example, activity in the stock fund general ledger account 7293.01 (Other Losses-Other Expenses, Current Year) shows that losses have almost tripled in 1 year. This may be a result of pilfering or accounting errors resulting from internal control weaknesses. The abnormal balance in stock fund general ledger account 7293.02 (Other Losses-Other Expenses, Prior Years) may be a result of accounting classification errors, such as credits or

"revenues" received exceeding the amount of the losses but reflected incorrectly in the general ledger accounts.

Proposed Actions

We suggest that you direct USASCH to routinely research abnormal account balances and annual variances and resolve any discrepancies identified.

CIVILIAN ANNUAL LEAVE
WAS NOT ACCRUED

We found that during fiscal year 1991 USASCH did not record the cost of accrued civilian annual leave on the installation general ledger as required by Army Regulation 37-1, Section 23-4. This regulation specifies that amounts due for benefits be recorded as of the end of the accounting period, provided the payment is probable and the amount can be estimated. We calculated accrued civilian annual leave for USASCH at approximately \$11.6 million for fiscal year-end 1991.

USASCH has never accrued civilian annual leave costs on its installation general ledger, and officials told us they were not sure of how to properly estimate or record it. USASCH's Accounting Branch is currently in the process of establishing a process for estimating and recording accrued civilian annual leave costs on the installation general ledger which it expects to implement in fiscal year 1992.

Proposed Action

We suggest that you direct USASCH FAO's Quality Assurance Branch to monitor the Accounting Branch's effort at implementing a process for estimating and recording accrued civilian annual leave to ensure that this liability is properly reported in USASCH's 1992 fiscal year-end reports.

SUPPORTING DOCUMENTATION WAS NOT MAINTAINED
FOR CERTAIN INVENTORY AND PAYROLL TRANSACTIONS

Several times during our audit, USASCH officials could not provide the supporting documentation for transactions in our samples. These transactions included receipt, issue, and disposal of inventory, as well as civilian payroll supplemental payment transactions. Army Regulation 37-1 requires that supporting documentation be maintained and available for audit by organizations responsible for recording the related transactions. However, the supporting documentation was either not maintained or could not be

B-242974

located. The lack of supporting documents for these types of transactions could lead to erroneous or fraudulent transactions going undetected.

During our testing of internal controls, issue documents (DD Form 1348-1) for 17 of the 30 issue transactions we sampled could not be located. As a result, we were unable to determine if (1) the issues were properly authorized, (2) customers were billed, and (3) transactions were recorded in the proper year. Likewise, during a subsequent sample of receipt and disposal transactions, we were unable to obtain the related supporting documentation and, therefore, we were unable to determine if transactions were properly authorized and recorded.

Also, we found that USASCH was making an average of five to six undocumented supplemental payments for advanced leave, retroactive leave, and overtime hours during each payroll period rather than as part of the payroll process. Although we understand that many of these payments are made to avoid hardship on the part of the employees that USASCH services, proper documentation, such as a Standard Form 50, Notification of Personnel Action, or written authorizations, are required by Army Regulation 37-105, Section 1-20. USASCH officials told us that such authorizations were not always obtained prior to disbursing supplemental payments.

Proposed Actions

We suggest that you emphasize the importance of maintaining supporting documentation and direct USASCH DOL's Quality Assurance and Policy Specialist and FAO's Quality Assurance Branch to monitor compliance with the documentation requirements.

- - - - -

Developing the Army's first set of financial statements and initiating the related improvements in financial management have involved considerable cooperative efforts by the Army and GAO. We appreciate the courtesy and cooperation extended to us by officials within the U.S. Army's Hawaii region.

B-242974

Please provide us your comments on the issues discussed in this letter and your planned corrective actions within 30 days. If you wish to discuss any of these issues further, please contact either me, Peter Konjevich, or Evelyn Logue at (808) 541-1250.

Sincerely yours,



Walter C. Herrmann, Jr.
Director, Far East Office

cc: CDR USARPAC (APIR)
CDR USASCH (APZV-IR)

(917221)