

March 1997

**FINANCIAL
MANAGEMENT**

**Improved Management
Needed for DOD
Disbursement Process
Reforms**



**Accounting and Information
Management Division**

B-272999

March 31, 1997

The Honorable John J. Hamre
Under Secretary of Defense (Comptroller)Mr. Richard Keevey
Director, Defense Finance and Accounting Service

Department of Defense (DOD) problem disbursements have been the source of much concern for many years. Problem disbursements are specific disbursements that have not been matched with corresponding obligations. Such disbursements can increase the risks of (1) fraudulent or erroneous payments being made without detection and (2) cumulative amounts of disbursements exceeding appropriated amounts and other legal spending limits. If DOD is to adequately manage its fiscal operations and produce auditable financial statements as required under the Chief Financial Officers Act of 1990 and related acts, it must reduce its billions of dollars of problem disbursements. In the 1996 annual report to the President and the Congress, DOD noted that eliminating problem disbursements was one of its key financial reform projects.

DOD has indicated that transactions paid at one location, but accounted for at another are the costliest, most time-consuming, complicated, and error-prone segment of its accounting. These transactions are referred to as transactions by others (TBOs). Cross disbursements are a special type of TBO that requires additional processing because different military services are involved. Defense Finance and Accounting Service (DFAS) officials have stated that TBOs are major contributors to problem disbursements. To address the deficiencies in the processes, in late 1995, DFAS established a project to implement improvements to the current disbursement processes and significantly reduce problem disbursements. In April 1996, DFAS issued a report containing, among other things, 14 action items to improve TBO disbursement operations in the short term.

We reviewed the implementation status of the 14 action items. This report presents our assessment of DFAS' development and implementation of this project and includes recommendations to improve DFAS' reform efforts.

Results in Brief

DFAS recognized the need to reform its TBO and cross disbursing processes in the short term, and established aggressive milestones to complete the 14 action items, with most slated for completion in late 1995. However, their

implementation has been significantly delayed. As of October 1996, 10 of the 14 action items had either not been implemented or were only partially completed. Of the four items implemented, our review of the two for which some implementation information was available showed that DFAS had not effectively met its objectives.

We identified three issues that limited DFAS' ability to effectively and promptly achieve its goal of improved TBO processing. First, DFAS did not develop adequate information to effectively diagnose the causes of problem disbursements, implement solutions, and evaluate progress. DFAS managed its reform effort based on the experience of knowledgeable staff without the benefit of enough supporting analysis of processes, causes, and alternatives. For example, DFAS officials changed their policy regarding disbursement processing time frames without a thorough analysis to know if the new time frames were realistic or obtainable. DFAS managers estimated that cross disbursements take 109 days to process. One action item was a new policy that provided for up to 134 days to process a cross disbursement—25 days longer than the process they already considered too long. Without an analysis, DFAS does not know if its stated time frames are reasonable or obtainable. Officials at two centers questioned whether the time frames were reasonable and results at one processing center validate that concern.

Second, DFAS did not provide strong, consistent management for the project. For example, the official originally assigned to manage the project in 1995 was reassigned and left the position before the action items were implemented. At least three people headed the project during the first 6 months of 1996. Management turnover contributed to delays in issuing the DFAS report and implementing some action items. Although a permanent project officer was appointed in July 1996, a position description or formal tasking as to the responsibilities and scope of the job had not been prepared as of the completion of our work in December 1996.

Finally, DFAS may not be allocating sufficient resources to critical areas. Because DFAS did not establish priorities based upon quantitative analysis, DFAS has expended resources without ensuring that it is addressing the more significant problems. For example, after 2 months of work on one action item dealing with rerouting payments between two sections of one DFAS center, DFAS canceled the action item because it was determined that the completion would not have a significant impact. Conversely, DFAS officials said that resource constraints had led to one center's backlog of

unprocessed transactions continuing to exist a year after DFAS had planned to eliminate it.

By better addressing these critical issues, DFAS will be in a stronger position to achieve meaningful and timely reforms in its TBO processing and ultimately reduce problem disbursements.

Background

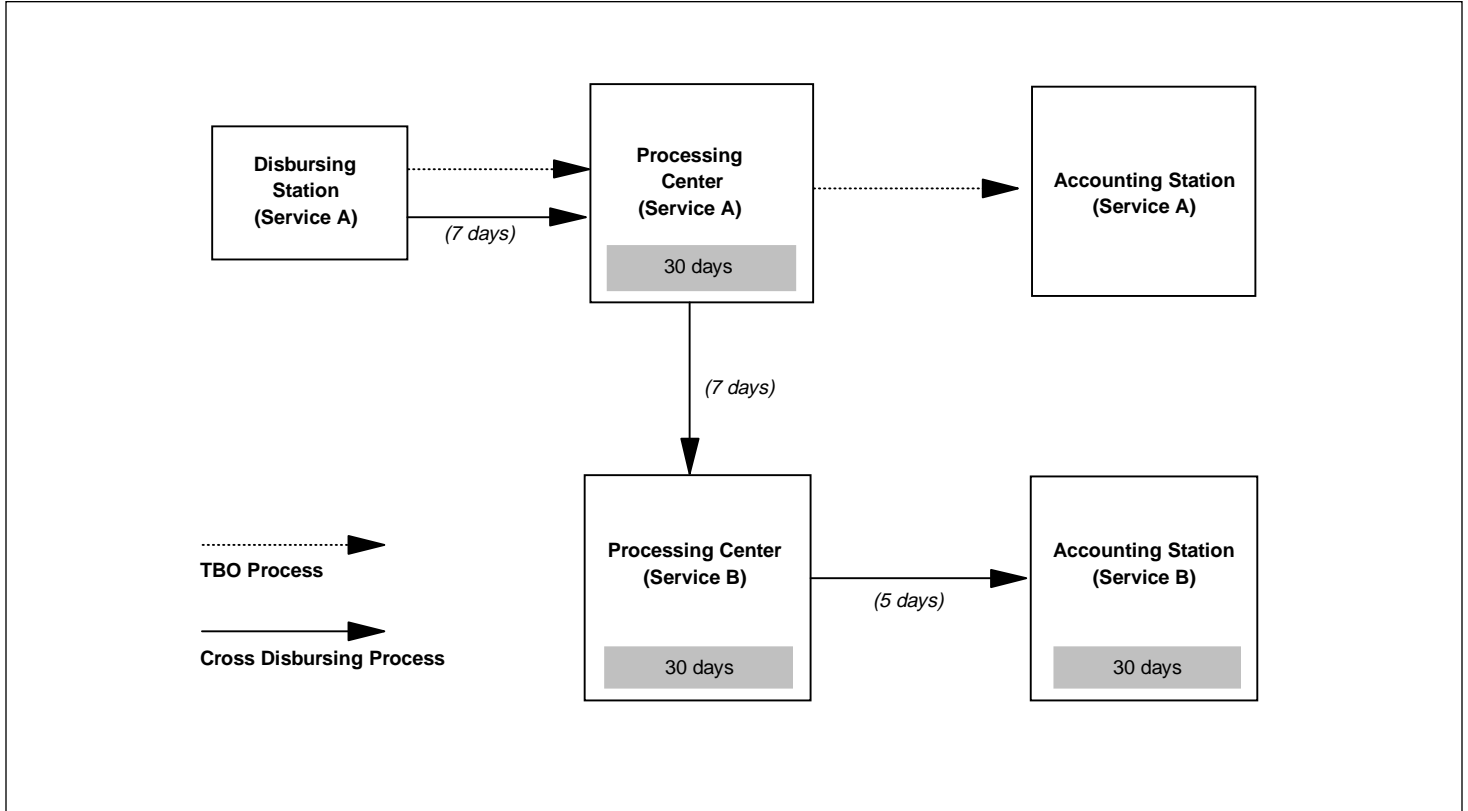
DFAS, which provides accounting services for DOD, was established on January 15, 1991, to improve, standardize, and consolidate DOD's finance and accounting policy, systems, and operations. DFAS is undergoing massive consolidation efforts to reduce its over 300 defense accounting offices into 5 existing large centers and not more than 21 new operating locations. DOD is also undertaking efforts to consolidate about 250 financial and accounting systems in use today to standard integrated systems.¹ However, it will be several years until DOD completes implementation of new and improved systems. Until this occurs, DOD will have to rely on its existing systems. Few of those systems electronically transfer data to each other and thus require manual intervention to record transactions.

When a disbursing station disburses funds that are accounted for at another station, the accounting station calls this a TBO.² Cross disbursements are a special type of TBO wherein the disbursing station is aligned with a different military service than the accounting station (e.g., when an Army-aligned station makes disbursements that are accounted for by a Navy-aligned station). TBOs and cross disbursements can be the result of almost any disbursement activity, including payments on contracts (both for delivery of goods or services and progress payments), payroll, or travel. Although the processes vary widely among the services, figure 1 depicts the general TBO and cross disbursement processes.

¹However, as noted in our recent report *Financial Management: DOD Inventory of Financial Management Systems is Incomplete* (GAO/AIMD-97-29, January 1997) this number does not include many systems that DOD relies upon to produce financial management information and reports.

²From a disbursing station's point of view, these transactions are called transactions for others (TFOs).

Figure 1: DOD's TBO and Cross Disbursing Processes



- Notes:
1. Cross disbursements take an estimated 109 days to process.
 2. TBO process varies by military service.

Source: GAO analysis of DFAS documentation.

To record a disbursement in the accounting records, disbursement data must be sent from the disbursing station to the accounting station. The transaction is routed through one or more processing centers that report the financial data to the Department of the Treasury and translate the accounting codes among the different computer systems. The accounting station records the transaction in the accounting records and matches the payment to its corresponding obligation. The proper matching of disbursements with recorded obligations is a vital control to ensure that funds are used in accordance with the purposes and limitations specified by the Congress through appropriations acts and the Antideficiency Act. In

systems that do not electronically transfer data to each other, hard copy documents are used to transmit the disbursement data. DFAS personnel must then manually reenter the disbursement data into the accounting systems. Frequently, the hard copy documents take months to reach the cognizant accounting station. DFAS estimates the cycle time for processing cross disbursements at 109 days.³ If documents are missing or illegible, the process for that transaction stops until the appropriate station locates and mails the required documents.

From the time a disbursement is made until it is recorded in the accounting records, the transaction is said to be “in-transit.” DOD officials have stated they have reluctantly accepted as “normal” periods of 60 days or less (120 days or less for cross disbursements), and therefore do not report these in-transits as problem disbursements. After these time periods, DFAS reports aged in-transit transactions as problem disbursements that require the agency to take additional follow-up action. In October 1996, DFAS reported that it had about \$19 billion in problem disbursements; \$9 billion (about 45 percent) of that was made up of items reported as being aged in-transit. The other \$10 billion comprised payments for which DFAS could locate no known obligation against which to match the payment.⁴ In reviewing DFAS’ May 1996 problem disbursement report we found that the amounts of problem disbursements are greater than reported. Based on the results of our preliminary testing, in a February 20, 1997, report, we noted that the May 1996 reported total problem disbursements of about \$18 billion were understated by at least \$25 billion, with most of the understatement related to aged in-transits.⁵

Partly due to the extended in-transit period, DFAS has been charged with reengineering its disbursement processes. DFAS has undertaken many projects to resolve problem disbursements and improve its disbursement processes, including over 70 longer term, mostly systems related, projects listed in the May 1996 DFAS business plan. DFAS’ future systems plans include having electronic transfers of data that should eliminate DFAS’ dependency upon hard copy documents. However, until those new systems are in place, DFAS is working to improve its current processes.

³DFAS uses a voucherless process to make several types of disbursements, including some travel payments, contract payment notices, and civilian payroll payments. According to DFAS officials, voucherless payments are processed faster because they are not dependent upon sending hard copy support.

⁴This included \$7.7 billion of items that were not matched against any obligation (unmatched disbursements), and \$2.3 billion that matched against an obligation that was not large enough to cover the payment (negative unliquidated obligations-NULOs).

⁵DOD Problem Disbursements (GAO/AIMD-97-36R, February 20, 1997).

In April 1996, DFAS summarized its short-term actions to improve its current processes in a report titled Summary Report: Standardization of the DOD Expenditure/Collection Processes. The report discusses actions that had been ongoing since late 1995 and provides a status of the continuing action items. The report's primary focus was on improving current DFAS operations to reduce the number of problem disbursements. Among other things, it presented 14 action items to "help stem the tide of aged in-transit disbursements" and to specifically improve the TBO and cross disbursement processes.

Scope and Methodology

To identify DOD's ongoing reform efforts, and to assess DFAS' attempts to implement them, we obtained and evaluated DFAS' report containing the 14 action items. We obtained and reviewed minutes from the DFAS teams working on the action items listed in the report and gathered available data on the action items to assess the basis of the projects and the analysis supporting their objectives. To evaluate the projects and their status, we requested centers provide status updates for each of the action items and any results or improvements resulting from their implementation as of the end of October 1996. Additionally, we met with officials at DFAS headquarters in Arlington, Virginia, and at each of the five DFAS centers in Cleveland, Ohio; Columbus, Ohio; Denver, Colorado; Indianapolis, Indiana; and Kansas City, Missouri.

To determine if DFAS was complying with its cross disbursements policy regarding time frames, we analyzed electronic logs from one DFAS center to determine the timeliness of processing and forwarding transactions. We then compared these calculations to the timeframes provided for in DFAS' policy to determine the percentage of transactions that complied with the policy. We did not verify the data provided by DFAS.

We performed our work from June 1996 through December 1996 in accordance with generally accepted government auditing standards. DOD provided written comments on a draft of this report. These comments are presented and evaluated in the "Agency Comments and Our Evaluation" section and are reprinted in appendix I.

Implementation of Action Items Was Delayed

The 14 actions listed in the DFAS report to improve the disbursement processes were significantly delayed in implementation. Table 1 lists the 14 action items, DFAS' planned completion dates, and our assessment of their status as of October 1996. The items relate to three types of activities:

(1) establishing and implementing policies, (2) gathering basic information, and (3) changing TBO and cross disbursement processes.

Table 1: DFAS Action Items

	Action item	Initial estimated completion^a	Revised estimated completion^a	Status as of October 1996
Establish and implement policies				
1	Establish standard time frames policy for processing cross disbursements.	11/30/95	1/12/96	Implemented. Policy issued 2/96.
2	Publish implementing guidance for cross disbursements policy.	3/1/96	4/1/96	Implemented by centers separately, effective 4/1/96.
3	Publish implementing guidance for DOD travel policy.	3/1/96	4/1/96	Implemented by centers separately, effective 10/1/96.
4	Develop a plan to use standard accounting classification codes.	3/1/96	10/31/97	Not complete. Pending finalization of standard accounting codes.
Gather basic information on TBO processes and develop corrections				
5	Identify and eliminate unnecessary TBOs and cross disbursements.	11/27/95	4/15/96	Not complete. DFAS working to eliminate unnecessary TBOs.
6	Identify and develop corrections for accounting and disbursing stations' backlogs.	11/27/95	none	Not complete. Correction plans not developed.
7	Clear backlogs of unprocessed transactions at DFAS centers.	11/27/95	1/31/96	Not complete. Backlogs at some centers not cleared.
8	Identify specific problem areas and develop solutions (19 were identified in the report).	11/27/95	8/31/96	Not complete. DFAS working to resolve known problems.
Change transaction routing or processes				
9	Reroute travel documents to eliminate most from the cross disbursement processes.	12/22/95	3/1/96	Implemented. Effective 10/1/96.
10	Change processing of adjustments for both open and canceled accounts from cross disbursements to TBOs.	11/15/95	6/1/96	Partially implemented. Change processing of adjustments for canceled accounts not developed.
11	Change cross disbursements from a major contract payment system to TBOs.	12/31/95	4/15/96	Not complete. To be implemented 1/1/97.
12	Develop full-scale use of a Treasury electronic payment system.	8/1/96	10/7/96	Not complete. Being tested.
13	Reroute disbursements for Washington Headquarters Service.	11/27/95	2/29/96	Canceled. Unneeded due to other organizational changes.
14	Simplify routing of payments within sections of one DFAS center.	11/30/95	1/31/96	Canceled. Volume too low to justify change.

^aThe initial estimate was established in the January 1996 draft DFAS report. The revised estimate is generally based on the minutes of an April 1996 DFAS status meeting (the most recent minutes available).

Delays in implementing the action items postponed much needed change in DFAS' disbursement processes. As shown in the table, the four items to implement new policies were delayed, but less significantly than the other types of actions. None of the four items directed at gathering additional information about the TBO processes and taking corrective actions had been completed. Finally, five of the six action items designed specifically to change the transaction routing or processes originally were to be completed by December 1995. However, as of October 1996, only one had been implemented (item 9). One other item had been partially implemented (10), one was pending future implementation (11), and a third was being tested (12). The final two projects (13 and 14) were canceled.

For the four items implemented, data were available to assess the implementation of portions of two action items (items 1 and 2—both related to DFAS policy to establish time frames for cross disbursement processing). We found that the required processing times were not being achieved. Our analysis of DFAS' logs from one processing center showed that less than 10 percent of the vouchers were forwarded from the disbursing station to the appropriate processing center within the policy's time frames. Less than 70 percent of the transactions were forwarded between processing centers within the required time frames. The two other implemented items (items 3 and 9—both related to DFAS rerouting of travel payments) had not been implemented long enough to assess their impact. The new travel policy did not go into effect until October 1996 and at the time of our review, DFAS had not developed data to determine compliance with the new policy or its effectiveness in decreasing problem disbursements.

We support DFAS' continuing efforts to reform its current process, and its recognition that improvements are needed in the short term. In its report, DFAS established aggressive milestones and goals for its reform efforts. DFAS established a goal for the 14 action items of eliminating over \$300 million per month from the TBO processes and clearing over \$1 billion of items in suspense—most of which related to backlogs at DFAS processing centers. However, DFAS did not establish a mechanism to determine how well the action items, once implemented, were accomplishing these goals. Because of the large number of ongoing DFAS projects and changes, DFAS will not know if actions are having the desired effects without measures that relate the actions to specific improvements. As discussed in the following section, fact-based analysis is needed to identify problems, develop effective solutions, and measure progress.

Project Management Could Be More Effective

DFAS' management of these reform efforts did not ensure that the most effective action items were selected and, once selected, that the action items were effectively and promptly implemented. Specifically, DFAS did not (1) develop adequate basic information about the TBO processes and proposed action items, (2) establish strong project management to oversee and coordinate efforts, or (3) allocate its resources on the basis of identified problems prioritized as to their severity. If DFAS better addresses these issues it will be in a stronger position to achieve meaningful and timely reforms in its TBO processing, which will ultimately lead to reductions in problem disbursements.

More Thorough Analysis Essential

DFAS did not develop adequate information about the TBO processes to effectively analyze the causes of problems in the TBO processes and design corrective action items. Consequently, DFAS' efforts did not ensure that it had chosen the most effective action items that would result in meaningful and timely reforms. A fact-based analysis of performance problems helps an organization prioritize candidates for improvement and makes a compelling argument for investing time and resources in changing specific aspects of business processes to achieve better results. Studies by the National Academy of Public Administration (NAPA) show that "organizations sometimes start reengineering without really knowing if they are focusing on the most important issues."⁶

DFAS' efforts to improve its TBO processes are an example of this. For instance, in a June 1995 report, DOD stated that quantitative data were unavailable to determine the precise causes of problem disbursements. According to DFAS officials, problem disbursement reform efforts are being managed based on managers' observations, experiences, and knowledge of DFAS systems. While a limited number of prioritized corrective actions could be started on such a basis, quantitative data are needed to validate those actions and prioritize additional specific reforms.

DFAS did not analyze the processes in enough detail to identify the costs and causes of performance breakdowns. For example, the DFAS report containing the action items states that not receiving disbursement data promptly or not receiving them with sufficient support are causes of aged in-transits. However, DFAS did not further analyze these causes to identify why sites fail to provide prompt and accurate information. Without such an analysis, DFAS does not have the information needed to establish

⁶Caudle, Sharon, Ph.D, *Reengineering for Results: Keys to Success From Government Experience*, (Center for Information Management-National Academy of Public Administration, August 1994), page 61.

priorities for reform efforts and direct resources to achieve meaningful and timely reforms.

DFAS officials diagrammed the existing cross disbursement payment processes and concluded that cross disbursements took 109 days to process. Although the officials acknowledged that the processes were too long, they did not analyze the time frames to identify bottlenecks, determine how many transactions fall outside the average, or establish realistic improvement goals. Using available information, DFAS officials subsequently developed and issued a policy (action items 1 and 2) to regulate and reduce the time to process a transaction. The processing time frames established in the policy provided for up to 134 days to process a cross disbursement—25 days longer than the processes they already considered to be too long. Without an analysis, DFAS does not know if its stated time frames are reasonable or obtainable. Officials at two DFAS processing centers said that even the new time frames were unrealistic.

Our review of the policy's implementation at one site found that it complied with the policy's time frames for less than 10 percent of the vouchers. While a standard policy may have been needed, policy directives alone will not address the problems or achieve the desired results. Addressing the problems will require both basic data against which to track the implementation and mechanisms to ensure that the policy is followed.

Because DFAS has not developed adequate basic information such as where and why problems occur in the processes, we believe it has decreased the likelihood for successfully reforming its disbursement processes or decreasing the volume of problem disbursements in the short term. As reported in our June 1996 study⁷ of the best practices of leading organizations in the implementation of the Government Performance and Results Act, three key steps of management reform are to (1) define missions and desired outcomes or results, (2) measure performance to gauge progress, and (3) use performance information as a basis for decision-making.

DFAS managers stated that the 14 action items we reviewed were relatively straightforward and may not have required extensive analysis. We disagree. While actions are needed in reforming DFAS' disbursement processes, a thorough analysis of the processes would help ensure that

⁷Executive Guide: Effectively Implementing the Government Performance and Results Act (GAO/GGD-96-118, June 1996).

DFAS focuses its resources on the most significant problems. As DFAS moves into more complex areas of reform, an analysis of the processes and problems will be even more critical.

Stronger Project Management Needed

Although strong management is critical to successful reform efforts, DFAS provided short-term, temporary project management, which contributed to delays in issuing the report and implementing the projects. In 1995, DFAS formally designated a project officer to, among other things, improve the current cross disbursement and TBO processes as well as reduce problem disbursements. However, after about 5 months, the project officer rotated out of the position before the actions were complete. For the first 6 months of 1996, at least three other people were in charge of implementing these action items. The final report containing the action items was delayed for 3 months because of the rotation of the project officer. In July 1996, DFAS headquarters assigned a permanent project officer; however, the person assigned had received no formal tasking or position description at the completion of our work.

Due to a lack of consistent management with clearly defined duties and authorities, the various DFAS centers have attempted to work out solutions to disbursement problems individually. This was not always done seamlessly. One reengineering expert has stated that without strong aggressive, committed, and knowledgeable leadership, there will be no one to persuade the elements within the organization to subordinate the interests of their functional areas to those of the organization as a whole.⁸ We found this to be true at DFAS. For example, one action item we reviewed (item 11) was to eliminate all of one DFAS center's cross disbursements and convert them to a TBO-type transaction, which would take a shorter period to record. DFAS estimated this should eliminate about \$115 million in cross disbursements each month. However, implementation was delayed because another center was proposing a conflicting project. Management officials did not intervene to direct a resolution of the problem. After 6 months, the other center withdrew the conflicting project, allowing the action item to proceed. However, much of the initial work had to be redone, and, in the interim, DFAS disbursed over \$1 billion through the cumbersome cross disbursement processes. At the time of our review, the action item was pending implementation in January 1997. DFAS headquarters officials agreed that this action item

⁸Hammer & Champy, *Reengineering the Corporation: A Manifesto for Business Revolution* (New York: Harper Collins Publishers, 1993), page 107.

should not have been delayed, and stated that poor communication among the centers contributed to the delay.

Allocation of Resources Could Be Improved

Because DFAS has many projects to reform its processes and a limited number of resources, the allocation of resources based on the priority of projects assumes a greater importance. With regard to problem disbursements, DFAS officials stated that reform projects have to compete for resources along with every other need. Without establishing priorities for multiple competing projects, sufficient resources may not be provided to fully implement and complete the more critical reforms.

Because a thorough analysis of the TBO processes was not conducted, DFAS may not be concentrating its resources to resolve the largest sources of problems. As a result, some of DFAS' efforts may have been directed at projects that, even if completed, would have had only a minimal impact on the disbursement process. For example, one action item was to improve the disbursement processes by rerouting payments made between two sections of a center (item 14). However, after 2 months of work, officials decided that too few transactions would be affected to warrant the needed systems changes and therefore canceled the action item.

Where DFAS has identified what it believes to be causes of problem disbursements, it has not dedicated sufficient resources to resolve the problems. For example, one action item (item 7) was for DFAS centers to resolve their backlogs of unprocessed cross disbursement transactions by November 1995. DFAS officials stated that these backlogs, for the most part, were the result of a onetime rerouting of cross disbursement transactions. Until processed and sent to the accounting stations these transactions remain as problem disbursements; i.e., aged in-transits. However, almost a year after the backlogs were to be resolved, one center still had a large backlog of about 110,000 vouchers. We estimate the center would need about 6 months to clear this backlog of unprocessed vouchers, even without considering the normal in-flow of new transactions. Officials at the center said that without additional staffing the backlog may never be eliminated. DFAS headquarters officials stated that their resources were concentrated on reducing the number of new cross disbursements rather than clearing the backlogs of unprocessed transactions. However, in January 1997, DFAS assigned a team to review the backlog and determine what actions were needed to eliminate it.

Finally, DOD has not implemented a standard line of accounting—a problem it has acknowledged since the 1960s. The lack of standard accounting classification codes necessitates that DOD rely, to a large extent, on hard copy vouchers and manual intervention for its TBO and cross disbursement processes. Since each military service uses a different set of accounting codes to designate how disbursements should be recorded, cross disbursements must be translated among the different service's accounting codes. One action item to develop a plan to use standardized accounting codes (item 4) is on hold pending completion of the DOD standard codes, now scheduled for the beginning of fiscal year 1998. We reported in 1980,⁹ 1986,¹⁰ and 1990¹¹ that DOD needed to allocate resources to develop standardized accounting classification codes and implement them throughout its finance and accounting systems.

In responses to our prior reports, DOD agreed that not having standard accounting information was a source of problem disbursements. DOD has not fully implemented the standard codes, citing technical complexity and costly system modifications. Implementing a standard line of accounting may be costly in the short term and could involve complex system integration issues. However, if DFAS does not address such root causes of its disbursement problems, those causes will continue to drain resources and prevent the effective reform of slow, cumbersome, and error-prone processes. Accordingly, we reiterate our previous recommendation that the DOD Comptroller finalize and implement a standard accounting classification code for all DOD accounting and finance systems.

Conclusions

Because basic data are lacking, neither we nor DFAS can assess whether tangible progress is being made toward resolving TBO disbursement problems. In order to resolve entrenched problems such as DOD's problem disbursements, a thorough analysis of the processes and problems is required. DFAS has not performed the analysis needed to identify the most severe sources of problems. Without such an analysis, DFAS could continue to undertake numerous projects to address what could be significant problems without the data to identify underlying causes and provide a basis for measuring progress.

⁹Defense's Accounting for Its Contracts Has Too Many Errors—Standardized Accounting Procedures Are Needed (FGMSD-80-10, January 9, 1980).

¹⁰Management Review: Progress and Challenges at the Defense Logistics Agency (GAO/NSIAD-86-64, April 7, 1986).

¹¹Financial Management: Problems in Accounting for DOD Disbursements (GAO/AFMD-91-9, November 9, 1990).

While generally such an analysis should be performed before proceeding with reform efforts, we do not advocate that DFAS discontinue all of its ongoing reform efforts in favor of additional analysis. However, we believe that work can continue on a select number of significant actions in conjunction with developing better quantitative analysis of problem areas. An analysis would help to validate that those actions would result in significant improvements and help prioritize additional actions. A concurrent process would help ensure that DFAS' most significant problems are being addressed and that resources are focused on those reform efforts identified as high priority.

In addition, strong, consistent management with clearly defined responsibilities and authorities would help coordinate the centers' work, and the effective and prompt implementation of needed reforms. Finally, an investment of adequate resources to make the reforms identified and prioritized by an analysis would help ensure that these problems will not continue to drain future resources.

Recommendations

To ensure the effective management of ongoing and future disbursement reform efforts, we recommend that the Director, Defense Finance and Accounting Service

- develop more complete analysis to identify underlying causes, define solutions, and measure progress;
- provide for consistent project management with clearly defined responsibilities and authority; and
- prioritize reform efforts to ensure that sufficient resources are allocated to the most severe sources of problems.

Agency Comments and Our Evaluation

In written comments on a draft of this report (see appendix I), DOD generally agreed with our findings and concurred with all of our recommendations. DOD stated that the effective management of ongoing and future disbursement reform efforts depends on the three factors we cited. DOD also noted specific actions taken or planned in response to the recommendations.

DOD disagreed with our statement that a preliminary analysis of DOD's problem disbursements shows that they are underreported by up to \$25 billion. We have previously provided DOD officials with detailed data showing the basis for our position that reported problem disbursement

amounts are understated and DOD officials have not provided data that refutes the amount of underreporting. This issue is the subject of an ongoing review that will address our finding that DOD's problem disbursement reporting is not producing accurate and consistent data needed to effectively measure its progress and manage the reduction of its problem disbursements.

DOD also commented that the report, by being limited to one of the Department's major initiatives, does not capture the results of the many other major initiatives that are underway—many of which are expected to help reduce in-transit disbursements. We agree that DOD has been working in many areas to resolve problem disbursements, and our report notes that DOD lists over 70 ongoing projects in a May 1996 business plan. However, this report focuses on the 14 action items specifically related to TBOS and cross disbursements. We also are evaluating other initiatives that are in varying stages of completion. The large number of initiatives supports our conclusion that the reform projects must be (1) prioritized on the basis of strong analysis to determine which ones will produce the greatest results and (2) managed by an experienced project manager with clear responsibility and authority.

In addition, DOD stated that it has internal controls in place to reduce the risks associated with fraudulent payments. We strongly disagree. Our audits, and those of the DOD Inspector General and audit services, have identified material internal control weaknesses in areas such as general electronic data processing, basic reconciliations, and supervisory reviews. DOD's inability to match over \$40 billion of disbursements with recorded obligations, including disbursements that cite closed bases and decommissioned ships, is also indicative of major control weaknesses. All of these weaknesses would contribute to making DOD's payment processes vulnerable to fraudulent payments and diminish the Department's ability to detect fraudulent and other improper payments that occur.

DOD also noted that the military departments and Defense agencies are committed to reducing problem disbursements as quickly as feasible and that, by most reasonable standards, the Department has been successful in that regard. As stated above, our preliminary work on DOD's reporting of problem disbursement data indicates that reported amounts are substantially understated and raises concerns over whether DOD has sufficient, reliable information to determine the extent to which disbursement problems have been reduced.

This report contains recommendations to the Director, DFAS. Within 60 days of the date of the report, we would appreciate receiving a written statement on actions taken to address these recommendations.

We are sending copies of this report to the Chairmen and Ranking Minority Members of the Senate Committee on Armed Services, the House Committee on National Security, the Senate Committee on Governmental Affairs, and the House Committee on Government Reform and Oversight; and the Director of the Office of Management and Budget. We are also sending a copy to the Secretary of Defense. Copies will also be made available to others upon request.

Please contact me at (202) 512-9095 if you have any questions on this report. Major contributors to this report are listed in appendix II.



Lisa G. Jacobson
Director, Defense Financial Audits

Comments From the Department of Defense



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100



MAR 17 1997

Mr. Gene L. Dodaro
Assistant Comptroller General
Accounting and Information Management Division
U. S. General Accounting Office
Washington, DC 20548

Dear Mr. Dodaro:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report "FINANCIAL MANAGEMENT: Improved Management Needed for DoD Disbursement Process Reforms," dated February 25, 1997 (GAO Code 918863/OSD Case 1300). The Department appreciates the opportunity to comment on this report.

The Department agrees generally with the report, but disagrees with the statement that in-transit disbursements are underreported by up to \$25 billion. In addition, by limiting its review to only one of the Department's major initiatives (including its 14 subinitiatives), the GAO did not capture the results of the many other major initiatives that the Department has underway--many of which also are expected to help reduce in-transit transactions.

Further, the Department has internal controls in place to reduce the risks associated with fraudulent payments. While the GAO has been reviewing the problem disbursements matter extensively for over 2 years, I can recall no significant or recurring GAO finding disclosing instances where problem disbursements also involved fraudulent payments. The Military Departments and Defense Agencies are committed to reducing problem disbursements as quickly as feasible. By most reasonable standards, the Department has been successful in that regard.

The Department agrees that the effective management of ongoing and future disbursement reform efforts depends upon the three factors cited in the GAO report--a thorough analysis of the causes and alternatives, strong management, and dedicated resources--and that an intensive plan is needed to correct the in-transit transaction problems. The Department also agrees with the recommendations contained in the subject draft report. Detailed comments are enclosed.

Sincerely,

Alvin Tucker
Deputy Chief Financial Officer

Enclosure

Appendix I
Comments From the Department of Defense

GAO DRAFT REPORT - DATED FEBRUARY 25, 1997
OSD CASE 1300, GAO CODE 918863

**“FINANCIAL MANAGEMENT: IMPROVED MANAGEMENT NEEDED FOR DOD
DISBURSEMENT PROCESS REFORMS”**

**DEPARTMENT OF DEFENSE COMMENTS ON
THE GAO RECOMMENDATIONS**

RECOMMENDATION 1: The GAO recommended that the Director, Defense Finance and Accounting Service--to ensure the effective management of ongoing and future disbursement reform efforts--develop more complete analysis to identify underlying causes, define solutions, and measure progress. (p. 19/GAO Draft Report)

DoD RESPONSE: Concur. The Defense Finance and Accounting Service (DFAS) already has implemented actions to obtain empirical data for analysis of the ongoing effort for eliminating “for-others” transactions. A dedicated manager and staff will ensure well-defined strategies are developed and implemented with measurements for success. Similar actions will be taken to ensure that future disbursement reform efforts are analyzed to identify root causes, determine solutions, and establish standards for measuring success.

RECOMMENDATION 2: The GAO recommended that the Director, Defense Finance and Accounting Service--to ensure the effective management of ongoing and future disbursement reform efforts--provide for consistent project management with clearly defined responsibilities and authority. (p. 19/GAO Draft Report)

DoD RESPONSE: Concur. The ongoing goal of the DFAS is to eliminate “for-others” transactions to the maximum extent possible. To accomplish this goal, the DFAS is first changing business practices, when possible, from a “for-others” to a “for-self” process. Second, the DFAS is automating the internal routing processes which will improve the quality and timeliness of the data by electronically moving edited data to the accounting stations. The DFAS is committed to providing the management and resources necessary to accomplish this goal. To ensure successful implementation of needed reforms for the disbursement processes, the DFAS has dedicated a strong manager--with extensive project, accounting, and financial management experience--to be responsible for reducing in-transits and overseeing a business process reengineering (BPR) effort to eliminate “for-others” transactions. The manager’s responsibilities and authority have been clearly articulated to her, and the DFAS is in the process of identifying staff that will be dedicated to this reform effort.

RECOMMENDATION 3: The GAO recommended that the Director, Defense Finance and Accounting Service--to ensure the effective management of ongoing and future disbursement reform efforts--prioritize reform efforts to ensure that sufficient resources are allocated to the most severe sources of problems. (p. 19-20/GAO Draft Report)

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Appendix I
Comments From the Department of Defense

DoD RESPONSE: Concur. The DFAS's ongoing goal is to eliminate "for-others" transactions to the maximum extent possible. This project enjoys a high priority. Accordingly, the DFAS is in the process of selecting resources dedicated to the management of the initiatives to eliminate "for-others" payments. The analysis of empirical data will be a basis to determine problems and their causes. The DFAS will allocate resources to the efforts which will produce the highest benefits toward eliminating "for-others" transactions.

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Major Contributors to This Report

Accounting and
Information
Management Division,
Washington, D.C.

David Childress

Atlanta Regional
Office

William Cordrey
Bob Crowl
Marshall Hamlett
Sue Piyapongroj

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