Audit Report

OFFICE OF THE INSPECTOR GENERAL

VOLUNTARY SEPARATION INCENTIVE TRUST FUND FINANCIAL STATEMENTS FOR FY 1993

Report No. 94-166 June 30, 1994

Department of Defense

Additional Copies

To obtain additional copies of this report, contact the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate, at (703) 604-8937 (DSN 664-8937) or FAX (703) 604-8932.

Suggestions for Future Audits

To suggest ideas for or to request future audits, contact the Planning and Coordination Branch, Audit Planning and Technical Support Directorate, at (703) 604-8939 (DSN 664-8939) or FAX (703) 604-8932. Ideas and requests can also be mailed to:

Inspector General, Department of Defense
OAIG-AUD (ATTN: APTS Audit Suggestions)
400 Army Navy Drive (Room 801)
Arlington, Virginia 22202-2884

DoD Hotline

To report fraud, waste, or abuse, call the DoD Hotline at (800) 424-9098 or write to the DoD Hotline, The Pentagon, Washington, D.C. 20301-1900. The identity of writers and callers is fully protected.

Acronyms

DFAS	Defense Finance and Accounting Service
GAO	General Accounting Office
JFMIP	Joint Financial Management Improvement Program
OMB	Office of Management and Budget
VSI	Voluntary Separation Incentive

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

June 30, 1994

MEMORANDUM FOR SECRETARY OF DEFENSE
COMPTROLLER AND CHIEF FINANCIAL OFFICER OF THE DEPARTMENT OF DEFENSE

SUBJECT: Audit Report on the Voluntary Separation Incentive Trust Fund Financial Statements for FY 1993 (Report No. 94-166)

We are providing this report for your information and use and for use by the U.S. Congress. Financial statement audits are required by the Chief Financial Officers Act of 1990. Office of Management and Budget Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," requires the Inspector General, Department of Defense, to express an opinion on the financial statements and report on the adequacy of internal controls and compliance with laws and regulations.

We are expressing an adverse opinion because the financial statements do not present fairly the financial position, the results of operations, cash flows, or budget and actual expenses of the Voluntary Separation Incentive Trust Fund (the Fund). The statements materially misstated Accrued Entitlement Benefits in the Statement of Financial Position and Program or Operating Expenses in the Statement of Operations and incorrectly reported Accounts Receivable, Net - Non-Federal at a zero amount. Those misstatements also affected similar line items in the Statement of Cash Flows and Statement of Budget and Actual Expenses. The Defense Finance and Accounting Service did not make our recommended adjusting entries to the general ledger accounts.

Part I of this report contains our opinion and Part II discusses weaknesses in the internal controls for ensuring the accuracy of payments and the completeness of accounting data. Part III discusses the lack of assurance that all separated members were affiliated with the Ready Reserve of a Reserve component. It also discusses missing elements in the Overview to the Financial Statements, deficiencies in financial management systems, and the need for an assessment of internal controls related to the Fund.

This report contains no recommendations that are subject to resolution in accordance with DoD Directive 7650.3; accordingly, comments are not required. If you have any questions about this audit report, please contact Mr. Richard B. Bird, Program Director, at (317) 542-3859 (DSN 699-3859), or Mr. Carmelo G. Ventimiglia, Project Manager, at (317) 542-3852 (DSN 699-3852). The courtesies extended to the audit staff are appreciated. The distribution of this report is listed in Part IV, Appendix C. A list of audit team members is inside the back cover.

Robert J. Lieberman

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, Department of Defense

Report No. 94-166 **June 30, 1994**
(Project No. 3FI-2016)

VOLUNTARY SEPARATION INCENTIVE TRUST FUND FINANCIAL STATEMENTS FOR FY 1993

EXECUTIVE SUMMARY

Introduction. The Voluntary Separation Incentive Trust Fund (the Fund) was established on January 1, 1993, by Public Law 102-190, "National Defense Authorization Act for FYs 1992 and 1993," to accumulate funds to finance, on an actuarially sound basis, liabilities of the DoD under the Voluntary Separation Incentive (VSI) program. The VSI program was one of two programs authorized by Public Law 102-190 to encourage military members with more than 6 years but fewer than 20 years of service to separate from active duty. Members who separate under the VSI program are to receive annual payments for a period of time equal to twice the number of years of creditable service they have at the time of separation. Through September 30, 1993, approximately 11,500 members separated from the Services (the Army, the Navy, the Air Force, and the Marines) under the VSI program. As of September 30, 1993, the Fund's assets were $933.8 million. The Fund received $949.1 million in contributions from the Services and $51.3 million in interest earned on non-marketable U.S. Treasury securities. The Under Secretary of Defense for Personnel and Readiness is the fund manager.

Objectives. The objectives of the audit were to determine whether the Fund's FY 1993 financial statements were presented fairly, in accordance with generally accepted accounting principles or the other comprehensive basis of accounting described in Office of Management and Budget (OMB) Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993. We evaluated the internal control structure established for the Fund and assessed compliance with applicable laws and regulations that could have a material effect on the financial statements.

Scope and Methodology. We examined the Principal Statements and the Notes to the Principal Statements of the Fund as of and for the 9-month period ended September 30, 1993. The Principal Statements include the Statement of Financial Position, Statement of Operations, Statement of Cash Flows, and Statement of Budget and Actual Expenses. Also included are the Notes and Overview. The statements upon which our opinion is based are in Part V. They were provided to us on June 23, 1994.

We performed various reviews to determine the reliability of computer-processed data provided to us. We limited our review of general and application controls for computer-processed data to tracing transactions through the Trust Funds Accounting System, observing operations, conducting interviews, and verifying securities balances to U.S. Treasury reports. We performed limited reviews of the other systems that generated the payment and accounting data we used. We also received assistance from the Chief Actuary of the General Accounting Office, who performed an independent review of the financial information prepared by the Department of Defense, Office of the Actuary.

Independent Auditor's Opinion. We are expressing an adverse opinion because the financial statements do not present fairly the financial position, the results of operations, cash flows, or budget and actual expenses of the Fund The statements materially misstated Accrued Entitlement Benefits in the Statement of Financial Position and Program or Operating Expenses in the Statement of Operations, and incorrectly reported Accounts Receivable, Net - Non-Federal at a zero amount. Those misstatements also affected similar line items in the Statement of Cash Flows and Statement of Budget and Actual Expenses. The Defense Finance and Accounting Service did not make our recommended adjusting entries to the general ledger accounts because the yearend reports it certified had already been submitted to the Office of the Secretary of Defense. Further, payments made to members separating under the VSI program were not computed in accordance with 10 U.S.C. 1405, "General Military Law," Subtitle A, "Computation of Retired Pay."

Internal Controls. Our review of internal controls for the Fund identified material internal control weaknesses. Weaknesses existed in the internal controls for ensuring the accuracy of VSI payments and the completeness of accounting data. Separation payments were incorrectly computed for 18 percent of the sampled cases. Also, procedures had not been developed to collect the data needed to report debts owed by personnel to whom inappropriate VSI payments were made. The internal control weaknesses we identified were not included in management's FY 1993 Annual Statements of Assurance. See Part II for a discussion of internal controls.

Compliance With Laws and Regulations. Our tests of compliance with laws and regulations disclosed instances of noncompliance, including the need for an assessment of internal controls related to the Fund. We also found that the Services did not fully comply with Public Law 102-190 and that the statements failed to disclose certain information required by OMB Bulletin No. 94-01. Also, financial management systems could not be used to provide information on accrued liabilities and expenditures in accordance with OMB Circular No. A-127, "Financial Management Systems," July 23, 1993. Part III is a discussion of compliance with laws and regulations. The list of laws and regulations we reviewed is in Part IV, Appendix A.

Management Comments. We issued a draft report on Part II, "Internal Controls," and Part III, "Compliance With Laws and Regulations," on April 29, 1994. On May 23, 1994, we received comments from the Deputy Director for General Accounting, Defense Finance and Accounting Service, on the internal control issues in the draft of our report. The Defense Finance and Accounting Service partially concurred with the issues in the draft report. The Defense Finance and Accounting Service nonconcurred with the need for improved controls over the data that are sent to Defense Finance and Accounting Service-Cleveland Center and used to make anniversary payments. See Part VII for the complete text of management comments.

Audit Response to Management Comments. Controls established at the Defense Finance and Accounting Service-Cleveland Center to verify the pay data sent to it did not ensure that all anniversary payments were made accurately and in a timely manner. Management's comments did not take into consideration that the VSI Payee Master File maintained at Defense Finance and Accounting Service-Cleveland Center did not contain the information needed to make anniversary payments to those members who had separated more than a year earlier. That file also served as the basis for the anniversary payments that were made to members who were not entitled to them. Better controls are needed to ensure that the information in the VSI Payee Master File is accurate and complete.

Table of Contents

This report was prepared by the Financial Management Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense.

Part I - Independent Auditor's Opinion on the Financial Statements

Adverse Opinion

Accrued Entitlement Benefits in the Statement of Financial Position and Program or Operating Expenses in the Statement of Operations were materially understated, and as discussed in Note 9 to the financial statements, accounts receivable (Accounts Receivable, Net - Non-Federal) related to Program or Operating Expenses were not reported. Those misstatements also affected similar line items in the Statement of Cash Flows and Statement of Budget and Actual Expenses. The Defense Finance and Accounting Service (DFAS) did not make our recommended adjusting entries to the general ledger accounts because the yearend reports it certified had already been submitted to the Department of the Treasury. Further, payments made to members separating under the Voluntary Separation Incentive (VSI) program were not computed in accordance with 10 U.S.C. 1405, "General Military Law," Subtitle A, "Computation of Retired Pay." However, sufficient evidence was not available regarding the years of creditable service to recompute the VSI payments for each of the members in our stratified sample. The problems we experienced are discussed in Part II, "Internal Controls."

DoD accounting policies and procedures and generally accepted accounting principles require unpaid expenses that are accrued for the fiscal year the financial statements are prepared that are expected to be paid within the following fiscal year to be recognized as current liabilities. Chapter 31 of DoD 7220.9-M, "DoD Accounting Manual" (DoD Accounting Manual), requires that accounts receivable be recorded in the appropriate receivable account in the accounting period during which the transaction or event giving rise to the receivable occurs.

Accrued Entitlement Benefits and Program or Operating Expenses may also be materially misstated because creditable Reserve and National Guard service time was often not used to compute VSI payments and the years of creditable service to which the separated members were entitled was sometimes miscalculated. Significant changes in the dollar values of VSI payments would affect the actuarial liabilities of the Fund.

Because of those departures from DoD accounting policies and procedures, as of September 30, 1993, Accrued Entitlement Benefits and Program or Operating Expenses were each understated by $21.3 million, and Accounts Receivable, Net - Non-Federal was understated by $50,797, resulting in a $21.2 million decrease in the Fund's net position.

In our opinion, because of the effects of the matters discussed in the preceding paragraphs, the financial statements do not present fairly, in conformity with the other comprehensive basis of accounting described in Office of Management and Budget (OMB) Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993, the financial position of the Voluntary Separation Incentive Trust Fund as of September 30, 1993, or the results of its operations or its cash flows for the year then ended. Therefore, we are issuing an adverse opinion on these financial statements.

Background

The Voluntary Separation Incentive Trust Fund (the Fund) was established on January 1, 1993, by Public Law 102-190, "National Defense Authorization Act for FYs 1992 and 1993," to accumulate funds to finance, on an actuarially sound basis, liabilities of the DoD under the VSI program. The VSI program was one of two programs authorized by Public Law 102-190 to encourage military members with more than 6 years but fewer than 20 years of service to separate from active duty. Members who separate under the VSI program are to receive annual payments for a period of time equal to twice the number of years of creditable service they have at the time of separation. Through September 30, 1993, approximately 11,500 members separated from the Services (the Army, the Navy, the Air Force, and the Marines) under the VSI program.

As of September 30, 1993, the Fund's assets were $933.8 million. The Fund received $949.1 million in contributions from the Services and $51.3 million in interest earned on non-marketable U.S. Treasury securities. On April 27, 1994, the Deputy Secretary of Defense named the Under Secretary of Defense for Personnel and Readiness as the fund manager.

The Chief Financial Officers Act requires an annual audit of the financial statements of funds such as the Voluntary Separation Incentive Trust Fund. The Principal Statements of the Fund are the responsibility of the Under Secretary of Defense for Personnel and Readiness and the Director, DFAS. Our responsibility is to express an opinion on those statements based on our examination.

Scope and Methodology

Statements Examined. We examined the Principal Statements and the Notes to the Principal Statements of the Voluntary Separation Incentive Trust Fund as of and for the 9-month period ended September 30, 1993. The Principal Statements include the Statement of Financial Position, Statement of Operations, Statement of Cash Flows, and Statement of Budget and Actual Expenses. Also included are the Notes and Overview. The statements upon which our opinion is based are in Part V. They were provided to us on June 23, 1994.

Scope of the Review of Internal Controls. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in financial statements, including the accompanying notes. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Statement presentation. We developed a client profile for the Fund and developed contribution, Treasury, expenditure, and financial reporting cycle memorandums that assessed the internal control structure. We believe that our audit provides a reasonable basis for our opinion. This financial statement audit was made during the period June 1993 through June 1994. A complete list of the locations we visited or contacted is in Part IV, Appendix B.

Scope of the Review of Compliance With Laws and Regulations. To obtain reasonable assurance about whether the Principal Statements are free of material misstatements, we tested compliance with laws and regulations that may directly affect the financial statements and other laws and regulations designated by the OMB and the DoD for inclusion in financial statement audits. We identified the key provisions of those laws and regulations and reviewed transactions, documents, and other records to ensure they complied with the provisions of those laws and regulations. The list of laws and regulations we reviewed is in Part IV, Appendix A.

As part of our audit, we also reviewed management's compliance with DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, and implementation of the program by fund management. We compared management's most recent Annual Statements of Assurance with our evaluation of the Fund's policies, procedures, and systems for documenting and supporting financial, statistical, and other information presented to us in the Overview to the Fund's Principal Statements. It was not our objective, however, to provide an opinion on overall compliance with such provisions.

Reliability of Computer-Processed Data. We performed various reviews to determine the reliability of computer-processed data provided to us. The Defense Accounting Office-Arlington uses the Trust Funds Accounting System to record and account for contributions from the Services, the purchase and sale of securities, interest collections, receivables, and disbursements to members who separated under the VSI program. We limited our review of general and application controls for computer-processed data to tracing transactions through the system, observing operations, conducting interviews, and verifying securities balances with Department of the Treasury reports. We also performed limited reviews of the other systems that generated the payment and accounting data we used. To the extent that we reviewed the computer-processed data, we concluded that they were sufficiently reliable to be used in meeting the audit objectives.

Actuarial Assistance. We received assistance from the Chief Actuary of the General Accounting Office (the GAO Actuary), who performed an independent review of the financial information prepared by the Department of Defense, Office of the Actuary (the DoD Actuary). The GAO Actuary limited his review to assessing the actuarial methods, policies, and procedures used by the DoD Actuary to estimate the present value of accumulated plan benefits as shown on the financial statements. The GAO Actuary determined that the present value of accumulated plan benefits was formulated in accordance with generally accepted actuarial principles and the actuarial present value of accumulated plan benefits was reasonable.

Auditing Standards

We conducted our audit in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, Department of Defense, and OMB Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Principal Statements are free of material misstatements. We relied on the guidelines suggested by the General Accounting Office and our professional judgment in assessing the materiality of matters impacting the fair presentation of the financial statements and related internal control weaknesses.

Accounting Principles

Accounting principles and standards for use in preparation of financial statements required by the Chief Financial Officers Act of 1990 remain under development. The Federal Accounting Standards Advisory Board was established to recommend Federal accounting standards to the Director, OMB; the Secretary of the Treasury; and the Comptroller General; who are the principals of the Joint Financial Management Improvement Program (JFMIP). Specific standards agreed on by those three officials are issued by the Director, OMB, and the Comptroller General.

Until accounting standards that will govern all aspects of financial statement reporting have been issued, which will constitute "generally accepted accounting principles for the Federal Government," agencies are required to follow the hierarchy of accounting principles described OMB Bulletin No. 94-01. The hierarchy constitutes the "other comprehensive basis of accounting" to be used for preparing Federal agency financial statements. A summary of the hierarchy defined and approved by the JFMIP principals follows:

o standards agreed to and published by the JFMIP principals,

o form and content requirements of the OMB,

o accounting standards contained in agency accounting policy guidance, and

o accounting principles published by other authoritative sources.

To date three accounting standards have been published by the JFMIP principals, so most accounting standards for the DoD's "other comprehensive basis of accounting" are contained in DoD accounting policy guidance. The DoD accounting guidance is primarily in the DoD Accounting Manual. During FY 1993, the DoD Comptroller updated portions of the DoD Accounting Manual and incorporated those sections into a new regulation, DoD 7000.14-R, "DoD Financial Management Regulation," (DoD Financial Regulation).

The DoD Financial Regulation will eventually serve as the single DoD-wide financial management regulation for use by all DoD Components for accounting, budgeting, finance, and financial management education and training. In the interim, unless superseded by published Federal accounting standards or requirements of OMB, the policy contained in the DoD Accounting Manual or in the DoD Financial Regulation, as applicable, is the authoritative basis for preparing financial statements in accordance with the "other comprehensive basis of accounting."

According to Part V, Note 1., the financial statements are presented on an accrual basis of accounting as required by Title 2 of the General Accounting Office's "Policy and Procedures Manual for Guidance of Federal Agencies," August 1987, and the DoD Accounting Manual. This represents an "other comprehensive basis of accounting."

Additional Information

Advisory Memorandum. We reported several deficiencies to the Office of the Under Secretary of Defense for Personnel and Readiness in an advisory memorandum issued on April 6, 1994. The deficiencies included the problems we identified in the computation of VSI payments and the reporting of accrued liabilities and expenditures. The Office of the Under Secretary of Defense for Personnel and Readiness provided written comments on April 25, 1994. (See Part VI for the advisory memorandum and the written comments.) Management initiated some action on those problems; however, some suggested changes had not been completed at the conclusion of our audit.

Overview. We also reviewed the financial information presented in management's Overview of the Fund. The information in the Overview is presented for the purpose of additional analysis. We have not audited that information; therefore, we are not expressing an opinion on it. The problems we identified with the Overview that still need to be corrected are identified, however, in Part III, "Compliance with Laws and Regulations," in accordance with OMB Bulletin No. 93-06.

Part II - Internal Controls

Introduction

We examined the internal control structure of the Voluntary Separation Incentive Trust Fund for the 9-month period ended September 30, 1993. The Fund was established on January 1, 1993. The statements upon which our examination is based were furnished to us by the Office of the Comptroller of the Department of Defense on June 23, 1994.

Management of the Fund is responsible for establishing and maintaining an internal control structure. The Under Secretary of Defense for Personnel and Readiness was designated as the fund manager on April 27, 1994. The DFAS received and invested fund contributions and used financial information to prepare the Principal Statements and the Notes to the Principal Statements. In fulfilling its responsibility, management is required to use estimates and judgments to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable but not absolute assurance that the following are met.

o Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets.

o Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

o Transactions, including those related to obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the Principal Statements, and any other laws and regulations that the OMB, entity management, or the Inspector General, Department of Defense, has identified as being significant for which compliance can be objectively measured and evaluated.

o Data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information.

o Questions are answered as to whether performance measures existed and whether those performance measures were adequate to enable the fund to fulfill its purpose.

Objective

The objective was to determine whether material internal control weaknesses existed as part of our audit of the financial statements of the Fund.

In planning and performing our audit of this newly established fund for the 9-month period ended September 30, 1993, we evaluated the Fund's internal control structure, including implementation of a DoD Internal Management Control Program. The purposes of this evaluation were to:

o determine our auditing procedures for expressing an opinion on the financial statements and

o determine whether the internal control structure was established to ensure that the statements were free of material misstatements.

Our review of the internal control structure included obtaining an understanding of the internal control policies and procedures, as well as assessing the level of control risk relevant to all significant cycles, classes of transactions, and account balances. For those significant control policies and procedures that had been properly designed and placed in operation, we performed sufficient tests to provide reasonable assurance that the controls were effective and working as designed.

For the purposes of this report, we have classified the significant internal controls, policies, and procedures into the following categories.

o Contributions - Policies, procedures, and internal controls of the DoD Actuary; relating to actuarial projections, as well as policies, procedures, and internal controls for Service contributions to the Fund that are based on those projections.

o Treasury - Policies, procedures, and internal controls established by the Defense Accounting Office-Arlington, an office of the DFAS-Cleveland Center, Cleveland, Ohio, for receiving fund contributions, investing in securities of the U.S. Treasury, and transferring funds from investments in securities to the Fund Balance With Treasury to cover expenditures.

o Expenditures - Policies, procedures, and internal controls established by the DoD over the payment of funds to members who separate under the VSI program.

o Financial Reporting - DoD policies, procedures, and internal controls for obtaining and summarizing financial information, including information from the DFAS Centers on program expenditures and other financial information.

The internal control weaknesses we identified were not included in the FY 1993 Annual Statements of Assurance of the Under Secretary of Defense for Personnel and Readiness and the Director, Defense Finance and Accounting Service, as required by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, because an assessment of internal controls related to the Fund had not been conducted.

Prior Audit Coverage

The Inspector General, Department of Defense, issued Report No. 93-122, "Voluntary Separation Incentive and Special Separation Benefit Bonuses," on June 23, 1993. The report did not identify any material deficiencies in the administration or execution of the VSI or Special Separation Benefit programs. Guidance directing the programs was adequate, and separated Service members were eligible for the programs. Based on pay data recorded in the Service members' pay files and a review of a limited number of DD Forms 214 (Certificates of Release or Discharge from Active Duty), separation payments reported by the DFAS Centers generally were computed correctly. The current audit results are less positive regarding accuracy of computations.

The GAO issued Report No. GAO/NSIAD-93-241 (OSD Case No. 9486), "Balancing Accessions and Losses is Key to Shaping the Future Force," in September 1993. The report stated that the DoD has made progress in downsizing its active duty force using various force management tools and legislative authorities. The report recommended the Congress consider amending the legislation to extend the use of the special separation incentive programs beyond the initial deadline of FY 1995 and to broaden the pool of persons eligible for the incentives. Both of those changes were included in Public Law 103-139, "FY 1994 National Defense Authorization Act."

Results of Audit

Reportable Conditions. Our review of internal controls for the Fund identified material internal control weaknesses. Those conditions are reportable under OMB Bulletin No. 93-06.

Reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to effectively control and manage its resources and ensure reliable and accurate financial information to manage and evaluate operational performance.

A material weakness is a reportable condition in which the design or operation of the internal control structure does not reduce to a relatively low level the risk that errors or irregularities could occur. Such errors would be in amounts that would be material to the statements being audited, or material to a performance measure or aggregation of related performance measures, and not be detected within a timely period by employees in the normal course of performing their functions.

Reportable Conditions Noted. Several material internal control weaknesses existed. We found that the DFAS had not established sufficient guidance and procedures to ensure VSI payments were computed accurately, and the DFAS Centers had not established adequate procedures to collect the data needed to report the dollar values of all payments due to members through September 30,

1993. Internal controls did not ensure that information in the VSI Payee Master File used by the DFAS-Cleveland Center to make and account for anniversary payments was accurate and complete. Also, procedures had not been developed to collect the data needed to report debts owed (accounts receivable) by personnel to whom VSI payments were made inappropriately.

Accuracy of Payments. Internal controls did not ensure that VSI payments were computed accurately and could be verified by management or auditors. The years of military service creditable to separated members and used to calculate annual VSI payments were not computed in accordance with 10 U.S.C. 1405. Creditable Reserve and National Guard service time was often not used to compute VSI payments. A further discussion of the statute is in Part III of this report. The failure to accurately compute service years occurred because of the lack of clear and specific guidance on how to calculate the years of service and procedures to ensure that creditable service documentation was furnished to Defense Accounting Offices and finance offices where separations occurred.

Sample. We reviewed the accuracy of the payment computations for a stratified sample of 333 members who separated from the Services. The Services' Reserve personnel activities we visited did not have or could not locate 54 of the 333 personnel records for the separated Service members. We could not find sufficient information to support computations in 25 of the 279 personnel records that could be located. In computations for the remaining 254 members, Reserve and National Guard service was appropriately considered for only 6 Air Force members in calculating the years of creditable service as required by 10 U.S.C. 1405. Five of those six members were paid accurately. Supporting documentation was not available to determine whether the other 248 members had Reserve and National Guard service that should have been used in calculating the years of creditable service.

Payment Computation. With few exceptions, documentation on the time members spent in the Reserve and National Guard prior to the date of separation was not available during our visits to each Service Reserve personnel activity. Based on the active duty service data in the personnel records, separation payments were not computed correctly for 46 (18 percent) of the 254 members in our stratified sample. Forty-two members were cumulatively overpaid by about $33,847, and four members were cumulatively underpaid by $1,647. The dollar value of the overpayments would have to be reduced by the dollar value associated with any creditable Reserve and National Guard time to which the members would be entitled.

Overall, because of the lack of sufficient information, we could not recompute the years of service in accordance with 10 U.S.C. 1405 and verify the accuracy of the payments made to 327 of the 333 members in our sample. We consider availability of length of service information as part of the documentation supporting payments to be a critical part of effective internal controls.

Reporting Accrued Liabilities and Expenditures. The DFAS Centers had not established adequate procedures to collect the data needed to report the dollar values of the following:

o initial payments made to members who separated under the VSI program from January 1, 1993, through September 30, 1993, and

o anniversary payments due in September 1993, but not paid until October 1993, to members who separated in September 1992.

As a result, accrued liabilities and accrued expenditures totaling $21.3 million were not reported in DD Forms 1176, "Reports on Budget Execution," for the Fund and, consequently, were not identified as Accrued Entitlement Benefits on the Statement of Financial Position and as Program or Operating Expenses on the Statement of Operations. Those misstatements also affected similar line items in the Statement of Cash Flows and Statement of Budget and Actual Expenses. Improved procedures were necessary because the financial management systems used to collect and report information on the VSI program did not capture liabilities and expenditures on an accrual basis. The problems we found with the financial management systems are discussed in Part III, "Compliance With Laws and Regulations."

Initial Payments. DFAS Centers did not properly report on DD Forms 1176 all initial payments made to members who separated under the VSI program. The DFAS Centers did not report as either expenditures or accrued liabilities payments that were actually made in FY 1993. The DFAS-Indianapolis and DFAS-Cleveland Centers reported $8.9 million as expenditures in their October and November 1993 submissions of DD Forms 1176 for the Fund that should have been reported in earlier submissions of that form. That delay in reporting occurred because payments made to members were initially charged to the Military Personnel appropriations, and the Fund appropriation was not charged for the expenditures until 30 to 60 days after the initial payments were made. The DFAS Centers had not established controls to ensure that the payments were promptly transferred to the Fund's accounting records. Making those payments from the Fund initially would avoid the problem.

Support for Reported Initial Payments. Internal controls at the DFAS-Denver and DFAS-Kansas City Centers did not ensure that the accrued liabilities and expenditures reported on DD Forms 1176 for initial payments were accurate and properly supported. Documentation identifying the members and the amounts paid to each of them was not available to substantiate the reported dollar values of accrued expenditures. Using the data furnished to DFAS-Cleveland Center by the two DFAS Centers (Denver and Kansas City), we calculated that the reported dollar values of accrued liabilities and expenditures were each understated by a total of about $500,000. Collectively, Accrued Entitlement Benefits and Program or Operating Expenses were understated by $9.4 million.

Anniversary Payments. The DFAS-Cleveland Center did not report as accrued liabilities and expenditures all anniversary payments that were due to members through September 30, 1993, but paid in October 1993. "Statement of Federal Financial Accounting Standard Number 1," March 30, 1993, recognizes as current liabilities those unpaid expenses that are accrued in the fiscal year for which the financial statements are prepared but are expected to be paid in the following fiscal year. The DFAS-Cleveland Center reported

$8.4 million as accrued liabilities as of the end of FY 1993 in its September 1993 submission of DD Form 1176. We determined that the DFAS-Cleveland Center understated Accrued Entitlement Benefits and Program or Operating Expenses by $11.9 million because the procedures used to collect that data did not account for all anniversary payments that were due for payment, but not paid, before October 1, 1993.

Accuracy of DFAS-Cleveland Center's Payee Master File. Internal controls did not ensure that information in the VSI Payee Master File maintained by the DFAS-Cleveland Center was accurate and complete. Weaknesses in controls over the initial payment data and subsequent changes and corrections that were to be sent from the members' original servicing DFAS Center to the DFAS-Cleveland Center caused some anniversary payments to be made based on inaccurate data and prevented other payments from being made.

Returned Anniversary Payments. In 1993, 80 anniversary payments sent to separated Army and Air Force members were returned to the DFAS-Cleveland Center. As of February 1994, personnel at the DFAS Centers determined that at least 23 of those anniversary payments should not have been made. The members had changed their preference of voluntary separation programs from the VSI program to the Special Separation Benefit program after they separated. However, the updated data were not sent from the members' original servicing DFAS Center to the DFAS-Cleveland Center.

Completeness of Initial Payment Data. We also found that the DFAS-Kansas City Center had not promptly sent to the DFAS-Cleveland Center information on initial payments made between January 1, 1993, and September 30, 1993. Information on 122 former Marines, entitled to a total of about $1.0 million in anniversary payments, was not sent to the DFAS-Cleveland Center until the separated members inquired as to why they had not received anniversary payments.

Use of Available Information. The Services and the DFAS did not use the information available at the Defense Manpower Data Center to help identify inaccurate and missing data in DFAS-Cleveland Center's Payee Master File. The Defense Manpower Data Center received personnel data from the Services and pay data from the DFAS Centers, including information from the DFAS-Cleveland Center's Payee Master File. However, differences in the files as to who separated under the VSI program and would be entitled to anniversary payments were not researched and resolved. Although we found that information at the Defense Manpower Data Center was not always current, the information should be used to help ensure that only separated members entitled to anniversary payments receive them.

Defense Manpower Data Center's Records. In March 1994, Defense Manpower Data Center's records indicated that only 8,704 (75 percent) of the 11,634 members in DFAS-Cleveland Center's Payee Master File had data in both personnel and pay files that confirmed the members had separated from the Services under the VSI program. For the other 2,930 members, either the personnel file or the pay file, or both files, did not contain data that indicated the members separated under the VSI program.

Results of Our Review. We reviewed information related to 328 of the 574 members for whom data in both personnel and pay files did not match DFAS-Cleveland Center's Payee Master File. Our review showed that data in the Defense Manpower Data Center's records were not current. We found that most of the members had separated under the VSI program. In the other cases, the DFAS-Cleveland Center either had already taken action to terminate the improper accounts or were in the process of researching the differences. However, through reviews of personnel and pay data, we identified eight other members who were in DFAS-Cleveland Center's Payee Master File who were not entitled to the anniversary payments they received, which totaled $53,795. The DFAS-Cleveland Center terminated those accounts as a result of our finding, and collection action had begun.

Reporting Accounts Receivable. The DFAS had not established procedures to collect the data needed to report in the financial statements debts owed by personnel to whom DFAS Centers inappropriately made VSI payments. Chapter 31 of DoD 7220.9-M, "DoD Accounting Manual," requires that accounts receivable be recorded in the appropriate receivable account in the accounting period during which the transaction or event giving rise to the receivable occurs. Records showed that the DFAS-Cleveland Center recognized that it had made $50,797 in erroneous anniversary payments in FY 1993. Those payments were still owed to the Government as of September 30, 1993. None of the DFAS Centers had procedures to collect the data needed to report in the financial statements debts owed by personnel to whom duplicate, erroneous, or inaccurately computed VSI payments had been made.

We also noted internal control weaknesses over establishing an affiliation with the Ready Reserve of a Reserve component at the time members separated from the Services. The weaknesses are discussed in Part III of this report, but are not material to the financial statements.

Reportable Conditions Not Noted. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

Except for matters noted, we believe there is reasonable assurance that the internal control structure meets the internal control objectives.

Management Comments

We received comments on the draft of our report on internal controls from the Deputy Director for General Accounting, DFAS, on May 23, 1994. The Deputy Director partially concurred with the issues in the draft report. Management comments are reproduced in their entirety in Part VII of this report.

The DFAS stated that the guidance it issued on October 14, 1993, recognized that VSI payments were not computed using years of service in accordance with

10 U.S.C. 1405. The DFAS Centers were to develop procedures to recompute all payments previously made and ensure all subsequent payments are computed according to 10 U.S.C. 1405. The DFAS also agreed that adequate procedures had not been established to collect the data needed to report the dollar values of initial and anniversary payments and debts owed by personnel to whom DFAS Centers inappropriately made VSI payments.

The DFAS disagreed that internal controls did not ensure that information in the VSI Payee Master File maintained by the DFAS-Cleveland Center was accurate and complete. It maintained that periodic automated comparisons between data in the VSI Payee Master File and data in the Reserve Components Common Personnel Data System, as supplemented by discussions with each Service Reserve personnel activity as to the Reserve status of those separated members for whom the Reserve Components Common Personnel Data System did not indicate a Reserve affiliation, served as the basis for the integrity of the VSI Payee Master File.

Audit Response to Management Comments

The direction given by Headquarters, DFAS, to the DFAS Centers has not yet resulted in the establishment of procedures to ensure that all payments are made in accordance with 10 U.S.C. 1405. The DFAS continues to coordinate with the active duty and Reserve personnel communities of each Service to establish procedures to recompute VSI payments previously made and to ensure that subsequent payments are computed using all creditable years of service as required by 10 U.S.C. 1405.

Regarding the VSI Payee Master File, the accuracy and completeness of the information in that file cannot be verified by comparing it with the data in the Reserve Components Common Personnel Data System or through discussions with each Service Reserve personnel activity as to the status of the Reserve affiliation of separated members. Management's comments did not take into consideration that the VSI Payee Master File served as the basis for the anniversary payments that were made to members who were not entitled to them, and the file did not contain the information needed to make anniversary payments to those members who had separated more than a year earlier. The DFAS-Cleveland Center and the DFAS Centers providing payment data to it should institute stricter controls over data accuracy and completeness to ensure future VSI payments, based on the VSI Payee Master File, are correct.

Part III - Compliance With Laws and Regulations

Introduction

We evaluated the Voluntary Separation Incentive Trust Fund for material instances of noncompliance with laws and regulations for the 9-month period ended September 30, 1993. The statements upon which our evaluation was based were furnished to us by the Office of the Comptroller of the Department of Defense on June 23, 1994. Such tests are required by the Chief Financial Officers Act of 1990. The list of laws and regulations we reviewed is in Part IV, Appendix A.

Objective

Our objective was to assess compliance with laws and regulations for transactions and events that have a direct and material effect on the financial statements. Material instances of noncompliance are failures to follow requirements, or violations of prohibitions in laws or regulations. Such failures or violations are those that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the Principal Statements or those whose sensitive nature would cause them to be perceived as significant by others. Compliance with laws and regulations is the responsibility of the Under Secretary of Defense for Personnel and Readiness and the Director, DFAS.

Prior Audit Coverage

Inspector General, Department of Defense, Report No. 93-122, "Voluntary Separation Incentive and Special Separation Benefit Bonuses," June 23, 1993, concluded that members who separated under the programs authorized by Public Law 102-190, "National Defense Authorization Act for FYs 1992 and 1993," met eligibility requirements. Also, separation payments reported by the DFAS Centers generally were computed correctly.

Results of Audit

Our tests of compliance with laws and regulations disclosed four instances of noncompliance. We found that the Services did not fully comply with Public Law 102-190, and the statements failed to disclose certain information required by OMB Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993. Also, financial management systems could not be used to provide information on accrued liabilities and expenditures in accordance with OMB Circular No. A-127, "Financial Management Systems," July 23, 1993. The internal control weaknesses we identified were not included in the FY 1993 Annual Statements of Assurance of the Under Secretary of Defense for Personnel and Readiness and the Director, DFAS.

Compliance with Public Law 102-190. The Services did not fully comply with Public Law 102-190, "National Defense Authorization Act for FYs 1992 and 1993." As discussed in Part II, "Internal Controls," the years of military service creditable to separated members and used to calculate annual VSI payments were not computed in compliance with 10 U.S.C. 1405, "General Military Law," Subtitle A, "Computation of Retired Pay." That occurred because of a lack of clear and specific guidance on how to calculate the years of service. Also, not all members had established an affiliation with the Ready Reserve of a Reserve component as required. In addition, the data relied on to confirm Reserve affiliation prior to making anniversary payments were not supported by documentation in official personnel records.

Background. Public Law 102-190 requires members separating under the VSI program to establish and maintain a Reserve affiliation for the duration of the VSI payment period. As part of the separation process, members approved for VSI payments are required to complete specific forms to document an affiliation with the Ready Reserve of a Reserve component. Those data are entered into the Reserve Components Common Personnel Data System maintained by the Defense Manpower Data Center and are used by the DFAS-Cleveland Center to determine whether members have an affiliation with the Ready Reserve of a Reserve component.

Affiliation Requirement. As part of our review, we determined whether all members who separated under the VSI program had established an affiliation with the Ready Reserve of a Reserve component in accordance with Public Law 102-190. Our review of personnel records disclosed that documentation was not available in the personnel records for 32 of the 279 members whose records we reviewed to substantiate that the members had established a Reserve affiliation. Documentation from one of the Reserve personnel activities, the Marine Corps Reserve Support Command, indicated that the separation process was not executed as designed. Problems existed in establishing and documenting the Reserve affiliation of officers and enlisted members who separated from active duty. The same problems with the separation process were also experienced at the separating activities of the other Services.

The Reserve Components Common Personnel Data System contained information supplied by activities from each of the Services. Data in the system as of March 1994 indicated that 26 of the 32 members whose personnel records did not reflect an affiliation had indeed established an affiliation with the Ready Reserve of a Reserve component. However, data in the personnel records did not confirm those affiliations. In addition, no documentation was found to verify that the remaining 6 of the 32 members (who received $65,509 in initial payments) had Reserve affiliations.

Although the lack of positive assurance that all members had Reserve affiliations at the time of separation did not materially affect the Fund's financial statements as of September 30, 1993, the lack of such information violates the public law and indicates the data in the Reserve Components Common Personnel Data System is not complete and accurate. The deficiencies should be corrected.

Compliance With OMB Bulletin No. 94-01. The statements did not properly report on certain information as required by OMB Bulletin No. 94-01 and "DoD Guidance on Form and Content of Financial Statements for FY 1993 and FY 1994 Financial Activity," January 12, 1994. The intent of OMB Bulletin No. 94-01 and related DoD guidance requires certain information be included to improve the usefulness of the statements. The deficiencies on the FY 1993 financial statements follow.

o The Overview for the Fund did not clearly describe the goals and accomplishments of the VSI program or the financial condition of the Fund. The Overview explained the VSI program and discussed how the liabilities of the Fund were calculated. However, the Overview did not disclose how successful the VSI program was in accomplishing its intended purpose, including its use in relation to other programs used to reduce and reshape the military. The Overview also did not include an analysis of the Fund's financial condition as required by OMB Bulletin No. 94-01. Disclosure of progress toward implementing sound financial management policies, such as making VSI payments accurately and in a timely manner, would also provide beneficial data to users of the financial statements.

o The statements did not disclose the costs of administering the VSI program. Annual VSI payments were considered to be Program or Operating Expenses of the Fund. Although administration costs may be difficult to determine because the program is administered by several activities within the DoD, an estimate of DoD's costs should be shown. Otherwise, the omission of the information should be noted in the Overview.

Compliance With OMB Circular No. A-127. The financial management systems used to collect and report information on the VSI program did not capture liabilities and expenditures on an accrual basis. OMB Circular No. A-127 requires financial management systems to provide financial information in a timely and useful manner to ensure compliance with reporting requirements, including the preparation of reliable financial statements. OMB Bulletin No. 94-01 and Volume 1, DoD 7000.14-R, "DoD Financial Management Regulation," May 1993, require accrual accounting.

Instead of relying on financial management systems, DFAS personnel relied on manual procedures to collect data on accrued liabilities and expenditures needed to prepare the financial statements. The problems we found with those procedures are discussed in Part II, "Internal Controls." Reporting liabilities and expenditures in the proper accounting period is necessary to increase the reliability and usefulness of the financial information reported for the Fund.

DoD Directive 5010.38. Management had an Internal Management Control Program in place in accordance with DoD Directive 5010.38. However, the internal control weaknesses we identified were not included in the

FY 1993 Annual Statements of Assurance of the Under Secretary of Defense for Personnel and Readiness and the Director, DFAS, because an assessment of internal controls related to the Fund had not been conducted.

Part IV - Additional Information

Appendix A. Laws and Regulations Reviewed

Public Law 102-190, "National Defense Authorization Act for FYs 1992 and 1993"

Public Law 101-576, "Chief Financial Officers Act of 1990"

10 U.S.C. 1405, "General Military Law," Subtitle A, "Computation of Retired Pay"

Title 2 of the General Accounting Office's "Policy and Procedures Manual for Guidance of Federal Agencies," August 1987

OMB Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993

OMB Circular No. A-127, "Financial Management Systems," July 23, 1993

OMB Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993

OMB Circular No. A-123, "Internal Control Systems," August 4, 1986

"DoD Guidance on Form and Content of Financial Statements for FY 1993 and FY 1994 Financial Activity," January 12, 1994

DoD 7220.9-M, "DoD Accounting Manual"

DoD 7000.14-R, "DoD Financial Management Regulation," May 1993

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987

Appendix B. Organizations Visited or Contacted

Office of the Secretary of Defense

Office of the Under Secretary of Defense for Personnel and Readiness, Washington, DC
- Office of the Deputy Assistant Secretary of Defense (Military Manpower and Personnel Policy), Washington, DC
- Defense Manpower Data Center, Monterey, CA
- Department of Defense, Office of the Actuary, Arlington, VA

Office of the Comptroller of the Department of Defense, Washington, DC

Department of the Army

Office of the Deputy Chief of Staff for Personnel, Washington, DC
Army Reserve Personnel Center, St. Louis, MO
Directorate of Resource Management, U.S. Armor Center and Fort Knox, KY

Department of the Navy

Bureau of Naval Personnel, Arlington, VA
Naval Reserve Personnel Center, New Orleans, LA

Department of the Air Force

Office of the Assistant Secretary of the Air Force (Financial Management and Comptroller), Washington, DC
Office of the Deputy Chief of Staff for Personnel, Washington, DC
Air Force Military Personnel Center, San Antonio, TX
Air Force Reserve Personnel Center, Denver, CO
Directorate of Military Personnel, Wright-Patterson Air Force Base, OH

Marine Corps

Headquarters, U.S. Marine Corps, Washington, DC

Defense Agencies

Headquarters, Defense Finance and Accounting Service, Washington, DC
- Defense Finance and Accounting Service Center, Cleveland, OH
  - Defense Accounting Office, Arlington, VA
- Defense Finance and Accounting Service Center, Denver, CO

Defense Agencies (cont'd)

Defense Finance and Accounting Service Center, Indianapolis, IN
Defense Finance and Accounting Service Center, Kansas City, MO

Non-Defense Organization

U.S. General Accounting Office, Washington, DC

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Personnel and Readiness
Comptroller and Chief Financial Officer of the Department of Defense
Assistant Secretary of Defense (Reserve Affairs)

Department of the Army

Assistant Secretary of the Army (Financial Management)
Auditor General, Department of the Army
Deputy Chief of Staff for Personnel
Chief, Army Reserve

Department of the Navy

Assistant Secretary of the Navy (Financial Management)
Comptroller of the Navy
Auditor General, Naval Audit Service
Chief of Naval Personnel
Deputy Chief of Staff for Manpower and Reserve Affairs (Marine Corps)
Director of Naval Reserve

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Air Force Audit Agency
Deputy Chief of Staff for Personnel, Washington, DC
Chief of Air Force Reserve

Defense Agencies

Director, Defense Finance and Accounting Service
- Director, Defense Finance and Accounting Service-Cleveland Center
- Director, Defense Finance and Accounting Service-Denver Center
- Director, Defense Finance and Accounting Service-Indianapolis Center
- Director, Defense Finance and Accounting Service-Kansas City Center

Non-Defense Federal Organizations

Office of Management and Budget
National Security and International Affairs Division, Technical Information Center, U.S. General Accounting Office

Chairman and Ranking Minority Member of Each of the Following Congressional Committees and Subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Subcommittee on Force Requirements and Personnel, Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Subcommittee on Military Forces and Personnel, Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on Government Operations

Part V - Voluntary Separation Incentive Trust Fund Financial Statements for FY 1993

OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON DC 20301-1100

JUN 23 1994

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, DODIG

SUBJECT: Transmittal of Adjusted Financial Statements on FY 1993 Financial Activity

Attached are the final financial statements on FY 1993 financial activity which have been amended to reflect audit adjustments. Included herein are the financial statements for the following general, revolving and trust fund accounts of the Department of Defense:

- Department of the Air Force
- Air Force--DBOF
- Defense Security Assistance Agency
- National Security Education Trust Fund
- DoD Military Retirement Trust Fund
- Defense Education Benefits Fund
- Voluntary Separation Incentive Trust Fund

Coordination has been obtained from the individual program managers and the financial statement adjustments are effective as of June 20, 1994.

My point of contact on this matter is Mr. Oscar Covell. He may be reached on (703) 697-6149.

Alvin Tucker
Deputy Chief Financial Officer

Attachments

Voluntary Separation Incentive Trust Fund

Overview

Overview

Voluntary Separation Incentive Program
Overview of the Reporting Entity

The Voluntary Separation Incentive (VSI) is a program authorized by Public Law 102-190 (section 1175 of Title 10, United States Code) for use by the military during the drawdown It provides a special benefit to induce mid-career level military members (with more than 6 but less than 20 years of service) to separate from active duty service VSI can be offered selectively to members with certain skills, ratings, or years of service

VSI provides the separating member a series of annual payments, each of which is equal to 2 5 percent of the member's monthly basic pay at the time of separation, multiplied by twelve and multiplied again by the member's years of service All members offered VSI have the option of choosing the Special Separation Benefit (SSB) instead of VSI SSB provides a one-time lump-sum payment equal to 15 percent of monthly basic pay at separation, multiplied by twelve and multiplied again by the member's years of service

A special fund was created from which VSI payments are made The Department of Defense Office of the Actuary calculates liabilities to the fund that are associated with two groups of VSI takers The first group, known as the early takers, consists of those members who separated prior to January 1, 1993 For this group, the Office calculates the present value of future benefits, as of January 1, 1993, and an associated amortization schedule to liquidate this liability The Office's calculations are based on 9,554 early takers - 4,818 officers receiving an average annual payment of $12,697, and 4,736 enlistees receiving an average payment of $6,950

The second group, known as the late takers, consists of those members who separate between January 1, 1993, and the ending date of the VSI program, which was originally scheduled for September 30, 1995, but has been extended to September 30, 1999 For the second group, the Office of the Actuary will calculate the present value of future benefits as of September 30, 1999

The Office of the Actuary made a special calculation of the present value of "accrued benefits" under VSI (or what might loosely be described as the VSI liability), as of September 30, 1993 This figure was defined by the Office to be the present value of all remaining VSI payments, as of September, 1993, to those members who had already separated by that date

The Office's calculation of the present value of accrued benefits under VSI is based on the 9,554 early takers already mentioned, and 1,902 late takers separating between January 1, 1993 and September 30, 1993 These late takers are comprised of 1,358 officers receiving an average annual payment of $11,434 and 544 enlistees receiving an average payment of $7,383

The Office of the Actuary determined the present value of accrued benefits under VSI as of September 30, 1993 to be $1,247 million Assets in the VSI fund available to pay benefits on September 30, 1993 were $925 million

Overview

4

Voluntary Separation Incentive Trust Fund

Principal Statements

Principal Statements

Principal Statements

Department/Agency: Voluntary Separation Incentive Trust Fund
Reporting Entity: Principal Statements
Statement of Financial Position
as of September 30, 1993
(Dollars)

ASSETS	1993	1992
1. Financial Resources:		
a Fund Balances with Treasury (Note 2)	$15,052,201	
b Cash		
c Foreign Currency		
d Other Monetary Assets		
e Investments, Non-Federal		
f Accounts Receivable, Net - Non-Federal		
g Inventories Held for Sale, Net		
h Loans Receivable, Net - Non-Federal		
i Property Held for Sale		
j Other, Non-Federal		
k Intragovernmental Items		
(1) Accounts Receivable, Federal	30,839,983	
(2) Loans Receivable, Federal		
(3) Investments, Federal (Note 3)	887,858,547	
(4) Other, Federal		
l. Total Financial Resources	$933,750,731	$0
2. Non-Financial Resources:		
a Resources Transferable to Treasury		
b Advances and Prepayments, Non-Federal		
c Inventories Not Held for Sale		
d Property Plant and Equipment, Net		
e Other		
f. Total Non-Financial Resources	$0	$0
3. Total Assets	$933,750,731	$0
LIABILITIES		
4. Funded Liabilities		
a Accounts Payable, Non-Federal		
b Accrued Interest Payable		
c Accrued Payroll and Benefits		
d Accrued Entitlement Benefits	$9,123,020	
e Lease Liabilities		
f Liabilities for Loans Guarantees		
g Deferred Revenue- Non-Federal		
h Pensions and Other Actuarial Liabilities		

The accompanying notes are an integral part of these statements.

Principal Statements

Department/Agency: Voluntary Separation Incentive Trust Fund
Reporting Entity: Principal Statements
Statement of Financial Position
as of September 30, 1993
(Dollars)

LIABILITIES Continued	**1993**	**1992**
i Other Funded Liabilities, Non-Federal (Note 4)	$924,627,711	
j Intragovernmental Liabilities		
(1) Accounts Payable, Federal		
(2) Debt		
(3) Deferred Revenue		
(4) Other Funded Liabilities, Federal		
k. Total Funded Liabilities	$933,750,731	$0
5. Unfunded Liabilities:		
a Accrued Leave		
b Lease Liabilities		
c Debt		
d Pensions and Other Actuarial Liabilities (Note 5)	$322,372,289	
e Other Unfunded Liabilities		
f. Total Unfunded Liabilities	$322,372,289	$0
6. TOTAL LIABILITIES	$1,256,123,020	$0
NET POSITION		
7. Fund Balances:		
a Revolving Fund Balances		
b Trust Fund Balances (Note 6)		
c Appropriated Fund Balances		
d. Total Fund Balances	$0	$0
8. Less Future Funding Requirements (Note 7)	322,372,289	0
9. Net Position	($322,372,289)	$0
10. Total Liabilities and Net Position	$933,750,731	$0

The accompanying notes are an integral part of these statements. 8

Principal Statements

Department/Agency: Voluntary Separation Incentive Trust Fund
Reporting Entity: Principal Statements
Statement of Operations (and Changes in Net Position)
for Period Ended September 30, 1993
(Dollars)

	1993	1992
REVENUES AND FINANCING SOURCES		
1 Appropriations Expensed		
2 Revenues from Sales of Goods		
a To the Public		
b Intragovernmental		
3 Interest and Penalties, Non-Federal		
4 Interest, Federal	$31,080,674	
5 Taxes		
6 Other Revenues and Financing Sources (Note 8)	949,100,000	
7 Less Taxes and Receipts Returned to the Treasury		
8. Total Revenues and Financing Sources	$980,180,674	$0
EXPENSES		
9 Program or Operation Expenses (Note 9)	$55,552,963	
10 Cost of Goods or Services Sold		
a To the Public		
b Intragovernmental		
11 Depreciation and Amortization		
12 Bad Debts and Write-offs		
13 Interest		
a Federal Financing Bank/Treasury Borrowing		
b Federal Securities		
c Other		
14 Other Expenses		
15. Total Expenses	$55,552,963	$0
16 Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Adjustments	$924,627,711	$0
17 Plus (Minus) Adjustments:		
a Extraordinary Items (Note 10)	(1,247,000,000)	
b Prior Period Adjustments		
18 Excess (Shortage) of Revenues and Financing Sources over Total Expenses	($322,372,289)	$0
19 Plus Unfunded Expenses		
20. Excess (Shortage) of Revenues and Financing Sources Over Funded Expenses	($322,372,289)	$0

The accompanying notes are an integral part of these statements.

9

Principal Statements

Department/Agency: Voluntary Separation Incentive Trust Fund
Reporting Entity: Principal Statements
Statement of Operations (and Changes in Net Position)
for Period Ended September 30, 1993
(Dollars)

EXPENSES Continued	**1993**	**1992**
21. Net Position, Beginning Balance		
22 Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	($322,372,289)	$0
23 Plus (Minus) Equity Transfers		
24. Net Position, Ending Balance	($322,372,289)	$0

The accompanying notes are an integral part of these statements. 10

Principal Statements

Department/Agency: Voluntary Separation Incentive Trust Fund
Reporting Entity: Principal Statements
Statement of Cash Flows (Indirect)
for the Period Ended September 30, 1993
(Dollars)

	1993	1992
Cash Flows from Operating Activities:		
1 Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	($322,372,289)	$0
Adjustments affecting Cash Flow:		
2 Appropriations Expensed		
3 Decrease (Increase) in Accounts Receivable	($30,839,983)	
4 Decrease (Increase) in Loans Receivable		
5 Decrease (Increase) in Other Assets		
6 Increase (Decrease) in Accounts Payable	9,123,020	
7 Increase (Decrease) in Other Liabilities	1,247,000,000	
8 Depreciation and Amortization		
9 Other Unfunded Expenses		
10 Other Adjustments		
11. Total Adjustments	$1,225,283,037	$0
12. Net Cash Provided (Used) by Operating Activities	$902,910,748	$0
Cash Flows from Non-Operating Activities:		
13 Proceeds from Sales of Investments		
14 Proceeds from Sales of Property, Plant and Equipment		
15 Purchases of Investments	($887,858,547)	
16 Purchases of Property, Plant and Equipment		
17. Net Cash Provided (Used) by Non-Operating Activities	($887,858,547)	$0
CASH PROVIDED (USED) BY FINANCIAL ACTIVITIES		
18 Appropriations (Current Warrants)		
19 Add		
a Restorations		
b Transfers of Cash from Others		
20 Deduct:		
a Withdrawals		
b Transfers of Cash to Others		
21 Net Appropriations	$0	$0

The accompanying notes are an integral part of these statements. 11

Principal Statements

Department/Agency: Voluntary Separation Incentive Trust Fund
Reporting Entity: Principal Statements
Statement of Cash Flows (Indirect)
for the Period Ended September 30, 1993
(Dollars)

	1993	1992
22 Borrowing from the Public		
23 Repayments on Loans to the Public		
24 Borrowing from the Treasury and the Federal Financing Bank		
25 Repayments on Loans from the Treasury and the Federal Financing Bank		
26 Other Borrowings and Repayments		
27 Net Cash Provided (Used) by Financing Activities	$0	$0
28 Net Cash Provided (Used) by Operating, Non-Operating and Financing Activities	$15,052,201	$0
29. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning		
30. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	$15,052,201	$0

Supplemental Disclosure of Cash Flow Information:

31 Total Interest Paid

Supplemental Schedule of Financing and Investing Activity:

32 Property and Equipment Acquired Under Capital Lease Obligations

33 Property Acquired Under Long-term Financing Arrangements

34 Other Exchanges of Noncash Assets or Liabilities

The accompanying notes are an integral part of these statements.

Principal Statements

Department/Agency: Voluntary Separation Incentive Trust Fund
Reporting Entity: Principal Statements
Statement of Budget and Actual Expenses
for the Period Ended September 30, 1993
(Dollars)

Program Name(s)	Resources	BUDGET OBLIGATIONS Direct	BUDGET OBLIGATIONS Reimbursed	ACTUAL Expenses
Voluntary Separation Incentive F	$905,786,339	$55,552,963		$55,552,963
Totals	$905,786,339	$55,552,963	$0	$55,552,963

Budget Reconciliation

A Total Expenses	$55,552,963
B Add	
(1) Capital Acquisitions	
(2) Loans Disbursed	
(3) Other Expended Budget Authority	
C Less:	
(1) Depreciation and Amortization	
(2) Unfunded Annual Leave Expense	
(3) Other Unfunded Expenses	
D Expended Appropriations	$55,552,963
E Less Reimbursements	
F Expended Appropriations, Direct	$55,552,963

The accompanying notes are an integral part of these statements. 13

Principal Statements

The accompanying notes are an integral part of these statements. 14

Voluntary Separation Incentive Trust Fund

Footnotes to the Principal Statements

Footnotes

Voluntary Separation Incentive Trust Fund
Footnotes to the Principal Statements

Note 1. Significant Accounting Policies

The Voluntary Separation Incentive Fund was authorized by 10 USC 1175 for the accumulation of funds in order to finance on an actuarially sound basis liabilities of the Department of Defense under the Voluntary Separation Incentive program The accounting is accomplished by the Defense Finance and Accounting Service - Defense Accounting Office - Arlington These financial statements are presented on the accrual basis of accounting as required by Title 2, "Accounting Principles and Standards" published by GAO and the DoD Accounting Manual Reports are prepared from Trial Balance data generated by an automated system which is on the accrual basis Balances are reconciled monthly with U S Treasury records

The program is funded by

(1) Amounts paid into the VSI Fund in accordance with amortization schedules developed by the DoD Board of Actuaries

(2) Interest on investments

Note 2. Fund Balances with Treasury

Trust Funds $ 15,052,201

Note 3. Investments

	(1) Cost	(2) Market Value	(3) Amortization Method	(4) Amortized Premium/ (Discount)	(5) Investment Net Book Value
B Federal Securities Non-Marketable	908,093,920	899,657,464	Effective Interest	(20,235,373)	887,858,547

The method used to determine amount amortized book value of investments currently held and related yield on investments conforms to the prevailing practice in the financial community. The calculated yields match up with yields in published security tables of U S Treasury securities

Note 4. Other Funded Liabilities, Federal

Other Funded Liabilities, Federal $ 924,627,711

Footnotes

Note 5. Pensions and Other Actuarial Liabilities

Major Program Activity	(1) Actuarial Present Value of Projected Plan Benefits	(2) Assumed Interest Rate (%)	(3) Assets Available to Pay Benefits	(4) Unfunded Actuarial Liability
Other	1,247,000,000	7 5%	924,627,711 Net Assets	322,372,289

Other Information. There is no precedent for how to define the present value of accrued benefits for something like the Voluntary Separation Incentive program It is being defined to be the present value of all remaining VSI payments as of September 30, 1993, to those members who had already separated by that date.

Note 6. Trust Fund Balances

Cumulative Results of Operations (Trust Funds) $0
Reported as zero Cumulative results of operations are reported as funded liabilities

Note 7. Future Funding Requirements

	1993
A Actuarial Liabilities	$322,372,289

Note 8. Other Revenues and Financing Sources

	1993
(1) Amortization of Unfunded Liability Payment from Services	$ 68,900,000
(2) Present Value Costs Payment from Services	880,200,000
Total	$949,100,000

Note 9. Program or Operating Expenses

	1993
A Operating Expenses by Object Classification	
Insurance Claims and Indemnities	$55,552,963

Does not include related accounts receivable which would reduce the operating expenses Procedures are being developed which will address this issue

Note 10. Extraordinary Items

	1993
(1) Changes in Actuarial Liability	(1,247,000,000)
Total	(1,247,000,000)

This is the original September 30 Actuarial Liability

Part VI - Other Issuances Related to This Audit

Advisory Memorandum

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
OFFICE OF THE ASSISTANT INSPECTOR GENERAL FOR AUDITING
8899 EAST 56TH STREET
INDIANAPOLIS, INDIANA 46249-7501

April 6, 1994

MEMORANDUM FOR DEPUTY ASSISTANT SECRETARY OF DEFENSE (REQUIREMENTS AND RESOURCES)

SUBJECT: Management Advisory Memorandum Regarding the FY 1993 Financial Statements for the Voluntary Separation Incentive Trust Fund

1. In accomplishing our Audit of Voluntary Separation Incentive Trust Fund Financial Statements for FY 1993 (Project No. 3FI-2016) in accordance with the Chief Financial Officers Act of 1990, we have reviewed the Transmittal of Financial Statements on FY 1993 Financial Activity furnished to us by the Office of the Comptroller of the Department of Defense on March 22, 1994, and identified problems that need your attention. This memorandum is not an audit report but was prepared to inform you of problems we identified which, if not adequately addressed, could result in an adverse opinion on the financial statements.

a. Accuracy of Payments. The Defense Finance and Accounting Service (DFAS) Centers had not developed procedures to accurately compute Voluntary Separation Incentive payments. The years of service creditable to separated members were not always computed according to 10 U.S.C. 1405. This problem was recognized by DFAS Headquarters in a memorandum issued on October 14, 1993. DFAS Headquarters required the DFAS Centers to develop procedures to compute future payments correctly as well as recompute all payments that were not computed according to 10 U.S.C. 1405. We attempted to review the accuracy of the computations of the incentive payments for a random sample of 333 members who separated from each of the Service Components. The Services' Reserve Personnel Activities we visited did not have or could not locate 54 of the 333 personnel records. We could not find sufficient information in the personnel records of 25 of the 279 members to support the computations. Of the other 254 members, we verified that the computations for only 6 Air Force members considered years of service in accordance with 10 U.S.C. 1405. Five of the six members were paid accurately. Based on the data available at the time of our review for the remaining 248 members, we identified 46 members for whom separation payments were not computed correctly. We found 42 members who were cumulatively overpaid by about $33,847 and 4 members who were cumulatively underpaid by $1,647. The amount of the overpayments would have to be reduced by the dollar value associated with any creditable reserve time the members would be entitled to. Sufficient information was not available for us to recompute the years of service in accordance with 10 U.S.C. 1405 for the 248 members. At a minimum, the Note 9. should disclose that "Program or Operating Expenses" in the Statement of Operations (and Changes in Net Position) are understated for an undeterminable amount because all creditable service time was not used in computing the payments due members who separated under the Voluntary Separation Incentive program.

b. Reporting of Expenditures. The DFAS Centers had not established adequate procedures to report the dollar values of all initial payments made to members who separated under the Voluntary Separation Incentive program through September 30, 1993, and anniversary payments due to separated members prior to the end of FY 1993. "Accrued Entitlement Benefits" in the Statement of Financial Position reported as $9.1 million and "Program or Operating Expenses" in the Statement of Operations (and Changes in Net Position) reported as $55 6 million were each understated by $21.0 million ($9.1 million in initial payments and $11.9 million in anniversary payments).

Initial Payments. The DFAS Centers did not report all initial payments to members at the time of separation in the fiscal year in which they were made. The DFAS Centers reported in their October and November 1993 submissions of DD Form 1176, "Report on Budget Execution Obligation Basis," payments that were actually made prior to October 1993. This happened primarily because the payments made to members who separated under the Voluntary Separation Incentive program were initially charged to the Military Personnel appropriations. Between 30 and 60 days later, the Voluntary Separation Incentive Trust Fund appropriation was charged with these expenditures. We calculated that an additional $9.1 million in initial payments should have been reported as "Accrued Entitlement Benefits" and "Program or Operating Expenses."

Anniversary Payments. We found that DFAS-Cleveland did not report as accrued liabilities all Voluntary Separation Incentive anniversary payments due to members through September 30, 1993, but paid in October 1993. Statement of Federal Financial Accounting Standard Number 1, March 30, 1993, recognizes as a current liability unpaid expenses that are accrued for the fiscal year the financial statements are prepared and are expected to be paid within the fiscal year following the reporting date. DFAS-Cleveland reported $8.4 million as accrued liabilities in the September 1993 submission of DD Form 1176. However, we determined that DFAS-Cleveland understated "Accrued Entitlement Benefits" and "Program or Operating Expenses" by $11.9 million because the procedures used to collect this data did not account for all anniversary payments that were due for payment, but not paid, before October 1, 1993 Primarily, anniversary payments due on September 30, 1993, to members who separated on September 30, 1992, were not reported as expenditures until October 1993

c. Reporting Accounts Receivable. Chapter 31 of DoD Manual 7220.9-M, "DoD Accounting Manual," requires that accounts receivable be recorded in the appropriate receivable account in the accounting period during which the transaction or event giving rise to the receivable occurs. The DFAS had not established procedures to collect the data needed to report in the financial statements debts owed by personnel who the DFAS Centers inappropriately paid Voluntary Separation Incentive payments. Consequently, $0 was reported in the Statement of Financial Position as "Accounts Receivable, Net - Non-Federal." We identified that DFAS-Cleveland inappropriately made $50,797 in anniversary payments that should be reported in the Statement of Financial Position as "Accounts Receivable, Net - Non-Federal."

d. Compliance with Office of Management and Budget (OMB) Bulletin No. 94-01. The statements failed to disclose certain information required by OMB Bulletin No. 94-01 and DoD Guidance on Form and Content of Financial Statements for FY 1993 and FY 1994 Financial Activity, January 12, 1994. The intent of OMB Bulletin No 94-01 requires certain information be included to improve the usefulness of the statements.

<u>Overview of the Reporting Entity</u>. The Overview neither provided a clear and concise description of the activities and accomplishments of the entity nor included a discussion and analysis of the entity's financial condition. The Overview explained the Voluntary Separation Incentive program, but did not include an analysis of the information in the statements. The Overview also did not address the financial performance measures identified in DoD Guidance on Form and Content of Financial Statements for FY 1993 and FY 1994 Financial Activity.

<u>Administration Costs</u> The statements did not identify the costs of administering the Voluntary Separation Incentive program. Although costs may be difficult to determine because the program is administered by several activities within DoD, an estimate of DoD's costs should be shown in order for the reporting entity to provide a complete statement. Otherwise, the omission of the information should be noted in the Overview

2. We suggest you take the necessary actions to ensure that the Voluntary Separation Incentive Trust Fund's FY 1993 Financial Statements are reliable. The lack of sufficient data to verify the accuracy of payments made, including the compensation each separated member was entitled to receive for creditable reserve time, may prevent us from rendering an unqualified opinion on the

FY 1993 financial statements. Please inform us in writing, within 15 days of this memorandum, of your planned actions for addressing these issues. If you have any questions or need any additional information, please contact me at (317) 542-3859 (DSN 699-3859) or Mr. Carmelo G. Ventimiglia at (317) 542-3842 (DSN 699-3842).

Richard B. Bird

Richard B. Bird
Program Director

OFFICE OF THE UNDER SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON D C 20301-4000

PERSONNEL AND READINESS

APR 2 5 1994

MEMORANDUM FOR PROGRAM DIRECTOR, FINANCIAL MANAGEMENT DIRECTORATE, OFFICE OF ASSISTANT INSPECTOR GENERAL FOR AUDITING

SUBJECT Response to Advisory Regarding the FY 1993 Financial Statements for the Voluntary Separation Incentive Fund

I plan to take the following actions in response to your April 6 advisory on the financial statements for the Voluntary Separation Incentive (VSI) Fund

1. I am asking John Springett, DFAS Director, to resolve the items in paragraphs 1a, b, and c concerning payment accuracy, expenditure reporting, and accounts receivable reporting.

2. I have asked Ben Gottlieb, DoD Chief Actuary, to rewrite the financial statements' overview to put it in compliance with OMB's Bulletin No 94-01

3. Because there has not been a formal designation of the VSI Fund Manager, action is being initiated to have the SecDef so designate the Under Secretary of Defense (Personnel and Readiness) The Assistant Secretary of Defense (Force Management and Personnel), a position that no longer exists, was originally designated as the fund manager for the Military Retirement Fund. Action is underway to designate the USD(P&R) as the fund manager for that fund as well

I will forward copies of all pertinent memoranda to you If you have any questions or need any additional information, please contact Ben Gottlieb at 703-696-6869 (DSN 226-5869) or Chris Doyle at 703-696-5849 (DSN 226-5849)

Jeanne B Fites

Jeanne B Fites
Deputy Assistant Secretary of Defense
(Requirements and Resources)

Part VII - Management Comments

Defense Finance and Accounting Service Comments

DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22240-5291

DFAS-HQ/G

MAY 23 1994

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, INSPECTOR GENERAL, DoD

SUBJECT: DoD Inspector General's Draft Report, "Internal Controls and Compliance with Laws and Regulations for the Voluntary Separation Incentive Trust Fund Financial Statements for FY 1993," dated April 29, 1994 (Project No. 3FI-2016).

We have reviewed the subject draft report and we partially concur with your findings related to the Defense Finance and Accounting Service. Our comments are attached.

My point of contact for this matter is Mr. Thomas Tresslar on (703) 607-1120.

Arnold R. Weiss
Deputy Director for
General Accounting

Attachment

DoDIG Draft Report, "Internal Controls and Compliance with Laws and Regulations for the Voluntary Separation Incentive Trust Fund Financial Statements for FY 1993," (Project No. 3FI-2016).

Comments

The following are comments on the subject draft report, Part II - Internal Controls, Results of Audit.

Accuracy of Payments. Internal controls did not ensure that VSI payments were computed accurately and could be verified by management or auditors. The years of military service creditable to separated members and used to calculate annual VSI payments were not computed in accordance with 10 U.S.C. 1405.

DFAS POSITION: Partially concur. The Office of Under Secretary of Defense (Personnel and Readiness) (OUSD/P&R), which is the responsible agency for the promulgation of compensation policy and procedures, provided guidance, dated January 3, 1992, that VSI computation was required using active service times only. On October 14, 1993, we promulgated a procedural change to ensure the military pay network used the proper computation prescribed in 10 U.S.C. 1405. Our military pay systems are set up to correctly and systematically compute the VSI entitlement. We consider internal controls in the Master VSI file in DFAS-Cleveland to be adequate. As with all payments, each DFAS Center is responsible for ensuring the data they are electronically sending to DFAS-Cleveland is correct. This is no different than our active duty pay systems relying on the integrity of the data they routinely receive from personnel in order to compute everyday entitlements. Action is considered complete.

Reporting Accrued Liabilities and Expenditures. The DFAS Centers had not established adequate procedures to collect the data needed to report the dollar values of initial payments and anniversary payments.

DFAS POSITION: Concur in principle. We are currently researching this issue to validate the dollar amounts identified in the audit. The anticipated completion date is September 30, 1994.

Accuracy of DFAS-Cleveland Center's Payee Master File. Internal controls did not ensure that information in the VSI Payee Master File maintained by the DFAS-Cleveland Center was accurate and complete.

DFAS POSITION: Nonconcur. The Master VSI pay system does a periodic automated data base bump with the OUSD/P&R owned and operated Defense Manpower and Data Center (DMDC) reserve personnel records. If there is no DMDC reserve record, then the pay flag in the VSI Master system will indicate a non-reserve member and not issue the payment. If it is verified that the member is in fact reserve affiliated, then payment is executed. In no cases will we make a payment when a member is not in the DMDC data base or not personally verified with the appropriate Service Reserve Personnel activity. We are dependant upon the Services' personnel community, in this case DMDC, having accurate information.

Reporting Accounts Receivable. The DFAS had not established procedures to collect the data needed to report in the financial statements debts owed by personnel to whom DFAS Centers inappropriately made VSI payments.

DFAS POSITION: Concur. We are establishing procedures to address this issue in the draft "Proposed DoD Financial Management Regulation, Volume 7, Part C," dated April 20, 1994. The anticipated completion date is September 30, 1994.

Audit Team Members

Russell A. Rau
Terry L. McKinney
Richard B. Bird
Carmelo G. Ventimiglia
Leslie M. Barnes
Thomas C. Schmidt, Sr.
John E. Aber
Theodore O. Baer
Sandra M. Matusik
Frank Sonsini
Lam Ba Nguyen
Joan E. Fox
Helen S. Schmidt