



Audit

Report

OFFICE OF THE INSPECTOR GENERAL

**FINANCIAL ACCOUNTING AT THE
NATIONAL SECURITY AGENCY**

Report No. 96-213

August 20, 1996

Special Warning

~~This report contains certain unclassified information relating to the organization and function of the National Security Agency that may be protected by Public Law 86-36, May 29, 1959. Reproduction or removal of pages is prohibited. Safeguards must be taken to prevent publication or improper disclosure of the information in this report.~~

Department of Defense

Additional Copies

To obtain additional copies of this audit report, contact the Secondary Reports Distribution Unit of the Analysis, 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 of the Analysis, 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:

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

Defense Hotline

To report fraud, waste, or abuse, contact the Defense Hotline by calling (800) 424-9098; by sending an electronic message to Hotline@DODIG.OSD.MIL; or by writing to the Defense Hotline, The Pentagon, Washington, D.C. 20301-1900. The identity of each writer and caller is fully protected.

Acronyms

CFO	Chief Financial Officers
COMSEC	Communications Security
CPAS	Central Property Accounting System
DFAS	Defense Finance and Accounting Service
DRMS	Defense Reutilization and Marketing Service
GAC	General Accounting and Reporting Subsystem
L5	Office of Facilities Management
NSA	National Security Agency



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884



August 20, 1996

MEMORANDUM FOR DIRECTOR, NATIONAL SECURITY AGENCY

SUBJECT: Audit Report on Financial Accounting for the National Security Agency
(Report No. 96-213)

We are providing this audit report for review and comment. DoD Directive 7650.3 requires that all recommendations be resolved promptly. Because management did not comment on a draft of this report, we request that management provide comments on the final report by September 23, 1996.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to (b)(6), Audit Program Director, at (703) 604-(b)(6) (DSN 664-(b)(6)) or (b)(6), Audit Project Manager, at (703) 604-(b)(6) (DSN 664-(b)(6)). See Appendix C for the report distribution. The audit team members are listed inside the back cover.

Robert J. Lieberman
Assistant Inspector General
For Auditing

Special Warning

~~This report contains certain unclassified information relating to the organization and function of the National Security Agency that may be protected by Public Law 86-36, May 29, 1959. Reproduction or removal of pages is prohibited. Safeguards must be taken to prevent publication or improper disclosure of the information in this report.~~

Office of the Inspector General, DoD

Report No. 96-213
(Project No. 6RF-2007)

August 20, 1996

Financial Accounting at the National Security Agency

Executive Summary

Introduction. Public Law 103-356 requires DoD to provide consolidated financial statements for FY 1996 to the Office of Management and Budget. Financial data from the National Security Agency (NSA) will be included in the consolidated financial statements for DoD.

Audit Objectives. The overall audit objective was to assess internal controls and compliance with laws and regulations to determine whether the NSA financial accounting system can produce reliable information necessary to prepare financial statements required by the Chief Financial Officers Act. Also, we performed limited testing of accounting transactions to validate the effectiveness of accounting controls.

Audit Results. The financial accounting system used by NSA was capable, if modified, of producing information necessary for financial statements required by the Chief Financial Officers Act. However, correcting deficiencies in the accounting system and establishing effective management controls are essential to produce accurate financial statements to be included in the DoD consolidated statements.

- o The NSA had not programmed the accounting system to produce necessary information for developing financial statements, balances in supporting records were not reconciled to control accounts in the general ledger, expenses and liabilities were not recorded until disbursements were made, and procedures had not been established to calculate and record accrued payroll liabilities (Finding A).

- o Recorded balances of equipment, real property, and inventory were incorrect, misstated, or not supported (Finding B).

As a result, the general ledger and supporting information could not be relied on for information necessary to produce accurate financial statements required by the Chief Financial Officers Act.

The management control program could be improved by correcting material weaknesses in accounting controls and property reporting. Recommendations in the report, if implemented, will assist NSA in preparing accurate financial data to be included in the consolidated DoD financial statements required by Public Law 103-356.

~~FOR OFFICIAL USE ONLY~~

Summary of Recommendations. We recommend that the NSA reprogram its accounting system to produce required information for financial statements; establish procedures to record asset purchases, expenses, and liabilities when they occur; follow DoD asset capitalization* criteria; reconcile general ledger control accounts with supporting documentation; and establish procedures and management controls to ensure that information in the general ledger is correctly stated, adequately supported, and in compliance with financial management regulations.

Management Comments. Management did not provide comments on the draft of this report. Therefore, we request that the Director, National Security Agency, provide comments on the final report by September 23, 1996.

*Property purchased is "capitalized" when it is recorded as an asset in financial accounting records. The cost of property not capitalized is recorded as a current operating expense.

Table of Contents

Executive Summary	i
--------------------------	----------

Part I - Audit Results

Audit Background	2
Audit Objectives	2
Finding A. Financial Reporting and Accounting	3
Finding B. Recording and Reporting Equipment, Real Property, and Inventory	10

Part II - Additional Information

Appendix A. Audit Process	
Scope and Methodology	22
Management Control Program	23
Appendix B. Prior Audits and Other Reviews	25
Appendix C. Report Distribution	28

Part I - Audit Results

Audit Background

The Chief Financial Officers (CFO) Act of 1990 (Public Law 101-576) requires Federal organizations to submit audited financial statements to the Director, Office of Management and Budget. Public Law 103-356, "The Federal Financial Management Act of 1994," requires DoD and other Government agencies to prepare consolidated financial statements for FY 1996 and each succeeding year. Financial data for the National Security Agency (NSA) will be included in the consolidated financial statements for DoD.

NSA Accounting System. The NSA uses the General Accounting and Reporting Subsystem (GAC) to perform planning, budgeting, accounting, and financial reporting. With the assistance of Arthur Anderson & Company, NSA developed the GAC, which became fully operational in June 1988. The GAC uses standard DoD general ledger accounts and is a near, real-time, on-line, fully integrated accounting and management information system. The GAC includes 10 subledger tables that provide subsidiary support to the general ledger. An automated transaction journal maintains specific information for each transaction. The specific information is posted to the subledgers in batches at 15-minute intervals. The NSA also uses 15 subsystems that directly or indirectly interface with the GAC to provide information necessary for financial management at NSA.

Accounting Responsibilities. During FY 1993 as a result of Defense Management Report Decision 910, the Defense Finance and Accounting Service (DFAS) assumed responsibility for many accounting and finance functions performed throughout DoD. However, because DFAS does not have a system that can accommodate the NSA security requirements, the Under Secretary of Defense (Comptroller), NSA, and DFAS agreed to allow the NSA Office of Finance and Accounting (Accounting Office) to continue to provide secure finance and accounting services for NSA. Nevertheless, DFAS is responsible to prepare DoD consolidated financial statements, which will include financial data provided by NSA.

Audit Objectives

The overall audit objective was to assess internal controls and compliance with laws and regulations to determine whether the NSA financial accounting system can produce reliable information necessary to prepare financial statements required by the CFO Act. Also, we performed limited testing of accounting transactions to validate the effectiveness of accounting controls. Appendix A discusses the audit scope and methodology and the review of the management control program. Appendix B provides details on related prior audit coverage.

Finding A. Financial Reporting and Accounting

The GAC was not programmed to produce information needed to develop financial statements, balances in supporting records were not reconciled to control accounts in the general ledger, expenses and liabilities were not recorded until disbursements were made, and procedures had not been established to calculate and record accrued payroll liabilities and to continually review and adjust travel-related advances and liabilities. These conditions occurred because NSA had not established management controls to ensure the accuracy and supportability of general ledger proprietary accounts. As a result, the general ledger could not be relied on for the information necessary to produce accurate financial statements required by the CFO Act.

Reporting Financial Information

Reporting Requirements. During FY 1996, the DFAS Indianapolis Center assumed the responsibility for preparing CFO financial statements for Department 97 appropriations.¹ The DFAS Indianapolis Center requires separation of general ledger account balances by appropriation to comply with Department of the Treasury requirements to prepare the U.S. Government Consolidated Financial Statement. The DFAS requested that Defense agencies report trial balance information to the DFAS Indianapolis Center for the fiscal year ended September 30, 1995.

Consolidated General Ledger. The GAC produced a consolidated trial balance for all NSA appropriations each month, but NSA had not programmed the GAC to produce trial balances for proprietary accounts by annual appropriations and allocation limit codes. Although NSA could not produce trial balances for each appropriation by fiscal year, NSA provided account balances by appropriation to the DFAS Indianapolis Center for FY 1995 for each of six appropriations NSA received from the Under Secretary of Defense (Comptroller).

The NSA prepared those trial balances through use of special queries and by arbitrarily assigning capital asset balances to specific appropriations. However,

¹The Department of the Treasury uses department code "97" to identify appropriations for the Office of the Secretary of Defense. Defense agencies, such as NSA, receive their funding from Department 97 appropriations.

Finding A. Financial Reporting and Accounting

the queries were incorrect because the balances NSA sent to the DFAS Indianapolis Center did not agree with the consolidated trial balance the GAC produced. For example, the Fund Balance with Treasury in the NSA consolidated trial balance was NSA: (b)(3) more than the total fund balance that NSA reported to the DFAS Indianapolis Center for FY 1995.

In March 1996, the DFAS Indianapolis Center began requiring Defense agencies to submit monthly trial balances by appropriation and fiscal year. The NSA could not comply with that requirement because NSA had not programmed the GAC to produce that information.

In August 1994, the NSA Accounting Office requested that the NSA Office of Information Services "consider" necessary programming changes to break out the general ledger by appropriation. However, NSA had not begun the reprogramming effort by the end of our audit in April 1996.

Reporting Information for Allotments Received from Other Agencies. In addition to the funds NSA received directly from the Under Secretary of Defense (Comptroller), NSA received allotments from the Washington Headquarters Services, Defense Advanced Research Projects Agency, and Ballistic Missile Defense Organization. The NSA accounted for those funds in the GAC general ledger and provided budgetary reports to the organizations that issued allotments to NSA. However, NSA did not submit trial balances to the DFAS Indianapolis Center for the allotments, because guidance from the DFAS Indianapolis Center did not specifically state that Defense agencies should report trial balances for allotments. Budgetary reports indicated that NSA had a Fund Balance with Treasury NSA: (b)(3) as of September 30, 1995, for those organizations that issued allotments to NSA.

Appropriated Capital Used Account. The NSA had not established an Appropriated Capital Used account in the GAC general ledger. The Financial Management Regulation (DoD 7000.14-R) volume 1, May 1993, shows the account as part of the DoD Standard General Ledger. The Appropriated Capital Used account is a revenue account used "to record accrued expenses (versus outlays) of appropriated funds. The purpose of the account is to match current period expenses against the use of appropriated funds used to finance those expenses." The NSA failure to use the Appropriated Capital Used account distorted trial balance information the NSA sent to the DFAS Indianapolis Center when it prepared the consolidated adjusted trial balance for the Office of the Secretary of Defense General Funds sent to the Department of the Treasury.

Accrual Accounting. Except for accruals for travel expenses and purchases of supplies through the DoD supply system, NSA did not accrue expenses and liabilities until it made disbursements. Thus, valid liabilities and expenses were not correctly recorded in the general ledger accounts. For example, at our request, at the end of February 1996, NSA provided information that it had

Finding A. Financial Reporting and Accounting

processed NSA: (b)(3) liabilities that were ready for payment, but the liabilities were not recorded in the general ledger. Also, NSA received NSA: (b)(3) invoices that it had not processed for payment. Key Accounting Requirement No. 5,² requires that accrued expenditures and revenues be recorded as they occur (or records may be adjusted to the accrual basis at the end of each month).

Although the GAC produced separate transactions to accrue expenses and liabilities and to record disbursements, the GAC was programmed to simultaneously record expense and liability accruals only when disbursements were made. Accounting personnel at NSA explained that before the installation of GAC, they decided to record expenses when disbursements were made rather than on an accrual basis. Accounting personnel made that decision because they needed increased staffing for other accounting areas at the time and because they perceived no adverse effect of using the "cash" basis of accounting. However, with the requirement from the CFO Act to produce financial statements using generally accepted accounting principles, NSA accounting personnel agreed that they should change to the accrual accounting method.

Reconciliation of Account Balances to Supporting Records

Differences existed between account balances shown in the consolidated general ledger and supporting subsidiary records and reports. Accounting personnel were not aware of the differences because NSA had not established procedures to reconcile general ledger control accounts with subsidiary records or other supporting documentation. Reportable differences existed between general ledger control accounts and supporting documentation for five categories of assets and liabilities.

Accounts Receivable. Accounts Receivable NSA: (b)(3) as of January 31, 1996, exceeded supporting subsidiary records NSA: (b)(3). The imbalance existed since 1992. In addition, the breakout shown in the general ledger between accounts was significantly distorted as shown in Table 1.

²Thirteen Key Accounting Requirements are shown in the DoD Financial Management Regulation, volume 1. The Key Accounting Requirements are a composite of General Accounting Office, Office of Management and Budget, and DoD regulations. All DoD accounting systems must comply with the Key Accounting Requirements.

Finding A. Financial Reporting and Accounting

**Table 1. Differences Between Accounts Receivable Balances
in the General Ledger and Subsidiary Records
(Amounts Rounded)**

<u>Accounts</u>	<u>Subsidiary Records</u>	<u>General Ledger</u>
Accounts Receivable-Public	NSA: (b)(3)	
Accounts Receivable-Government		
Total		
Difference		

Our review of transaction histories for the two Accounts Receivable accounts indicated that accounting personnel sometimes improperly classified receivables. During FY 1995, the NSA reprogrammed the GAC to record receivables automatically to the correct account, but did not adjust the balances already in the general ledger. Accounting personnel did not identify those imbalances because NSA had not established procedures to reconcile general ledger control accounts with supporting subsidiary records. When we showed the imbalances to accounting personnel in February 1996, they made necessary corrections to subsidiary and general ledger balances.

Unearned Revenues-Advances. Supporting documentation showed that all of the NSA: (b)(3) unearned revenues as of January 31, 1996, should have been recorded in the Unearned Revenues-Advances from the Public account. However, NSA: (b)(3) was shown in the Unearned Revenues-Advances from Government Agencies and Funds account. Accounting personnel were not aware of this discrepancy because they had not reconciled subsidiary records with the balance in the general ledger. The error occurred when accounting personnel corrected the Customer Order Subledger in October 1993, but did not adjust the general ledger. Accounting personnel adjusted the general ledger in February 1996, after we brought the discrepancy to their attention.

Inventory Work in Process-Contractor Account. The NSA used the Inventory Work in Process-Contractor account to record progress payments and contractor holdbacks for work completed. However, as of February 1996, the Inventory Work in Process account was overstated NSA: (b)(3) as of January 31, 1996.

Advances to Government Agencies and Funds. For NSA-funded work to be performed, the NSA recorded advances to other organizations in an Advances to

Finding A. Financial Reporting and Accounting

Government Agencies and Funds control account. However, the balance in that account did not agree with information NSA received from an agency performing the work for NSA. For example, as of February 29, 1996, NSA subsidiary records showed NSA: (b)(3) outstanding advances to one agency for 105 projects during FYs 1990 through 1994. There were no transactions recorded for the NSA: (b)(3) outstanding advances after September 1994. Our comparison of the NSA balances with a status report provided by the agency receiving the advances showed differences for 91 of the 105 projects. The net NSA balance in the advances account for the 91 projects was NSA: (b)(3) higher (24 projects were lower NSA: (b)(3)), and 67 projects were higher NSA: (b)(3)) than the balance in the status report provided to NSA.

The Inspector General, NSA, Report No. AU-93-0010, "Audit of Selected Expired Appropriations (Phase II)," March 8, 1996, states that the NSA Comptroller's office had not established internal controls to verify GAC balances of funds NSA issued to other organizations. During our audit, personnel from the NSA Comptroller's office established procedures to research and adjust discrepancies in the Advances to Government Agencies and Funds account. However, reconciliations should be completed by the end of September 1996 in order for the balance of that account to be correct for the FY 1996 financial statements.

Deposit Fund Liabilities. Subsidiary records supporting the balance in the Deposit Fund Liabilities account showed that the reported balance of NSA: (b)(3) was understated NSA: (b)(3) as of January 31, 1996. The NSA had not established procedures to reconcile the account with subsidiary records and could not determine the cause for the discrepancy at the end of April 1996, when the audit was completed.

Other Accounting Adjustments Needed

Accrued Unfunded Annual Leave. The general ledger showed a NSA: (b)(3) liability for accrued, unfunded, annual leave, which remained constant since November 1988. The payroll system providing information to NSA did not directly interface with GAC, and personnel maintaining the GAC had not requested updated information from payroll personnel. The Financial Management Regulation, volume 4, requires that accrued, unpaid, annual leave be estimated at the end of each operating period and be recorded as a liability. Volume 4 also requires an Annual Leave Expense account to be established to record the annual leave earned by civilian employees during the operating period. Payroll personnel determined that a liability of NSA: (b)(3) existed in March 1996 for unpaid annual leave.

Finding A. Financial Reporting and Accounting

Accrued Payroll. Civilian payroll expenses were accrued and disbursed simultaneously. Before September 1994, accounting personnel estimated the amount of accrued payroll and benefits at the end of each month and made a manual adjustment to the general ledger accounts. This procedure was discontinued in October 1994, and in October 1995, accounting personnel removed from the Accrued Payroll account the NSA: (b)(3) balance that had been there since September 1994. NSA should establish procedures to calculate and post the amount of accrued payroll and benefits expense and liabilities at the end of each accounting period.

Travel-Related Liabilities. As of March 31, 1996, the GAC general ledger showed NSA: (b)(3) accrued liabilities related to travel for NSA personnel. That liability included NSA: (b)(3) liabilities accrued during FYs 1990 through 1995, up to 6 years prior to March 31, 1996.

The NSA accounting system accrued estimated travel costs monthly based on information shown in issued travel orders. The accounting system automatically adjusted expenses and liabilities when travel vouchers were paid if the airline ticket was recorded and the travel advance was zero. However, manual adjustments to travel expenses and accrued travel liabilities were necessary if the criteria for the automatic adjustments could not be met. The lack of management control procedures to identify and manually adjust accrued liabilities for prior years caused travel-related liabilities to be overstated.

At the beginning of FY 1996, NSA provided Government charge cards to most NSA employees, eliminating the requirement for NSA to issue travel advances and pay separately for airline tickets for many NSA employees. As a result, more accrued travel liabilities will be automatically eliminated when travel vouchers are settled. However, NSA has not established management controls to validate liabilities that could be erroneous. In January 1996, accounting personnel began to research and reduce liabilities related to travel for prior years. Accounting personnel also began adjusting travel advances that should have been removed for prior years. (Travel advances as of January 31, 1996, NSA: (b)(3) included NSA: (b)(3) advances for travel funded in FYs 1990 through 1995.)

Fund Equity. The Fund Equity accounts in the general ledger included three accounts related to transfers in or out of NSA without reimbursement. For example, the "Transfers in from Others without Reimbursement" account had a balance NSA: (b)(3), which remained unchanged in the general ledger since 1988, when the GAC became operational. According to the Financial Management Regulation, volume 4, transfer accounts should be closed into an appropriate fund equity account at the end of the fiscal year. NSA should transfer the balances in the three accounts into the Appropriated Capital account.

Finding A. Financial Reporting and Accounting

Capital Assets. Account balances of capital asset accounts--equipment, real property, and inventory--in the general ledger were incorrect, misstated, or not supported. Details concerning this condition, its cause, and recommended actions are in Finding B.

Recommendations for Corrective Action

A. We recommend that the Director, National Security Agency:

1. Reprogram the General Accounting and Reporting Subsystem to produce trial balances by annual appropriation and allocation limit codes, and establish procedures to assure that financial information submitted to the Defense Finance and Accounting Service agrees with balances in the consolidated general ledger.
2. Report trial balance information to the Defense Finance and Accounting Office Indianapolis Center for all allotments received.
3. Establish an "Appropriated Capital Used" account as required by the Financial Management Regulation, Volume 4.
4. Establish procedures to accrue expenses and liabilities as they occur.
5. Adjust asset and liability accounts to agree with subsidiary subledgers, and establish procedures to reconcile general ledger accounts monthly with supporting subsidiary subledgers.
6. Complete reconciliation procedures for the Advances to Government Agencies and Funds account, and adjust the general ledger accordingly.
7. Establish procedures to calculate and record the liability for accrued, unfunded annual leave and accrued civilian payroll and benefits expenses and liabilities at the end of each accounting period, and establish an expense account for the net amount of annual leave earned during the period.
8. Review the validity of advances and accrued liabilities for travel-related expenses and adjust accounting records as needed.
9. Close fund equity accounts related to transfers in or out of the National Security Agency into the Appropriated Capital account.

Finding B. Recording and Reporting Equipment, Real Property, and Inventory

Equipment, real property, and inventory balances recorded in the general ledger were incorrect, misstated, or not supported because NSA:

- o did not follow DoD capitalization criteria,
- o had not established management controls to reconcile and adjust general ledger accounts with subsidiary records to ensure the accuracy and reliability of information in the general ledger, and
- o did not follow established internal procedures.

As a result, the general ledger could not be relied on for information necessary to produce accurate financial statements required by the CFO Act.

Equipment

Subsidiary Property System. Accountability and reporting of equipment is controlled by the GAC and two subsidiary property systems maintained within NSA. The NSA Office of Logistics uses the Central Property Accounting System (CPAS) to account for and report all equipment to the Accounting Office except for communications security (COMSEC) equipment. The NSA Central Office of Record uses the Information Security Data Management System (COMSEC data base) to account for and report COMSEC equipment to the Accounting Office. The NSA uses the CPAS and the COMSEC data bases, which are centralized data bases, to support the equipment balances reported to accounting personnel for inclusion in the GAC general ledger.

Capitalization Criteria. The Financial Management Regulation, volume 4 requires property to be capitalized³ when the cost of the property meets the DoD capitalization criteria. On December 19, 1995, the Under Secretary of Defense (Comptroller) increased the capitalization threshold to \$100,000.

³Property purchased is "capitalized" when it is recorded as an asset in financial accounting records. The cost of property not capitalized is recorded as a current operating expense.

Finding B. Recording and Reporting Equipment, Real Property and Inventory

Accordingly, assets acquired on or after October 1, 1995, should be capitalized if the acquisition cost is \$100,000 or more and the asset has an estimated useful life of 2 or more years.⁴

Recording Equipment in the General Ledger. The Accounting Office did not follow DoD capitalization criteria in recording equipment purchases in the general ledger. Also, NSA had not established effective procedures to reconcile and adjust equipment accounts in the general ledger with subsidiary property records.

Automated Posting to Equipment Accounts in the General Ledger. The NSA programmed the GAC to record all payments for equipment in the Equipment in Use account, regardless of the cost of the equipment, except for equipment purchased with Research, Development, Test, and Evaluation funds. The GAC automatically recorded equipment purchased from that appropriation as a current operating expense.

The GAC inappropriately capitalized equipment purchased for the Partners Program, which provided cryptologic support to other countries. The NSA did not own the equipment, because it was transferred to other countries. During the 4 months ended January 31, 1996, NSA capitalized NSA (b)(3) equipment purchases for the Partners Program that should have been recorded as a current operating expense.

Adjusting Equipment Accounts in the General Ledger. The NSA had not established management controls to ensure that monthly consolidated equipment reports prepared by the property offices were received and recorded in the GAC general ledger. The NSA/Central Security Service Resources Management Manual 111-5, chapter 14, Property Accountability (NSA Manual), July 1995, requires the NSA Office of Logistics to send the Accounting Office a consolidated monthly report of capitalized equipment on hand within 5 working days after the end of each month. The NSA Manual further requires that the monthly report be reconciled with the general ledger account balances maintained by the Accounting Office. Because NSA accounts for COMSEC equipment separately, the NSA Manual also requires that communications security personnel give the Accounting Office information on increases and decreases to NSA-owned COMSEC equipment.

⁴DoD capitalization thresholds have gradually increased from \$1,000 before FY 1985 to \$100,000 in FY 1996. Inspector General, DoD, Report No. 96-212, "Capitalization of DoD Fixed Assets," August 16, 1996, recommends revising the capitalization criteria require DoD Components to record in financial records only general plant, property, and equipment that meets the current threshold.

Finding B. Recording and Reporting Equipment, Real Property and Inventory

Accounting personnel periodically adjusted the equipment accounts in the general ledger based on equipment reports received from the Office of Logistics and the Central Office of Record. However, accounting personnel made no attempt to reconcile differences between general ledger balances and the balances received from the property offices. When the audit began in January 1996, NSA had not adjusted the equipment accounts in the general ledger in accordance with information received from the Office of Logistics and the Central Office of Record for COMSEC equipment since April 1995. In March 1996, accounting personnel adjusted the equipment accounts in the general ledger in accordance with information received from the property offices. However, the general ledger was not adjusted at the end of April 1996, because the Accounting Office received the information after all April transactions had been posted.

Accuracy of Equipment Balances Reported to the Accounting Office. The property offices did not follow DoD capitalization criteria to prepare consolidated reports provided to the NSA accounting office, and reported costs were inaccurate.

Office of Logistics. The Office of Logistics consolidated monthly report, as of April 30, 1996, included NSA: (b)(3) computer equipment that did not meet the DoD capitalization criteria. The CPAS was programmed to report equipment that met the DoD capitalization criteria and to report all computer equipment regardless of its cost. Only equipment that meets the DoD capitalization criteria should be reported on the monthly reports the Office of Logistics provides to the Accounting Office. The CPAS needs to be reprogrammed accordingly.

Central Office of Record. The Central Office of Record used the COMSEC data base to maintain accountability for all COMSEC equipment regardless of cost. However, the data base was not designed to provide subsidiary record support for financial reporting requirements. For example, the COMSEC data base does not contain a data field for the equipment acquisition date. Also, the data base did not contain accurate costs for equipment. For example, the data base showed 642 line items with no cost value assigned, and an additional 825 line items showed nominal costs of \$10 or less. Personnel entering information into the COMSEC data base indicated that they did not always receive information showing the cost of the equipment. COMSEC management agreed to review COMSEC equipment with no or nominal costs assigned and to establish a fair market value for the property.

Because the COMSEC equipment data base did not include an acquisition date, we were unable to apply DoD capitalization criteria for prior years. However, of the NSA: (b)(3) equipment reported as of April 30, 1996, only NSA: (b)(3) was for equipment that cost at least \$100,000 (the DoD capitalization criteria) per item.

Finding B. Recording and Reporting Equipment, Real Property and Inventory

Property Awaiting Disposal Account. Capitalized equipment in the general ledger included a Property Awaiting Disposal Account. As of April 30, 1996, the CPAS and the COMSEC data bases showed NSA: (b)(3) in the Property Awaiting Disposal account. Of the NSA: (b)(3) in the account, the property systems showed that equipment NSA: (b)(3) had been turned in to the Defense Reutilization and Marketing Service (DRMS), the status NSA: (b)(3) was questioned by NSA, and most of the NSA: (b)(3) COMSEC equipment was incorrectly reported as capitalized equipment.

Property Turned in for Disposal. According to the CPAS data base, the NSA: (b)(3) shown as turned in to DRMS had been "in transit" for up to 8 years.⁵ (Only NSA: (b)(3) was shown as in transit for a month or less.) NSA personnel maintaining the CPAS stated they often did not receive documentation from DRMS that would indicate receipt of property turned in. Although Financial Management Regulation volume 4, states that property sent to DRMS should not be removed from accountable records until notice of receipt by the DRMS, NSA should remove property from financial records when it is transferred to another organization. Property can remain on accountable property records until appropriate followup actions with DRMS or reports of survey have been completed.

Other Excess Property. According to records in CPAS as of April 30, 1996, NSA had NSA: (b)(3) in excess property awaiting disposal, but CPAS did not show that the property had been turned in to DRMS. NSA personnel stated that excess property in CPAS with no turn in date to DRMS included property awaiting turn in to DRMS and property that managers disposed of without documentation. Property that cannot be located must be removed from accountable and financial records, and reports of survey should be initiated to determine property status.

COMSEC Equipment. The COMSEC equipment data base included NSA: (b)(3) reported to the Accounting Office as Equipment Awaiting Disposal. However, review of the reported information showed that NSA: (b)(3) was COMSEC equipment turned in to NSA for inclusion in the National Reserve Information Systems Security Material Program. The NSA held material in that account for redistribution to other Government organizations or for sale to foreign military sales customers. That equipment is a type of inventory and should be reported as inventory rather than as capitalized Property Awaiting Disposal. (See discussion on Inventory in a subsequent section of this finding.)

⁵The audit scope did not include a review of property turn-in procedures. The large amount of property "in transit" to DRMS for long periods indicates a need to review turn-in and receipt procedures at both NSA and DRMS.

Finding B. Recording and Reporting Equipment, Real Property and Inventory

Government Furnished Property. The Office of Logistics did not report the value of NSA-owned equipment furnished to contractors, because the CPAS deleted the equipment from its active data base rather than reclassifying the property when it was transferred to contractors. The Financial Management Regulation requires the capitalized value of Government-owned equipment furnished to contractors to be recorded in an equipment with contractors account. As of September 30, 1995, NSA contractors reported to the Defense Contract Management Command that they had NSA (b)(3) Government-owned equipment on hand. However, NSA personnel were not aware of that information, and the Office of Logistics did not report any equipment held by contractors.⁶

Use of Centralized Equipment Data Base. An NSA Property Accountability Process Improvement Team recommended in August 1993 that NSA establish a centralized data base for all NSA capitalized property. In addition, the Inspector General, NSA, issued an Advisory Report on Personal Property Accountability (Report AU-93-0004, July 21, 1994), agreeing with the recommendation to establish a centralized data base for property. The Inspector General, NSA, also suggested that a single organization develop and implement an NSA-wide property accounting, accountability, and management system. However, neither the Process Improvement Team nor the advisory report discussed accountability and reporting of COMSEC equipment. The NSA had not taken action to centralize the accountability and reporting of COMSEC equipment with other equipment at the time of our audit. The NSA Annual Statement of Assurance for FY 1995 showed that NSA planned to integrate its accounting system with the property accountability system by January 1998. Consolidating all capitalized property into one property accountability system will facilitate that integration.

Real Property

The NSA consolidated trial balance as of March 31, 1996, showed NSA (b)(3) real property assets. However, property book records maintained by the NSA Office of Facilities Management (LS) showed only NSA (b)(3) real property assets and could not support the balance in the general ledger. The NSA had not established management controls to reconcile the general ledger balances with supporting property book records and did not


⁶DoD Manual 4161.2-M "Performance of Contract Property Administration," December 1991, requires contractors to report Government-owned assets as of September 30 each year on DD Form 1662, "DoD Property in Custody of Contractors."

Finding B. Recording and Reporting Equipment, Real Property and Inventory

follow the requirement in the NSA Manual to reconcile construction in progress costs maintained by project managers with balances in the general ledger. Also, the L5 had not established controls to ensure the accuracy of its property book.

Buildings and Related Construction. The NSA Manual states that the NSA Deputy Director of Support Services is responsible for providing the Accounting Office with summary reports that adjust the dollar value of NSA real property to include construction in progress projects. However, the general ledger balances for the Buildings and Other Structures and Facilities accounts had not changed since October 1992. The NSA programmed the GAC to record progress payments for expenses related to real property in the Construction in Progress-Contractor account, but disbursements for construction-related payments that were not set up as progress payments were recorded as current operating expenses. Personnel from the Accounting Office stated that during FY 1992, they completed a reconciliation of ledger balances for real property and records maintained by the L5 and adjusted the general ledger accordingly. However, as of March 1996, neither the Accounting Office nor the L5 had records to support that reconciliation, and additional reconciliations had not been performed. Table 2 shows the differences in real property balances in accounting records and property book records at L5.

Table 2. Comparison of Selected Real Property Account Balances in the General Ledger with the Property Book

<u>Account</u>	<u>General Ledger (millions)</u>	<u>Property Book (millions)</u>
Buildings	<div>NSA: (b)(3)</div> 	
Other Structures and Facilities		
Construction in Progress- Contractor		
Construction in Progress-Other Government Activities		
Total		

Construction in Progress Accounts. The NSA programmed the GAC to record all progress payments for real property construction in the Construction in Progress-Contractor account. However, accounting personnel did not transfer completed construction projects to the appropriate real property

Finding B. Recording and Reporting Equipment, Real Property and Inventory

accounts, causing costs to accumulate in the Construction in Progress-Contractor account. During the 6-month period ended March 31, 1996, the Construction in Progress-Contractor account increased NSA: (b)(3).

The balance of NSA: (b)(3) in the Construction in Progress-Other Government Activities account had not changed since August 1992, even though NSA provided funds to other Government organizations for construction. For example, the NSA transferred NSA: (b)(3) Military Construction funds to the U.S. Army Corps of Engineers during February 1995 through March 31, 1996, to build a supercomputer facility. The Financial Management Regulation requires that the Construction in Progress account be used to record the value of work performed by other Federal Agencies for construction not yet accepted by DoD. However, NSA had not programmed the GAC to automatically accumulate such construction costs.

The GAC recorded construction-related disbursements not classified as progress payments in a current operating expense account rather than in real property accounts, such as Construction in Progress or Buildings. This procedure caused real property assets to be understated and expenses to be overstated. For example, during the 6-month period ended March 31, 1996, the GAC recorded NSA: (b)(3) disbursements from the Military Construction appropriation as a current operating expense. The Financial Management Regulation, volume 4, requires that construction in progress accounts be used to accumulate costs of DoD real property construction projects.

Subsidiary Records for Construction in Progress. The LS did not maintain supporting subsidiary records for construction in progress performed by contractors. The NSA Manual requires NSA to maintain subsidiary records to accumulate construction in progress costs and to reconcile this information with the general ledger maintained by the NSA accounting office. The NSA Manual further requires the LS to provide a monthly report of construction in progress to the NSA accounting office.

Transfer Cost of Completed Construction to Property Book Officer. Construction project managers within LS did not furnish the real property book officer with the cost of construction, modifications, and alterations that should be capitalized because the LS had not established procedures to provide this information. Therefore, the cost of completed construction projects in the property book in LS was understated. The Financial Management Regulation, volume 4, requires alterations, improvements, and rehabilitation to be capitalized if they increase the useful life, capacity, or operating efficiency of an asset.

Land and Leasehold Improvements. The GAC general ledger included NSA: (b)(3) a Land account. Although NSA had purchased and was using the

Finding B. Recording and Reporting Equipment, Real Property and Inventory

land, NSA property books did not include any land. After the land was purchased by NSA, the U.S. Army Corps of Engineers transferred it to Fort Meade which maintains property books for Government-owned land regardless of who is using it. All land on Fort Meade property books was reported to DFAS. Therefore, to preclude dual reporting, the land account in the GAC should be removed.

The GAC general ledger also included NSA (b)(3) a Leasehold Improvements account that had not changed since September 1991. Neither the Accounting Office nor the LS had documentation to show what leasehold improvements had been capitalized. Therefore, the Leasehold Improvements account should be written off the general ledger.

Management Control Program. The NSA correctly identified the accountability, control, and reporting of fixed assets as a material weakness in its Annual Statement of Assurance since FY 1988. However, the NSA Annual Statement of Assurance did not show any planned corrective actions for real property accountability and reporting. In 1993, the person managing the property book identified property reporting in his management control program risk assessment as having the greatest risk for potential negative effect on his section. He further determined that no controls were in place to lower the risk. However, the management control program coordinator for the LS did not have a copy of that assessment. Management did not identify property reporting as an assessable unit because property book accountability was not considered a major mission of the branch that maintained the property book.

Inventory

The GAC consolidated trial balance included items in inventory that were either misstated or could not be supported. Also, other reportable inventory was omitted.

Inventory of Agency Operations Account. The GAC trial balance included an account called "Inventory of Agency Operations." However, the balance NSA (b)(3) as of March 31, 1996, remained constant since August 1992. Accounting personnel at NSA did not know what the account represented and could not produce supporting documentation showing how the balance was derived. The DoD Standard General Ledger does not include an "Inventory of Agency Operations" account. Therefore, use of the account is not appropriate, and it should be removed from the general ledger.

Inventory Owned by NSA. The Asset Management Branch of the NSA Office of Programs and Acquisition owned and managed two inventory programs that

Finding B. Recording and Reporting Equipment, Real Property and Inventory

should have been included in the reported inventory of NSA. However, the Accounting Office was not aware of the two inventory programs and had not established procedures to ensure that the inventory was properly recorded in financial accounting records.

o The Communication Security Utility Program had NSA: (b)(3) COMSEC equipment on hand or on loan as of March 1996. The NSA held the equipment for resale to other Government agencies. The DoD Standard General Ledger requires that inventory held for sale be shown in account number 1521, "Inventory Held for Sale."

o The COMSEC data included NSA: (b)(3) an account for the National Reserve Information Systems Security Material Program. That program was for COMSEC material that Government organizations had turned in to NSA as excess to their needs. The NSA determined that the material was not excess to national needs and held it as contingency stock for redistribution and use. The NSA issued the material free of charge to other Government organizations and sold the material to foreign customers through foreign military sales channels. The Financial Management Regulation does not discuss this type of material. However, the material is similar to material that should be included in general ledger inventory account number 1512, "Operating Materials and Supplies Held in Reserve for Future Use." Therefore, material from the National Reserve Information Systems Security Material Program should be recorded in general ledger account number 1512 until specific guidance is issued on how to report that type of material. The Central Office of Record for COMSEC equipment had incorrectly reported the material to the Accounting Office as capitalized equipment.

Inventory Work in Process Accounts. The GAC trial balance for March 31, 1996, included two "inventory work in process" accounts that had not changed since May 1992, and NSA did not maintain supporting records to show what was included in the accounts.

o The March 31, 1996, balance in the Inventory Work in Process-In House account NSA: (b)(3) was based on a memorandum the NSA Accounting Office received from the Research and Technology Group in February 1991. The balance represented various research and development projects that were in process. Personnel from the Research and Technology Group discontinued reporting that information when they decided that assets should be or were included in other NSA property records. However, the Accounting Office was not aware of that decision and did not remove the balance in the Inventory Work in Process-In House account from the GAC.

o The March 31, 1996, balance in the Inventory Work in Process-Government Furnished Material account NSA: (b)(3) was based on a January 1992 memorandum from the Office of Logistics to the NSA

Finding B. Recording and Reporting Equipment, Real Property and Inventory

Accounting Office. The memorandum indicated that the balance included Government-furnished and contractor-acquired material based on information from DD Forms 1662, "DoD Property in Custody of Contractors." However, as of March 1996, NSA personnel did not request or receive information from the Defense Contract Management Command, which maintains summaries of information reported by contractors on DD Forms 1662. As a result, the account had not been updated since January 1992. The FY 1995 submission by NSA contractors to the Defense Contract Management Command showed

NSA: (b)(3)

Government-furnished and contractor-acquired material.⁷

Recommendations for Corrective Action

B. We recommend that the Director, National Security Agency:

1. Establish procedures to capitalize property purchases in the General Accounting and Reporting System in accordance with DoD asset capitalization criteria, and ensure that only property owned by the National Security Agency is capitalized.
2. Implement procedures to reconcile each month the equipment accounts in the general ledger with subsidiary equipment records.
3. Reprogram the Centralized Property Accounting System to report:
 - a. Only the equipment that meets DoD capitalization criteria.
 - b. Government-furnished equipment provided to contractors.
4. Remove equipment from the Property Awaiting Disposal account in the general ledger that is not on hand, and remove the equipment from property accountability records after appropriate reports of survey have been completed.
5. Consolidate property accountability records for capitalized personal and Communications Security equipment into one property accountability system before integrating the property accountability system with the General Accounting and Reporting System.
6. Reconcile general ledger balances for real property with records maintained by the Office of Facilities Management, and make a one-time adjustment to the general ledger.

⁷See Footnote 6.

Finding B. Recording and Reporting Equipment, Real Property and Inventory

7. Establish procedures within the Office of Finance and Accounting to accumulate all construction-related costs in an appropriate construction in progress account in the general ledger.

8. Establish subsidiary records for construction in progress within the Office of Facilities Management and reconcile those records with the balance in the Construction in Progress-Contractor account maintained in the general ledger by the Office of Finance and Accounting.

9. Establish procedures within the Office of Facilities Management to:

a. Inform the property book officer of the cost of construction-related real property projects that should be capitalized upon completion of each project.

b. Report monthly the cost of capitalized real property to the Office of Finance and Accounting for appropriate adjustments to the general ledger.

10. Remove the balances in the Land and Leasehold Improvements accounts from the general ledger.

11. Include real property accountability in future risk assessments performed by the Office of Facilities Management.

12. Delete the Inventory of Agency Operations account from the general ledger.

13. Establish procedures to record and account for inventory in the Communication Security Utility Program and the National Reserve Information Systems Security Material Program in the general ledger.

14. Remove balances that cannot be supported from the Inventory Work in Process Accounts.

Part II - Additional Information

Appendix A. Audit Process

Scope and Methodology

We reviewed the NSA consolidated trial balance produced by the GAC as of September 30, 1995, and monthly trial balances for January through April 1996, and compared subsidiary records within the GAC and other supporting records with assets and liabilities to general ledger accounts. We also performed limited reviews of documentation and transactions supporting balances shown in the consolidated trial balance. The dates of account balances we reviewed as shown in the report vary from January through April 1996, because we tried to report the most current information to assist NSA personnel in validating account balances for the FY 1996 financial statements.

In addition, we reviewed procedures and controls within the GAC that record transactions and ensure the accuracy of accounting information. We also reviewed procedures for accounting for assets and the source of information concerning those assets maintained by the Office of Logistics, Office of Facilities Management, Asset Management Branch of the Office of Programs and Acquisition, and the Central Office of Record for Communications Security Property.

We limited our review to the management controls related to the procedures NSA used to produce required, supportable financial information from general ledger proprietary accounts in GAC. Because this audit was not intended to provide an overall opinion on the reported balances in the general ledger and accompanying financial reports, we did not perform comprehensive reviews or statistical sampling of transactions supporting general ledger balances. Also, we did not physically verify the existence of personnel and real property shown in accountable records.

We limited our review of performance indicators that may be used in future financial reporting to verification that NSA had approved an implementation plan to comply with the Government Performance and Results Act (Public Law 103-62). The NSA also developed a draft guide outlining the principles for developing performance measures.

Use of Computer-Processed Data. We reviewed and analyzed the annual review of the NSA accounting system performed by the Financial Review Division of the NSA Office of Finance and Accounting for FY 1995. That annual review was based on a "System Manager/User Review Guide" that

DFAS prepared. The NSA review was designed to determine whether the financial accounting system (computer-processed data) complies with the 13 Key Accounting Requirements shown in Financial Management Regulation, volume 1.

Our review indicated that the GAC and supporting subsystems will correctly show data input into the systems. However, as discussed in both findings in this report, the GAC included account balances that either did not agree with supporting subsidiary records or could not be supported. Therefore, the account balances in the GAC could not be relied on to produce accurate financial statements.

Audit Period, Standards, and Location. We performed this financial-related audit from January through April 1996. The audit was performed in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD, based on the objectives of the audit, and the limitations in the scope described in this appendix. With the exception of a visit to the Defense Contract Management Command, Fort Belvoir, Virginia, all audit work was performed within the Office of Finance and Accounting and other elements of NSA.

Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We reviewed the adequacy of NSA controls over recording and reporting information in financial and property accounting records. Specifically, we evaluated the capability of the GAC to produce reliable financial data and the adequacy of administrative and accounting controls for authorizing and recording financial transactions. We also examined management controls over accountability and reporting of real property and equipment, and we reviewed management's self-evaluation applicable to those controls.

Adequacy of Management Controls. We identified material management control weaknesses, as defined by DoD Directive 5010.38, for NSA. The accountability, control, and reporting of real and personal property was not sufficient to provide reasonable assurance that primary control objectives were met. Also, NSA had not established controls to ensure that required reports to

Appendix A. Audit Process

DFAS and account balances in the consolidated general ledger were supported in subsidiary records. Recommendations A.1, A.5, A.7, A.8, B.2, B.7, B.8, B.9, and B.11, if implemented, will improve management controls over financial accounting procedures. A copy of the report will be provided to the senior official responsible for management controls at NSA.

Adequacy of Management's Self-Evaluation. The NSA has correctly reported the "accountability, control, and reporting of Agency fixed assets and other personal property . . ." as a material weakness in its Annual Statement of Assurance since FY 1988. However, the target dates for required corrective actions have been continually pushed back. Also, corrective actions include plans to improve only personnel property accountability and reporting. The Annual Statement of Assurance did not include plans to correct deficiencies in accounting for real property. The person managing the property book in 1993 identified property reporting as having the greatest potential negative effect on his section. He further determined that no controls were in place to prevent adverse effects. However, the internal management control program coordinator for the L5 did not have a copy of that assessment and took no actions to improve management controls.

The Accounting Office did not identify reconciliation and verification of general ledger accounts with supporting documentation as an assessable unit. The Accounting Office identified assessable units based on the organizational element rather than functions performed. Therefore, NSA did not report the resultant management control weakness identified by the audit.

Appendix B. Prior Audits and Other Reviews

Inspector General, DoD

Report No. 96-161, "Compilation of FY 1995 and FY 1996 DoD Financial Statements at the Defense Finance and Accounting Service, Indianapolis Center, June 13, 1996. The report states that the DFAS process to compile the Army General Fund CFO financial statements was acceptable as an interim solution, but improvements in the compilation process were needed. The report recommends improvements in internal controls to ensure that required footnotes are prepared, auditor-recommended adjustments have been made, and adjustments are fully documented. The improvements in internal controls could also help DFAS in compiling financial statements for the Defense agencies, because DFAS will use the same process to compile FY 1996 CFO financial statements for Defense agencies. The Director, DFAS, concurred with all audit recommendations, and proposed corrective actions were considered fully responsive.

Report No. IR-96-03, "Verification Inspection of the National Security Agency," February 13, 1996. The goal of this inspection was to review management actions to correct the problems identified during the 1991 inspection and to determine whether those actions corrected and prevented the problems from recurring. The report identifies areas related to financial management and the internal management control program that need correction.

The report recommends that the NSA ensure that vulnerability assessments are conducted for activities such as time and attendance, travel, overtime, cash management, and automated information system accreditations. In addition, the report recommends that the NSA resolve its equipment accountability shortfalls. Also, the report recommends that the NSA institute proper financial accounting practices and procedures for management and oversight of Economy Act Orders in accordance with applicable National Security Agency/Central Security Service resource management regulations. The NSA concurred with all recommendations, and its planned actions were considered responsive.

Report No. 92-INS-09, "Inspection Report on the National Security Agency," May 27, 1992. The report states that NSA was effectively serving intelligence customers; however, the efficiency of the service needs improvement. The report includes two recommendations related to internal controls and recommends that NSA should preform vulnerability assessments after any reorganization and include time and attendance, travel, overtime, cash

Appendix B. Prior Audits and Other Reviews

management, and automated information systems accreditations in vulnerability assessments. The NSA concurred with the recommendations, and its planned actions were considered responsive.

Report No. 92-109, "Contractor Acquired Property at the National Security Agency," June 30, 1992. The report states that controls in place were sufficient for the property control reviews and for determining whether material should be furnished by the Government. However, NSA policies and procedures did not adequately address property administration for Government property acquired by contractors on cost-reimbursement contracts. The draft report recommended that NSA modify guidance on property administration to include delegation procedures for contracts with contractor acquired property. Because management actions were responsive to the draft report recommendations, the final report had no recommendations.

Inspector General, NSA

Report No. AU-93-0010, "Audit of Selected Expired Appropriations (Phase II)," March 8, 1996. The report states that NSA has made improvements in budget, procurement, and accounting procedures, but more effort is needed to ensure that contracts are closed out and that obligations are met before appropriated funds are canceled. The report recommends that NSA implement procedures for timely contract closeout and deobligation of excess funds and implement internal controls to ensure the reliability and accuracy of accounting data. Management concurred with the recommendations and stated procedures and controls are being established to address deficiencies in handling expired funds.

Report No. AU-92-0002, "Report on the Audit of SIGINT [Signals Intelligence] Support Contracts," April 24, 1995. The report states that NSA procurement practices lack reasonable assurance that appropriation management and procurement requirements are met. The report recommends establishing internal controls that provide reasonable assurance that financial and procurement practices comply with statutory, DoD, and NSA guidance and correcting financial transactions for which appropriated funds were either used or reported in a manner that was inconsistent with applicable statutes, guidance, or policy. Management actions were considered responsive to the recommendations.

Report No. AU-93-0009, "Audit of Bad Aibling Station Property Accountability," August 16, 1994. The report states that the audit was conducted to determine whether property accountability at Bad Aibling Station was reliable to provide the information needed for an orderly transition to the

U.S. Army Intelligence and Security Command. The report recommends that Bad Aibling Station institute a Property Administration Officer/Accountable Officer Program, reconcile the property that was not found during the 1991 inventory, conduct a complete physical inventory, coinciding with the distribution of the Army's Standard Property Book System, include property accountability in the performance standards of managers, and develop standard operating procedures to track personal property movement. Management concurred with all recommendations, conducted required inventories, and reconciled results with property records.

Report No. AU-93-0004, "Advisory Report Personal Property Accountability Audit," July 21, 1994. The report states that NSA did not use the general ledger to secure accounting control over personal property assets and that NSA is not in compliance with its own or DoD regulatory property guidance. The report recommends that NSA revisit the personal property accountability issue because the existing system did not comply with NSA directives or DoD regulatory guidance. In addition, the report suggests establishing a single organization to implement an NSA-wide property accounting, accountability, and management system; an NSA-wide standard property tracking data base; and an accounting data base linking the property tracking data base to the NSA general ledger.

Report No. AU-94-0007, "Audit Survey of Property Accountability at Menwith Hill Station," July 20, 1994. The survey did not identify apparent risk conditions that would justify conducting an audit. Therefore, the test and verification phase of the audit was not performed, and no audit opinion was expressed. The property management staff at Menwith Hill Station compensated for inherent weaknesses in the overall plant property management system by developing local alternative procedures.

Report No. AU-93-0003a, "Interim Report of Merged Account and Selected Expired Appropriations," March 8, 1994. The report states that management initiatives significantly contributed to reducing the balance in the merged account. The review identified discrepancies that were, for the most part, corrected by the accounting staff. There were no recommendations in the report.

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)

Deputy Chief Financial Officer

Deputy Comptroller (Program and Budget)

Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)

Director, Defense Logistics Studies Information Exchange

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)

Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)

Auditor General, Department of the Air Force

Defense Organizations

Director, Defense Contract Audit Agency

Director, Defense Finance and Accounting Service

Director, Defense Logistics Agency

Director, National Security Agency

Inspector General, National Security Agency

Inspector General, Defense Intelligence Agency

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division,
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 Committee on Governmental Affairs
Senate Select Committee on Intelligence
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal
Justice, Committee on Government Reform and Oversight
House Committee on National Security
House Permanent Select Committee on Intelligence

Audit Team Members

This report was prepared by the Readiness and Operational Support Directorate, Office of the Assistant Inspector General for Auditing, DoD.

(b)(5)



~~FOR OFFICIAL USE ONLY~~

~~FOR OFFICIAL USE ONLY~~