

# United States Senate

WASHINGTON, DC 20510

February 3, 2010

## Via Electronic Transmission

The Honorable Gordon S. Heddell  
Inspector General  
Department of Defense  
400 Army Navy Drive  
Arlington, VA 22202-4704

General James T. Conway  
Commandant of the Marine Corps  
Headquarters, U.S.M.C.  
2 Navy Annex  
Washington, D.C. 20380-1775

Teresa McKay  
Director  
Defense & Finance Accounting Service  
8899 East 56<sup>th</sup> Street  
Indianapolis, IN 46249

Dear Inspector General Heddell, General Conway, and Director McKay:

It is our constitutional duty to oversee all the taxpayer money appropriated to and spent by the Executive departments. For many years, we have cited many serious and enduring accounting problems at the Department of Defense (DOD). We are concerned with the continual failure of internal financial schemes, which undermine the DOD's ability to earn "clean" opinions on financial audits. We believe all DOD components, to include the Office of Inspector General (OIG), should work to immediately elevate their individual audit and accounting capabilities to ensure taxpayer dollars are not lost to waste, fraud and abuse.

On January 25, 2010, the DOD, Office of Inspector General (OIG) published Report No. D-2010-037, "Internal Controls Over United States Marine Corps Commercial and Miscellaneous Payments Processed Through the Deployable Disbursing System." According to the DOD-OIG, the Deployable Disbursement System (DDS) was developed by the Defense and Finance Accounting Service (DFAS) "to fulfill a need for a tactical disbursement system to maintain accountability of Treasury funds entrusted to disbursing agents." The DOD-OIG audited the internal controls and the reliability of transaction data processed through DDS at three main sites located at Camp Pendleton, California; Camp Lejeune, North Carolina; and Camp Foster, Okinawa, Japan. The DOD-OIG examined the internal controls over transactions processed through the DDS for \$520 million in payments for FY's 2006 and 2007.

The findings by the DOD-OIG audit of the U.S. Marine Corps' (USMC) DDS presents a troubling fiscal picture of accounting and oversight practices at the USMC and DFAS. The DOD-OIG made the following significant findings:

- USMC did not properly authorize vouchers for 9,675 payments, totaling \$310.4 million, and were in non-compliance of 31 U.S.C. § 3325;
- USMC failed to separate authorization and payment duties;
- USMC did not adequately control access to DDS through the issuance of generic user or multiple user accounts;
- USMC did not have adequate procedures over the use and access of DDS;

The above findings are significant warning signals that the USMC left the door wide open to potential theft and abuse of taxpayer dollars.

We commend DOD-OIG for its work on this issue and for making numerous substantive recommendations to the USMC to improve the transactional accountability of DDS. This type of audit work is the type of product that can begin to improve the accounting systems at the Department. The DOD-OIG also provided DFAS with some recommendations on how to develop improved oversight, reliability and review capabilities of this system. It appears both agencies concurred with the OIG recommendations and have since taken corrective actions.

Despite the positive achievements of this audit, in carefully reviewing the DOD-OIG audit report, we have identified five significant areas of concern we want to share with you.

**First**, it appears the USMC apparently acquired a disbursement system in DDS that cannot be properly audited. During their audit, DOD-OIG auditors found archived data for 13,197 transactions in the USMC's DDS did not "capture certain key data elements." This considerable shortcoming prevented the DOD-OIG from conducting a full scope audit of DDS payments. The DOD OIG report indicates that the USMC implemented DDS in 2006. It is alarming that DFAS would allow the USMC to implement a new finance system that is unable to maintain the data needed for basic follow-up audits. DDS, as implemented, seems to exacerbate the payment and disbursement accountability problems faced by the USMC and the DOD, rather than resolve them.

**Second**, it appears the USMC fell short in its oversight of DDS. The staff of the Marine Corps Disbursing Operations and Systems Section in Kansas City, Missouri, is charged with oversight of field finance and disbursing offices. They are responsible for making sure disbursing personnel implement and maintain proper internal controls. If this had been the case, how could it be that the USMC violated rudimentary internal control practices, like separation of duties, in the DSS system? Why did the USMC allow multiple user or generic accounts to exist instead of strictly control access to this system? Is the USMC truly prepared to produce a clean financial statement? Due to deficient oversight and poor program execution of DDS, the USMC took a step back in improving its finance and accounting systems. It left the door wide open for waste, fraud and abuse.

**Third**, DOD-OIG auditors primarily focused on payment data from DDS vouchers. This report points to the continuing habit of OIG auditors to avoid the difficult task of “end-to-end” review of sampled transactions at the DOD. OIG auditors should be checking and verifying a representative sample of transactions against contracts, deliverables and payments to source documents. The examination of DDS vouchers is just one small part of the contract performance and payment process. DOD-OIG audit work seems to focus on symptoms rather than on root causes. There are major questions left unanswered by the DOD OIG audit. Why did the USMC engage in the poor administration of the DDS program? Why did DFAS allow an audit deficient system like DDS to be placed in operation?

**Fourth**, the DOD-OIG stated in the report, “We have referred 34 duplicate and triplicate payments to the Defense Criminal Investigative Service [DCIS] for follow up.” It is our view that duplicate or triplicate payments should not automatically raise the fraud suspicions of an auditor. A straightforward review of the duplicate payments could have quickly defined the scope of the problem. The report makes no mention that auditors found the duplicate payments to be potentially fraudulent. Automatic referrals like these to DCIS forces this investigative agency to perform work that DOD OIG auditors should be doing. The DOD-OIG auditors had done some preliminary work to identify these questionable payments, yet they decided to “punt” the issue to DCIS without any further audit work to determine whether it was a simple error or fraud. Auditors have the professional experience and common sense to identify fraud. They should utilize their instincts to refer only the most salient duplicate payments to DCIS.

**Finally**, the DOD-OIG report points to some noteworthy accounting and auditing flaws with DDS and its execution at the USMC. However, the DOD-OIG is notably silent on holding anyone -- military or civilian -- accountable for the implementation and administration of DDS. These were blatant breakdowns in the internal controls of a payments system at the USMC. The decisions to go against widespread accounting practices used by DDS were ultimately made by military or civilian managers at either the USMC or DFAS. Is no one responsible for this poor stewardship of taxpayer money? At the very least, the DOD-OIG should have seriously considered recommending to the USMC and DFAS officials that the work performance of the individuals involved with DDS should be reviewed for potential disciplinary or administrative action. Unfortunately, as is the case with most DOD-OIG financial audits, holding individuals responsible takes a back seat to policy recommendations.

We are also worried that the bulk of the recommendations regarding DDS internal controls may not be resolved until December 2010. This leaves DDS and the DOD open to potential fraud and abuse for another 10 months.

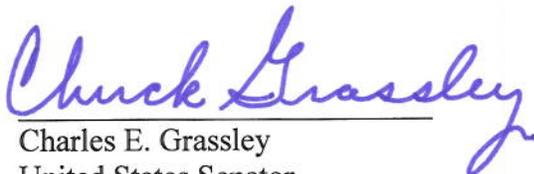
Given the above concerns, we ask for the following:

1. DFAS should immediately review the internal controls for all DOD components currently using DDS;
2. The expected completion date for complying with the OIG's recommendations regarding internal controls is December 2010. The Navy, USMC and DFAS should work to prioritize the resolution of the internal control problems with DDS and finish the work in half the time;
3. Provide a list of the DOD provided training and education opportunities made available to USMC, DFAS and DOD-OIG finance and accounting employees for the balance of FY 2010;
4. OIG Audit should undertake an end-to-end audit of a representative sample of DDS payments to determine and verify whether there is potential fraud, waste and abuse;

Americans deserve full accountability of their tax dollars. Flawed finance systems like DDS bring to question whether the DOD is making any real progress towards audit readiness.

We appreciate your attention to the issues we raise about DDS and the identified DOD components. Please provide a written response to each issue raised in this letter no later than March 1, 2010.

Sincerely,

  
Charles E. Grassley  
United States Senator

  
Tom A. Coburn  
United States Senator