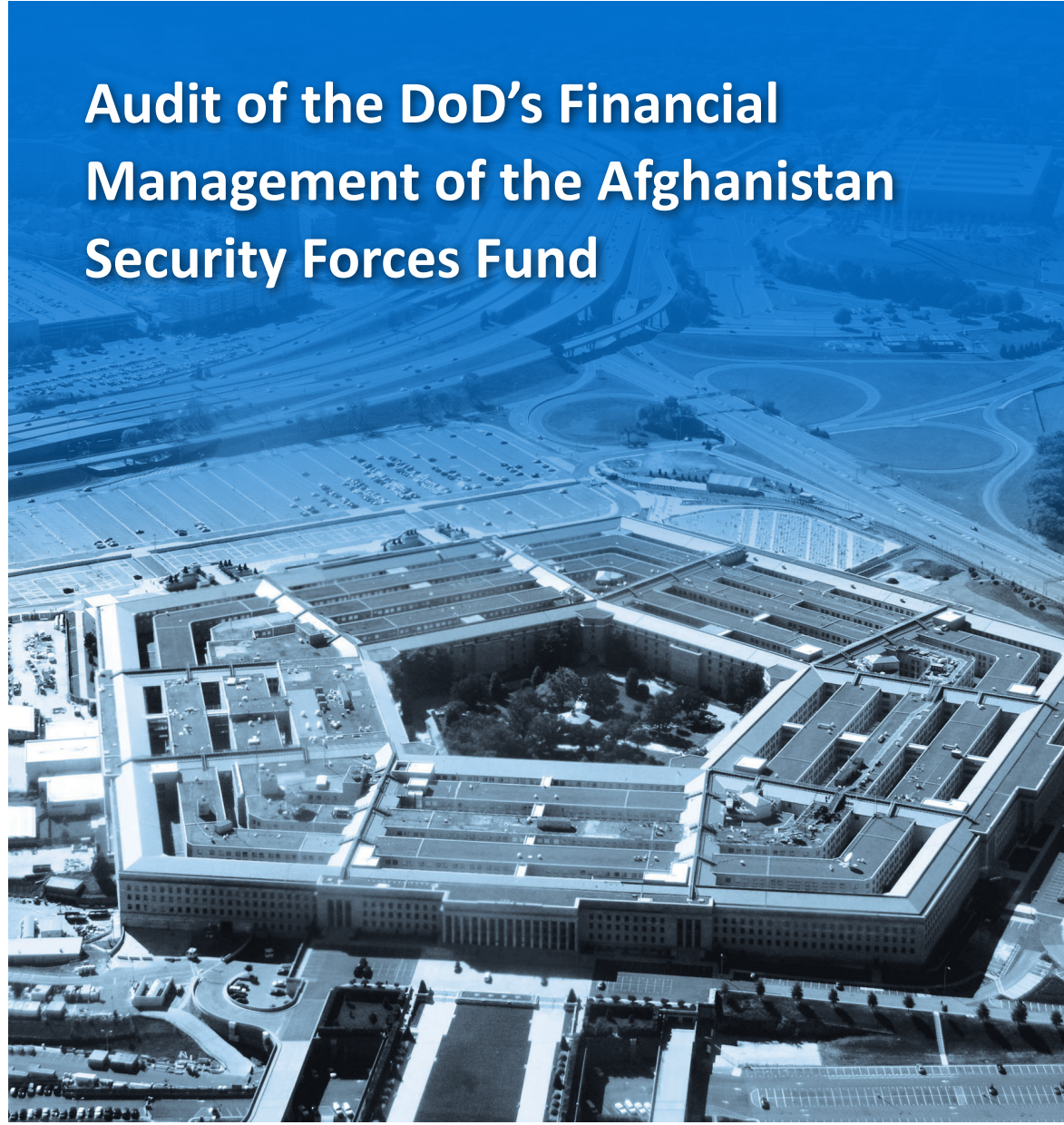




# INSPECTOR GENERAL

*U.S. Department of Defense*

JUNE 9, 2023



## **Audit of the DoD's Financial Management of the Afghanistan Security Forces Fund**

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE







# Results in Brief

## *Audit of the DoD's Financial Management of the Afghanistan Security Forces Fund*

June 9, 2023

### Objective

The objective of this audit was to determine whether the DoD managed the Afghanistan Security Forces Fund (ASFF) appropriated funds in the Foreign Military Sales (FMS) Trust Fund in accordance with applicable laws and regulations. This audit was performed due to previously identified risks related to the DoD's transfer of ASFF appropriated funds to the FMS Trust Fund and the sudden collapse of the Afghan government. Data reliability and supporting documentation issues, described in the Scope and Methodology section, limited our ability to perform tests on the underlying transactions for the ASFF funds.

### Background

Since FY 2005, public laws appropriated a net amount of \$80.7 billion to the ASFF account to provide the Afghanistan National Defense and Security Forces with assistance. Of the \$80.7 billion, Defense Security Cooperation Agency (DSCA) personnel transferred \$47.5 billion from the ASFF account to the FMS Trust Fund. Once DSCA personnel transferred the funds, they issued the funds' obligation authority to various DoD Components to spend.

DSCA personnel transferred those funds using the process for Building Partnership Capacity (BPC) programs. While the sources and purposes of BPC funds vary, the DoD's underlying policies and procedures for executing the programs are similar. Therefore, this report makes recommendations related to the policies and procedures for BPC programs. In addition, while additional funding for the ASFF is unlikely, other BPC programs—such as

### Background (cont'd)

the Ukraine Security Assistance Initiative and the Foreign Security Forces: Authority to Build Capacity—continued to receive funding.

### Finding

The DoD did not manage ASFF appropriated funds in accordance with applicable laws and regulations. Specifically, the DoD did not comply with the requirements of:

- the Arms Export Control Act, the Economy Act, or the National Defense Authorization Acts that established the ASFF by transferring \$47.5 billion to the FMS Trust Fund;
- appropriations laws by not returning \$2.3 billion in canceled funds to the U.S. Treasury in a timely manner and \$25.7 million in expired funds to the ASFF account and by inappropriately disbursing and depositing canceled funds in at least 15 cases; and
- Office of Management and Budget Circular No. A-123 by inaccurately recording \$4.1 billion appropriated to the ASFF account as spent.

This mismanagement occurred because the DoD did not design and implement effective controls over BPC funds.

As a result, the DoD increased the risk of violating the Antideficiency Act, designed a process that was inefficient, provided inaccurate appropriation status data for quarterly reports to Congress, and reported ASFF-related financial activity inaccurately in the DoD, Army, and Security Assistance Accounts financial statements.

### Recommendations

Among other recommendations, we recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (USD[C]/CFO) and the DSCA Director:

- rescind policies that: (a) cite the Economy Act as the authority for transferring funds to the FMS Trust Fund, (b) cite the FMS Trust Fund as an appropriated destination for BPC funds, and (c) allow for the incorrect reporting of the status of funds;



# Results in Brief

## *Audit of the DoD's Financial Management of the Afghanistan Security Forces Fund*

### **Recommendations (cont'd)**

- issue policies that require the DoD to only use the FMS Trust Fund for its established purposes and remove any BPC funds remaining in the FMS Trust Fund; and
- develop and implement policies that require the DoD to fully use U.S. Treasury funds controls.

We also recommend that the USD(C)/CFO, the DSCA Director, and the Assistant Secretary of the Army (Financial Management and Comptroller) review the DoD Agency-Wide, Security Assistance Account, and Army General Fund financial statements, respectively, to determine the necessary corrections to prior period financial reports based on U.S. Treasury guidance and take action accordingly.

### **Management Comments and Our Response**

The USD(C)/CFO agreed with the 17 recommendations we addressed to them. However, the comments for 10 of the recommendations lacked sufficient detail describing the actions their office plans to take to implement the recommendations. Therefore, those recommendations remain unresolved. The remaining seven recommendations are resolved but will remain open.

Of the 11 recommendations addressed to the DSCA Director, DSCA officials agreed with 6 recommendations, partially agreed with 2 recommendations, and did not agree with 3 recommendations. Of the 11 recommendations, DSCA responses to 8 recommendations either lacked sufficient detail describing the planned actions to implement the recommendations or stated that officials disagreed with the recommendations. Therefore, those 8 recommendations remain unresolved. The remaining three recommendations are resolved but will remain open.

We request that the USD(C)/CFO and DSCA Director provide additional comments on the unresolved recommendations within 30 days.

The Army official, responding for the Assistant Secretary of the Army (Financial Management and Comptroller), agreed with the three recommendations addressed to the Assistant Secretary. Therefore, the recommendations are resolved but will remain open.

Please see the Recommendations Table on the next page for the status of the recommendations.



## Recommendations Table

| Management  | Recommendations Unresolved         | Recommendations Resolved      | Recommendations Closed |
|---|------------------------------------|-------------------------------|------------------------|
| Under Secretary of Defense (Comptroller)/<br>Chief Financial Officer, DoD | 1.b.1-3, 1.c.1-3,<br>1.d, 1.e.1-3  | 1.a.1-2, 1.f,<br>1.g.1-3, 1.h | None                   |
| Director, Defense Security<br>Cooperation Agency                          | 2.b.1-2, 2.c, 2.d,<br>2.e, 2.g.1-3 | 2.a.1-2, 2.f                  | None                   |
| Assistant Secretary of the Army<br>(Financial Management and Comptroller) | None                               | 3.a, 3.b, 3.c                 | None                   |

Please provide Management Comments by July 10, 2023.

**Note:** The following categories are used to describe agency management’s comments to individual recommendations.

- **Unresolved** – Management has not agreed to implement the recommendation or has not proposed actions that will address the recommendation.
- **Resolved** – Management agreed to implement the recommendation or has proposed actions that will address the underlying finding that generated the recommendation.
- **Closed** – DoD OIG verified that the agreed upon corrective actions were implemented.



**INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
4800 MARK CENTER DRIVE  
ALEXANDRIA, VIRGINIA 22350-1500**

June 9, 2023

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR POLICY  
UNDER SECRETARY OF DEFENSE (COMPTROLLER)/  
CHIEF FINANCIAL OFFICER, DOD  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE  
DIRECTOR, DEFENSE SECURITY COOPERATION AGENCY  
AUDITOR GENERAL, DEPARTMENT OF THE NAVY  
AUDITOR GENERAL, DEPARTMENT OF THE ARMY  
AUDITOR GENERAL, DEPARTMENT OF THE AIR FORCE

SUBJECT: Audit of the DoD's Financial Management of the Afghanistan Security Forces Fund  
(Report No. DODIG-2023-082)

This final report provides the results of the DoD Office of Inspector General's audit. We previously provided copies of the draft report and requested written comments on the recommendations. We considered management's comments on the draft report when preparing the final report. The comments are included in the report.

This report contains recommendations that are considered unresolved because:

- the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD did not identify the actions they plan to take for Recommendations 1.b.1-3, 1.c.1-3, 1.d, and 1.e.1-3;
- the Defense Security Cooperation Agency Director did not identify the actions they plan to take for Recommendations 2.b.1-2, 2.c, 2.d, and 2.e; and
- the Defense Security Cooperation Agency Director did not agree with Recommendations 2.g.1-3.

Therefore, as discussed in the Recommendations, Management Comments, and Our Response section of this report, the recommendations remain open. We will track these recommendations until an agreement is reached on the actions that you will take to address the recommendations, and you have submitted adequate documentation showing that all agreed-upon actions are completed.

DoD Instruction 7650.03 requires that recommendations be resolved promptly. Therefore, within 30 days please provide us your response concerning specific actions in process or alternative corrective actions proposed on the recommendations. Send unclassified responses to [audfmr@dodig.mil](mailto:audfmr@dodig.mil) or make arrangements to send classified responses over the SECRET Internet Protocol Router Network (SIPRNET).

If you have any questions, please contact me at [REDACTED]

FOR THE INSPECTOR GENERAL:

A handwritten signature in cursive script that reads "Lorin T. Venable".

Lorin T. Venable, CPA  
Assistant Inspector General for Audit  
Financial Management and Reporting



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# Introduction

## Objective

The objective of this audit was to determine whether the DoD managed the Afghanistan Security Forces Fund (ASFF) appropriated funds in the Foreign Military Sales (FMS) Trust Fund in accordance with applicable laws and regulations. See Appendix A for a discussion of our scope and methodology. See Appendix B for a list of the public laws applicable to the ASFF.

## Background

Between FYs 2005 and 2022, public laws appropriated \$80.7 billion to the Secretary of Defense in the Army's ASFF account to provide the Afghanistan National Defense and Security Forces (ANDSF) with assistance.<sup>1</sup> Of that amount, Defense Security Cooperation Agency (DSCA)

*Defense Security Cooperation Agency (DSCA) personnel transferred \$47.5 billion to the FMS Trust Fund to fund the ASFF Building Partner Capacity (BPC) program.*

personnel transferred \$47.5 billion to the FMS Trust Fund to fund the ASFF Building Partner Capacity (BPC) program.<sup>2</sup> The public laws that funded ASFF allowed the Secretary of Defense to transfer ASFF appropriated funds to other accounts, so long as the DoD had an authority available to make the transfer. Public Law 110-181 also directs the Special Inspector General for Afghanistan Reconstruction (SIGAR) to submit quarterly reports to Congress that provide an overview of reconstruction activities in Afghanistan, including a detailed statement of all associated obligations and disbursements.<sup>3</sup> In addition, the DoD reports the status of ASFF appropriated funds on the financial statements for three different reporting entities—the DoD Agency-Wide financial statements, the Army General Fund financial statements, and the Security Assistance Accounts (SAA) financial statements.<sup>4</sup>

<sup>1</sup> The \$80.7 billion includes \$9 billion in rescission and reprogramming. The U.S. Treasury identifies the ASFF account as Treasury Appropriation Fund Symbol "021 2091," which is titled "Afghanistan Security Forces Fund, Army." Throughout the report, we refer to this account as the "ASFF account." In Public Law 117-180, "Continuing Appropriations and Ukraine Supplemental Appropriations Act, 2023," September 30, 2022, Congress rescinded \$100 million in FY 2021 ASFF funding and appropriated it as FY 2022 ASFF funding to extend the period of availability to FY 2025.

<sup>2</sup> The U.S. Treasury identifies the FMS Trust Fund account as Treasury Appropriation Fund Symbol "011 x 8242," which is titled, "Advances, Foreign Military Sales, Funds Appropriated to the President." Throughout the report, we refer to this account as the "FMS Trust Fund."

<sup>3</sup> Public Law 110-181, "National Defense Authorization Act for Fiscal Year 2008," January 28, 2008. An obligation is a binding agreement that will result in payment, immediately or in the future.

<sup>4</sup> A reporting entity is a Government organization (such as a department or agency) that represents a meaningful unit for which annual financial statements are prepared. The SAA financial statements, which are not consolidated into the DoD Agency-Wide financial statements, report the FMS Trust Fund.

## ***Building Partner Capacity Programs***

DSCA personnel transferred appropriated funding to the FMS Trust Fund to fund 18 BPC programs, including the ASFF. These programs are the means by which the Government builds the capacity of partner-nation security forces and enhances their capabilities in furtherance of U.S. national security objectives. The funding sources and purposes vary between BPC programs, but the policies and procedures for executing the programs are similar. While ASFF is ending, other BPC programs—such as the Ukraine Security Assistance Initiative and the Foreign Security Forces: Authority to Build Capacity—continued to receive funding. This report makes recommendations as to the policies and procedures related to BPC programs.

## ***Roles and Responsibilities***

In a 2009 memorandum, the Deputy Secretary of Defense delegated management roles and responsibilities for ASFF appropriated funds to various DoD officials, including the following officials.<sup>5</sup>

- **Under Secretary of Defense for Policy** – Provide policy guidance on the use of funds in the ASFF account.
- **Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD** – Establish and supervise the execution of policies and procedures for spending funds in the ASFF account.
- **Secretary of the Army** – Distribute and financially report funds in the ASFF account, including maintaining proper financial management and accountability of the funds.
- **DSCA Director** – Manage its portion of ASFF appropriated funds as developed by Defense Security Cooperation Management Office–Afghanistan (DSCMO-A).<sup>6</sup>
- **DSCMO-A Commander** – Determine program requirements and submit budget plans to the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (OUSD[C]/CFO).<sup>7</sup>

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<sup>5</sup> Deputy Secretary of Defense memorandum, “Management of the Afghanistan Security Forces Fund,” November 12, 2009.

<sup>6</sup> The DSCA is a Defense agency, under the authority, direction, and control of the Under Secretary of Defense for Policy, as outlined by the Deputy Secretary of Defense in DoD Directive 5105.65, “Defense Security Cooperation Agency (DSCA),” October 26, 2012, (incorporating Change 1, March 2, 2023).

<sup>7</sup> The Deputy Secretary of Defense assigned these roles and responsibilities to the Combined Security Transition Command–Afghanistan, which was under the direction of the Commanders of the U.S. Central Command and the U.S. Forces Afghanistan. The Combined Security Transition Command–Afghanistan transitioned to the DSCMO-A in 2021.



The DoD Components were responsible for recording the transactions in their accounting systems, executing the funds, monitoring the status of the funds, and returning any excess obligation authority to the DSCA.<sup>8</sup>

The Defense Finance and Accounting Service (DFAS) provided accounting services on behalf of the DSCA and the DoD Components that spent ASFF appropriated funds.

## Applicable Criteria

Several laws govern the management of the ASFF appropriated funds.

**Appropriations Laws.** Table 1 identifies the applicable appropriations laws.

*Table 1. Appropriations Laws Applicable to ASFF*

| United States Code (U.S.C.)  | Requirement   |
|--|---|
| 31 U.S.C. § 1502<br>(commonly referred to as the “Bona Fide Needs Rule”)                           | Appropriation balances are available only for the payment of expenses properly incurred during the period of availability.  |
| 31 U.S.C. § 1552   | Appropriation balances are no longer available for obligation or expenditure for any purpose after the end of the fifth year following the end of the period of availability.* Remaining balances are required to be returned to the U.S. Treasury as miscellaneous receipts after the account is closed. |
| 31 U.S.C. § 1535<br>(commonly referred to as the “Economy Act”)                                    | Ordering agencies must deobligate funds to the extent that the providing agencies have not incurred an obligation when the period of availability has ended.  |
| 31 U.S.C. § 1341(a)(1)<br>(commonly referred to as one of the “Antideficiency Act” (ADA) statutes) | A government officer or employee must not make or authorize obligations or expenditures in excess of the amount available in an appropriation or fund. Violations of 31 U.S.C. § 1502 and 31 U.S.C. § 1552 that cannot be corrected would cause an ADA violation.   |

\* An expenditure is the liquidation of an obligation. Examples of the liquidation of an obligation include the issuance of checks, disbursement of cash, or electronic transfer of funds.

Source: The DoD OIG.

**Other Federal Laws.** Other laws have been established to ensure that Government operations are efficient and effective. For example, the Federal Managers’ Financial Integrity Act of 1982 (FMFIA), which is implemented by Office of Management and Budget (OMB) Circular No. A-123, requires Federal employees to ensure Federal resources are used efficiently and effectively.<sup>9</sup> In addition, the Federal Financial

<sup>8</sup> Obligation authority gives an organization the ability to enter into obligations. For example, the DSCA assigned obligation authority to the DoD Components, giving them the ability to enter into legally binding agreements to purchase goods and services for the ANDSF. In this report, the term DoD Components refers to the six DoD Components to which the DSCA assigned ASFF appropriations. Those six DoD Components are the Department of the Army, Department of the Navy, Department of the Air Force, Defense Logistics Agency, Defense Information Systems Agency, and National Security Agency.

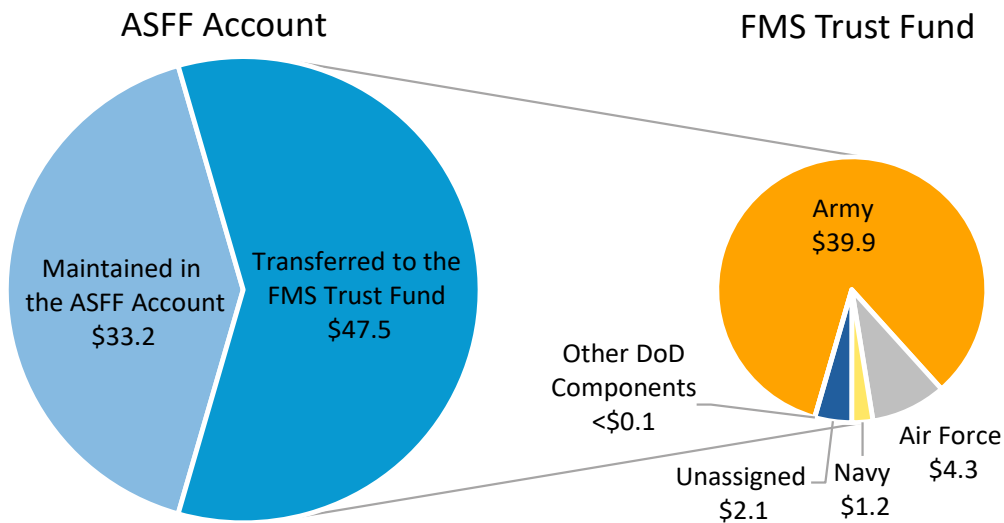
<sup>9</sup> Public Law 97-255, “Federal Managers’ Financial Integrity Act of 1982,” September 8, 1982. OMB Circular No. A-123, “Management’s Responsibility for Enterprise Risk Management and Internal Control,” July 15, 2016.

Management Improvement Act of 1996 (FFMIA) requires the DoD to establish and maintain systems that substantially comply with system requirements and accounting standards at the transaction level to provide reliable financial information consistently, accurately, and uniformly.<sup>10</sup>

## ASFF Appropriation Life Cycle

After enactment of the public laws that funded ASFF, the OMB and the U.S. Treasury coordinated to deposit the funds in the ASFF account. The DSCMO-A Commander was required to submit a detailed spending plan to the OUSD(C)/CFO for approval by DoD stakeholders.<sup>11</sup> After approval, the OUSD(C)/CFO was required to coordinate with the Department of State and notify Congress of how the DoD intended to spend the ASFF appropriated funds. If Congress did not object to the spending plan, OUSD(C)/CFO personnel sent a memorandum to personnel from the Office of the Assistant Secretary of the Army (Financial Management and Comptroller) (OASA[FM&C]) instructing them to issue portions of the ASFF obligation authority to the DSCA and DSCMO-A. Using the obligation authority it obtained from the Army, the DSCA authorized DFAS to transfer funds onto cases in the FMS Trust Fund on behalf of the DSCA.<sup>12</sup> The left side of Figure 1 shows that \$47.5 billion in ASFF appropriated funds had been transferred to the FMS Trust Fund, as of June 30, 2022.

Figure 1. The DoD's Distribution of ASFF Appropriated Funds, as of June 30, 2022 (in Billions)



Source: The DoD OIG.

<sup>10</sup> Public Law 104-208, "Omnibus Consolidated Appropriations Act, 1997," Title VIII, "Federal Financial Management Improvement Act of 1996," September 30, 1996.

<sup>11</sup> DoD stakeholders include but are not limited to senior representatives from the Office of the Under Secretary of Defense for Policy; the U.S. Central Command; and the OASA(FM&C).

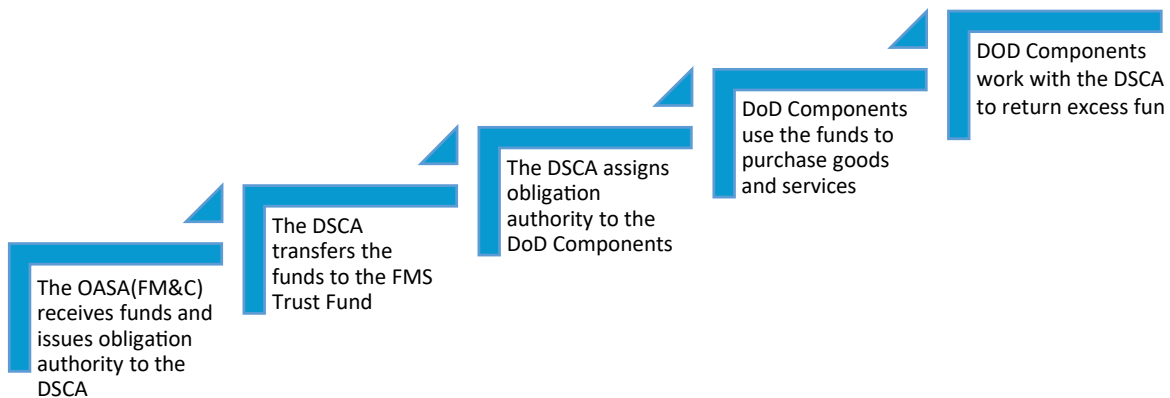
<sup>12</sup> A case, within the context of this report, is an order for DoD Components to fill. In total, as of June 2022, DSCA personnel had developed approximately 2,000 cases from which DoD Components spent funds for the ASFF BPC program. Open cases are orders for goods and services that either had not been filled, or had been filled, but the DoD Component had not completed the closure process.



Once the funds had been transferred to the FMS Trust Fund, DSCA personnel assigned obligation authority for the funds to various DoD Components, which used the authority to purchase the goods and services that fulfilled the ANDSF requirements identified by the DSCMO-A Commander. The right side of Figure 1 shows how DSCA personnel assigned obligation authority for the funds transferred to the FMS Trust Fund. Of the \$47.5 billion transferred to the FMS Trust Fund, DSCA personnel assigned \$39.9 billion (or 84 percent of the funds transferred) back to the Army to spend on goods and services for the ANDSF. DSCA personnel assigned the remaining \$7.6 billion (or 16 percent of the funds transferred) to other DoD Components or held it in the FMS Trust Fund as unassigned.

Once the DoD Components purchased the necessary goods and services for a case, the DoD Components were required to work with DFAS and the DSCA to close the case and return any excess funds to the appropriate accounts. Specifically, the Economy Act requires the DoD to return excess unexpired and expired funds to the Army's ASFF account, while 31 U.S.C. § 1552 requires the DoD to return excess canceled funds to the miscellaneous receipts accounts at the U.S. Treasury.<sup>13</sup> Figure 2 provides a summary of the ASFF appropriation life cycle for funds issued to the DSCA.

*Figure 2. ASFF Appropriation Life Cycle for Obligation Authority Issued to the DSCA*



Source: The DoD OIG.

## Review of Internal Controls

DoD Instruction 5010.40 requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls.<sup>14</sup> We identified internal control weaknesses in the DoD's management of ASFF appropriated funds. We will provide a copy of the report to the senior official responsible for internal controls in the OUSD(C)/CFO, the DSCA, and the DoD Components.

<sup>13</sup> Expired funds are from an appropriation whose period of availability has ended and is no longer available for new obligations. The expired funds retain their fiscal identity and are available to adjust and liquidate previously incurred obligations for 5 years. Five years after the funds expire, they become "canceled" and are not available for obligation or expenditure for any purpose.

<sup>14</sup> DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013, (Incorporating Change 1, June 30, 2020).

## Finding

### The DoD Mismanaged ASFF Appropriated Funds

The DoD did not manage ASFF appropriated funds in accordance with applicable laws and regulations. Specifically, the DoD did not comply with the requirements of:

- the Arms Export Control Act (AECA), Economy Act, or the National Defense Authorization Acts that established ASFF by transferring \$47.5 billion in ASFF appropriated funds to the FMS Trust Fund;<sup>15</sup>
- appropriations laws by not returning \$2.3 billion in canceled funds to the U.S. Treasury and \$25.7 million in expired funds to the ASFF account in a timely manner and by inappropriately disbursing and depositing canceled funds in at least 15 cases; and
- OMB Circular No. A-123 by maintaining accounting records that inaccurately reflected \$4.1 billion appropriated to the ASFF account as spent.

This mismanagement occurred because the DoD did not design and implement effective controls over BPC funds. As a result, the DoD increased the risk of violating the ADA, designed a process that was inefficient, provided inaccurate appropriation status data for quarterly reports to Congress, and reported ASFF-related financial activity inaccurately in the DoD, Army, and SAA financial statements.

### The DoD's Transfer of ASFF-Appropriated Funds to the FMS Trust Fund Did Not Comply with Law

The DoD did not comply with the requirements of the AECA, Economy Act, or National Defense Authorization Acts that established ASFF when transferring \$47.5 billion

*It was not appropriate for the DoD to transfer ASFF appropriated funds to the FMS Trust Fund, because the FMS Trust Fund was created for a specific purpose under the AECA.*

in ASFF appropriated funds to the FMS Trust Fund. Public laws allow the DoD to use any transfer authority available to the Secretary of Defense to transfer ASFF appropriated funds to another appropriation account or fund, which would generally be permitted by the Economy Act. However, it was not

appropriate for the DoD to transfer ASFF appropriated funds to the FMS Trust Fund, because the FMS Trust Fund was created for a specific purpose under the AECA.

<sup>15</sup> The AECA is codified in chapter 39, title 22, United States Code.

Despite the FMS Trust Fund not being an appropriate destination, the OUSD(C)/CFO and the DSCA have historically issued guidance that cited the Economy Act as the authority used for transferring ASFF appropriated funds to the FMS Trust Fund. For example:

- DoD Regulation 7000.14-R, “DoD Financial Management Regulation” (DoD FMR), volume 15, chapter 3, states, “BPC funds are transferred to the FMS Trust Fund under the authority of the Economy Act.”<sup>16</sup>
- DSCA Policy Memorandum 20-47 states, “BPC funds are transferred to the FMS Trust Fund under the authority of the Economy Act.”<sup>17</sup>

While the AECA alone disqualifies the use of the FMS Trust Fund for ASFF appropriated funds, the DoD also did not conduct transfers consistent with the requirements of the Economy Act. Because the DoD has historically relied on the Economy Act, and it could be a viable option to transfer BPC funds to an account other than the FMS Trust Fund, we also reported on this noncompliance.

### ***The DoD Used the FMS Trust Fund in a Manner That Was Not Authorized by the Arms Export Control Act***

The DoD used the FMS Trust Fund in a manner that was not authorized under the AECA.<sup>18</sup> The U.S. Treasury established the FMS Trust Fund to receive funds, in accordance with the AECA, from foreign nations and is used for the DoD to either:

- sell military-related goods from its inventory to that nation (22 U.S.C. § 2761) or
- purchase goods and services for a foreign nation using the DoD’s contracting capabilities (22 U.S.C. § 2762).

In either scenario, the foreign nation bears the financial responsibility of paying for the goods and services the foreign nation purchased. Even in instances where the U.S. Government purchases the goods or services on behalf of the foreign nation using appropriated funds, the statutes require the foreign nation to reimburse the U.S. Government.

While ASFF appropriated funds directly benefited a foreign nation (Afghanistan), the funds were U.S. appropriated funds, not Afghanistan’s funds. The public laws authorizing the ASFF appropriated

*While ASFF appropriated funds directly benefited a foreign nation (Afghanistan), the funds were U.S. appropriated funds, not Afghanistan’s funds.*

<sup>16</sup> DoD FMR, volume 15, chapter 3, section 4.8.2.3.

<sup>17</sup> DSCA Policy Memorandum, “Department of Defense Appropriated Building Partner Capacity (BPC) Accounting Interim Solution, Defense Security Cooperation Agency (DSCA) Policy Memo 20-47, ESAMM Change 495,” September 29, 2020.

<sup>18</sup> The Government establishes Federal trust funds to carry out specific purposes that are identified in trust agreements or law. In the case of the FMS Trust Fund, that law was the AECA.

funding did not include a provision requiring Afghanistan to reimburse the DoD (or U.S. Government) for purchases made using the funds. Although the DoD used the ASFF-appropriated funds to purchase goods and services for Afghanistan, the DoD purchased the goods and services in accordance with the National Defense Authorization Acts, not with the AECA. Consequently, the DoD lacked authority to transfer ASFF-appropriated funds into the FMS Trust Fund. Similarly, funds appropriated for other BPC programs—such as the Ukraine Security Assistance Initiative and the Foreign

*Funds appropriated for other BPC programs ... for the benefit of other foreign nations, without reimbursement, would also lack the authority to use the FMS Trust Fund.*

Security Forces: Authority to Build Capacity—for the benefit of other foreign nations, without reimbursement, would also lack the authority to use the FMS Trust Fund. Therefore, the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (USD[C]/CFO) and the DSCA Director should perform a comprehensive review of their respective policies for BPC programs to identify and remove any mention of the FMS Trust Fund as an appropriate Treasury account for BPC funds and update the DoD’s processes accordingly.

***The DoD Did Not Conduct Transfers Consistent with the Economy Act***

The DoD did not conduct the transfers consistent with the Economy Act. The Economy Act is an authority that allows Government organizations, such as DoD Components, to obtain goods or services from other Government organizations. Collectively, the Economy Act, DoD Instruction 4000.19, and the Federal Acquisition Regulation, require the Government organization requesting the goods or services from another Government organization to:<sup>19</sup>

1. pay for the goods or services either in advance or through reimbursement,
2. enter into a documented agreement with the agency providing the goods or services, and
3. determine that it could not obtain the goods or services as efficiently or economically as the providing agency and that the arrangement is in the best interest of the Government.

However, the Economy Act was not an appropriate legal basis for DSCA personnel to transfer ASFF appropriated funds to the FMS Trust Fund for the following reasons.

1. The Army did not reimburse the DSCA for costs it incurred related to the ASFF mission as required by the Economy Act. Instead, the Army issued obligation authority to the DSCA, and then the DSCA used the obligation authority to transfer funds to the FMS Trust Fund and assigned obligation

<sup>19</sup> DoD Instruction 4000.19, “Support Agreements,” December 16, 2020. For 2005 through 2020, we used the DoD Instruction 4000.19 in effect at the time. Federal Acquisition Regulation Part 17, “Special Contracting Methods,” Subpart 17.5, “Interagency Acquisitions.”



authority in the FMS Trust Fund to various DoD Components. While the DSCA provided guidance and oversight for programs using the FMS process, the DSCA funded those services through its own appropriations, as opposed to reimbursable support agreements.

2. OUSD(C)/CFO and Army personnel were unable to provide documentation to support that they entered into an Economy Act agreement. In addition, the DSCA OGC's FY 2022 position was that the Army did not seek Economy Act support.
3. The DoD-designed process for transferring funds from the ASFF account to the FMS Trust Fund was neither efficient nor in the best interest of the Government. While the DoD could have spent these funds directly from the ASFF account, it did not. Specifically, the DoD requested and received appropriations totaling \$80.7 billion in the ASFF account and then transferred a majority of those funds (58.8 percent) to a different account (the FMS Trust Fund). In doing so, the DoD created an unnecessarily complex and inefficient process that required additional systems, inaccurately reflected the status of ASFF appropriated funds, and increased the risk of violations of appropriations law, which are discussed in a subsequent section of this report.

Because the arrangements did not meet the requirements of the Economy Act, the USD(C)/CFO and the DSCA Director should perform a comprehensive review of their respective policies for BPC programs to identify and remove any mention of the Economy Act as the authority for transferring BPC funds to the FMS Trust Fund and update the DoD's processes accordingly. In addition, the USD(C)/CFO should develop and implement procedures to monitor future Economy Act transactions to ensure that the:

- providers are reimbursed for costs incurred,
- support agreements are documented, and
- processes are efficient or economical and in the best interest of the Government.

### ***The DoD Intends to Stop Using the FMS Trust Fund***

In third quarter FY 2020, the DoD OGC expressed concerns about the DoD's ability to ensure BPC funds in the FMS Trust Fund used to pay for indirect costs were obligated and disbursed in the appropriate period of availability. To address the DoD OGC's concern, the DSCA issued Policy Memorandum 20-47, which includes a long-term solution that required the DoD to remove all DoD BPC funds from the FMS Trust Fund.

*The DoD OGC expressed concerns about the DoD's ability to ensure BPC funds in the FMS Trust Fund used to pay for indirect costs were obligated and disbursed in the appropriate period of availability.*

While the DSCA originally scheduled to implement this solution in FY 2022, DSCA personnel stated that they would only have a “fully coordinated, recommended solution and implementation timeline by mid-2023.” OUSD(C)/CFO personnel also updated DoD FMR, volume 15, chapter 1, in September 2021 to state, “Planning is underway to migrate BPC program administration outside of the FMS infrastructure.”

To support the implementation of the DoD’s plans to remove BPC funds from the FMS Trust Fund, the USD(C)/CFO should coordinate with the DSCA Director to:

- return all BPC funds in the FMS Trust Fund to the accounts from which the funds originated and
- develop and implement a policy that requires that the FMS Trust Fund be used only for the purposes outlined in 22 U.S.C. §2761 and §2762.

In addition, the USD(C)/CFO should coordinate with the DSCA Director to develop and implement policies and procedures requiring that DoD Component purchases for BPC programs be paid for, whether through reimbursement or other means, directly from the accounts to which Congress appropriated the funds.

### ***The DoD Did Not Notify Congress of the Transfer to the FMS Trust Fund***

The DoD did not notify Congress of the details of the transfer of ASFF appropriated funds to the FMS Trust Fund, as required by the public laws that authorized the spending of ASFF funds.<sup>20</sup> These laws require the Secretary of Defense to notify the congressional defense committees in writing of the details of proposed obligations from the ASFF account before the obligation occurs.<sup>21</sup> OUSD(C)/CFO personnel stated that they delivered congressional notification packages showing how the DoD planned to spend the funds (for example, to purchase ammunition, pilot training, and military and medical equipment), which they said fulfilled the requirements of the public laws. However, the congressional notifications did not disclose any details regarding the DoD’s transfer of ASFF appropriated funds to the FMS Trust Fund. Because ASFF is ending, we did not make a recommendation to notify Congress about the use of the FMS Trust Fund for ASFF funds. However, the USD(C)/CFO should coordinate with the DSCA Director to review all applicable criteria for any active BPC programs to determine whether congressional notifications are required when funds are obligated or transferred and, if so,

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<sup>20</sup> A list of the public laws that authorize the spending of ASFF appropriated funds is located in the “ASFF Authorization Act” column of Appendix B.

<sup>21</sup> The ASFF appropriated funds were obligated and disbursed to transfer them to the FMS Trust Fund.

develop policies or procedures to ensure that the congressional notification discloses the use of the FMS Trust Fund until BPC funds are removed from the FMS Trust Fund.

## The DoD's Financial Management of Funds in the FMS Trust Fund Did Not Comply with Law

The DoD did not comply with the requirements of appropriations laws. Specifically, the DoD did not return \$2.3 billion in canceled funds to the U.S. Treasury and \$25.7 million in expired funds to the ASFF account in a timely manner and inappropriately disbursed and deposited canceled funds in at least 15 cases. When the DoD transferred ASFF appropriated funds, the DoD intended to maintain the periods of availability assigned to the funds by Congress. In an effort to maintain the periods of availability, DSCA personnel developed and implemented controls to track the different periods. However, the DoD Components did not always comply with the periods of availability when managing ASFF appropriated funds in the FMS Trust Fund.

### ***The DoD Did Not Return ASFF Funds in a Timely Manner***

The DoD did not return at least \$2.3 billion in ASFF appropriated funds in the FMS Trust Fund to the U.S. Treasury when the ASFF funds became canceled, as required by 31 U.S.C. § 1552.<sup>22</sup> If the funds had remained in the ASFF account, U.S. Treasury internal controls would have required the DoD to return canceled appropriations to the U.S. Treasury before submitting the DoD's Fund Balance with Treasury balances. Instead, the DSCA and OASA(FM&C) allowed canceled ASFF appropriated funds to build up to \$2.3 billion over the last 11 years.

*If the funds had remained in the ASFF account, U.S. Treasury internal controls would have required the DoD to return canceled appropriations to the U.S. Treasury.*

Additionally, the Economy Act required the DSCA to return expired funds to the ASFF account to the extent the DoD Components had not incurred an obligation. While the DoD has historically cited the Economy Act as its authority to transfer funds—and DoD OGC personnel stated that the Economy Act prevented the DoD from allowing unobligated funds to remain in the FMS Trust Fund—the

<sup>22</sup> The \$2.3 billion balance includes \$2 billion in ASFF appropriated funds not on cases and \$260.1 million in ASFF appropriated funds on cases in reports provided by DFAS, as of June 30, 2022.

DoD did not comply with Economy Act requirements. Specifically, the DoD did not return at least \$25.7 million in ASFF appropriated funds in the FMS Trust Fund to the ASFF account when they expired and were no longer obligated.<sup>23</sup>

Table 2 shows the \$2.3 billion canceled balances not returned to the U.S. Treasury and \$25.7 million not returned to the ASFF account in a timely manner.

*Table 2. ASFF Balances of Expired or Canceled Funds Not Returned in a Timely Manner*

| Expiring Year   | Canceling Year | Funds That Needed to Be Returned to the ASFF Account or U.S. Treasury (in Millions) <sup>2</sup> |
|---|----------------|--|
| 2006  | 2011           | \$9.8  |
| 2007  | 2012           | 2.2  |
| 2008  | 2013           | 61.6   |
| 2009  | 2014           | 324.0  |
| 2010  | 2015           | 235.7  |
| 2011  | 2016           | 178.8  |
| 2012  | 2017           | 571.9  |
| 2013  | 2018           | 504.8  |
| 2014  | 2019           | 261.1  |
| 2015  | 2020           | 72.4   |
| 2016  | 2021           | 66.8   |
| <b>Canceled Funds Not Returned to the U.S. Treasury<sup>1</sup></b> |                | <b>2,289.0</b>   |
| 2017  | 2022           | 2.9  |
| 2018  | 2023           | 10.4   |
| 2019  | 2024           | 3.0  |
| 2020  | 2025           | 0.3  |
| 2021  | 2026           | 9.2  |
| <b>Expired Funds Not Returned to the ASFF Account<sup>2</sup></b>   |                | <b>\$25.7</b>  |

1 Of the \$2.3 billion not returned to the U.S. Treasury, the DoD returned \$2 billion to the U.S. Treasury on June 22, 2022, some of which had canceled in FY 2012.

2 Totals do not equal the actual sums because of rounding.

Source: DFAS.

<sup>23</sup> The \$25.7 million only includes funds not on cases. DSCA personnel did not identify unobligated, expired funds on cases.



While the DSCA developed policies and procedures that required the DoD Components to close cases with canceling BPC funds and return all unused obligation authority on cases to the DSCA by no later than July 31 of the canceling year, the DoD Components did not comply with the requirement. The policies and procedures would have enabled DSCA personnel to return funds to the appropriation from which they originated and allowed for the funds to return to the U.S. Treasury as they were canceled. Instead, the DoD allowed the amount of canceled funds in the FMS Trust Fund to grow to \$2.3 billion over the last 11 years before returning \$2 billion to the U.S. Treasury during this audit. After returning the \$2 billion to the U.S. Treasury, the DoD still maintained a balance of \$260.1 million in canceled ASFF appropriated funds on cases that needed to be returned as of June 30, 2022. Therefore, the DSCA Director should coordinate with the DoD Components to immediately reconcile and close BPC cases with canceled appropriations. Furthermore, the DSCA Director should return canceled appropriations in the FMS Trust Fund to the U.S. Treasury.

In addition to the canceled funds on cases, the DoD maintained a balance of \$1.7 billion in ASFF appropriated funds in the FMS Trust Fund that were available for disbursement, as of June 30, 2022.<sup>24</sup> However, SIGAR's July 2022 quarterly report only identified \$617 million in obligations still outstanding, which would mean that the DoD had not obligated

\$1.1 billion on cases.<sup>25</sup> Therefore, the DSCA Director should coordinate with the DoD Components to immediately identify and reconcile obligations for all ASFF appropriated funds remaining on cases, remove any expired funds on cases that are not obligated, and provide the reconciliations to SIGAR. Furthermore, the DSCA Director should return all expired appropriations not on cases in the FMS Trust Fund to the account from which they were transferred.

*SIGAR's July 2022 quarterly report only identified \$617 million in obligations still outstanding, which would mean that the DoD had not obligated \$1.1 billion on cases.*

### ***The DoD Inappropriately Disbursed and Collected Canceled Appropriations and Potentially Created ADA Violations***

The DoD Components did not comply with the requirements for disbursing and depositing canceled funds on at least 15 cases. Specifically, they did not limit the disbursement of ASFF appropriated funds to the period of time before cancellation

<sup>24</sup> Of the \$1.7 billion, \$1.5 billion were expired and \$0.2 billion were unexpired. While the entire \$1.7 billion was available for disbursement to pay for existing obligations, only the unexpired funds were available to incur new obligations.

<sup>25</sup> The \$617 million may include amounts of funds that were spent directly from the ASFF account and not transferred to the FMS Trust Fund. Although SIGAR uses the status of funds reports for its quarterly reports, it obtained the \$617 million amount separately from the Office of the Under Secretary of Defense for Policy.

on at least eight cases and did not deposit canceled funds returned to the DoD into the U.S. Treasury as miscellaneous receipts on at least seven cases, as required by 31 U.S.C. § 1552.

Because the DoD Components did not always close out cases (which correspond to a given fiscal year) until after the funds had canceled, there were opportunities for the DoD Components to disburse and collect canceled appropriations inappropriately. While Navy personnel created adjustments to correct the eight disbursements of canceled funds that we identified, disbursements like these increase the risk of ADA violations.

In addition, Army personnel were not able to provide supporting documentation for their cases with funds appropriated before FY 2013 and tracked in the Standard Operations and Maintenance Army Research and Development System regardless of when the disbursement occurred, and Air Force personnel were not able to identify the dates for when obligations occurred for their cases. Therefore, the DSCA Director should coordinate with any DoD Components that obligated or disbursed BPC funds to perform a comprehensive review of all BPC cases to identify any obligations of expired funds and any disbursements of canceled funds. For any violation of appropriations law identified during the DSCA's review, the DSCA Director should coordinate with any DoD Components that violated appropriations law to determine whether a potential ADA violation occurred that cannot be corrected and, if so, initiate a review in accordance with DoD FMR, volume 14, chapter 3, to determine whether it is reportable.

### ***The DoD Inaccurately Reflected ASFF Appropriated Funds in the FMS Trust Fund as Spent***

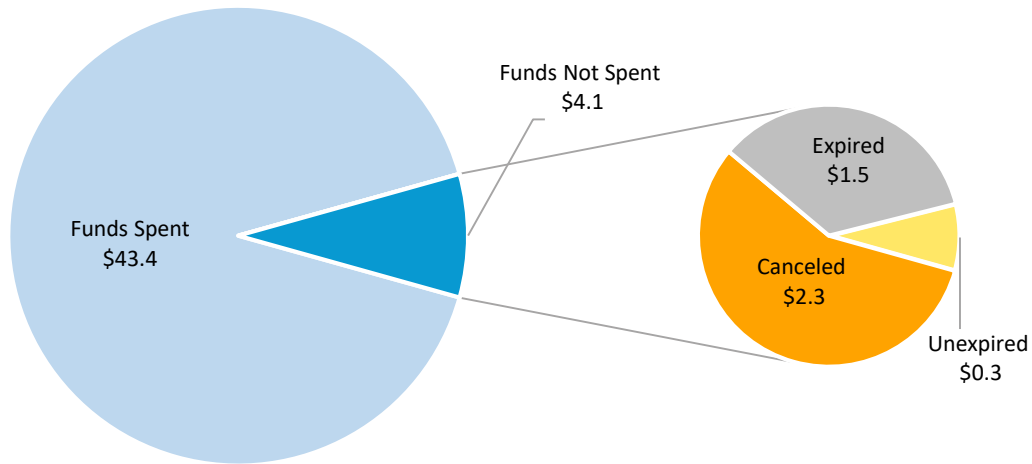
*DoD financial reports overstated the amount of ASFF appropriated funds spent by \$4.1 billion.*

The DoD maintained financial reports that inaccurately reflected \$4.1 billion in ASFF appropriated funds as spent, as of June 30, 2022. OMB Circular No. A-123 requires DoD management to establish

internal controls that achieve reliable financial reporting. However, DoD financial reports made it appear as though the DoD spent the entire \$47.5 billion transferred to the FMS Trust Fund, when the DoD actually transferred the funds for future spending. As a result, DoD financial reports overstated the amount of ASFF appropriated funds spent by \$4.1 billion.

Of the \$4.1 billion overstatement, \$2.3 billion of those funds had canceled, meaning that the DoD could no longer spend the funds.<sup>26</sup> The left side of Figure 3 shows the \$47.5 billion in ASFF appropriated funds that the DoD reported as spent, and the \$4.1 billion of these funds that the DoD incorrectly reported as spent. The right side of the figure shows the availability of the funds incorrectly reported as spent.

Figure 3. Status of ASFF Appropriated Funds Transferred to the FMS Trust Fund (in Billions as of June 30, 2022)



Source: The DoD OIG.

Because DoD financial reports overstated the amount of ASFF appropriated funds spent, the DoD Agency-Wide, the Army General Fund, and SAA financial statements were misstated.<sup>27</sup> U.S. Treasury and OMB guidance requires reporting entities with misstatements to:

- restate prior year financial statements when a misstatement that is material to the reporting entities' financial statements occurs and
- adjust balances brought forward from prior years when the misstatement affects Fund Balance with Treasury or Net Outlays.

Therefore, the Assistant Secretary of the Army (Financial Management and Comptroller) should assess the Army General Fund financial statements for prior period adjustment and: (1) determine materiality for the Army General Fund financial statements, (2) perform an analysis, in coordination with the DSCA Director, on the status of ASFF appropriated funds and other Army appropriated funds in the FMS Trust Fund to quantify the misstatement to the Army General Fund financial statements, and (3) adjust the financial reports for the Army General Fund consistent with U.S. Treasury and OMB guidance. The USD(C)/CFO should assess the DoD Agency-Wide financial statements for prior period adjustment and: (1) determine materiality for each of the non-Army reporting entities that receive appropriations for BPC programs, (2) perform an analysis on the status of BPC appropriated funds in the FMS Trust Fund to quantify the misstatement to the non-Army reporting entities financial statements, and (3) adjust non-Army reporting entity financial reports consistent with U.S. Treasury guidance.

<sup>27</sup> U.S. Standard General Ledger Implementation Guidance, "Prior-Period Adjustment Due to Correction of Errors-Years Preceding the Prior Year," August 2022.

Furthermore, to correct the amounts spent in prior periods on the DoD and the Army financial statements, DoD personnel would need to correct historical transfers to the FMS Trust Fund, which the Security Assistance Account financial statements report. As a result, the DSCA Director should also assess the SAA financial statements for prior period adjustment and: (1) determine materiality for the SAA financial statements, (2) perform an analysis on the status of BPC appropriated funds in the FMS Trust Fund to quantify the misstatement to the SAA financial statements, and (3) adjust the financial reports for the SAA consistent with U.S. Treasury guidance.

In FY 2020, OUSD(C)/CFO management issued policy that, if implemented, would create greater financial reporting inaccuracies for ASFF.<sup>28</sup> Specifically, the policy requires the

*The DoD received value from the transfer by having its mission fulfilled, which was to provide assistance to the ANDSF.*

DoD to record transfers to the FMS Trust Fund as “non-exchange” transactions. The DoD based this policy on the conclusion that it did not “receive anything of value in return for the transfer.”

However, the DoD’s conclusion is inconsistent with Technical Bulletin 2017-01 because the DoD received value from the transfer by having its mission fulfilled, which was to provide assistance to the ANDSF.<sup>29</sup>

In addition, if the OUSD(C)/CFO’s policy were applied, the DoD and the Army would no longer record expenses for their BPC programs because “non-exchange” transactions do not record an expense. Therefore, the USD(C)/CFO should rescind the policy requiring DoD Components to treat BPC funds transferred to the FMS Trust Fund as non-exchange transactions because the policy is not consistent with accounting standards and allows the DoD to stop accounting for those funds after transfer.

## Controls Were Insufficient to Ensure Compliance with Laws and Regulations and Reliable Financial Reporting

The DoD did not design and implement a process for spending BPC funds that complied with OMB Circular No. A-123, which requires DoD management to implement controls that achieve effective and efficient operations, compliance with applicable laws and regulations, and reliable financial reporting. Instead, the DoD circumvented U.S. Treasury controls and used DSCA-designed controls that did not ensure sound financial management or prevent violations of appropriations law. For example, the U.S. Treasury established the Treasury Appropriation Fund Symbol (TAFS), which is a coding system used throughout the Government as a control, to ensure that

<sup>28</sup> OUSD(C)/CFO memorandum, “Accounting Treatment of Foreign Military Sales Non-Exchange Expenditure Transfers for all Title 10 Funding Executed under the Foreign Military Sales Process,” August 3, 2020. While the policy was issued in FY 2020, the DoD has yet to implement it.

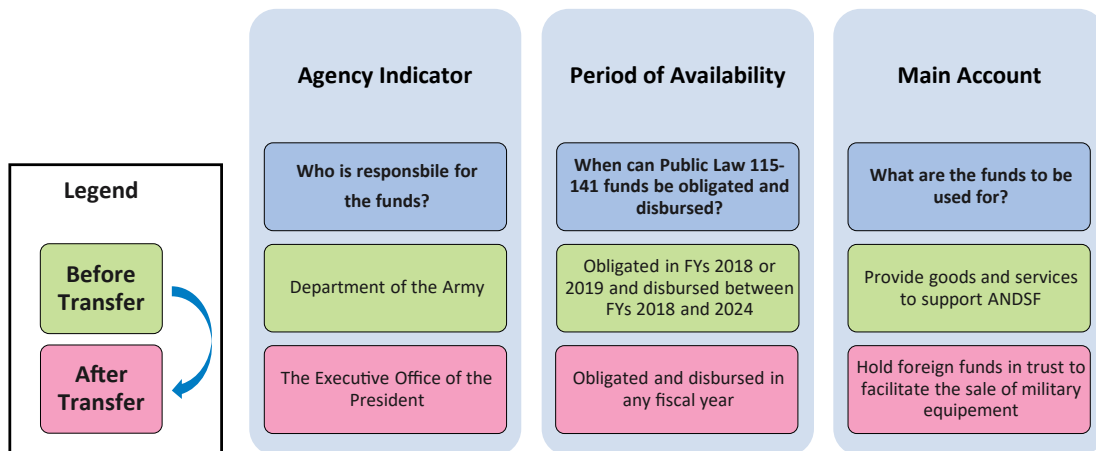
<sup>29</sup> Federal Accounting Standards Advisory Board, “Technical Bulletin 2017-1: Intragovernmental Exchange Transactions,” November 1, 2017. This Bulletin clarifies Federal Accounting Standards Advisory Board, “Statement of Federal Financial Accounting Standards 5: Accounting for Liabilities of the Federal Government,” December 20, 1995.

congressional intent for the funding is maintained.<sup>30</sup> The DSCA could have used the TAFS to track the fiscal characteristics of the various BPC program funds, such as the funds’ purpose and period of availability, and to enforce compliance with appropriations law. However, the DSCA used a coding system that the DoD did not effectively design and implement, as evidenced by violations of appropriations law.

*The DSCA could have used the TAFS to track the fiscal characteristics of the various BPC program funds ... and to enforce compliance with appropriations law.*

By transferring appropriated funds from the ASFF account to the FMS Trust Fund, the DoD circumvented the TAFS. Once funds were in the FMS Trust Fund, they no longer represented the fiscal characteristics of the ASFF appropriation, and the DoD relied only on the DSCA’s compensating coding system to prevent the mismanagement of funds. Figure 4 provides an example of how the TAFS changed by transferring ASFF appropriated funds in Public Law 115-141 to the FMS Trust Fund.

*Figure 4. An Example of How the TAFS Changed When Transferred from the ASFF Account to the FMS Trust Fund*



Note: When the ASFF appropriated funds in Public Law 115-141 transferred to the FMS Trust Fund the funds moved from 021 18/19 2091 to 011 X 8242. The first group of characters in each TAFS is the Agency Indicator, the second is the Period of Availability, and the third is the Main Account. Funds with an “X” designation have no limitation on their Period of Availability and are commonly known as “no year” funds.

Source: The DoD OIG.

After the transfer changed the Agency Indicator attribute to the Executive Office of the President, OUSD(C)/CFO personnel concluded that the funds were no longer under Army, and thereby DoD, control. As a result, they determined that funds appropriated to an Army account should no longer be reported in the Army or DoD financial statements. As discussed in the subsequent section of this report, this led to inaccurate financial reporting in multiple financial statements. Therefore, the USD(C)/CFO should coordinate with the Service Secretaries and

<sup>30</sup> The TAFS is made up of four attributes: (1) the Agency Indicator; (2) Period of Availability; (3) Main Account; and (4), if applicable, Allocation Agency Indicator. The TAFS attributes are used to maintain funds control and ensure accurate accounting transactions and reporting, and interoperability between systems.



appropriate DoD Component directors to develop and ensure the implementation of policy sufficient to ensure that the DoD fully and accurately accounts for the funds consistent with the intent of Congress for the:

- Agency Indicators attribute,
- Periods of Availability attribute, and
- Main Accounts attribute.

## **The DoD Did Not Maintain Fiscal Control, Use Resources Efficiently, or Report Accurate Fund Statuses**

Because the DoD did not manage ASFF appropriated funds in accordance with applicable laws and regulations, the DoD designed a process that increased the risk of violating the ADA and may not allow management to prevent or detect inappropriate use of ASFF appropriated funds. In addition, the DoD:

- designed and implemented a complex and inefficient process for spending ASFF appropriated funds,
- misstated the ASFF status of funds reports used to populate congressional reports issued by SIGAR, and
- misstated the ASFF status of funds in the DoD Agency-Wide, Army General Fund, and SAA financial statement.

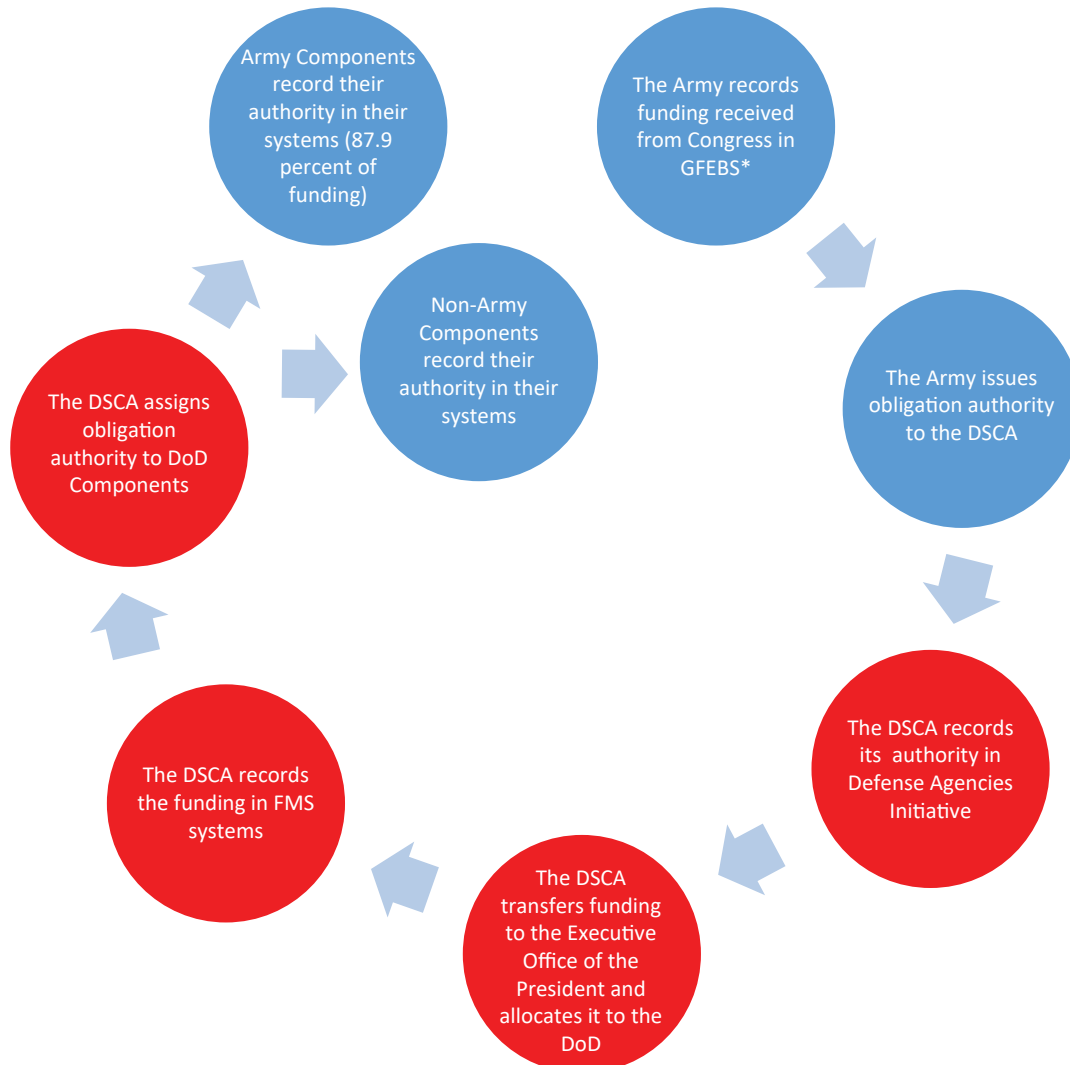
### ***The DSCA's Transfer of DoD Appropriated Funds to the FMS Trust Fund Was Complex and Inefficient***

The DoD designed and implemented a complex and inefficient process for spending ASFF appropriated funds. The process required DoD personnel to transfer ASFF appropriated funds to the FMS Trust Fund and assign obligation authority to the DoD Components as shown in Figure 1. For example, DoD personnel transferred 87.9 percent of the funds from the ASFF account—an Army account—to the FMS Trust Fund and then issued the obligation authority back to the Army.<sup>31</sup> Figure 5 shows the inefficient funding process.

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<sup>31</sup> We calculated 87.9 percent by dividing the amount of ASFF appropriated funds on open Army cases (\$39.9 billion) by the amount of ASFF appropriated funds on all cases (\$45.4 billion), as of June 30, 2022. This calculation does not include the \$2.1 billion in unassigned funds.

Figure 5. Inefficient Funding Process



Note: While the supporting documentation shows the funds as being allocated back to the DoD, the DoD did not report this allocation to the U.S. Treasury.

\*General Fund Enterprise Business System

Source: The DoD OIG.

By using this inefficient process, the DoD recorded information in additional systems (the DSCA, DFAS, and the DoD Components used at least 41 systems to manage ASFF appropriated funds in the FMS Trust Fund) and potentially wasted resources. See Appendix C for other matters of interest related to the DoD’s use of legacy systems to manage funds in the FMS Trust Fund.

**The DoD Misstated Status of Funds Reports Used to Populate Congressional Reports**

The DoD misstated the status of funds reports used to populate congressional reports by approximately \$4.1 billion in SIGAR’s July 30, 2022 quarterly report. Congress requires SIGAR to provide it with quarterly reports on the status of the Afghanistan

reconstruction efforts. As part of those quarterly reports, SIGAR includes the amount appropriated, obligated, and disbursed for a variety of appropriated funds, including the ASFF.<sup>32</sup>

To support those amounts, SIGAR obtained status of funds reports for the ASFF account from DFAS personnel. Those reports reported the funds as spent when the DSCA transferred the funds to the FMS Trust Fund, regardless of whether the DoD had actually spent them. Specifically, once DSCA personnel transferred funds from the ASFF account to the FMS Trust Fund, the Army reported those funds as obligated and disbursed in the ASFF appropriation status of funds reports. However, DSCA personnel moved the funds to the FMS Trust Fund only for “convenience” and did not actually spend them. Because the Army’s appropriation status of funds reports did not accurately reflect the status of unspent ASFF appropriated funds transferred, SIGAR’s quarterly reports were misstated.

During this audit, we coordinated with SIGAR personnel to discuss the accuracy of status of funds reports provided by DFAS and the impact on SIGAR’s quarterly reports. SIGAR personnel agreed that the DoD’s practices resulted in the misstatement of

*SIGAR personnel agreed that the DoD’s practices resulted in the misstatement of the status of ASFF appropriated funds in its quarterly reports.*

the status of ASFF appropriated funds in its quarterly reports, and SIGAR plans to publish restated balances and a complete accounting of the extent of the errors as soon as practicable in its upcoming quarterly reports. Therefore,

the USD(C)/CFO should coordinate with DSCA, DFAS, and Assistant Secretary of the Army (Financial Management and Comptroller) management to develop and implement procedures to provide the status of ASFF appropriated funds by fiscal year in the FMS Trust Fund and the amount of funds by fiscal year returned to the U.S. Treasury to SIGAR for its quarterly reports to Congress.

***The DoD Misreported the Status of ASFF Appropriated Funds on DoD Reporting Entities’ Financial Statements***

The DoD misreported the status of ASFF appropriated funds on the DoD Agency-Wide, Army General Fund, and SAA financial statements because the DoD reported the funds as spent on the DoD and the Army’s financial statements when they were, in fact, not spent. DSCA OGC personnel explained that “use of

*DSCA OGC personnel explained that “use of the FMS Trust Fund account to provide and track the use of the BPC funds was solely an [administrative] convenience.”*

<sup>32</sup> Public Law 110-181, “National Defense Authorization Act for Fiscal Year 2008,” Section 1229, January 28, 2008.

the FMS Trust Fund account to provide and track the use of the BPC funds was solely an [administrative] convenience” because the FMS Trust Fund was already established to provide goods and services to foreign nations. The act of recording appropriated funds as spent when they were actually moved for administrative purposes runs the risk of misuse because funds are moved from one set of financial statements to another. It is also inconsistent with the following Federal financial reporting objectives, as outlined in Statement of Federal Financial Accounting Concepts No. 1.

1. **Budgetary Integrity** – Fulfill the Government’s duty to be publicly accountable for monies raised1ropriations law.
2. **Operating Performance** – Assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity’s assets and liabilities.
3. **Stewardship** – Assist report users in assessing the impact on the country of the Government’s operations and investments for the period and how, as a result, the Government’s and the Nation’s financial conditions have changed and may change in the future.
4. **Systems and Controls** – Assist report users in understanding whether financial management systems and internal accounting and administrative controls are adequate.<sup>33</sup>

These objectives provide a framework that is designed to enhance the relevance, consistency, and quality of financial reports and help potential users of financial reports assess how well the Government is doing. However, users cannot fully assess how well the DoD managed ASFF appropriated funds until the DoD’s financial reports are corrected in accordance with the recommendations in this report.

## Management Comments on the Background, Finding, and Scope and Our Response

Although not required to comment, the DSCA Chief Operating Officer and Chief Financial Officer (COO/CFO), responding for the DSCA Director, provided comments on the background, finding, and scope. For a summary of the DSCA COO/CFO’s comments on the background, finding, and scope, and our response, see Appendix D. For the full text of the DSCA COO/CFO’s comments, see the Management Comments section of this report.

<sup>33</sup> “Statement of Federal Financial Accounting Concepts 1: Objectives of Federal Financial Reporting,” Federal Accounting Standards Advisory Board, September 2, 1993.

## Recommendations, Management Comments, and Our Response

### **Recommendation 1**

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD:

- a. **Perform a comprehensive review of DoD policies for Building Partner Capacity programs to identify and remove any mention of the:**
  1. **Foreign Military Sales Trust Fund as an appropriate Treasury account for Building Partner Capacity funds and update the DoD's processes accordingly.**
  2. **Economy Act as the authority for transferring Building Partner Capacity funds to the Foreign Military Sales Trust Fund and update the DoD's processes accordingly.**

### ***Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments***

The USD(C)/CFO agreed with the recommendations and stated that their office reviewed and identified for removal all references described in these recommendations. The USD(C)/CFO stated that the OUSD(C)/CFO will update DoD FMR, volume 15, chapters 1 and 3 in September 2023 and September 2024, respectively.

### ***Our Response***

Comments from the USD(C)/CFO addressed all specifics of the recommendations; therefore, the recommendations are resolved but will remain open. We will close these recommendations once we receive documentation and verify that the OUSD(C)/CFO updated the FMR guidance.

- b. **Develop and implement procedures to monitor future Economy Act transactions to ensure the:**
  1. **Providers are reimbursed for costs incurred.**
  2. **Support agreements are documented.**
  3. **Processes are efficient or economical and in the best interest of the Government.**



### ***Under Secretary of Defense (Comptroller)/Chief Financial Officer Comments***

The USD(C)/CFO agreed with the recommendations and stated that the Services and Components are responsible for ensuring that Economy Act transactions are in compliance with laws and regulations. The USD(C)/CFO also stated that use of the Economy Act was legally available.

### ***Our Response***

Comments from the USD(C)/CFO partially addressed the recommendations; therefore, the recommendations remain unresolved. While the USD(C)/CFO agreed with the recommendation, they did not provide a description of the actions that OUSD(C)/CFO plans to take to oversee and monitor the DoD Components as they engage in Economy Act transactions to prevent future transactions from not complying with the Economy Act requirements. We agree that it is the responsibility of the Services and Components to ensure compliance with laws and regulations. It is also the responsibility of OUSD(C)/CFO personnel to oversee and monitor those transactions, especially because DSCA personnel allocated all ASFF funds to the Office of the Secretary of Defense.

In addition, our report acknowledges that the Economy Act is a legally available, general authority to transfer funds. However, our report also identifies issues with how the DoD performed the transfers (see report section, “The DoD Did Not Conduct Transfers Consistent with the Economy Act”) and the DoD’s use of the FMS Trust Fund (see report section, “The DoD Used the FMS Trust Fund in a Manner That Was Not Authorized by the Arms Export Control Act”). Therefore, we request that the USD(C)/CFO provide a description of the specific actions that they plan to take to monitor future Economy Act transactions to ensure providers are reimbursed for costs incurred, support agreements are documented, and processes are efficient or economical and in the best interest of the Government.

**c. Coordinate with the Director of the Defense Security Cooperation Agency to:**

- 1. Return all Building Partner Capacity funds in the Foreign Military Sales Trust Fund to the accounts from which the funds originated.**
- 2. Develop and implement a policy that requires the Foreign Military Sales Trust Fund be used only for the purposes outlined in sections 2761 and 2762, title 22, United States Code.**
- 3. Develop and implement policies and procedures requiring that DoD Component purchases for Building Partner Capacity programs be paid for, whether through reimbursement or other means, directly from the accounts to which Congress appropriated the funds.**

- d. Coordinate with the Director of the Defense Security Cooperation Agency to review all applicable criteria for any active Building Partner Capacity programs to determine whether congressional notifications are required when funds are obligated or transferred and, if so, ensure that the congressional notification discloses the use of the Foreign Military Sales Trust Fund until Building Partner Capacity funds are removed from the Foreign Military Sales Trust Fund.**

### ***Under Secretary of Defense (Comptroller)/Chief Financial Officer Comments***

The USD(C)/CFO agreed with the recommendations and stated that the DSCA is already returning ASFF appropriated funds to the ASFF appropriation and the U.S. Treasury. However, the USD(C)/CFO also noted that the “DSCA continues to use the FMS Trust Fund pursuant to the Economy Act for ASFF and other BPC funds, as authorized by law.” The USD(C)/CFO added that removing BPC programs from the FMS process is underway, and that the DoD would not issue policies that affect Department of State programs. Finally, the USD(C)/CFO stated that implementation of Recommendation 1.c will resolve Recommendation 1.d, because the discussed transfers will no longer exist.

### ***Our Response***

Comments from the USD(C)/CFO partially addressed the recommendations; therefore, the recommendations are unresolved. While the USD(C)/CFO agreed with the recommendations, they did not identify the actions that OUSD(C)/CFO plans to take to implement these recommendations. Furthermore, the USD(C)/CFO comments imply that the FMS Trust Fund is a legitimate fund for BPC programs to use because of the Economy Act; however, our finding considers the FMS Trust Fund to be an inappropriate fund for BPC program use due to restrictions of the AECA.

Therefore, within 30 days, we request that the USD(C)/CFO provide a description of the specific actions that they plan to take to ensure all BPC funds are returned to the accounts from which the funds originated, the FMS Trust Fund is only used for its intended purpose, BPC funds are spent from the account they were appropriated to, and an appropriate level of detail is provided in congressional notifications.

- e. **Assess the DoD Agency-Wide financial statements for prior period adjustment and:**
  1. **Determine materiality for each of the non-Army reporting entities that receive appropriations for Building Partner Capacity programs.**
  2. **Perform an analysis on the status of non-Army Building Partner Capacity appropriated funds in the Foreign Military Sales Trust Fund to quantify the misstatement to the non-Army reporting entities financial statements.**
  3. **Adjust the financial reports for non-Army reporting entities consistent with U.S. Treasury guidance.**

### ***Under Secretary of Defense (Comptroller)/Chief Financial Officer Comments***

The USD(C)/CFO agreed with the recommendations and stated that their office will provide prior period adjustment support to DoD Components once the DSCA provides the data necessary to perform the analysis. The USD(C)/CFO noted that the Department of State has review and approval oversight of “non-Army” BPC funds in the FMS Trust Fund because those funds are Department of State (Title 22) appropriations.

### ***Our Response***

Comments from the USD(C)/CFO are partially responsive; therefore, the recommendations are unresolved. While the USD(C)/CFO agreed with the recommendations, the comments did not address the actions that OUSD(C)/CFO will take to ensure that material inaccuracies in the DoD Agency-Wide financial statements are corrected. While we acknowledge that a portion of the “non-Army” BPC funds are under the purview of the Department of State, this recommendation is limited to the “non-Army,” DoD funds under the purview of the Office of the Secretary of Defense (Title 10) appropriations, such as the Ukraine Security Assistance Initiative.<sup>34</sup> Therefore, within 30 days, we request that the USD(C)/CFO provide a description of the specific actions that they plan to take to ensure the DoD Agency-Wide financial statements and reports are corrected consistent with U.S. Treasury guidance.

<sup>34</sup> The Ukraine Security Assistance Initiative and multiple other BPC programs are funded from appropriations received in TAFS 097 0100, “Operation and Maintenance, Defense-Wide, Defense.”

- f. **Rescind the policy requiring DoD Components to treat Building Partner Capacity funds transferred to the Foreign Military Sales Trust Fund as non-exchange transactions.**

### ***Under Secretary of Defense (Comptroller)/Chief Financial Officer Comments***

The USD(C)/CFO agreed with the recommendation and stated that their office will work with the DSCA and the Army as they review and refine the BPC process. The USD(C)/CFO also stated that the DSCA, the Army, and the Army's auditor agreed that the transactions were non-exchange transactions when the OUSD(C)/CFO issued policy, but neither the DSCA nor the Army has implemented the terms of the policy due to reconsideration of the BPC process. The USD(C)/CFO added that personnel will reevaluate the applicability of the policy after the BPC process has been revised.

### ***Our Response***

Comments from the USD(C)/CFO addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. While the DSCA, the Army, and the Army's auditor previously agreed with the transaction being non-exchange, the DSCA and the Army never implemented the policy. The Army's auditor also modified its notice of findings and recommendations, which was the impetus for the policy, to no longer conclude the transactions are non-exchange. The orders for the DoD Components to fill, which outline what the DoD Component will provide in exchange for the funds transferred to the FMS Trust Fund, are compelling evidence that the transfers were exchange transactions. Furthermore, the current policy that describes transfers as non-exchange transactions also incorrectly mandates the use of the FMS Trust Fund for BPC programs. Therefore, at a minimum, the DoD must revise the current policy, if not rescinded, to remove that mandate. We will close this recommendation once we receive documentation and verify the revision or rescission of OUSD(C)/CFO policy to allow for the appropriate categorization of BPC transactions as exchange or non-exchange transactions.

- g. **Coordinate with the Service Secretaries and appropriate DoD Component directors to develop and ensure the implementation of a policy sufficient to ensure that the DoD fully and accurately account for the funds consistent with the intent of Congress for the:**
  1. **Agency Indicators attribute.**
  2. **Periods of Availability attribute.**
  3. **Main Accounts attribute.**

### ***Under Secretary of Defense (Comptroller)/Chief Financial Officer Comments***

The USD(C)/CFO agreed with the recommendations and stated that their office will communicate to the Assistant Secretaries of the Military Departments (Financial Management and Comptroller) and the DSCA Director the importance of executing DoD funds consistent with statutory intent and requirements. The USD(C)/CFO also stated that transfers between the Army and the DSCA were solely a function of the DSCA, as the Department of State transferred oversight to it, but added that OUSD(C)/CFO personnel will review current guidance to ensure that it is clear and concise regarding transfers of funds in accordance with OMB and U.S. Treasury guidelines.

### ***Our Response***

Comments from the USD(C)/CFO addressed all specifics of the recommendations; therefore, the recommendations are resolved but will remain open. While we agree that the DSCA bears partial responsibility for not using attributes consistent with congressional intent, the OUSD(C)/CFO also bears responsibility for three reasons.

- OUSD(C)/CFO policy currently mandates use of the FMS Trust Fund.
- The DoD reports the DSCA as part of the DoD Agency-Wide financial statements.
- Executive Order 12163 and 13637 both allocate funds in the FMS Trust Fund to the Secretary of Defense, and the OUSD(C)/CFO is the Principal Advisor to the Secretary of Defense on financial management matters.

We will close these recommendations once we receive documentation and verify that OUSD(C)/CFO personnel have reviewed their guidance and revised it as necessary, and communicated to the Assistant Secretaries and the DSCA Director the importance of using U.S. Treasury attributes.

- h. Coordinate with Defense Security Cooperation Agency, Defense Finance and Accounting Service, and Assistant Secretary of the Army (Financial Management and Comptroller) management to develop and implement procedures to provide the status of Afghanistan Security Forces Fund appropriated funds by fiscal year in the Foreign Military Sales Trust Fund and the amount of funds by fiscal year returned to the U.S. Treasury to the Special Inspector General for Afghanistan Reconstruction for its quarterly reports to Congress.**



### ***Under Secretary of Defense (Comptroller)/Chief Financial Officer Comments***

The USD(C)/CFO agreed with the recommendation and stated that their office will work with the DSCA and the OASA(FM&C) to provide SIGAR with information requested for SIGAR's quarterly report.

### ***Our Response***

Comments from the USD(C)/CFO addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once we receive documentation and verify that OUSD(C)/CFO personnel have implemented procedures to provide SIGAR with information requested for SIGAR's quarterly reports.

## ***Recommendation 2***

**We recommend that the Director of the Defense Security Cooperation Agency:**

- a. Perform a comprehensive review of Defense Security Cooperation Agency policies related to Building Partner Capacity programs to identify and remove any mention of the:**
  - 1. Foreign Military Sales Trust Fund as an appropriate Treasury account for Building Partner Capacity funds and update the DoD's processes accordingly.**
  - 2. Economy Act as the authority for transferring Building Partner Capacity funds to the Foreign Military Sales Trust Fund and update the DoD's processes accordingly.**

### ***Director of the Defense Security Cooperation Agency Comments***

The DSCA COO/CFO, responding for the DSCA Director, partially agreed with the recommendations and stated that the DSCA agreed with the long-term objective of not using the FMS Trust Fund to execute BPC funds but emphasized the need for a transition period instead of immediately prohibiting the use of the FMS Trust Fund. DSCA personnel estimated that by July 1, 2023, they will develop a plan to stop using the FMS Trust Fund. Once DSCA personnel develop the plan, they will determine an estimated completion date for discontinuing the use of the FMS Trust Fund for BPC fund execution.

### ***Our Response***

Comments from the DSCA COO/CFO meet the intent of the recommendations; therefore, the recommendations are resolved but will remain open. We acknowledge that the DSCA will require a transition period to stop using the

FMS Trust Fund. In September 2020, the DSCA made the decision to stop using the FMS Trust Fund for all BPC funds and estimated that the decision would be implemented in FY 2022. However, the DSCA's timeframes slipped, and DSCA personnel continue to transfer BPC funds into the FMS Trust Fund. While DSCA personnel continue to use the FMS Trust Fund, the DoD will remain at an increased risk of violations of fiscal law and inaccurate and misleading financial reporting because the DoD is circumventing U.S. Treasury controls. Therefore, the transition period should be as short as possible. We will close this recommendation once we receive documentation and verify that the DSCA issued revised policies and processes that remove any mention of:

1. the FMS Trust Fund as an appropriate U.S. Treasury account for BPC funds, and
2. the Economy Act as the authority for transferring BPC funds to the FMS Trust Fund.

**b. Coordinate with the DoD Components to immediately:**

- 1. Reconcile and close all Building Partner Capacity cases with canceled appropriations.**
  - 2. Identify and reconcile obligations for all Afghanistan Security Forces Fund appropriated funds remaining on cases, remove any expired funds on cases that are not obligated, and provide the reconciliations to the Special Inspector General for Afghanistan Reconstruction.**
- c. Return all canceled appropriations in the Foreign Military Sales Trust Fund to the U.S. Treasury.**
  - d. Return all expired appropriations not on cases in the Foreign Military Sales Trust Fund to the account from which they were transferred.**
  - e. Coordinate with any DoD Components that obligated and disbursed Building Partner Capacity funds to perform a comprehensive review of all cases to identify any obligations of expired funds and any disbursements of canceled funds.**

***Director of the Defense Security Cooperation Agency Comments***

The DSCA COO/CFO, responding for the DSCA Director, agreed with the recommendations. DSCA personnel provided an estimated completion date of May 2023 for returning canceled funds to the U.S. Treasury.

### ***Our Response***

Comments from the DSCA COO/CFO partially addressed the recommendation; therefore, the recommendation is unresolved. While DSCA COO/CFO agreed with the recommendations and provided an estimated date for the return of canceled funds to the U.S. Treasury, the comments do not describe the specific actions that DSCA management will take to implement the recommendations or an estimated completion date for the actions outside the return of canceled funds. For example, they did not provide a description of their actions or an estimated completion date for when the DSCA would remove and return all expired funds on cases that are not obligated or for when the DSCA would complete a comprehensive review of all cases, which could identify additional canceled funds to return. Therefore, within 30 days, we request that the Director DSCA provide a description of the specific actions that they plan to take along with estimated completion dates to:

1. reconcile and close all BPC cases with canceled appropriations,
  2. reconcile and remove any expired funds on BPC cases that are not obligated and provided that reconciliation to SIGAR,
  3. return all canceled funds to the U.S. Treasury,
  4. return all expired funds that are not obligated to the account from which they were transferred, and
  5. perform a comprehensive review of all BPC cases to identify any obligation of expired funds or disbursements of canceled funds.
- f. Coordinate with any DoD Components that violated appropriations law in Recommendation 2.e, to determine whether a potential Antideficiency Act violation occurred that cannot be corrected and, if so, initiate a review in accordance with DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 14, chapter 3, to determine whether it is reportable.**

### ***Director of the Defense Security Cooperation Agency Comments***

The DSCA COO/CFO, responding for the DSCA Director, agreed with the recommendation. However, the DSCA COO/CFO stated that this recommendation was unnecessary, because it references a standard financial management practice. DSCA personnel did not provide an estimated completion date.

### ***Our Response***

Comments from the DSCA COO/CFO addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We made this recommendation to ensure that the DSCA follows standard financial management practices and that we receive a copy of the review. We will close this recommendation

once we receive documentation and verify that DSCA personnel completed their review in Recommendation 2.e and (1) found no violations of fiscal law or (2) found violations of fiscal law and determined whether potential ADA violations occurred.

- g. Assess the Security Assistance Accounts financial statements for prior period adjustment and:**
  - 1. Determine materiality for the Security Assistance Accounts financial statements.**
  - 2. Perform an analysis on the status of Building Partner Capacity appropriated funds in the Foreign Military Sales Trust Fund to quantify the misstatement to the Security Assistance Accounts financial statements.**
  - 3. Adjust the financial reports for the Security Assistance Accounts consistent with U.S. Treasury guidance.**

### ***Director of the Defense Security Cooperation Agency Comments***

The DSCA COO/CFO, responding for the DSCA Director, disagreed with the recommendations. The DSCA COO/CFO stated that due to the discontinuation of any future ASFF appropriations and the lack of future support to Afghanistan, there would be no meaningful benefit for the Government to improve the accuracy of previous financial statements. The DSCA COO/CFO added that adjustments to prior year financial statements is not required for identifying and returning canceled funds to Treasury.

### ***Our Response***

Comments from the DSCA COO/CFO did not address the specifics of the recommendation; therefore, the recommendation is unresolved. U.S. Treasury guidance requires reporting entities to restate prior year financial statements that have material misstatements and adjust balances brought forward from prior years when the misstatement affects Fund Balance with Treasury or Net Outlays. The guidance does not provide an exception for programs that are ending with a material impact to the current or future financial statements. As of June 2022, the DSCA still maintained \$2.1 billion in ASFF appropriated funds in the FMS Trust Fund that should not have been there.

Furthermore, this recommendation applies to all BPC programs under DoD's purview, several of which have continued to receive funding (such as the Ukraine Security Assistance Initiative and the Foreign Security Forces: Authority to Build Capacity). As of June 2022, the FMS Trust Fund contained more than \$5 billion of undisbursed DoD funding across all BPC programs. This did not include any of the \$6 billion that Congress appropriated to the Ukraine Security Assistance Initiative as part of

Public Law 117-128 on May 21, 2022, because the DoD had yet to transfer to the FMS Trust Fund.<sup>35</sup> Without proper adjustment, the DoD will continue to misstate future DoD, Army, and SAA financial statements. Within 30 days, we request that the DSCA Director provide comments that address the proposed actions that DSCA personnel plan to take to correct misstatements in the SAA financial statements.

### ***Recommendation 3***

**We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) assess the Army General Fund financial statements for prior period adjustment and:**

- a. Determine materiality for the Army General Fund financial statements.**
- b. Perform an analysis, in coordination with the Director of the Defense Security Cooperation Agency, on the status of Afghanistan Security Forces Fund appropriated funds and other Army appropriated funds in the Foreign Military Sales Trust Fund to quantify the misstatement to the Army General Fund financial statements.**
- c. Adjust the financial reports for the Army General Fund consistent with U.S. Treasury and Office of Management and Budget guidance.**

### ***Assistant Secretary of the Army (Financial Management and Comptroller) Comments***

The Director of Financial Operations and Accountability, responding for the Assistant Secretary of the Army (Financial Management and Comptroller), agreed with the recommendations. The Director stated that the Assistant Secretary of the Army (Financial Management and Comptroller) will work to implement each of the recommendations. The OASA(FM&C) provided an estimated completion date of September 30, 2024.

### ***Our Response***

Comments from the Director addressed all specifics of the recommendations; therefore, the recommendations are resolved but will remain open. We will close these recommendations once we receive documentation and verify that OASA(FM&C) personnel:

1. determined materiality for the Army General Fund financial statements,
2. performed an analysis to quantify the misstatement on the Army General Fund financial statements of BPCs funds in the FMS Trust Fund, and
3. adjusted the Army General Fund financial statements consistent with U.S. Treasury and OMB guidance.

<sup>35</sup> Public Law 117-128, "Additional Ukraine Supplemental Appropriations Act, 2022," May 21, 2022.

## Appendix A

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### Scope and Methodology

We conducted this performance audit from January 2022 through March 2023 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained throughout this audit provides a reasonable basis for our findings and conclusions based on our audit objective.

This audit was performed due to previously identified risks related to the DoD's transfer of ASFF appropriated funds to the FMS Trust Fund and the sudden collapse of the Afghanistan government. We audited the financial management of \$47.5 billion in ASFF appropriated funds transferred to the FMS Trust Fund, as of June 30, 2022. While Congress appropriated a net amount of \$80.7 billion to the ASFF account, we did not review the \$33.2 billion that remained in the ASFF account because the process for spending those funds was, inherently, less risky. Specifically, the DoD spent those funds directly from the ASFF account, which is part of the Army General Fund financial statements. Those statements have been audited annually since FY 2018.

To audit the financial management of ASFF appropriated funds transferred to the FMS Trust Fund, we obtained an understanding of how the DoD manages ASFF funds in the FMS Trust Fund and reports the funds on the DoD's and Army's financial statements by interviewing and obtaining documentation from personnel at the OUSD(C)/CFO, the DSCA, the OASA(FM&C), DFAS, and the DoD Components that are assigned ASFF appropriated funds by the DSCA.

We also reviewed policies, procedures, and other documentation to understand the steps DoD personnel used to: (1) transfer ASFF funds to the FMS Trust Fund; (2) obligate and spend ASFF funds; (3) identify and return excess funds to the ASFF account or the U.S. Treasury, and (4) report the ASFF funds' financial activity on the DoD's and Army's financial statements.

We assessed the statements made and documentation provided against applicable laws and regulations to determine the DoD's compliance with them. Specifically, we reviewed:



- the annual authorization and appropriation acts identified in Appendix B, to determine whether the DoD had an authority to transfer ASFF appropriated funds to the FMS Trust Fund and, if so, whether proper notification was given to Congress;
- the FMFIA, which is implemented by OMB Circular No. A-123, to determine whether the DoD complied with the requirement to establish and maintain controls to achieve the objectives of efficient operations, compliance with applicable laws and regulations, and reliable financial reporting;
- 22 U.S.C. §§ 2761 and 2762, which established the FMS Trust Fund, to determine whether ASFF appropriated Funds were allowed in the FMS Trust Fund;
- 31 U.S.C. §§ 1502 and 1552, which establishes when funds can be obligated and disbursed and must be returned to the U.S. Treasury, to determine whether funds were obligated and disbursed in the appropriate timeframes and returned to the U.S. Treasury in a timely manner; and
- the FFMIA, which requires the DoD systems to provide reliable financial information consistently, accurately, and uniformly, and to determine whether they do so.

We obtained a universe of ASFF open and closed cases from the DoD Components to test for obligations outside the period of availability and disbursements of canceled appropriations. However, the data and supporting documentation provided by the DoD Components limited our ability to perform those tests. Those limiting factors included:

- Army personnel not being able to provide supporting documentation for any cases with funds appropriated before FY 2013 that were tracked in the Standard Operations and Maintenance Army Research and Development System, even though disbursements may have occurred after funds canceled in FY 2018;
- Air Force personnel not being able to identify the dates when their obligations occurred for a given appropriation after we coordinated with them for almost 4 months in an effort to do so; and
- Navy personnel not being able to provide supporting documentation for some cases where potential obligations occurred outside the period of availability.

While these limiting factors did affect the tests we could perform, they did not affect the conclusions in this report.

## Internal Control Assessment and Compliance

We assessed internal controls and compliance with laws and regulations necessary to satisfy the audit objective. In particular, we assessed the design and implementation controls over the:

- transfer of ASFF appropriated funds from the ASFF account to the FMS Trust Fund,
- obligation and disbursement of ASFF appropriated funds in the FMS Trust Fund,
- return of ASFF appropriated funds to the ASFF account and the U.S. Treasury, and
- financial reporting of ASFF appropriated funds in the FMS Trust Fund.

In all four of these assessed areas, we identified deficiencies in internal control that warranted the attention of the OUSD(C)/CFO, the DSCA, the DoD Components, or DFAS. Specifically, we identified deficiencies and lack of internal controls over the:

- policies that required ASFF appropriated funds to transfer to the FMS Trust Fund, resulting in the DoD transferring ASFF appropriated funds to the FMS Trust fund for more than 16 years when the DoD should not have done so;
- policies and procedures for ensuring the efficient and effective operation of the BPC and FMS processes, resulting in the DoD potentially wasting resources in an effort to spend ASFF appropriated funds;
- disbursement of canceled funds, resulting in the DoD needing to perform a prior year adjustment in an effort to avoid an ADA violation;
- identification of when obligations occurred for a given case, resulting in the Air Force not being able to provide the obligation date for a given case;
- process for closing a case because the DoD Components did not close cases in a timely manner, resulting in an increased risk of the DoD inappropriately using funds on a case;
- process for returning expired appropriations to the ASFF account and canceled funds to the U.S. Treasury, resulting in the DoD unnecessarily holding billions of dollars in the FMS Trust fund for years;
- accuracy of the financial information in systems used to account for, manage, and report ASFF funds, resulting in the DoD not having accurate information to make decisions; and
- financial reporting of the status of ASFF appropriated funds in the FMS Trust Fund, resulting in inaccurate reports to Congress and falsely reporting ASFF appropriated funds as being spent when they were merely transferred for “convenience.”

However, because our review was limited to these internal control components and underlying principles, it may not have discovered all internal control deficiencies that may have existed at the time of this audit.

## Use of Computer-Processed Data

We used computer-processed data from the Defense Integrated Financial System (DIFS), the General Fund Enterprise Business System (GFEBS), and the Defense Departmental Reporting System. To test the data reliability, we attempted to reconcile GFEBS to DIFS. While our reconciliation identified discrepancies between the systems, the discrepancies support the DoD's noncompliance with the FFMIA and the need to reduce the number of systems the DoD maintains. We also validated the amounts of:

- ASFF appropriated funds reported as transferred to the FMS Trust Fund in DIFS by ensuring that they were consistent with the amount of obligation authority the Army issued to the DSCA;
- canceled funds in the FMS Trust Fund reported in DIFS by ensuring that they were consistent with the supporting documentation for the amounts ultimately returned to the U.S. Treasury;
- undisbursed funds in the FMS Trust Fund reported in DIFS by ensuring that they were consistent with the total amount of undisbursed by the DoD Components; and
- ASFF appropriated funds reported as issued to the DSCA in the Defense Departmental Reporting System status of funds report, Trial Balance, and GFEBS status of funds report by ensuring that they were consistent with the amounts identified in supporting documentation.

Based on that testing, we concluded that the computer-processed data obtained were sufficiently reliable to support the findings and conclusions in this report.

## Prior Coverage

No prior coverage has been conducted ASFF appropriated funds managed in the FMS Trust Fund during the last 5 years.

## Appendix B

### Public Laws Applicable to ASFF with Amounts Appropriated (in Billions)

| Period of Availability | Authorization Act   | Corresponding Appropriation Act  | Amount Appropriated |
|------------------------|---|--|---------------------|
| 2005-2006              | Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 (P.L. 108-375) | Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Tsunami Relief, 2005 (P.L. 109-13)      | \$1.3               |
| 2006-2007              | National Defense Authorization Act for Fiscal Year 2006 (P.L. 109-163)                  | Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006 (P.L. 109-234) | 1.9                 |
| 2007-2008              | John Warner National Defense Authorization Act for Fiscal Year 2007 (P.L. 109-364)      | Department of Defense Appropriations Act, 2007 (P.L. 109-289)  | 1.5                 |
|                        |   | U.S. Troop Readiness, Veterans' Care, Katrina Recovery and Iraq Accountability Appropriations Act, 2007 (P.L. 110-28)        | 5.9                 |
| 2008-2009              | National Defense Authorization Act for Fiscal Year 2008 (P.L. 110-181)                  | Consolidated Appropriations Act, 2008 (P.L. 110-161)   | 1.4                 |
|                        |   | Supplemental Appropriations Act, 2008 (P.L. 110-252)   | 1.4                 |
| 2009                   | National Defense Authorization Act for Fiscal Year 2008 (P.L. 110-181)                  | Supplemental Appropriations Act, 2008 (P.L. 110-252)   | 2.0                 |
| 2009-2010              | Duncan Hunter National Defense Authorization Act for Fiscal Year 2009 (P.L. 110-417)    | Supplemental Appropriations Act, 2009 (P.L. 111-32)  | 3.6                 |
| 2010-2011              | National Defense Authorization Act for Fiscal Year 2010 (P.L. 111-84)                   | Department of Defense Appropriations Act, 2010 (P.L. 111-118)  | 6.6                 |
|                        |   | Supplemental Appropriations Act, 2010 (P.L. 111-212)   | 2.6                 |
| 2011-2012              | Ike Skelton National Defense Authorization Act for Fiscal Year 2011 (P.L. 111-383)      | Department of Defense and Full-Year Continuing Appropriations Act, 2011 (P.L. 112-10)  | 11.6                |
| 2012-2013              | National Defense Authorization Act for Fiscal Year 2012 (P.L. 112-81)                   | Consolidated Appropriations Act, 2012 (P.L. 112-74)  | 11.2                |
| 2013-2014              | National Defense Authorization Act for Fiscal Year 2013 (P.L. 112-239)                  | Consolidated and Further Continuing Appropriations Act, 2013 (P.L. 113-6)  | 5.1                 |

*Public Laws Applicable to ASFF with Amounts Appropriated (in Billions) (cont'd)*

| Period of Availability              | Authorization Act   | Corresponding Appropriation Act   | Amount Appropriated |
|-------------------------------------|---|---|---------------------|
| 2014-2015                           | National Defense Authorization Act for Fiscal Year 2014 (P.L. 113-66)   | Consolidated Appropriations Act, 2014 (P.L. 113-76)   | 4.7                 |
| 2015-2016                           | Carl Levin and Howard P. "Buck" McKeon National Defense Authorization Act for Fiscal Year 2015 (P.L. 113-291) | Consolidated and Further Continuing Appropriations Act, 2015 (P.L. 113-235)   | 4.1                 |
| 2016-2017                           | National Defense Authorization Act for Fiscal Year 2016 (P.L. 114-92)   | Consolidated Appropriations Act, 2016 (P.L. 114-113)  | 3.7                 |
| 2017-2018                           | National Defense Authorization Act for Fiscal Year 2017 (P.L. 114-328)  | Consolidated Appropriations Act, 2017 (P.L. 115-31)   | 4.3                 |
| 2018-2019                           | National Defense Authorization Act for Fiscal Year 2018 (P.L. 115-91)   | Consolidated Appropriations Act, 2018 (P.L. 115-141)  | 4.7                 |
| 2019-2020                           | John S. McCain National Defense Authorization Act for Fiscal Year 2019 (P.L. 115-232)                         | Department of Defense and Labor, Health and Human Services, and Education Appropriations Act, 2019 and Continuing Appropriations Act, 2019 (P.L. 115-245) | 4.9                 |
| 2020-2021                           | National Defense Authorization Act for Fiscal Year 2020 (P.L. 116-92)   | Consolidated Appropriations Act, 2020 (P.L. 116-93)   | 4.2                 |
| 2021-2022                           | William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021 (P.L. 116-283)            | Consolidated Appropriations Act, 2021 (P.L. 116-260)  | 3.0                 |
| 2022-2025                           | –   | Continuing Appropriations and Ukraine Supplemental Appropriations Act, 2023 (P.L. 117-180)  | 0.1                 |
| <b>Gross Appropriations</b>         |   |   | <b>\$89.8</b>       |
| Reprogramming between FYs 2005-2023 |   |   | (4.3)               |
| Recessions between FYs 2005-2023    |   |   | (4.7)               |
| <b>Net Appropriations</b>           |   |   | <b>\$80.7</b>       |

Note: Totals may not equal the actual sum because of rounding.

Source: The DoD OIG.

## Appendix C

### Other Matters of Interest

During our audit, we identified discrepancies between the financial management system balances for ASFF appropriated funds in the FMS Trust Fund. These inconsistent and inaccurate system balances do not comply with the FFMIA requirement of providing reliable financial information consistently, accurately, and uniformly. For a sample of nine cases, we requested that Army and DFAS personnel reconcile differences in the total disbursed amounts reported by DIFS and GFEBs, as of January 2022.<sup>36</sup> They could not reconcile any of the nine cases. Furthermore, when reviewing the June 2022 data for those same nine cases, we determined that the cases still did not reconcile even after 5 months of no activity for five cases and limited activity for four cases.

For one of those nine cases, with funding that expired in FY 2014 and canceled in FY 2019, the case still had a \$10.5 million variance between DIFS and GFEBs in January 2022, 28 months after the funding was canceled. DFAS personnel stated that they created \$9 million of the variance by performing a workaround to record disbursements in DIFS that created duplicative transactions. DFAS personnel explained that workarounds were necessary because of challenges with interfaces between legacy systems and modern Enterprise Resource Planning (ERP) systems, which DFAS addresses as the challenges are identified. For the remaining variance for the case, DFAS personnel described the differences as “normal business” and stated that differences were to be expected until case closure occurs, which could be years after the difference presents itself.

These differences occurred because of timing differences and, as DFAS personnel explained, there are problems with the interfaces between legacy systems and the modern ERP systems that create differences in system balances and require workarounds or long-term solutions as they identify problems. The DSCA had planned to replace six of FMS-specific legacy systems, including DIFS, with an ERP system, Security Cooperation Enterprise Solution (SCES), starting in FY 2009. The DSCA intended for SCES to improve transaction processing, controls, data aggregation, data standardization, and reporting capabilities. However, in FY 2018, DSCA management canceled the plans to implement SCES and deferred to the Military Departments and DFAS to modernize the six legacy systems.

<sup>36</sup> DIFS is the system DFAS uses to manage FMS cases, and GFEBs is the system the Army used to manage the FMS cases assigned to it since FY 2013.



Because the DSCA canceled the implementation of SCES, the disjointed legacy systems remain and present significant risks and challenges to the OUSD(C)/CFO and DSCA in their efforts to improve their financial management. The DoD OIG plans to perform an audit of DoD legacy systems in FY 2023. Table 3 identifies the importance of those six legacy systems and whether an independent auditor had assessed their controls.

*Table 3. Status of FMS-Specific Legacy System*

| System  | Critical to FY 2021 Independent Public Accountants Audits? | Control Effectiveness Assessed? |
|---------|--|---------------------------------|
| CISIL   | Critical   | No                              |
| DIFS    | Unknown  | No                              |
| MISIL   | Unknown  | No                              |
| PBAS-OC | Critical   | No                              |
| SAMIS   | Critical   | Ineffective                     |
| CMCS    | Unknown  | No                              |

Note: The statuses of these systems were based on representations made by OUSD(C)/CFO personnel, as of April 15, 2022, and were not validated by the DoD OIG.

**LEGEND**

- CISIL Centralized Integrated System - International Logistics
- DIFS Defense Integrated Financial System
- MISIL Management Information System–International Logistics
- PBAS-OC Program Budget Accounting System–Order Control
- SAMIS Security Assistance Management Information System
- CMCS Case Management Control System

Source: The OUSD(C)/CFO.

To modernize these systems and achieve compliance with standards, the DoD would need to invest large amounts of resources to modernize them, keep them updated, and pay auditors periodically to test the control environment for compliance with applicable criteria. Alternatively, we suggest that the DSCA Director coordinate with the DoD Components and DFAS to develop and implement processes to maintain all financial and case management activity related to FMS in existing ERP systems (such as Defense Agencies Initiative and GFEBS) and follow through with the DSCA’s plan to end the use of the six systems identified in Table 3. In addition, we suggest that the DSCA Director coordinate with the DoD Components and DFAS to perform a comprehensive review of all FMS systems to identify any other systems that the DoD could stop using.

## Appendix D

### Director of the Defense Security Cooperation Agency Comments on the Background, Finding, and Scope

The DSCA COO/CFO, responding for the DSCA Director, provided comments related to the background, findings, and scope. As a general response to the DSCA COO/CFO's comments, DoD OGC, OUSD(C)/CFO, and DSCA personnel have acknowledged the fiscal control issues of using the FMS Trust Fund for all BPC programs. None of the DSCA COO/CFO's comments change the conclusion that all parties (the DoD OGC, OUSD(C)/CFO, DSCA, and DoD OIG) support the decoupling (removal) of all BPC funds from the FMS Trust Fund. However, we are responding to the DSCA COO/CFO's comments below to address any factual or technical accuracy concerns.

#### *Comments on the Accuracy of the \$47.5 Billion Transferred*

The DSCA COO/CFO stated that the report overstates the DSCA's role of funding the entirety of the ASFF BPC program. The DSCA COO/CFO added that the DoD did not execute all ASFF support through the FMS Trust Fund and that the DSCA directs DFAS personnel to transfer the ASFF funds to the FMS Trust Fund in accordance with U.S. Army, OUSD(C)/CFO, and DSCMO-A guidance and spend plans.

#### *Our Response*

We agree that the DoD did not execute all ASFF support through the FMS Trust Fund, and we do not dispute that the transfers to the FMS Trust Fund were in accordance with existing U.S. Army, OUSD(C)/CFO, and DSCMO-A guidance and spend plans. We disagree, however, that our report overstates the amount transferred to the FMS Trust Fund and the DSCA's role. The report wording and Figure 1 establish that Congress appropriated \$80.7 billion for ASFF, and that DFAS, at the direction of the DSCA, transferred only \$47.5 billion. As for the DSCA's role related to that transfer, the report explains that the DSCA authorized DFAS to transfer funds onto cases in the FMS Trust Fund and that, once the funds had been transferred, DSCA personnel assigned obligation authority for the funds to various DoD Components to spend. We find this explanation to accurately represent the DSCA's role and acknowledge that other DoD Components are spending the funds under the management of the DSCA.

### ***Comments on the Accuracy of Congressional and Financial Reports***

The DSCA COO/CFO disagreed with the conclusion that the DoD provided inaccurate appropriation status data for quarterly reports to Congress and reported ASFF-related financial activity inaccurately in the DoD, Army, and SAA financial statements. The DSCA COO/CFO stated that the SAA financial statements provided to Congress accurately reported the accounting status of ASFF appropriated funds.

### ***Our Response***

The DoD and Army reported an expense on their financial statements when they transferred the funds for their own convenience, even though the actual obligation, expense, and disbursement did not occur until later, if ever. These transfers artificially presented higher fund execution rates than what actually occurred. SIGAR personnel then reasonably concluded that the ASFF account was an accurate reflection of the status of ASFF appropriated funds and reported those incorrect statuses to Congress.

The SAA financial statements may be accurate insofar as they reflect that an account reported on those financial statements (the FMS Trust Fund) received ASFF appropriated funding to spend. However, we do not consider the SAA financial statements accurate because the funds should not have transferred into that account and off the DoD's financial statements.

### ***Comments on the Applicability of the Arms Export Control Act and Reliance on the Economy Act***

The DSCA COO/CFO disagreed with the report conclusions related to the AECA and stated that the AECA does not apply to the use of ASFF appropriated funds to support the government of Afghanistan. The DSCA COO/CFO agreed that using ASFF appropriated funds to support FMS execution would be contrary to the AECA, but stated that ASFF appropriated funds were segregated into sub-accounts within the FMS Trust Fund.

The DSCA COO/CFO also disagreed that the DSCA is precluded from using the Economy Act to transfer funds into the FMS Trust Fund account. The DSCA COO/CFO stated that Economy Act support would be inappropriate only if the FMS Trust Fund provided support in advance of receiving funds, which the DSCA did not allow. However, the DSCA COO/CFO agreed that the written support agreements and Economy Act determinations were not previously accomplished.

### ***Our Response***

The DSCA COO/CFO's comments misconstrued our findings about the AECA and the Economy Act. The AECA finding is not based on how the DSCA used ASFF appropriated funds placed into the FMS Trust Fund or whether personnel separated the funds from other funds. Rather, our finding mentions the AECA because it is the authority the U.S. Treasury used to establish the FMS Trust Fund. The FMS Trust Fund was an improper account for ASFF appropriated funds because the account was not designed for them. Specifically, the U.S. Treasury designed the account to hold no-year, foreign funds to facilitate the sale of goods or services to a foreign nation. None of these are characteristics of ASFF appropriated funds.

Because the FMS Trust Fund was an improper account for ASFF appropriated funds, any manner of transferring those funds into it would be inappropriate (including under the Economy Act). Our report acknowledges that the Economy Act is generally available to the DoD (including the DSCA) to transfer funds. Our finding related to the Economy Act is due to noncompliance with the requirements of the underlying Act.

### ***Comments on the Requirement to Notify Congress***

The DSCA COO/CFO disagreed with the finding about the DoD not notifying Congress and stated that Congress had already been notified of and approved the use of ASFF appropriated funds, and that the transfer to the FMS Trust Fund did not trigger the need for additional notification.

### ***Our Response***

Neither our report's finding regarding congressional notification nor its related recommendation indicates that the DoD must submit additional notifications to Congress. Rather, the finding indicates that the initial notification should have informed Congress of how the DoD was using the FMS Trust Fund for ASFF appropriated funds, especially considering the fact that the transfers caused the DoD and SIGAR to misrepresent the funds on their financial statements and quarterly reports, respectively, as fully spent.

### ***Comments on the Actions Taken by the DSCA to Correct Findings***

The DSCA COO/CFO stated that DSCA personnel had taken the following actions to correct the identified findings.

- DSCA personnel coordinated with OUSD(C)/CFO and DFAS personnel to return to the U.S. Treasury \$2.4 billion in canceled funds in the FMS Trust Fund (\$1.94 billion in ASFF funds). The DSCA COO/CFO added that

cases identified as having canceled funds on or after October 1, 2022, would be returned to the U.S. Treasury by the end of March 2023 (the U.S. Treasury's approval is expected in May 2023).

- The DSCA issued Security Assistance Management Manual Policy Memorandum 22-33, "Building Partner Capacity Funds Return Guidance," on June 17, 2022, to address how funds on BPC cases should be returned.
- The DSCA developed additional policies and procedures to address the efficiency of funds obligation and timely return to the funds holder.

The DSCA COO/CFO added that DSCA policy requires the implementing DoD Components (implementing agencies) to review BPC cases for residual funding throughout a fund's period of availability, and to reconcile BPC cases to ensure unobligated residual funds are returned to the funds holder before they expire. The DSCA COO/CFO also mentioned a long-term solution to fully remove funds from the FMS Trust Fund in order to provide accurate and transparent financial statement reporting, enhanced monitoring of funds, and more robust internal controls.

### ***Our Response***

We acknowledge and appreciate the DSCA's efforts to correct the identified issues expeditiously, while developing and implementing the long-term solution of removing all BPC funds from the FMS Trust Fund. We also believe that these efforts demonstrate the manual and inefficient nature of the current process that gives rise to unnecessary fiscal risks. We believe, though, that the DSCA COO/CFO's comments regarding the long-term solution to fully remove funds from the FMS Trust Fund may enable the DSCA, and the DoD as a whole, to improve the reporting accuracy, operational efficiency, and compliance with laws and regulations for all BPC programs.

### ***Comments on the Scope***

The DSCA COO/CFO stated that the audit exceeds the scope described in the "Scope and Methodology" section of the report. The DSCA COO/CFO stated the report describes the scope as a review of the ASFF program, but the report's findings and recommendations pertain to other BPC programs that DSCA administers.

### ***Our Response***

We acknowledge that the scope of the audit pertained to the ASFF program, particularly the ASFF appropriated funds in the FMS Trust Fund. However, we also consider the findings and recommendations that pertain to other BPC programs to be within the scope of the audit. The \$47.5 billion in ASFF appropriated funds transferred to the FMS Trust Fund became a part of the ASFF BPC program.

Although the funding sources and purposes vary between ASFF and other BPC programs, the policies and procedures are similar. We issued our findings and recommendations within the broader BPC context for two main reasons. The first reason is that an underlying cause of certain findings was rooted in the BPC program. In fact, when we requested process documentation related to the transfer of ASFF appropriated funds, we received the BPC process narrative. The second reason is that the ASFF program is ending, but other BPC programs, such as the Ukraine Security Assistance Initiative, continue to receive funding. Were we to limit the recommendations to a specific program that will soon be defunct, there would be limited benefit to the public, and the findings may still be applicable to other BPC programs.



## Management Comments

### Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD



COMPTROLLER

UNDER SECRETARY OF DEFENSE  
1 100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1 100

APR 27 2023

MEMORANDUM FOR DEPARTMENT OF DEFENSE OFFICE OF INSPECTOR GENERAL

SUBJECT: Comments on the Department of Defense Inspector General's Report, (Project No. D2022-D000FV-0091.000), "Audit of the DoD's Financial Management of the Afghanistan Security Forces Fund"

This is the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) response to the recommendations in the subject draft report, dated March 2023. The OUSD(C) appreciates the DoDIG's work on this engagement, as well as the opportunity to review and comment on the draft report.

The OUSD(C) acknowledges receipt of the draft report and notes that DoDIG requests USD(C) to provide comments in response to recommendations directed to the OUSD(C). We reviewed your recommendations, and our response is attached. My point of contact is [REDACTED] who can be reached at [REDACTED]

A handwritten signature in blue ink that reads "Michael McCord".

Michael McCord

Attachment:  
As stated

## Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (cont'd)

CUI

**OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER) (OUSD(C))  
RESPONSE TO RECOMMENDATION 1**

**DOD OFFICE OF INSPECTOR GENERAL DRAFT REPORT, “Audit of the DoD’s  
Financial Management of the Afghanistan Security Forces Fund”  
(Project No. D2022-D008FV-0091.000)**

**Recommendation 1.** We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD:

*a. Perform a comprehensive review of DoD policies for Building Partner Capacity programs to identify and remove any mention of the:*

- 1. Foreign Military Sales Trust Fund as an appropriate Treasury account for Building Partner Capacity funds and update the DoD’s processes accordingly.*
- 2. Economy Act as the authority for transferring Building Partner Capacity funds to the Foreign Military Sales Trust Fund and update the DoD’s processes accordingly.*

**OUSD(C) Response:** Concur with comment. The Department will update the DoD Financial Management Regulation (FMR) based on the outcome of its review of the DoD policies for Building Partner Capacity programs completed in February 2023. This review identified for removal all references of the Foreign Military Sales (FMS) Trust Fund as an appropriate Treasury account for Building Partner Capacity funds and the Economy Act as the authority for transferring Building Partner Capacity funds to the FMS Trust Fund. The applicable DoD FMR chapters impacted by this review and scheduled publication dates for these revised chapters are as follows:

- Volume 15, Chapter 1 “General Information” – September 2023
- Volume 15, Chapter 3 “Accounting” – September 2024

*b. Develop and implement procedures to monitor future Economy Act transactions to ensure the:*

- 1. Providers are reimbursed for costs incurred.*
- 2. Support agreements are documented.*
- 3. Processes are efficient or economical and in the best interest of the Government.*

**OUSD(C) Response:** Concur with comment. The Services and Components are responsible for ensuring Economy Act transactions are in compliance with laws and regulations, to include Volume 11A, Chapter 3 of the DoD FMR. The Department continues to assert that the use of the Economy Act was legally available.

*c. Coordinate with the Director of the Defense Security Cooperation Agency to:*

- 1. Return all Building Partner Capacity funds in the Foreign Military Sales Trust Fund to the accounts from which the funds originated.*

## Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (cont'd)

### CUI

*2. Develop and implement a policy that requires the Foreign Military Sales Trust Fund be used only for the purposes outlined in sections 2761 and 2762, title 22, United States Code.*

*3. Develop and implement policies and procedures requiring that DoD Component purchases for Building Partner Capacity programs be paid for, whether through reimbursement or other means, directly from the accounts to which Congress appropriated the funds.*

**OUSD(C) Response:** Concur with comment. The Defense Security Cooperation Agency (DSCA) is already returning ASFF funds from the FMS Trust Fund to the ASFF appropriation or the Treasury, as appropriate. The DSCA continues to utilize the FMS Trust Fund pursuant to the Economy Act for ASFF and other BPC funds, as authorized by law, and implementing this recommendation will require the DSCA continue implementing their decoupling process to separate BPC programs from the pseudo-FMS process, which is currently in process. The DoD would not issue policies for Title 22 programs, which fall under the purview of the Department of State.

*d. Coordinate with the Director of the Defense Security Cooperation Agency to review all applicable criteria for any active Building Partner Capacity programs to determine whether congressional notifications are required when funds are obligated or transferred and, if so, ensure that the congressional notification discloses the use of the Foreign Military Sales Trust Fund until Building Partner Capacity funds are removed from the Foreign Military Sales Trust Fund.*

**OUSD(C) Response:** Concur with comment. If recommendation 1(c) is implemented, there would be no such transfers as described in recommendation 1(d). Further, if such transfers did occur, there is no statutory congressional notification requirement for Economy Act orders.

*e. Assess the DoD Agency-Wide financial statements for prior period adjustment and:*

- 1. Determine materiality for each of the non-Army reporting entities that receive appropriations for Building Partner Capacity programs.*
- 2. Perform an analysis on the status of non-Army Building Partner Capacity appropriated funds in the Foreign Military Sales Trust Fund to quantify the misstatement to the non-Army reporting entities financial statements.*
- 3. Adjust the financial reports for Non-Army reporting entities consistent with U.S. Treasury guidance.*

**OUSD(C) Response:** Concur with comment. The Department of State has review and approval oversight of “non-Army” BPC funds in the foreign military sales trust fund, which are Title 22 (011X8242) appropriations. Recommendations 1.e.1., 1.e.2., and 1.e.3. must specify “non-Army.” The DoD Agency-Wide Financial Statements also do not include DSCA appropriation 011X8242. As such, OUSD(C)/CFO would not determine the materiality, perform analysis, or adjust financial data for Title 22 appropriations. We will provide prior period adjustment support to Components within

## Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (cont'd)

### CUI

OUSD(C)/CFO responsibility of oversight and monitoring once data is received from the DSCA to perform the analysis.

*f. Rescind the policy requiring DoD Components to treat Building Partner Capacity funds transferred to the Foreign Military Sales Trust Fund as non-exchange transactions.*

**OUSD(C) Response:** Concur with comment. The Federal Accounting Standards Advisory Board (FASAB) Technical Bulletin 2017-01 addresses the terms for when value has been sacrificed and received by the parties to a transaction and requires that both parties agree to those terms. In August 2020, the DCFO issues a policy memo, "Accounting Treatment of FMS Non-Exchange Expenditure Transfers" which had full concurrence from the DSCA, the Department of the Army, and the Army's auditors, KPMG, that value is not exchanged in the BPC transfers to the FMS Trust Fund. However, we have recently confirmed with both the DSCA and the Army that the terms of this memo have not been implemented due to reconsideration of the overall Building Partner Capacity (BPC) process which may eliminate the circumstances around which this memo was issued. We will work with the DSCA and the Army as they further review and refine the BPC process. Once this BPC process review is finalized by DSCA and the Army, we will evaluate whether this August 2020 DCFO memo should be rescinded based on revised processes.

*g. Develop and ensure the implementation of a policy sufficient to ensure that the DoD fully and accurately account for the funds consistent with the intent of Congress for the:*

1. *Agency Indicators attribute.*
2. *Periods of Availability attribute.*
3. *Main Accounts attribute.*

**OUSD(C) Response:** Concur with comment. The OUSD(C)/CFO has long-standing policy guidance related to the budgeting, execution and reporting of these three Treasury Account Symbol/Treasury Account Fund Symbol (TAS/TAFS) data attributes. This guidance is cited in multiple regulatory and policy sources to include the DoD 7000.14-R Financial Management Regulations, the Standard Financial Information Structure/Standard Line of Accounting (SFIS/SLOA) guidance, the DoD DATA Act Data Quality Plan, and the external reporting guidance for the Government Treasury Account Symbol Adjusted Trial Balance System (GTAS).

Within the context of this report, this recommendation specifically relates to the Army's appropriation transfer from 021 2018/2019 2091 to DSCA appropriation 011x8242. As mentioned throughout the course of this audit, the OUSD(C) does not have review and approval oversight of component level Intra-Governmental Payment and Collection (IPAC) transfers. In the example provided, the fiscal characteristics of the two cited appropriations 021 2091 and 011x8242 are correct. The execution of the transfer between the Army and DSCA from Army appropriation 021 2091 with defined period of availability to a DSCA no-year appropriation 011 x8242 is solely a function of DSCA in the oversight responsibility as transferred to DSCA under the State Department's administration of Executive Office of the President appropriation authority.

## Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (cont'd)

### CUI

We will, however, communicate with the various Assistant Secretaries of the Military Departments (Financial Management and Comptroller) and the Director of DSCA the criticality of executing DoD funds within the statutory purpose and intent of those funds and the need to comply with the Economy Act's fiscal provisions when undertaking transactions pursuant to that authority. We will also review our current regulations and policies to ensure we are providing guidance to our DoD components that is clear and concise regarding the transfer of funds between two or more TAS/TAFS in accordance with Office of Management and Budget and Treasury Bureau of the Fiscal Service established guidelines.

*h. Coordinate with Defense Security Cooperation Agency, Defense Finance and Accounting Service, and Assistant Secretary of the Army (Financial Management and Comptroller) management to develop and implement procedures to provide the status of Afghanistan Security Forces Fund appropriated funds in the Foreign Military Sales Trust Fund and the amount of funds returned to the U.S. Treasury to Special Inspector General for Afghanistan Reconstruction for its quarterly reports to Congress.*

**OUSD(C) Response:** Concur with comment. The OUSD(C) will work with DSCA and the Assistant Secretary of the Army (Financial Management and Comptroller) to provide the Special Inspector General for Afghanistan Reconstruction with information requested for their quarterly reports that falls within the scope of SIGAR's statutory mandate.

## Assistant Secretary of the Army (Financial Management and Comptroller)



**DEPARTMENT OF THE ARMY**  
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY  
FINANCIAL MANAGEMENT AND COMPTROLLER  
109 ARMY PENTAGON  
WASHINGTON DC 20310-0109

SAFM-FOI

30 March 2023

MEMORANDUM FOR INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE

Subj: UNITED STATES ARMY RESPONSE TO THE DEPARTMENT OF DEFENSE INSPECTOR GENERAL DRAFT REPORT, AUDIT OF THE DOD'S FINANCIAL MANAGEMENT OF THE AFGHANISTAN SECURITY FORCES FUND (PROJECT NO. D2022-D000FV-0091.000)

Ref: (a) Department of Defense Inspector General (DoD IG) Memorandum, "Audit of the DoD's Financial Management of the Afghanistan Security Forces Fund (Project No. D2022-D000FV-0091.000)," March 7, 2023

1. The Assistant Secretary of the Army (Financial Management and Comptroller) (ASA(FM&C)) concurs with recommendation 3 presented in the draft DoD IG report provided by reference (a). The ASA(FM&C) will address the issues identified in this report and develop corrective action plans as outlined in the following recommendations:

a. Recommendation 3a: DoD IG recommends the ASA (FM&C) determine materiality for the Army General Fund financial statements.

(1) ASA(FM&C) concurs with the recommendation and will work with the appropriate stakeholders to determine the materiality for the Army General Fund financial statements.

b. Recommendation 3b: DoD IG recommends performing an analysis, in coordination with the Director of the Defense Security Cooperation Agency, on the status of Afghanistan Security Forces Fund appropriated funds and other Army appropriated funds in the Foreign Military Sales Trust Fund to quantify the misstatement to the Army General Fund financial statements.

(1) ASA(FM&C) concurs with the recommendation and will coordinate, if needed, with the Defense Security Cooperation Agency to quantify the misstatement on the Army General Fund financial statements.

c. Recommendation 3c: DoD IG recommends adjusting the financial reports for the Army General Fund consistent with U.S. Treasury and Office of Management and Budget guidance.

(1) ASA(FM&C) concurs with the recommendation to adjust the Army General fund financial reports to be consistent with the U.S. Treasury and Office of Management and Budget guidance. Furthermore, ASA(FM&C) will assess whether the Army General Fund financial statements require a prior period adjustment.



## Assistant Secretary of the Army (Financial Management and Comptroller) (cont'd)

SAFM-FOI  
SUBJECT: UNITED STATES ARMY RESPONSE TO THE DEPARTMENT OF DEFENSE INSPECTOR GENERAL DRAFT REPORT, AUDIT OF THE DOD'S FINANCIAL MANAGEMENT OF THE AFGHANISTAN SECURITY FORCES FUND (PROJECT NO. D2022-D000FV-0091.000)

2. The point of contact for this matter is [REDACTED].

ANDERSON.NATASHA [REDACTED]  
A.NOEL [REDACTED]

Natasha N. Anderson  
Director, Financial Operations and Accountability  
DASA (Financial Operations and Information)

## Director of the Defense Security Cooperation Agency



**DEFENSE SECURITY COOPERATION AGENCY**  
2800 DEFENSE PENTAGON  
WASHINGTON, D.C. 20301-2800

MEMORANDUM FOR INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE

SUBJECT: DSCA Response to DoD IG Draft Report, “Audit of the DoD’s Financial Management of the Afghanistan Security Forces Fund (Project No. D2022-D000FV-0091.000)”

Thank you for the opportunity to respond to the March 7, 2023, “Audit of the DoD’s Financial Management of the Afghanistan Security Forces Fund” Draft Report. As an organization, we value transparency and integrity, and as such, we appreciate any opportunity to learn how we can improve our financial and accounting practices across the entire Security Cooperation community. In addition, DSCA would like to note an underway effort across the Security Cooperation community to financially decouple Building Partner Capacity programs from the Foreign Military Sales (FMS) Trust Fund which will organically remediate much of the issues identified by the DoD IG in the Draft Report once implemented.

As requested, DSCA completed a review of the Draft Report and does not concur with some audit findings and recommendations as detailed below. Our detailed comments, identified to specific portions of the Draft Report, are provided for your use in finalizing the DoD IG Report. Major areas of concern include inaccuracies in the following areas:

Per the “Scope and Methodology” section of the Report and the January 28, 2022, DoD IG Announcement Memorandum issued to DSCA, the scope of this audit was described as a review of the Afghanistan Security Forces Fund (ASFF) program. However, the scope of completed audit significantly exceeds the stated scope by including content and findings and recommendations pertaining to other Building Partner Capacity (BPC) programs DSCA administers. Specifically, Recommendations 2.a, 2.b, and 2.e exceed the stated scope of the audit.

The Report asserts DSCA “...personnel transferred \$47.5 billion to the FMS Trust Fund to fund the ASFF Building Partner Capacity (BPC) program.” This statement overstates DSCA’s role as funding the entire ASFF BPC program. Not all ASFF support was executed through the FMS Trust Fund. As clarification, DSCA only directed Defense Finance and Accounting Service (DFAS) personnel to transfer funds related to ASFF program support executed through pseudo-FMS cases into the FMS Trust Fund to facilitate the procurement of defense articles and services in accordance and alignment with U.S. Army, OUSD (Comptroller), and Defense Security Cooperation Management Office – Afghanistan (DSCMO-A) guidance and congressionally notified spend plans.

**DSCA disagrees with the DoD IG finding that the DoD “provided inaccurate appropriation status data for quarterly reports to Congress and reported ASFF-related financial activity inaccurately in the DoD, Army, and Security Assistance Accounts financial statements”.**

## Director of the Defense Security Cooperation Agency (cont'd)

At the time that Security Assistance Account (SAA) financial statements were provided to Congress, they accurately reported the accounting status of the ASFF funds.

**DSCA disagrees with the DoD IG finding that transferring ASFF funds into the FMS Trust Fund was contrary to the Arms Export Control Act (AECA) and that the AECA disqualifies the use of the FMS Trust Fund for ASFF appropriated funds.**

The AECA has no applicability to the use of ASFF funds to support the Government of Afghanistan. Collections authorized by the AECA into the FMS Trust Fund may only be used to facilitate the purposes of the AECA. DSCA agrees that the use of ASFF funds to support Foreign Military Sales execution would be contrary to the AECA, however ASFF funds were not used to execute AECA related activities. Because ASFF funding in the FMS Trust Fund Account was segregated into sub-accounts within the FMS Trust Fund and ASFF funds were credited to the FMS Trust Fund in advance of the Military Departments executing ASFF, the transfer of ASFF funds into the FMS Trust Fund for ASFF case execution did not impair or facilitate any AECA authorized activities.

Further, funds disbursed into the FMS Trust Fund to execute AECA authorities were not used to fund or otherwise subsidize BPC programs authorized to be funded with ASFF to provide support to Afghanistan. The transferring of ASFF funds into the FMS Trust Fund would only pose an AECA compliance concern if (1) ASFF funds were comingled with funds disbursed into the account to execute Foreign Military Sales or (2) funds collected into the FMS Trust Fund for AECA functions were used to provide ASFF support.

**DSCA disagrees with the DoD IG conclusion that because the FMS Trust Fund was created for a specific purpose under the AECA that DSCA is unable to rely upon the Economy Act to transfer funds into the FMS Trust Fund account.**

While the Economy Act does not provide any leeway for DSCA to alter the purpose or function of the FMS Trust Fund, DSCA does not agree that DSCA is precluded from use of the Economy Act to transfer funds into the FMS Trust Fund account. Use of the FMS Trust Fund account to provide Economy Act support would only be inappropriate if the FMS Trust Fund account was allowed to provide support in advance of funds. While the Economy Act explicitly allows a supporting organization to provide support in advance of funding, in the context of the FMS Trust Fund, this practice was not allowed. The FMS Trust Fund account was only allowed to provide ASFF support after ASFF funds were disbursed into the FMS Trust Fund account. The requirement for ASFF funds to be provided in advance of any ASFF support prevented the use of funds collected for AECA purposes from being used for a different purpose.

DSCA agrees with the audit report's factual findings that DSCA did not conduct Economy Act transfers consistent with the requirements of the Economy Act. Written support agreements and Economy Act determinations were not accomplished at the time of the draft report, but DSCA is working to establish all required documentation to ensure full compliance with the Economy Act in the future.

## Director of the Defense Security Cooperation Agency (cont'd)

**DSCA disagrees with the accuracy of the audit's conclusion that public law requires DoD to notify Congress of the transfer of ASFF funds into the FMS Trust Fund.**

DSCA does not believe there is any requirement to notify Congress separately regarding the transfer of funds into the FMS Trust Fund in support of already Congressionally notified and approved ASFF or other Building Partner Capacity program. DSCA only received ASFF from Army for notified and approved programs and transferred ASFF into the FMS Trust Fund to fulfill the requirements of those notified and approved programs. The use of the Economy Act does not trigger a Congressional notification requirement.

Regarding the Finding the DoD did not return ASFF funds in a timely manner, DSCA organized a bi-weekly working group with OUSD-C and DFAS to identify and reconcile all cancelled Title 10 funds in the FMS Trust Fund, including ASFF-appropriated funds. DSCA performed backdated entries into Treasury's Central Accounting Reporting System (CARs) to ensure \$2.4B in cancelled funds (\$1.94B in cancelled ASFF funds) were applied to the correct appropriation year. OMB and Treasury approved DSCA's backdated entries from the 011X8242 (FMS Trust Fund Holding Accounts) to the 0113230 (US Treasury General Receipt Account) culminating in the successful return of all outstanding canceled funds to Treasury. Regarding those cases subsequently identified on or after 1 October 2022 as having canceled funds, those funds are being processed and will be returned to Treasury by the end of March of 2023.

Regarding the Finding that DoD potentially created Antideficiency Act Violations, DSCA recognizes that not closing ASFF cases before the funds cancel could allow for the possibility of an Antideficiency Act Violation to occur. Beginning in late 2020 and prior to the announcement of this audit on January 28, 2022, DSCA initiated proactive action to resolve this problem. This resulted in the publication of Security Assistance Management Manual Policy Memorandum 22-33, "Building Partner Capacity Funds Return Guidance," on June 17, 2022."

Within Policy Memo 22-33, comprehensive resolution of the problems cited at Preliminary Observation #2 are addressed through paragraphs that address: Current/Expiring Funds, Expired Funds, Cancelling Funds, Cancelled Funds, Alternate Funds Return Process, Prior Year Adjustments, Current Year Adjustments, Problem Disbursements, Unliquidated Obligations, Credits Received After Funds Cancellation, and Transportation Accounts. Through implementation of this policy, DSCA will ensure funds are returned to Treasury before they cancel on a regular basis going forward.

It is DSCA's position that Policy Memo 22-33 fully addresses how funds on BPC cases, to include ASFF cases, should be returned and demonstrates a commitment to improved performance.

With regard to the Finding that DoD did not maintain fiscal control, use resources efficiently, or report accurate fund statuses, DSCA has developed additional policies and procedures to address the efficiency of funds obligation and timely return to the funds holder.

To ensure funds can be obligated prior to expiration, DSCA policy requires Implementing Agencies (IAs) to review BPC cases for possible residual funding throughout the

## Director of the Defense Security Cooperation Agency (cont'd)

period of availability. IAs are directed to reconcile BPC cases in accordance with DoD regulations and updated DSCA policies to ensure that unobligated residual funds are returned to support any new requirements or emergent priorities prior to funds expiration.

IAs will work with DSCA to ensure that all residual funds are returned promptly to allow for sufficient processing time and reutilization. Throughout the lifecycle of the case and while funds are still available, IAs are required to review open obligations, reconcile transactions, reduce unliquidated balances, and close cases prior to funds cancellation.

On a recurring basis, DSCA prepares funds return packages based on IA reconciliation, case reductions, and/or case closure, to direct the movement of residual funds from the IA's financial system back to the funds holder.

With regard to returning canceled funds to Treasury, and internal to DSCA, Financial Policy and Regional Execution (FPRE) Directorate confirms holding account balances in the FMS Trust Fund with the Defense Finance Accounting Service (DFAS) prior to submitting a BPC funds request to the Comptroller Security Assistance (CMP SA) Division. The CMP SA analyst will submit transfers in the Central Accounting Reporting system, moving funds from Treasury account 11X8242 (Deposits, Advances, Foreign Military Sales, Executive) to 11X3230 (Special and Trust Fund Proprietary Receipts Returned to the General Fund of the U.S. Treasury). The Office of Management and Budget and Treasury will review and approve the transfer.

CMP SA will notify FPRE of this approval via email; FPRE will then inform DFAS funds have been returned to Treasury. The appropriate DFAS teams will then adjust holding account balances, and post transfers in Defense Departmental Reporting System to ensure proper recording in the financial statements.

Further to these efforts, DSCA initiated the Building Partnership Capacity (BPC) Long Term Solution effort, which addresses many of the observations of the DoD IG. This effort will fully de-couple appropriated funds from the FMS Trust Fund, which will improve audibility and transparency and significantly reduce the risk of Antideficiency Act violations by enhancing DSCA's oversight and management control of BPC funding. The effort is split into two phases – the interim solution and long-term solution.

The interim solution eliminates BPC contributions to the below-the-line surcharge accounts (e.g., FMS Admin, transportation, etc.) and implements more robust internal controls for funds executed through pseudo-FMS cases. Since August 2020, T10 BPC funds, to include ASFF funds, are no longer collected into the surcharge accounts. This provides greater assurance that cancelled funds are not disbursed from these accounts and that funds are returned to their appropriation or Treasury in a timely manner and in accordance with the law.

For BPC funds placed on a pseudo-LOA to purchase a specified article or service, DSCA has existing internal controls within the FMS Trust Fund to identify the program authority and appropriation associated with those funds. This enables DSCA and the Security Cooperation community to manually track execution and appropriate return of these funds. DSCA continues

## Director of the Defense Security Cooperation Agency (cont'd)

to work with the implementing agencies to identify and implement additional internal controls, to include systemic ones, to further strengthen our ability to ensure compliance with applicable laws and regulations until a long-term solution is implemented.

The long-term solution will implement a new process and procedure for transferring BPC funding to the executing agencies that will no longer require the use of the FMS Trust Fund and will retain funding within the original Title 10 appropriation. The long-term solution will provide more accurate and transparent financial statement reporting, enhanced monitoring of funds execution by period of availability, and more robust and automated internal controls to prevent potential Antideficiency Act violations or other misuse of funds. The long-term solution will also continue to provide critical tracking and monitoring capabilities afforded by the FMS infrastructure that DSCA relies on to fulfill its statutory oversight and reporting responsibilities.

DSCA is working with the Military Departments to draft the long-term solution implementation plan by 4th quarter of fiscal year 2023. DSCA anticipates the long-term solution will leverage both Title 10 and Title 22 information technology systems once implemented but will require the use of Title 10 Standard Financial Information Structure (SFIS)-compliant financial systems (e.g., GFEBS, Navy ERP, DEAMS) to formally record accounting events and track financial execution. DSCA is also complying with Deputy Chief Financial Officer (DCFO) guidance and intending to leverage the Advana platform to support financial reporting and execution requirements.

DSCA generally concurs with the audit report recommendations for DSCA actions, except for the following clarifications:

**Regarding the 2.a. Recommendations to undertake a comprehensive review of the policies to immediately prohibit using the FMS Trust Fund to facilitate BPC execution, DSCA does not concur. DSCA agrees with the long-term objective of decoupling BPC execution from the Trust Fund but emphasizes the need for a transition period.**

Abruptly ending BPC execution from the FMS Trust Fund will cause substantial execution disruptions to ongoing BPC efforts, including but not limited to DoD's ongoing support for Ukraine. Since the use of the FMS Trust Fund for BPC execution will necessarily continue for a transition period, DSCA acknowledges the need to correct noted EA execution deficiencies noted in this audit regarding current practices. DSCA, in coordination with the DoD Comptroller and DoD OGC, is seeking to remedy existing EA execution concerns by concluding a written support agreement which includes prerequisite EA determinations that the agency seeking support could not obtain the goods or services as efficiently or economically as the providing agency and that the arrangement is in the best interest of the Government. DSCA's ongoing efforts to complete EA related documentation is not intended to delay DSCA's implementation of the long-term solution for decoupled BPC execution.

**DSCA concurs with 2.b., 2.c., 2.d., 2c, 2d, and 2.e.2e Recommendations.**

**Regarding the 2.f. Recommendations to coordinate with any DoD Components that violated appropriations law in Recommendation 2.e, to determine whether a potential**



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**Antideficiency Act violation occurred that cannot be corrected and, if so, initiate a review in accordance with DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 14, chapter 3, to determine whether it is reportable.**

DSCA concurs but views this recommendation as unnecessary. Even if this specific recommendation was omitted from this report, DSCA would still be responsible to take actions to avoid and to report potential Antideficiency Act Violations in accordance with the DoD FMR. An IG recommendation that merely references a standard financial management practice has no meaningful substantive value.

**DSCA does not concur with the 2.g. Recommendations related to assessing prior SAA financial statements for prior period adjustments.**

Given the discontinuation of any future ASFF appropriations and the lack of any further ASFF support to Afghanistan, there would be no meaningful benefit for the government to undertake an effort to improve the accuracy of previous financial statements. Adjusting prior financial statements is not a necessary step for identifying and returning cancelled funds to Treasury. Undertaking a labor-intensive effort to update prior SAA financial statements would needlessly detract DSCA from accomplishing other recommended actions and, more importantly, delay efforts to achieve DSCA's ongoing objective to decouple BPC execution from the FMS Trust Fund.

My POC for this response is [REDACTED]

HARDING, JOSEPH  
AARON [REDACTED]

J. Aaron Harding  
Chief Operating Officer and Chief Financial Officer  
Defense Security Cooperation Agency



## Acronyms and Abbreviations

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|                       |  |
|-----------------------|--|
| <b>ADA</b>            | Antideficiency Act   |
| <b>AECA</b>           | Arms Export Control Act  |
| <b>ANDSF</b>          | Afghanistan National Defense and Security Forces                                     |
| <b>ASFF</b>           | Afghanistan Security Forces Fund   |
| <b>BPC</b>            | Building Partner Capacity  |
| <b>COO/CFO</b>        | Chief Operating Officer and Chief Financial Officer                                  |
| <b>DoD FMR</b>        | DoD Financial Management Regulation  |
| <b>DFAS</b>           | Defense Finance and Accounting Service   |
| <b>DIFS</b>           | Defense Integrated Financial System  |
| <b>DSCA</b>           | Defense Security Cooperation Agency  |
| <b>DSCMO-A</b>        | Defense Security Cooperation Management Office–Afghanistan                           |
| <b>ERP</b>            | Enterprise Resource Planning   |
| <b>FFMIA</b>          | Federal Financial Management Improvement Act of 1996                                 |
| <b>FMFIA</b>          | Federal Managers’ Financial Integrity Act of 1982                                    |
| <b>FMS</b>            | Foreign Military Sales   |
| <b>GFEBs</b>          | General Fund Enterprise Business System  |
| <b>OASA(FM&amp;C)</b> | Office of the Assistant Secretary of the Army (Financial Management and Comptroller) |
| <b>OGC</b>            | Office of General Counsel  |
| <b>OMB</b>            | Office of Management and Budget  |
| <b>OUS(D)/CFO</b>     | Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD  |
| <b>SAA</b>            | Security Assistance Accounts   |
| <b>SCES</b>           | Security Cooperation Enterprise Solution   |
| <b>SIGAR</b>          | Special Inspector General for Afghanistan Reconstruction                             |
| <b>TAFS</b>           | Treasury Appropriation Fund Symbol   |
| <b>U.S.C.</b>         | United States Code   |
| <b>USD(C)/CFO</b>     | Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD                |



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