

Rel. 6-30-83
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APR 7 1972

Captain Wendell McHenry, Jr.
Commanding Officer
Naval Supply Center
Newport, Rhode Island



Dear Captain McHenry:

We have completed our survey of accrued expenditure and revenue reporting procedures at the Naval Supply Center, Newport, Rhode Island (NSCNT), as part of a broad survey at selected activities in the Department of Defense (DOD). The survey was directed mainly toward determining the effectiveness of communication and processing systems in providing accrued expenditure data as of June 30, 1971, and whether procedures were in accordance with applicable instructions and regulations.

The results of our work are intended primarily for the information of the Steering Committee of the President's Commission on Budget concepts. However, we identified a number of problem areas which were discussed in detail with the Director of the Accounting Division and his staff. Our observations and corrective actions implemented or planned are summarized below.

First available documentation not used as basis for recording accrued expenditures

Vendor invoices and GSA billings received prior to the receipt of material are not used as a basis to record accrued expenditures. This is contrary to DOD Instruction 7220.27 which states that accrued expenditures will be recorded based upon the first available documentation. The Director of the Accounting Division stated that Navy Stock Fund regulations have not been

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Captain Wendell McHenry, Jr.
Commanding Officer
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Dear Captain McHenry:

We have completed our survey of accrued expenditure and revenue reporting procedures at the Naval Supply Center, Newport, Rhode Island (NSCNPT), as part of a broad survey at selected activities in the Department of Defense (DOD). The survey was directed mainly toward determining the effectiveness of communication and processing systems in providing accrued expenditure data as of June 30, 1971, and whether procedures were in accordance with applicable instructions and regulations.

The results of our work are intended primarily for the information of the Steering Committee of the President's Commission on Budget concepts. However, we identified a number of problem areas which were discussed in detail with the Director of the Accounting Division and his staff. Our observations and corrective actions implemented or planned are summarized below.

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Vendor invoices and GSA billings received prior to the receipt of material are not used as a basis to record accrued expenditures. This is contrary to DOD Instruction 7220.27 which states that accrued expenditures will be recorded based upon the first available documentation. The Director of the Accounting Division stated that Navy Stock Fund regulations have not been

superseded to provide for recording accrued expenditures based upon other than physical receipt of material. We plan to discuss this matter further with representatives of the Navy Comptroller (and also ask them to determine if other regulations are contrary to DOD Instruction 7220.27).

Revenue and expenditures for intragovernmental transactions not recorded in the same month

When an activity performs a reimbursable service for another activity, NSCNPT records accrued revenue for the performing activity. In the following month, NSCNPT bills the benefiting activity which then establishes an accounts payable. DOD Instruction 7220.27 requires that when the same accounting office handles both sides of a buyer-seller transaction, the accrued revenue for the one party and the accrued expenditure for the other party should be recorded in the same period. In about 75 percent of the cases NSCNPT handles the accounting for the buyer and seller under reimbursable work. The Director of the Accounting Division agreed that revenue and expenditures for these transactions should be recorded in the same month. On a trial basis, the Accounting Division will accrue expenditures for selected activities.

Holdbacks not accrued

Holdbacks under contracts, and in some cases unpaid requests for progress payments, were not being accrued as expenditures. The existing system could record these accruals if activities reported the appropriate data and the director of the Accounting Division agreed that this should be done. Instructions have been given to activities to furnish NSCNPT all information related to these items and accounting personnel have been advised to accrue these items.

Project order expenditures not accrued

Progress payment requests for work accomplished by the Public Works Center (PWC) under project orders were not recorded as accounts payable. The Director of the Accounting Division and PWC officials agreed that a monthly report will be issued by the PWC showing all progress payment requests sent to activities in the Newport area. The NSCNPT accounting department will then record accrued expenditures for the activities receiving the services.

Delays in processing GSA bills

General Services Administration (GSA) bills are not always recorded in the month of receipt because of a requirement that all line items on a GSA bill be correct before the bill can be processed. Regulations do not permit questionable items on a GSA bill to be charged to a Navy funded suspense account pending resolution as is done in the case of questionable items on Defense Supply Agency bills. These delays result in understatement of accrued expenditures to the extent that the receipt of material had not been previously reported as an accrual. Because this problem cannot be resolved locally, we plan to discuss it with representatives of the Navy Comptroller.

Late recording of certain disbursements

NSCONPT has delayed up to two months the recording of disbursements to commercial vendors and GSA because of manpower limitations and the assignment of available personnel to other work. These delays could cause an understatement of accrued expenditures if the accounts payable were not established. Officials of the Accounting Division are aware of this problem and will try to reduce the delay.

Questionable accounts payable balances

Computer program deficiencies have contributed to overstatements of certain Stock Fund accounts. One deficiency was that some disbursements could not be matched against previously established accounts payable. Therefore, instead of liquidating accounts payable, the computer program increased the material in transit account balance. We noted that about 66 percent of the accounts payable were 120 days old or more and about 50 percent of the material in transit account was 60 days old or more. Another deficiency is that the format of the financial detail card supporting Report of Fund Authorization Charges (NAVCONPT Form 2074) cannot be processed by the Stock Fund computer program. As a result, accounts payable are not being liquidated. Some of the computer program deficiencies have been corrected and the old balances are being researched. Officials of the Accounting Division said that action would be requested to correct the remaining computer program deficiencies and that the Form 2074s would be processed.

Inadequate document control

The control over documents brought to the data processing section for punching is inadequate. The Director of the Accounting Division stated that a meeting with agency personnel has been scheduled to discuss improved document control.

Delay in processing receipt documents results in exclusion of liabilities from monthly reports

The interval between the physical receipt of material and its entry into the financial records has been reduced from eighteen to seven calendar days. However, material received toward the end of the month still is not recorded as an accrued expenditure until the subsequent month, except for DSA material which may have been accrued based on billings. We recommend that NSC/NPT officials continue to oversee this area to insure that all practical efforts are made to include applicable transactions in the monthly reports.

Inaccurate reconciliation report

The stock fund Reconciliation Report (NAVCOMPT Form 2036) for the quarter ended June 30, 1971, contained unreconciled differences which were labeled as April, May and June 1971, but actually applied to periods dating back to 1969. Navy Comptroller instructions require the recipient of the report to determine if effective action is being taken to eliminate unreconciled differences. The recipient could do this better if the unreconciled differences had been aged correctly on the report. This matter was brought to the attention of Accounting Division personnel and appropriate corrective action has been taken.

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We wish to thank you and your staff for the cooperation extended to us during our survey. If you have any questions concerning this letter, we would be pleased to discuss them with you.

A copy of this letter is being furnished to the Assistant Secretary of the Navy (Financial Management) and the Assistant Secretary of Defense (Comptroller).

Sincerely yours,

JOSEPH EDER
Joseph Eder
Regional Manager