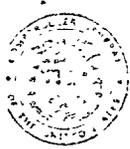


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Accounting Office... by the Office of... COMPTROLLER GENERAL OF THE UNITED STATES WASHINGTON, D.C. 20548

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SEP 6 - 1975



The Honorable George H. Mahon  
Chairman, Committee on Appropriations  
House of Representatives

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Dear Mr. Chairman:

As you requested on October 11, 1974, we reviewed the Army's alleged violation of the Anti-Deficiency Act (31 U.S.C. 665). You asked that we look into the situation at the U.S. Army Electronics Command, Fort Monmouth, New Jersey, to determine whether there was an overobligation in the fiscal year 1972 appropriation for Other Procurement, Army, and, if so, why the overobligation occurred. As you know, the 1972 Other Procurement appropriation was a 3-year appropriation and was therefore available for obligation until June 30, 1974.

The U.S. Army Audit Agency completed an audit of the overobligation in April 1975. The Army Audit Agency concluded, and we concur, that as of June 30, 1974, there was a deficiency of about \$40.2 million in the fiscal year 1972 Other Procurement appropriation. The exact amount of the overobligation, however, could change depending on the results of continuing review work being done by the Electronics Command personnel.

Army officials expect that the Secretary of Defense will soon report this violation to the President and to the Congress as required by the Anti-Deficiency Act (31 U.S.C. 665).

Details of our review of the Army Audit Agency's work and the \$40.2 million overobligation follow.

SCOPE OF REVIEW

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Because the Army Audit Agency's audit was sufficiently comprehensive, we did not need to expand on the scope of its review. As agreed with the House Subcommittee on Defense Appropriations, we reviewed the Army Audit Agency's audit methods and procedures, examined its working papers, made limited tests of accounting data, and discussed with the Army auditors their findings, conclusions, and recommendations. We also reviewed the Army Materiel Command's October 1974 report on its review of the alleged violation.

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CAUSES OF THE OVEROBLIGATION

The Army Materiel Command furnishes equipment, material, and services ordered by foreign countries, other U.S. Government agencies, and other military services, as well as by Army activities. Army appropriations, such as Other Procurement, are used initially to finance customer orders and are subsequently reimbursed on receipt of payments for the equipment, material, and services furnished. The Electronics Command and other commodity commands report customer orders received to the Army Materiel Command and to the Department of the Army headquarters. The dollar amount of customer orders received and reported is treated by the Army as increasing its obligational authority.

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✓ A 1974 Army Materiel Command investigation showed that the Electronics Command's reports overstated by approximately \$47 million customer orders received. Before the discovery of this error, the Department of the Army depended on these and other commodity command reports to determine the funds available in the 1972 Other Procurement appropriation and the amount of funds which could be transferred, when authorized by law, to other appropriations. From October 1972 to January 1974 approximately \$80 million was thus transferred by the Department of the Army. After it became known that the Electronics Command's reports were in error, obligational authority was reduced and, as a result, an overobligation of the 1972 Other Procurement appropriation occurred. 20

The precise reasons for the Electronics Command's inaccurate reporting may never be determined because the 1972 Other Procurement ledgers and journal vouchers in support of Electronics Command customer orders were missing and were presumed to be lost or destroyed.

One factor which had an adverse effect on Electronics Command operations and which undoubtedly contributed to the 1972 Other Procurement overobligation was the personnel problem created by reorganizations, reductions in force, and downgradings. In 1972 the Army Audit Agency reported that the personnel problem, which originated in 1969, was a factor contributing to accounting difficulties experienced at the Electronics Command.

The personnel problem reached a crisis stage in 1973 when Philadelphia Electronics Command Finance and Accounting Division operations were closed during an Army Materiel Command reorganization which required relocating Philadelphia activities to Fort Monmouth. Only 5 of 167 Finance and Accounting Division people who were on board in January 1973 chose to transfer to Fort Monmouth. During 1973 employees were continuously leaving the Electronics Command in Philadelphia, and backlogs and work slippages mounted.

It was during the move to Fort Monmouth and subsequent moves at Fort Monmouth that financial records were either lost or destroyed.

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UNRESOLVED AMOUNT OF DEFICIENCY

The Army Audit Agency concluded that, as of June 30, 1974, the amount of the overobligation of the fiscal year 1972 Other Procurement appropriation was \$40.2 million, representing an overobligation of \$34.2 million shown in the accounting records as of June 30, 1974, plus an additional \$6 million deficiency based on the Army Audit Agency's review of Electronics Command's reported customer orders.

The overobligation of about \$40.2 million determined by the Army Audit Agency in its recent audit could, however, change. An Army Audit Agency test of customer orders applied to fiscal years 1972 and 1973 Other Procurement appropriations showed instances in which the Electronics Command applied orders to the wrong year. The Electronics Command, therefore, is presently matching customer orders against obligations for fiscal years 1972, 1973, and 1974. The determination of the final amount of the overobligation for the 1972 Other Procurement appropriation cannot be made until the Electronics Command's matching is completed and adjustments are made to the affected appropriations. The Army Audit Agency did not make the matching analysis because of the extensive amount of time the review would require.

ADDITIONAL POTENTIAL VIOLATIONS

The Army Audit Agency's overall review of the customer order program is continuing at the Electronics Command and at other Army Materiel Command commodity commands. The Army Audit Agency is reviewing the effectiveness of financial management, accounting controls, and administration of customer orders at all six Army Materiel Command commodity commands. These reviews could disclose overobligations in other years. The Army Audit Agency expects to report the results of this overall review in September 1975.

The Electronics Command Internal Review and Audit Compliance Division and the Finance and Accounting Division are also continuing their efforts to reconcile fiscal years 1973, 1974, and 1975 Other Procurement customer orders to financial records and to match orders received against obligations for Other Procurement appropriations for 1972, 1973, and 1974. The results of this review may also disclose additional violations.

ARMY ACTION TO IMPROVE ADMINISTRATION  
AND ACCOUNTING FOR CUSTOMER ORDERS

The Army Chief of Staff has established an Army Action Group, chaired by the Deputy Comptroller of the Army, to review all aspects of administering and accounting for customer orders with emphasis on the impact of increased foreign military sales on Army financial systems, activities, and resources. The Army Action Group has been given authority and responsibility to develop, implement, and

validate a customer order system that will insure effective management and financial control of customer orders.

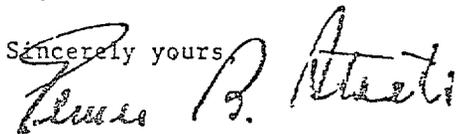
Since the beginning of fiscal year 1975, the Electronics Command has taken the following action to more effectively control customer orders.

- Policy statements to achieve better control of orders have been issued and include a requirement that orders received must be applied in the year received.
- The Electronics Command Internal Review and Audit Compliance Division is reconstructing data contained in financial files lost or destroyed during the Philadelphia move.
- Organization responsibilities for controlling both the supply management and financial management aspects of customer orders have been more clearly defined.
- A quality control office has been established to verify the validity and accuracy of accounting for customer order transactions.

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The Anti-Deficiency Act (31 U.S.C. 665) requires that all violations of the act be reported to the President and to the Congress. The Army submitted its violation report to the Assistant Secretary of Defense (Comptroller) on July 10, 1975, showing an overobligation of \$40.2 million in the 1972 Other Procurement, Army appropriation. Army officials expect that, after review in the Office of the Secretary of Defense, the Secretary will submit a violation report to the President and to the Congress as required by the act.

Sincerely yours,



Comptroller General  
of the United States