

[B-114578]

## **Appropriations—Fiscal Year—Orders To Be Filled From Stock—Placing of Procurement Orders or Requisition for Supplies**

*Intragovernmental procurement orders or requisitions* for supplies to be furnished from stock may be treated as obligations under the current appropriation to be charged as follows: (1) when supplies are intended to meet a bona fide need of the fiscal year in which the need arises or to replace stock used during that fiscal year and (2) when order requests prompt delivery of specific available stock items for a stated consideration and is formally accepted by the supplying agency; however, formal evidence of the acceptance of the order is not required for common-use standard stock items carried on hand for sale at published prices.

*Stock items* may be considered "available" if they are on hand or on order and will be released for prompt delivery; however, common-use standard stock items on order may be considered available if they will be delivered within a reasonable period of time which is acceptable to the requisitioning agency.

### **Comptroller General Warren to the Secretary of Defense, April 7, 1953:**

The current study of the accounting procedures followed by the Department of Defense and the various military operating departments in the financial control, recording and reporting of obligations, being made by the General Accounting Office in collaboration with representatives of your Department and the Bureau of the Budget

has revealed serious deficiencies in the various bases used to obligate funds for material to be furnished from stock of the various military departments.

Not only is there a lack of uniformity between the military departments as to when funds are obligated for material to be furnished from stock, but in many cases invalid obligations in substantial amounts have been recorded. These practices are highlighted under the mutual security assistance programs carried out by the Department of Defense for which funds have been allocated by the Director for Mutual Security. The allocation letter of March 30, 1950, from the then Secretary of State to the then Secretary of Defense and subsequent allocation letters contain the statement "MDAP funds may be obligated at the time supply directives are issued for the amounts estimated to cover end-items to be provided from service stocks." Such allocation letters appear to have been transmitted without clarification to the military departments and the various operating agencies for implementation and various interpretations of such statement have been made. Consequently, obligations have been recorded in many cases for items to be furnished from stocks without regard to when the items would become available or be shipped, location of the items, or whether allocation action by the Joint Munitions Allocations Committee or its subordinate committee had been taken where required. In fact, it appears that mutual security funds in excess of one billion dollars (\$1,000,000,000) were erroneously treated as obligations as of June 30, 1952, for items to be furnished from military stocks.

In order to determine the status of appropriations, both from the viewpoint of management and the Congress, it is essential that obligations be recorded in the accounting records on a factual and consistent basis throughout the Government. Only by the following of sound practices in this regard can data on existing obligations serve to indicate program accomplishments and be related to the amount of additional appropriations required. The practices which should be followed have been the subject of several discussions between representatives of your Department, the Bureau of the Budget, and the General Accounting Office. Based upon these discussions and our own studies there are set forth below the criteria for application in the treatment of procurement orders or requisitions as obligations when deliveries are to be made from stock of the agency to whom the orders or requisitions are issued.

1. Such orders shall comply with the general rule that the materials, supplies, or equipment ordered are intended to meet a bona fide need of the fiscal year in which the need arises or to replace stock used in that fiscal year. This will require attention to the reasonableness of

the quantities ordered in the light of the needs of the requisitioning agency during the fiscal year.

2. The order must be firm and complete. This means that the order must request *prompt* delivery of specific available stock items for a stated consideration and be accepted by the supplying agency with formal notification to the requisitioning agency. However, where common-use standard stock items are carried on hand for sale at published prices to requisitioning agencies, such as under stock or supply funds, and the order will be promptly filled from stocks, no formal evidence of the acceptance of the order by the supplying agency is required.

3. Orders or requisitions for material to be delivered from stock shall be treated as obligations by the requisitioning agency when the conditions specified in paragraphs 1 and 2 are met.

4. As used herein "available" shall mean that the stock items are on hand or on order and will be released for prompt delivery and that all repair, rehabilitation, or renovation required to be done by the supplying agency has been completed. However, common-use standard stock items on order may be considered available if they will be delivered within a reasonable period of time acceptable to the requisitioning agency.

5. As used herein, "delivery" shall mean shipment as directed by the requisitioning agency, except when formal arrangements exist between the requisitioning and supplying agency whereby the latter acts as a storage and distribution agent for the requisitioning agency. In the case of this exception, delivery includes the transfer for the account of the requisitioning agency without physical transfer of the material, provided there are no reservations concerning the transfer and there is an adequate system of accounting for the specific items of property preventing issuance or use of the material except as may be directed or authorized by the requisitioning agency for its use or reimbursement.

I strongly urge that this matter be given immediate attention and request that unliquidated recorded obligations under all funds administered by the Department of Defense be analyzed and all such obligations for material to be furnished from stock which do not meet the above criteria be adjusted accordingly.