

GAO

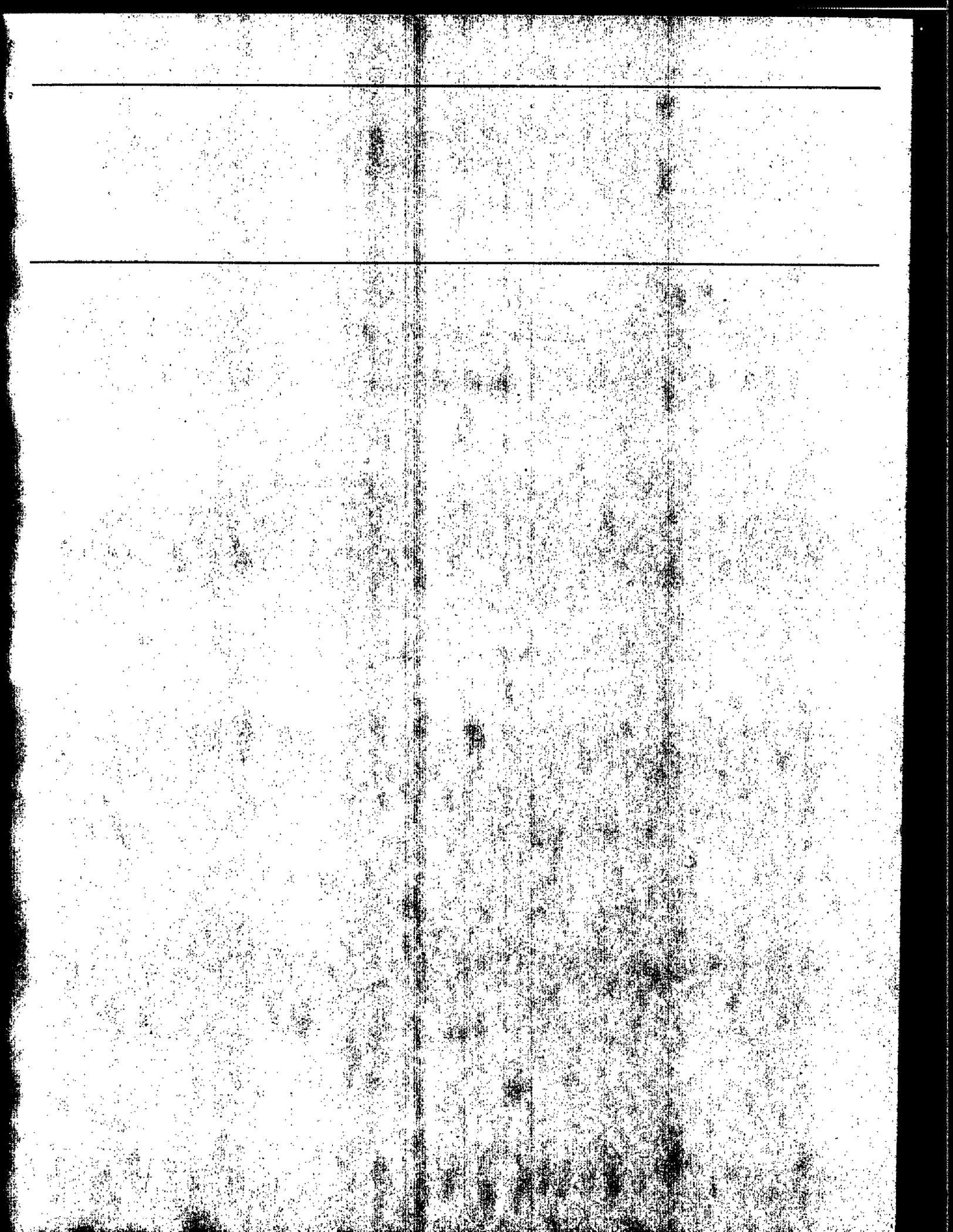
Report to the Chairman, Subcommittee  
on Defense, Committee on  
Appropriations, House of  
Representatives

August 1991

FINANCIAL  
MANAGEMENT

Air Force Systems  
Command Is Unaware  
of Status of Negative  
Unliquidated  
Obligations







Accounting and Financial  
Management Division

B-235940

August 29, 1991

The Honorable John P. Murtha  
Chairman, Subcommittee on Defense  
Committee on Appropriations  
House of Representatives

Dear Mr. Chairman:

At your request, we reviewed negative unliquidated obligations (ULOs) associated with the purchase of weapon systems and equipment at the Air Force Systems Command. Transactions result in negative ULOs when recorded expenditures exceed amounts obligated.

We have previously reported<sup>1</sup> to you on negative ULO problems with the Army and the Air Force Logistics Command. This report focuses on the magnitude, age, and causes of negative ULOs for contracts jointly administered by the Air Force Systems Command's product (contracting) divisions and the related Air Force payment activity which is now handled by the Defense Finance and Accounting Service (DFAS). It also assesses the adequacy of controls to ensure that any overpayments that may have caused negative ULOs are promptly recorded as receivables and collected.

## Results in Brief

The Command's two product divisions we visited did not have information on the magnitude, age, and causes of negative ULOs. Its payment division had data on the magnitude of negative ULOs, but it was not provided to managers and did not identify the age and causes. Thus, Air Force Systems Command managers were unaware of the extent of negative ULOs and could not ensure that they were promptly resolved.

Our analysis of \$126 million of negative ULOs disclosed that the causes for \$69 million were unknown. Of the remaining \$57 million, \$54 million were caused by processing errors and \$3 million relate to overpayments. About \$50 million of the \$126 million were at least 2 years old, ranging to over 6 years. Further, identified overpayments, one cause of negative ULOs, were not routinely recorded as receivables due the government. Therefore, the Air Force could not be assured that it was collecting all amounts owed.

<sup>1</sup>Financial Management: Army Records Contain Millions of Dollars in Unliquidated Obligations (GAO/AFMD-90-41, May 2, 1990) and Financial Management: Air Force Records Contain \$512 Million in Negative Unliquidated Obligations (GAO/AFMD-89-78, June 30, 1989).

Not aggressively identifying and correcting the causes of negative ULOs creates several adverse effects. Negative ULOs can (1) result in obligations in excess of available appropriations, (2) result in losses if caused by overpayments, and (3) conceal availability of funds that could be used to meet other Air Force requirements.

## Background

The Air Force has control procedures intended to ensure that it does not obligate or spend more money than the Congress has appropriated. Key features of these procedures are that (1) the obligations incurred when the Air Force enters into a contract are promptly recorded, (2) the obligations are reduced or "liquidated" as payments are made, and (3) a ULO balance for an individual appropriation account or for a total contract indicates the amount obligated but not yet spent for that account or contract. Generally, since the amount paid should always be equal to or less than the amount obligated, ULO balances should not be negative.

The Air Force Systems Command is responsible for the procurement of weapon systems and equipment, such as aircraft, missiles, and satellites. The Systems Command has four product divisions—Aeronautical Systems Division, Electronics Systems Division, Space Systems Division, and Human Systems Division—and a development test center. The product divisions are responsible for awarding contracts and monitoring contractor performance.

At the start of our review the Contract Management Division, which centrally made and recorded payments to contractors, was part of the Air Force Systems Command. In July 1990, the Contract Management Division became part of the Defense Contract Management Command under the Defense Logistics Agency (DLA) and was renamed the Defense Contract Management Operations Office, Contract Payment Division, referred to as the Contract Payment Division in this report. Subsequently, on May 12, 1991, the Contract Payment Division was transferred to DFAS. DFAS is now responsible for making authorized payments and recovering money from contractors in the event of an overpayment. Accordingly, the Systems Command depends on DFAS to provide information on the financial status of contracts, including overpayments.

As a result of the Contract Payment Division being transferred to DFAS, the Air Force Systems Command's product divisions and DFAS are jointly responsible for establishing controls over disbursements and overpayments. These include ensuring that (1) amounts paid to contractors do not exceed amounts obligated for each contract, (2) payments are

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recorded against the correct appropriations cited in the contracts, (3) negative ULOs are identified and corrected, and (4) any overpayments identified as causing negative ULOs are properly recorded and collected.

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## Objectives, Scope, and Methodology

In response to the Subcommittee's request and subsequent discussions with your office, we evaluated the Air Force Systems Command's internal controls over negative ULOs to determine if procedures existed to identify and report on the magnitude, age, and causes of negative ULOs. We also evaluated the procedures used to record and collect overpayments that caused negative ULOs.

We performed our work at Air Force Systems Command Headquarters, Andrews Air Force Base, Washington, D.C.; and two of its product divisions—the Aeronautical Systems Division, Wright-Patterson Air Force Base, Dayton, Ohio, and the Electronics Systems Division, Hanscom Air Force Base, Boston, Massachusetts. We also performed work at what is now the Contract Payment Division of DFAS, Kirtland Air Force Base, New Mexico. We performed our work from January 1990 to December 1990, in accordance with generally accepted government auditing standards. The Department of Defense provided written comments on a draft of this report. These comments are included in full in appendix I.

To determine the magnitude, age, and causes of negative ULOs at the Air Force Systems Command, we mainly relied on data from the Contract Payment Division. The Aeronautical Systems Division and the Electronics Systems Division did not have this type of information readily available. We did not perform work at DFAS, other than at the recently transferred Contract Payment Division, because prior reports had documented problems with other Defense disbursement activities.<sup>2</sup>

To identify procedures used to report negative ULOs to senior Air Force officials, we interviewed Air Force comptroller officials at the Air Force Systems Command Headquarters, the Systems Command Aeronautical Systems and Electronics Systems Divisions, and at Contract Payment Division. We reviewed applicable Air Force policies and procedures to identify reporting requirements for negative ULOs. We also reviewed prior GAO reports on negative ULOs and the Air Force's Federal Managers' Financial Integrity Act reports for fiscal years 1984 through 1990 to

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<sup>2</sup>See footnote 1.

determine if any reporting problems concerning negative ULOs had been previously disclosed.

Our data on the age and causes of negative ULOs are based primarily on an analysis of \$126 million of negative ULOs for Air Force System Command contracts in the Contract Payment Division's accounting records as of February 1990. We judgmentally selected 117 of the 288 negative account balances from the February 1990 list. These 117 negative balances represented 81 percent of the total dollars and 41 percent of the negative account balances recorded in the accounting records at the time of our review.

At the time of our review, the Contract Payment Division was attempting to correct these negative ULOs. We requested that the Division provide us with the causes of the negative ULOs. We then reviewed supporting documentation and verified the causes that the Contract Payment Division had identified. To determine whether the identified causes were unique to the February 1990 list, we also reviewed contract documentation supporting another \$36 million of negative ULOs reported previous and subsequent to that date.

For identified contractor overpayments that had caused negative ULOs for the 3-year period ending September 1989, we determined whether the Contract Payment Division had recorded amounts owed the government as receivables in accordance with Defense accounting policy and generally accepted accounting principles. We also examined the Payment Division's documentation supporting its efforts to research and resolve negative ULOs to determine whether these amounts had been collected.

## Systems Command Managers Unaware of Status of Negative ULOs

The Air Force Systems Command managers did not have information on the status of the negative ULOs they were responsible for. As a result, they were unable to determine the magnitude, age, and causes of negative ULOs and could not ensure that they were promptly corrected. Negative ULOs indicate a breakdown in internal controls. If uncorrected, they can lead to violations of the Anti-Deficiency Act, 31 U.S.C. 1341, which prohibits agencies from obligating or expending more money than the Congress has appropriated. Conversely, they can obscure the availability of funds for other uses. Negative ULOs caused by overpayments increase costs to the government if they are not promptly identified and collected.

At the time of our review, the product divisions did not have routine reports on the magnitude and age of negative ULOs in their accounting records. For example, the Aeronautical Systems Division, which receives about half of the Systems Command's procurement appropriations, did not have any information on the magnitude of negative ULOs in its accounting records.

Although the Electronics Systems Division had a list of negative ULOs as of January 1990, the list did not provide the total dollar value so that the magnitude of negative ULOs could be readily determined. Further, it did not age the negative ULOs or provide the date when the negative balances occurred so that they could be aged. The list had been specifically prepared for an Air Force and DLA effort to resolve negative ULO problems. From the list, we determined that the Electronic Systems Division had \$341 million negative ULOs, of which \$24 million related to Contract Payment Division payments and \$317 million to payments by other DLA activities previously reported on.<sup>3</sup>

Although the Contract Payment Division produced weekly reports on negative ULOs, the reports were not sent to Systems Command managers. The Division's reports showed that negative ULO balances between January and August 1990 ranged from \$126 million to \$169 million.

Air Force Regulation 177-120 requires that immediate corrective action be taken to resolve negative ULOs. We found, however, that negative ULOs were not promptly resolved. Our aging of negative ULOs at the Contract Payment Division (table 1) showed that 55 percent of the negative ULO amount was more than 6 months old.

**Table 1: Age of Negative ULOs at Contract Payment Division as of February 1990**

Dollars in millions		
Age	Amount	Percent
Less than 6 months	\$57	45
6 months to 2 years	19	15
Over 2 but less than 6 years	28	22
Over 6 years	22	18
<b>Total</b>	<b>\$126</b>	<b>100</b>

In addition, Air Force Systems Command managers were not routinely informed of the causes of negative ULOs for which they were responsible.

<sup>3</sup>See footnote 1.

Unless negative ULOs are researched and corrected, resulting overpayments will not be identified and collected, and accounting records will not accurately reflect availability of procurement funds.

Negative ULOs generally occur because of processing errors and overpayments. Processing errors usually occur when the wrong appropriation is cited when making and/or recording a payment, when information on contract modifications is not correctly processed or the modification is incorrectly prepared. An overpayment to a contractor can result because a contract modification reduces the price of items below the amount previously obligated and paid to the contractor under original contract terms. Overpayments can also arise from duplicate payments or paying an invoice without considering progress payments already made.

In July 1989, the Contract Payment Division formed special groups to audit contracts having negative ULOs. We requested that the Division provide us its results on determining the causes for \$126 million of negative ULOs in its accounting records as of February 1990. Specifically, the Division found and we confirmed that:

- Processing errors totaled \$30 million, resulting in obligation balances for the contracts and appropriations being inaccurately reported.
- Obligations were understated by \$23 million for almost 3 years because the Air Force did not reobligate funds after a contractor appealed and won a contract dispute.
- The Air Force had not completed its reconciliation to determine the causes for the remaining \$69 million of negative ULOs. One contract represented \$42 million of the negative ULOs. The Air Force has had to request supporting documentation from the contractor to identify the specific causes of the negative ULOs. As of March 1991, the Air Force had not completed the audit of that contract. Officials did not know how soon the causes of the remaining negative ULOs would be identified and resolved.
- Contract modifications that reduced the price of items below the amount already paid the contractor caused \$4 million in overpayments. As of February 1990, about \$3 million of the \$4 million had not been collected for over 10 months.

To determine whether the above causes were unique to the negative ULOs from the Contract Payment Division's February 1990 list, we also reviewed contract documentation supporting \$14 million of negative

ULO's from its August 1990 report and \$22 million that had been identified prior to February 1990. This test showed the same types of causes. Specifically, contract modifications which resulted in overpayments caused \$14 million of negative ULO's, and processing errors caused another \$12 million of negative ULO's.

## Overpayments Related to Negative ULOs Not Recorded as Receivables

The Air Force Systems Command was not recording identified overpayments as receivables in its accounting records. GAO's Policy and Procedures Manual for Guidance of Federal Agencies, Title 2, and Defense accounting policy require overpayments to be promptly recorded in accounting records as receivables due the government. Unless overpayments are promptly recorded as receivables, there is no assurance that prompt collection action is initiated or that reported receivable balances are accurate.

We reviewed the Contract Payment Division's accounting records for the 3-year period fiscal years 1988 through 1990 to determine if overpayments related to negative ULOs had been recorded as receivables. We found that \$34 million of overpayments had not been recorded in the accounting records.

Division officials said that Air Force policy is to initiate collection action through demand letters. These demand letters also are the supporting documentation for recording overpayments as receivables. Because demand letters had not been sent and, thus, no documentation initiated to trigger an accounting entry, \$34 million had not been recorded. Consequently, no formal accounting record of those debts existed, and the value of receivables reported in the Air Force's financial reports at that time was understated.

Contract Payment Division documentation on the research and resolution of these negative ULOs showed that the Air Force had collected \$31 million of the unrecorded overpayments during the intervening years. These amounts were collected without the contractors being sent formal demand letters through credit invoices, which are offsets against future billings, or through checks from contractors. This informal method of collection, although resulting in the recovery of the majority of the funds due the government, circumvents internal controls established to initiate prompt corrective action and account for disbursements. It further distorts the accuracy and reliability of the Air Force's financial records. Because required recording and collection policies were not adhered to, there is no assurance that the remaining \$3 million,

as well as any future overpayments, will be properly recorded and promptly collected.

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## Conclusions

Negative ULOs are red flags signaling a breakdown in internal controls. They can result from overpayments to contractors and can obscure the availability of funds. Until action is taken, negative ULOs will continue to tie up Air Force funds which could be used to satisfy other requirements or increase the risk that obligations could exceed amounts appropriated by the Congress.

Since the Air Force Systems Command and DFAS share accounting and control responsibility for negative ULOs, resolving the negative ULOs will require a joint effort by the two organizations. Initially, concentrating resolution efforts on overpayments to contractors would have the most immediate benefit to the government.

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## Recommendations

We recommend that the Secretary of Defense direct the Secretary of the Air Force and the Director of DFAS to

- establish and implement policies and procedures for identifying and reporting, at least quarterly, to Air Force Systems Command management the magnitude, age, and causes of negative ULOs;
- promptly resolve identified negative ULOs; and
- comply with existing accounting requirements for recording and collecting overpayments to contractors.

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## Agency Comments and Our Evaluation

The Department of Defense concurred with our recommendations and has provided information on its planned improvements. Specifically, in commenting on a draft of this report, Defense stated that it has established a Joint Contract Accounting and Finance Process Review Group. The Group plans to identify problems and develop solutions to improve the Defense Accounting and Finance Center's accounting and payment processes for Defense contracts. Its plans call for developing and implementing procedures for quantifying, aging, and reporting to management on the status of negative unliquidated obligations by July 1993.

We will send copies of this report to the Secretaries of Defense and the Air Force, the Director of DFAS, and other interested parties. We will also make copies available to others upon request.

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Please contact me at (202) 275-9454 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix II.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Jeffrey C. Steinhoff". The signature is written in a cursive style with a large, prominent initial "J".

Jeffrey C. Steinhoff  
Director, Civil Audits

# Comments From the Office of the Comptroller of the Department of Defense

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON, DC 20301-1100

JUL 26 1991

(Management Systems)

Jeffrey C. Steinhoff  
Director, Civil Audits  
U.S. General Accounting Office  
Washington, DC 20548

Dear Mr. Steinhoff:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) Draft Report, GAO/AFMD-91-42, "FINANCIAL MANAGEMENT: Air Force Systems Command Is Unaware of Magnitude of Negative Unliquidated Obligations," dated June 18, 1991 (GAO Code 903114) OSD Case 8736. The DoD concurs with the findings and recommendations in the report.

The Department agrees that the reported conditions reflect a systemic DoD problem related to payments being made for all DoD Components. Actions, to include the Corporate Information Management initiative, are being taken to cure the systemic problem.

The detailed DoD comments on the report findings and recommendations are provided in the enclosure. The Department appreciates the opportunity to comment on the draft report and the GAO efforts in helping to identify the problem of negative unliquidated obligations.

Sincerely,

  
Alvin Tucker  
Deputy Comptroller  
(Management Systems))

Enclosure

GAO DRAFT REPORT - DATED JUNE 18, 1991

(GAO CODE 903114) OSD CASE 8736

"FINANCIAL MANAGEMENT: AIR FORCE  
SYSTEMS COMMAND IS UNAWARE OF MAGNITUDE OF  
NEGATIVE UNLIQUIDATED OBLIGATIONS"

DEPARTMENT OF DEFENSE COMMENTS

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FINDINGS

- **FINDING A: Air Force Control Procedures.** The GAO observed the Air Force has control procedures intended to ensure that it does not obligate or spend more money than the Congress has appropriated. The GAO described the key features of those procedures as (1) obligations are incurred and recorded for one or more appropriation accounts when the Air Force enters into a contract, (2) obligations are reduced or "liquidated" as payments are made, and (3) an unliquidated obligation balance for an individual appropriation account or for a total contract indicates the amount obligated but not yet spent for that account or contract.

The GAO explained that the Defense Logistics Agency is responsible for making authorized payments and recovering money from contractors in the event of an overpayment. Accordingly, the Systems Command depends on Defense Logistics Agency to provide information on the financial status of contracts, including overpayments.

The GAO noted that the Air Force Systems Command product divisions and Defense Logistics Agency are jointly responsible for establishing controls over disbursements and overpayments. The GAO pointed out that those controls include ensuring that (1) amounts paid to contractors do not exceed amounts obligated for each contract, (2) payments are recorded against the correct appropriations cited in the contracts, (3) negative unliquidated obligations are identified and corrected, and (4) any overpayments identified as causing negative unliquidated obligations are properly recorded and collected. (pp. 3-5/GAO Draft Report)

**DoD RESPONSE:** Concur. The Defense Logistics Agency, Contract Payment Division, Kirkland Air Force Base, became a field activity of the Defense Finance and Accounting Service on May 12, 1991, and now reports directly to the Defense

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Comments From the Office of the  
Comptroller of the Department of Defense

Finance and Accounting Service, Columbus Center, Columbus, Ohio.

- **FINDING B: Systems Command Managers Unaware of Status of Negative Unliquidated Obligations.** The GAO found that Air Force Systems Command managers did not have information on the status of negative unliquidated obligations for which they were responsible and, therefore, were unable to determine the magnitude, age, and causes of negative unliquidated obligations and could not ensure that they were promptly corrected.

According to the GAO, negative unliquidated obligations indicate a breakdown in internal controls which, if uncorrected, can lead to violations of the Anti-Deficiency Act, 31 U.S.C. 1341. The GAO also noted that the problem can obscure the availability of funds for other uses. The GAO pointed out that to the extent that negative unliquidated obligations are caused by overpayments, they constitute interest-free loans to contractors which, if not promptly identified and collected, increase costs to the Government.

The GAO found that the product divisions did not have routine reports on the magnitude and age of negative unliquidated obligations in accounting records. The GAO determined that the Electronic Systems Division had \$341 million negative unliquidated obligations, of which \$24 million related to Air Force payments and \$317 million to payments by other Defense Logistics Agency.

The GAO observed that although the Contract Payment Division produced weekly reports on negative unliquidated obligations, the reports were not sent to Systems Command managers. The GAO reported that Division reports showed that negative unliquidated obligation balances between January and August 1990 ranged from \$126 million to \$169 million.

The GAO explained that Air Force Regulation 177-120 requires that immediate corrective action be taken to resolve negative unliquidated obligations. The GAO found, however, that negative unliquidated obligations were not promptly resolved. The GAO aging of negative unliquidated obligations at the Contract Payment Division showed that 55 percent of the negative unliquidated obligation amount was more than 6 months old.

The GAO further found that Air Force Systems Command managers were not routinely informed of the causes of

negative unliquidated obligations for which they were responsible. The GAO explained that unless negative unliquidated obligations are researched and corrected, resulting overpayments will not be identified and collected, and accounting records will not accurately reflect availability of procurement funds. (pp. 2-3, pp. 8-11/GAO Draft Report)

**DoD RESPONSE:** Concur. While the product divisions may not have received routine reports, accounting stations receive monthly reports showing complete unliquidated obligation status of contracts paid by the Defense Finance and Accounting Service. Those reports include any negative unliquidated obligations. Additionally, accounting stations and contracting offices have real time query capability to cumulative contract status on the payment office records. The query capability, however, does not report the age of negative unliquidated obligations.

Corrective actions generally are being initiated in a timely manner. Resolution cannot always be prompt, however, due to the complexity, age, and volume of transactions (e.g., contract payments and modifications). In many cases, resolution requires extensive reconciliation and audit to determine the exact transaction(s) that caused the negative unliquidated obligation. Transactions that ultimately cause negative unliquidated obligations are frequently not overpayments at the time they occur. Negative unliquidated obligations are, in many cases, created by definitizing contract modifications which, due to the contract structure and execution process, are issued months or years after payments have been made. As a result, extensive reconciliation and audit must be performed to identify the exact cause of each negative unliquidated obligation. Once overpayments have been identified, a detailed description of the applicable transactions must be made available to the debtor to justify and facilitate collection. However, it should be noted that recoupments were made within 30 calendar days of documentary evidence of erroneous payments.

- **FINDING C: Causes of Negative Unliquidated Obligations.** The GAO observed that the basic causes for negative unliquidated obligations are overpayments and processing errors. The GAO pointed out that an overpayment to a contractor can result because a contract modification reduces the price of items below the amount previously obligated and paid to the contractor under original contract terms. The GAO noted that overpayments can also arise from duplicate payments or paying an invoice without considering progress payments already made. Processing errors usually

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occur when the wrong appropriation is cited when making and/or recording a payment, or when information on contract modifications is not processed correctly.

The GAO requested the Defense Logistics Agency Contract Payment Division to provide information on the causes for \$126 million of negative unliquidated obligations in the accounting records as of February 1990. According to the GAO, the following status was provided:

- Contract modifications that reduced the price of items below the amount already paid the contractor caused \$4 million in overpayments. The GAO estimated that, as of February 1990, about \$3 million of the \$4 million had not been collected for over 10 months.
- Processing errors totaled \$30 million, resulting in obligation balances for the contracts and appropriations being inaccurately reported.
- Obligations were understated by \$23 million for almost 3 years because the Air Force did not reobligate funds after a contractor appealed and won a contract dispute.
- The causes for the remaining \$69 million of negative unliquidated obligations had not been determined. The GAO pointed out that one contract represented \$42 million of the negative unliquidated obligations. The GAO indicated that the Air Force has had to request supporting documentation from the contractor to identify the specific causes of the negative unliquidated obligations. According to the GAO, Air Force officials did not know how soon the causes of the remaining negative unliquidated obligations would be identified and resolved. (pp. 2-3, pp. 11-14/GAO Draft Report)

DoD RESPONSE: Partially concur. The Department agrees that a basic cause of negative unliquidated obligations are processing errors. However, the Department does not agree that a principal cause of negative unliquidated obligations can be attributed to overpayments made to contractors. Of the \$126 million of negative unliquidated obligations cited in this finding, only \$4 million (or 3 percent) were identified as being caused by overpayments. Of that amount, \$1 million had been collected and the remaining \$3 million has been outstanding over ten months due to reconciliation, dispute--and, now, litigation.

Now on pages 2 and 6.

See comment 1.

- **FINDING D: Overpayments Resulting From Negative Unliquidated obligations Not Recorded As Receivables.** The GAO found that the Air Force Systems Command was not recording identified overpayments as accounts receivable in its accounting records. The GAO pointed out that the GAO Policy and Procedures Manual for Guidance of Federal Agencies, Title 2, and Defense accounting policy both require overpayments to be promptly recorded in accounting records as receivables due the Government. The GAO noted that unless overpayments are promptly recorded as accounts receivable, there is no assurance that prompt collection action is initiated or that reported accounts receivable balances are accurate.

The GAO reviewed the Contract Payment Division accounting records for the 3-year period FY 1987 through FY 1989 to determine if overpayments related to negative unliquidated obligations had been recorded as accounts receivable. The GAO found \$34 million of overpayments had not been recorded as accounts receivable.

According to the GAO, Air Force officials said that Air Force policy is to initiate collection action through demand letters. Those officials stated that the demand letters also are the supporting documentation for recording overpayments as accounts receivable. The GAO concluded that since demand letters had not been sent and, thus, no documentation initiated to trigger an accounting entry, \$34 million had not been recorded, and no formal record of those debts or a basis for pursuing them existed, and the value of accounts receivable reported in the Air Force financial reports at that time was understated.

The GAO reported that documentation on the research and resolution of the negative unliquidated obligations showed that the Air Force had collected \$31 million during the intervening years. The GAO learned that the collection was done informally through credit invoices, which are offsets against future billings, or through check reimbursements from contractors. The GAO concluded that the informal method of collection circumvents internal controls established to initiate prompt corrective action and account for disbursements. The GAO further concluded that the accuracy and reliability of the Air Force financial record was also distorted because required recording and collection policies were not adhered to. The GAO noted that there was no assurance that the remaining \$3 million, as well as any future overpayments, will be properly recorded and promptly collected. (pp. 2-3, pp. 14-16/GAO Draft Report)

Now on pages 2 and 7.

**DoD RESPONSE:** Concur. The Department agrees that overpayments should be recorded promptly and accurately in the accounting records as receivables due the Government. However, the DoD requires that such overpayments be recorded as "refunds receivable" vice "accounts receivable." The reason for the distinction is that refunds are recoveries of erroneous or excess payments, which are to be credited to an appropriation or fund account, whereas accounts receivable arise as the result of goods or services provided on a reimbursable basis. It should be noted that where collection actions were not in dispute, recoupments were made within 30 calendar days of the date of contractor notification.

\* \* \* \* \*

#### RECOMMENDATIONS

- **RECOMMENDATION 1:** The GAO recommended that the Secretary of Defense direct the Secretary of the Air Force and the Director of the Defense Logistics Agency to establish and implement policies and procedures for identifying and reporting, at least quarterly, to Air Force Systems Command management the magnitude, age, and causes of negative unliquidated obligations. (pp. 16-17/GAO Draft Report)

**DoD RESPONSE:** Concur. Due to the May 12, 1991, reorganization, this and the following recommendations should be revised to substitute the Director, Defense Finance and Accounting Service for the Director, Defense Logistics Agency.

The Defense Finance and Accounting Service and the DoD Components (i.e., Army, Navy, Air Force, and Defense Logistics Agency) signed a Memorandum of Understanding on June 28, 1991, establishing a Joint Contract Accounting and Finance Process Review Group. That Group will identify problems and develop short to intermediate range (e.g., 12 to 36 months) solutions to improve the processes associated with accounting and paying DoD contracts paid by the Defense Finance and Accounting Service. One of the initial action items of the Group is to develop and implement procedures for quantifying, aging, and reporting to management the status of negative unliquidated obligations. The target for completion of the action item is July 1993. The Air Force Systems Command is participating in this continuing initiative.

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- **RECOMMENDATION 2:** The GAO recommended that the Secretary of Defense direct the Secretary of the Air Force and the Director of the Defense Logistics Agency to promptly resolve identified negative unliquidated obligations. (pp. 16-17/GAO Draft Report)

**DoD RESPONSE:** Concur. The Defense Finance and Accounting Service, Columbus Center (Kirkland Office) is taking prompt corrective action to resolve negative unliquidated obligations. In many cases, however, extensive reconciliation effort is required to determine the cause of the negative unliquidated obligation. Once the cause is determined, immediate action is initiated to eliminate the erroneous condition including, inter alia, immediate collection action in the event of erroneous payments. By September 30, 1991, The Defense Finance and Accounting Service will request that DoD Components emphasize the importance of prompt resolution of negative unliquidated obligations including, in the event of erroneous payments, initiating immediate collection action.

- **RECOMMENDATION 3:** The GAO recommended that the Secretary of Defense direct the Secretary of the Air Force and the Director of the Defense Logistics Agency to comply with existing accounting requirements for recording and collecting overpayments to contractors. (pp. 16-17/GAO Draft Report)

**DoD RESPONSE:** Concur. By September 30, 1991, the Defense Finance and Accounting Service will request that DoD Components emphasize the importance of complying with existing accounting requirements for recording and collecting overpayments to contractors.

Now on page 9.

Now on page 9.

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The following is GAO's comment on the Department of Defense Office of the Comptroller's letter dated July 26, 1991.

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**GAO Comment**

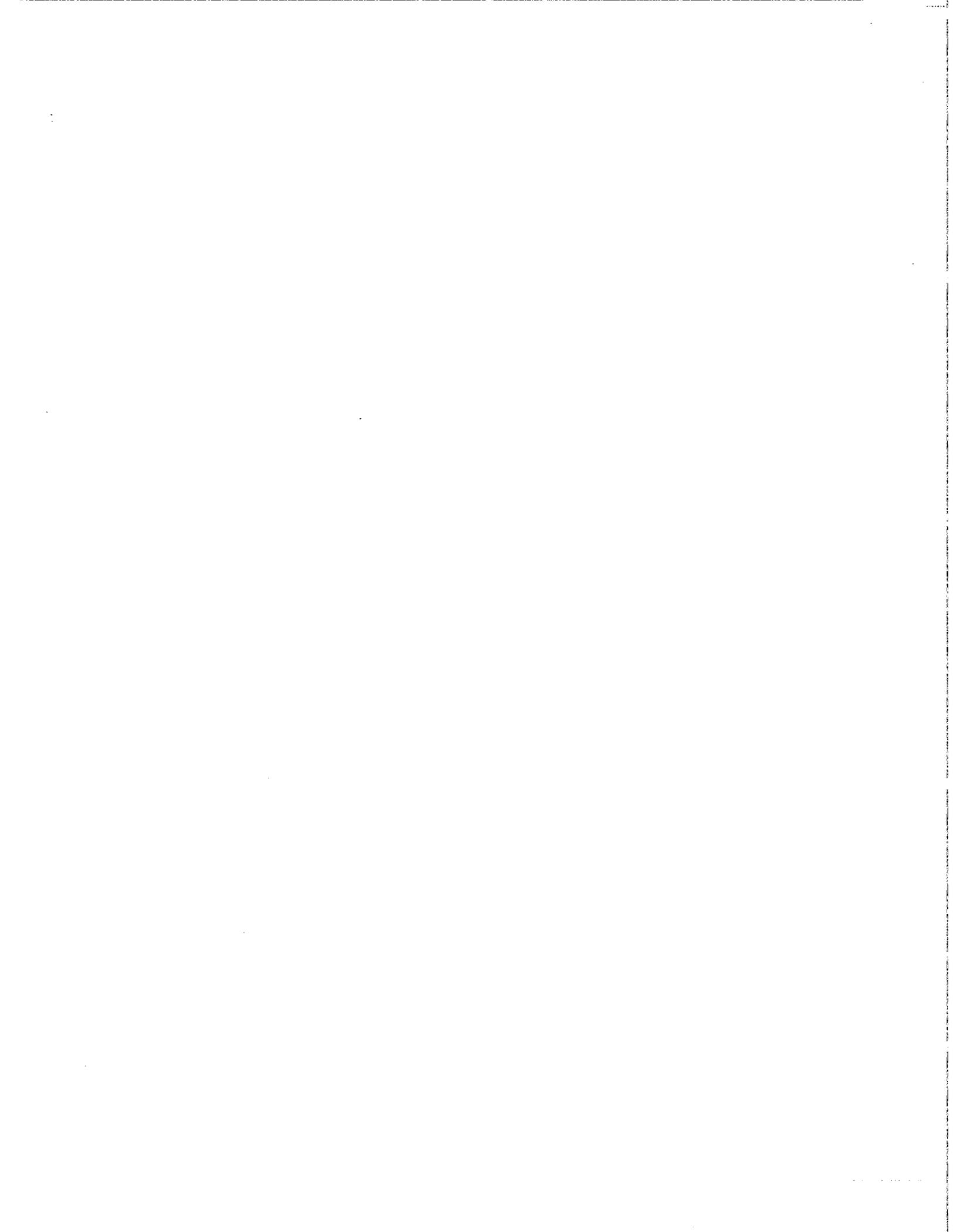
1. As our report points out, the Air Force had not completed the reconciliation to determine the causes for \$69 million of the \$126 million in negative ULOs. Some of these may also be subsequently identified as being caused by overpayments. In addition, we also point out that we examined the causes of an additional \$36 million in negative ULOs and found that \$14 million were caused by overpayments.

# Major Contributors to This Report

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