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REPORT TO THE CONGRESS

72-0507



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Savings Available By Transferring Army Inventory Accounting From Stock Funds To Industrial Funds At Installation Level

B-159797

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BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

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JULY 30, 1971



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-159797

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To the President of the Senate and the
Speaker of the House of Representatives

This is our report on savings available by transferring Army inventory accounting from stock funds to industrial funds at installation level.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Budget and Accounting Procedures Act of 1950 (31 U.S.C. 65).

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary of the Treasury; the Secretary of Defense; and the Secretary of the Army.

A handwritten signature in cursive script that reads "James B. Stacks".

Comptroller General
of the United States

D I G E S T

WHY THE REVIEW WAS MADE

Under the Budget and Accounting Procedures Act of 1950, the General Accounting Office (GAO) has the responsibility for reviewing the accounting systems of executive agencies. The act provides that emphasis be placed on simplified and effective accounting, financial reporting, and budgeting and auditing and on elimination of requirements and procedures which cause duplication and waste.

In prescribing accounting principles, standards, and related requirements for the guidance of executive agencies, the Comptroller General specified the need for simplicity in procedures. Simplicity requires that records which serve no significant purpose not be kept and that excessive details and unnecessary refinements in recordkeeping be avoided. GAO made this review to examine into whether it would be practicable to transfer inventory accounting from stock funds to industrial funds at the installation level.

FINDINGS AND CONCLUSIONS

At the Aberdeen Proving Ground, GAO found that the maintenance of an industrial fund accounting system and a stock fund accounting system had resulted in duplication of certain functions and records. (See p. 4.)

Separate accounting systems are being maintained at the direction of the Army Materiel Command. (See p. 3.) GAO believes that the Aberdeen industrial fund can be used as the principal accounting means to finance and account for inventories now controlled by the stock fund and to process related accounting transactions. If the stock fund accounting system were eliminated, savings derived would include:

- Annual personnel savings of almost \$100,000. (See p. 4.)
- Reduction in computer processing time of about 45 hours a month. (See p. 5.)
- Potential reduction in keypunch and verification effort. (See p. 5.)

Aberdeen officials, in concurring with the feasibility of GAO's proposal, stated that there would be no significant changeover costs or

major revisions to the industrial fund accounting procedures or to machine programs.

RECOMMENDATIONS OR SUGGESTIONS

Because of the potential savings to be derived, GAO recommends that the Secretary of Defense direct the Secretary of the Army to eliminate the stock fund accounting system at Aberdeen and to capitalize the inventories now owned by the stock fund and to control them under the industrial fund. (See p. 9.) 5,20

Because the industrial fund-stock fund arrangement being used at Aberdeen is typical of installation organization at many military installations, GAO recommends further that the Secretary of Defense identify those installations where similar actions are practicable and direct that they be accomplished. (See p. 9.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Department of Defense (DOD) agreed that the simplification of accounting systems and the elimination of duplication were desirable objectives; however, DOD believed that the financial procedure recommended by GAO was not in accordance with the provisions of 10 U.S.C. 2208 which authorized working capital funds. DOD believed also that the industrial fund was not created merely as an interim financing medium. DOD stated that its current policy recognized that the use of an industrial fund to finance inventories other than those required in the operation of industrial-commercial-type activities was contrary to provisions of 10 U.S.C. 2208. (See pp. 13 and 15.)

GAO believes that its recommendations are not contrary to the intent of 10 U.S.C. 2208 but are merely an extension of the current practice whereby the industrial fund finances and controls inventories needed for its own use. In GAO's opinion the management control features of the industrial fund concept would not be lost merely because the industrial fund financed the cost of inventories. Therefore, in the interest of economy and efficiency, DOD should reconsider its position and should implement the recommendations made in this report.

MATTERS FOR CONSIDERATION BY THE CONGRESS

In view of the potential for savings throughout the military departments and in view of DOD's statement that it does not intend to take any action to implement GAO's recommendations, the appropriate committees of the Congress may wish to discuss this matter with DOD officials.

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ABBREVIATIONS

| | |
|-----|---------------------------|
| DOD | Department of Defense |
| GAO | General Accounting Office |

D I G E S T

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In prescribing accounting principles, standards, and related requirements for the guidance of executive agencies, the Comptroller General specified the need for simplicity in procedures. Simplicity requires that records which serve no significant purpose not be kept and that excessive details and unnecessary refinements in recordkeeping be avoided. GAO made this review to examine into whether it would be practicable to transfer inventory accounting from stock funds to industrial funds at the installation level.

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Because the industrial fund-stock fund arrangement being used at Aberdeen is typical of installation organization at many military installations, GAO recommends further that the Secretary of Defense identify those installations where similar actions are practicable and direct that they be accomplished. (See p. 9.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Department of Defense (DOD) agreed that the simplification of accounting systems and the elimination of duplication were desirable objectives; however, DOD believed that the financial procedure recommended by GAO was not in accordance with the provisions of 10 U.S.C. 2208 which authorized working capital funds. DOD believed also that the industrial fund was not created merely as an interim financing medium. DOD stated that its current policy recognized that the use of an industrial fund to finance inventories other than those required in the operation of industrial-commercial-type activities was contrary to provisions of 10 U.S.C. 2208. (See pp. 13 and 15.)

GAO believes that its recommendations are not contrary to the intent of 10 U.S.C. 2208 but are merely an extension of the current practice whereby the industrial fund finances and controls inventories needed for its own use. In GAO's opinion the management control features of the industrial fund concept would not be lost merely because the industrial fund financed the cost of inventories. Therefore, in the interest of economy and efficiency, DOD should reconsider its position and should implement the recommendations made in this report.

MATTERS FOR CONSIDERATION BY THE CONGRESS

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CHAPTER 1

INTRODUCTION

The Aberdeen Proving Ground is one of the test activities under the jurisdiction of the U.S. Army Test and Evaluation Command, which is subordinate to the Army Materiel Command. The main mission of Aberdeen is to support Army research and development programs through test and evaluation of weapons, ammunition, tanks, combat vehicles, and motorized transport. In addition, Aberdeen provides accounting, administrative, and logistical support to eight tenant activities. A tenant activity is an operating unit which is located on an installation with a host operating unit and which is attached to the host unit for administrative and/or logistical support.

Aberdeen's test work and base-support costs are financed through an industrial fund which was established in 1957. An industrial fund is a working capital fund designed so that industrial- and commercial-type activities of the Department of Defense may be operated and managed like similar activities in private industry. At the time this industrial fund was established, it was responsible for financing all activities then constituting the Aberdeen Proving Ground command. This included the financing of all inventories required by organizations located at Aberdeen.

The Army stock fund, which was established at Aberdeen as of July 1, 1964, took over the supply function previously handled by the industrial fund. A stock fund is a working capital fund established to finance inventories of consumable materiel. The stock fund capitalized the inventories previously financed under the Aberdeen industrial fund. The current Aberdeen stock fund inventory, valued at about \$3.5 million, comprises 15 commodity classes which are sold to all organizations at Aberdeen.

Our review covered the accounting systems for the host installation industrial fund, its eight tenants, and the stock fund. We reviewed the accounting procedures set forth in Test and Evaluation Command accounting manuals and in appropriate Army regulations to examine into whether it would be practicable to transfer inventory accounting from stock funds to industrial funds at installation level.

CHAPTER 2.

OPPORTUNITIES FOR SAVINGS BY ELIMINATING

THE STOCK FUND ACCOUNTING SYSTEM

Maintenance of separate accounting systems for the Aberdeen industrial fund and stock fund results in duplication of certain functions and records. Elimination of the stock fund accounting system by using the Aberdeen industrial fund to finance and control all inventories and to process related accounting transactions would simplify accounting procedures, save almost \$100,000 a year in personnel costs, and reduce computer processing time.

The stock fund accounting system maintained by Aberdeen requires its own set of accounts, records, financial and budget reports, and computer programs and codes to process stock fund transactions. When a stock fund is not in use at an industrially funded activity, Army procedures provide for the accounting of supplies under the industrial fund. Aberdeen officials informed us that it would be practicable to implement these procedures and that there would be no loss of control over inventories. They stated that there would be no significant changeover costs or major revisions to the industrial fund accounting procedures or to machine programs.

Financing of inventories would be assumed by the industrial fund, and adequate controls over such inventories would be maintained as prescribed by industrial fund accounting procedures. We were informed that control over inventories had been satisfactory in the past when this had been the responsibility of the industrial fund at Aberdeen.

Reports issued by the industrial fund would be prepared in a manner that would distinguish between inventory required by the industrial fund and inventory required by each tenant. Appropriate action would be taken to preclude distortion of the inventory account and to enable management to use industrial fund statements in the same manner it does currently.

SAVINGS TO BE REALIZED

Assumption of the stock fund operations by the industrial fund would eliminate the entire stock fund accounting and reporting system. Although some personnel now used to process stock fund transactions would be needed to process similar transactions under the industrial fund, there would be a net reduction of nine positions. The need for a stock fund manager, a budget analyst, six accounting technicians, and the equivalent of an automatic data processing man would be eliminated. The combined salaries and fringe benefits of this group is almost \$100,000 a year.

In addition to the savings discussed above, Aberdeen officials estimate that about 45 hours of computer processing time could be saved each month by eliminating the stock fund and that a proportionate reduction in input data would result in less keypunching and verification work.

CHAPTER 3

AGENCY COMMENTS AND OUR EVALUATION

We brought our finding to the attention of the Secretary of Defense and proposed that appropriate action be taken to eliminate the stock fund accounting system at Aberdeen. We also suggested that he identify other military installations where similar action could be taken.

The Assistant Secretary of Defense (Comptroller), in commenting on our finding in a letter dated October 20, 1970 (see app. I), concurred that the simplification of accounting systems and the elimination of duplication were desirable objectives. The Assistant Secretary advised us, however, that he believed that the financing procedures recommended in our draft report were not in accordance with the provisions of 10 U.S.C. 2208 which authorized working capital funds. He cited the following provisions of 10 U.S.C. 2208 as the basis for his conclusion.

"(a) To control and account more effectively for the cost of programs and work performed in the Department of Defense, the Secretary of Defense may require the establishment of working capital funds in the Department of Defense to -

(1) finance inventories of such supplies as he may designate; and

(2) provide working capital for such industrial-type activities and commercial-type activities that provide common services within or among departments and agencies of the Department of Defense, as he may designate."

* * * * *

"(c) Working capital funds shall be charged, when appropriate, with the cost of -

(1) supplies that are procured or otherwise acquired, manufactured, repaired, issued, or used; and

(2) services or work performed, including applicable administrative expenses, and be reimbursed from available appropriations or otherwise credited for those costs, including applicable administrative expenses and costs of using equipment."

* * * * *

"(h) The Secretary of Defense shall prescribe regulations governing the operation of activities and use of inventories authorized by this section ***."

The Assistant Secretary apparently construes 10 U.S.C. 2208 as requiring the establishment of separate working capital funds to (1) finance inventories of supplies and (2) provide working capital for industrial-type activities and commercial-type activities. It is our view, however, that neither the language nor the legislative history of the law requires such an interpretation.

House Report 1064, Eighty-first Congress, which accompanied the bill that subsequently was enacted as the National Security Act Amendments of 1949 and which provided for the establishment of working capital funds, describes the purpose for which working capital funds are needed and indicates that separate funds could be established for different purposes. There is no indication, however, of any intent to preclude the use of a single working capital fund to accomplish more than one purpose when warranted by the circumstances. In fact, the report states that the intent behind establishing working capital funds is to provide for businesslike operations and for financing of inventories in a manner which will permit the most economical and efficient means of operation.

Under 10 U.S.C. 2208, the Secretary of Defense was authorized to "*** prescribe regulations governing the operation of activities and use of inventories ***." In commenting on this power of designation which was to be granted to the Secretary, House Report 1064 stated that, "*** [it] is intended to permit the most economical and efficient grouping of inventory items and activities ***."

Secretaries of Defense have exercised the discretionary authority granted to them by the law. For example, only certain types of items and certain types of industrial or commercial activities have been financed by working capital funds. As part of the exercise of such authority, regulations have been prescribed governing industrial fund operations that permit working capital funds established for such operations to finance inventories of materials and supplies that are peculiar to and used in such operations. We believe that our proposal to include in the Aberdeen industrial fund the inventories now owned by the Army stock fund at Aberdeen is merely a continuation of this authority and is not precluded by the provisions of 10 U.S.C. 2208.

In our opinion the management control features of the industrial fund concept would not be lost merely because the industrial fund financed the cost of inventories. At Aberdeen we were informed that no lessening of management control had resulted from financing of inventories by the Aberdeen Proving Ground Industrial Fund during the period 1957 to 1964. Appropriate coding of transactions in industrial fund records to identify tenant and major activities should result in information for management use that would not be significantly different from the information now available.

CHAPTER 4

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

We believe that the industrial fund accounting and reporting system provides adequate controls over funds, assets, liabilities, and revenues and expenses and contributes to efficient and effective management and use of funds. In the past the Aberdeen industrial fund has been used to finance and control inventories, and it possesses the capabilities to perform such functions currently. We believe that such use is not contrary to the intent of existing legislation. In our opinion it would simplify accounting procedures without reducing the quality of financial management data produced and would result in significant personnel and other savings. Aberdeen officials have concurred in its practicability.

RECOMMENDATIONS

We recommend that the Secretary of Defense reconsider his position and direct the Secretary of the Army to eliminate the stock fund accounting system at Aberdeen. We recommend also that, to accomplish this, inventories now owned by the Army stock fund be capitalized and controlled by the Aberdeen industrial fund. The cost of operating the supply activity should continue to be financed under the operation and maintenance appropriation. The principles, standards, and general design of the revised Aberdeen industrial fund accounting system should be submitted to GAO for evaluation and approval at an appropriate time.

Since it is probable that separate industrial fund and stock fund accounting systems exist at other military installations, we recommend further that the Secretary of Defense determine the installations at which it is practicable for industrial funds to finance and control inventories and take action to eliminate unneeded stock fund accounting systems.

APPENDIXES

10 & 11



COMPTROLLER

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

20 OCT 1970

Mr. G. M. Bailey
Director, Defense Division
U.S. General Accounting Office

Dear Mr. Bailey:

We have reviewed your draft report of August 4, 1970, on the benefits available by eliminating multiple accounting systems at the Aberdeen Proving Ground, Maryland (OSD Case #3155). We concur with the objectives stated in the draft report; however, we do not concur with the recommendations for reasons discussed below.

We believe that the financing procedures recommended in the draft report are not in accordance with the provisions of 10 U.S.C. 2208 which authorizes working capital funds. Pertinent provisions of 10 U.S.C. 2208 are:

- "(a) To control and account more effectively for the cost of programs and work performed in the Department of Defense, the Secretary of Defense may require the establishment of working capital funds in the Department of Defense to -
- (1) finance inventories of such supplies as he may designate; and
 - (2) provide working capital for such industrial-type activities and commercial-type activities that provide common services within or among departments and agencies of the Department of Defense, as he may designate."
- "(c) Working-capital funds shall be charged, when appropriate, with the cost of
- (1) Supplies that are procured or otherwise acquired, manufactured, repaired, issued, or used; and
 - (2) services or work performed, including applicable administrative expenses, and be reimbursed from available appropriations or otherwise credited for those costs, including applicable administrative expenses and costs of using equipment.

APPENDIX I

"(h) The Secretary of Defense shall prescribe regulations governing the operation of activities and use of inventories authorized by this section"

To implement the above the Secretary of Defense established industrial funds to provide working capital for industrial-type and commercial-type activities and stock funds to finance inventories.

[See GAO note, p. 16.]

[See GAO note, p. 16.]

With regard to the financing of inventories, industrial fund activities are permitted to finance inventories to be used in the performance of orders received by them. However, as stated above, the stock fund was established as the primary means of financing materials and supplies. The stock fund is also more than merely a financing device for inventories. It is intended as a means of assisting inventory managers in management of their inventories. It also makes it possible to charge using appropriations with the cost of supplies and materials as they are consumed. Current policy of the DoD recognizes that use of an industrial fund to finance inventories other than those required in the operation of the industrial-commercial type activities is contrary to provisions of 10 U.S.C. 2208. When an industrial fund activity has responsibility for supply support for other activities, it must also maintain stock fund inventories as required for such support. In these instances the policy is to eliminate any duplication of items in these inventories. If a stock fund item is required for the supply support of other activities, all quantities of that item should be carried in the stock fund. The industrial fund will purchase the item from the stock fund at the time of withdrawal for its use.

Aberdeen Proving Ground is the host activity for several tenant activities whose requirements for stock funded items are substantially in excess of, as well as different from, those of the industrial fund activity. [See GAO note, p. 16.]

We support your stated objective of simplifying accounting systems and eliminating duplications. However, we feel that one of the primary

APPENDIX I

purposes of accounting and reporting is to serve management. We cannot concur in actions which would have an adverse effect on management concepts and systems solely for the purpose of simplifying the accounting system and which, in addition, are contrary to the provisions of 10 U.S.C. 2208.

Sincerely,

Handwritten signature of Robert C. Moot in black ink.

Robert C. Moot
Assistant Secretary of Defense

GAO note: The deleted comments relate to matters which were included in our draft report but omitted from this final report.

PRINCIPAL OFFICIALS
OF THE DEPARTMENT OF DEFENSE
AND THE DEPARTMENT OF THE ARMY
RESPONSIBLE FOR THE ADMINISTRATION OF
ACTIVITIES DISCUSSED IN THIS REPORT

| | Tenure of office | |
|---|------------------|-----------|
| | From | To |
| <u>DEPARTMENT OF DEFENSE</u> | | |
| SECRETARY OF DEFENSE: | | |
| Melvin R. Laird | Jan. 1969 | Present |
| Clark M. Clifford | Mar. 1968 | Jan. 1969 |
| DEPUTY SECRETARY OF DEFENSE: | | |
| David Packard | Jan. 1969 | Present |
| Paul H. Nitze | July 1967 | Jan. 1969 |
| ASSISTANT SECRETARY OF DEFENSE (COMPTROLLER): | | |
| Robert C. Moot | Aug. 1968 | Present |
| <u>DEPARTMENT OF THE ARMY</u> | | |
| SECRETARY OF THE ARMY: | | |
| Stanley R. Resor | July 1965 | Present |
| ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT): | | |
| Eugene M. Becker | July 1967 | Present |
| ASSISTANT SECRETARY OF THE ARMY (INSTALLATIONS AND LOGISTICS): | | |
| J. Ronald Fox | June 1969 | Present |
| Vincent P. Huggard (acting) | Mar. 1969 | June 1969 |
| Robert A. Brooks | Oct. 1965 | Feb. 1969 |

Tenure of officeFromToDEPARTMENT OF THE ARMY (continued)

COMPTROLLER OF THE ARMY:

| | | |
|------------------------------|------------|-----------|
| Lt. Gen. John M. Wright, Jr. | Sept. 1970 | Present |
| Lt. Gen. F. J. Sackton | Aug. 1967 | Aug. 1970 |

CHIEF OF STAFF, UNITED STATES

ARMY:

| | | |
|-------------------------|-----------|-----------|
| Gen. W. C. Westmoreland | July 1968 | Present |
| Gen. Harold K. Johnson | July 1964 | July 1968 |

COMMANDING GENERAL, UNITED STATES

ARMY MATERIEL COMMAND:

| | | |
|---------------------------|-----------|-----------|
| Gen. H. A. Miley | Nov. 1970 | Present |
| Gen. F. J. Chesarek | Mar. 1969 | Oct. 1970 |
| Gen. Frank S. Besson, Jr. | July 1962 | Mar. 1969 |