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REPORT TO THE COMMITTEE
ON ARMED SERVICES
UNITED STATES SENATE



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Need For Improved Financial
Management In Use Of Project Orders
By The Department Of The Army B-171049

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

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OCT. 24. 1972



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

B-171049

R Dear Mr. Chairman:

1 In your letter of October 7, 1970, you asked us to review certain
intradepartmental financial transactions of the Department of Defense.
Your concern was directed primarily to the use of project orders to
incur obligations against appropriations which are subject to authoriz-
ing legislation. Specifically, you (1) questioned the legality of obliga-
tions generated by project orders involving intraservice transactions
and (2) expressed concern that unliquidated obligations generated by
project orders freeze funds that otherwise would be available for other
requirements.

2 As agreed with your office, we initially limited our review to the
Department of the Navy, and a report was issued to your Committee on
April 23, 1971. At subsequent meetings it was requested that we re-
view the administration of project orders in the Department of the Army,
and the results are set forth in this report.

As requested by your office, we obtained formal comments from
the Department of Defense on our findings and recommendations. These
are included in the report, as appropriate, and a copy is attached as ap-
pendix II.

As agreed with your office, copies of this report are being sent
to the Secretary of Defense and to the Secretaries of the Army, Navy,
and Air Force. We plan to make no further distribution of this report
unless copies are specifically requested, and then only after your agree-
ment has been obtained or you have publicly announced its contents.

Sincerely yours,

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

Comptroller General
of the United States

The Honorable John C. Stennis
Chairman, Committee on Armed Services
61 United States Senate

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ABBREVIATIONS

DOD Department of Defense
GAO General Accounting Office
GOGO Government-owned and Government-operated
RDT&E research, development, test and evaluation

COMPTROLLER GENERAL'S REPORT TO
THE COMMITTEE ON ARMED SERVICES
UNITED STATES SENATE

NEED FOR IMPROVED FINANCIAL
MANAGEMENT IN USE OF PROJECT
ORDERS BY THE DEPARTMENT OF
THE ARMY B-171049

D I G E S T

WHY THE REVIEW WAS MADE

The Chairman of the Senate Committee on Armed Services asked the General Accounting Office (GAO) in October 1970 to review the Department of Defense (DOD) practice of obligating funds to finance project orders.

The review was initially limited to the Department of the Navy, and a report on that review was issued to the Committee on April 23, 1971. Subsequently, GAO was asked to review administration of project orders in the Department of the Army.

Project orders are considered analogous to commercial contracts; however, both parties are Federal Government activities. When the order is accepted by the *performing activity*, an obligation is established against the appropriation of the *sponsoring activity* as if a contract had been made with a commercial firm. Army activities have used project orders for many years. (See p. 3.)

The Committee Chairman expressed concern that unliquidated obligations generated by project orders freeze funds that otherwise would be available for other requirements.

FINDINGS AND CONCLUSIONS

GAO selected a statistical sample from a total of \$60 million in unbilled customer orders at three Army

performing activities. A projection of the findings in this sample indicated that about \$3.6 million of the \$60 million was not needed for the work prescribed and about \$6.6 million remained obligated for long periods before it was needed. (See p. 6.)

Conditions causing excess funds to be held by performing activities were:

- Work required by project orders was reduced in scope without a corresponding reduction in authorized funds. (See p. 9.)
- Cost of work was less than estimated, but resulting excess funds were not reported by performing activities for recoupment. (See p. 9.)
- Funds were authorized in excess of estimated cost of the work. (See p. 10.)
- Project orders were terminated, but resulting excess funds were not reported for recoupment. (See p. 11.)
- Excess funds, although reported for recoupment, were not recouped. (See p. 11.)
- Excess funds were not promptly reported for recoupment. (See p. 12.)

GAO found that funds obligated

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before they were needed were obligated for:

- Testing services long before the tests were to be made. (See p. 14.)
- Efforts dependent upon prior actions which were not completed within a reasonable period. (See p. 16.)
- Work requiring outside contracting long before the contract was awarded. (See p. 16.)

GAO also noted the following matters, not included in the items sampled. In one case, an obligation was of questionable validity because the project order lacked specificity. (See p. 17.) Also, a performing activity accepted orders when it was known that work could not begin within a reasonable time. (See p. 18.)

Furthermore, GAO noted that one activity did not review potential excess funds totaling about \$7.3 million. (See p. 20.)

GAO found orders which would be considered project orders under current DOD instructions but which had not been identified as such on ordering or acceptance documents. GAO believes that all orders which are to be treated as project orders should be clearly identified to promote compliance with the appropriate legal requirements. (See p. 22.)

RECOMMENDATIONS OR SUGGESTIONS

To improve financial management in the use of project orders by the Army, GAO proposed that the Secretary of the Army require stricter adherence to instructions and control procedures for project orders

and direct sponsoring and performing activities to emphasize that unneeded funds be promptly identified and recouped. In addition, GAO proposed to the Secretary of Defense that DOD instructions be revised to insure that all orders, where appropriate, be identified as project orders.

AGENCY ACTIONS AND UNRESOLVED ISSUES

DOD has agreed with GAO's findings and conclusions and has taken actions to comply with GAO's proposals. The Assistant Secretary of Defense (Comptroller) reported that:

- DOD instructions would be revised to require citation of legal authority on the ordering documents for all orders which are to be treated as project orders.
- The Army Materiel Command had implemented a program to review reimbursable orders within the Command during fiscal year 1973.
- Appropriate corrective action would be taken to preclude premature acceptance of project orders.

GAO believes that controls prescribed by the Army, if fully implemented, will effectively insure that unneeded funds are identified and promptly brought to the attention of appropriate officials. (See p. 23.)

MATTERS FOR CONSIDERATION BY THE COMMITTEE

The Committee may wish to follow up the results of the Army's Accounting Surveillance Program which is being undertaken during fiscal year 1973 to improve the management of, and controls over, the use of project orders.

BEST DOCUMENT AVAILABLE

CHAPTER 1

INTRODUCTION

The Chairman of the Senate Committee on Armed Services asked the General Accounting Office in October 1970 to review the Department of Defense (DOD) practice of obligating funds to finance project orders. The Chairman expressed concern that unliquidated obligations generated by project orders freeze funds that otherwise would be available for other requirements.

The review initially was limited to the Department of the Navy and a report (B-171049) was issued to the Committee on April 23, 1971. At subsequent meetings we were requested to review the administration of project orders in the Department of the Army.

DEFINITION AND PURPOSE OF PROJECT ORDERS

A DOD directive defines a project order as a specific, definite, and certain order for goods or services placed and accepted by separately managed and financed Government establishments. Project orders are issued for, among other things, the production, alteration, or maintenance of ships, aircraft, vehicles, missiles, other weapons, and military and operating supplies and equipment. Project orders are issued also for research, development, test, and evaluation (RDT&E). The statute covering project orders, including related legislative history and administrative decisions, clearly indicates that project orders are analogous to commercial contracts.

The Government activity issuing the project order is designated as the *sponsoring activity*, and the activity accepting and carrying out the project order is designated as the *performing activity*. When a project order is accepted by the performing activity, an obligation is established against the appropriation of the sponsoring activity as if an order or contract had been placed with a commercial establishment.

Various activities within the Army have used project orders for many years. Authority for the use of project

orders is contained in the act of July 1, 1922 (41 U.S.C. 23), pertaining to intra-agency project orders, which states:

"All orders or contracts for work or material or for the manufacture of material pertaining to approved projects heretofore or hereafter placed with Government-owned establishments shall be considered as obligations in the same manner as provided for similar orders or contracts placed with commercial manufacturers or private contractors, and the appropriations shall remain available for the payment of the obligations so created as in the case of contracts or orders with commercial manufacturers or private contractors. (June 5, 1920, ch. 240, 41 Stat. 975; July 1, 1922, ch. 259, 42 Stat. 812; June 2, 1937, ch. 293, 50 Stat. 245.)"

The intent of this section of the act was to promote the efficient conduct of Government work by placing Government establishments on the same basis as commercial establishments in relation to the availability of appropriations for expenditure.

DOD Instruction 7220.1, dated May 4, 1971, indicates that any order which meets the requirement of a project order shall be considered a project order. Orders that were not designated as project orders were included in our review because they had the characteristics of project orders. However, whether these orders qualify as project orders is immaterial until the appropriation obligated expires for obligation purposes.

ARMY'S EXTENSIVE USE OF PROJECT ORDERS

Within the Department of the Army, 32 industrial fund activities were financed primarily by project orders during fiscal year 1971. At June 30, 1971, the unbilled balances of orders at these 32 activities amounted to about \$555 million with about \$60 million of this amount at the three performing activities included in our review.

Prior to the DOD Appropriation Act of 1971, the appropriations included in our review were "no-year"

appropriations except that for operations and maintenance, which was an annual appropriation. The DOD Appropriation Act of 1972 places the following time limits on the availability of these appropriations.

	<u>Limit</u>
Army procurement appropriations	3 years
Army stock fund	"no year"
RDT&E	2 years

The Senate Committee on Armed Services, in its report authorizing appropriations for fiscal year 1972, prescribed principles for incremental programing of RDT&E. Generally, the Committee indicated that tasks to be performed in-house would be programed in increments to be accomplished within 12 months.

CHAPTER 2

NEED FOR MORE TIMELY RECOUPMENT OF EXCESS FUNDS

The failure to promptly deobligate excess funds and the premature obligation of funds result in (1) recording inflated amounts of obligated funds on the Government's books, (2) freezing funds which would otherwise be available to support other important requirements, and (3) distorting the true status of programs presented for review at higher levels.

To enable sponsoring activities to recoup obligated excess funds promptly effective controls are necessary to insure that excesses are identified and brought to the attention of appropriate officials. The Army requires quarterly reviews of obligated funds by sponsoring activities and reports of excess funds by performing activities to sponsors. We believe that these controls, if followed, would identify excess funds. When the controls have been used, significant amounts of unneeded funds have been identified and recouped. However, in some instances, these procedures and controls have not been fully implemented or, if implemented, have not been followed.

Based on our statistical sample of the \$60 million in unbilled customer order balances as of June 30, 1971, at three performing activities, we estimate that about \$3.6 million was in excess of the amount required to do the work prescribed and that about \$6.6 million was for work that was not started within a reasonable length of time.

We identified the following conditions that led to excess funds remaining with performing activities.

- Performing activities did not always report, or report promptly, excess funds to sponsoring activities.
- Work was reduced in scope without a corresponding reduction in fund authority.
- Funds authorized were in excess of estimated cost to complete the work.

--Excess funds reported by performing activities were not recouped by sponsoring activities.

Funds remained obligated for long periods before they were needed. We found that these funds were obligated for:

--Testing services long before the tests were to be made.

--Efforts dependent upon some prior actions, which were not completed within a reasonable time.

--Work requiring outside contracting long before the contract was awarded.

We also noted situations which did not show up during our review of sampled items. The dollar amounts should not be added to our projections of \$3.6 and \$6.6 million referred to on page 6 because they were included as part of the universe of our sample. The items were:

--The questionable validity of an obligation for \$600,000 as originally recorded because the project order lacked specificity.

--The acceptance by a performing activity of orders valued at \$664,000 knowing that the work could not begin within a reasonable period of time.

These matters are discussed in more detail in the following sections.

EXCESS PROJECT ORDER FUNDS

As stated on page 6, we believe the Army's controls are adequate and, if followed, should provide an effective means of identifying excess funds. However, we found that these controls frequently were not used and that sponsoring activities were not recouping excess funds from performing activities in all cases.

Our review of project orders selected through statistical sampling techniques revealed that about \$1.9 million was not needed to complete projects at the Aberdeen Research

and Development Center and Aberdeen Proving Ground in Aberdeen, Maryland, and Tobyhanna Army Depot in Tobyhanna, Pennsylvania. On the basis of our sample, the projected amount of unneeded funds was about \$3.5 million at these activities.

The apparent conditions which led to excess funds remaining with performing activities and the associated dollar balances follow.

<u>Condition</u>	<u>Amount</u>
Work required by project orders was reduced in scope but unneeded funds remained at performing activities.	\$232,400
Cost for work required by project orders was less than the estimated cost, but performing activities did not properly review and report resulting excess funds to sponsoring activities.	206,600
Sponsors authorized funds in excess of estimated cost submitted by performing activities to complete work generated by project orders.	80,500
Project orders were terminated, but performing activities did not report resulting excess funds to sponsoring activities.	22,400
Excess balances were reported by performing activities but were not recouped by sponsoring activities.	808,100
Performing activities were aware of excess balances, but the balances were not promptly reported to sponsoring activities.	571,500

Detailed examples of the above conditions follow.

Reduction in scope of work with no
corresponding reduction in authorized funds

A number of cases were noted where the scope of work to be performed under a project order was reduced without a corresponding decrease in funds authorized.

For example, as of June 30, 1970, \$400,000 of procurement funds were authorized under a project order issued by the Army Weapons Command to Aberdeen Proving Ground for armament subsystems tests. On May 24, 1971, the Proving Ground was notified that the scope of the work had been significantly reduced, but it was not until July 1971 that the funds authorized by the Command were decreased to \$200,000 for the remaining work.

Subsequently, the Proving Ground estimated the cost of the reduced scope of work to be \$135,000. In September 1971 the Proving Ground was notified that the cost of the work should not exceed \$127,820 without prior approval from the Weapons Command. Funding remained, however, at \$200,000. Because the customer placed a limit on the project's cost that approximated the Proving Ground's estimate for the reduced scope of work, about \$72,000 was not needed for this project order and should have been recouped by the Command.

We were advised by the Assistant Secretary of Defense (Comptroller) on August 14, 1972, that the tests were still in process and that aggressive followup action would be taken to recoup unneeded amounts.

Costs to perform work was less than estimated
but performing activities did not properly
review and report the excess

In a number of cases, the cost to perform work was less than estimated, but the performing activities did not properly review the project orders for the purpose of identifying and reporting the excess funds as available for return to the sponsors.

For example, procurement funds of \$282,248 were authorized to the Aberdeen Proving Ground on a project order for testing a propellant charge. At June 30, 1971, however,

\$109,516 had not been expended, and more than \$99,000 of this amount was not estimated to be needed to complete the order.

On December 26, 1971, all work was completed on this project order and \$91,584 was available for return to the sponsor. If the Proving Ground had properly reviewed this order the funds could have been returned to the sponsoring activity at least 6 months sooner. DOD advised us on August 14, 1972, that this project order had been closed and the funds had been recouped.

Sponsors authorized funds in excess
of estimated cost to complete work

In two cases funds totaling \$80,545 were authorized by sponsors in excess of the estimated cost to complete the work. For example, on October 27, 1969, the Aberdeen Proving Ground accepted a \$3,000 project order from the Mobility Equipment Command to prepare a test plan for the initial production testing of a cargo container. After completing the test plan, the Proving Ground on November 5, 1969, submitted a cost estimate of \$196,000 for initial production and comparison testing. On July 28, 1970, the Mobility Equipment Command authorized funds of \$274,000 instead of the \$196,000 estimated by the Proving Ground.

As of November 22, 1971, the Proving Ground estimate for the testing was \$197,000, or \$77,000 less than authorized. Proving Ground officials confirmed that the \$77,000 would not be required.

Mobility Equipment Command officials informed us that they had authorized funds in excess of the Proving Ground's estimate because the Command had contemplated additional testing; however, the additional testing was not authorized in the scope of the project order issued by the Command. Officials told us that, as of April 1972, the additional testing had not been performed and probably would not be performed, but stated that this order would be reviewed and the unnecessary funds withdrawn. As of August 14, 1972, the work was still underway and DOD stated that aggressive followup action would be taken to recoup unneeded funds.

Order terminated but funds not recouped

We found two cases totaling \$22,433 in which orders had been terminated but funds had not been recouped. The Aberdeen Research and Development Center issued two project orders to its industrial fund for test and support work for the Joint Munitions Effectiveness Manual. In June and July 1968, the industrial fund issued two orders totaling \$14,500 to the Naval Ordnance Systems Command for part of the work. The Systems Command, in turn, issued an order in July 1969 to the Defense Contract Administration Services, requesting them to contract with an outside contractor for reliability and maintainability studies on the MK 68 system. The contract was awarded in August 1969 for \$14,500.

Work under this contract was never completed. In February 1970 the Research and Development Center informed the Systems Command that the two orders had expired and that the \$14,500 had not been used. The Systems Command sent a notice to the Contract Administration Service on June 8, 1971, to cancel the contract. Final payment was made to the contractor 6 days later. In November 1971 a contract completion statement was issued to the Systems Command which showed that \$12,998 of the \$14,500 was excess funds on the order and these funds had not been recouped in January 1972. DOD recently advised us that the project order was closed and the funds were recouped.

Excess funds not withdrawn after notification of availability

As of June 30, 1971, the Aberdeen Proving Ground and the Aberdeen Research and Development Center had identified and reported, to 19 sponsoring activities, excess funds of about \$800,000 on 87 project orders. Over half this amount had been excess from 3 months to over 2 years. The following summary shows the number of orders, amount of excess funds, and length of time the funds remained excess.

Length of time funds in excess	Proving Ground		Research and Development Center		Total	
	Amount (000 omitted)	Number	Amount (000 omitted)	Number	Amount (000 omitted)	Number
1 to 30 days	\$269	29	\$ 2	1	\$271	30
31 to 90 days	108	9	1	1	109	10
91 to 365 days (1 year)	159	10	9	3	168	13
1 to 2 years	192	18	-	-	192	18
Over 2 years	<u>58</u>	<u>10</u>	<u>10</u>	<u>6</u>	<u>68</u>	<u>16</u>
Total	<u>\$786</u>	<u>76</u>	<u>\$22</u>	<u>11</u>	<u>\$808</u>	<u>87</u>

Under procedures in effect, the Proving Ground and the Research and Development Center normally notify the sponsoring activities when funds become excess and thereafter on a quarterly basis until they are recouped. Some of the sponsoring activities have not recouped the excess funds even though they have been notified many times. Two sponsoring activities said they had not withdrawn the funds because the notifications had not reached the appropriate section or group within the activity; the notifications had been received at a central point, but internal procedures to inform agency personnel responsible for initiating action to withdraw the funds had not been established. We were informed that corrective action was being taken.

Excess project order balances not promptly reported to sponsoring activities

The Aberdeen Proving Ground and the Aberdeen Research and Development Center did not promptly report to sponsoring activities that \$572,000 in excess funds was available for recoupment. This amount should have been reported as of June 30, 1971, but many of these balances were not reported until November 1971.

We were told that accounting department personnel had been temporarily assigned to assist other activities in implementing a new cost accounting system and that the resulting shortage of personnel, combined with the accounting workload at the end of the fiscal year, precluded the preparation of a timely report. An agency official advised us that, in the future, action would be taken to report excess funds more promptly.

FUNDS REMAINED OBLIGATED FOR LONG PERIODS PRIOR TO NEED

Our analysis of project order balances selected through statistical-sampling techniques revealed that, at the three performing activities visited, more than \$2 million remained obligated for unreasonably long times before the funds were needed. We estimated that about \$6.6 million of the \$60 million in unbilled customer balances as of June 30, 1971, at these activities was for work that was not started within a reasonable period.

The following tabulation summarizes the results of our review.

<u>Condition</u>	<u>Amount</u>
Funds were obligated for testing long before testing was performed	\$1,677,704
Funds were obligated for long periods for efforts dependent on the completion of prior actions	298,598
Funds were obligated for work requiring outside contracting long before the contract was awarded	130,000

In addition to the above conditions we noted the following situations which did not show up during our review of sampled items.

--The validity of an obligation of \$600,000 as originally recorded is questionable because the project order lacked adequate specificity for the performing activity to undertake the work.

--Project orders valued at \$664,000 should not have been accepted by a performing activity because it was known that work could not begin within a reasonable period as defined by the Army.

The dollar amounts should not be added to our projection of \$6.6 million because they were included as part of the universe of our sample.

It should be noted that DOD instructions require that (1) project orders be specific, definite, and certain concerning both the work encompassed by the order and the terms of the order itself and (2) the work to be done under the project order commence within a reasonable time. Army regulations define reasonable time to be within 90 days.

Funds obligated for testing long
before testing was to be performed

We found cases amounting to \$1.7 million in which funds to be used for testing remained obligated for long periods before the tests were to be made. Two examples follow.

In one case a sponsoring activity did not promptly withdraw funds when a planned test was delayed which caused about \$460,000 of RDT&E funds to remain obligated for over 20 months.

In October 1969 the Marine Corps issued an order to the Army Materiel Command for tests of a machine gun, a rifle, and a carbine, which were being developed by a private contractor. The tests were to be conducted in two phases: (1) engineering design tests by the Army Weapons Command and (2) engineering tests by Aberdeen Proving Ground. Successful completion of phase 1 was a prerequisite to phase 2.

Phase 1 work began soon after the test order was issued. Because problems were identified in the design of the weapons during phase 1, the weapons were returned to the private contractor in March 1970 for evaluation. We believe that this action should have alerted the Marine Corps to review the order for phase 2 testing and to reduce the amount of funds obligated for this purpose.

The contractor's evaluation of these weapons led to a redesign program, which was not completed until February 1971. The redesigned weapons were subjected to phase 1 testing from February to September 1971. However, phase 2 testing still had not begun and in December 1971 the Commandant of the Marine Corps directed that the contract to design and produce weapons required for phase 2 testing be

terminated at no cost to the Government. Army and Marine Corps officials believed that the program would be canceled.

In January 1972 a Marine Corps official informed us that the Marine Corps had initiated action to determine the amount of funds obligated for testing which could be withdrawn from the Army Materiel Command. We have now been advised by the Assistant Secretary of Defense (Comptroller) that the project order has been closed and unneeded funds have been recouped.

In another case we found that \$60,000 of RDT&E funds remained obligated for about 20 months before they were needed. In April 1970 the Army Weapons Command issued a project order for \$60,000 to the Aberdeen Research and Development Center to conduct test firings to establish external ballistic data for the Vulcan Air Defense System. The tests were to begin about June 1, 1970, but in June the Command notified the Center that the project manager had suspended the tests until further notice. We believe that the Command should have withdrawn the funds upon suspension of the tests. However, as shown below, they remained obligated, and testing did not recommence before January 1972.

In March 1971 the Center requested the Command to withdraw the \$60,000 because the Center felt that work could not be completed by the order's expiration date of December 31, 1971. The Command did not withdraw the funds, but in June 1971 it amended the order by modifying the work. The amended order called for submitting a detailed test plan, with testing to begin about August 1, 1971. In October the project manager assigned to the Command approved the test plan and authorized the start of testing.

A Center official advised us that testing had again been delayed because the Center had to procure new ammunition for testing and, therefore, the testing would probably not commence until some time in January 1972. On August 14, 1972, DOD advised that the work was in process and that aggressive followup action would be taken to insure proper recoupment actions.

Funds obligated for long periods
of time for efforts dependent
on completion of prior actions

We found three cases in which funds totaling approximately \$300,000 had been obligated long before being needed because the work required by the project orders depended upon prior actions which were not completed within a reasonable time. For example, an order for \$204,000 for assembling teletypewriter relay centrals could not be completed until certain components were modified. These procurement funds were obligated for at least 7 months before being needed because the performing activity could not promptly begin the work required.

Tobyhanna Army Depot accepted an order for \$204,000 on May 6, 1971, from the Electronics Command in Philadelphia, Pennsylvania, to assemble 60 teletypewriter relay centrals. Before the assembly work could be started, certain components had to be modified. The modification work was funded by separate project orders.

As late as December 1971, modification work on one component was not expected to begin until June 1972. Contributing to the delay in modifying the components was the assignment by the sponsoring activity of the lowest priority to this order. Because of the delayed modification program, the funds for assembly may not be used for 1 year. A Depot representative informed us that there was a firm requirement to assemble the relay centrals and that the assembly funds must be available when modification work was completed.

Funds obligated for outside contracting
long before contract was awarded

We found one case where RDT&E funds totaling \$130,000 were not used for up to 31 months, mostly because of a delay in awarding a contract.

In May 1969 the Army Missile Command issued an order for \$150,000 to the Ballistics Research Laboratory (a subordinate unit of Aberdeen Research and Development Center) for the Army Tri-Service Laser Program. Of this amount, \$40,000

was for an infrared data acquisition and control system. A Laboratory official advised us that they had originally contemplated buying this system off the shelf but subsequently learned that, because of advances in the state of the art of laser propagation, they had to update the specifications for the system.

In April 1970 the Command issued a second order for \$140,000 to the Laboratory to continue the laser program, \$70,000 of which was allocated to the data acquisition and control system. Later an additional \$20,000 was allocated from both orders for procurement of this system. Consequently, a total of \$130,000 was allocated for the data acquisition and control system and a contract for this amount was awarded in January 1972.

A Laboratory official advised us that the delay from April 1970 to January 1972 was caused by writing preliminary performance specifications, obtaining Army approval for a digital computer for use with the data acquisition system, preparing detailed procurement specifications, and using the two-step formal advertising procurement process to award the contract.

LACK OF SPECIFICITY IN ORDERS

DOD instructions require that project orders be specific, definite, and certain concerning both the work encompassed by the order and the terms of the order itself. In the absence of a specific description of the work, an accurate cost estimate cannot be made and the performing activity cannot begin the work in an expeditious manner.

We identified one project that lacked specificity concerning the work to be done which resulted in significant delays. We also believe that, because this order lacked specificity, the validity of the obligation as originally recorded for this order may be questionable. Documentary evidence needed for obligations is set forth in the United States Code (31 U.S.C. 200), which states that:

"*** no amount shall be recorded as an obligation of the Government of the United States unless it is supported by documentary evidence of--

"(1) a binding agreement in writing between the parties thereto, including Government agencies, in a manner and form and for a purpose authorized by law, executed before the expiration of the period of availability for obligation of the appropriation or fund concerned for specific goods to be delivered ***." (Underscoring supplied.)

In June 1970 the Army Munitions Command issued an order providing \$600,000 in RDT&E obligational authority to Aberdeen Research and Development Center's Ballistic Research Laboratory. The order stated that every effort should be made to obligate the funds by June 30, 1970, and required that the Laboratory initiate the Long Range Explosive Fill Program after submitting a detailed work plan to the Command for approval. It was not known, therefore, what specific work would be required at the time the order was received. A Laboratory official said that they were unprepared for the order when it was received and that plans for using the funds were inadequate. The Laboratory, however, obligated the funds on June 26, 1970, by issuing a project order to its industrial fund. A Center official informed us that it appeared that the funds had been prematurely obligated.

On October 7, 1970, the Command advised the Center that it had not yet received the required plan and directed the Laboratory not to spend any additional funds until a detailed plan had been submitted and approved. The Laboratory submitted a proposal in October and received the authorization from the Command to resume spending funds in December, a delay of about 6 months from the issuance of the order in June 1970.

A Command official confirmed that the Laboratory was not prepared to accept this order in June 1970.

PREMATURE ACCEPTANCE OF PROJECT ORDERS

About \$664,000 of procurement funds, obligated on 12 orders, appeared to have been prematurely obligated because

the performing activity accepted the orders even though the work was not anticipated to begin within a reasonable period.

DOD instructions require that performance on orders start within a reasonable time after issue. Army regulations define reasonable time to be within 90 days.

During June 1971, 12 orders were issued by the Weapons Command to Aberdeen Proving Ground. Although the orders were accepted, the Proving Ground, on the basis of scheduled receipt of test items, did not anticipate starting work within the 90-day limit. In fact, some of the orders showed that work would not begin until September 1972, or 14 months after issuance of the orders.

A Proving Ground official advised us that he did not want to accept the orders because they could not be started within the 90 days required by Army regulations. Records show that the Test and Evaluation Command, the Proving Ground's parent command, directed the Proving Ground to accept the orders.

CHAPTER 3

POTENTIALLY EXCESS PROJECT ORDER BALANCES

NOT PROMPTLY REVIEWED

The Major Item Data Agency is the data control activity for orders issued to 14 Army depot maintenance activities. By applying random statistical sampling techniques to information obtained from the Agency, we estimated that, as of December 9, 1971, \$7.3 million in funds was subject to possible recoupment from depot maintenance activities by sponsoring activities. No action was being taken by the Agency to have the depots evaluate the need for the potentially excess balances.

The Agency's procedures provide that an exception report be prepared indicating potentially excess balances after work on a project order reaches a certain stage and that the report be sent to depot maintenance activities for their evaluation. Because of problems associated with the implementation of a new system, these exception reports have not been prepared since June 1971. The Agency, therefore, was not aware of the potentially excess funds at depot maintenance activities which might have been available for recoupment by sponsoring activities.

The following summary shows, as of December 9, 1971, the potentially excess funds by appropriation.

<u>Appropriation</u>	<u>Amount</u> <u>(000 omitted)</u>
Operations and maintenance	\$5,047
Procurement of equipment and missiles	1,657
Army stock fund	565
RDT&E	<u>11</u>
Total	<u>\$7,280</u>

At both the Tobyhanna Depot and Letterkenny Army Depot, Chambersburg, Pennsylvania, we examined several orders showing potentially excess balances to ascertain whether they represented excess funds. In most of these orders

the potentially excess funds on the Agency's records were, in fact, excess funds.

Although performing activities are responsible for initiating action to reduce obligations when the estimate appears excessive, they seem reluctant to do so until the order is completed. As a result, funds which may become available during the performance stage are not withdrawn for use on other work. Consequently, it is important that the Agency constantly review potentially excess funds. An Agency official informed us that, as of January 1, 1972, the Agency's system would begin computing potentially excess balances on a continuing basis.

CHAPTER 4

NEED FOR CITATION OF LEGAL AUTHORITY

ON ORDERING DOCUMENTS

DOD Instruction 7220.1, "Regulations Governing the Use of Project Orders," states that any order used for a purpose for which a project order may be issued and placed with a Government-owned and Government-operated (GOGO) establishment by a component of a military department shall be deemed to be a project order "regardless of the form in which it is issued." The instruction further states that "*** any form, including a Military Interdepartmental Purchase Request, DD Form 448, when accepted for performance in a GOGO establishment, is equally applicable under this instruction."

Although the instruction encourages the use of a uniform project order form, we noted and included in our review many orders which had the characteristics of project orders but which had not been identified as such on the ordering or acceptance documents. These orders, including selected Procurement/Work Directives, Intra-Army Orders for Reimbursable Services, and Military Interdepartmental Purchase Requests, issued to GOGO establishments, were used for purposes for which project orders might be issued and which, we believe, would be considered as project orders under the DOD instruction.

Because an order which qualifies as a project order continues the period of availability of an appropriation for obligation by a performing activity, we believe that all orders which are to be treated as project orders should be clearly identified as such. A clear distinction between project orders and orders which must be deobligated to the extent that funds have not been obligated prior to expiration of the appropriation has assumed increased importance with the recent change of procurement and RDT&E appropriations from a "no-year" basis to a limited period of availability.

CHAPTER 5

CONCLUSIONS AND AGENCY COMMENTS

Funds obligated on project orders either were not needed for accomplishment by performing activities (\$3.6 million) or were outstanding for long periods prior to being needed by performing activities (\$6.6 million). These funds could have been made available for other requirements if the procedures and controls established for the administration of project orders had been adhered to by the Army sponsoring and performing activities.

We brought our findings to the attention of the Secretary of Defense and proposed that DOD instructions be revised to require citation of legal authority, or other clear identification on the ordering document for all orders to be treated as project orders. We proposed further that the Secretary of the Army

- require stricter adherence to instructions and control procedures for project orders and

- direct sponsoring and performing activities to emphasize that unneeded funds must be promptly identified and recouped.

The Assistant Secretary of Defense (Comptroller), in a letter dated August 14, 1972 (see app. II), concurred with our proposals contained in a draft of this report and stated that:

- DOD Instruction 7220.1, "Regulations Governing the Use of Project Orders," would be revised to require citations of legal authority on the ordering documents for all orders which are to be treated as project orders.

- The Army Materiel Command had implemented an Accounting Surveillance Program which would result in visits being made to all activities of the Command in fiscal year 1973 and would include a review of controls over and administration of project orders.

--Appropriate corrective action would be taken to preclude premature acceptance of project orders by performing activities.

We believe that the actions taken by the Army, if properly monitored, should result in more effective use of funds by sponsoring activities. Through improved controls over project order administration there should be prompt recoupment of unneeded funds and a significant reduction in the amount of funds being obligated long before they are needed.

CHAPTER 6

SCOPE OF REVIEW

We examined pertinent instructions of the Office of the Secretary of Defense and the Department of the Army regarding the use of project orders and reviewed files at the various performing and sponsoring activities. We also reviewed internal audit reports and discussed the results of our review with Army representatives at these activities.

During our review, we examined

- 126 unbilled project order balances as of June 30, 1971, selected through random statistical sampling, and other orders of various dates;
- excess funds reported or not reported to sponsoring activities as of June 30, 1971; and
- potentially excess funds on the Major Item Data Agency's records as of December 9, 1971.

We reviewed the Army project orders to determine whether they were being issued prematurely or for more money than required to complete the work. We also evaluated existing Army control procedures to identify unneeded fund authorizations. Our review of unbilled project order balances was made at the following performing activities.

Aberdeen Research and Development Center
Aberdeen, Maryland

Aberdeen Proving Ground
Aberdeen, Maryland

Tobyhanna Army Depot
Tobyhanna, Pennsylvania

Letterkenny Army Depot
Chambersburg, Pennsylvania

At the principal sponsoring activities listed below, we reviewed the administration of project orders and evaluated internal controls for the recoument of excess project order funding authority.

United States Army Electronics Command
Fort Monmouth, New Jersey

Major Item Data Agency
Chambersburg, Pennsylvania

We also discussed specific cases with the following sponsoring activities.

United States Army Missile Command
Redstone Arsenal, Alabama

United States Army Munitions Command
Dover, New Jersey

United States Army Tank Automotive Command
Warren, Michigan

United States Army Mobility Equipment Command
St. Louis, Missouri

United States Marine Corps
Washington, D.C.

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United States Senate

COMMITTEE ON ARMED SERVICES
WASHINGTON, D.C. 20510

October 7, 1970

Honorable Elmer B. Staats
Comptroller General of the United States
General Accounting Office
Washington, D. C.

BEST DOCUMENT AVAILABLE

Dear Mr. Staats:

This letter is to request your office to provide assistance to the Committee in performing a review of certain intra-departmental financial transactions within the Department of Defense.

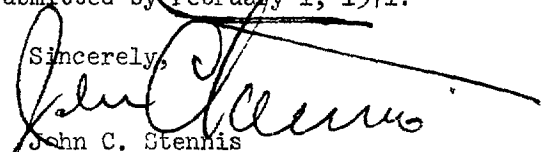
The Department of Defense, and in particular the Navy, has followed a policy of using project orders as an intra-service request whereby one activity requests another activity to perform certain work or to procure certain items either in-house or by contract for the benefit of the ordering activity. Project orders are recorded as obligations by the issuing activity immediately upon receipt of acknowledgement of acceptance by the receiving activity.

Use of project orders as described above permits recording of an obligation on the books of the Government which in fact is not an obligation in the legal sense. The performing activity may not perform the services or contract for some period of time, if at all. In an extreme situation, such an obligation may remain on the books for a number of years when, in fact, a legal obligation has not been incurred by the Government. The cumulative effect of such practice is reflected in inflated and erroneous obligations on the books of the Government, inflated amounts of unliquidated obligations, and the freezing of funds which otherwise would be available for reprogramming to support other important requirements.

I would appreciate your making a review of this matter, with first priority being given to the Department of Navy, to determine the extent to which this practice is being followed. The investigation should cover fiscal years 1968, 1969, and 1970, and be addressed only to appropriations which are subject to authorizing legislation. If you find that significant amounts of funds relate to fiscal years earlier than 1968, as represented by unliquidated balances on project orders, these years may be included or ~~be~~ the subject of a subsequent investigation.

In order for this information to be useful during consideration of the fiscal year 1972 budget estimates, request that your report, including appropriate recommendations, be submitted by February 1, 1971.

Sincerely,



John C. Stennis

APPENDIX II



COMPTROLLER

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

14 AUG 1972

Mr. Donald L. Scantlebury
Director, Division of Financial
and General Management Studies
U. S. General Accounting Office

Dear Mr. Scantlebury:

We have reviewed your draft report on the need for improved financial management in funding work authorized by project orders in the Department of the Army (OSD Case #3483). We concur in the recommendations stated in Chapter 5 of the draft report.

Department of Defense Instruction 7220.1, "Regulations Governing the Use of Project Orders," will be revised to require citation of legal authority on the ordering document for all orders which are to be treated as project orders.

With regard to the recommendations to the Secretary of the Army, the U. S. Army Materiel Command (USAMC) has implemented an "Accounting Surveillance Program" which will result in visits being made to all Finance and Accounting Offices within that command during FY 1973. One of the major areas, covered in checklists to be utilized by personnel performing these visits, is the review of reimbursable orders, which includes project orders. The intent of this review is to ensure that (1) funds reflected therein are needed to accomplish the work described in the order; (2) excess funds are reported to sponsoring activities and follow-ups are made; (3) orders accepted as project orders meet the criteria of project orders as outlined in DoDI 7220.1; and (4) orders are periodically reviewed to determine their status. In addition to the above, Headquarters, USAMC will reemphasize to subordinate commands, via letter, the deficiencies noted by GAO and will direct that command emphasis be placed on the review of project orders to ensure adequate administration.

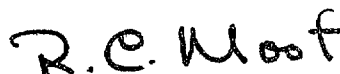
With regard to premature acceptance of project orders, appropriate corrective action will be taken. However, when it is necessary to withdraw the money already obligated because the work cannot be started within a reasonable time, the project order must be canceled. This is because the placing of a project order constitutes a legal obligation which must be recorded.

Your letter of transmittal states that the Army had not taken action to recoup funds in a number of cases described in the report and requests advice on the outcome of those actions. It appears that the specific cases you are concerned about are:

1. The Weapons Command order to Aberdeen Proving Ground for armament subsystems tests (Page 12 - top).
2. The Munitions Command order to Aberdeen Proving Ground for testing a propellant charge (Page 12 - bottom).
3. The Mobility Equipment Command order to Aberdeen Proving Ground for initial production and comparison testing of a cargo container (Page 13).
4. The portion of Aberdeen Research and Development Center orders to its industrial fund for contractor performed reliability and maintenance ability studies on the MK 68 system (Page 14).
5. The Marine Corps order to Army Materiel Command for tests of a machine gun, rifle and carbine (Page 18).
6. The Weapons Command order to Aberdeen Research and Development Center for test firings related to the Vulcan Air Defense System (Page 19).

The orders in items 2, 4 and 5 have been closed and the funds recouped. The work in items 1, 3 and 6 is still in process but aggressive follow-up action will be taken to ensure that timely and proper recoupment actions are accomplished.

Sincerely,



Robert C. Moot
Assistant Secretary of Defense

GAO note: Page numbers refer to pages in our draft report.