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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

DEFENSE DIVISION



B-174211

Dear Mr. Secretary:

The General Accounting Office has reviewed Department of the Army policies and practices for obligating operations and maintenance appropriations (O&M) funds during the last 2 months of fiscal years 1969 and 1970. Our review was made to determine whether appropriate controls were in effect to ensure compliance with congressional restraints on obligations during those periods and whether funds had been obligated only for bona fide needs of each year.

We interviewed appropriate officials at Headquarters, Department of the Army; Headquarters, U.S. Army Materiel Command; Headquarters, U.S. Continental Army Command; and Headquarters, 3d U.S. Army, and reviewed reports and guidance issued and/or received by those organizations for application to year-end spending. In addition, we reviewed selected transactions involving the purchase or requisition of goods and services during June 1969 and June 1970 at Fort Benning, Georgia; Fort Carson, Colorado; and Pueblo Army Depot, Pueblo, Colorado.

Since 1954 each Department of Defense (DOD) appropriation act has contained a provision that, with minor exceptions, not more than 20 percent of the appropriations in the act, which are limited for obligation to a specific fiscal year, be obligated during the last 2 months of that year. The primary purpose of this provision is to discourage obligating excess funds at year-end for items that are not valid requirements of the specified year.

DOD Directive 7220.6, as amended through change 6 dated August 4, 1966, provides that components of DOD be required to determine that goods, supplies, or services required pursuant to contracts entered into or orders placed obligating an annual appropriation are intended to meet bona fide needs of the fiscal year in which the needs arise or to replace stocks used in that fiscal year. Such determination shall consider the requirements which may be foreseen for future years on the

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basis of procurement lead time, authorized stock levels, and authorized mobilization reserves. Essentially identical provisions are included in Army Regulation 37-21 dated December 1, 1970.

We found that, for fiscal years 1969 and 1970, the Department of the Army had complied with congressional restraints regarding the rate of obligations to be incurred in the last 2 months of the year. We noted, however, several instances at Fort Carson and Pueblo Army Depot where funds had been obligated contrary to DOD and Army Regulations, or were not for bona fide needs of the current fiscal year or for replacing stocks used in that year. Details of these matters follow.

#### AUGMENTATION OF OBLIGATIONAL AUTHORITY

At Fort Carson our examination of 26 requisitions on the stock fund, submitted in June 1969 for items valued at \$398,000, revealed seven requisitions for items totaling about \$181,000 that were processed as turn-ins to the stock fund shortly after the beginning of the new fiscal year (1970). Full credit was allowed for O&M appropriation obligational authority in the new year and thus augmented that year's obligational authority.

Obligations for clothing and equipment in the amount of \$239,569 were recorded for three requisitions on the stock fund. Subsequent reversal entries on June 30, 1969, for \$155,273 reduced the obligated amount to \$84,296. On July 7, 1969, this amount was processed as a turn-in to the stock fund and a credit of \$84,296 was allowed for fiscal year 1970 O&M obligational authority.

We discussed the above transactions with Fort Carson's comptroller and were informed that the intent of the transactions had been to use fiscal year 1969 funds to procure items for which there were continuing requirements and to alleviate the impact on fiscal year 1970 funds. The comptroller could not say whether the items had or had not, in fact, been physically issued and returned or whether this merely had been a paper transaction.

We also found four requisitions, dated June 25, 1969, for track materials, valued at \$96,640, which subsequently were turned in to the stock fund on July 3, 1969, 8 days later, and for which full credit was allowed. We could not determine whether this transaction was only an accounting transaction or whether the materials actually had been issued. There were no maintenance records available that would have disclosed whether the track materials had been requisitioned for a current

or an anticipated maintenance requirement. On the basis of the almost immediate turn in of the materials, however, it appears that the requisitions were not for valid current-year requirements but were a means of transferring fiscal year 1969 obligational authority to fiscal year 1970.

PREMATURE RECORDING OF OBLIGATIONS

DOD Instruction 7220.28 and Army Regulation 37-21 provide that an obligation for items requisitioned from a retail stock fund be established only at the time the items are delivered, i.e., dropped from the stock fund inventory. At Pueblo, however, we found that \$131,600 had been obligated on June 30, 1969, for supplies and equipment requisitioned from the local retail stock fund even though the items were not dropped from the stock fund inventory until July 9, 1969, or later.

We discussed this matter with Pueblo's comptroller who stated that fiscal year 1969 was an austere funding year during which all organizations at the installation were directed to "live off the shelf" and to requisition only those items which were absolutely necessary. On June 30, 1969, he determined that about \$131,000 was available, and, since he believed that an obligation could be recorded on the basis of bona fide current-year requirements, the funds were obligated on the basis of requisitions submitted to the retail stock fund. As his authority he cited a section of Army Regulation 37-21 which stipulated, in essence, that an obligation be established on the basis of requisitions for bona fide current-year requirements.

We did not question the validity of the requisitions with regard to their being for current-year requirements, since they were to replenish bench stocks to normal levels or were to satisfy long-standing, approved unfinanced requirements. As previously stated, however, we believe that this obligation was in violation of other more specific provisions of Army Regulation 37-21 and DOD Instruction 7220.28 pertaining to the time for recording obligations for items requisitioned from retail stock funds.

It should be noted that Pueblo received a \$1,614,900 increase to its approved operating budget during June and that \$309,000 of this increase was received on June 30, 1969, the final day of the fiscal year. When funds are received so late in the year, time requirements can severely limit the options available to the installation in establishing a valid obligation.

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ACCELERATION OF STOCK FUND ISSUES

Our examination of 32 requisitions, valued at \$41,208, on Pueblo's stock fund in June 1970, revealed that 13 requisitions, valued at \$17,526, were not supported by demand history data and were not, in our opinion, valid fiscal year 1970 requirements.

For example, one requisition, which was processed on a "fill-or-kill" basis, was for 12,204 board feet of lumber, whereas the total demand for the fiscal year to the date of this requisition (June 17, 1970) had been only 9,740 board feet. We believe that these 13 requisitions, along with others not included in our review, were processed as a result of guidance from the Army Materiel Command as provided in the following message received by Pueblo on June 3, 1970.

- "1. This headquarters has certain high priority OMA operations and maintenance, Army unfinanced requirements that should be financed in FY 1970 to provide some relief to the known funding shortages in FY 1971.
- "2. Addressees are to continue reviewing their essential June 1970 requirements and all FY 1970 outstanding commitments and unliquidated obligations with a view towards making timely adjustments that would otherwise result in a loss of FY 70 obligational authority. All excesses generated as a result of this review will be reported ASAP as soon as possible but not later than 15 June 1970 to this headquarters. \*\*\*"

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- "4. It is possible that the reported excesses will exceed the high priority OMA unfinanced requirements mentioned in paragraph 1. To be certain that all available funds are gainfully used in FY 70, addressees are requested to report any FY 71 requirements that can be obligated prior to 30 June. Submit report as indicated in para. 2 ASAP but not later than 15 June. In addition provide a brief description of the items included and the latest date the funds can be obligated. Consider as a candidate moving programmed July issues from retail stock fund to June."

Pueblo's reply to the above message was that \$90,000 of programmed July stock fund issues (FY 1971 requirements) could be obligated in June (FY 1970). A Pueblo official notified the directorates at the installation to requisition their July stock fund requirements so that O&M obligations could be established by June 30, 1970. This official estimated that \$82,000 of July 1970 (FY 1971) stock fund requirements had been obligated with fiscal year 1970 funds. We were informed that the fiscal year 1971 budget programs at the installation had been adjusted to give effect to July 1970 stock fund issues obligated with fiscal year 1970 funds.

Stock fund issues at Pueblo to O&M activities were substantially lower in June 1969 and substantially higher in June 1970 compared with issues in other months of fiscal years 1969 and 1970 as shown below.

<u>Monthly stock issues</u>	<u>Fiscal year</u>	
	<u>1969</u>	<u>1970</u>
High	\$225,100	\$163,700
Low	71,400	58,200
Average	139,600	106,100
June	71,400	163,700

The increase in stock fund issues to O&M activities in June 1970 resulted primarily from the advance procurement of July 1970 requirements.

In our opinion, the acceleration of programmed July 1970 issues from the retail stock fund to June 1970 to obligate funds available at year-end was contrary to the requirements set forth in DOD Directive 7220.6 and Army Regulation 37-21 that obligations be for bona fide needs of the fiscal year in which the needs arise or, after consideration of procurement lead time or authorized stock levels, to replace stocks used in that year.

INAPPROPRIATE STOCK FUND  
REQUISITIONING PRACTICE

At Pueblo one of the techniques used to ensure full utilization of funds at year-end was the submission of requisitions on the stock fund on a fill-or-kill basis. If items requisitioned on this basis were available in the stock fund inventory, they were issued and an obligation was established prior to year-end. If the items were not in stock, however, the requisition was canceled, instead of back-ordered, and the requisitioning organization then was notified that the funds were available for other requirements.

This practice is inconsistent with normal, orderly operations, since it appears that the items so requisitioned would be needed and would be backordered if not in stock. If the items really are needed, another requisition would have to be submitted early in the new fiscal year. Canceling the requisition does serve to give prompt notice to the requisitioning organization that the funds which it hoped to obligate before year-end are still available and that prompt action must be taken to find some other means to obligate them. It appears, however, that this could be accomplished by giving notification that the items had been backordered rather than by canceling the requisition.

#### CONCLUSIONS AND RECOMMENDATIONS

We believe that, for the most part, the deficiencies discussed in this report resulted from the activities' failure to comply with the requirements of DOD Directive 7220.6, DOD Instruction 7220.28, and Army Regulation 37-21. Therefore we recommend that you issue guidance near the end of each fiscal year emphasizing the requirements of these instructions that pertain to the establishment of valid obligations.

We recommend also that you take specific action to (1) prevent the manipulation of stock fund transactions for the purpose of transferring obligational authority for annual appropriations from one fiscal year to the next and (2) preclude the acceleration of stock fund issues that were programmed for a subsequent fiscal year solely for the purpose of obligating funds available near the end of the current year.

In our opinion, it is a poor management practice to issue requisitions on installation level stock funds on a fill-or-kill basis near the end of the fiscal year for the sole purpose of ensuring prompt notification to the requisitioning activity that funds cannot be obligated because the items cannot be delivered in that year. We recommend further that you issue instructions that requisitions on local stock funds not be issued on such a basis unless there is a valid operating need to procure the items elsewhere if the stock fund cannot fill the requisition promptly.

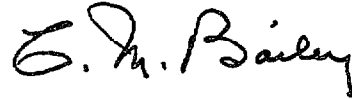
This letter contains recommendations for your consideration which are subject to the provisions of section 236 of the Legislative Reorganization Act of 1970. We shall appreciate receiving copies of the statements you furnish to the specified committees in accordance with these provisions.

Copies of this report are being sent today to the Chairmen, House and Senate Committees on Government Operations; the Chairmen, House and

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Senate Committees on Appropriations; the Chairmen, House and Senate  
Committees on Armed Services; and the Director, Office of Management  
and Budget.

Sincerely yours,



Director

The Honorable  
The Secretary of the Army

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