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DENVER, COLORADO 80202

*Director, Office of Policy*

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DEC 22 1972

Colonel William P. Hooker  
Commanding Officer  
Pueblo Army Depot  
Pueblo, Colorado 81001

*DLG 05480*

Dear Colonel Hooker.

During our recent visit, we updated information obtained during our review of the Army Industrial Fund (AIF) Accounting System at Pueblo which we conducted in 1971. As discussed with you on December 8, 1972, in our opinion the methods presently used to arrive at AIF financial statements are adequate to arrive at statements showing accurate operating results and asset and liability balances in total. The methods used to arrive at the statement balances and the AIF account balances in many cases are not those prescribed by the Sharpe Army Depot system under which Pueblo is directed to operate. With the planned conversion to the SPEEDEX system, we believe efforts to correct the deficiencies in the Sharpe system are probably no longer warranted.

We believe the methods used to arrive at AIF overhead cost rates have improved, however, we believe that rates still require more frequent review. Our inquiries revealed that no action has been taken on charging foreign government depreciation and we plan to address this matter in a letter to the Commanding General of USAMC.

The matters covered in our review and the present status as we found it in December 1972, are discussed in more detail below.

1. During our review in 1971, we found that the labor rate clearing account was not being used and that cost clearing account balances were not researched to identify inaccuracies indicated. Our review in 1972 showed that entries were not made to the labor rate variance account except at yearend to close the accounts and that the cost clearing account balances were not used to identify inaccuracies. The Chief of the AIF Section satisfies himself of the proper amount of the labor rate variance and the accuracy of the entries to the clearing accounts by independent computation using information from the cost accounting and appropriated fund accounting systems.

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The alternate method used by the Chief, AIF Section, to verify the variances and accuracy of the entries will apparently accomplish the purpose intended by the variance and clearing accounts.

2. Accounts receivable, progress billings and work in process account balances are not accurate and cannot be used in the financial statements. This situation has not changed since our review in 1971.

The amounts shown in the ending fiscal year 1972 financial statements were arrived at using information from the cost accounting system and the appropriated fund accounting system. The amounts shown for each of the individual assets cannot be verified and are probably incorrect, however, the total asset balance can be arrived at by computation and is probably correct.

3. Due to the design of the AIF accounting system, the operating results account did not accurately reflect the results of operations at the time of our review in 1971. This situation has been corrected locally by changing accounting entries made to the account.
4. At the time of our review in 1971, capital asset accounts contained incorrect balances because the determination of asset values capitalized when the AIF was established was inconsistent and not in accordance with AMC instructions, and because adjustments to the capital accounts for changes in asset balances were not being made. As a result, asset balances and depreciation charges were incorrectly stated in both the accounts and the financial statements for fiscal years 1970 and 1971.

During fiscal year 1972, the capital asset accounts and the corresponding accumulated depreciation accounts were updated to show balances as of July 1, 1971. The corresponding depreciation rates were also adjusted. We noted during our visit in December 1972, that the depreciation rates had not been updated for changes to the asset balances during fiscal year 1972 and 1973 to date and that, in most cases, the amount of adjustments that should have been made were significant.

We recommend that the depreciation rates be updated for fiscal years 1972 and 1973 and that continued attention be given to update these rates as necessary in the future.

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5. For fiscal year 1973, overhead cost rates used to charge customers were set on the basis of estimated costs and direct labor hours used in the Internal Operating Budget. This had not been done in fiscal year 1971, and the first quarter of fiscal year 1972, which we previously reviewed.

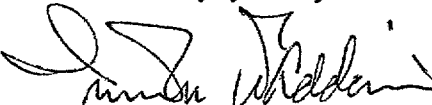
At the time of our visit in early December 1972, the Budget Division, Comptroller Directorate had not reviewed rates for fiscal year 1973. Information we received from the Comptroller Directorate indicated that the Indirect Maintenance Expense rate was resulting in a significant overcharging of customers during each of the first five months of fiscal year 1973. The Comptroller stated that he was aware of the problem and that it may be the result of problems in charging costs resulting from local modifications to the national cost accounting automatic data processing programs. If this is the case, the rates may not be the prime cause for the variance. However, we believe that rates should be reviewed at least quarterly and that such a review may have prompted action sooner.

We recommend therefore, that the Budget Division be directed to review overhead rates at least quarterly and make appropriate changes to the overhead rates when significant variances from budgeted costs or manhours are incurred.

Mr. Hovda of my staff is available to discuss any of the information presented or any additional information you wish to present to us.

We thank you for the courtesies and cooperation extended our staff during the review.

Sincerely yours,



Irwin M. D'Addario  
Regional Manager