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

DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

MAY 31 1973

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The Honorable
The Secretary of the Army

Dear Mr. Secretary:

The General Accounting Office (GAO) reviewed the Department of the Army's accounting and reporting system for major military construction programs administered by the Corps of Engineers. This system is an integral part of the basic military construction accounting system approved by the Comptroller General in June 1969.

We made our review to determine whether the system continued to provide the necessary accounting controls over resources for programs authorized by the Congress and to furnish management with accurate reports for use in its decisionmaking process. We also wanted to know what actions had been taken to comply with the exceptions cited in our June 1969 approval letter.

We interviewed officials; reviewed regulations, manuals, and operating instructions; tested financial transactions relating to selected construction programs; and evaluated reports and other data at the Office of the Chief of Engineers; the U.S. Army Engineer Division, Missouri River; and the U.S. Army Engineer District, Omaha, Nebraska.

SYSTEMS EVALUATION

In general, the system provides adequate controls to insure the proper accounting and reporting of authorizations, obligations, and expenditures of construction projects, programs, and appropriations. The system also reports the direct costs of individual construction programs and the indirect costs of supervision, administration, and divisional operation. Management uses the reports to periodically review and evaluate (1) actual and budgeted costs, (2) balances of funds available for reprogramming, (3) contractor performance, and (4) the effectiveness of its districts in executing their program responsibilities.

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The system is not complex. Approximately 90 percent of the construction work is done under advertised fixed-price-type contracts; 85 percent of the architectural and engineer work is also done under contract.

The system, most of which is manually operated, is in the process of being mechanized as a part of the Corps of Engineers Management Information System. We found no major deficiencies but did note minor procedural inefficiencies in preparing reports under manual procedures. We brought these matters to the attention of Corps officials, and they assured us that the deficiencies would be corrected in the mechanized system. Since mechanizing the manual system will require significant changes to the present system, the Army plans to resubmit the system in fiscal year 1976 for our approval.

PRIOR GAO APPROVAL EXCEPTIONS

We approved the accounting system in June 1969 with the understanding that the Army would incorporate certain provisions in the system. The specific provisions and actions taken follow.

1. We suggested that the cost and related liability for accrued annual leave be recorded and reported for activities financed with appropriated funds in the same manner as is done for revolving funds. In 1970 the Corps of Engineers revised Engineer Regulation 37-345-10 to provide for accrual of annual leave in the accounting records of districts without revolving funds.

2. We suggested that consideration be given to include the cost of military personnel as an unfunded cost in the accounting for all activities financed by the Military Construction Appropriations. In response to section 704 of the fiscal year 1970 Military Construction Authorization Act (Public Law 91-142) and similar requirements in subsequent acts, the Department of Defense is submitting reports to the Congress that include the Corps' military personnel costs related to the military construction program.

3. We suggested that the constructive delivery concept be implemented for activities financed by the Military Construction Appropriations. After further study of the problems involved in implementing the constructive delivery concept, we have concluded that, when agency management finds it impracticable to record unbilled contractor performance, such as from performance reports, only documented transactions need to be recorded. We found that the system was recording contractors' performance on a documented basis.

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We are sending copies of this report today to the
Chairmen of the Senate and House Committees on Appropriations,
Armed Services, and Government Operations. We are also send-
ing a copy to your Assistant Secretary of Defense (Comptroller).

Sincerely yours,

A handwritten signature in cursive script that reads "D L Scantlebury". The letters are fluid and connected, with a prominent loop at the end of the word "Scantlebury".

D. L. Scantlebury
Director