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

JUN 7 1973

B-177631



The Honorable Les Aspin  
House of Representatives

Dear Mr. Aspin:

In accordance with your request of December 4, 1972, and our letter of December 19, 1972, we reviewed the Navy's violation of the Antideficiency Act. Specifically, you asked:

1. During what years did the Department of the Navy violate its spending limits? What was the amount of the violation in dollars for each fiscal year?
2. In what accounts did the violation of the Antideficiency Act occur?
3. Would the General Accounting Office evaluate the adequacy, completeness, and frankness of the Navy's internal reports?

As agreed, we reviewed the Naval Audit Service's work relating to reported violations of the Antideficiency Act and the Navy's actions to improve control over the Military Personnel, Navy (MPN) appropriation including the Naval Audit Service's audit plans. We did not make an independent review of the Navy's obligations and expenditures.

ANTIDEFICIENCY ACT VIOLATIONS  
REPORTED BY THE NAVY

The Naval Audit Service identified possible violations in the MPN appropriation in November and December 1971. As a result, the Chief of Naval Operations on April 17, 1972, directed the Navy Inspector General to investigate whether, in fact, violations had occurred.

The Inspector General's investigation confirmed that violations had occurred. In December 1972 the Navy submitted to the President of the United States and to the Congress violation reports on the MPN appropriations for fiscal years 1969, 1971, and 1972. The Navy reported overobligations in the MPN appropriation of almost \$110 million, as follows:

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<u>Fiscal year</u>	<u>Amount of violation</u>
	(000 omitted)
1969	\$ 7,947
1971	72,000
1972	<u>29,789</u>
	<u>\$109,736</u>

As requested, we are furnishing the following schedule of other Antideficiency Act violations which the Navy reported to the President and to the Congress in fiscal year 1968 through 1972. These violations occurred in allotments and other fund subdivisions; none of the appropriations was over-obligated in total.

<u>Appropriation</u>	<u>Fiscal year</u>	<u>Amount of violation</u>
Navy Stock Fund	1966	\$ 99,951
	1968	104,023
	1969	195,405
	1970	<u>21,056</u>
		<u>420,435</u>
Operation and maintenance	1965	248,227
	1966	62
	1970	<u>154,378</u>
		<u>402,667</u>
Shipbuilding and conversion	1963	296
	1965	14,530
	1966	3,945
	1967	12,719
	1970	<u>65,658</u>
		<u>97,148</u>
Claims, Defense	1970	<u>6,015</u>
Family Housing Management Account	1966	24
	1970	<u>3,601</u>
		<u>3,625</u>
Reserve personnel	1967	<u>310</u>
Other procurement	1965	<u>32</u>
Total		<u><u>\$930,232</u></u>

Following is a recap of the amount by fiscal year.

<u>Fiscal year</u>	<u>Amount of violation</u>
1963	\$ 296
1965	262,789
1966	103,982
1967	13,029
1968	104,023
1969	195,405
1970	<u>250,708</u>
Total	<u>\$930,232</u>

Of the 20 violation reports issued during fiscal years 1968-72, only 11 identified the organization that initially disclosed the violation. The Naval Audit Service disclosed seven violations and the activity receiving the funds or its authorized accounting activity disclosed four.

CAUSES OF VIOLATIONS IN MPN APPROPRIATION  
AND CORRECTIVE ACTIONS

The basic cause of the violation was the separation of the authority to create obligations from the responsibility to control them.

The authority to create obligations of MPN appropriations was decentralized, resting with a multitude of officials who authorized individual pay and allowance entitlements and permanent-change-of-station travel. The responsibility for controlling obligations was centralized in the Bureau of Naval Personnel.

Central control was exercised by recording obligations against appropriations based on estimates of such factors as average personnel strength, average pay entitlement, and average number and cost of permanent moves.

Much of the data used by the Navy in estimating the rate of obligation of the MPN appropriation was erroneous and resulted in underestimating the rate of obligations being incurred. For example, in estimating obligations for permanent-change-of-station moves for fiscal year 1972, the Navy used \$755 as the average cost per move, but the average cost experienced was \$986. As a result, actual obligations significantly exceeded estimated obligations.

Because of a lack of accurate and timely feedback information on obligations being incurred by the field, the Bureau of Naval Personnel did not know that overobligation was occurring until it was too late to be avoided.

Prior to the internal audit in 1972 which initially disclosed apparent violations in the MPN appropriation, the last audit of the MPN appropriation by the Naval Audit Service was made in 1962.

The Navy plans to improve the data on which it bases its estimates, to improve the accuracy and timeliness of feedback reports, and to increase its internal audit coverage. Specifically, the Navy has:

- Instituted improvements to increase the accuracy of enlisted and officer strength accounting.
- Devised improved procedures to provide more timely and accurate data on which to base obligations for certain entitlements, especially basic allowance for quarters and subsistence.
- Required disbursing officers to report monthly to the Bureau of Naval Personnel payments of all pay and allowances for military personnel. The Navy believes this will permit the comparison of estimated obligations with actual obligations in time to avoid violations.
- Used a more comprehensive permanent-change-of-station travel planning and control system to establish dollar controls over move authorizations. The Navy implemented a computer-assisted method to monitor the controls.
- Established procedures to maintain updated cost tables for estimating permanent-change-of-station travel obligations.
- Established a permanent staff of six Naval Audit Service auditors at the Bureau of Naval Personnel. This staff has undertaken audits of the Reserve Personnel, Navy appropriation, the system used to estimate obligations for pay and allowances, and the fiscal year 1973 MPN appropriation.

COMMENTS ON NAVY REPORTS  
RELATED TO VIOLATIONS

We reviewed the reports submitted to the President and to the Congress. These reports were based on internal reports prepared by the Naval Audit Service and the Navy Inspector General.

Naval Audit Service report

We reviewed the Naval Audit Service report and the working papers prepared during its review. The Navy review was made over a 7-month period by an average of six auditors. It appears that the Naval Audit Service report was adequate, complete, and frank about the findings disclosed in its working papers. Since we did not make an independent review of the Navy's obligations and expenditures, we cannot state whether all violations were discovered.

Navy Inspector General's report

We did not have access to, and therefore were not able to comment on, the Navy Inspector General's investigation report and supporting documentation. Copies of Inspectors General's reports are generally not made available to us. In the past, we reported similar restrictions on our access to Inspectors General's reports within the Department of Defense. I discussed this matter before the Subcommittee on Executive Reorganization of the Senate Committee on Government Operations during testimony in September 1969 on our role in auditing Defense expenditures. The problem was also mentioned in our report to the Congress on "Internal Audit Activities in the Department of Defense" (B-132900, Mar. 8, 1968).

Navy reports to the President  
and to the Congress

We reviewed fiscal years 1969, 1971, and 1972 violation reports and found no inconsistencies with the Naval Audit Service findings.

The reports for fiscal years 1969 and 1971 stated that several adjustments to estimated obligations were made on the basis of judgment without any documentary support to substantiate or reconcile the obligations recorded in the official accounting records. For example, the fiscal year 1971 report stated that estimated obligations for permanent-change-of-station travel at June 30, 1971, were \$251.4 million. This was decreased to \$240.8 million against a fund availability

of \$241 million. The Navy indicated that no documentary support existed for the adjustment. The Naval Audit Service eliminated unsupported adjustments in determining the amount of the apparent overobligations; therefore, the unsupported adjustments did not affect the amount of the overobligation reported. The Justice Department has been asked to look into the circumstances surrounding the Navy's overspending of its MPN appropriations.

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We do not plan to distribute this report further unless you agree or publicly announce its contents. We trust the information furnished is responsive to your request.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "James B. Parsons".

Comptroller General  
of the United States