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*REPORT TO THE HOUSE  
COMMITTEE ON APPROPRIATIONS*

*BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES*

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**Serious Breakdown in  
The Army's Financial  
Management Systems**

The Army has experienced a serious breakdown in the financial management and control over its procurement appropriations, resulting in several violations of the Anti-Deficiency Act. Overobligations totaling \$205 million in three appropriations have been reported to the President and the Congress. Also the Army is preparing violation reports on two additional appropriations and is investigating possible violations in eight others.

The Army has been engaged in a comprehensive effort to correct its financial records and identify specific causes of the violations.

The Army should design its accounting systems to conform with GAO's accounting principles and standards and submit its systems to GAO for approval. GAO is continuing its review to find out if the Army is taking the corrective measures to restore integrity to its financial management systems.



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

B-132900

The Honorable George H. Mahon  
Chairman, Committee on Appropriations  
House of Representatives

Dear Mr. Chairman:

The Army has experienced a serious breakdown in its accounting and financial management reporting systems, resulting in a loss of control over some appropriations, a loss of integrity of accounting information, and an inability to pay hundreds of contractors.

As you know, the Anti-Deficiency Act (31 U.S.C. 665) provides that no officer or employee make or authorize an expenditure from, or create or authorize an obligation under, any appropriation exceeding the amount therein.

In September 1975 we reported to you on the potential overobligation at the U.S. Army Electronics Command, Fort Monmouth, New Jersey, of \$40.2 million in the Other Procurement, Army, appropriation for fiscal year 1972 and that this amount was subject to adjustment. Further, we informed you that violations of the act in other procurement accounts were possible.

In October 1975 the Assistant Secretary of the Army (Financial Management) informed you of the Army's extensive financial management problems and that potential violations might total more than \$150 million in several procurement appropriations. Since then, the Army has been engaged in a very costly, but necessary, effort to determine the extent of the violations. To date, overobligations totaling \$205 million have been reported to the Congress and the President.

On November 11, 1975, because of insufficient funds in several procurement accounts, the Army had to stop payment on about 1,200 contracts involving about 900 contractors.

In April 1976 the Assistant Secretary of the Army (Financial Management) appeared before the Subcommittee on Defense, Senate Committee on Appropriations, to answer questions on the reported violations and to request additional funds so that payments to contractors could be resumed. On June 1, 1976, Public Law 94-303 was enacted providing authority to transfer funds between appropriations to liquidate the reported deficiencies.

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As you requested on November 12, 1975 (app. I), we reviewed procedures used by the Army to determine amounts of overobligations in procurement accounts. You also asked us to determine whether improvements have been or are being made in procurement appropriation accounting systems that would help prevent future violations of the Anti-Deficiency Act.

The following summarizes (1) the results of our review to date regarding the amounts and causes of reported violations, potential additional violations now being investigated, and Army efforts to improve its financial management system and (2) the additional work we plan to do.

VIOLATIONS OF THE ANTI-DEFICIENCY ACT

On April 21, 1976, the Secretary of Defense reported to the President and the Congress overobligations totaling \$205 million in the following Army procurement appropriations:

<u>Appropriation</u>	<u>Overobligation</u> (millions)
Procurement of Equipment and Missiles, Army--fiscal years 1971 and Prior	\$150.1
Other Procurement, Army--fiscal year 1972	14.5
Procurement of Ammunition, Army--fiscal year 1973	<u>40.4</u>
	<u>\$205.0</u>

The Army is preparing violation reports for its Procurement of Weapons and Tracked Combat Vehicle appropriations for fiscal years 1972 and 1973, and is investigating possible violations in eight additional appropriations. Appendix II lists the 13 procurement appropriations determined to be in violation or now under investigation.

Causes of violations

Generally, the violations reported and now being investigated are a result of poor accounting and reporting practices and a general breakdown in financial management within the Department of the Army.

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One major problem the Army has had in administering its procurement appropriations was noted in a June 1976 report by a Financial Management Advisory Committee convened to advise the Army on how to correct its accounting problems. The report indicates that the Army has not fully implemented a procurement accounting system that effectively records, accounts for, and reconciles financial and program data.

In a report we issued 4 years ago entitled "Incomplete Installation of the Management Accounting System for Procurement of Equipment and Missiles" (B-163074, Feb. 18, 1972), we came to the same conclusion and pointed out that, in spite of 7 years' development and expenditures of \$18.5 million, the system had yet to be fully implemented. Although the Army agreed with our recommendations for prompt implementation, apparently it did not take effective corrective actions.

The extensive delay in implementing the procurement accounting system is symptomatic of the Army's overall difficulties in complying with the Budget and Accounting Procedures Act of 1950 (31 U.S.C. 66, 66a). The act contains several provisions intended to promote sound financial management and accounting control within Federal agencies and requires each executive agency head to establish and maintain effective systems of accounting and internal control, including internal audit. The act also specifies that the accounting systems will conform to the principles and standards of the Comptroller General and that the systems will be submitted to GAO for approval. The Army is behind the Air Force and Navy in submitting and obtaining approval for its systems.

The violations of the Anti-Deficiency Act occurred principally because the Army

- overstated orders from foreign governments for goods and services (the value of orders received is treated as additional obligational authority),
- transferred fund authority out of procurement appropriations to other appropriations when such funds were not available for transfer,
- made transfers out of appropriations and failed to make corresponding reductions in fund authority allocated to field commands, and
- failed to take effective corrective action regarding Army Audit Agency findings in a June 1972 report on financial problems at the Electronics Command.

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The overobligation in the Procurement of Ammunition, Army, fiscal year 1973 appropriation resulted from improper accounting entries made to keep the Army within the congressionally designated Military Assistance Service Funded ceiling. When the entries were corrected, the overobligation was discovered.

Army efforts to determine  
amounts of violations

In June 1972 and September 1974, financial problems pertaining to lack of control over recording and reporting orders for goods and services from foreign governments were identified at the U.S. Army Electronics Command. Subsequently, it became evident that these problems existed at other commodity commands under the U.S. Army Materiel Development and Readiness Command. <sup>1/</sup> As a result, in January 1975, the Readiness Command initiated a commandwide effort to reconcile source documents, including orders received, with procurement account financial records. The reconciliation is still in process. At February 29, 1976, more than 16,000 staff-days had been spent on the reconciliation. In addition, the Army Audit Agency has spent almost 12,000 staff-days as of May 31, 1976, at a cost of over \$1.6 million in reviewing (1) the status of the reconciliation and (2) the Army's customer order program. More than \$1.5 billion in gross adjustments necessary to correct procurement account records had been identified as of February 29, 1976, through the reconciliation.

While the Army was attempting to fully reconcile all financial records in its procurement accounts, it was continually aware of the urgent need to pay contractors affected by the stop payment action taken in November 1975. The timing of the reports of violation was, therefore, influenced by the Army's need to get additional fund authority for the overobligated accounts. When the overobligated amounts were reported to the President and the Congress, it was recognized that more adjustments to the accounting records might need to be made because some issues raised by the Army Audit Agency had not been resolved and the reconciliation had not been completed.

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<sup>1/</sup>Previously the U.S. Army Materiel Command.

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We believe, however, that the Army's efforts to project amounts of overobligations in the three accounts in the April 21, 1976, reports were reasonable. The way the unresolved issues raised by the Audit Agency are resolved and any additional adjustments resulting from the reconciliation will probably cause the amounts of overobligations to change and, most likely, increase. Army representatives have told us there are indications that additional fund authority requests may be needed for one or more accounts already reported to be in violation.

#### ARMY ACTIONS TO IMPROVE FINANCIAL MANAGEMENT

The Army has established several committees and working groups to identify actions needed to improve financial management throughout the Department. These groups have identified a need for more than 400 corrective actions. The Army has informed us that (1) efforts are underway to take these actions soon and (2) during fiscal year 1977, the Army Audit Agency will spend 50 percent of its staff-days reviewing financial management.

One committee formed by the Army was the Financial Management Advisory Committee, which consisted of six individuals from industry and the academic community and one from the Army. In June 1976 the committee submitted a comprehensive report on the Army's problems in administering its procurement appropriations. We sent copies to your office.

#### CONCLUSIONS

The reconciliation procedures initiated by the Readiness Command in January 1975 to (1) determine the amounts that have been overobligated and (2) correct the Army's financial records were essentially sound and were generally being followed by commodity commands. Also, effective and timely implementation of the numerous corrective actions identified by the several Army committees and groups should result in improved financial management and control.

The Army has still not completely implemented its accounting system for procurement appropriations. Further, its efforts to design systems which comply with the Comptroller General's principles and standards and to submit them to us has lagged.

We encourage the Army to conform to our accounting principles and standards and to submit its systems for

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approval. When these systems are approved and implemented, they will help to strengthen internal controls and will contribute to the integrity of financial data.

RECOMMENDATIONS

We recommend that the Secretary of Defense have the Secretary of the Army

--develop a plan to fully implement the accounting system for procurement appropriations. The plan should include a realistic schedule against which progress can be measured, and

--take the necessary action to accelerate efforts to design accounting systems to conform with the Comptroller General's principles and standards and submit the systems for approval.

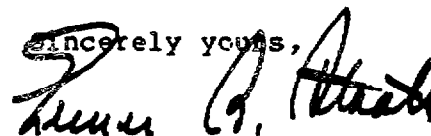
FUTURE GAO WORK

As your office agreed, we plan to concentrate on evaluating and monitoring the implementation of the corrective actions identified by the Army to prevent violations of the Anti-Deficiency Act and improve financial management in general. Also, we will follow up on the eight procurement appropriations recently found to be overallocated. We will also continue to monitor and evaluate the work of the Army Audit Agency, which has several ongoing and planned audits related to the status of the procurement appropriations and corrective actions being taken.

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We discussed the contents of this report with Army officials and they informed us that they agreed with our findings, conclusions, and recommendations.

As agreed with your office, we are sending copies of this report to Senator Lee Metcalf; the Secretary of Defense; the Secretary of the Army; the Director, Office of Management and Budget; and others.

Sincerely yours,  


Comptroller General  
of the United States

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## CHAPTER 1

### INTRODUCTION

In October 1975 the Assistant Secretary of the Army (Financial Management) notified the Chairman of the House Appropriations Committee that there had been a serious breakdown in the financial control over Army procurement appropriations, resulting in apparent violations of the Anti-Deficiency Act, which could involve more than \$150 million in overobligations. The act (31 U.S.C. 665) provides that no officer or employee make or authorize an expenditure from, or create or authorize an obligation under, any appropriation exceeding the amount therein.

On November 12, 1975, the Chairman requested us to (1) determine if and when the Army intended to submit to the President and the Congress formal reports of violations as required by the Anti-Deficiency Act, (2) test and evaluate procedures used by the Army in determining the amount of overobligations, and (3) determine whether improvements have been or are being made in the accounting systems for procurement appropriations at the Army's commodity commands that would prevent violations of the act.

### BACKGROUND

Within the past few years the Army's procurement appropriation was restructured and its customer order program grew dramatically. These two occurrences played a vital role in the Army's financial management problems.

#### Change in procurement appropriation structure

In fiscal year 1972, to provide better control over procurement funds, the Congress split the Army's single procurement appropriation as follows:

1. Procurement of Aircraft, Army.
2. Procurement of Missiles, Army.
3. Procurement of Weapons and Tracked Combat Vehicles, Army.
4. Procurement of Ammunition, Army.
5. Other Procurement, Army.

Before fiscal year 1972 the Army operated under a single no-year procurement appropriation called Procurement of Equipment and Missiles, Army.

Under the no-year concept there was no fiscal year limitation on the use of funds in the account and no cutoff period during which total adjusted obligations incurred could be conveniently matched with total funding authority. Without a time limitation, funds remained available for obligation until used or transferred out of the account. As a result, funds were often carried over from one year to the next.

The above appropriations were assigned a 3-year life for obligational purposes by the Congress, and as the first of these appropriations approached the end of its obligation period, the overobligations were identified.

#### Growth of the customer order program

Under this program, the Army's Readiness Command furnishes equipment, material, and services ordered by foreign countries, other U.S. Government agencies, and the Department of Defense. Army appropriations are used to initially finance customer orders and are subsequently reimbursed on receipt of payments for the equipment, material, and services. Commodity commands <sup>1/</sup> report customer orders received to the Readiness Command and Army Headquarters. The dollar amounts of orders received, as reported by commodity commands, are treated as increases to the Army's obligational authority.

Management of the customer order program is complex. Since receipt of orders in effect increases obligational authority, tight controls are necessary over the pricing, recording, and reporting of customer orders. Further, controls are needed to assure that reimbursements are collected promptly and the correct account is credited.

Not only is the program complex, but it has grown appreciably in recent years. Customer orders rose from \$1.3 billion in fiscal year 1972 to \$3.1 billion in fiscal year 1975. The major part of this increase was in foreign military sales, which rose from \$0.5 billion to \$2.2 billion.

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<sup>1/</sup>These are the U.S. Army Armament Command, Aviation Systems Command, Electronics Command, Missile Command, Tank-Automotive Command, and Troop Support Command.

## CHAPTER 2

### ANTI-DEFICIENCY ACT VIOLATIONS

Violations of the act were first discovered at the Electronics Command, Fort Monmouth, New Jersey. Later, similar problems were found in other commodity commands. A massive reconciliation of financial records was therefore begun to (1) determine the amounts of overobligations and (2) restore integrity to the financial data. The reconciliation identified significant amounts of additional violations.

#### VIOLATION AT ELECTRONICS COMMAND

In December 1974 the Army Audit Agency reported an apparent overobligation in the fiscal year 1972 Other Procurement account of \$40.2 million at the Electronics Command, Fort Monmouth. The report stated that customer orders had been recorded for which there was no supporting documentation. Since obligations had been incurred on the basis of the total value of orders recorded, the correcting adjustment, which wrote off a substantial portion of orders, resulted in a disclosure of an apparent overobligation.

At the request of the Chairman of the House Appropriations Committee, we visited the Electronics Command and in September 1975 we reported (B-132900, Sept. 8, 1975) that an overobligation had occurred. Further, we noted that ongoing review and reconciliation by the Army could result in a change in the amount of the fiscal year 1972 Other Procurement account overobligation and could disclose additional violations.

#### RECONCILIATION OF FINANCIAL RECORDS ORDERED

In January 1975 the Army Audit Agency reported to the Readiness Command that its commodity commands had not been reconciling financial data reported for customer orders with documents showing orders received. Consequently, the reliability of the reported amount of customer orders was suspect. The auditors recommended that all commands be ordered to reconcile financial data to insure that the amount of recorded and reported customer orders was correct and that funding authority had not been exceeded.

The Readiness Command agreed and ordered a commandwide effort to verify and correct recorded and reported financial data for all procurement appropriations. At that time, the Army had to account for 21 separate procurement appropriations. The reconciliation was subsequently expanded to six distinct phases dealing with various financial data and

levels of reporting. The general objectives of the reconciliation, which have not as yet been completed, are (1) to identify amounts overobligated and (2) to verify recorded procurement appropriation account balances with obligation documents and other documents, and to bring into agreement data recorded at various reporting levels within the Army and the Department of the Treasury.

Specific elements being traced to source documents include customer orders received, reimbursements earned, unfilled orders, receivables, obligations, collections, and disbursements. Appropriation balances are being verified at the six commodity commands, the International Logistics Command, the U.S. Army Accounting and Finance Center, and the Department of the Treasury.

At February 29, 1976, gross adjustments totaling more than \$1.5 billion were identified in the first two of the six phases; for example, the value of customer orders was adjusted by \$705.4 million. Work on the latter phases is still in process.

The reconciliation through February 29, 1976, had taken at least 16,360 staff-days. Also the Army Audit Agency has used almost 12,000 staff-days as of May 31, 1976, at a cost of more than \$1.6 million to review (1) the status of the reconciliation and (2) the customer order program.

#### Payments to contractors stopped

By November 1975 the magnitude of overobligations and related overexpenditures became apparent, and the Army stopped disbursements from the following appropriations:

1. Procurement of Equipment and Missiles, Army--fiscal years 1971 and prior.
2. Other Procurement, Army--fiscal year 1972.
3. Procurement of Weapons and Tracked Combat Vehicles, Army--fiscal year 1972.
4. Procurement of Weapons and Tracked Combat Vehicles, Army--fiscal year 1973.

This action affected about 1,200 contracts and 900 contractors. In January 1976 the Army also stopped payments from the fiscal year 1973 Ammunition appropriation.

REPORTS OF VIOLATION SUBMITTED

On April 21, 1976, the Secretary of Defense submitted formal reports of violation of the Anti-Deficiency Act for the following procurement appropriations.

	<u>Overobligation</u> (millions)
Procurement of Equipment and Missiles, Army--fiscal years 1971 and prior	\$150.1
Other Procurement, Army--fiscal year 1972	14.5
Procurement of Ammunition, Army--fiscal year 1973	<u>40.4</u>
	<u>\$205.0</u>

Because overobligations and related overexpenditures in these appropriations were much larger than in the fiscal year 1972 and 1973 Procurement of Weapons and Tracked Combat Vehicles appropriations, investigation and preparation of the violation reports was expedited.

The Army is preparing violation reports for its Procurement of Weapons and Tracked Combat Vehicle Appropriations for fiscal years 1972 and 1973 and is investigating possible violations in eight additional appropriations. Appendix II lists the 13 procurement appropriations determined to be in violation or now under investigation.

Validity of reported overobligations

When the \$205 million in overobligations was reported, the reconciliation was not complete. Also many items, most of which had been identified by the Army Audit Agency, had not yet been decided upon. However, from the time disbursements were stopped, the Army had been aware of the urgent need to obtain additional funding authority to pay contractors. To obtain that authority, the Army projected over-obligated amounts for inclusion in the formal reports. It did this by using official record balances and applying adjustments identified as proper but not yet recorded.

To check the validity of the reported overobligations, we made a limited review of official record balances and pending adjustments, tested the balances on the books at the commodity commands, and compared the cumulative totals of commodity command balances with appropriation balances reported by the Army. Recognizing the Army's need to obtain funds for the accounts in violation so that payments to

contractors could be resumed, we believe its efforts to project amounts of overobligations were reasonable. However, as adjustments resulting from (1) remaining reconciliation work and (2) resolution of issues raised by the Army Audit Agency are recorded, amounts of the overobligations will probably change and, most likely, increase. For example:

1. Appropriation balances being reported at the Department of the Army level could not always be supported by feeder report figures from subordinate commands. In some cases, the amounts which could not be supported were significant. For example, at December 31, 1974, the Army reported \$340.3 million in outstanding accounts receivable for the fiscal year 1971 Procurement of Equipment and Missiles, Army appropriation, but only \$298.9 million could be supported. Similar differences were found in other appropriations. The Army is considering several alternatives for resolving the unsupported differences, and the way appropriations are adjusted could directly affect the amounts of overobligations.

2. The Audit Agency reported problems concerning the amounts commodity commands recorded for orders received in relation to the Government's actual cost of the material or services to be supplied. Inaccurate pricing of customer orders results in corresponding overstatements and understatements of obligational authority created by the receipt of those orders. At the Armament Command, the Audit Agency identified cases in which obligations to satisfy customer needs exceeded related order values by \$34.2 million. Underpricing was also found at the Electronics Command. In its customer order program audit, the Agency estimated that overcharges and undercharges exceeded \$101 million at the six commodity commands.

In June 1976 the Second Supplemental Appropriations Act, 1976 was passed. On the basis of the April 21, 1976, violation reports, this act authorized the Army to transfer obligational authority from other procurement appropriations to cover the reported overobligations.

On June 4, 1976, after making the authorized transfers, payments to contractors from the two appropriations were resumed. At the same time, payments were resumed in the fiscal years 1972 and 1973 Procurement of Weapons and Tracked Combat Vehicles appropriations because adjustments to the accounts since payments were stopped in November 1975 had put them back into a positive cash position.

## CAUSES OF THE VIOLATIONS

Generally, the violations reported and now being investigated are a result of poor accounting and reporting practices and a general breakdown in financial management within the Army.

One major problem the Army has had in administering its procurement appropriations was noted in a June 30, 1976, report by the Army's Financial Management Advisory Committee. The report indicated that the Army has not yet fully implemented a procurement accounting system that effectively recorded, accounted for, and reconciled financial and program data. In a report we issued 4 years ago entitled "Incomplete Installation of the Management Accounting Systems for Procurement of Equipment and Missiles" (B-163074, Feb. 18, 1972), we came to the same conclusion and pointed out that in spite of 7 years' development and expenditures of \$18.5 million, the system had yet to be fully implemented. Although the Army agreed with our recommendations for prompt implementation, it apparently did not take effective corrective actions.

The extensive delay in implementing the procurement accounting system is symptomatic of the Army's overall difficulties in complying with the Budget and Accounting Procedures Act of 1950 (31 U.S.C. 66, 66a). The act contains several provisions intended to promote sound financial management and accounting control within Federal agencies and requires each executive agency head to establish and maintain effective systems of accounting and internal control, including internal audit. The act also specifies that the accounting systems will conform to the principles and standards of the Comptroller General and will be submitted to us for approval. As shown in the following table, The Army is behind the Air Force and Navy in submitting and obtaining approval for its systems.

Status of Accounting Systems  
Submitted to and Approved by Us  
as of September 30, 1976

	<u>Systems</u> <u>subject</u> <u>to</u> <u>approval</u>	<u>Systems</u> <u>under</u> <u>review</u>	<u>Systems</u> <u>approved</u>
Army	29	3	5
Navy	75	9	20
Air force	43	3	28

The reported violations pertaining to Procurement of Equipment and Missiles, Army--fiscal years 1971 and prior, and Other Procurement, Army--fiscal year 1972 were caused by the following accounting and reporting deficiencies.

1. Commodity commands did not adequately control, account for, or report customer orders. Key accounting reports to the Readiness Command and higher levels substantially overstated the value of recorded orders received which represent obligational authority. The Army depended on these and other reports to determine the funds available for transfer, when authorized by law, to other appropriations. About \$680 million was thus transferred by the Department.

2. The Army made transfers out of the appropriations without making corresponding reductions in fund authority allocated to field commands. As a result, during fiscal years 1972 and 1973, \$588.2 million in transfers was made from the Procurement of Equipment and Missiles, Army--fiscal year 1971 and prior appropriation to other appropriations without a corresponding reduction in obligational authority allocated to field commands. Similarly, during fiscal years 1972-74, transfers totaling \$80.6 million were made from the Other Procurement, Army--fiscal year 1972 appropriation to other appropriations, but a reduction in obligational authority allocated to the field was not made.

3. The Army did not have accurate reports of funds generated by Augmentation and Modernization Sales, or "free assets." These funds result when sales are made which do not require expenditure of funds. Proceeds become available for other uses and can serve as a basis for transferring funds to other appropriations. Inaccurate reporting of these assets resulted in erroneous fund transfers and subsequent overobligations. A recent report (LCD-76-414, Mar. 3, 1976), discusses the need for the Department of Defense to improve control over its "free assets."

Another factor contributing to the Army's extensive financial problems was its failure to adequately react to existing problems indicated in a June 1972 Army Audit Agency report. In that report, the Agency discussed weaknesses in review and reconciliation procedures, document processing, recording, coordination, training, and supervision in relation to accounting for the procurement appropriations. Although the Electronics Command agreed with the Agency's findings and recommendations, adequate corrective actions were not taken.

With regard to the violation of the fiscal year 1973 Ammunition appropriation, the \$40.4 million in overobligations



resulted from improper accounting entries by the Armament Command.

In fiscal year 1974, the Congress imposed a Department of Defense limit on the Military Assistance Service Funded Program for South Vietnam and Laos, of which the Army's share was \$700 million. At that time, projected obligations in the Army exceeded the limit by \$160 million. To achieve the necessary cutback, the Readiness Command in March 1974, instructed the Armament Command to review the ammunition program to identify where reductions could be made in procurements planned against unobligated funds still available in the fiscal year 1974 and prior appropriations. The Command was also told that, if the total \$160 million reduction could not be met through deferral of unobligated programs, obligated programs were to be reviewed to determine whether amounts could be deobligated through contractual adjustments and modifications.

The Armament Command determined that not enough unobligated funds remained to satisfy the required reduction. Therefore, to free about \$49.5 million of the \$160 million, it (1) made accounting entries to transfer fiscal year 1973 disbursements to 1974 and (2) deobligated the related fiscal year 1973 obligations and obligated fiscal year 1974 funds.

During an audit of Readiness Command fund management in 1975, the Army Audit Agency concluded that disbursement adjustments and deobligations were improper because certain contracts for ammunition had been awarded to satisfy 1973 customer orders which had been paid for and, therefore, should not have been charged against the fiscal year 1974 appropriation. The Comptroller of the Army agreed, and the improper entries were corrected revealing the \$40.4 million overobligation.

## CHAPTER 3

### PLANS TO IMPROVE FINANCIAL MANAGEMENT

The Army recognized that the violations of the Anti-Deficiency Act indicated the widespread financial problems, and several committees and working groups were established to identify and deal with these problems. These groups have identified more than 400 actions needed.

In June 1975 the Army Customer Order Steering Committee was established. Consisting of 11 top level Army managers, it was to study all aspects of problems with financial management of customer order programs and was authorized to revise policies and procedures. The steering committee has made numerous recommendations, many of which have been implemented. For example, each commodity command has established a single point to receive and control customer orders, as recommended by the steering committee. The Army Audit Agency has been directed to review and evaluate the effectiveness of the implementation of certain steering committee recommendations.

The Army Study Group on Control of Investment Appropriations was established in October 1975 to determine the adequacy of the financial management and control of procurement and other appropriations. In June 1976 the group completed a report summarizing problems and recommending corrective actions identified in all the audits and reviews that had been performed.

To reestablish the integrity of financial management within the Army, the Army Chief of Staff chartered the Financial Management Improvement Program in November 1975. The program was intended to (1) make commanders and their staff aware of their responsibilities in the Army's financial management system and (2) determine whether the Army's financial management organization and controls provide for sound financial management.

In March 1976 the Secretary of the Army established the Financial Management Advisory Committee. The committee, consisting of six individuals from industry and the academic community and one from the Army, was charged with (1) reviewing reports and other data on the Army's financial management problems, (2) determining if problems and solutions have been adequately identified, and (3) analyzing controls to assure the soundness of financial management and procedures.

On June 30, 1976, the committee issued its final report with conclusions and recommendations, to the Secretary of

the Army. Among the recommendations was that the Army establish control over the allocation process to insure that funding authorizations at all levels agreed and that these authorizations were not exceeded. The committee also recommended that "free assets" (see pp. 6 and 35) be more clearly defined and strictly controlled at the Department of the Army level. A high level steering committee has been established to insure that the recommendations are implemented soon.

The Army has also established a group within the Office of the Comptroller of the Army to monitor action on unresolved issues affecting the procurement appropriations. Most of these issues were identified either during the Readiness Command reconciliation or by the Army Audit Agency.

The Audit Agency has been involved in the Army's financial management problems since the Agency first identified them. Many of the Army's problems were discovered during the Agency's review of the Army's customer order program. Subsequently, the Agency conducted two reviews and issued reports on the status of the ongoing reconciliation of Army procurement accounts directed by the Readiness Command. Recently, the Agency has initiated an audit of the administrative control of funds in the Army and a review of the pre-certification procedures at each commodity command and at the U.S. Army Accounting and Finance Center, Indianapolis. The Agency plans to devote about 50 percent of its resources in fiscal year 1977 to auditing financial accounting and reporting. This represents a significant increase over its efforts in recent years.

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## CHAPTER 4

### CONCLUSIONS AND RECOMMENDATIONS

#### CONCLUSIONS

The Army has experienced an overall breakdown in financial management and control over its procurement appropriations. It has made a reasonable effort to (1) identify amounts and causes of existing violations of the Anti-Deficiency Act and (2) determine what changes are needed to prevent recurrence of those violations. However, this has cost a lot of money and much work remains to be done, including (1) completion of the Readiness Command's reconciliation, (2) reporting all violations of the act as required by law, (3) taking corrective actions which have been identified, and (4) improving financial management systems in general. As noted in chapter 5, we plan to monitor and evaluate these actions.

The Army has still not completely implemented its accounting systems for procurement appropriations. Further, its efforts to design systems which comply with the Comptroller General's principles and standards and to submit such systems to us has lagged.

We encourage the Army to conform to our accounting principles and standards and to submit its systems for approval. When these systems are approved and implemented, they will help to strengthen internal controls and will contribute to the integrity of financial data.

#### RECOMMENDATIONS

We recommend that the Secretary of Defense have the Secretary of the Army

- develop a plan to fully implement the accounting system for procurement appropriations. The plan should include a realistic schedule against which progress can be measured, and
- take the necessary action to accelerate efforts to design accounting systems to conform with the Comptroller General's principles and standards and submit the systems for approval.

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We discussed the contents of this report with Army officials and they informed us that they agreed with our findings, conclusions, and recommendations.

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## CHAPTER 5

### FUTURE GAO WORK

As agreed with the Office of the Chairman of the House Appropriations Committee, we plan to concentrate on evaluating and monitoring implementation of the corrective actions identified by the Army to prevent violations of the Anti-Deficiency Act and to improve its financial management systems in general. Also we will follow up on the eight procurement appropriations recently found to be overallocated. We will also continue to monitor and evaluate work of the Army Audit Agency, which has several ongoing and planned audits of the status of the procurement appropriations and corrective actions being taken. Our findings will be included in a final report to the Chairman, House Appropriations Committee.

CHAPTER 6

SCOPE OF REVIEW

Our review involved:

- Reviewing the procedures used by the Army at each commodity command, the International Logistics Center, the U.S. Army Finance and Accounting Center, and Headquarters to reconcile financial records and to project the amounts of the reported violations.
- Testing the reconciliation and the adjustments made as a result of the reconciliation.
- Reviewing (1) Army regulations and procedures on administrative control of funds and (2) Army records and reports.
- Discussing the objectives, procedures, and results of the Army Audit Agency's reviews and the Army's reconciliation procedures with officials.

To the extent practicable, we used the work performed by the Audit Agency.

We made our review at the:

- Department of the Army, Washington, D.C.
- U.S. Army Finance and Accounting Center, Indianapolis, Indiana.
- U.S. Development and Readiness Command, Alexandria, Virginia.
- International Logistics Center, New Cumberland, Pennsylvania.
- U.S. Army Armament Command, Rock Island, Illinois.
- U.S. Army Aviation Systems Command, St. Louis, Missouri.
- U.S. Army Electronics Command, Fort Monmouth, New Jersey.
- U.S. Army Missile Command, Redstone Arsenal, Alabama.
- U.S. Army Tank-Automotive Command, Warren, Michigan.
- U.S. Army Troop Support Command, St. Louis, Missouri.



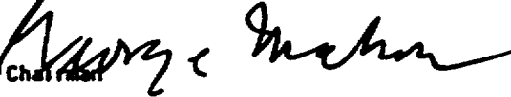
APPENDIX I

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Honorable Elmer B. Staats  
November 12, 1975  
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This matter has been discussed with members of your Financial and General Management Studies Division staff. Because of the apparent magnitude of Army's financial management problems and recognizing that substantial GAO resources may be needed to fully satisfy this request, it was agreed that, after some preliminary work has been performed by your office, a meeting with my staff will be held so that the approach and scope of the audit can be agreed upon.

Sincerely,

  
Chairman



SCHEDULE OF APPROPRIATIONS  
IN VIOLATION AND UNDER INVESTIGATION  
AS OF AUGUST 31, 1976

<u>Appropriation</u>	<u>FY</u>	<u>Over- allo- cated</u>	<u>Over- obli- gated</u>	<u>Over- ex- pended</u>
Procurement of Equipment and Missiles, Army (note a)	1971 and prior	X	X	X
Procurement of Weapons and Tracked Combat Vehicles, Army (Weapons) (note b)	1972	X		
Procurement of Ammunition, Army (Ammunition) (note c)	1972	X		
Other Procurement, Army (note a)	1972	X	X	X
Aircraft Procurement, Army (Aircraft) (note c)	1973	X		
Missile Procurement, Army (Missile) (note c)	1973	X		
Weapons (note b)	1973	X	X	X
Ammunition (notes a and c)	1973	X	X	
Other Procurement, Army (note c)	1973	X	X	
Aircraft (note c)	1974	X		
Missile (note c)	1974	X		
Weapons (note c)	1974	X		
Ammunition (note c)	1974	X		

a/Violation reports submitted to the President and the Congress on April 21, 1976.

b/Violation reports being prepared.

c/Discovered to be in overallocated status and as of August 31, 1976, still under investigation.

PRINCIPAL OFFICIALS  
RESPONSIBLE FOR ADMINISTERING ACTIVITIES  
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
<u>DEPARTMENT OF DEFENSE</u>		
<b>SECRETARY OF DEFENSE:</b>		
Donald H. Rumsfeld	Nov. 1975	Present
Dr. James R. Schlesinger	July 1973	Nov. 1975
William P. Clements (acting)	May 1973	July 1973
Elliot L. Richardson	Jan. 1973	May 1973
Melvin R. Laird	Jan. 1969	Jan. 1973
<b>ASSISTANT SECRETARY OF DEFENSE (COMPTROLLER):</b>		
Fred P. Wacker	Sept. 1976	Present
Terrence E. McClary	June 1973	Aug. 1976
Don E. Brazier (acting)	Jan. 1973	June 1973
Robert C. Moot	Aug. 1968	Jan. 1973
<u>DEPARTMENT OF THE ARMY</u>		
<b>SECRETARY OF THE ARMY:</b>		
Martin R. Hoffman	Aug. 1975	Present
Howard H. Callaway	May 1973	July 1975
Robert F. Froehke	July 1971	May 1973
<b>ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT):</b>		
Hadlai A. Hull	Mar. 1973	Present
Richard L. Saint Sing (acting)	Sept. 1972	Mar. 1973
Eugene M. Becker	June 1967	Sept. 1972
<b>COMPTROLLER OF THE ARMY:</b>		
Lt. Gen. John A. Kjellstrom	July 1974	Present
Lt. Gen. E. M. Flanagan, Jr.	Jan. 1973	July 1974
Lt. Gen. John H. Wright, Jr.	Aug. 1970	Jan. 1973