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[Improper Adjustments to Fiscal Year 1972 Other Procurement, Army Appropriation]. FGMSD-77-80; B-132900. September 28, 1977. 4 pp.

Report to Secretary, Department of Defense; by D. L. Scantlebury, Director, Financial and General Management Studies Div.

Issue Area: Accounting and Financial Reporting: Overobligations and Overexpenditures (2804).

Contact: Financial and General Management Studies Div.

Budget Function: Miscellaneous: Financial Management and Information Systems (1002).

Organization Concerned: Department of the Army.

Congressional Relevance: House Committee on Armed Services; Senate Committee on Armed Services.

Authority: Anti-Deficiency Act (31 U.S.C. 665).

A review was conducted of financial management problems in the Department of the Army which have led to violations of the Anti-Deficiency Act in several procurement appropriations. Findings/Conclusions: The Army made unsupported accounting adjustments to its fiscal year (FY) 1972 Other Procurement, Army account, improperly increasing fund resources to \$33 million. These entries involved \$16.7 million at the Electronic Command and \$16.3 million at the Finance and Accounting Center. The Army could not provide adequate support for recording the entries. Recommendations: The Secretary of Defense should have the Secretary of the Army direct that the entries in the FY 1972 Other Procurement, Army account be reversed. Entries to reverse the improper adjustments should be made before the FY 1973 Other Procurement, Army account is merged into the M account. If the Army is unable to prepare properly supported adjustments to the 1972 Other Procurement, Army account, it should submit an amended formal report of the overobligation to the President and the Congress. (Author/SW)

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

03717

DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

B-132900

SEP 28 1977

The Honorable
The Secretary of Defense

Dear Mr. Secretary:

As you know, we have been asked by the Chairman of the House Appropriations Committee to review financial management problems in the Department of the Army which have led to violations of the Anti-Deficiency Act (31 U.S.C. 665) in several procurement appropriations. Although our review is not completed, this report is to bring to your attention the need to (1) take prompt corrective action to reverse improper adjustments made to the fiscal year 1972 Other Procurement, Army appropriation and (2) submit an amended report of violation of the Anti-Deficiency Act to the President and the Congress.

SCOPE OF REVIEW

Using pertinent Army and Defense regulations and Army accounting records, we made our review at the Office of the Secretary of Defense, Headquarters, Department of the Army, U.S. Army Finance and Accounting Center, U.S. Army Development and Readiness Command and each of its commodity commands. We also used work performed by the U.S. Army Audit Agency in its review of the Army customer order program.

BACKGROUND

In October 1975 the Army notified the Chairman of the House Appropriations Committee of serious problems in the financial controls over its procurement appropriations. As indicated in our interim report to the Congress on the breakdown in the Army's financial management systems (FGMSD-76-74, Nov. 5, 1976), the Army has undergone a massive effort to reconcile its financial records and correct weaknesses in its procurement accounting system. The effort was prompted by violations of the Anti-Deficiency Act in several procurement appropriations including the fiscal year 1972 Other Procurement, Army appropriation. As of August 31, 1977, the Army had reported more than \$225 million in over-obligations and was continuing to research additional violations. As

a result of these overobligations and the related overexpenditures, the Army had to stop payments to contractors until funds were approved by the Congress to liquidate the deficiencies.

IMPROPER AUGMENTATION OF THE FISCAL YEAR 1972
OTHER PROCUREMENT, ARMY APPROPRIATION ACCOUNT

The Army made unsupported accounting adjustments to its fiscal year 1972 Other Procurement, Army account, improperly increasing fund resources by \$33 million. The entries were recorded after the Army determined that fund resource transfers authorized by the Congress were not sufficient to bring the account out of a deficit status.

In April 1976 the Secretary of Defense formally reported an over-obligation of \$14.5 million in the fiscal year 1972 Other Procurement, Army account and requested authority to transfer fund resources from current accounts to cover the deficiency. On June 1, 1976, the Congress passed the Second Supplemental Appropriation, 1976, authorizing transfer of fund resources to cover the deficit.

In making its initial computation of the overobligation in the fiscal year 1972 Other Procurement, Army account, the Army used official record balances for January 31, 1976, and included several adjustments it felt would eventually be recorded in the account as a result of ongoing review and reconciliation work.

When the transfer of funds was approved, however, the Army had still not documented support for, or recorded, a large projected adjustment. As a result, when the authorized transfer in fund resources was recorded on June 1, 1976, the fiscal year 1972 Other Procurement, Army account still had a deficit balance of \$19 million.

Subsequently, the Army recorded unsupported entries to correct apparent erroneous balances in the fiscal year 1972 Other Procurement, Army account. These entries, involving \$16.7 million at the U.S. Army Electronics Command and \$16.3 million at the U.S. Army Finance and Accounting Center, resulted in improper augmentation of fund resources in the account by \$33 million. Details of these entries follow.

Improper adjustments at the
U.S. Army Electronics Command

In June 1976, Headquarters, Department of the Army, directed the U.S. Army Electronics Command to record adjustments in the fiscal year 1972 Other Procurement, Army account, increasing the balance of orders received and earnings by \$16.7 million. This had the effect of increasing the account's fund resources by a like amount. The entry was recorded to correct an erroneous accounts receivable balance. During the ongoing reconciliation effort, the Electronics Command had documented \$11.7 million in valid accounts receivable. Official records, however,

reflected a negative accounts receivable balance of \$5 million. The erroneous balance could have been caused by (1) collections recorded in the account that were properly chargeable to another account, (2) reimbursable orders that were properly chargeable to the account but were not recorded thereon, or (3) a combination of these two conditions. Although the Electronics Command had recently verified the recorded value of reimbursable orders, the Army chose to arbitrarily increase the value of orders received, and therefore fund resources by \$16.7 million which resulted in an \$11.7 million accounts receivable balance on official records. The other possible adjustments, i.e., reducing collections in the account or a combination of reducing collections and increasing orders received, were apparently not seriously considered. Such entries would have reduced the overall cash balance in the account, thereby possibly precluding resumption of payments to contractors.

Improper adjustments at the U.S. Army
Finance and Accounting Center

Also in June 1976, as directed by Headquarters, Department of the Army, the U.S. Army Finance and Accounting Center arbitrarily reduced unliquidated obligations in the fiscal year 1972 Other Procurement, Army account on departmental records by recording a negative obligation and a negative disbursement of \$15.9 million. In addition, at the direction of Headquarters, Department of the Army, the Finance Center arbitrarily increased the balance of orders received and earnings by \$0.4 million. The journal voucher on which these entries were recorded was prepared on June 21, 1976, but was backdated to be included in May 31, 1976, official reports. Together, these entries had the effect of increasing fund resources in the fiscal year 1972 Other Procurement, Army account by \$16.3 million.

Army officials stated that the entries were recorded to bring balances of disbursements and collections reported by accounting stations into agreement with amounts reported by disbursing offices. Although we agree with the need to bring the two sets of figures into agreement, we found no justification to write off, in effect, obligations and disbursements on departmental records.

CONCLUSION

Adjusting entries recorded at the Electronics Command and the Finance Center improperly augmented fund resources in the fiscal year 1972 Other Procurement, Army account by \$33 million. The Army could not provide adequate support for recording the entries and, accordingly, they should be reversed.

RECOMMENDATION

We recommend that the Secretary of Defense have the Secretary of the Army direct that the above described entries in the fiscal year 1972 Other Procurement, Army account be reversed. Entries to reverse the improper adjustments should be made before the fiscal year 1973 Other Procurement, Army account is merged into the M account.

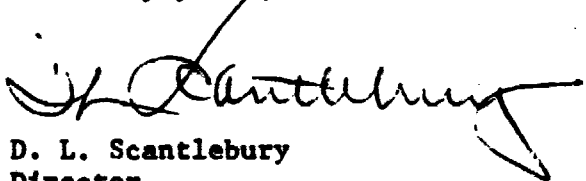
If the Army is unable to prepare properly supported adjustments to the 1972 Other Procurement, Army account, it should submit an amended formal report of the overobligation to the President and the Congress.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report today to the House Committee on Government Operations and the Senate Committee on Governmental Affairs; the House and Senate Committees on Appropriations and Armed Services; the Director, Office of Management and Budget; and the Secretary of the Army.

Sincerely yours,



D. L. Scantlebury
Director