

DOCUMENT RESUME

04562 - [B0185073]

[Potential Overobligations in Army Procurement Appropriations].
September 26, 1977. 3 pp.

Report to Maj. Gen. J. K. Stoner, Jr., Commander, Department of the Army: Army Electronics Command, Fort Monmouth, NJ; by Allen R. Voss, Regional Manager, Field Operations Div.; Regional Office (Philadelphia).

Issue Area: Accounting and Financial Reporting (2800).
Contact: Field Operations Div.: Regional Office (Philadelphia).
Budget Function: Miscellaneous: Financial Management and Information Systems (1002).

Organization Concerned: Department of the Army; Department of the Army: Army Armament Materiel Readiness Command, Rock Island, IL.

Authority: Anti-Deficiency Act.

Several matters were noted in a review of financial records and reports at the U.S. Army Electronics Command (ECOM) that affect the accuracy and reliability of these financial records. Findings/Conclusions: One of the deficiencies noted was a loss of control over the recording of customer orders. In April 1976, recorded values for at least 58 customer orders were \$7.4 million less than related obligations in five appropriations. ECOM initiated a review to determine if additional reimbursements could be obtained. By December 1976, a partially completed review had been made of an initial group of nine cases, and further work was suspended, primarily because of personnel constraints and workload. Work had not been resumed by June 1977. It was also reported in April 1976 that ECOM's February 29, 1976, report on customer order financial status contained numerous negative balances totaling \$15.7 million for unfilled orders or accounts receivable. As of December 31, 1976, it was found that 17 appropriations had negative balances totaling \$11.1 million. ECOM had not acted on this problem as of June 1977. Recommendations: ECOM should assign a sufficiently high priority to these items so that they can be resolved in the near future and appropriate action taken to prevent their recurrence. (DB)



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September 26, 1977

04562

Major General J.K. Stoner, Jr., USA

Commander

U.S. Army Electronics Command

Fort Monmouth, New Jersey 07703

Dear General Stoner:

In recent years there has been a serious breakdown in financial control over Army procurement appropriations which resulted in violations of the Anti-Deficiency Act. The Chairman, House Appropriations Committee, in November 1975, requested us to review certain aspects of this situation and we did so at numerous Army locations, including the U.S. Army Electronics Command (ECOM).

On November 5, 1976, we issued a report to the Chairman (FGMSD-76-74) on the overall results of the first phase of our review which dealt with the amounts and causes of violations. Since then, we have concentrated on evaluating the Army's efforts to improve its financial management system. Our final report to the Chairman is currently being prepared and will summarize the results of our review at all locations visited, including your command.

The purpose of this letter is to inform you of several matters we noted at ECOM which will not be included in our final report. These matters affect the accuracy and reliability of ECOM's financial records and reports and can be corrected by your staff.

BACKGROUND

ECOM and the other commodity commands report customer orders received to the U.S. Army Materiel Development and Readiness Command (DARCOM) and Army Headquarters. Since the dollar amounts of the orders are treated as increases to the Army's obligational authority, accurate recording and reporting of customer orders is essential. The Army's breakdown in financial management included loss of control over the recording of customer orders at ECOM and other commands.

In January 1975, DARCOM initiated a commandwide program to verify and correct the financial records for all its procurement appropriations. In January 1976, and again in April, the Army Audit Agency reported on reviews it had made of the status and effectiveness of the reconciliation effort at each command. The audit agency identified a number of financial items requiring resolution to assure the accuracy and reliability of financial records. We noted that the following two items pertaining only to ECOM had not been resolved as of June 1977.

CUSTOMER ORDER PRICE
INCREASES UNRECORDED

In April 1976, the audit agency reported (report N6-M143) that recorded values for at least 58 customer orders were \$7.4 million less than related obligations in five appropriations. ECOM personnel initiated review work to determine if additional reimbursements could be obtained, thus increasing funds available to the procurement appropriations. By December 1976, they had only partially completed review of an initial group of nine cases and we were informed that further work was suspended, primarily, because of personnel constraints and workload. Work had not been resumed by June 1977.

NEGATIVE UNFILLED ORDER AND
ACCOUNTS RECEIVABLE BALANCES

The audit agency also reported in April 1976, that ECOM's February 29, 1976, report on customer order financial status contained numerous negative balances totaling \$15.7 million for the value of unfilled orders or accounts receivable. We found that, at December 31, 1976, negative balances existed in 17 appropriations and totaled \$11.1 million. For example, the fiscal year 1973 Other Procurement, Army appropriation had an overall negative receivable balance of over \$5 million.

Negative balances usually indicate the existence of problems in accounting for customer orders which could include understating the value of orders received. Research is necessary to identify what caused the negative balances and correct the financial records. Because of higher priority work, however, ECOM had not acted on this problem as of June 1977.

CONCLUSION AND RECOMMENDATION

The above items have been open for some time and prolonged delays in their resolution make it more difficult to (1) ascertain whether additional appropriation reimbursements can be obtained and (2) track down the causes for errors in the financial records.

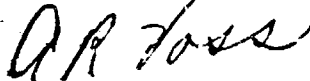
Therefore, we recommend that a sufficiently high priority be assigned to these items in order that they may be resolved in the near future and appropriate action taken to prevent their recurrence.

A copy of this letter is being sent to the Office of Assistant Secretary of the Army (IL&FM).

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The items described above were discussed at an exit conference with the Acting Comptroller and other ECOM personnel at the conclusion of our review. We appreciate the fine cooperation and courtesy extended to our staff during this review. Please inform us of actions taken in the matters discussed above.

Sincerely yours,



Allen R. Voss
Regional Manager