

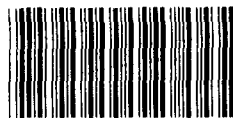
GAO

Report to the Honorable Bill Chappell, Jr.,  
Acting Chairman, Subcommittee on  
Defense, Committee on Appropriations  
House of Representatives

May 1986

# INDUSTRIAL FUNDS

## DOD Should Improve Its Accounting for Asset Capitalization Program Funds



129932

035489

---

Blank header area with a horizontal line.

---

Main body of the page, mostly blank, with a vertical dashed line on the left side.



United States  
General Accounting Office  
Washington, D.C. 20548

National Security and  
International Affairs Division  
B-220255

May 23, 1986

The Honorable Bill Chappell, Jr.  
Acting Chairman, Subcommittee on Defense  
Committee on Appropriations  
House of Representatives

Dear Mr. Chairman:

In House Report 97-943 on the fiscal year 1983 Department of Defense (DOD) appropriation bill, the House Committee on Appropriations asked us to begin a series of studies on DOD's working capital funds.<sup>1</sup> As part of our response to the request, and as agreed with your office, we reviewed DOD's implementation of the Asset Capitalization Program (ACP), which uses industrial funds to finance the acquisition of industrial plant equipment, to evaluate its progress and problems after 2 years of operations.

ACP has resulted in increased funds for acquiring equipment. Activity managers we met with are enthusiastic about the program. However, we noted that ACP is in its fourth year without formal ACP accounting guidance, and that DOD's current accounting procedures do not separate ACP funds from those generated through charges to customers for goods or services provided. Consequently, DOD does not have the financial data to ensure that funds will be available for the procurement of equipment when needed or that the financial position of the industrial funds will not affect equipment procurement decisions. Further, information on ACP, reported to the Congress in DOD's annual industrial fund reports, is not sufficient to assure the Congress that legislatively mandated program requirements are being met.

Appendix I contains additional information on our objectives, scope, and methodology, as well as a summary of other reports issued in response to your request. Appendix II contains comments provided by DOD on a draft of this report. We have incorporated these comments and made changes in the report, as appropriate.

---

## What Is ACP?

Pursuant to the National Security Act of 1947, as amended in 1949, DOD established industrial funds to finance industrial-and commercial-type

---

<sup>1</sup>Working-capital funds are established by law to carry out a cycle of business-type operations. A fund's income is in the form of receipts from the sale of goods or services primarily to other federal agencies. The receipts are used to finance a cycle of continuing operations. The two types of defense working-capital funds are stock funds and industrial funds.

---

activities that provide goods and common services within and among the military services and defense agencies. The Congress provided industrial funds with initial appropriations. Activities, such as shipyards and depots, are typically financed with industrial funds.

When the Congress approved the industrial fund concept, it expected the funds to result in advantages, such as

- encouraging activities to use businesslike cost accounting that would focus attention on the cost of performing a job,
- providing management greater freedom from the appropriations cycle to achieve economies and efficiencies, and
- establishing a buyer-seller relationship between customers and producers.

Because industrial funds are intended to be self-sustaining, most of their resources are generated by charging customers (generally military services and Defense agencies) for costs incurred in producing or contracting for goods and services. Before ACP, depreciation was not included in the funds' operating costs, nor was it charged to customers.

In June 1982, the Surveys and Investigations Staff, House Committee on Appropriations, reported that DOD's obsolete and inefficient industrial fund equipment had resulted from previous inadequate levels of funding which was caused by equipment purchases competing with the procurement of ships, aircraft, and other weapons systems in the annual appropriation process.

The Staff also reported that DOD could only estimate the amount of appropriated money used to purchase industrial fund equipment. This occurred because industrial fund equipment requirements were consolidated with similar equipment requirements from other sources (i.e., installations, military units, etc.). Accordingly, industrial fund equipment requirements and procurements were inseparable from other requirements and procurements.

The Deputy Secretary of Defense approved ACP, effective in fiscal year 1983, to provide a source of funding for industrial fund equipment modernization and to provide greater authority to activity managers for the purchase of equipment. Under ACP, equipment costs are recovered over the life of the asset by including depreciation costs in the rates charged to customers.

The Appropriations Committees agreed with DOD's plans to establish the ACP, but not at the DOD requested level of \$706 million for fiscal year 1983. The Committees limited ACP funding to \$240 million in fiscal year 1983—the amount DOD could recover through depreciation charges. For fiscal year 1984, the Appropriations Committees approved ACP funding of \$415 million. Because the \$415 million exceeded the amount which could be obtained by charging customers for depreciation, DOD included a surcharge in its industrial fund rates to cover the difference.

The Congress included in the 1985 DOD Authorization Act a requirement—section 305 (j)—for DOD to establish minimum ACP funding levels at not less than 3 percent of industrial-type activities' revenues in fiscal year 1985; 4 percent in fiscal year 1986; and 5 percent in fiscal year 1987. The intent of this requirement is to ensure that ACP funds are used to accelerate the replacement of obsolete equipment and expedite the upgrading of industrial fund activities.

DOD interpreted section 305 (j) to apply only to its "industrial-type activities" and identified 49 of its 89 industrial fund activities as such (i.e., shipyards, and depots which are involved in storage, distribution, repair, and overhaul of such items as planes and weapons). DOD excluded its commercial-type activities, which provide services such as transportation and research and development, from the requirements of the act.

In the Industrial Fund Overview FY 1987, DOD reported that its equipment purchases for industrial- and commercial-type activities under ACP were \$763.0 million for fiscal year 1985.

## Equipment Funding Has Increased Under ACP

We noted that since DOD implemented ACP in fiscal year 1983, funds available for purchasing equipment by industrial fund activities have increased. For example, for fiscal years 1983-1985, about \$1.4 billion was available for ACP, 42 percent more than the \$975 million the Surveys and Investigations Staff estimated was spent to acquire industrial fund equipment in the three previous years.

## ACP Is Enthusiastically Accepted

Managers of the nine industrial fund activities we visited were enthusiastic about ACP. They believed that the Program has resulted in increased funding and greater flexibility in planning and replacing industrial fund equipment when needed. For example, an official of the Mare Island Naval Shipyard pointed out that ACP allows for systematic

modernization of facilities by avoiding the competition for funds which occurred under the appropriations process. In another case, an official of the Sacramento Air Logistics Center stated that ACP provides for a faster and more flexible means to purchase equipment than was previously available.

---

### Accounting for ACP Funds Should Be Strengthened

We noted that ACP funds are not separated from industrial funds in general, and that DOD has not established formal accounting procedures for ACP. Because of this, DOD does not have the financial data to ensure that ACP funds will be available to pay for equipment purchases or that the overall financial position of the industrial funds will not affect decisions regarding the purchase of capital equipment.

---

### Accounting for ACP Revenues

DOD requires the services to identify ACP revenues (amounts collected from customers through charging for depreciation and surcharges) collected to finance equipment purchases separately as reserves<sup>2</sup> in the equity section of industrial fund financial statements. This amount is to be the net of actual expenditures.

The activities we visited were not following DOD's policy of accounting for ACP revenues. In April 1986, DOD Comptroller officials told us that DOD had not updated its industrial fund regulation to provide ACP accounting procedures. However, DOD is developing internal accounting reporting requirements, which will include ACP, for its accounting manual. In its response to our draft report, DOD stated that the accounting requirements have been drafted and should be ready for coordination with the services as soon as the requirements receive management approval.

---

### Will ACP Funds Be Available to Pay for Capital Equipment?

Each industrial fund has a cash account, managed at the service headquarters level. This provides each industrial fund the flexibility to transfer funds among activity groups and activities when necessary. DOD's position is that all cash, regardless of how it is generated, is industrial fund cash and can be used for industrial fund operations.

Under this policy, cash generated through ACP, if not separately accounted for, could be used to finance operating costs other than ACP

---

<sup>2</sup>A reserve is an equity (capital) account restricted for a particular purpose and may not always have a specific asset (e.g., cash) associated with it.

purchases. According to DOD Comptroller officials, significant cash shortages exist in the industrial funds and unobligated ACP revenues provide additional working capital. The influx of ACP cash has enhanced the cash position of the industrial funds and avoided a cash shortage. These officials acknowledged that if the level of ACP funding declines, a serious cash problem would result within the industrial funds. They emphasized that the services are taking precautions to avoid cash shortfalls that would delay the planned purchase of capital equipment.

In commenting on a draft of this report, DOD agreed that ACP funds are commingled with industrial funds available for other purposes. It also stated that industrial fund resources are and should be available to meet the requirements of the industrial funds without regard to the specific source of the resources. DOD did not agree that there is a lack of procedures for recording and reporting ACP revenues. In discussing its comments on the draft report, DOD pointed out that industrial fund accounting procedures apply to ACP funds, as well as industrial funds in general. DOD acknowledged that it currently has no specific accounting procedures for ACP funds.

Further, DOD does not believe that controls are inadequate to ensure that ACP funds will be available to pay for equipment programmed under ACP. DOD believes that the imposition of internal restrictions (establishing separate cash accounts for ACP funds) would unnecessarily limit the use of available resources, including ACP funds, in meeting valid requirements and would appear contrary to the principles under which the funds operate. The funds have operated for 35 years without segregating financing sources or cash accounts.

While the industrial funds may have controls to ensure that cash is available to pay for liabilities, cash problems may affect decisions regarding the procurement of equipment. We noted that DOD's Industrial Fund Overview FY 1987 disclosed that, with respect to the Army, cash generated through ACP surcharges may be required to supplement industrial fund operating cash levels. Since the Appropriations Committees agreed with DOD's plans to finance the cost of capital equipment by charging customers for the cost of the equipment, we continue to believe that the ultimate use of funds collected through such charges (depreciation as well as surcharges) should be for the purchase of capital equipment. Proper accounting for ACP funds would enable industrial fund managers to ensure that ACP funds are used for ACP purposes.

---

## Complying With Section 305 (J)

As discussed on page 3, DOD designated 49 of its 89 industrial activities as "industrial-type activities" and applied the percentage to the revenues of those activities.

Based on revenues reported in the Industrial Fund Overview FY 1987, we estimate the minimum requirements for the 49 activities to be \$375.8 million, \$484.0 million, and \$610.5 million for fiscal years 1985-1987, respectively. In the Overview, DOD reported that its ACP purchases for industrial-type activities was \$537.9 million for fiscal year 1985, and estimated purchases of \$586.4 million and \$576.3 million for fiscal years 1986 and 1987, respectively. ACP for fiscal year 1985 and 1986 exceeds the minimum levels for both years. However, as DOD reported, for fiscal year 1987, ACP will not meet the minimum level required by section 305 (j). According to the Overview, DOD's fiscal year 1987 budget requests that the requirement for minimum levels be repealed.

We observed that four of the nine activities visited did not obligate/commit the full amounts of their ACP funds in fiscal year 1983; while six did not obligate/commit the full amounts in fiscal year 1984. According to a DOD Comptroller official, DOD does not track the status or the use of ACP funds. The official stated that DOD relies on the services to ensure that ACP funds are obligated and used in compliance with ACP requirements.

---

## Conclusions

ACP has improved the opportunity for acquiring industrial fund equipment by avoiding competition for funds which occurs during the appropriation process. ACP has resulted in higher funding levels for industrial equipment than estimates indicate were available prior to the program. However, DOD has not established formal procedures to account for ACP funds, and the funds are currently commingled with industrial funds in general and are available for meeting operating expenses.

As a result, DOD's controls to ensure that ACP funds will be available to pay for equipment programmed under ACP are inadequate. Establishment of separate cash accounts and reserve accounts, reflecting ACP revenue resulting from depreciation and surcharge and ACP expenditures, is one way that DOD can provide the controls necessary to ensure the availability of ACP funds. An alternative to establishing separate cash accounts is for DOD to report annually to the Congress on ACP funds collected, obligated, and expended during the year. Since DOD has indicated a possible need to use ACP funds to cover the operating costs of an industrial fund, as it has done with the Army Industrial Fund, we believe



such assurances should provide DOD and the Congress the information necessary to ensure the viability of ACP and to ensure compliance with section 305 (j) of the 1985 DOD Authorization Act.

## Recommendation

We recommend that the Secretary of Defense expedite the establishment of formal ACP accounting procedures within the next fiscal year. To provide the Congress the information necessary to ensure the viability of ACP and compliance with section 305 (j), DOD should also consider establishing separate cash accounts (or subaccounts) and a separate equity section in the industrial fund accounting system, or expanding its annual reporting to the Congress to include actual ACP revenues, obligations, and expenditures by fiscal year.

## Agency Comments and Our Evaluation

DOD commented on a draft of this report by letter dated April 22, 1986. DOD agreed with our recommendation that the establishment of accounting procedures for ACP revenues and expenditures within the next year should be expedited. In its comments, DOD stated that efforts are currently underway to include ACP accounting procedures in Chapter 95, Industrial Fund Statements, of its accounting manual. DOD also agreed that it should consider establishing a separate restricted equity section within the industrial fund accounting system, but it did not agree that it should consider establishing separate cash accounts for ACP. DOD believes that separate cash accounts are not necessary.

DOD also disagreed that established procedures are inadequate to assure compliance with section 305 (j). DOD pointed out that budgetary reports show ACP funding limitations, obligations, and outlays by fiscal year. DOD believes that this information is sufficient to assure DOD and the Congress of full compliance with section 305 (j). DOD also stated its view that compliance with section 305 (j) requires the minimum funding level amounts be actually used for equipment purchases, but not actually expended in the same fiscal year collected.

We agree that DOD's Industrial Fund Overview FY 1987 does provide information on ACP. For example, the Overview discloses that about \$738.1 million of industrial fund cash is required for ACP purchases. This represents over half of the \$1.4 billion programmed for ACP during fiscal years 1983-1985. Although the Overview reported ACP purchases of \$763.0 million for fiscal year 1985, the \$738.1 million cash required for ACP purchases raises questions regarding the amount of ACP purchases

---

reported. The Overview does not disclose actual ACP revenues, obligations, and expenditures. Reporting such information by fiscal year would provide assurance that ACP funds are ultimately used for the purpose intended even if ACP funds are occasionally used to cover other industrial fund costs. We believe establishment of formal ACP accounting procedures would add significantly to the credibility of this information

---

We are sending copies of this report to the Director, Office of Management and Budget; Chairmen, Senate Committee on Governmental Affairs, House Committee on Government Operations, the House and Senate Committees on Appropriations, and on the Armed Services; and to the Secretaries of Defense, the Army, Navy, and Air Force.

Sincerely yours,



Frank C. Conahan  
Director



---

# Contents

---

Letter	1
Appendix I Objectives, Scope, and Methodology	12
Appendix II Agency Comments	14

---

---

## Abbreviations

ACP	Asset Capitalization Program
DOD	Department of Defense



# Objectives, Scope, and Methodology

In House Report 97-943, the House Committee on Appropriations asked us to do a comprehensive series of studies on DOD's working-capital funds. We have issued:

- Improper Use of Industrial Funds by Defense Extended the Life of Appropriations Which Otherwise Would Have Expired (GAO/AFMD-84-34, June 5, 1984), which discusses the use of working-capital fund to extend the life of appropriations;
- Improved Analysis Needed To Evaluate DOD's Proposed Long-Term Leases of Capital Equipment (GAO/PLRD-83-84, June 28, 1983), which discusses the use of working-capital funds to finance multibillion-dollar programs without specific congressional approval; and
- Industrial Funds: Recent DOD Reporting Changes Should Facilitate Congressional Oversight (GAO/NSIAD-86-58, April 11, 1986) which discusses the adequacy of information DOD provides to the Congress for its use in overseeing industrial fund operations.

Our review of ACP was made at the budget, policy, and financial management and accounting offices in the Office of the Assistant Secretary of Defense (Comptroller) and at the following headquarters offices and commands and industrial fund activities.

## Department of the Army:

Deputy Chief of Staff for Logistics, Washington, D.C.  
 Headquarters, United States Army Materiel Command, Alexandria, Virginia  
 Headquarters, Depot System Command, Chambersburg, Pennsylvania  
 Corpus Christi Army Depot, Corpus Christi, Texas  
 Letterkenny Army Depot, Chambersburg, Pennsylvania

## Department of the Navy:

Office of the Comptroller, Washington, D.C.  
 Headquarters, Naval Material Command, Washington, D.C.  
 Naval Air Systems Command Headquarters, Washington, D.C.  
 Naval Aviation Logistics Center, Patuxent River, Maryland  
 Naval Sea Systems Command, Washington, D.C.  
 Deputy Chief of Naval Material for Laboratories, Arlington, Virginia  
 Mare Island Naval Shipyard, Vallejo, California  
 Naval Air Development Center, Warminster, Pennsylvania  
 Naval Air Engineering Center, Lakehurst, New Jersey  
 Naval Air Rework Center, Alameda, California  
 Philadelphia Naval Shipyard, Philadelphia, Pennsylvania

---

Department of the Air  
Force:

Comptroller of the Air Force, Washington, D.C.  
Deputy Chief of Staff Logistics and Engineering, Washington, D.C.  
Air Force Logistics Command, Wright-Patterson Air Force Base, Ohio  
Sacramento Air Logistics Center, Sacramento, California  
San Antonio Air Logistics Center, San Antonio, Texas

We did not review the Marine Corps industrial fund because of the small amount of ACP funds involved. Likewise, we did not review the Defense industrial fund because it did not receive ACP funds for industrial fund equipment in fiscal years 1984 and 1985.

At the Office of the DOD Comptroller, we reviewed ACP policy guidance and implementing instructions issued to the industrial funds and DOD's procedures for preparing ACP budgets and for monitoring and evaluating program results. We held discussions with DOD budget and financial management officials on DOD's implementing instructions and on how they were interpreted.

We visited a cross-section of activities in the Army, Navy, and Air Force industrial funds to provide a basis for comparing how the program was being carried out at the activity level. We reviewed their procedures for inventorying on-hand equipment, developing plans, establishing capital equipment budgets, prioritizing and justifying equipment purchases, analyzing payback, and accounting procedures. We held discussions with activity managers and subordinates to obtain their views on the merits of the ACP at their level. We did not assess the quality of decisions made by industrial fund activities regarding the capital equipment purchased with ACP funds. Also, we did not evaluate the minor construction projects or management information systems which are also financed through ACP.

Our review was conducted between August 1984 and April 1985, in accordance with generally accepted government auditing standards.

# Agency Comments



COMPTROLLER

ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301

27 APR 1986

Mr. Frank C. Conahan  
Director, National Security and  
International Affairs Division  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "Industrial Funds: DoD Should Improve Its Accounting For Asset Capitalization Program Funds," dated March 3, 1986 (GAO CODE 390021, OSD CASE 6961).

GAO's review of the Asset Capitalization Program (ACP) is helpful in evaluating the management of DoD industrial fund activities. The GAO recommends that the DoD expedite the establishment of specific ACP accounting procedures and consider establishing separate cash accounts and a separate restricted equity section within the industrial fund accounting system.

Efforts have been initiated to include ACP procedures within the DoD Accounting Manual. The Department has previously considered the idea of a separate ACP cash account and concluded that the existing process for assuring payment of liabilities when due is in accord with sound cash management and accounting practices. However, the DoD will consider establishing a separate restricted equity section in the industrial fund accounting systems.

Additional comments are enclosed. The Department appreciates the efforts of the GAO in reviewing this important program.

Sincerely,

Enclosure

Principal



GAO DRAFT REPORT - DATED MARCH 3, 1986  
(GAO CODE 390021) - OSD CASE 6961

"INDUSTRIAL FUNDS: DOD SHOULD IMPROVE ITS ACCOUNTING  
FOR ASSET CAPITALIZATION PROGRAM FUNDS"

DOD COMMENTS

\* \* \* \* \*

FINDINGS

- o FINDING A: Equipment Funding Has Increased Under The Asset Capitalization Program (ACP). The GAO noted that the ACP implemented in fiscal year 1983, was intended to provide a source of funding for industrial fund equipment modernization and to provide greater authority to activity managers for the purchase of equipment. The GAO reported that under ACP, equipment costs are recovered over the life of the asset by including depreciation costs in the rates charged customers. The GAO found that since DoD implemented ACP, funds available for purchasing equipment by industrial fund activities increased. Specifically, for fiscal years 1983-1985, the ACP spending was about \$1.4 billion, or 42 percent more than the \$975 million the Surveys and Investigations staff estimated was spent to acquire industrial fund equipment in the three previous years. The GAO further found that ACP is enthusiastically accepted. For example, an official of the Mare Island Naval Shipyard pointed out that ACP allows for systematic modernization of facilities by avoiding the competition for funds which occurred under the appropriation process. The GAO concluded that ACP has improved the opportunity for acquiring industrial fund equipment by avoiding competition for funds as occurs during the appropriation process. The GAO further concluded that ACP has resulted in higher funding levels for industrial equipment than estimates indicate were available prior to the program. (pp. 3-5, 7-8, GAO Draft Report)

DoD Position: Concur.

- o FINDING B: Accounting for ACP Revenues. The GAO noted that DoD (GAO means OSD) requires the Services to identify revenues collected to finance equipment purchases separately as reserves in the equity section of industrial fund financial statements. Further, the GAO noted that this amount is to be net of actual expenditures. The GAO, however, found that the activities visited were not following OSD's policy of accounting for ACP revenues, and that the Services were not identifying or reporting total ACP revenue to DoD. Although the DoD has not provided specific accounting procedures for recording and reporting

Page 1 of 4

Now on pp. 2-4, 6.

ACP revenues, the GAO reported that DoD plans to have draft procedures available for comment by March 1986. The GAO further found that ACP funds are not separated from industrial funds in general. In this regard, the GAO reported that each industrial fund has a cash account, managed at the Service level, which provides each industrial fund the flexibility to transfer funds among activity groups and activities when necessary. The GAO, however, also found that under this policy, cash generated through ACP, if not separately accounted for, could be used to finance operating costs other than ACP expenditures. In addition, the GAO reported that according to DoD Comptroller officials, significant cash shortages exist in the industrial funds and unobligated ACP revenues provide additional working capital. The GAO concluded that OSD and the Services do not have procedures to account for ACP revenues. The GAO also concluded that ACP funds are currently commingled with industrial funds in general, and are available to meet operating expenses. As a result, the GAO concluded that OSD's controls to assure that ACP funds will be available to pay for equipment programmed under ACP are inadequate. (pp. 5-6, 8, GAO Draft Report)

Now on pp. 4-7.

**DoD Position:** Partially Concur.

The DoD does not agree that there is a lack of procedures for recording and reporting ACP revenues. The Services have implemented ACP procedures which resulted from policy discussions and coordination with OSD policy elements.

The DoD agrees that ACP funds are commingled with industrial funds available for other purposes. Resources of DoD's industrial fund activities are, and should be, available to meet financial requirements of these activities without regard to the specific source of such resources. The imposition of internal restrictions which would unnecessarily limit the use of available resources in meeting valid requirements would appear contrary to the principles under which industrial funds operate. The industrial funds have operated for over 35 years without segregating financing sources or cash accounts.

The DoD does not agree that OSD's controls are inadequate to assure that ACP funds will be available to pay for equipment programmed under ACP. DoD's industrial fund regulation requires that the cash on hand at the Treasury account levels be sufficient to pay liabilities when due and that controls be established to assure that this requirement is met. Controls are established through cash flow analysis, timing of disbursements, and other methods. For example, within the Army Industrial Fund, cash for the ACP is transferred from individual activities to their activity group where it is held under general ledger control. The activity group then transfers cash to

individual activities based on the approved ACP budget. Furthermore, cash balances available for the ACP are currently reported by the Services on budgetary reports.

- o **FINDING C: Complying With Section 305 (j).** The GAO reported that the Congress included a requirement--section 305 (j)--in the 1985 DoD Authorization Act for DoD to establish minimum ACP expenditure levels at not less than 3 percent of industrial-type activities' revenues in fiscal year 1985, 4 percent in fiscal year 1986, and 5 percent in fiscal year 1987. Based on DoD's projected revenues, the GAO estimated that the minimum spending requirements for the designated 49 industrial-type activities will be \$439.4 million for fiscal year 1985 and \$545.5 million for fiscal year 1986. In Department of Defense Industrial Fund Overview FY 1986, DoD estimated that its ACP for industrial-type activities was \$527.3 million and \$586.4 million, respectively, for fiscal years 1985 and 1986. Although the estimated amounts exceeded the minimum levels for both years, because DoD's current accounting procedures for ACP do not require the Services to report ACP expenditures to DoD, the GAO found that DoD is not able to readily assure itself or the Congress that the minimum spending levels mandated by section 305 (j) of the 1985 Defense Authorization Act are being met. The GAO concluded that establishment of separate cash accounts and reserve accounts, reflecting ACP revenue resulting from depreciation, surcharges and ACP expenditures, is necessary to provide the controls needed to assure the availability of ACP funds. The GAO further concluded that such accounting for ACP funds should provide DoD the information necessary to ensure compliance with section 305 (j) of the 1985 DoD Authorization Act. (pp. 4, 6-8, GAO Draft Report)

**DoD Position:** Nonconcur. The DoD does not agree that established procedures are inadequate to ensure compliance with section 305 (j). The DoD position on the last conclusion in Finding B applies to the GAO conclusion concerning fund availability. Budgetary reports provide sufficient information to assure DoD and the Congress of full compliance with section 305 (j). For example, budgetary reports show ACP funding limitations, obligations, and outlays by fiscal year.

The GAO indicates that compliance with section 305 (j) requires minimum expenditure levels by fiscal year. Rather than minimum expenditure levels, section 305 (j) requires minimum funding levels by fiscal year. Compliance with section 305 (j) requires that the minimum funding level amounts be actually used for equipment purchases, but not actually expended in the same fiscal year collected. Given the lead time necessary to obtain many of the items of equipment, a large portion of amounts funded in one year will not be expended until a subsequent fiscal year. To

achieve an expenditure level of 3 percent, 4 percent, and 5 percent of revenue in FY 1985, FY 1986, and FY 1987, respectively, for the purchase of equipment would require obligations far in excess of depreciation and surcharge amounts included in the budgets approved by the Congress.

**RECOMMENDATION**

- o **RECOMMENDATION 1:** The GAO recommended that the Secretary of Defense expedite the establishment of specific accounting procedures within the next fiscal year for ACP revenues and expenditures. These plans could consider establishing separate cash accounts (or subaccounts) and a separate restricted equity section within industrial fund accounting systems. (p. 8, GAO Draft Report)

**DoD Position:** Concur. DoD's development of ACP procedures are continuing. Efforts are currently underway to include ACP procedures within Chapter 95, "Industrial Fund Statements" of the DoD Accounting Manual. The new chapter has been drafted and will be coordinated within the DoD as soon as it receives management approval.

The Department has already considered the idea of a separate cash account for the ACP, and concluded that the existing management process for assuring the payment of all liabilities when due is in accord with sound cash management and accounting practices. The DoD will consider establishing a separate restricted equity section within industrial fund accounting systems. A separate equity account for ACP surcharge amounts has been established by the Services in accordance with policy discussions and coordination with OSD policy elements.

Now on p. 7.

---

Requests for copies of GAO reports should be sent to:

U.S. General Accounting Office  
Post Office Box 6015  
Gaithersburg, Maryland 20877

Telephone 202-275-6241

The first five copies of each report are free. Additional copies are \$2.00 each.

There is a 25% discount on orders for 100 or more copies mailed to a single address.

Orders must be prepaid by cash or by check or money order made out to the Superintendent of Documents.

United States  
General Accounting Office  
Washington, D.C. 20548

Official Business  
Penalty for Private Use \$300

First-Class Mail  
Postage & Fees Paid  
GAO  
Permit No. G100