



Highlights of [GAO-03-275](#), a report to the Secretary of Defense

DEFENSE BUDGET

Improved Reviews Needed to Ensure Better Management of Obligated Funds

Why GAO Did This Study

As of September 30, 2001, the Navy’s operating appropriations had \$2.1 billion in unliquidated—or unpaid—funds that were obligated during fiscal years 1997-99. Unliquidated obligations that are no longer needed to pay for goods and services tie up funds that could be used for other permissible purposes. In addition, inaccurate obligation data result in misstatement of budgetary information.

Because of the large dollar value, we examined the Navy’s management of unliquidated obligations. Specifically, we reviewed a statistically representative sample of the Navy’s \$1.4 billion in unliquidated operating obligations valued at \$50,000 or more for fiscal years 1997-99 to determine whether these obligations were (1) properly accounted for and (2) reviewed in accordance with DOD regulations.

What GAO Recommends

We are recommending that the Navy adhere to obligation review regulations and better apply existing internal controls to ensure fund managers adhere to these regulations and are accountable for accuracy and completeness. The Navy partially concurred, but stated that it prioritizes obligation reviews to enable it to also pursue other efforts to improve financial reporting. We note that DOD regulations require review of all unliquidated obligations and do not allow for prioritization.

www.gao.gov/cgi-bin/getrpt?GAO-03-275.

To view the full report, including the scope and methodology, click on the link above. For more information, contact Sharon Pickup at (202) 512-9619 or pickups@gao.gov.

What GAO Found

We estimated that \$929 million of the \$1.4 billion in unliquidated operating obligations valued at \$50,000 or more for fiscal years 1997-99 was not properly accounted for (see table). Specifically, the Navy failed to deobligate \$452 million of unliquidated operating obligations that was no longer needed and potentially available for other permissible purposes, such as contract modifications. In addition, \$147 million of unliquidated operating obligations was inaccurately recorded because of problem disbursements—payments not properly matched to the correct obligation. A further \$330 million was inaccurately recorded due to unresolved errors, such as bills that were not processed properly. The remaining \$489 million in unliquidated operating obligations was properly accounted for and still needed for the original purpose.

An estimated two-thirds of the unliquidated operating obligations over \$50,000 were not properly accounted for as a result of the Navy’s failure to review such obligations three times each year as required by DOD regulations. In addition, the Navy did not fully adhere to the regulation that unliquidated operating obligations of any value be reviewed at least once each year. Consequently, the Navy did not know how much money was tied up in unliquidated operating obligations that could potentially be used for other appropriate needs, and its budgetary reports to Congress and financial statements were inaccurate. Navy fund managers chose to selectively review their operating obligations, citing obstacles such as difficulties in obtaining accurate payment and billing data and the extensive length of time needed to review large numbers of obligations. Further, the Navy did not apply existing internal control activities to ensure that fund managers performed obligation reviews in accordance with DOD regulations, nor did it hold fund managers accountable for the accuracy and completeness of the reviews.

Estimate of Navy’s Unliquidated Operating Obligations Valued at \$50,000 or More for Fiscal Years 1997-99, as of September 30, 2001

Dollars in millions		
Category	Estimated total	Percentage of total
Still needed for original purpose	\$489	35
Not properly accounted for:		
No longer needed for original purpose	452	32
Problem disbursements	147	10
Unresolved errors	330	23
Subtotal not properly accounted for:	929	65
Total	\$1,419*	100

Source: DOD.
 Note: GAO analysis of DOD data.
 * Amounts do not add to total due to rounding.