United States General Accounting Office

GAO

Report to the Secretary of the Navy

April 1989

FINANCIAL REPORTING

Navy's 1986 Consolidated Report on Financial Position Is Unreliable

GAO/AFMD-89-18

GAO

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

Accounting and Financial
Management Division

B-228764

April 6, 1989

The Honorable William L. Ball III
The Secretary of the Navy

Dear Mr. Secretary:

This report presents the results of our review of the Department of the Navy's fiscal year 1986 Consolidated Report on Financial Position, commonly referred to as its balance sheet. During this review, we determined the extent of Navy's compliance with both General Accounting Office (GAO) and Department of the Treasury annual financial reporting requirements.

The head of each federal agency in the executive branch is responsible for preparing reliable, individual financial reports by type of fund (revolving, trust, general, etc.) which fully disclose the financial results of all programs and activities. These reports are subsequently compiled into the agency or department consolidated financial statements and submitted to Treasury. The Secretary of the Treasury then prepares comprehensive reports on the financial operations of the U.S. government based on these consolidated reports.

For fiscal year 1986, Navy did not effectively control the preparation and consolidation of its Reports on Financial Position. The consolidated report did not include a total of approximately $58 billion in assets. In addition, the amount it reported for property was substantially lower than that included in a separate annual property report required by the Congress. Furthermore, the consolidated report did not comply with two important GAO accounting standards and Treasury Financial Manual requirements. As a result, the consolidated financial statements are understated and unreliable.

Based on our review, we believe that these problems could be minimized if Navy developed guidance for complying with Treasury's reporting requirements, supervised the preparation of financial statements more closely, performed reconciliations, and compared financial reports with their supporting schedules.

The Importance of Financial Statements

Comprehensive financial statements are important, if not crucial, to providing discipline in financial management and accounting. Financial statements consistently prepared in accordance with accounting standards offer assurance of quality, reliability, and comparability of data presented. Such statements will, in turn, provide a strong impetus for agencies to improve the reliability of information produced by their financial management reporting systems. Not only do program managers need reliable financial information to more effectively manage their programs, but also external users such as the Congress and the central control agencies, primarily the Office of Management and Budget (OMB) and Treasury, need this information to make better-informed decisions.

Efforts by Oversight Agencies to Improve Financial Management and Reporting

Our work has often identified problems with financial management systems and reporting in the federal government. GAO, Treasury, and OMB have taken several initiatives to improve federal financial management and reporting.

We are charged by law to establish accounting standards that executive agencies are to follow. In November 1984, we issued revised accounting standards (Title 2 of GAO's Policy and Procedures Manual for Guidance of Federal Agencies). Under one of its more significant updates, agencies are required to prepare their financial reports from accounting systems containing sufficient discipline, effective internal controls, and reliable data.

In August 1986, OMB issued the U.S. Government Standard General Ledger with instructions to begin implementation. This general ledger includes a basic chart of accounts, a uniform set of account definitions, a summary of data elements, and a cross-reference to standard external reports. The purpose of the general ledger is to standardize federal agency accounting and to support the preparation of all standard external financial reports required by Treasury and OMB, as well as those needed for internal agency operations.

In August 1986, Treasury issued its revised requirements for agencies to prepare and submit to Treasury annual financial statements as part of the effort to upgrade accounting and financial reporting within the federal government. Beginning in fiscal year 1986, agencies were to prepare their financial statements from budgeting and accounting systems which were an integral part of their financial management systems. In addition, agencies had to eliminate intra-agency balances from their consolidated statements and use accrual accounting in preparing their reports.

For fiscal year 1986, as in prior years, Treasury required all agencies to submit Reports on Financial Position. Government corporations and agencies with revolving fund activities were also required to submit Reports on Operations. For fiscal year 1987, Treasury augmented its reporting requirements to include two additional reports and to require all agencies to submit Reports on Operations. Thus, the following reports are required: (1) the Report on Financial Position, (2) the Report on Operations, (3) the Report on Cash Flow, and (4) the Report on Reconciliation.

The Report on Financial Position shows an entity's assets, liabilities, and equity as of the reporting date. The Report on Operations shows the annual financial results of an entity's activities, including expenses, revenues, and other financing sources, such as appropriations. The Report on Cash Flow summarizes all significant resources available to an agency and the uses made of those resources during the reporting period. The Report on Reconciliation matches expenses reported in the Report on Operations with the cash outlays reported to the Treasury.

The purpose of reporting in accordance with the above requirements is to establish a sound financial management foundation for improving the reliability of accounting systems and, therefore, the financial reports they produce.

Objectives, Scope, and Methodology

Our objectives were to (1) assess how well Navy implemented GAO and Treasury annual financial reporting requirements, (2) determine any problems in meeting these requirements and standards, and (3) identify actions needed to improve compliance. In accomplishing our objectives, we verified only selected items in the financial statements based on levels of dollar values we considered significant.

We reviewed the procedures used in compiling the 1986 consolidated report, which was the latest information available at the time of our review, to determine whether the process was reliable and the report was prepared according to Treasury's requirements. Using a structured interview guide as the basis for gathering information, we discussed financial reporting with Navy officials at both the Department and installation level. In addition, we traced amounts shown on the report to a general ledger, where available, or to other records.

Since property, plant, and equipment[1] constituted more than half the total assets reported by Navy, we also reviewed real and plant property accounted for by two property accounting activities, two field divisions of Naval Facilities Engineering Command, and a regional fleet accounting and disbursing center to determine whether accounting and reporting for those accounts was consistent with Title 2 and Treasury requirements. As a further verification, we traced property amounts from transaction ledgers to the uniform general ledger totals to determine whether those totals reflected all property transactions.

Our review was performed in accordance with generally accepted government auditing standards. The Department of Defense (DOD) provided written comments on a draft of this report. These comments are included in full in appendix I.

Reported Amounts for 1986 Were Understated

Information from interviews with Navy officials suggests that the Navy Comptroller did not exercise effective supervisory review and control over the preparation of the 1986 Consolidated Report on Financial Position to ensure its accuracy. As a result, the report for fiscal year 1986 omitted approximately $58 billion of real property, substantially understating Navy's assets by 34 percent of the property and 18 percent of the total assets reported to Treasury.

In addition, the consolidated report did not disclose $1.7 billion in guaranteed loans or data on operating leases for ships. The accounts receivable totals which were presented differed by $164.5 million from the accompanying supporting schedules. These reporting problems were caused primarily by Navy's not developing service-specific guidelines for complying with Treasury reporting requirements.

Billions of Dollars in Property Omitted From Consolidated Report

For fiscal year 1986, Treasury required Navy to submit an overall Consolidated Report on Financial Position and 13 supplemental reports by fund type. Using financial information provided by numerous Navy components, the Financial Control Division in the Office of the Comptroller (NAVCOMPT) prepared the 13 supplemental reports and consolidated them into the overall report submitted to Treasury.

[1]Property, plant, and equipment include land, structures, facilities, leasehold improvements, construction-in-progress, equipment, military equipment, and automated data processing (ADP) software.

Our review of the consolidated report and the supplemental general funds report disclosed that NAVCOMPT staff had not included approximately $58 billion of property, plant, and equipment because fiscal year 1985 data rather than 1986 data were used. A NAVCOMPT official informed us that the accountant who prepared the consolidated financial statement inadvertently extracted data from the 1985 general ledger, even though the fiscal year-end 1986 data were available from the automated system.

We were told that adequate supervisory review was not provided to assess and determine whether all relevant information had been gathered and reported. Had such supervision been provided, this error could have been detected and thus prevented.

Incorrect financial statements adversely affect Treasury's ability to evaluate agencies' financial performance because the analytical techniques Treasury is developing use the data in agency Reports on Financial Position. For example, analyses of turnover and use ratios covering extended periods could help assess whether inventory is being used efficiently and could identify any emerging trends. When reports submitted to Treasury contain materially misstated information, the application of analytical tools to this data will provide meaningless or misleading information.

Treasury also uses agency Reports on Financial Position to prepare a governmentwide Consolidated Report on Financial Position. This consolidated report provides meaningful information to the Congress and the public about overall government performance and stewardship over assets and liabilities. However, omitting approximately $58 billion worth of Navy property amounts understated total federal assets on the financial statements of the U.S. government by almost 6 percent for 1986. Such misstatements render the information contained in the consolidated report unreliable and misleading.

Noncompliance With Prescribed Accounting Requirements

Title 2 and the Treasury Financial Manual (TFM) require Reports on Financial Position to be prepared according to accounting standards and requirements. These standards and requirements are to be used to create consistency and comparability of information from year to year and to achieve integrity in financial reporting.

During our review of the Consolidated Report on Financial Position, we found the following examples of noncompliance.

- Title 2, the TFM, and the DOD Accounting Manual require that projected amounts for operating lease payments be reported in the Report on Financial Position. Amounts guaranteed on loans owed by other parties must also be reported. The companies who leased vessels to Navy had secured loans from the Federal Financing Bank (FFB) to finance construction of the vessels to be leased, and Navy had guaranteed payment on those loans. As of the end of fiscal year 1986, Navy had guaranteed loans totalling $1.7 billion and had leased 13 vessels. However, Navy's Consolidated Report on Financial Position disclosed neither the $1.7 billion in loan guarantees nor the terms of the operating leases. The Navy preparer of the Reports on Financial Position said that he had not prepared or submitted the report related to these transactions because he had not received any guidance on doing so.
- The TFM requires that the amounts reported in any Report on Financial Position be supported by amounts on supplemental schedules. We found that Navy reported receivables which were $169 million lower than the data in the accompanying supporting schedule. This difference was caused primarily by amounts on the Report on Financial Position being taken from budget execution documents. These budget accounts included items not required to be in the same accounts' reports to Treasury, while the supporting schedules reflected totals by the Treasury definition. For the same reason, the consolidated report did not include an allowance for doubtful accounts, while the supporting schedule included $4.5 million for these accounts. This resulted in a net difference of $164.5 million for receivables.

These omissions understate assets and the related allowance accounts on the Navy Consolidated Report on Financial Position.

Amounts for loan guarantees and leases were not disclosed on supporting schedules. NAVCOMPT staff who prepared the consolidated report told us that in 1986 DOD did not have specific instructions for preparing the reports and that they did not know how to interpret some Treasury reporting requirements. Subsequent to our field work, revisions of the DOD Accounting Manual and instructions for preparing DOD Reports on Financial Position were issued. Each of the examples previously discussed is included in chapter 94 of the manual.

External Reports Included Differing Dollar Amounts for Property

The dollar amounts that Navy reported to Treasury for three property accounts on the Report on Financial Position were significantly different from the amounts reported to DOD for the Real and Personal Property Report submitted to the Congress. This resulted from the two reports' using different data sources. Various accounting system totals were used for the report to Treasury, while property record totals were used for the report to the Congress. These two records have different data requirements and, therefore, produce two different totals. In addition, techniques which could detect errors and irregularities, such as reconciliations between the accounting and property records, were not always performed by the fiscal officers. Therefore, Navy had no assurance that financial data for property holdings were accurate or that it could report reliable information.

Substantial Differences Between Treasury and Congressional Reports

According to the National Security Act of 1947, DOD is required to report annually on its holdings of real and personal property. Navy must provide input to this report, which is submitted to various congressional committees and the Office of the President. When we compared accounts in the Consolidated Report on Financial Position for fiscal year 1986 with comparable accounts in the Real and Personal Property Report for fiscal year 1986, we found that Navy reported substantially different amounts for three accounts. Total amounts in real property, construction-in-progress, and weapons and military equipment accounts in Navy's Consolidated Report on Financial Position were almost $69 billion less than the totals for those same accounts in the Real and Personal Property Report submitted by DOD.

According to the TFM chapter entitled, "Federal Agencies' Financial Reports," amounts included in Reports on Financial Position should contain the same data as in other reports to Treasury, other central agencies, and the Congress. Navy officials said that the amounts of the three accounts were not the same because the data to prepare the two reports were from different sources. The amounts for the Report on Financial Position were obtained from various accounting system totals, whereas those for the real and personal property report were derived from property management systems. Although Navy officials were unable to explain why they have traditionally used these two sources, they agreed that the amounts reported for the three accounts should be the same.

In order to identify why the same three property accounts showed a $233 billion balance in the DOD property report versus a $164 billion balance in the consolidated statements, we tried to reconcile the $69 billion difference. We identified several overstatements and understatements which caused a net difference of $52 billion (about 75 percent of the total). Two consolidated statement accounts were understated by about $60.6 ($56.1 + $4.4) billion because 1985, instead of 1986, general ledger data were used and construction-in-progress was not included. On the other hand, the real property account was overstated by $8.8 billion because of improper classifications of equipment as real property. About $17.1 billion remained unreconciled between the two reports. Table 1 shows the reported balances and the approximate differences that could be attributed to each cause.

Table 1: Differences Between Property Amounts Reported to the Congress and Treasury as of September 30, 1986

Dollars in millions

	Consolidated Report on Financial Position	Real and Personal Property Report	Differences		
Category	**(Treasury)**	**(Congress)**	**Total**	**Unreconciled**	**Reconciled**
Real property	$30,434	$20,376	**$(10,058)**	$(1,274)	$(8,784)
Construction-in-progress	--	4,432	**4,432**	0	4,432
Weapons and other military equipment	133,522	208,081	**74,559**	18,433	56,126
Total	**$163,956**	**$232,889**	**$68,933**	**$17,159**	**$51,774**

Although we could not quantify individual effects, we identified several factors to which the remaining $17.1 billion variances could be attributed. First, Navy industrial fund property was included in that fund's supplemental report as well as in the general funds report. During the consolidation process, the accountant added property totals from both funds. Thus, property amounts totalling approximately $1.9 billion from this fund were counted twice in the Consolidated Report on Financial Position.

Second, the items controlled by the accounting system must meet minimum accounting criteria for capitalization (acquisition cost of $5,000 and 2-year service life), whereas the real property management system does not have such thresholds. A sample of transactions from the real property management system showed that 40 percent of the items sampled had acquisition costs of less than $5,000. Accounting system balances would, therefore, tend to be somewhat lower.

Third, there are delays in recording newly acquired property in the financial accounting system. At the larger of two regional accounting and disbursement centers, we reviewed listings of plant property unmatched with paid invoices. This property had not yet been posted to the accounting system. At the date of our review, 4,421 invoices representing $193.6 million were not yet recorded in the financial accounting system. One-fourth of these invoices had been on hand for 2 to 7 years without being successfully matched. Another factor we found was that property accounting activities were not submitting quarterly data to update the subsidiary ledger. Both of these factors could cause accounting system balances to be lower than those for the property management system.

Recognizing the inconsistencies between these two principal data sources and their effect upon the accurate reporting of real and plant property holdings, Navy has begun to correct some of these problems. Industrial fund activities were directed to start recording property values in the industrial fund general ledger only, thus avoiding the double-counting problem. In addition, Navy officials told us that they monitored the compilation and consolidation of the Report on Financial Position closely in the 1987 process to avoid the recurrence of errors and the incomplete data gathering that occurred in the 1986 report.

Reconciliation Needed to Minimize Differences

Title 2 requires that agency property records be reconciled with accounting systems. However, Navy officials did not perform these reconciliations. As a result, the Report on Financial Position submitted to Treasury and the Real and Personal Property Report DOD submitted to the Congress have substantially different balances for real property.

Naval Facilities Engineering Command and the property accounting activities reporting to the Navy Comptroller are responsible for the accuracy of property records. Officials at Naval Facilities Engineering Command told us that they had not performed departmental-level reconciliations for about 5 years. They said that the staff time needed to reconcile accounts had increased so much that the command decided to curtail the activity.

According to the Navy Comptroller manual, the fiscal officer of accountable activities has the overall responsibility for maintaining the internal controls to assure the accuracy of accounting records at the activity level. The manual also states that the fiscal officer is to prepare a quarterly reconciliation of the property account records with receipt and expenditure records. We found that fiscal officers were not performing reconciliations of records for real property. Instead, the fiscal officer transferred the summary balances for real property from property management records to the reconciliation document. They did not perform reconciliations because cost change documents they needed had not been sent by the Naval Facilities Engineering Command field division.

In order to determine the need for reconciliations, we conducted a sample of property accounting record balances as of September 30, 1986, for 69 activities which account for approximately $4 billion worth of real property[2] and compared them with account balances for real property. We found that balances for 17 activities which are accountable for land and buildings were $216.4 million higher on the Navy Accounting and Finance Center's subsidiary ledger accounts than on the detailed real property transaction records. Balances for 18 other activities were $101.7 million higher on the detailed real property transaction records than on the subsidiary ledger accounts. Overall, we found a net difference of about $115 million. The remaining 34 activities' property totals matched the subsidiary ledger. We could not estimate the total difference between the two records; however, we believe that this sample points to the need to perform reconciliations between property and accounting records.

If reconciliations are not performed, errors remain undetected. As a result, Navy is not able to accurately report its balances for holdings in real property.

Conclusions

Navy provided Reports on Financial Position to Treasury that were inaccurate and incomplete. The reports also contained data inconsistent with information in reports sent to executive and legislative branch users and in supporting detailed information. Accuracy, completeness, and consistency in the Reports on Financial Position could be achieved through (1) supervisory follow-up and review to verify reported account balances, (2) sufficient annual guidance to ensure that all accounting information is reported, and (3) the use of current year-end data to compile into Treasury's Report on Financial Position. In addition, Navy could assure that critical cost information from Naval Facilities Engineering Command field divisions is provided to property accounting activities and that newly acquired property is promptly matched with cost data to avoid the current backlog of unclassified assets.

[2]Navy's total investment in real property has been reported as $20.4 billion as of September 30, 1986, in DOD's Real and Personal Property Report.

We believe Navy officials could ensure that there is monitoring, guidance and review by the supervisor, and that current year-end data is ready for compilation into the Report on Financial Position. In addition, critical cost-adjustment documents necessary for reconciliations could be provided to ensure recording proper costs for real property.

Recommendations

We recommend that the Secretary of the Navy direct the Navy Comptroller

- to prepare the Report on Financial Position based upon general ledger account data rather than budget execution documents and
- to monitor and take action necessary to ensure adherence to existing procedures to reconcile balances of property accounting activities with detailed property record balances contained in the real property management system.

We further recommend that the Secretary of the Navy direct the Commander, Naval Facilities Engineering Command,

- to adhere to existing procedures requiring accounting documents containing the cost status of real property being constructed to be issued to property accounting activities for reconciliation purposes.

Agency Comments and Our Evaluation

DOD concurred with our findings and recommendations. However, DOD did not agree with our conclusion in our draft report that approximately $58 billion of property, plant, and equipment was omitted from the consolidated report because insufficient guidance for preparing the report was given to the NAVCOMPT staff. Instead, DOD attributed the omission to the report preparer's carelessness. We agree that the error was due to carelessness. However, the draft report cited the lack of proper supervision as an additional cause for the error. We continue to believe that a lack of proper supervision allowed the carelessness to go undetected, and we have modified the report accordingly. (See page 5.)

DOD agreed with our recommendation that Navy should prepare their Reports on Financial Position using general ledger account data. DOD stated that Navy has implemented the DOD Accounting Manual Uniform Chart of Accounts in its Navy Headquarters Financial System.

DOD agreed with our recommendation that Navy should monitor and ensure adherence to existing procedures to reconcile balances of property accounting activities. DOD said that the Navy Accounting and Finance Center will coordinate with the Naval Facilities Engineering Command to reiterate guidance and monitor compliance. Action is to be completed by September 30, 1989.

DOD also agreed with our final recommendation to the Naval Facilities Engineering Command. DOD stated that the Command will reiterate its policy of requiring that engineering field divisions report the acquisition of real property into the Navy Facilities Asset Data Base within 3 months of acquisition and that the Plant Property Accounting Activity be notified of the cost. The Naval Facilities Engineering Command will also monitor engineering field divisions' compliance and will review its reporting procedures with the goal of streamlining the reporting process. DOD said the actions will be completed by September 30, 1989.

As you know, 31 U.S.C. 720 requires the head of a federal agency to submit a written statement of action 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. A written statement must be submitted to the House and Senate Committees on Appropriations with an agency's first request for appropriations made more than 60 days after the date of the report.

Copies of this report are being sent to the Director, Office of Management and Budget, and the Secretary of the Treasury. Copies will also be made available to others upon request.

This report was prepared under the direction of Ronald S. Young, Director, Accounting Principles and Standards. Other major contributors are listed in appendix II.

We appreciate the cooperation extended to our staff during this assignment.

Sincerely yours,

Brian P. Crowley for

Frederick D. Wolf
Assistant Comptroller General

Comments From the Department of Defense

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON, DC 20301-1100

FEB 14 1989

Mr. Frederick D. Wolf
Assistant Comptroller General
Accounting and Financial Management Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Wolf:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "FINANCIAL REPORTING: Navy's 1986 Consolidated Report On Financial Position is Unreliable," dated December 20, 1988 (GAO Code 922801--OSD Case 7475-A). The DoD concurs in the report findings and recommendations.

Specific comments on the reported conditions and recommendations are provided in the enclosure. The Department appreciates the opportunity to comment on the draft report.

Sincerely,

C O Glaister

Clyde O. Glaister
Comptroller

Enclosure

GAO DRAFT REPORT - DATED DECEMBER 10, 1988
(GAO CODE 922801), OSD CASE 7475-A

"FINANCIAL REPORTING: NAVY'S 1986 CONSOLIDATED REPORT ON FINANCIAL POSITION IS UNRELIABLE"

DEPARTMENT OF DEFENSE COMMENTS

* * * * *

FINDINGS

- FINDING A: Navy Reported Amounts For 1986 Were Understated. The GAO found that the Navy 1986 Consolidated Report on Financial Position omitted approximately $58 billion of real property, substantially understating Navy assets reported to the Department of the Treasury (34 percent on property and 18 percent on total assets). The GAO found that the Navy inadvertently extracted data from the FY 1985 instead of the FY 1986 general ledger, leading to the $58 billion omission. The GAO observed that the Navy omission understated total Federal assets on the financial statements of the U.S. Government by almost 6 percent. The GAO concluded that, if sufficient guidance had been available to the Navy staff on the specific sources to be used in compiling the report, the error could have been prevented. The GAO further concluded that, based upon interviews with Naval officials, the Navy Comptroller did not exercise effective supervisory control over preparation of the report to ensure its accuracy. In summary, the GAO concluded that the Navy Reports on Financial Position to the Treasury were inaccurate and incomplete.

  See comment 1.

  DoD Response: Concur. It should be noted, however, that the inadvertant action was simply a human error, resulting from carelessness. It was not due to a lack of sufficient instructions.

- FINDING B: Navy Noncompliance With Prescribed Accounting Requirements. The GAO reported that Title 2, the Treasury Financial Manual (TFM), and the DoD Accounting Manual require that projected amounts for operating lease payments be included in the Report on Financial Position, along with amounts guaranteed on the loans owed by other parties. The GAO further reported that, as of the end of FY 1986, the Navy had guaranteed loans totaling $1.7 billion and had leased 13 vessels. The GAO found, however, that the Navy Consolidated Report on Financial Position disclosed neither the $1.7 billion in loan guarantees nor the terms of the operating leases. The GAO noted the Navy report preparer indicated that a report on these transactions was not prepared because he had not received guidance related to this type of transaction. The GAO also noted the TFM requires that the amounts reported in any Report on

Enclosure

Financial Position be supported by supplemental schedules. The GAO found, however, that the reported accounts receivable totals differed by $164.5 million from the data in the accompanying supporting schedule. The GAO attributed the differences to the report being taken from budget execution documents, while the supporting schedules reflected totals specified by the Treasury definition. The GAO observed that, for the same reason, the consolidated report did not include an allowance for doubtful accounts, while the supporting schedule included $4.5 million for these accounts. The GAO also found that the amounts for loan guarantees and leases were not disclosed on supporting schedules because, in 1986, the DoD did not have specific guidance for preparing the reports and did not know how to interpret some Treasury reporting requirements. According to the GAO, by December 1987, the DoD Accounting Manual had been revised to include the necessary instructions.

See comment 2.

DoD Response: Concur.

- **FINDING C: External Reports Include Differing Dollar Amounts For Property.** The GAO reported that the National Security Act of 1947 requires the DoD to report annually on its holdings of real and personal property. The GAO noted that the Navy must provide input to the report, which is submitted to various congressional committees and the Office of the President. In comparing accounts in the Consolidated Report on Financial Position for FY 1986 with comparable accounts in the Real and Personal Property for FY 1986, the GAO found that the Navy reported substantially different amounts. The GAO found that the amounts in (1) the real property account, (2) the construction-in-process account, and (3) weapons and military equipment account in the Consolidated Report on Financial Position were almost $69 billion less than the same accounts in the Real and Personal Property Report submitted by the DoD, because each report used different data sources. The GAO noted that the amounts in the Report on Financial Position were obtained from the accounting system, while totals in the Real and Personal Property Report came from the Property Management Systems. The GAO reported that the TFM requires that Federal Agency Reports on Financial Position contain the same data as other reports to the Treasury, other central agencies, and the Congress. In attempting to reconcile the $69 billion difference, the GAO identified several over and understatements causing $52 billion of the difference. The GAO attributed the remaining $17 billion to the following three factors:

- property totals from the industrial and general funds were double counted;
- accounting system minimum capitalization criteria produced different amounts from the real property management system which does not have such thresholds; and
- delays occurred in recording newly acquired property in the financial accounting system.

In reviewing one regional accounting and disbursement center, the GAO found 4,421 invoices worth $193.6 million not yet recorded in the accounting system, even though one-fourth were between 2 and 7 years old. The GAO also found that property accounting activities were not submitting quarterly data to update the subsidiary ledger. The GAO concluded that Navy Reports on Financial Position to the Treasury contained data inconsistent with information in reports sent to executive and legislative branch users. The GAO emphasized that the Navy recognizes the inconsistencies between the two principal data sources and is taking action to correct some of the problems. The GAO noted, for example, that on October 1, the Navy directed industrial fund activities to start recording property values in the industrial fund general ledger only (to avoid double counting). The GAO also noted that the Navy has been closely monitoring the compilation of the report on Financial Position in the 1987 process to ensure accurate and complete data.

See comment 2.

DoD Response: Concur. The Navy is making a major effort to upgrade its accounting systems. This effort will result in financial statements that are more accurate, reliable and complete.

- FINDING D: Reconciliation Needed to Minimize Differences. The GAO reported that Title 2 requires that agency property records be reconciled with accounting systems. The GAO found, however, that Navy officials did not perform these reconciliations, resulting in substantially different real property account balances appearing in reports to the Treasury and the Congress. The GAO further reported that officials at the Naval Facilities Engineering Command indicated that department level reconciliations had not been performed for 5 years, because of the staff time required to reconcile the accounts. The GAO also found that the fiscal officers of accountable activities were not performing reconciliations of real property records, as required by the Navy Comptroller Manual, because necessary cost change documents were not provided by the Naval Facilities Engineering Command field division. The GAO reported that a survey of property accounting record balances for 69 activities, which accounted for $4 billion of real property, showed that balances for 17 activities accountable for land and buildings were $216.4 million higher on the Navy Accounting and Finance Center subsidiary ledger accounts than on the detailed real property transaction records, while balances for 18 other activities were $101.7 million higher on the detailed real property transaction records than on the subsidiary ledger accounts. The GAO concluded that the Navy needs to perform reconciliations between property and accounting records, otherwise errors will remain undetected and the Navy will continue to be unable to accurately report balances for holdings in real property.

See comment 2.

DoD Response: Concur.

RECOMMENDATIONS

- **RECOMMENDATION 1**: The GAO recommended that the Secretary of the Navy direct the Navy Comptroller:

  - to prepare the Report on Financial Position based upon general ledger account data rather than budget execution documents; and

  - to monitor and take action necessary to ensure adherence to existing procedures to reconcile balances of property accounting activities with detailed property record balances contained in the real property management system.

See comment 2.

DoD Response: Concur.

a. The Navy implemented the DoD Accounting Manual Uniform Chart of Accounts in the Navy Headquarters Financial System (NHFS) in FY 1987. The Department of the Navy Report on Financial Position (TFS 220) was prepared for FY 1987 and FY 1988, using the Navy Headquarters Financial System (NHFS).

b. Navy procedures require this reconciliation, but for various reasons it has not always been done. The Navy Accounting and Finance Center will coordinate with the Naval Facilities Engineering Command to reiterate guidance and monitor compliance. Action will be completed by September 30, 1989.

- **RECOMMENDATION 2**: The GAO recommended that the Secretary of the Navy direct the Commander, Naval Facilities Engineering Command, to adhere to existing procedures requiring accounting documents containing the cost status of real property being constructed to be issued to property accounting activities for reconciliation purposes.

See comment 2.

DoD Response: Concur. Current procedures require that Engineering Field Divisions report the acquisition of real property into the Navy Facilities Asset Data Base within 3 months of acquisition, and that the Plant Property Accounting Activity be notified of the cost. The audit deficiency reflects a lack of personnel resources rather than a lack of policy. The Naval Facilities Engineering Command will (1) reiterate its policy, (2) monitor Engineering Field Division compliance, and (3) review its reporting procedures. The Navy goal is to streamline the process to allow the reporting to be accomplished with the personnel resources available. Actions to be completed by September 30, 1989.

The following are GAO's comments on the Department of Defense's letter dated February 14, 1989.

GAO Comments

1. We agree that the error did not result from the lack of sufficient instructions, and the report has been modified accordingly. (See page 5.)

2. No change to the report is necessary.

Major Contributors to This Report

Accounting and Financial Management Division, Washington, D.C.

Bruce K. Michelson, Senior Assistant Director, Accounting Principles and Standards, (202) 275-9578
Arthur M. Martin, Accountant
Janet F. Stewart, Accountant
Charles F. Allen, Accountant
Elaine C. Petway, Secretary

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