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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

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LOGISTICS AND COMMUNICATIONS DIVISION

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OCT 17 1973

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The Honorable
The Secretary of the Navy



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Dear Mr. Secretary:

We recently reviewed the Navy's ship overhaul and repair programs for fiscal years 1972 and 1973. We reported the results of that work to the Chairman of the House Appropriations Committee on June 7, 1973. During our review we found that the Commander in Chief, Pacific Fleet (CINCPACFLT), used fiscal year 1971 operation and maintenance funds to pay for fiscal year 1972 obligations. This use violated section 1311 of the Supplemental Appropriation Act of 1955, as amended (31 U.S.C. 200), and section 3678 of the Revised Statutes (31 U.S.C. 628) and may also have violated the Anti-Deficiency Act (31 U.S.C. 665).

CINCPACFLT violated section 1311 of the Supplemental Appropriation Act of 1955 by preparing obligation documents showing that 1971 funds were to be used for the advance planning of ship overhauls, whereas some of these funds were actually used for ship overhauls during fiscal year 1972. These improper obligations against 1971 funds violated 31 U.S.C. 628 and resulted in an understatement of obligations against 1972 funds. The Anti-Deficiency Act would be violated if, after these obligations are corrected and properly recorded against 1972 funds, there are not enough 1972 funds to cover the corrected 1972 obligations.

BACKGROUND

Ship overhauls, including the advance planning of each overhaul, are funded from the Navy's annual operation and maintenance appropriation. Funds for advance planning are requested 1 year before the fiscal year in which the overhaul is scheduled to start. For example, the Navy's fiscal year 1972 operation and maintenance appropriation request included about \$20 million for the advance planning of overhauls scheduled to start in fiscal year 1973.

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BEST DOCUMENT AVAILABLE

In testimony on the Navy's fiscal year 1970 operation and maintenance appropriation before the House Appropriations Committee, the Navy said advance planning funds were needed to cover costs, such as those for design work, and for ordering long-lead-time materiel before the ship arrived for overhaul. The Navy said these costs were incurred as much as a year before the overhaul of large ships, such as aircraft carriers and nuclear submarines.

According to Navy regulations, obligations for advance planning are to be recorded separately from obligations for overhauls. The obligating documents (project orders) for advance planning are usually established in the fiscal year preceding the actual overhaul.

The Supplemental Appropriation Act of 1955, the Anti-Deficiency Act, and 31 U.S.C. 628 all concern the use of appropriated funds. The Supplemental Appropriation Act sets forth the requirements for a valid obligation; the Anti-Deficiency Act prohibits making obligations or expenditures in excess of appropriations, apportionments thereof, or administrative subdivisions of the apportionments and requires that agencies report violations to the President and to the Congress; and 31 U.S.C. 628 restricts the application of appropriated funds solely to the objects for which they are respectively made.

CINCPACFLT obligated \$34 million for the advance planning of 1972 ship overhauls. During fiscal year 1971 CINCPACFLT established project orders obligating \$21 million for the advance planning costs of 35 ships. After the end of fiscal year 1971, CINCPACFLT added another \$13 million to the project orders for 20 of these ships. These funds were added by a series of amendments to the original advance planning project orders.

SCOPE OF ADVANCE PLANNING PROJECT ORDERS

Although the Navy prepared separate project orders for advance planning and overhaul work, the scope-of-work descriptions were general and did not clearly distinguish between work to be done as advance planning and work to be done as overhaul.

Section 1311 of the Supplemental Appropriation Act of 1955 states that:

"* * * no amount shall be recorded as an obligation of the Government of the United States unless it is supported by documentary evidence of--

(1) a binding agreement in writing between the parties thereto, including Government agencies * * * executed before the expiration of the period of availability for obligation of the appropriation or fund concerned for specific goods to be delivered, real property to be purchased or leased, or work or services to be performed * * *" (Underscoring supplied.)

Navy regulations also require that project orders specifically identify the work to be done. CINCPACFLT uses the phrases "to finance the advance planning" and "to finance the overhaul" to distinguish advance planning project orders from project orders obligating overhaul funds.

USE OF ADVANCE PLANNING FUNDS BY CINCPACFLT

CINCPACFLT violated section 1311 of the Supplemental Appropriation Act of 1955 by using fiscal year 1971 funds to pay for fiscal year 1972 obligations. Fiscal year 1971 funds of \$34 million were obligated using project orders which stated that the funds were for advance planning. However, CINCPACFLT officials told us they had used some of these 1971 advance planning funds to pay for 1972 overhaul costs. This use also violated the provisions of 31 U.S.C. 628 in that funds appropriated for fiscal year 1971 needs were used to fill fiscal year 1972 needs.

CINCPACFLT's budgeting and financial management representatives said the distinction between advance planning and overhaul was not important. They said that advance planning should be considered part of the overhaul and that the term "advance planning" was misleading. They claimed it would be more accurate to use the term "advance funding" or to view all funds as overhaul funds, with some provided in the year prior to the overhaul of the ship. They said that, by establishing project orders for advance planning in 1971, they were able to obligate fiscal year 1971 funds for the 1972 overhauls and to amend these

project orders even after the close of fiscal year 1971 by using additional fiscal year 1971 funds as they became available.

Our review of fiscal year 1971 and 1972 obligation documents disclosed the three examples shown below, which are representative of our findings.

1. U.S.S. Sailfish (SS 572)

During fiscal year 1971, CINCPACFLT obligated \$650,000 to finance advance planning of the submarine Sailfish's overhaul. The actual overhaul was scheduled to begin in October 1971, and between October 1971 and June 1972 CINCPACFLT obligated \$4,667,500 from fiscal year 1972 funds to pay for the overhaul. Total obligations were then equal to the shipyard's fixed price of \$5,317,500 for advance planning and overhaul. After the overhaul was completed, the shipyard requested a \$650,000 increase in the fixed price because the actual cost of overhaul was \$5,967,500. In September 1972--over 14 months after the 1971 appropriation expired--CINCPACFLT provided an additional \$650,000 from the fiscal year 1971 appropriation using a project order amendment which stated that the funds were for advance planning. However, CINCPACFLT did not distinguish between advance planning and overhaul. Therefore, we believe that some of the \$650,000 was actually used to pay for overhaul.

2. U.S.S. Henderson (DD 785)

The overhaul of the destroyer Henderson was scheduled to begin in July 1971 but was changed to March 1972. By the end of fiscal year 1971, \$50,000 had been obligated for advance planning. During fiscal year 1972, the advance planning project order was increased to \$805,704, using fiscal year 1971 funds. Of this amount, \$555,704 was added in April 1972, after the overhaul work began, 9 months after the appropriation expired. Since CINCPACFLT did not think it was restricted to spending these funds for advance planning, we believe some of these funds were used for overhaul.

3. U.S.S. Ranger (CVA 61)

The Navy budgeted \$0.9 million of fiscal year 1970 funds and \$2 million of 1971 funds for advance planning of the carrier

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Ranger's overhaul. Another \$18.9 million of fiscal year 1972 funds were estimated for the overhaul work. But the actual cost of the advance planning and overhaul of the Ranger was \$6.6 million greater than originally estimated.

In testimony before the Senate and House Appropriations Committees, the Navy said it had reprogrammed fiscal year 1972 ship overhaul funds to finance this increased cost. However, CINCPACFLT actually financed the overhaul as follows:

<u>Fiscal year</u> <u>appropriation</u>	<u>Amount</u> (millions)
1970	\$ 4.8
1971	7.2
1972	<u>16.4</u>
Total financing	<u>\$28.4</u>

Thus, rather than using additional fiscal year 1972 funds, CINCPACFLT actually financed the increased cost by using fiscal year 1970 and 1971 funds. Amended project orders were processed stating that the additional funds were for advance planning. Over \$2.2 million of fiscal year 1971 funds were added during fiscal year 1972 while the overhaul was underway. Although the project orders said these funds were for advance planning, CINCPACFLT told us it was permitted to use the funds for overhaul, and we believe some funds were spent for this purpose.

Although fiscal year 1971 funds could have been used to fund additional advance planning within the scope of the original project orders, they could not properly be used to fund fiscal year 1972 advance planning outside the scope of the project orders, or to fund fiscal year 1972 overhauls. In view of the relatively large amounts in each of the above examples that were stated as having been added for purposes of advance planning and the addition of such sums considerably after overhaul work had begun or had been completed, we believe there can be little question that fiscal year 1971, and possibly some fiscal year 1970, funds were used to finance fiscal year 1972 overhauls and/or advance planning outside the scope of the project orders.

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As previously noted, CINCPACFLT obligated \$34 million of 1971 funds for advance planning on 35 ships to be overhauled in 1972. However, the original budget submitted by CINCPACFLT showed that it planned to use only \$7.3 million for the advance planning costs of nine ships. Furthermore, in data submitted to the Congress with the 1974 budget request, the Navy estimated advance planning costs of between \$125,000 and \$150,000 for ships, such as destroyers and destroyer escorts. In 1971 there were advance planning funds totaling \$5.6 million (an average \$470,000 each) obligated for eight destroyers and four destroyer escorts. Accordingly, it appears that CINCPACFLT created obligation documents which stated that fiscal year 1971 funds were going to be used for advance planning although it intended using some of these funds for overhaul.

SOURCE OF EXPIRED FUNDS

CINCPACFLT obtained the expired fiscal year 1971 funds, which were used to amend the advance planning project orders, from other programs within the operation and maintenance appropriation. These funds were originally budgeted for base operations, ship operations, and fuels. At the end of the appropriation year, most of these funds were still obligated under the original programs. However, as obligations were liquidated after the close of the fiscal year, deobligated funds were transferred to the ship overhaul program and reobligated against advance planning project orders to finance ship overhaul costs. CINCPACFLT officials told us that they believed it was not improper to use these expired appropriations to finance current ship overhauls, as long as an obligating document--in this case a project order for advance planning--had been issued before the appropriation expired. Thus, an advance planning project order, issued before the appropriation expired, became the vehicle by which CINCPACFLT used unexpended balances within the expired appropriation to finance ship overhaul work properly chargeable to the subsequent year's appropriation.

NAVAL AREA AUDIT SERVICE PREVIOUSLY REPORTED SIMILAR MISUSE OF FUNDS

In July 1971 the Naval Area Audit Service, San Diego, reported that CINCPACFLT had established 17 fiscal year 1970

project orders totaling \$4.2 million to finance fiscal year 1971 ship overhaul requirements. The Audit Service concluded that fiscal year 1971 funds should have been used because (1) no requirements for these funds were shown in the fiscal year 1970 ship overhaul budget, (2) the project orders using fiscal year 1970 funds were established immediately before and after the end of fiscal year 1970, and (3) no work on any of the project orders had begun as of June 30, 1970.

The Audit Service recommended that CINCPACFLT establish controls to insure that project orders serve a bona fide need existing in the fiscal year in which they are issued. In reply CINCPACFLT stated that the need for the advanced planning work actually existed at the time the project orders were established but that circumstances beyond CINCPACFLT's control prevented starting work before the end of the fiscal year.

Our findings show that CINCPACFLT has continued to follow the practice reported in the Navy's audit.

AGENCY COMMENTS

We discussed our findings with representatives of the Office of the Chief of Naval Operations. They agreed that 1971 advance planning funds had been used to pay for 1972 overhaul costs and that this constituted a violation of section 1311 of the Supplemental Appropriation Act.

They said there was a misunderstanding at the fleet headquarters, type commander, and shipyard levels on the use of advance planning funds and the requirements for adequate scope statements for advance planning project orders. They stated that the basic problem was that the scope of the advance planning was not adequately defined and documented and that accordingly there was confusion about the work that applied to the advance planning phase.

They said that for the past few years, the advance planning concept had been changing. Originally, they said, the advance planning phase was supposed to end when the ship arrived for overhaul; however, under the current concept, some advance planning would take place while the overhaul was getting started. The revised concept is based on the premise that more work should

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be done during the advance planning phase so that the ship is in the shipyard for the minimum possible time and the overhaul is completed on schedule.

Chief of Naval Operations representatives told us that in May and June 1973 they held meetings with fleet, type commander, and shipyard representatives. These meetings were to clarify the procedures that must be followed so that project orders are properly prepared and supported with adequate documentation on the scope of the advance planning.

CONCLUSIONS

We believe that CINCPACFLT violated section 1311 of the Supplemental Appropriation Act of 1955 and section 3678 of the Revised Statutes and may have also violated the Anti-Deficiency Act by using fiscal year 1971 funds to meet 1972 ship overhaul costs.

We did not attempt to identify the total fiscal year 1971 funds that were used for 1972 overhauls. We believe the Secretary of the Navy should direct the Naval Area Audit Service to determine that total.

RECOMMENDATIONS

We recommend that you strengthen financial management procedures to insure that:

- The project orders obligating funds for advance planning are supported by clear and specific work statements to distinguish advance planning from overhaul so that proper fiscal year funds are used.
- Unobligated balances of expired appropriations are not used to fund obligations of subsequent fiscal years.
- Obligations are not created in amounts exceeding the obligation authority of the appropriation.

We also recommend that you direct the Naval Area Audit Service to: Wc9

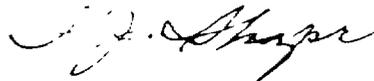
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--Make a detailed review of the CINCPACFLT obligations outstanding at June 30, 1972, and June 30, 1973, to see whether they met the standards of validity established by section 1311 of the Supplemental Appropriation Act of 1955, as amended, and section 3678 of the Revised Statutes and whether CINCPACFLT violated the Anti-Deficiency Act.

--Include the funding of ship overhauls for fiscal year 1974 in its plans for future audit work at CINCPACFLT.

We further recommend that, if a violation of the Anti-Deficiency Act is disclosed, you report the violation to the President and to the Congress, in accordance with the requirements of section 2(i)(2) of the act.

Sincerely yours,



F. J. Shafer
Director