

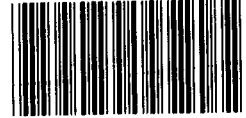
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United States
General Accounting Office
Washington, D.C. 20548

Accounting and Financial
Management Division

December 23, 1992



148275

General Jimmy D. Ross
Commander
U.S. Army Materiel Command
5001 Eisenhower Avenue
Alexandria, VA 22333-0001

Dear General Ross:

We recently completed a comprehensive review of the U.S. Army's financial management operations and fiscal year 1991 financial statements pursuant to the Chief Financial Officers Act of 1990 (Public Law 101-576). Reports on the overall results of our review were issued in August 1992.¹ In our report on Army's financial statements, we said we were continuing to address the legal implications of unsupported year-end adjustments by the U.S. Army's Aviation and Troop Command (Aviation Command), a unit of the Army Materiel Command.

More specifically, during our review, we found that Aviation Command personnel made a series of unsupported adjustments to its disbursement records for the subdivisions of funds established to control the expenditures of AVSCOM's procurement appropriations at the end of fiscal year 1991. The effect of these adjustments on the Aviation Command's year-end fund subdivision status reports was to eliminate negative balances in seven fund subdivisions and thus conceal that recorded disbursements exceeded available funding for those subdivisions by \$25.4 million. These adjustments were then reversed early in fiscal year 1992. As noted in our financial audit report, these actions raise the issue of whether the adjustments obscured potential violations of the Anti-Deficiency Act and whether the Aviation Command violated an Army regulation requiring reports and follow-up investigations on potential violations.

¹Examination of the Army's Financial Statements for Fiscal Year 1991 (GAO/AFMD-92-83) and Immediate Actions Needed to Improve Army Financial Operations and Controls (GAO/AFMD-92-82).

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The Anti-Deficiency Act, 31 U.S.C. 1341, generally prohibits any government employee from making disbursements that exceed the amount of available appropriated funds. In addition, Army Regulation (AR) 37-1 requires that any apparent Anti-Deficiency Act violation be brought to the attention of the cognizant commander and that the commander begin an investigation.

We found that when Aviation Command records showed that recorded disbursements exceeded amounts available, Aviation Command officials neither took the actions prescribed in AR 37-1 nor explained why they considered such actions unnecessary. Instead, the Aviation Command made the unsupported adjustments to offset, or reserve, negative balances, and issued a fiscal year 1991 year-end fund status report showing that disbursements were within authorized limits.

In response to our August 1992 Army financial statement audit report, the Army Materiel Command requested the Aviation Command to report, consistent with Army Regulation 37-1, the potential Anti-Deficiency Act violations. However, the Army Materiel Command stated that the Aviation Command was not required to initiate an investigation.

In its September 1992 response, the Aviation Command acknowledged that, prior to the adjustments, recorded disbursements for seven activities exceeded recorded obligations. However, it said that, based on research conducted after the end of fiscal year 1991, the recorded excess disbursements were "largely the result of bookkeeping errors." The Aviation Command also stated that it did not consider a violation of the Anti-Deficiency Act to be an issue in this instance. It stated that "the mere existence of a negative balance in the accounting records is not a basis for reporting a potential violation of the Anti-Deficiency Act."

Nonetheless, the Aviation Command did acknowledge that it probably should not have made the unsupported adjustments. The Aviation Command concluded that it should have either (1) reported that recorded disbursements exceeded obligations and indicated that it would research this matter, or (2) placed the apparent excess disbursement transactions into a suspense account for later investigation and not report them at all. Aviation Command officials informed us that they have not yet received the results of the Army Materiel Command's review of its September 1992 response.

We believe that the Aviation Command's erroneous adjustment of its accounting records, and the resulting effect of those adjustments on the year-end fund status report, circumvented the controls intended to ensure that potential violations of the Anti-Deficiency Act are identified and reported. The Aviation Command should have reported the apparent overexpenditure under AR 37-1 or explained why recorded disbursements exceeded authorized levels at the end of fiscal year 1991.

In this regard, we would appreciate your responding to the following questions, along with the reasons for your responses: (1) Are you satisfied, based on the Aviation Command's report and other information available to you, that there was no actual violation of the Anti-Deficiency Act? (2) If not, will you direct the Aviation Command to conduct an investigation in accordance with AR 37-1? (3) When the Aviation Command believes a negative balance in its disbursement records may have been caused by bookkeeping errors, what procedures does it use to determine whether there is, in fact, a potential violation of the Anti-Deficiency Act?

If similar circumstances occur again, the Aviation Command should fully disclose and resolve any apparent excess disbursements. This would involve the Aviation Command reporting any instances in which recorded disbursements exceed amounts available and performing sufficient research of the recorded disbursements to determine the appropriate corrective actions.

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We would appreciate receiving, within 30 days, your response to the issues and questions raised in this letter. We have discussed these issues with cognizant Aviation Command officials, and we are sending a copy of this letter to the Aviation Command. If you would like to discuss this matter, please call me at (202) 275-7095.

Sincerely yours,


David M. Connor
Director, Defense Financial Audits

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