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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-159797

September 26, 1980

[Navy Accounting Systems]

The Honorable Edward Hidalgo
The Secretary of the Navy

Dear Mr. Secretary:

As you know, approval of all Executive Branch accounting systems is not only a goal of our Office, but is high on the financial priorities list of the Office of Management and Budget. [We have been cooperating with members of your accounting staff as they have worked to submit the Navy Strategic Weapons Facility, Pacific and the Military Sealift Command Industrial Fund accounting system designs for our approval.] Based on the target dates they submitted to us earlier this year, we anticipated approving these accounting system designs during fiscal year 1980.]

However, the progress made to date to resolve the remaining problems concerning capitalization of fixed assets in both of these system designs and the lack of adequate design documentation to support disbursements to contractors in the Military Sealift Command accounting system is not sufficient for these systems to be approved by September 30, 1980.]

Capitalization of fixed assets

On April 4, 1980, I issued revised capitalization criteria for Government-owned property. These revised criteria increased the dollar minimum for the capitalization of all fixed assets except furniture, fixtures, and office equipment from \$300 to \$1000. The dollar minimum for furniture, fixtures, and office equipment remains at \$300. This increase in the criteria was established after careful deliberation and consultation with various agencies (including the Department of Defense) of the Executive Branch and staffs of congressional committees.

During July 1980 the Comptroller of the Navy issued instructions requiring fixed asset accounting at all industrial fund activities. However, the instruction does not include the specific dollar capitalization criteria in my April 4, 1980, issuance for furniture, fixtures, and office equipment. We cannot approve any accounting system design that does not conform to our established limits for capitalization of property.]

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Documentation to support disbursements

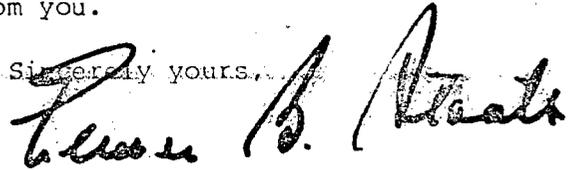
The design documentation at the Military Sealift Command to support disbursements to contractors for shipment to overseas destinations is not adequate. At a minimum, to comply with our requirements for documentary evidence to support disbursements to contractors, a receiving report is needed. The present procedure used by the Military Sealift Command involves comparing details between documents prepared from the same source--a shipping manifest issued by the Military Management Command. No receiving report is used to support the disbursement. This problem was discussed before the Subcommittee on the Department of Defense, Committee on Appropriations, House of Representatives, during hearings on the Department of Defense Appropriations for 1980 on May 17, 1979.

We need your help and assurance that the necessary action will be taken so that adequate documentation for these Navy accounting systems will be submitted in a timely manner in order that the systems can qualify for approval early in fiscal year 1981. Therefore, we would appreciate your advising us of the estimated date by which the systems, with corrected documentation, will be submitted.

We believe that well-designed accounting systems, with effective internal controls, are our first defense in preventing fraud, waste, error and abuse--a subject in which the Congress and the Administration are vitally and properly concerned at the present time.

We look forward to hearing from you.

Sincerely yours,



Comptroller General
of the United States

cc: Chairman, Senate Committee on Appropriations,
Subcommittee on Defense
Chairman, Senate Committee on Armed Services
Chairman, Senate Committee on Governmental Affairs
Chairman, House Committee on Appropriations,
Subcommittee on Defense
Chairman, House Committee on Armed Services
Chairman, House Committee on Government Operations
Director, Office of Management and Budget
Assistant Secretary of Defense, Comptroller
Mr. John Crehan, OSD