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# Survey Of The Communication And Control Of Accrued Expenditure And Revenue Data

B-159797

Department Of Defense

**UNITED STATES  
GENERAL ACCOUNTING OFFICE**

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FEB. 8, 1973



## UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

DIVISION OF FINANCIAL AND  
GENERAL MANAGEMENT STUDIES

B-159797

Dear Mr. Secretary:

This is our report on the survey of the communication and control of accrued expenditure and revenue data in the Department of Defense. The purpose of the survey was to evaluate progress being made in the Department of Defense toward implementing the accrued expenditure concept in accordance with the recommendations of the President's Commission on Budget Concepts.

The survey was performed at selected activities in the Department of Defense and was directed mainly toward determining how well communications and processing systems were operating in providing accrued expenditure and accrued revenue data as of June 30, 1971, and periodically thereafter. The financial data in this report is based on information available at the time of our survey and covers the months of December 1970 through December 1971. We placed emphasis on identifying the actual procedures followed and on determining whether these procedures were in accordance with the instructions and regulations of the Office of Management and Budget, the Treasury Department, the Office of the Secretary of Defense, and the respective Department of Defense components.

In our opinion, the accrued expenditure and accrued revenue data reported by the Department of Defense was not reliable. However, some of the problems identified appear to be less significant at fiscal yearend due to the extended year-end reporting date. We discussed the problems identified with responsible officials, and in most cases appropriate corrective actions were initiated or planned. We believe that these actions, if properly implemented, will improve the usefulness of the accounting reports.

In addition, we would like you to consider recording the profit factor applicable to progress payments. We believe such action is consistent with the document-on-hand concept

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and recommend that you consider amending the instruction to provide for its recordation.

Copies of this report are being furnished to representatives of the Office of Management and Budget and the Treasury Department.

Sincerely yours,

A handwritten signature in cursive script that reads "DL Scantlebury". The letters are dark and fluid, with a prominent loop at the end of the last name.

D. L. Scantlebury  
Director

*Div. of Finance & General Management  
Studies*

The Honorable  
The Secretary of Defense

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#### ABBREVIATIONS

AFAFC	Air Force Accounting and Finance Center
AFPRO	Air Force Plant Representative Office
ASD	Aeronautical Systems Division
DBRS	Departmental Budgetary Reporting System
DCASR	Defense Contract Administration Services Region
DOD	Department Of Defense
NRFC	Navy Regional Finance Center
NSC	Naval Supply Center
OMB	Office of Management and Budget
SMAMA	Sacramento Air Materiel Area
TACOM	Army Tank-Automotive Command
USAFINCISCOM	Army Finance and Comptroller Information Systems Command
WRAMA	Warner Robins Air Materiel Area

## SUMMARY

### OBJECTIVE

The President's Commission on Budget Concepts recommended that Federal agencies be required to account for and report on accrued expenditures and accrued revenues. We made this survey to evaluate the effectiveness of Department of Defense (DOD) systems in providing accrued expenditure and accrued revenue data. Emphasis was placed on determining whether procedures were in accordance with applicable instructions and regulations of the Office of Management and Budget (OMB), the Treasury Department, the Office of the Secretary of Defense, and the respective DOD components. Our evaluations of accrual procedures are based on the document-on-hand concept prescribed by DOD instructions rather than on the unbilled performance concept recommended by the Commission.

### PROBLEM AREAS AND RESULTING ERRORS

In our opinion, the accrued expenditure and accrued revenue data reported by DOD was not reliable. We identified errors in reported accrued expenditure data ranging from understatements totaling \$58.2 million in April 1971 to overstatements totaling \$9.3 million in January 1971. Similarly errors noted in reported accrued revenue data ranged from understatements totaling \$218.2 million in March 1971 to overstatements totaling \$506.7 million in December 1971. (See app. I.) We also noted other operating inadequacies in the processing and reporting of accrued expenditures and accrued revenues for which we did not determine the monetary impact.

The numerous discrepancies identified were caused mostly by inadequate or inconsistent instructions and clerical errors. We noted one instance of computer program deficiencies and one instance involving the lack of sufficient competent personnel. The specific types of transaction discrepancies which resulted are described in the findings section of this report.

We also found that accrued expenditures recorded for progress-payment-type contracts did not include an estimate

of the undocumented earned portion of profit. This matter is included for further consideration because of its possible significance.

### ACTION TAKEN

We discussed the problems identified with responsible officials and sent letter reports summarizing our observations to the local commanders of field activities included in our survey. (See app. II.) In most cases appropriate corrective actions were initiated or planned. We believe that these actions, if properly implemented, will improve the usefulness of the accounting reports.

### SCOPE

We reviewed available instructions and procedures for recording and reporting accrued expenditures and accrued revenues for selected appropriation, fund, and receipt accounts. We made limited tests of accounting records and reports at selected activities and obtained information through discussions with personnel concerned with financial management at various organizational levels as to processes and procedures being employed. The financial data in this report is based on information available at the time of our survey and covers the months of December 1970 through December 1971. From July 1968 through September 1971 the Treasury required reports on accrued expenditures and accrued revenues to be submitted monthly. For periods subsequent to September 1971, the reporting requirement was changed from monthly to quarterly. Our work was performed at the following locations.

#### Department of the Air Force:

- Air Force Accounting and Finance Center, Denver, Colo.
- Headquarters, Air Force Logistics Command, Wright-Patterson Air Force Base, Ohio
- Aeronautical Systems Division, Wright-Patterson Air Force Base, Ohio
- Sacramento Air Materiel Area, McClellan Air Force Base, Calif.
- Warner Robins Air Materiel Area, Robins Air Force Base, Ga.
- Western Area Accounting and Finance Office, Detachment 41, Air Force Contract Management Division, Los Angeles, Calif.

Department of the Army:

Army Finance and Comptroller Information Systems Command, Washington, D.C.

Army Tank-Automotive Command, Warren, Mich.

Headquarters, <sup>USA</sup>Army, Presidio of San Francisco, Calif.

Headquarters, Presidio of San Francisco, Calif.

Department of the Navy:

Office of the Comptroller of the Navy, Washington, D.C.

Naval Supply Center, Newport, R.I.

Navy Regional Finance Centers, Great Lakes, Ill., and Norfolk, Va.

Defense Supply Agency:

Defense Contract Administration Services Region, New York, N.Y.



## FINDINGS

### ACCRUED EXPENDITURES

#### Department of the Air Force

##### Failure to establish accounts payable for certain transactions

Accrued expenditure transactions involving vouchers paid at one station where another station was accountable for the funds were not recorded as accounts payable. The disbursing stations transmitted payment data and copies of paid vouchers to the Air Force Accounting and Finance Center (AFAFC)--the Air Force's central accounting activity. After processing these transactions into the Air Force's central accounting system, AFAFC sent machine listings of payments and copies of paid vouchers to accountable stations to be recorded. Until posted to ledgers at accountable stations, these payments were designated "undistributed disbursements" in the Air Force's central accounting system. For accrued expenditure reporting purposes, the Air Force reduced reported accounts payable by the amount of undistributed disbursements. This reduction was based on the assumption that field accountable stations had reported payables at least equivalent to undistributed disbursements. However, this assumption was erroneous, as shown by the following examples.

1. The Office of the Director of Budget, Headquarters, Air Force, recorded all orders as unliquidated obligations until it received a paid voucher. It did not record or report any accounts payable data to which AFAFC could properly apply the undistributed disbursements. The action by AFAFC thereby created negative accounts payable and understated accrued expenditures by about \$30.4 million as of March 31, 1971, \$49.1 million as of April 30, 1971, and \$43.4 million as of May 31, 1971.

2. At the time of our survey, there were 25 to 50 stations other than Defense Contract Administration Services Regions (DCASRs) and Air Force Plant Representative Offices (AFPROs) paying on Aeronautical Systems Division (ASD) contracts. No accounts payable were being reported by ASD on

these transactions. Furthermore, there were no arrangements for paying stations to provide such data to ASD for inclusion in its accrued expenditure reports. Our inquiries at several stations paying on ASD contracts indicated that such data was not being reported through any other channels.

3. Officials at the Sacramento Air Materiel Area (SMAMA) and the Warner Robins Air Materiel Area (WRAMA) told us that they paid vouchers for other stations but that, with the exception of progress billings for in-house depot maintenance work, they generally did not report accounts payable data pertaining to these payments to those stations. Furthermore, with the exception of depot maintenance progress billings, SMAMA and WRAMA did not receive accounts payable data pertaining to payments made for them by other stations.

Air Force officials said that they would establish procedures for reporting the pertinent accounts payable. We believe that these procedures, if properly implemented, will improve the accounting results considerably.

#### Inaccurate estimates used

The Division Accounting and Finance Office at the San Antonio Air Materiel Area transmitted estimated accrued expenditures for the Aviation Fuels Division of the Air Force Stock Fund to AFAFC to be included in the monthly accrued expenditure reports because it could not furnish actual data on time. Some of the estimates, however, were substantially different from actual data received later. During the 6-month period, December 1970 to May 1971, differences between estimated and actual accrued expenditure data ranged from a \$9.1 million understatement to a \$9.3 million overstatement. Final yearend reports were not affected by this procedure because the extended yearend reporting date enabled AFAFC to use actual data. AFAFC anticipated that an interfund settlement technique, coupled with automation planned for implementation in July 1973, would enable the Division Accounting and Finance Office to transmit actual data on time.

### Unpaid items on hand at monthend not reported

At WRAMA unpaid interfund billings on hand at monthend, amounting to \$193,000, \$222,000 and \$153,000 in May, June, and July 1971, respectively, were not reported. Existing instructions were not clear as to field responsibilities for reporting accruals for unpaid interfund billings. Appropriate corrective action has been taken at WRAMA to report these accruals. However, WRAMA wrote to Headquarters, Air Force Logistics Command, recommending that AFAFC account for these accruals centrally. The procedures required that all interfund billing transactions be cleared through AFAFC which matched buyer and seller transactions. Differences were to be monitored and shown as undistributed expenditures in status of fund reports. WRAMA recommended that AFAFC adjust for these undistributed expenditures by reducing field-reported unliquidated obligations and increasing accrued expenditures. We consider this procedure acceptable. This matter was still under consideration at AFAFC when we completed our survey.

Unpaid commercial invoices on hand at monthend, totaling \$37,000 in May 1971 and \$14,000 in July 1971, were not reported by WRAMA because they were vouchered after the monthly cutoff or were simply overlooked. We discussed this matter with responsible officials, and appropriate corrective action was taken.

Standard Form 1080 billings received on the last day of the month were not reported as accrued expenditures by WRAMA. Although we did not determine the monetary impact of this situation, we did discuss the matter with responsible officials, and appropriate corrective action was taken.

At Detachment 41, Air Force Contract Management Division, which accounts for accrued expenditures on AFPRO-administered contracts, the cutoff for the monthly accrued expenditure report excluded deliveries processed during the last 2 days of the month and invoices received on the last day of the month. The effect of excluding deliveries in the last 2 days of the month was not significant in September 1971. However, omitting the invoices received on the last day of the month caused the September 1971 accrued expenditures to be understated by about \$4 million. We

discussed this matter with responsible officials. Subsequently the cutoff was changed to provide for the recording of these items.

Incorrect amounts recorded for contracts with progress payment provisions

Procedures used by WRAMA resulted in incorrect recordings for contracts with progress payment provisions, as follows:

1. Invoices covering delivered items were recorded without deducting previously made progress payments. This caused an overstatement of the June 1971 accrued expenditures by \$311,000.

2. Unpaid progress payment requests were recorded net of the amount to be retained as a holdback. This caused an understatement of the June 1971 accrued expenditures by \$45,000.

We brought these matters to the attention of responsible officials, and appropriate corrective action was taken.

Lack of timely documentation

At ASD expenses were incurred under rental contracts but were not recorded until a signed contract was received--usually several months after the contract had been in effect. Although we did not determine the monetary impact of this situation, we did discuss this matter with responsible officials who said that estimates submitted by activities using the rented equipment would be reported in the future.

Duplication of data

At WRAMA the same holdback data was reported in two separate internal letters. As a result, this data was recorded twice, causing the August 1971 accrued expenditures to be overstated by \$2.4 million. We brought this matter to the attention of responsible officials, and appropriate corrective action was taken.

## Department of the Army

### Inaccurate flash reports used

During fiscal year 1971 and for the first 3 months of fiscal year 1972, the Army used flash reports of accrued expenditure data from operating agency accounts offices in preparing monthly departmental accrued expenditure reports. These flash reports contained unreconciled and incomplete data because they were due at the Army Finance and Comptroller Information Systems Command (USAFINCISCOM)--the Army's central accounting activity--before the completion and submission of the operating agencies' formal status reports. Final yearend reports were not affected by this procedure because the extended yearend reporting date made it possible to use the formal status reports.

We did not determine the monetary impact of this situation, but USAFINCISCOM officials said that the flash reports were substantially inaccurate. Consequently, the Army discontinued the use of flash reports starting December 1971. Since that time, the necessary accrued expenditure data has been obtained from the operating agencies' formal status reports which have usually been received at USAFINCISCOM several days later than the flash reports had been.

The Army expected that the computerized Departmental Budgetary Reporting System (DBRS) being implemented at USAFINCISCOM would be operational by December 1971 and that the increased speed of processing at USAFINCISCOM would compensate for the delay in getting accrued expenditure data from operating agencies. As of March 1972, DBRS was not yet fully operational, and the Army was continuing to have difficulty in meeting the prescribed due dates for reporting to the Treasury.

### Omission of data

At the Army Tank-Automotive Command (TACOM), ineffective document control caused the omission of some unpaid invoices, receiving reports, and related holdback data from the feeder reports used in preparing the end-of-the-month journal voucher. As a result, the June 1971 accrued expenditures of the appropriation for Procurement of Equipment and Missiles, Army, were understated by \$639,000. After we

brought this matter to the attention of officials, they advised us that appropriation accounting sections would be required to use a check sheet to insure receipt and recording of accrued expenditure data.

First available documentation not used

A TACOM local instruction provided that accrued expenditure data be recorded on the basis of the latest documentary evidence on hand at the end of the month. As a result, a document returned to a vendor for adjustment or correction would not be on hand at the end of the month and therefore would not be recorded. This procedure is contrary to Army Regulation 37-51 which states that accrued expenditures are to be recorded on the basis of the first available documentary evidence received. We did not determine the monetary impact of this situation. This matter was brought to the attention of officials who said that the local instruction would be revised to require that documents returned to vendors would be recorded.

Duplication of data

At TACOM the June 1971 accrued expenditures for the Army Stock Fund were overstated by \$541,000 because the journal voucher involving holdbacks was prepared and recorded twice. After we brought this matter to the attention of officials, they advised us that a more systematic document inventory procedure would be used to prevent duplications.

Errors in classifying transactions  
as between those relating to the public  
and those relating to the Government

At Headquarters, 6th Army, the flash report for July 1971 showed a credit balance of \$201,000 for non-Government accounts receivable, Army Stock Fund.

At the Presidio of San Francisco, the status reports showed credit balances of \$299,000 and \$70,000 in July and August 1971, respectively, for non-Government reimbursements receivable, Army Stock Fund, and a debit balance of \$45,000 in September 1971 for Government accounts payable, Operation and Maintenance, Army.

At TACOM the June 1971 status report contained accrued expenditures of \$628,000 under Procurement of Equipment and Missiles, Army, representing interfund transactions which were incorrectly classified as non-Government accounts payable.

These negative balances were attributed primarily to errors in classifying transactions as between those relating to the public and those relating to the Government. Responsible officials advised us that these errors were caused by the pressure to meet report submission due dates, a shortage of personnel and qualified supervisors, and constant changes in accounting systems and coding. They said that efforts would be made to improve this situation.

Inappropriate procedure for recording  
severance pay

Army Regulation 37-51 provides that for civilian personnel "Severance pay is an accrued expenditure on a pay-period-by-pay-period basis." These instructions are consistent with DOD Instruction 7220.27. However, the following requirements are included in Army Regulation 37-21:

1. Obligations for civilian severance pay will be charged to the appropriation current at the time of separation and will be recorded for the full amount of entitlement at the time of separation. (For severance pay, accrued expenditures are recorded at time of obligation.)

2. Obligations established will be liquidated on the basis of the biweekly payments.

Some commands were using the basis prescribed by Army Regulation 37-21 for accruing severance pay. We discussed this matter with Army representatives who said that Army Regulation 37-51 prescribed the appropriate procedure for accruing severance pay and that Army Regulation 37-21 would be revised accordingly.

## Department of the Navy

### Delay in processing receipt documents

At the Naval Supply Center (NSC), Newport, material received toward the end of the month was not being recorded as an accrued expenditure until the subsequent month due to a delay in processing receipt documents. The interval between the physical receipt of material and its entry into the financial records averaged about 7 days. We did not determine the monetary impact of this situation. We recommended that NSC officials continue to oversee this area to insure that all practical efforts are made to include applicable transactions in accrued expenditure reports.

### Intragovernmental revenues and expenditures not recorded in same month

At NSC Newport accrued revenues and accrued expenditures for intragovernmental transactions were not recorded in the same month, even though the NSC did the accounting for both the buyer and the seller under reimbursable work in about 75 percent of the cases. We did not determine the monetary impact of this situation. Responsible officials said that they would try to correct this situation.

### Errors in classifying disbursements as between accounts payable and nonaccounts payable transactions

Pending implementation of the Navy's Integrated Financial Management System, the Navy Regional Finance Centers (NRFCs) obtained accounts payable data for the major procurement appropriations through analysis of disbursement documentation. At NRFC Norfolk we tested 275 vendor invoices and found that 163 invoices amounting to about \$49,000 were incorrectly classified as nonaccounts payable items. The primary cause of these errors was that personnel responsible for classifying invoices were not adequately informed about criteria of the Office of the Comptroller of the Navy for determining accounts payable for reporting purposes. We brought this matter to the attention of the responsible official who said that he would increase the training of personnel and the spot checking of the classification of invoices.



First available documentation not used

At NSC Newport vendor invoices and General Services Administration billings received before the receipt of material were not used as a basis for recording accrued expenditures. We did not determine the monetary impact of this situation. A revision of the Navy Stock Fund regulation may be required to correct this situation. Representatives of the Navy Comptroller said that they would study this further.

Accounts payable not liquidated  
by disbursements

At NSC Newport some disbursements could not be matched against previously established Navy Stock Fund accounts payable because of computer program deficiencies. As a result, these accounts were not being liquidated. About 66 percent of the accounts payable were 120 days old or more. As of November 1971, some of the computer program deficiencies had been corrected and the old balances were being re-searched. Responsible officials said that action would be requested to correct the remaining deficiencies.

## Defense Supply Agency

The 11 DCASRs were required to submit monthly reports of liabilities on contracts administered by them to a designated central accounting activity in each military department. These reports were combined with reported liabilities from the accounting activities within each department to arrive at departmental totals for reporting to the Treasury. Therefore, inaccuracies in DCASR reports further contributed to any inaccuracies in the aggregate liabilities reported by the military departments.

### Accounts payable not liquidated by disbursements

At DCASR New York the accrued expenditure master file contained many accounts payable balances that were between 30 days and a year old. Undoubtedly, most of these amounts had been liquidated and therefore should have been deleted from the file. Instead of purging invalid items in the file periodically, the DCASR had been adjusting the accrued expenditure reports on the basis of a review of contracts with large unliquidated obligation balances. The adjustment consisted of reducing the accounts payable to be reported by an amount representing the excess of accounts payable over unliquidated obligations for these items. Because the master file was not corrected, such an adjustment to the accrued expenditure report was made each month.

For each of the 4 months, July to October 1971, this procedure resulted in the downward adjustment to the accrued expenditure report by at least \$60 million. However, even after this downward adjustment, a substantial portion of the remaining balances represented amounts more than 60 days old. Our limited test identified an additional \$6.6 million in accounts over 60 days old for which no adjustment was made on the October 1971 accrued expenditure report.

We discussed this matter with responsible officials and subsequently DCASR New York advised us that all invalid or overaged data had been purged and that a purified master file had been created in January 1972. We were also told that proposed revisions to existing systems would provide

for the recording of payments to simultaneously liquidate accounts payable.

#### First available documentation not used

At DCASR New York accrued expenditures were not recorded on the basis of first available documentation. For those shipments which required source inspection and destination acceptance, the DCASR was not recording an accrued expenditure until receipt of the acceptance copy of the DD Form 250--Material Inspection and Receiving Report--or the unmatched invoice even though the source inspection copy of DD Form 250 was on hand. Our limited test showed that the value of source inspection DD Form 250s on hand at the end of November 1971, which were not recorded as an accrued expenditure, was about \$1.5 million. At fiscal yearend this condition would be less significant due to the extended yearend reporting date.

The Defense Supply Agency's accounting manual does not require the recording of accrued expenditures when supported only by the source inspection copy. However, this procedure is inconsistent with DOD Instruction 7220.27, which requires that accrued expenditures be recorded on the basis of the first available documentation and OMB Bulletin No. 68-10 which states that performance by the payee, not physical delivery or passing of title, is the criterion to be applied in establishing an accrued expenditure for goods manufactured to Government specifications.

A representative of the Office of the Secretary of Defense advised us that proposed revisions to existing systems would correct this situation.

#### Clerical errors

Defense Supply Agency Auditor General reports indicate that the final June 30, 1971, accrued expenditure reports of DCASR Chicago, DCASR Philadelphia, and DCASR Los Angeles contained significant clerical errors. The Defense Supply Agency auditors estimated that DCASR Chicago accrued expenditures were understated by about \$17 million; DCASR Philadelphia accrued expenditures were overstated by about \$9.6 million, but this was partially offset by contracts

valued at an estimated \$6.8 million for which accrued expenditures were not reported; and DCASR Los Angeles accrued expenditures were understated by at least \$2 million.

Following are the types of errors which were cited as having the greatest impact.

1. Progress payment requests covering costs incurred both before and after June 30, 1971, were not accurately prorated to reflect accrued expenditures reportable as of June 30, 1971.

2. Invoices and receiving reports for services performed or costs incurred on or before June 30, 1971, were omitted from the June 30, 1971, accrued expenditure processing.

3. Invoices for goods shipped, invoiced, and accepted after June 30, 1971, were included in the June 30, 1971, accrued expenditure processing.

4. Destination acceptances (DD Form 250) received in the DCASRs between July 1 and August 10, 1971, for goods shipped and invoiced before June 30, 1971, were entered into the system on the basis of the acceptance date rather than the shipment date.

The errors were attributed to a lack of comprehensive training of personnel at the operating level and to operating personnel either not understanding or not following instructions. A contributing factor cited was that, because of reduction-in-force actions, some employees lacked experience in the jobs they held.

INDUSTRIAL FUND ACCRUED REVENUES REPORTED NOT  
CONSISTENT WITH ACCRUED EXPENDITURES FOR  
INTRAGOVERNMENTAL TRANSACTIONS

Industrial fund activities of the three military departments recorded accrued revenues on a job-completion basis instead of on the basis of progress payments received for work performed. In addition, the Military Sealift Command, a Navy Industrial Fund activity, recorded billings for transportation services as Uncompleted Voyage Revenue (unearned income) and adjusted this account monthly for revenues earned based on elapsed voyage days. The effect of these procedures was that in most instances industrial fund activities were not recording accrued revenues for progress payments or transportation billings during the same time that Government customers were recording the corresponding accrued expenditures.

To convert industrial fund accrued revenues to a basis consistent with the corresponding accrued expenditures recorded by Government customers, DOD Directive 7410.4 provides that, for accrued revenue reporting purposes, military departments should centrally adjust industrial fund accrued revenues by the amount of increase or decrease in the balances of Progress Payments Received and Uncompleted Voyage Revenue. However, these central adjustments were not regularly made as discussed below.

Adjustment required for change in balance of  
Progress Payments Received

The Air Force and the Navy made the adjustment required by the DOD directive only for the fiscal yearend report. As a result, the Air Force's reports overstated accrued revenues by \$87.8 million and \$7.9 million as of March 31, 1971, and December 31, 1971, respectively, and understated accrued revenues by \$6.5 million as of September 30, 1971. Similarly, the Navy's reports overstated accrued revenues by \$151.2 million and \$498.1 million as of September 30, 1971, and December 31, 1971, respectively, and understated accrued revenues by \$215.7 million as of March 31, 1971.

The Army did not make the adjustment required by the DOD directive for any of its reports. As a result, the Army's reports understated accrued revenues by \$2.5 million,

\$184,000, \$7 million, and \$5.1 million as of March 31, 1971, June 30, 1971, September 30, 1971, and December 31, 1971, respectively.

Officials of the three military departments informed us that the adjustment would be made in preparing future quarterly reports.

Adjustment required for change in balance  
of Uncompleted Voyage Revenue

The Navy made the adjustment required by the DOD directive only for the fiscal yearend report. As a result, the Navy's reports overstated accrued revenues by \$10.2 million and \$736,000 as of March 31, 1971, and December 31, 1971, respectively, and understated accrued revenues by \$801,000 as of September 30, 1971. Navy officials informed us that the adjustment would be made for future quarterly reports.

MATTER FOR CONSIDERATION

Amounts recorded for  
progress-payment-type contracts  
do not include estimate  
for earned portion of profit

OMB Bulletin No. 68-10 stipulates that the amount to be recorded as accrued expenditures on contracts for work to the Government's specifications be measured "by the earnings of the contractor, determined not by his costs \*\*\* but by the proportion of the price earned." However, DOD Instruction 7220.27 states that contractor earnings to be recorded include only documented amounts of fees or profits. In accordance with the DOD instruction, DCASRs have been recording only the payable cost of such work and amounts of hold-backs on contracts with progress payment provisions. The applicable earned profit is deferred until an invoice for delivery is received.

At DCASR New York the reported accrued expenditures would have been increased by \$17 million as of June 30, 1971, and \$19 million as of October 31, 1971, if the estimated profit earned had been recorded.

Recommendation

Although we previously concurred in this procedure, we believe that the document-on-hand concept permits DCASRs to record for each progress payment invoice the proportion of profit applicable thereto and recommend that DOD consider revising Instruction 7220.27 accordingly.

APPENDIXES



SUMMARY OF ERRORS TO THE  
EXTENT IDENTIFIED

<u>Condition</u>	<u>Page</u>	<u>December</u> <u>1970</u>	<u>March</u> <u>1971</u>	<u>April</u> <u>1971</u>
Accrued expenditures understated:				
Failure to establish accounts payable for certain transactions	4		\$30,369,000	\$49,129,000
Inaccurate estimates used	5	\$2,624,000	2,094,000	9,096,000
Unpaid items on hand at month-end not reported	6			
Incorrect amounts recorded for contracts with progress payment provisions	7			
Ineffective document control resulted in omission of data	8			
Errors in classifying disbursements as between accounts payable and nonaccounts payable transactions	11			
First available documentation not used	12			
Clerical errors	14			
		_____	_____	_____
Total understatement identified		<u>\$2,624,000</u>	<u>\$32,463,000</u>	<u>\$58,225,000</u>

APPENDIX I

<u>May</u> <u>1971</u>	<u>June</u> <u>1971</u>	<u>July</u> <u>1971</u>	<u>September</u> <u>1971</u>	<u>November</u> <u>1971</u>
\$43,372,000				
230,000	\$ 222,000	\$167,000	\$4,128,000	
	45,000			
	639,000			
				\$ 49,000
<hr/>	<u>19,400,000</u>	<hr/>	<hr/>	<u>1,526,000</u>
<u>\$43,602,000</u>	<u>\$20,306,000</u>	<u>\$167,000</u>	<u>\$4,128,000</u>	<u>\$1,575,000</u>

SUMMARY OF ERRORS TO THE  
EXTENT IDENTIFIED

<u>Condition</u>	<u>Page</u>	<u>January 1971</u>
Accrued expenditures overstated:		
Inaccurate estimates used	5	\$9,327,000
Incorrect amounts recorded for contracts with progress payment provisions	7	
Duplication of data	7 and 9	
Accounts payable not liqui- dated by disbursements	12	
Clerical errors	14	
		<hr/>
Total overstatement identified		<u>\$9,327,000</u>

APPENDIX I

<u>February</u> <u>1971</u>	<u>May</u> <u>1971</u>	<u>June</u> <u>1971</u>	<u>August</u> <u>1971</u>	<u>October</u> <u>1971</u>
\$3,617,000	\$1,308,000			
		\$ 311,000		
		541,000	\$2,432,000	
		<u>2,800,000</u>		\$6,616,000
<u>\$3,617,000</u>	<u>\$1,308,000</u>	<u>\$3,652,000</u>	<u>\$2,432,000</u>	<u>\$6,616,000</u>

SUMMARY OF ERRORS TO THE  
EXTENT IDENTIFIED

<u>Condition</u>	<u>Page</u>	<u>Military department</u>
Accrued revenues understated:		
Industrial fund revenues not re-	16	Air Force
corded for total progress payments	16	Army
received	16	Navy
Industrial fund revenues not re-		
corded for total unearned voyage		
revenue	16	Navy
Total understatement identified		
Accrued revenues overstated:		
Industrial fund revenues not re-	16	Air Force
corded for total progress payments	16	Navy
received		
Industrial fund revenues not re-		
corded for total unearned voyage		
revenue	16	Navy
Total overstatement identified		

APPENDIX I

<u>March</u> <u>1971</u>	<u>June</u> <u>1971</u>	<u>September</u> <u>1971</u>	<u>December</u> <u>1971</u>
\$ 2,529,000 215,709,000	\$184,000	\$ 6,503,000 7,026,000	\$ 5,127,000
_____	_____	801,000	_____
<u>\$218,238,000</u>	<u>\$184,000</u>	<u>\$ 14,330,000</u>	<u>\$ 5,127,000</u>
\$ 87,762,000		\$151,199,000	\$ 7,857,000 498,109,000
<u>10,164,000</u>		_____	<u>736,000</u>
<u>\$ 97,926,000</u>		<u>\$151,199,000</u>	<u>\$506,702,000</u>

SUMMARY OF ERRORS TO THE  
EXTENT IDENTIFIED

<u>Condition</u>	<u>Page</u>	<u>June 1971</u>
Other inadequacies:		
Errors in classifying transactions as between those relating to the public and those relating to the Government:		
Accounts receivable	9	
Accounts payable	9	\$628,000

July  
1971

August  
1971

September  
1971

\$500,000

\$70,000

\$45,000



APPENDIX II

LETTER REPORTS SENT TO LOCAL COMMANDERS OF  
 FIELD ACTIVITIES  
 INCLUDED IN SURVEY

<u>GAO regional office issuing letter report</u>	<u>Date issued</u>	<u>Field activity</u>
Chicago, Ill.	Jan. 18, 1972	Navy Regional Finance Center, Great Lakes, Ill.
Cincinnati, Ohio	Jan. 25, 1972	Headquarters, Air Force Logistics Command, Wright-Patterson Air Force Base, Ohio
San Francisco, Calif.	Jan. 28, 1972	Headquarters, Presidio of San Francisco, Calif.
San Francisco, Calif.	Feb. 2, 1972	Headquarters, 6th Army, Presidio of San Francisco, Calif.
Detroit, Mich.	Feb. 3, 1972	Army Tank-Automotive Command, Warren, Mich.
Los Angeles, Calif.	Feb. 9, 1972	Western Area Accounting and Finance Office, Detachment 41, Air Force Contract Man- agement Division, Los Angeles, Calif.
Cincinnati, Ohio	Mar. 21, 1972	Aeronautical Systems Division, Wright-Patterson Air Force Base, Ohio

<u>GAO regional office issuing letter report</u>	<u>Date issued</u>	<u>Field activity</u>
Boston, Mass.	Apr. 7, 1972	Naval Supply Center, Newport, R.I.
Norfolk, Va.	Apr. 21, 1972	Navy Regional Finance Center, Norfolk, Va.
Denver, Colo.	May 3, 1972	Air Force Accounting and Finance Center, Denver, Colo.
Atlanta, Ga.	May 5, 1972	Warner Robins Air Materiel Area, Robins Air Force Base, Ga.
New York, N.Y.	May 11, 1972	Defense Contract Ad- ministration Services Region, New York, N.Y.

