

DOCUMENT RESUME

04030 - [D3054321] (Restricted)

[Application of Congressionally Mandated Accounting Principle Could Result in the Overobligation of Department of Defense Appropriations]. B-159797. October 25, 1977. 2 pp. + appendix (2 pp.).

Letter to Rep. Jack Brooks, Chairman, House Committee on Government Operations; Sen. Abraham Ribicoff, Chairman, Senate Committee on Governmental Affairs; by Robert F. Keller, Acting Comptroller General.

Issue Area: Accounting and Financial Reporting (2800).
Contact: Financial and General Management Studies Div.
Budget Function: Miscellaneous: Financial Management and Information Systems (1002).
Organization Concerned: Department of Defense.
Authority: National Security Act of 1947, as amended (10 U.S.C. 2208). Budget and Accounting Procedures Act of 1950.
Conference Report No. 93-1363. DCD Instruction 7220.28.

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

OCT 25 1977

B-159797

The Honorable Abraham A. Ribicoff
Chairman, Committee on Governmental
Affairs
United States Senate

Dear Mr. Chairman:

Under the Budget and Accounting Act of 1950, the General Accounting Office is responsible for prescribing accounting principles to be followed by executive agencies and reviewing systems designed by such agencies to see that they comply with these principles. We prescribed such standards in Title 2 of the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies and have been working with the executive agencies over the years to get them adopted by the agencies and put into practice. About 99 percent of the agencies have adopted accounting principles that are in accord with ours and about 52 percent of the accounting systems have been approved by us as designed in conformity with our principles.

We recently have encountered a problem with the Department of Defense (DOD), in which the Congress has, in essence, instructed the Department to follow an accounting principle which conflicts with our principles and could result in the overobligation of DOD appropriations. The Department is applying for our approval of several accounting systems affected by this principle and even though we disagree with what they are doing we find it difficult to withhold such approval since the record indicates the Department is following a congressional mandate.

The situation is this. The Services maintain stock funds which have stock on hand of commonly-used items that military organizations financed with appropriated funds can buy as needed. Frequently, however, the organizations financed with appropriated funds need equipment or parts that are not normally stocked by the stock funds. When this happens the appropriated fund organization places an order with the stock fund asking it to buy the item. The problem comes because the appropriated fund organization does not obligate its funds for this order. The stock fund does obligate but this is not sufficient because the stock fund regards the transaction as a wash--an immediate sale when the merchandise comes in.

What could and may be happening is this. Appropriated fund financial organizations may be ordering stock of nonstandard items in excess of available funds. It is entirely possible at the end of the fiscal year that such an organization could have \$1,000,000 in unused obligating authority but \$3,000,000 in unrecorded obligations for the purchase of nonstandard

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stock through the stock funds. In essence, this means the organization is overobligated but no one would know because the obligations for the nonstandard material are not recorded by the ordering organization.

The Department brought this to the attention of the Congress and requested additional obligational authority to correct the problem. The Congress denied the funds and instructed the Department not to make the accounting change (Conference Report No. 93-1363).

In view of the above, we propose to give conditional approval of the affected Defense accounting systems recommending that they change their accounting procedures whenever permitted to do so by the Congress.

Further details on this matter are set forth in the Appendix.

We are sending a similar letter to the House Committee on Government Operations. Copies of both letters are being sent to the Senate and House Appropriation Committees, to the Secretary of Defense and to the Director of the Office of Management and Budget.

Sincerely yours,

R.F. KELLER

Attn: C

Comptroller General
of the United States

Enclosure

APPENDIX

In 1968 we informed the Congress that in our opinion the new Department of Defense accounting system for operations (known then as Project PRIME) was designed to prevent violations of the Anti-Deficiency Statute. Our approval of that system, among other considerations, was based on the fact that the design provided for an operating activity to obligate its funds when it ordered items from a source other than the local stock fund. The Department, however, did not implement this provision. Instead of obligating the ordering activity's funds when the requisition was sent to the stock fund to make the purchase, such funds were not obligated until the items purchased were received.

In our report of March 4, 1970 (B-159797), we called this deficiency to the attention of the Congress and stated:

"When items must be obtained from sources other than the local stock fund retail inventory, an obligation should be recorded against the appropriation for which material is ordered so that the appropriation correctly identifies the portion of the funds which is earmarked for such orders and the portion which remains available for other expenditures. The recording of an obligation on the stock fund, rather than on the consumer funds, for material ordered by a consumer activity does not accomplish this."

We were informed by the staff of the Assistant Secretary of Defense (Comptroller) that this deficiency would be remedied. In a letter dated July 30, 1970, we reminded the staff that Department of Defense Instruction 7220.28 should be revised to cover this point. However, the Department chose not to comply with this portion of the design which we had approved.

In our letter of July 30, 1970, we also pointed out to the Department that:

"The use of stock funds to finance the procurement lead time of items of material when there is no inventory to be established and no level of supply to be maintained by the stock fund, is neither authorized nor intended by the National Security Act of 1947, as amended (Codified as 10 U.S.C. 2208). Stock funds are authorized by the Congress to finance inventories of stores, supplies and equipment.

"The use of stock funds to record obligations which are incurred by ordering or contracting for items not carried in the local stock fund inventory or level of supply is not an authorized use of stock funds and cannot be approved under present legislation. Such obligations should be recorded on the records of the consumer activity at the time the items are contracted for or ordered from a source other than the local stock fund."

When the Department submitted its estimates for its 1975 appropriations it included in its Operation and Maintenance (O&M) estimates an amount of \$155 million which it claimed was necessary in order to obligate O&M funds for noninventory items ordered through the stock funds. The House of Representatives granted the increase. But the Senate Appropriations Committee, in its Report No. 93-1104 said:

"It is deemed inappropriate to provide an additional \$155,000,000 to Operation and Maintenance appropriations for a change in accounting procedure in the current environment of limited resource availability. Therefore, the change in accounting procedure will not be implemented and the funds recommended for reduction are shown under the various appropriations of this title of the report."

The Conference Report (No. 93-1363) said:

"The House allowed full funding of this new procedure. The Senate denied the full amount on the basis that additional funds for the implementation of the proposed procedure is not required. The Conferees agreed with the Senate position."



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

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