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September 25, 1972

Brigadier General John C. McWhorter, Jr.  
Commanding General  
U.S. Army Natick Laboratories  
Natick, Massachusetts, 01760

AGC 00354

Dear General McWhorter:

The General Accounting Office has reviewed selected areas of the accounting system for research and development (R&D) at the Army Natick Laboratories (NLABS), Natick, Massachusetts, to determine whether the system at NLABS conformed to Department of Defense Instructions (DODI's) and Army Regulations (AR's), and whether information provided to management was accurate. We did not evaluate the management design of the system.

We believe that the accounting practices at NLABS were consistent with prescribed policies and procedures except that proper emphasis was not placed on expense accounting. We found (1) cost accounting was not integrated with the general accounting system, and (2) certain accounts designed for reconciling obligations with expenses were not being used. As a result NLABS did not use cost data in the management of its operations, and cost and other data reported to higher levels of management was inaccurate. These matters were discussed with you and other NLABS officials, and we were advised that appropriate corrective action is being or will be taken.

Following is a summary of the matters we discussed.

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### COST ACCOUNTING

DODI 7220.24 provides that the cost accounting system should be subsidiary to, controlled by, and integrated with the general accounting system. AR 37-112 cites a number of advantages of an integrated cost accounting system including a means of providing managers with expense data which can be used for controlling and analyzing the cost effectiveness of each cost center. Procedures for the recording, reconciling, reporting and controlling costs are set forth in AR 37-108 Chapter 9, and AR 37-112 Chapter 4. Our review disclosed that these prescribed procedures for proper accounting discipline were not followed.

The Cost Detail Ledgers contain obligations rather than expenses. Obligations exceeded expenses for the fiscal year 1971 R&D funds by about \$2.6 million. Because the Cost Detail Ledgers are used to prepare local reports HLABS management does not have the benefit of cost information. A laboratory official stated that accurate cost information would be helpful in the management of his programs which approximate 26 percent of total HLABS R&D funding.

We further noted that the R&D Activity Report, which provides the Army Materiel Command (AMC) with accrued costs, was overstated by about \$715,000 for the fiscal year 1971 R&D funds. Because the cost accounting system is not integrated with the general ledger, the report was prepared independently, and no reconciliation was made to ensure the accuracy of the information reported.

HLABS accounting officials stated that action would be taken to bring the cost accounting system under general ledger control.

### RECONCILING ACCOUNTS

AR 37-108 sets forth the procedures for the use and control of accounts 4802 - Undelivered Contracts and Orders, and 4803 - Unpaid Contracts and Orders Received. These accounts, which are designed for reconciling obligations with expenses, were not used in the HLABS R&D general accounting system.

The practice at HLABS was to record liabilities at the time of obligations for all transactions even though the goods or services had not been received. Because undelivered orders and accounts payable

were not under general ledger control, the required reports of this data were prepared from sources outside the general accounting system. We found that accounts payable and undelivered orders were inaccurately stated in the Report of Selected Balances for Accrual Reporting and the Status of Allotment Report.

We further found that the general ledger account for accounts payable was understated by about \$5 million. This error was not detected because the general ledger accounts had not been reconciled since 1966 when the accounting system was converted to the accrual basis.

After discussing these matters with MLARS officials, action was initiated to investigate and adjust the \$5 million discrepancy and to bring the liability accounts under general ledger control.

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We appreciate the courtesies and cooperation of you and your staff during our review.

Sincerely yours,

**JOSEPH EDGER**

Joseph Edger  
Regional Manager