

17166



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

B-202082

March 3, 1981

The Honorable Caspar W. Weinberger
The Secretary of Defense

SUBJECT: Need for Significant Improvements in Financial Management—Department of Defense]

Dear Mr. Secretary:

In my January 21, 1981, letter to you, we told you of our serious concern over the need for the Department of Defense to take advantage of existing opportunities for increasing productivity and reducing costs by billions of dollars in areas including logistical support, major procurement, and manpower.

We are also concerned over the need for the Department of Defense to improve its financial management systems.

Since 1975, we have issued more than 75 reports which demonstrate that the Department is seriously lacking in effective accounting systems including (1) cost accounting systems, (2) systems to account for property, (3) administrative fund control systems, and (4) payroll systems. In the absence of good accounting systems, managers cannot adequately monitor, control, and utilize Defense resources.

The Budget and Accounting Procedures Act of 1950 provides that agency heads are responsible for maintaining adequate systems of accounting and internal control. Further, the Act requires that agencies conform their accounting systems to principles and standards prescribed by us and that agencies submit the systems for approval by us. Although some progress has been made, Defense has a long way to go before all its systems can be approved.

Examples of our reports showing the need for better financial management in Defense and a discussion on the status of our approval of Defense accounting systems follows.

Inadequacy in Pricing,
Billing, and Collection Systems

In recent years, we have issued more than 30 reports to the Congress and Defense on Defense's continued failure to implement systems, including cost accounting systems, adequate to identify and recover costs for goods and services provided to foreign countries under the foreign military sales program. These reports discuss specific cases where we found more than

LETTER.

015713

\$1 billion in costs which were improperly paid for by the U.S. Government rather than being recovered from foreign countries. Amounts not properly recovered include material costs, administrative expenses, depreciation, transportation, and personnel costs. For example, in 1978 we reported that because Defense had not charged for the use of U.S. plant and equipment for foreign military sales as required by law, over \$100 million had been lost just on those cases reviewed.

Financial Controls Over Property are Lacking

Last year we reported that Defense policy to rely almost solely on contractors for accounting controls over the estimated billions of dollars in materials furnished to them is not effective. Our review of four production contractors showed that lack of proper accounting controls led to Defense providing, or initiating shipments of \$1.3 million in material that was over contract allowances. This same problem has been noted in prior GAO and Defense reports on overhaul and repair contracts.

Loss of Administrative Control Over Funds

We have issued several recent reports which discuss serious breakdowns in systems of administrative controls over Government funds. This loss of control has resulted in overobligations and other violations of the Anti-Deficiency Act. In addition to the highly publicized overobligations in the Department of the Army which totaled over \$225 million (among the largest violation ever recorded in the Government), we have found overobligations and overexpenditures in a variety of other Defense appropriations in all three services. We have also reported on improper accounting adjustments used to keep from showing such deficiencies on financial reports.

In a related issue, we recently reported on problems experienced by the Navy in accounting for funds deposited by other countries in the foreign military sales trust fund. Because of these problems the Navy could not account for over \$550 million in cash deposits made by those countries.

Ineffective Payroll Systems

Another continuing problem which we have addressed in several recent reports is Defense's continued failure to implement effective payroll systems. Last year, we reported that although millions of dollars had been spent since 1966 in developing, implementing, and operating a centralized automated military payroll system for the Marine Corps, the system was unreliable and inefficient, did not compute pay accurately, and had to be backed up with extensive manual operations. Even with the additional

manual computations, 19 percent of the pay accounts reviewed were wrong. Further, at any point in time, total dollar error for the system exceeded \$5 million.

In another report issued last year, we noted that despite over \$150 million being spent to develop and operate a central automated military payroll system for the Navy, the system was so unreliable that, as a check, local disbursing officers manually recalculated all pay amounts. Each payday, over 50 percent of the centrally computed pay amounts had to be corrected. Although GAO approved the design of the system, the Navy did not implement the design effectively and also made changes to the system without submitting the changes to GAO for approval as required.

Delays in Getting Defense
Accounting Systems Approved by GAO

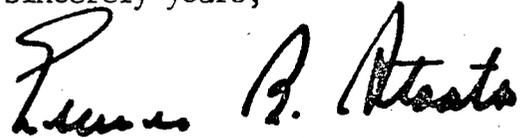
Defense can significantly improve its financial management by conforming its accounting systems to our prescribed principles and standards for accounting. Over the past decade, we have been working closely with Defense to get its accounting systems approved and as of September 30, 1980, 73 of the 105 Defense accounting systems had been approved. The 32 unapproved systems, however, include the major systems of the military services which provide the accounting for the bulk of military appropriations. We need your help and assurance that the necessary actions will be taken so that adequate systems design documentation for these remaining systems will be submitted to us for approval as soon as possible.

Approval of the large service-wide general accounting systems in the Air Force, Army, and Navy have been delayed primarily because the systems did not comply with our requirements for property accountability and cost accounting. In response to our concerns, the Army and Air Force are now incorporating the necessary changes in their standard systems. We have worked closely with the Air Force and Army on this effort and we encourage your support in order that this work will be completed in a timely manner.

The Navy has plans to redesign its general accounting systems to include property and cost accounting, but the scheduled completion date is 1990. We believe that the Navy Comptroller's Office should take the lead in a project to expedite the redesign of the system. Also, approval of the remaining unapproved systems in the Navy could be hastened if the Navy Comptroller's Office took a stronger hand in coordinating and directing Navy's efforts in the design of its accounting systems.

We will be pleased to discuss the above matters in detail with members of your management team. We are sending copies of this letter to the Chairman and ranking minority members of the House and Senate Committees on Appropriations and Armed Services.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "James A. Stata". The signature is written in a cursive style with a large initial "J".

Comptroller General
of the United States