

GAO

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Report to the Chairman, Subcommittee on  
Defense, Committee on Appropriations,  
House of Representatives

June 1989

# FINANCIAL MANAGEMENT

## Air Force Records Contain \$512 Million in Negative Unliquidated Obligations



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**Accounting and Financial  
Management Division**

B-235940

June 30, 1989

The Honorable John P. Murtha  
Chairman, Subcommittee on Defense  
Committee on Appropriations  
House of Representatives

Dear Mr. Chairman:

In a December 1, 1988, letter, the former Subcommittee Chairman requested that we review negative unliquidated obligations (ULOs) that are related to the Air Force's purchase of supply and equipment inventories. Specifically, he asked that we determine (1) the age of the negative ULOs, (2) the procedures used to report them to senior Air Force officials and to the Congress, and (3) their causes. Based on agreements reached with your staff, our review focused on the Air Force's Air Logistics Centers (ALCs) because they are responsible for purchasing supplies and equipment for the Air Force. Since these issues are of continuing interest to the Subcommittee, we are sending you the results of our work.

We found that the five ALCs had 6,257 individual negative ULO account balances totaling approximately \$512 million as of April 1988. Although an Air Force regulation requires that immediate corrective action should be taken on negative ULOs, the ALCs had more than \$132 million in negative ULOs that were at least 6 months old. ALC accounting supervisors believe negative ULOs are a serious problem that has worsened in recent years.

Negative ULOs are not required to be disclosed in reports to senior Air Force and Office of the Secretary of Defense officials, and the Congress. As a result, senior officials at Air Force headquarters and the Office of the Secretary of Defense did not know the magnitude of negative ULOs.

We also found that most negative ULOs occur because (1) a contractor was paid too much, (2) the wrong appropriation account or customer was charged when a payment was made, or (3) information on an obligation, payment, or collection transaction was inaccurately or incompletely processed.

All negative ULOs will result in an adverse effect if prompt corrective action is not taken. For example, negative ULOs caused by overpayments tie up Air Force funds, which could otherwise be used to meet Air Force

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requirements, and can be interest free loans to contractors. Payments charged to incorrect appropriation accounts and processing errors distort accounting reports that the Air Force and the Office of the Secretary of Defense use to make management decisions on the budget execution for individual appropriations and that the Congress uses to review the Air Force budget.

We are recommending that Air Force and Defense officials responsible for managing the Air Force's purchase of supplies and equipment resolve the negative ULOs already recorded in ALCS accounting records. In addition, we are recommending the ALCS report, on a quarterly basis, to the Air Force Logistics Command, summary level data on the total amount and age of negative ULOs so that management is aware of the magnitude of the negative ULO problem.

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## Background

The Air Force has control procedures to ensure that it does not obligate or spend more money than the Congress has appropriated. Key features of these procedures are that (1) the Air Force incurs and records obligations for one or more appropriation accounts when it enters into a contract, (2) these obligations are reduced or "liquidated" in the Air Force's accounting records as payments are made, and (3) a ULO balance for an individual appropriation account or for a total contract indicates the amount remaining to be spent for that account or contract. Generally, since the amount paid should always be equal to or less than the amount obligated, ULO balances should not be negative.

The Air Force Logistics Command has five ALCS, located in Ogden, Utah; Oklahoma City, Oklahoma; Sacramento, California; San Antonio, Texas; and Warner Robins, Georgia. These ALCS are responsible for purchasing, stocking, and distributing billions of dollars worth of materiel and for providing certain types of maintenance such as repairing aircraft. They carry out these tasks for Air Force units, other military services, and foreign governments.

In most instances, the ALCS share purchasing responsibilities with the Defense Logistics Agency's nine Defense Contract Administration Services Regions (DCASRS), which administer contracts for the military services. In general, the ALCS are responsible for awarding the contracts, while the DCASRS are responsible for making the actual payments and recovering money from contractors in the event of an overpayment. The DCASR provides the information on payment and collection transactions to the Air Force Accounting and Finance Center, which edits this data,

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and then forwards it to the ALCS which enter the data into the Central Procurement Accounting System. Both the ALCS and the DCASRS are responsible for ensuring that the (1) amounts paid to contractors do not exceed the amounts obligated in the contracts and (2) payments are charged to the correct appropriations.

If uncorrected, negative ULOS can lead to violations of the Antideficiency Act, 31 U.S.C. 1341, which prohibits agencies from obligating or expending more money than the Congress has appropriated, or other statutory limitations on the obligation and disbursement of appropriated funds. If an account has substantial unrecorded obligations, caused by charges to the wrong appropriations account, responsible officials would not know whether further obligations against the account would exceed available appropriations. In addition, disbursing officers that are responsible for making overpayments to contractors are personally liable for any overpayments that are not recovered unless relieved of legal liability by the Comptroller General.

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## Objectives, Scope, and Methodology

The objectives of our work were to review the Air Force's negative ULOS related to supply and equipment inventory purchases and determine (1) their age, (2) the procedures used to report them to senior Air Force officials and the Congress, and (3) their causes. To respond to the Subcommittee's December 1988 request, we relied on our ongoing work in the area of Air Force financial management activities. We concentrated on the Air Force Logistics Command's ALCS because they have the primary responsibility for buying supplies and equipment for the Air Force. We completed our negative ULO work in May 1989 and conducted it in accordance with generally accepted government auditing standards.

Since information was not readily available on the age of the negative ULOS, we used information in the five ALCS' April 1988 reports that identify negative ULOS to determine how long the negative ULO account balances had remained unchanged. We selected the April 1988 report because it was the most current report available when we did our work. This report provides information on negative ULOS, such as the amounts obligated and disbursed and the date the most recent transaction was posted to the accounting records. The report does not show the age of the negative ULO balances or provide summary totals on the number and dollar value of the negative ULOS. Therefore, we analyzed the April 1988 reports that identify negative ULOS and determined the total amount and minimum age of the negative ULOS for each of the ALCS.

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To determine how information on negative ULOs is reported to senior Air Force officials and the Congress, we discussed reporting procedures with accounting officials at the ALCS, at the Air Force Logistics Command, at Air Force Headquarters, at the Defense Logistics Agency, and at the Office of the Secretary of Defense.

To determine the cause of negative ULOs, we (1) discussed the problem with accounting supervisors at the five ALCS, (2) reviewed research performed, at our request, by the Sacramento, San Antonio, Ogden, and Warner Robins ALCS to determine the causes of a judgmental sample of 98 negative ULOs selected from their April 1988 reports that identify negative ULOs, and (3) reviewed research performed, at our request, by appropriate DCASRs to determine the causes of the negative ULO balances in our sample.

The 98 negative ULOs were selected based on such factors as the dollar value of the negative ULO balance and how long the balance had remained unchanged. The 98 negative ULOs included about 25 ULO balances from 4 of the 5 ALCS. We did not ask the Oklahoma City ALC to research the causes of negative ULOs because we did not have any staff reviewing negative ULOs at that ALC. In general, we selected the ALCS' highest dollar negative ULO balances, because we believe corrective action on these high dollar negative ULOs should be given priority since these large balances may (1) have been overpayments to contractors or (2) have distorted the accuracy of accounting reports. However, we also selected some lower dollar value negative ULOs that were very old because we wanted to determine why corrective action had not been taken. The 98 negative ULO balances accounted for about \$273 million, or 53 percent, of the ALCS' total negative ULO balance of \$512 million.

We also reviewed the Air Force's and Defense Logistics Agency's Federal Managers' Financial Integrity Act<sup>1</sup> reports for 1983 through 1988 which contain information on internal control weaknesses and accounting system deficiencies.

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<sup>1</sup>Agency accounting systems must include internal controls that comply with the Comptroller General's internal control standards and related requirements such as the Treasury Financial Manual and OMB circulars. GAO's Policy and Procedures Manual for Guidance of Federal Agencies contains the principles, standards, and related requirements to be observed by federal agencies.

## Negative ULO Balances Are Not Always Corrected Promptly

Our analysis showed that about \$132 million, or 25 percent, of the ALCS' \$512 million in negative ULOs were at least 6 months old as of April 1988. Air Force Regulation 177-120 on Central Procurement Transactions, dated November 16, 1978, states that immediate corrective action should be taken to resolve negative ULO balances. The slow action to correct negative balances occurs because the ALCS (1) are having problems in obtaining the information needed to reconcile the negative ULOs from DCASRS and (2) are not following up on outstanding negative ULOs in a timely manner.

## ALCs' Aging of Negative ULOs Is Not Adequate

The ALCs do not have reports that show the age of its negative ULO balances or provide summary totals to Air Force officials on the amount of negative ULOs. Because the age can only be determined by analyzing the detailed accounting transactions that support each balance, it was not practical for us to review all 6,257 individual negative ULO account balances recorded in the records. Instead, we analyzed available information on how long negative ULO account balances had remained unchanged, which gave us a minimum estimate of their age. This information, which was extracted from an April 1988 listing of the ALCs' 6,257 negative ULO balances is shown in table 1.

**Table 1: Minimum Age of the ALCs' Negative ULO Balances**

Dollars in millions					
ALC	More than 1 year	6-12 months	3-6 months	Less than 3 months	Total
Warner Robins	\$22.6	\$10.6	\$14.1	\$183.4	\$230.7
Oklahoma	14.2	30.8	18.8	32.7	96.5
San Antonio	10.6	12.4	14.5	31.0	68.5
Ogden	3.4	6.6	5.7	46.0	61.7
Sacramento	3.4	17.6	10.4	22.9	54.3
<b>Total</b>	<b>\$54.2</b>	<b>\$78.0</b>	<b>\$63.5</b>	<b>\$316.0</b>	<b>\$511.7</b>

Table 1 shows that \$54.2 million in negative ULOs, which consist of 2,500 separate account balances, have been unchanged for over a year. However, the dollar value of those negative ULOs more than 1-year old was actually greater than \$54.2 million because (1) table 1 only shows the amount of time the balances had remained unchanged and (2) negative ULO balances often change after they first become negative because of the continuous processing of payment, collection, and obligation transactions. For example, one ULO had a negative balance of \$11.2 million as of April 1988. While this negative balance had remained unchanged since July 1987, when it was \$10.2 million, the balance had been in a negative

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status for about 30 months. In this case, because this negative ULO appears in the 6-12 month column of table 1, the actual age of the negative ULO is understated by 21 months.

If the data in table 1 were adjusted to reflect the actual age of just this one negative ULO balance, the dollar value of the more-than-1-year category would increase by \$10.2 million from \$54.2 million to \$64.4 million. This slow corrective action conflicts with Air Force Regulation 177-120 which requires that immediate corrective action should be taken on negative ULOS.

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### The DCASRs Are Not Responding Promptly to the ALCs

Corrective action on the ALCs negative ULO balances requires cooperation and coordination between the ALCs and the DCASRs, since the DCASRs usually maintain the official contract files and administer the contract. We found, however, that the ALCs make repeated requests over periods of a year or more to get the DCASRs to (1) provide the information needed to determine the cause of a negative ULO or (2) take corrective action once the cause of the problem is identified.

For example, an ALC contacted a DCASR eight times between May 1986 and July 1988, trying to reconcile various problems with negative ULOS on a contract. As of February 1989, the DCASR had not responded to the ALC's July 1988 request for information, and was still trying to correct \$1.1 million in negative ULO balances. When we contacted a DCASR accounting official in February 1989, he stated that this contract was one of many large and complex contracts that the DCASR was trying to reconcile and estimated that the reconciliation, which started in October 1988, would take up to a year to complete.

In another case, between September 1986 and February 1989, a DCASR did not respond to four ALC requests for information and corrective action on a negative ULO. As of February 1989, this ULO had a negative balance of \$419,000. A DCASR accounting official told us that these inquiries were among the thousands to which the DCASR had been unable to respond because of a shortage of qualified personnel.

In some instances, the ALCs are unable to determine the cause of a negative ULO balance because they are unable to reconcile discrepancies between their accounting records and those of the DCASRs. When an ALC identifies an accounting discrepancy, it requests the DCASR's detailed accounting records for the contract, which it then compares with its own detailed accounting records. However, in some instances the ALCs

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are unable to reconcile the discrepancies, because the DCASRS' detailed accounting records are incomplete.

A Defense Logistics Agency accounting official attributed this problem to the fact that the DCASRS do not always update the detailed accounting records in their automated system for administering contracts. Further, a DCASR official informed us that, in one case, a DCASR accidentally deleted approximately 9 months of detailed transaction data for about 88,000 contracts in its automated system.

To obtain a further understanding of this problem, we compared the ULO balances in the DCASRS' detailed accounting records with the balances in the DCASRS' summary accounting records for 25 contracts that were selected from April 1988 listings of the ALCS' negative ULOs. These 25 contracts were selected based on one of two factors: (1) the ALCS told us that the DCASR had paid the contractor too much money or (2) the ALCS did not know the reason why the balance was negative. The ULO balances were different for 23 of the 25 contracts, with 15 of the 23 having differences of more than \$1 million. Two of the balances were different by more than \$200 million.

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### The ALCS Are Not Following Up on Correcting Negative ULOs

While the ALCS are having problems obtaining information from the DCASRS that is needed to correct negative ULOs, the ALCS are also not placing sufficient management emphasis on correcting the negative ULOs in a timely manner. Air Force Regulation 177-120 states that immediate corrective action should be taken to resolve negative ULO balances. If a DCASR does not respond within 30 days to an ALCS letter requesting corrective action, the ALCS are instructed to send a follow-up letter and to elevate problems to the Air Force Logistics Command if a response is not received within 60 days of their initial letter. However, we found that the ALCS usually do not send follow-up letters if they do not receive a response to their initial letter within 30 days, and rarely elevate unresolved problems to the Air Force Logistics Command.

For example, when we reviewed a status report that one ALCS used to monitor the corrective action being taken on negative ULOs by the DCASR, we found that the ALCS did not send any of the 55 follow-up letters in accordance with the 30 day requirement. In addition, the ALCS did not send (1) 26 letters within 6 months and (2) 5 letters within a year. Similarly, an accounting supervisor at another ALCS told us that no problems had been elevated to the Air Force Logistics Command during fiscal year

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1988, even though the ALC had approximately \$19.5 million in negative ULOs that were more than 1-year old.

Accounting supervisors at three of the five ALCS acknowledged that they have not always devoted an adequate number of personnel to correcting negative ULO balances. They generally attributed this lack of attention to staff shortages. For example, when asked why there were so many negative ULOs, an accounting supervisor stated that because of personnel shortages and an increasing workload, negative ULOs were allowed to accumulate while higher priority work was accomplished.

In addition, we found that the ALCS sometimes take more than a year to correct negative ULO balances that are caused by their own clerical errors. For example, in October 1986, a contract modification reduced the amount of funds obligated on a contract by \$482,049. However, when the ALC recorded this contract modification in its accounting records, it recorded the reduction against the wrong contract. This recording error created a negative ULO that was not corrected until August 1988, or 21 months after the error was made.

ALC accounting supervisors informed us that the negative ULOs can (1) tie up Air Force funds that could be used to meet Air Force requirements, (2) indicate that millions of dollars in overpayments may have been made to contractors, or (3) distort ALC accounting records. According to accounting supervisors at all five ALCS, the negative ULOs have been a significant problem, and four of the five said the problem has worsened in recent years.

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## Negative ULOs Are Not Adequately Reported to Senior Air Force and Oversight Officials

We believe the low priority given to correcting negative ULOs stems, in part, from managers' lack of knowledge of the problem. Senior accounting officials at the Office of the Secretary of Defense and Air Force headquarters were not aware of the ALCS' negative ULOs. These officials believed controls were in place to prevent disbursements from exceeding obligations.

Similarly, one ALC's Accounting and Finance Officer did not know that the ALC had any negative ULO balances. Our analysis disclosed that this ALC had negative ULOs totaling approximately \$19.5 million that were more than 1-year old. In our opinion, the correction of negative ULOs would receive more management emphasis if senior ALC officials received this type of summary information.

One reason these officials did not know about the negative ULO problem was because the Air Force does not require ALCS to report information on their negative ULOS. When the ALCS prepare accounting reports, negative and positive ULOS are combined to arrive at a net figure. For example, if the ALC had a \$5 million negative ULO balance and a \$15 million positive ULO balance, it would net the two balances and report a \$10 million positive ULO balance. As a result, negative ULOS are not disclosed in reports to senior Air Force and Office of the Secretary of Defense officials, and the Congress.

When we questioned Air Force Logistics Command officials about the ALCS' negative ULO balances, they acknowledged that they did not know their dollar values. In addition, they stated that negative ULOS are an ALC problem and saw no need to establish a requirement to report information on negative ULOS to the Logistics Command. We question how these problems will ever be resolved if specific information on the magnitude and cause of the negative ULOS is not reported to the Logistics Command.

We believe that the Air Force Logistics Command officials need to receive information on the ALCS' negative ULOS so that they can monitor the ALCS performance and take corrective action when necessary. For example, until we completed our analyses, the Logistics Command did not know that one ALC was responsible for 45 percent of the five ALCS' total negative ULO balance. We believe the Air Force Logistics Command accounting officials should have known that one ALC was having more problems with negative ULOS than the other four, and should have determined the reason for this ALC's high negative ULO balance.

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## Causes of Negative ULO Balances

The ALCS do not maintain statistics on the causes of their negative ULOS; however, when we asked ALC accounting supervisors to identify the primary causes of negative ULOS, we found that most of their responses fell into one of the following categories:

- a contractor was paid too much;
- a DCASR cited the wrong appropriation account or customer when it made a payment; or
- the Air Force Accounting and Finance Center, ALCS, or DCASRs inaccurately or incompletely processed information on obligation, payment, or collection transactions.

These observations, which were also confirmed by a top official of the Defense Logistics Agency, are consistent with the results of the research

the ALCS conducted on a sample of 98 negative ULO balances that we selected judgmentally from an April 1988 listing of negative ULOs. These 98 negative ULOs, which we selected based on such factors as the age and dollar value of the negative ULO balance, accounted for \$273 million, or 53 percent, of the ALCS' total negative ULO balance of \$512 million. The results of the ALCS' research are summarized in table 2.

**Table 2: Causes of 98 Negative ULOs as Identified by ALCS**

<b>Cause</b>	<b>Number</b>	<b>Dollar value (millions)</b>
Unknown	25	\$126.8
Contractor was overpaid	15	24.9
DCASR charged wrong appropriation account or customer	18	50.9
Processing errors	37	67.7
Other causes <sup>a</sup>	3	2.4
<b>Total</b>	<b>98</b>	<b>\$272.7</b>

<sup>a</sup>Negative ULOs classified as other causes occurred because (1) the contract was incorrectly written, (2) the contract was affected by fluctuations in the foreign currency rates, and (3) another service overcharged the Air Force.

The unknown category in table 2 refers to negative ULOs for which the ALCS were not able to identify a cause. We asked the ALCS to determine the causes of the 98 negative ULOs which we selected judgmentally from an April 1988 listing of negative ULOs. As of April 1989, 1 year later, the ALCS had still not determined the cause of 25 negative ULOs that were valued at \$126.8 million and were, therefore, not able to correct them. For example, we reviewed a \$642,783 negative ULO balance for a 1982 Air Force contract that authorized the purchase of material and services for a foreign country. The ALC accounting technician who researched this negative ULO indicated that this contract was a "spin-off" of a contract that was awarded in 1979. According to this technician, the ALC reached a point in its management of the initial 1979 contract where it was not sure how much money had been obligated and paid, and was not certain of the amount that the United States had been reimbursed by the foreign government. The accounting technician told us the 1982 spin-off contract was issued so that the ALC would have a known starting point. However, the technician acknowledged that the spin-off contract is now in the same uncertain status as the original contract. Until the reason for the negative ULO can be determined, corrective action cannot be taken.

As table 2 shows, the ALCS did determine the causes for the remaining 73 negative ULOs. The three major causes are discussed below.

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## Negative ULOs Caused by Overpayments

When a DCASR pays a contractor too much money, a negative ULO will occur if the amount disbursed is greater than the amount obligated. As shown in table 2, ALC accounting supervisors told us that overpayments to contractors valued at \$24.9 million were the cause of 15 of the negative ULOs in our sample.

Defense Logistics Agency and DCASR accounting officials told us that there are three major reasons why DCASRs over pay contractors: (1) contract modifications decrease the contract price and related obligation below the amount already paid to the contractor, (2) duplicate payments are made for the same invoice, and (3) progress payments made to contractors before work is actually completed are not considered when the final payment is made to the contractor. For example, for one of the contracts we reviewed, we found that a DCASR paid a contractor \$349,417 instead of the \$24,815 that should have been paid. This overpayment occurred because the DCASR failed to consider that it had already made progress payments to the contractor totaling \$324,602.

In another situation, the reason for the overpayment made to a contractor could not be determined. For example, a contractor notified the DCASR of overpayments in 1982. Because the DCASR could not find the necessary records, the contractor's records were relied on to determine the amount of the overpayment. The contracting officer believes the contract had been overpaid for many years and indicated that the contractor's records have been relied on in the past when "government records were lacking in detail." A \$285,000 overpayment was collected in February 1988, 6 years after the contractor had notified the DCASR of the overpayments.

Because overpayments tie up funds that could otherwise be used to meet Air Force requirements, their prompt identification and collection is important. In addition, the overpayments can be interest-free loans to contractors. The adverse effect of overpayments can be minimized, if the overpayments are identified and recouped promptly; however, as shown in the example, years can pass before overpayments are identified and collected.

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## Negative ULOs Caused by DCASRs Charging Wrong Appropriation Accounts or Customers

Negative ULOs can also occur if a DCASR charges the wrong appropriation account or customer when it makes a payment. If a DCASR charges the Air Force for something that should have been charged to another military organization or to a foreign country, then the payment transaction can create a negative ULO when it is recorded in the ALC's accounting

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records. When the DCASR charges the wrong appropriation account or customer, the error will be reflected in both the DCASR and ALC accounting records. As shown in table 2, the ALCS cited charges to the wrong appropriation accounts or customers as the cause for 18 of the negative ULOs in our sample that were valued at \$50.9 million. For example, in April 1988, an ALC had a \$1.5 million negative ULO that, according to its research, was caused by the DCASR charging it for payments that should have been charged to another military organization. The ALC notified the DCASR of this error in November 1987. However, as of October 1988, the negative ULO balance had increased to \$2.7 million, and the ALC had still not received a response from the DCASR.

In another situation, one of the negative ULOs in our sample occurred because (1) an ALC obligated \$126,255 in fiscal year 1986 funds and (2) the DCASR improperly charged the payment to fiscal year 1985. As a result of the DCASR charging the wrong appropriation account, the ALC's accounting reports on the status of unliquidated obligations for fiscal years 1985 and 1986 were not accurate.

The DCASRS' problems with charging the wrong appropriation are both long-standing and well-documented. In a 1986 report,<sup>2</sup> we noted that the DCASRS were making frequent payment errors by charging the wrong appropriation and that the military services' procuring activities had expressed concern about the number of personnel required to research and correct the errors.

DCASRS' charging wrong appropriations can have an adverse affect if not corrected promptly. These payment errors, as well as processing errors, which are discussed below, distort accounting reports that are used by the Air Force and the Office of the Secretary of Defense to make management decisions on the budget execution for individual appropriations and by the Congress to review the Air Force budget.

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## Negative ULOs Caused by Processing Errors

Negative ULOs can also occur if obligation, payment, or collection data is inaccurately or incompletely transmitted to the ALC accounting offices. As table 2 illustrates, the ALCS cited processing errors as the cause for 37 negative ULOs in our sample that were valued at \$67.7 million. Specific processing problems cited by the ALC accounting supervisors include the following:

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<sup>2</sup>Management Review: Progress and Challenges at the Defense Logistics Agency (GAO/NSLAD-86-64, April 7, 1986).

- The ALC and the DCASR personnel make data entry errors when they extract obligation data from contracts and then manually input this information into the accounting systems.
- The DCASRs do not routinely provide internal adjustment information to the ALCS for correcting payment transaction errors.
- The Air Force Accounting and Finance Center edits the detailed payment and collection data it receives from the DCASRs, and converts this data into a format that can be processed in the ALCS' automated accounting system. In some instances, the Finance Center sends duplicate information to the ALCS. Conversely, some of the data sent to the Finance Center is not forwarded to the ALCS.

The ALC accounting supervisors noted that these processing errors can cause significant differences between the data in the DCASR and ALC accounting records. They also noted that it is difficult and time consuming to identify the cause of the differences and to correct negative ULO balances recorded in ALC records.

To obtain a better understanding of the discrepancies, we compared the ULO balances at the ALCS with the ULO balances at the DCASRs for 14 of the 98 negative ULOs in our ALC sample. These 14 balances were selected because (1) the ALC told us that the DCASR had overpaid the contractor or (2) the ALC did not know the reason why the ULO balance was negative. Although the ULO balances should have agreed in all cases, we found they disagreed in all 14 cases. Table 3 shows the 6 largest differences between the ALC and DCASR balances.

**Table 3: Comparison of ALC and DCASR ULO Balances**

<b>ALC ULO balance</b>	<b>DCASR ULO balance</b>	<b>Difference</b>
\$(11,232,468.51)	\$818,101.82	\$12,050,570.33
(2,509,207.47)	520,389.17	3,029,596.64
(808,205.00)	1,518,291.29	2,326,496.29
(1,528,226.91)	604,803.49	2,133,030.40
(2,640,814.38)	(543,612.90)	2,097,201.48
(1,927,224.54)	0.00	1,927,224.54

Air Force Logistics Command officials believed that implementing the Military Standard Contract Administration Procedures will aid in reducing the potential for making these types of errors. The objectives of the standard procedures were to simplify, standardize, and automate the processing of procurement, contract administration, and related logistics and financial data to minimize errors.

However, its full implementation, originally planned for 1970, has been delayed. In responding to our 1972 report<sup>3</sup> regarding inventory purchases, the Air Force stated that significant improvements would result from implementing the standard procedures, which was then scheduled for October 1972. In 1980, we also reported<sup>4</sup> that since certain Department of Defense organizations had failed to implement the standard procedures, about 33 percent of the financial transactions reviewed contained accounting errors totaling more than \$90 million. Currently, the standard procedures are not scheduled for full implementation within the Air Force Logistics Command until 1991.

### The Air Force Did Not Report Negative ULOs As a Material Internal Control Weakness

Since negative ULOs should generally not occur, the magnitude and age of negative ULOs discussed in this report indicates that the ALCS have a material internal control weakness which was not disclosed in the Air Force's 1988 Federal Managers' Financial Integrity Act report to the Secretary of Defense. As previously discussed, the Air Force did not follow prescribed policy and procedures for resolving negative ULOs, and over \$500 million are recorded in the ALCS' accounting records as of April 1988. The Federal Managers' Financial Integrity Act of 1982 (31 U.S.C. 3512) requires that each agency establish internal accounting and administrative controls in accordance with standards prescribed by the Comptroller General. The act further requires a separate report on whether the agency's accounting system conforms to the accounting principles, standards, and related requirements established by the Comptroller General.

In this regard, the Comptroller General's internal control standards require the agency to establish and maintain internal control systems to reasonably ensure that revenues and expenditures applicable to agency operations are recorded and accounted for properly so that reliable financial reports can be prepared. In addition, the Comptroller General's principles, standards, and related requirements require that the accounting system produce reliable accounting results and reports that will be the basis for controlling the budget execution for appropriations. The Comptroller General's requirements also specify that controls over

<sup>3</sup>Observations on Financial Inventory Accounting—What It Is and What It Could Be (B-146828, May 17, 1972).

<sup>4</sup>Defense Accounting for Its Contracts Has Too Many Errors—Standardized Accounting Procedures Are Needed (GAO/FGMSD-80-10, January 9, 1980).

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disbursements are to ensure that disbursements are legal, proper, correct, and that all are recorded accurately and reported promptly and efficiently.

On August 15, 1988, the Office of Management and Budget provided guidance to agencies on determining whether material weaknesses and system nonconformances should be reported in the 1988 Federal Managers' Financial Integrity Act report. Specifically, a material weakness or nonconformance exists when an actual loss or material misstatement of either \$10 million or 5 percent of a budget line item occurs.

Since 1985, the Defense Logistics Agency reported material weaknesses in DCASRS' disbursing funds to contractors, including duplicate and erroneous payments, in its Federal Managers' Financial Integrity Act reports. The Defense Logistics Agency is taking corrective action to improve the DCASRS processing of contractor payments by redesigning the entire contract payment and reporting process.

However, the Air Force did not report the \$500 million in negative ULOS recorded in the ALCS' accounting records in its 1988 Federal Managers' Financial Integrity Act report. The internal control and accounting system weaknesses related to negative ULOS can result in overpayments to contractors, payments charged to the wrong appropriation, and processing errors which distort accounting reports.

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## Conclusions

Negative ULOS that are not corrected immediately are red flags that indicate a breakdown in internal controls. Negative ULOS can be the result of overpayments to contractors and can result in inaccurate accounting reports on the budget execution for individual appropriations. Until action is taken, negative ULOS will continue to exist and tie up Air Force funds which could be used to satisfy other requirements.

The ALCS, however, do not have reports that age the negative ULOS or provide summary totals on the amount of negative ULOS. Until Air Force officials receive this type of information, these officials will not have the management indicators necessary to determine if action is being taken to correct negative ULOS. The Air Force also has not placed sufficient management emphasis on the need to follow existing regulations that require immediate corrective action on negative ULOS.

Since both the ALCS and DCASRS have a shared responsibility for accounting for purchases of supplies and equipment that have resulted in the

negative ULOS, resolving the negative ULOS will require a joint effort from both organizations. Initially concentrating resolution efforts on overpayments to contractors would have the most immediate benefit to the government because it would result in the recovery of government funds.

The negative ULO balances are a material internal control weakness in the Air Force's accounting system, based on the Office of Management and Budget's definition of materiality. The weakness was not reported as required in the Air Force's 1988 Federal Managers' Financial Integrity Act report to the Secretary of Defense.

## Recommendations

We recommend that the Secretary of Defense direct the Secretary of the Air Force and the Defense Logistics Agency Director to

- jointly resolve negative ULOS already recorded in the ALCS' accounting records with the initial objective of promptly identifying and collecting any overpayments made to contractors.

We also recommend that the Secretary of the Air Force

- direct each ALC to report, on a quarterly basis, to the Air Force Logistics Command summary level data on the total amount and age of negative ULOS;
- ensure that the ALCs follow existing regulations on taking immediate action to correct negative ULOS; and
- identify negative ULOS as a material weakness in the annual Federal Managers' Financial Integrity Act report to the Secretary of Defense until this weakness is corrected.

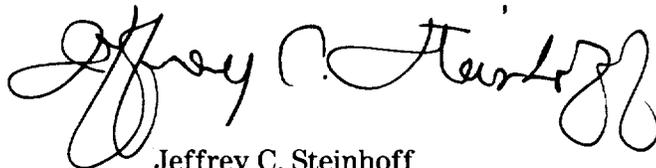
As requested by your office, we did not obtain written comments on a draft of this report. We did, however, discuss its contents with pertinent Office of the Secretary of Defense, Air Force, and Defense Logistics Agency officials and have incorporated their views where appropriate.

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Unless you publicly announce the contents of this report earlier, we will not distribute it until 30 days from the date of issuance. At that time, we will send copies to the Secretaries of Defense and Air Force, the Director of the Defense Logistics Agency, and other interested parties. We will also make copies available to others upon request.

The major contributors to this report are listed in appendix I.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Jeffrey C. Steinhoff". The signature is written in a cursive, flowing style with large loops and a prominent initial "J".

Jeffrey C. Steinhoff  
Director, Financial  
Management Systems Issues

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# Major Contributors to This Report

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**Accounting and  
Financial Management  
Division, Washington,  
D.C.**

Joseph Potter, Assistant Director, (202) 695-6922  
Gregory Puggetti, Project Manager  
Rosa Ricks, Accountant  
David Shumate, Accountant

---

**San Francisco  
Regional Office**

Karl Gustafson, Evaluator-in-Charge  
Floyd Ortega, Evaluator  
Robert Shorrock, Evaluator  
Eddie Uyekawa, Evaluator



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