

GAO

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

July 1991

FINANCIAL
MANAGEMENT

Navy Needs to
Improve Its
Accounting for Ship
Fuel Purchases



144438

Accounting and Financial
Management Division

B-243640

July 23, 1991

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

Dear Mr. Chairman:

In response to your request of January 3, 1990, we are reporting the results of our review of Department of the Navy controls over fuel purchased by Navy ships. You asked us to examine the Navy's purchases of fuel because our prior work disclosed that the Air Force's financial management systems were not accurately accounting for hundreds of millions of dollars in fuel purchases (B-236940, October 17, 1989). Specifically, you asked that we determine if adequate controls are in place to ensure that the Navy's financial management systems are accurately accounting for ship fuel purchases.

Results in Brief

The Navy did not have adequate controls to ensure that accurate and reliable data were recorded in its systems that account for, control, and report on ship fuel purchases. The Atlantic Fleet's procedures for controlling and accounting for amounts it owed and paid for fuel purchases were not effective, and the Pacific Fleet had not developed procedures necessary to monitor the accuracy of amounts it owed and paid for ship fuel purchases. Although we did not identify any instances in which the Navy paid for fuel it had not received, Fleet Comptroller officials were not monitoring related accounts to ensure that this did not occur.

Although the Atlantic Fleet Comptroller's office maintained detailed obligation and expenditure information on ship fuel purchases, it was not adequately monitoring the accuracy of the obligations and expenditures related to ship fuel purchases recorded in its accounting system. Sixty-seven percent of the outstanding fiscal year 1989 fuel transactions we reviewed had not been correctly processed by the Fleet's accounting system because amounts owed for fuel were either omitted or inaccurately recorded. This occurred because of Comptroller personnel not correcting processing errors and incorrect reporting by the ships. As a result, the Fleet Comptroller did not know if \$49.5 million of outstanding fiscal year 1989 fuel purchase transactions recorded in the accounting system were correct or had been paid.

Unlike the Atlantic Fleet, the Pacific Fleet Comptroller's office did not maintain detailed information on ship fuel purchases necessary to monitor the accuracy of obligations and expenditures recorded in its accounting system. Accordingly, it was not possible to determine if the obligations and expenditures for ship fuel purchases recorded in the Fleet Comptroller's accounting records were correct. As a result, neither we nor Navy officials could readily determine if problems we found with inaccurate accounting of fuel purchase transactions at the Atlantic Fleet also existed at the Pacific Fleet.

Background

During fiscal year 1990, Navy ships purchased \$450 million of fuel. The Commanders in Chief of the Atlantic and Pacific Fleets are responsible for controlling, accounting for, and reporting on fuel purchased by Navy ships.

Navy ships purchased most of their fuel from either the Defense Fuel Supply Center stock fund or the Navy fuel stock fund. To control the obligations and expenditures for ship fuel purchases, each Fleet's Comptroller maintained a centrally managed allotment for ships to charge when purchasing fuel. Under the centrally managed allotments, ships are authorized to incur obligations for fuel purchases without first determining or certifying with the Fleet Comptrollers that funds are available.

Navy policy requires the ships to provide the appropriate Fleet Comptroller's office—Atlantic or Pacific—monthly reports with summary information on the total gallons and types of fuel purchased during the month. The ships use the Navy Energy Usage Reporting System (NEURS) to report this information to the Fleet Comptrollers' offices for recording in the Fleets' accounting records.

Ship personnel compile the summary information they include in the NEURS reports from a variety of source documents that are controlled and maintained by the ships as documentary evidence to support the amount of fuel purchased. These documents contain detailed information on each purchase such as the quantity and type of fuel purchased, the date the fuel was purchased, and the activity or location from which the fuel was purchased.

Each Fleet Comptroller's office is responsible for reviewing the NEURS reports for errors or incomplete information, computing the amount of

obligations incurred by each ship,¹ consolidating the information, and recording the obligations in its accounting system to establish the amounts owed for fuel.

Monthly, the Defense and Navy stock funds bill the Fleet Comptrollers' offices for fuel purchased by Navy ships. As the payments are made, recording the disbursements in the respective Fleet's accounting records reduces the amount of the Fleet's obligations.

Objective, Scope, and Methodology

Our objective was to determine if adequate controls are in place to ensure that the Navy's financial systems accurately account for ship fuel purchases. To obtain an understanding of how the Navy is to account for ship fuel purchases, we reviewed pertinent Department of Defense (DOD) and Navy accounting regulations and policies for the fuels program. To determine how the Atlantic and Pacific Fleets implemented these policies, we met with Fleet accounting officials and reviewed their procedures for recording ship fuel purchases and related disbursements. We also met with headquarters DOD and Navy accounting officials to discuss the differences between the Atlantic and Pacific Fleets' reporting requirements for ships.

To determine if Atlantic Fleet ship fuel purchases were accurately recorded and processed in the accounting system, we judgmentally selected 128 fuel purchase transactions for detailed review from about 1,800 fiscal year 1989 purchases recorded in the Atlantic Fleet's May 14, 1990, fuel execution status report. We selected the May 14, 1990, report because, at the time of our review, it was the most recent report available that contained detailed information on unpaid fuel transactions. The transactions in the Fleet's execution status report included both obligations recorded from the ships' NEURS reports and disbursements recorded in the Fleet's payment records. The 128 transactions we selected were generally large dollar balances which accounted for \$8.8 million (18 percent) of the total \$49.5 million of fiscal year 1989 transactions that were still outstanding as of May 14, 1990. To determine the accuracy of the 128 transactions, we reviewed source documentation, such as the ships' NEURS reports on fuel purchases and the Atlantic Fleet Comptroller's expenditure reports, and attempted to determine the reason for any discrepancy.

¹The dollar amount of obligations is computed by multiplying the total gallons of fuel purchased by the ship times the stock funds' price for fuel. Stock funds charge the same price for fuel throughout the year.

To determine if the Atlantic Fleet was conducting adequate reviews of unpaid fuel purchase transactions, we met with the responsible Atlantic Fleet accounting officials to discuss their procedures for performing reviews of the transactions. We also analyzed the Fleet's May 14, 1990, fuel execution status report, which contained unpaid purchase transactions related to fiscal year 1989, to determine how long the transactions had remained outstanding.

Our analysis was limited to the Atlantic Fleet because the Pacific Fleet Comptroller did not maintain detailed accounting information on ship fuel purchases.

We performed our work at the headquarters, Office of the Secretary of Defense, Washington, D.C.; the Naval Supply Systems Command and the Navy Accounting and Finance Center, Arlington, Virginia; the Naval Petroleum Office and the Defense Fuel Supply Center, Alexandria, Virginia; the Office of the Commander in Chief, Atlantic Fleet, Norfolk, Virginia; the Office of the Commander in Chief, Pacific Fleet, Pearl Harbor, Hawaii; and the Navy Ships Parts Control Center and Fleet Material Support Office, Mechanicsburg, Pennsylvania. We performed the bulk of our work from February through December 1990, with limited follow-up work through March 1991, in accordance with generally accepted government auditing standards. The Department of Defense provided written comments on a draft of this report. These comments are included in full in appendix I.

Atlantic Fleet Fuel Purchases Are Recorded Inaccurately

The Atlantic Fleet had developed procedures for ensuring that fuel purchase accounting records were accurate. However, these procedures were not being followed. As a result, errors in recording the amounts owed for ship fuel purchases were not detected and corrected.

To provide a means of verifying the accuracy of obligations and expenditures and resolving discrepancies, the Comptroller required that NEURS reports for Atlantic Fleet ships include detailed information on each fuel purchase, such as the requisition number² and the quantity of fuel purchased. After applying the stock funds' price to this information, the Fleet recorded an obligation for each purchase in its accounting records as a separate transaction, identified by its requisition number. This

²Requisition numbers are a series of document control numbers that Atlantic and Pacific Fleet ships assign to fuel purchase transactions. The number is unique to each purchase and provides a method for the Fleet Comptroller's office—both Atlantic and Pacific—to track the complete life cycle of a transaction.

information enabled the Fleet Comptroller to match disbursements, which were also controlled by requisition numbers, with individual fuel purchases and produce detailed reports for accounting managers to use in monitoring the accuracy and age of individual purchase transactions.

We analyzed \$8.8 million of the \$49.5 million of outstanding transactions related to fiscal year 1989 fuel purchases in the Fleet Comptroller's records as of May 14, 1990. We found that transactions totaling \$5.9 million, or 67 percent, were either omitted from or inaccurately recorded in the Fleet's accounting records because Comptroller personnel were not correcting processing errors and ships were reporting incorrectly. Although we did not identify any incorrect payments associated with these transactions, Fleet Comptroller officials acknowledged that overpayments and duplicate payments did occur. However, these officials could not quantify how many overpayments or duplicate payments they had identified.

Unrecorded ship fuel purchases accounted for \$5 million, or 85 percent, of the inaccurate transactions that we identified. For example, we found that the Fleet's accounting records for one ship showed eight payments made in September 1989, totaling about \$158,000, for 244,000 gallons of fuel. However, as of May 1990, 7 months later, the Fleet's accounting system did not include accounting entries to show that the ship had received the fuel. Our analysis of the Fleet's records disclosed that Fleet personnel had failed to record the purchases from the ship's NEURS reports for the eight fuel-purchase transactions. The failure to promptly record amounts owed for fuel purchases hinders managers' ability to effectively ensure that obligations and expenditures do not exceed the amounts authorized and available for the purchase of fuel.

Incorrect amounts caused by duplicate recording of transactions and other accounting errors accounted for \$900,000, or 15 percent, of the inaccurate balances that we identified. For example, we found that one ship reported in its NEURS report that it twice purchased the same 749,000 gallons of fuel, valued at \$487,000. Our analysis disclosed that in January 1990, the Fleet paid \$487,000. However, as of May 1990, the Fleet's accounting records erroneously showed that it still owed \$487,000 when the correct balance should have been \$0. The duplicate recording of the purchase resulted in an overstatement of obligations for fuel purchased.

Atlantic Fleet Comptroller officials acknowledged that their accounting system was not recording ship fuel purchases accurately and promptly.

According to a Comptroller official responsible for monitoring and correcting transactions, unrecorded ship purchases and accounting errors were generally caused by ship personnel transposing document control numbers or incorrectly formatting computer data when preparing the monthly NEURS reports. The official told us that some data entry errors caused the Fleet's accounting system to reject the data. When these rejects or other identifiable errors occurred, Fleet Comptroller personnel were to manually review and correct the transactions. According to the official, correcting some errors required contacting the ships that purchased the fuel to obtain additional information needed to resolve the errors. The official told us that the Comptroller's office had one person assigned full-time to monitor ship purchases and correct errors. However, Fleet officials did not know why the inaccuracies we identified had not been reviewed and corrected.

Atlantic Fleet Reviews of Unpaid Purchases Are Not Prompt

The Atlantic Fleet was not performing prompt reviews of unpaid purchases to determine if they were correct and, if so, why they had not been paid. DOD's accounting manual 7220.9-M stipulates that purchases that have not been paid are to be investigated and resolved if they are over 180 days old. One purpose of the review is to determine if a valid obligation exists. If the review discloses that an unpaid purchase does not represent a valid obligation, the DOD policy provides a method for canceling the obligation so that the funds can be used for other purposes. Our analysis of the Fleet's fuel execution status report for fiscal year 1989 showed that, as of May 1990, about 900 unpaid purchase transactions, totaling over \$32 million, had been outstanding for over 180 days. This represented 100 percent of the Fleet's 1989 unpaid purchases as of that date. Over 150 of these purchases, totaling over \$10 million, were more than 360 days old.

Atlantic Fleet Comptroller officials acknowledged that they were not reviewing the unpaid purchases promptly. The officials stated that they were not producing monthly reports during the year that specifically identified outstanding purchase balances because they believed that most of the unpaid purchases would be offset as payments were processed during the course of the fiscal year. Rather, they waited until about 150 days after the fiscal year ended to produce the first summary report for managers to use in reviewing the outstanding balances. As a result, the age of the outstanding purchase balances could range from 150 days old for purchases recorded during the last month of the fiscal year (September) to over 500 days old for purchases recorded during the first month of the fiscal year (October).

Atlantic Fleet Comptroller officials acknowledged that they needed more timely reports to identify and correct unpaid purchases. They stated that the Fleet had implemented a change to its financial management system, effective for fiscal year 1991, to provide more timely information. The first monthly report on outstanding unpaid balances for fiscal year 1991 fuel purchases was produced in February of 1991, about 12 months earlier than prior years' reports. The change will provide information that accounting personnel need to identify and to resolve discrepancies more promptly.

Pacific Fleet Records Lack Sufficient Detail to Ensure Accuracy

At the time of our review, the Pacific Fleet Comptroller's accounting records included only summary obligation balances for each ship's fuel purchases. Unlike the Atlantic Fleet Comptroller's office, the Pacific Fleet Comptroller did not require ships to include in their NEURS reports the requisition number and quantity of fuel for each purchase. Consequently, detailed data identifying individual fuel purchases were not recorded in the Fleet's accounting system. As a result, the Pacific Fleet Comptroller's office was not able to match obligations for individual purchases with related disbursements to determine which purchases (1) had been correctly paid, (2) did not agree with their related disbursements, or (3) should be reviewed because they were unpaid and over 180 days old. DOD's accounting regulation requires that accounting systems include controls to detect the failure to record transactions and the incorrect or incomplete recording of transactions.

We asked officials in the Pacific Fleet Comptroller's office what internal control procedures were in place to ensure that they could detect overpayments and incorrect amounts recorded in their accounting system in the absence of detailed records. The officials stated that they would be unaware of overpayments and inaccurate amounts unless Fleet accounting records showed that total disbursements for an individual ship exceeded the obligations recorded in its accounting system. If the recorded amount paid for an individual ship's total purchases exceeded the total amount obligated, Fleet Comptroller personnel would need to contact the ship to obtain supporting documentation on individual transactions to resolve the discrepancy. Pacific Fleet officials told us that, as of October 1990, the Fleet's accounting records for nine ships showed that they had paid over \$2 million more for fuel purchases than they had obligated. However, as of March 1991, they had not determined the causes for the differences. The failure of the Pacific Fleet's accounting system to promptly detect overpayments and errors circumvents basic

internal control procedures intended to ensure that obligations and expenditures do not exceed amounts authorized for fuel purchases.

Identifying and correcting the specific transaction(s) that caused the discrepancy might require extensive research, which is labor-intensive and very time-consuming. Further, unless payments for a ship's fuel purchases exceeded the total amount owed, the accounting records would not necessarily be reviewed. Thus, managers could be unaware of overpayments and inaccurate amounts in the Fleet's accounting system that were caused by such problems as unrecorded purchases or incorrect entries.

Senior accounting policy officials at headquarters, Navy Accounting and Finance Office, and the DOD Comptroller's Office of Accounting Policy generally agreed that the Pacific Fleet did not have the controls necessary to effectively monitor the fuels program, as required by the DOD regulation.

Conclusions

At the time of our review, the Navy did not have adequate internal controls over its accounting for ship fuel purchases to ensure that fuel purchase transactions recorded in its accounting system were accurate. Although the Atlantic Fleet accounting system maintained the detailed data needed for monitoring the accuracy of its fuel purchase transactions, the Fleet had not implemented controls to ensure that these data were accurately recorded. As a result, many of the transactions recorded in the Fleet's accounting system were either incomplete or erroneous. The Atlantic Fleet had developed plans to correct the weaknesses in its monitoring procedures.

The Pacific Fleet Comptroller's office did not maintain the detailed data needed to adequately monitor and control purchases and to identify overpayments and errors in their accounting records. Consequently, Comptroller officials cannot assure themselves that the obligations and expenditures related to ship fuel purchases recorded in their accounting system are accurate.

Recommendations

To improve the Pacific Fleet's accounting controls over Navy ship fuel purchases, we recommend that the Secretary of the Navy direct the Commander in Chief, Pacific Fleet, to (1) require its ships to provide the requisition number and quantity for each fuel purchase in the NEURS reports and (2) produce monthly reports for Fleet accounting managers

to use in reviewing fuel purchase transactions and resolving accounting errors.

To ensure that timely and reliable data on ship fuel purchases are recorded in the Fleets' accounting records, we also recommend that the Secretary of the Navy direct the Commanders in Chief, Atlantic and Pacific Fleets, to (1) record obligation data on ship fuel purchases promptly and accurately in the accounting system and (2) conduct prompt reviews of the unpaid account balances in accordance with the Defense regulation.

Agency Comments

DOD concurred with our findings and recommendations. In commenting on a draft of the report, DOD stated that, beginning in August 1991, the Pacific Fleet Comptroller will require ships to provide the detailed data on fuel purchases in their monthly NEURS reports. DOD also stated that the Navy is developing accounting procedures to correct the internal control weakness over fuel purchase transactions. DOD plans to have these procedures in place by September 1991. (See appendix I.)

We are sending copies of this report to the Secretaries of Defense and the Navy and to other interested parties. We will also make copies available to others upon request.

Please contact me at (202) 275-9454 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix II.

Sincerely yours,



Jeffrey C. Steinhoff
Director, Civil Audits

Comments From the Department of Defense



OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON, DC 20301-1100

(Management Systems)

Mr. Donald H. Chapin
Assistant Comptroller General
Accounting and Financial
Management Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Chapin:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) Draft Report, "FINANCIAL MANAGEMENT: Navy Needs to Improve Its Accounting for Ship Fuel Purchases," dated May 22, 1991 (GAO Code 903117), OSD Case 8706. The Department concurs with all the report findings and recommendations. The GAO findings related to internal control weaknesses will be considered by the Department for inclusion in its next Annual Statement of Assurance. New procedures are being developed by the Pacific Fleet Comptroller and will be reviewed by this office as part of a series of initiatives being undertaken by the newly created Defense Finance and Accounting Service to improve accounting procedures within the DoD. One of those initiatives is to standardize accounting for centrally managed allotments. That initiative could be expected to correct the internal control weakness addressed in the report.

The detailed DoD comments on the recommendations is provided in the enclosure. The Department appreciates the opportunity to comment on the draft report.

Sincerely,


Alvin Tucker
Deputy Comptroller
(Management Systems)

Enclosure

Appendix I
Comments From the Department of Defense

GAO DRAFT REPORT -- DATED MAY 22, 1991
(GAO CODE 903117) OSD CASE 8706
"FINANCIAL MANAGEMENT: NAVY NEEDS TO IMPROVE ITS
ACCOUNTING FOR SHIP FUEL PURCHASES"

DEPARTMENT OF DEFENSE COMMENTS

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RECOMMENDATIONS

- **RECOMMENDATION 1:** The GAO recommended that the Secretary of the Navy direct the Commander in Chief, Pacific Fleet, to (1) require that its ships provide the requisition number and quantity for each fuel purchase in the Navy Energy Usage Reporting System reports and (2) provide monthly reports for Fleet accounting managers use in reviewing fuel purchase transactions and resolving accounting errors. (p. 18/GAO Draft Report)
- **DoD Response:** Concur. Starting with the August report, the Pacific Fleet Comptroller will require Pacific Fleet activities to provide requisition numbers, gallons of fuel received, type of fuel, and other related data on the monthly Navy Energy Usage Reporting System. In addition, by September 30, 1991, the Pacific Fleet Comptroller will reconcile current outstanding obligations for fuel purchases against historical data provided by the Defense Fuel Supply Center and Naval Supply Center Charleston. Once the required detail fuel purchase data is entered into the system, the existing system has the capability to provide monthly reports for Fleet accounting managers to use in reviewing fuel purchase transactions. The Chief of Naval Operations will review the implementation of this recommendation.
- **RECOMMENDATION 2:** The GAO recommended that the Secretary of the Navy direct the Commanders in Chief, Atlantic and Pacific Fleets, to (1) record obligation data on ship fuel purchases promptly and accurately in the accounting system and (2) conduct prompt reviews of the unpaid account balances in accordance with the Defense regulation. (p. 18/GAO Draft Report)
- **DoD Response:** Concur. As noted in the GAO report, the Atlantic Fleet developed plans to correct weaknesses in its monitoring procedures. Since October 1990, the Atlantic Fleet has been recording obligation data on ship fuel purchases promptly and accurately in its accounting system, and conducting prompt reviews of the unpaid account balances, as required by DoD 7220.9-M, DoD Accounting Manual. The Pacific Fleet is currently developing accounting procedures to improve its internal controls so that the Pacific Fleet Comptroller effectively can control funds for fuel purchases. Those procedures, as well as the detail data addressed in the above recommendation, should be in place by September 1, 1991. The Chief of Naval Operations will review the implementation of this recommendation.

Now on pp. 8-9.

Now on p. 9.

Enclosure

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