



UNITED STATES GENERAL ACCOUNTING OFFICE
 REGIONAL OFFICE
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 LOS ANGELES, CALIFORNIA 90012

Handwritten: Puller
 Branch 045

092918

JUN 26 1970



Commanding Officer
 Naval Supply Center
 San Diego, California 92131

Dear Sir:

We thought it would be useful to summarize the observations arising from our recent look at selected aspects of the development of the accounting system for operations at the Naval Supply Center (NSC), San Diego. Our work at NSC was part of a nationwide survey by the General Accounting Office of the development of Department of Defense (DOD) accounting systems for operations.

We identified several matters relating to the accounting system which we believe are in need of further consideration at the headquarters level. These observations which were discussed with members of your staff have been provided to our Washington staff, and the action taken or to be taken is indicated in each instance. In addition to the broader issues, we also noted several matters that can be resolved locally, which are set forth beginning on page 4.

PERFORMANCE MEASUREMENT

In inquiring into the use of work measurements units associated with the accounting system for operations, we became aware of the effort undertaken at NSC to develop a better basis for measuring performance at the activity level than is provided by present performance measurement systems. We were informed by NSC department and division managers that work measurement units established for use with the accounting system were in some cases inadequate for evaluating performance.

To meet its needs, NSC is developing a Labor Cost Management Report (LCMR) based on Defense Integrated Management Engineering System (DIMES) man-hour performance data, which would compare budgeted dollars with earned and actual expenditures. Further refinements,

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being programmed to the LCR, will present and compare the data by organizational entity and cost account; facilitating its use in budgeting and controlling expenses by cost center. NSC management personnel believe that with some minor revisions, the LCR could be used to replace the Operating Budget/Expense Report (NAVCOMPT 2168), and that the merger of DIES and accounting system work measurements is a desirable goal. We also believe that it would be advantageous to have a single compatible work measurement system in which DIES work measurements could be used to supplement or replace work measurement units associated with the accounting system for operations.

The progress being made on performance measurement by NSC has been brought to the attention of DOD officials in Washington. These efforts at the Center are helpful in the joint considerations being given to the problems of establishing performance measurement data consistent with the accounting system for operations by the Office, Secretary of Defense, the Military Services, and the General Accounting Office.

MAINTAINING GENERAL
LEDGERS FOR PRIOR YEARS

As an Authorized Accounting Activity, NSC is maintaining separate FY 1970 general ledgers for 32 operating budgets. An additional 30 general ledgers are being maintained for FY 1969 in accordance with NAVCOMPT instructions. The maintenance of general ledgers for each fiscal year creates an additional accounting and reporting workload; in FY 1971 there is the probability that 94 general ledgers will be maintained.

Cognizant members of your staff advised us that in their opinion this added workload could be reduced by closing the general ledgers of prior years and carrying balances forward to subsidiary accounts in accordance with the apparent original intent of NAVSO P-3006, dated March 1968, Financial Management Resources.

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In a letter to the Assistant Secretary of the Navy (Financial Management), dated October 29, 1969, our Office informed him of the details regarding the magnitude of the problem and information relating to the previously stated alternative. A copy of this letter was provided to your Comptroller during our survey.

LATE RECEIPT OF THE FY 1970
OPERATING BUDGET

In the letter to the Assistant Secretary we also informed him that as of October 14, 1969, NSC had not received its FY 1970 operating budget. We stated that the untimely receipt of this operating budget resulted in an inability to compare actual and budgeted expenses, and workload plan and performance. We were subsequently informed that the final portion of the operating budget was not received by NSC until April 1, 1970.

ACCOUNTING PROCEDURES RELATED
TO MATERIAL REQUISITIONS

We inquired into two features of the accounting system related to material requisitioned from other supply activities; namely, the unfilled requisition (UR) concept in which funds are not obligated until a requisition is filled, and secondly the use of the date material is dropped from the inventory (DFI) of the supply activity as the basis for recording an obligation and expense.

We found that the use of the DFI date may result in some mismatching of expenses to period, because of the lag between the DFI date and receipt of the material at the Center. In addition, the use of the DFI date for obligating funds for UR's results in an uncertainty as to the status of available funds, due to lag in the receipt of information on the DFI date.

Our Washington staff is working cooperatively with the Office of the Assistant Secretary of Defense (Comptroller) in an effort to clarify the basic DOD Instruction for obligations for material to be delivered from local stock fund outlets.

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INCONSISTENT BUDGETING AND
ACCOUNTING FOR TRAVEL UNITS

NSC provides administrative support to four small units at the Center. Military personnel costs related to two units are included in NSC's operating budget, whereas their civilian labor costs are not. Furthermore, although their functions are similar in nature, the military personnel costs of the other two units are not included in the NSC operating budget. Although the number of military personnel and costs involved at NSC are relatively minor, we believe that the inconsistent treatment in budgeting and accounting for the small units may result in a more significant distortion of costs of operation of other Navy activities.

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In addition to the above matters, we noted that improvements were possible in certain of the practices being followed at NSC. Our observations relating to these possible improvements are summarized below.

MILITARY LABOR DISTRIBUTION PROCEDURES

The cost of military personnel at NSC is distributed monthly based on the on-board military personnel strength at the first of each month and standard military rate tables. NAVSO P-3006 provides that the cost of military personnel on temporary additional duty (TAD) assignments will be distributed to the functional/subfunctional category and cost account in which the services are performed at the activity receiving the benefit of the services. We found that at the time of our survey NSC distributed costs related to personnel on TAD assignments to military absence cost accounts without regard to the nature of the assignment.

We noted that the forms used to request TAD assignments do identify the appropriate cost account to be charged, and could be used as the basis to distribute costs associated with TAD assignments to the appropriate cost accounts.

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Your Budget Officer agreed with our observations and advised us that corrective action would be taken.

NONADHERENCE TO CRITERIA AND
PROCEDURAL REQUIREMENTS IN
ACQUISITION OF INVESTMENT EQUIPMENT

We found that a need exists to strengthen controls relating to the use of operating budget funds to procure investment equipment. We also found that current practices are not adequate to assure accurate and timely recording of equipment in NSC plant property records.

NAVSOP P-3006 provides that, in general, equipment with a unit acquisition cost of \$1,000 or more is to be considered as an investment cost rather than expense, and as such should be procured with other than operating budget (i.e. O&M) funds. Naval Supply Systems Command (Supply Command) Revised Accounting Procedures (para. 212.01) further provide for the control of procurement of investment-type equipment at the Supply Command Headquarters level.

During our survey we found that 23 calculators and several other items, each with a unit value in excess of \$1,000, were procured with operating budget funds. Included were a power shelf and a power file with unit costs of \$3,300 and \$4,300, respectively, for which NSC requested, but did not receive, the approval of Supply Command to procure under the Supply Command Controlled Equipment Program.

We were advised by your Budget Officer that he was aware the procurements were not made in accordance with the instructions for the procurement of investment equipment. He stated that the procurements were initiated based on the needs of NSC and his understanding that Supply Command funds were not available.

We were advised that future acquisitions of investment-type equipment would be made in accordance with the established criteria and procedures. NSC subsequently informed the Supply Command of its procurement of the equipment, and requested funds to cover the transfer of charges from the O&M to the Other Procurement, Navy appropriations.

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NEED FOR IMPROVED ACCOUNTING
PROCEDURES AND CONTROLS OVER PROPERTY

We found that only one of the 23 calculators mentioned above was listed on the December 15, 1969, Plant Property report, although all the calculators had been received at NSC prior to July 1, 1969. Written procedures do exist for the control of plant property equipment; however, the procedures were apparently not being fully followed. An Accounting Division official informed us that he was aware that problems existed in accounting for property, which he believed were due, in part, to the division of responsibilities for the plant property control function. The Accounting Division official as well as your Executive Officer advised us that corrective action would be taken to improve plant property accounting procedures.

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We have always found your representatives to be professional and open-minded in their consideration of matters of mutual interest. This was again confirmed for us and we wish to express our appreciation for the fine cooperation and assistance provided to us during our work. We would be pleased at any time to discuss any aspect of our survey or the accounting system for operations with you and your staff.

Copies of this letter are being furnished to the Assistant Secretary of Defense (Comptroller), the Assistant Secretary of the Navy (Financial Management), the Auditor General of the Navy, and the Director, Navy Area Audit Service, San Diego.

Sincerely yours,

H. L. KRIEGER

H. L. KRIEGER
Regional Manager