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REPORT TO THE COMMITTEE
ON ARMED SERVICES
UNITED STATES SENATE

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Problems In The Administration
And Use Of Project Orders By
The Navy B-171049

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

095572

APRIL 23, 1971

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

B-171049

Dear Mr. Chairman:

In your letter of October 7, 1970, you asked us to perform a review of certain intradepartmental financial transactions within the Department of Defense. Your concern was directed primarily to the use of project orders to incur obligations against appropriations which are subject to authorizing legislation. Specifically, you (1) questioned the legality of obligations generated by project orders when they involve an intraservice transaction and (2) expressed concern that unliquidated obligations generated by project orders result in the freezing of funds that otherwise would be available for reprogramming to support other important requirements. The results of our review are set forth in this report.

As agreed with your office, we (1) limited our review to the Department of the Navy and (2) discussed the report with officials of the Office of the Assistant Secretary of Defense (Comptroller) and the Department of the Navy. Their comments are included in the report where appropriate.

Also, in accordance with an agreement with your office, we are distributing copies of this report to the Secretary of Defense and the Secretary of the Navy. We plan to make no further distribution of this report unless copies are specifically requested, and then we shall make distribution only after your agreement has been obtained or public announcement has been made by you concerning the contents of the report.

Sincerely yours,



Comptroller General
of the United States

xR
c1 The Honorable John C. Stennis
Chairman, Committee on Armed Services 9500
United States Senate

D I G E S T

WHY THE REVIEW WAS MADE

The Chairman of the Senate Committee on Armed Services asked the General Accounting Office (GAO) in October 1970 to review the Department of Defense practice of obligating funds to finance project orders. ✓

It was agreed that the review would be limited to the Navy.

Project orders are considered analogous to commercial contracts; however, both parties are Federal Government activities. When the order is accepted by the performing activity, an obligation is established against the appropriation of the sponsoring activity, just as it would be if a contract had been made with a commercial firm. An example of this process is shown on page 8, where the Naval Ship Systems Command (the sponsoring activity) placed a project order with the Mare Island Naval Shipyard (the performing activity) for overhaul and conversion of a submarine.

The Committee Chairman

- ✓ --questioned the legality of obligations generated by project orders between two activities in one military service and
- ✓ --expressed concern that unliquidated obligations generated by project orders freeze funds that otherwise would be available for other requirements. (See app. I.)

FINDINGS AND CONCLUSIONS

Naval activities have used project orders for many years, under statutory authority. (See p. 4.)

About \$10.8 million obligated on 10 project orders as of June 30, 1970, did not appear to be needed for completion of the projects. The obligated funds were not recouped by the sponsoring activities on a timely basis. GAO reviewed a total of 70 project orders having unexpended balances of \$96 million at four naval activities. (See p. 7.)

GAO reviewed 40 other project orders that were completed in fiscal year 1970 and had no outstanding balances. Six of those had obligated funds in excess of needs for varying periods of time. (See p. 7.)

Sponsoring activities were not withdrawing excess obligated funds even when they were aware of the excesses. For example, on the submarine project order (see p. 8), Mare Island told the Ship Systems Command that about \$9 million was available for withdrawal; yet 7 months went by before the Ship Systems Command began to deobligate funds.

In some cases sponsoring activities issued project orders that were not specific on the work to be done. As a result, cost estimates used as a basis for obligating funds were overstated and substantial funds were restricted needlessly for long periods. The law requires specificity before obligation of funds; therefore, GAO believes that the validity of those obligations as originally recorded may be questionable. (See pp. 12 to 14).

Established controls for timely recoupment of obligations were not always used. GAO found, however, that the Naval Audit Services had identified some instances in which funds could be released for other purposes. (See p. 15).

GAO's ability to review unexpended project order balances at the Philadelphia Naval Shipyard, the Naval Electronics Laboratory Center, and the Naval Research Laboratory was hampered by the accounting systems used. Costs were accumulated under locally established job orders, rather than under project orders, and project order funds became commingled. That situation could affect the performing activity's ability to identify excess funds for the purpose of recoupment. (See pp. 10 and 11).

In addition to using project orders, naval activities use work requests to obtain goods and services from other naval activities. Funds are obligated at the time work requests are accepted. Work requests, used for goods and services not eligible for procurement under project orders, may involve procurement by contract from commercial sources. Funds obligated under project orders are available until the project is completed; under work requests the funds are available for only the period set by the appropriating legislation. GAO believes that the use of work requests for outside contracting may result in the freezing of funds for a significant period before the funds are actually needed. Another possible adverse effect could be the distortion of unobligated balances reported to the Congress. (See pp. 18 and 19).

MATTERS FOR CONSIDERATION BY THE COMMITTEE

The Committee may wish to consider having the Secretary of the Navy

- direct sponsoring activities to put greater emphasis on ensuring that unneeded funds are promptly identified by performing activities and recouped and
- require stricter adherence to instructions and control procedures on project orders.

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CHAPTER 1

INTRODUCTION

At the request of the Chairman of the Committee on Armed Services, United States Senate, and in accordance with subsequent agreements with his office, the General Accounting Office has reviewed the Department of the Navy's practice of obligating funds, which are subject to authorizing legislation, to finance project orders. The Chairman (1) questioned the legality of obligations generated by project orders when they involve an intraservice transaction and (2) expressed concern that unliquidated obligations generated by project orders result in the freezing of funds that otherwise would be available for reprogramming to support other important requirements.

DEFINITION AND PURPOSE OF PROJECT ORDERS

A Department of Defense (DOD) directive defines a project order as a specific, definite, and certain order for goods or services placed and accepted by separately managed and financed Government establishments. Project orders are issued, among other things, for the production, alteration, or maintenance of ships, aircraft, vehicles, missiles, other weapons, and other military and operating supplies and equipment. Project orders are issued also for research, development, test, and evaluation work. In general, our review of the statute covering project orders, including related legislative history and administrative decisions, clearly indicates that project orders are analogous to commercial contracts.

The Government activity that issues the project order is designated the sponsoring activity, and the one that accepts and carries out the project order is designated the performing activity. When a project order is accepted by the performing activity, an obligation is established against the appropriation upon the records of the sponsoring activity in the same manner as orders or contracts placed with a commercial establishment.

The practice by various activities within the Navy of using project orders has existed for many years. Authority

for the use of project orders is contained in the act of July 1, 1922, embodied in section 23 of Title 41, United States Code, pertaining to intra-agency project orders which states:

"All orders or contracts for work or material or for the manufacture of material pertaining to approved projects heretofore or hereafter placed with Government-owned establishments shall be considered as obligations in the same manner as provided for similar orders or contracts placed with commercial manufacturers or private contractors, and the appropriations shall remain available for the payment of the obligations so created as in the case of contracts or orders with commercial manufacturers or private contractors. (June 5, 1920, ch. 240, 41 Stat. 975; July 1, 1922, ch. 259, 42 Stat., 812; June 2, 1937, ch. 293, 50 Stat. 245)."

A review of the legislative history indicates that the purpose of this section of the act was to permit work undertaken in shipyards and other naval establishments to continue beyond the fiscal year. Prior to enactment of this law, the Navy was not authorized to undertake work in a shipyard which could not be completed within the fiscal year in which work was begun, in contrast to contracts issued to commercial establishments wherein obligated funds remain available throughout the period of performance of the contract. The intent of this section of the act was to promote the efficient conduct of Government work by placing Government establishments on the same basis as commercial establishments in relation to the availability of appropriations for expenditure.

DEFINITION AND PURPOSE OF WORK REQUESTS

In addition to using project orders, the Navy uses work requests to accomplish intradepartmental work. In contrast to a project order, a work request, prior to June 1969, was used generally for in-house routine maintenance and support services. Since that time its use has been expanded to allow procurement from commercial sources. When a work request is accepted by the performing activity, an obligation

is established against the appropriation on the records of the sponsoring activity. Section 601 of the Economy Act of 1932 (31 U.S.C. 686) is the statutory authority for the use of intradepartmental orders (work requests).

The difference between a project order and a work request, simply stated, is that funds obligated under project orders are available until the project is completed whereas funds under work requests are available for only the period set by the appropriating legislation.

EXTENSIVE USE OF PROJECT ORDERS
AND WORK REQUESTS BY THE NAVY

Within the Department of the Navy, there are 95 industrial activities that are financed primarily by project orders and work requests. At June 30, 1970, the unexpended balances of Navy project orders and work requests--the unbilled part of the original obligation less work in process--at these 95 activities amounted to about \$900 million for research, development, test and evaluation, and procurement appropriations. The unexpended balances of project orders and work requests at the five activities included in our review amounted to about \$206 million as of June 30, 1970.

Prior to the DOD Appropriation Act of 1971, the appropriations included in our review were no-year appropriations. The act now places the following time limitations on the availability of appropriations included in our review.

	<u>Years</u>
Procurement of Aircraft and Missiles, Navy	3
Other Procurement, Navy	3
Shipbuilding and Conversion, Navy	5
Research, Development, Test, and Evaluation, Navy	2

Because of these restrictions, the proper administration of project orders and work requests has taken on greater importance.

CHAPTER 2

NEED FOR MORE TIMELY RECOUPMENT OF EXCESS OBLIGATIONS

Navy instructions require that obligated funds that are no longer needed for the purpose of the obligations be promptly withdrawn. Such funds are referred to in this report as excess. Further DOD and Navy instructions require that project orders be specific, definite, and certain concerning both the work encompassed by the order and the terms of the order itself.

At four industrial fund activities, we examined unexpended project order balances as of June 30, 1970, amounting to about \$96 million and found that \$10.8 million did not appear to be needed for the purposes of the project orders and were not recouped by sponsoring activities on a timely basis.

We also found instances where the sponsoring activity had issued project orders that were not specific with respect to the work to be accomplished. As a result, cost estimates, which served as the basis for obligating funds, were overstated and substantial amounts of funds were restricted unnecessarily for long periods. Further, since these project orders lacked the specificity required by law for recording an obligation, we believe that the validity of the obligations as originally recorded for such project orders may be questionable.

A summary indicating the results of our examination of selected unexpended balances as of June 30, 1970, at the performing activities is presented below.

Performing activity	Unexpended balances reported		Unexpended balances reviewed		Unexpended balances questioned	
	Amount (millions)	Number	Amount (millions)	Number	Amount (millions)	Number
Philadelphia Naval Shipyard (note a)	\$ 44	66	\$18	12	\$ 0.1	1
Mare Island Naval Shipyard	83	131	53	16	9.9	5
Naval Air Engineering Center	42	194	24	28	.8	4
Naval Research Laboratory (note a)	28	226	1	14	-	-
Naval Electronics Laboratory Center (note a)	<u>9</u>	<u>37</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$206</u>	<u>654</u>	<u>\$96</u>	<u>70</u>	<u>\$10.8</u>	<u>10</u>

^aWe experienced difficulty in determining the validity of unexpended balances for many project orders. This situation restricted the scope of our review and is discussed more fully on page 10.

In addition, we reviewed 40 selected project orders which, at June 30, 1970, had no unexpended balances and were completed during fiscal year 1970. We found six project orders at Mare Island that had excess funds for varying periods.

EXCESS PROJECT ORDER BALANCES
NOT PROMPTLY RECOUPED BY
SPONSORING ACTIVITIES

Sponsoring activities were not withdrawing excess funds in all cases, even though they were aware of the excess. Following are three examples of the situations we found.

Excess funds for conversion and
overhaul of submarine not withdrawn

More than 7 months elapsed after the Ship Systems Command had been informed by the performing activity that about \$9 million was available for withdrawal before action was taken to begin the process of deobligating some portion of those funds.

In October 1968 a project order was issued to Mare Island for overhaul and conversion of a fleet ballistic missile submarine. Two more related project orders were subsequently issued. A total of \$40 million was obligated for this work. In June 1970, when 80 percent of the work was complete, Mare Island submitted a status report to the Ship Systems Command showing that the estimated cost had decreased to about \$31 million.

We were told by Navy representatives that the \$9 million was not being recouped because (1) there was a lack of confidence in the accuracy of the estimate submitted by Mare Island and (2) some funds should be kept available for deficiencies in the submarine that may be discovered at a later date. A representative of the sponsoring activity acknowledged in February 1971 that, because of the large amount of funds involved, some part of the \$9 million should have been withdrawn. In March 1971 we were informed that about \$7.5 million was in the process of being deobligated.

Funds not withdrawn after
planned work was delayed

As a result of inaction on the part of the sponsoring activity to recoup funds after a change in planned work, about \$550,000 unnecessarily remained in an obligated status for over 2 years. In December 1968 the Ship Systems Command

issued a project order amendment to Mare Island for the restoration of a dry dock. About a month after the issuance of the order, the Ship Systems Command decided to delay the restoration work because of a higher priority project. Although the funds under the project order became available for withdrawal, no action was taken to withdraw them. We were informed by a representative of the Ship Systems Command that the funds were known to be available but were kept in an obligated status to accomplish this work at a later date and that the Ship Systems Command was considering restoration of the dry dock.

Excess funds not withdrawn after
performing activity furnished a
revised cost estimate

About \$100,000 was restricted unnecessarily for at least 6 months because the sponsor failed to recoup funds that became available when a lower estimate was submitted.

The Ship Systems Command issued to the Philadelphia Naval Shipyard on May 27, 1970, a project order for \$250,000 to correct certain deficiencies on a destroyer. About a month later, the shipyard reduced its estimate to \$150,000. The Ship Systems Command, however, did not withdraw any funds from this project order. Ship Systems Command representatives told us that their engineering estimate to perform the work remained at \$250,000 notwithstanding the estimate of \$150,000 by the shipyard. Consequently, no action was taken to recoup funds.

When the shipyard completed the work on this project order in September 1970, it had incurred costs of about \$140,000. Notification of completion, however, was not made to the Ship Systems Command. Shipyard representatives told us they had experienced a problem in their accounting system in October 1970 and that this resulted in the suspension of final billing on completed projects. They stated that the shipyard was in the process of making a review to ensure that all applicable charges to customers are made prior to the release of funds and closing of the project order. We believe that, although this may have contributed to retention of these funds, sufficient information was available in August 1970 to allow the Ship Systems Command to

significantly reduce this obligation. In March 1971 Ship Systems Command representatives informed us that excess funds were being withdrawn.

Ability to review unexpended project order balances hampered by type of accounting systems employed

Our ability, in the time available, to review unexpended project order balances at the Philadelphia Naval Shipyard, the Naval Electronics Laboratory Center, and the Naval Research Laboratory was hampered because accounting systems at these activities had accumulated costs under job orders established by the performing activity rather than under project orders. Thus project order funds are commingled, and incurred costs are assigned on an arbitrary basis to individual project orders. It appeared that this situation would have an effect on the capability of the performing activity to adequately review the status of project orders for the purpose of recouping excess funds.

Under this system, segments of work on several project orders may be assigned under one or more job orders. The costs for the work performed are accumulated under the job order, and costs applicable to a specific project order lose their identity. The costs incurred under a job order are assigned to the project order having the earliest expiration date, and billings are made to the sponsor accordingly.

As a result of this situation, only about \$800,000 of unexpended project order balances were included in our review at the Naval Research Laboratory. At the Naval Electronics Laboratory Center, we selected project orders showing balances of about \$6 million for review; however, we were unable to evaluate the validity of those balances. At the Philadelphia Naval Shipyard, we selected for possible review 20 project orders having balances of about \$39 million but were able to adequately review only 12 having balances of about \$18 million.

The employment of the system described above could result in the freezing of funds. An extensive audit, however, of each transaction applicable to the project orders involved would have to be made in order to definitely conclude

.this. We will consider this aspect in our regularly scheduled reviews of accounting systems at industrial fund activities.

LACK OF SPECIFICITY IN PROJECT ORDERS

DOD instructions require that project orders be specific, definite, and certain concerning both the work encompassed by the order and the terms of the order itself. In the absence of a specific description of the work to be accomplished, an accurate cost estimate cannot be made and the performing activity cannot begin the work in an expeditious manner.

We identified several project orders that lacked specificity concerning the work to be accomplished which resulted in significant delays and cancellations. We also found that inadequate descriptions of the work required on certain project orders resulted in excessive cost estimates that unnecessarily restricted substantial amounts of funds for long periods of time. Further, we believe that, since these project orders lacked specificity, the validity of the obligations as originally recorded for such project orders may be questionable. 31 U.S.C. 200, which deals with documentary evidence needed for obligations, states that:

"*** no amount shall be recorded as an obligation of the Government of the United States unless it is supported by documentary evidence of--

(1) a binding agreement in writing between the parties thereto, including Government agencies, in a manner and form and for a purpose authorized by law, executed before the expiration of the period of availability for obligation of the appropriation or fund concerned for specific goods to be delivered ***." (Underscoring supplied.)

Two examples follow.

Correction of submarine deficiencies

In June 1964 funds were provided under three project orders issued by the Ship Systems Command to Mare Island to correct deficiencies in three submarines. The need for correcting deficiencies in these three submarines was related

to the catastrophic loss of the submarine "Thresher." We were informed by a Mare Island official that the project orders did not contain specific instructions on the work that was required, even though approximately \$14 million was initially obligated. Ship Systems Command records showed that, by April 1965, the obligated funds had increased to about \$24.5 million and that, by November 1968, \$14.7 million had been deobligated as the plans to accomplish the task became definitive. The final cost of the three project orders was about \$9.8 million. Representatives of the sponsoring activity stated that about \$10 million of the funds deobligated were subsequently transferred to other shipyards to perform work that could not be accomplished at Mare Island.

We were informed by a Mare Island representative that in mid-1966, or about 2 years after the project orders were originally issued, instructions were finally received at Mare Island which clearly set forth the work to be accomplished. After the main body of instructions was received, frequent changes and new instructions resulted in substantial reductions in the project orders.

At the Ship Systems Command, officials informed us that the delay in forwarding instructions to Mare Island was caused by the uncertainty involved in determining causes of the "Thresher" disaster. As deficiencies were identified, studies had to be made to develop design modifications.

Alteration kits

In another instance, about \$600,000 obligated for a project order was restricted unnecessarily for about 2-1/2 years, because instructions necessary to perform the work were not sent to the performing activity.

In January 1968 the Naval Ordnance Systems Command amended an existing project order to provide for the manufacture of 2,000 alteration kits by Mare Island at an estimated cost of \$600,000. Initiation of work was contingent upon receipt from the Naval Underwater Systems Center of an ordnance alteration text that would provide the necessary steps to perform the work.

We were told that in December 1969 the Underwater Systems Center informed the Ordnance Systems Command that it was unable to provide the text until August 1970. No action was taken to recoup funds at that time. We were also informed that in August 1970 the Underwater Systems Center notified the Ordnance Systems Command that the text would not be ready for another year and that the funds were withdrawn in September 1970.

CHAPTER 3

GREATER ADHERENCE TO CONTROLS FOR

IDENTIFYING EXCESS OBLIGATIONS REQUIRED

To enable the sponsoring activity to recoup excess obligations on a timely basis, effective controls are necessary so that excesses will be identified and promptly brought to the attention of the appropriate officials. Controls established by the Navy, if followed, should provide an effective means of identifying excess obligations; however, we found that these controls frequently were not used.

Significant amounts of unneeded funds have been recouped by the Navy as a result of special reviews by the Navy internal auditors with the assistance of the sponsoring activities. Greater adherence to controls established for identifying excess obligations on a regular basis, however, should reduce the requirement for special reviews. These matters are discussed below.

EXISTING CONTROLS NOT USED IN ALL INSTANCES

Navy policy requires that obligations be continuously reviewed to ensure their validity and that they be canceled when it has been determined that the funds are no longer required. In order that this policy for project orders may be implemented, the Navy has established various control procedures at both sponsoring and performing activities.

For sponsoring activities, Navy regulations require a continuous program by each major sponsoring activity to validate all unexpended obligations, including those represented by project orders. In addition, sponsoring activities are required to review obligations in the research, development, test and evaluation, and major procurement appropriations annually and to report the results to the Comptroller of the Navy. These reviews, however, are limited to obligations related to appropriations that have been in existence for at least 3 years.

To assist in the continuous review of reported obligations, certain control procedures have been prescribed at the performing activity level to aid in identifying funds which may be available for withdrawal.

1. Performing activities, when requested by the sponsor, prepare status reports showing costs incurred and estimated cost of completion. Our review indicates that the effectiveness of this control is limited because certain sponsors have not requested such reports. Also, in some cases, upon receipt of a report showing that funds are available for withdrawal, sponsors have not initiated action on a timely basis to withdraw the funds.

2. Performing activities are to periodically review project orders to identify those which have been inactive for 2 consecutive months and to report reasons for the inactivity to the sponsoring activity. Our review showed that none of the five performing activities included in our review had complied with this requirement. Navy representatives have stated that two of the reasons for not complying are

--the research work at the performing activity does not justify a review of project orders and

--the accounting system does not lend itself to such a review.

We were informed at one activity that it planned to comply with the regulation after installation of an automated accounting system was completed.

3. Performing activities, upon completion of work, are required to prepare a final bill which shows any funds available for withdrawal. We noted that, although the submission of final reports at the completion of work were an effective procedure to identify unneeded funds, two performing activities were unable to submit these bills on a timely basis because of deficiencies in their accounting system. For example, during 1969 and 1970 the Naval Air Engineering Center changed its computer system. According to the Deputy Comptroller, numerous problems were encountered and many still exist with respect to accounting records. He stated that he did not place complete reliance on the accuracy of the

· accounting records and that, consequently, he had been reluctant to render final billings and to make refunds to customers.

INTERNAL AUDITS IDENTIFY
SUBSTANTIAL UNNEEDED BALANCES

For the past several years, Navy internal auditors in close cooperation with sponsoring activities have expended considerable effort to review the validity of unexpended balances reported in the major appropriations. As a result of these reviews, significant amounts of funds have been recouped and have been made available for other purposes. In regard to project orders and work requests, the internal audit reports indicated that over \$10 million of excess funds had been recouped from audits performed in 1968 and 1969. In these reports, Navy auditors attributed invalid unexpended balances to:

- failure on the part of the performing activities to submit final reports on a timely basis and
- failure of the sponsoring activity to take timely follow-up action on inactive accounts.

CHAPTER 4

USE OF WORK REQUESTS

A work request is an intradepartmental order, according to Navy regulations, for goods or services which are ineligible to be procured under a project order. When a work request is accepted by the performing activity, an obligation is established against the appropriation on the records of the sponsoring activity. Until June 1969, Navy instructions appeared to limit the use of work requests to orders among activities for routine services, such as training, laundry, communications, and utilities. In June 1969, however, Navy instructions expanded the use of work requests to include procurement for centrally managed programs, provided that the determination of material requirements not be made by the sponsoring activity.

The change apparently authorizes the use of work requests to allow performing activities to procure from commercial suppliers. As a result, sponsoring activities may record obligations on their records long before contracts are formalized. A Navy official told us that the use of work requests to allow performing activities to use outside procurements was common practice. Further, at the Naval Air Engineering Center, we noted that, of the 26 orders in our sample, nine were substantially for outside procurement and amounted to \$11.9 million, or 46 percent of the total funds authorized on the 26 orders.

The use of work requests for outside contracting may result in the freezing of funds for a significant period before the funds are actually needed. This could occur if the performing activity is delayed in awarding contracts. Another possible adverse effect resulting from this procedure could be the distortion of unobligated balances reported to the Congress.

In one case we noted that a sponsoring activity had obligated \$400,000 for a work request for outside procurement which had been issued to an industrial fund activity. The transaction was recorded on June 30, 1969, as an obligation on the records of the sponsoring activity. In

September 1969, before the industrial fund activity awarded a contract, the sponsoring activity canceled the work request so that the funds could be made available for higher priority work. Although we did not examine the validity of the work requested, we believe that this case illustrates how funds could be reported to the Congress as obligated, through the use of work requests, even though a contract has not been awarded.

Section 601 of the Economy Act of 1932 (31 U.S.C. 686) is the statutory authority for the use of intradepartmental orders (work requests), and the Department of the Navy is authorized thereunder to issue such orders for the purpose of outside contracting. Since no-year appropriated funds of the sponsoring activity are available until expended, the performing activity may obligate such funds subsequent to the end of the year. Since the appropriations, which were included in our review, are now going to be available for only definite time periods, the provisions of 31 U.S.C. 686-1 require that the performing activity either obligate the funds within the period of availability or return them to the sponsoring activity.

CHAPTER 5

MATTERS FOR CONSIDERATION BY THE COMMITTEE

The Committee may wish to consider having the Secretary of the Navy

- direct sponsoring activities to put greater emphasis on ensuring that unneeded funds are promptly identified by performing activities and recouped and
- require stricter adherence to instructions and control procedures on project orders.

CHAPTER 6

SCOPE OF REVIEW

We examined

--70 unexpended project order balances as of June 30, 1970. Most of the balances were financed from appropriations passed by the Congress in fiscal years 1968 through 1970.

--40 project orders that were completed in fiscal year 1970 and had no outstanding balances at June 30, 1970.

We reviewed the Navy project orders to determine whether the amount of funds authorized in the project order was actually needed to finance procurement and research, development, test, and evaluation programs cited in the project order. We also evaluated existing Navy control procedures designed to disclose project order funding authorizations that are no longer needed. Our review of unexpended project order balances was made at the following performing activities.

Philadelphia Naval Shipyard
Philadelphia, Pennsylvania

Mare Island Naval Shipyard
Vallejo, California

Naval Air Engineering Center
Philadelphia, Pennsylvania

Naval Research Laboratory
Washington, D.C.

Naval Electronics Laboratory Center
San Diego, California

At principal sponsoring activities listed below, we reviewed the administration of project orders and evaluated internal controls for the recoupment of excess project order funding authority.

Office of Naval Research, Washington, D.C.
Naval Air Systems Command, Washington, D.C.
Naval Ordnance Systems Command, Washington, D.C.
Naval Ship Systems Command, Washington, D.C.

During our review, we examined pertinent instructions of the Office of the Secretary of Defense and the Department of the Navy regarding the use of project orders and work requests and reviewed files at the various performing activities and sponsoring activities. We also reviewed internal audit reports and discussed the results of our review with Navy representatives at these activities.

APPENDIX

JOHN C. STENNIS, MISS., CHAIRMAN
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United States Senate

COMMITTEE ON ARMED SERVICES
 WASHINGTON, D.C. 20510

October 7, 1970

Honorable Elmer B. Staats
 Comptroller General of the United States
 General Accounting Office
 Washington, D. C.

Dear Mr. Staats:

This letter is to request your office to provide assistance to the Committee in performing a review of certain intra-departmental financial transactions within the Department of Defense.

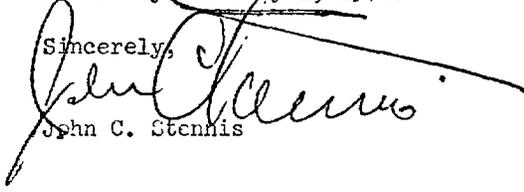
The Department of Defense, and in particular the Navy, has followed a policy of using project orders as an intra-service request whereby one activity requests another activity to perform certain work or to procure certain items either in-house or by contract for the benefit of the ordering activity. Project orders are recorded as obligations by the issuing activity immediately upon receipt of acknowledgement of acceptance by the receiving activity.

Use of project orders as described above permits recording of an obligation on the books of the Government which in fact is not an obligation in the legal sense. The performing activity may not perform the services or contract for some period of time, if at all. In an extreme situation, such an obligation may remain on the books for a number of years when, in fact, a legal obligation has not been incurred by the Government. The cumulative effect of such practice is reflected in inflated and erroneous obligations on the books of the Government, inflated amounts of unliquidated obligations, and the freezing of funds which otherwise would be available for reprogramming to support other important requirements.

I would appreciate your making a review of this matter, with first priority being given to the Department of Navy, to determine the extent to which this practice is being followed. The investigation should cover fiscal years 1968, 1969, and 1970, and be addressed only to appropriations which are subject to authorizing legislation. If you find that significant amounts of funds relate to fiscal years earlier than 1968, as represented by unliquidated balances on project orders, these years may be included or ~~be made~~ the subject of a subsequent investigation.

In order for this information to be useful during consideration of the fiscal year 1972 budget estimates, request that your report, including appropriate recommendations, be submitted by February 1, 1971.

Sincerely,


 John C. Stennis