DEPARTMENT OF DEFENSE

AUDIT REPORT

AUGMENTATION OF OPERATIONS AND MAINTENANCE FUNDS BY
THE NAVAL SUPPLY SYSTEMS COMMAND

No. 90-079

June 5, 1990

Office of the
Inspector General

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

June 5, 1990

MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT)

SUBJECT: Report on the Audit of Augmentation of Operations and Maintenance Funds by the Naval Supply Systems Command (Report No. 90-079)

We are providing this final report on the Audit of Augmentation of Operations and Maintenance Funds by the Naval Supply Systems Command (NAVSUP) for your information and use. Comments on a draft of this report were considered in preparing this final report. We made the audit from July through October 1989. The audit objectives were to determine the source and extent of the augmentation of operations and maintenance funds, if the funds were spent for authorized purposes, and if other appropriation accounts should be adjusted. We also evaluated internal controls applicable to the expenditure of Government funds and the accountability of Government-owned property in the possession of contractors. We estimated that over the 5-year, 7-month period ended April 30, 1989, NAVSUP augmented its operations and maintenance funds by about $113.8 million, which came primarily from credits for returns to stock funds.

The audit was performed as a result of irregularities found during the audit of Plant Clearance Action on Government-Owned Property in the Possession of Defense Contractors. A final report on that audit, Report No. 90-043, was issued on March 2, 1990, to the Assistant Secretary of Defense (Production and Logistics); the Assistant Secretaries of the Army and Navy (Financial Management); the Assistant Secretary of the Air Force (Financial Management and Comptroller); and the Director, Defense Logistics Agency.

The irregularities involved NAVSUP's procedures for reutilizing excess Government-owned property remaining on shipbuilding and ship repair contracts. The Defense Federal Acquisition Regulation Supplement (DFARS) requires that excess property from contracts be reutilized within the DoD and the Government under the Contractor Inventory Redistribution System (CIRS), which provides for reutilization without reimbursement. Procedures used provided for NAVSUP operating funds to improperly receive financial credits from the DoD stock funds for excess

Government-owned property that was returned to stock. The results of the audit are summarized below, and the details, recommendations, and management comments are in Part II of this report.

NAVSUP used two third-party contractors to perform the reutilization portion of the plant clearance function for Supervisor of Shipbuilding activities. The contractors used the DoD Materiel Returns Program instead of the DFARS mandated CIRS to screen excess Government-owned property for possible reutilization. Return documents were coded to provide financial credits from DoD stock funds to NAVSUP operations and maintenance, Navy (OMN) accounts, contrary to the law and regulations governing stock funds. From October 1983 to April 1989, fund availability was increased by about $59.7 million from these credits. Because of inappropriate adjustments to the NAVSUP accounting records, the financial reports did not disclose these augmentations. The contractors were also used to process materiel returns to DoD stock funds turned in by fleet units or shore stations under the Navy's Materiel-Turned-Into-Store program with similar credits provided to NAVSUP OMN accounts. From October 1985 to April 1989, these credits totaled about $31.6 million. In addition, in fiscal years 1986, 1987, and 1988, NAVSUP transferred about $22.5 million from the Navy Security Deposit, Suspense Account to OMN accounts. The fund increase transactions were entered into the Navy Standard Accounting and Reporting System by periodic adjustments reducing recorded obligation and expenditure totals for NAVSUP's OMN account. We found no legal basis for the credits and transfers and, in our opinion, the fund increase transactions and subsequent obligations and expenditures violated appropriation funding statutes. Also, there was a lack of proper accountability of the property turned over to the third- party contractors. Our tests of a sample of obligation and expenditure transactions under these accounts indicated that funds were spent for authorized purposes, but documentation for reconciliation of travel advances was lacking (page 3).

We recommended that the Assistant Secretary of the Navy (Financial Management) review procedures used by NAVSUP to draw credits from DoD stock funds, and direct NAVSUP to discontinue the unauthorized augmentation of funds. We also recommended that NAVSUP inventory the plant clearance materiel turned over to the third-party contractors and report the materiel in accordance with procedures in the DFARS; make appropriate adjustments for the fund augmentations; initiate an investigation to determine if violations of U.S.C., title 31, sections 1341(a) or 1517(a), have occurred and, if so, prepare required reports; and reconcile outstanding travel advances and collect funds due the Government.

The audit identified internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. Controls were either not established or not effective to ensure that funds were properly authorized, that there was proper accountability of Government-owned property in the possession of contractors, and that fund administrators accounted for expenditures regarding advances for travel expenses. Recommendations in this report, if implemented, will correct the internal control weaknesses. The senior official responsible for internal controls within the Navy is being provided a copy of this report.

On February 6, 1990, a draft of this report was provided to the Assistant Secretary of the Navy (Financial Management), and comments were received on May 7, 1990. The Assistant Secretary stated that the Navy has been reviewing the findings in great detail, but because of the complexity of the issues, only preliminary comments could be provided at this time. The Assistant Secretary stated that, in general, he concurred with the findings in the draft report. Navy excess property return procedures are not in compliance with the DFARS, and a waiver from the DFARS mandated CIRS will be requested. Navy accounting procedures will be strengthened to ensure proper application of credits and more effective internal controls. NAVSUP ceased crediting its own OMN accounts beginning in FY 1989; NAVSUP is reviewing all transactions and making necessary accounting adjustments; and NAVSUP has begun to ensure compliance with requirements for the collection and liquidation of travel advances. The Assistant Secretary concluded that the Navy will continue to review these issues, and specific comments on each finding and recommendation will be provided at the conclusion of this review. The complete text of the management comments is provided in Appendix G.

The Assistant Secretary's preliminary comments are noted. As required by DoD Directive 7650.3, final comments to this report should indicate either concurrence or nonconcurrence in the finding and each recommendation. If you concur, describe the corrective actions taken or planned, the completion dates for actions already taken, and the estimated dates of completion of planned actions. If you nonconcur, please state your specific reasons. If appropriate, you may propose alternative methods for accomplishing desired improvements. We also ask that your comments indicate concurrence or nonconcurrence with the internal control weaknesses described above. Potential monetary benefits could not be quantified at the time of our audit. A summary of other benefits resulting from the audit is in Appendix H. DoD Directive 7650.3 requires that all audit recommendations be resolved within 6 months of the date of the final report. Therefore, final comments should be provided within 60 days of the date of this memorandum.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. Charles Hoeger or Mr. Pat Golden on (215) 737-3881 (AUTOVON 444-3881). A list of the Audit Team Members is in Appendix J. Copies of this report are being provided to the activities listed in Appendix K.

Edward R. Jones
Deputy Assistant Inspector General
for Auditing

Enclosure

cc:
Secretary of the Navy
Comptroller of the Department of Defense
Assistant Secretary of Defense (Production and Logistics)

REPORT ON THE AUDIT OF AUGMENTATION OF OPERATIONS AND MAINTENANCE FUNDS BY THE NAVAL SUPPLY SYSTEMS COMMAND

TABLE OF CONTENTS

	Page
TRANSMITTAL MEMORANDUM/EXECUTIVE SUMMARY	i
PART I - INTRODUCTION	1
Background	1
Objectives and Scope	1
Internal Controls	2
Prior Audit Coverage	2
PART II - FINDING AND RECOMMENDATIONS	3
Augmentation of Operating Funds	3
APPENDIXES	See next page.

Prepared by:
Logistics Support Directorate
Project No. 8SL-0063.01

APPENDIXES

		Page
APPENDIX A -	SUPSHIP Activities Turning Over Materiel to ISSOT Locations	11
APPENDIX B -	Credits Processed to NAVSUP OMN Accounts	13
APPENDIX C -	Fiscal Year 1988 Naval Supply Systems Command (NAVSUP) Programs Funded with Appropriation 1781804.973R	15
APPENDIX D -	Summary of Fiscal Year 1988 Documents Sampled	17
APPENDIX E -	Sample of Fiscal Year 1988 Expenditures Under Appropriation 1781804.973R	19
APPENDIX F -	Outstanding Travel Advances - Appropriation 17_1804.973R - Fiscal Years 1984 Through 1988	21
APPENDIX G -	Assistant Secretary of the Navy (Financial Management) Preliminary Comments	23
APPENDIX H -	Summary of Potential Monetary and Other Benefits Resulting From Audit	25
APPENDIX I -	Activities Visited or Contacted	27
APPENDIX J -	Audit Team Members	29
APPENDIX K -	Final Report Distribution	31

REPORT ON THE AUDIT OF AUGMENTATION OF OPERATIONS AND MAINTENANCE FUNDS BY THE NAVAL SUPPLY SYSTEMS COMMAND

PART I - INTRODUCTION

Background

The audit was performed because of irregularities found during our previous audit of Plant Clearance Action on Government-Owned Property in the Possession of Defense Contractors (Report No. 90-043, March 2, 1990). Plant clearance is the process of identifying, screening, and disposing of excess Government-owned property in the possession of Defense contractors. In reviewing the disposition of excess property at a Navy shipbuilding contractor, we found that the contract administration office, the Navy Supervisor of Shipbuilding, Conversion, and Repair (SUPSHIP), Newport News, Virginia, was turning over excess Government-owned property to another contractor. The second contractor, under a contract issued by a subordinate activity of the Naval Supply Systems Command (NAVSUP), subsequently screened the property through the DoD supply system under the DoD Materiel Returns Program. Financial reimbursements made available from this process were credited to the NAVSUP operations and maintenance accounts. The screening and financial crediting procedures were not in compliance with DoD regulations for plant clearance property. The same procedures were followed by other SUPSHIP's for plant clearance property.

Objectives and Scope

The audit objectives were to determine the source and extent of the augmentation of operations and maintenance funds, if the funds were spent for authorized purposes, and if other appropriation accounts should be adjusted. We reviewed accounting records and reports at NAVSUP; the Navy Accounting and Finance Center, Washington, D.C.; the Navy Regional Finance Center, Washington, D.C.; the Ships Parts Control Center, Mechanicsburg, Pennsylvania; and the Naval Publications and Forms Center, Philadelphia, Pennsylvania. We reviewed plant clearance information submitted by 15 SUPSHIP's that included the amount of Government property that was turned over to 2 NAVSUP contractors. We also reviewed accounting reports from the Standard Accounting and Reporting System (STARS) that pertained to expenditure information for Operations and Maintenance, Navy (OMN) appropriation 17_1804, subheads .973R, .97SA, and .97SB, for fiscal years 1984 through 1988 and through April of fiscal year 1989.

To determine the propriety of expenditures, we tested fiscal year 1988 expenditures of the OMN appropriation, 1781804.973R. We selected a sample of 248 expenditures, valued at $20.3 million, based on a stratified statistical sample from a universe of

4,160 expenditures, valued at $31.7 million. Our sample was selected from the Transaction History Report of May 24, 1989, which was produced from data in STARS and included document numbers representing contracts, work requests, travel orders, requests for procurement, and miscellaneous procurement instrument numbers.

This economy and efficiency audit was made from July through October 1989 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly, included such tests of internal controls as were considered necessary. Activities visited or contacted during the audit are listed in Appendix I.

Internal Controls

At NAVSUP, we evaluated procedures for establishing fund availability in selected OMN accounts. At SUPSHIP, Newport News, Virginia, and the Intra-Fleet Supply Support Operations Team, Portsmouth, Virginia, we reviewed procedures used to account for Government-owned property in the possession of contractors including procedures used to screen and reutilize excess property. As discussed in Part II of this report, controls were either not established or not effective to ensure that funds were properly authorized, that proper accountability was established for Government-owned property in the possession of the contractors, and that expenditures regarding advances for travel expenses were properly accounted for.

Prior Audit Coverage

There were no prior audits in the last 5 years covering the specific issues discussed in this report.

PART II - FINDING AND RECOMMENDATIONS

Augmentation of Operating Funds

FINDING

The Naval Supply Systems Command (NAVSUP) used two third-party contractors to perform the reutilization portion of the plant clearance function. The third-party contractors used the DoD Materiel Returns Program (MRP) in lieu of the Contractor Inventory Redistribution System (CIRS) to screen excess Government-owned property for possible reutilization with financial credits provided to NAVSUP's operating funds, and adequate accountability procedures had not been established for the Government-owned property in the possession of the third-party contractors. Also, documentation for settlement of travel expenditures was insufficient. The fund augmentations and weaknesses in property accountability occurred because the Naval Sea Systems Command (NAVSEA) directed Government property administrators to turn in excess Government property to the third-party contractors, and NAVSUP directed the third-party contractors to code turn-in documents so NAVSUP could obtain financial credits for materiel turned in. Documentation for settlement of travel expenditures was insufficient because adequate procedures had not been implemented to reconcile outstanding travel advances and collect funds due the Government. As a result, NAVSUP augmented its operating funds by about $59.7 million over the 5-year, 7-month period we analyzed, violating the statutes governing appropriated funds. Also, there was a lack of accountability for about $77 million in Government-owned property turned over to the third-party contractors, and cash advances given to Government travelers were not settled. In addition, NAVSUP's operating funds were augmented by an additional $54.1 million, not related to the reutilization of plant clearance property.

DISCUSSION OF DETAILS

Background. As provided for in the Defense Federal Acquisition Regulation Supplement (DFARS), subpart 245.608.70, CIRS is part of the overall materiel reutilization process included in the plant clearance portion of contract administration. CIRS is operated by the Defense Reutilization and Marketing Service (DRMS), Battle Creek, Michigan. Upon receiving reports of excess Government property from DoD plant clearance officers, DRMS personnel verify that items meet the prescribed cost and condition screening criteria, and that items are identified by national stock numbers or manufacturer's part numbers. DRMS notifies DoD Integrated Materiel Managers (IMM's) and other potential users of existing excess property. When IMM's and other field activities identify a need for an item, they requisition the item through DRMS. Items reutilized under the CIRS program are issued free of charge and no financial credit is provided to the turn-in activity.

DoD Directive 4100.37, "Retention and Transfer of Materiel Assets," provides policy on the DoD MRP. The Directive provides that retail activities report materiel exceeding their requirements to the appropriate DoD IMM for possible reutilization. The IMM reviews the reports of excess materiel and provides disposition instructions to the retail activities based on systemwide requirements, assets, and retention limits. Excess materiel within the approved force acquisition objective, that is, the quantity of an item authorized for peacetime acquisition, is authorized for return with financial credit provided to the turn-in activity.

In our audit of Plant Clearance Action on Government-Owned Property in the Possession of Defense Contractors, we found that the plant clearance officer at the Navy Supervisor of Shipbuilding, Conversion, and Repair (SUPSHIP) Newport News, Virginia, turned over plant clearance inventories to another contractor. This contractor, under the auspices of the Intra-Fleet Supply Support Operations Program (ISSOP), identified the materiel for subsequent screening and reutilization under the MRP with financial credits accruing to NAVSUP's operations and maintenance account. In the audit report of "Plant Clearance Action on Government-Owned Property in the Possession of Defense Contractors," Report No. 90-043, March 2, 1990, we recommended that the Assistant Secretary of the Navy (Shipbuilding and Logistics) require that field contract administration activities follow the requirements of using CIRS in the plant clearance process. The Assistant Secretary responded that the Navy would request a waiver from the requirements of the DFARS.

Two contractors operate under the ISSOP system, one on the east coast and one on the west coast. The contractors perform a variety of materiel support functions, such as identifying, storing, and offloading materiel in response to Navy taskings. The Fitting Out and Supply Support Assistance Center (FOSSAC), Norfolk, Virginia, a NAVSUP field activity, oversees the ISSOP operations. FOSSAC and the Intra-Fleet Supply Support Operations Teams (ISSOT's) located throughout the United States administer the ISSOP contracts.

Accountability for Excess Government-Owned Property. During fiscal year 1988, Government plant clearance officers at 12 of the 15 SUPSHIP activities involved in administering shipbuilding and ship repair contracts turned over $77 million in excess Government-owned property to the 2 ISSOP contractors (Appendix A). The contractors' employees prepared packing lists, packaged the excess Government-owned property, and prepared the property for turn in at ISSOT locations. The property was packaged in tri-walls, which are large storage containers. The packing lists identified materiel in the tri-walls as "lots," "pallets," or "tri-walls." There was no item identification by quantity or value. The materiel in the tri-walls was turned over to the contractors on DD Form 1149, "Requisition and Invoice/Shipping Document." There was no identification of the

property on the DD Form 1149. The property was held until it could be researched and identified to the appropriate DoD IMM. The property was shipped to, and held at, seven primary ISSOT locations in Bremerton, Washington; Charleston, South Carolina; Mayport, Florida; Philadelphia, Pennsylvania; Portsmouth, Virginia; Oakland, California; and San Diego, California. In December 1988, the ISSOT location in Portsmouth, Virginia, stored about 200 tri-walls. There was no visible identification of what was stored in the tri-walls or when the tri-walls were delivered to the warehouse. ISSOT personnel estimated that some of the tri-walls had been stored for over 2 years. There was no time frame established for materiel identification and turn in. The conditions observed led us to conclude that there were inadequate controls to maintain proper accountability and to prevent or detect diversion of Government-owned property.

Augmentation of Operating Funds. After the ISSOP contractors researched the excess property to identify the appropriate IMM, they prepared a DD Form 1348-1, "DoD Single Line Item Release/Receipt Document," for processing under the DoD MRP. At the direction of NAVSUP, a fund code and signal code were added to these documents, which resulted in any financial credits from the IMM's stock funds to accrue to the NAVSUP Operations and Maintenance, Navy (OMN) account. The financial credits were accumulated at two NAVSUP field activities assigned as Authorization Accounting Activities. Before May 1988, the Ships Parts Control Center, Mechanicsburg, Pennsylvania, accumulated the credits. As of May 1988, the Naval Publication and Forms Center, Philadelphia, Pennsylvania, accumulated the credits. The credits were retained in a suspense account until NAVSUP officials determined that additional operating funds were required. An analysis of $7.2 million in credits accumulated during the 6-month period ended April 1989 indicated that approximately 52 percent came from the Navy stock fund, 46 percent came from the Defense Logistics Agency stock fund, and 2 percent came from the Army stock fund and the General Services Administration combined. Periodically, NAVSUP would issue a credit Fund Authorization Document, Navy Comptroller Form 2168-1, to withdraw the funds. The transactions were entered into the Navy Standard Accounting and Reporting System (STARS) as credits to a specific appropriation subhead account, increasing the funds available to be spent by reducing recorded obligation and expenditure totals for NAVSUP's OMN account.

U.S.C., title 10, section 2208, governs the stock fund. Subsection (g) of that statute states that the value of supplies returned to working capital funds by a department, activity, or agency may be charged to that fund. The proceeds shall be credited to current applicable appropriations and are available for expenditure for the same purposes for which those appropriations are available. DoD Regulation 7420.13-R, "DoD Stock Fund Operations," contains similar language. The legislative history of U.S.C., title 10, section 2208, makes it clear that the appropriation that originally paid for the

materiel will be credited when the materiel is turned in. NAVSUP's OMN funds did not pay for this materiel; most of the plant clearance property was funded by the Ships Construction, Navy (SCN) appropriation.

From October 1983 through April 1989, NAVSUP accumulated credits from plant clearance materiel in its OMN account (17__1804, subhead .973R) totaling about $59.7 million (Appendix B). NAVSUP officials advised us that the procedures started much earlier, but no records were available of transactions made earlier than fiscal year 1984. There was no evidence that approval from higher authority was obtained to use the credits or that legal advice was obtained before initiating the procedures. Based on information provided by NAVSEA, about 77 percent of the funding for contracts in fiscal year 1988 at the SUPSHIP's activities came from NAVSEA SCN funds and 23 percent came from NAVSEA and Fleet OMN funds. If the fiscal year 1988 data are indicative of prior years, about $46 million (77 percent) of the $59.7 million in credits was applicable to the SCN appropriations under the MRP.

Our review of the Cumulative Reconciliation of Expenditures/Collections Reports obtained from the Navy Regional Finance Center, Washington, D.C., identified additional augmentations of NAVSUP OMN accounts. Similar to the procedures employed for SUPSHIP's plant clearance property, the ISSOP contractors were tasked to process through the DoD MRP, materiel returned to Naval Supply Centers by Navy fleet units and Navy shore station customers under the Navy's Materiel-Turned-Into-Store (MTIS) program. Although the original charges were to the customers' funds, the return documents were coded to provide financial credits to NAVSUP's OMN accounts. From October 1985 through April 1989, NAVSUP accumulated credits from MTIS materiel in its OMN account (17__1804, subhead .97SA) totaling about $31.6 million (Appendix B).

Beginning in fiscal year 1986, the NAVSUP Comptroller's office made adjustments by transferring funds from the Navy Security Deposits, Suspense Account (17x6875.1250, allotment 976) to the NAVSUP OMN account. Account 17x6875.1250 is maintained by the Naval Regional Finance Center (NRFC), Washington, D.C. The Security Assistance Accounting Center (SAAC), Denver, Colorado, provided deposits to be made into account 17x6875.1250 based on a percentage of the Navy's foreign military materiel shipments. The deposits were for payment of commercial parcel carrier expenses incurred against Navy appropriations for foreign military sales shipments. The Navy International Logistics Office (NAVILCO), Philadelphia, Pennsylvania, a NAVSUP field activity, has accounting responsibility for funds deposited under subhead .1250, allotment 976. We found no documentation authorizing the transfers of these funds. During fiscal years 1986, 1987, and 1988, NAVSUP transferred $22.5 million from the Suspense Account to its OMN account 17__1804, subhead .97SB (Appendix B).

We found no legal basis for the increases in the NAVSUP OMN budget authority described above. Budget authority is authority provided by law to enter into obligations that will result in immediate or future outlays or to collect offsetting receipts. In our opinion, the fund increase transactions and subsequent obligations and expenditures have violated appropriation funding statutes. U.S.C., title 31, section 1301, stipulates that appropriations shall be applied only to the objects for which the appropriations are made, except as otherwise provided by law. According to the provisions of U.S.C., title 10, section 2208, discussed earlier, the materiel credits used to generate the budget authority were not properly applicable to the NAVSUP accounts. For the excesses from plant clearance actions at the SUPSHIP's, the materiel should have been reutilized under the CIRS program, as required by the DFARS, and under procedures of the CIRS program, no financial credit is provided. Any credits under MRP procedures for this materiel should have reverted to the funding appropriation or its successor, primarily the SCN appropriation.

Necessary accounting adjustments may result in violations of U.S.C., title 31, subsections 1341(a) or 1517(a), which prohibit making or authorizing an expenditure or obligation exceeding an amount available in an appropriation, apportionment, or fund for the expenditure or obligation. DoD Directive 7200.1, "Administrative Control of Appropriations," requires that DoD officials to whom apportionments or administrative subdivisions of apportionments are issued shall use funds only for the purpose prescribed and not exceed funding authority, including any limitations, within or on that authority. The Directive also requires that DoD Components maintain adequate systems for accounting for, and controlling, appropriations and other funds that provide the necessary information for establishing responsibility if a violation of subsection 1341(a) or 1517(a) occurs. Apparent violations of subsections 1341(a) and 1517(a) are to be investigated and reports of actual violations are to be submitted to the head of the DoD Component concerned and to the Comptroller of the Deparment of Defense.

Review of Expenditures. To evaluate the propriety of expenditures involving the augmented accounts, we tested fiscal year 1988 expenditures under NAVSUP's appropriation 1781804, subhead .973R. We selected a stratified statistical sample of 248 expenditures totaling $20.3 million for review. The Navy Comptroller Manual, Volume II, shows that funds authorized under account 1781804, subhead .973R, are for supply operations. Appendix C lists the programs funded under appropriation 1781804, subhead .973R.

Our sample was taken from the cumulative total of 4,160 fiscal year 1988 expenditures totaling $31.7 million recorded on the May 24, 1989, Transaction History Report, which was produced from the STARS. The sample included document numbers representing contracts, work requests, travel orders, requests for

procurement, and miscellaneous procurement instrument numbers (Appendix D). Although funds from the materiel returns credits were not accounted for separately, they represented $10.9 million of the total $31.7 million in expenditures recorded under the subhead. Our sample showed that the $20.3 million was spent primarily on data processing equipment and services; equipment and building maintenance; and general goods and services, such as shelving units, window air conditioners, health club memberships, and printing services. The expenditures in our sample are categorized in Appendix E. All the expenditures where documentation was available, and that we reviewed, appeared to have been spent on authorized programs.

NAVSUP could not provide us with 60 of the 248 documents in our sample. The 60 documents, representing expenditures totaling $26,752, comprised 24 percent of the documents sampled, but only about .1 percent of the $20.3 million sample value (Appendix D). Of the 60 documents, 14, representing expenditures totaling $10,525, could not be traced to expenditure documents, and we attributed this to erroneous document numbers. The remaining 46 documents pertained to travel orders valued at $16,227. Our test included 100 travel orders valued at $33,278, and NAVSUP could not provide documentation showing that the related travel claims were filed for 46 travel orders or 46 percent of the travel documents sampled and 49 percent of the travel order sample value. The STARS Transaction History Report of May 24, 1989, showed that travel advances were outstanding on 14 of the 46 travel orders. Since we detected a lack of control over the travel order portion of our sample, we reviewed the STARS Transaction History Reports for fiscal years 1984 through 1988 to determine if our sample was indicative of the overall control of travel orders. We found that a total of 1,093 travel orders was outstanding with travel advances totaling $610,786. A list of the outstanding travel order numbers was provided to NAVSUP officials for their research. NAVSUP's travel control records for fiscal years 1986 through 1988 showed that the outstanding advances amounted to 12 percent of all travel obligations incurred under subhead account .973R (Appendix F). Navy Comptroller Manual, Volume III, paragraph 032106.f, requires fund administrators to monitor and liquidate outstanding travel advances and to notify commanding officers of travelers' failure to liquidate travel advances.

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Assistant Secretary of the Navy (Financial Management) review the accounting procedures used by the Naval Supply Systems Command to draw credits from DoD stock funds, and direct the Naval Supply Systems Command to discontinue the unauthorized augmentation of funds.

2. We recommend that the Commander, Naval Supply Systems Command, require that all plant clearance materiel turned over to the Intra-Fleet Supply Support Operations Program contractors be

inventoried and that the materiel be reported to the Defense Reutilization and Marketing Service Office for inclusion in the Contractor Inventory Redistribution System, in accordance with the Defense Federal Acquisition Regulation Supplement, subpart 245.608.70.

3. We recommend that the Commander, Naval Supply Systems Command, make appropriate adjustments for the fund augmentations, initiate an investigation to determine if violations of United States Code, title 31, subsections 1341(a) or 1517(a), have occurred and, if actual violations have occurred, prepare reports as required by DoD Directive 7200.1.

4. We recommend that the Commander, Naval Supply Systems Command, ensure that procedures are established and implemented to reconcile outstanding travel advances and collect funds due the Government.

MANAGEMENT COMMENTS

The Assistant Secretary of the Navy (Financial Management) stated that the Navy has been reviewing the findings in great detail, but because of the complexity of the issues, only preliminary comments could be provided at this time. The Assistant Secretary stated that, in general, he concurred with the findings in the report and offered the following preliminary comments. The materiel returns program provides a significant incentive for reutilization of excess materiel. The success of the program, however, is not a rationale for failure to comply with applicable statues or regulations, nor a lack of adequate internal control procedures. Existing excess property return procedures are not in compliance with the Defense Federal Acquisition Regulation, and a waiver from following these procedures will be requested. While the Navy accounting manual presently contains procedures for return of materiel, these procedures must be strengthened to ensure proper application of credits and more effective internal controls. Beginning in fiscal year 1989, NAVSUP ceased crediting its own OMN account. NAVSUP is also reviewing all transactions made during the period covered in the audit report and effecting all necessary accounting adjustments to ensure full compliance with legal requirements. NAVSUP has begun to ensure compliance with all requirements in the collection and liquidation of travel advances. The Assistant Secretary concluded that the Navy will continue to review these issues and will provide specific comments on each finding and recommendation at the conclusion of the review.

AUDIT RESPONSE TO MANAGEMENT COMMENTS

The Assistant Secretary's preliminary comments are noted. For recommendations concurred in, final comments to the report should describe the corrective actions taken or planned, the completion dates for actions already taken, and the estimated dates of completion of planned actions. DoD Directive 7650.3 requires

that all audit recommendations be resolved within 6 months of the date of the final report. Final comments should be provided within 60 days of the date of this report.

SUPSHIP 1/ ACTIVITIES TURNING OVER MATERIEL TO ISSOT 2/ LOCATIONS

LOCATION	TOTAL VALUE OF PLANT CLEARANCE MATERIEL	VALUE OF MATERIEL SENT TO ISSOT
Bath, ME	$ 6,332,190	$ 6,332,190
Charleston, SC	5,523,634	5,523,634
Newport News, VA	35,584,355	35,584,355
Pascagoula, MS	12,088,144	12,088,144
Seattle, WA	5,963,319	5,963,319
New Orleans, LA	589,093	589,093
Groton, CT	1,776,189	1,243,332 3/
San Francisco, CA	3,489,386	2,900,000 3/
Sturgeon Bay, WI	50,282	35,197 3/
Portsmouth, VA	13,699,222	6,849,611 3/
Jacksonville, FL	474,201	237,100 3/
Brooklyn, NY	230,377	2,304 3/
Boston, MA	293,150	0
Long Beach, CA	11,632,590	0
San Diego, CA	3,223,721	0
Totals	$100,949,853	$77,348,279

1/ Supervisor of Shipbuilding, Conversion and Repair
2/ Intra-Fleet Supply Support Operations Team
3/ Based on percentage estimates by SUPSHIP plant clearance officers.

CREDITS PROCESSED TO NAVSUP OMN 1/ ACCOUNTS

Fiscal Year	Appropriation 17_1804 Subhead Accounts .973R	.97SA	.97SB	Total
1984	$12,303,246	$ 0	$ 0	$ 12,303,246
1985	9,595,781	0	0	9,595,781
1986	9,668,748	11,617,034	4,953,262	26,239,044
1987	12,941,823	5,383,641	4,341,663	22,667,127
1988	10,997,257	13,472,647	13,248,953	37,718,857
1989 2/	4,195,241	1,099,287	0	5,294,528
Totals	$59,702,096	$31,572,609	$22,543,878	$113,818,583

1/ Naval Supply Systems Command Operations and Maintenance, Navy
2/ As of April 30, 1989

FISCAL YEAR 1988 NAVAL SUPPLY SYSTEMS COMMAND (NAVSUP) PROGRAMS FUNDED WITH APPROPRIATION 1781804.973R

Title
Command Supply Studies
Navy Supply Corps School
Training
Centralized Cooperative Education Program
Intra-Fleet Supply Support Operations Program
Aviation Depot Level Repairables
Navy Regional Data Automation Center
Navy Stock Fund Architecture
Standard Accounting and Reporting System
Procurement Management Systems
NAVSUP 0411 Timesharing
NAVSUP 045 Hardware Inventory Support
Automated Information Systems Documentation
Communication Lines
Automated Procurement and Accounting Data Entry
Centralized Accounting and Billing System
Automated Data Processing Security
Office Automation
Transportation of Personal Property
Navy Automated Management Information System
Transportation Coordination Automated Information for Move System
Servicewide Transportation Budget Automation
Transportation Management System
Automated Data Processing Systems Support
Worldwide Movement Command Control System
U.S. Naval Academy Research Chair
Facility Studies
Automated Materiel Handling System Engineering Support
Shop and Office Equipment
Major Maintenance and Repair Program
Incentive Awards
Catalog Program
Other Support
Bureau Directed Travel
Executive Development
Printing Costs
Navy Clothing and Textile Research Facility
Navy Communication Network
National Stockpile
Foreign Military Sales Administration

SUMMARY OF FISCAL YEAR 1988 DOCUMENTS SAMPLED

Type	Universe Number	Universe Value	Sample Number	Sample Value
Contracts	574	$19,509,650	70	$12,380,500
Work Requests	383	10,807,406	38	7,820,800
Travel Orders	2,859	1,193,489	100	33,300
Requests for Procurement	232	*	20	*
Miscellaneous	112	198,118	20	23,500
Totals	4,160	$31,708,663	248	$20,258,100

SAMPLE DOCUMENTS NOT PROVIDED

Type	Number	Value
Contracts	2	$ 1,389
Work Requests	2	1,344
Travel Orders	46	16,227
Requests for Procurement	1	*
Miscellaneous	9	7,792
Totals	60	$26,752

* No value shown on Standard Accounting and Reporting System reports.

SAMPLE OF FISCAL YEAR 1988 EXPENDITURES UNDER APPROPRIATION 171804.973R

Data processing and related services (personal computers and printers, computer support services)	$ 9,772,000
Maintenance (forklift repairs, roof repairs, asphalt and concrete work, fire protection repair, elevator replacement)	4,300,000
Goods and services (shelf units, window air conditioners, photo equipment, printing services, health club memberships)	3,867,000
Rewarehousing, electrical service upgrading, ISSOT* salaries, replenishment of specifications and standards	2,117,000
Construction of elevator at Naval Publications and Forms Center	69,400
Architectural and engineering services	62,500
Training (tuition)	13,400
Travel	33,300
Miscellaneous	23,500
Total sampled	$20,258,100

* Intra-Fleet Supply Support Operations Team

OUTSTANDING TRAVEL ADVANCES
APPROPRIATION 17 1804.973R
FISCAL YEARS 1984 THROUGH 1988

Fiscal Year	Number of Advances Outstanding	Amount Not Liquidated	Travel Obligations	Percent Not Liquidated
1984	165	$ 71,404	$ 1/	
1985	237	128,255	1/	
1986	264	141,613	1,388,896	10
1987	164	117,955	883,847	13
1988	263	151,559	1,115,107	14
Totals	1,093	$610,786	$3,387,850	
Totals for Fiscal Years 1986, 1987, and 1988				
	691	$411,127	$3,387,850	12

1/ Data were not available for fiscal years 1984 and 1985.

DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(FINANCIAL MANAGEMENT)
WASHINGTON, DC 20350-1100

3 4 MAY 1990

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR GENERAL FOR AUDITING

Subj: DRAFT REPORT ON THE AUDIT OF AUGMENTATION OF OPERATIONS AND MAINTENANCE FUNDS BY THE NAVAL SUPPLY SYSTEMS COMMAND (PROJECT NO. 8SL-0063.01)

The Department of the Navy (DON) is appreciative of the contribution made by the subject audit report in addressing a prior internal control weakness in the operation of the DON's material returns program. Since we believe this program has been highly successful at maximizing the return and reutilization of materials in the DON, we are concerned about any flaws in the program that might impede the accomplishment of these objectives. We believe that our program has been successful because we have addressed the weak link which exists in any returns program, which is the lack of incentive for compliance by those holding excess material. To overcome this weakness, the Congress passed legislation providing for credit for returns to stock, and through the authority of this statute, the DON established its material returns program. I am sure you agree that programs such as these are even more vital in the current and future financial situations which the Department of Defense (DOD) will encounter.

The success of this program, however, does not provide a rationale for failure to comply with applicable statutes or regulations, nor a lack of adequate internal control procedures. The Department has been reviewing the findings contained in the audit in great detail. Because of the complexity of these findings, we can only provide preliminary comments at this time. Nevertheless, at this point in our review, it has become clear that the Department erred, perhaps from an excess of zeal, in some aspects of administering the material returns program.

In general, we concur with the findings in this report and offer the following preliminary comments.

- We agree the excess property returns procedure is not in compliance with Defense Federal Acquisition Regulations (DFAR). We will request a waiver for the practice from the DFAR Committee.

- While our accounting manual presently contains procedures for return of materials, these procedures must be strengthened to ensure proper application of credits for returns and direct the implementation of more effective internal controls.

Subj: DRAFT REPORT ON THE AUDIT OF AUGMENTATION OF OPERATIONS AND MAINTENANCE FUNDS BY THE NAVAL SUPPLY SYSTEMS COMMAND (PROJECT NO. 8SL-0063.01)

- The Naval Supply Systems Command ceased, beginning in FY 1989, crediting its own O&MN account. NAVSUP is also reviewing all transactions made during the period of the audit report and effecting all necessary accounting adjustments to ensure full compliance with 31 U.S.C. 1301(a) and 31 U.S.C. 1517.

- The Naval Supply Systems Command has begun to ensure compliance with all requirements to correct the deficiency in the collection and liquidation of travel advances.

The Department will continue to review these issues and will provide you specific comments on each finding and recommendation at the conclusion of this review.

Robert C. McCormack

ROBERT C. MCCORMACK

Copy to:
NAVINSGEN
NAVCOMPT (NCB-53)

SUMMARY OF POTENTIAL MONETARY AND OTHER BENEFITS RESULTING FROM AUDIT

Recommendation Reference	Description of Benefits	Amount and/or Type of Benefit
1.	Direction to discontinue unauthorized augmentation of operations and maintenance funds.	Monetary benefits were not quantifiable at the time of our audit. Improved management control of appropriated funds.
2.	Inventory plant clearance materiel in possession of contractor and have it reported under the Contractor Inventory Redistribution System.	Monetary benefits not quantifiable. Improved management control and accountability over over Government-owned property.
3.	Adjust accounts, investigate to determine if fund violations have occurred and report violations of funding statutes.	Monetary benefits not quantifiable. Adjustments will return funds to proper accounts. Reports of violations will alert management of an internal control weakness.
4.	Establish procedures to ensure outstanding travel advances are reconciled and excess advances are collected.	Monetary benefits not quantifiable. Increased control over travel funds and collection of funds due the Government.

ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Office of the Comptroller of the Department of Defense, Washington, DC

Department of the Navy

Office of the Assistant Secretary of the Navy (Shipbuilding and Logistics), Washington, DC
Office of the Inspector General, Washington, DC
Office of the Comptroller, Washington, DC
Naval Sea Systems Command, Washington, DC
Naval Supply Systems Command, Washington, DC
Fitting Out and Supply Support Assistance Center, Norfolk, VA
Intra-Fleet Supply Support Operations Teams:
- Bremerton, WA
- Charleston, SC
- Mayport, FL
- Oakland, CA
- Philadelphia, PA
- Portsmouth, VA
- San Diego, CA

Supervisors of Shipbuilding, Conversion and Repair, USN:
- Bath, ME
- Boston, MA
- Brooklyn, NY
- Charleston, SC
- Groton, CT
- Jacksonville, FL
- Long Beach, CA
- Newport News, VA
- New Orleans, LA
- Pascagoula, MS
- Portsmouth, VA
- San Diego, CA
- San Francisco, CA
- Seattle, WA
- Sturgeon Bay, WI

Navy Ships Parts Control Center, Mechanicsburg, PA
Naval Publications and Forms Center, Philadelphia, PA
Navy Regional Finance Center, Washington, DC
Navy Accounting and Finance Center, Washington, DC
Naval Regional Contracting Center, Washington, DC
Naval Data Automation Center, Washington, DC
Naval Publications and Printing Service, Washington, DC
Naval Office of Technology Transfer and Security Assistance, Washington, DC
Naval Air Development Center, Warminster, PA
Fleet Materiel Support Office, Mechanicsburg, PA

Defense Logistics Agency

Defense Contract Administration Services Region, Philadelphia, PA

AUDIT TEAM MEMBERS

Donald E. Reed, Director, Logistics Support Directorate
Charles F. Hoeger, Program Director
Joseph P. Golden, Project Manager
John Yonaitis, Auditor
John W. Henry, Auditor
Alexander L. McKay, Auditor

FINAL REPORT DISTRIBUTION

Office of the Secretary of Defense

Comptroller of the Department of Defense
Assistant Secretary of Defense (Production and Logistics)

Department of the Army

Auditor General, U.S. Army Audit Agency

Department of the Navy

Secretary of the Navy
Assistant Secretary of Navy (Financial Management)
Comptroller of the Navy
Auditor General, Naval Audit Service

Department of the Air Force

Auditor General, Air Force Audit Agency

Defense Agencies

Director, Defense Logistics Agency
Director, Defense Contract Audit Agency
Director, Defense Logistics Studies Information Exchange

Non-DoD Activities

Office of Management and Budget
U.S. General Accounting Office, NSIAD Technical Information Center

Congressional Committees:

Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committtee on Governmental Affairs
Senate Ranking Minority Member, Committee on Armed Services
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Ranking Minority Member, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on Government Operations