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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

DIVISION OF FINANCIAL AND  
GENERAL MANAGEMENT STUDIES

B-159797

The Honorable Hans M. Mark  
The Secretary of the Air Force

Dear Mr. Secretary:

Subject: Review of the Air Force Civil Engineer  
Cost Accounting System (FGMSD-80-18)

We have reviewed the Air Force Civil Engineer Cost Accounting System at Travis Air Force Base, California, and are pleased to inform you that the system is operating substantially in conformance to the GAO-approved system design. We noted, however, that internal controls over residual material transfers could be improved. Further, Civil Engineer officials at the base level could improve their management of personnel resources by analyzing indepth any significant differences between planned and actual labor hours on civil engineer projects as shown on computer-generated system reports. This will be the subject of a report to be issued shortly to the Secretary of Defense.

We also reviewed the Air Force Audit Agency's 1977 audit of this system at Travis Air Force Base and found that the scope of the audit was inadequate. The audit work was insufficient to conclude whether the system was operating in conformance to the GAO-approved system design. Since this is a standard system and has been implemented at about 119 installations worldwide, we believe it was especially important that the Audit Agency adequately review it to ensure that the system was implemented in accordance with the approved design.

SCOPE OF REVIEW

We reviewed Department of Defense Instructions and Air Force manuals and regulations, interviewed officials, performed test checks, traced transaction flows, and performed other audit routines as necessary to accomplish our objectives. We also interviewed Defense and Air Force headquarters officials to discuss policies and procedures and other related matters.

NOVEMBER 30, 1979

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ACQUISITIONS

SYSTEM IN OPERATION SUBSTANTIALLY  
CONFORMS TO APPROVED DESIGN BUT  
CAN BE IMPROVED

The Civil Engineer Cost Accounting System is generally providing accurate cost data to management users, although, as noted above, several reports dealing with labor-hour variances are not being used effectively. The system's internal controls are adequate, except that controls over residual material transactions could be improved by providing for a reconciliation to verify that costs are recorded correctly.

To determine whether the system conformed to the GAO-approved system design and provided accurate management reports, we evaluated the system's internal controls and performed reliability tests on selected reports and computer edits. The system's internal controls generally provided for safeguarding assets and maintaining reliable financial records.

To verify the accuracy of Civil Engineer completed work order cost reports, we checked labor-hour charges and material charges from selected reports against supporting documentation. Also, we verified selected actual labor costs from the shop rate analysis reports against the Accounting and Finance System's accrued payroll. The only significant discrepancies were between supporting documentation and material charges.

We examined 13 completed work order cost reports and found that in 5, the reported residual material costs were not supported by source documents. The chief of material control did not know why these discrepancies occurred and stated that if a material transfer document were not recorded, it could go undetected because source documents are not reconciled to the daily material transaction listing.

Base Civil Engineer officials acknowledged that controls over the cost of residual material transferred from the holding area to work orders were weak and could be improved. To assure that residual material costs are reported accurately in the completed work order cost reports, internal controls over residual material transfers should be strengthened.

AIR FORCE AUDIT OF THE  
SYSTEM WAS INADEQUATE

The scope of the Air Force Audit Agency's 1977 audit of the Civil Engineer Cost Accounting System at Travis Air Force Base was inadequate. The centrally developed audit program was of limited scope and authorized only 15 days to fully document whether the system was operating properly. As a

result, the Audit Agency's conclusion that the system conformed to the system design approved by GAO was not adequately supported.

The Audit Agency's office at the air base was directed to determine whether the Civil Engineer Cost Accounting System conformed to the GAO-approved system design, and whether the accounting system provided effective control over activity resources. The centrally developed audit program that was provided to base Audit Agency officials, however, severely limited their audit scope and did not allow sufficient time to perform a thorough audit.

The audit program directed that no verifications be made of recorded financial data or the accuracy of system products and records and that no tests be made of internal controls to insure that they are in effect and functioning properly. Consequently, the audit work, which was completed in 11 staff-days, included only a review of system documentation and interviews with base Civil Engineer officials. No tests were made to insure that regulations were implemented properly, internal controls and computer edits were operating properly, and that system products were accurate.

Base Audit Agency officials agreed that, as a result of the constraints, their audit resulted in only a general overview of the system, and the audit scope was not sufficient to determine whether the system was in compliance with the GAO-approved system design.

The Air Force Audit Agency official responsible for service-wide systems said the reviews of GAO-approved system designs are limited in scope because they are generally done as an add-on to a full-scale system audit. Therefore, persons assigned to review the GAO-approved system design worked on the full-scale system audit, and thus are very familiar with the implemented system. Now they need only familiarize themselves with the GAO-approved design to assure compliance. Consequently, only a few staff-days and very little documentation are required.

At Travis Air Force Base, however, the review of the GAO-approved system design was not done in conjunction with a full-scale system audit, and the workpapers made no reference to any prior work which would have supported their conclusions. Therefore, the necessary audit work was not done to support their conclusion that the system was operating in conformance to the GAO-approved system design.

We believe it was very important that the internal audit encompass sufficient scope to ensure that the system was implemented in accordance with the GAO-approved design, because the Civil Engineer Cost Accounting System is a standard system which has been implemented at about 119 installations worldwide. Further, in fiscal 1978, the system accounted for about \$2 billion in civil engineer projects.

### CONCLUSIONS

The Air Force has implemented the Civil Engineer Cost Accounting System at Travis Air Force Base substantially in conformance to the GAO-approved system design. However, residual material costs may not be accurately reported in cost reports, because the internal controls for recording costs of residual material transferred to and from work orders are weak.

The scope of the Air Force Audit Agency's review of the Civil Engineer Cost Accounting System and the 15 days authorized to complete it were inadequate. If not done in conjunction with a full-scale system audit, reviews of approved accounting systems in operation--in addition to verifying conformance with an approved system design--should include a review and evaluation of internal controls, limited reconciliations of final products with supporting documentation, and limited computer edit tests.

### RECOMMENDATIONS

We recommend that you:

- Require that internal controls over the cost of residual material transferred from the holding area to work orders, and the flow of material source documents, be improved at Travis Air Force Base.
- Advise the Air Force Audit Agency to expand the scope of its reviews of GAO-approved accounting systems in operation when they are not done in conjunction with full-scale system audits.

The contents of this report were discussed with officials of the Departments of Defense and the Air Force. Their comments were considered in the final preparation of this report.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the

B-159797

Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report. We would appreciate receiving copies of these statements.

We are sending copies of this report to the Director, Office of Management and Budget; to the Chairmen, House Committee on Government Operations, Senate Committee on Governmental Affairs, and House and Senate Committees on Appropriations and Armed Services; and to the Secretary of Defense.

Sincerely yours,

A handwritten signature in black ink, appearing to read "D. L. Scantlebury". The signature is written in a cursive style with a long, sweeping underline that extends to the right.

D. L. Scantlebury  
Director

**END**