Text as published on gao.gov, https://www.gao.gov/products/b-126405, archived 2026-08-26. GAO published no original file for this decision. Rendered by Comptroller Desk.

B-126405, May 21, 1957

Number: B-126405

Date: 1957-05-21

B-126405, MAY 21, 1957

TO THE SECRETARY OF DEFENSE:

IN OUR REVIEW OF ACTIVITIES OF THE DEPARTMENTS OF THE ARMY AND THE NAVY, WE HAVE OBSERVED MANY INSTANCES WHERE PROJECT ORDERS ARE IMPROPERLY USED AND WHERE THIS TECHNIQUE HAS LED TO DEFICIENCIES IN EFFECTIVE FINANCIAL ADMINISTRATION AND TO UNECONOMICAL PRACTICES.

THE UNDESIRABLE PRACTICES WHICH ARE INVOLVED IN THE USE OF PROJECT ORDERS FALL GENERALLY INTO THE FOLLOWING TWO CATEGORIES WHICH WE RECOGNIZE AS REPRESENTING EXTREMES IN THE DEGREE OF SPECIFICITY OF PROJECT ORDERS IN DEFINING WORK TO BE PERFORMED.

1. IN MANY INSTANCES, PROJECT ORDERS ARE USED AS OBLIGATING DOCUMENTS EVEN THOUGH THEY ARE STATED IN SUCH BROAD TERMS THAT THEY FAIL TO PROVIDE A VALID BASIS FOR OBLIGATION. THEY LIKEWISE DO NOT PROVIDE THE PERFORMING ACTIVITIES WITH SUFFICIENT DATA FOR A CLEAR UNDERSTANDING OF THE SPECIFIC WORK TO BE ACCOMPLISHED. THIS CONDITION WAS NOTED IN CONNECTION WITH THE MODIFICATION AND ALTERATION PROGRAM OF THE BUREAU OF SHIPS. THE BUREAU ISSUES ONE PROJECT ORDER TO EACH OF ITS 11 SHIPYARDS, LISTING THE SPECIFIC SHIPS TO BE ALTERED OR RENOVATED. HOWEVER, THE SPECIFIC WORK TO BE PERFORMED ON EACH SHIP IS SUBJECT TO INDIVIDUAL APPROVAL REQUIRING NUMEROUS AMENDMENTS TO THE PROJECT ORDER AT A LATER DATE. SIMILAR CONDITIONS WERE NOTED IN THE USE OF PROJECT ORDERS IN THE SHIP REPAIR PROGRAM AND IN THE PROGRAM OF THE BUREAU OF ORDNANCE FOR THE MANUFACTURE AND RENOVATION OF EXPLOSIVES. UNDER SUCH CONDITIONS, PROJECT ORDERS CAN BE CONSIDERED ONLY AS BROAD ESTIMATES FOR PLANNING PURPOSES AND DO NOT HAVE THE SPECIFIC CHARACTERISTICS REQUIRED TO PROVIDE VALID OBLIGATING DOCUMENTS OR EFFECTIVE WORK DIRECTIVES.

2. IN OTHER INSTANCES, PARTICULARLY IN CONNECTION WITH INDUSTRIALLY FUNDED OPERATIONS OF THE DEPARTMENT OF THE ARMY, PROJECT ORDERS ARE ISSUED FOR SMALL SEGMENTS OF THE WORK TO BE DONE. SINCE COST ESTIMATES PLACED ON THESE ORDERS BECOME FUND LIMITATIONS UNDER THE PROVISIONS OF DEPARTMENT OF DEFENSE INSTRUCTIONS DATED JULY 7, 1955, UNREALISTIC FUND RESTRICTIONS ARE PLACED ON THE PERFORMING ACTIVITIES. IN ORDER TO PRECLUDE VIOLATIONS OF SECTION 3679 OF THE REVISED STATUTES BY EXCEEDING THE FUND LIMITATIONS ESTABLISHED, THE FOLLOWING PRACTICES ARE USED FREQUENTLY:

(A) COST ESTIMATES FROM WHICH PROJECT ORDER AMOUNTS ARE DETERMINED ARE PURPOSELY OVERSTATED.

(B) WORK IS STOPPED WHILE A REQUEST IS MADE FOR INCREASED FUNDS, OFTEN IN

INSIGNIFICANT AMOUNTS. SUCH STOPS AND STARTS OF WORK GENERALLY INCREASE THE COST OF COMPLETING THE JOB, AND WE KNOW OF NO INSTANCE WHERE ADDITIONAL FUNDS WERE REFUSED.

(C)COSTS ARE ARBITRARILY APPLIED TO PROJECTS WITHOUT REGARD TO THE PROPRIETY OF SUCH CHARGES WHERE LIMITATIONS WOULD BE EXCEEDED IF PROPERLY APPLIED.

WE HAVE FOUND THAT, WHENEVER PROJECT ORDERS ARE SUFFICIENTLY SPECIFIC TO PROVIDE A CLEAR UNDERSTANDING BETWEEN ORDERING AND PERFORMING ACTIVITIES AND REPRESENT VALID OBLIGATING DOCUMENTS, THEIR USE AS A FUNDING DEVICE RESULTS IN A MULTIPLICITY OF FUND AND OBLIGATION LIMITATIONS. AS A CONSEQUENCE, INSUFFICIENT ATTENTION OF MANAGEMENT AND OPERATING OFFICIALS IS BEING GIVEN TOWARD THE OBJECTIVE OF EFFECTIVELY CONTROLLING COSTS AND WORK PROGRAMS.

TO DISCOURAGE SUCH ABUSES IN THE USE OF PROJECT ORDERS, AND TO PROMOTE THE GREATER USE OF OPERATING BUDGETS ON A COST BASIS AS AN INTEGRAL PART OF A SOUND FINANCIAL MANAGEMENT SYSTEM, WE OFFER THE FOLLOWING SUGGESTIONS:

1. ORDERING AGENCIES SHOULD BE REQUIRED TO FURNISH PERFORMING ACTIVITIES WITH PLANNING DATA TO BE USED AS A BASIS FOR THE DEVELOPMENT OF OPERATING BUDGETS WHICH CAN BE FINALIZED OR REVISED WHEN MORE SPECIFIC WORK REQUIREMENTS ARE DETERMINED. THE IMPORTANCE OF TIMELINESS IN FURNISHING BOTH ADVANCE PLANNING DATA AND SUBSEQUENT DIRECTIONS FOR SPECIFIC WORK TO BE PERFORMED SHOULD BE STRESSED.

2. PRESENT REGULATIONS SHOULD BE AMENDED TO PROVIDE THAT THE USE OF PROJECT ORDERS AS OBLIGATING DOCUMENTS DO NOT CONSTITUTE FUND LIMITATIONS WITHIN THE MEANING OF SECTION 3679 OF THE REVISED STATUTES. WE BELIEVE THIS CAN BE ACCOMPLISHED IN ONE OF TWO WAYS.

(A) FUND LIMITATIONS COULD BE ESTABLISHED BY ORDERING ACTIVITIES IN TOTAL FOR LIKE WORK PLANNED TO BE DONE AT EACH PERFORMING ACTIVITY ON THE BASIS OF THE RELATED OPERATING PROGRAM DEVELOPED BY THE PERFORMING ACTIVITY. PROJECT ORDERS WITH TARGET COST ESTIMATES WITHIN THIS TOTAL LIMITATION COULD THEN BE ISSUED AS WORK DIRECTIVES AND OBLIGATING DOCUMENTS FOR SPECIFIC WORK SEGMENTS IN THE SAME TERMS AS THE PHYSICAL WORK IS CONTROLLED.

(B) PROJECT ORDERS COULD BE ISSUED FOR SPECIFIC WORK SEGMENTS IN THE SAME TERMS AS THE PHYSICAL WORK IS CONTROLLED BUT AT A FIXED PRICE IN THOSE AREAS WHERE ACTUAL COST CAN REASONABLY BE ESTIMATED. UNDER THIS PROCEDURE, MINOR VARIATIONS WILL BE ABSORBED BY THE APPROPRIATIONS OF FUNDS OF THE PERFORMING ACTIVITY.

3. PROJECT ORDER REGULATIONS SHOULD BE ENFORCED TO ASSURE THAT SUCH ORDERS ARE ISSUED ONLY IN TERMS OF THE SPECIFIC WORK ACTUALLY TO BE PERFORMED.

WE WILL APPRECIATE RECEIVING YOUR COMMENTS ON THESE SUGGESTIONS AT AN EARLY DATE.