Text as published on gao.gov, https://www.gao.gov/products/b-236940, archived 2026-07-10. GAO published no original file for this decision. Rendered by Comptroller Desk.

B-236940 October 17, 1989

Number: B-236940

Date: 1989-10-17

B-236940 October 17, 1989

The Honorable John P. Murtha Chairman, Subcommittee on Defense Committee on Appropriation House of Representatives

Dear Mr. Chairman:

By letter dated September 6, 1989, you asked for our opinion on the legality of Air Force transfers from the "M" accounts to the Air Force Stock Fund. As you advised, the Air Force already has withdrawn $133 million from the "M" accounts for aircraft fuel sold to, but not paid for by, its customers in fiscal years 1981 to 1985. In addition, we understand that the Air Force has made a similar adjustment to the "M" accounts to recoup approximately $105 million for losses suffered in fiscal year 1986 and prior fiscal years. Because of time constraints, we were not able to obtain Air Force's official views on the issue you raise as we customarily do when developing our legal position.

At the end of an appropriation's period of availability for obligation, normally 1 or 2 fiscal years, the unobligated balance reverts to the Treasury, were, for 2 fiscal years, fiscal year identity. After 2 fiscal years, the balance loses its fiscal year identity and is transferred to the merged surplus authority accounts which accumulate unobligated balances for appropriations for the same general purpose.

Similarly, an appropriation's obligated balance retains its fiscal year identity for 2 years after the expiration of the appropriation's period of availability, after which the unliquidated (unpaid) obligated balances are transferred to the merged or "M" accounts that are maintained without fiscal year identity for appropriations for the same general purpose.

When an agency identifies an obligation that should have been recorded in a prior year against an appropriation that has been transferred to merged surplus authority, it may use amounts in the merged surplus authority, it may use amounts in the merged surplus authority account to cover the obligation. The newly obligated amounts are transferred to the "M" account where they remain available to liquidate the obligation. Thus, the Air Force claims to have identified obligations owed the Stock Fund by stock fund customers that were not properly recorded in prior years, and on that basis has used amounts in the merged surplus account to cover these obligations. Once the amounts are transferred to the "M" account to cover these obligations, the amounts then can be transferred to the stock fund is a revolving fund, 10 U.S.C. Secs. 2205, 2208, once the funds are transferred to it, they are available to fund current Stock Fund operations.

Section 1552(a) (2) of title 31, United States Code, specifically authorizes the head of an agency to restore funds from the merged surplus account to the "M" account to pay previously unrecognized and unrecorded prior year obligations. However, the obligation must be supported by documentary evidence at the time the obligation is recorded. 31 U.S.C. Section 1501. In our opinion, the obligations charged to the "M" accounts of Stock Fund customer appropriations by documentary evidence as required by 31 U.S.C. Sec. 1501. Accordingly, we do not view these as valid obligations that may be restored to the "M" accounts pursuant to 31 U.S.C. Sec. 1552(a)(2). Moreover, given the nature of the Air Force Stock Fund's pricing policy, the intra-agency nature of these transactions, and the absence of other indicia of reliability supporting the amount of losses claimed by the Stock Fund, we think the Air Force should have exercised the discretion inherent in 31 U.S.C. Sec. 1552(a)(2) and not restored these amounts to the "M" accounts for transfer to the Stock Fund.

Accordingly, for the above reasons, and as explained in more detail in the enclosed analysis, the Air Force should reverse the 1981-1986 adjustments to the "M" accounts. With the exception of obligations owed the Stock Fund for the period from April 1988 to March 1989 that were validated by the Air Force Audit Agency audit, the Stock Fund should write-off all other claimed accounts receivable for fuels for the period from the beginning of fiscal year 1981 through March 1988.

Sincerely yours,

MILTON J. POOLAR Comptroller General of the United States

Enclosure

RESTORATION OF FUNDS TO THE AIR FORCE STOCK FUND PURSUANT TO 31 U.S.C. Sec. 1552(a)(2) TO RECOVER CLAIMED FUEL SALES LOSSES

BACKGROUND

Air Force Stock Fund

The Air Force Stock Fund (Stock Fund) is a form of working capital fund established by the Department of Defense (DOD) under the authority of 10 U.S.C. Sec. 2208 (1988). The Fund acts as a central source of supply for inventory items and goods commonly used by Air Force components. The Stock Funds operates as a self-sustaining revolving fund, with a corpus of cash from sales, holding the stock until sold, then purchasing more stock to replenish inventory. Conceptually, the Stock Fund must be conducted on a current, full reimbursement basis, experiencing neither a gain nor a loss. B-181714-O.M., January 3, 1975.

The Air Force Stock Fund establishes standard prices for inventory items that generally remain constant throughout a fiscal year. DOD Regulation 7420.13-R, Stock Fund Operations, ch. 4, p. 4-1 (June 1986); DOD Regulation 7110-1M, Budget Guidance Manual, p. 293-9 (July 1985). Stock Fund prices generally reflect an item's acquisition cost plus a surcharge, the presence, or amount of which, varies according to the division of the Stock Fund making the sale. We have been informally advised that of the six Stock Fund divisions, the Commissary and Fuels divisions have no surcharge added to their prices; three divisions only add a partial surcharge covering Fund management costs but not price stabilization; and the sixth, Systems Support Division (SSD), adds a full

surcharge to the prices of its goods.

The full surcharge consists of several elements to cover transportation costs, inventory expenses /2/ and maintenance, and price stabilization. DOD Regulation 7420.13-R, above, at pp. 4-1 to 4-2. The Air Force sets the surcharge at the end of one fiscal year to take effect at the beginning of the second fiscal year following the close of the fiscal year in which the surcharge is set. The price stabilization element is designed to cover anticipated inflation or deflation, to adjust for prior years gains or losses and refunds to customers, and to maintain the approved level of funds with Treasury and consistency with the budget for DOD customers. Id. at 4-2. Although the surcharge consists of several discrete elements, the DOD regulation makes clear that the surcharge's ultimate purpose is to maintain an approved level of funds with Treasury and consistency with customer budgets. Id. at 4-1. Generally, the Air Force established the surcharge to obtain 11 days of operating funds.

Over the past 5 years, the Stock Fund has refunded over $1 billion to customer accounts. For example, in fiscal years 1984 and 1985, the Stock Fund had accumulated large operating cash balances in excess of 11 days cash, apparently because of higher than realized inflation factors, successful reduction in acquisition costs, and other factors. In fiscal years 1984, 1985 and 1986, the Stock Fund refunded, with varying levels of congressional involvement and approval, /3/ approximately $663 million, reducing to Stock Fund's operating cash balances, after refunds, to 17, 21 and -2 cash equivalent days, respectively. Similarly, in fiscal years 1987 and 1988, the Stock Fund refunded approximately $401 million to customer accounts, reducing its operating cash balances to 2 and 0 cash equivalent days, respectively. /4/

ACCOUNTING AND BILLING FUEL SALES

At the beginning of fiscal year 1981, the Air Force implemented a new billing system for fuels, the Aviation Fuel Management Accounting System (AMAS). The Air Force designed AMAS to supply Air Force bases with the information needed to induce fuel conservation while, at the same time, recording account information more quickly and accurately than the prior billing system. Unfortunately, information was not entered or processed accurately in AMAS. As a result, AMAS apparently failed to record or bill million or dollars of fuel sales annually.

Air Force officials acknowledged the losses generated by the use of AMAS late in 1987. Though the losses had occurred since fiscal year 1981, the Air Force advises that they were not identified sooner because inadequate staffing did not permit the Air Force Accounting and Finance Center to periodically reconcile AMAS billings to sales reported by the stock fund accounting system. In addition, we were informally advised that since the amount of fuel sold but not billed in the early years (fiscal years (1981- 85) consistently hovered around 1 percent of total annual fuel sales, the losses did not catch the attention of Air Force managers even though there had been indications that AMAS was not functioning as it should have. Although losses reached 2 percent in fiscal year 1986, it was not until the end of fiscal year 1987, when the losses averaged 4 percent, that the Air Force became sensitive to the need to examine whether AMAS was functioning properly. In December 1987, the Finance Center concluded that AMAS had understated billings by over $133 million in its first 5-years of operation.

To ascertain the extent of the understated billings, the Finance Center

reconciled the AMAS billings to the sales records generated by the stock fund accounting system. In carrying out the reconciliation, the Finance Center relied on trial balances contained in the stock fund accounting system for fiscal years 1981 to 1986 to establish the existence of accounts receivable. The Finance Center could not trace the accounts receivable recorded in the stock fund accounting system back to original transactions because the Air Force destroys source documents after 1 year. See Air Force Regulation 12-50, Volume II, "Disposition of Air Force Records: Records Disposition Standards," (October 30, 1987). These trial balances reflect monthly fuel sales to user accounts reported to the Finance Center by Air Force installations although they were not intended to be used for billing purposes.

During 1989, the Air Force asked the Air Force Audit Agency (AFAA), among other things, to validate reported Stock Fund accounts receivable. The AFAA draft report, currently under Air Force review, has concluded that the accounts receivable reflecting the unbilled fuel sold are accurate, valid, and supported. As we understand their methodology, the AFAA examined the reporting of sales transactions from April 1, 1988 to March 31, 1989, at 20 Air Force bases and the posting of such information to Finance Center accounts. The AFAA found that the stock fund accounting system for the period from April 1, 1988 to March 31, 1989, was at least 99.96 percent accurate in reporting fuel sales and that the system's internal controls were working. The AFAA inferred from its review of 1988 and 1989 fuel sales that the stock fund accounting system was similarly accurate for prior fiscal years. Accordingly, the AFAA draft report concludes that the difference between the cost of the fuel recorded as sold in the stock fund accounting system and the cost of the fuel reported as billed and paid for in fiscal years 1981-1989 represent valid accounts receivable that the Air Force should collect. /5/

After recognizing the claimed losses, the Air Force considered its options, deciding in January 1988 to restore merged surplus authority to customer's "M" accounts and to credit this amount to the Stock Fund to cover the fiscal years 1981-1985 losses. We have been advised informally that on September 26, 1989, the Air Force made a similar adjustment to the "M" accounts to recoup approximately $105 million for losses suffered in fiscal year 1986 and prior fiscal years.

ANALYSIS

Restoration to the "M" Accounts

The appropriation balances in the merged surplus authority for Stock Fund customer accounts remain available for restoration to the "M" accounts to cover valid obligations incurred but not recorded or reported for the time period in question, fiscal years 1981 to 1986. See GAO Policy and Procedures Manual For Guidance of Federal Agencies, title 7, ch. 6, Secs. 23, 25. /6/ See also B-17908-O.M., June 24, 1975.

The pertinent statute authorizes a restoration to the "M" account under the following circumstances:

"When the head of the agency decides that part of a withdrawn unobligations and make adjustments, that part may be restored to the appropriate account." 31 U.S.C. Sec. 1552(a)(2) (1982).

As noted earlier, once the amount is restored to the "M" accounts of the stock fund customers, it is available to reimburse the Stock Fund for the cost of the fuel sold but not previously paid for by the fuel customers. Since the Stock Fund operates as a revolving fund, amounts withdrawn from the "M" accounts and credited to the Stock Fund as payment for fuel sold by the Stock Fund would become available to meet the current operating needs of the Fund. See 10 U.S.C. Sec. 2205, 2208.

The authority contained in 31 U.S.C. Sec. 1552(a)(2) to restore unobligated balances to the "M" account turns on a determination by the head of an agency that the restoration "is required to pay obligations." Thus, the statute affords the agency head some discretion to decide whether of not to restore unobligated funds to the "M" account, particularly where, as here, no legal liability to third parties outside the government is directly involved. Although the term "obligations," as used in 31 U.S.C. Sec. 1552 (a), is board enough to include valid intra-agency liabilities, we do not think that a restoration of previously unobligated funds to the "M" account for the purpose of paying an intra- agency debt "is required," especially in these circumstances.

Moreover, the claimed accounts receivable do not satisfy the requirements for an "obligation" for purposes of 31 U.S.C. Secs. 1501 and 1552. For appropriation accounting purposes, an amount can be recorded as an "obligation" only when supported by documentary evidence. 31 U.S.C. Sec. 1501. One may argue that at the time these "obligations" arose adequate documentation to support the underlying transactions between the Stock Fund and the customers existed, and hence that 31 U.S.C. Sec. 1501 was satisfied. We think such an argument is misfocused, however. For purposes of 31 U.S.C. Sec. 1501, adequate documentation must support the existence of the obligation at the time it is recorded as such. Because of the lapse of time and the nonavailability of the original documentation, it is no longer possible to determine whether or not the accounts receivable balances shown in the stock fund accounting system for the period from the beginning of fiscal year 1981 through March 1988 were adequately supported and otherwise valid. Moreover, since the Stock Fund relied on AMAS to bill customer accounts for fuel sales, Stock Fund customer never had an opportunity to dispute the accounts receivable amounts recorded in the stock fund accounting system at a time when supporting documents were readily available and any discrepancies could have been resolved.

It is in this context that the present inability of the Air Force to identify the putative accounts receivable to underlying transactions is significant. Indeed, the absence of supporting documentation of underlying transactions and the administrative difficulty of recreating such transactions takes on added significance because, as we suggested earlier, the secondary evidence of such transactions, i.e., the trial balances or accounts receivable, wee not subjected to the rigors inherent in billing the customer appropriation accounts during the appropriations' period of availability.

Nor do we think that the AFAA's review of the accounts receivable for the period from the beginning of fiscal year 1981 up through March 1988 can cure the documentary deficiencies. AFAA could not review transactions prior to April 1988 because source documents were not available, nor, to our knowledge, could it adequately supplement its review with other analytical tests relating to the period from the beginning of fiscal year 1981 through March 1988. Therefore, we do not believe that the AFAA audit results for a one year period can be used as a basis to conclude that the accounts receivable balances for the earlier 7 year

period were valid. We have similar concerns with the ability to opine on the adequacy of the stock funds accounting system's internal controls during this period. For example, the booked but unbilled accounts receivable increased from 120 million in fiscal year 1981 to $484 million in fiscal year 1982. Air Force officials were not able to explain this fourfold increase. Again, because of the lack of supporting documents, the AFAA could not verify beginning accounts receivable. Additionally, the presence of large outstanding accounts receivable for long periods of time in and of itself, leads to questions about the adequacy of the internal controls during this period.

Accordingly, considering the relevant auditing standards /7/ and the limited scope of the AFAA review, we do not believe that the AFAA audit results could be used by the Air Force to provide reasonable assurance of the validity of the accounts receivable balances for the fiscal years not examined.

We have taken a similar view of previous Army and Air Force adjustments to their "M" accounts. In fiscal year 1984, the Army and Air Force made significant adjustments to their merged surplus accounts to buy out stock fund pipeline orders to implement a change in stock fund accounting policy. /8/ To calculate the obligational amount to restore to the "M" accounts from the merged surplus accounts, the Air Force and Army developed percentage factors derived statistically from an analysis of the then-existing pipeline orders. They then applied these factors to two prior year-end obligational balances to establish the obligational amounts to restore to the "M" accounts. Just as in the present case, the Army and Air Force adjustments made a substantial amount, $563 million, available to fund current operations.

We objected to the adjustments because the use of statistical factors or assumptions to establish and adjust prior year obligations did not comport with the documentation requirements of 31 U.S.C. Sec. 1501. We explained our position as follows:

"In order to record an obligation against an appropriation, 31 U.S.C. 1501, 'Documentary Evidence Requirement for Government Obligations,' requires documentary evidence of an agreement or order placed during the period of availability for obligation of an appropriation. The use of statistical methods to estimate and adjust recorded obligations lacks legal foundation if the underlying transactions cannot be identified and do not support the calculated totals. Since DOD did not identify the underlying transactions supporting the adjustments retroactively charged to the "M" accounts, such adjustments are not valid obligations in our opinion." AFMD-87-1, above, at 6.

We have similar concerns here with the method used by the Air Force to establish for fiscal years 1981 to 1986 the existence and magnitude of obligations (accounts receivable) which are the basis for restoring the previously unobligated funds to the "M" accounts for payment to the Stock Fund. As in the prior case, the Air Force did not identify the specific underlying transactions giving rise to the obligations in question. Furthermore, the secondary evidence of the underlying transactions, namely the Air Force Accounting and Finance Center's trial balances, lack adequate safeguards or other indicia of reliability to serve as a substitute for documentation of the underlying transactions required by 31 U.S.C. Sec. 1501. As we have suggested earlier, although the Air Force Audit Agency's sampling of individual 1988 and 1989 transactions may be acceptable to verify the validity of amounts owed but not paid the Stock Fund for the period from April 1988 to March 1989, we do not

think it appropriate to infer from the accuracy of those trial balances that the Finance Center's accounts receivable for the period from the beginning of fiscal year 1981 through March 1988 are similarly accurate.

Our insistence on rigorous compliance with the documentation requirements of 31 U.S.C. Sec. 1501 before the Air Force records additional obligations in the "M" accounts is supported by other considerations. As we noted earlier, the Air Force prices stock fund items to achieve an operating cash balance generally of 11 days cash equivalent. During the period in question, the Stock Fund generated ample operating cash balances and made substantial refunds to customer accounts of excess cash. We are not presently prepared to conclude, as a matter of law, that the Stock Fund's realization of its targeted operating cash balances in a given year invalidates an otherwise valid obligation owing the Fund. /9/ However, we do think that the Stock Fund's past ability to operate effectively and to generate ample cash balances during this period undercuts the need to collect on doubtful, intra-agency obligations that have gone uncollected for as long as 8 years without apparent adverse effect to the Fund. Accordingly, this fact plus the age of the claimed accounts receivable and their intra-agency nature support the conclusion that these amounts are not required to be restored to the "M" accounts and thus should not be so restored.

We also think strict compliance with the documentation requirements of 31 U.S.C. Sec. 1501 enhances congressional budgetary and fiscal control. We are concerned that if the Air Force is allowed in doubtful circumstances to restore previously unobligated amounts from the merged surplus accounts to the "M" accounts for payment to the Stock Fund (where such amounts will immediately become available to fund new acquisitions), such action could undermine congressional control over the budgetary process and fiscal affairs. In this regard, 31 U.S.C. Sec. 1501, which was originally enacted as section 1311 of the Supplemental Appropriation Act, 1955, Pub. L. No. 663, 68 Stat. 800, 830, was motivated primarily by the concern of Congress that agencies were overstating obligations "when, in fact, no real obligation exists" making "it next to impossible for the Committee on Appropriations to determine with any degree of accuracy the amount which has been obligated against outstanding appropriations as a basis for determining future requirements." H. Rep. No. 2266, 83d Cong. 2d Sess. 49-50 (1954). The concern expressed by the Appropriations Committee squarely applies to the situation, such as here, where agencies record obligations was incurred on the basis of doubtful or incomplete documentation.

For the foregoing reasons, the Air Force should reverse the 1981-1986 adjustments to the "M" accounts. With the exception of obligations owed the Stock Fund for the period from April 1988 through that were validated by the AFAA audit, the Stock Fund should write-off all of the claimed accounts receivable for fuels for the period from the beginning of fiscal year 1981 up through March 1988.

1. In this regard, 10 U.S.C. Sec. 2208(c) provides that the Fund "shall be charged, when appropriate, with the cost of . . . supplies . . . including applicable administrative expenses, and be reimbursed from available appropriations or otherwise credited for those costs, including applicable administrative expenses . . . ."

2. Normal inventory expenses include physical losses to inventory resulting from shrinkage, theft, defective item, obsolescence as well as adjustments to reconcile internal records. DoD Regulation 7420.13-R, above, at p.4-2.

3. During each of the fiscal years in question, DoD's annual appropriations acts provided DoD with statutory authority to transfer amounts from working capital funds to appropriation accounts. See DoD Appropriations Act, 1984, Sec. 729, Pub. L. No. 98-212, 97 Stat. 1421, 1444; DoD Appropriations Act, 1985, Sec. 8025, Pub. L. No. 98-473, 98 Stat. 1837, 1928; and DoD Appropriations Act, 1986, Secs. 8020, 8051, Pub. L. No. 99-190, 99 Stat. 1185, 1206, 1211.

4. For a further discussion of the Stock Fund's operating cash balances for fiscal years 1984 through 1988 and refunds therefrom, see GAO Report, Operating Cash Requirement for Air Force Stock Fund Can Be Reduced, GAO/AFMD-89-60 (April 7, 1989).

5. We also understand that the AFAA has concluded that the Air Force should report a material weakness in its AMAS billing system in accordance with the Federal Managers' Financial Integrity Act, 31 U.S.C. Sec. 3512(c)(2) (1982). The AFAA also recommends that the Air Force investigate, and, as appropriate, report any Anti-Deficiency Act violations resulting from collection of the accounts receivable. See 31 U.S.C. Sec. 1341(a) (1982). The AFAA informally advises that the collection of the Stock Fund accounts receivable for fiscal years 1987 and 1988 may result in an many as eight Anti-Deficiency Act violations.

6. Once appropriated funds are obligated, authority to disburse those funds exists until obligations are liquidated, i.e., paid. At the end of an appropriation's period of obligational availability, the unobligated balance of the appropriation is withdrawn and reverts to the Treasury, where the balance is designated as surplus authority. See 31 U.S.C. Sec. 1552(a) (2). The balance of surplus authority retains its fiscal year identify for 2 years, after which the balances are transferred to merged surplus authority accounts which accumulate unobligated balances for the DoD appropriations. GAO Policy and Procedures Manual for Guidance of Federal Agencies, title 7, ch. 6, Sec. 23. Once unobligated balances enter the merged surplus authority account, they lose their fiscal year identify.

Similarly, an appropriation 's obligated balance retains its fiscal year identity for 2 years following the expiration of the obligational period of availability. 31 U.S.C. Sec. 1552(a)(1) (1982). At the end of the 2-year period, any remaining obligational balance that has not been liquidated is transferred to a merged or "M" account. This "M" account retains, without fiscal year identity, unliquidated obligational balances from all prior appropriations for the same general purposes, for example, O&M. See Id.

"M" account balances remain available indefinitely for payment of obligations.

7. Government Auditing Standards: The Standards for Audit of Governmental Organizations, Programs, Activities, and Functions (1988) (Comptroller General Standards) issued by the Comptroller General apply to the Air Force Audit Agency. These standards incorporate by reference AICPA standards. See Comptroller General Standards at 4-1 (1988). See AICPA Codificationd of Statements on Auditing Standards, section 319, entitled Consideration of the Internal Control structure in a Financial Statement Audit (which becomes effective on January 1, 1990, but early application is permissible); section 320, entitled Auditor's Study on Internal Control; section 326, entitled Evidential Matter; and section 329, entitled Analytical Procedures. See also AICPA Codification on Auditing Standards, section 642, entitled Reporting on Internal Accounting Control.

8. See GAO Report, Defense Accounting Adjustments for Stock Fund Obligations Are Illegal, GAO/AFMD-87-1 (March 11, 1987).

9. We have recognized the difficulty, as a practical matter, of setting rates or prices for goods or services sold at a level that neither undercharges nor overcharges a customer's appropriation account. B-181714-O.M., Jan. 3, 1975. Accordingly, we take the position that so long as the prices charged are reasonable so as not to constitute an abuse of the Stock Fund's implied authority, we will not conclude that a customer's appropriation account is either improperly overcharged or augmented or that the Stock Fund has been improperly operating at a profit or loss. Id.