



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

ACCOUNTING AND FINANCIAL
MANAGEMENT DIVISION

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NOVEMBER 9, 1983



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The Honorable Caspar W. Weinberger
The Secretary of Defense

Attention: DOD Office of the Inspector General
Deputy Assistant Inspector General for
GAO Report Analysis

Dear Mr. Secretary:

Subject: Improved Internal Controls Are Needed to Better
Assure That Obligations Will Not Be Backdated
(GAO/AFMD-84-14)

This report presents the results of our review conducted at 85 Department of Defense activities around the world for the purpose of determining if existing internal controls were adequate to preclude backdating of obligations against expired appropriations.

We are pleased to report that at only one location did we find evidence of backdated obligation transactions. We did note, however, a number of internal control weaknesses that need to be corrected to provide reasonable assurance that backdating does not occur. Details of our findings and recommendations are in enclosure I.

One of the primary fiscal controls the Congress imposes when appropriating funds is the establishment of a limited period during which the appropriations will be available for obligation. The recent large increases in Defense appropriations have made it particularly important that the military services adequately ensure that (1) all reported obligations are incurred while the appropriations are still available and (2) each obligation is supported by documentation as required by 31 U.S.C. 1501 (formerly known as Section 1311 of the Supplemental Appropriations Act, 1955). These questions apply particularly to the Operation and Maintenance (O&M) appropriations because they are so large and are available for only one year.

To determine if Defense activities were backdating obligation transactions after the end of the fiscal year in order to improperly utilize expired fiscal year 1982 O&M funds, we made surprise visits to 85 Army, Air Force, Navy, and Defense activities on October 1 and 4, 1982. Twenty-four of the locations visited were

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industrial fund activities. In addition to our review work related to the backdating issue, we also reviewed existing documentation at each activity for selected unliquidated obligations recorded as of September 30, 1982, to determine if that documentation met the requirements of 31 U.S.C. 1501.

Our visits disclosed evidence that only one activity backdated obligation transactions. In that case, officials at a Navy industrial fund activity accepted customer orders financed with fiscal year 1982 O&M funds after the end of the fiscal year and backdated their acceptance signatures to September 30. Since the law requires that customer orders and certain types of amendments be formally accepted by an industrial fund while the funds financing the order are still available for obligation, obligations recorded on customer accounting records based on these backdated acceptance signatures are improper.

Backdating obligation documents could violate Federal statutes. For example, agency officials must annually certify to the President the validity of reported yearend obligations when requesting new appropriations (31 U.S.C. 1108). Also, it is illegal for public officials to knowingly certify false statements (18 U.S.C. 1001 and 1018).

Although we found only one instance of backdating at the 85 activities visited, we did note some internal control weaknesses and believe that Defense needs to strengthen its internal controls in several important areas to ensure that backdating of obligations does not occur and to provide an audit trail so that management and audit personnel will be able to verify, after the end of the fiscal year, whether obligation transactions were finalized before the appropriation expired.

- Internal controls were not in place to adequately prevent or detect the use of expired appropriations to purchase stock fund items. Several activities visited processed stock fund orders citing fiscal year 1982 O&M funds after the end of the fiscal year. Controls need to be established to help preclude placement of stock fund orders citing expired appropriations. To do so, manual and/or automated control procedures should be established whereby stock fund activities can not accept any stock fund orders received after the funds cited on the order have expired.
- At industrial fund activities we visited, there was little control to preclude incoming customer orders from being accepted after the funds financing the orders expired. Because the responsibility for accepting orders (which is the legal basis for obligation of customer funds) generally rested with one official, a control procedure should be

established to provide a verifiable record of orders received and an indication of whether they have been accepted by the industrial funds as of the close of the fiscal year.

- Better control over contracts in process is needed to ensure that only those contract obligations finalized before the end of the fiscal year are recorded against that year's appropriations and that obligations for contracts finalized after the end of the fiscal year are recorded against new fiscal year funds.

Finally, our review of documents supporting 732 selected unliquidated obligations at the 85 activities showed that for the most part, documentation met the requirements of 31 U.S.C. 1501.

We recommend that where we detected backdating of obligation transactions, the improper obligations be removed from the accounting records, that your staff determine if any laws have been violated and, if so, that you take appropriate action to help preclude the possibility of obligations being backdated in the future. We also recommend that internal controls be strengthened by

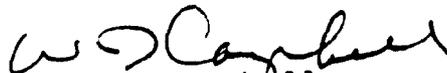
- prohibiting stock fund orders from being processed after the funds cited have expired;
- requiring industrial fund activities to establish a control record on customer orders received and to certify whether those orders have been accepted as of the close of the fiscal year; and
- requiring a certified statement showing a final cutoff for those contracts in process that have not been signed by fiscal yearend.

As you know, 31 U.S.C. 720 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations. You must send the statement to the House Committee on Government Operations and the Senate Committee on Governmental Affairs within 60 days of the date of the report and to the House and Senate Committees on Appropriations with the Agency's first request for appropriations made over 60 days after the date of the report.

We discussed our findings and recommendations with Defense officials. Those officials agreed with our recommendations that obligations recorded based on backdated transactions be removed from accounting records and that a determination be made as to whether laws have been violated. However, while agreeing "with the thrust" of our recommendations for internal controls to help preclude backdating, they did not indicate they agreed with or would implement the specific controls recommended. Defense comments and our evaluation of them are discussed in enclosure I.

We are sending copies of this report to the Director of the Office of Management and Budget and the Secretaries of the military services.

Sincerely yours,


W. D. Campbell
Acting Director

FINDINGS AND RECOMMENDATIONS ON THE NEED FOR
BETTER INTERNAL CONTROLS TO ENSURE THAT
OBLIGATIONS WILL NOT BE BACKDATED

One of the fundamental fiscal controls the Congress imposes when appropriating funds is the establishment of a limited period during which the appropriations will be available for obligation. The recent large increases in Defense appropriations have made it particularly important for the military services to make sure that funds are obligated only within the period the funds are available and that each obligation is adequately supported by the documentary evidence required by law.

In this report, we discuss (1) the results of surprise audit visits we made to 85 Army, Navy, Air Force, and Defense activities around the world immediately after the end of fiscal 1982 to determine whether these activities were backdating obligations, (2) the need for Defense and the military services to establish better internal controls in certain areas to help ensure that obligations are not backdated, and (3) our examination of documents on file to legally support 732 selected unliquidated obligations at the Defense activities we visited.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of this review were to determine if existing internal controls were adequate to preclude Defense activities from backdating obligations against expired appropriations and if backdating occurred. To determine if Defense activities were backdating obligation transactions, we decided an element of surprise was necessary. We therefore gave very limited notice to the military services before visiting 85 selected Defense activities around the world on October 1 and 4, 1982. (Activities we visited are listed in encl. II.) In most instances, the visits were brief--just long enough to observe if expired fiscal year 1982 O&M appropriations were still being obligated.

Twenty-four of the 85 locations we visited were industrial fund activities. Industrial fund activities operate under a working capital fund concept whereby they provide goods and services to customers on a reimbursable basis. Customer orders (except amendments to existing orders which do not increase the original scope of work) must be accepted by an industrial fund before the funds financing the orders expire. At these activities, we observed the procedures used to accept customer orders to determine if any were being accepted that cited expired fiscal year 1982 O&M appropriations. At the remaining 61 locations, we observed which contracts were being obligated and reviewed stock fund requisitions to determine if backdating was occurring. Stock funds, which are also working capital funds, are used to finance the purchase of and hold materials for sale to consumer activities.

At 11 of the 61 locations just mentioned, we spent several weeks reviewing accounting policies, procedures, and existing internal controls over obligations incurred for commercial contracts and stock fund requisitions at the end of fiscal year 1982. We also spent several weeks at 5 of the 24 industrial fund activities examining policies, procedures, and internal controls over acceptances of customer orders at yearend.

We limited our audit to the fiscal year 1982 O&M appropriations of the three military services. We selected these appropriations because they are among the largest in Defense, representing about 23 percent of the total fiscal year 1982 Defense budget, and because of their large dollar growth in the past few years. In fiscal year 1982, about \$51 billion was appropriated for the three services' O&M--an increase of over \$20 billion since 1979.

The review was made in accord with generally accepted government auditing standards.

BACKGROUND

O&M appropriations contain obligational authority which is available for only 1 year. Obligational authority expires at midnight September 30--the end of the fiscal year. For an obligation to be valid, it must be incurred before the appropriation expires. Obligations incurred after the fiscal year ends may not be backdated, for example to September 30, in an attempt to use expired obligational authority.

Defense activities closely monitor their O&M obligations especially in the last quarter of the fiscal year. These efforts are intensified during the last weeks of the fiscal year to ensure that all available O&M funds are obligated. It is not uncommon for Defense activities to obligate over 99 percent of their annual O&M budget. One of the reasons the services are able to accomplish this high obligation rate is that they continue to obligate available funds right up until the time the appropriation expires.

In order to record all incurred obligations in the accounting records, the services must keep those accounting records open past the end of the fiscal year. Lag time in entering obligations may occur because of the time it takes to process large numbers of transactions at yearend or in some cases it may take a day or two to receive obligation information from satellite activities. The fact that the books are held open after the yearend makes it important that management exercise proper controls to ensure that obligations which are not recorded until after yearend were actually incurred on or before September 30.

SURPRISE VISITS SHOW LITTLE BACKDATING

In our visits to 85 Defense activities, we noted evidence that only one site backdated obligation transactions against expired fiscal year 1982 O&M funds. In that instance, a Navy industrial fund activity signed and accepted customer orders after the 1982

appropriation cited on the orders had expired and improperly backdated their acceptances to September 30, 1982. This resulted in \$128,000 in improper obligations on customer accounting records.

This instance of backdating may have violated certain statutes prohibiting false certifications and statements.

Acceptances of industrial fund
customer orders backdated

Before an activity can record an obligation of funds to finance an order for goods or services submitted to an industrial fund activity, the industrial fund activity must accept the order in writing. Acceptance of any new customer order and any customer order amendment which funds an increase in the scope of an existing order must occur before the appropriation cited on the order expires. Backdating the acceptance of such customer orders which cite expired appropriations, so as to indicate acceptance took place when those funds were still available, results in the recording of an improper obligation on customer accounting records. During our visits to 24 Army, Navy, and Air Force industrial fund activities, we found that one Navy industrial fund, the Mare Island Naval Shipyard in California, signed and accepted customer orders after the fiscal year 1982 O&M funds cited on the order expired, and backdated its acceptances to September 30, 1982. As a result, obligations were improperly recorded on customer accounting records. At another Navy industrial fund, the Pearl Harbor Public Works Center in Hawaii, we found that customer order amendment acceptance signatures were routinely being backdated. Although we did not detect any improper obligations resulting from this practice, it represents a serious internal control problem.

Mare Island Naval Shipyard

On October 1, 1982, we visited the Mare Island Naval Shipyard where we obtained copies of six basic customer orders and seven customer order amendments which cited the expired fiscal year 1982 O&M appropriation. These orders had not yet been signed as accepted by officials at the shipyard. On October 12, 1982, we visited the Mare Island Naval Support Activity, the customer for the six basic orders noted above, and found that copies of all six had been returned by the Mare Island Shipyard, signed as "accepted" with a signature date of September 30, 1982. Accordingly, the Navy Support Activity had recorded obligations of fiscal year 1982 O&M funds totaling \$128,000.

On October 19, 1982, we met with officials of the Mare Island Shipyard to discuss our findings on the six basic orders from the Naval Support Activity and to determine the status of the seven customer order amendments from other activities. Shipyard officials acknowledged that all 13 basic orders and amendments were signed as accepted after the close of fiscal year 1982 and the acceptance signatures were backdated. Because the basic orders were not accepted before the end of the fiscal year, obligations recorded on customer records for those orders are improper. Although the

backdated acceptance signatures on the seven customer order amendments did not result in improper obligations on customer accounting records, the backdating practice represents a serious internal control problem.

Shipyard officials told us that they were aware of the requirement that customer orders must be accepted by industrial fund activities for the funds financing the orders to be properly obligated. They also acknowledged that they were aware that, as of September 30, 1982, orders that cited fiscal year 1982 O&M funds, but that had not yet been accepted, were on hand. Officials told us that they believed that by having employees work overtime, all such orders could have been accepted by the close of business on September 30. However, the office responsible for final acceptance of the orders was not authorized to work overtime. Therefore, they decided to complete acceptances for the orders in question after the fiscal year ended and backdate acceptance signatures to September 30.

Need to determine whether
Federal statutes have been violated

Backdating could violate Federal statutes. Each year, installation officials are required by service regulations to certify fiscal yearend obligation balances. Officials who knowingly certify a false statement violate 18 U.S.C. 1018. Specifically, that section provides that

"Whoever, being a public officer or other person authorized by any law of the United States to make or give a certificate or other writing, knowingly makes and delivers as true such a certificate or writing, containing any statement which he knows to be false, in a case where the punishment thereof is not elsewhere expressly provided by law, shall be fined not more than \$500 or imprisoned not more than one year, or both."

Backdating may also violate 18 U.S.C. 1001 which prohibits, in any matter within the jurisdiction of the United States, anyone to make any false statement or use any false writing or document.

Defense should investigate to determine whether the backdating we uncovered violates the above statutes and, if so, take appropriate action, including directing that invalid obligations recorded against expired 1982 O&M appropriations be removed from accounting records.

Navy Public Works Center

During our October 1, 1982, visit to the Pearl Harbor Public Works Center in Hawaii, we noted 26 customer order amendments citing the fiscal year 1982 O&M appropriation which had not been accepted. Public Works Center officials later told us that all 26 amendments were subsequently signed as accepted and the acceptance signatures backdated to September 30.

The Comptroller of the Public Works Center told us he considers all customer orders or amendments received before the end of the fiscal year as accepted by the Center even though the orders may not be reviewed and signed until the following fiscal year.

The Comptroller clearly was wrong. As indicated in the Navy Comptroller's manual, an industrial fund must first accept an order before a customer may record an obligation. The order cannot be considered accepted until determination is made as to whether the order complies with certain criteria listed in the manual. Only after this review has been made can the order be dated and signed as accepted, and the obligation be legitimately recorded on customer accounting records.

Because the documents discussed above were all amendments to existing orders, and did not involve any increase to the scope of work to be performed by the industrial fund, fiscal year 1982 O&M funds were available after yearend to fund them, and no improper obligations were recorded on customer accounting records as a result of the backdated signatures. However, the practice of routinely backdating signatures on orders or amendments creates a serious internal control problem, could easily result in such improper obligations being recorded, and should be stopped.

NEED TO ESTABLISH INTERNAL CONTROLS
TO PRECLUDE BACKDATING

Defense and military service instructions, regulations, and guidance, regarding the proper obligation of funds, include requirements for documentation, administrative controls to preclude overobligation of appropriations, and periodic certification of outstanding balances. However, there is a significant gap in internal controls designed to preclude backdating of obligations. The military services historically made an intensive effort to obligate all O&M funds before the end of the fiscal year. At many installations, we found written instructions providing step-by-step procedures to help ensure that available funds were fully utilized. However, neither Defense nor the military services have prescribed or implemented specific controls to adequately preclude activities from backdating obligation documents in order to use expired appropriations. The absence of such controls, in addition to increasing the potential for backdating of obligation transactions, makes it very difficult to determine whether such backdating has occurred because procedures do not provide an adequate audit trail to verify when obligations were finalized.

Although we found only one instance of obligation transaction backdating during our surprise visits, we believe that Defense needs to develop better internal controls to reduce current opportunities for such backdating. These controls should be directed at the potential for backdating customer orders placed with stock funds and industrial funds. Also, internal controls should be developed to help preclude backdating of obligations associated with contracts.

Internal controls needed to
preclude backdating of obligations
for stock fund purchases

In both the Air Force and the Navy, controls over purchases from stock funds were not adequate to detect or prevent the placement of stock fund orders citing expired appropriations. Manual and/or automated procedures should be established at stock fund activities so that any new stock fund order citing expired appropriations would be rejected.

Currently, neither Air Force nor Navy stock fund activities, when accepting orders from customers, determine whether the funds being used to finance the orders may still be obligated. Without such a determination, it is possible for activities to place stock fund orders citing expired appropriations.

For example, by interviewing Air Force officials and examining computer console logs at 16 Air Force installations, we found that at least 5 of those sites processed stock fund orders financed with fiscal year 1982 O&M funds after the end of the fiscal year. There was no manual or automated control check made of orders received to ensure that those orders were funded with appropriations that still could be obligated.

The Navy also did not have procedures or written instructions prescribing internal controls to help preclude backdating of obligations of O&M funds used to purchase stock fund items. According to Navy officials at one major stock fund activity, the standard Navy stock fund system was not programmed to reject orders received after fiscal yearend that were funded with expired O&M funds. Because of this, Navy customers could submit backdated requisitions after yearend and still have them accepted and processed by the supply system.

At a minimum, Air Force and Navy regulations should provide that no orders for stock fund items will be accepted by stock fund activities after the expiration of the funds cited on the orders. When appropriate, an edit check should be incorporated into stock fund computer programs to detect and reject requisitions citing expired funds.

Internal controls needed
to preclude backdating of customer
order acceptances at industrial funds

At the military service industrial fund activities we visited, the responsibility for signing and dating customer order acceptances generally rested with one individual. Under this system, whether acceptances are backdated depends largely on the integrity of the individual responsible for signing. Further, there is no adequate audit trail to enable verification as to whether acceptances were made prior to fiscal yearend. Because the acceptance of an order is the last step required before a customer obligates its funds, internal controls should be strengthened to help preclude

backdating of acceptances made after funds cited on a customer order have expired. At a minimum, there should be a control record maintained showing the status of customer orders received and customer orders accepted as of the end of the fiscal year. This record should be certified by an official other than the one responsible for accepting customer orders.

Controls to preclude backdating
of contracts can be improved

Defense's procurement of supplies and services from non-government entities involves the award of many commercial contracts financed with O&M funds. To ensure that only those O&M contract obligations incurred while funds were still available are entered into the accounting records, Defense needs to establish better internal controls over those obligations, particularly at yearend.

Generally, before awarding a contract, Defense activities reserve funds for that contract on a commitment document such as a purchase request or a request for contractual procurement. Because of the strong emphasis on obligating all O&M funds before they expire, activities we visited closely monitored open purchase requests and the status of contracts in process. They intensified this effort as the fiscal yearend approached, to determine on an ongoing basis which funds committed to contracts would be obligated by yearend and which would not, so that obligation authority could be diverted to other areas where the authority could be used before expiring.

Through these monitoring efforts and by having the capability to obligate unused funds on very short notice (by using mechanisms such as contracts prepared in advance "subject to the availability of funds"), Defense activities have been able to obligate nearly all available O&M funds before they expire. However, there are purchase requests which, because of lack of time or other reasons, do not result in finalized contracts prior to the end of the year. Funds committed to these purchase requests, unless used elsewhere before the end of the year, expire and are no longer available for obligation. If a contract is subsequently finalized (in the following year), it must be financed with new fiscal year funds. We found that there is a general lack of control, particularly during the interim when accounting records are held open after the end of the fiscal year, to ensure that obligations eventually incurred for these purchase requests are not backdated to use expired funds. The inability to verify a cutoff point for contracts in process at yearend not only increases the potential for backdating, but also provides no audit trail to verify whether transactions were finalized prior to yearend.

At one Air Force installation, for example, a list of open purchase requests was maintained at a central location as a control device. This list was used to track open purchase requests and contracting officers' efforts to award contracts to satisfy the requests. Once a contract was awarded, the contracting officer was required to indicate the action on the list of open purchase

requests thereby updating the list. The control problem arose because the status list at September 30 did not show a final cutoff of open purchase requests not signed as of yearend. Contracting officers said it would be relatively easy for them to backdate contracts, awarded after yearend, to September 30 without anyone questioning the transaction. We noted similar problems at contracting offices in the Army and Navy.

Defense should determine the specific controls necessary to effectively preclude backdating of contracts. At a minimum, there should be a statement certified by a responsible official showing a final cutoff for those open purchase requests not signed by fiscal yearend.

Unliquidated obligations adequately supported
by documents as required by 31 U.S.C. 1501

Obligations incurred by Federal agencies must be supported by certain documents as specified in 31 U.S.C. 1501. This law, which was originally enacted as section 1311 of the Supplemental Appropriations Act, 1955, was intended to promote more accurate reporting of obligations and related information by executive agencies. Prior to passage of this law, Congressional committees had problems in obtaining reliable obligation data from agencies, making it difficult to determine appropriate funding levels.

The law provides that "An amount shall be recorded as an obligation of the United States Government only when supported by documentary evidence . . .". While obligations are generally incurred under some type of written, binding agreement, the specific supporting documents required vary by the type of transaction. For example, a formal contract generally must be signed by both parties while the funds being used to finance the contract are available for obligation. A copy of the contract would serve as documentary evidence of such an obligation. For smaller purchases, however, a purchase order can be issued by an authorized procuring agent, creating a valid obligation of agency funds with no requirement for a second signature.

As part of our review, we checked documents on file for 732 unliquidated obligations at the 85 Defense activities we visited to determine if that documentation met the requirements of 31 U.S.C. 1501. These unliquidated obligations represented formal contracts, purchase orders, purchases from working capital funds, and miscellaneous obligation documents. We looked at such things as authorizing signatures, dates, fund citations, and whether documents were complete.

We found that, for the most part, the documentation met the requirements of 31 U.S.C. 1501.

CONCLUSIONS

Although our review identified only one activity that backdated obligation transactions, internal controls are needed to help

preclude future backdating of obligations generated by stock fund requisitions, industrial fund customer orders, and contracts.

Generally, Defense activities did a good job in supporting obligations with documentary evidence as required by 31 U.S.C. 1501. Our review of 732 unliquidated obligations showed, in most cases, that there was adequate documentary evidence to support the recorded obligations.

RECOMMENDATIONS

Regarding those instances where we detected backdating of obligations, we recommend that the Secretary of Defense (1) determine whether 18 U.S.C. 1018 and 31 U.S.C. 1341 have been violated and take appropriate action and (2) direct that backdated obligations recorded against expired appropriations be removed from accounting records.

We also recommend that the Secretary of Defense require the military services to devise internal controls to help preclude backdating of obligations for stock fund requisitions, industrial fund customer orders, and contracts. At a minimum the:

- Navy and Air Force should implement regulations to require that requisitions for stock fund items not be processed after the funds cited on the requisitions expire.
- Military services should require their industrial funds to maintain a control record showing the status of customer orders received and customer orders accepted as of the end of the fiscal year. The record should be certified by an official other than the one responsible for accepting customer orders.
- Military services should require a statement that specifies a final cutoff for contracts in process not signed by yearend. The reconciliation statement should be certified by a responsible official.

DEFENSE COMMENTS

In response to a draft of this report, Defense agreed with our recommendation that, in cases where obligations were backdated, such transactions be removed from accounting records, a determination be made as to whether laws have been violated, and appropriate action be taken. Regarding our recommendations for specific internal controls to help preclude backdating of obligations for stock fund requisitions, industrial fund customer orders, and contracts, Defense stated that it concurred "with the thrust of the GAO recommendation to continually review and devise controls to help preclude backdating of obligations." However, Defense did not indicate that it concurred with the need for the three specific controls recommended in the draft report. Defense stated that management and audit personnel will continue to perform reviews of the adequacy of internal controls as needed.

In commenting on the findings and conclusions in the draft report, Defense agreed that acceptance signatures on customer orders at the Mare Island Shipyard were backdated, but contended that each order had been "verbally accepted" by the shipyard prior to the end of fiscal year 1982. (Defense added that Navy regulations permit such verbal acceptances, providing such acceptances are evidenced by a written record dated as of the date of the verbal acceptance, but Defense acknowledged that such documentation was not prepared by the shipyard.) Defense also stated that the limited number of examples of backdating in the draft report was "compelling evidence that Defense and military services internal control systems and guidance are in place and operating efficiently and effectively." Defense disagreed that improved controls were needed over stock fund purchases and contracts to better preclude backdating of obligations.

GAO RESPONSE

The Defense response, while agreeing "with the thrust of the GAO recommendation" for the need for internal controls to preclude backdating of obligations, does not adequately address the specific weaknesses discussed in the report or the recommended internal controls. The absence of the controls recommended in the report, in addition to increasing the potential for backdating, makes it very difficult to detect whether backdating has occurred because current procedures do not provide an adequate audit trail to detect when obligations are finalized. We continue to believe that the recommended controls should be implemented by Defense and the military services as soon as possible.

Regarding the backdating of obligations at the Mare Island Naval Shipyard, if in fact the orders in question were "verbally accepted" by the shipyard before the end of the fiscal year as Defense contends, such action was improper because

- at the time Defense asserts the verbal acceptances were made, none of the orders in question had been through the entire review process required by the shipyard prior to acceptance, and
- existing statutes, Defense's own regulations, and shipyard procedures--contrary to the Navy regulations cited above by Defense officials--provide that customer orders can be accepted only in writing or by facsimile message.

Further, an official at the shipyard's customer activity which prepared the orders in question informed us that the activity would never record an obligation based on verbal acceptance of its orders by the shipyard. His statement was borne out in that we found that the obligations for the orders in question were recorded by the customer based on receipt of the backdated written acceptances, and not any verbal acceptance, received from the shipyard.

ARMY LOCATIONS VISITED

Brook Army Medical Center, Fort Sam Houston, San Antonio, Texas
 Computer Systems Command, Fort Belvoir, Virginia
 Defense Supply Service, Washington, D.C.
 Fitzsimons Army Medical Center, Denver, Colorado
 Fort Benning, Columbus, Georgia
 Fort Bliss, El Paso, Texas
 Fort Carson, Colorado Springs, Colorado
 Fort Dix, Wrightstown, New Jersey
 Fort Eustis, Newport News, Virginia
 Fort McClellan, Anniston, Alabama
 Fort McPherson, Atlanta, Georgia
 Fort Meade, Odenton, Maryland
 Fort Monroe, Hampton, Virginia
 Fort Rucker, Dothan, Alabama
 Fort Sam Houston, San Antonio, Texas
 Fort Story, Virginia Beach, Virginia
 Lyster Army Hospital, Fort Rucker, Dothan, Alabama
 Martin Army Hospital, Fort Benning, Columbus, Georgia
 McAlister Army Ammunition Plant, McAlister, Oklahoma
 New Cumberland Army Depot, New Cumberland, Pennsylvania
 Military District of Washington, Washington, D.C.
 Noble Army Hospital, Fort McClellan, Anniston, Alabama
 Rocky Mountain Arsenal, Denver, Colorado
 Tripler Army Medical Center, Hawaii
 U.S. Army Corps of Engineers, Fort Shafter, Hawaii
 U.S. Army Depot Systems Command, Chambersburg, Pennsylvania
 U.S. Army Support Command, Hawaii; Fort Shafter, Hawaii
 Walter Reed Army Medical Center, Washington, D.C.
 William Beaumont General Hospital, Fort Bliss, El Paso, Texas

AIR FORCE LOCATIONS VISITED

Air Force Academy, Colorado Springs, Colorado
 Andrews Air Force Base, Maryland
 Barksdale Air Force Base, Shreveport, Louisiana
 Bergstrom Air Force Base, Austin, Texas
 Bitburg Air Base, Bitburg, Germany
 Carswell Air Force Base, Fort Worth, Texas
 Dyess Air Force Base, Abilene, Texas
 England Air Force Base, Alexandria, Louisiana
 Hahn Air Base, Sohren, Germany
 Hickam Air Force Base, Hawaii
 Holloman Air Force Base, Alamogordo, New Mexico
 Kelly Air Force Base, San Antonio, Texas
 Lackland Air Force Base, San Antonio, Texas
 Langley Air Force Base, Hampton, Virginia
 Laughlin Air Force Base, Del Rio, Texas
 Lowry Air Force Base, Denver, Colorado
 McGuire Air Force Base, Wrightstown, New Jersey
 Military Air Transport Command, Scott Air Force Base, Bellville,
 Illinois

Oklahoma City Air Logistics Center, Tinker Air Force Base, Oklahoma City, Oklahoma
 Ogden Air Logistics Center, Hill Air Force Base, Ogden, Utah
 Peterson Air Force Base, Colorado Springs, Colorado
 Ramstein Air Base, Ramstein, Germany
 Reese Air Force Base, Hurlwood, Texas
 Sacramento Air Logistics Center, McClellan Air Force Base, Sacramento, California
 San Antonio Contracting Center, San Antonio, Texas
 San Antonio Real Property Maintenance Activity, San Antonio Air Force Station, San Antonio, Texas
 Sembach Air Base, Sembach, Germany
 Spangdahlem Air Base, Spangdahlem, Germany
 Travis Air Force Base, Fairfield, California
 Warner Robins Air Logistics Center, Robins Air Force Base, Macon, Georgia
 Warren Air Force Base, Cheyenne, Wyoming

NAVY LOCATIONS VISITED

Alameda Naval Air Rework Facility, Alameda, California
 Alameda Naval Air Station, Alameda, California
 Commander-in-Chief, Pacific Fleet, Pearl Harbor, Hawaii
 Little Creek Naval Amphibious Base, Norfolk, Virginia
 Long Beach Naval Shipyard, Long Beach, California
 Mare Island Naval Shipyard, Vallejo, California
 Naval Air Technical Services Facility, Philadelphia, Pennsylvania
 Naval Aviation Supply Office, Philadelphia, Pennsylvania
 Naval Facilities Engineering Command, Atlantic Division; Norfolk, Virginia
 Naval Facilities Engineering Command, Pacific Division; Hawaii
 Naval Publication and Printing Services; Hawaii
 Naval Regional Medical Center, Portsmouth, Virginia
 Naval Security Activity Group, Northwest; Chesapeake, Virginia
 Norfolk Naval Station, Norfolk, Virginia
 Norfolk Naval Supply Center, Norfolk, Virginia
 North Island Naval Air Rework Facility, San Diego, California
 Oceana Naval Air Station, Virginia Beach, Virginia
 Pearl Harbor Naval Shipyard, Hawaii
 Pearl Harbor Public Works Center, Hawaii
 Philadelphia Naval Shipyard, Philadelphia, Pennsylvania
 Puget Sound Naval Shipyard, Bremerton, Washington
 San Diego Public Works Center, San Diego, California
 Seal Beach Naval Weapons Station, Seal Beach, California
 U.S.S. Hector (docked at Alameda Naval Air Station, Alameda, California)
 Whidbey Island Naval Air Station, Oak Harbor, Washington