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**ANALYSIS OF MARINE CORPS CANCELED
ACCOUNT PAYMENTS**

December 2021

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ANALYSIS OF MARINE CORPS CANCELED ACCOUNT PAYMENTS

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Submitted in partial fulfillment of the
requirements for the degree of

MASTER OF BUSINESS ADMINISTRATION

from the

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ANALYSIS OF MARINE CORPS CANCELED ACCOUNT PAYMENTS

ABSTRACT

Over \$1.2 million remains unpaid in United States Marine Corps canceled account payments due to a failure to properly close out over-aged contracts used for the procurement of goods and services. The authority of government agencies to make further expenditures and payments against these contracts cancels at the end of the appropriation's five-year period of availability. Pursuant to 31 U.S. Code §1553, current year funds must then be utilized to pay those closed account invoices in addition to any interest accrued over time. This presents an issue within constrained budgets, already insufficient in meeting Force Design initiatives. While an effort has been made by Headquarters Marine Corps (HQMC), Programs and Resources (P&R) to streamline the reconciliation and payment of these invoices, both internal and external factors continue to undermine the Marine Corps' funds execution credibility. My research examined findings from the Government Accountability Office (GAO) and data from HQMC, P&R and found that labor shortfalls within the Defense Contract Audit Agency (DCAA) along with internal visibility issues impede the closeout of canceled account payments. To address this impact, the implementation of a tiger team within DCAA is recommended. Additionally, the promulgation of official payment and policy guidance should be provided to applicable commands, including Marine Corps Systems Command, which accounts for nearly half of all Marine Corps canceled account payments.

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LIST OF ACRONYMS AND ABBREVIATIONS

ADV	Auditable Dollar Value
DAI	Defense Agencies Initiative
DCAA	Defense Contract Audit Agency
DCMA	Defense Contract Management Agency
DFAS	Defense Finance and Accounting Service
DOD	Department of Defense
FAR	Federal Acquisition Regulation
FY	Fiscal Year
GAO	Government Accountability Office
HMMWV	High Mobility, Multi-Wheeled Vehicle
HQMC	Headquarters Marine Corps
IED	Improvised Explosive Device
MARCORSYSCOM	Marine Corps Systems Command
MCO	Marine Corps Order
MOCAS	Mechanization of Contract Administration Services
MPMC	Military Personnel Marine Corps
MRAP	Mine-Resistant, Ambush-Protected
NDAA	National Defense Authorization Act
O&M	Operations and Maintenance
OMMC	Operations and Maintenance Marine Corps
P&R	Programs and Resources
PMC	Procurement Marine Corps
RDT&E,N	Research, Development, Test, and Evaluation, Navy
SABRS	Standard Accounting, Budgeting, and Reporting System
TDY	Temporary Duty
USC	United States Code
USMC	United States Marine Corps

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I. INTRODUCTION

The Marine Corps must be well-organized, trained, and equipped to operate worldwide and confront the challenges posed by our adversaries and a fast-evolving future operating environment. As the Marine Corps continues to re-establish its identity as a modernized naval expeditionary force, the contracted procurement and acquisition of goods and services is critical to support its mission. Upon receipt of goods and services, contracts “must be closed as the final step in the acquisition process” (Hutton, 2011, p. 1). The problem is that the Marine Corps currently has a sizable backlog of overaged contracts unsuccessfully closed within the timeframes mandated by Federal Acquisition Regulation (FAR) §4.804-1(a)(2) and (3). These overdue contracts, also referred to as canceled account payments, hinder business partner relationships and are subject to various financial risks if not closed in time.

Timely contract closeout within the required deadlines not only ensures that improper payments are reconciled, but also prevents the accrual of interest fees (Hutton, 2011). Furthermore, prompt closeout ensures commands can de-obligate and reapportion any excess funding that results from finished contracts before the authority to spend those funds is canceled and the ability to obligate and make payment with that funding is relinquished after the end of the appropriation’s five-year expenditure period of availability. An additional challenge to closing contracts after the performance is complete is that key supporting documentation and key contracting, finance and supply personnel initially involved during the contract’s performance may no longer be available to help reconcile canceled account payments (DiNapoli, 2013).

While efforts have been made between Headquarters Marine Corps (HQMC), Programs and Resources (P&R) and the Defense Finance and Accounting Service (DFAS) to streamline the reconciliation and payment of these contracts, both internal and external factors continue to undermine the Marine Corps’ funds execution credibility.

This study uncovers and analyzes the primary sources of USMC canceled account payments and recommends measures to mitigate their occurrence and facilitate greater

reconciliation of their associated contracts. To accomplish this, U.S. Marine Corps data provided by HQMC, P&R on canceled account payments across the Marine Corps between fiscal years (FY) 2002 and 2018 is examined, in addition to related findings from the Government Accountability Office (GAO). These analyses not only combine to uncover the source of canceled account payments across fiscal year, command, and appropriation type, but also provide insight on their prevention and reconciliation.

II. BACKGROUND

A. APPROPRIATIONS

The Marine Corps is authorized to use a variety of different appropriations provided by Congress for the procurement and acquisition of goods and services. These appropriations are categorized into two types: annual (one year) and multi-year (more than one year) appropriations based on the period of time available to incur new obligations (i.e., awarded contracts to commercial vendors for good and services). While new obligations can only be incurred during the appropriation's obligation availability period, new expenses and payments can post during an additional five years after this period during the expenditure availability period (Candrea, 2017, pp. 301–302). After this five-year period, appropriations are closed/canceled and can no longer be adjusted, expensed, or paid as illustrated in Figure 1.

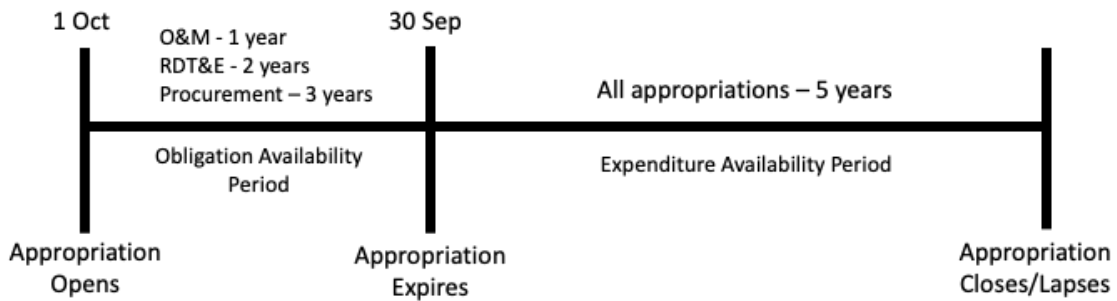


Figure 1. Appropriation Timeline. Adapted from Candrea (2017).

The funding tied to this report and owed to commercial vendors, is predominantly Operations & Maintenance, Marine Corps (OMMC) funding. OMMC is an annual appropriation used to fund the day-to-day operations and maintenance of Marine Corps active-duty forces. Such requirements include officer and enlisted training, administration, maintenance of vehicles and equipment, temporary Duty (TDY) travel, civilian labor, minor construction projects, engineering support, motor transportation, fuel, and communications (Headquarters U.S. Marine Corps, 2001, p. 1-7).

The Research, Development, Test, and Evaluation, Navy (RDT&E,N) is a two-year appropriation which funds research developments and advancements in combat capabilities such as expenses for developing new weapon systems technology and information systems technology.

Procurement Marine Corps (PMC) is a three-year appropriation used to fund the procurement of major end items such as combat ground vehicles, radios, information technology, and weapons systems. This appropriation is handled and maintained by the Marine Corps Systems Command (MARCORSYSCOM) (Headquarters U.S. Marine Corps, 2001, p. 1-8).

B. CONTRACT LIFE CYCLE

The contract life cycle can be divided into three phases: the pre-award, award, and post-award phases (National Contract Management Association [NCMA], 2019). The pre-award phase is the first phase in the life cycle and represents the stage where buyer (DOD entity) defines the requirement for the seller (contractor). This is accomplished through the development of a contracting strategy, market research for that good or service being sought after, preparing solicitations, and requesting offers from commercial sellers who are willing to fulfill the buyer's need in return for payment. On the seller's side, an offer must be developed by responding to the buyer's solicitation for goods or services to win a contract award against competition from other commercial sellers.

The second phase in the contract life cycle is the award phase where a contract is awarded to a seller. Responsibilities for the buyer during the stage include evaluating seller offers, negotiating contract terms, and awarding the contract. For the seller, responsibilities include clarifying offers, negotiating terms with the buyer, and preparing final offers (NCMA, 2019). This cycle ends with the award and acceptance of a contract. Appropriated funding is obligated in the buyer's accounting system during this phase.

The third and final step of the contract life cycle is the post-award phase which involves both contract administration and contract closeout. During this phase, the buyer must record any contract modifications that may arise from requirement changes. Additionally, contracting personnel ensure seller compliance with contract terms (NCMA,

2019) and help settle any incurred indirect costs. This phase ends when goods or services are received by the buyer and the buyer sends payment to the seller after all balances have been settled.

C. CONTRACT CLOSEOUT PROCESS

Federal contracts are considered physically complete once “the contractor has completed performance and the government has accepted the final delivery of goods or services” (Hutton, 2011, p. 6). The assigned DOD contracting officer is responsible for then closing out contracts within certain timeframes prescribed by the Federal Acquisition Regulation (FAR) §§4.804-1(a)(2), (3), and (4): flexibly priced contracts must be closed within 36 months, firm-fixed priced contracts within 6 months, and every other contract within 20 months. The responsibility for contract closeout can also be delegated to the Defense Contract Management Agency (DCMA) in accordance with FAR §42.202(a).

Figure 2 charts the contract closeout process beginning when the respective contracting officer performs pre-closeout administrative tasks like settling indirect cost rates for flexibly priced contracts. To settle incurred indirect costs, contractors must submit their incurred cost proposals to the Defense Contract Audit Agency (DCAA) for audit. DCAA then conducts an audit on each proposal to ensure that all indirect incurred costs are allowable, allocable, and reasonable. However, without timely audits being conducted by DCAA, contracting officers cannot effectively closeout flexibly priced contracts within the prescribed time deadlines. Agencies have five fiscal years after the corresponding appropriation expires to make new obligations and adjustments to the contract that may be required to account for the DCAA settled indirect cost rate or other changes to the contract (i.e., change in quantity of goods received).

The next step involves resolving any payment differences with the command’s accounting office. This normally includes the de-obligation of any excess funds that result when the amount obligated and accepted by the government during the contract award phase ends up exceeding the actual cost incurred on the invoice upon performance completion (Headquarters U.S. Marine Corps, 2001, p. 10-24). This can occur when the quantity of goods received for is less than what was awarded. The resulting excess funds

can be redistributed towards other requirements or invoices in support of mission. However, if the excess funds are not de-obligated, then the transaction results in an unliquidated obligation where the contractor has yet to be paid for the goods and services delivered. The final step occurs as the contracting officer signs a completion statement certifying the contract has been officially closed and final payment disbursement is made to the contractor through the Defense Finance and Accounting Service (DFAS) (DiNapoli, 2013, p. 4).

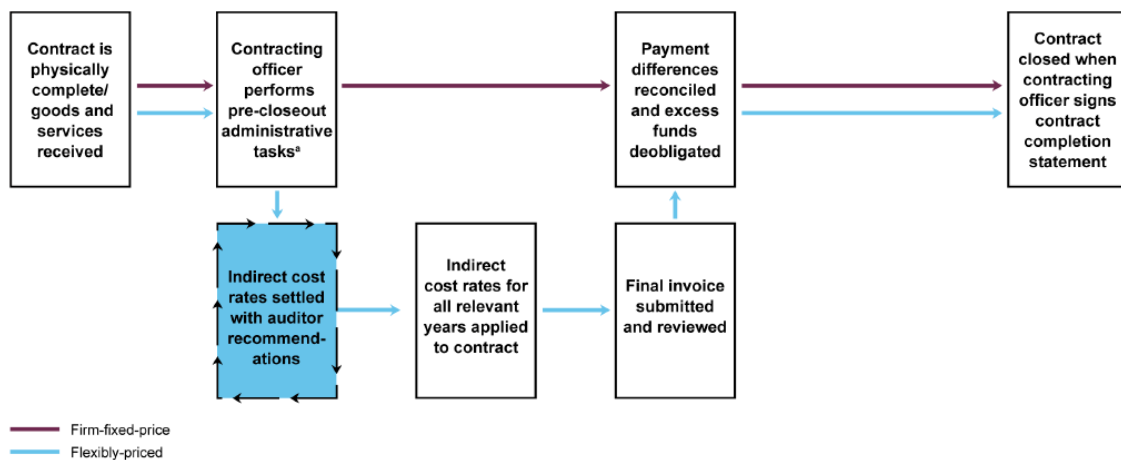


Figure 2. Contract Closeout Process. Source: DiNapoli (2017).

D. 31 U.S. CODE §1553 - AVAILABILITY OF APPROPRIATION ACCOUNTS TO PAY OBLIGATIONS.

When contracts are left unpaid after the five-year expenditure availability period, the authority to make additional payments and adjustments using the original appropriation cancels and is relinquished. An exception to this rule exists pursuant to 31 U.S. Code §1553—*Availability of Appropriation Accounts to Pay Obligations*, where a current year appropriation can be used to fund obligations that were otherwise chargeable to the canceled appropriation. However, the total amount of the current year appropriation charged to the canceled account payments may not exceed 1% of the total appropriation. Take for instance a command with a total budget of \$300 million in O&M wanting to closeout an unpaid contract originally funded with O&M that has surpassed its expenditure

availability period. The command would need to leverage current year O&M funding not to exceed \$3 million to pay the contractor and closeout the contract.

E. GAO FINDINGS

1. GAO-11-891: Improved Planning and Management Oversight Needed to Address Challenges with Closing Contracts

The GAO examined contingency contracts in support of DOD reconstruction and stabilization efforts in Iraq and Afghanistan awarded between 2003 and 2010 (Hutton, 2011, p. 1). GAO found that 90% of the open contracts that the DOD could provide supporting documentation for were tied to funding that lapsed its five-year expenditure period of availability and were subsequently canceled. Timely contract closeout was hindered by a multitude of reasons including a lack of advanced contract planning, DCAA workforce shortfalls to reduce its audit backlog of incurred cost proposals, limited and inadequate proposal information, non-compliance with government accounting standards “leading to misallocation of costs,” and “delays in providing DCAA access to needed records” (Hutton, 2011, p. 21).

2. GAO-13-131: DOD Initiative to Address Audit Backlog Shows Promise, but Additional Management Attention Needed to Close Aging Contracts

One of the major contract closeout issues noted by DiNapoli (2013) in the GAO report was the DCAA backlog of roughly 25,000 indirect cost audits on flexibly priced contracts, some of which dated back to 1996. He explains that a big reason for this backlog was again due to workforce shortfalls in being able to meet contract closeout goals and closeout visibility issues with its contract data collection system, Mechanization of Contract Administration Services (MOCAS). He adds that to effectively address the backlog, DCAA revised its contract closeout procedures by implementing a risk-based approach in 2012 that targets high-risk and high-dollar value incurred cost proposals, or those proposals that exceed the \$250 million auditable dollar value (ADV). According to DiNapoli, factors that DCAA considers for high-risk categorization include prior audits with the contractor, risks identified from the contracting officer, and business system deficiencies. Accordingly, those proposals that fall under the \$250 million ADV threshold

may bypass audit except for low-risk proposals that are sampled for audit, as shown in Figure 3. DCAA then issues a low-risk memorandum to the responsible command, recommending that contracting officers use their own judgement and authority to finalize the contractor’s indirect cost rates for contract closeout. By using the risk-based approach, DCAA effectively decreases its backlog by reducing the total number of contracts requiring audit, while deterring contractors from reporting inaccurate cost proposals (DiNapoli, 2013).

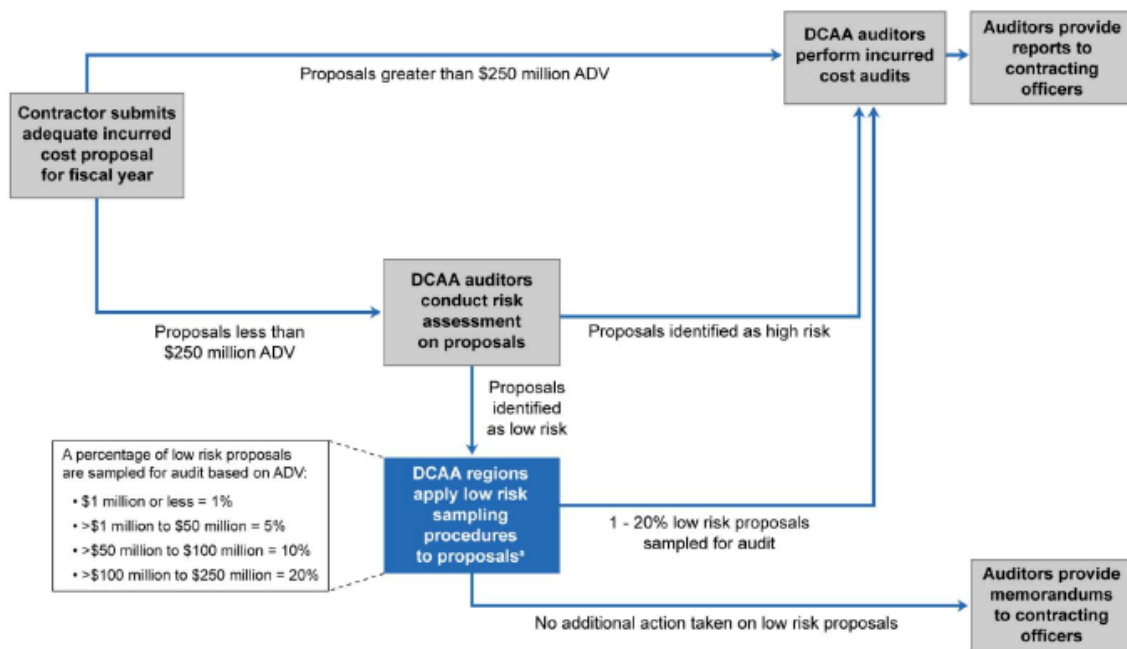


Figure 3. DCAA’s Revised Incurred Cost Audit Procedures.
Source: DiNapoli (2013).

Other reasons for the backlog of aging contracts outside DCAA noted by DiNapoli include the DOD having “limited data and performance metrics on contract closeout efforts” (p.18). More specifically, “the military departments generally do not have data on the extent or nature of their contract closeout backlog, while DCMA is missing key information that would allow it to identify contracts on which it could take action” (p. 18). DiNapoli also specifies that the Navy did not have a centralized data repository that could be leveraged to accurately track the statuses of their open contracts and had to request data

from their local individual contracting offices which ultimately delayed the contract closeout process. Additionally, the Navy and Air Force failed to establish department-wide performance metrics for their contract closeout backlog such as monthly closeout goals that could help to measure progress on contract closeout.

3. GAO-17-738: Additional Management Attention and Action Needed to Close Contracts and Reduce Audit Backlog

Comparable to previous GAO reports, DiNapoli (2017) finds that the DOD components did not have the ability to centrally track contract closeouts and relied on several different contract management systems to pull this information. He goes on to specify that while the DOD components did have data on the quantity of contracts awaiting closeout and established closeout goals and performance measures, the components were unable to track contract closeout statuses. While the Navy set a goal for each of its local contracting offices (including the Marine Corps) to reduce the quantity of contracts overdue for closeout by 5% in 2016, roughly a year later, only 6 out of 10 contracting activities met this goal.

DiNapoli finds that DCAA backlogged incurred cost proposals awaiting audit were reduced from 31,000 in fiscal year 2011 to 14,000 at the end of fiscal year 2016. DCAA also reduced its older inventory of proposals (FY2013 and older) by 76% and attributed their improvement to management's attention in prioritizing incurred cost audits through its risk-based approach and their multi-year audit approach where DCAA combines two or more incurred cost proposal into a single audit. According to DCAA, this approach "reduced the average number of hours to conduct an audit by 40 percent over conducting separate single-year audits" (p. 26).

DiNapoli asserts that while DCAA has improved on decreasing its audit backlog of incurred cost proposals, it did not create and apply performance measures to assess the effectiveness of actions implemented to reduce the time required to begin an audit upon receipt of an incurred cost proposal. He adds that DCAA does not track the number of audits that are effectively closed due to the multi-year audit approach. Based on data from FY2016, an average of 855 days passed from the time an adequate cost proposal was

received before DCAA could finish an audit. This number decreased from FY2012 where it took an average of 1,184 days to complete an audit as shown in Figure 4. According to DiNapoli, staff availability was noted by DCAA officials as a primary factor contributing to this delay.

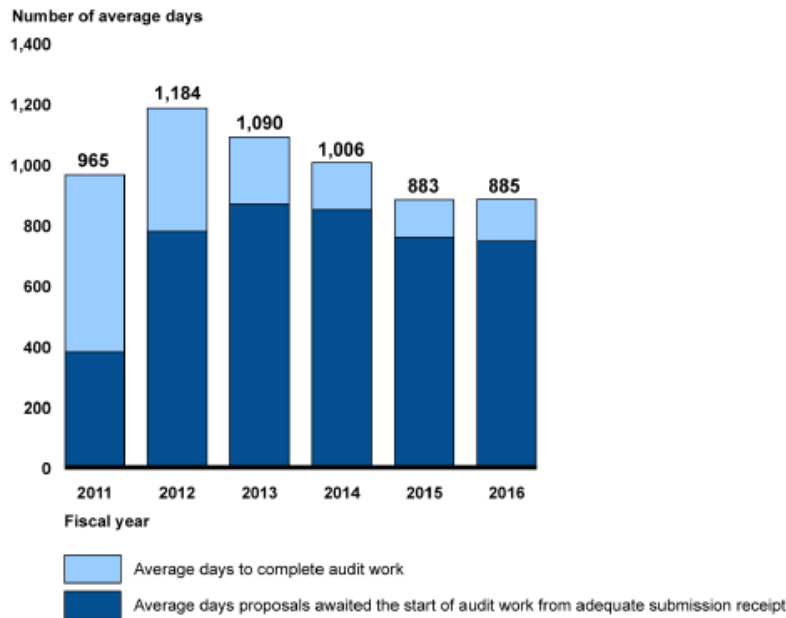


Figure 4. Average Number of Days for the Defense Contract Audit Agency to Complete incurred Cost Audits. Source: DiNapoli (2017)

F. HQMC, P&R ATTEMPTS TO STREAMLINE CLOSEOUT OF CANCELED ACCOUNT PAYMENTS IN JANUARY 2021

In January 2021, Programs and Resources (P&R) attempted to streamline the closeout of overdue contracts through the circulation of unofficial payment instructions for the use of current year funds to pay for closed invoices pursuant to 31 USC 1553—Availability of Appropriation Accounts to Pay Obligations. Figure 5 displays these payment instructions. P&R’s Accounting and Financial Systems Branch created a SharePoint link to publish current over-aged contracts pending closeout and their corresponding invoice packages with any existing key supporting documentation. DOD components can access the SharePoint site where they can view this supporting documentation and make the necessary adjustments within their respective accounting

systems using a current year line-of-accounting and special accounting codes. These adjustments are then recorded on a funding letter template and sent to DFAS for review and final payment to the contractor.

Pursuant to 31 USC 1553 - Availability of appropriation accounts to pay obligations, invoices for payment against closed appropriations are chargeable to a current appropriation available for the same purpose. DFAS Columbus publishes a monthly list of outstanding MOCAS and CAPS-W invoices due payment from closed accounts which incur interest charges until paid.

P&R BE and RFA have been working together to streamline the process by consolidating the list of outstanding invoices, obtaining documentation, and coordinating appropriate funding to be passed for current year obligation so that the current year Line of Accounting can be provided to DFAS in the requested format to pay the invoice.

MOCAS and CAPS-W closed account invoices have been merged and the payment instructions are now the same:

For both MOCAS and CAPS-W:

- Utilizing Spreadsheet 'Closed Account Invoice 20201207', reference Column 'A' to locate your Debt Letters and Invoice Packages via the RFA SharePoint link below. Documents are labeled in accordance with the DFAS Tracking number, column 'A' of the details tab and are broken out by either MOCAS or CAPS-W (column I).
<https://hqmcportal.hqi.usmc.mil/org/pr/fiscalops/accounting/review/1553/Forms/AllItems.aspx?RootFolder=%2Fpr%2Ffiscalops%2Faccounting%2Freview%2F1553%2FDFAS%204EMM%20UND5%20REQ%27S&FolderCTID=0x01200004D6f161372B3E4fA8929B780533C50B&View=%7B3AfA40BA%2DE5AA%2D4DE6%2DB8f7%2D564f2f0394f6%7D>
- In order to fund with current year:
 - o Obligate a current year SDN and LOA to pay the closed account invoice utilizing the funding passed by RFE (different for APPNs but for 1106, 4EMM)
 - o Utilize the BLI 4EMMXXXX(X's = closed Fiscal Year) LOA as the funding was just passed to you in the manner required to pay these invoices.
 - o Utilize Document Type Code 'SU'
 - o Apply Contract number, PIIN, CLIN/SLIN from original contract
 - o Utilize ACRN 'ZZ'. If that line is already in use, DFAS will let you know to utilize a different ACRN – you will not know until you submit.
- Complete the attached Funding Letter Template by updating the highlighted sections – signature is not required. The template is not mandatory but ensures all of the information DFAS needs is covered, otherwise, input the information in the body of an email and ensure it cites all attributes below:
 - o Complete LOA must be listed
 - o Dollar amount must be listed
 - o Contract number and shipment must be listed
 - o Ensure email states "providing current year funding to replace cancelled funds"
- Submission Instructions
 - o Submit letter to DFAS via the dfas.dscjaf.mbx.bksfd-dmact@mail.mil mailbox with the subject line: "DFAS tracking number (column 'a'), contract number (column 'b'), and invoice number (column 'c') – MOCAS or CAPS-W" (annotate either MOCAS or CAPS-W)

Figure 5. Closed Account Invoice Payment Instructions. Source: Headquarters, U.S. Marine Corps, Programs and Resources (n.d.).

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III. DATA ANALYSIS

The Marine Corps canceled account payment data used in this report was pulled on July 16, 2021, and obtained from HQMC, P&R. This data includes the quantity of overdue contracts, information on the fiscal year that the contracts were obligated, the command authority from which the contract belongs, and the net dollar amount left to be paid to the vendor, including any accrued interest. Figures were generated from the data using Microsoft Excel.

A. DISTRIBUTION OF CANCELED ACCOUNT PAYMENTS BY FISCAL YEAR

Figure 6 displays the distribution of canceled account payments between fiscal years 2002 and 2018. Canceled account payments show a 360% increase from FY7 to FY11, followed by an immediate 109% decrease from FY2011 to FY2012, and another sharp 450% decrease from FY14 to FY15. While not enough information was obtained to accurately explain this distribution, anecdotally, earlier contracts spanning from FY2002 to FY2007 have longer time for contract closeout to occur. Furthermore, the decrease in canceled account payments from FY2011 to FY2012 may be the result of a decrease in volume of awarded contracts and/or better efforts to close contracts within the time timeframes mandated by the FAR §4.804-1(a)(2) and (3).

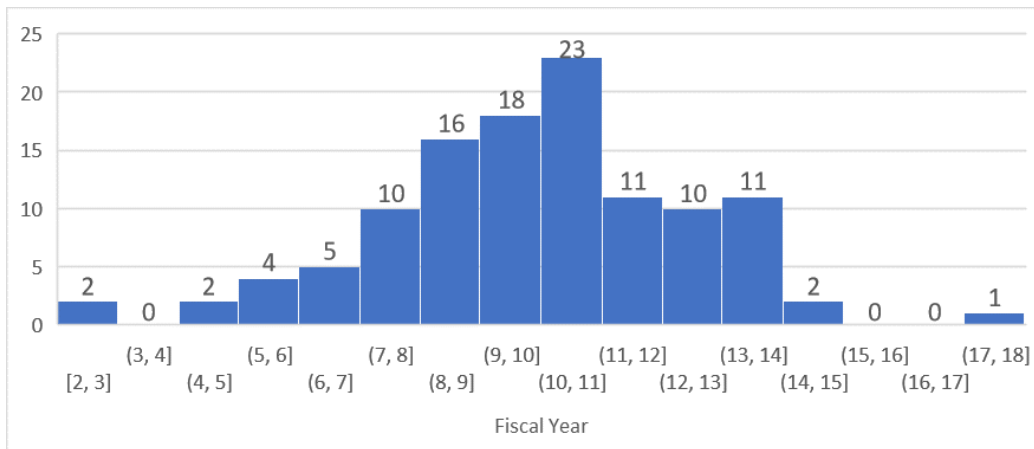


Figure 6. Canceled Account Payment Distribution Across FY 2002–2018

B. NET DOLLAR AMOUNT BY FISCAL YEAR

Figure 7 shows that FYs 2011, 2013 and 2014 held the highest values for closed account payments totaling \$329,916 in FY2011, \$354,182 in FY2013, and \$303,025 in FY2014. Further examination reveals that the largest canceled account payment amounts resulted from only a few high-dollar contracts. The most notable contracts from FY2011 were in support of the Mine-Resistant, Ambush-Protected (MRAP) vehicle program which comprises 74% of the total canceled account payment amounts from FY2011, or \$244,216 in procurement funding. As of January 6, 2011, the Marine Corps produced and fielded MRAP vehicles through the Senate Appropriations Committee approval of a \$3.4 billion budget request for enduring force requirements in Iraq and Afghanistan (CRS, 2011). The MRAP vehicle provides superior protection for troops against Improvised Explosive Devices (IEDs) compared to the previously fielded High Mobility, Multi-Wheeled Vehicles (HMMWVs), and were credited with reducing IED injuries and deaths in Afghanistan by 30% with its “V” -shaped hull and armor plating (CRS, 2011, pp. 1–2). A counter point to this narrative is shown in similar studies by Rohlfs and Sullivan (2013a, 2013b), where they highlight that while the MRAP vehicle provides superior protection against improvised explosive devices (IEDs), they did not appreciably reduce fatalities in comparison to up-armored Humvees which had lighter armor protection. What Rohlfs and Sullivan found was that the behavioral responses and substitution effects from the enemy and our own soldiers were counteracting the positive effects of the additional armor protection of the MRAP vehicles.

In FY2013, Training and Education Command (TECOM) was responsible for 62% of canceled account payment amounts, or \$221,774 funding, while HQMC Directorates were responsible for 76%, or \$230,125 in FY2014. Further research is needed to better understand the etiology of these contracts.

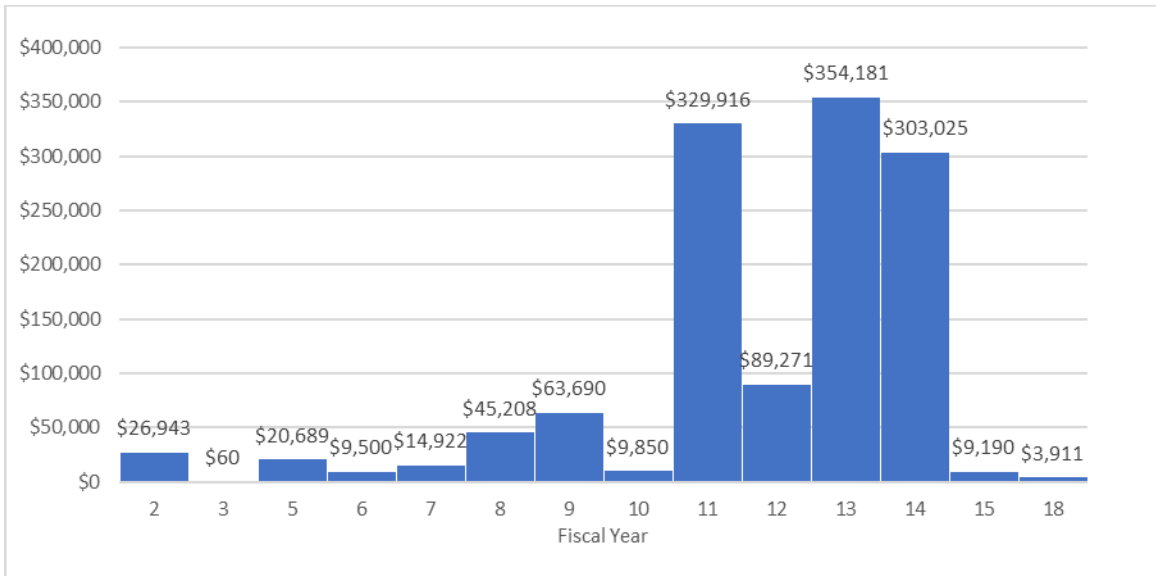
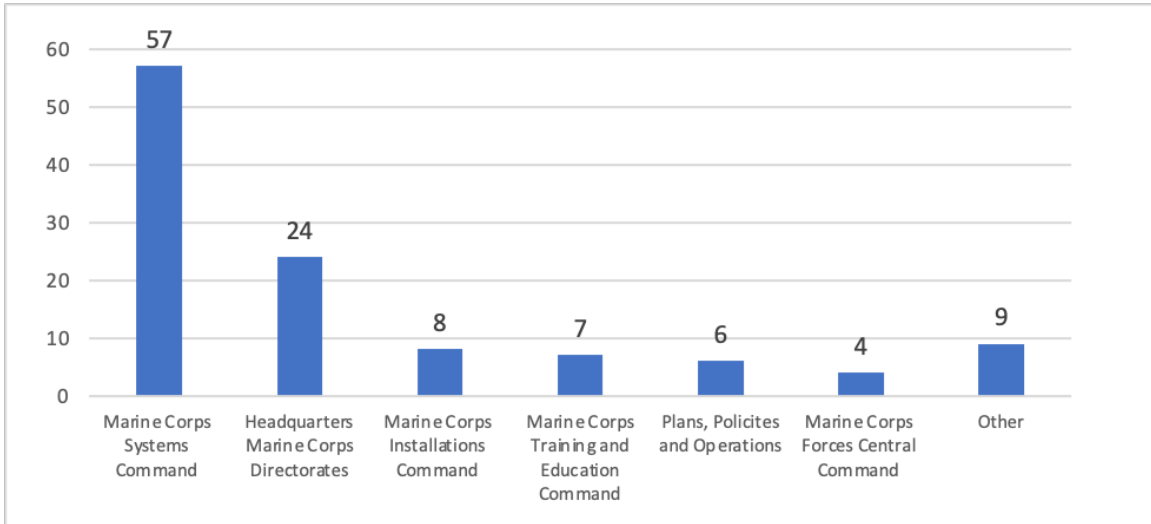


Figure 7. Canceled Account Payment Amounts by Fiscal Year

C. INVOICE QUANTITY BY COMMAND

Marine Corps Systems Command (MARCORSYSCOM) accounts for roughly half of the total of canceled account payments at 57 (49.56%) as shown in Figure 8. This can be attributed to the fact that MARCORSYSCOM awards a higher volume of contracts as the acquisition arm of the Marine Corps and primary contracting authority for all ground weapons systems and information technology programs required to meet the Marine Corp’s Force Design initiatives and ensure the service accomplishes its mission (Marine Corps Systems Command [MARCORSYSCOM], n.d.). Additionally, the command receives and executes additional appropriations outside O&M that other commands are not provided, including procurement and RDT&E funding.

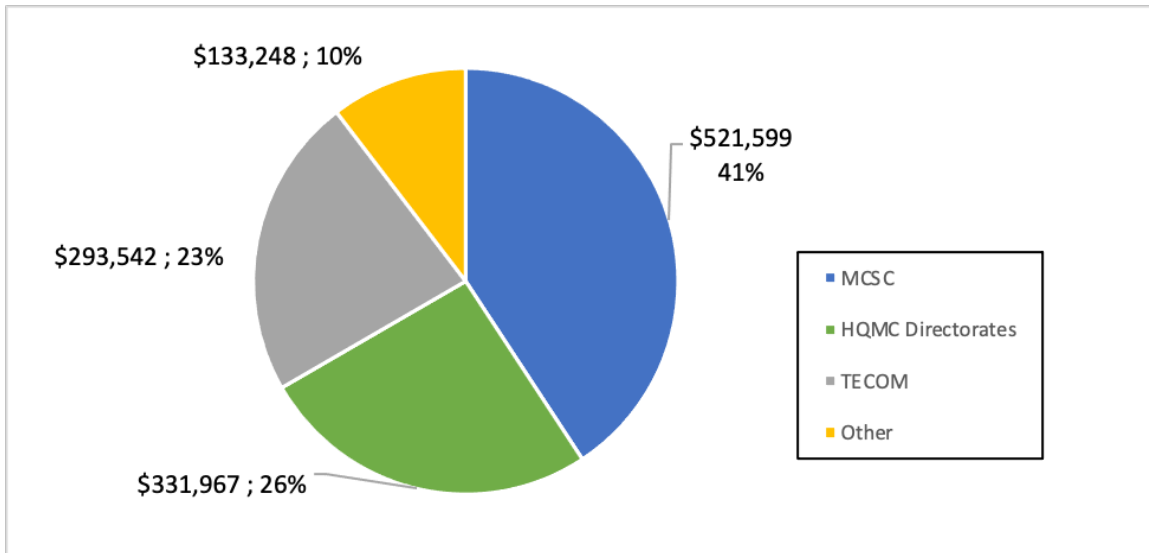


Note: “Other” includes Marine Corps Installations Command (3), Unknown (2), Marine Forces Pacific (2), Marine Corps Logistics Command (1), Marine Corps Recruiting Command (1)

Figure 8. Canceled Account Payment Quantity by Command

D. PROPORTION OF CANCELED ACCOUNT PAYMENT AMOUNTS BY COMMAND

Figure 9 shows that MARCORSYSCOM accounts for 41% of the total dollar value of all canceled account payments, or \$521,599. Of this amount, 56% is from procurement funding, while 37% is from O&M, Marine Corps funding. The HQMC Directorates and the Marine Corps TECOM accounted for 26% and 23%, respectively.

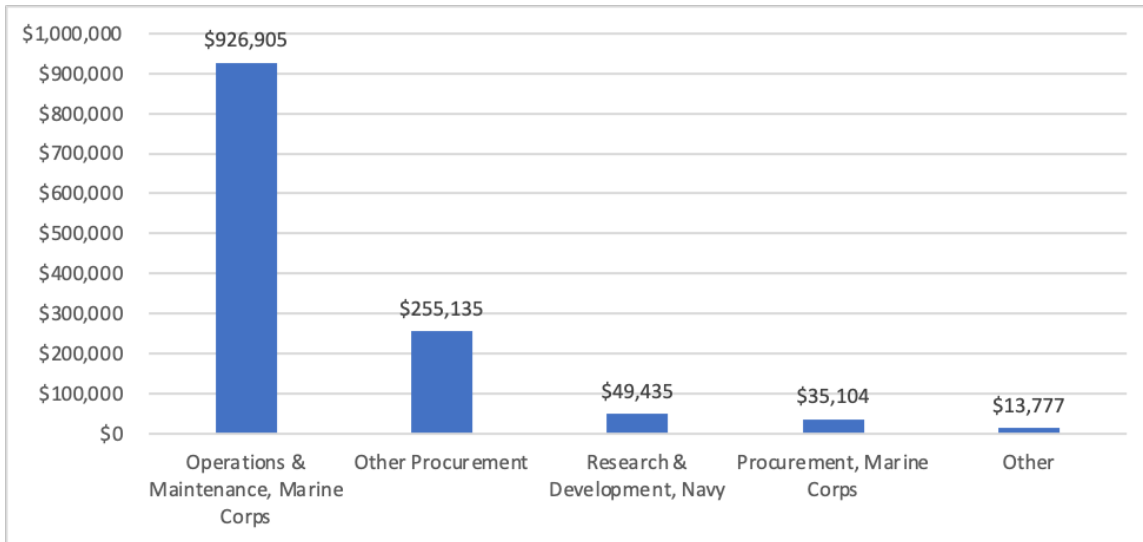


Note: "Other" includes Marine Corps Installations Command (4.73%), Unknown (2.11%), Marine Forces Pacific (.02%), Marine Corps Logistics Command (.01%), Marine Corps Recruiting Command (.05%), Plans, Policies & Operations (1.95%)

Figure 9. Proportion of Canceled Account Payment Amounts by Command

E. NET DOLLAR AMOUNT BY APPROPRIATION

As depicted in Figure 10, the Operations and Maintenance (O&M), Marine Corps appropriation accounts for \$926,905, or over 72% of all funding owed to commercial vendors. This is accurately reflected in the Marine Corps FY2021 budget where over \$8,370,900 was enacted in O&M funding (OUSD-C, 2021, p. 8), the second largest amount in the budget behind Military Personnel Marine Corps (MPMC) funding (OUSD-C, 2021, p. 109).



Note: "Other" includes Operations & Maintenance, Army (\$12,720), Other Procurement, Air Force (\$880), Procurement, Ammunition (\$177)

Figure 10. Canceled Account Payment Amounts by Appropriation Type

IV. DISCUSSION AND RECOMMENDATIONS

A. DISCUSSION

1. Limitations

While the data provided by HQMC, P&R contained enough information to uncover the primary sources of canceled account payments (i.e., command, fiscal year, dollar amount, quantity, etc.), it lacked specific information regarding the type of goods or services being contracted (with exception to the MRAP vehicle program). Additionally, information obtained from HQMC lacked visibility regarding statuses of where the over-aged contracts were within the closeout process. Without this information, a more thorough understanding and uncovering of causal factors internal to the DOD could not be obtained.

2. Areas for Future Research

a. *Mechanization of Contract Administration Services*

Based on the limitations and findings noted in GAO-13-131, future research efforts should focus on investigating the systematic visibility issues within the contract data collection system, MOCAS, which can provide key details on individual contract files. Eliminating systematic barriers within MOCAS may provide greater visibility on individual, high-dollar contracts and their closeout statuses which would ultimately help to identify potential bottlenecks, both internally and externally to the Marine Corps.

b. *MARCORSYSCOM*

While GAO investigated the Department of the Navy as a whole, they did not narrow their focus to the Marine Corp's internal systems and processes for over-aged contract closeout. Because roughly half of the Marine Corps canceled account payments reside at MARCORSYSCOM, future research efforts should focus there. This would entail coordination with the MARCORSYSCOM contracting office to examine trends within data and information such as encountered contractor issues, closeout status reports, and details on the goods and services being contracted (e.g., contractor information).

c. Defense Agencies Initiative

With the Marine Corp’s recent FY2022 transition from an old terminal-based accounting system known as the Standard Accounting, Budgeting, and Reporting System (SABRS) to the web-based, more audit-focused Defense Agencies Initiative (DAI) platform, further research will need to be done to determine whether DAI implementation has any impact on the closed account payment process and whether the new system affords greater visibility and oversight to better prevent and facilitate the reconciliation of canceled account payments from an accounting standpoint.

B. RECOMMENDATIONS

a. Addressing DCAA Workforce Shortfalls

Updates to GAO-17-738—*Additional Management Attention and Action Needed to Close Contracts and Reduce Audit Backlog*, indicate that DCAA took measures to address their inventory of incurred cost proposals by revising their policies to reflect the FY2018 National Defense Authorization Act (NDAA) requiring DCAA audit completion and issuance of subsequent findings “no later than one year after the date of receipt of all adequate incurred cost proposals” (Government Accountability Office, n.d.). Although, policy was revised to reflect the recommendations set forth by GAO, this revision did not address DCAA workforce shortfalls which are the primary reason for untimely audit completion that continues to undermine the Marine Corp’s and other services’ ability to closeout contracts on time.

A recommended approach to address DCAA’s workforce shortfalls is the creation and employment of a tiger team task force that could bridge the gap between commercial contractors and DCAA to better facilitate reconciliation of canceled account payments. The task force’s primary agendas would include reducing the backlog of proposals and reducing the time between the receipt of an incurred cost proposal from the contractor to the commencement and completion of the audit by the task force. The members of the task force would be roughly comprised of 5–6 experienced audit personnel and recruited within DCAA. The task force would add additional focus on closing audits on the oldest, high-risk, and high-dollar proposals, complimenting DCAA’s risk-based audit approach. In

theory, this would further alleviate workload pressure on other efforts to decrease the backlog of proposals and ultimately enable DCAA to focus on incoming proposals, allowing them to meet the deadlines prescribed by the NDAA.

b. HQMC, P&R Payment Instructions

The DOD took executive action in response to the GAO recommendations set forth in GAO-17-738 by creating a way to centrally trace the number of contracts awaiting closeout (Government Accountability Office, n.d.). However, the DOD did not develop a method for tracking the statuses of over-aged contracts. Findings from DiNapoli in GAO-13-131 and GAO-17-738 indicate that long standing issues with closeout status visibility continue to hinder the DOD's ability to closeout contracts in a timely manner. Limitations experienced in this study similarly indicate concerns with the Marine Corp's ability to centrally track the closeout statuses of canceled account payments without further input from lower-level commands.

To effectively address this limitation and facilitate timely closeout, HQMC, P&R should promulgate official payment instructions detailing the use of their SharePoint site which contains pertinent contract documentation required for payment. This SharePoint site should be modified to include a field for units to input and track their closeout notes and the statuses of their canceled account payments pending closeout. Moreover, policy should reflect the use of these payment instructions to reinforce a centralized means for contract closeout. Understanding contract closeout statuses at the enterprise level could alleviate the backlog of canceled account payments across Marine Corps components by uncovering potential process bottlenecks and providing insight on which internal and external entities are due for immediate closeout action.

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V. CONCLUSION

Internal and external factors inhibit the timely closeout of over-aged contracts after formal agreements to procure goods and services have been met between various DOD components and commercial contractors. A primary external factor precluding the timely closeout of contracts includes DCAA workforce shortfalls which severely limit DCAA's ability to complete timely audits of incurred cost proposals. Without timely audits being conducted by DCAA, DOD contracting and financial management personnel cannot effectively closeout flexibly priced contracts on behalf of their commands, often within the five-year expenditure availability period. Subsequently, the corresponding appropriation used to pay for the goods and services expires, resulting in canceled account payments where no new obligations and adjustments to the contract can be made. Pursuant to 31 U.S. Code §1553, current year funds must then be utilized to pay those closed account invoices in addition to any interest accrued overtime. To address DCAA workforce shortfalls and address their backlog of incurred cost proposals, a tiger team task force is recommended to effectively decrease the time from the submission and receipt of high-risk, high-dollar proposals, to the completion of their respective audits, thereby complimenting DCAA's risk-based approach. Additionally, the task force would focus on the oldest outstanding proposals, ultimately enabling DCAA to focus on newer, incoming proposals.

Additional findings from GAO indicate that internal systemic visibility issues, such as not being able to centrally track the status of over-aged contracts pending closeout, continue to impact timely closeout. Similar issues appear to be reflected within the Marine Corps where over \$1.2 million in canceled account payments remains unpaid from various commands including MARCORSYSCOM, which accounts for roughly half of all Marine Corps canceled account payments owed to contractors. These issues are only compounded overtime as key personnel originally involved in contract closeout rotate and leave, while missing key supporting documentation becomes harder to obtain. It is yet to be determined whether recent efforts made by HQMC, P&R to streamline the reconciliation and payment of these closed invoices with current year funds are helping to reduce the backlog of payments owed to contractors. In the interim, to ensure HQMC, P&R can successfully

streamline and facilitate payment and closeout of the closed invoices, official payment instructions and policy guidance should be promulgated to various commands with canceled account payments including MARCORSYSCOM, Marine Corps Training and Education Command, Marine Corps Installations Command, Marine Forces Pacific, Marine Corps Logistics Command, Marine Corps Recruiting Command, HQMC Directorates, and other applicable commands.

Finally, future research efforts should continue to investigate factors impeding timely closeout and look at both preventative and corrective measures to effectively address canceled account payments. One recommended area of focus can determine whether DAI implementation affords greater visibility and oversight to better prevent and enable reconciliation of canceled account payments. Other viable areas of focus could examine MOCAS system visibility issues which hinder DCMA's ability to identify actionable overaged contracts (DiNapoli, 2013), in addition to the Marine Corps acquisition arm, MARCORSYSCOM, where 50% of all Marine Corps canceled account payments reside.

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