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DEFENSE FINANCE AND ACCOUNTING SERVICE  
COMMERCIAL ACTIVITIES PROGRAM

Report Number 99-208

July 8, 1999

Office of the Inspector General  
Department of Defense

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### **Acronyms**

COMPARE	Commercial Activities Cost Comparison System
DeCA	Defense Commissary Agency
DFAS	Defense Finance and Accounting Service
FTE	Full Time Equivalent
MEO	Most Efficient Organization
OMB	Office of Management and Budget



**INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
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July 8, 1999

**MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)  
DEPUTY UNDER SECRETARY OF DEFENSE  
(INSTALLATIONS)  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE**

**SUBJECT: Audit Report on Defense Finance and Accounting Service Commercial  
Activities Program (Report No. 99-208)**

We are providing this report for information and use. This report is the third in a series on Defense agencies performance of commercial activities. We considered management comments on a draft of this report when preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Garold E. Stephenson at (703) 604-9332 (DSN 664-9332) (gstephenson@dodig.osd.mil) or Mr. Benjamin A. Mehlman at (703) 604-9252 (DSN 664-9252) (bmehlman@dodig.osd.mil). See Appendix C for the report distribution. Audit team members are listed inside the back cover.

*David Steensma*

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for Auditing

## Office of the Inspector General, DoD

Report No. 99-208

July 8, 1999

(Project No. 8CH-0008 02)

### Defense Finance and Accounting Service Commercial Activities Program

#### Executive Summary

**Introduction.** This is the third in a series of reports on Defense agency commercial activities programs. The Defense Finance and Accounting Service provides finance and accounting services for DoD components and other Federal agencies. It processes a monthly average of 9.8 million payments to DoD personnel; 830,000 commercial invoices; 730,000 travel vouchers and settlements; 550,000 savings bonds issuances; and 200,000 transportation bills of lading, and disburses about \$22 billion monthly. It employs about 21,000 full-time equivalent military and civilian personnel at headquarters, 5 centers, and 18 operating locations.

**Objectives.** The overall audit objectives were to determine the accuracy of inventories of commercial activities subject to study for competitive sourcing and privatization, evaluate the reasonableness of in-house cost estimates, and identify inherently governmental functions for competitive sourcing studies reported and initiated by the Defense agencies. This report evaluated the Defense Finance and Accounting Service competitive sourcing process and reviewed the adequacy of the Defense Finance and Accounting Service management control program as applicable to the primary audit objective.

**Results.** The Defense Finance and Accounting Service commercial activities inventory reports for FYs 1996 and 1997 fairly presented the total in-house full-time-equivalent personnel for the operating locations. However, the Defense Finance and Accounting Service erroneously reported in its FY 1996 inventory that 21,543 full-time equivalent personnel were pending results of scheduled cost comparison studies. The Defense Finance and Accounting Service also did not properly code 504 personnel reported in its FY 1997 inventory and could not substantiate the number of contractor personnel performing commercial activities. Thus, the FYs 1996 and 1997 inventory reports did not provide reliable data for planning and management oversight purposes. The Defense Finance and Accounting Service completed two Office of Management and Budget Circular No. A-76 cost comparison studies during 1997 that contained errors and lacked thorough independent reviews. In addition, Defense Finance and Accounting Service suspended another cost comparison study during 1997 and has not deobligated \$288,259 on the support contract for the study. The errors and omissions in the cost comparison studies were not significant enough to challenge the decisions to perform the functions with in-house personnel (finding A).

The Defense Finance and Accounting Service did not adequately plan, coordinate, and compete the requirements for two contract efforts costing about \$335,000 for the development of computer software. As a result, the Defense Finance and Accounting Service was developing software for its A-76 cost comparison studies that will generate

different cost estimates than a widely used Air Force-developed program, which could result in protests to DoD cost comparison decisions. On July 15, 1998, we issued a memorandum to the Deputy Under Secretary of Defense (Industrial Affairs and Installations) (now the Deputy Under Secretary of Defense [Installations]) and to the Director, Defense Finance and Accounting Service, suggesting that the agency cease development of the cost comparison software and use the Air Force software. The Defense Finance and Accounting Service subsequently stopped its A-76 software development. On December 22, 1998, the Deputy Under Secretary of Defense (Industrial Affairs and Installations) agreed to establish policy in the DoD Instruction 4100.33, "Commercial Activities Program Procedures" that will require DoD Components to obtain approval before initiating development or procurement of cost comparison software (finding B).

The Director, Defense Finance and Accounting Service did not implement effective management controls to ensure that the two cost comparison studies completed during 1997 complied with DoD, and Office of Management and Budget guidance. However, during 1998, the Defense Finance and Accounting Service initiated action to eliminate the material management control weakness by requesting the Inspector General, DoD, to perform an independent review of five on-going cost comparison studies. See Appendix A for details on the management control program.

**Summary of Recommendations.** We recommend that the Director, Defense Finance and Accounting Service, establish policies and procedures for retention of all documentation that is the basis for development of the most efficient organization and in-house cost estimates for A-76 studies. We also recommend that the Director, Defense Finance and Accounting Service, deobligate \$288,259 on contract DASG60-96-C-0012 in support of the competitive sourcing study of accounting support for the DoD Education Activity, and inform the Deputy Under Secretary of Defense (Installations) of the termination of the study.

**Management Comments.** The Defense Finance and Accounting Service agreed to establish policies and procedures for retention of all documentation that is the basis for development of the most efficient organization and in-house cost estimates for A-76 studies. The Defense Finance and Accounting Service also agreed to deobligate contract DASG60-96-C-0012 funds in support of the competitive sourcing study of accounting support for the DoD Education Activity and to inform the Deputy Under Secretary of Defense (Installations) of the termination of the study. A complete discussion of management comments is in the Finding section of the report and the complete text is in the Management Comments section.

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## Background

**Defense Finance and Accounting Service.** The Defense Finance and Accounting Service (DFAS) was activated on January 15, 1991, to provide finance and accounting services to other DoD components and Federal agencies. It operates under the direction, authority, and control of the Under Secretary of Defense (Comptroller). DFAS directs all finance and accounting requirements, systems, and functions for appropriated, nonappropriated, working capital, revolving, and trust fund activities, including security assistance. Each month, DFAS processes about 9.8 million payments to DoD personnel; 830,000 commercial invoices; 730,000 travel vouchers and settlements; 550,000 savings bonds issuances; and 200,000 transportation bills of lading, and disburses about \$22 billion. DFAS employs about 21,000 full-time equivalent (FTE) military and civilian personnel at its headquarters, 5 centers, and 18 operating locations.

**Office of Management and Budget Circular No. A-76.** Office of Management and Budget (OMB) Circular A-76, "Performance of Commercial Activities," August 4, 1983, is the Government-wide policy for determining whether commercial activities should be contracted out or performed in-house. The OMB Circular A-76 Revised Supplemental Handbook, March 1996, provides detailed guidance on how and when cost comparison studies are to be performed and what costs will be included in the comparison of in-house and contractor cost proposals. DoD Instruction 4100.33, "Commercial Activities Program Procedures," implements the OMB Circular A-76 and the Revised Supplemental Handbook. DoD Instruction 4100.33 requires that DoD Components annually identify and report their commercial activities to OSD.

**Defense Reform Initiative Report.** The November 1997 Defense Reform Initiative report states that DoD will increasingly rely on competition between the public and private sectors to improve quality, reduce costs, and respond to customer needs. The 1996 report of the Defense Science Board Task Force on Outsourcing and Privatization concluded that DoD could realize savings of between 30 and 40 percent by competing support activities. The Defense Reform Initiative report identified the DFAS civilian pay and retiree and annuitant pay functions as areas that would be opened up for competition under the OMB Circular A-76 process. On January 16, 1998, the Deputy Secretary of Defense issued Defense Reform Initiative Directive No. 20, "Review of Inherently Governmental Functions," which chartered a senior DoD working group to issue guidance to obtain a more accurate and complete DoD-wide commercial activities inventory.

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## **Objectives**

The overall objectives were to determine the accuracy of inventories of commercial activities subject to study for competitive sourcing and privatization, evaluate the reasonableness of in-house cost estimates, and identify inherently governmental functions for competitive sourcing studies reported and initiated by the Defense agencies. This report evaluated the DFAS competitive sourcing process, and reviewed the adequacy of the DFAS management control program as it applied to the primary audit objective. See Appendix A for a discussion of the audit scope and methodology, and a review of the management control program. See Appendix B for prior coverage related to the audit objectives.

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## **A. Commercial Activities Inventories and Competitions**

The DFAS commercial activities inventory reports for FYs 1996 and 1997 fairly presented the total in-house FTE personnel for the operating locations. However, DFAS erroneously reported in its FY 1996 inventory that 21,543 FTEs were pending results of scheduled cost comparison studies. DFAS also did not properly code 504 FTEs reported in its FY 1997, inventory and could not substantiate the number of contractor personnel performing commercial activities. DFAS completed two cost comparison studies during 1997 that contained errors and lacked thorough independent reviews. In addition, DFAS suspended another cost comparison study during 1997 and has not deobligated \$288,259 for contractor support for the study. These conditions occurred because of insufficient management emphasis on accurate reporting of commercial activities inventories, retention of cost comparison study documentation, and planning of the competition studies. Thus, the FYs 1996 and 1997 inventory reports did not provide reliable data for planning and management oversight purposes. The errors and omissions in the cost comparison studies, while not significant enough to challenge the decisions to perform the functions with in-house personnel, could affect perceptions regarding the fairness of the competitions.

### **DFAS Commercial Activities Inventories**

DFAS submitted commercial activities inventory reports for FYs 1996 and 1997 that fairly presented the total in-house FTE personnel at the headquarters, centers, and operating locations. Table 1 summarizes the FYs 1996 and 1997 commercial activities inventories submitted by DFAS.

**Table 1. Defense Finance and Accounting Service Commercial Activities Inventory By Performance Category (Full Time Equivalents)**

Performance Category	FY 1996 Inventory	FY 1997 Inventory
Military and civilian personnel subject to A-76 studies or direct conversion	0	19,342
Decision pending <sup>1</sup>	21,543	0
Retained in-house for Defense reasons	4	0
Retained in-house because of Executive Order or international agreement	2,630	645
Exempt (Inherently governmental) <sup>2</sup>	0	393
Function retained in-house <sup>3</sup>	0	134
No code assigned	0	504
<b>Subtotal</b>	<b>24,177</b>	<b>21,018</b>
Contractor personnel <sup>4</sup>	724	70
<b>Total</b>	<b>24,901</b>	<b>21,088</b>

<sup>1</sup>Decision to retain in-house or convert to contract pending result of a scheduled cost comparison.

<sup>2</sup>FTEs performing inherently governmental functions were not reported in the FY 1996 inventory.

<sup>3</sup>Retained in-house based on a competitive sourcing study.

<sup>4</sup>DFAS could not substantiate the number of contractor personnel or the reason for the reduction between FYs 1996 and 1997.

**Coding of DFAS Personnel** DFAS erroneously identified 21,543 FTE personnel in the FY 1996 inventory as “pending decision” of a scheduled cost comparison. DFAS should have identified most of these personnel as “subject to A-76 studies or direct conversion”; and in its FY 1997 inventory, reported 19,342 FTEs as subject to study or direct conversion. DFAS also reported 393 FTE personnel as performing inherently governmental functions in FY 1997, and did not assign an identifier code to 504 FTE personnel. On April 20, 1998, in response to concerns that DoD Components were not uniformly identifying commercial activities and inherently governmental functions, the Under Secretaries of Defense for Acquisition and Technology, and Personnel and Readiness jointly issued guidance to the DoD Components for the FY 1998 inventories. The additional guidance should result in more accurate and complete reports of DFAS personnel that perform inherently governmental functions and commercial activities.

**Reporting of Contractor Personnel.** DFAS reported 724 FTE contractor personnel in the FY 1996 inventory and 70 FTE contractor personnel in the

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FY 1997 inventory. Based on available documentation, we could not substantiate that either number fairly represented the level of effort that DFAS obtained through contracts. DFAS management stated that the reduction between the FYs 1996 and 1997 inventories was caused by a cutback of contractor support within the DFAS organization and by changes in terminology and collection methodology. For example, DFAS noted that an unspecified number of interservice support personnel had been incorrectly categorized as contractors in the FY 1996 inventory and subsequently removed from the FY 1997 inventory. DFAS could not provide documentation to support the contractor inventories for either FYs 1996 or 1997. DFAS managers agreed that the FY 1997 contractor FTEs were not supported.

**Guidance for Reporting Contractor Personnel.** On April 20, 1998, the Under Secretaries of Defense for Acquisition and Technology, and Personnel and Readiness issued detailed reporting guidance to the DoD Components for FY 1999 inventories of DoD military and civilian personnel performing commercial activities and inherently governmental functions. The guidance did not include instructions or methodology for identifying and reporting contractor FTE personnel. This issue will be addressed in a subsequent report of general issues pertaining to commercial activities inventories for Defense agency and DoD field activities.

## **Commercial Activity Competitions**

DFAS completed two OMB Circular A-76 cost comparison studies in FY 1997, and two in FY 1999. As of April 15, 1999, DFAS has three studies in process and one suspended study. Table 2 identifies the eight cost studies. This audit examined the two studies completed in FY 1997.

**Table 2. Defense Finance and Accounting Service Cost Studies**

<u>DFAS Function</u>	<u>Total FTEs Studied</u>	<u>MEO FTE</u>	<u>Cost Comparison Decision</u>	<u>Study Start</u>	<u>Study Decision Date</u>
Facilities, Logistics, and Administration	279	187	MEO	3/95	5/20/97
DeCA Vendor Pay <sup>1</sup>	165	75	MEO	11/95	9/30/97
DeCA Accounting <sup>1</sup>	84	61	MEO	7/97	3/15/99
Transportation Accounting	89	58	MEO	3/97	4/14/99
DoD Dependent Schools					
Accounting	88	n/a <sup>2</sup>	- <sup>2</sup>	2/97	n/a <sup>2</sup>
Depot Maintenance Accounting	188	n/a	- <sup>3</sup>	2/97	8/99 <sup>4</sup>
Retired and Annuitant Payroll	650	n/a	- <sup>3</sup>	12/97	1/00 <sup>4</sup>
Civilian Payroll	505	n/a	- <sup>3</sup>	12/97	1/00 <sup>4</sup>
<b>Total</b>	<b>2,048</b>				

<sup>1</sup>Study of vendor payment or accounting functions performed by DFAS personnel in support of DeCA operations.

<sup>2</sup>DoD Education Activity study suspended 5/1/97.

<sup>3</sup>Final cost comparison decision pending.

<sup>4</sup>Planned final cost comparison decision date.

Acronyms:

DeCA	Defense Commissary Agency
FTE	full-time equivalents
MEO	most efficient organization
n/a	not available

**Facilities, Logistics, and Administration Study.** DFAS began the facilities, logistics, and administration study in March 1995 and completed it on May 20, 1997. This study evaluated the support provided by 279 FTE personnel at five DFAS Centers (Denver, Colorado; Cleveland, Ohio; Kansas City, Missouri; Indianapolis, Indiana; and Columbus, Ohio). DFAS contracted through the Defense Supply Service-Washington for Tecolote Research, Inc. (Tecolote) to perform the study under task order 12, dated June 6, 1995, on contract MDA903-92-D-0051. Tecolote developed the performance work statement, management study and the most efficient organization (MEO), and the in-house cost estimate. The competition concluded in May 1997 with the selection of the in-house cost estimate and the MEO of 187 FTE personnel.

**Performance Work Statement.** The performance work statement did not clearly state the workload requirements, and contained inconsistencies that made it difficult for prospective contractors to prepare accurate proposals. For example, the order of tasks in the performance work statement is in a different sequence than the performance requirements summary, and both of these differ from the task sequence in the workload tables. Although the Government

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submitted the low bid in this competition, a more precisely written performance work statement may have resulted in an improved contractor proposal.

**Cost Study Estimates.** During the summer and fall of 1997, Tecolote destroyed much of the documentation that supported the MEO and cost estimates. Accordingly, the audit could not validate the reasonableness of the amounts in the Government estimate for in-house personnel costs, training costs, materials and supplies, and the Denver facility book value for capital equipment assets and minor items.

**Study Documentation Retention Requirements.** The Federal Records Act of 1950, as codified in title 44 of the United States Code, and DoD Directive 5015.2, "DoD Records Management Program," April 11, 1997, establishes the basis for records management programs in the DoD. Title 41 of the Code of Federal Regulations requires that each executive agency establish and maintain unclassified records for all procurements greater than the simplified acquisition threshold for 5 years. DoD Directive 5015.2 states that each DoD component head shall establish and maintain the DoD Records Management Program to document the organization, functions, policies, decisions, procedures, and essential transactions of the DoD. DFAS did not require that contract MDA903-92-D-0051 include provisions to retain all documentation supporting the MEO development, and the in-house cost estimate for the facilities, logistics, and administration study. The Air Force, which conducted numerous A-76 studies in recent years, requires that all documentation be retained for 5 years after study completion, or until the completion of the next A-76 study of commercial activities, whichever is later. DFAS managers were aware that Tecolote had not maintained documentation related to the A-76 study. We believe that the Director, DFAS should establish policies and procedures to retain A-76 study documentation.

**Vendor Pay Study.** DFAS provides vendor payment support to the Defense Commissary Agency (DeCA) and processes payments for goods delivered to DeCA commissaries throughout the world. DFAS announced the A-76 study of the "DeCA vendor pay" function November 3, 1995, and completed the study September 30, 1997, with the decision to perform the function with the MEO of 75 FTE personnel. Prior to the A-76 study, DFAS performed the DeCA vendor pay function using 165 FTE personnel at Fort Lee, Virginia; and San Antonio, Texas. The study evaluated the cost effectiveness of competitive sourcing vendor invoice processing for DeCA contracts, and related accounting functions, or performing the function at the DFAS Center-Columbus, Ohio. DFAS contracted through the Army Space and Missile Defense Command for Mevatec Corporation (Mevatec), Huntsville, Alabama, to perform the study under task order 96-005, dated April 1, 1996, on contract DASG60-96-C-0012. Mevatec developed the performance work statement, the management plan and MEO, and the in-house cost estimate. DFAS received bids from three commercial sources. The Government cost estimate to perform the function at DFAS Center-Columbus was about \$5 million less than the lowest private sector bid.

**Most Efficient Organization.** Mevatec did not prepare working group meeting minutes to document the analytical process for developing the MEO.

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The Supplemental Handbook requires that the results of a management study must be documented to show the development and extent of the analytical process. The available documentation was not adequate to verify that the management plan reasonably established the Government's ability to perform the performance work statement with the resources provided by the MEO.

**Cost Study Estimates.** The study contained several errors that are not material enough to invalidate the cost comparison decision.

- Personnel costs totaling \$285,000 incurred by DFAS to train 74 personnel in the MEO workforce at the DFAS Center-Columbus to perform the vendor pay function were not included in the Government cost estimate. DFAS conducted the training, which ranged from 1 day to 8 weeks, before the MEO began operating in Columbus. The training was directly attributable to establishing the in-house MEO and should have been included in the Government bid.
- Travel and relocation costs of \$59,000 incurred by DFAS to consolidate the DeCA vendor pay service centers into the MEO at DFAS Center-Columbus were excluded from the Government cost estimate. According to the management plan, these expected costs were not included because the decision to consolidate the two DeCA Vendor Pay service centers was separate from the cost study. According to the Supplemental Handbook, the travel costs that would not continue in the event of contract performance should be included in the in-house cost estimate. DFAS incurred travel costs of \$43,000 for DFAS personnel to travel between the two service centers and the DFAS Center-Columbus. DFAS also incurred about \$16,000 to relocate the manager of the Fort Lee vendor pay service center to the DFAS Center-Columbus.
- The in-house cost estimate included \$228,000 as replacement costs for minor items that DFAS would have made available for contract performance. The Supplemental Handbook requires that replacement costs for minor items be included in the Government cost estimate if the items are used by the Government MEO but not provided to the contractor. The cost study did not identify any minor items that would be withheld from the contractor so the Government cost estimate should not have included the \$228,000 minor item replacement cost.
- A senior DFAS official did not certify the management plan for the revised MEO. The Director, DFAS Center-Columbus, certified the management plan for the initial MEO April 4, 1997; however, DFAS subsequently made changes to the MEO and the revised MEO was not certified. The independent review officer and the cost estimate preparer signed the cost comparison form for the revised MEO.

**Independent Reviews.** OMB Circular No. A-76 requires that all cost comparisons be reviewed and certified in writing by an impartial official

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organizationally independent of the commercial activity being studied and the activity preparing the cost comparison. DFAS appointed the Chief, Cost Analysis Division, Missile Defense and Space Technology Center, to be the independent review officer for both studies. He certified that the A-76 study management plan and cost estimates reasonably supported the Government's ability to perform the performance work statement for both studies. However, he did not document the review steps performed or his conclusions for either study. He also did not ensure that the contractors adequately documented the analytical process for developing the management plan.

**Conflict of Interest on DeCA Vendor Pay Study.** The independent review officer was also the technical monitor for the contract task order with Mevatec to perform the A-76 study. His responsibility for technical oversight of the contractor performance was a conflict of interest with the independent review responsibility. As the independent review officer, he would not question contractor performance that he accepted as contractor monitor. DFAS requested that he perform the independent review certification for expediency in completing the study.

**Subsequent Independent Reviews.** On February 13, 1998, DFAS requested that the Office of Inspector General, DoD, perform independent reviews for five A-76 studies and post-decision reviews of the implementation of MEOs for functions where the decision was to perform the function with DoD employees. We performed independent reviews of DFAS A-76 studies of transportation accounting and DFAS accounting functions in support of DeCA operations.

**DoD Education Activity Accounting Study.** On July 22, 1996, the Army Space and Missile Defense Command, Huntsville, Alabama, issued task order 96-009 under contract DASG60-96-C-0012 to Mevatec to perform an A-76 study of DFAS accounting support for the DoD Education Activity Dependent Schools. Task order 96-009 obligated \$501,000 for Mevatec to review 88 FTEs performing finance, accounting, and disbursing functions at one European, one Pacific, and four domestic locations. DFAS provided an additional \$20,037 to the Army Space and Missile Defense Command to administer the task order. On February 27, 1997, DFAS notified Congress of its intent to perform the cost comparison study. The scheduled completion date was March 1999.

The DFAS principal assistant responsible for contracting in a May 1, 1997, memorandum to the Director, Army Space and Missile Defense Command, noted that the study had been temporarily placed on hold, and that Mevatec was not authorized to expend any further resources against the task order. The principal assistant stated the study had not been cancelled, but gave no further explanation for the suspension. DFAS personnel stated the study was suspended because of a DFAS European operating center consolidation. DFAS spent \$212,951 for Mevatec's support through May 1, 1997.

DFAS did not notify the Congress or the Deputy Under Secretary of Defense (Installations) of the study suspension. DFAS Commercial Activities Program personnel believed the study would not resume because few DFAS personnel work full-time on DoD Education accounting activities, making development of

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the MEO impossible. DFAS did not adequately plan the study prior to obligating funds for the contract support and notifying Congress of the study. DFAS should deobligate the remaining \$288,259 on task order 96-009, and inform Congress and the Deputy Under Secretary of Defense (Installations) of the termination of the study.

## **Recommendations and Management Comments**

### **A. We recommend that the Director, Defense Finance and Accounting Service:**

- 1. Develop policies and procedures to maintain historical files of source documentation that sufficiently show the development of the most efficient organization and the extent of the analytical process (including the basis for estimates used in cost comparison).**

**Management Comments.** The Defense Finance and Accounting Service concurred, stating that it had established record retention rules for commercial activity information, reports, and schedules, and that the rules would be implemented by October 1, 1999.

- 2. Deobligate \$288,259 on contract DASG60-96-C-0012 in support of the competitive sourcing study of accounting support for the DoD Education Activity and inform the Deputy Under Secretary of Defense (Installations) of the termination of the study.**

**Management Comments.** The Defense Finance and Accounting Service concurred and forwarded a request on May 27, 1999, to the Army Space and Missile Command, to deobligate \$288,259 on the contract and terminate the study. The Defense Finance and Accounting Service notified the Deputy Under Secretary of Defense (Installations) on June 21, 1999, that the study was terminated.

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## B. Development of Cost Comparison Software

DFAS did not adequately plan, coordinate, and compete the requirements for two contract efforts costing about \$335,000 for the development of computer software for its OMB Circular No. A-76 studies. This occurred because DFAS officials believed that a widely used Air Force-developed software would not meet their needs and procured the development efforts through task orders on advisory and assistance services contracts. As a result, DFAS was developing software for its A-76 cost comparison studies that will generate different cost estimates than the Air Force-developed software, which could result in protests to DoD cost comparison decisions. On July 15, 1998, we issued a memorandum to the Deputy Under Secretary of Defense (Industrial Affairs and Installations) (now the Deputy Under Secretary of Defense [Installations]) and to the Director, DFAS regarding the DFAS software development efforts and suggesting that DFAS cease development of its own cost comparison software and use the Air Force software. DFAS subsequently stopped its A-76 software development. On December 22, 1998, the Deputy Under Secretary of Defense (Industrial Affairs and Installations) agreed to establish policy in the DoDI 4100.33, "Commercial Activities Program Procedures," that will require DoD Components to obtain approval before initiating development or procurement of cost comparison software.

### Software Development Efforts

DFAS spent about \$335,000 on two contract efforts to develop software for use in A-76 cost comparisons. The initial effort, which cost about \$243,000, produced software that was not acceptable to DFAS. The second software development would have generated different cost estimates than the widely used Air Force-developed program, which could have resulted in protests to DoD cost comparison decisions.

**Tecolote Contract.** On June 6, 1995, the Defense Supply Service-Washington issued task order 12 under contract MDA903-92-D-0051 to Tecolote to modify or develop a cost comparison model for multifunction, multilocation A-76 studies for use by DFAS, the Army, and other organizations. DFAS requested Defense Supply Service-Washington to award the task order, which had a total value of \$774,959, because DFAS officials believed that the Air Force-developed OMB Circular A-76 Commercial Activities Cost Comparison System (COMPARE) would not satisfy its requirements for multifunction, multilocation studies within acceptable time frames. The task order initially required to complete development of software by June 6, 1996; however, Defense Supply Service-Washington extended the completion date to September 1997. DFAS paid Tecolote about \$243,000 for the development of a software program that was not acceptable.

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**Mevatec Contract.** On April 1, 1996, the Army Space and Missile Defense Command, Huntsville, Alabama, issued task order 96-005 under contract DASG60-96-C-0012 to Mevatec to perform an A-76 study of DFAS accounting support of DeCA vendor payments and to develop a "data collection and reporting model" to perform cost comparisons for future DFAS studies. DFAS provided the Army Space and Missile Defense Command \$406,200 for task orders to Mevatec. The task order directed Mevatec to use the COMPARE software to perform the study. In October 1997, DFAS provided Mevatec the software developed by Tecolote. In June 1998, DFAS officials verbally authorized Mevatec to issue a \$16,000 subcontract for an independent verification, validation, and accreditation of the software program. DFAS officials stated that they verbally authorized Mevatec to award the subcontract and did not request the Army Space and Missile Defense Command to issue a contract modification for the verification testing.

## **Procurement Planning, Coordination, and Competition**

**Requirements Planning and Coordination.** DFAS did not provide life cycle planning documentation, even though life-cycle cost estimates are required by OMB Circular A-130, "Management of Federal Information Resources," February 8, 1996, and DoD Directive 8910.1, "Management and Control of Information Requirements," June 11, 1993. Agencies are required to use life cycle planning for information needs, including satisfying needs through interagency sharing before creating new information. The OMB Circular requires that agencies use full and open competition and purchase off-the-shelf software from commercial sources, unless the cost effectiveness of developing custom software to meet mission needs is clear and has been documented. DFAS officials stated that the COMPARE software was not adequate for their multiple location, multiple function A-76 studies and the enhancements to the COMPARE software could not be completed in time for their studies.

**Contract Competition.** DFAS did not compete the software development contracts and did not prepare justifications for the noncompetitive software procurements. DFAS included the software development efforts on the advisory and assistance contracts because of time constraints for conducting the planned concurrent A-76 studies and the absence of other suitable software.

## **Effects of Multiple Programs**

**COMPARE Software.** The Air Force developed and maintains the COMPARE program to perform OMB Circular A-76 studies. COMPARE was initially released in November 1994 and has been the generally accepted A-76 software for performing cost comparison studies by all military services as well as by Federal agencies. COMPARE is recognized and accepted by the private sector, unions, and OMB and has withstood the scrutiny of two audits and certifications, as well as an appeal to GAO by an unsuccessful contractor. The

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Under Secretary of Defense for Acquisition and Technology provided \$1.5 million to the Air Force through Program Budget Decision 856, January 4, 1996, to upgrade the COMPARE software program for multifunction, multilocation studies. Projected completion of this upgrade is September 1, 1999. Program Budget Decision 856 stated the upgrade was for a DoD single software product and that the DoD Components should work through the Air Force COMPARE Program Manager if changes to COMPARE are needed.

**Potential for Different Cost Comparison Study Results.** Different software programs with their own unique calculations have the potential for calculating different cost estimates for an A-76 study. Differences between the programs could be a basis for challenges and protests by interested parties to the cost comparison studies. As a result, Circular A-76 program implementation of competitive sourcing study decisions could be delayed or invalidated.

**Termination of Software Development.** On June 11, 1998, representatives of DFAS, Deputy Under Secretary of Defense (Industrial Affairs and Installations), the Air Force COMPARE Program Manager, and the Inspector General, DoD, met to discuss the DFAS software acquisitions. An action item from the June 1998 meeting was a follow-on meeting between DFAS and the Air Force COMPARE Program Manager to discuss specific DFAS cost comparison software requirements.

On July 15, 1998, we issued a memorandum to the Undersecretary of Defense (Industrial Affairs and Installations) and to the Director, DFAS suggesting that DFAS cease developing its own cost comparison software and use the COMPARE software. In September 1998, DFAS met with the COMPARE program manager and agreed to use COMPARE software with an additional step to complete its multilocation, multifunction A-76 studies. DFAS subsequently stopped its A-76 software development, and provided its software model to the Air Force COMPARE Program Management Office to assist in developing future enhancements for COMPARE.

**Policy on Developing Software for Cost Comparisons.** On December 22, 1998, the Deputy Under Secretary of Defense (Industrial Affairs and Installations) agreed to establish policy in the DoD Instruction 4100.33, "Commercial Activities Program Procedures," that will require DoD Components to obtain approval before initiating development or procurement of cost comparison software. We consider the actions taken by the Deputy Under Secretary and DFAS to be responsive to our advisory memorandum.

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## Appendix A. Audit Process

### Scope and Methodology

We analyzed and validated the FYs 1996 and 1997 commercial activities inventory database on file with DoD for DFAS commercial activities submissions. We also performed on-site reviews and analyses of commercial activities inventory and A-76 processes at DFAS to determine compliance with OMB Circular A-76 and DoD requirements. In addition, we reviewed Defense Supply Service-Washington and Army Space and Missile Defense Command contractual documentation for contractor support on the DFAS A-76 cost comparisons and development and implementation of A-76 study software.

We reviewed the DFAS A-76 studies completed in FYs 1997 and 1998, including supporting rationale and independent review officer certifications. On the completed DeCA Vendor Pay study and the Facility Logistics and Administration study, we examined:

- performance work statements,
- management plans including the Quality Assurance Surveillance Plan, and
- available cost comparison supporting documentation.

**DoD-Wide Corporate Level Government Performance and Results Act Goals.** In response to the Government Performance and Results Act, DoD has established 6 DoD-wide corporate level performance objectives and 14 goals for meeting these objectives. This report pertains to achievement of the following objective and goal.

**Objective:** Fundamentally reengineer DoD and achieve a 21st century infrastructure. **Goal:** Reduce costs while maintaining required military capabilities across all DoD mission areas. **(DoD-6)**

**General Accounting Office High Risk Area.** The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the Defense Financial Management and Defense Infrastructure high-risk areas.

**Use of Technical Assistance and Computer-Processed Data.** The Quantitative Methods Division, Audit Followup and Technical Support Directorate, Office of the Assistant Inspector General for Auditing, DoD, provided assistance in the review of the quality assurance plan for the DeCA Vendor Pay Study. We did not use computer-processed data in the performance of the audit.

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**Audit Type, Dates, and Standards.** We performed this economy and efficiency audit from November 1997 through April 1999 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls considered necessary.

**Contacts During the Audit.** We interviewed OSD and DFAS personnel that participated in or support the A-76 program. We also interviewed A-76 contractor personnel from Mevatec and Tecolote. Further details are available upon request.

## **Management Control Program**

DoD Directive 5010.38, "Management Control Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

**Scope of Review of the Management Control Program.** We reviewed the adequacy of management controls over implementation of the DFAS Commercial Activities program. Specifically, we reviewed DFAS management controls over preparing/approving the management plans, performance work statements, and the various groups and committees associated with the A-76 studies. We also reviewed management's self-evaluation of the applicable management controls.

**Adequacy of Management Controls.** We identified material management control weaknesses as defined by DoD Instruction 5010.40. DFAS management controls for its A-76 studies were not adequate to ensure that provisions of the OMB Circular A-76 Handbook were followed. Corrective action was taken during the audit by requesting the Office of the Inspector General, DoD, to perform independent reviews on future DFAS A-76 studies. Recommendations in Finding A, if implemented, will improve DFAS A-76 documentation retention procedures. A copy of the report will be provided to the senior official responsible for management controls at DFAS and the Under Secretary of Defense (Comptroller).

**Adequacy of Management's Self-Evaluation.** DFAS officials did not identify the A-76 program as an assessable unit and, therefore, did not identify the material management control weaknesses identified by this audit.

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## **Appendix B. Summary of Prior Coverage**

### **General Accounting Office**

General Accounting Office (GAO), Report No. NSIAD-99-46, "DoD Competitive Sourcing: Questions About Goals, Pace, and Risks of Key Reform Initiative," February 22, 1999.

General Accounting Office (GAO), Report No. NSIAD-99-44, "DoD Competitive Sourcing: Results of Recent Competitions," February 23, 1999.

General Accounting Office (GAO), Report No. NSIAD-98-82, "Base Operations: DoD's Use of Single Contracts for Multiple Support Services," February 27, 1998.

General Accounting Office (GAO), Report No. NSAID-98-62, "Defense Outsourcing: Better Data Needed to Support Overhead Rates for A-76 Studies," February 27, 1998.

General Accounting Office (GAO), Report No. NSAID-98-43, "Financial Management: Outsourcing of Finance and Accounting Functions," October 17, 1997.

General Accounting Office (GAO), Report No. NSAID-97-86, "Base Operations: Challenges Confronting DoD as It Renews Emphasis on Outsourcing," March 11, 1997.

### **Inspector General, DoD**

Inspector General, DoD, Report No. 99-132, "Outsourcing of Defense Supply Center, Columbus, Bus and Taxi Service Operations," April 13, 1999.

Inspector General, DoD, Report No. 99-078, "Outsourcing of Defense Commissary Agency Operations," February 5, 1999.

Inspector General, DoD, Report No. 97-128, "Evaluation of DoD Civilian Pay Outsourcing Study," April 15, 1997.

Inspector General, DoD, Report No. 95-162, "Cost Growth In Commercial Activity Contracts," March 31, 1995.

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## **Defense Science Board**

**“Report on the Defense Science Board Task Force on Outsourcing and Privatization,” August 28, 1996.**

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## **Appendix C. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense for Acquisition and Technology  
Deputy Under Secretary of Defense (Installations)  
Director, Defense Logistics Studies Information Exchange  
Under Secretary of Defense (Comptroller)  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)

### **Department of the Army**

Commander, U.S. Army Space and Missile Defense Command  
Auditor General, Department of the Army

### **Department of the Navy**

Auditor General, Department of the Navy

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force

### **Defense Organizations**

Director, Defense Commissary Agency  
Director, Defense Contract Audit Agency  
Director, Defense Finance and Accounting Service  
Director, Defense Finance and Accounting Service, Cleveland, Ohio Center  
Director, Defense Finance and Accounting Service, Columbus, Ohio Center  
Director, Defense Finance and Accounting Service, Denver, Colorado Center  
Director, Defense Finance and Accounting Service, Indianapolis, Indiana Center  
Director, Defense Finance and Accounting Service, Kansas City, Missouri Center  
Inspector General, Defense Intelligence Agency  
Director, Defense Logistics Agency  
Director, DoD Education Activity  
Inspector General, National Security Agency

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## **Non-Defense Federal Organizations and Individuals**

Office of Management and Budget  
General Accounting Office  
Technical Information Center  
National Security and International Affairs Division,

## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Members**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Government Reform  
House Subcommittee on Government Management, Information, and Technology, Committee on Government Reform  
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform  
House Subcommittee on Technology, Committee on Science  
House Committee on Armed Services

# Defense Finance and Accounting Service Comments



## DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY  
ARLINGTON, VA 22240-5291

JUN 9 1999

DFAS-HQ/PE

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL  
ATTN: MR. PAUL J. GRANETTO

SUBJECT: Audit Report on Defense Finance and Accounting Service  
Commercial Activities Program (Project No. 8CH-0008.02)

This is in response to your May 7, 1999, request to review and provide comments on the subject audit report. We have reviewed the proposed report and provide the following comments in response to the recommendations:

1. Concur. The Defense Finance and Accounting Service (DFAS) has established record retention rules for commercial activity information, reports, and schedules, and considers this action complete.
2. Concur. DFAS has implemented the proposed recommendation to deobligate the \$288,259 and considers this action complete.

If you have questions, please contact Mr. Norman Noe at 607-5100.

John P. Barber  
Director  
Customer Support and Internal Control

cc:

DFAS-HQ/PO

\*  
(See below)

\*Additional comments were received on the Recommendations and are included on pages 21 through 25.

---

To: Benjamin A. Mehlman@CM  
From: <kent.miller@dfas.mil>  
Cc:  
Bcc:  
Subject: Proposed Disposition for A-76 Records  
Attachment: 1100extr.doc  
Date: 6/15/99 6:03 PM

Ben -

Item 6 on the attached schedule has been proposed and is being formally submitted on a SF 115 to NARA by June 30th. We expect NARA approval about October 1, 1999 with implementation to follow.

Item 7 was signed by the Archivist in 1994 for implementation by DFAS. It is being incorporated into a revision of DFAS Schedule N1-507-93-2.

I'm faxing you a hard copy of this schedule as it will appear.

Kent

=====  
I submitted a proposed schedule item (for consultative purposes) to NARA covering Commercial Activity Program Records. The result is Item 6 (included in the attachment) which will be submitted as part of an update to DFAS Schedule N1-507-93-2.

(Mrs.) Pauline E. "Polly" Korpanty  
703-607-3743

**SCHEDULE 1100, MANPOWER AND ORGANIZATION**

governs disposition of records pertaining to authorizing, allocating, utilizing, and programming for military and civilian personnel. It includes management engineering and productivity enhancement records (maintained in Manpower Office, except as otherwise indicated)

6. **COMMERCIAL ACTIVITY PROGRAM RECORDS.** Information accumulated as a result of conducting studies to determine the feasibility of performing commercial activities either in-house or by contract. Included are feasibility studies, 5-year review of functions, cost analyses, justifications, approvals, new start proposals, annual CA inventories, and supporting functions. (ADDED)

a. Office with DFAS-wide A-76 responsibility:

**CUT OFF AT THE END OF THE FISCAL YEAR. DESTROY 6 YEARS AFTER CUTOFF (NC1-AU-85-60) (\_\_\_\_\_)**

b. DFAS Finance Centers and OPLOCs

(1) Annual CA inventory:

**CUT OFF AT THE END OF THE FISCAL YEAR. DESTROY 5 YEARS AFTER CUTOFF. (NC1-AU-85-60) (\_\_\_\_\_)**

(2) Remaining information

**CUT OFF UPON COMPLETION OF REVIEW. DESTROY UPON COMPLETION OF NEXT 5-YEAR REVIEW. (NC1-AU-85-60) (\_\_\_\_\_)**

7. **COMMERCIAL ACTIVITIES COST RECORDS.** Performance work statement of unit or function considered for contracting out, deduct analysis, cost study, and supporting records. (Comptroller functional area) (Rule 8 in previous draft)

**CUT OFF WHEN STUDY IS COMPLETED. DESTROY 5 YEARS AFTER CUTOFF OR UPON COMPLETION OF NEXT STUDY. (N1-507-93-2, Item 10)**

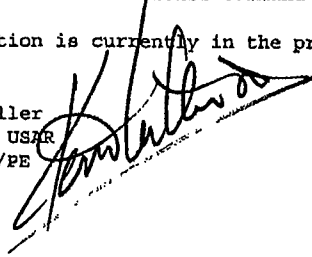
Author: KENT MILLER at HQPO3  
Date: 6/15/99 4:49 PM  
Priority: Normal  
TO: osd.mil bmehlman@dodig at INTERNET1  
Subject: Deobligations

Ref: DFAS HQ/PE June 9, 1999, response to DoD IG Audit Report on DFAS  
Commercial Activities Program (Project No. 8CH-0008 02).

Regarding comment #2. A request for deobligation of \$288,259 was  
forwarded to the appropriate contracting officer at the U.S. Army  
Space and Missile Defense Command on May 27, 1999

This action is currently in the process of being completed by that  
office.

Kent Miller  
CW4 (P), USAR  
DFAS HQ/PE



---

To: Benjamin A. Mehlman@CM  
From: <kent.miller@dfas.mil>  
Cc:  
Bcc:  
Subject: CA Program Study  
Attachment: ATTRIBS.BND  
Date: 6/17/99 2:23 PM

Per telecon, this date.

Addendum to DFAS HQ/PE letter of June 9, 1999.

Comment 2. The study has been closed. Mr. Amlin, DFAS director, made this decision on 27 May concurrent with the decision to deobligate the money.

Kent Miller  
CW4(P), USAR  
DFAS HQ/PE



DFAS-HQ/P

**DEFENSE FINANCE AND ACCOUNTING SERVICE**

1931 JEFFERSON DAVIS HIGHWAY  
ARLINGTON, VA 22240-5291

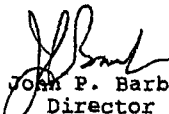
**JUN 21 1999**

MEMORANDUM FOR DEPUTY UNDER SECRETARY OF DEFENSE (INDUSTRIAL  
AFFAIRS & INSTALLATIONS), ATTN: MR. JOSEPH SIKES

SUBJECT: Cancellation of the Defense Finance and Accounting  
Service (DFAS) Led Department of Defense Education  
Activity (DoDEA) Accounting A-76 Study

On May 27, 1999, the Director, DFAS directed the  
cancellation of the DFAS DoDEA Accounting A-76 study. Our review  
of the the workload and the full time equivalents (FTEs)  
indicated that an A-76 competition would not yield any  
appreciable savings.

If you have any questions contact Mr. Norman Noe at 607-  
5100.

  
John P. Barber  
Director

Customer Support and Internal Control

## **Audit Team Members**

The Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD, produced this report.

Paul J. Granetto  
Garold E. Stephenson  
Benjamin A. Mehlman  
David H. Griffin  
Lawrence N. Heller  
Stacey L. Volis  
Sandra S. Morrell  
Theodore Kozlow

## INTERNET DOCUMENT INFORMATION FORM

**A . Report Title: Defense Finance and Accounting Service Commercial Activities Program**

**B. DATE Report Downloaded From the Internet: 08/04/99**

**C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #):**      **OAIG-AUD (ATTN: AFTS Audit Suggestions)**  
**Inspector General, Department of Defense**  
**400 Army Navy Drive (Room 801)**  
**Arlington, VA 22202-2884**

**D. Currently Applicable Classification Level: Unclassified**

**E. Distribution Statement A: Approved for Public Release**

**F. The foregoing information was compiled and provided by:**  
**DTIC-OCA, Initials: \_\_VM\_\_ Preparation Date 08/04/99**

The foregoing information should exactly correspond to the Title, Report Number, and the Date on the accompanying report document. If there are mismatches, or other questions, contact the above OCA Representative for resolution.