

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**FUND CONTROL OVER CONTRACT PAYMENTS AT
THE DEFENSE FINANCE AND ACCOUNTING SERVICE -
COLUMBUS CENTER**

Report No. 94-054

March 15, 1994

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Acronyms

ACRN	Accounting Classification Reference Number
AUTODIN	Automatic Digital Network
CAS	Contract Administration Services
CLIN	Contract Line Item Number
CY	Calendar Year
DCASR	Defense Contract Administration Services Region
DFAS	Defense Finance and Accounting Service
DLA	Defense Logistics Agency
FMFIA	Federal Managers' Financial Integrity Act
IG	Inspector General
MILDEP	Military Department
MILSCAP	Military Standard Contract Administration Procedures
MOCAS	Mechanization of Contract Administration Services
NULO	Negative Unliquidated Obligation
OSD	Office of the Secretary of Defense
QAR	Quality Assurance Review



**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884**

March 15, 1994

**MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE-COLUMBUS CENTER**

**SUBJECT: Audit Report of Fund Control Over Contract Payments at the Defense
Finance and Accounting Service - Columbus Center
(Report No. 94-054)**

We are providing this final report for your review and comments. It discusses fund control over contract payments made by the Defense Finance and Accounting Service - Columbus Center. Comments on a draft of this report were considered in preparing the report.

DoD Directive 7650.3 requires that all audit recommendations be resolved promptly. Therefore, the Defense Finance and Accounting Service must provide final comments on unresolved recommendations by May 13, 1994. See the "Response Requirements for Each Recommendation" section at the end of each finding for the unresolved recommendations and the specific requirements for your comments.

The courtesies extended to the audit staff are appreciated. If you have any questions about this audit, please contact Mr. Richard B. Bird, Program Director, at (317) 542-3859 (DSN 699-3859), or Mr. Stephen A. Delap, Project Manager, at (614) 693-5956 (DSN 869-5956). The planned distribution of this report is listed in Appendix I. The audit team members are listed inside the back cover.

A handwritten signature in cursive script, reading "Robert J. Lieberman", is positioned above the typed name.

**Robert J. Lieberman
Assistant Inspector General
for Auditing**

Office of the Inspector General, Department of Defense

Report No. 94-054
(Project No. 2FI-0046)

March 15, 1994

**AUDIT OF FUND CONTROL OVER CONTRACT PAYMENTS AT
THE DEFENSE FINANCE AND ACCOUNTING SERVICE -
COLUMBUS CENTER**

EXECUTIVE SUMMARY

Introduction. The Defense Finance and Accounting Service Center, Columbus, Ohio (DFAS-Columbus), was established in January 1991. As of January 1993, DFAS-Columbus was responsible for 348,536 active contracts valued at \$489.0 billion, and had paid 1 million invoices totaling about \$62.9 billion during calendar year 1992.

Objectives. The overall audit objective was to evaluate the adequacy of procedures used by DFAS-Columbus for fund control over contract payments. Specifically, we determined whether obligation and disbursement data contained in the MOCAS system were accurate; whether disbursements were charged to the proper appropriations; and whether DFAS-Columbus's procedures for controlling appropriation fund data were adequate to verify accountability and to allow the serviced Military Department (MILDEP) accountable stations to properly record disbursements and maintain their accounting records. We also evaluated internal controls and DFAS-Columbus's implementation of the DoD Internal Management Control Program.

Audit Results. The audit concluded that the procedures used by DFAS-Columbus for fund control over contract payments were not adequate. Specifically, obligation and disbursement data contained in MOCAS were not accurate; 42 of the 148 sampled contracts contained \$208.1 million in errors requiring accounting adjustments to obligation balances; 32 contracts contained \$10.4 million in disbursement errors; 8 contracts contained \$741,000 in disbursements not charged to the proper appropriations; and DFAS-Columbus's procedures for controlling appropriation fund data were not adequate to allow the MILDEP accountable stations to properly record disbursements and maintain their accounting records (Finding A).

DFAS-Columbus had not developed adequate in-house capability to reconcile obligations with disbursements. Instead, since calendar year 1990, it had continued to rely on contractor support at a cost of \$56.98 per hour to perform these services. Demand letters for contractor overpayments identified during the reconciliation process were not always mailed out promptly (Finding B).

Internal Controls. We identified two material internal control weaknesses. As of July 1993, contracts at DFAS-Columbus contained \$3.1 billion in negative unliquidated obligations (NULOs) at the Accounting Classification Reference Number (ACRN) level, and 2,659 contracts had negative balances totaling \$408.0 million. By failing to correct errors in obligation data, and forcing contract payments through MOCAS on incorrect ACRNs to ensure that contractors were paid promptly, DFAS-Columbus has added to a recurring problem with NULOs, and contract reconciliations have become more complex.

The second material weakness was in the efficiency of transaction entry by DFAS-Columbus. Problems existed with the electronic data interface between MOCAS and other DoD procurement systems. Because of those problems, up to 50 percent of the contracts and 70 percent of the modifications transmitted to MOCAS through Military Standard Contract Administration Procedures (MILSCAP) were initially rejected or were incomplete when DFAS-Columbus received them, and had to be manually reentered. Part I of the report, and Finding A in Part II, discuss the details of these internal control weaknesses.

Potential Benefits of Audit. Implementing the recommendations will allow DFAS-Columbus to improve internal controls over contractor payments, and will increase assurance that MILDEP accountable stations receive data sufficient to allow them to properly record disbursements and maintain their accounting records. We identified potential monetary benefits of about \$19.1 million if DFAS-Columbus reconciles its contracts in-house instead of using a contractor (Appendix G).

Summary of Recommendations. We recommended that the Director, DFAS, request that DLA terminate the existing MILSCAP interface and terminate the reconciliation services contract with a commercial accounting firm. We also recommended that the Director, DFAS-Columbus, complete necessary accounting adjustments and correct errors for the contracts discussed in this report, and implement several critical supervisory and other reviews intended to help ensure the accuracy of MOCAS data.

Management Comments. The Director, DFAS, and the Director, DFAS-Columbus, concurred with the need to terminate the reconciliation services contract with a commercial accounting firm and with the potential monetary benefits expected to result from this action. The Directors further agreed with the need for better supervisory and quality assurance reviews and other recommended actions.

However, DFAS management did not concur with the need to terminate the current MILSCAP interface; partially concurred with two additional recommendations; and did not provide responsive comments on one recommendation. Since we still believe that these recommendations are valid, we request that DFAS reconsider its position on Recommendations A.1.a., A.2.c., A.2.g., and B.2.b. when replying to the final report. A full discussion of the comments is in Part II of this report, and the complete text of management comments is in Part IV. Additional comments are requested by May 13, 1994.

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This report was prepared by the Financial Management Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense.

Part I - Introduction

Background

The Defense Logistics Agency Finance Center (DFC) was established at Columbus, Ohio, in August 1988. Prior to the establishment of DFC, the accounting and finance operations of the Defense Logistics Agency (DLA) were performed at 20 different DLA sites in the continental United States. The accounting and finance work consisted of contract payments, civilian payroll, travel accounting, and other disbursing and collection activities.

The Defense Finance and Accounting Service (DFAS) was established in January 1991 as the result of Defense Management Report Decision No. 910, "Consolidation of DoD Accounting and Finance Operations." DFAS was chartered to standardize and consolidate DoD accounting and finance operations. DFAS has five Centers, located in Columbus, Ohio; Cleveland, Ohio; Denver, Colorado; Indianapolis, Indiana; and Kansas City, Missouri. DFAS Headquarters is located in Arlington, Virginia.

The DFAS-Columbus Center (DFAS-Columbus) was established to consolidate payment functions previously carried out by DFC, the Defense Contract Administration Services Regions, and their paying activities. DFAS-Columbus has 5 Contract Administration Services (CAS) Directorates that include 16 payment divisions. Appendix E lists each division and the dates that contract payment functions were transferred to DFC and, after January 1991, to DFAS-Columbus.

The five CAS Directorates make contract payments using Army, Navy, Air Force, and other Defense activities' appropriated funds. During calendar year (CY) 1992, DFAS-Columbus paid about 1 million contractor invoices totaling \$62.9 billion. By the end of CY 1993, this volume is expected to increase to 1.25 million invoices valued at about \$89.3 billion.

DFAS-Columbus also implements financial management policies and procedures for the accounting, certification, and disbursing operations performed by the Mechanization of Contract Administration Services (MOCAS) system, which is the automated system used to generate payments for contractor invoices. As part of the payment process, DFAS-Columbus was responsible for 348,536 active contracts, valued at \$489.0 billion, as of January 1993. Of these, 16,742 contracts cited multiple appropriations and included 1 or more Accounting Classification Reference Numbers (ACRNs) with obligation balances exceeding \$1.0 million. By the end of CY 1993, DFAS-Columbus is expected to manage over 380,000 contracts.

Objectives

Our objective was to evaluate the adequacy of procedures used by DFAS-Columbus for fund control over contract payments. Specifically, we determined whether:

- o obligation and disbursement data contained in the MOCAS system were accurate;
- o disbursements were charged to the proper appropriations; and
- o DFAS-Columbus's procedures for controlling appropriation fund data were adequate to assure accountability and to allow the Military Department (MILDEP) accountable stations to properly record the disbursements and maintain their accounting records.

We also evaluated DFAS-Columbus's annual reviews and reporting required by the DoD Internal Management Control Program, including internal controls over contract payments.

Scope and Methodology

We conducted this financial-related audit from May 1992 through July 1993, and, using stratified random sampling, we reviewed 148 statistically selected contracts and records dated from January 1992 through July 1993. We also reviewed DFAS-Columbus's contract reconciliation process, including a firm-fixed-price level of effort contract with a commercial accounting firm for reconciling obligations with disbursements on contracts managed by DFAS-Columbus. We evaluated DFAS-Columbus's quality assurance procedures for MOCAS data entry, and contacted 12 judgmentally selected MILDEP accountable stations served by DFAS-Columbus to determine the adequacy and accuracy of the services and data they received. The audit was made in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General (IG), DoD, and accordingly included such tests of internal controls as were considered necessary. Except as provided herein for contracts that we reviewed, we did not assess the reliability of data from MOCAS computer-based systems. Appendix H lists the organizations we visited or contacted.

Internal Controls

The audit identified two material internal control weaknesses as defined by DoD Directive 5010.38. By failing to accurately record obligation data, and by forcing payments through MOCAS on incorrect ACRNs to verify that contractors were paid promptly, DFAS-Columbus has added to a recurring problem by increasing negative unliquidated obligations (NULOs). As of July 1993, DFAS-Columbus was reporting almost \$3.1 billion of NULOs at the ACRN level on 11,833 contracts. DFAS-Columbus also reported 2,659 contracts with negative balances totaling about \$408.0 million.

A contract has a negative balance when accounting lines with negative obligation values exceed lines with positive values (total disbursements exceed available obligations). A negative balance can be caused by an accounting error

Introduction

or a lack of funds to cover unpaid obligations. For example, on January 13, 1992, DFAS-Columbus issued a contract modification to reduce the available obligation amount of ACRN "AC" on a procurement by \$86,936.33. However, on December 6, 1990, a disbursement in the same amount had already been paid against this contract, reducing its available balance to zero. Consequently, the January 1992 modification placed the ACRN into a NULO status with a negative balance of \$86,936.33. When obligated balances exceed available funds, a violation of the Antideficiency Act (31 U.S.C. 1341) may occur.

The second material weakness was in the efficiency of data entry by DFAS-Columbus. Office of Management and Budget Circular No. A-127, "Financial Management Systems," July 23, 1993, requires that financial systems eliminate unnecessary duplication of transaction entries by ensuring that data needed by the systems are entered only once. However, because of problems with data interface between MOCAS and other DoD procurement systems, up to 50 percent of the contracts and 70 percent of the modifications transmitted to MOCAS through Military Standard Contract Administration Procedures (MILSCAP) were initially incomplete when DFAS-Columbus received the transactions. Those transactions had to be manually reentered by DFAS-Columbus personnel. Until DLA terminates MILSCAP and implements an adequate interface between MOCAS and DoD procurement systems, unnecessary duplication of data entry will continue. These internal control weaknesses are discussed further in Part II, Finding A.

Implementing the recommendations in Finding A of this report will help to correct these problems. Copies of the final report will be provided to the senior officials responsible for internal controls within the Office of the Secretary of Defense (OSD) and DFAS. The DFAS reported these weaknesses in its Annual Statement of Assurance on Internal Controls for FY 1993.

Prior Audits and Other Reviews

Since August 1991, the General Accounting Office (GAO) and the IG, DoD, have issued five reports dealing with fund controls over contract payments and related issues.

GAO Reviews. The GAO issued two reports on related topics.

- o "Air Force Systems Command is Unaware of the Status of Negative Unliquidated Obligations," Report No. AFMD-91-42, was issued in August 1991. The report stated that Air Force managers were not being routinely informed of the status or causes of NULOs, and that NULOs resulting from overpayments were being collected through credit invoices or checks from contractors, thus circumventing controls that prompt corrective action and account for disbursements.

- o "Financial Management: Navy Records Contain Billions of Dollars in Unmatched Disbursements," GAO/AFMD-93-21, B-2515553, OSD Case

No. 9315, was issued on June 9, 1993. According to the GAO, the Navy had \$12.3 billion in unmatched disbursements as of February 1992, and almost \$5.0 billion had been unmatched for more than 2 years. The GAO stated that current initiatives did not deal with the causes of the problem, and that unmatched disbursements impaired the Navy's ability to ensure that funds were safeguarded and spent in accordance with legal requirements. The Navy's accounting system does not record disbursements unless there are corresponding obligation balances; instead, it records them as unmatched disbursements.

IG, DoD. The IG, DoD, recently issued three reports on similar issues.

- o "Merged Accounts of the Department of Defense," Report No. 92-028, December 30, 1991, showed that DoD's merged accounts contained over \$1.8 billion in unmatched disbursements and about \$1.0 billion in NULOs. The report recommended that the Comptroller, DoD, require the Director, DFAS, to emphasize account accuracy to reduce unmatched disbursements, and to formally investigate all overdisbursed appropriations and their subaccounts to resolve potential violations of the Antideficiency Act.

- o "Administration of the Contract Closeout Process Within DoD," Report No. 92-076, April 15, 1992, concluded that contracts cannot be closed out in an accurate or timely manner because of errors in MOCAS data. The errors occurred primarily because inexperienced clerks were interpreting and entering data. Although DFAS-Columbus conducted random quality assurance reviews of data entry transactions, the reviews did not provide adequate controls or help validate accurate appropriation data.

- o "Missile Procurement Appropriations, Air Force," Report No. 93-053, February 12, 1993, identified 370 Air Force contracts with net NULO balances of more than \$133.0 million that were maintained by Los Angeles Air Force Base and DFAS-Columbus. The report recommended that the Comptroller, DoD, accelerate plans to solve problems with NULOs. At a minimum, a single record should be used to account for funds and pay bills, and disbursing stations should verify that funds are available before payment is made.

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Part II - Findings and Recommendations

Finding A. Fund Control Over Contract Payments

The Defense Finance and Accounting Service-Columbus Center (DFAS-Columbus) used inadequate procedures for fund control over contract payments. Specifically, obligation and disbursement data contained in the Mechanization of Contract Administration Services (MOCAS) system were not accurate; disbursements were not charged to the proper appropriations; and Military Department (MILDEP) accountable stations did not always receive the accurate data they needed to properly record disbursements and maintain accounting records. These conditions were caused by inaccurate entry of MOCAS data, and by data transfer problems with Military Standard Contract Administration Procedures (MILSCAP)-compatible systems. In addition, DFAS-Columbus supervisors were not reviewing transaction entries, documenting their reviews, or ensuring that input clerks were correcting errors at the point of data entry. DFAS-Columbus's quality assurance reviews did not adequately verify the accuracy and completeness of MOCAS data. As a result, the few high-value contracts that we reviewed contained errors requiring \$208.1 million in MOCAS accounting adjustments; disbursements were charged to incorrect appropriations; and at least 39.2 percent of the contracts in our universe had one or more errors in their appropriation fund data.

Background

DoD Directive 7200.1. DoD Directive 7200.1, "Administrative Control of Appropriations," July 1987, regulates fund control for all DoD Components. The directive requires DoD Components to establish and maintain adequate systems of accounting and positive control of appropriations and other funds.

Accounting Classification Reference Number. The accounting classification reference number (ACRN) is a two-character reference used throughout DoD to identify accounting data during the obligation, payment, and disbursement stages of contract processing. The use of ACRNs allows accounting activities to collect and record all applicable financial information in each line of accounting data at one time.

Accounting Data. Accounting data entries can include up to 94 alphanumeric characters and can reference 8 data fields. These include the Treasury symbol code, budget/subactivity code, object class code, reimbursable source code, transaction reference code, accountable station code, paying station code, and voucher number.

Since DoD has over 550 active appropriations and funds divided into thousands of legal subdivisions, the accuracy of accounting data is critical in allowing for proper fund control.

Finding A. Fund Control Over Contract Payments

Military Standard Contract Administration Procedures. The MILSCAP system uses automatic data processing equipment and high-speed data transmission to transfer data between procurement and contract administration activities. MILSCAP transactions are sent through the Automatic Digital Network (AUTODIN). AUTODIN allows the data to be sent to purchasing offices, inventory control points, contract administration field offices, and finance and accounting offices. Contracts, modifications, and shipping transactions can all be sent through MILSCAP. Since MILSCAP requires specific data formats, both sending and receiving systems must be MILSCAP-compatible.

Controls Over Appropriation Fund Data

DFAS-Columbus used inadequate procedures for fund control over contract payments. Specifically, obligation and disbursement data in MOCAS were not accurate; disbursements were not charged to the proper appropriations; and MILDEP accountable stations did not receive the accurate data they needed to properly record disbursements and maintain accounting records.

MOCAS Obligation and Disbursement Data. MOCAS contained inaccurate obligation and disbursement data. Of the 148 contracts included in our statistical sample, 42 contracts contained 1 or more obligation data errors requiring about \$208.1 million in accounting adjustments to ACRN-level balances. In MOCAS, 74 contracts had 1 or more errors in their accounting data; 32 contracts contained almost \$10.4 million in additional disbursement errors; and 8 contracts contained \$741,000 in disbursements that had not been charged to the correct appropriations. For example, our sample confirmed that 1 of the 42 contracts alone will require about \$176.6 million in obligation adjustments because four contract modifications were not entered into MOCAS, and we could find no support at DFAS-Columbus or the procurement activity for a modification that had been entered into MOCAS. These errors, which occurred during CY 1992, affected 8 of the 20 contract ACRNs. Because obligation and disbursement data were inaccurate, accounting officials at DFAS-Columbus and the MILDEP accountable stations could not rely on information in MOCAS or the MILDEP and DoD accounting systems it supports.

Mistakes in accounting data entries caused the most problems when MILDEP accountable stations tried to match DFAS-Columbus disbursements and maintain accurate records. For example, on one contract we reviewed, six of the eight ACRNs contained several fields with data input errors. These included errors in the program year, allotment serial number, program element, budget element, country code, and procurement request order number (PRON).

In January 1993, DFAS-Columbus provided us with computer listings of 16,742 contracts that cited multiple appropriations and included 1 or more ACRNs with obligation balances exceeding \$1.0 million. To verify the accuracy of MOCAS data, we statistically selected 148 of these contracts, valued at a total of \$1.49 billion, for review. We were not able to fully review

Finding A. Fund Control Over Contract Payments

eight of the contracts because the contract files contained insufficient documentation to verify contract data, and responsible personnel could not provide the needed additional information. These eight sampled contracts were accounted for by performing sensitivity analyses (see Appendix F). Our sample also included some contracts containing data that had been entered into MOCAS before DFAS-Columbus was established.

For each contract reviewed, we compared total ACRN obligation dollars and accounting data cited in the contract files to the same data in MOCAS. We also analyzed one CY 1992 subvoucher for each ACRN actually paid in CY 1992 to verify whether erroneous obligation entries were carried forward to the disbursement subvouchers. Based on the results of our sample, we projected with a minimum 95-percent confidence level that at least 3,779 (22.6 percent) of the 16,742 contracts contained 1 or more obligation data errors, and 6,559 (39.2 percent) also had 1 or more accounting data errors (see Appendix F).

We met with DFAS-Columbus personnel to discuss the errors we identified and accounting adjustments needed, and we gave them copies of our working papers detailing the specific problems. The CAS Directorates have begun corrective actions, have made about \$200.3 million of the required accounting adjustments, and have corrected errors in the accounting data entries for at least 60 of the 357 ACRNs on the 74 contracts identified.

Negative Unliquidated Obligations (NULOs). As discussed under "Internal Controls" in Part I of this report, by failing to properly collect and record obligation data, and by forcing payments on incorrect ACRNs to ensure that contractors were paid in a timely manner, DFAS-Columbus has added to a recurring problem with NULOs and has significantly increased its disbursement errors. Contracts have net NULO balances when accounting lines with negative obligation values exceed lines with positive values (total disbursements exceed total available obligations). When disbursed amounts actually exceed available funds, a violation of the Antideficiency Act (31 U.S.C. 1341) occurs. As of July 30, 1993, DFAS-Columbus reported almost \$3.1 billion of NULOs at the ACRN level on 11,833 ACRNs, and 2,659 contracts with negative balances totaling about \$408.0 million.

Charging Disbursements to Incorrect Appropriations. 31 U.S.C. 1301(a) specifies that procurement appropriations must be used only for procurement purposes, except as specified by law. 31 U.S.C. 1502 states: "The balance of an appropriation or fund limited for obligation to a definite period is available only for payment of expenses properly incurred during the period of availability or to complete contracts properly made within that period of availability."

For eight of the contracts we reviewed, we found subvouchers valued at \$1.97 million with \$741,000 in disbursements that had not been charged to the proper appropriations. These errors involved service contracts that were inaccurately prorated or were disbursed against incorrect appropriation line items because of accounting errors or insufficient funds remaining in the correct appropriations. Although some errors required extensive research, others could have been detected and corrected if supervisors had reviewed the transactions.

Finding A. Fund Control Over Contract Payments

For example, one contract included a payment of about \$236,000 that was incorrectly charged against an FY 1992 Army Other Procurement (2035) appropriation; a Navy FY 1986 Marine Corps Procurement (1109) appropriation should have been charged instead. Another contract included an FY 1993 payment of about \$8,400 that was incorrectly charged against an FY 1990 Army Other Procurement (2032) appropriation; an FY 1991 Army Aircraft Procurement (2031) appropriation and a Foreign Military Sales (8242) appropriation should have been charged instead.

Data Received by MILDEP Accountable Stations. The MILDEP accountable stations served by DFAS-Columbus did not always receive the accurate data they needed to properly record disbursements and maintain accounting records. We sent questionnaires to 12 judgmentally selected MILDEP accountable stations to evaluate the accuracy of disbursement documentation and the quality of service received from DFAS-Columbus. All 12 stations reported problems with obligation and disbursement data as well as the overall quality of service received. During the audit, we did not attempt to validate the accuracy of the error rates or other problems cited by the accountable stations. See Appendix C for a list of the MILDEP accountable stations contacted and a summary of the responses we received.

At all 12 of the accountable stations contacted, employees told us they had problems with the accuracy of obligation and disbursement data received from DFAS-Columbus. They told us that error rates ranged from 20 to 80 percent. Other problems included duplicate payments, poor communication, and inadequate service. DFAS-Columbus also closed its contract records before the MILDEPs closed out their contracts. MILDEP officials said that their staff spent unnecessary time in correcting DFAS-Columbus errors, and had difficulty determining where to direct their inquiries. DFAS-Columbus did not always take corrective actions, and the MILDEPs received little feedback, which resulted in several attempts to correct the same problems.

For example, the U.S. Army Missile Command Headquarters at Huntsville, Alabama, estimated that six GS-8 employees, with salaries totaling \$171,000 annually, were needed to correct erroneous contract payment data received from DFAS-Columbus. MICOM further estimated that 70 to 80 percent of all DFAS-Columbus contract payments contained accounting errors.

Causes of Inadequate Fund Control

The lack of adequate fund control over contract payments had several causes, including inaccurate entry of MOCAS data by DFAS-Columbus and data transfer problems with the MILSCAP-compatible systems that interfaced with MOCAS. In addition, supervisors were not required to review transactions and document their reviews, and data input clerks were not required to correct their errors at the point of data entry. Quality assurance reviews at DFAS-Columbus also were inadequate to verify the accuracy and completeness of MOCAS data.

Finding A. Fund Control Over Contract Payments

Inaccurate Data Entry. Inaccurate data entry contributed to errors that we identified on 88 of the contracts. These errors required adjustments in ACRNs or accounting data entries. Although some errors occurred before the contracts were transferred to DFAS-Columbus, personnel at DFAS-Columbus manually reentered the data without verifying their accuracy or completeness. If supervisors at DFAS-Columbus had reviewed the data when they were reentered, most of the errors could have been detected and corrected.

Data Transfer Problems. Using MILSCAP to enter contract data into MOCAS is only marginally efficient, because there are inconsistencies in the interface between MOCAS and the procurement systems that generate the data. In a February 1991 report to DLA Headquarters, DFAS Headquarters identified numerous deficiencies in MILSCAP and the MILSCAP-MOCAS interface. The report identified a total of 42 critical data records that were required by MOCAS but were not included in MILSCAP (Appendix D); incompatibilities between MILSCAP and the systems that receive data in MILSCAP format; and inconsistent use of MILSCAP by the Services. The report concluded that these conditions caused duplication of effort, since 50 percent of the contracts and 70 percent of the modifications transmitted through MILSCAP were initially rejected or had omissions when DFAS-Columbus received them. The report recommended that DFAS Headquarters and DLA implement an adequate electronic data interface between MOCAS and DoD procurement systems.

In April 1993, DFAS Headquarters conducted another review at DFAS-Columbus. That review, and our discussions with personnel at DFAS-Columbus, confirmed that little improvement had been made in data transfer within the past 2 years. DFAS Headquarters and DLA had begun developing an improved electronic data interface between MOCAS and the DoD procurement systems. However, MILSCAP still did not include at least 36 records required by MOCAS, and the problem had not been given a high priority. During the audit, we did not attempt to further validate the findings discussed in the two DFAS Headquarters reports.

Review and Correction of Data Input Errors. DFAS-Columbus had inadequate procedures for reviewing and correcting errors at the point of data entry. DoD Manual 7220.9-M, "DoD Accounting Manual," October 1983, requires supervisors to review input processing, error listings, and corrections. However, these reviews and corrections were either not performed or not documented by DFAS-Columbus supervisors.

DFAS-Columbus guidelines require supervisors to review 100 percent of data input by new personnel and 30 percent of data input by experienced personnel. The distinction between new and experienced personnel is left to the supervisor. Based on our analysis of invoices received and processed between January 1992 and May 1993, some data input clerks were required to enter up to 86 documents per day. The standard for contract data input clerks at DFAS-Columbus, depending on their grade levels, is 18 to 32 documents (180 to 320 lines) daily.

Although DFAS-Columbus personnel said that supervisors were reviewing some transactions, the supervisors we interviewed could not produce documentation to

Finding A. Fund Control Over Contract Payments

show that reviews had been performed, when they were performed, or what corrections were made as a result. Since large numbers of contracts, modifications, invoices, and other transactions are entered into MOCAS daily, adequate supervisory reviews and correction of errors at the point of data entry are essential.

Quality Assurance Reviews. Quality assurance reviews at DFAS-Columbus were insufficient to verify the accuracy and completeness of MOCAS data. At DFAS-Columbus, the Quality Control Division of the Finance and Accounting Directorate was responsible for performing the reviews; however, the last review of fund controls was conducted during summer 1992, and there are no plans for additional reviews. When quality assurance reviews were performed, the method of calculating contract input errors was flawed because it was based on the incorrect assumption that all contracts had a single ACRN, which was either correct or incorrect. Consequently, multiple errors on a single ACRN (or errors on multiple ACRNs) on a contract would only be counted as a single error, creating a false impression that problems were minimal.

Neither DFAS nor its five CAS Directorates had established quality assurance review procedures that adequately detected and corrected errors in contract data. The Western CAS Directorate performed and documented weekly reviews of data input, contract modifications, and MILSCAP data; however, because of two major problems, the results were not completely valid. Specifically, the Western CAS Directorate's review of transactions during the week ending February 6, 1993, showed that 175 transactions had been reviewed, and no errors in input of appropriation data had been found. Our statistical sample of 93 of these transactions showed that errors in input of contract data were improperly calculated in the same manner as the Quality Control Division's reviews, and that transactions shown for the week ending February 6, 1993, actually included transactions dating back to November 1992. We also found that for the 93 transactions we reviewed, the error rate of input transactions was 17 percent (see Appendix F).

Conclusion

MOCAS contained inaccurate data on obligations and disbursements, and fund balances were materially misstated. Automated interfaces with other procurement systems were not working. Insufficient controls were in place to ensure that errors were identified and corrected, and quality reviews by supervisors were either ineffective or were not being performed. Because DFAS-Columbus's accounting data are so bad, Military Department accountable officials cannot rely on them. At all 12 of the MILDEP accountable stations we contacted, managers told us they were receiving inaccurate data from DFAS-Columbus, and were incurring unnecessary costs to correct and properly maintain their accounting records.

Finding A. Fund Control Over Contract Payments

Recommendations, Management Comments, and Audit Response

1. We recommend that the Director, Defense Finance and Accounting Service:

a. Request that the Defense Logistics Agency terminate the existing Military Standard Contract Administration Procedures interface.

DFAS Comments. The Director, DFAS, nonconcurrent, stating that 50 percent of existing MILSCAP data can be used, and terminating the interface would increase DFAS-Columbus manual data input.

Audit Response. We disagree with the statement by the Director, DFAS, that 50 percent of the MILSCAP data is usable, and that terminating the electronic interface would increase DFAS-Columbus's workload. Our discussions with numerous payment division officials disclosed that the data received through MILSCAP are so bad that they are seldom used. Instead, Center personnel routinely reenter all data that are received through MILSCAP using an overlay process; therefore, terminating the interface would not appreciably increase their workload. We request that management reconsider its position on this recommendation when responding to the final report.

b. Give high priority to working with the Defense Logistics Agency to design and implement an adequate electronic data interface between the Mechanization of Contract Administration Services system and DoD procurement systems.

DFAS Comments. The Director, DFAS, concurred, stating that the Defense Logistics Agency (DLA) and DFAS are working to develop an efficient data interface between MOCAS and other DoD procurement systems. The Defense Logistics Agency Pre Award Contracting System (DPACS), designated as the DoD migratory system, will provide ANSI X12 contract transactions to MOCAS.

2. We recommend that the Director, Defense Finance and Accounting Service - Columbus Center:

a. Require that the recommended \$208.1 million in accounting adjustments be completed for the 42 contracts discussed in this report (see Appendix A).

DFAS comments. The Director, DFAS concurred, stating that the IG, DoD, audit team will furnish additional information to research these adjustments.

Audit Response. The requested information has been furnished to DFAS-Columbus.

Finding A. Fund Control Over Contract Payments

b. Direct that errors in accounting data on 74 contracts, and \$10.4 million in disbursement errors on 32 contracts, be corrected for the contracts discussed in this report (see Appendix B).

DFAS Comments. The Director, DFAS, concurred, stating that the IG, DoD, audit team will furnish the additional information required to correct the errors.

Audit Response. The requested information has been furnished to DFAS-Columbus.

c. Review the remaining 16,594 contracts from the January 1993 computer listings included in our sample universe, and correct all errors identified in obligations, accounting data, and disbursements.

DFAS Comments. The Director, DFAS, partially concurred, stating that he agreed with the concept but will focus on current contracts. DFAS-Columbus is attempting to research and resolve a large number of discrepancies based on indicators such as negative unliquidated obligation balances. The Director, DFAS, added that a large inventory of review and reconciliation actions already exists. This inventory is based on known conditions from current lists, and includes errors in contracts dating from January 1993 forward. Using the old list would not be efficient; therefore, DFAS-Columbus will continue to work on current contracts with known discrepancies.

Audit Response. Because of the high statistically projected error rates (22.6 percent for obligation errors and 39.2 percent for accounting errors) for the 16,742 contracts in our sample universe, we do not agree with the DFAS position on this recommendation. Although the response does not state the number of contracts proposed for review, it is likely to be a fraction of the number we are recommending. We agree that using our old audit universe list would be inefficient; however, obtaining a current list based on our sample universe criteria would not be difficult. The continued inaccuracy of MOCAS data adversely affects the accuracy and timeliness of contract payment and closeout actions. Therefore, we request that management reconsider its position on this recommendation when responding to the final report.

d. Require each Contract Administration Services Directorate to designate a liaison between the Directorate and the Military Department accountable stations to facilitate prompt resolution of problems with erroneous disbursements and other accounting errors. Written logs should be maintained to show the dates of contacts, problems encountered, dates the problems were resolved, solutions agreed on, and actions taken.

DFAS Comments. The Director, DFAS, concurred, stating that DFAS-Columbus's control and processing of funding stations are now centralized within a single directorate. A personal computer data base is used for mechanical tracking and correlation with related contract errors. The directorate's Contract Analysis Branch also provides a liaison between DFAS-Columbus and the MILDEPs.

Finding A. Fund Control Over Contract Payments

e. Require supervisors to perform and document reviews of work by input clerks. At a minimum, these reviews should assure that all input errors identified during these reviews are promptly corrected; that input clerks receive training as needed; and that adverse trends in data input are identified and corrected.

DFAS Comments. The Director, DFAS, concurred, stating that contract input desk procedures require input supervisors to review procurement and input documents to verify accuracy and conformance with procedures. Internal management control programs are scheduled to be performed in the near future on assessable units of invoice control and contract input, and a memorandum detailing the IG, DoD, audit finding will be distributed to remind supervisors of their responsibility. Quality assurance reviews will also validate the completeness of supervisory reviews and the adequacy of documentation and follow-up action.

f. Direct the Quality Control Division to perform regular quality assurance reviews of fund control operations in all five Contract Administration Services Directorates. The reviews should be fully documented and should include the accuracy of contract data input, adherence to established desk operating procedures, and responsiveness to the problems of Military Department accountable stations. The Quality Control Division should also follow up on all recommendations made as a result of these reviews to verify that corrective actions are promptly taken.

DFAS Comments. The Director, DFAS, concurred, stating that the Finance and Accounting Directorate's Quality Control Division performs daily reviews and follows up on all recommendations every 6 months. Each of DFAS-Columbus's CAS Directorates is also required to perform an accuracy check on 30 percent of its manual payments, and beginning in October 1994, DFAS-Columbus's internal review staff will begin oversight audits.

g. Resolve the \$408.0 million in negative balances for 2,659 cited contracts, and properly report any Antideficiency Act violations identified during the resolution process.

DFAS Comments. The Director, DFAS, agreed that all negative balances should be reconciled and stated that any Antideficiency Act violations identified will be reported.

Audit Response. Management's proposed actions on this recommendation were not fully responsive. Although the Director, DFAS, agreed that all negative balances should be reconciled and any Antideficiency Act violations would be reported, the response did not identify any specific actions taken or planned in accordance with DoD Directive 7650.3. Therefore, we request that management provide additional comments when responding to the final report.

h. Eliminate the practice of forcing contract payments through the Mechanization of Contract Administration Services system on incorrect Accounting Classification Reference Numbers. Contracts with newly

Finding A. Fund Control Over Contract Payments

created negative unliquidated obligation balances at the contract level should be reported monthly and monitored until corrected.

DFAS Comments. The Director, DFAS, concurred, stating that current desk procedures require invoices to be paid against the correct ACRNs even if the action creates a negative unliquidated obligation. The DFAS-Columbus's Operations Support Division is currently reviewing and validating the procedures as part of its quality program, and DFAS-Columbus managers have reiterated the policy that invoices must be paid on the correct ACRNs.

Response Requirements for Each Recommendation

Responses to the final report are required from the addressees shown for the items indicated with an "X" in the chart below.

Number	Addressee	<u>Response Should Cover:</u>			
		Concur/ Nonconcur	Proposed Action	Completion Date	Related Issues ¹
A.1.a.	DFAS ²	X	X	X	IC
A.2.c.	DFAS-CO ³	X	X	X	
A.2.g.	DFAS-CO		X	X	IC

¹ IC = internal control weakness

² Director, Defense Finance and Accounting Service

³ Director, Defense Finance and Accounting Service-Columbus Center

Finding B. Contract Reconciliation Procedures

The Defense Finance and Accounting Service-Columbus Center (DFAS-Columbus) had not developed an adequate capability for reconciling contracts in-house, and relied on contractor support. Since April 1990, DFAS-Columbus had used an accounting firm to reconcile contracts. The current firm-fixed-price level of effort contract with a commercial accounting firm cost DFAS \$56.98 per hour, and had been modified five times without obtaining competitive bids as required by the Competition in Contracting Act of 1984, Public Law 98-369. The modifications covered \$1.27 million in software development and other work outside the scope of the original contract. Also, demand letters for contractor overpayments identified during contract reconciliation were not issued promptly. These conditions occurred because DFAS-Columbus managers had not developed a plan to perform in-house contract reconciliations, and no formal guidance existed for issuing contractor demand letters. As a result, DFAS-Columbus continued to use outside support to reconcile its larger contracts, and contractors were not billed promptly to collect overpayments identified during contract reconciliations. DFAS-Columbus could fully develop its own internal reconciliation capabilities and realize a potential monetary savings of \$19.1 million during the period from FY 1995 through 1999.

Background

Contract for Reconciliation Services. Before the Defense Contract Administration Service Regions (DCASRs) and their payment functions were consolidated under DFAS-Columbus in January 1991, the DLA solicited bids for contract reconciliation services. DLA requested reconciliations of older contracts that the Los Angeles Region DCASRs could not reconcile. These were larger, more complex contracts that were beyond the capability of DCASR resources.

After DFAS-Columbus was established, administration of the reconciliation contract and the accompanying work load were transferred to DFAS-Columbus.

Contract Growth. Contract DLA600-90-D-5047 was awarded to a commercial accounting firm on April 6, 1990. It was a firm-fixed-price level of effort contract for \$14.85 million, based on the need to reconcile an estimated 20,000 contracts. Although this estimate was adjusted downward to 8,000 contracts in May 1992, the contract was extended through FY 1994 with a ceiling price estimated at \$30.0 million. As of June 1993, the contractor had received \$19.5 million in payments and had reconciled a total of 4,137 contracts.

Finding B. Contract Reconciliation Procedures

Monitoring of Contract Reconciliation. Contracts must be reconciled to ensure that fund balances are accurate, disbursements are properly supported by obligations, contractors have not been overpaid, and the Government is not entitled to any refunds for services overbilled or not performed. Under the existing contract, DFAS-Columbus provides the contractor with contracts that are too complex or time-consuming to reconcile in-house. Before attempting resolution, the contractor performs a complete contract analysis, known as a Receipt and Inspection Duty, of all documentation in the contract and payment files. The contractor assigns a ranking factor to the contract, depending on the number of attributes (e.g., disbursements, contract line item numbers, etc.) calculated during the Reception and Inspection Duty. If existing documentation and audit trails are inadequate for complete reconciliation, the contractor can reject a contract.

As of June 1993, the contractor reported that 53 DFAS-Columbus contracts were being reconciled, and an additional 52 contracts were being analyzed. DFAS-Columbus often received contract files from the DCASRs with incomplete documentation; as of June 1993, the contractor had rejected 379 contracts. These rejected files contained insufficient documentation for the accounting firm to determine whether the Government overpaid or underpaid the contractors. At DFAS-Columbus, the Contract Audit Technical Review Branch monitored all reconciliations performed by the contractor, approved the results, and recommended adjustments. The branch was staffed by 12 accounting technicians, some of whom had the technical expertise to reconcile the larger, more complex contracts currently being reconciled by the contractor.

Resources for Contract Reconciliation

DFAS-Columbus had not developed a plan to reconcile contracts in-house, including training its employees to perform the function. Instead, DFAS-Columbus used more expensive commercial resources. Unless the contract is terminated at the end of FY 1994, DFAS-Columbus will incur unnecessary higher costs. If the contract is allowed to continue through FY 1999, we estimate that these higher costs will be \$19.1 million. DFAS-Columbus managers gave lack of experience and resources as the reason for not performing contract reconciliations in-house or issuing contractor demand letters within 5 working days as required.

We made several attempts to obtain supporting documentation to justify the out-of-scope contract modifications we identified. However, DFAS-Columbus managers could not provide justifications.

Existing Expertise for Reconciliations. Although their expertise was limited, employees in the Contract and Administrative Reports and Reconciliation Branch at DFAS-Columbus could perform reconciliations similar to the contractor's, but on a smaller scale. For example, the branch reconciled contracts with progress payments, credit unliquidated obligations, payments on

Finding B. Contract Reconciliation Procedures

incorrect ACRNs, unauthorized transportation costs, incorrect payments, underpayments, recoupsments, and overpayments. Additional expertise was also available in the Contract Audit Technical Review Branch at DFAS-Columbus.

Potential Capability for Reconciliations. In May 1993, we asked DFAS-Columbus managers to evaluate their potential for performing all contract reconciliations in-house. They responded that additional staff and current personnel could develop the expertise to perform all reconciliations. Although DFAS-Columbus did not give a date when all contracts could be reconciled in-house, managers said that a transition period through September 1994 (the end of the current contract extension) would be reasonable. Continuing to rely on the current contract would cost an estimated \$42.4 million from FYs 1994 through 1999. We estimated that performing the work in-house, beginning in FY 1995, would result in comparable costs of \$23.3 million in FYs 1994 through 1999, or a savings of \$19.1 million (see Appendix G).

Compliance with Laws and Regulations

Contract modifications executed by DFAS were not in compliance with applicable laws and regulations. To date, the contract for reconciliation services has been modified five times to allow for \$1.27 million of software development and other work outside the scope of the original contract without requiring a software conversion study, competitive bids, or a finding and determination that full and open competition was not required. For example, in September 1990, modification P00004 increased contract funding by about \$116,706. This modification was to develop and implement a coding system so that MOCAS could automatically update files when erroneous transactions were corrected. Modifications P00014 (\$300,000, issued in August 1991), P00024 (\$400,000, June 1992), and P00028 (\$206,000, September 1992) increased the contract by \$906,000 to expand the automated coding by designing and implementing a new software prototype for contract reconciliation. Modification P00025, issued in June 1992, increased contract funding by an additional \$252,000. This modification was to assess and recommend how to consolidate 12 Navy project offices under DFAS-Columbus.

In making these modifications, the contract manager failed to comply with the Competition in Contracting Act of 1984 and Federal Acquisition Regulation (FAR), part 6, "Contracts," which require contracting officers to provide for full and open competition in soliciting offers and awarding Government contracts or to document their finding and determination that full and open competition is not required. The Federal Information Resource Management Regulation (FIRMR), section 201-39, further requires that software conversion studies (including analyses of alternatives to meeting the Government's needs) be performed when the value of the procurement exceeds \$300,000. This requirement is to ensure that users' needs are met at the lowest overall cost, considering price and other factors.

Finding B. Contract Reconciliation Procedures

During this review, and in discussions with several DFAS-Columbus and DLA contract managers familiar with the contract, we found no evidence that the actions required by the FAR and FIRMR were taken. Managers told us that they had no documentation to show whether competitive bids were required or a conversion study was done, and they assumed that their predecessors had not done so. If DFAS employees had complied with applicable laws and regulations governing procurements, we believe that the existing rate of contract growth would have been curtailed.

Other Issues Related to Contract Reconciliation

Contractor Demand Letters. DFAS-Columbus was not billing Government contractors promptly to collect overpayments found during contract reconciliations. After reconciliation is complete, the contractor should be billed immediately for any outstanding amounts due the Government; additional payments, plus interest, may also be paid to the contractor if appropriate. As of June 1993, contract reconciliations had identified \$175.7 million, of which \$82.6 million had been collected.

When the Accounts Receivable Branch of the Finance and Accounting Directorate is notified of an overpayment, DFAS-Columbus procedures require that contractor demand letters be issued within 5 working days. The procedures are unwritten, and are based on an August 1990 draft revision to DLA Manual 7000.1-M, "Accounting and Finance Manual," chapter 12, that requires demand letters to be mailed within 5 days. The manual does not specify calendar or working days. However, our judgmental sample of 31 demand letters showed that the initial demand letters were issued in 6 to 141 calendar days (an average of 133 days). This gives the contractors interest-free loans and increases interest costs to the Government.

Conclusions

DFAS-Columbus paid an average of \$56.98 per hour during FY 1993 for contract reconciliation services. This hourly amount equals the salaries of Senior Executive Service personnel. The most difficult reconciliation work could be done by GS-12 accountants. By reconciling contracts in-house, DFAS-Columbus could make better use of its employees and realize a potential monetary benefit of \$19.1 million (see Appendix G). Issuing initial contractor demand letters within 5 working days would also reduce interest costs to the Government and would improve debt collection by DFAS-Columbus.

Finding B. Contract Reconciliation Procedures

Recommendations, Management Comments, and Audit Response

1. We recommend that the Director, Defense Finance and Accounting Service, terminate contract DLA600-90-D-5047 for contract reconciliation services effective April 30, 1995. Until the contract is terminated, no further modifications for work outside the original contract's scope should be initiated or awarded.

DFAS Comments. The Director, DFAS, partially concurred; he agreed that the contract should be terminated, but felt that the September 30, 1994, target date proposed in our draft report was unrealistic. The Director proposed an alternative termination date of April 30, 1995, and agreed that no further work outside the scope of the original contract would be initiated or awarded prior to contract termination. DFAS also fully concurred with the \$19.1 million in potential monetary benefits expected to result from these actions.

Audit Response. Considering the difficulty of the effort to terminate the existing contract and take over all contract reconciliation in-house, we believe that the proposed termination date of April 30, 1995, is reasonable. The recommendation has been reworded accordingly.

2. We recommend that the Director, Defense Finance and Accounting Service-Columbus Center:

a. Develop and implement full capability for in-house contract reconciliation before the reconciliation contract terminates on April 30, 1995. Ideally, the reconciliations should be performed by an organization at the Defense Finance and Accounting Service-Columbus Center that is independent of the Contract Administration Services Directorates.

DFAS Comments. The Director, DFAS, concurred, stating that DFAS-Columbus has established an organization separate from the operating divisions that will eventually be responsible for complex reconciliations. This organization will be part of the newly created Operations Support Division. The Director added that this organization needs to develop a transition strategy and a milestone plan detailing the actions necessary to ensure complete in-house capability and an orderly transition from contracted support. The Director did not believe that this could be fully accomplished by September 30, 1994, and proposed an alternate completion date of April 30, 1995.

Audit Response. We recognize the complexity of this undertaking, and, as with the previous recommendation, we agree that a completion date of April 30, 1995, is reasonable. The recommendation has been reworded accordingly, and management's response is adequate.

b. Develop, implement, and enforce a policy requiring the Accounts Receivable Branch to issue initial demand letters for contractor overpayments within 5 working days after receiving notification of the overpayments.

Finding B. Contract Reconciliation Procedures

DFAS Comments. The Director, DFAS, concurred in principle, stating that the policy of the Accounts Receivable Branch is to issue initial demand letters for contractor overpayments within 5 working days after receiving notification of the overpayments. However, the Director requested a waiver from the 5-day requirement for contractor-discovered debts because the debts are complex and require verification by DFAS-Columbus personnel before the demand letter is issued.

Audit Response. We do not agree with the need for a waiver of the 5-day requirement for contractor-discovered debts. The current contract has been in place since April 1990, and the contractor has reconciled about 4,200 contracts to date. This is sufficient experience to become knowledgeable and accurate at contract reconciliations. Further, considering the total amount of overpayments identified by the contractor (\$175.7 million as of June 1993), the need for prompt collection is critical. Consequently, we consider this recommendation valid, and we request that management reconsider its position when responding to the final report.

Response Requirements for Each Recommendation

Responses to the final report are required from the addressees shown for the items indicated with an "X" in the chart below.

<u>Number</u>	<u>Addressee</u>	<u>Response Should Cover:</u>			
		<u>Concur/ Nonconcur</u>	<u>Proposed Action</u>	<u>Completion Date</u>	<u>Related Issues¹</u>
B.2.b.	DFAS-CO ²	X	X	X	M

¹ M = monetary benefits; IC = internal control weakness

² Director, DFAS-Columbus Center

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Part III - Additional Information

Appendix A. Contracts Reviewed and Accounting Data Errors Identified

<u>Directorate</u>	<u>Contract</u>	<u>Amount in Error</u>	<u>Amount Corrected</u>
Northeast	DAAJ09-85-CB185	\$ 128,229	\$ 128,229
	N00014-90-D0081-0004	10,000	10,000
	MDA972-90-C0074	1,713,794	1,713,794
	N00014-91-D0043-0001	30,000	30,000
	N00019-86-C0310	49,252	49,252
	N00014-90-C2269	40,000	0
	F08635-87-C0002	1,500,000	1,500,000
	N61339-86-C0134	110,107	0
North Central	DAAE07-90-DJ017-0011	283,510	283,510
	DAAK01-87-CA018	657,991	677,019
	DAAE07-81-C4027	456,367	0
	N00383-89-C8242	764,946	692,094
	DAAA09-90-C0568	716,374	716,374
	F34601-81-G3636-SC02	1,110,472	153,972
N00039-90-C0159	3,000	0	
Mid-Atlantic	N00014-90-C2100	56,000	56,000
	N00039-92-C0001	439,910	439,910
	N62269-83-C0401	26,000	26,000
	DAAE07-88-CR106	488,680	488,680
	DAAA09-87-G0010-0004	2,602,518	2,602,518
	N00174-90-C0075	898,212	898,212
	MDA903-83-C0309	43,770	43,770
	N00024-89-C3414	11,204	11,204
	N00024-79-C4119	78,628	78,628
	N00014-91-C2140	140,786	140,786
	N00024-88-C6061	11,044	11,044

Appendix A. Contracts Reviewed and Accounting Data Errors Identified

<u>Directorate</u>	<u>Contract</u>	<u>Amount in Error</u>	<u>Amount Corrected</u>
Southern	DAAH01-85-EA001	\$ 7,082	\$ 7,082
	DAAJ09-87-CA003-SM01	299,429	0
	F33615-90-D4008-0002	3,359,957	0
	F34601-92-C1071	11,767,181	11,767,181
	DAAB07-86-CN001	40,607	0
	DAAH01-89-C0008	200	0
	DAAJ09-90-C0353	176,560,423	175,908,070
	F04701-86-C0155	1,106,090	861,122
	N62472-82-C-1651	36,537	0
Western	DAAH01-90-C0756	82,056	82,056
	N00024-90-D4149-0017	753,272	0
	N00123-81-C0015	490,080	0
	N00024-87-C5013	132,245	113,202
	N00104-91-CM131	788,724	788,724
	N00383-88-C6380	246	0
	DAAH01-81-CA838	<u>311,732</u>	<u>0</u>
Total:	<u>\$208,106,655</u>	<u>\$200,278,433</u>	

Appendix B. Contracts Containing Disbursement Errors

<u>Contract</u>	<u>Voucher Number</u>	<u>Errors Noted</u>		<u>Total Value of Subvoucher</u>
		<u>ACRN</u>	<u>Amount</u>	
<u>Mid-Atlantic CAS Directorate</u>				
N00039-92-C-0001	F77-09	AD	\$ 1,429.18	\$ 0
		AM	15,719.87	79,968.15
	F91-16	AC	3,968.23	0
		AD	2,450.64	0
DAAE07-92-C-R010	A130-08	AM	857.51	16,766.80
		AA	94,241.80	0
		AC	176,599.01	270,840.81
DAAA09-87-G-0010/0004	A440-49	AB	136.84	0
		AF	36.96	0
		AG	4,690.83	0
		AH	312.74	0
		AJ	625.46	5,809.11
DAAB07-90-C-G013	A148-27	AB	94,254.67	141,542.65
DAAA09-91-C-0247	A137-73	AG	26,323.47	0
		AJ	15,815.41	42,138.88
		AB	12,043.57	12,043.57
DAAE07-85-C-1479	A852-32	AB	12,043.57	12,043.57
<u>North Central CAS Directorate</u>				
DAAK01-87-C-A018	A138-11	AM	733.11	17,443.40
		AD	9,408.37	9,408.37
	A227-16	AD	166,215.71	183,861.30
		AC	1,246.72	0
	T99-52	AE	12,923.30	14,170.02
		AC	484.50	0
	T35-35	AE	3,061.74	0
		AK	11,251.16	14,797.40
DAAA09-90-C-0568	A235-12	AS	61,391.67	61,391.67
		AD	25,224.00	34,886.80
	A141-99	AA	454,566.00	0
		N022-69	AB	<409,109.40>

Appendix B. Contracts Containing Disbursement Errors

<u>Contract</u>	<u>Voucher Number</u>	<u>Errors Noted</u>		<u>Total Value of Subvoucher</u>
		<u>ACRN</u>	<u>Amount</u>	
<u>Northeast CAS Directorate</u>				
N00383-88-G-K302/BSNL	B257-13	AB	\$ 27,343.99	\$ 27,623.31
DAAB07-86-D-K023/0123	H326-28	AB	1,357,443.00	1,373,221.00
N00019-87-G-0024/GU01	G41-44	BX	222,190.00	0
		BY	148,127.00	370,317.50
N00024-85-C-5131	B27-90	BV	81,916.20	81,916.20
		AJ	429.00	429.00
N00024-91-C-5645	G96-97	AC	220,338.34	468,072.00
N00024-84-D-7056/0147	G85-56	AB	19,286.10	161,769.00
		AB	< 19,286.10 >	515,451.05
N00014-90-D-0081/0004	G58-35	CG	1,121.85	416,964.00
		DX	130.90	0
		EH	232.10	0
		EY	390.05	0
		FA	287.80	10,639.00
DAAE07-92-C-0586	H044-51	AA	142,051.60	0
		AB	65,309.24	0
		AC	107,762.16	315,123.00
DAAB07-91-D-E092/0001	H092-93	AA	519,013.52	0
		AC	13,124.71	0
		AD	54,047.83	0
		AE	5,691.48	0
		AF	1,766.70	0
		AG	11,219.27	617,728.00
DAAB07-91-D-E092/0005	H214-44	AA	420,537.36	0
		AC	13,817.63	0
		AD	23,789.25	465,088.00
<u>Southern CAS Directorate</u>				
F33615-89-D-4003/0051	M100-10	AA	3,108.74	107,011.93
DAAH01-89-G-0006/0013	L188-10	AD	1,063.59	31,227.28
		AE	28,585.04	28,585.04
F33615-91-C-5710	M188-40	AC	23,919.16	55,811.37
DAAA09-89-C-0342	L158-34	AC	66,549.60	66,549.60
DAAJ09-90-C-0353	L527-53	AA	57,138.00	145,484.00
		AC	2,761.67	0
		AD	650.76	0
		AE	4,563,483.79	0
	L575-82	AF	4,589.24	0

Appendix B. Contracts Containing Disbursement Errors

<u>Contract</u>	<u>Voucher Number</u>	<u>Errors Noted</u>		<u>Total Value of Subvoucher</u>
		<u>ACRN</u>	<u>Amount</u>	
<u>Southern CAS Directorate, continued</u>				
		AJ	\$ 133.86	\$ 0
		AK	573.72	0
		AL	14,683.21	0
		AM	20,434.76	0
		AT	1,145.41	4,608,456.42
	L407-71	AH	153,492.20	153,492.20
<u>Western CAS Directorate</u>				
N00123-81-C-0015	E15-87	AG	15,569.86	32,051.00
N00039-91-C-0015	E58-56	AC	526,695.49	526,695.49
N60921-89-C-A136	C744-73	AA	138,995.00	138,995.00
DAAH01-91-C-R145	C188-78	AA	2,222.95	29,004.85
N00024-90-D-4149/0017	E44-50	AB	380.94	0
		AC	1,244.90	0
		AD	228.56	110,248.26
DAAB07-91-C-P751	D070-77	AF	104,043.00	62,425.80
	D067-90	AE	21,702.43	5,198.00
	D054-94	AD	129,950.00	0
		AE	7,834.15	0
		AG	<51,715.79>	31,188.00
	C039-23	AN	99,608.73	443,746.00
	D624-05	AC	25,990.00	5,198.00
	C784-80	AH	91,212.64	0
		AN	24,953.73	192,274.61
	D591-45	AC	12,437.45	0
		AD	30,403.34	0
		AE	2,763.63	0
		AF	20,729.09	0
		AG	13,818.96	116,461.39
N00014-91-C-2052	E19-59	AB	1,521.05	1,777.00
DAAH01-90-C-0756	C051-09	AP	2,168.10	2,168.10
N00019-92-C-0056	E64-10	WE	303.25	1,069,732.00
	E68-94	WE	288.39	1,016,380.00
Total:			<u>\$10,390,646.32</u>	<u>\$14,755,027.13</u>

Appendix C. Military Department Accountable Station Questionnaires

Military Department Accountable Stations Contacted

Department of the Army

Army Armament, Munitions and Chemical Command, Rock Island, IL
Army Aviation and Troop Command, St. Louis, MO
Army Communications - Electronics Command, Fort Monmouth, NJ
Army Missile Command, Huntsville, AL
Army Tank - Automotive Command, Warren, MI

Department of the Navy

Naval Aviation Supply Office, Philadelphia, PA
Navy Ships Parts Control Center, Mechanicsburg, PA

Department of the Air Force

Ogden Air Logistics Center, Hill Air Force Base, UT
Oklahoma City Air Logistics Center, Tinker Air Force Base, OK
Sacramento Air Logistics Center, McClellan Air Force Base, CA
San Antonio Air Logistics Center, Kelly Air Force Base, TX
Warner Robins Air Logistics Center, Robins Air Force Base, GA

Non-Defense Federal Organizations

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

Chairman and Ranking Minority Member of Each of the
Following Congressional Committees and Subcommittees:

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 Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on
Government Operations

Appendix C. Military Department Accountable Station Questionnaires

Most Frequent Responses by Military Department Accountable Stations

1. DFAS-Columbus is correcting its MOCAS records without notifying the MILDEPs.
2. Errors made by DFAS-Columbus contribute to the MILDEPs' problems with negative unliquidated obligations.
3. MILDEP accounting systems are not compatible with MOCAS.
4. The MILDEPs receive duplicate payments and retransmitted duplicate Contractor Payment Notifications.
5. Documentation to support payment data is lacking.
6. The MILDEPs receive payments made on the wrong Accounting Classification Reference Number.
7. Payment data cite incorrect accountable stations.
8. Communication between the MILDEPs and the DFAS-Columbus Directorates is inadequate.

**Appendix D. Records Required by
Mechanization of Contract
Administration Services System
But Not Available in Military
Standard Contract Administration
Procedures System**

<u>Record</u>	<u>Number of Alphanumeric Fields Required</u>
<u>Administrative Data Records</u>	
Security Classification Code	1
Unilateral Indicator	1
Noun	11
Commodity Code	2
<u>Supply Line Item Records</u>	
Liquidated Damages Indicator	1
Withhold Clause Code	1
Inspection Code	2
Accounting Classification Reference Number (ACRN)	2
First Article Acceptance Date	6
<u>Service Line Item Records</u>	
Liquidated Damages Indicator	7
Withhold Clause Code	1
Inspection Code	2

Appendix D. Records Required by Mechanization of Contract Administration Services System But Not Available in Military Standard Contract Administration Procedures System

<u>Record</u>	<u>Number of Alphanumeric Fields Required</u>
<u>Contract Provisions Records</u>	
International Balance of Payments (IBOP) Indicator	1
IBOP Percentage	1
IBOP Country Code	2
IBOP Category Code	1
Work-in-Progress Ceiling Percent	3
U.S. Work-in-Progress Payment Percent	3
U.S. Work-in-Progress Recoupment Percent	3
FMS Work-in-Progress Payment Percent	3
FMS Work-in-Progress Recoupment	3
Fee Amount Payable to Contractor	13
Accounting and Finance Officer, Auditor or Administrative Contracting Officer's Approval Required	3
Mandatory Review Code	3
FOB Destination, Evidence of Shipment Required	1
FOB Origin, Minimum Size of Shipment/Less Than Truckload/Carload	1
Transportation/Freight Charges Authorized	1
Packaging Charges Authorized	1
Guaranteed Maximum Shipping Weight Dimensions	1
Value Engineering Clause	1
Patent Clearance Required	1
Special Tooling Clause	1
<u>Accounting Data Records</u>	
Contract Payment Notice Recipient	6
Foreign Military Country Code	2
<u>Alternate Payee Name and Address Records</u>	
Name and Address Line 1	28
Name and Address Line 2	28
Name and Address Line 3	28
Name and Address Line 4	28
Name and Address Line 5	28
City	17
State	3
Zip Code	9

Appendix E. Contract Payment Transfers

<u>Directorate</u>	<u>Division</u>	<u>Transfer Date</u>
Western	Segundo	May 1989
Western	San Francisco	July 1989
Western	Santa Ana	September 1989
Western	Van Nuys	November 1989
Northeast	Liberty	March 1990
Northeast	Bunker Hill	May 1990
Mid-Atlantic	All-American	August 1990
Mid-Atlantic	Erie	May 1991
Southern	Atlanta	December 1991
North Central	Great Lakes	February 1992
Mid-Atlantic	Independence	March 1992
Southern	Dallas	April 1992
North Central	Gateway	June 1992
Mid-Atlantic	Chesapeake	August 1992
Northeast	Minuteman	October 1992
Mid-Atlantic	Capital	November 1992

Appendix F: Statistical Sampling Plan and Methodology

Sampling Plan

In support of the objectives of this audit, we projected statistically both the contract error rate and the number of contracts with errors for Multi-Funded/Multi-Accounting Classification Reference Number (ACRN) contracts in the Mechanization of Contract Administration Services (MOCAS) system at the Defense Finance and Accounting Service-Columbus Center (DFAS-Columbus). We made separate projections for two kinds of errors: errors in obligation amounts and errors in accounting data entries. Also, at the Western Contract Administration Services (CAS) Directorate, we projected statistically the error rate and the number of transactions with input errors for transactions reviewed during a week when no input errors were reported.

The audit universe for the first two projections originally consisted of 20,617 Multi-Funded/Multi-ACRN contracts in the MOCAS system at DFAS-Columbus, each with greater than \$1.0 million obligated as of January 21, 1993. Of these contracts, 3,875 had already been reviewed by the contractor. These previously examined contracts were excluded from this audit, leaving a universe of 16,742. Five CAS Directorates at DFAS-Columbus were responsible for entering information for these contracts in MOCAS: the Western, Southern, Northeast, North Central, and Mid-Atlantic CAS Directorates. The universe for the third projection consisted of 175 transactions reviewed by the Western CAS Directorate during the week of February 6, 1993.

For obligation amounts, an error was defined as a nonzero difference between the audit calculation of the appropriately funded amount for a sampled contract, and the funded amount that appeared for that contract in MOCAS. For accounting data entries, an error was defined as a case in which the accounting data that appeared in MOCAS for any ACRN associated with a sampled contract did not match the corresponding accounting data for that ACRN in the contract file.

We used stratified random sampling as the design for the first two statistical projections used in this audit. Initially, 90 contracts in all 5 CAS directorates were audited. Due to subsequent revisions of the sampling plan, the 90 contracts were combined into a census (self-representing) stratum. An additional 58 contracts were selected in a simple random manner from the remaining audit universe of 16,652. Finally, these two groups of sampled

Appendix F. Statistical Sampling Plan and Methodology

contracts were analyzed together as a stratified sample. For the third projection, we used simple random sampling, with a sample size of 93.

Sampling Results

Eight of the additional 58 sampled contracts in the first sample could not be audited completely because of missing data. We performed sensitivity analyses to accommodate these eight cases. Each statistical projection was calculated twice, both times at the 90-percent confidence level. One calculation treated all eight cases with missing data as "no errors," and the other treated the eight as "all errors." The statistical interval defined from the lower bound of the "no error" calculation to the upper bound of the "all error" calculation must mathematically encompass the true universe value with at least 90-percent confidence.

Statistical projections of data from the first sample data are shown in Tables 1. and 2.

Table 1. Projected Error Rate and Number of Contracts with Errors in Obligation Amounts

	<u>Minimum 90-Percent Confidence Level</u>		
	<u>Lower Bound</u>	<u>Point Estimate</u>	<u>Upper Bound</u>
Error Rate (Percentage)	22.6	--	57.2
Number of Cases	3,779	--	9,582

Using a minimum 90-percent confidence level, we projected that from 3,779 to 9,582 of the 16,742 contracts contained 1 or more obligation errors.

Because the sample results had a relatively high proportion of missing data, we could not calculate defensible point estimates for those confidence intervals. Instead, we used the lower bound of the statistical interval. With a minimum 95-percent confidence level, we projected that at least 3,779 of the 16,742 contracts contained 1 or more obligation errors.

Appendix F. Statistical Sampling Plan and Methodology

Table 2. Projected Error Rate and Number of Contracts with Errors in Accounting Data Entries

Minimum 90-Percent Confidence Level

	<u>Lower Bound</u>	<u>Point Estimate</u>	<u>Upper Bound</u>
Error Rate (Percentage)	39.2	--	74.1
Number of Cases	6,559	--	12,408

Using a minimum 90-percent confidence level, we projected that from 6,559 to 12,408 of the 16,742 contracts contained 1 or more errors in their accounting data entries.

Because the sample results had a relatively high proportion of missing data, we could not calculate defensible point estimates for those confidence intervals. Instead, we used the lower bound of the statistical interval. With a minimum 95-percent confidence level, we projected that at least 6,559 of the 16,742 contracts contained 1 or more errors in their accounting data entries.

A statistical projection of data from the second sample is shown in Table 3.

Table 3. Projected Error Rate and Number of Transactions with Input Errors at Western CAS Directorate During the Week of February 6, 1993

Minimum 95-Percent Confidence Level

	<u>Lower Bound</u>	<u>Point Estimate</u>	<u>Upper Bound</u>
Error Rate (Percentage)	11.4	17.2	23.01
Number of Reviewed Transactions with Errors	20	30	40

Using a 95-percent confidence level, we projected that 20 to 40 of the 175 transactions reviewed contained input errors. The point estimate, 30 of the transactions reviewed, is the most likely number of transactions with input errors.

Appendix G. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
A.1.a.	Internal controls. Terminating MILSCAP and designing and implementing an effective electronic data interface will improve the accuracy of contract data and will save DFAS personnel the time needed to reenter contract data.	Nonmonetary.
A.1.b.	Internal controls. Terminating MILSCAP and designing and implementing an effective electronic data interface will improve the accuracy of contract data and will save DFAS personnel the time needed to reenter contract data.	Nonmonetary.
A.2.a.	Economy and efficiency. Corrections will allow cited obligations to accurately portray what the contract calls for. \$208.1 million in adjustments will allow accurate allocation of Government funds.	Nonmonetary.
A.2.b.	Economy and efficiency. Corrections will improve the accuracy of accounting data and will allow future disbursements from these contracts to be paid accurately.	Nonmonetary.
A.2.c.	Economy and efficiency. Corrections will improve the accuracy of accounting data and will allow future disbursements from these contracts to be paid accurately.	Nonmonetary

Appendix G. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
A.2.d.	Economy and efficiency. Establishing liaisons with the MILDEP accountable stations will help to resolve problems with erroneous disbursements.	Nonmonetary.
A.2.e.	Economy and efficiency. Supervisory reviews will improve the accuracy of contract data input into the MOCAS data base.	Nonmonetary.
A.2.f.	Economy and efficiency. Performance of quality assurance reviews of each CAS Directorate. Followup will ensure that corrective actions are implemented promptly.	Nonmonetary.
A.2.g.	Internal controls. Proposed policies and procedures will eliminate current NULOs and improve the reliability of DoD's accounting data.	Nonmonetary.
A.2.h.	Internal controls. Proposed policies and procedures will eliminate current NULOs and improve the reliability of DoD's accounting data.	Nonmonetary.
B.1.	By not extending the reconciliation contract beyond FY 1994, the Government will achieve monetary savings.	Funds put to better use. The Defense Business Operations Fund DFAS-Columbus appropriation will be reduced by \$19.1 million during FYs 1994-1999 (Appropriation 97X4930-5L60).
B.2.a.	Economy and efficiency. In-house contract reconciliation will eliminate the need for an outside contract reconciliation group. Establishing a review group independent of the CAS Directorates will allow for more independence in reviews.	Nonmonetary.

Appendix G. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
B.2.b.	Funds put to better use. Billing contractors more promptly will terminate interest-free loans to contractors.	Undeterminable monetary benefit.

Potential Savings from Terminating the Reconciliation Contract

Cost to Continue with the Contract

<u>Fiscal Year</u>	<u>Base Hours</u> ¹	<u>Hourly Rate</u>	<u>Total Cost</u> ²
1994	111,664	\$58.69	\$ 6,553,560
1995	111,664	60.45	6,750,089
1996	111,664	62.26	6,952,201
1997	111,664	64.13	7,161,012
1998	111,664	66.05	7,375,407
1999	111,664	68.04	7,597,619
Estimated Total Contractor Costs			<u>\$42,389,888</u>

¹ The base hours were based on hours billed in the 1st quarter of FY 1993 multiplied by four.

² Our projections were based on FY 1993 with a 3-percent increase per year. The base hourly rate is \$56.98.

Appendix G. Summary of Potential Benefits Resulting From Audit

Cost to Reconcile Contracts In-House

<u>Fiscal Year</u>	<u>Contractor Cost</u> ³	<u>DFAS-CO Cost</u> ⁴	<u>Total Cost</u>
1994	\$6,553,560	\$ 0	\$ 6,553,560
1995	0	3,154,508	3,154,508
1996	0	3,249,422	3,249,422
1997	0	3,346,570	3,346,570
1998	0	3,447,068	3,447,068
1999	0	3,549,799	3,549,799
Estimated Total In-House Costs:	<u>\$6,553,560</u>	<u>\$16,747,367</u>	<u>\$23,300,927</u>

Monetary Benefit Calculation

Cost to Continue with Contract	\$42,389,888
Less Cost to Reconcile Contracts In-House	<u>23,300,927</u>
Estimated Monetary Benefit	<u>\$19,088,961</u>

³ Contractor costs were based on 111,664 hours multiplied by \$58.69 per hour.

⁴ DFAS-Columbus costs were based on 111,664 hours per year for FY 1995 through 1999 for GS-12, step 5, accountants. The hourly rate for FY 1995 was based on \$27.43 (including benefits) per hour for FY 1994 plus a 3-percent increase for FY 1995. The costs for FYs 1996 through 1999 included a 3-percent increase over each preceding fiscal year.

Appendix H. Organizations Visited or Contacted

Office of the Secretary of Defense

Comptroller of the Department of Defense, Washington, DC

Department of the Army

Army Armament, Munitions and Chemical Command, Rock Island, IL
Army Aviation and Troop Command, St. Louis, MO
Army Communications - Electronics Command, Fort Monmouth, NJ
Army Missile Command, Huntsville, AL
Army Tank - Automotive Command, Warren, MI

Department of the Navy

Naval Aviation Supply Office, Philadelphia, PA
Naval Regional Finance Center, Washington, DC
Naval Ships Parts Control Center, Mechanicsburg, PA

Department of the Air Force

Air Force Materiel Command, Wright-Patterson Air Force Base, OH
Ogden Air Logistics Center, Hill Air Force Base, UT
Oklahoma City Air Logistics Center, Tinker Air Force Base, OK
Sacramento Air Logistics Center, McClellan Air Force Base, CA
San Antonio Air Logistics Center, Kelly Air Force Base, TX
Warner Robins Air Logistics Center, Robins Air Force Base, GA

Defense Organizations

Defense Finance and Accounting Service, Arlington, VA
Defense Finance and Accounting Service, Columbus, OH

Appendix I. Report Distribution

Office of the Secretary of Defense

Comptroller of the Department of Defense

Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Financial Management)
Inspector General of the Army
Auditor General, U.S. Army Audit Agency

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Auditor General, Naval Audit Service

Department of the Air Force

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

Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Finance and Accounting Service-Columbus Center
Director, Defense Logistics Agency
Director, Defense Security Assistance Agency
Commander, Defense Contract Management Command

Non-Defense Federal Organizations

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

Chairman and Ranking Minority Member of Each of the Following Congressional
Committees and Subcommittees:

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 Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on
Government Operations

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Part IV - Management Comments

Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22240-5291

FEB 02 1994

MEMORANDUM FOR DEPUTY DIRECTOR, FINANCIAL MANAGEMENT DIRECTORATE,
OFFICE OF THE INSPECTOR GENERAL

SUBJECT: Preparation of Response to OIG, DoD Draft Report, "Fund
Control over Contract Payments at the Defense Finance
and Accounting Service - Columbus Center"
(Project Code 2FI-0046)

Our detailed comments to the information requested on the
findings, recommendations, and internal control weaknesses in the
report are attached.


John P. Springett
Director

Attachment

Defense Finance and Accounting Service Comments

Defense Finance and Accounting Service Comments on DoDIG Draft Report, "Fund Control Over Contract Payments at the Defense Finance and Accounting Service - Columbus Center" (Project Code 2FI-0046)

FINDING A. Fund Control Over Contract Payments

The Defense Finance and Accounting Service - Columbus Center (DFAS-Columbus) used inadequate procedures to control appropriation fund data. Specifically, obligation and disbursement data contained in the Mechanization of Contract Administration Services (MOCAS) system were not accurate; disbursements were not charged to the proper appropriations; and Military Department (MILDEP) accountable stations did not always receive the accurate data they needed to properly record disbursements and maintain accounting records. These conditions were caused by inaccurate entry of MOCAS data, and by data transfer problems with Military Standard Contract Administration Procedures (MILSCAP) compatible systems. In addition, DFAS-Columbus supervisors were not reviewing transaction entries, documenting their reviews, or ensuring that input clerks were correcting errors at the point of data entry. DFAS-Columbus Quality assurance reviews did not adequately ensure the accuracy and completeness of MOCAS data. As a result, contracts contained errors requiring \$208.1 million in MOCAS accounting adjustments; and at least 39.2 percent of the contracts in our universe had 1 or more errors in their appropriation fund data.

DFAS RESPONSE: Concur.

RECOMMENDATION 1A: We recommend that the Director, Defense Finance and Accounting Service, terminate the existing MILSCAP interface.

DFAS RESPONSE: Nonconcur. Fifty percent of the existing MILSCAP data can be used and the required data additions made at DFAS-CO. Until a new system is implemented, terminating the old system would increase manual contract input and DFAS-CO workload. The potential for error is greater in manual input than the automated MILSCAP input.

RECOMMENDATION 1B: Give high priority to working with the Defense Logistics Agency (DLA) to design and implement an adequate electronic data interface between the Mechanization of Contract Administration Services system and DoD procurement systems.

DFAS RESPONSE: Concur. DFAS and DLA are working to develop an efficient data interface between MOCAS and other DoD procurement systems. The DLA Pre Award Contracting System (DPACS), designated as the DoD migratory contracting system, will provide ANSI X12 contract transactions to MOCAS.

Expected Completion Date: October 1995

RECOMMENDATION 2A: Require that the recommended \$208 million in accounting adjustments be completed for the 42 contracts discussed in this report (see Appendix A).

Defense Finance and Accounting Service Comments

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DFAS RESPONSE: Concur. The DoD-IG audit team will furnish additional information to research these adjustments with a target date of February 18, 1994.

RECOMMENDATION 2B: Direct that errors in accounting data on 74 contracts, and \$10.4 million in disbursement errors on 32 contracts, be corrected for the contracts discussed in this report (see Appendix B).

DFAS RESPONSE: Concur. The DoD-IG audit team will furnish additional information required to correct errors with target date of February 18, 1994.

RECOMMENDATION 2C: Review the remaining 16,594 contracts from the January 1993 computer listings included in our sample universe, and correct all obligation, accounting data, and disbursement errors identified.

DFAS RESPONSE: Partial concur. Agree with concept but will focus efforts on current contracts. DFAS Columbus currently is attempting to research and resolve a large volume of discrepant conditions based upon indicators such as negative unliquidated obligation balances. A large inventory of review/reconciliation actions already exists based upon known conditions from current listings which would include error conditions in the contracts from January 1993. It would not be efficient to use the old listing. Therefore, we will continue to work with the current population of contracts with known discrepant conditions. As part of this process, we will continue to analyze the causes of these conditions so that we can take actions to reduce or eliminate systemic problems.

Expected Completion Date: January 1995

RECOMMENDATION 2D: Require each Contract Administration Services Directorate to designate a liaison between the Directorate and the Military Department accountable stations to facilitate prompt resolution of problems with erroneous disbursements and other accounting errors. Written logs should be maintained to show the dates of contracts, problems encountered, dates the problems were resolved, solutions agreed on, and actions taken.

DFAS RESPONSE: Concur. Desk procedures were issued October 1992 to control funding letters on manual logs. DFAS-Columbus Center contract payment operations on November 8, 1993, was reorganized into a single Directorate. Control and processing of funding station letters now is centralized on a personal computer data base for mechanical tracking and correlation with other related contract errors within the new Directorate's Operations Support element, the Contract Analysis Branch. This branch provides liaison between the directorate and the military departments. Action was completed December 1993.

RECOMMENDATION 2E: Require supervisors to perform and document reviews of work by input clerks. At a minimum, these reviews should assure that all input errors are promptly corrected, that input clerks receive training as needed, and that adverse trends in data input are identified and corrected.

DFAS RESPONSE: Concur. DFAS Columbus procedures require quality reviews of input clerks by supervisors. Contract Input, Desk Procedures 201, mandates that input supervisors will perform reviews of procurement documents and quality edit input documents to verify accuracy and conformance with procedures. Internal Management Control Program (IMCP) quality reviews are also scheduled to be performed in the near future on the assessable units of invoice control and contract input. The invoice control supervisors will perform a qualitative review of 35 percent of all documents that have been input. These reviews are performed to minimize error percentage, as well as highlight the need for increased training in any identified problem areas.

A memorandum detailing the finding of the DoDIG's Audit Report and reminding supervisors of their responsibility will be distributed as an additional reinforcement stressing the importance of regular quality reviews of input clerks. Contract Entitlement Directorate level quality assurance reviews will validate the completeness of supervisory reviews and adequacy of documentation and follow-on action. This memorandum will be distributed by January 15, 1994, while the follow-on quality assurance review will be accomplished by April 30, 1994.

RECOMMENDATION 2F: Direct the Quality Control Division to perform regular quality assurance reviews of fund control operations in all five Contract Administration Services Directorates. The reviews should be fully documented and should include the accuracy of contract data input, adherence to established desk operating procedures, and responsiveness to the problems of Military Department accountable stations. The Quality Control Division should also follow up on all recommendations made as a result of these reviews to ensure that corrective actions are promptly taken.

DFAS RESPONSE: Concur. The Quality Control Division, within the Finance and Accounting Directorate, performs regular reviews on a daily basis. These reviews evaluate the accuracy of contract input. The Quality Control Division also follows up on all recommendations on a six month basis.

In addition to the actions of the Quality Review Division, DFAS-CO also implemented aspects of the DFAS-HQ directed Operational Review Program. These elements require each division chief within the Contract Administration Services (CAS) Directorate to do an accuracy check on 30 percent of the manual payments. The Operational Support Division within the Contractor Entitlement Directorate does a quality review of each division head's quality actions. Finally, beginning in October 1994, the

Defense Finance and Accounting Service Comments

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DFAS-Columbus Center Internal Review staff will begin oversight audits of the entire Operational Review Program.

RECOMMENDATION 2G: Resolve the \$408.0 million in negative balances for 2,659 cited contracts, and properly report any Anti-deficiency Act violations identified during the resolution process.

DFAS RESPONSE: Concur. DFAS agrees that all negative balances should be reconciled. It should be noted that Anti-deficiency act violations occur at the budget line item level in the accounting systems that DFAS operates to support the Military Departments. Any apparent violations will be reported. Expected Completion Date: June 1994

RECOMMENDATION 2H: Eliminate the practice of forcing contract payments through the Mechanization of Contract Administration Services system on incorrect Accounting Classification Reference Numbers. Contracts with newly created negative unliquidated obligation balances at the contract level should be reported monthly and monitored until corrected.

DFAS RESPONSE: Concur. Desk Procedures emphasize the importance of making payments from the correct ACRN. These desk procedures require that invoices be paid against the correct ACRN even if the action creates a negative unliquidated obligation. Currently, the Operations Support Division is reviewing and validating procedures as part of its quality program. In addition, the Deputy Director for Contract Entitlements, DFAS-CO has reiterated the policy that an invoice must be paid on the correct ACRN. Action is completed.

FINDING B. CONTRACT RECONCILIATION PROCEDURES. The Defense Finance and Accounting Service-Columbus Center (DFAS-Columbus) had not developed adequate capability for reconciling contracts in house, and relied on contractor support. Since April 1990, DFAS-Columbus had used an accounting firm to reconcile contracts. The current firm-fixed-price level of effort contract with a commercial accounting firm cost DFAS \$56.98 per hour, and had been modified five times without obtaining competitive bids as required by the Competition in Contracting Act of 1984, Public Law 98-369. The modifications covered \$1.27 million in software development and other work outside the scope of the original contract. Also, demand letters for contractor overpayments identified during contract reconciliation were not sent out promptly. These conditions occurred because DFAS-Columbus managers had not developed a plan to perform in-house contract reconciliations, and no formal guidance existed on sending out contractor demand letters. As a result, DFAS-Columbus continued to use outside support to reconcile its

larger contracts; and Government contractors were not always billed promptly to collect overpayments identified during contract reconciliations. DFAS-Columbus could fully develop its own internal reconciliation capabilities and realize a potential monetary saving of \$19.1 million over the next 5 years.

DFAS RESPONSE: Concur.

RECOMMENDATION 1: We recommend that the Director, Defense Finance and Accounting Service, terminate contract DLA600-90-D-5407 for contract reconciliation services effective September 30, 1994. Until the contract is terminated, no further modifications for work outside the original contract's scope should be initiated or awarded.

DFAS RESPONSE: Partial Concur. Agree the contract should not be extended, but September 30, 1994, is not a realistic date for terminating Coopers & Lybrand services. An additional six month transition period is considered necessary. We agree that no work outside the original contract's scope should be initiated or awarded. Estimated completion date is April 1995.

Estimated Monetary Benefits: Recommendation 1. \$19.1 million

DFAS RESPONSE: Concur. The potential monetary benefits of about \$19.1 million will be realized when DFAS-Columbus reconciles its contracts in-house instead of using a contractor.

RECOMMENDATION 2A: Develop and implement full capability for in-house contract reconciliation before the reconciliation contract terminates on September 30, 1994. Ideally, the reconciliations should be performed by a DFAS Columbus organization independent of the Contract Administration Services Directorates.

DFAS RESPONSE: Concur. DFAS - Columbus Center has established an organization separate from the operating divisions that will eventually be responsible for complex reconciliations which will reside within the newly created operations support division. This organization will provide the capability for full in-house contract reconciliation. However, this organization needs to develop a transition strategy and milestone plan which details the actions necessary to ensure that a complete in-house capability is developed and an orderly transition from contracted support is accomplished. Once the transition plan is developed, we do not believe that it could be completely implemented by September 30, 1994. We expect this action to be completed by April 30, 1995.

Defense Finance and Accounting Service Comments

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RECOMMENDATION 2B: Develop, implement, and enforce a policy requiring the Accounts Receivable Branch to send out initial demand letters for contractor overpayments within five working days after receiving notification of the overpayments.

DFAS RESPONSE: Concur in principle. The policy of the Accounts Receivable Branch is to send out initial demand letters for contractor overpayments within five working days after receiving notification of the overpayments. However, it requested a waiver from the five-day limit for all debts identified by C&L. The waiver was granted by the Finance and Accounting Officer in October 1991. The age and complexity of the debts discovered by C&L require verification by DFAS - Columbus Center personnel before the Accounts Receivable demand letter is sent. These delays are held to as short a time as possible.

Estimated Monetary Benefits: Recommendation 2B. Unmeasured.

DFAS RESPONSE: Concur. That some unmeasurable monetary benefits result from prompt issuance of debt demand letters.

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