

A *Audit*



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OBLIGATIONS AND DUPLICATE PAYMENTS ON AIR FORCE
MAINTENANCE CONTRACT FA2550-96-C-0003

Report No. D-2001-090

March 30, 2001

Office of the Inspector General
Department of Defense

Form SF298 Citation Data

Report Date <i>("DD MON YYYY")</i> 30Mar2001	Report Type N/A	Dates Covered (from... to) <i>("DD MON YYYY")</i>
Title and Subtitle Obligations and Duplicate Payments on Air Force Maintenance Contrac FA2550-96-C-0003		Contract or Grant Number
Authors		Program Element Number
Performing Organization Name(s) and Address(es) OAIG-AUD (ATTN: AFTS Audit Suggestions) Inspector General, Department of Defense 400 Army Navy Drive (Room 801) Arlington, VA 22202-2884		Project Number
Sponsoring/Monitoring Agency Name(s) and Address(es)		Task Number
Distribution/Availability Statement Approved for public release, distribution unlimited		Work Unit Number
Supplementary Notes		Performing Organization Number(s) D-2001-090
Abstract We conducted this audit in response to a request by contracting officials at the 50th Space Wing, Shriever Air Force Base, Colorado Springs, Colorado. The contracting officials were concerned that Defense Finance and Accounting Service Omaha had mishandled the posting of obligations and the processing of vendor payments on a \$25.5 million, multiyear, maintenance contract. Accordingly, the contracting officials questioned the validity of providing two funding adjustments that were requested by the operating location. Objective. The overall audit objective was to assess whether obligation and disbursement functions were properly executed and whether funding adjustments to the subject contract were required.		Monitoring Agency Acronym
Subject Terms		Monitoring Agency Report Number(s)
Document Classification unclassified	Classification of SF298 unclassified	
Classification of Abstract unclassified	Limitation of Abstract unlimited	

Number of Pages	
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17	
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Acronyms

ACRN	Accounting Classification Reference Number
DFAS	Defense Finance and Accounting Service
IAPS	Integrated Accounts Payable System



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2885

March 30, 2001

MEMORANDUM FOR COMMANDER, SHRIEVER AIR FORCE BASE
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Audit Report on Obligations and Duplicate Payments on Air Force
Maintenance Contract FA2550-96-C-0003 (Report No. D-2001-090)

We are providing this report for your information and use. We conducted the audit in response to a request by contracting officials at the 50th Space Wing, Shriever Air Force Base, Colorado Springs, Colorado. No written response to this report was required, and none was received. Therefore, we are publishing this report in final form.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Terry L. McKinney at (703) 604-9288 (DSN 664-9288) (tmckinney@dodig.osd.mil) or Mr. Nicholas E. Como at (703) 604-9215 (DSN 664-9215) (ncomo@dodig.osd.mil). See Appendix C for the report distribution. The audit team members are listed inside the back cover.

A handwritten signature in cursive script that reads "David K. Steensma".

David K. Steensma
Acting Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. D-2001-090

(Project No. D2001CF-0054)

March 30, 2001

Obligations and Duplicate Payments on Air Force Maintenance Contract FA2550-96-C-0003

Executive Summary

Introduction. We conducted this audit in response to a request by contracting officials at the 50th Space Wing, Shriever Air Force Base, Colorado Springs, Colorado. The contracting officials were concerned that Defense Finance and Accounting Service Omaha had mishandled the posting of obligations and the processing of vendor payments on a \$25.5 million, multiyear, maintenance contract. Accordingly, the contracting officials questioned the validity of providing two funding adjustments that were requested by the operating location.

Objective. The overall audit objective was to assess whether obligation and disbursement functions were properly executed and whether funding adjustments to the subject contract were required.

Results. Defense Finance and Accounting Service Omaha personnel did not completely or accurately post all contract modifications, obligations, or disbursements on this contract.

- Over \$2.9 million in erroneous obligations were posted to this contract.
- Fifty-eight disbursements had incorrect fund citations.
- The contractor was paid nearly \$530,000 on seven duplicate disbursements.
- There were over \$700,000 of unnecessary upward adjustments of obligations posted to this contract.
- Attempts to properly administer and ultimately reconcile this contract were frustrated.

For details on the audit results, see the Finding section of the report.

During our review, Defense Finance and Accounting Service Omaha improved controls over posting obligation data and processing disbursements by separating organizational responsibility for vendor payment functions, clarifying vendor pay policy and

emphasizing quality control by accounting technicians. The contractor reimbursed the Defense Finance and Accounting Service Omaha for the seven duplicate payments.

Summary of Recommendations. We did not make recommendations to Defense Finance and Accounting Service Omaha because of its increased emphasis to accurately post obligation data and its initiatives to improve contractor disbursements.

Management Comments. We provided a draft of this report on February 23, 2001. No written response was required, and none was received.

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Background

Introduction. Contracting officials at the 50th Space Wing, Shriever Air Force Base, Colorado Springs, Colorado, requested that the Inspector General, DoD, assess obligation and disbursement functions relating to contract FA2550-96-C-0003. The officials were concerned that the Defense Finance and Accounting Service Omaha (DFAS Omaha) mishandled obligations and payments under this contract. Contract FA2550-96-C-0003 is a multiyear, cost-plus-award fee contract that provides maintenance services to the 50th Space Wing, Shriever Air Force Base. The last option year for this contract concludes September 30, 2001. The contractor is Management Logistics Incorporated, a subsidiary of Brown & Root Corporation. The total cost of the contract is estimated at \$25.5 million. The work includes operation and maintenance functions such as uninterrupted power supply, heating and cooling, fire detection, fire suppression, corrosion control, and construction on specific buildings at Shriever Air Force Base. The contractor submits invoices directly to DFAS Omaha for payment.

The Defense Finance and Accounting Service Omaha. DFAS Omaha is responsible for providing accounting and finance services to 16 Air Force bases and other organizations using standardized DoD-wide finance and accounting systems. Accordingly, DFAS Omaha processed vendor payments for the 50th Space Wing for contract FA2550-96-C-0003. DFAS Omaha used the automated Integrated Accounts Payable System (IAPS) to control most installation-level commercial vendor payments for Air Force customers. The system records the obligation of funds and processes the actual vendor payments, based on input by accounting technicians.

Objectives

The overall audit objective was to assess whether obligation and disbursement functions were properly executed and whether funding adjustments were required for the subject contract. See Appendix A for a discussion of the audit scope and methodology. See Appendix B for a summary of prior coverage related to the audit objectives.

Obligations and Duplicate Payments

The Defense Finance and Accounting Service Omaha did not properly execute certain obligation and disbursement transactions for contract FA2550-96-C-0003. These deficiencies were caused by accounting personnel that did not completely or accurately post all contract modifications with obligations to the vendor payment accounting system. Accounting personnel also disbursed funds that cited incorrect fund citations and paid duplicate disbursements for seven contractor payments. Errors involving obligations resulted in unnecessary requests for upward adjustments of obligations totaling over \$700,000, and frustrated attempts to properly administer and ultimately reconcile this contract.

Execution of Obligations and Disbursements

Establishment of Obligations. Obligations are established based on estimated costs incurred on orders placed, contracts awarded, and services received during an accounting period that will require payment during the same or future period. Obligations for this contract were established through contract modification documents submitted from the contracting office at the 50th Space Wing to DFAS Omaha. The contract modification documents establishing obligations should contain sufficient information, including the correct accounting fund citation. Additional information, including work order numbers and accounting classification reference numbers (ACRN), is beneficial to correctly enter obligations into the Integrated Accounts Payable System (IAPS), and to subsequently match the obligation to an invoice for contractor payment.

Reconciliation Procedures. The 50th Space Wing made 106 contract modifications for the period September 23, 1996 through October 4, 2000. Of the 106 contract modifications, 63 modifications either obligated or deobligated funds. We verified that DFAS Omaha received the 106 modifications via the Electronic Document Management System. We also matched the data entries of the 63 modification documents obligating or deobligating funds into IAPS. We accounted for the reconciliation by each fiscal year of the contract.

Reconciliation Results of Obligations. Net obligations established from modification documents totaled \$25.9 million as of October 4, 2000. Obligation documents matched corresponding entries that were posted in IAPS for FYs 1996, 2000, and 2001 Operations and Maintenance funding, and FY 1999 Base Realignment and Closure funding. There were obligation discrepancies between documents and entries in IAPS for FYs 1997, 1998, and 1999 Operations and Maintenance funding, and FY 1998 Base Realignment and Closure funding. We identified administrative errors totaling \$2.89 million, which occurred between FYs 1997 and 1999. Table 1 summarizes reported obligations and errors between FYs 1997 and 1999.

Table 1. Summary of Reported Obligations (in thousands)			
	Obligations per Modification Documents ¹	Obligations per IAPS ²	Obligations Impacted by Errors
FY 1996	\$ 322	\$ 322	0
FY 1997	5,265	5,101	\$ 164
FY 1998	6,397	3,668	2,729
FY 1999	4,868	4,872	(4)
FY 2000	5,112	5,112	0
FY 2001	3,772	3,772	0
FY 1998-BRAC	192	191	1
FY 1999-BRAC	20	20	0
Total	\$25,948	\$23,058	\$2,890
Notes:			
¹ Modification documents minus deobligation letters (net obligations).			
² IAPS entries that were correctly entered into the accounting system. Also includes upward adjustment of \$557,140.			

Posting Obligations into IAPS. The accounting technician responsible for posting obligations at DFAS Omaha did not post all modification documents into IAPS. In FY 1997, one modification, and portions of 11 additional modifications, with a net total of \$164,364, were not posted into IAPS. These errors included obligations of \$164,814 that were not posted, and \$450 in a deobligation letter from the 50th Space Wing. For the FY 1998 Base Realignment and Closure obligations, one modification document totaling \$1,321 also was not posted. When obligations were not posted into IAPS, the funds were not available for disbursement, which resulted in a request for an upward adjustment of obligations.

Sufficient Information for Posting Obligations. The accounting technician also did not input all information involving obligations as they were entered into IAPS. During FY 1998, the accounting technician did not enter adequate information to properly match the posted amount of the obligation with the correct ACRN for eight entries totaling \$2.75 million. Posting obligations without sufficient information understated funds available for disbursement on this contract; and frustrated attempts to reconcile modification documents to the amounts posted into IAPS.

Reconciliation of Disbursements. We reconciled vendor invoices and payment receipts with disbursement records from IAPS. We reviewed nearly 400 disbursement transactions made by DFAS Omaha between March 1997 and December 2000. We matched nearly \$19 million of DFAS Omaha disbursements to contractor invoices. A minor difference of \$1,800 remained after the reconciliation. However, we found anomalies when the disbursements were recorded in IAPS.

Disbursement Results. Of the nearly 400 disbursement transactions, accounting technicians used an incorrect accounting classification when disbursing 58 of the vouchers. A total of 41 disbursements were incorrect because prior accounting procedures required that all funds be expended for the accounting classification for progress payments before using the next available accounting classification for the same contract. Ten other disbursements had incorrect accounting classifications because of clerical errors. Finally, DFAS Omaha personnel informed us that they intentionally used incorrect accounting classifications on the remaining seven disbursements to expedite the payment to the contractor. In addition to the 58 incorrect disbursement actions, we also identified seven duplicate payments that totaled nearly \$530,000. The contractor reimbursed DFAS Omaha for the duplicate disbursements within 30 days.

The 58 disbursements with incorrect accounting classifications did not impact the accuracy of funds disbursed to the contractor. We found that the errors created difficulties when attempts were made to reconcile disbursements by fiscal year. However, the 58 administrative errors were not a factor for requesting the upward adjustments of obligation on this contract. Table 2 demonstrates that sufficient obligations were available each fiscal year to support disbursements on this contract.

Table 2. Available Obligations to Support Disbursements (in thousands)		
	Obligations	Disbursements
FY 1996	\$ 322	\$ 322 ¹
FY 1997	5,265	5,179
FY 1998	6,397	5,966
FY 1999	4,868	4,231
FY 2000	5,112	2,709
FY 2001	3,772	0
BRAC	212	192
Total	\$25,948	\$18,601

¹ Does not include unreconciled disbursement of \$1.8 thousand

Other Posting Issues. Other errors and posting inconsistencies were made when the data was entered into IAPS. These amounts totaled \$25,855.

- In FY 1998, obligations supported by modification documents were \$21,410 less than the totals posted into IAPS. We could not determine the source of the additional obligated amount. Combined with the \$2.75 million understatement of obligations identified above, the net understatement of obligations was 2.729 million.

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- In FY 1999, two obligations were posted into IAPS with the incorrect amount. The accounting technician entered \$64,942 for the two obligations when the correct amount should have been \$60,948, which resulted in an overstated amount of \$3,994.

Summary of Obligations

Accounting Technician Performance. Accounting errors involving obligations on this contract primarily occurred between FYs 1997 and 1999. We identified the obligation errors to a specific accounting technician whose employment ended in 1998. DFAS Omaha could not identify other open contracts that this technician may have administered. However, the majority of the transactions were properly posted on this contract subsequent to the technician's departure.

Upward Adjustment of Obligations

During the term of the contract, DFAS Omaha requested two upward adjustments of obligations from the 50th Space Wing program office.

Original Request. In FY 1999, DFAS Omaha requested an upward adjustment of \$725,846 to cover shortfalls of obligations of FY 1997 funds. The program office granted an adjustment for \$557,140 after determining that the initial requested amount could be lowered. Based on our review of the original modification documents, we concluded that the upward adjustment would not have been necessary had DFAS Omaha entered the original modification documents correctly into IAPS.

Second Request. In FY 2000, DFAS Omaha requested another upward adjustment of FY 1997 funds. The rationale for the second upward adjustment was to reobligate the FY 1997 unrecorded obligations into IAPS. The program office postponed approval of the upward adjustment request pending our audit results. We concluded that the upward adjustment should be approved because of the noted failure to correctly post obligations into IAPS. In addition, the DoD Financial Management Regulation permits obligated and unobligated balances to remain available to adjust unrecorded obligations for 5 years after the initial time period expires.

Management Reviews. The DoD Financial Management Regulation specifies that the fund holder, or the program office at the 50th Space Wing must review outstanding obligations for accuracy and completeness. Because the program office did not periodically schedule reviews of obligations, the office was unaware that DFAS Omaha did not completely enter all obligations into IAPS. The accounting errors created a need for an upward adjustment of \$557,140 in FY 1999, and a subsequent request for a second upward adjustment of \$150,078 in FY 2000. Periodic reviews of obligations on this contract would have identified the described accounting errors and prevented the errors from recurring.

Conclusion. We concluded the upward adjustment would not have been necessary if funding modifications had been correctly entered into IAPS. Because of incorrect information on the modifications, DFAS Omaha also did not sufficiently identify entries as they were posted into IAPS and did not completely enter all funding modifications. Thus, the upward adjustments were necessary. Additionally, the program office should have periodically reconciled obligation transactions for accuracy and completeness.

Management Corrective Actions

Organization Changes. The General Accounting Office Report No. AIMD-98-274, "Improvement Needed in Air Force Payment Systems and Controls," September 1998, recommended that Headquarters, Defense Finance and Accounting Service develop a new vendor payment structure. The new structure divided the payment teams into task related branches responsible for processing specific functions. With the separation of duties, the obligation and disbursement functions became separate branches and each branch has specific and uniform accounting responsibilities. DFAS Omaha has incorporated the recommended organizational structure enhancements.

DFAS Omaha Realignment. Prior to the restructuring of accounting responsibilities at DFAS Omaha, the accounting technician who entered the obligation data did not clearly identify the entry with the accounting fund citation, ACRN, or work order number. After the restructuring, we documented that DFAS Omaha accounting personnel entered more complete information to facilitate the accurate posting of obligations.

Disbursement Improvements. In September 1998, Headquarters, Defense Finance and Accounting Service implemented the Under Secretary of Defense (Comptroller) policy involving progress payment disbursements. The policy requires the contracting officer or contract administration office to provide the operating location with the appropriate ACRN. With the implementation of this policy, accounting technicians were provided with the appropriate fund citation that, when posted and used, should minimize the accounting errors described in this report. Additionally, DFAS Omaha addressed errors involving duplicate disbursements by incorporating a computer software application that detects duplicate disbursements. Because of the organizational alignment that corrected posting obligation data and initiatives implemented to improve contractor disbursements on this contract at DFAS Omaha, no recommendations will be made.

Appendix A. Audit Process

Scope

Work Performed. We analyzed funds obligated and vouchers submitted by the contracting office at the 50th Space Wing at Schriever Air Force Base and compared them to obligations posted and disbursements made by DFAS Omaha, on contract FA2550-96-C-0003. We reviewed 63 obligations, selected invoices, and approximately 400 voucher payments made between FY 1996 and FY 2000. We assessed whether obligation and disbursement functions were properly executed and whether additional funding adjustments to the contract were required.

Limitations to Scope. We did not review the management control program as it relates to the audit objective because it was outside the scope of the audit request.

Methodology

We obtained and reviewed all obligation documents from the contracting office contract file at Shreiver Air Force Base to account for funding obligations. At DFAS Omaha, we validated receipt of the obligation documents in the Electronic Document Management System. We confirmed whether these documents were input into the IAPS. Finally, we compared the amount posted in IAPS against the obligation documents.

In assessing the disbursement function, we obtained invoices and payment receipts from the contractor as well as disbursement data from DFAS Omaha. We compared and reconciled these records. We also validated the disbursement data at DFAS Omaha to verify certain discrepancies involving duplicate payments and the use of improper fund cites in vouchers. We reviewed past and current Defense Finance and Accounting Service guidance regarding processing contractor vouchers. We held discussions with key personnel from DFAS Omaha and the 50th Space Wing contracting and program offices. We reviewed obligation documents issued by the contracting office and recorded by DFAS Omaha with the contractor's payment receipts and DFAS Omaha disbursement records to determine whether upward adjustments to the contract were required.

Use of Computer-Processed Data. Although we relied on computer-processed data from IAPS, we did not evaluate the adequacy of the general and application controls of the system. Air Force Audit Agency Report No. 96054010, "General and Application Controls Within the Integrated Accounts Payable System," August 1, 1996, states that IAPS controls generally ensured adequate support for transactions, effective use of system edits, and proper control over software maintenance. However, IAPS did not meet Federal financial management system requirements for transaction-driven, double entry accounting, and personnel did

not control access to the system. We established data reliability by comparing data output to source documents. Our tests disclosed that the data were sufficiently reliable to support the audit conclusions.

Audit Type, Dates, and Standards. We performed this financial-related audit from November 2000 to January 2001 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD. Further details are available on request.

Appendix B. Prior Coverage

During the last 5 years, GAO; the Inspector General, DoD; and the Air Force Audit Agency have issued several audit reports discussing Defense Finance and Accounting Service obligation and disbursement issues.

General Accounting Office

Report No. GAO/AIMD-00-10 (OSD Case No. 1919), "Increased Attention Needed to Prevent Billions in Improper Payments," October 29, 1999.

Report No. GAO/AIMD-98-274 (OSD Case No. 1687), "Improvement Needed in Air Force Vendor Payment Systems and Controls," September 28, 1998.

Report No. GAO/OSI-98-15 (OSD Case No. 1687-A), "Fraud by an Air Force Contracting Official," September 23, 1998.

Inspector General, DoD

Report No. D-2000-139, "Controls Over The Integrated Accounts Payable System," June 5, 2000.

Report No. 99-233, "General Controls for the General Accounting and Finance Systems," August 17, 1999.

Air Force

Report No. 98054032, "Internal Controls Over Purchases of Goods and Services," February 23, 2000.

Report No. EO099044, "Internal Controls Over Purchased Goods and Services, DFAS-Omaha Operating Location," July 19, 1999.

Report No. 96054010, "General and Application Controls Within the Integrated Accounts Payable Systems," August 1, 1996.

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller/Chief Financial Officer)
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force
Commander, 50th Space Wing, Shriever Air Force Base

Other Defense Organizations

Director, Defense Finance and Accounting Service
Director, Defense Finance and Accounting Service, Omaha Operating Location

Non-Defense Federal Organizations and Individuals

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

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 Reform
House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform
House Subcommittee on Technology and Procurement Policy, Committee on Government Reform

Audit Team Members

The Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report. Personnel of the Office of the Inspector General, DoD, who contributed to the report are listed below.

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