
June 19, 2002



Acquisition

Policies and Procedures for
Military Interdepartmental
Purchase Requests at
Washington Headquarters Services
(D-2002-110)

Department of Defense
Office of the Inspector General

Quality

Integrity

Accountability

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Acronyms

DCC-W	Defense Contracting Command-Washington
DFAS	Defense Finance and Accounting Service
DSS-W	Defense Supply Service-Washington
FMR	Financial Management Regulation
IAD	Installation Accounting Division
MIPR	Military Interdepartmental Purchase Request
NCR	National Capital Region
SOP	Standard Operating Procedure
ULO	Unliquidated Obligation
WHS	Washington Headquarters Services



INSPECTOR GENERAL
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June 19, 2002

MEMORANDUM FOR DIRECTOR, ADMINISTRATION AND MANAGEMENT,
OFFICE OF THE SECRETARY OF DEFENSE

SUBJECT: Report on Policies and Procedures for Military Interdepartmental Purchase
Requests at Washington Headquarters Services (Report No. D-2002-110)

We are providing this report for information and use. We considered management comments on a draft of this report when preparing the final report.

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

We appreciate the courtesies extended to the audit staff. Questions on this audit should be directed to Mr. Terry L. McKinney at (703) 604-9288 (DSN 664-9288) (tmckinney@dodig.osd.mil) or Mr. Eric B. Edwards at (703) 604-9219 (DSN 664-9219) (eedwards@dodig.osd.mil). See Appendix C for the report distribution. The team members are listed inside the back cover.

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Table of Contents

Executive Summary	i
Background	1
Objectives	2
Findings	
A. Unliquidated Obligations at Washington Headquarters Services	3
B. Service Charges for Processing WHS MIPRs	15
Appendixes	
A. Audit Process	
Scope	19
Methodology	19
Management Control Program Review	20
Prior Coverage	21
B. WHS MIPRs Selected for Review	22
C. Report Distribution	24
Management Comments	
Washington Headquarters Services	27

Office of the Inspector General of the Department of Defense

Report No. D-2002-110

June 19, 2002

(Project No. D2001CH-0032-001)

Policies and Procedures for Military Interdepartmental Purchase Requests at Washington Headquarters Services

Executive Summary

Who Should Read This Report and Why? This report should be read by personnel who initiate or accept military interdepartmental purchase requests. The acquisition process creates unliquidated obligations, and this report shows the importance of continuously managing and tracking unliquidated obligations.

Background. This report is the second in a series of reports on the use and control of military interdepartmental purchase requests. This report discusses the management of military interdepartmental purchase requests at the Washington Headquarters Services. Military interdepartmental purchase requests are the primary document used by DoD Components to order goods or services from other DoD Components, as well as other Government activities outside the DoD. On behalf of OSD customers, Washington Headquarters Services, as the fundholder, initiates military interdepartmental purchase requests that are sent to accepting activities for contracting the required goods or services. Washington Headquarters Services maintains the financial records of unliquidated obligations for OSD customers. As of March 2001, the Washington Headquarters Services had 908 military interdepartmental purchase requests, valued at \$290.6 million, with unliquidated obligations of \$64.3 million.

Results. Washington Headquarters Services policies and procedures relating to the use and control of military interdepartmental purchase requests were not adequate. We judgmentally selected 30 military interdepartmental purchase requests with unliquidated obligations, totaling \$25.9 million, processed during fiscal years 1996 through 2000, and 21 had problems. Specifically, 14 military interdepartmental purchase requests had unliquidated obligations balances totaling \$9.4 million and were dormant from 365 to 1,820 days (5 years), 7 military interdepartmental purchase requests had unliquidated obligations that were overstated by a total \$2.5 million because disbursement data had not been posted, 4 military interdepartmental purchase requests had unliquidated obligations that were overstated by \$4.1 million due to accepting activities' processing errors, and 5 military interdepartmental purchase requests had potentially invalid unliquidated obligations totaling \$2.7 million due to insufficient recordkeeping by the accepting activities. The Washington Headquarters Services did not perform the required tri-annual reviews of obligations and did not allocate adequate staff to perform funds management. As a result, Washington Headquarters Services had not taken action to deobligate millions of dollars and put the funds to better use.

Three OSD activities incurred unnecessary service charges totaling \$182,762 by transferring funds to other procurement activities on military interdepartmental purchase requests rather than using the Defense Supply Service-Washington¹. For details of the audit results, see the Finding section of the report.

Management Comments. The Director, Washington Headquarters Services agreed to perform a comprehensive review of unliquidated obligations for military interdepartmental purchase requests. The Director, Budget and Finance Directorate established a Process Action Team, and the review process had begun and already had processed some corrective actions. In addition to correcting errors, the team will identify and document procedures, which will assist in the development of comprehensive procedures; the procedures will include tri-annual reviews of unliquidated obligations for all financial documents, not just military interdepartmental purchase requests. Based on the result of the review, Washington Headquarters Services stated that it will be able to identify the level of effort required to implement and staff the program. A memorandum will be issued reminding the Washington Headquarters Services customer base to use Defense Supply Service-Washington as the primary contracting office, and the Budget and Finance Directorate and Defense Supply Service-Washington will jointly establish procedures for the coordination of procurement actions through Defense Supply Service-Washington and alternative contracting offices. A discussion of the management comments is in the Finding section of the report, and the complete text is in the Management Comments section.

Management Actions. In response to our review of unliquidated obligations, Washington Headquarters Services has taken appropriate action to deobligate about \$5.7 million of invalid unliquidated obligations on four military interdepartmental purchase requests. Additional funds may be identified when all outstanding unliquidated obligations are reviewed. The conditions identified were similar to the conditions cited in the Inspector General of the Department of Defense Audit Report No. D-2000-104, "Control Over Obligations at Washington Headquarters Services," March 22, 2000, and constitute a repeat finding (See Finding section for the complete discussion of management actions).

¹Effective November 15, 2001, the Defense Supply Service-Washington was discontinued, and the personnel and equipment assigned to the Defense Supply Service-Washington were reassigned to the Defense Contracting Command-Washington.

Background

This report is the second in a series of reports on military interdepartmental purchase requests (MIPRs) within the Department of Defense. This report discusses MIPRs issued by the Washington Headquarters Services (WHS).

Military Interdepartmental Purchase Requests. The DoD uses MIPRs as the primary document to order goods or services from other DoD Components, as well as other Government agencies. The ordering organization should include on the MIPRs a description of the work or services being requested, unit price, total price, and a fund cite. The receiving organization (the MIPR accepting activity) can either accept the MIPR on a reimbursable or direct cite basis. When the receiving organization accepts the funds on a reimbursable basis, the ordering organization should record an obligation at the time of acceptance. If the receiving organization accepts the funds on a direct cite basis, the ordering organization should record an obligation when it is provided a contract or other obligating document citing its funds.

Washington Headquarters Services. WHS is the DoD field activity that provides a broad variety of operational and support services to OSD and specified DoD Components in the National Capital Region. WHS support services include financial management and accounting services, directives and records management, civilian and military human resource management, personnel security services, office services, physical and information security services, law enforcement and protection, and legal services. The Directorate for Budget and Finance, Installation Accounting Division (IAD), performs allotment-level accounting reporting for WHS. The IAD mission is to provide installation-level accounting support for funding appropriations allocated, or allotted to, OSD and WHS.

WHS maintains the official accounting records for funds that it receives. Some functions are performed in-house and others are obtained under support agreements with the DoD Components. The major agreements are with the Defense Finance and Accounting Service (DFAS) for disbursing, travel payments, and payroll services. WHS personnel are responsible for accurately and promptly recording DFAS disbursements into its accounting system.

MIPR Process. WHS performs OSD MIPR accounting and reporting. The OSD activity program managers provide funds certification requests to WHS, who, in turn, prepare outgoing MIPRs to the specific organization (MIPR accepting activity) authorizing the transfer of funds. The accepting activity prepares an Acceptance of MIPR, which creates an obligation on WHS accounts for a reimbursable MIPR. For a direct cite MIPR, the accepting activity must award a contract, or other obligating document, to create an obligation in WHS accounts. Direct cite MIPRs provide authority to cite the fund grantor's funds (that is WHS) on a contract, which is the obligating document. The accepting activity bills WHS for all costs on reimbursable MIPRs. Accordingly, accurate accounting records are paramount to ensure accurate fund balances.

MIPR Statistics. The WHS Installation Accounting Division processed 3,087 MIPRs valued at more than \$810 million for OSD and WHS from FYs 1996 through 2000. More than half (1,548) of the 3,087 MIPRs were processed in FYs 1999 and 2000. As of March 22, 2001, WHS financial records showed unliquidated obligation balances of about \$64.3 million for 908 MIPRs of operations and maintenance funds. The 908 MIPRs were from FYs 1996 through 2000, and consisted of 399 direct cite MIPRs and 509 reimbursable MIPRs. The 908 MIPRs supported a wide variety of projects, such as software development, environmental mitigation, training, and payroll.

Objectives

Our audit objective was to evaluate whether military interdepartmental purchase request policies and procedures were adequate. We also reviewed the management control program as it related to the audit objective. See Appendix A for a discussion of the scope and methodology and the review of the management control program.

A. Unliquidated Obligations at Washington Headquarters Services

As of March 22, 2001, WHS financial records showed approximately \$64.3 million in unliquidated obligations (ULO) related to 908 MIPRs from FYs 1996 through 2000 that had a total value of \$290.6 million. A review of 30 judgmentally selected MIPRs having a total value of \$86.5 million and ULOs of \$25.9 million showed:

- Fourteen MIPRs had ULO balances totaling \$9.4 million and were dormant from 365 to 1,820 days (5 years);
- Seven MIPRs had overstated ULO balances because over \$2.5 million in disbursements were not posted;
- Four MIPRs had ULO balances overstated by a total of \$4.1 million due to accepting activities' processing errors; and
- Five MIPRs had potentially invalid ULOs totaling \$2.7 million due to insufficient recordkeeping by the accepting activities.

These conditions occurred because WHS did not perform the required tri-annual reviews of commitments and obligations, did not assign adequate staff to ensure proper fund management, did not establish policies and procedures to ensure unliquidated obligations were properly processed, and did not coordinate with the DFAS to ensure accounting records of unliquidated obligations were accurate. As a result, WHS had not taken action to deobligate and put funds to better use. During the audit, WHS deobligated about \$5.7 million of the invalid ULOs on four MIPRs.

Criteria for Unliquidated Obligations

Unliquidated Obligations. ULOs are outstanding obligations or liabilities that the Government has recorded in its accounting records. When an agency pays, the expenditure is matched to the ULO in the accounting records. All financial managers and program managers must be proactively involved in the process of managing and clearing ULOs. This is a recurring requirement because certain appropriations are canceled or expire on September 30 of every year. Recognizing outstanding obligations that are not needed permits the funds to be deobligated before they expire, so they can be used for other purposes.

DoD Financial Management Regulation Guidance. DoD 7000.14-R, "Financial Management Regulation," volume 3, "Budget Execution-Availability and Use of Budgetary Resources," chapter 8, "Standards for Recording and Reviewing Commitments and Obligations," November 2000, requires fundholders, with assistance from supporting accounting offices, to review commitment and obligation transactions for timeliness, accuracy, and

completeness during each of the 4-month periods ending on January 31, May 31, and September 30 of each fiscal year. The fundholder, as the activity in the best position to determine the accuracy and the status of ULOs, shall perform tri-annual reviews, as a minimum, for ULOs of \$50,000 and more for operating appropriations, such as operation and maintenance; and, \$200,000 for investment appropriations, such as procurement. All other obligations not addressed in the regulation shall be reviewed at least annually. According to a March 12, 2001, WHS memorandum entitled "Certification of Thrice Yearly Review of Commitments and Obligations," the WHS Installation Accounting Division within the Budget and Finance Directorate is both the fundholder and the accounting office.

Fund Management Guidance. Fundholders need to monitor ULOs to ensure that, in accordance with the DoD 7000.14-R, "Financial Management Regulation," agencies maintain obligations only for orders with a valid requirement. If additional funds are required to complete the original requirements, requiring activities can make upward obligational adjustments to contract funds after funds are deobligated. This occurs after the appropriation has expired and is no longer available for new obligations. Obligational adjustments are discussed in DoD 7000.14-R, volume 3, chapter 10 and chapter 15. The Financial Management Regulation (FMR) states that for 5 years after the time an appropriation expires for incurring new obligations, both the obligated (which includes ULOs) and unobligated balances of that appropriation will be available for recording, adjusting, and liquidating obligations properly chargeable to that account. The FMR further states that separate accounts are required for each expired fixed appropriation to be maintained by its fiscal year identity for 5 years following the appropriation's period of availability for obligation. During this 5-year period, obligations may be adjusted upward and downward, and disbursements may be made from these expired appropriations. Excess obligations that are later deobligated are accounted for in the same manner as repayments. The difference is that the excess obligations are already in the expired account. Deobligated amounts that are not needed to liquidate recorded obligations should be accounted for under the "unobligated balance" portion of the expired account, according to a General Accounting Office, Office of the General Counsel publication entitled, "Principles of Federal Appropriations Law," volume I, July 1991. Thus, when WHS deobligates funds, the funds are carried as expired and can be used for appropriate obligational adjustments for the years of their availability.

Annual Memorandum to Defense Agencies. Since May 14, 1996, the Deputy Comptroller (Program/Budget) in the Office of the Under Secretary of Defense, Comptroller, distributes an annual memorandum, reminding each of the Defense Agencies to provide a written confirmation statement attesting to the completion of tri-annual reviews in accordance with DoD Regulation 7000.14-R, volume 3, chapter 8. Written confirmation statements are due to the Director for Program and Financial Control, Office of the Deputy Comptroller (Program/Budget) within 45 days after each quarter. Although issued annually, the most recent memorandum, "Thrice Yearly Review of Commitment and Obligations," was issued on February 22, 2001.

Statement of Certification for Tri-annual Reviews. In compliance with the Deputy Comptroller (Program/Budget) memorandum dated February 22, 2001, WHS issued a February 27, 2001, memorandum requiring the WHS Budget and Finance Directorate, Installation Accounting Division, to provide written certification regarding a January 31, 2001, review of commitments and obligations, applying to all appropriated funds (direct and reimbursable) received from WHS, which expired in FYs 1996 through 2000. On March 12, 2001, the Chief, Budget and Finance Directorate, the WHS Installation and Accounting Division issued a qualified statement of certification regarding a March 2001 review of commitments and obligations that stated:

In the absence of a formalized program within Budget and Finance regarding these reviews, it is impossible for my office to certify to a full and complete review of all funds suballocated to it.

WHS reviewed the account balances as of January 31, 2001, for interagency agreements valued at \$89.1 million, and open commitments of \$115.2 million. Additionally, \$51.8 million in interagency-agreement ULOs were reviewed to ensure no negative balances were reported.

Inspector General of the Department of Defense Audit Report, Report No. D-2000-104. This report, "Control Over Obligations at Washington Headquarters Services," March 22, 2000, states that WHS had not established formal procedures to implement DoD guidance on required reviews of ULOs. As of June 14, 2001, WHS accounting personnel stated that they still had not completed the reviews because WHS did not have sufficient resources to fully implement the guidance on required reviews of obligations. WHS had added "Review of Unliquidated Obligations" as an assessable unit to its Internal Management Control Program and had completed a vulnerability assessment in March 2001.

WHS also implemented two programs in response to audit followup, that provide responsible officials with the necessary data to perform ULO reviews. One program lists all outstanding commitments and provides an aging capability, and the second program details accounting information on all ULOs for more than \$50,000. Because the dates of the implementation of the WHS initiatives coincided with the performance of our audit, we were unable to determine any positive effect of the WHS procedures on reducing ULOs. The conditions identified in this finding are similar to the conditions identified in Report No. D-2000-104 and constitute a repeat finding.

Dormant Unliquidated Obligations

MIPR ULOs at WHS. WHS financial records showed that as of March 22, 2001, there were 908 MIPRs, valued at more than \$290.6 million, issued from FYs 1996 through 2000, that had ULOs of \$64.3 million. Table 1 describes the 908 MIPRs.

**Table 1. WHS MIPRs with ULOs FYs 1996 through 2000, as of March 22, 2001
(\$ millions)**

Fiscal Year	No. of MIPRs	Total Obligations on MIPRs	Amount of ULOs
1996	45	\$ 34.2	\$ 4.2
1997	98	46.1	8.4
1998	155	46.0	5.7
1999	253	69.8	12.1
2000	<u>357</u>	<u>94.5</u>	<u>33.9</u>
Totals	908	\$290.6	\$64.3

MIPRs Reviewed. We judgmentally selected 30 of the 908 MIPRs (15 from FY 2000 and a total of 15 from FYs 1996 through 1999) with substantial ULOs. Overall, the 30 selected MIPRs included \$86.5 million in funds. See Appendix B for the MIPRs selected. The FY 2000 MIPRs we selected each had a value of \$880,000 or more, and the MIPRs we selected from FY 1996 through 1999 each had a value of \$200,000 or more. Of the 15 MIPRs reviewed that were issued from FYs 1996 through 1999, 14 with ULOs², totaling \$9.4 million, were dormant from 365 to 1,820 days (nearly 5 years) (see Table 2).

²Judgment sample percentage does not generalize to universe.

Table 2. Dormant MIPRs with ULOs (\$ millions)

Days Dormant ¹	MIPRs Reviewed	MIPR Amount	Total Amount of ULOs
More than 1,000 days	5	\$18.4	\$6.0
500 to 999 days	7	12.3	2.8
365 to 499 days	<u>2</u>	<u>8.7</u>	<u>0.6</u>
Totals	14	\$39.4	\$9.4

¹A dormant MIPR is a MIPR showing a ULO that has not had any transaction activity for more than 365 days (measured from the date of the last transaction to March 22, 2001, the cutoff date we used to query the ULO database).

None of the 15 MIPRs issued in FY 2000 were considered dormant because each of the 15 had activity within one year. WHS had not validated the ULOs on the dormant MIPRs because of inadequate staffing, lack of written procedures, and inadequate coordination with accepting activities. Nine MIPRs selected, valued at \$34.3 million, had no identified problems.

Staffing of the Budget and Finance Directorate, Installation Accounting Division. WHS officials cited insufficient staff as the principal reason they had not performed the tri-annual validation reviews. However, WHS officials could not document specific staffing requirements or cite formal requests for staff augmentation for the Installation Accounting Division. The only documentation that WHS officials provided related to staffing vacancies was the “FY 2000 Installation Accounting Division Workload Indicators,” showing 15 staff positions were filled out of 18 total authorized.

Written Procedures and Metrics for the WHS Budget and Finance Directorate. WHS officials also stated that they had not established formal procedures on how to perform tri-annual reviews and had no written procedures specific to WHS regarding the use and control of MIPRs. Although WHS has experienced personnel processing MIPRs, formal internal procedures that further expand on existing DoD criteria would provide for consistency in processing and deobligating MIPRs and reduce excessive dependence on corporate knowledge vested in a few key personnel. Establishment of performance metrics on the validation of ULOs would improve accountability and resource management.

Coordination with Accepting Activities. WHS had not corresponded within the last 6 months with any of the 22 activities accepting the 30 judgmentally selected MIPRs to facilitate the validation of the ULOs. WHS had no procedures to follow up with accepting activities on dormant ULOs. The absence of this communication further evidences that WHS had not performed tri-annual reviews. WHS must coordinate with accepting activities to resolve and prevent dormant ULOs.

ULO Deobligated. During our audit, WHS reviewed the 14 MIPRs shown in Table 2 and deobligated approximately \$5.7 million for 4 MIPRs that were dormant from 389 days up to 1,651 days, as shown in Table 3. However, if

Table 3. MIPR ULOs Deobligated by WHS as a Result of Audit

MIPR Number	Accepting Activity	Fiscal Year	Amount Deobligated	Days Dormant
DSAM60119	DFAS	1996	\$1,721,980	1,651
DHAM60217*	DFAS	1996	500,000	1,632
DSAM70003	DFAS	1997	3,226,000	1,064
DSAM90008	DIA	1999	<u>279,797</u>	389
Total			\$5,727,777	

DFAS–Defense Finance and Accounting Service
DIA–Defense Intelligence Agency

*MIPR was not part of the audit sample but was identified by WHS personnel.

WHS had performed timely ULO reviews, those funds could have been available to satisfy other missions and needs. Further, WHS needs to review all ULOs to identify other opportunities to deobligate funds.

Disbursement, Processing, and Recordkeeping Errors

DFAS not transferring MIPR disbursement data to WHS, processing errors by MIPR accepting activities, and recordkeeping errors by accepting activities contributed to inaccurate accounting records at WHS.

Unmatched DFAS Disbursement Data. WHS records incorrectly showed \$2.5 million in ULOs for seven MIPRs (Table 4). DFAS had previously made

the disbursements, so the ULOs were overstated. WHS officials stated that the electronic transfer of DFAS disbursements to WHS was a recurring problem. Tri-annual reviews by WHS would have identified these unmatched disbursements. WHS officials attributed the problem to DFAS accounting errors.

When WHS adjusts its accounting records for the disbursements, the ULO balances will decrease from \$2.5 million to \$7,000.

Table 4. Disbursements by DFAS Not Reported to WHS

MIPR Number	Accepting Activity	ULO Balance at WHS as of March 22, 2001	Correct ULO Balance	No. Days Dormant*
DHAM60007	DISA	\$ 293,426	\$6,574	15
DSAM80039	CECOM	187,382	0	916
DSAM70225	NRISO (SPAWAR ITC)	898,385	0	596
DSAM90053	NDU	240,000	0	776
DSAM60112	NSWC	186,723	0	874
DSAM60084	DAPS	528,000	426	1,679
DSAM60033	DISA	<u>200,000</u>	<u>0</u>	1,820
Total		\$2,533,916	\$7,000	

DISA–Defense Information Systems Agency

CECOM–U.S. Army Communication-Electronics Command

NRISO–Naval Reserve Information Systems Office, currently the Space and Naval Warfare Information Technology Center

NDU–National Defense University

NSWC–Naval Surface Warfare Center

DAPS–Document Automation and Production Service

*Number of days elapsed between the date of the last transaction activity and March 22, 2001 (the cutoff date we used to query the WHS ULO database).

Processing Errors by Accepting Activities. Four accepting activities incorrectly processed four MIPRs, resulting in a total of \$4.1 million in overstated ULO balances, as shown in Table 5. This affected the accuracy and reliability of the accounting records, specifically preventing:

- billing documentation preparation,
- timely processing of the acceptance of MIPR, and
- accurate job order coding into the accepting activity accounting system.

Table 5. Processing Errors that Prevented WHS from Being Billed

MIPR Number	Accepting Activity	Accepting Activity ULO Amount	Correct ULO Amount
DHAM70122	DITCO	\$ 362,993	\$ 7
DSAM90008	DIA	279,797	0
DSAM00005	COMNAVRESFOR	872,677	121
DSAM00401	497th IOG (AFIAA)	<u>2,550,000</u>	<u>0</u>
Totals		\$4,065,467	\$128

DITCO–Defense Information Technology Contracting Organization

DIA–Defense Intelligence Agency

COMNAVRESFOR–Commander, Naval Reserve Force

497th IOG–Information Operations Group, currently the Air Force Intelligence Analysis Agency (AFIAA)

Defense Information Technology Contracting Organization. The Defense Information Technology Contracting Organization (DITCO) used a manual tracking and billing process for MIPR number DHAM70122, issued June 30, 1997, funding the Electronic Commerce and Electronic Data Interchange within DITCO. Consequently, DITCO did not prepare the required documentation to bill WHS, causing the ULO to remain dormant for 1,345 days. DITCO, in a March 29, 2001, memorandum stated, “Based on this audit identifying the Unliquidated Obligation (ULO), DITCO generated a bill for \$362,993.40, which WHS will receive in April 2001.” DFAS disbursed \$362,993.40 on April 17, 2001. Tri-annual validation of the ULO would have flagged this delay in billing, and DITCO would have immediately noted the problem.

Defense Intelligence Agency. This MIPR related to civilian payroll. The Defense Intelligence Agency (DIA) did not timely notify WHS that it did not need \$279,797 in funds. WHS identified this problem and issued an amended MIPR DSAM90008 on March 8, 2001, for \$279,797 to withdraw the funds, and DIA signed the Acceptance of MIPR on March 14, 2001.

Commander, Naval Reserve Force. The Commander, Naval Reserve Force (COMNAVRESFOR) incorrectly coded the job order into the Standard Accounting and Reporting System–Field Level as a ULO of \$872,677 associated with MIPR DSAM00005, issued September 23, 1999, for the reimbursement of temporary detail of COMNAVRESFOR personnel. The correct ULO was \$121. WHS records also reflected the correct ULO.

Air Force Intelligence Analysis Agency. The Air Force Intelligence Analysis Agency (AFIAA), formerly the 497th Information Operations Group, did not process a payment of \$2,550,000 for MIPR DSAM00401, issued September 27, 2000, for supporting the Joint Personnel Adjudication System to complete software development, testing, training, data conversion, and documentation. The AFIAA confirmed a ULO amount of \$2,550,000 on May 25, 2001. The official responsible for deobligating the ULO retired before taking any action. After several inquiries by the auditors, the AFIAA deobligated the ULO on November 1, 2001.

Recordkeeping by Accepting Activities. Accepting activities could not verify the accuracy of a total of \$2.7 million in ULOs shown on WHS records for five direct cite MIPRs, as shown in Table 6. According to DoD Regulation 7000.14-R, volume 3, chapter 8, the accounting office is required to provide assistance in reviewing commitment and obligation transactions. Further, a March 12, 2001, WHS memorandum on “Certification of Thrice Yearly Review of Commitments and Obligations,” states that the FMR:

...clearly intends that “the office that initiated the requirement that led to the commitment (or obligation) shall be required to participate in the review.”

Therefore, in these and similar situations, both the accepting and initiating activities as well as DFAS should participate in reviewing ULO balances.

Table 6. Activities with Insufficient Recordkeeping to Track ULO Funds

MIPR Number	Accepting Activity	ULO Balance per WHS	Accepting Activity ULO Balance	ULO Balance per DFAS
DSAM70029	SBCCOM	\$ 358,739	\$1,235 ¹	\$ 0
DHAM00001	DIA	965,362	Unverified	36,331
DSAM00085	SMC	204,038	Unverified	0
DSAM00127	RMAC	325,039	Unverified	Undeterminable ²
DSAM00210	FISC	<u>887,815</u>	Unverified	297,389
	Total	\$2,740,993		

SBCCOM–U.S. Army Soldier and Biological Chemical Command

DIA–Defense Intelligence Agency

SMC–Space and Missile Command

RMAC–U.S. Army Robert Morris Acquisition Center

FISC–Fleet and Industrial Supply Center

¹The reimbursable portion of the MIPR was \$1,235. The direct cite portion of the MIPR was unverified.

²Undeterminable due to delivery orders having multiple sources of funding.

U.S. Army Soldier Biological Chemical Command. Solider Biological Chemical Command (SBCCOM) could not confirm the ULO amount associated with the direct cite portion of the MIPR. SBCCOM officials stated that the direct cite portion of the MIPR was not in the SBCCOM accounting system. As a result, SBCCOM could only verify an ULO of \$1,235 out of \$358,739 on MIPR DSAM70029, issued November 5, 1996, for funding body armor. Inquiries with DFAS showed that no ULO balance existed.

Defense Intelligence Agency. DIA could not confirm the ULO of \$965,362 for MIPR DHAM00001. This direct cite MIPR was issued September 24, 1999, in support of the Persian Gulf Action Team. To further determine the ULO amount, we contacted DFAS. Inquiries with DFAS showed the ULO balance was \$36,331.

Space and Missile Command. Space and Missile Command (SMC) could not confirm the ULO of \$204,038 because they did not maintain ULO balances on direct cite MIPRs. SMC only accepts the MIPR and obligates the funds on a contract. As a result, SMC could not verify the ULO on

MIPR DSAM00085, issued January 5, 2000, for intelligence, surveillance, and reconnaissance system support. SMC contacted an official in the Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) to confirm the ULO amount. The OSD official provided the ULO status from WHS, as of June 7, 2001. SMC should have the capability to report the status of the ULO to WHS upon request. Inquiries with DFAS showed that no ULO balance existed.

U.S. Army Robert Morris Acquisition Center. The Robert Morris Acquisition Center, Aberdeen Proving Ground, Maryland, could not confirm the ULO of \$325,039 because many of the initial orders or modifications had multiple MIPRs or sources of funding. As a result, they could not verify an ULO on MIPR DSAM00127, issued February 4, 2000, for support of the Joint Central Analytic Group, using direct cite funds. Robert Morris Acquisition Center officials stated that they could not confirm the ULO unless they knew which delivery orders and modifications were associated with MIPR DSAM00127. Inquiries to DFAS showed the ULO balance could not be confirmed because this MIPR funded only a portion of the total contract obligation. Different funding sources could not be distinguished from each other.

Fleet and Industrial Supply Center-Hampton Roads. MIPR DSAM00210 issued March 24, 2000, was for field-level technical support for the Native American Lands Environmental Mitigation Program, using direct cite funds. The Fleet and Industrial Supply Center could not confirm the ULO amount of \$887,815 because it did not account for ULO funding. The Fleet and Industrial Center Supply Center only accepts the MIPR, awards the contract, and assigns a payment office. The Fleet and Industrial Supply Center contacted the contractor, who was also unable to confirm the ULO. Inquiries with DFAS showed the ULO balance was \$297,389.

Conclusion

ULOs, if not periodically validated, can result in overstated liabilities and loss of funds available for other missions and needs. Because the number of MIPRs that WHS processes is increasing annually, WHS should implement a formal program to identify, resolve, and deobligate ULOs accurately and timely. Such an effort would correct the noted accounting deficiencies.

Recommendations and Management Comments

A. We recommend that the Director, Washington Headquarters Services direct the Budget and Finance Directorate to:

- 1. Establish a quick reaction team to review unliquidated obligations for military interdepartmental purchase requests and deobligate funds that are no longer needed. Provide the Office of the Inspector General of the Department of Defense the results of this effort.**
- 2. Post all disbursements and correct all errors related to military interdepartmental purchase requests in the accounting records.**
- 3. Develop written operating procedures and metrics for:**
 - (a) processing military interdepartmental purchase requests,**
 - (b) performing tri-annual validation reviews of unliquidated obligations, and**
 - (c) deobligating unliquidated obligations.**
- 4. Perform a review of the staffing needs of the Installation Accounting Division, Budget and Finance Directorate and assign the resources necessary to ensure successful certification of tri-annual reviews and the deobligation of future unliquidated obligations.**
- 5. Request that the Director, Defense Finance and Accounting Service, jointly develop written procedures to ensure that military interdepartmental purchase request disbursement data is provided to Washington Headquarters Services accurately and timely.**

Management Comments. Washington Headquarters Services concurred and stated that it established a Process Action Team to perform a comprehensive review of unliquidated obligations for military interdepartmental purchase requests; the review had begun, and corrective actions were being taken. The Process Action Team's review began with the oldest appropriations and MIPRs with large unliquidated obligation dollar amounts, and coordinate these transactions with accepting activities, program offices, and the Defense Finance and Accounting Service disbursing offices. The results of the Process Action Team will assist in assessing implementation and staffing needs of the program and development of comprehensive procedures, which will include the tri-annual reviews of unliquidated obligations for all financial transactions, not just military interdepartmental purchase requests. Estimated completion date is December 31, 2002.

B. Service Charges for Processing WHS MIPRs

OSD activities that initiated MIPRs did not select the most economical procurement alternative for 3 MIPRs selected from a judgmental sample³ of 30 MIPRs. This occurred because those activities were unaware of the requirement of DoD Directive 5335.2 to use the contracting services of the Defense Supply Service-Washington (DSS-W) to the maximum extent practicable before selecting alternative accepting activities to process MIPRs. As a result, OSD activities incurred \$182,762 in unnecessary service charges assessed for processing three MIPRs.

Defense Supply Service-Washington

DoD Directive 5335.2, “Defense Supply Service–Washington (DSS-W)⁴,” dated April 21, 1993, states that DoD Components located within the National Capital Region (NCR) shall use the contracting and other services of DSS-W to the maximum extent practicable, consistent with the Directive. DSS-W provides contractual support and guidance, on a non-reimbursable basis, to all DSS-W customers in the NCR. However, the Directive does not restrict individual agencies from using alternative contracting assistance. Three exceptions from the requirements of the Directive are: (1) technical expertise from another DoD organization, (2) timeliness of the procurement is an extenuating factor, and (3) efficient procurement exists with an ongoing contract.

WHS Customers

WHS serves DoD Components in the NCR, such as activities within the OSD that request funding services involving MIPRs. Nearly 200 OSD activities exist for which WHS performs installation-level accounting support. Other DoD Components receiving WHS support include WHS, the U.S. Court of Appeals for the Armed Forces, the Deputy Under Secretary of Defense (Test and Evaluation), and the Director of Operational Test and Evaluation, Defense.

³Judgment sample percentage does not generalize to universe.

⁴Effective November 15, 2001, the Defense Supply Service-Washington was discontinued, and the personnel and equipment assigned to the Defense Supply Service-Washington were reassigned to the Defense Contracting Command-Washington.

MIPR Service Charges

Of the 30 judgmentally selected⁵ MIPRs selected for review, 3 MIPRs had a total of \$182,762 in service charges assessed by 3 accepting activities shown in Table 7.

Table 7. Service Charges for Processing MIPRs				
MIPR Number	Initiating Activity	Accepting Activity	MIPR Amount	Service Charge
DSAM70225	DUSD (P&R)	NRISO (SPAWAR ITC)	\$2,500,000	\$131,021
DSAM80039	OUSD (AT&L)	CECOM	250,000	1,775
DSAM00134	DUSD (I&E)	NFESC	<u>4,181,000</u>	<u>49,966</u>
Total			\$6,931,000	\$182,762

OUSD (AT&L)–Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (Deputy Under Secretary for Science and Technology)
DUSD (P&R)–Deputy Under Secretary of Defense for Personnel and Readiness
DUSD (I&E)–Deputy Under Secretary of Defense for Installations and Environment
NRISO–Naval Reserve Information Systems Office, currently the Space and Naval Warfare Information Technology Center
NFESC–Naval Facilities Engineering Service Center

Reasons DSS-W Was Not Used

We contacted each MIPR initiating activity identified in Table 7 to determine the reasons DSS-W was not used. The initiating activities of the three MIPRs were unaware of the requirements specified in DoD Directive 5335.2 that DSS-W be used to the maximum extent practicable. Other reasons for selecting other contracting organizations included the following.

- The customer specified a software development organization for DSAM70225, issued July 3, 1997, in support of the Military Personnel Management Joint Military Personnel Pay System.

⁵Judgment sample does not generalize to universe.

-
- The Deputy Under Secretary of Defense (Environmental Security) designated the Navy as the executive agent for DSAM00134, issued February 8, 2000, that provided funds supporting the Arctic Military Environment Cooperation Project.
 - A task force selected the MITRE Corporation, which had established an existing contract with the U.S. Army Communication-Electronics Command for DSAM80039, issued December 19, 1997, that funded an Open System Joint Task Force project.

Capability of DSS-W to Provide Support

A DSS-W official reviewed the requirements of the three MIPRs shown in Table 7, and concluded that the MIPRs could have been contracted through DSS-W. This official based the conclusion on the fact that the requirements were similar to other work handled by DSS-W. As a result, the OSD MIPR initiating activities incurred unnecessary costs totaling \$182,762 because they did not use DSS-W. To comply with the intent of DoD Directive 5335.2, OSD MIPR initiating activities should consider DSS-W support before selecting other contracting organizations.

Conclusion

OSD MIPR initiating activities could avoid unnecessary service charges by using services provided by DSS-W to the maximum extent practicable. These activities should be required to consult DSS-W before WHS processes their MIPRs.

Recommendations

B. We recommend that the Director, Administration and Management, Office of the Secretary of Defense:

- 1. Issue a memorandum reminding all DoD components and programs that request Washington Headquarters Services allotment-level accounting and reporting services to first consider Defense Contracting Command-Washington as stipulated in DoD Directive 5335.2, prior to requesting support from alternative accepting activities to process military interdepartmental purchase requests.**
- 2. Establish procedures requiring Washington Headquarters Services customers to consult with Defense Contracting Command-Washington prior to receiving contracting support for military interdepartmental purchase requests from other contracting organizations.**

Management Comments. Washington Headquarters Services concurred and stated that a memorandum will be issued reminding the Washington Headquarters Services customer base to use the Defense Contracting Command-Washington as the primary contracting office, in accordance with DoD Directive 5335.2. Washington Headquarters Services also agreed to establish procedures for the coordination of procurement actions through the Defense Contracting Command-Washington and alternative contracting offices. Estimated completion date is September 30, 2002.

Appendix A. Audit Process

Scope

Work Performed. We reviewed the use and control of MIPRs by WHS. We reviewed MIPRs for the OSD and WHS by analyzing MIPR transactions and ULOs from the WHS Allotment Accounting System. Of 908 total MIPRs, we judgmentally selected 30 MIPRs (15 from FY 2000 and a total of 15 from FYs 1996 through 1999) with substantial ULOs to determine the validity of the remaining ULOs, valued at \$25.9 million, as reported on WHS records as of March 22, 2001. We interviewed members of the WHS Installation Accounting Division, Budget and Finance Directorate. We also contacted DFAS officials regarding the ULO balances and the accuracy of the accounting records.

We requested documentation from 22 accepting activities confirming the ULO, as reported by WHS, clarifying why the MIPR remained dormant, requesting any service charges assessed for processing the MIPR, and requesting any correspondence between each accepting activity and WHS during the last 6 months to facilitate the validation of the ULO by WHS.

The documents cover FYs 1996 through 2000, encompassing the period from October 1, 1995, through November 30, 2001. We verified the validity of the ULOs we selected by contacting each of the accepting activities identified on the MIPR. As the fundholder, WHS sends funds, through outgoing MIPRs, to activities that contract for services stated on the MIPR. We requested each activity verify that the ULO as stated in WHS records was correct. See Appendix B for the MIPRs we reviewed.

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

Methodology

Use of Technical Assistance. We discussed the rationale and methodology by which we selected our judgmental sample with Operations Research Analysts from the Quantitative Methods Division, Office of Inspector General of the Department of Defense.

Use of Computer-Processed Data. We used WHS computer-processed data. We obtained information on obligations, disbursements, and ULOs from the WHS Allotment Accounting System. However, as shown in the report, balances of unliquidated obligations could not be relied upon because the accounting records did not correctly show all disbursements made.

Audit Dates and Standards. We performed this audit from January 2001 through November 2001, in accordance with generally accepted government auditing standards.

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

Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. We reviewed the adequacy of management controls over the process that WHS used to review and deobligate ULOs. Specifically, we reviewed WHS management controls over timely deobligation, written guidance for deobligating ULOs, and the performance of tri-annual reviews. We reviewed management's self-evaluation applicable to those controls. We also reviewed WHS actions to comply with recommendations made in Inspector General of the Department of Defense Report No. D-2000-104, "Controls Over Obligations at Washington Headquarters Services," March 22, 2000. For one recommendation, the Technical Director, Audit Followup and GAO Affairs Division, Office of the Inspector General of the Department of Defense, requested that WHS provide a copy of the completed vulnerability assessment for the Review of Unliquidated Obligations assessable unit by March 12, 2001. We reviewed the vulnerability assessment completed by WHS.

Adequacy of Management Controls. We identified management control weaknesses, as identified by DoD Instruction 5010.40. WHS had not implemented management controls to ensure the timeliness of deobligating ULOs. There was no written guidance to ensure WHS reviews and deobligates ULOs. WHS had not performed tri-annual reviews of commitments and obligations applicable to ULO balances on MIPR funds. Recommendations A.1 through A.5, if implemented, will assist in correcting the cited weaknesses. A copy of the report will be provided to the senior official responsible for management controls at WHS.

Adequacy of Management's Self-Evaluation. The WHS Directorate for Budget and Finance Internal Management Control Plan follows the OMB Circular A-123, DoD Directive 5010.38, and DoD Instruction 5010.40. The vulnerability assessment conducted by WHS officials stated the general control environment, inherent risk, and control safeguards were at low risk. The WHS self-evaluation was not adequate because it did not identify or report on the weaknesses identified by the audit.

Invalid ULOs and unmatched disbursements are a serious problem because accounting records did not reflect an accurate financial position, which caused reported fund balances to be overstated while actual available balances are understated.

Prior Coverage

Inspector General of the Department of Defense (IG DoD)

IG DoD Report No. D-2002-109, "Army Claims Service Military Interdepartmental Purchase Requests," June 19, 2002

IG DoD Report No. D-2000-104, "Control Over Obligations at Washington Headquarters Services," March 22, 2000

Air Force

Air Force Audit Agency Report No. 99062007, "Use and Control of Military Interdepartmental Purchase Requests," December 11, 2000

Appendix B. WHS MIPRs Selected for Review

FY 1996

	MIPR Number	Accepting Activity	Date MIPR Issued	MIPR Amount	ULO Amount per WHS	Confirmed ULO Amount	Days ULO Dormant at WHS
1	DHAM60007	DISA	10/13/95	\$1,500,000	\$ 293,426 ¹	\$ 6,574	15
2	DSAM60033	DISA	2/29/96	200,000	200,000 ¹	0	1,820
3	DSAM60084	DAPS	5/23/96	528,000	528,000 ¹	426	1,679
4	DSAM60112	NSWC	7/29/96	4,839,789	186,723 ¹	0	874
5	DSAM60119	DFAS	7/31/96	<u>1,721,980</u>	<u>1,721,980</u> ²	<u>1,721,980</u>	1,651
	Totals			\$8,789,769	\$2,930,129	\$1,728,980	

FY 1997

	MIPR Number	Accepting Activity	Date MIPR Issued	MIPR Amount	ULO Amount per WHS	Confirmed ULO Amount	Days ULO Dormant at WHS
6	DSAM70003	DFAS	10/16/96	\$15,600,000	\$3,226,000 ²	\$3,226,000	1,064
7	DSAM70029	SBCCOM	11/5/96	3,513,000	358,739	1,235 ⁵	665
8	DHAM70122	DITCO	6/30/97	363,000	363,000 ³	362,993	1,345
9	DSAM70225	NRISO	7/3/97	<u>2,500,000</u>	<u>898,385</u> ¹	<u>0</u>	596
	Totals			\$21,976,000	\$4,846,124	\$3,590,228	

FY 1998

	MIPR Number	Accepting Activity	Date MIPR Issued	MIPR Amount	ULO Amount per WHS	Confirmed ULO Amount	Days ULO Dormant at WHS
10	DSAM80078	DAPS	2/4/98	\$222,000	\$182,683	\$182,683	874
11	DSAM80039	CECOM	12/19/97	<u>250,000</u>	<u>187,382</u> ¹	<u>0</u>	916
	Totals			\$472,000	\$370,065	\$182,683	

FY 1999

	MIPR Number	Accepting Activity	Date MIPR Issued	MIPR Amount	ULO Amount per WHS	Confirmed ULO Amount	Days ULO Dormant at WHS
12	DSAM90053	NDU	12/8/98	\$ 240,000	\$ 240,000 ¹	0	776
13	DSAM90008	DIA	10/29/98	7,211,000	279,797 ^{2,3}	0	389
14	DSAM90119	AFRL	2/16/99	1,503,000	352,712	\$ 352,712	423
15	DSAM90158	XPX	3/19/99	<u>735,000</u>	<u>735,000</u> ⁴	<u>735,000</u>	573
	Totals			\$9,689,000	\$1,607,509	\$1,087,712	

FY 2000

	MIPR Number	Accepting Activity	Date MIPR Issued	MIPR Amount	ULO Amount per WHS	Confirmed ULO Amount	Days ULO Dormant at WHS ⁶
16	DSAM00005	NAVRESFOR	9/23/99	\$ 880,436	\$ 880,436 ^{3,7}	\$ 121	n/a
17	DHAM00001	DIA	9/24/99	3,183,181	965,362 ³	unverified	n/a
18	DHAM00030	NSA	11/9/99	1,939,783	262,954	133,694	n/a
19	DSAM00014	DIA	10/14/99	6,025,000	161,860	0	n/a
20	DSAM00053	AFRL	12/3/99	6,450,000	423,825	423,825	n/a
21	DSAM00054	DFAS	12/3/99	8,385,555	1,209,702	0	n/a
22	DSAM00070	ARDEC	12/22/99	1,783,632	1,503,074	332,222	n/a
23	DHAM00055	NISA-P	12/30/99	2,282,000	1,692,406 ⁴	645,637	n/a
24	DSAM00085	SMC	1/5/00	1,987,000	204,038	unverified	n/a
25	DSAM00127	USAMCAC	2/4/00	1,720,000	325,039	unverified	n/a
26	DSAM00134	NFESC	2/8/00	4,181,000	1,898,976	4,786	n/a
27	DSAM00210	FISC	3/24/00	900,000	887,815 ³	unverified	n/a
28	DSAM00243	PBA	4/28/00	1,253,000	1,176,355	1,176,355	n/a
29	DHAM00134	WHS	6/26/00	2,049,000	2,049,000	2,049,000	n/a
30	DSAM00401	497 th IOG	9/27/00	2,550,000	2,550,000	2,550,000	n/a
	Totals			\$45,569,587	\$16,190,842	\$7,315,640	
	Overall Total			\$86,496,356	\$25,944,669		

¹Goods and services paid for, but disbursements were not recorded in WHS accounting records.

²MIPRs selected, as of February 20, 2001, that were deobligated as a result of audit.

³Processing errors were identified at the accepting activity.

⁴Administrative errors were identified at the DFAS payment office.

⁵The reimbursable portion of the MIPR was \$1,235. The direct cite portion of the MIPR was not in the SBCCOM's records.

⁶FY 2000 MIPRs are not dormant because the last transaction occurred less than 365 days from March 22, 2001.

⁷As of November 3, 2000.

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Director, Acquisition Initiatives
Director, Administration and Management

Department of the Army

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

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

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

Other Defense Organization

Director, Defense Finance and Accounting Service

Non-Defense Federal Organization

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

Washington Headquarters Services Comments



DEPARTMENT OF DEFENSE
WASHINGTON HEADQUARTERS SERVICES
1155 DEFENSE PENTAGON
WASHINGTON, DC 20301-1155



MAY 9 2002

MEMORANDUM FOR INSPECTOR GENERAL, DoD
DIRECTOR, CONTRACT MANAGEMENT DIRECTORATE

SUBJECT: Proposed Audit Report on Policies and Procedures for Military Interdepartmental Purchase Requests (MIPRs) at Washington Headquarters Services (WHS) (Project No. D2001CH-0032.001)

The subject proposed audit report has been reviewed, and the following comments are provided per your request.

General Comments

In the Executive Summary Introduction, the report states: "On behalf of OSD customers, WHS, as the fundholder, initiates MIPRs that are sent to accepting activities for contracting the required goods or services". It should be noted that WHS is the custodian for these funds, but is not the primary office responsible for initiating actions that result in commitments and obligations. The funds holders are the program offices and resource management offices that direct the distribution and execution of the funds and, therefore, have a responsibility for monitoring the execution of these funds.

The DoD Financial Management Regulation states: "the funds holders are responsible for conducting reviews of outstanding commitments and unliquidated obligations, irrespective of whether the funds holders or accounting office actually records commitments or obligations in the official accounting records.....This responsibility is placed on the funds holders because the funds holder initiates those actions that result in commitments and obligationsand are in the best position to determine accuracy and status of such transactions".

While the accounting office is the recipient of the formal subdivision of funds, it should be made clear that the review of unliquidated obligations (ULOs) is a joint responsibility involving the program offices, budget analysts, and the accounting office. At the risk of creating an anti-deficiency violation, the accounting office does not unilaterally deobligate funds without the full concurrence of the program office and budget analyst.

The audit report introduction and Table 1 refers to a total of 908 MIPRs being issued by WHS for FYs 1996-2000, with a value of \$290.6 million and ULOs with a value of \$64.3 million. The review formed an opinion based on a judgmental sample of 30 of these MIPRs.

It is assumed that these numbers refer only to the O&M, Defense-wide appropriation. The complete universe of WHS MIPRs includes O&M, Procurement, and RDT&E, Defense-



wide appropriations. It is important to note that the combined number of MIPRs issued by WHS for FYs 1996-2000 was 1,722 valued at \$1,276 million with ULOs valued at \$177 million. This yields a ULO rate of 13.9%. The FY 1998 ULO rate was 7.78%, and the FY 1999 rate was 6.26%. These two fiscal years were the focus of our most recent tri-annual review.

WHS must account for the MIPR transactions, in addition to the thousands of travel orders, training, printing, and commercial contracts which are valued over \$5 billion. Accurate and timely accounting for the total universe of WHS financial transactions is dependent on the multitude of associated contracting offices, disbursing offices, and disbursing systems used, which are essential to ensure that the accounting documentation received at WHS for posting to the accounting system is provided in a timely and accurate manner.

Responses to Recommendations

Recommendation A.1. Recommend that the Director, Washington Headquarters Services, direct the Budget and Finance Directorate (B&F) to:

- a. establish a quick reaction team to review ULO requests for MIPRs and deobligate funds that are no longer needed.
- b. post all disbursements and correct all errors related to MIPRs in the accounting records.
- c. develop written operating procedures and metrics for:
 - (1) processing MIPRs
 - (2) performing tri-annual validation reviews of ULO requests, and
 - (3) deobligating ULOs.
- d. perform a review of the staffing needs of the Accounting Division, Budget and Finance Directorate, and assign the resources necessary to ensure successful certification of tri-annual reviews and the deobligation of future ULOs.
- e. request that the Director, Defense Finance and Accounting Service (DFAS) jointly develop written procedures to ensure that MIPR disbursement data is provided to WHS accurately and timely.

WHS Management Comments. Concur.

The Director of B&F has established a Process Action Team (PAT) to perform a comprehensive review of ULOs for MIPRS. The methodology employed by the PAT is to begin the review with the oldest appropriations and highest dollar amounts and coordinate with

accepting activities, program offices, and Defense Finance and Accounting Center disbursing offices. The review process has begun and already processed some corrective actions.

The PAT will validate unliquidated balances, post missing disbursements, and correct errors, in addition to identifying and documenting the procedures to accomplish this effort. This documentation will assist in the development of comprehensive procedures, which will include the tri-annual review of ULOs for all financial documents, not just MIPRs. The DoD Financial Management Regulations (FMR) will be used as guidance and the basis for these procedures.

Based on the results of the PAT, the Director will be able to identify the effort level required to implement and staff this program, within B&F, and will coordinate with the DFAS, as necessary for any required support or identified assistance.

Estimated Completion Date. December 31, 2002.

Recommendation B.1. Recommend that the Director, Administration and Management, Office of the Secretary of Defense:

- a. issue a memorandum reminding all DoD components and programs that request WHS allotment-level accounting and reporting services to first consider Defense Contracting Command-Washington (DCC-W) as stipulated in DoD Directive 5335.2, prior to requesting support from alternative accepting activities to process MIPRs.
- b. establish procedures requiring WHS customers to consult with DCC-W prior to receiving contracting support for MIPRs from other contracting organizations.

WHS Management Comments. Concur.

A memorandum will be issued reminding our customer base to use DCC-W as the primary contracting office, in accordance with DoD Directive 5335.2. Budget and Finance and DCC-W will jointly establish procedures for the coordination of procurement actions through DCC-W and alternative contracting offices.

Estimated Completion Date. September 30, 2002.

Please call Mr. William Bader at 703-614-0971 with any questions.



D. O. Cooke
Director

Team Members

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

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