
March 29, 2002



Financial Management

Funding Invoices to Expedite the
Closure of Contracts Before
Transitioning to a New DoD
Payment System
(D-2002-076)

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Acronyms

DFAS	Defense Finance and Accounting Service
DPSS	Defense Procurement Payment System
FMR	Financial Management Regulation
MOCAS	Mechanization of Contract Administration Service
USD(C)	Under Secretary of Defense, Comptroller



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

March 29, 2002

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

SUBJECT: Audit Report on Funding Invoices to Expedite the Closure of Contracts
Before Transitioning to a New DoD Payment System
(Report No. D-2002-076)

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

Comments from the Under Secretary of Defense (Comptroller) and the Director, Defense Finance and Accounting Service, Columbus on a draft of this report were responsive. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. James L. Kornides at (614) 751-1400, extension 211 (jkornides@dodig.osd.mil), or Mr. John K. Issel at (614) 751-1400, extension 212 (jissel@dodig.osd.mil). See Appendix B for the report distribution. The audit team members are listed inside the back cover.

David K. Steensma

David K. Steensma
Acting Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. D-2002-076

March 29, 2002

(Project No. D2000FJ-0268.001)

Funding Invoices to Expedite the Closure of Contracts Before Transitioning to a New DoD Payment System

Executive Summary

Introduction. The Defense Finance and Accounting Service (DFAS) plans to replace the payment and entitlement function performed by the Mechanization of Contract Administration Services (MOCAS) system with a new system, the Defense Procurement Payment System. To facilitate this transition, the Deputy Secretary of Defense directed the Military Departments and the Defense Contract Management Agency to develop comprehensive plans for closing out all completed contracts. Plans for the orderly transition from MOCAS to the Defense Procurement Payment System for contracts with continuing requirements were also to be developed. DFAS was to assist in reengineering the reconciliation process and developing procedures to support the retirement of MOCAS. Also, DFAS was to assist in the close out process for all completed contracts. At the time of audit, 116,563 contracts were pending closure. Of the 116,563 contracts, 3,954 may require current-year funding before a contract payment can be made.

Objectives. The overall audit objective was to evaluate actions to close out completed contracts and transition them from MOCAS to Defense Procurement Payment System. We focused this part of the audit on the policy and procedures for closing out contracts that require current-year funds because the original funding appropriation had been canceled.

Results. DFAS and DoD Components did not take sufficient actions to fund payments on outstanding contract invoices that would permit closing contracts. DFAS Columbus did not notify DoD Components timely that funding was needed to close contracts where original funding had been canceled. Also, DoD Components were not providing timely current-year funding to DFAS. MOCAS records showed that 3,954 contracts could require as much as \$97 million in current-year funding to pay invoices and close the contracts. Two of the invoices have required funding since 1993. Unless improvements are made, DoD will have a large number of contracts requiring current-year funds when it begins the transfer of MOCAS data to the new payment system. This could adversely affect its orderly transition. Additionally, the DoD incurred unnecessary costs because of the untimely payments for those invoices awaiting funds, to include approximately \$215,429 in prompt payment interest penalties on invoices we reviewed.

Summary of Recommendations. We recommend that the Under Secretary of Defense (Comptroller) revise the DoD Regulation 7000.14-R "Financial Management Regulation," volume 3, chapter 10, "Accounting Requirements for Expired and Closed

Accounts,” updated January 31, 2001, to require that the gaining DoD activity of a program be responsible for providing the appropriate fund sites for invoices that would otherwise require disbursement from canceled appropriations. We recommend that the Director, DFAS develop new policy and procedures to require that fund holders are notified promptly whenever invoices that could need current-year funding are received. We also recommend that the Director, DFAS monitor and provide monthly reports to the DoD Components’ financial management and comptroller offices identifying outstanding requests for current-year funding.

Management Comments. The Under Secretary of Defense (Comptroller) agreed to revise the DoD Financial Management Regulation concerning responsibility for providing funds. The Director, DFAS Columbus, non-concurred with development of new policies and procedures for notification of fund holders that invoices required current-year funding, and partially concurred with monitoring compliance with time frames established by the Under Secretary of Defense (Comptroller). The Director, DFAS Columbus, proposed conducting a pilot program to study early notification of fund holders, with the objective of reducing the time required to obtain replacement funds. The Director, DFAS Columbus, partially concurred with notifying the responsible DoD Components’ financial management and comptroller offices of outstanding requests for current-year funds. The Director stated that DFAS Columbus was already in compliance, but will increase its efforts by alerting financial managers of canceled invoices sent to fund holders as part of the proposed pilot program. See the Finding section of the report for a discussion of management comments and the Management Comments section for the complete text of the comments.

Audit Response. Comments on the recommendations from the Under Secretary of Defense (Comptroller) were responsive. As a result of the comments and proposed DFAS Columbus action, we deleted our recommendation to establish new time frames for DoD Components to provide current-year funding. Comments from the Director, DFAS Columbus, on the draft of this report were responsive. Although the Director, DFAS Columbus, non-concurred with the development of new policies and procedures for notifying fund holders of outstanding invoices requiring current-year funding, the Director proposed alternative actions that are responsive. We believe the proposed pilot program is an acceptable method for testing whether more aggressive actions to obtain current-year funding will be effective. We believe improvements in obtaining current-year funding will help expedite the closure of contracts while DFAS transitions to the Defense Procurement Payment System.

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Background

Introduction. The Defense Finance and Accounting Service (DFAS) was scheduled to begin replacement of the Mechanization of Contract Administration Services (MOCAS) with the Defense Procurement Payment System (DPPS) during FY 2001. This has now slipped to FY 2002 or beyond. The replacement of MOCAS with DPPS is a part of the overall plan to modernize and standardize contract and vendor pay. The replacement system was expected to help achieve the goal of eliminating unmatched disbursements and negative unliquidated obligations. To facilitate the transition, the Deputy Secretary of Defense directed the Military Departments and the Defense Contract Management Agency to develop comprehensive plans for closing out all completed contracts. The comprehensive plans would also ensure orderly transition from MOCAS to DPPS for contracts with continuing requirements. DFAS was to assist in reengineering the reconciliation process and developing procedures to support the retirement of MOCAS. Also, DFAS was to assist in the close out of all contracts for which performance has been completed. In order to integrate and coordinate the reconciliation, closeout, and conversion of MOCAS contracts, the Deputy Secretary of Defense also directed the establishment of a DoD-wide Integrated Process Team. The Integrated Process Team was monitoring and reporting progress on the closeout and conversion of the MOCAS contracts.

Current-year Funding on Canceled Appropriations. Annual appropriations are available for obligation for the fiscal year that they are appropriated; thereafter, they expire and are available only for adjustments. After 5 years the appropriation accounts are closed and the appropriation balances are canceled. A fixed appropriation account shall be canceled and is not available for obligation or further adjustment for any purpose. Contracts not closed out by the time the funding appropriation cancels may require current-year funds to complete the closure process. Overall, the MOCAS database had more than 169,000 line items with a Canceled Fund Indicator code on 3,954 contracts. Those contracts showed an unliquidated obligation value of approximately \$97 million. Those contracts may require current-year funding for contract payments in order to begin the closeout process. Any invoices received that require current-year funding are subject to the Prompt Payment Act and can accrue interest penalties for up to a year.

Objective

The overall audit objective was to evaluate actions to close out completed contracts and transition them from MOCAS to DPPS. We focused this part of the audit on the policy and procedures for closing out contracts that require current-year funds because the original funding appropriation had been canceled. The DoD management control program relating to the contract closure process was addressed in our Inspector General, DoD, Report No. D-2002-027, "Closing Overage Contracts Prior to Fielding a New DoD Contractor Payment System," December 19, 2001. See Appendix A for a discussion of the audit scope and methodology.

Current-Year Funding Requirements for Contract Closure

MOCAS records showed that 3,954 contracts could require approximately \$97 million for contract payments. Those payments cannot be made without current-year funding because the original funding appropriation has been canceled. However, the process used for obtaining current-year funding in a timely manner needed improvement. Specifically, DoD Components (the Military Services and Defense Agencies) were not notified that an invoice requiring current-year funding was received by DFAS Columbus for an average of 282 days. Additionally, DoD Components were not providing current-year funding timely after notification. Those conditions occurred because DFAS policy and procedures did not require prompt notification of responsible fund holders once an invoice that could require current-year funding was received. The DoD Financial Management Regulation (FMR) needed to be revised to correct the designation of the appropriate site for obtaining current-year funding for transferred programs. Unless improvements are made, DoD will have a large number of contracts requiring current-year funds when it begins the transfer of MOCAS data to DPPS. This could adversely affect its orderly transition. Also, the DoD incurred approximately \$215,429 in prompt payment interest penalties for those items selected for review during the audit.

Guidance

Laws and Regulations. Section 1405(a) of Public Law Number 101-510, the Defense Authorization Act for FY 1991, amended sections 1551-1557, title 31, United States Code (31 U.S.C. 1551-1557) addresses the issue of expired appropriations and closed accounts. According to 31 U.S.C. section 1553(b)(1), once a fixed appropriation has been canceled:

“Obligations and adjustments to obligations that would have been properly chargeable to that account, both as to purpose and in amount, before closing and that are not otherwise chargeable to any current appropriation account of the agency may be charged to any current appropriation account of the agency available for the same purpose.”

The authority to charge a current appropriation is limited. Also, 31 U.S.C. section 1553 provides that the cumulative total of old obligations payable from current appropriations may not exceed one percent of the current appropriation.

DoD Financial Management Regulation (FMR). The DoD Financial Management Regulation, volume 3, chapter 10, “Accounting Requirements for Expired and Closed Accounts,” updated January 31, 2001, implements certain provisions of 31 U.S.C. relating to expired and closed accounts. It provides the following requirement in section 100201, paragraph D.

Before an account closes, the affected DoD Component shall identify valid unliquidated obligations subject to cancellation to determine if (1) appropriations are available for future adjustments or payments against such obligations, or (2) other provisions for adequate resources have been made to pay for such obligations that will cancel with an account.

The DoD FMR, volume 3, chapter 10, appendix B, number 6, effective September 2000, also provides guidance regarding the process for the payment office to request current-year funds. Specifically, it states that notification should be made within 48 hours after receipt of an invoice payable from canceled funds to the head of the office, installation, or activity in which the budget office is located of the need for funds. The office, installation, or activity funding the contract has 15 calendar days to provide replacement funds from current appropriations available for the same purpose. If funds cannot be provided, the office, installation, or activity must provide an estimate of when the funds may be expected within the 15-day period.

Current-Year Funding Requirements

MOCAS records revealed that 3,954 contracts may require upwards of \$97 million for contract payments. The payments can not be made without current-year funding because the original funding appropriation account has closed. However, the process used for obtaining current-year funding, in a timely manner, needed improvement.

DFAS Notification Policy and Procedures. As of March 2001, DFAS Columbus had 471 invoices on hand that required current-year funding for payment. Review of those 471 invoices disclosed that the DoD Components were not notified that an invoice requiring current-year funding was received by DFAS Columbus for an average of 282 days. Two invoices had been awaiting current-year funding for contract payment since calendar year 1993.

Because the DoD FMR requires notification within 48 hours after receipt of an invoice that is payable from canceled funds, we questioned DFAS Columbus about the extended delays. The delays occurred between receipt of an invoice requiring current-year funds and initial notification of the responsible fund holder. DFAS Columbus personnel stated that until they are allowed to take the necessary time to determine whether an invoice is valid and payable from a canceled appropriation, early notification is not warranted.

DFAS Columbus explained that when an invoice is initially received, it usually takes from two to three days before it is entered into MOCAS. The Prompt Payment Act requires the review and return of improper invoices as soon as practicable, but no later than 7 days after receipt. DFAS Columbus acknowledged that they do not process invoices within 7 days of receipt, and they advised that the process to determine whether an invoice requires reconciliation could take several weeks and in some cases, years.

We believe that the DoD Component responsible for providing current-year funding and DFAS Columbus would benefit from more timely notification of

receipt of invoices that could require current-year funding. The Prompt Payment Act allows seven days to determine whether an invoice is proper. We believe that seven days is a reasonable amount of time to notify both the contractor of a material defect with an invoice, and to notify a fund holder that an invoice has been received that might affect current-year funds. This notification would allow the fund holder to begin working with DFAS to determine whether the invoice should be paid. To illustrate how this can work more efficiently, we noted the following example. One of our sample MOCAS contracts (Contract No. DAAH01-83-C-A144) could have been closed several years earlier had DFAS Columbus provided timely notification to the Army Aviation and Missile Command. Although DFAS Columbus received an invoice for final payment on July 6, 1994, it did not send out an initial request for \$11,016 in current-year funding until April 29, 1999, a delay of almost 5 years. Subsequently, the Army Aviation and Missile Command personnel notified DFAS Columbus that the contract, according to their records, had already been fully obligated, disbursed, and should have been closed. Ultimately, Army records were shown to be accurate.

Prompt Payment Interest. Delaying notification to the responsible DoD Component fund holder increases the likelihood that prompt payment interest penalties could accrue. For example, DFAS Columbus received an invoice requiring \$1,808,367 in current-year funds for Air Force contract number F19628-93-C-0033 on September 23, 1998. However, initial notification to the Air Force fund holder was not made until January 12, 2001, a delay of 894 days. Because of the extended delays, prompt payment interest penalties of approximately \$106,442 had accrued. In total, for the 60 invoices we selected for a detailed review, DFAS Columbus estimated that it would incur prompt payment interest penalties of approximately \$215,429. Timely notification to the responsible DoD Components fund holder might have decreased the accrual of interest penalties.

Designating Funding Responsibility

The DoD FMR needs to be revised to correct the designation of the appropriate site for obtaining current-year funding for transferred programs. The FMR, volume 3, chapter 10, appendix B, number 7, discusses which DoD activity is responsible for payment of invoices chargeable to an appropriation that has closed for transferred programs. It states:

Invoices chargeable to an appropriation account that has since closed pursuant to the closing account law, 31 United States Code., 1551-1557, and for which the related program or function has migrated from one DoD activity to another, are payable by the parent organization of the DoD activity which incurred the original liability. Current year funds from any appropriation account available for the same purpose may be used to satisfy the obligations.

However, the Military Services and DFAS personnel discussed the appropriateness of this policy and agreed that if a program migrated from one activity to another, the new activity should be responsible for current-year funding requirements. The primary reason was that the activity assuming responsibility for a program also receives the appropriation to fund that program. For example, when the Joint Cruise Air Missile Program transferred from the Navy to the Air Force, the appropriation to fund the program also transferred.

Actions on Providing Current-Year Funding

The DoD Components need to provide current-year funding for invoices on canceled appropriations in a more efficient and timely manner. Our review showed that DoD Components took an average of 46 days to provide requested current-year funding. Of the 402 requests we reviewed for current-year funding, 390 were made by DFAS Columbus from June through September 2000. The remaining 12 requests were withdrawn as invalid. The time used by DoD Components to provide a current-year fund site ranged from a low of 1 day to a high of 188 days. The following table shows the number of days taken to provide the funding for the requests reviewed.

Days To Provide Funding Documents

<u>Range of Days to Fund</u>	<u>Total Count</u>
10 days or less	82
11 – 15 days	17
16 – 30 days	86
Greater than 30 days	205
TOTAL	390

As shown above, 291 of the 390 (75 percent) requests for current-year funding were not satisfied within the 15 days, as currently required by the DoD FMR, volume 3, chapter 10, appendix B, number 6. To meet the 15 day requirement, we believe DFAS Columbus should provide and monitor monthly status reports to the responsible DoD Component financial management and comptroller offices. Those monthly status reports should improve the timeliness of receipt of current-year funding of all requests not satisfied within the 15-day time frame.

Summary

The process for obtaining current-year funding for contract payments on canceled appropriations needed improvement. DoD Components were not notified that an invoice requiring current-year funding was received by DFAS Columbus for an average of 282 days. The DoD FMR needs to be revised to correct the designation of the appropriate fund holder for obtaining current-year funding for programs transferred among activities. Finally, DFAS Columbus should provide monthly reports to the respective financial management and comptroller offices

identifying which requests are still open. Unless improvements are made, DoD will have a large number of contracts requiring current-year funds when it begins the transfer of MOCAS data to DPPS. This could adversely affect its orderly transition.

Management Comments on the Finding and Audit Response

Management Comments. The Director, Defense Finance and Accounting Service Columbus stated that the reference to the Prompt Payment Act in the body of the report is only applicable when the payment clock starts for interest penalties and was not relevant in this situation.

Audit Response. Our point regarding the Prompt Payment Act is to use it as a benchmark. We believe that if a fund holder is notified within 7 days of an invoice potentially requiring current-year funds, the fund holder can help determine whether the invoice is valid. This process would mimic the requirement of the Prompt Payment Act, which requires that DFAS notify the contractor within seven days if there is a material defect in an invoice. As shown in the example we provided in the report, once the Army Aviation and Missile Command obtained the invoice, the Army determined that the invoice that DFAS held for almost five years was not valid. With prompt notification, this could have been done much earlier and the contract could have been closed.

Recommendations, Management Comments, and Audit Response

Deleted and Renumbered Recommendations. As a result of management comments, we deleted Draft Recommendation 1.a. and renumbered Draft Recommendation 1.b. as Recommendation 1.

1. We recommend that the Under Secretary of Defense (Comptroller) revise the wording in the DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 3, chapter 10, appendix B, number 7, to require that the current DoD activity to which a program has transferred be responsible for providing current-year funding.

Under Secretary of Defense (Comptroller) Comments. The Under Secretary of Defense (Comptroller) concurred and stated efforts are underway to revise DoD Regulation 7000.14-R, "DoD Financial Management Regulation" volume 3, chapter 10, Appendix B, number 7, "Accounting Requirements for Expired and Closed Accounts," updated January 31, 2001, to require that the DoD activity to which a program has transferred be responsible for providing current-year funding. The action is expected to be complete by June 2002.

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

a. Develop a new policy and new procedures to provide timely notification to the fund holder of record of any invoices received that may require current-year funding.

Director, Defense Finance and Accounting Service, Columbus, Comments.

The Director, DFAS Columbus, non-concurred and stated that it would be virtually impossible to accurately determine the net amount of current-year funds that would be required on a specific canceled line of accounting. The Director stated that the complexity of contracts in MOCAS, the existence of multiple lines of accounting that cross service lines, continued use of progress payments, and the need for a reconciliation process would cause the difficulty. DFAS also stated it does not need to notify the fund holder until it determines it has a valid invoice. The Director agreed to implement a pilot program to test whether earlier notification can work. The objective of the program is to reduce the time required to obtain replacement funds. This program will run for 6 months, at which time the results will be evaluated by the Inspector General, DoD, in conjunction with Defense Finance and Accounting Service Columbus.

Audit Response. Even though DFAS Columbus non-concurred, the comments are responsive. We agree with the DFAS position that the complexity of MOCAS contracts contributes to many of the problems, including the inability of DFAS to determine the exact net amount of current-year funds required from the fund holder. We disagree with DFAS in its interpretation of the DoD Financial Management Regulation concerning when notification should be made to the fund holder. In most cases, immediate notification of the fund holder that an invoice has arrived that needs current-year funds will provide the fund holder a better opportunity to assist DFAS in any reconciliation. We believe there are other benefits to early notification including prompt identification of potential duplicate payments, development of a mechanism for the fund holder to monitor its potential liability for current-year funds, and enhancement of communication between the fund holder and DFAS. Notification will not prevent DFAS from performing the reconciliation required to determine an invoice's exact status. However, DFAS indicated it would prefer to perform a pilot program to test whether early notification would work. We agree with the implementation of a pilot program to test the overall efficiency of early identification of the need for current-year funding. We plan to work with DFAS Columbus during the proposed pilot program.

b. Monitor and provide on a monthly basis, a listing to the responsible DoD Components' financial management and comptroller offices, all outstanding requests for current-year funds for invoices on canceled appropriations. This listing should identify all Components not in compliance with time frames established by the Under Secretary of Defense (Comptroller).

Director, Defense Finance and Accounting Service, Columbus, Comments.

The Director, DFAS Columbus, partially concurred with the Recommendation. The Director stated that DFAS was already in compliance with this

recommendation because they had been providing a monthly list of outstanding invoices after they were 120 days outstanding. Furthermore, the Director stated that more than 90 percent of all requests for current-year funding were being provided within 120 days. Therefore, providing this information on a monthly basis would only increase the DoD Components' financial management and comptroller workloads. However, DFAS agreed to initiate the recommendation in conjunction with the proposed pilot program.

Audit Response. The DFAS Columbus comments are responsive. We acknowledge that DFAS provided listings to the DoD Components' financial manager and comptroller offices 120 days after receiving an invoice. The DFAS notification procedure resulted from an OSD(Comptroller) policy memorandum, "Invoices Awaiting Current Year Funds," dated October 14, 1997. This policy was rescinded after one year. However, DFAS was still following it. Personnel in the office of the OSD(Comptroller) indicated the policy outlined in the DoD Financial Management Regulation required fund holders to provide current-year funding within 15 days. We believe 120 days is not a realistic period of time to wait before notifying management of outstanding invoices. We believe monthly notifications are warranted beginning 30 days after the initial 15-day requirement for the fund holder to provide a funding document.

Notification to the DoD Components' financial management and comptroller offices will assist in obtaining current-year funding from those fund holders not in compliance with established guidance. In addition, notification will assist in the identification of any changes to the correct fund holder location caused by base closures and consolidations not readily identified in the contract files located at DFAS Columbus. We believe that this notification will increase the timeliness of current-year funding being provided. We will follow-up on the implementation of this recommendation as we monitor the DFAS Columbus pilot program.

Appendix A. Audit Process

Scope and Methodology

We concentrated our audit effort on contracts needing replacement funding because of their impact on the ability of DoD activities to close those contracts during the transition from MOCAS to DPPS. MOCAS records showed that 3,954 contracts could require approximately \$97 million for contract payments. Those payments cannot be made without current-year funding because the original funding appropriation had been canceled. Of the 3,954 contracts, DFAS Columbus had requested current-year funding on 471 invoices received as of March 19, 2001. We judgmentally selected 60 of the 471 invoices for detailed review. The 60 judgmentally selected invoices were valued at \$3.3 million. Also, the invoices were the oldest on-hand at DFAS Columbus for each of the Military Services (Army, Navy, and Air Force) and for two other Defense activities (the Defense Information Security Agency and the Washington Headquarters Service).

Audit Type, Dates, and Standards. We performed this economy and efficiency audit from August 2000 through July 2001, in accordance with generally accepted Government auditing standards.

Use of Computer-Processed Data. We relied on computer-processed data from the DFAS Shared Data Warehouse of MOCAS data to determine the activities to visit and to determine audit sample selection. Although we did not perform a formal reliability assessment of the computer-processed data, we determined that the data reviewed were reasonably accurate. We did not find errors that would preclude use of the computer-processed data to meet the audit objective or that would change the conclusions in this report.

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

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 DoD contract management, and financial management high-risk area.

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 Review of the Management Control Program. We did not perform a full review of the adequacy of DoD controls over the funding of invoices to expedite the closure of contracts. DoD has repeatedly reported systemic

weaknesses in its financial management processes and systems. The DoD Statement of Assurance reported “the Department’s accounting, finance, and feeder systems do not fully comply with Federal financial management systems requirements.” MOCAS is among these systems used by DoD for financial related operations. Also, DoD has reported under its acquisition process and systems, weaknesses in acquisitions, but did not specifically identify weaknesses in its contract closure processes.

Prior Coverage

The General Accounting Office and the Inspector General, DoD, have conducted multiple reviews related to MOCAS contract payment and financial management issues. General Accounting Office reports may be accessed on the Internet at <http://www.gao.gov>. Inspector General, DoD, reports may be accessed on the Internet at <https://www.dodig.osd.mil/audit/reports>.

Appendix B. Report Distribution

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Under Secretary of Defense (Comptroller) Comments

Final Report
Reference



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

JAN 29 2002

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,
OFFICE OF THE ASSISTANT INSPECTOR GENERAL FOR
AUDITING, DEPARTMENT OF DEFENSE

SUBJECT: Draft Audit Report, "Funding Invoices to Expedite the Closure of Contracts Before
Transitioning to a New Department of Defense (DoD) Payment System,"
(Project No. D2000FJ-0268.01)

This is response to your request for comments to the subject draft report regarding two recommendations directed to the Under Secretary of Defense (Comptroller). While this office does not concur with the first recommendation to establish consistent and realistic time frames for providing current year funds needed for canceled appropriation requirements, it generally concurs with the recommendation to revise the DoD Financial Management Regulation ("DoDFMR") as contained in the second recommendation.

Specifically, the "DoDFMR" guidance in Chapter 8 of Volume 3 addresses the recording of an original obligation, that is, recording the transaction in official accounting records within 10-calendar days of the incurrence of an obligation. The guidance in Appendix B, Chapter 10 of Volume 3, addresses the requirement to provide replacement funds for previously recorded obligations for which the funding appropriation has canceled. Fund holders are required to provide currently available funds within 15-calendar days from the date of the disbursing officer notification that replacement funding is required to pay a valid invoice. The guidance in these two chapters are distinctly separate, thus, consistency is not applicable or necessary. Additionally, this office believes that although the audit reveals that there is noncompliance (DoD Components took an average of 46 days to provide requested current year funding), the 15-calendar day requirement is realistic and does not require revision at this time.

Efforts are underway to revise Number 7, Appendix B, Chapter 10 of Volume 3 to require that the current DoD activity to which a program has transferred be responsible for providing current-year funding. We expect to complete the revision no later than June 2002.

The staff point of contact for this matter is Mr. Oscar Covell. He can be reached via e-mail: covello@osd.pentagon.mil or by telephone at (703) 697-6149.


D. W. Rife, Jr.
Acting Deputy Chief Financial Officer

Deleted

Defense Finance and Accounting Service Comments



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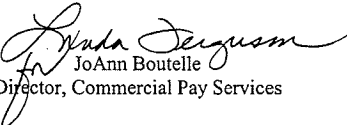
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MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,
OFFICE OF INSPECTOR GENERAL

SUBJECT: Audit Report on Funding Invoices to Expedite the Closure of Contracts Before
Transitioning to a New DoD Payment System (Project No. D2000FJ-0268.01), dated
September 17, 2001

In response to your letter dated September 17, 2001, subject as above, comments for
recommendations 2.a. and 2.b. are attached.

If you have any questions, please contact Ms. Simone Lordier, DFAS-BSP/CC, at
DSN 869-6800 or 614 693-6800.


JoAnn Boutelle
Director, Commercial Pay Services

Attachment
As stated

**Management Comments Regarding
Audit Report on Funding Invoices to Expedite the Closure of Contracts Before
Transitioning to a New DoD Payment System (Project No. D2000FJ-0268.01), dated
September 17, 2001**

Recommendation 2.a: Develop a new policy and new procedures to provide timely notification to the fund holder of record of any invoices received that may require current year funding.

Management Comments: Non-Concur.

a. The DoDFMR, Volume 3, Chapter 10, Appendix B., states in part "...within 48 hours after receipt of an invoice payable from canceled funds, the disbursing officer shall notify the fund holder." The interpretation of "...that is payable from canceled funds..." is critical to the DFAS position. The complexity of the contracts in MOCAS, multiple lines of accounting across service lines, progress payments, the reconciliation process, etc., make it virtually impossible to accurately determine the net amount of current year funds that would be required on a specific canceled line of accounting until that invoice is entitled. In addition, many invoices requiring current year funds go through a lengthy approval process in DCAA and/or a lengthy reconciliation process prior to entitlement which delays the notification to the fund holder. If invoices were submitted against specific lines of accounting, the initial notification process to the fund holder would be much more timely; however, that is not the case for invoices paid in MOCAS. Finally, the regulatory reference clearly states "...the disbursing officer shall notify the fund holder", implying that the invoice is ready for payment, or in our case entitled in MOCAS.

b. The reference made in the body of the draft report to the Prompt Pay Act, which allows seven days to return an invoice that is materially defective, is only applicable when the payment clock starts for interest penalties and is not relevant in this situation. Based on the foregoing issues and complexities involving MOCAS paid invoices, the existing policy to notify the fund holder within 48 hours of receipt of a valid DMACT package in the Financial Control Division is timely and fulfills the intent of the DoDFMR.

c. Based on a meeting between the DoD IG and DFAS Columbus, DFAS CO agrees to conduct a pilot program. The pilot program would have as an objective the reduction of time required to obtain replacement funds, and would be conducted under the following conditions:

- (1) DoD IG provides to DFAS Columbus the name of a Financial Manager, a funds holder under that Financial Manager, and a list of contracts to be included in the pilot program. The contracts would be those having canceled funds with an unliquidated obligation on the canceled line(s).
- (2) DFAS CO will provide a copy of each invoice against those specific contracts to the funds holder and/or Financial Manager as the invoices are received. This will serve as early notification that replacement funds could potentially be required once the invoice is entitled.

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- (3) The pilot program will remain in effect for six months. At the end of the six month test period, the DoD IG, in conjunction with DFAS CO, will evaluate the results of the program. The decision to extend the pilot program will be based on significant return on investment being realized (i.e., whether or not replacement funds for those contracts were provided in a more timely manner based on the early notification procedure.)

Estimated Completion Date: This recommendation is considered closed.

Recommendation 2.b: Monitor and provide on a monthly basis, a listing to the responsible DoD Components financial management and comptroller officer, all outstanding requests for current-year funds for invoices on canceled appropriations. This listing should identify all components not in compliance with time frames established by the Under Secretary of Defense (Comptroller).

Management Comments: Partially concur.

a. The Financial Control Division provides the fund holder monthly copies of the invoices on hold for current year funds. The DoD Components' Financial Managers are provided a monthly list of the invoices still outstanding after 120 days. In addition, the Financial Control Division has been providing the DFAS Client Executives, the DFAS direct representatives to the military services and agencies, a monthly listing of all invoices currently on hold waiting for current year funds since mid July 2001. These executives communicate directly with the Services Financial Managers to secure funding and improve the timeliness of funding receipt, which meets the intent of this recommendation. As the Financial Control Division's primary function is to monitor DMACT invoices, DFAS is already in compliance with this recommendation.

b. Although 90% of the requests are funded prior to submission to the DoD Components' Financial Managers, DFAS CO will agree to initiate a pilot program to provide these senior managers the initial and subsequent cancelled invoice requests sent to the fund holder. This will increase their workload 90% for the invoices already being funded within 120 days. DFAS CO is willing to initiate this pilot if the DoD IG believes this notification will increase the timeliness of current year funds being provided.

c. A better and more permanent solution would be to implement a plan similar to the 10-day rule. OSD would provide funding for appropriations not funded within 180 days. OSD would supply the department, fiscal year and the appropriation. DFAS Columbus would use the balance of the original line of accounting to complete the newly funded line; however, the fund holder would have 30 days to provide the remaining data elements for the long line of accounting. Otherwise, DFAS Columbus would use the data from the original line of accounting with a current fiscal year.

Estimated Completion Date: This recommendation is considered closed.

Audit Team Members

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

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