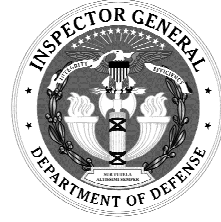


October 30, 2002



Financial Management

Validity of Registration in the Central Contractor Registration Database (D-2003-018)

**Office of the Inspector General
of the
Department of Defense**

CONSTITUTION OF THE
UNITED STATES OF AMERICA

NO MONEY SHALL BE DRAWN FROM THE TREASURY, BUT IN CONSEQUENCE OF APPROPRIATIONS MADE BY LAW; AND A REGULAR STATEMENT AND ACCOUNT OF THE RECEIPTS AND EXPENDITURES OF ALL PUBLIC MONEY SHALL BE PUBLISHED FROM TIME TO TIME.

ARTICLE I, SECTION 9

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Acronyms

CAGE	Contractor and Government Entity
CCR	Central Contractor Registration
IG DoD	Inspector General of the Department of Defense
DFARS	Defense Federal Acquisition Regulation Supplement
DFAS	Defense Finance and Accounting Service
EFT	Electronic Funds Transfer
MOCAS	Mechanization of Contract Administration Services
TIN	Taxpayer Identification Number
VPIS	Vendor Pay Inquiry System



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

October 30, 2002

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Report on the Validity of Registration in the Central Contractor
Registration Database (Report No. D-2003-018)

We are providing this report for information and use. We considered Defense Finance and Accounting Service comments on a draft of this report when preparing the final report. The comments conformed to the requirements of DoD Directive 7650.3; therefore, additional comments are not required.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Marvin L. Peek at (703) 604-9587 (DSN 664-9587) (mpeek@dodig.osd.mil) or Mr. Jack L. Armstrong at (317) 510-3846 (DSN 699-3846) (jarmstrong@dodig.osd.mil). See Appendix C for the report distribution. The audit team members are listed inside the back cover.

David K. Steensma
for David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General of the Department of Defense

Report No. D-2003-018

October 30, 2002

Project No. D2000FI-0151.001

Validity of Registration in the Central Contractor Registration Database

Executive Summary

Who Should Read This Report and Why? Defense Finance and Accounting Service management responsible for policy and procedures for paying contractors and vendors, and personnel responsible for making those payments should read this report. The report identifies noncompliance with the requirement that recipients of Government funds be properly registered in the Central Contractor Registration database. Payments to nonregistered vendors increase the potential for fraud and hinder the efforts for debt recovery and collection of income taxes.

Background. DoD makes 11 million commercial payments totaling more than \$150 billion annually. In the early 1990s any contractor or vendor who wanted to do business with more than one DoD site was required to submit the same business information to each and every site. To reform payment processes, DoD identified a centralized, electronic registration process known as Central Contractor Registration database as the single point of entry for vendors that want to do business with DoD. Because DoD is the largest purchaser of goods and services in the world, there was a cost savings to be realized by streamlining these administrative processes. The Central Contractor Registration database was created to be the single repository of vendor data for the entire DoD to avoid this administrative duplication and allow contractors to take responsibility for the accuracy of their own important business information by supplying it directly to the Government through a single registration.

We compared data available in the Central Contractor Registration database during the month of June 2001 with data available in the payment system databases from March through July of 2001. Approximately one third of the payments were made to contractors or vendors whose identity codes did not match the identity codes listed in the Central Contractor Registration database. We considered the mismatched identity codes an indicator of increased risk that those contractors did not have valid tax identification numbers listed in the Central Contractor Registration database.

Results. DoD did not adequately implement a recommendation in a prior audit report requiring contracting officers to obtain tax identification numbers and provide them to DoD paying offices. A judgmental review of 4,607 payments with mismatched identity codes showed 1,297 payments, totaling \$270.4 million, were made to contractors and vendors that were not properly registered in the Central Contractor Registration database at the time of payment. As a result, the tax identification numbers were not available to report contractor and vendor payments to the Internal Revenue Service for income taxes and for debt recovery. The lack of taxpayer identification number information also exposed the payment systems to potential fraud. If the DoD withheld payment from contractors and vendors who are not properly registered in the Central Contractor Registration database, it would motivate contractors and vendors to ensure the availability of correct tax identification information (finding A).

A judgmental review of 1,033 vendor payments made between March and July 2001 showed that the Defense Finance Accounting Service made 327 check payments for \$1.2 million that should have been made by electronic funds transfer. Defense Finance Accounting Service also made 18 payments totaling \$126,694 by check that should have been made using the Online Payments and Collection System. As a result, the Defense Finance Accounting Service payment processes were not in full compliance with Title 31, United States Code 3332 and are incurring higher costs for making payments by check. Requiring that all contractors and vendors be properly registered in the Central Contractor Registration database and paid by electronic funds transfer would meet the intent of the United States Code, reduce error, and save time and money (finding B).

Management Comments. The Director, Commercial Pay Services at Defense Finance and Accounting Service concurred and agreed that a method or process is needed to ensure that the Government's interest is protected from unlawful misappropriation of funds, and proper tax liabilities are assessed when disbursements are made to contractors or vendors. The Director agreed to use an existing query application specific to contractor pay to extract an exception report for contractors not properly registered in the Central Contractor Registration database. The Director also agreed to refine and continuously monitor the manual processes related to ensuring that vendors are properly registered with a valid tax identification number in the Central Contractor Registration database. Management actions are to be completed by December 31, 2002. See the Management Comments section for the complete text of management comments.

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Background

Central Contractor Registration. DoD makes 11 million commercial payments totaling more than \$150 billion annually. In the early 1990s, any contractor or vendor who wanted to do business with more than one DoD site was required to submit the same business information to each individual site. This redundancy of paperwork not only created an administrative burden for the Government and the vendor, but also was a major source of administrative error and expense in terms of both time and money. As a result, the President issued a memorandum in October 1993 mandating that Government reform its acquisition processes. Subsequently, the Federal Acquisition Streamlining Act of 1994 was passed, requiring the establishment of a “single face to industry.”

To reform payment processes, DoD identified a centralized, electronic registration process known as the Central Contractor Registration (CCR) database as the single point of entry for vendors that want to do business with DoD. The CCR database was created to be the single repository of vendor data for the entire DoD to avoid duplicate reporting of business information and allow contractors to take responsibility for the accuracy of their own important business information by supplying it directly to the Government through a single registration. Because DoD is the largest purchaser of goods and services in the world, cost savings should be achieved by streamlining these administrative processes.

Corporate Electronic Funds Transfer. The Corporate Electronic Funds Transfer database is a staging table located on a platform in Columbus, Ohio, that receives files from the CCR database and transmits interface files to entitlement and DoD disbursing systems. The Corporate Electronic Funds Transfer allows a single source of information to be shared by all entitlement and DoD disbursing systems, thereby streamlining the electronic funds enrollment and payment processes.

Vendor Pay Inquiry System. The Vendor Pay Inquiry System (VPIS) and Mechanization of Contract Administration Services (MOCAS) VPIS are two separate applications developed for the convenience of contractors and vendors doing business with the DoD. The VPIS and MOCAS VPIS interactively provide information on invoices submitted against DoD contracts that Defense Finance and Accounting Service (DFAS) is responsible for paying. These systems consolidated the contract data obtained from the DFAS sites into one central repository that contains all open contracts, plus any payments made within the last 90 days.

Commercial Pay Business Line. DoD makes commercial payments through the Commercial Pay Business Line. DFAS capitalized all commercial payment resources under the Commercial Pay Business Line, effective April 1, 2001. The Commercial Pay Business Line includes DFAS personnel performing contract, vendor, and transportation pay as well as contract debt management functions. The Commercial Pay Business Line includes two product lines: contract pay and vendor pay.

Contract Pay Product Line. The Contract Pay Product Line encompasses the payment of contractors through formal long-term contractual instruments. These contracts are typically administered by the Defense Contract Management Agency. The Contract Pay Product Line makes payments using the MOCAS in Columbus, Ohio.

Vendor Pay Product Line. The Vendor Pay Product Line encompasses entitlement determination for contracts not administered by Defense Contract Management Agency, transportation payments, and miscellaneous payments to businesses and individuals. Vendor payments are made at 23 DFAS locations using 14 different systems including Computerized Accounts Payable System for Windows, Defense Integrated Subsistence Management System, Integrated Accounts Payable System, and Standard Accounting and Reporting System.

Tax Identification Number. Tax Identification Numbers (TINs) are 9-digit identifying numbers used by individuals and companies for income tax purposes. Every contractor and vendor doing business with the DoD is required to furnish its TIN under section 7701, title 31, United States Code, (31 U.S.C 7701) (1999). The TIN is a mandatory requirement for registration in the CCR and must be provided in order to have a valid CCR registration.

Contractor and Government Entity Code. The Contractor and Government Entity (CAGE) Code is a five-character identification number used extensively within DoD. CAGE Codes are used to support a variety of mechanized systems throughout the Government and provide a standardized method of identifying a given facility at a specific location. The Defense Logistics Information Service in Battle Creek, Michigan is the only authorized source of CAGE Codes. Contractors and vendors with assigned CAGE codes were not always registered in the CCR database, which was indicative of a need for tighter management controls. We considered the payments where the CAGE Codes in the payment systems did not match the CAGE Codes in the CCR database to be a high-risk indicator of the contractor not having a valid TIN registered in the CCR database. For greater detail about the transactions we reviewed, based on CAGE Codes, see the methodology discussion in Appendix A.

Objectives

This is the second and final report on the “Audit of Controls over Tax Identification Numbers.” The first Report, No. D-2001-114, “DoD Contractor Debt Collection Process,” May 7, 2001, evaluated the controls associated with the List of Contractors Indebted to the United States. The objective of the current audit was to follow up on Recommendation 1 of Inspector General of the Department of Defense (IG DoD) Audit Report No. 95-234, “Department of Defense Compliance with Federal Tax Reporting Requirements,” June 14, 1995. Recommendation 1 required the DoD to establish management controls to assure that contracting officers obtain TINs and provide them to DoD paying offices. Specifically, the audit determined the validity of the contractor’s registration in the CCR database at the time of payment and

whether the TIN was included in the payment system. We also evaluated the effectiveness of the management control program as it related to the audit objective.

The audit announcement included a third primary objective to follow up on Recommendations B.2.a. of IG DoD Audit Report No. 96-038, "Debt Collection and Deposit Controls in the Department of Defense" December 11, 1995. Recommendation B.2.a. required the establishment of performance standards for critical debt collection techniques. The third objective was not accomplished because DoD had implemented a new Contractor Debt Management System and it was too early to perform a follow-up audit. See Appendix A for a discussion of the audit scope, methodology, and our review of the management control program. See Appendix B for prior coverage.

A. Validity of Registration in the Central Contractor Registration Database

DoD did not adequately implement our recommendation from a previous audit report requiring contracting officers to obtain TINs and provide them to DoD paying offices. A judgmental review of 4,607 payments with mismatched identity codes showed 1,297 payments, totaling \$270.4 million, were made to contractors and vendors that were not properly registered in the Central Contractor Registration database at the time of payment. DFAS made these payments to contractors and vendors without proper registrations because DFAS personnel did not always review the CCR database before making payments. As a result, the tax identification numbers were not available for proper reporting of contractor and vendor payments for income taxes and for debt recovery.

CCR Database Requirements

Defense Federal Acquisition Regulation Supplement (DFARS) subpart 204.73, "Central Contractor Registration," March 16, 2000, prescribes requirements, policies, and procedures for contractor registration in the DoD CCR database to comply with the Debt Collection Improvement Act of 1996. Prospective contractors must be registered in the CCR database prior to award of a contract, basic agreement, basic ordering agreement, or blanket purchase agreement. Exceptions to this requirement include the following:

- purchases paid for with a Government-wide commercial purchase card;
- awards made to foreign vendors for work performed outside the United States;
- classified contracts or purchases when registration in the CCR database, or use of CCR data, could compromise the safeguarding of classified information or national security;
- contracts awarded by deployed contracting officers in the course of military operation; and
- purchases to support unusual or compelling needs of the type described in Federal Acquisition Regulation 6.302-2, "Unusual and Compelling Urgency."

DFARS 252.204-7004, "Required Central Contractor Registration," states that by submission of an offer, the offeror acknowledges the requirement that a prospective awardee must be registered in the CCR database prior to award,

during performance, and through final payment of any contract resulting from this solicitation, except for awards to foreign vendors for work to be performed outside the United States.

DFARS 252.204-7004 also states that the contractor is responsible for the accuracy and completeness of the data within the CCR database, and for any liability resulting from the Government's reliance on inaccurate or incomplete data. To remain registered in the CCR database after the initial registration, the contractor is required to confirm annually that its information in the CCR database is accurate and complete.

CCR Database Registration at the Time of Payment

DoD did not adequately implement Recommendation 1 in IG DoD Report No. 95-234, "Department of Defense Compliance with Federal Tax Reporting Requirements," June 14, 1995. Recommendation 1 required contracting officers to obtain TINs and provide them to DoD paying offices. A judgmental review of 4,607 payments DFAS made between March and July 2001 showed 1,297 payments, totaling \$270.4 million, were made to contractors and vendors that were not properly registered in the CCR database at the time of payment. The 4,607 commercial payments, totaling \$460.0 million, were considered to be at a higher risk for improper registration in the CCR database because the CAGE Codes in the payment systems and the June 2001 CCR database did not match. These contractors and vendors were not registered in the CCR database, their registration had expired in the CCR database, their registration was incomplete, or their registration had been deleted at the time of payment. Table 1 identifies the status of contractors' and vendors' registrations in the CCR database for the payments we reviewed.

Table 1. Status of Registration in the CCR Database		
Classification of Payments	Number of Payments Reviewed	Percentage of Total Payments Reviewed ¹
Invalid Registration	985	21.4
Expired Registration	312	6.7
Sub-total	1,297	28.1
Valid Registration	2,887	62.7
Registration Not Required	423	9.2
Total	4,607	100.0

¹These percentages cannot be projected to the total population of 376,284 payments with mismatched contractor identity codes discussed in Appendix A.

Invalid Registration. There were 985 payments (21.4 percent) made to contractors and vendors whose CCR registrations were invalid at the time of payment. Of the 985 payments, 40 payments went to contractors that did not have complete registrations in the CCR database. There were 930 payments made despite the fact that the CAGE Code and the contractor or vendor name were not registered in the CCR database at the time of payment. For example, the DFAS San Bernardino Vendor Pay Site paid a company on March 29, 2001, although the company was not registered in the CCR database. The company did not register in the CCR database until May 10, 2001. There were 13 payments made to contractors that had an obsolete CAGE Code and did not have another CAGE Code registered in the CCR database at the time of payment. For the remaining two payments, the vendor had deleted their registration in the CCR database. For example, DFAS San Diego paid a vendor on April 10, and May 25, 2001, although the CCR database showed that the vendor's registration was deleted on November 17, 2000. DFAS personnel did not check the registration in the CCR database prior to making payments. These payments should not have been made until the contractor or vendor was properly registered in the CCR database.

Expired Registration. There were 312 payments (6.7 percent) made to contractors and vendors whose registrations were expired in the CCR database at the time of payment. The contractors or vendors had valid registrations in the CCR database at one time, but the registrations expired before the payment was made. These payments should not have been made until the contractor had a valid registration. For example, the DFAS Columbus Vendor Pay Site paid a company on March 22, 2001, although their CCR database registration had expired on May 6, 2000. This payment was made 320 days after registration in the CCR database expired. Payments were made to contractors and vendors with expired registrations because DFAS personnel did not check the CCR database registration before the payments were made. In accordance with DFARS 252.204-7004, contractors and vendors are required to be registered in the CCR database through final payment on the contract.

Valid Registration. There were 2,887 payments (62.7 percent) made to contractors and vendors with valid registrations in the CCR database at the time of payment. Of the 2,887 payments, 821 payments were considered to have a valid registration with the same CAGE Code that was in the payment system. There were 302 payments where the contractor or vendor had a registration that was valid in the CCR database at the time of payment but under a replacement CAGE Code. The remaining 1,764 payments were made to contractors or vendors that had a valid registration in the CCR database at the time of payment but under a CAGE Code different from that in the payment system.

Registration Not Required. There were 423 payments (9.2 percent) made to recipients not required to register in the CCR database. Of the 423 payments, 255 payments were made to foreign contractors. We could not determine the status of 6 payments. The remaining 162 payments were considered miscellaneous payments for training, legal claims, casualties, suggestion awards, and uniforms.

TIN Availability

The payment systems did not always include the TIN because DFAS personnel were not reviewing the CCR database before making payments. DFAS did not have procedures in place requiring that payments be withheld until contractors and vendors updated the CCR database; therefore, there was no incentive for DFAS personnel to review the CCR database. Our sample included 2,089 contract and vendor payments that did not include the TIN in the payment systems and therefore lacked TIN information for proper reporting of contractor and vendor payments for income tax purposes and possible debt recovery.

The action DoD took, establishing CCR, to implement Recommendation 1 in Audit Report No. 95-234 was not fully effective because essential management controls were not in place. The lack of TIN information also exposed the payment systems to potential fraud. We documented acts of potential fraud by contractors and vendors providing invalid TINs in the CCR database. We referred 183 cases of possible fraudulent actions to the Defense Criminal Investigative Service for investigation on October 29, 2001. DFAS needs to withhold payments to contractors and vendors when processing payments with missing or inaccurate TIN information.

Subsequent DoD Actions

In March 2002, the Under Secretary of Defense (Comptroller) issued DoD Regulation 7000.14-R, "Financial Management Regulation," volume 10, chapter 1, "Financial Control of Vendor and Contract Payments" regarding registration in the CCR and electronic funds transfer (EFT) payments. This guidance allows DFAS to charge additional fees to DoD Components until the DoD Component ensures that the contract includes the clauses providing for CCR database registration and payment by EFT. However, these procedures will not be effective if DFAS personnel do not verify that valid TINs are in the payment systems and withhold payments until contractors and vendors are properly registered in the CCR database.

Recommendation and Management Comments

A. We recommend that the Director, Commercial Pay Services, Defense Finance and Accounting Service establish procedures to withhold payments to contractors and vendors until they are properly registered with a valid Tax Identification Number in the Central Contractor Registration database.

Management Comments. DFAS concurred and agreed that a method or process is needed to ensure that the Government's interest is protected from unlawful misappropriation of funds and proper tax liabilities are assessed when disbursements are made to contractors or vendors. DFAS agreed to use an existing query application specific to contractor pay to extract an exception report for contractors not properly registered in the Central Contractor

Registration database. The exception report will be the basis, after verification with the CCR, of withholding contractor payments. DFAS also agreed to refine and continuously monitor the manual processes related to ensuring that vendors are properly registered with a valid TIN in the CCR database. Management actions are scheduled to be completed by December 31, 2002. See the Management Comments section for the complete text of management comments. See Appendix A, Management Control Program Review, for additional management comments concerning the material management control weakness.

B. Payments Using Electronic Funds Transfer

A judgmental review of 1,033 vendor payments DFAS made by check showed that 345 should have been made by electronic funds transfer (EFT). The 1,033 vendor payments were made between March and July 2001. Specifically, DFAS made 327 check payments for \$1.2 million that should have been made by EFT. DFAS also made 18 payments totaling \$126,694 by check that should have been made using the Online Payments and Collection System. DFAS guidance for implementing EFT payments was inadequate and contained EFT payment exemptions that were not consistent with statutory requirements. As a result, DFAS payment processes were not in full compliance with Title 31, U.S.C. 3332. Also, DFAS incurred higher administrative costs making payments by check.

EFT Requirements

The Debt Collection Improvement Act of 1996, as codified in 31 U.S.C. Section 3332, "Required Direct Deposit," requires that all Federal payments made after January 1, 1999, be made using EFT unless a payment meets specific waiver requirements. EFT is defined as any transfer of funds other than a transaction originating by cash, check or similar paper instrument. The Department of Treasury in 31 Code of Federal Regulations (C.F.R.) Subpart 208.3, "Payment by Electronic Funds Transfer," and Subpart 208.4, "Waivers," allows specific waivers to the EFT requirements. The Federal Acquisition Regulation subpart 32.11, "Electronic Funds Transfer," requires that EFT be used for making contract payments. Based on these criteria, most payments we reviewed should have been made using EFT.

Federal Payment Defined. 31 C.F.R. Section 208.2 defines Federal payment as including, but not limited to:

- Federal wage, salary, and retirement payments;
- vendor and expense reimbursement payments;
- benefit payments; and
- miscellaneous payments such as interagency payments; grants; loans; fees; principal, interest, and other payments related to U.S. marketable and nonmarketable securities; overpayment reimbursements; and payments under Federal insurance or guarantee programs for loans.

EFT Waivers. 31 C.F.R. Section 208.4 allows waivers of the EFT requirement when:

- an individual determines that payment by EFT would impose a hardship;
- the infrastructure in a foreign country does not support payment by EFT;
- the payment is to a recipient within a disaster area;
- a military operation or a call to order to active duty members of the uniformed services is made during a war or national emergency;
- a threat may be posed to national security;
- the agency does not expect to make more than one payment to the same recipient within a one-year period; and
- an agency's need for goods or services is of such unusual and compelling urgency, or there is only one source of goods or services, that the Government would be seriously injured unless payment is made by a method other than EFT.

Method of Payment

A judgmental review of 1,033 vendor payments DFAS made by check showed that 345 should have been made by EFT. DFAS made the payments between March and July 2001. Of the 345 improper check payments, 327 payments totaling \$1.2 million were made by check instead of EFT. The 327 check payments did not meet waiver requirements contained in 31 C.F.R. Section 208.4. DFAS also made 18 payments for \$126,694 by check that should have been made using the Online Payments and Collection System. The Online Payments and Collection System is an automated means by which billing information is transmitted between Federal agencies through a commercial time-sharing service by way of a telecommunications network. Table 2 shows the methods of payment for the 1,033 payments reviewed.

Table 2. Methods of Payment		
Classification of Payments	Number of Payments	Percentage of Payments ²
Improper Check Payments		
Vendors properly registered in CCR	76	
Vendors not registered in CCR	126	
Payments to individuals	76	
Payments to Government Agencies	<u>67</u>	
Number of Improper Check Payments	345*	33.4
Method of payment could not be determined	2	0.2
Proper Check Payments	17	1.6
EFT Payments	<u>669</u>	<u>64.8</u>
Total	1,033	100.0
*Represents 327 payments that should have been made by EFT and 18 payments to Federal agencies that should have been made using the Online Payment and Collection System.		

Vendors Properly Registered. Vendors for 76 of the improper check payments were registered in the CCR database and the EFT information was included with their CCR registration. DFAS personnel did not check the CCR database to determine if the vendors were registered. For example, DFAS San Bernardino made a payment to a vendor by check on April 11, 2001. The vendor had an active registration in the CCR that was valid through August 11, 2001 and should have been paid using EFT.

Vendors Not Registered. Vendors for 126 of the improper check payments were not properly registered in the CCR database. DFAS should not have made payments to vendors that were not registered in the CCR database. DFAS did not ensure that contractors and vendors receiving miscellaneous payments were properly registered in the CCR database so payments could be made using EFT. The DoD Regulation 7000.14-R, "Financial Management Regulation," volume 10, chapter 12, "Miscellaneous Payments" includes payments made to individuals, telephone companies, and bankcard service companies.

Payments to Individuals. Government employees received 76 of the improper check payments that should have been made using EFT. As Federal employees, they would already receive Federal salary payments by EFT. DFAS did not use this available information before making the 76 check payments.

²The percentages for the classification payments are related to the total 1,033 payments sampled and cannot be projected to the population of payments that the sample was selected.

Payments to Other Government Agencies. DFAS made 67 improper check payments to other Government agencies. The Online Payment and Collection System should have been used for 18 of the payments made to Federal agencies. The remaining 49 payments were made to state and local governments and should have been made by EFT.

Method of Payment Could not be Determined. For two of the payments, DFAS personnel were unable to provide documentation.

DFAS Payment Guidance

The DFAS guidance of January 27, 2000, mandating EFT payments was inadequate. The DFAS guidance implemented guidance in a December 30, 1999, Under Secretary of Defense (Comptroller) memorandum mandating EFT payments. However, the DFAS guidance included exemptions that were not included or incorporated in the 31 C.F.R. 208.4. Those DFAS exemptions included payments to the following:

- sole proprietors,
- utility companies, and
- common carriers under Government bills of lading.

Conclusion

The purpose of making EFT payments is to avoid administrative errors and to save time and money. DFAS vendor pay sites were not consistent in implementing the DFAS and DoD guidance. For example, DFAS Norfolk in Norfolk, Virginia, paid a vendor by EFT while DFAS Limestone in Limestone, Maine, paid the same vendor by check. IG DoD Report No. D-2002-113, "Controls Over the Computerized Accounts Payable System at Defense Finance and Accounting Service Columbus," June 21, 2002, included recommendations that DFAS make all payments by EFT unless properly waived and that contractors and vendors receiving miscellaneous payments are properly registered in CCR. The Office of the Under Secretary of Defense (Comptroller) concurred with the recommendations and updated volume 10, chapter 1, of the DoD Regulation 7000.14-R. The updated chapter requires the use of EFT for all payments using vendor pay systems unless the requirement is properly waived in accordance with 31 C.F.R. section 208.4. Therefore, we did not include any recommendations on making EFT payments in this report.

Appendix A. Scope and Methodology

DFAS makes 11 million commercial payments for more than \$150 billion, annually. In IG DoD Report No. 95-234, "Department of Defense Compliance With Federal Tax reporting Requirements," June 14, 1995, we reported that DoD contracting offices were not obtaining contractor payment information or maintaining accurate records needed for tax reporting. The purpose of this audit was to review DoD implementation of Recommendation 1 in Audit Report No. 95-234, requiring contracting officers to obtain TINs and provide them to DoD paying offices. Contractors and vendors are now required to register in the CCR database before award of a contract and DFAS can review the CCR database for the TIN. Therefore, we judgmentally reviewed 4,607 payments totaling \$460.0 million made between March and July 2001 using contract and vendor pay systems. We limited our review to the validity of the contractor and vendor registration in the CCR database at the time of payment and whether the TIN was included in the payment system.

We reviewed the June 2001 CCR database and identified potential acts of fraud. We documented acts of potential fraud by contractors and vendors providing invalid TINs in the CCR database. We referred 183 cases of possible fraudulent activity to the Defense Criminal Investigative Service on October 29, 2001. The Defense Criminal Investigative Service is investigating the cases.

We obtained payment data (1,096,160 payments) from MOCAS VPIS and VPIS. The payments we reviewed were made between March and July 2001. We also obtained the May 2000, and April through July 2001 CCR databases. We designed a query to identify payments that were made to contractors and vendors who were not registered in the June 2001 CCR database. We designed the query based on the CAGE Code because this was a common field between the payment data from MOCAS VPIS, VPIS, and the data in the June 2001 CCR database. Our query identified 376,284 payments where the CAGE Code in MOCAS VPIS and VPIS did not match the CAGE Code in the June 2001 CCR database. We considered these payments to be at higher risk for improper registration in the CCR database. We judgmentally reviewed 4,607 of these payments. Of the 4,607 payments we reviewed, 3,574 payments were made through the Contract Pay Product Line and 1,033 payments were made through the Vendor Pay Product Line. Table A. shows the payment sites, payment systems, and number of payments reviewed.

Table A. Pay Sites, Pay Systems, and Number of Payments Reviewed		
Pay Sites	Pay System	Number Payments Reviewed
Columbus, Ohio	MOCAS	3,574
Columbus, Ohio	DISMS ¹	143
Columbus, Ohio	CAPS(W) ²	90
Norfolk, Virginia	CAPS(W)	100
Rome, New York	CAPS(W)	100
Limestone, Maine	IAPS ³	150
San Bernardino, California	IAPS	150
Charleston, South Carolina	STARS ⁴ One Pay	150
San Diego, California	STARS One Pay	150
Total		4,607
¹ Defense Integrated Subsistence Management System ² Computerized Accounts Payable System for Windows ³ Integrated Accounts Payable System ⁴ Standard Accounting and Reporting System		

We reviewed all the payments in MOCAS where the CAGE Code did not match the June 2001 CCR database. We used a two-stage sampling approach to select vendor payments for review. We did not include payments made outside the continental United States in our sample selection. Also, we did not review 100 vendor payments selected from Columbus Computerized Accounts Payable System for Windows because they were all miscellaneous payments. We did not include our analysis of payments made from the Automated Voucher Examination Disbursing System because the file included payments made prior to the establishment of the CCR database. We also did not include our analysis of 7 payments from the Defense Integrated Subsistence Management System, and 10 payments from the Computerized Accounts Payable System for Windows (Columbus, Ohio), and 1,062 payments from MOCAS because these payments were pending at the time of our review. We did not review contract payments to determine if they were properly made using EFT. The sample selected could not be projected because the total population could not be determined.

We determined the status of a contractor's or vendor's registration in the CCR database at the time of payment by using payment data we obtained from MOCAS VPIS, VPIS, the payment systems, and hardcopy payment files to search the May 2000, and April through July 2001 CCR databases. We also searched the online version of the CCR database for a registration for the contractor or vendor. In addition, we reviewed laws and regulations applicable to contractor and vendor registration in the CCR database and EFT payments. We also interviewed DFAS personnel involved in the payment process.

We performed this audit from May 2001 through July 2002, in accordance with generally accepted government auditing standards.

Use of Technical Assistance. We obtained assistance from the IG DoD, Quantitative Methods Division, in selecting a judgmental sample of payments to review. Table A. shows the number of samples selected by pay location and pay system. The audit results were not projected to the population.

Computer-Processed Data. We relied on computer-processed data from the pay systems listed in Table A. Although we did not perform a formal reliability assessment of those systems, we determined that the payment information they contained generally agreed with hardcopy payment files. We did not find any errors that would preclude the use of the computer-processed data to meet the audit objectives or that would change the conclusions in the report.

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the Defense Financial Management 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 reviewed the adequacy of management controls over DoD processes and procedures for verifying that a contractor or vendor was registered in the CCR database prior to making payment at DFAS Contract Pay and DFAS Vendor Pay Sites and for making payments by EFT at DFAS Vendor Pay sites. We also reviewed management's self-evaluation applicable to those controls.

Adequacy of Management Controls. We identified material management control weaknesses as defined by DoD Instruction 5010.40. Controls over the DoD contract and vendor payment processes were not adequate to ensure that contractors and vendors were registered in the CCR database prior to receiving payment, that vendors were paid by EFT, and that contractors posed a valid TIN prior to payment. Specifically, inconsistent management controls between the DoD payment sites allowed for inconsistent payment practices. In addition, management controls were not in compliance with the Debt Collection Improvement Act of 1996 and the DoD Financial Management Regulation.

The recommendation in this report, if implemented, will improve controls over determining whether contractors are registered in the CCR database prior to making payment. A copy of the report will be provided to the senior official responsible for management controls in DFAS.

Adequacy of Management's Self-Evaluation. DFAS officials identified Contract Pay and Vendor Pay as assessable units. However, in their evaluation, DFAS did not identify or report the material control weaknesses that allowed contractors who were not registered in the CCR database to be paid and that allowed vendors to improperly be paid by check rather than by EFT.

In commenting on a draft of this report, DFAS Columbus Center non-concurred with our conclusion that the lack of controls over the DoD contract and vendor payment processes was a material weakness related to the commercial pay entitlement process. However, DFAS agreed that controls were needed to identify contractors that are not properly registered in the CCR prior to payment, and to ensure payments are withheld until proper registration is complete. DFAS plans to require Commercial Pay Business Line Activities to insert CCR controls in the appropriate assessable unit management control matrices to ensure continuous monitoring and compliance with the law until the issue is corrected. The management comments also outlined two system changes that will help address the problem. See the Management Comments section for a complete text of DFAS comments.

Appendix B. Prior Coverage

During the last 5 years, the General Accounting Office (GAO) and the IG DoD have issued six reports discussing vendor payments. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted IG DoD reports can be accessed at <http://www.dodig.osd.mil/audit/reports>.

GAO

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

IG DoD

IG DoD Report No. D-2002-113, “Controls Over the Computerized Accounts Payable System at Defense Finance and Accounting Service Columbus,” June 21, 2002

IG DoD Report No. D-2002-056, “Controls Over Vendor Payments Made for the Army and Defense Agencies Using the Computerized Accounts Payable System,” March 6, 2002

IG DoD Report No. D-2002-008, “Controls Over the Computerized Accounts Payable System at Defense Finance and Accounting Service Kansas City,” October 19, 2001

IG DoD Report No. D-2001-114, “DoD Contractor Debt Collection Process,” May 7, 2001

IG DoD Report No. D-2000-139, “Controls Over the Integrated Accounts Payable System,” June 5, 2000

IG DoD Audit Report No. 96-038, “Debt Collection and Deposit Controls in the Department of Defense,” December 11, 1995

IG DoD Report No. 95-234, “Department of Defense Compliance with Federal Tax Reporting Requirements,” June 14, 1995

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
 Director for Acquisition Initiatives
 Director, Defense Procurement
Under Secretary of Defense (Comptroller)/Chief Financial Officer
 Deputy Chief Financial Officer
 Deputy Comptroller (Program/Budget)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Auditor General, Department of the Navy

Department of the Air Force

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

Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE
COLUMBUS
P.O. BOX 182317
COLUMBUS, OHIO 43218-2317



DFAS-BS/CC

SEP 25 2002

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

SUBJECT: Management Comments to Department of Defense Inspector General (DoD-IG)
Draft Report, Project No, D2000FI-0151.001, " Validity of Registration in the
Central Contractor Registration Database," dated July 26, 2002

As requested in your July 26, 2002, memorandum, the subject audit report has been reviewed. Our comments to Recommendation A and the Management Control Program review are attached.

Finding B of the report contained no recommendations. Recommendations were withheld based on concurrence by the Office of the Secretary of Defense (Comptroller) to DoD-IG Report D-2002-113, and the subsequent updating of DoD Regulation 7000.14-R. The updates required the use of Electronic Funds Transfer (EFT) for all payments using vendor pay systems unless the requirement is properly waived in accordance with C.F.R. Section 208.4. Accordingly, DFAS has no additional comments related to Finding B.

If you have additional questions on this matter, please contact Mr. LerDon Woodfolk, DFAS-BSPC/CC, at DSN 869-6215 or 614 693-6215.

Sally A Smith
Director, Commercial Pay Services

Attachment
As stated

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Management Comments to Department of Defense Inspector General (DoD-IG) Draft Report, Project No, D2000FI-0151.001, "Validity of Registration in the Central Contractor Registration Database," dated July 26, 2002

Recommendation A: We recommend that the Director, Commercial Pay Services, Defense Finance and Accounting Service, establish procedures to withhold payments to contractors and vendors until they are properly registered with a valid Tax Identification Number in the Central Contractor Registration database.

Management Comments: Concur. A method and/or process is needed to ensure the Government's interest is protected from unlawful misappropriation of funds and ensuring proper Tax liabilities are accessed when disbursements are made to contractors/vendors that are not properly registered with a valid Tax Identification Number (TIN) in CCR. Although payments were not withheld and/or suspended due to incomplete and/or improper registration in CCR, the Commercial Pay Business Line (CPBL) mission of determining contractor/vendor entitlement was not significantly impaired, and fulfillment of the mission was not adversely jeopardized in relation to the 1, 297 payments reviewed by the DoD-IG. Payments were sent to the correct contractors/vendors and instances of erroneous or duplicate payments were not noted by the DoD-IG.

Ideally, the long-term solution is to implement a systemic means of identifying contractors/vendors not properly registered in the CCR prior to disbursement of funds. However, current system development and priorities related to funding availability and workload considerations will dictate whether this occurs. In the interim, the following processes are under consideration or have been implemented:

(1) **Contract Pay:** DFAS Columbus Center is defining, determining requirements, and assessing the impact on operations for a manual method using an existing query application (COGNOS) specific to MOCAS operations that will be designed to extract an exception report for contractors not properly registered with a valid TIN in CCR. This exception report will be the basis, after verification with CCR, of withholding contractor payments. A data extract of CCR will be performed, prior to the decision to implement the query, to assess the volume of contractors not having TINs recorded in CCR, which will assist the Center in gauging the manual effort required to perform the task. At a minimum, MOCAS daily disbursement reports, along with CCR, will be used to determine the feasibility of creating an exception report that will flag contractors not properly registered with a valid TIN in CCR. The MOCAS daily disbursement report that will be used in the query application has been identified; however, coordination related to obtaining the proper CCR Database downloads is in process.

As a long-term solution, we are investigating whether a system change can be made to automatically flag and suspend invoices for which contractors are not properly registered with a valid TIN in CCR. This includes determining programming functionality, availability of funding, status of new system developments, and the impact on the legacy system.

(2) **Vendor Pay:** Vendor Pay (VP) sites employ manual processes to identify contractors not properly registered in the CCR Database. Upon receipt of the invoice and before input of the invoice action, CCR/CEFT is verified to ensure the contractor is properly registered in the CCR Database. A form letter is used to return invoices to contractors that are not registered or are improperly registered in CCR. Prior to disbursement of the contractor's processed invoice, CCR/CEFT is also verified to ensure the CCR registration is still current and properly recorded. If the contractor's CCR registration is lapsed or not current, then the contractor's invoice disbursement is withheld until CCR information is updated.

Based on the current efforts to implement DCII and the volume of disbursement transactions reviewed and dollar impact for the VP sites that were noted as not having proper registration in CCR, we feel that a long-term systemic solution is not feasible nor considered a viable option at this time. The lack of proper CCR registration did not significantly impair vendor entitlement for the 298 Vendor Pay items reviewed by the DoD-IG, and fulfillment of the mission was not adversely jeopardized.

To ensure continuous monitoring and refinement of the functional processes, we will require the Commercial Pay Business Line include CCR inadequacy in the appropriate assessable unit Management Control (MC) matrices (used for Federal Manager's Financial Integrity Act compliance) to ensure continuous monitoring and compliance with the law.

Estimated Completion Date:

(1) **Contract Pay:** Receipt of the CCR data and development of the query will be completed by December 31, 2002. The decision to program functionality into MOCAS to systemically suspend payments of contractors not properly registered with a valid TIN in CCR will also be made by December 31, 2002. Preparation, review, and management approval of the Management Control matrices related to the CCR control weakness will be completed by December 31, 2002, as well.

(2) **Vendor Pay:** Continuous monitoring and refinement of manual processes related to ensuring contractors/vendors are properly registered with a valid TIN in CCR is an ongoing process. Preparation, review, and management approval of the Management Control matrices related to the CCR control weakness will be completed by December 31, 2002.

Additional Management Comments on the Management Control Program Review

Adequacy of Management Controls: The DoD-IG identified material management control weaknesses as defined by DoD Instruction 5010.40. Controls over the DoD contract and vendor payment processes were not adequate to ensure that contractors and vendors were registered in the CCR database prior to receiving payment, that vendors were paid by EFT, and that contractors posed a valid TIN prior to payment. Specifically, inconsistent management controls between the DoD payment sites allowed for inconsistent payment practices. In addition, management controls were not in compliance with the Debt Collection Improvement Act of 1996 and the DoD Financial Management Regulation.

Management Comments: As prescribed by FAR 52.232.33, Payment by Electronic Funds Transfer, the Contracting Officer retains the responsibility to ensure that contractors register in Central Contractor Register (CCR). DFAS Columbus Center non-concurs with the classification of a material weakness related to the Central Contractor Registration (CCR) Database and the impact on the Commercial Pay entitlement processes. However, a control issue exists, related to not having a method or process to identify contractors that are not properly registered in CCR prior to payment, and not withholding those payments until proper registration is complete. As previously stated in Recommendation A management comments, DFAS will require Commercial Pay Business Line Activities to insert CCR controls in the appropriate assessable unit MC matrices to ensure continuous monitoring and compliance with the law until the issue is corrected via a manual or systemic process change.

During the course of the audit (May 2001 through July 2002), two system changes (UYF018-28 and UYF019-28) were implemented in MOCAS related to CCR and Remit-to/EFT Addresses. A synopsis of these SCRs follows:

(1) CCR Remittance Advice SCR (UYF018-028) System Change Request, Phase I:

The CCR is the primary database for current, accurate, and complete contractor and vendor information. This System/Subsystem Specification (SSS) identified specific system requirements for the processing and maintenance (in MOCAS) of the CCR EFT data received from the CCR Database, which serves as central repository for contractor business information and modifications. This information is used to update MOCAS EFT records. Phase I was installed in all MOCAS databases in August 2001.

(2) CCR Remittance Advice SCR (UYF019-028) System Change Request, Phase II:

This SCR created a new database to store remittance address information received from CCR. The program added additional Remit-to functionality; new screens which allow additions, changes, deletions, and inquiries; Contractor and Government Entity (CAGE) code Remit-to address information; and new reports containing valid and invalid remit-to transactions. The program expanded the TB0227 table of country codes to accommodate country codes received from CCR, and created the UPA35OR report, which lists mass changes in Organization Codes and mailing addresses for prior Contract Management offices. Phase II was installed in all MOCAS databases in August 2002.

Team Members

The Defense Financial Auditing Service, Office of the Assistant Inspector General 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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