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United States
Department of Defense



Controls Over Air Combat Command and
Pacific Air Forces Unliquidated Obligations from
Department of the Air Force Contracts
Supporting Contingency Operations

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Acronyms and Abbreviations

ACC	Air Combat Command
AFAA	Air Force Audit Agency
AFALO	Air Force Accounting Liaison Office
AFB	Air Force Base
CPTS	Comptroller Squadron
DFAS	Defense Finance and Accounting Service
ESP	Emergency and Special Program
FMR	Financial Management Regulation
GAFS	General Accounting and Finance System
GWOT	Global War on Terror
PACAF	Pacific Air Forces
SAF/FM	Office of the Assistant Secretary of the Air Force for Financial Management and Comptroller
SIGIR	Special Inspector General for Iraq Reconstruction
ULO	Unliquidated Obligation



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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September 29, 2009

MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE FOR
FINANCIAL MANAGEMENT AND COMPTROLLER
COMMANDER, AIR COMBAT COMMAND
COMMANDER, PACIFIC AIR FORCES
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
DIRECTOR, AIR FORCE ACCOUNTING AND FINANCE
OFFICE

SUBJECT: Controls Over Air Combat Command and Pacific Air Forces Unliquidated
Obligations from Department of the Air Force Contracts Supporting
Contingency Operations (Report No. D-2009-117)

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

DOD Directive 7650.3 requires that all recommendations be resolved promptly. The Assistant Secretary of the Air Force for Financial Management and Comptroller comments were partially responsive. In addition, the Director, Defense Finance and Accounting Service Limestone, comments were not responsive. Therefore, we request additional comments on Recommendations A.2 and B by October 29, 2009.

If possible, send a .pdf file containing your comments to audclev@dodig.mil. Copies of your comments must have the actual signature of the authorizing official for your organization. We are unable to accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We changed the title of this report to exclude the term "Global War on Terror" (GWOT). We replaced it with "contingency operations." Throughout the report, we use the term Global War on Terror because this was the commonly used term during the time of the audit.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5868.

Patricia A. Marsh

Patricia A. Marsh, CPA
Assistant Inspector General
Defense Business Operations



Results in Brief: Controls Over Air Combat Command and Pacific Air Forces Unliquidated Obligations from Department of the Air Force Contracts Supporting Contingency Operations

What We Did

Our audit objective was to determine whether the Defense Finance and Accounting Service (DFAS), Air Combat Command, Pacific Air Forces, and the Air Force properly accounted for and deobligated unliquidated obligations (ULOs) on contracts supporting the Global War on Terror. This report is the second in a series that addresses ULOs on Air Force contracts.

What We Found

DFAS Limestone and Japan incorrectly coded 30 of 115 ULOs as "valid." DFAS Limestone and Japan did not adequately review the period of performance and did not coordinate with contracting officers or fundholders to resolve the cause of the unliquidated balances. As a result, the Air Force needs to deobligate approximately \$1.7 million. Since the audit began, the Air Force has deobligated over \$524,000 (finding A).

The Office of the Assistant Secretary of the Air Force for Financial Management and Comptroller (SAF/FM) failed to identify the fundholders that did not validate all ULOs during the FY 2009 first period tri-annual review. It did not support its confirmation statement either with the progress and management reports or with the subordinate commands' review. As a result, the Air Force is at an increased risk of losing funds that are not deobligated in a timely manner (finding B).

DFAS and Air Force internal controls were not effective. DFAS Limestone and Japan did not provide adequate oversight over the validation of ULOs. In addition, the SAF/FM did not have adequate controls over the preparation of the Air Force confirmation statements.

What We Recommend

The SAF/FM should deobligate approximately \$1.2 million on three ULOs; investigate potential Antideficiency Act violations and initiate appropriate administrative actions based on the results of the review; and verify that the confirmation statement accurately reports the review of ULOs by utilizing the DFAS progress and management reports and the Air Force major commands' confirmation statements.

The Director, DFAS Limestone, should establish a plan to ensure that DFAS Limestone users review the period of performance when reviewing and validating ULOs.

Management Comments and Our Response

The Deputy Assistant Secretary for Financial Operations generally agreed. She plans to direct the Air Combat Command and Pacific Air Forces to review the specified delivery orders, and is reviewing the potential Antideficiency Act violation. The Deputy will evaluate the availability of the progress reports. We received the reports prior to the SAF/FM preparing its confirmation statement.

The Director, DFAS Limestone, disagreed with the recommendation and stated it is the Air Force's responsibility to review the period of performance. We believe the DFAS period of performance review is necessary because DFAS Limestone does not provide all ULOs to the Air Force fundholders for further review.

We request that the SAF/FM and the Director, DFAS Limestone, reconsider their positions and provide additional comments by October 29, 2009. Please see the recommendations table on the back of this page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Assistant Secretary of the Air Force for Financial Management and Comptroller	B	A.1.a, A.1.b
Director, Defense Finance and Accounting Service Limestone	A.2	

Please provide comments by October 29, 2009.

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Introduction

Objective

Our audit objective was to determine whether the Defense Finance and Accounting Service (DFAS), Air Combat Command (ACC), Pacific Air Forces (PACAF), and the Air Force properly accounted for and deobligated unliquidated obligations (ULOs) on contracts supporting the Global War on Terror (GWOT).¹ This report is the second in a series that addresses ULOs on Department of the Air Force contracts supporting GWOT. See Appendix A for a discussion of the scope and methodology and prior coverage related to the objective and Appendix B for a discussion of the coding of ULOs.

Background

Following the terrorist attacks of September 11, 2001, the United States initiated military operations to combat terrorism in the United States, Iraq, and Afghanistan. Since the September 11 attacks, Congress has approved approximately \$864 billion in supplemental appropriations, regular appropriations, and continuing resolutions for war-related costs. The funds were designated for military operations, base security, reconstruction, foreign aid, embassy costs, and veterans' health care. As of September 2008, the DOD monthly obligations for GWOT averaged \$10.9 billion for Iraq and \$2.7 billion for Afghanistan. The Air Force Center for Engineering and the Environment has awarded approximately \$4 billion of these funds for reconstruction projects in Iraq and Afghanistan. We reviewed ACC and PACAF ULOs related to 17 Air Force Center for Engineering and the Environment contracts.

Obligation Process

An obligation is the amount of an order placed, contract awarded, or service received during an accounting period that requires future payment. It is recorded when an authorized agent of the Federal Government enters into a legally binding agreement to purchase specific goods or services. The recorded obligation is reduced by the amount of payments made as bills are received. The obligated balance still owed is the ULO balance. When all services or goods have been received and paid for, the obligation is considered "liquidated," and any remaining ULO balance should be deobligated. The

¹ Please see the memorandum at the beginning of this report for an explanation of this term and the change to the title.

funds would then be available for other uses. However, the funds can only be obligated in the fiscal year(s) for which they are available or used for adjustments to or payments of existing obligations.

Tri-Annual Review Guidance

The DOD Financial Management Regulation (FMR), volume 3, chapter 8, “Standards for Recording and Reviewing Commitments and Obligations,” November 2000, implemented a tri-annual review process that requires fundholders² and supporting accounting offices to monitor obligations and review and validate all ULOs over three tri-annual review periods for timeliness, accuracy, and completeness. To properly validate a ULO, DFAS or the fundholder must verify that there is documentary evidence to support the continued need for the obligation and any remaining funds. In addition, the DOD FMR requires fundholders to maintain adequate documentation supporting those reviews for 24 months. The fundholders must also complete a signed confirmation statement that they reviewed the accuracy and completeness of the recorded amounts.

Fundholders are responsible for confirming to the Office of the Assistant Secretary of the Air Force for Financial Management and Comptroller (SAF/FM) that they conducted tri-annual obligation reviews. The Air Force and DFAS personnel share responsibility of the ULO review. DFAS Denver, in conjunction with the Air Force Accounting and Finance Office, developed the DFAS Denver 7220.4-G, “Tri-Annual Review Program,” March 2008 (DFAS Denver 7220.4-G), to implement tri-annual review procedures. DFAS Denver 7220.4-G requires each of its field sites and Air Force users³ to complete portions of the tri-annual review and maintain supporting documentation for 24 months after the tri-annual review period. These reviews provide the basis for certifying the percentage of ULOs reviewed and validated on DFAS and Air Force confirmation statements. These statements must confirm that DFAS or the Air Force fundholders matched validated obligations to a hard copy or an electronic source document. In the event that the Air Force fundholder does not provide a confirmation statement supporting a 100-percent review and validation, the fundholder must provide a full explanation and document any corrective actions taken.

Tri-Annual Review Process

The Air Force’s tri-annual review process begins when the DFAS tri-annual review administrator provides the ULO information from the General Accounting and Finance System (GAFS)⁴ to the DFAS users. While DFAS users are reviewing and validating their assigned lines, the Air Force Accounting Liaison Office (AFALO) receives a file from DFAS containing the ULOs for the Air Force to review. DFAS users review contractual obligations, and the Air Force fundholders review miscellaneous obligations. DFAS users and Air Force fundholders must review and properly code the ULOs to describe the status of the ULO review. Air Force fundholders must use the standard base

² A fundholder is the comptroller/fiscal officer of an organization that is issued a formal subdivision of funds.

³ Users are DFAS or Air Force personnel who conduct portions of the tri-annual review.

⁴ GAFS is the primary Air Force financial accounting system maintaining official accounting records.

codes established within DFAS Denver 7220.4-G to identify the obligation status. Obligations can be “valid,” “invalid,” “no longer needed,” or “require additional action.” See Appendix C for additional information on the DFAS and Air Force responsibilities for reviewing these ULOs.

Review of Internal Controls

We determined that internal control weaknesses existed in the Air Force tri-annual review process as defined by DOD Instruction 5010.40, “Managers’ Internal Control (MIC) Program Procedures,” January 4, 2006. The SAF/FM did not have adequate internal controls over the preparation of Air Force confirmation statements. In addition, DFAS Limestone and DFAS Japan did not perform adequate oversight over the review and validation of ULOs. Implementing recommendation B will improve the accuracy and completeness of the Air Force confirmation statement and recommendation A.2 will improve the DFAS Limestone and Air Force tri-annual review process. We will provide a copy of the final report to the senior Department of the Air Force and DFAS officials responsible for internal controls.

Finding A. Defense Finance and Accounting Service Review of Unliquidated Obligations

DFAS Limestone and DFAS Japan incorrectly coded 30 of 115 ULOs as “valid.” DFAS Limestone and DFAS Japan did not adequately review the period of performance as required by the DFAS Denver 7220.4-G and did not effectively coordinate with contracting officers or Air Force fundholders to resolve the cause of the unliquidated balances. As a result, the Air Force needs to deobligate approximately \$1.7 million and put the funds to better use. Since the audit began, the Air Force has deobligated over \$524,000.

Tri-Annual Review

We chose to review the DFAS Limestone, DFAS Japan, ACC, and PACAF tri-annual review processes. ACC and PACAF, Air Force major commands, allocated funds to 21 fundholders at 18 Air Force bases (AFBs) for the 115 ULOs. DFAS Limestone and DFAS Japan were responsible for reviewing the validity of all 115 selected contractual ULOs in the FY 2009 first period tri-annual review for the ACC and PACAF commands. The table identifies the DFAS office, the AFB/AFALO, and Air Force fundholder responsible for the ULOs.

DFAS and Air Force Fundholder Locations

DFAS Location	AFB/AFALO	Fundholder
Japan	Andersen	36 th Wing
Japan	Kadena	18 th Wing
Japan	Kunsan	8 th Fighter Wing
Japan	Osan	51 st Fighter Wing
Japan	Yokota	374 th Airlift Wing
Limestone	Beale	9 th Comptroller Squadron
Limestone	Davis-Monthan	12 th Air Force
Limestone	Davis-Monthan	355 th Wing
Limestone	Eielson	354 th Fighter Wing
Limestone	Ellsworth	28 th Comptroller Squadron
Limestone	Elmendorf	3 rd Comptroller Squadron
Limestone	Elmendorf	11 th Air Force
Limestone	Hickam	Headquarters, PACAF
Limestone	Hickam	15 th Air Base Wing
Limestone	Holloman	49 th Comptroller Squadron
Limestone	Langley	1 st Comptroller Squadron
Limestone	Nellis	99 th Comptroller Squadron
Limestone	Offutt	55 th Comptroller Squadron
Limestone	Seymour-Johnson	4 th Comptroller Squadron
Limestone	Shaw	9 th Air Force
Limestone	Whiteman	509 th Comptroller Squadron

DFAS Monitoring of Unliquidated Obligations

DFAS Limestone and DFAS Japan incorrectly coded 30 of 115 ULOs as valid because they did not follow the guidance in DFAS Denver 7220.4-G. DFAS Denver 7220.4-G requires a review of the terms and scope of the contract, which includes determining whether the period of performance for the good or service has expired. The period of performance is the time required to complete work defined in a statement of work. It can be revised only through an agreement between a contractor and a contracting officer, who must issue a formal contract modification. If the period of performance has expired, the DFAS Denver 7220.4-G also requires coordination to determine whether the good or service is still needed.

Period of Performance

DFAS Limestone and DFAS Japan did not review the period of performance for 30 ULOs. DFAS Limestone does not perform oversight to ensure that DFAS users review the period of performance when validating ULOs. The tri-annual review administrator stated that DFAS Limestone is only responsible for validating the contract balance and coordinating with the Air Force fundholder on a dormant ULO. The Director, DFAS Limestone, and the Director, DFAS Japan, should require DFAS users to follow the DFAS Denver 7220.4-G and review the performance period when validating ULO balances.

The following two delivery orders demonstrate why DFAS should review the period of performance of the ULOs. See Appendix D for a complete list of the 30 ULOs and approximately \$1.7 million in associated deobligation amounts.

FA8903-04-D-8676, Delivery Order 0078AA

DFAS Limestone reviewed the ULO balance of \$327,608.36 on contract FA8903-04-D-8676, delivery order 0078, accounting classification reference number AA, and determined that the ULO was valid without verifying the period of performance or contacting the fundholder or contracting office. As part of its review, DFAS Limestone provided documentation indicating that the period of performance had expired in January 2008. Its review did not include verifying whether additional contract modifications extending the period of performance existed or communicating with the fundholder or contracting office to determine whether the Air Force still needed the funds.

Our review indicated that excess funds were available for deobligation. Specifically, our review of the contract modifications and coordination with the Air Force fundholder identified that the period of performance had expired, no additional payments would be made, and that the funds were no longer needed. An Air Force official stated that the Defense Contract Management Agency was in the process of issuing a contract modification to deobligate the remaining funds. However, Defense Contract Management Agency may delay issuing the modification until the Defense Contract Audit Agency completes an audit of the delivery order. Based on the results of our audit,

the Air Force deobligated \$300,000 and should deobligate as much as an additional \$27,608.36.

FA8903-04-D-8681, Delivery Order SK04

DFAS Limestone reviewed the ULO balance of \$603,381.39 on contract FA8903-04-D-8681, delivery order SK04, and determined that the ULO was valid without verifying the period of performance or contacting the fundholder or contracting office. As part of its review, DFAS Limestone provided documentation that did not indicate when the period of performance expired. Its review did not include verifying whether additional contract modifications extending the period of performance existed or communicating with the fundholder or contracting office to determine whether the Air Force still needed the funds.

Our review indicated that the prior-year funds had expired and that excess funds were available for deobligation. Specifically, our review of the ULO disclosed that Air Force contracting personnel at the Air Force Civil Engineer Support Agency, Tyndall AFB used an expired appropriation to pay \$412,902.00 for work that was outside the scope of the original statement of work. In FY 2005, the 49th Comptroller Squadron (CPTS), Holloman AFB, funded the installation of a fire-suppression system in two buildings at Holloman AFB. In January 2007, the contracting officer revised the statement of work to delete the foam suppression improvements and add improvements to another building. The contracting officer and Holloman AFB officials incorrectly funded the FY 2007 improvements with the original FY 2005 Operation and Maintenance funds. If an appropriation has expired, the funds are limited to within-scope adjustments to the original obligation and disbursements related to services provided during the period of availability. Because Operation and Maintenance funds expire after one year, the contracting officer should have funded the new work with FY 2007 funds. The contracting officer's actions violated section 1502(a), title 31, United States Code.⁵ In addition, the deletion of the foam suppression work resulted in excess funds of \$56,763.00 remaining on the delivery order. The contracting officer did not deobligate these funds and return them to the DOD, but instead kept the funds to pay for future improvements. In March 2009, the contracting officer stated that a contract modification would be issued to deobligate the excess funds. However, as of February 2009, no excess funds remained on the order. The Air Force should have deobligated \$412,902.00 for work outside the scope of the original contract and \$56,763.00 for the deletion of the foam suppression improvements. The Air Force should investigate the potential Antideficiency Act violations in accordance with the DOD FMR, volume 14, chapter 3, "Preliminary Reviews of Potential Violations," February 2008.

⁵ Section 1502(a), title 31, United States Code states appropriated funds can only be obligated in the fiscal year(s) for which they are available or to complete contracts properly made within the appropriation's period of availability. It is not available for expenditure beyond the period of availability unless authorized by law.

Conclusion

The Air Force needs to deobligate approximately \$1.7 million of invalid ULO balances and put the funds to better use. To effectively perform a tri-annual review and identify possible deobligations or potential violations of laws and regulations, DFAS Limestone, DFAS Japan, and Air Force fundholders must understand the contract terms on which Air Force funds are obligated. Communication between DFAS, the Air Force fundholder, and the contract offices is critical and will ensure that the period of performance is valid and that requests for deobligation are processed in a timely manner.

Management Actions

After we communicated our concerns about not reviewing the period of performance to DFAS Japan management, they revised their standard operating procedures to include this review. If the period of performance has expired, DFAS Japan's procedures require DFAS to ask the Air Force about the remaining ULO balance. Because DFAS Japan provided the revised standard operating procedures to review the period of performance, we do not plan to make a recommendation to DFAS Japan regarding period of performance reviews.

After we communicated our concerns about the invalid ULO balances to ACC and PACAF officials, the Air Force deobligated a portion of the ULO balances. Of the \$1.7 million, the Air Force has taken action to deobligate \$524,937.34.

Recommendations, Management Comments, and Our Response

A.1. We recommend that the Assistant Secretary of the Air Force for Financial Management and Comptroller:

a. Deobligate \$1,156,411.65 on three unliquidated obligations that are not "valid" (see Appendix D for a list of the unliquidated obligations reviewed and associated deobligation amounts).

Management Comments

The Deputy Assistant Secretary for Financial Operations commented on behalf of the SAF/FM. The Deputy agreed and plans to direct ACC and PACAF to review the specified delivery orders and to take any necessary action following the review. The estimated completion date for this planned action is January 2010.

Our Response

The Deputy Assistant Secretary for Financial Operations comments are responsive, conform to requirements, and the planned actions meet the intent of the recommendation; no additional comments are required.

b. Investigate the potential violations of the Antideficiency Act related to contract FA8903-04-D-8681, delivery order SK04 and initiate appropriate administrative actions based on the results of the review.

Management Comments

The Deputy Assistant Secretary for Financial Operations commented on behalf of the SAF/FM. The Deputy agreed and stated a review of the potential Antideficiency Act violation is ongoing. The Directorate of Accounting, Policy, and Reporting will take any necessary administrative action following the review. The estimated completion date for this planned action is December 2009.

Our Response

The Deputy Assistant Secretary for Financial Operations comments are responsive, conform to requirements, and meet the intent of the recommendation; no additional comments are required.

A.2. We recommend that the Director, Defense Finance and Accounting Service Limestone establish a plan to ensure that all Defense Finance and Accounting Service Limestone users review the period of performance when reviewing and validating unliquidated obligations.

Management Comments

The Director, DFAS Limestone, disagreed and stated the DOD FMR 7000.14-R volume 3, chapter 8, does not specifically require tri-annual reviewers to validate the period of performance. In addition, the Director stated that DFAS Denver 7220.4-G, chapter C7.1.1.3, cites the review of terms and scope of the contract as the responsibility of the Financial Management Analysis/Accounting Liaison Office. According to the Director, the DFAS tri-annual reviewer codes obligations more than 120 days old as “N” and forwards those obligations to the AFALO for action. He added that the Air Force fundholders would then be responsible for reviewing the scope of the contract.

Our Response

The Director, DFAS Limestone, comments are not responsive. While not explicitly requiring the DFAS users to review the period of performance, the DoD FMR and DFAS Denver 7220.4-G require that ULOs be validated. We believe the validation of ULOs requires a review of the terms and scope of the contract to include a review of whether the delivery or performance date has expired. If either of these dates has expired, a ULO cannot be considered valid without further research. In our sample, DFAS Limestone deemed 63 of 71 (89 percent) ULOs as valid (Code A) and did not provide them to the Air Force fundholder for further review. Of these 63, 19 (30 percent) did not have a valid period of performance. If DFAS Limestone reviewed the period of performance for the two examples discussed in our report, they would have identified an expired period of performance. They would then have provided the ULOs to the Air Force for further research and possibly a timelier deobligation of funds would have occurred.

In order to strengthen controls over the tri-annual review process and ensure that ULOs are identified and deobligated in a timely manner, DFAS Limestone users should review the period of performance when reviewing and validating ULOs for the Air Force. During this audit, DFAS Japan immediately revised their standard operating procedures to include a review of the period of performance to validate ULOs. The addition of this internal control at DFAS Limestone will ensure that Air Force funds are deobligated as soon as possible and will ensure consistency across DFAS locations performing ULO reviews. We are not aware of any ULOs reported as code “N” and code “N” is not listed as a valid code in DFAS Denver 7220.4-G. DFAS Denver 7220.4-G indicates that code “M” is to be used for obligations more than 120 days old. We request that the Director, DFAS Limestone, reconsider its position on the recommendation and provide comments on the final report.

Finding B. Air Force Tri-Annual Review Process

The SAF/FM failed to identify the fundholders that did not validate all ULOs during the FY 2009 first period tri-annual review. Specifically, the SAF/FM did not identify that at least 11.2 percent (12,618 of 112,843) of ULOs were not validated. The SAF/FM did not support its confirmation statement with either progress and management reports or the reviews of the subordinate commands. As a result, the Air Force is at an increased risk of losing funds that are not deobligated in a timely manner.

DFAS Management Reports

Following each tri-annual review period, DFAS has the ability to generate progress and management reports from the Tri-Annual Review Program database. These reports provide the status of ULOs reviewed and validated by DFAS and Air Force fundholders. The SAF/FM, DFAS representatives, Air Force fundholders, and AFALOs can use reports prepared from this database. Two reports available for their use include the “Percent Complete by Site Code by Operating Location Code” and the “Total Base Lines Not Receiving Air Force Response.” According to DFAS Denver 7220.4-G, the “Percent Complete by Site Code by Operating Location Code” report indicates the percentage of DFAS ULOs reviewed and validated. The “Total Base Lines Not Receiving Air Force Response” report indicates the total number of ULOs not reviewed by Air Force fundholders.

Air Force Tri-Annual Review Confirmation Statement

The SAF/FM failed to identify the fundholders that did not validate at least 11.2 percent of ULOs during the FY 2009 first period tri-annual review. The SAF/FM prepared a confirmation statement and provided that statement to the Under Secretary of Defense (Comptroller)/DOD Chief Financial Officer. The confirmation statement should identify any fundholder that is unable to complete a 100-percent review and provide an accurate representation of the ULOs reviewed and validated by the Air Force.

Air Force Review of Management Reports

The SAF/FM failed to identify the fundholders because it did not verify that the DFAS Progress Status Report and the Tri-Annual Review Results supported its confirmation statement. The Acting SAF/FM signed a confirmation statement for the FY 2009 first period tri-annual review and provided that statement to the Under Secretary of Defense (Comptroller)/DOD Chief Financial Officer. The statement indicated that the Air Force conducted all obligation reviews. However, this statement did not match the DFAS Progress Status Report. The report indicated that DFAS Limestone, DFAS Japan, and the Air Force fundholders did not validate 11.2 percent (12,618 of 112,843) of their ULOs. In addition, the Tri-Annual Review Results indicated that Air Force fundholders did not review and validate an additional 471 ULOs. The SAF/FM should use the progress and management reports when confirming the Air Force tri-annual review.

Air Force Confirmation Statements

The SAF/FM also failed to report that six AFBs did not complete the required review. The Air Force major commands prepare confirmation statements each tri-annual review period and provide those statements to the Director, Air Force Accounting and Finance Office, an office within SAF/FM. The PACAF Comptroller indicated in its confirmation statement that five AFBs did not validate all obligations to source documents. The ACC Comptroller indicated in its confirmation statement that one AFB did not validate all ULOs. However, the SAF/FM reported that the Air Force did conduct all obligation reviews and the FY 2009 first period tri-annual review was complete. The SAF/FM should use the major commands' confirmation statements to ensure its confirmation statement is accurate and complete.

Conclusion

Because of inadequate internal controls over Air Force reporting, the Under Secretary of Defense (Comptroller)/DOD Chief Financial Officer lacked the necessary information to make decisions related to the use of DOD funds. Erroneous reporting could increase the risk that funds are unavailable for other needs because the Air Force may not identify funds for deobligation in a timely manner. The erroneous reporting could also lead to an inaccurate conclusion that a continued need exists for all ULO amounts. The SAF/FM needs to use available progress and management reports and Air Force Major Command confirmation statements to verify the completion of the ULO review.

Recommendation, Management Comments, and Our Response

B. We recommend that the Assistant Secretary of the Air Force for Financial Management and Comptroller verify that the Air Force confirmation statement accurately reports the review of unliquidated obligations by comparing its confirmation statement to the Defense Finance and Accounting Service progress and management reports and to the confirmation statements of the Air Force major commands.

Management Comments

The Deputy Assistant Secretary for Financial Operations commented on behalf of the SAF/FM. The Deputy agreed and stated that the Director of the Air Force Accounting and Finance Office and the Director of DFAS Columbus will evaluate the possibility of making the progress reports available to the Air Force installations during the tri-annual review period for comparison before preparing the Air Force confirmation statement.

Our Response

Although the Deputy agreed with the recommendation, we consider the comments partially responsive. Conducting a feasibility study to determine if the reports are available to the Air Force installations will not adequately ensure that the SAF/FM confirmation statement is accurate and complete. We believe that the accessibility of the reports prior to preparing the SAF/FM confirmation statement is feasible and is a

necessary control to ensure accuracy. For this audit, we received the progress and management reports as early as 3 days and no more than 12 days after the end of the tri-annual review period. This was more than 30 days prior to the date on the signed SAF/FM confirmation statement. The SAF/FM would have ample time to consider the results of the progress and management reports prior to signing their confirmation statement. Therefore, we request that the SAF/FM reconsider its position on the recommendation and provide comments on the final report.

In addition, the recommendation required the SAF/FM to compare their confirmation statement to the confirmation statements of the Air Force major commands. The Deputy Assistant Secretary for Financial Operations did not address this portion of the recommendation. Therefore, we request that the SAF/FM provide comments in response to the final report that will address the comparison of the Air Force major commands and the SAF/FM confirmation statement.

Appendix A. Scope and Methodology

We conducted this performance audit from January 2009 through July 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The audit focused on Department of the Air Force ULOs for contracts supporting GWOT. The audit team attempted to identify a listing of GWOT contracts; however, officials at the Office of the Assistant Secretary of the Air Force for Acquisition indicated that it was not possible to provide an all-inclusive list of GWOT contracts. The Air Force can identify the contracts' place of performance, such as Iraq or Afghanistan, but this would not identify the contracts that supported GWOT when the work occurred in another location.

In the financial system, an emergency and special program (ESP) code identifies costs associated with emergency responses or in support of special programs. There are multiple ESP codes, which identify costs related to GWOT. However, a finance officer at the Office of the Assistant Secretary of the Air Force for Financial Management and Budget Operations and two prior audit reports stated that Air Force officials do not always include the required ESP code in their line of accounting or use the correct ESP code to indicate funds expended in support of GWOT. Because of the unreliability of the ESP codes to track obligations incurred to support GWOT, we made the determination to identify contracts that had a place of performance in Iraq or Afghanistan. We reviewed a Federal Procurement Data System-Next Generation list of the top 100 contracts for FY 2004 through FY 2006 and found that the Department of the Air Force had awarded 20 of the contracts that were on the top 100 list. Of these 20, the Air Force Center for Engineering and the Environment at Brooks City Base, Texas, awarded 17. We chose to review selected major commands with a high dollar value of ULO balances related to the 17 Brooks City Base contracts.

DFAS Limestone and DFAS Japan provided the FY 2009 first period tri-annual review file, which contained a list of ULOs. For the 17 contracts awarded by the Air Force Center for Engineering and the Environment, the tri-annual review file contained 510 ULOs totaling approximately \$193 million. We judgmentally selected ULOs greater than \$100,000 and selected ACC and PACAF as the Major Commands. This sample encompassed 44 ACC ULOs and 71 PACAF ULOs, valued at approximately \$75 million.

To accomplish the audit objectives, we met with the following offices and reviewed the following data.

- We accessed the Electronic Document Access system to download contracts, orders, and modifications related to our sample.
- We communicated with representatives from the following offices to identify the policies and procedures in place for management controls over ULOs, document the tri-annual review process, and assist in the validation of the 115 ULO balances:

- o SAF/FM
 - o Assistant Secretary of the Air Force for Acquisition
 - o DFAS Limestone
 - o DFAS Japan
 - o DFAS Denver
 - o Air Force Accounting and Finance Office
 - o ACC
 - o PACAF
 - o 36th Wing, Andersen AFB
 - o 8th Fighter Wing, Kunsan Air Base
 - o 51st Fighter Wing, Osan Air Base
 - o 374th Airlift Wing, Yokota Air Base
 - o 18th Wing, Kadena Air Base
 - o Headquarters PACAF, Hickam AFB
 - o 15th Air Base Wing, Hickam AFB
 - o 3rd CPTS, Elmendorf AFB
 - o 11th Air Force, Elmendorf AFB
 - o 354th Fighter Wing, Eielson AFB
 - o 1st CPTS, Langley AFB
 - o 9th CPTS, Beale AFB
 - o 99th CPTS, Nellis AFB
 - o 4th CPTS, Seymour-Johnson AFB
 - o 9th Air Force, Shaw AFB
 - o 49th CPTS, Holloman AFB
 - o 355th Wing, Davis-Monthan AFB
 - o 12th Air Force, Davis-Monthan AFB
 - o 55th CPTS, Offutt AFB
 - o 28th CPTS, Ellsworth AFB
 - o 509th CPTS, Whiteman AFB.
- We reviewed tri-annual review files, contract delivery orders, contract modifications, vouchers, Commander's Resource Information System* transaction history reports, Integrated Accounts Payable System reports, and Mechanization of Contract Administration Services reports to determine whether the organization responsible for reviewing the 115 ULOs during the tri-annual review followed DOD guidance and whether the ULO amounts were valid.
 - We reviewed applicable laws and regulations, including the DOD FMR and the DFAS Denver 7220.4-G. We reviewed these to determine the procedures for performing tri-annual reviews and to identify supporting documentation requirements.

* The Commander's Resource Information System is an inquiry system; the information is derived from GAFS.

Use of Computer-Processed Data

To perform this audit, we used data from GAFS, Integrated Accounts Payable System, Mechanization of Contract Administration Services, Electronic Document Access, and the Federal Procurement Data System. GAFS is the official Air Force financial accounting system. The Integrated Accounts Payable System and Mechanization of Contract Administration Services are source systems that provide information on obligation and expenditure amounts. The Electronic Document Access system stores contracts, contract orders, and contract modifications. The Federal Procurement Data System collects procurement data. We used the data to determine the sample of ULOs for our review and to determine validity of the 115 ULO balances. We compared GAFS data to source system data and source documents such as contract delivery orders, contract modifications, vouchers, and voucher lists. This assessment indicated that the data was sufficiently reliable to accurately reflect the recorded obligations and disbursement amounts for the purpose of our review.

Prior Coverage

During the last 5 years, the DOD Inspector General (IG), Special Inspector General for Iraq Reconstruction (SIGIR), and the Air Force Audit Agency (AFAA) have issued nine reports discussing topics related to ULOs and tri-annual reviews. Unrestricted DOD IG reports can be accessed over the Internet at <http://www.dodig.mil/audit/reports>. Unrestricted SIGIR reports can be accessed at <http://www.sigir.mil/reports/audit.aspx>. Air Force Audit Agency reports can be accessed from .mil domains over the Internet at <https://www.af.mil/afknprod/ASPs/cop/Entry.asp?Filter=OO> by those with Common Access Cards who create user accounts.

DOD IG

DOD IG Report No. D-2009-067, “Controls Over Air Force Materiel Command Unliquidated Obligations on Department of the Air Force Contracts Supporting the Global War on Terror,” April 3, 2009

DOD IG Report No. D-2008-026, “Management of the Iraq Security Forces Fund in Southwest Asia – Phase III,” November 30, 2007

DOD IG Report No. D-2008-027, “Air Force Use of Global War on Terrorism Supplemental Funding Provided for Procurement and Research, Development, Test, and Evaluation,” November 21, 2007

DOD IG Report No. D-2006-085, “Vendor Pay Disbursement Cycle, Air Force General Fund: Funds Control,” May 15, 2006

SIGIR

SIGIR Report No. 07-011, “Controls Over Unliquidated Obligations in the Iraq Relief and Reconstruction Fund,” October 23, 2007

AFAA

AFAA Report No. F2008-0007-FC2000, "Foreign Military Sales Unliquidated Obligations,"
April 29, 2008

AFAA Report No. F2008-0001-FB3000, "Air Force General Fund Tri-Annual Review Process,"
April 28, 2008

AFAA Report No. F2005-0011-FB1000, "Global War on Terrorism Funds Management,"
June 20, 2005

AFAA Report No. F2005-0010-FB1000, "Air Force Reserve Unliquidated Obligations,"
June 17, 2005

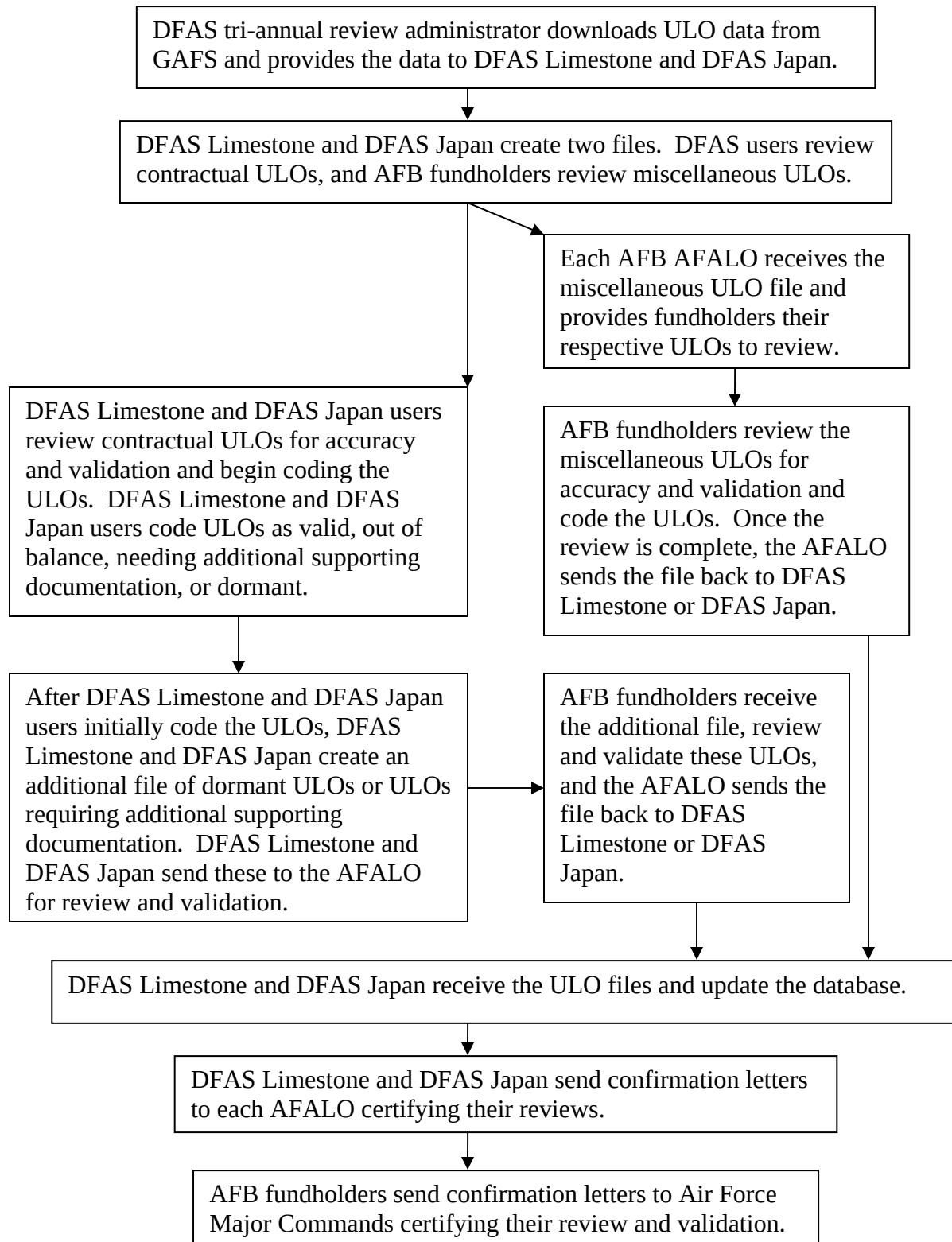
Appendix B. Coding Unliquidated Obligations

Air Force fundholders did not accurately report the number of ULOs that require additional research on their confirmation statements because the DFAS Denver 7220.4-G contains conflicting guidance. DFAS Denver 7220.4-G provides conflicting definitions for codes used to identify obligations as not validated and requiring additional research. Chapter 6 of DFAS Denver 7220.4-G states that fundholders should use code “R” to identify valid obligations. However, chapter 7 of that same guidance says to use code “R” to indicate when research on a ULO is ongoing, and deobligation of the funds cannot occur until research is complete. In addition, chapter 5 states that fundholders must code ULOs requiring additional research at the end of the review period with code “W.” Because ULOs requiring additional research can be coded with either “R” or “W,” fundholders at the 18 AFBs interpreted the DFAS Denver 7220.4-G inconsistently. As a result, 1 fundholder used code “W,” 12 fundholders used code “R,” and 8 fundholders used yet another code. The inconsistent use of codes did not allow the Air Force to accurately report the number of ULOs validated. A prior DOD Inspector General report recommended that DFAS Denver and the Air Force Accounting and Finance Office establish one code for ULOs requiring additional research.

Management Actions

The Acting Director, Air Force Accounting and Finance Office, and the Acting Deputy Director, DFAS Columbus, responded to DOD Inspector General Report No. D-2009-067, “Controls Over Air Force Materiel Command Unliquidated Obligations on Department of the Air Force Contracts Supporting the Global War on Terror,” April 3, 2009. The Acting Director, Air Force Accounting and Finance Office, and the Acting Deputy Director, DFAS Columbus, responding on behalf of the Director, DFAS Denver, agreed to reassess the codes used to identify additional research for ULOs and modify the DFAS Denver 7220.4-G as necessary by April 2010. Because plans are already in place to correct this weakness, we do not plan to make any additional recommendations to the Air Force and DFAS.

Appendix C. Tri-Annual Review Process



Appendix D. Unliquidated Obligations Identified as Inadequately Supported

DFAS Operating Location	Fundholder Location	Document Number	Deobligation Amount	Management Actions to Deobligate Funds
DFAS Japan	36 th Wing, Andersen AFB	FA890304D8669SK33	\$0	\$0
DFAS Japan	36 th Wing, Andersen AFB	FA890304D8669SK33	1,126,268.18 ¹	0
DFAS Japan	36 th Wing, Andersen AFB	FA890304D86760039AA	0	0
DFAS Japan	36 th Wing, Andersen AFB	FA890304D86780066AB	0	0
DFAS Japan	8 th Fighter Wing, Kunsan AB	FA890304D86700076AA	0	0
DFAS Japan	51 st Fighter Wing, Osan AB	FA890304D86700199AA	0	0
DFAS Japan	18 th Wing, Kadena AB	FA890304D86700275AA	0	0
DFAS Japan	18 th Wing, Kadena AB	FA890304D86700277AA	0	0
DFAS Japan	18 th Wing, Kadena AB	FA890304D86700277AA	0	0
DFAS Japan	18 th Wing, Kadena AB	FA890304D86700278AA	0	0
DFAS Japan	18 th Wing, Kadena AB	FA890304D86700279AA	0	0
DFAS Limestone	15 th Air Base Wing, Hickam AFB	FA890304D86700237AA	0	0
DFAS Limestone	15 th Air Base Wing, Hickam AFB	FA890304D8669SK37	0	0
DFAS Limestone	15 th Air Base Wing, Hickam AFB	FA890304D86760078AA	327,608.36	300,000
DFAS Limestone	354 th Fighter Wing, Eielson AFB	FA890304D8670SK63	0	0

¹ An Andersen AFB representative stated that the Air Force is working with the contractor to identify the final billing amount. This amount could be as much as \$35,683.

DFAS Operating Location	Fundholder Location	Document Number	Deobligation Amount	Management Actions to Deobligate Funds
DFAS Limestone	354 th Fighter Wing, Eielson AFB	FA890304D8670SK63	0	0
DFAS Limestone	354 th Fighter Wing, Eielson AFB	FA890304D8670SK63	0	0
DFAS Limestone	354 th Fighter Wing, Eielson AFB	FA890304D8670SK63	0	0
DFAS Limestone	354 th Fighter Wing, Eielson AFB	FA890304D86810262AA	0	0
DFAS Limestone	9 th CPTS, Beale AFB	FA890304D86770039AA	0	0
DFAS Limestone	99 th CPTS, Nellis AFB	FA890304D8670SK49	2,535.11	0
DFAS Limestone	9 th Air Force, Shaw AFB	FA890304D86690071AA	224,937.34	224,937.34
DFAS Limestone	9 th Air Force, Shaw AFB	FA890304D86690072AA	0	0
DFAS Limestone	9 th Air Force, Shaw AFB	FA890304D86690072AC	0	0
DFAS Limestone	9 th Air Force, Shaw AFB	FA890304D86690072AD	0	0
DFAS Limestone	9 th Air Force, Shaw AFB	FA890304D86690103AA	0	0
DFAS Limestone	9 th Air Force, Shaw AFB	FA890304D86780143AA	0	0
DFAS Limestone	9 th Air Force, Shaw AFB	FA890304D86780143AB	0	0
DFAS Limestone	49 th CPTS, Holloman AFB	FA890304D8681SK04	0	0
DFAS Limestone	11 th Air Force, Elmendorf AFB	FA890304D86810059AA	0	0
Total		30	\$1,681,348.99²	\$524,937.34

² The Air Force should deobligate approximately \$1.7 million and put the funds to better use.

Deputy Assistant Secretary for Financial Operations Comments



Office Of The Assistant Secretary

DEPARTMENT OF THE AIR FORCE WASHINGTON DC

31 AUG 2007

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDITING
OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

FROM: SAF/FMP
1130 Air Force Pentagon
Washington, DC 20330-1130

SUBJECT: DoDIG Draft Audit Report, Controls Over Air Combat Command and Pacific Air
Forces Unliquidated Obligations from Department of the Air Force Contracts
Supporting the Global War on Terror, (Project No. D2009-D000FC-0121.000)

Management comments on the findings and recommendations of the DoDIG Draft Audit
Report, Controls Over Air Combat Command and Pacific Air Forces Unliquidated Obligations
from Department of the Air Force Contracts Supporting the Global War on Terror are attached.

If you have any questions or concerns with our comments, please contact [REDACTED]

A handwritten signature in black ink, appearing to read "Audrey Y. Davis", is positioned above the typed name.

AUDREY Y. DAVIS
Deputy Assistant Secretary
Financial Operations
(Financial Management)

Attachment:
1. Management Comments

DoDIG Draft Audit Report
Controls Over Air Combat Command and Pacific Air Forces Unliquidated Obligations from
Department of the Air Force Contracts Supporting the Global War on Terror
Project No. D2009-D000FC-0121.000

Recommendation A.1.: We recommend that the Assistant Secretary of the Air Force for Financial Management and Comptroller:

- a. Deobligate \$1,156,411.65 on three unliquidated obligations that are not "valid" (see Appendix D for a list of the unliquidated obligations reviewed and associated deobligation amounts).
- b. Investigate the potential violations of the Antideficiency Act related to contract FA8903-04-D-8681, delivery order SK04 and initiate appropriate administrative actions based on the results of the review.

SAF/FMP Management Comments A.1.: Concur with intent.

- a. Air Combat Command and Pacific Air Forces Command Financial Management will be directed to review the identified delivery orders and take appropriate action based on their documented review. ECD: Jan 2010
- b. A preliminary review (P09-14) of the potential Antideficiency Act violation is ongoing and SAF/FMP will initiate appropriate administrative action based on the results of the review. ECD: Dec 2009

Recommendation B.: We recommend that the Assistant Secretary of the Air Force for Financial Management and Comptroller verify that the Air Force confirmation statement accurately reports the review of unliquidated obligations by comparing its confirmation statement to the Defense Finance and Accounting Service progress and management reports and to the confirmation statements of the Air Force major commands.

SAF/FMP Management Comments B.: Concur with intent.

The Director of AFAFO will coordinate with the Director of DFAS Columbus to assess the feasibility of providing the progress reports available in the DFAS Access Tri-Annual program to the Air Force installations during the course of the Tri-Annual review period. Review of the summary process will be conducted to determine the feasibility of obtaining summary data from the Access program for comparison prior to the preparation of the AF confirmation statement. ECD: Jan 2010

Defense Finance and Accounting Service Limestone Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE

LIMESTONE

27 Arkansas Road
LIMESTONE, ME 04751-6216

DFAS-JB

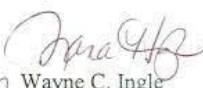
AUG 27 2009

MEMORANDUM FOR PROGRAM DIRECTOR, DEFENSE BUSINESS OPERATIONS,
DEPARTMENT OF DEFENSE INSPECTOR GENERAL

SUBJECT: Management Comments to the "Controls Over Air Combat Command and Pacific
Air Forces Unliquidated Obligations from the Department of the Air Force Contracts
Supporting the Global War on Terrorism," Project Number D2009-D000FC-0121.

In accordance with subject audit, management comments to the final audit draft report are
attached. Recommendation A.2 is considered closed.

My point of contact for additional information is [REDACTED]
[REDACTED]

for 
Wayne C. Ingle
Director

Attachment:
As stated

Management Comments to the "Controls Over Air Combat Command and Pacific Air Forces Unliquidated Obligations from the Department of the Air Force Contracts Supporting the Global War on Terrorism," Project Number D2009-D000FC-0121.000

Recommendation A.2: We recommend that the Director, Defense Finance and Accounting Service Limestone establish a plan to ensure that all Defense Finance and Accounting Service Limestone users review the period of performance when reviewing and validating unliquidated obligations.

Management Comments: Non-concur. DFAS TriAnnual reviewers utilize regulatory guidance DoD FMR 7000.14-R Volume 3, Chapter 8 to provide instruction on the TriAnnual validation wherein no specific reference is made to period of performance validation.

DFAS DE 7220.4-G TriAnnual Review Guidance dated March 2008 provides guidance to the bases for accomplishing their portion of the review. Review of terms and scope of the contract is listed under Chapter C7.1.1.3, and cited as a FMA/ALO responsibility. Obligations dormant for more than 120 days are coded as "N" by the DFAS TriAnnual reviewer. These records are forwarded to the Air Force ALO for their actions. The Air Force funds holder will follow the requirements in DFAS DE 7220.4-G, Chapter C7.1.1.3, when reconciling/validating the obligation.

DFAS reviews the contract terms and scope as part of the process when entitling payments. Contract terms and scope are also reviewed during the closeout and reconciliation process.

Estimated Completion Date: This recommendation is considered closed.



Inspector General Department of Defense

