Audit Report

OFFICE OF THE INSPECTOR GENERAL

ADMINISTRATION OF THE CONTRACT CLOSEOUT PROCESS WITHIN DOD

Report Number 92-076

April 15, 1992

Department of Defense

The following acronyms are used in this report.

ACO.....Administrative Contracting Officer
AMIS.....Acquisition Management Information System
CAR.....Contract Administration Report
DCAA.....Defense Contract Audit Agency
DCMAO.....Defense Contract Management Area Operations
DCMC.....Defense Contract Management Command
DCMDM.....Defense Contract Management District Mid Atlantic
DCMDW.....Defense Contract Management District West
DFARS.....Defense Federal Acquisition Regulation Supplement
DFAS.....Defense Finance and Accounting Service
DFAS-CO.....Defense Finance and Accounting Service-Columbus
DLA.....Defense Logistics Agency
DLAM.....Defense Logistics Agency Manual
DMR.....Defense Management Report
FAR.....Federal Acquisition Regulation
FMFIA.....Federal Managers' Financial Integrity Act
MOCAS.....Mechanization of Contract Administration Services
PCIE.....President's Council on Integrity and Efficiency

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

April 15, 1992

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Report on the Administration of the Contract Closeout Process within DoD (Report No. 92-076)

We are providing this final report for your information and use. This is the fourth in a series of reports issued as part of a Government-wide President's Council on Integrity and Efficiency audit of the contract closeout process. Comments on a draft of this report were considered in preparing the final report.

DoD Directive 7650.3 requires that all audit recommendations be resolved promptly. Therefore, we request that the Defense Finance and Accounting Service provide final comments on Recommendation 2.a., by June 15, 1992.

DoD Directive 7650.3 also requires that the comments indicate concurrence or nonconcurrence in the finding and recommendation addressed to you. If you concur, describe the corrective actions taken or planned, the completion dates for actions already taken, and the estimated dates for completion of planned actions. If you nonconcur, you must state your specific reasons for each nonconcurrence. If appropriate, you may propose alternative methods for accomplishing desired improvements.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. Salvatore D. Guli, Program Director, at (703) 614-6285 (DSN 224-6285) or Ms. Linda A. Pierce, Project Manager, at (703) 693-0560 (DSN 223-0560). The planned distribution of this report is listed in Appendix I.

Edward R. Jones
Deputy Assistant Inspector General
for Auditing

Enclosure

cc:
Comptroller of the Department of Defense

Office of the Inspector General, DoD

AUDIT REPORT NO. 92-076 **April 15, 1992**
(Project No. 0CF-0045)

REPORT ON THE ADMINISTRATION OF THE CONTRACT CLOSEOUT PROCESS WITHIN DOD

EXECUTIVE SUMMARY

Introduction. This is our final report on audit work within DoD as part of a Government-wide President's Council on Integrity and Efficiency (PCIE) audit of the contract closeout process. There were three prior IG, DoD, reports issued under the PCIE project. Our audit focused on contracts administered by the Defense Logistics Agency (DLA) and the Defense Contract Management Command (DCMC), a subordinate command of DLA. DCMC provides contract administra-tion services to DoD and other departments and agencies of the Federal Government through the five DCMC Districts. During the audit, the contract payment function transitioned from DLA to the Defense Finance and Accounting Service (DFAS).

Objective. The overall objective of the audit within DoD was to determine whether the contract closeout process within DoD was accomplished in an efficient and effective manner. The three prior reports addressed the objectives related to the timeliness of contract closeout, the validity of unliquidated obligations, the collection of over-payments on incentive contracts with cost underruns, and applicable internal controls. This report addresses the objectives related to the delivery of goods and services, payments by the Government, the accuracy of the Mechanization of Contract Administration Services (MOCAS) system, and applicable internal controls.

Audit Results. Contract data in the MOCAS system were inaccurate and contributed to delays in closing contracts. We estimated that MOCAS contained inaccurate data for 19,800 contracts valued at $9.7 billion, out of the 83,378 contracts, valued at $56.7 billion, administered by the Defense Contract Management District Mid Atlantic; and for 11,900 contracts valued at $5.2 billion, out of the 51,019 contracts valued at $82.3 billion, administered by the Defense Contract Management District West. Although delivery of goods and services was not a problem, we identified incorrect delivery information in MOCAS. Incomplete and missing administrative contracting officer (ACO) and finance documentation also caused database problems. As a result, inaccurate payments were made, discounts were lost, payments were delayed, and contracts were not closed in a timely manner. Late payments by the two Districts cost about $6 million

in interest charges in Fiscal Years 1990 and 1991. We also identified about $178,300 in recoverable overpayments on six contracts.

Internal Controls. Although procedures were prescribed to ensure that complete and accurate data were in MOCAS, noncompliance with internal control techniques compromised the internal control system and MOCAS operations supporting the contract closeout process. Also, controls were not effective to ensure adequate physical control and maintenance of DFAS payment files. See Part I, page 4, of this report, and Part II for details of the internal controls assessed and weaknesses identified.

Potential Benefits of Audit. The report recommendations should produce monetary benefits through improved accuracy of data in MOCAS that will help eliminate the impediments to prompt contract closeout, and avoid overpayments and interest costs on untimely contract closeout. However, we could not quantify the potential monetary benefits of this audit (Appendix G).

Summary of Recommendations. We recommended that DLA emphasize the need to properly maintain and control ACO file documentation. We also recommended that the DFAS-Columbus Center (DFAS-CO) develop and implement procedures to better control and maintain complete and accurate finance files, train the appropriate personnel to properly input contract data into MOCAS, and to collect overpayments.

Management Comments. The Deputy Comptroller, DLA, stated that a policy letter would be sent to DCMC Districts regarding the need to properly file, issue and control contract files. The Director, DFAS-CO, established procedures to better control payment files, verify the accuracy of the MOCAS system financial data, train newly hired personnel who interpret and enter contract and financial data into the MOCAS system, and make collections on overpayments.

During the audit, the contract administration mission was reorganized, separating finance and accounting functions for contract payments from the rest of the contract administration functions. As a result, two organizations were required to respond to our findings and recommendations. DLA and DFAS requested that we revise the draft report to identify the results of audit to each of the organizations separately. We did this for the final report. Accordingly, we request that DFAS provide comments on Recommendation 2.a. on measures being taken to ensure that appropriate training is received by personnel who interpret and enter contract data into the MOCAS system. The full discussion of the responsiveness of management comments is in Part II of this report and the complete text of management comments is in Part IV. Additional comments are requested by June 15, 1992.

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This final report was prepared by the Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD. Copies of the report can be obtained from the Information Officer, Audit Planning and Technical Support Directorate, (703) 614-6303.

PART I - INTRODUCTION

Background

This is the final IG, DoD, report issued as part of a Government-wide President's Council on Integrity and Efficiency (PCIE) audit of the contract closeout process. The IG, DoD, issued three prior reports under the PCIE project. This PCIE audit was also conducted at the Departments of Commerce, State, and Education; at the Federal Emergency Management Agency; and the Agency for International Development. The audit work included in this report examined the contract closeout process at the Defense Contract Management District Mid Atlantic (DCMDM), the Defense Contract Management District West (DCMDW), and the Defense Finance and Accounting Service (DFAS). DCMDM and DCMDW are two of five Defense Contract Management Command (DCMC) Districts within the Defense Logistics Agency (DLA) that provide contract administration services to DoD and other departments and agencies of the Federal Government. As of January 1990, DLA was administering 421,209 contracts valued at $358 billion.

DCMDM and DCMDW use the automated system "Mechanization of Contract Administration Services" (MOCAS), to maintain control over the administration of contracts, including the contract closeout process. The system is designed to allow contract administrators and finance personnel to enter various types of basic contract data and actions into the database for every contract administered. Data items and actions include information such as contract numbers, obligation amounts, and other data related to the administration of contracts. This information permits administrative contracting officers (ACOs) to monitor the status of funds, deliveries, and other contract actions required through contract closeout.

The Contract Administration Report (CAR) is one element of the MOCAS system and is organized into five main sections. Section 1 contains active contracts on which delivery and acceptance of supplies, performance of services, or periods of performance were not complete. Section 2 contains physically complete contracts on which delivery of supplies and services were completed and accepted, but on which contract administration was still pending. Section 3 contains dormant contracts on which one or more of the following actions were pending: complete terminations for convenience; public law claims; investigations; bankruptcy; litigation; final payments withheld contingent on extended testing after shipment; and contingent value engineering payments. Section 4 of the CAR contains contracts requiring payment adjustments. These contracts were closed and reopened by the finance office for financial adjustments or collections. Section 5 contains contracts that were closed during the month.

Procedures for closing contract files are listed in the Federal Acquisition Regulation (FAR) 4.804-5, "Detailed Procedures for Closing Out Contract Files." The Defense Logistics Agency Manual (DLAM) 8105.1, "Contract Administration Manual for Contract Administration Services," also provides guidance to the ACOs concerning the various aspects of the contract closeout process.

The DFAS, which was established in January 1991, consolidated DoD finance and accounting functions under the Comptroller of the Department of Defense. The MOCAS database is maintained at the DFAS-Columbus Center (DFAS-CO). DFAS performs the contract payment functions at DFAS-CO and at remote sites in support of the DLA contract administration mission. DFAS personnel share the responsibility with DCMC Districts for data input in support of contract administration. As of the date of this report, the consolidation and physical transfer of operational control and records from DCMC Districts to DFAS-CO has not been completed. At the end of our audit field work in December 1990, DCMDW had already completed its transfer of records. DCMDM has started to transfer records, but the move is not expected to be completed until August 1992.

Objectives

The overall objective was to determine whether the contract closeout process was accomplished in an efficient and effective manner. To accomplish this overall objective, the PCIE participants identified specific objectives to:

- assess IG independence on contract closeout audits;
- evaluate the timeliness of contract closeout;
- determine the validity of unliquidated obligations;
- determine whether overpayments to contractors were identified and collected;
- evaluate contract tracking systems;
- determine the impact of overhead audit backlogs;
- verify delivery of goods and services with contract terms;
- assess the recovery of Government-owned property at contract completion; and
- assess the adequacy of internal controls.

The three prior IG, DoD, reports conducted at DCMDM, DCMDW, and the former Dallas regional office, covered the objectives related to the timeliness of contract closeout, the validity of unliquidated obligations, the collection of overpayments on incentive contracts with cost underruns, and the applicable internal controls. OIG, DoD, Audit Report No. 90-043, "Plant Clearance Action on Government-Owned Property in the Possession of Defense Contractors," March 2, 1990, Project No. 8SL-0063, covered the objective related to Government-owned property. All

recent audit coverage of the contract closeout process is summarized in Appendix A of this report.

This report is the final IG, DoD, report on the contract closeout process within DoD under the PCIE project. The work for this report was conducted at DCMDM and DCMDW, the two contract administration activities where problems were identified in the prior IG, DoD, audit reports on contract closeout and at the DFAS. This report included audit objectives to verify the delivery of goods and services from contractors, verify payments by the Government, and assess the effectiveness of internal controls related to the contract closeout process, including internal controls associated with ensuring the accuracy of the MOCAS database.

Our review did not identify problems with the delivery of goods and services; however, MOCAS errors in delivery information are described in the finding of this report. The objectives relating to the impact of overhead audit backlogs, the use of MOCAS as the contract tracking system, and the independence of the IG, DoD, to perform audits of the contract closeout process in DoD, are addressed in the other matters of interest section of this report.

Scope

Our audit examined contracts that DLA was administering in January 1990, before the formation of DCMC and the transfer of contract administration functions from the Military Departments. To accomplish the audit objective, we selected contracts at specific field locations within two DCMC Districts (then Defense Contract Administration Services Regions) from the active, physically complete, and pay adjustment sections of the CAR. The universe and sample of contracts reviewed are summarized below.

	UNIVERSE		SAMPLE		
	CONTRACTS	VALUE (Billion)	CONTRACTS	VALUE (Million)	CAR PART
DCMDM	83,378	$56.7	150	$650.4	A,B,C
DCMDW	51,019	$82.3	150	$ 84.2	A

We evaluated contract administration and payment records for the 300 sampled contracts to verify deliveries, payments, and the information in MOCAS. We found errors throughout the MOCAS database. The frequency of errors found in specific data elements was not always significant enough to calculate projections for all categories of errors. The statistical sampling plan is presented in Appendix C.

In response to a Defense Management Report initiative, operational control of most of the Military Department Plant Representative Offices transferred to DLA as of June 30, 1990.

See Appendix B for a profile of the contract administration workload transferred from the Military Departments to DLA.

This program results audit was made from January through December 1990 and included reviews of ACO files and accounting and finance payment files dated June 1977 through September 1990. The audit was made in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Accordingly, we included such tests of internal controls as were considered necessary. To achieve the audit objectives, we extensively relied on computer-processed data contained in MOCAS. Our review of system controls and the results of data tests showed an error rate that caused us to question the validity of the data. However, when these data are viewed in context with other available evidence, we believe the opinions, conclusions, and recommendations in this report are valid. The activities visited or contacted during the audit are listed in Appendix H.

Internal Controls

The audit identified a material internal control weakness as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. Controls were not effective to ensure adequate physical control and maintenance of payment files maintained by DFAS. Recommendation 2.c., if implemented, should correct this weakness. In comments to the draft of this report, DFAS stated that procedures were instituted to correct the problem. We could not determine the monetary benefits to be realized by implementing the recommendation or calculate a monetary amount related to the physical control of contract payment files. The portion of Recommendation 2.d. in the draft report dealing with reporting and tracking the internal control weakness was deleted. A copy of the final report will be provided to the senior official responsible for internal controls within DFAS.

Prior Audits

In addition to the three OIG, DoD, reports related to the PCIE audit of contract closeout, the Army Audit Agency, the Air Force Audit Agency, and DLA, each issued audit reports on the administration of the contract closeout process. The OIG, DoD, also issued two other reports on areas related to contract closeout. The two related reports included one on the plant clearance function for Government-owned property in the possession of Defense contractors and one on the DCAA backlog of incurred cost audits. Details on each of the prior audits are in Appendix A.

Other Matters Of Interest

Availability of funds and M accounts. The Appropriation Act of FY 1991 had a direct impact on contract closeout. The Act changed the way expired funds and M Accounts are handled. The M Accounts, which were used to hold expired funds for future disbursements, will no longer exist. The new rules place specific time limits on the availability of appropriated monies. After the time limit expires, all balances are canceled and obligations outstanding must be charged to a current appropriation. These changes make timely contract closeout an essential part of contract management. DLA has provided guidance to field activities emphasizing the importance of closing contracts on time (see Appendix D). We expect the timeliness of contract closeout to improve as a result of the new rules for funds availability.

DCAA audits of incurred costs. The final overhead rate settlement is one of the last items to be completed before a contract can be closed. The DCAA audit report on incurred costs is used to reach settlement on overhead rates, whether the settlements are negotiated by the ACO or determined by audit. The backlog of DCAA audits has increased the audit waiting time beyond the 36 months allowed for the entire contract closeout process for cost-type contracts. We estimated that as of the January 1990 data, DCMDM had almost 13,000 contracts, valued at $3.7 billion, awaiting audit before they could be closed.

The Office of the Assistant Inspector General for Audit Policy and Oversight Report No. APO 89-021, "Report on Oversight Review of the Defense Contract Audit Agency Backlog of Incurred Cost Audits," September 21, 1989, addressed the problem of the backlog of incurred cost audits and DCAA actions to reduce the backlog (see Appendix A). DCAA and DLA coordinated an initiative to maximize the use of multiyear audits to help reduce the DCAA backlog and allow DLA to close overage contracts. When the 1991 Defense Appropriation Act established new rules on funds availability, DCAA had to shift the audit priority from performing multiyear audits to auditing the oldest contractor fiscal years first. Multiyear audits were conducted only when consistent with the objective of completing the oldest fiscal years first. Appendix E contains the DCAA "Audit Management Guidance on Accomplishment of Incurred Cost Audits for Contractor Fiscal Years 1987 and Earlier."

Contract tracking system. In DoD, MOCAS is the system that monitors the status of contracts and provides control over the contract closeout process, although as noted in this report, management of the system needs improvement. Contracts are tracked in the system from the time they are assigned to DCMC for administration through closeout and subsequent payment adjustments. During our audit, MOCAS was transitioning between

DLA and DFAS to accomodate the reorganization of the contract administration mission. We do not address the merits of the reorganization or its effect on MOCAS in this report.

IG, DoD, independence. The Inspector General, DoD, does not have a problem maintaining independence when conducting audits of the contract closeout process. The IG, DoD, does not perform any of the contract closeout work that would be audited.

PART II - FINDING AND RECOMMENDATIONS

MOCAS RELIABILITY IN SUPPORT OF CONTRACT CLOSEOUT

Contract data in MOCAS were inaccurate and contributed to delays in closing contracts. We estimated that MOCAS contained inaccurate data for 19,800 contracts valued at $9.7 billion at DCMDM, and 11,900 contracts valued at $5.2 billion at DCMDW. MOCAS database inaccuracies were attributed to errors by inexperienced and inadequately trained personnel responsible for performing contract data interpretation and input. Incomplete and missing ACO and finance documentation also caused database problems. As a result, inaccurate payments were made, discounts were lost, payments were delayed, and contracts were not closed in a timely manner. Late payments by the two Districts reviewed cost about $6 million in interest charges in Fiscal Years 1990 and 1991. We also identified about $178,300 in recoverable overpayments on six contracts.

DISCUSSION OF DETAILS

MOCAS Database

During our review of the payments and deliveries made on contracts, we found errors in the MOCAS database that required correction in order for contracts to be properly processed and closed.

	Number of Contracts		Value of Contracts	
	Administered	With Errors*	Administered (Billion)	With Errors* (Billion)
DCMDM	83,378	19,800	$56.7	$9.7
DCMDW	51,019	11,900	$82.3	$5.2

* Estimated

Although the errors were located throughout the MOCAS database, a significant portion of the errors involved erroneous obligation and disbursement information. We projected that MOCAS contained erroneous obligation and disbursement information for 13,300 DCMDM contracts valued at $8.5 billion. About 16.7 percent of the contracts reviewed at DCMDW had similar errors, but our sample did not provide results that would permit projecting the total dollar value of errors. Errors in obligations and disbursements occurred because payments made on contracts and contract modifications were either not input into the MOCAS database timely or not input at all. The following examples illustrate how errors occurred at DCMDM and DCMDW.

o The unliquidated obligation balance on DCMDM administered contract N00024-88-C-6008 was overstated. Contract payments

totaling $71.3 million were not input into MOCAS. This contract was in section 1 (active) of the CAR at the time of our review, and was not yet physically complete. Although the contract was in the correct CAR section when we reviewed it, the erroneous payment information in MOCAS will require correction prior to closeout.

o A modification for DCMDW administered contract F09603-83-G-3881, Delivery Order 0028, was input into MOCAS twice, which resulted in an erroneous obligation of $65,000 and overstated the unliquidated obligation by $65,000. The contract was physically complete in 1987, but closeout was delayed for over 3 years. The overhead rates were not settled, the contractor did not submit the final invoice, and the obligation and unliquidated obligation amounts did not reconcile.

o Closeout of DCMDW administered contract N00383-83-G-3109, Delivery Order 0176, was delayed 3 years and 10 months because a mathematical error on a modification overstated the unliquidated obligation amount in MOCAS by $100. The correct unliquidated obligation amount was zero.

Funds on these contracts required reconciliation before the contracts could be processed through closeout. Such delays in identifying and correcting errors in obligations and disbursements contribute to the untimely closeout of contracts.

Experience and Training of Personnel

The consolidation of Finance and Accounting operations from the DCMC Districts to the Defense Finance Center (now DFAS-CO) in Columbus, Ohio, relocated the operation to a geographic region that had no prior MOCAS contract administration payment operation and a limited pool of experienced personnel. We believe that concurrent with the consolidation at Columbus, the DCMC Districts began to lose their experienced work forces. DLA found itself in a massive reorganization with a smaller, less experienced work force, but with no reduction in mission. In January 1991, the finance operation in Columbus became part of DFAS.

The ACOs depended on MOCAS to process contracts through the CAR based on data input. When incorrect data halted the process, contract actions were delayed until the ACO reviewed and corrected the data for the computer, or processed the actions manually. The MOCAS system had edit checks to identify invalid input, but this did not eliminate incorrect information. The ACOs needed to identify incorrect data and correct it in order to prevent system delays in processing contracts through closeout. The "trusted agent" program, coordinated between DLA and DFAS, assigned a limited number of people in the DCMC Districts the responsibility of making changes to the MOCAS database. The ACOs may identify the errors that need correcting, but only the

trusted agents make corrections. According to DLA officials, the ACOs have procedures to request the trusted agents to change data in MOCAS. The effectiveness of the trusted agent program could not be determined during our audit since it was in the process of being established in the field. If the trusted agent program is effective, the accuracy of the MOCAS database should improve.

DCMDM. At the time of our audit, DCMDM was still performing the finance and accounting function. As personnel left DCMDM, new employees were hired until January 1, 1990, when DLA implemented a hiring freeze. About 60 additional people resigned from DCMDM during 1990. Although personnel attrition reduced the number of experienced workers at the District, DCMDM had no formal training program for the new employees hired prior to the freeze. On-the-job assistance was all that was available to train the new employees. The inexperienced work force and the lack of training for new employees contributed to the 24 percent error rate we found in the MOCAS database at DCMDM.

DFAS-CO. During 1989 and 1990, the DCMDW finance and accounting operation and the MOCAS database supporting contract administration were transferred to what is now DFAS-CO. To prepare new employees for their work, DLA developed a training program to be attended by both management and operations employees. Courses covered specific responsibilities for primary job positions involving contractor relations, voucher examination, and MOCAS data input. The goal of the training program was not only to train new employees to perform specific tasks, but also to establish consistency among all personnel at DFAS-CO, including managers, in applying the operating procedures. However, the training attendance records for the employees assigned to MOCAS payments indicated low attendance overall. We found that 47 percent of the work force of over 400 people did not attend any of the courses. Looking at the training provided to contract input personnel, we found that 43 percent of the 63 people in those positions did not attend any of the courses specifically designed for their function. Also, none of the contract input supervisors attended any of the courses.

DLA officials cited the high volume of work as the primary reason for the low participation in training. However, we believe that the lack of training had the potential to create more workload because of mistakes that had to be corrected. The significant incidence of inaccuracies in the MOCAS database underscores the need for DFAS personnel to attend training.

ACO and DFAS Documentation and Files

DLAM 8105.1, Part 4.8, "Contract File Maintenance, Closeout, and Disposition," specifies what contractual documentation should be in the ACO files, and it stipulates that the files should be

maintained throughout the administrative process and contract closeout. The Defense Federal Acquisition Regulation Supplement (DFARS) 204.802, "Contract Files," addresses the organization of ACO files and the need for a cross reference/locator system to maintain control of the files. With the creation of DFAS, contract payment files were no longer maintained by DLA. Therefore, we separated the audit results attributed to ACO contract files (DLA) and contract payment files (DFAS).

ACO documentation and files. The results of our calculations indicated that incomplete and missing ACO files did not occur in sufficient numbers to project to the total contracts administered by DCMDM and DCMDW. We found that 6.7 percent of DCMDM ACO files reviewed and 19 percent of DCMDW ACO files reviewed were incomplete or missing. However, within DCMDW, the incidence of incomplete or missing files at Defense Contract Management Area Operations (DCMAO), El Segundo, was about 30 percent for the contracts reviewed at that site. Procedures prescribed in DLAM 8105.1 and in the DFARS were not followed when paperwork essential for contract closeout was not submitted or received timely by the proper personnel. Two examples of extreme delays in contract closure occurred in contracts N00173-79-C-0342 and N00244-85-C-0498. Those contracts were delayed 1.5 and 3.5 years, respectively, because the ACOs did not submit the Contract Administration Completion Record (Form 1593) to the Accounting and Finance Office in a timely manner. The contracts required manual closeout.

DFAS documentation and files. DFAS-CO was responsible for payment files for about 51,000 contracts administered by DCMDW at the time of our audit. We projected that payment files at DFAS-CO for about 16,400 contracts valued at $5.5 billion were either missing or incomplete. During the audit, payment files for about 83,000 contracts administered by DCMDM were maintained by DLA at the District office in Philadelphia. The payment files and the payment function were under the control of DLA until the contract payment function at Philadelphia transferred to the operational control of DFAS in 1991. We projected that payment files at DFAS in Philadelphia for about 12,000 contracts valued at $6.7 billion were either missing or incomplete. We considered the number of missing and incomplete payment files to be significant, constituting a material internal control weakness. DFAS did not have written standard operating procedures at the finance offices in Philadelphia or Columbus. Procedures prescribed in DLAM 8105.1 and DFARS were not followed when paperwork essential for contract closeout was not submitted or received timely by the proper personnel. For example, contract DAEA26-00-86-D-0004, delivery order BK30, was physically complete as of December 28, 1988. The contract remained in CAR section 2 (physically complete), instead of being automatically processed to section 5 (closed), because the finance office did not submit the "Notice of Last Action Report" to the ACO in a timely manner.

Conclusion. Although the number of incomplete or missing ACO files was not high, the ACO file problems together with the DFAS payment file problems combined to impact an estimated 20,600 contracts valued at $6 billion administered by DCMDW, and an estimated 12,500 contracts valued at $6.7 billion administered by DCMDM. Noncompliance with regulatory guidance caused both ACO and payment files to be incomplete or to be lost. In addition, we believe that the absence of written standard operating procedures for filing contractual and financial documents, and for maintaining physical control of the ACO and payment files, contributed to the problems. Missing documentation and incomplete files delayed several processes essential to contract closeout including the verification of contract data in MOCAS, the CAR process, and the reconciliation of delivery and financial transactions. Ultimately, these delays affected the timely closing of contracts.

Effects of Inaccuracies in MOCAS

MOCAS database inaccuracies resulted in overpayments, lost discounts, and interest penalties, and caused delays in contract closeout.

Contract overpayments. We identified about $289,900 in overpayments on nine contracts included in our samples of contracts reviewed at DCMDM and DCMDW (see Appendix F). About $178,300 of that amount was recoverable on six of the nine contracts. The recoverable amounts were on three contracts administered by DCMDM that had overpayments valued at about $90,700, and on three contracts administered by DCMDW that had overpayments totaling about $87,600. Overpayments were caused by transposition of numbers, payment of duplicate invoices, and payment of incorrect invoice amounts. In addition to these overpayments, two contracts terminated for default were overpaid by about $70,900, and a contractor went bankrupt on another contract with about $40,700 in outstanding overpayments. DFAS and DLA have taken proper steps to recover all of the monies due the Government. According to DFAS, about $177,300 has already been recovered, a demand letter is outstanding for about $1,000, and the termination and bankruptcy cases were either transferred or are pending in the legal process.

Discounts lost. Discounts were lost due to late payment of invoices. Our sample results identified 5 contracts at DCMDM with lost discounts valued at $242 and 10 contracts at DCMDW with lost discounts valued at $2,380. These results were too small to project to the universe. Finance and Accounting Office officials at DCMDM indicated that contract discounts were not a priority, and that the main focus of finance operations was paying invoices

within the Prompt Payment Act time frames. Officials also indicated that invoices were generally not received in time to take advantage of discounts offered.

Interest under the Prompt Payment Act. The Prompt Payment Act, as amended (United States Code, title 31, chapter 39), requires Executive departments and agencies to make payments on time, to pay interest penalties when payments are late, and to take discounts only when payments are made on or before the discount date.

Delays in the input of contract data to MOCAS, in the receipt of receiving reports and in the input of receipt data to MOCAS contributed to late payments. An example of late payments occurred when valid invoices were returned to the contractor unpaid because the delivery orders had not been entered into the MOCAS database. The computer system could not recognize the invoices as legitimate without a valid delivery order number in the system. Resubmitted invoices were subsequently paid--late. Errors in contract type codes also caused delays in processing payments through MOCAS. Late payments on contracts administered by DCMDM cost about $338,000 in interest in FY 1990 and $763,000 in FY 1991. Late payments on contracts administered by DCMDW cost about $3.5 million in interest in FY 1990 and about $1.3 million in FY 1991.

Effects on Contract Closeout

The failure of MOCAS to properly process contracts through the system caused additional work for ACOs and finance personnel, which resulted in delays in contract administration and contract closeout processes. The MOCAS system cannot be an efficient and effective system for processing contract data if the information entered into the system is not accurate or timely. Errors in the database cannot always be detected by the computer, and require human intervention to determine what the problem is and how to fix it. Manual processing delays the actions pending on the contracts affected. Contracts cannot be properly closed until all actions are complete. The examples cited in this report illustrate how database errors affect contract administration operations. Personnel responsible for entering data into MOCAS, and ACOs responsible for administering the contracts must be trained to comply with procedures in order to ensure that MOCAS contains accurate and reliable contract data.

RECOMMENDATIONS, MANAGEMENT COMMENTS, AND AUDIT RESPONSE

1. We recommend that the Director, Defense Logistics Agency, inform all field activities about the need to properly file, issue, and control Administrative Contracting Officer contract files in accordance with Defense Logistics Agency Manual 8105.1, Contract Administration Manual Part 4.8, "Contract File

Maintenance, Closeout, and Disposition," and Defense Logistics Agency Manual 5015.1, "Files Maintenance and Disposition."

Defense Logistics Agency comments. The draft report recommendation is revised in this report. The Deputy Comptroller, Defense Logistics Agency, nonconcurred with the draft report recommendation, and stated an alternative action. DLA Headquarters will issue a policy letter to the field offices reminding them of their responsibilities under current Defense Logistics Agency Manuals and request that the Districts review compliance during their staff assistance visits to their field units.

Audit Response. The proposed action is considered responsive to the revised recommendation in this report. Additional comments to the revised recommendation will not be required.

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

a. Establish a time-phased plan to provide training to newly hired personnel responsible for interpreting and entering contract data into the MOCAS system.

Defense Finance and Accounting Service comments. The Director, Defense Finance and Accounting Service, concurred, stating that a mandatory 8-week training program is in place for both management and operations employees. Each job position has a sequence of specific courses identified in the program. The supervisors have the responsibility to determine the training needs of employees.

Audit Response. The Director's comments are partially responsive to the intent of the recommendation. When we discussed the draft report results with the Defense Finance and Accounting Service, we agreed to revise the recommendation to direct the thrust of the recommendation to newly hired employees instead of all data input personnel. We remain concerned that although a training program was in existence, personnel were not receiving the training available for their job positions. These concerns were voiced when we briefed the Director on the draft report results. The Director's comments indicate that it is the supervisor's responsibility and authority to determine which employees require training. We agree and also believe that the supervisor must ensure that employees receive the proper training that is consistent with their positions. Accordingly, we request that the Director, Defense Finance and Accounting Service, provide additional comments on the revised recommendations and the measures supervisors are

taking to ensure that personnel are receiving training appropriate to their job position.

b. Develop and implement procedures to verify the accuracy of financial data in the MOCAS system database.

Defense Finance and Accounting Service comments. The Director, Defense Finance and Accounting Service, concurred, stating that quality reviews of contract data input are performed daily on a random sample of transactions.

c. Develop standard operating procedures for the physical control and maintenance of complete and accurate payment files.

Defense Finance and Accounting Service comments. The Director, Defense Finance and Accounting Service, concurred, stating that procedures have been established to secure the files area and track the files using a bar coding system.

d. Establish a time-phased plan to track that all payment files are accounted for and are complete and accurate.

Defense Finance and Accounting Service comments. The Director, Defense Finance and Accounting Service, concurred, stating that when missing documents are identified, milestones will be established to track that all required data is obtained in the payment office.

e. Initiate action to recover the following overpayments on contracts administered by the Defense Contract Management District West.

Contract Number	Amount of Overpayment
N00383-85-G-5108/0365	$11,385.00
DLA100-84-C-4499	117.68
DAAH01-81-C-B016	70,796.31
DAAH01-85-C-0726	940.80
N00024-83-C-7010	40,726.47

Defense Finance and Accounting Service comments. The Director, Defense Finance and Accounting Service, partially concurred, stating that collection action on contracts DLA100-84-C-4499 and DAAH01-81-C-B016 could not be taken until the resolution of terminations for defaults was determined on both contracts. A demand letter was issued to recover the overpayment of $940.80 on contract DAH01-85-C-0726. The amount of $40,726.47 on contract N00024-83-C-7010 cannot be collected at this time due to bankruptcy of the contractor. The $11,385.00 overpayment on contract N00383-85-G-5108/0365 was collected on February 8, 1991.

Audit Response. The Director, Defense Finance and Accounting Service, comments are responsive to the recommendation.

Deleted recommendations. Comments received from the Director, Defense Logistics Agency, indicated that there were adequate instructions and procedures for the physical control and maintenance of contract files. Accordingly, we have deleted draft report Recommendations 1.a., 1.b. and 1.c. Draft report Recommendation 3.e. was deleted because we no longer recommend tracking the status of corrective actions for material internal control weaknesses. Management comments on draft report Recommendation 3.f. showed that one of the reported overpayments was not valid and that collection action on the other was completed before our audit was initiated. Therefore, we deleted draft report Recommendation 3.f. Resequencing of the remaining recommendations required draft report Recommendations 2., 3.a., 3.b., 3.c., 3.d., and 3.g. to be renumbered as Recommendations 1., 2.a., 2.b., 2.c., 2.d., and 2.e. in this final report.

PART III - ADDITIONAL INFORMATION

APPENDIX A - Synopses of Prior Audit Reports on the Administration of the Contract Closeout Process

APPENDIX B - Military Departments Workload Profiles

APPENDIX C - Statistical Sampling Plan

APPENDIX D - Defense Logistics Agency Guidance on Fiscal Year 1991 Appropriation Act Changes Affecting Contract Closeout

APPENDIX E - Defense Contract Audit Agency "Audit Management Guidance on Accomplishment of Incurred Cost Audits for Contractor Fiscal Years 1987 and Earlier"

APPENDIX F - Overpayments on Contracts Reviewed

APPENDIX G - Summary of Potential Benefits Resulting from Audit

APPENDIX H - Activities Visited or Contacted

APPENDIX I - Final Report Distribution

APPENDIX A - SYNOPSES OF PRIOR AUDIT REPORTS ON THE ADMINISTRATION OF THE CONTRACT CLOSEOUT PROCESS

Office of the Inspector General, DoD, Report No. 91-064, "Administration of the Contract Closeout Process at the Defense Contract Management District Mid Atlantic," March 20, 1991.

The report stated that contract closeout was not timely. About 37 percent of the contracts reviewed were overage for periods ranging from 1 to 162 months. In addition, ACOs did not make required fund reviews or recover overpayments on fixed-price incentive contracts. There were internal control weaknesses in these same areas. DLA concurred that contract closeout was not timely, and agreed with our recommendation to establish a working group to assist in closing overage contracts in section 4 of the CAR. DLA nonconcurred with the recommendation to include contract closeout in the ACOs performance plans. DLA has already taken action on our recommendation to deobligate excess funds and collect overpayments.

Office of the Inspector General, DoD, Report No. 91-065, "Administration of the Contract Closeout Process at the Defense Contract Management District West," March 20, 1991.

The report stated that contract closeout was not timely. About 52 percent of the contracts reviewed were overage for periods ranging from 1 to 133 months. In addition, ACOs did not make required fund reviews or recover overpayments on fixed-price incentive contracts. There were internal control weaknesses in these same areas. DLA concurred with the finding that contract closeout was untimely, but nonconcurred with the recommendations addressing the timeliness issues. DLA agreed with recommendations to provide training on fund review procedures and to request deobligation of excess funds.

Office of the Inspector General, DoD, Report No. 90-043, "Report on the Audit of Plant Clearance Action on Government Owned Property in the Possession of Defense Contractors," March 2, 1990.

The report stated that excess Government-owned property at contractor locations was not screened for reutilization, proceeds from the disposition of Government-owned property were not verified, and Government-owned property was retained at contractor locations after contracts were completed and closed. The finding on property retention on completed or closed contracts covered the scope applicable to our contract closeout audit. The Assistant Secretary of Defense (Production and Logistics), concurred with the finding and recommendation to monitor the implementation of initiatives in a November 1986 policy memorandum concerning storage of Government property,

plant clearance actions on unneeded property, and elimination of "no-cost" storage agreements. With the exception of the Air Force and DLA, all agencies concurred with the finding and recommendations to review Government property assigned to contracts awarded before 1980; ensure initiation of plant clearance actions; and where appropriate, determine why contracts were closed before disposition of Government property. The Air Force and DLA partially concurred with the finding but nonconcurred with the recommendation to review pre-1980 contracts. In response to the final report, the Air Force and DLA reaffirmed their position but agreed to review physically complete contracts awarded before 1980.

Office of the Inspector General, DoD, Report No. 90-108, "Final Report on the Audit of the Administration of the Contract Closeout Process at the Defense Contract Management Region, Dallas," September 18, 1990.

The report stated that the overall administration of the contract closeout process at the Defense Contract Management Region, Dallas, was generally effective. Contracts were generally closed on a timely basis, and excess funds were identified for deobligation. This was a memorandum report with no recommendations.

Office of the Inspector General, DoD, Report No. APO 89-021, "Report on Oversight Review of the Defense Contract Audit Agency Backlog of Incurred Cost Audits," September 21, 1989.

The report stated that delinquent audits by DCAA and late submissions of annual indirect cost claims by contractors can be costly to DoD as well as to contractors. The primary DCAA solution to the audit backlog was to increase staffing and devote more staff to incurred cost audits. In addition, DCAA developed a new audit program for indirect cost claims from contractors with annual incurred costs below $5 million. The new program reduced the time required to perform the audits, freeing resources for higher risk projects. DCAA also developed the Contractor Risk Assessment Guide Program to encourage contractor self-governance. Effective in March 1985, contractors were required to certify that indirect claims did not include unallowable costs. The Inspector General report recommended that a study be made to determine whether the FAR 90-day filing requirement for contractor indirect cost claims was realistic, and to revise DFARS to impose a penalty on any contractor that does not comply with the filing requirement. The Under Secretary of Defense for Acquisition partially concurred, stating that

discussions would be held with industry, DCAA, and contracting officers on the FAR 90-day requirement, but that imposing penalties on late filing other than what the FAR already allowed was not considered appropriate. The action taken by the Under Secretary was considered responsive to the recommendation. The Inspector General report contained six recommendations addressed to DCAA. The Office of the Assistant Inspector General for Audit Policy and Oversight reconsidered five of the six recommendations based on an analysis of DCAA incurred cost productivity rates for the first 9 months of 1989 and the congressional proposal to increase DCAA resources by 400 auditors in FY 1990. The sixth recommendation to implement a system control requiring reconciliation of amounts estimated for "ADV [Annual Dollar Volume of auditable incurred costs] - Received During the Year" was considered by the Office of the Inspector General to be essential to the accuracy of DCAA management data. This information represents the incurred cost audit backlog and is a factor in measuring DCAA productivity and in determining staffing requirements. DCAA nonconcurred with the recommendation, stating that the cost of a control system would far outweigh the benefits, and that there will always be fluctuations in the annual figures due to replacing estimated data with actual data. The Inspector General response stated that the differences were also due to errors that needed correction and that accuracy of the data was critical to Agency credibility.

Air Force Audit Agency, Project No. 7066411, "Audit of Closeout of Physically Complete Contracts With Unliquidated Obligations," July 14, 1988.

The report stated that management controls over the closeout process for physically complete contracts with unliquidated obligations were not effective. The Director of Acquisition and Logistics Systems concurred with the finding and agreed to initiate a change to DFARS to require fund reviews and deobligation of excess funds within 30 days after physical completion of each contract. In response to the recommendation to include an evaluation of the timeliness of contract closeout in performance appraisals, the Director of Contract and Manufacturing Policy agreed to request that the Air Force Logistics Command monitor the timeliness of contract closeouts and propose alternatives to establishing performance standards.

Defense Logistics Agency, Report No. DCASR LA-DI 6-88, "Report on the Audit of Contract Administration Report (CAR) System," May 13, 1988.

This report stated that contract data included in the CAR were not always current and accurate, and that management attention needed to be increased on open but dormant contracts. The Defense Contract Administration Services Region, Los Angeles, and Headquarters, DLA, generally concurred with the audit findings and recommendations. The responses did not specifically state what actions would be taken to correct the reported deficiencies.

U.S. Army Audit Agency, Report No. HQ 87-705, "Contract Closeout Process," June 9, 1987.

The report stated that the interests of the Army were not properly protected by the contract closeout process, and that delays in the closeout process included delays in the deobligation of funds, the recovery of Government property, and the recovery of overpayments to contractors. The Director for Contracting, Office of the Assistant Secretary of the Army (Research, Development, and Acquisition), agreed with all the recommendations and took specific actions to develop a desktop handbook on contract closeout, establish standards on contract closeout in performance plans, establish an Army-wide reporting system to monitor contract closeout, and instruct contracting officers to use checklists to monitor the progress of contract closeout.

APPENDIX B - MILITARY DEPARTMENTS WORKLOAD PROFILES

Workload Profile Data. The Military Departments estimated that the following contract administration work load would be transferred to DLA under the consolidation program.

	Army		Navy*		Air Force	
	Number	Value (Billion)	Number	Value (Billion)	Number	Value (Billion)
Total Contracts Administered	6,584	$37.5	23,291	$133.8	84,403	$937.4
Physically Complete Contracts Awaiting Closeout	1,090	$ 3.9	4,624	$ 19.3	4,168	$ 31.2
Physically Complete Contracts Overage	263	$ 1.2	2,692	$ 13.7	2,753	$ 24.2

*Data reported from the Navy do not include the Naval Sea Systems Command, Navy Plant Representative Offices, at: FMC - Minneapolis, MN; UNISYS - Great Neck, NY; Vitro - Laurel, MD; General Dynamics - Pomona, CA.

The MOCAS system will eventually support contract administration functions for each of the Military Departments. The Army contracting offices were already using MOCAS to maintain control over the administration of contracts, including the contract closeout process, when the transfer order became effective. The Navy had not implemented an automated system to maintain control over the administration of contracts, but used a manual system of records. The Air Force used the "Acquisition Management Information System" (AMIS), another automated system to maintain control over the administration of contracts. The Plant Representative Offices formerly belonging to the Air Force will remain on AMIS until the work load is phased-in at DFAS-CO. The Military Departments use FAR and DFARS procedures for contract closeout.

All Military Department Plant Representative Offices were transferred to DLA with the exception of the Army Ammunition Plants and the Navy Supervisor of Shipbuilding. MOCAS will be the DoD system for contract administration. The Military Departments workload data show the impact of consolidation of the contract administration mission on DLA and provide a more complete picture of the scope of the contract closeout mission in DoD. The Military Departments are not otherwise separately addressed in this report.

APPENDIX C - STATISTICAL SAMPLING PLAN

Objective and Scope. The objective of the sampling plan was to achieve a statistically designed method to sample contracts administered by DLA. The audit locations, DCMDM and DCMDW, were selected to coincide with locations visited during Project No. 9AC-0021. We selected contracts for review from the universe of contracts in the CAR at the two Districts. The CAR sections included in our scope were section 1 (active contracts), section 2 (physically complete contracts), and section 4 (contracts reopened for payment adjustments). The universe of contracts and associated values were as follows:

District	Number of Contracts	Obligation Value
DCMDM Universe	83,378	$56.7 Billion
DCMDW Universe	51,019	$82.3 Billion

Statistical Methodology. We used a statistically designed method to sample contracts in order to project certain characteristics and dollar values to the universe of administered contracts at the selected Districts. The original sample plan was designed to evaluate administrative and payment aspects of the contract closeout process for a sample of contracts under one organization, DLA. The advent of the Defense Finance and Accounting Service split the contract payment function from the contract administration function. We now have one sample of contracts for two organizations. Because of this organizational realignment of responsibility, we recalculated our audit results as they related to each organization.

We selected a separate sample of contracts administered by two DCMC Districts. For DCMDM, we randomly selected three sub-sites. After the first stage selection, we selected 150 contracts at random within the three sub-sites as follows:

Sub-Sites	Number of Contracts
DCMAO Philadelphia	37
DCMAO Towson	103
DPRO IBM	10
Total	150

APPENDIX C - STATISTICAL SAMPLING PLAN (Continued)

For DCMDW, we randomly selected four sub-sites. After the first stage selection, we selected 150 contracts at random within the four sub-sites as follows:

Sub-Sites	Number of Contracts
DCMAO El Segundo	88
DCMAO Van Nuys	53
DPRO Hughes Aircraft	7
DPRO McDonnell Douglas	2
Total	150

This two-stage random selection process produced data from which statistical estimates were made using appropriate two-stage sampling formulas from the text, Elementary Survey Sampling (3rd ed.) by Scheaffer, Mendenhall, and Ott, (pp. 235 - 236). The two-stage selection process gave us the ability to review an appropriate number of contract files, and extract information needed to assess the overall administration of the contract closeout process for each District. The results were projected to the universe of contracts administered by each District separately. We also made new calculations to show the distribution of the results between the two DCMC Districts, and the two DFAS Centers. All projections were performed with appropriate 90-percent confidence and with precision found by taking +/- 1.645 times the standard error of the estimate. The results of statistical projections are shown below.

1. Contracts with inaccuracies in the MOCAS database:

		Projections	
District	Sample Results No. of Contracts	Number of Contracts	Dollar Value
DCMDM	38	19,750	$ 9.7 Billion
		+/- 6,611	+/- 5.7 Billion
DCMDW	36	11,934	$ 5.2 Billion
		+/- 9,133	+/- 4.7 Billion

2. Contracts with erroneous obligations and disbursements causing erroneous unliquidated obligations:

		Projections	
District	Sample Results No. of Contracts	Number of Contracts	Dollar Value
DCMDM	25	13,344	$ 8.5 Billion
		+/- 8,350	+/- 5.9 Billion

APPENDIX C - STATISTICAL SAMPLING PLAN (Continued)

3. Contracts with missing or incomplete ACO or finance files:

a. Combined ACO and payment office results:

		Projections	
District	Sample Results No. of Contracts	Number of Contracts	Dollar Value
DCMDM	27	12,543	$ 6.7 Billion
		+/- 5,774	+/- 4.3 Billion
DCMDW	67	20,583	$ 6.0 Billion
		+/- 10,635	+/- 4.3 Billion

b. Payment office results:

		Projections	
DFAS	Sample Results No. of Contracts	Number of Contracts	Dollar Value
Philadelphia	26	11,994	$ 6.7 Billion
		+/- 5,952	+/- 4.3 Billion
Columbus	51	16,393	$ 5.5 Billion
		+/- 4,954	+/- 3.7 Billion

c. ACO office results:

The incidence of incomplete or missing ACO files was not significant enough to project. See the projections in 3.a. above for the combined impact of ACO and payment office problems on contracts administered by the DCMC Districts.

4. Contracts awaiting DCAA audits of overhead rates:

		Projections	
District	Sample Results No. of Contracts	Number of Contracts	Dollar Value
DCMDM	23	12,985	$ 3.7 Billion
		+/- 6,981	+/- 2.8 Billion

DEFENSE LOGISTICS AGENCY
THE DEFENSE CONTRACT MANAGEMENT COMMAND
CAMERON STATION
ALEXANDRIA, VIRGINIA 22304-6190

14 [illegible] 1990

IN REPLY REFER TO DLA-A

SUBJECT: Fiscal Year (FY) 1991 Appropriation Act Changes Affecting Contract Closeout

TO: Commanders of DCM Districts
ATTN: Directors, Contract Management

1. Congress recently passed the FY 91 Appropriation Act. Provisions of the act require the closeout of all procurement appropriation accounts on 30 September of the fifth fiscal year after the period of availability for obligation ends.

2. Prior to this legislation, when the period of availability for obligation ended, expired funds retained their FY identity for a two-year period. After two years all obligated, but unliquidated balances, were transferred to a M Account which was not governed by any time constraints. This allowed obligations to be cleared against the account whenever the associated contracts were closed.

3. Under the new procedures, when the period of availability for obligation ends, the balances of the appropriation remain in an expired category. These funds are available to liquidate obligations and fund valid upward obligation adjustments for five years. After five years all balances (obligated and unobligated) are canceled. Obligations outstanding after the five year period must be charged to a current appropriation account of the agency available for the same purpose. There will no longer be any M Accounts.

4. The time period governing availability for obligation varies by the type of funding. Generally the timeframes are 3 years for procurement funds, 2 years for Research, Development, Test & Evaluation (RDT&E), and 1 year for Operations & Maintenance (O&M). The law provides for gradual implementation of the closing of various accounts. The first milestone requires identification of payments required to be made from obligated balances that expired at the end of FY 83 or earlier by 6 March 1991. A timetable for transition procedures is provided as Enclosure 1. Payment for the obligations identified as expired at the end of FY 83 or prior must be made by 6 May 1991 or they will have to be made out of current appropriations.

5. These changes make it imperative that contracts are closed in accordance with the timeframes. After the end of each time period, funds for payment or adjustment of any remaining contractual obligations will no longer be available. To meet remaining obligations, for those contracts that are not closed, current year funding must be requested from, and obligated by the purchasing activity. The purchasing activities will not be receptive to use of current funding to meet old obligations resulting from resolution of administrative actions long after the items or services have been delivered.

DLA-A PAGE 2
SUBJECT: Fiscal Year (FY) 1991 Appropriation Act Changes Affecting Contract Closeout

6. All steps necessary to close affected contracts must be taken. A partial list of recommended actions is provided as Enclosure 2. Attention should given to completion of outstanding contract reconciliations. We strongly encourage partial close out and settlement on those contracts where there are outstanding and all amounts cannot be settled. Prompt and aggressive management attention must be given to accomplishing the best effort toward resolution of outstanding issues.

7. We recommend that you identify those contractors who have not submitted adequate overhead rate proposals for the affected years. Every effort should be made to impress upon them the necessity of submitting a proposal. The Defense Contract Audit Agency (DCAA) has instructed their Regional Directors to program and prioritize these audits to allow for completion by 28 February 1991 for FY 85 and before. DCAA will not provide for the usual 60 days allowed for contractor rebuttal of their findings. If the contractors nonconcur, DCAA will issue a Form 1 and forward the audit to the Administrative Contracting Officer (ACO) for resolution. They have also instructed their Regional Directors to give priority attention to reviewing final Public Vouchers submitted under any affected contracts.

8. DCAA provided the list at Enclosure 3 of contractors who have not submitted acceptable rate proposals. This information, used in conjunction with your recent Report on Status of Open Overhead Negotiations (RCS DD-D(AR)(SA)1558), should enable you to identify those contractors requiring your immediate attention. Also included for your information is a listing provided by DCAA reflecting contractor overhead years that their records show as audited but not settled (Enclosure 4).

9. Request you provide a status report to Headquarters DLA, ATTN: DLA-AC by 15 January 1991. Include in your report the number of contracts and unliquidated obligations that will fall under the March and September 1991 transition dates. Also include information pertaining to contracts that are in litigation or under investigation. Also provide the name and phone number of the person in your District responsible for contract closeout issues. Any questions or suggestions should be directed to Nanette Audet, AV 284-7644 or Commercial (703) 274-7644. The information in this letter should be given the widest possible dissemination.

3 Encl
1. Transition Procedures
2. Recommended Actions
3. Missing Proposals
4. Open Overhead Years

JAMES F. MCNABNAY
Captain, SC, USN
Deputy Executive Director
Contract Management

TRANSITION PROCEDURES

1. 6 March 1991 - All obligated balances for appropriations that expired at the end of FY 83 and before are canceled. Generally, this means that any amounts owed for contracts entered into in 1983 using:

1983 O&M Appropriations,
1982 RDT&E Appropriations, and
1981 Procurement Appropriations,

and prior appropriations are canceled and are no longer available to clear contract obligations. Amounts paid after 6 March 1991, will be charged against current appropriations. It should be noted that costs associated with these contracts will be incurred subsequent to the year of award.

An exception to this provision is that funds do not have to be canceled if there is documentary evidence that, as of 6 March 1991, the associated payment will be made by 4 May 1991.

2. 30 September 1991 - All obligated balances that expired at the end of FY 84 are canceled. This means that any amounts owed for contracts entered into in 1984 using:

1984 O&M Appropriations,
1983 RDT&E Appropriations, and
1982 Procurement Appropriations,

are canceled and are no longer available to clear contract obligations.

3. 30 September 1992 - All obligated balances that expired at the end of FY 85 are canceled. This means that any amounts owed for contracts entered into in 1985 using:

1985 O&M Appropriations,
1984 RDT&E Appropriations, and
1983 Procurement Appropriations,

are canceled and are no longer available to clear contract obligations.

4. 30 September 1993 - All obligated balances that expired at the end of FY 86 are canceled. This means that any amounts owed for contracts entered into in 1986, 1987, and 1988 using:

1986, 1987, 1988 O&M Appropriations,
1985, 1986, 1987 RDT&E Appropriations, and
1984, 1985, 1986 Procurement Appropriations,

are canceled and are no longer available to clear contract obligations.

RECOMMENDED ACTIONS

1. Complete reconciliations of Fixed Price Contracts

2. Complete negotiations of outstanding DCAA Form 1s and open overheads, where possible.

3. For those contractors whose rates were audit determined, and any where negotiations have been successfully concluded, ensure that contractors submit their final Public Vouchers.

4. Ensure that contractors submit overhead proposals for open years.

5. Encourage expansion of the use of quick closeout procedures especially where contractors may have few cost type contracts and there is not a significant cost impact on the Government.

6. Accomplish partial closeout and settlement where all outstanding issues and amounts pending payment cannot be settled.

Enclosure 2

APPENDIX E - DEFENSE CONTRACT AUDIT AGENCY "AUDIT MANAGEMENT GUIDANCE ON ACCOMPLISHMENT OF INCURRED COST AUDITS FOR CONTRACTOR FISCAL YEARS 1987 AND EARLIER"

OAD 702.1.4

18 December 1990
90-OAD-251

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT

SUBJECT: Audit Management Guidance on Accomplishment of Incurred Cost Audits for Contractor Fiscal Years (CFYs) 1987 and Earlier

The 1991 Defense Authorization and Appropriation Bill includes language which greatly reduces DoD's ability to use funds that currently reside in what are called "merge/surplus" accounts (unobligated funds) or "M" accounts (obligated but unexpended funds). Previously, unexpended money in these accounts could reside there indefinitely until DoD spent the funds. The new law, however, changes this so that all procurement funds not expended within 5 years after being appropriated must be returned to the Treasury. Any payments required thereafter with respect to old obligations must be paid from current year DoD appropriations, thus impacting current procurement plans.

As a result of these new fiscal realities, and to preclude loss of "M" funds still available as well as to minimize the affect on current year appropriations, contract closeouts for older years must be accelerated. Accordingly, all incurred cost submissions for CFYs 1987 and earlier must be given priority and the audits completed and reports issued by the following dates:

CFY	Report Issuance Date
1985 and earlier	15 Feb 91
1986	31 Jul 91
1987	29 Feb 92

We have provided a listing of unreceived submissions for the above years to the Defense Contract Management Command who will attempt to obtain them. If and when any of these pre-1988 submissions are received, they should be prioritized and audited in accordance with the above schedule. Once a report issuance date has elapsed, submissions received which are applicable to the next critical issuance date should be given priority. Previously furnished guidance regarding the DIA incurred cost initiative and the need to maximize the use of multiyear audits is still applicable to the extent that it is consistent with meeting this new overriding concern with the completion of the oldest CFYs. The above schedule is also applicable to those contractors where only the audit of direct costs is involved.

18 December 1990
90-OAD-251

OAD 702.1.4
SUBJECT: Audit Guidance on Accomplishment of Incurred Cost Audits for Contractor Fiscal Years (CFYs) 1987 and Earlier

Equally important to the process of closing contracts is the issuance of contract audit closing statements. Final vouchers for contracts with completion dates before 1988 should be reviewed as soon as they are received.

CAM 6-708.1b and 6-708.1d outline the suggested time periods allowed for contractors to submit rebuttal comments and for auditors to analyze contractor responses. In order to minimize the time spent on these activities, FAOs should coordinate with contractors, explain the situation, and urge contractor promptness in providing comments. In order to speed the process, FAOs should consider providing audit results to contractors as the conclusions are formulated (see CAM 6-709b). If it becomes apparent that contractor actions will delay the issuance of a report beyond the date indicated above, the auditor should make the ACO aware of the circumstances.

FAO personnel should direct any questions to their regional office. Regional questions should be directed to Mr. Charles J. May II, Program Manager, Special Audits Division, at (703) 274-7775.

ROY C. HEIDEMANN
Assistant Director
Operations

DISTRIBUTION: C

2

APPENDIX F - OVERPAYMENTS ON CONTRACTS REVIEWED

We reviewed 150 contracts at the two DCMC Districts included in the audit and identified the overpayments listed below. The frequency of occurrence of overpayments in our sample was too low to allow projection to the total universe of contracts administered by the Districts.

Overpayments at DCMDM:

Contract Number	Amount of Overpayment	Status
DAAB07-82-D-D004/0024	$73,233.00	Recovered*
DAAK80-80-C-0601	10,442.85	Recovered*
N00024-84-C-6202	6,983.19	Recovered*
Total	$90,659.04	

Overpayments at DCMDW:

Contract Number	Amount of Overpayment	Status
N00383-85-G-5108/0365	$ 11,385.00	Recovered*
DLA100-84-C-4499	117.68	Default
DAAH01-81-C-B016	70,796.31	Default
DAAH01-85-C-0726	940.80	Demand Ltr.*
N00024-83-C-7010	40,726.47	Bankrupt
N00383-81-G-1104/0289	75,282.00	Recovered*
Total	$199,248.26	

* Represents the six recoverable overpayments amounting to $178,300.

In addition to the overpayments identified from our statistical sample, we reviewed the results of the reconciliation efforts by Coopers and Lybrand, the accounting firm hired by DLA to reconcile DCMDW contracts serviced at the DFAS-Columbus Center. The results of Coopers and Lybrand efforts as of September 15, 1990, showed:

- Demand Letters Issued $ 17,493,638
- Contractor Refunds $ 6,321,646
- Accounting Adjustments $584,001,668
- Contracts Closed 1,560

APPENDIX G - SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

Recommendation Reference	Description of Benefit	Amount and Type of Benefit
1.	Compliance. Will result in improved management of contract files in accordance with DFARS 204.802, "Contract Files."	Nonmonetary.
2.a.	Program Results. Economy and Efficiency. Will improve the accuracy and reliability of the MOCAS database.	Nonmonetary.
2.b.	Internal Control. Will improve the accuracy of MOCAS in support of contract administration and contract closeout.	Nonmonetary.
2.c.	Internal Control. Compliance with regulations or laws. Will provide needed documentation in support of contract administration and contract closeout.	Nonmonetary.
2.d.	Internal Control. Procedures to control payment files will ensure adequate documentation to verify contract and payment actions and update the MOCAS database.	Nonmonetary.
2.e.	Economy and Efficiency. Prompt collection of overpayments will save future interest cost.	Undeterminable.

APPENDIX H - ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Director of Defense Procurement, Washington, DC
Comptroller of the Department of Defense, Washington, DC

Department of the Army

Assistant Secretary of the Army (Financial Management), Washington, DC
Assistant Secretary of the Army (Research, Development, and Acquisition), Washington, DC
Army Materiel Command, Alexandria, VA
U.S. Army Aviation Systems Command, St. Louis, MO
U.S. Army Tank-Automotive Command, Warren, MI

Department of the Navy

Assistant Secretary of the Navy (Financial Management), Washington, DC
Assistant Secretary of the Navy (Research, Development, and Acquisition), Washington, DC

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller), Washington, DC
Comptroller of the Air Force, Washington, DC
Headquarters, Air Force Systems Command, Andrews Air Force Base, MD

Defense Agencies

Defense Finance and Accounting Service - Columbus Center, Columbus, OH
Defense Logistics Agency, Alexandria, VA
- Defense Contract Management District Mid Atlantic, Philadelphia, PA
  - Defense Contract Management Area Operations, Philadelphia, PA
  - Defense Contract Management Area Operations, Baltimore, MD
  - Defense Plant Representative Office, IBM, Manassas, VA
- Defense Contract Management District West, Los Angeles, CA
  - Defense Contract Management Area Operations, El Segundo, CA
  - Defense Contract Management Area Operations, Van Nuys, CA
  - Defense Contract Management Transition Office, Dallas, TX
  - Defense Plant Representative Office, McDonnell Douglas, Huntington Beach, CA
  - Defense Plant Representative Office, Hughes, Fullerton, CA

APPENDIX I - FINAL REPORT DISTRIBUTION

Office of the Secretary of Defense

Under Secretary of Defense (Acquisition)
Assistant Secretary of Defense (Production and Logistics)
Assistant Secretary of Defense (Public Affairs)
Comptroller of the Department of Defense
Director of Defense Procurement

Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Financial Management)
Assistant Secretary of the Army (Research, Development, and Acquisition)
Army Inspector General
Auditor General, U.S. Army Audit Agency

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Assistant Secretary of the Navy (Research, Development, and Acquisition)
Comptroller of the Navy, NCB-532
Auditor General, Naval Audit Service

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Assistant Secretary of the Air Force (Acquisition)
Director, Air Force Audit Agency

Defense Activities

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Finance and Accounting Service-Columbus Center
Director, Defense Logistics Agency
Commander, Defense Contract Management Command
Commander, Defense Contract Management District Mid Atlantic
Commander, Defense Contract Management District West

APPENDIX I - FINAL REPORT DISTRIBUTION (Continued)

Office of Management and Budget
U.S. General Accounting Office, NSIAD Technical Information Center

Congressional Committees:

Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
Ranking Minority Member, Senate Committee on Armed Services
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
Ranking Minority Member, House Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on Government Operations

PART IV - MANAGEMENT COMMENTS

Defense Finance and Accounting Service
Defense Logistics Agency

DEFENSE FINANCE AND ACCOUNTING SERVICE
WASHINGTON DC 20376 5001

NOV 15 1991

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: "DoD Summary Report on the Audit of the Administration of the Contract Closeout Process" (Project No. OCF-0045.00)

Our detailed comments to the recommendations and potential benefits described in the draft audit report are attached.

for Albert V. Conte
Director

Attachment

Final Report Page No.

DFAS Comments to OIG Audit of the Administration of the Contract Closeout Process

13
Renumbered
2.a.

Recommendation 1.a.: Recommend that the Director, DFAS establish a time-phased plan to provide mandatory training to data input personnel responsible for interpreting and entering contract data into the MOCAS system.

Comment: Concur. The DLA Finance Center in Columbus, Ohio (which is now the Defense Finance and Accounting Service - Columbus Center (DFAS-CO)), initiated a formal training curriculum specifically to train employees in the specialty areas. Formal technical training had not been available at the DCASRs. There is now a mandatory 8-week training program attended by both management and operations employees. Each job position has a different sequence of "desired" courses based on the skills required. The "desired" training for employees is based on the employees' needs and prior experience. Some employees may only need to take some of the courses. It is an invalid assumption that all data input personnel who are new to DFAS-CO require all of this training. Most transfer employees have some or all of the required experience to perform their duties.

At their exit interview with our DFAS-CO personnel on September 18, 1991, the DoD IG audit team indicated that this recommendation would be revised in the final report to place the training emphasis on newly hired personnel. We concur in this recommendation if it is amended in this manner. Our position is that a comprehensive training program was in existence at the time of this audit and exists now. Training is accomplished on an as needed basis. Supervisors have the responsibility and authority to determine which employees require the cited training in order to perform at an effective level.

Estimated Completion Date: Completed.

13
Renumbered
2.b.

Recommendation 1.b.: Recommend that the Director, DFAS develop and implement standard operating procedures to verify the accuracy of financial data in the MOCAS system database.

Comments: Concur. Quality reviews of contract data input are performed on a daily basis. A random sample of transactions is selected for review by Operating Division personnel as well as an additional sample of transactions reviewed by the Accounting Review Branch. Transactions are reviewed to ensure data base accuracy and integrity result.

Estimated Completion Date: Completed.

Final Report Page No.

Recommendation 2.c.: Recommend that the Director, DFAS develop standard operating procedures for the physical control and maintenance of complete and accurate payment files. — 14 Renumbered 2.c.

Comments: Concur. DFAS-CO has effectively limited access to the file storage facility by instituting the following procedures:

a. Locking all file doors when file personnel are not present.

b. Limiting access to the file area by DFAS-CO personnel. DFAS-CO personnel must receive permission to enter the file area by a supervisor and must be accompanied by a supervisor or lead file clerk.

File personnel use written security procedures. Since instituting a third shift workforce, the backlog of unfiled documents and contracts has been reduced to an average of a 2-day backlog. Action has been instituted to procure a bar coding system to further enhance the tracking of files.

Estimated Completion Date: Completed.

Recommendation 2.d.: Recommend that the Director, DFAS establish a time-phased plan to track that all payment files are accounted for and are complete and accurate. — 14 Renumbered 2.d.

Comments: Concur. As a part of the transfer-out process, the transferring activity conducts an inventory of files for completeness and accuracy. In addition, a physical inventory of the files is performed by the receiving activity (DFAS-CO). Once we determine there are missing documents, we will establish milestones to track that all required data is obtained in the payment office.

Recommendation 2.e.: Recommend that the Director, DFAS report the lack of procedures to control contract payment files as a material internal control weakness in the annual statement of assurance and track the status of corrective actions using the procedures established in DoD Directive 5010.38, "Internal Management Control Program," April 14, 1989. — Deleted

Comments: Concur. DFAS management examined and evaluated existing contract payment file controls and determined that they are adequate.

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Deleted

3

Recommendation 2.f.: Recommend that the Director, DFAS initiate action to recover the following overpayments on contracts administered by the Defense Contract Management District Mid-Atlantic:

Contract Number	Amount of Overpayment
DAAK20-84-D-0707/0022	$ 728.03
DAAB07-82-D-D004/0024	$73,233.00

Comments: Nonconcur. Overpayment of $728.03 is not valid. The voucher was for DAAK20-84-D0707/0025 but was in the 0022 file. Overpayment of $73,233.00 was recovered on August 18, 1989. Copies of supporting documentation were mailed to the DoD IG on September 30, 1991.

14 Renumbered 2.e.

Recommendation 2.g.: Recommend that the Director, DFAS initiate action to recover the following overpayments on contracts administered by the Defense Contract Management District West.

Contract Number	Amount of Overpayment
N00383-85-G-5108/0365	$11,385.00
DLA100-84-C-4499	$ 117.68
DAAH01-81-C-B016	$70,796.31
DAAH01-85-C-0726	$ 940.80
N00024-83-C-7010	$40,726.47

Comments: Partially concur. Two of the contracts (DLA100-84-C-4499 and DAAH01-81-C-B016) have been terminated for default and are subject to legal settlement procedures. These are not overpayments because collection action cannot be taken until default resolution is determined. The $11,385.00 overpayment was collected on February 8, 1991. Four demand letters have been issued on the $940.80 overpayment, and the debt has been transferred to DFAS - Washington Center. The $40,726.47 overpayment cannot be collected at this time because the contractor declared bankruptcy in October 1990. Copies of supporting documentation were mailed to the DoD IG audit team on September 30, 1991.

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
CAMERON STATION
ALEXANDRIA, VIRGINIA 22304-6100

04 NOV 1991

IN REPLY REFER TO DLA-CI

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, DEPARTMENT OF DEFENSE

SUBJECT: DoD Draft Summary Report on the Audit of the Administration of the Contract Closeout Process (Project No. OCF-0045.00)

This is in response to your 27 August 91 memorandum requesting our comments pertaining to the audit of the DoD Summary Report on the Administration of the Contract Closeout Process (Project No. OCF-0045.00). The attached positions have been approved by Ms. Helen T. McCoy, Deputy Comptroller, Defense Logistics Agency.

for Sheila P Raines
JACQUELINE G. BRYANT
Chief, Internal Review Division
Office of the Comptroller

5 Encl

Final Report Page No.

7

TYPE OF REPORT: AUDIT TYPE OF POSITION: 1 Nov 91

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND #: Audit of the Administration of the Contract Closeout Process (Project No. OCF-0045)

FINDING: MOCAS RELIABILITY IN SUPPORT OF CONTRACT CLOSEOUT. Contract data in MOCAS were inaccurate and contributed to delays in closing contracts. We estimated that MOCAS contained inaccurate data for 19,800 contracts valued at $10.1 billion at DCMDM, and 11,900 contracts valued at $5.2 billion at DCMDW. MOCAS database inaccuracies were attributed to errors by inexperienced and inadequately trained personnel responsible for performing contract data interpretation and input. Incomplete contract and finance documentation was a major contributing factor to the database problems. As a result, inaccurate payments were made, discounts were lost, payments were delayed, and contracts were not closed in a timely manner. We also identified about $198,000 in recoverable outstanding overpayments on seven contracts.

DLA COMMENTS: Partially Concur. We agree that inaccuracies existed in the MOCAS data base, however, complete responsibility for the accounting and finance function, including data entry into MOCAS is now consolidated under the Defense Finance and Accounting Service (DFAS)-Columbus. As a consequence of that transfer of responsibility the finding should be addressed by DFAS.

DLA strongly disagrees with the conclusions concerning incomplete contract file documentation due to the unreliability of the small sample size used to make projections. See recommendation 1.c.

ACTION OFFICER: Ron Crossley, DLA-CX, 46221, 30 Oct 91
PSE REVIEW/APPROVAL: Helen T. McCoy, Deputy Comptroller, 46203, 1 Nov 91

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

DATE OF POSITION: 1 Nov 91

Final Report Page No.

AUDIT TITLE AND #: Audit of the Administration of the Contract Closeout Process (Project No. OCF-0045)

RECOMMENDATION 1.a: We recommend that the Director, Defense Logistics Agency, develop standard operating procedures for the physical control and maintenance of complete and accurate contract files.

Deleted

DLA COMMENTS: Nonconcur. Adequate instructions and procedures for physical control and maintenance of contract files already exist. The Federal Acquisition Regulation (FAR) 4.8, Contract Files, prescribes requirements for establishing, maintaining, and disposing of contract files. It is supplemented by the DoD FAR Supplement 204.8, Contract Files, which contains additional detail pertaining to the maintenance and contents of contract files. In addition, DLA provides further detailed guidance in the DLA Manual 8105.1, Contract Administration Manual Part 4.8, Contract file Maintenance, Closeout, and Disposition, and the DLA Manual 5015.1 Files Maintenance and Disposition. These regulations and manuals contain sufficient, detailed instruction regarding the physical control and maintenance of contract files. Any additional coverage would be redundant.

DISPOSITION:
( ) Action is ongoing. Estimated Completion Date:
(X) Action is considered complete:

ACTION OFFICER: Nanette Audet, DLA-ACM, 47644
PSE REVIEW/APPROVAL: James R. McNabnay, DCMC-A, 46221, 4 Oct 91

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller