



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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REPORT
NO. 92-093

May 15, 1992

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Audit Report on the Consolidation and Transfer of
Contractor Payments to the Defense Finance and
Accounting Service - Columbus Center
(Project No. 1FH-0045)

Introduction

We are providing this final report for your information and use. The objective of the audit was to evaluate the consolidation plans and transfer of contractor payments to the Defense Finance and Accounting Service (DFAS) - Columbus Center (the Center). We evaluated plans for training employees and actions taken to provide adequate facilities for the Center. We also evaluated internal controls applicable to the consolidation. The audit was conducted from April to August 1991. When the consolidation is complete, the Center will have approximately 3,400 employees. About 1,600 employees will be responsible for contractor payments for about 440,000 contracts valued at an estimated \$746 billion.

Scope of Audit

We reviewed personnel placement, employee training, maintenance of contract files, and the schedule for transferring contracts and functions from Defense Contract Administration Service Regions (DCASRs) to the Center. Our review covered the period from August 1988 (when the Center was initially established under the Defense Logistics Agency) through August 1991. We reviewed contract payment files, management reports, statistics on employee placement, and training records. We reviewed DFAS's plans and schedules for reassigning former DCASR finance and accounting employees. We also reviewed plans and schedules at the Center for training finance and accounting personnel, procedures for control and storage of contract payment files, and the condition of contract payment files being transferred to the Center from former DCASR locations. A limited statistical sample was used to evaluate contract payment files at the four DCASR activities we visited.

This performance audit was made in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly included such tests of internal controls as were considered necessary. Enclosure 2 lists the activities we visited or contacted.

Internal Controls

Because the Center was established on January 20, 1991, reports on the Federal Managers' Financial Integrity Act had not been prepared for the new organization. We reviewed internal controls over contract payment files, training of employees, and the assignment and management of personnel. We also reviewed controls over the consolidation of contractor payments at the Center. The audit disclosed no material deficiencies as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. Management was taking action to correct the deficiencies we noted.

Background

On July 25, 1988, the Defense Logistics Agency (DLA) issued DLA General Order No. 15-88, which established the DLA Finance Center at Columbus, Ohio. DLA took this action to consolidate its financial operations for contractor payments, stock fund payments, payroll, travel, commercial payments, and associated accounting. DLA's goal was to provide finance and accounting services in a cost-effective manner, ultimately reducing its operating costs. Contractor payment functions were to be transferred from the former DCASRs to the DLA Finance Center.

On June 12, 1989, the Secretary of Defense submitted the "Defense Management Report" to the President, identifying ways to better manage DoD resources. In implementing the report, the Deputy Secretary of Defense established a study group to review ways to improve DoD's finance and accounting operations. The study group's "Report on the Consolidation and Improvement of Financial Operations" was prepared in April 1990 and was approved by the Deputy Secretary of Defense in July 1990. DFAS was established by DoD Directive 5118.5, "Defense Finance and Accounting Service," issued November 26, 1990. Under DFAS, the DLA Finance Center became one of six DFAS Centers. Transfers of contractor payments from the DCASRs were to be coordinated between DLA and DFAS. Defense Management Report Decision No. 910 (DMRD 910), "Consolidation of DoD Accounting and Finance Operations," December 4, 1990, gave details of how DFAS was to be formed.

Prior Audit Coverage

In January 1990, the Office of the Assistant Inspector General for Auditing, DoD, began a President's Council on Integrity and Efficiency audit of "Administration of the Contract Closeout Process in the Department of Defense," Project No. OCF-0045. Audit Report No. 92-076, issued April 15, 1992, recommended that the Center:

- o Establish a time-phased plan to provide training to newly hired personnel responsible for interpreting and entering contract data into the Mechanization of Contract Administration Services (MOCAS) system.

- o Develop and implement procedures to verify the accuracy of financial data in the MOCAS system data base.

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

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

- o Recover overpayments on five contracts administered by the Defense Contract Management District West.

Discussion

The audit showed that DFAS had made a considerable effort to consolidate and transfer the contractor payment function to the Columbus Center. However, we noted a few areas where improvements could be made. Although the functions were being transferred, most employees chose not to move to Columbus; since they were assured that they would be provided with jobs in the same geographic area, they had little incentive to move. The audit further showed that the Center did not have adequate control of contract files and that the system for tracking the files was ineffective. In addition, the Center had not provided all required training for finance and accounting personnel in its three Contract Administration Services (CAS) directorates.

Transfer Schedule. Assuring employees that they would have a job, whether or not they transferred to the Center, reduced the likelihood that personnel would transfer to the Center when the contractor payment functions were moved. We believe that there was little incentive for personnel to move to the Center, causing the Center to hire many more employees than were initially expected. To ensure that the transfers would be completed by FY 1993 in accordance with DMRD 910, DFAS accelerated DLA's original consolidation plan. Out of concern for affected employees and to ensure that personnel remained on the job

instead of leaving the organization before their functions transferred, the Principal Deputy Comptroller, DoD; the Director, DFAS; and the Director, DLA, signed a Memorandum of Agreement (MOA) in May 1991 to cooperate in the consolidation. The MOA stated that DFAS would encourage all former DLA finance and accounting personnel to accept reassignment to the Center or other DFAS sites when functional transfers were announced. By June 1991, DLA had administratively transferred to DFAS all finance and accounting personnel located at its various DCASRs who had not previously transferred to the Center. About 1,000 finance and accounting personnel worked at those sites. The agreement required the Comptroller, DoD, and the DFAS personnel office to be responsible for about 450 employees at 4 locations; the DLA personnel office was responsible for about 550 employees at the other 4 locations. Each organization was to provide outplacement assistance to the permanent finance and accounting personnel who were not willing to move when the work load transferred to the Center. Most employees at the DCASRs chose not to move to Columbus.

Management personnel in the Office of the Comptroller, DoD; DFAS; and DLA told us that former DCASR finance and accounting employees had been assured that they would be provided jobs whether or not they relocated to Columbus when their functions were transferred. Based on our discussions with personnel officers at the former DCASR sites, we believe there will not be enough vacancies for these employees. Managers have told us that positions have been or will be created in order to honor the commitments made to the employees. Aside from the potential impropriety of placing personnel in positions of questionable usefulness, this action will partially offset the potential savings to be gained by establishing the Center. This area is currently scheduled to be reviewed during IG, DoD, inspections of both DFAS and DLA in FY 1993. Therefore, we did not examine personnel practices in depth.

Contract Payment Files. Contract files shipped to the Center were incomplete, and when the files arrived at the Center, there was no assurance that they were adequately controlled. The transfer of contracts from the former DCASRs to the Center began in May 1989, when 95,000 contracts were shipped from DCASR - Los Angeles. Of those contracts, 6,000 were incomplete. When the contracts were sent from DCASR - New York, about 2,600 of the estimated 24,000 contracts shipped were missing. (All but 260 were located later.) The inventories of contracts shipped from the former DCASRs were also inaccurate. Inventories of contracts that were prepared too far in advance of the transfers became incorrect as contracts were completed and new contracts were opened. We visited four DCASRs to determine the condition of the contract payment files that had not been transferred to the Center. From 5 to 15 percent of the contract payment files were incomplete. Enclosure 1 shows the results of our

observations. In addition, the Center did not have adequate controls in the file room or an adequate system to track the location of contract files once they arrived. Due to inadequate security, unauthorized personnel removed contracts from the file room to perform their contractor payment functions without properly checking out the contracts. DFAS officials stated that as many as 10,000 of the 197,000 contract files maintained at the Center had been removed from the file room and were located in numerous work areas in the CAS directorate.

We toured the file room to observe procedures and the condition of the room and contract files. File room procedures required that a contract checkout card be placed in the location of the borrowed contract. However, this procedure was not always done because the card system was awkward, the work environment was not efficient for retrieving files that were used often, and the work load increased greatly when additional contracts were transferred in.

Lost or misplaced contracts can result in erroneous payments. If contract files cannot be located, verifying the amount due a contractor or determining whether the contract has been modified is difficult. To reconcile contract payment errors, the Center hired an accounting firm to review contractor payments. The accounting firm determined that as of August 30, 1991, contractors had been overpaid about \$82 million and underpaid about \$27 million. As the accounting firm identified the errors, the Center issued demand letters to collect overpayments and paid additional amounts to contractors that had been underpaid.

We discussed the control of contracts with personnel at Headquarters, DFAS, and the Center. In July 1991, Center officials increased security by restricting access to file room personnel and by locking the file room on weekends. These actions prevented unauthorized personnel from removing contracts without leaving checkout cards. The Center also established milestones to begin bar coding of contract files as they are transferred from the former DCASRs. Bar coding will continue until all files have been transferred. The contract files already stored at the Center will be bar coded as they are requested from the file room. With the bar coding system, file room personnel will know the status of every contract. Files can be retrieved more quickly, an audit trail will be created, and notices can be sent when contracts are not returned in a timely manner.

Training Finance and Accounting Personnel. Although the Center conducted extensive training courses for its finance and accounting personnel, attendance could be improved and monitored more closely. Finance and accounting personnel in the CAS directorates are required to attend courses to learn skills or

maintain proficiency in the contractor payment function. The Center has continued to use a training agreement established between the former DLA Finance Center and the DLA Civilian Personnel Support Office (DCPSO). DCPSO had developed a comprehensive training program totaling 8 weeks and consisting of 22 courses. Courses ranged from 1 day to 2 weeks for personnel in any of eight finance and accounting positions in the CAS directorates. Two to six courses may be required, depending on the position and the individual's experience.

The finance and accounting training classes were held at DCPSO, about 3 miles from the Center. There were no controls to monitor scheduled attendance. From February 1990 through August 1991, 23,532 scheduled training hours were unattended. When personnel attended classes, they were required to sign an attendance record. However, DCPSO did not routinely provide the Center's training coordinators with copies of the attendance records. Training coordinators sometimes asked finance and accounting personnel and DCPSO whether the training was attended, but formal procedures were lacking.

We reviewed the employee training records maintained by the Center and DCPSO to determine if finance and accounting personnel were attending classes. Training records specified whether the classes were completed, not completed, or canceled. Our analysis of the training records for 426 personnel showed that 185 (43.4 percent) finance and accounting personnel had not completed all scheduled training from February 1990 through August 1991.

Since our audit, management has reviewed the DCPSO training curriculum, and based on employee experience and previous training, has identified the training classes employees need to attend. Management has taken action to ensure that training requirements are clearly identified based on an employee's experience. We also observed a significant increase in class attendance during the last quarter of FY 1991. Further training was scheduled for subsequent months with priority given to newly hired employees.

Conclusion. Although we found a number of problems during the audit, we are not making formal recommendations. DFAS made several changes during and after our audit. Management improved controls over the file room and changed the schedule for transferring contracts to the Center. Audit Report No. 92-076, issued April 15, 1992, made similar recommendations to correct file room controls and improve training. Inspections of DFAS and DLA are planned for FY 1993, and permanent audit teams are being established at the Center. These actions will help ensure that the weaknesses we observed are corrected.

Management Comments

Since the report contains no recommendations, no comments were requested on the draft report, and none were provided.

The courtesies extended to the audit staff are appreciated. If you have any questions about this audit, please contact Mr. Raymond D. Kidd, Program Director, at (703) 614-1682 (DSN 224-1682), or Mr. Ronald Nelson at 693-0073 (DSN 223-0073). Audit team members are listed in Enclosure 4. The distribution of this report is listed in Enclosure 3.


Robert J. Lieberman
Assistant Inspector General
for Auditing

cc:
Comptroller of the Department of Defense
Director, Defense Logistics Agency

CONDITION OF CONTRACT PAYMENT FILES AT FORMER DCASR LOCATIONS*

<u>DCASR Location</u>	<u>Number of Files Reviewed</u>	<u>Files with Missing Documentation (Percentage)</u>
Atlanta, GA	100	11.0
Dallas, TX	54	7.3
Philadelphia, PA	99	15.0
St. Louis, MO	56	5.5

* DCASR - Defense Contract Administration Services Region

ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Comptroller of the Department of Defense, Washington, DC
Assistant Secretary of Defense (Force Management and Personnel),
Washington, DC

Defense Agencies

Defense Finance and Accounting Service, Washington, DC
Defense Finance and Accounting Service - Columbus Center,
Columbus, OH
Defense Logistics Agency, Alexandria, VA
Defense Logistics Agency Civilian Personnel Support Office,
Columbus, OH
Headquarters, Defense Contract Management Command,
Alexandria, VA
Defense Contract Management District, Atlanta, GA
Defense Contract Management District, Cleveland, OH
Defense Contract Management District, Dallas, TX
Defense Contract Management District, Philadelphia, PA
Defense Contract Management District, St. Louis, MO
Defense Contract Management Operations Office,
Albuquerque, NM
Defense Data Support Center, Defense Electronics Supply Center,
Dayton, OH
Defense Industrial Supply Center, Philadelphia, PA
Defense Personnel Support Center, Philadelphia, PA

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Congressional Committees:

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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,
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