Audit Report

OFFICE OF THE INSPECTOR GENERAL

DEFENSE COMMISSARY AGENCY VENDOR PAYMENTS, RETURNED CHECKS AND REBATES

Report No. 93-124 June 24, 1993

Department of Defense

The following acronyms are used in this report.

DeCA.....Defense Commissary Agency
DFAS.....Defense Finance and Accounting Service
ESC.....East Service Center
FAR.....Federal Acquisition Regulation
SAVES.....Standard Automated Voucher Examination System
WSC.....West Service Center

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

June 24, 1993

MEMORANDUM FOR DIRECTOR, DEFENSE COMMISSARY AGENCY

SUBJECT: Audit Report on Defense Commissary Agency Vendor Payments, Returned Checks and Rebates (Report No. 93-124)

We are providing this final report for your information and use. This report is one in a series of reports relating to the need for improvement of controls over Defense Commissary Agency vendor payments. Other issues discussed are controls over returned checks and cigarette rebates. The report addresses the use of policies and procedures in the "DoD Accounting Manual" (DoD Manual 7220.9-M). The results of this report reflect conditions found from October 1, 1991, through March 26, 1992. The report is being issued as part of our audit of the Defense Commissary Agency's FY 1992 Resale Stock Fund Financial Statements. Comments on the draft of this report were considered in preparing the final report.

Comments on a draft of this report conformed to the requirements of DoD Directive 7650.3 and there are no unresolved issues. Therefore, no additional comments are required.

The courtesies extended to the audit staff are appreciated. If you have any questions on this report, please contact Mr. Robert J. Ryan at (703) 692-3457 (DSN 222-3457) or Mr. Walter R. Loder at (703) 692-3387 (DSN 222-3387). The planned distribution of this report is listed in Appendix C.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Audit Report No. 93-124 **June 24, 1993**
(Project No. 2LA-2003.02)

DEFENSE COMMISSARY AGENCY VENDOR PAYMENTS, RETURNED CHECKS AND REBATES

EXECUTIVE SUMMARY

Introduction. This report is being issued as part of our audit of the Defense Commissary Agency's (DeCA) FY 1992 Resale Stock Fund Financial Statements. It discusses controls over vendor payments, returned checks, and rebates; issues that could impair DeCA's ability to develop information needed to properly prepare the FY 1992 financial statements for the Resale Stock Fund. The report addresses the use of the policies and procedures in the "DoD Accounting Manual" (DoD Manual 7220.9-M). The report also addresses DeCA's ability to properly prepare financial statements in accordance with the Office of Management and Budget Draft Bulletin No. 91-15.

Objective. The overall audit objective was to determine if DeCA's financial statement accounts such as inventory, accounts payable, and cost of goods sold, present fairly the financial position of DeCA's Resale Stock Fund. The objective that this report covers is the adequacy of internal controls to ensure compliance with laws and regulations that have a material impact on the accounts affected by vendor payments, returned checks, and rebates.

Audit Results. During the first half of FY 1992, DeCA did not adequately control financial transactions related to vendor payments, returned checks, and rebates. As a result, DeCA could not be assured that the financial accounts related to vendor payments represent appropriately authorized transactions. In addition, the DeCA financial statements could be misstated.

Internal Controls. Adequate internal controls were not established to ensure that invoices paid had supporting documentation. Internal controls were inadequate to ensure that vendor agreements and data maintained in the Standard Automated Voucher Examination System (SAVES) were valid. Controls over checks received from vendors, returned U.S. Treasury checks, and cigarette rebates were also inadequate. See Part I for a description of the controls assessed and Part II for details on the inadequate controls.

Potential Benefits of Audit. Implementation of the recommendations will improve internal controls over contract administration, payment of invoices, checks received from vendors, returned U.S. Treasury checks, and cigarette rebates.

Additionally, effective internal controls would improve compliance with laws and regulations. A summary of potential benefits is provided in Appendix B.

Summary of Recommendations. We recommended that DeCA issue or modify contract administration procedures, modify its fast payment procedures to ensure that the receipt of vendors' merchandise is verified and that prompt feedback on any deficiencies of fast payment vendors is provided to the contracting officers, require that vendor checks be endorsed and deposited promptly, and require that vendor checks and returned U.S. Treasury checks be promptly and properly accounted for. We also recommended that DeCA record the estimated rebates due from cigarette vendors as an account receivable on the financial records, periodically reconcile the actual vendor rebates received with the recorded accounts receivable amount, and separate the duties of personnel responsible for contracting for cigarette rebates from personnel receiving rebate checks.

Management Comments. The Director, Defense Commissary Agency responded to this report on May 13, 1993. The Director concurred or partially concurred with our recommended actions. The Director did not agree that expired contracts must be removed from SAVES in order to prevent improper vendor payments. The complete text of management's comments is provided in Part IV of the report.

Audit Response. Based on our consideration of management's comments and discussions with DeCA officials after our receipt of their comments, we consider DeCA's comments and planned actions responsive to the audit recommendations.

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This report was prepared by the Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, DoD. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate, at (703) 614-6303 (DSN 224-6303).

PART I - INTRODUCTION

Background

The Defense Commissary Agency (DeCA) was established on October 1, 1991, as a result of the consolidation of the Army, Navy, Air Force, and Marine Corps commissaries. As organized, the Director of DeCA reported to the Assistant Secretary of Defense (Production and Logistics).

Employing 23,000 workers, DeCA operates 385 DoD commissaries worldwide and provides troop issue subsistence for the Air Force and the Army at selected locations. The commissaries are to provide quality products at the lowest practical price to authorized patrons. Sales in FY 1992 were estimated at $6.5 billion and in FY 1993 at $6.7 billion.

Commissary operations are financed by direct appropriation from Congress and other sources, through the Defense Business Operations Fund (DBOF). The DBOF includes, among other areas, the commissary business area, including Commissary Resale Stocks and Commissary Operations. The Commissary Resale Stock Fund is a revolving fund used to purchase groceries, meat, and produce for sale to commissary patrons at cost. DeCA's operating expenses are funded through Operations and Maintenance funds. A third source of revenues is derived from a 5-percent surcharge on all sales to commissary patrons. Surcharge funds are used for store construction and certain store operating supplies and expenses. They are administered through the Commissary Surcharge Collections Fund. Miscellaneous revenues received from vendor discounts and rebates are also included in the Commissary Surcharge Collections Fund.

DeCA has two service centers, the East Service Center (ESC) and West Service Center (WSC). The commercial accounts branch of each center processes vendor invoices for payment authorization. The WSC establishes and administers subsistence contracts and vendor agreements.

Objective

The objective of our overall project was to determine if DeCA's financial statement accounts such as inventory, accounts payable, and cost of goods sold, present fairly the financial position of DeCA's Resale Stock Fund. We evaluated the adequacy of internal controls to ensure compliance with laws and regulations that have a material impact on the accounts affected by vendor payments, returned checks, and rebates.

Scope

At the DeCA service centers, we reviewed procedures for the processing of vendor payments. At the WSC, we reviewed contract administration files to determine if DeCA's contract administration procedures provided assurance that information in the Standard Automated Voucher Examination System (SAVES) data base was supported by valid contractual documents. At both service centers, we also reviewed procedures for checks received from vendors, returned U.S. Treasury checks, and rebate monies received from cigarette vendors. Organizations visited or contacted during the audit are shown in Appendix A.

This portion of the financial statement audit was made from October 1991 to June 1992 in accordance with the auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. The audit also included tests of internal controls as were considered necessary.

Internal Controls

We evaluated internal controls applicable to vendor payments, returned checks, and cigarette rebates. The audit identified material internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. Internal controls related to vendor payments did not provide assurance that information in the SAVES data base was supported by valid contractual documents. Further, internal controls applicable to returned checks and cigarette vendor rebates did not provide assurance that checks received from vendors and returned U.S. Treasury checks were adequately controlled, and controls over rebates from cigarette vendors were adequate. The recommendations in this report, if implemented, will correct the weaknesses. Potential monetary benefits could not be quantified. A copy of the final report will be provided to the senior official responsible for internal controls within the Office of the Secretary of Defense and DeCA.

Prior Audits and Other Reviews

The Office of the Inspector General, DoD, has issued three memorandums to the Director, DeCA, as part of our audit of the FY 1992 Resale Stock Fund. The memorandums addressed the adequacy of DeCA's internal controls and the reliability of DeCA's financial data as follows.

o "Controls Over Vendor Payments and Related Transactions for the Defense Commissary Agency's FY 1992 Resale Stock Fund Financial Statements," March 17, 1992, stated that DeCA's policies and procedures were not clearly documented and communicated. It also stated that payment transactions were not adequately supported, and the automated data processing (ADP) controls were inadequate to ensure accurate accounting information and the safeguard of assets. We suggested that DeCA document and enforce its operational policies and improve its compliance with the provisions of the Prompt Payment Act. DeCA concurred with the suggested actions.

o "Duplicate Vendor Payments, Audit of the FY 1992 Resale Stock Fund Financial Statements," May 4, 1992, provided audit results of preliminary work in the vendor payment area. The memorandum reported that internal controls were inadequate to ensure that authorized vendor payments did not result in the duplicate payments of vendors' invoices. We suggested that DeCA:

- use only appropriately trained personnel to enter valid invoice data,

- enter receipt information only at the commissaries and that commissary store employees delay reentry of merchandise receipt information until after the receipt of signed written verification,

- develop ADP edit checks to identify duplicate payments, and

- establish quality control programs to ensure that payments are adequately supported.

DeCA agreed with the majority of our suggested actions.

o "Control Environment, Audit of the FY 1992 Resale Stock Fund Financial Statements," September 29, 1992, discussed the use of the Internal Review and Inspector General staffs of DeCA. We suggested that all DeCA, IG personnel work on appropriate oversight projects and not operational projects, that DeCA instruct all regional auditors to report to the Chief of the Internal Review Office (IRO) and the Chief of IRO report to the Director or Deputy Director, and that DeCA conduct an evaluation of staffing resources needed to operate an effective internal oversight mission. DeCA agreed with the suggested actions.

PART II - FINDING AND RECOMMENDATIONS

VENDOR PAYMENTS, RETURNED CHECKS, AND REBATES

During the first half of FY 1992, the Defense Commissary Agency did not adequately control financial transactions related to vendor payments, returned checks, and rebates. The condition occurred because:

o Contract administration procedures did not provide assurance that information in the SAVES data base was supported by valid contractual documents.

o DeCA fast payment procedures did not require verification of the receipt of vendor merchandise.

o DeCA returned check procedures did not ensure that checks were promptly deposited and credited to the Government's accounts, and

o DeCA cigarette vendor rebate procedures did not ensure that all rebates were paid and deposited to DeCA's accounts.

As a result, DeCA could not be assured that the financial accounts related to vendor payments represent appropriately authorized transactions. Additionally, the DeCA financial statements could be misstated.

DISCUSSION OF DETAILS

Background

The DoD Accounting Manual requires that payments to vendors be based on the submission of a proper invoice for a valid contract and that the goods be received before DoD makes the payment. DeCA Directive 70-10, "Procedures for Processing and Paying Commercial Accounts Using SAVES," provides procedures for verifying certain vendor invoice and delivery information before authorizing vendor payments. Public Law 100-496, "Prompt Payment Act Amendments of 1988," as implemented by the Federal Acquisition Regulation (FAR) and the Defense Federal Acquisition Regulation Supplement (DFARS), authorize the use of fast payment procedures to pay vendors for goods delivered before the agency

receives evidence of the delivery. When fast payment procedures are authorized, however, additional procedures are required to ensure that DoD Components receive the purchased items.

DeCA Directive 70-16, "Analysis and Reconciliation Operations Procedures," provides procedures for the handling and control of returned checks. The procedures cover only Treasury checks returned to DeCA and are limited in scope.

SAVES Supporting Documentation

Some contract files maintained at the WSC did not include signed vendor agreements, contract modifications, and documentation authorizing remit-to address changes. As a result, DeCA had no documented proof that orders placed against the unsigned agreements were authorized and that vendor payments were appropriate.

The FAR, subpart 4.101, and DFARS require that a contracting officer sign vendor agreements and all subsequent modifications. Certain parts of the vendor agreement information, including the vendor's name and remit-to address, are entered into the SAVES data base, for DeCA voucher examiners' use in comparing vendors' invoices with merchandise receipts to authorize payments for invoices.

We examined 388 contract files that supported vendor payments authorized by DeCA for the period October 1, 1991, through March 26, 1992. A warranted contracting officer had not signed 25 (6 percent) of the vendor agreements and 148 (38 percent) of the vendor agreements had been deleted from the SAVES data bases; however, a contractual modification to terminate the agreements had not been made. Commissary stores were placing verbal orders against agreements that were not signed and others that were no longer in the SAVES data bases.

The SAVES contained nine expired agreements. The nine expired agreements appeared in SAVES because an automated feature of the system had been removed. Before it was removed, the automated feature deleted expired agreements 180 days after the agreement expiration date. DeCA management stated that the automated function was removed because of vendor payment problems that DeCA experienced. As a result, vendor invoices could be submitted and incorrectly paid on expired agreements.

Of the 388 contract files, 46 (12 percent) did not show the same remit-to payment address as the vendor address included on payment authorization vouchers. Neither the SAVES data base nor the contract files included a permanent record of vendor remit-to addresses and address changes so we could not trace the reasons for the differing addresses. Additionally, the number of employees with access to the SAVES data base was excessive because 38 WSC employees could make changes to the vendor payment addresses when only 12 or fewer employees were required.

Fast Payment Procedures

DeCA's procedures for fast payment did not meet the requirements of the DoD Accounting Manual and the FAR. DeCA Directive 70-10 does not establish or require follow-up procedures to verify the receipt of merchandise when fast payment procedures are authorized.

The DoD Accounting Manual requires that payments be based on submission of a proper invoice for a valid contract and that goods be received before DoD makes payment. When fast payment procedures are authorized, additional control procedures are required by the FAR to ensure that the DoD Components receive the purchased items. The FAR requires that an agency using fast payment procedures have a system in place to document evidence of contractor performance under fast payment acquisitions, provide prompt feedback to the contracting officer in case of contractor deficiencies, and identify suppliers who have a history of abusing fast payment procedures.

From October 1, 1991, through March 26, 1992, DeCA approved the fast payment of $4.0 million in vendor invoices. In accordance with fast payment procedures, DeCA paid the vendors before receiving evidence of delivery. One vendor received $900,000 using fast payment procedures before modification of the vendor's agreement to authorize the use of fast payment procedures. The agreement was modified in March 1992 and the vendor was paid under fast payment procedures starting in January 1992.

DeCA had not established follow-up procedures to ensure that merchandise paid for was actually received and that contracting officers were provided prompt feedback in case of contractor deficiencies. Additionally, DeCA stores had not implemented procedures to require suppliers to replace merchandise not received at commissary stores or other delivery points. As a result, there was no assurance that the financial statement accounts for disbursements, inventory, and accounts payable were accurate and complete.

Checks Received from Vendors

DeCA did not have written policies or procedures for handling checks received from vendors. The DoD Accounting Manual states that cash receipts should be deposited immediately. The DeCA service centers held checks received from vendors for up to 35 days before depositing the checks.

DeCA service centers were using informal records to control the checks received from vendors. The journals we examined had missing and incomplete pages. Journal entries were not categorized according to the check type, such as checks received from vendors for deposit or returned U.S. Treasury checks. Additionally, journals were not totaled or reconciled to bank deposits. We were unable to determine the total dollar value or number of checks returned by vendors because of the service centers' inadequate records.

The service centers did not promptly endorse the checks "for deposit only" to the U.S. Treasury. For example, in January 1992, 20 checks totaling about $74,000 were laying in an open safe at the WSC without endorsement. One of the checks was for over $40,000. The 20 checks were held an average of 25 days before being deposited. DeCA personnel stated that the checks on hand were not endorsed because a check might have to be returned to a vendor. Adequate internal controls would provide that all checks be endorsed upon receipt because a check sent by a vendor in error could be adjusted on another payment voucher to the vendor.

Internal controls over the unendorsed checks were not adequate to physically secure the checks, and the records of checks received from vendors were inadequate. A complete audit trail of all transactions is required to ensure accountability for all cash transactions so that cash and related financial accounts are properly stated and verifiable.

Returned Treasury Checks

Controls were inadequate over U.S. Treasury checks payable to vendors but returned to DeCA because of incorrect remit-to payment addresses. Checks were also returned from vendors for such cases as invalid payments. Common business practices and the DoD Accounting Manual provide that checks be handled and controlled similar to cash. We were unable to determine the total value of returned U.S. Treasury checks. As a result of the weak controls, commissary cash assets were vulnerable to diversion; and the financial records were not complete or reliable.

DeCA authorizes the Defense Finance and Accounting Service (DFAS) to issue Treasury checks to pay vendors for delivered merchandise. Treasury checks were returned to DFAS or DeCA. Treasury checks returned to DeCA because of incorrect addresses were being mailed to corrected remit-to addresses specified by the systems accountants at ESC and WSC. However, no record was made of the address corrections and the SAVES data base was not updated to reflect the new addresses to ensure that future payments were sent to the correct remit-to address. Further, DeCA did not follow up on Treasury checks returned to DFAS to ensure that DFAS stopped payment on checks with incorrect payment addresses.

Cigarette Rebates

DeCA had not established proper procedures for collecting, monitoring, and accounting for rebates received from vendors. DoD policy and general business practices require that assets be safeguarded and controlled. As a result of the lack of controls, DeCA could not be assured that expected rebates of about $4 million were collected and appropriately recorded in the financial records of the Commissary Resale Stocks Fund as an accounts receivable until received and disbursed as revenue to the Commissary Surcharge Collections Fund. During the first half of FY 1992 actual rebates totaled only $1.7 million.

Cigarette rebate amounts are based on vendor shelf space or cigarette sales, and represent a material source of funds to the Commissary Surcharge Collections Fund and a material responsibility and liability of the Commissary Resale Stocks Fund. The financial records should include appropriate income and receivable accounts to accurately present DeCA's financial position. Reconciliation of DeCA's actual rebates to the estimated and expected rebate amounts stated in the vendor agreements would establish proper internal control.

The duties of maintaining the contract files related to cigarette rebates and of receiving rebate checks from cigarette companies were not separated at the ESC, which further weakened internal controls. Generally accepted internal controls include the separation of duties over transactions. The same person should not be responsible for maintaining accounting or contract records and actually receiving payments. Adequate financial controls require that all checks, including cigarette rebates, be collected by a designated cashier, deposited immediately in the bank, and that the bank deposits be reconciled to the financial records.

RECOMMENDATIONS, MANAGEMENT COMMENTS, AND AUDIT RESPONSE

We recommend that the Director, Defense Commissary Agency:

1. Issue or modify contract administration procedures to:

o require the signature of an appropriate warranted contracting officer on all vendor agreements,

o include placing documentation in contract files to record the current and past remit-to addresses for all vendors,

o minimize the number of personnel with access to the master vendor file in the Standard Automated Voucher Examination System (SAVES), and

o promptly remove expired contracts from the SAVES master vendor files.

Management comments. The Director, DeCA partially concurred with Recommendation 1. The Director established procedures to ensure that contracting officers sign contracts and document contract files for remit-to addresses and limited access to the master vendor files and vendor address files. SAVES is programmed to remove expired contracts 180 days after the end of the contract. However, due to ongoing bill paying problems, the purge function has been temporarily disabled. The Director stated that canceled or expired contracts should pose no problem since products cannot be ordered after the effective cancellation date of the contract. SAVES does not allow a receipt to be entered for payment with an order date after the expiration date of the contract. The complete text of management's comments is in Part IV of this report.

Audit response. In discussions with DeCA management after our receipt of DeCA's comments, DeCA personnel stated that it was the intent of DeCA to restore the automatic feature of SAVES that deleted canceled contracts, after the completion of the Financial Management Improvement plan. Completion of the Financial Management Improvement Plan is anticipated by September 30, 1993. We consider the DeCA response and subsequent discussions as meeting the intent of the recommendation.

2. Modify Defense Commissary Agency (DeCA) Directive 70-10 to establish procedures for fast payments to ensure that the receipt of merchandise is verified and that there is prompt feedback to contracting officers in case of vendor deficiencies.

Management comments. The Director concurred with Recommendation 2., and stated that the Directive is planned for revision by January 1994. Fast payment was discontinued in DeCA for

resale merchandise as of November 1, 1992, with the exception of one contract for meat in Alaska. The complete text of management's comments is in Part IV of this report.

Audit response. DeCA's comments and planned actions are responsive to the audit recommendation.

3. Improve controls over returned checks by requiring that:

o all checks received from vendors be entered into a formal accounting record for vendor checks only, totaled, and reconciled to deposits made at the bank.

o checks received from vendors be endorsed and deposited, within 24 business hours of the day of receipt, to the proper U.S. Treasury account.

o U.S. Treasury checks returned from vendors or sent to incorrect addresses be entered promptly into a formal accounting record before the checks are processed through the Defense Finance and Accounting Service (DFAS) for return to the U.S. Treasury. Periodically reconcile U.S. Treasury checks stopped for payment by DFAS with DeCA records.

o a log be maintained of remit-to addresses corrected in the SAVES, as provided by the system accountants and used for returned checks, including information required to identify specific transactions and corrected addresses.

Management comments. The Director partially concurred with Recommendation 3., stating that all checks are currently recorded on DD Form 1131, Cash Collection Voucher, with the proper accounting classification. The checks are recorded daily in a disposition log, and reconciled with daily deposits to ensure that all checks are accounted for. The Director stated that:

o directives will be updated by January 1994 to establish formal records and procedures for controlling checks received from vendors,

o procedures were provided to the service centers and implemented requiring that all checks be deposited according to DoD requirements,

o instructions for returned checks will be incorporated into DeCA directives by January 1994, and

o a record will be maintained at the service centers for remit-to address changes forwarded to the Defense Finance and Accounting Service.

Audit response. The Director's response is acceptable and meets the intent of the recommendation.

4. Improve controls over cigarette rebates by recording estimated rebates due from vendors as an account receivable, reconciling actual vendor rebates to rebates recorded in accounts receivable, and separating the duties of personnel responsible for contracting for cigarette rebates from personnel receiving checks for cigarette rebates.

Management comments. The Director concurred with Recommendation 4. The Director stated that the issue must be coordinated with DeCA and Defense Finance and Accounting Service to establish an accounts receivable account and a method for establishing the estimated rebate amount. A policy letter will be issued to provide procedures for processing the collections against the estimated receivable. The procedures will include a separation of duties so that personnel receiving payments will not be the same as those contracting for cigarette rebates. The target date for completion of the procedures is June 30, 1993.

Audit response. DeCA's comments and planned actions are responsive to the audit recommendation.

PART III - ADDITIONAL INFORMATION

APPENDIX A - Organizations Visited or Contacted

APPENDIX B - Summary of Potential Benefits Resulting from Audit

APPENDIX C - Report Distribution

APPENDIX A. ORGANIZATIONS VISITED OR CONTACTED

Office of the Secretary of Defense

Assistant Secretary of Defense (Production and Logistics), Washington, DC

Defense Agencies

Defense Commissary Agency Headquarters, Petersburg, VA

- Defense Commissary Agency, East Service Center, Fort Lee, VA
- Defense Commissary Agency, West Service Center, Kelly Air Force Base, TX
- Fort Carson, Commissary Resale Store, Fort Carson, CO
- Fort Benjamin Harrison, Commissary Resale Store, Fort Benjamin Harrison, IN
- Fort Huachuca, Commissary Resale Store, Fort Huachuca, AZ
- Fort Monroe, Commissary Resale Store, Fort Monroe, VA
- Fort Ord, Commissary Resale Store, Fort Ord, CA
- Charles Melvin Price Support Center, Commissary Resale Store, Granite City, IL
- Alameda Naval Air Station, Commissary Resale Store Alameda, CA
- Jacksonville Naval Air Station, Commissary Resale Store, Jacksonville, FL
- Kingsville Naval Air Station, Commissary Resale Store, Kingsville, TX
- Oceana Naval Air Station, Commissary Resale Store, Virginia Beach, VA
- Holloman Air Force Base, Commissary Resale Store, Alamogordo, NM
- Langley Air Force Base, Commissary Resale Store, Hampton, VA
- McChord Air Force Base, Commissary Resale Store, Tacoma, WA
- Norton Air Force Base, Commissary Resale Store, San Bernardino, CA
- Patrick Air Force Base, Commissary Resale Store, Cocoa Beach, FL
- U.S. Air Force Academy, Commissary Resale Store, Colorado Springs, CO
- Wurtsmith Air Force Base, Commissary Resale Store, Oscoda, MI
- National City Central Distribution Center, San Diego, CA

APPENDIX B. SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

Recommendation Reference	Description of Benefits	Amount and Type of Benefit
1. through 4.	Internal Control. Improved controls will prevent fraudulent or improper payments.	Nonmonetary.

APPENDIX C. REPORT DISTRIBUTION

Office of the Secretary of Defense

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

Defense Agencies

Director, Defense Commissary Agency
Director, Defense Finance and Accounting Service

Non-DoD Organizations

U.S. General Accounting Office
  National Security and International Affairs Division, Technical Information Center
  National Security and International Affairs Division, Defense and National Aeronautics and Space Administration Management Issues
  National Security and International Affairs Division, Military Operations and Capabilities Issues

Chairman and Ranking Minority Members of Each of the Following Congressional Committees and Subcommittees:

  Senate Committee on Appropriations
  Senate Subcommittee on Defense, Committee on Appropriations
  Senate Committee on Armed Services
  Senate Committee on Government Affairs
  House Committee on Appropriations
  House Subcommittee on Defense, 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 Commissary Agency

MANAGEMENT COMMENTS: Defense Commissary Agency

DEFENSE COMMISSARY AGENCY
HEADQUARTERS
FORT LEE VIRGINIA 23801-6300

REPLY TO ATTENTION OF

MAY 13 1993

IR

MEMORANDUM FOR INSPECTOR GENERAL, LOGISTICS SUPPORT DIRECTORATE, 400 ARMY NAVY DRIVE, ARLINGTON, VA 22202-2884

THROUGH: OASD (PRODUCTION AND LOGISTICS) 5/19/93

SUBJECT: Draft Audit Report on the Controls Over Vendor Payments, Returned Checks, and Rebates (Project No. 2LA-2003.01)

Reference: DoDIG Memorandum, dtd March 25, 1993, SAB.

Per your request in referenced memorandum, attached are our comments to the recommendations.

RICHARD E. BEALE, JR.
Major General, USA
Director

Attachment:
As Stated

MANAGEMENT COMMENTS: Defense Commissary Agency (cont'd)

DEFENSE COMMISSARY AGENCY REPLY
DRAFT AUDIT REPORT

SUBJECT: Draft Audit Report on the Controls Over Vendor Payments, Returned Checks, and Rebates (Project No. 2LA-2003.01)

Recommendation 1. Issue or modify contract administration procedures to:

o require the signature of an appropriate warranted contracting officer on all vendor agreements,

o include placing documentation in contract files to record the current and past remit-to addresses for all vendors,

o minimize the number of personnel with access to the master vendor file in the Standard Automated Voucher Examination System (SAVES), and

o promptly remove expired contracts from the SAVES master vendor files.

Action Taken. Partially concur.

o Procedures have been established to ensure the Contracting Officer's signature is affixed to all contractual documents as required by the Federal Acquisition Regulation. Completion date was September 30, 1992.

o DeCA experienced a contract print problem in the SAVES during August/September 1991 when the initial contracts were being established. The "mail to" address shown on page 1 of the DD Form 1155 printed on page 2 (continuation sheet) in lieu of the "remit to" address contained in the system. SAVES contained the correct information; however, the hard copy of the contract was in error. The system problem was corrected in October 1991. All contract files have subsequently been documented to reflect an audit trail of "remit to" changes. Completion date was November 30, 1992.

o The West Service Center Contracting Division has implemented a policy that only four individuals are authorized to make changes to the master vendor files and vendor address files as of November 1992.

o SAVES is programmed to automatically purge contracts from the file 180 days after the end date of the contract. Due to the ongoing bill paying problems, the purge function has been temporarily disabled. Canceled or expired contracts should pose no problem as they cannot be used for ordering product after the effective cancellation date of the contract. SAVES does not allow

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MANAGEMENT COMMENTS: Defense Commissary Agency (cont'd)

a receipt to be entered for payment with an order date after the expiration date of the contract.

Recommendation 2. Modify DeCA Directive 70-10 to establish procedures for fast pay to ensure that the receipt of merchandise is verified and that there is prompt feedback to contracting officers in case of vendor deficiencies.

Action Taken. Concur. Fast pay was discontinued in DeCA for resale merchandise as of November 1, 1992, with the exception of one contract for meat items to Adak Island, Alaska. Reports are currently available which reflect fast pay records with receipts and fast pay records without receipts. The next change to DeCAD 70-16 will include procedures for processing these reports. Target date for revision of the Directive is January 2, 1994.

Recommendation 3. Improve controls over returned checks by requiring that:

o all checks received from vendors be entered into a formal accounting record for vendor checks only, totaled, and reconciled to deposits made at the bank.

o checks received from vendors be endorsed and deposited, within 24 business hours of the day of receipt, to the proper U.S. Treasury account.

o U.S. Treasury checks returned from vendors or sent to incorrect addresses be entered promptly into a formal accounting record before the checks are processed through the Defense Finance and Accounting Service (DFAS) for return to the U.S. Treasury. Periodically reconcile U.S. Treasury checks stopped for payment by DFAS with DeCA records.

o a log be maintained of remit-to addresses corrected in SAVES, as provided by the system accountants and used for returned checks, including information required to identify specific transactions and corrected addresses.

Action Taken. Partially concur.

o Currently all checks are recorded on a Cash Collection Voucher DD 1131 with the proper accounting classification. Daily, these checks are recorded in a log which includes the disposition of each check. The daily deposits are reconciled with the log to ensure all checks are accounted for when deposited. Detailed procedures will be included in the next revision to DeCAD 70-16. Target date for the revision of the Directive is January 2, 1994.

o Procedures were provided the service centers on October 8, 1992, and have been implemented, requiring that checks be deposited in accordance with DoD requirements. The procedures will

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be incorporated in the next change to DeCAD 70-16 to be published January 2, 1994.

o U.S. Treasury checks with incorrect addresses are returned to DFAS-Columbus. DFAS-Columbus provides the service centers a list of these checks with a suspense date to respond with a correct remit-to address. The service centers respond in accordance to the suspense date. U.S. Treasury checks stopped for payment are received in Columbus and sent to the service centers to be researched and cleared with a suspense of no longer than 45 days. These instructions were provided the service center in the October 8, 1992 memorandum mentioned above. These instructions will be incorporated in the next change to DeCAD 70-16.

o Any returned U.S. Treasury checks because the remit-to address is incorrect must be researched in SAVES for each returned check. A blanket remit-to address will not apply for every PIIN assigned to the vendor. The address for the PIIN currently in SAVES may be correct. Also, the remit-to address may have changed since the last returned check for that vendor. A record is maintained at the service centers of remit-to address changes forwarded to DFAS-CO.

Recommendation 4. Improve controls over cigarette rebates by recording estimated rebates due from vendors as an account receivable, reconciling actual vendor rebates to rebates recorded in accounts receivable, and separating the duties of personnel responsible for contracting for cigarette rebates from personnel receiving checks for cigarette rebates.

Action Taken. Concur. This issue must be coordinated with DeCA and DFAS-CO to establish an accounts receivable account and the method for establishing the estimated rebate amount. A policy letter will be issued to provide procedures for processing the collection against the estimated receivable. These procedures will include separation of duties so that personnel receiving payments will not be the same as those personnel involved in the contracting for cigarette rebates. The target date for completion of these procedures is June 30, 1993.

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