

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**CONTROLS OVER TWO CONTRACT PAYMENTS
AT THE DEFENSE FINANCE AND ACCOUNTING
SERVICE-COLUMBUS CENTER**

Report No. 94-144

June 20, 1994

Department of Defense

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Acronyms

ACRN	Accounting Classification Reference Number
CAS	Contract Administration Services
DFAS	Defense Finance and Accounting Service
GAO	General Accounting Office
MOCAS	Mechanization of Contract Administration Services



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

June 20, 1994

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE-COLUMBUS CENTER

SUBJECT: Audit Report on Controls Over Two Contract Payments at the Defense
Finance and Accounting Service-Columbus Center (Report No. 94-144)

We are providing this final report for your information and use. The audit resulted from allegations made to the DoD Hotline concerning controls over selected contract payments made by the Defense Finance and Accounting Service-Columbus Center.

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

We appreciate the courtesies extended to the audit staff. If you have any questions about this report, please contact Mr. Richard B. Bird, Program Director, at (317) 542-3859 (DSN 699-3859) or Mr. Stephen A. Delap, Project Manager, at (614) 693-5956 (DSN 869-5956). The planned distribution of this report is listed in Appendix C. The audit team members are listed inside the back cover.

A handwritten signature in black ink that reads "Robert J. Lieberman".

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, Department of Defense

Report No. 94-144

Project No. 4FI-8002

June 20, 1994

CONTROLS OVER TWO CONTRACT PAYMENTS AT THE DEFENSE FINANCE AND ACCOUNTING SERVICE-COLUMBUS CENTER

EXECUTIVE SUMMARY

Introduction. On October 8, 1993, the Office of the Inspector General, Department of Defense, received a Hotline complaint alleging that a \$10.4 million dollar payment had been improperly paid to a contractor by the Defense Finance and Accounting Service Center at Columbus, Ohio (DFAS-Columbus Center).

Objectives. The overall objective of the audit was to evaluate the validity of the allegations in the Hotline complaint. Specifically, we determined whether:

- o selected contractor invoices were adequately verified prior to payment and
- o recoupments of overpayments were handled properly and in a timely manner.

Audit Results. The audit concluded that the Hotline complaint had merit. Specifically, the complaint alleged that DFAS-Columbus Center managers processed the payment without verifying the amount to determine whether the contractor was actually entitled to it and, once made aware of their mistake, took no corrective action.

Controls over two contract (vendor) payments at the DFAS-Columbus Center were not adequate. Contractor invoices totaling about \$15.9 million were not adequately verified prior to payment and, once the resulting overpayments were identified, recoupment actions were not taken properly or in a timely manner. Instead, the contractor was advised to keep the funds until the DFAS-Columbus Center could complete in-house contract reconciliations, a process requiring 1 to several months to complete. That delay caused the Government to incur about \$320,000 in interest costs through February 1994 on money it was allowing contractors to use interest-free.

Internal Controls. We identified two internal control weaknesses during our evaluation of the DoD Hotline complaint. The weaknesses involved controls over vendor overpayments and funds returned by contractors. Specifically, contractor invoices were not adequately verified prior to payment, which led to the overpayments. When the overpayments were identified by the contractors, DFAS-Columbus Center controls were not adequate to ensure that funds were promptly recovered.

We reviewed management's implementation of DoD's Internal Management Control Program. The DFAS-Columbus Center had previously recognized the internal control weaknesses with vendor overpayments and controls over funds returned by contractors in its Annual Statement of Assurance for FY 1993; that report indicated that various corrective actions were planned or underway. Since those actions had not yet been completed, we did not evaluate them. Part I discusses details of our internal control review.

Potential Benefits of Audit. Implementing the recommendations will allow the DFAS-Columbus Center to improve internal controls over the accuracy of contract payments and the timeliness of recouping any overpayments that do occur. Although potential monetary benefits would be realized in reducing future interest costs to the Government, the amounts of those benefits could not be quantified. For all benefits associated with this audit, see Appendix B.

Summary of Recommendations. We recommended that the Director, DFAS-Columbus Center, require contractor invoices to be fully verified prior to payment and that Contract Administration Services Directorates implement formal procedures requiring that contractors be instructed to immediately refund overpayments to the DFAS-Columbus Center. We recommended the refunds be placed in a special holding account and be closely monitored until required in-house reconciliations can be completed. We also recommended that the DFAS-Columbus Center reconcile all accounting errors for the three contracts identified during our audit.

Management Comments. The Deputy Director for Finance, DFAS, concurred with the findings and recommendations contained in this report. The full discussion of the responsiveness of management comments is included in Part II of the report, and the complete text of management comments is included in Part IV of the report.

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This report was prepared by the Financial Management Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense.

Part I - Introduction

Introduction

Background

The Defense Finance and Accounting Service Center at Columbus, Ohio (DFAS-Columbus Center), was established in January 1991 to consolidate payment functions previously carried out by the Defense Logistics Agency Finance Center. As of January 1994, the DFAS-Columbus Center was responsible for about 378,000 contracts. It paid more than 1.3 million invoices valued at \$85.0 billion during calendar year 1993.

On October 8, 1993, the Office of the Inspector General, Department of Defense, received a Hotline complaint alleging that a \$10.4 million payment had been improperly paid to a contractor by the DFAS-Columbus Center. Specifically, the complaint alleged that DFAS-Columbus Center managers processed the payment without verifying the amount the contractor was actually entitled to and, once made aware of their mistake, took no corrective action.

Objective

Our overall objective was to evaluate the validity of the DoD Hotline allegations. Specifically, we determined whether:

- o selected contractor invoices were adequately verified prior to payment and
- o recoupments of overpayments were handled properly and in a timely manner.

We also evaluated whether applicable internal controls concerning contract management were in place.

Scope and Methodology

This financial related audit was conducted during November and December 1993 at the Defense Finance and Accounting Service-Columbus Center, the only organization we visited or contacted. Contract files and other pertinent documentation dated from March 1991 through December 1993 were reviewed for three contracts. The three contracts were valued at a total of about \$2.0 billion, and all had been awarded to a single contractor and administered and paid by the Minuteman Division of the Northeast Contract Administration Services (CAS) Directorate. Since desk operating procedures and other internal policies and guidelines were basically identical for all DFAS-Columbus Center CAS Directorates and operating divisions, we limited our review to one division. The audit was made in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector

General, Department of Defense, and accordingly included such tests of internal controls as were considered necessary. Except for the three contracts discussed herein, we did not assess the reliability of computer-processed information from the Mechanization of Contract Administration Procedures (MOCAS) system or any other computer system. Due to incorrect data entry by DFAS-Columbus Center personnel, the data contained in MOCAS for the three contracts was incorrect.

Internal Controls

Internal Controls Assessed. We examined internal controls over contract payments for three contracts at the DFAS-Columbus Center.

Weaknesses Identified. The audit identified two internal control weaknesses as defined by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. The weaknesses involved controls over vendor overpayments and funds returned by contractors. Specifically, contractor invoices were not adequately verified prior to payment, which led to the overpayments. When the overpayments were identified by the contractor, DFAS-Columbus Center controls were not adequate to ensure that funds were promptly recovered.

The DFAS-Columbus Center failed to verify contractor invoices prior to payment. For example, on September 28, 1993, the DFAS-Columbus Center paid \$10.4 million against contract N00019-89-C-0153. The payment refunded progress payments properly withheld from an earlier payment to the same contractor the prior August. Although we did not evaluate the full extent of the problem at the DFAS-Columbus Center, all three contracts reviewed evidenced some invoice verification problems. Recommendation 1., if implemented, will help to correct the internal control weakness related to invoice verification.

Controls at the DFAS-Columbus Center over contract overpayments identified by contractors were also inadequate to ensure that funds were promptly recovered. Informal, unwritten DFAS-Columbus Center procedures were that the contractors be instructed to keep the funds until DFAS-Columbus Center personnel could complete necessary contract reconciliations to verify the validity of the overpayments. Following those procedures essentially provided contractors with interest-free loans and increased Government interest costs by about \$320,000 through February 1994, for the 1 or more months required for the DFAS-Columbus Center reconciliations. Recommendation 2., if implemented, will help to correct the internal control weakness related to refunds of overpayments.

Copies of the report will be provided to the senior officials responsible for internal controls within the DFAS.

Review of DoD Internal Management Control Program. Management had implemented a DoD internal Management Control Program. The DFAS-Columbus Center had identified problems with vendor overpayments and

Introduction

controls over funds returned by contractors as material weaknesses in its FY 1993 Annual Statement of Assurance and indicated that various corrective actions were planned or underway. Since the actions had not been completed as of our review, we did not attempt to evaluate them. The internal control weaknesses are discussed further in the finding in Part II.

Prior Audits and Other Reviews

Since December 1991, the General Accounting Office (GAO), and the Inspector General (IG), DoD, have issued three reports dealing with controls over contract payments and related issues. The GAO also presented testimony to the United States Senate that related to our audit.

GAO. The GAO issued one report related to our audit objectives. GAO/AFMD-93-21 (OSD Case No. 9315), "Financial Management: Navy Records Contain Billions of Dollars in Unmatched Disbursements," was issued on June 9, 1993. According to the GAO, the Navy had \$12.3 billion in unmatched disbursements as of February 1992, and almost \$5.0 million had been unmatched for more than 2 years. The GAO stated that current initiatives did not deal with the causes of the problem and that unmatched disbursements impaired the Navy's ability to ensure that funds were safeguarded and spent in accordance with legal requirements. The Navy's accounting system does not record disbursements unless there are corresponding obligation balances; instead, it records them as unmatched disbursements. The Navy has recently implemented a number of accounting system changes to improve fund control.

The GAO also provided testimony before the United States Senate Committee on Governmental Affairs. GAO/7-AIMD-93-1 (OSD Case No. 9276-F), "DoD Has Not Responded Effectively to Serious, Long-standing Problems," was presented on July 1, 1993. During that testimony, the Comptroller General of the United States stated that the DFAS-Columbus Center reported about \$751.0 million in returned payments, including \$478.0 million of unsolicited, voluntary refunds from contractors. Those refunds represent duplicate and erroneous payments to contractors.

IG, DoD. The IG, DoD, recently issued two reports on similar issues.

- o Report No. 92-076, "Administration of the Contract Closeout Process Within DoD," April 15, 1992, concluded that contracts cannot be closed in an accurate or timely manner due to errors in Mechanization of Contract Administration Services (MOCAS) automated system data. The errors occurred primarily because inexperienced clerks were interpreting and entering data. Although DFAS-Columbus Center personnel conducted random quality assurance reviews of data entry transactions, the reviews did not provide adequate controls or help ensure accurate appropriation data. The DFAS is now attempting to strengthen its contract closeout process.

- o Report No. 94-054, "Fund Control Over Contract Payments at the Defense Finance and Accounting Service-Columbus Center," March 15, 1994,

concluded that procedures used by the DFAS-Columbus Center to control appropriation fund data were not adequate. Specifically, obligation and disbursement data contained in the MOCAS system were not accurate; 42 of the 148 statistically-selected contracts reviewed required \$208.1 million in accounting data corrections; 32 contracts contained \$10.4 million in additional disbursement errors; and 8 contracts contained \$741,000 in disbursements not charged to the proper appropriations. The errors occurred due to inaccurate entry of MOCAS data and data transfer problems encountered with Military Standard Contract Administration Procedures-compatible systems. In addition, DFAS-Columbus Center supervisors were not reviewing transaction entries, documenting their reviews, or ensuring that input clerks were correcting errors at the point of data entry. At the time of the audit, DFAS-Columbus Center reports also showed that there were 2,659 contracts with negative balances totaling \$408.0 million.

Part II - Finding and Recommendations

Controls Over Selected Contract Payments

Controls over two contract payments at the Defense Finance and Accounting Service (DFAS)-Columbus Center were not adequate. Specifically, two contractor invoices totaling about \$15.9 million were not adequately verified prior to payment and, once the overpayments were discovered, recoupment actions were not taken properly or in a timely manner. Those conditions were caused by using inaccurate data from the Mechanization of Contract Administration Services (MOCAS) automated system; ignoring prior payment information; and established procedures to process recoupment actions for overpayments reported by contractors not being in place. As a result, the Government incurred interest costs of about \$320,000 through February 1994 on money it was allowing contractors to use interest-free.

Background

DoD Directive 7200.1. DoD Directive 7200.1, "Administrative Control of Appropriations," July 1987, regulates fund control for all DoD Components. The Directive requires DoD Components to establish and maintain adequate systems of accounting and positive control of appropriations and other funds.

Accounting Classification Reference Number. The accounting classification reference number (ACRN) is a two-character reference used throughout the DoD to identify accounting data during the obligation, payment, and disbursement stages of contract processing. The use of ACRNs allows accounting activities to collect and record at one time all applicable financial information in each line of accounting data.

Desk Procedures. Desk procedures are standardized day-to-day operating procedures used by the various CAS Directorates at the DFAS-Columbus Center. Those procedures provide detailed guidance in such areas as contract input, invoice and payment processing, and contract reconciliation. Desk procedures are periodically updated as needed, and uniform adherence to them by all DFAS-Columbus Center CAS Directorates is required.

Recoupments. Once an overpayment has been fully verified, the DFAS-Columbus Center issues a formal, written demand letter to the contractor. The letter allows the contractor 30 days to repay the funds or request immediate offset action against future invoices payable. If repayment is not made in full within the allowable 30 days, interest accrues on any unpaid balance at the U.S. Treasury established rate from the date of the demand letter. As of November 1993, the U.S. Treasury-established interest rate was 5.625 percent.

DoD Hotline Complaint. On October 8, 1993, the Office of the Inspector General, Department of Defense, received a Hotline complaint alleging that the

Northeast Directorate's Minuteman Division at the DFAS-Columbus Center (the Minuteman Division) had knowingly processed a \$10.4 million overpayment to a contractor. During our audit, the complainant provided allegations concerning two additional contracts. One allegation involved improper DFAS-Columbus Center recoupment actions relative to a \$5.5 million overpayment reported by the contractor, and the second concerned an alleged improper payment of \$22.5 million.

We verified that the payment of \$22.5 million, on contract DAAJ09-92-C-0004, was correct. Problems associated with payments on that contract are discussed under "Causes of Inadequate Control."

Verification of Selected Contract Payments

Internal controls over two contract payments at the DFAS-Columbus Center were not adequate. As a result, payments totaling about \$15.9 million were not adequately verified prior to payment.

Problems with verifying contractor payments resulted when contract documentation was ignored and when progress payments were improperly credited when final delivery orders were processed for payment.

Contract Documentation. Contract documentation was ignored when the Government erroneously paid a contractor \$10.4 million. Contract N00019-89-C-0153 was issued during FY 1989 for 12 helicopters at a cost of \$12.3 million each. Contract modification P00039, issued July 27, 1993, noted that one helicopter had crashed during a maintenance test flight made prior to inspection and acceptance by the Government. In accordance with contract requirement H-14, the Government bore responsibility for any risk of loss prior to formal inspection and acceptance, and thus agreed to pay the full value of the helicopter.

On August 27, 1993, the Minuteman Division processed a manual payment voucher for about \$1.84 million. That correctly represented a net payment for the full value of the helicopter less \$10.4 million in progress payments previously made to the contractor. The contractor subsequently phoned the DFAS-Columbus Center to complain that the August 27, 1993, payment was incorrect and should have been for the full value of the helicopter. That complaint was not valid because the contractor was paid the full value of the helicopter. Nevertheless, on September 28, 1993, the Minuteman Division processed another manual payment to the contractor for about \$10.4 million. In doing so, the Minuteman Division failed to use the available documentation and provisions of the prior August 1993 payment to verify the accuracy of the subsequent contractor claim.

Improper Credit for Progress Payments. In the second case, inaccurate MOCAS data resulted in the DFAS-Columbus Center failing to identify and recoup about \$5.5 million in progress payments made on contract N00019-90-

Controls Over Selected Contract Payments

C-0033. The contractor billed the DFAS-Columbus Center for about \$18.2 million on Invoice No. 083-D310 in September 1993. Due to prior payment processing errors, including incorrect manual adjustments, MOCAS data indicated that the progress payments had been recouped when, in fact, they had not. Consequently, rather than deducting the required \$5.5 million in remaining unliquidated progress payments, the Minuteman Division paid the full amount of the invoice on September 30, 1993.

Our detailed review of the contract documentation, contractor invoices, and related MOCAS data disclosed errors. The errors included 14 erroneous or duplicate transactions and numerous payments posted to incorrect ACRNs. The contractor initially notified the Minuteman Division of the net overpayment and the cause (unliquidated progress payments) on October 14, 1993, but was told to keep the funds until the DFAS-Columbus Center completed an in-house contract reconciliation to verify the amount in question. The funds were returned to the DFAS-Columbus Center by the contractor on December 27, 1993.

DFAS-Columbus Center management agreed at the time of the audit that the payments were not proper and initiated corrective actions during the audit to recover both overpayments. However, management maintained that the errors resulted from the actions of a disgruntled employee and were not representative of the Minuteman Division's normal operations. That opinion notwithstanding, our review verified that two contractor invoices were not properly verified prior to payment. A need existed to promptly resolve discrepancies between DFAS-Columbus Center records and contractor records and to update MOCAS records accordingly.

Actions to Recoup Overpayments

Once overpayments were reported by contractors or otherwise discovered by DFAS-Columbus Center personnel, recoupment actions were not taken properly or in a timely manner. Although the payment was made on September 28, 1993, a demand letter to recover the \$10.4 million against contract N00019-89-C-0153 was not issued until November 8, 1993. On November 23, 1993, the contractor protested to the DFAS-Columbus Center that, to date, contractor records indicated that the DFAS-Columbus Center had recouped about \$6.2 million too much in progress payments against two of the company's contracts. A complete DFAS-Columbus Center reconciliation of its MOCAS records with the contractor's records was in progress as of the conclusion of our audit. DFAS-Columbus Center recoupment actions allowed the contractor to retain overpayments for 2 months or more after initial discovery, even though it was likely that the identified overpayments were, in fact, funds to which the contractor was not entitled. Although the contractor notified the Minuteman Division of the \$5.5 million overpayment on contract N00019-90-C-0033 on October 14, 1993, a demand letter to recover the funds was not issued until December 8, 1993, and was done then as a direct result of this audit. The DFAS-Columbus Center received a check for \$5.5 million from the contractor on December 27, 1993.

Causes of Inadequate Control

The lack of adequate control over contract overpayments had several causes. Those causes included using inaccurate MOCAS data, ignoring prior payment information, and established desk operating procedures for ensuring the immediate recovery of overpayments reported by contractors not being in place at the DFAS-Columbus Center.

Inaccurate MOCAS Data. Inaccurate MOCAS data contributed directly to the \$5.5 million in overpayments against contract N00019-90-C-0033. Erroneous MOCAS data entries and other payment processing errors (incorrect manual adjustments, duplicate entries, and posting payments to incorrect ACRNs) made it appear that the payments were correct when in fact they were not.

Although an alleged \$22.5 million overpayment made against contract DAAJ09-92-C-0004 on October 25, 1993, was verified as correct, the DFAS-Columbus Center had incorrectly charged a total of 21 ACRNs in the process and had entered the incorrect data into the MOCAS system. Until the Minuteman Division corrects the cited errors on the contract, future problems with negative unliquidated obligations and contract closeout could result. Appendix A provides a summary of those errors by ACRN.

Prior Payment Data. By ignoring the computation of the initial August 27, 1993, net payment of \$1.84 million on contract N00019-89-C-0153 (\$12.24 million less \$10.4 million in progress payments previously made against the contract), the Minuteman Division improperly refunded the \$10.4 million in properly recouped progress payments. Had DFAS-Columbus management carefully reviewed the prior payment data, the overpayment would not have occurred.

Recoupment Procedures. The DFAS-Columbus Center had no established desk operating procedures specifying how contractor-reported overpayments should be processed. Guidance in effect specified that the contractor be told to keep the funds until the DFAS-Columbus Center could complete an in-house reconciliation to verify the amounts of reported overpayments. For two of the three contracts reviewed, following that guidance resulted in needless delays of 2-3 months in the recovery for the Government of \$15.9 million in overpayments. As a result, the Government incurred costs in interest paid on money it was allowing contractors to use interest-free.

DFAS Guidance on Overpayments. Although the DFAS-Columbus Center issued a November 5, 1993, memorandum to all CAS Directorates regarding the handling of contractor initiated overpayment inquiries, the memorandum was not adequate. The memorandum stipulated that contractors reporting overpayments to DFAS-Columbus personnel should be instructed to immediately refund the amount of the overpayments. Once received, the contractor refunds were to be sent to the DFAS-Columbus Center Accounts Receivable Section for monitoring and control. However, Accounts Receivable personnel advised us that the CAS Directorates had only 10 working days after

Controls Over Selected Contract Payments

receipt of the contractor refunds to verify the validity of the refunds or the funds would be returned. Based on the size and complexity of the contract payments involved, 10 working days will seldom, if ever, be adequate.

Conclusion

Controls over two contract overpayments at DFAS-Columbus were not adequate. Improvements are required in both vendor overpayments (invoice verification aspects) and collection of duplicate or erroneous payments identified by contractors.

We consider the lack of an effective means to promptly collect contractor-initiated refunds to be a material internal control weakness as defined DoD Directive 5010.38.

Recommendations for Corrective Action

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

1. Require that all future questionable contractor invoices be fully verified prior to payment. As part of the process, all discrepancies between Defense Finance Accounting Service-Columbus Center records and contractor records must be promptly resolved and related Mechanization of Contract Administration Services automated records updated accordingly.

DFAS Comments. The Deputy Director for Finance, DFAS, concurred, stating safeguards are currently in place to verify invoices, and additional actions are being taken to strengthen the safeguards. Those actions include improved desk procedure guidance, system changes, and more stringent supervisory reviews. However, management did not agree that there was a material internal control weakness associated with payment verification.

Audit Response. Management's proposed actions on this recommendation were fully responsive. We agree that the two payments cited in this report may not fully support a material internal control weakness associated with payment verification. We have revised the report to eliminate the reference to the weaknesses as material.

2. Implement formal desk operating procedures requiring that contractors be instructed to immediately refund reported overpayments to the Defense Finance Accounting Service-Columbus Center. The refunds should be placed in a special holding account and be closely monitored until required in-house reconciliations can be completed. In cases where the reconciliations will justifiably require more than 10 days to complete, the

Defense Finance Accounting Service-Columbus Center should continue to hold the contractor refunds pending final resolution.

DFAS Comments. The Deputy Director for Finance, DFAS, concurred, stating that new procedures were implemented in April 1994. Contractors are instructed to submit immediately any overpayment amount to the disbursing office. Adjustments are then made to post the money back to the correct appropriation. If a reconciliation is required, the money is placed in a suspense account pending the outcome of the reconciliation.

3. Require that the \$22.5 million in Accounting Classification Reference Number-level accounting errors be corrected for contract DAAJ09-92-C-0004.

DFAS Comments. The Deputy Director for Finance, DFAS, concurred, stating that the reconciliation on this contract was completed on May 15, 1994.

4. Complete reconciliation actions for the \$10.4 million overpayment on contract N00019-89-C-0153 and ensure that needed accounting adjustments are made to bring the contractor's and the Defense Finance Accounting Service-Columbus Center's records into agreement for this contract as well as for the \$5.5 million overpayment on contract N00019-90-C-0033.

DFAS Comments. The Deputy Director for Finance, DFAS, concurred, stating that the reconciliation on contract N00019-89-C-0153 was completed on April 22, 1994, and completed on contract N00019-90-C-0033 on April 13, 1994.

Part III - Additional Information

Appendix A. Accounting Classification Reference Numbers Inaccurately Charged on Contract DAAJ09-92-C-0004

<u>ACRN*</u>	<u>Amount Charged by DFAS-Columbus Center</u>	<u>Amount Charged by Contractor</u>
AB	\$ 31,718.73	\$ 30,105.75
AC	18,003,852.38	0
AD	1,602,008.62	(3,659,165.35)
AE	337,573.08	337,573.08
AH	(3,240,764.27)	0
AJ	0	3,955.39
AK	0	25,863,492.97
AS	172,594.21	179,938.00
AV	44,984.50	0
AX	44,984.50	0
BD	44,984.50	0
BF	(10,898.85)	(54,933.22)
BJ	0	1,612.98
BM	(10,899.85)	(52,946.90)
BN	(15,685.91)	(74,145.83)
BQ	(21,664.83)	(101,526.38)
BZ	5,559,906.97	93,156.06
CB	2,747.52	2,747.52

**Appendix A. Accounting Classification Reference Numbers Inaccurately Charged
on Contract DAAJ09-92-C-0004**

<u>ACRN</u>	<u>Amount Charged by DFAS-Columbus</u>	<u>Amount Charged by Contractor</u>
CG	\$ (2,397.30)	\$ (14,936.46)
CJ	(3,712.53)	(6,974.80)
CL	<u>(2,397.36)</u>	<u>(11,018.70)</u>
 Totals:	 <u>\$22,536,934.11</u>	 <u>\$22,536,934.11</u>

*Two-character reference that identifies accounting data during the obligation, payment, and disbursement stages of contract processing.

Appendix B. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
1.	Internal controls. Proper invoice verification will result in fewer vendor overpayments. More accurate contract and MOCAS system data will help ensure timely and accurate contract payments.	Monetary. Benefits not determinable.
2.	Internal controls. Faster recovery of contract overpayments will result in reduced interest costs to the Government.	Monetary. Benefits not determinable.
3., 4.	Internal controls. Correcting the ACRN-level accounting errors will provide better contract control and accountability while limiting the possibility of problems with negative unliquidated obligations and contract close-out balancing.	Nonmonetary

Appendix C. Report Distribution

Office of the Secretary of Defense

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Defense Organizations

Director, Defense Finance and Accounting Service

Director, Defense Finance and Accounting Service-Columbus Center

Non-Defense Federal Organizations

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House Subcommittee on Defense, Committee on Appropriations

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Part IV - Management Comments

Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE

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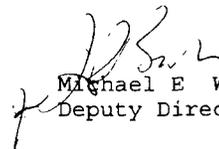
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MAY 11 1994

MEMORANDUM FOR DIRECTOR, FINANCIAL MANAGEMENT DIRECTORATE,
INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Preparation of Response to DoD IG Report, "Control Over
Selected Contract Payments at the Defense Finance and
Accounting Service - Columbus Center,"
(Project Code 4FI-8002)

The Defense Finance and Accounting Service detailed comments
to the findings and recommendations in the audit report are
attached.


Michael E Wilson
Deputy Director for Finance

Attachment:
As stated

DoDIG DRAFT REPORT, "CONTROLS OVER SELECTED CONTRACT
PAYMENTS AT THE DEFENSE FINANCE AND ACCOUNTING
SERVICE - COLUMBUS CENTER," (PROJECT CODE 4FI-8002)

FINDING. Inadequate Controls Over Selected Contract Overpayments. Management was not exercising the oversight needed to eliminate overpayment and untimely collection of erroneous payments.

DFAS RESPONSE: Concur. Emphasis is now being placed on improvement in both invoice verification and collection of erroneous payments.

RECOMMENDATION 1. Require that all future contractor invoices be fully verified prior to payment. As part of the process, all discrepancies between Defense Finance Accounting Service - Columbus Center records and contractor records must be promptly resolved and related Mechanization Of Contract Administration Services (MOCAS) automated records updated accordingly.

DFAS RESPONSE: Concur. Currently, safeguards are in place to verify invoices, and additional actions are being taken to strengthen these safeguards. When an invoice is received at DFAS-CO, it is reviewed for certain criteria and then input into the MOCAS system. An invoice can be paid automatically, if the right conditions are met. If the invoice has to be paid manually, then the voucher examiner would research certain criteria based on the messages on the Material Acceptance and Accounts Receivable Report (MAAPR) prior to making the payment. These messages highlight situations that need review and unacceptable conditions. A listing of MAAPR messages is included in Attachment 1. Desk Procedure (DP) 401 also provides detailed guidance on researching manual payments. In addition to the review of MAAPR messages, supervisors are examining manual payments where progress payments are authorized, material invoices with a gross amount of \$1 million dollars or more and payments against high profile contracts in reconciliation due to negative unliquidated obligation (ULO) conditions, fund imbalances and insufficient fund conditions. DFAS-CO also completed a review of manual/manual payments in FY 1993 within MOCAS. Manual/manual payments are payments made outside the system, and the \$10.5 million payment to Sikorsky was a payment of this nature. One of the recommendations from that review was Change 4, dated November 30, 1993, to DP 401 which updated and revised the manual/manual payment process. The number of manual/manual payments has significantly decreased over the last several months.

In conjunction with the normal review of manual payments, DFAS-CO has initiated other actions to improve the payment verification process. The Columbus Center has identified two material weaknesses, Funds Returned by Contractors and Credit ULOs. All contractor overpayments have been reviewed as part of the funds returned from contractors project. This review has

generated Desk Procedure revisions, system changes, more stringent supervisory reviews, and other actions. A copy of the action plan for this project is included in Attachment 2. Also, an action plan (Attachment 3) was also developed for credit ULOs to identify the causes and solutions of these conditions. This finding continues to receive daily attention to reduce the negative ULO balance.

Since the contracts in question involved manual/manual payments, the misposting of a voided check and an erroneous refund related to a retroactive change in the liquidation rate, we have sent a memorandum (Attachment 4) to the operating Directorates emphasizing the importance of following existing procedures for these types of transactions.

We did not agree there is a material weakness associated with payment verification. It would not be cost effective to manually review every invoice. DFAS-CO has system controls and procedures in place to verify payments. We recently took additional initiatives to further improve our internal controls over payment process. Known discrepancies between DFAS-CO records and contractor records are forwarded to Contract Administration Report (CAR)/Reconciliation and reconciled as soon as possible. Higher priorities, available resources, and other factors may prohibit an immediate reconciliation.

Completed: April 1994

RECOMMENDATION 2: Implement formal desk operating procedures requiring that contractors be instructed to immediately refund reported overpayments to the Defense Finance Accounting Service - Columbus Center. The refunds should be placed in a special holding account and be closely monitored until required in-house reconciliations can be completed. In cases where the reconciliations will justifiably require more than 10 days to complete, Defense finance Accounting Service - Columbus should continue to hold the contractor refunds pending final resolution.

DFAS RESPONSE: Concur. New procedures have been implemented. A desk procedure, DP 009, Funds Returned by Contractors, is currently in draft. Contractors are instructed to submit immediately, any refund amount to the disbursing office. Adjustments are then made to post the money back to the correct appropriation. If a reconciliation is required, the money is placed in a suspense account pending the outcome of the reconciliation. The Funds Returned From Contractors Oversight Committee will ascertain that the new procedures are being followed. These revised procedures will correct the material weakness identified in your report.

Completed: April 1994

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RECOMMENDATION 3: Require that the \$22.5 million in Accounting Classification Reference Number level accounting errors be corrected for contract DAAJ09-92-C-0004.

DFAS RESPONSE: Concur. The reconciliation on this contract will be completed by May 15, 1994. (Attachment 4)

Expected completion: May 1994.

RECOMMENDATION 4: Complete reconciliation actions for the potential \$10.4 million overpayment on contract N00019-89-C-0153 and ensure that needed accounting adjustment are made to bring the contractor's and the Defense Finance Accounting Service - Columbus Center's records into agreement for this contract as well as for the \$5.5 million overpayment on contract N00019-90-C-0033.

DFAS RESPONSE: Concur. The reconciliation on N00019-89-C-0153 was completed on April 22, 1994. The reconciliation on N00019-90-C-0033 was completed on April 13, 1994 (Attachment 4)

Completed: April 1994.

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