

November 24, 2006



Financial Management

Vendor Pay Disbursement Cycle, Air
Force General Fund: Payments to
Vendors
(D-2007-027)

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Acronyms

AFAFO	Air Force Accounting and Finance Office
CMA	Centrally Managed Allotment
DCAA	Defense Contract Audit Agency
DFARS	Defense Federal Acquisition Regulation Supplement
DFAS	Defense Finance and Accounting Service
DISA	Defense Information Systems Agency
FAR	Federal Acquisition Regulation
FMR	Financial Management Regulation
IAPS	Integrated Accounts Payable System
JFMIP	Joint Financial Management Improvement Program
MOCAS	Mechanization of Contract Administration Services
OUSD	Office of the Under Secretary of Defense



INSPECTOR GENERAL
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November 24, 2006

MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Report on Vendor Pay Disbursement Cycle, Air Force General Fund:
Payments to Vendors (Report No. D-2007-027)

We are providing this report for review and comment. We considered management comments on a draft of this report when preparing the final report. We considered comments from the Assistant Secretary of the Air Force (Acquisition), Director (Air Force Accounting and Finance Office), and the Director, Defense Finance and Accounting Service, Denver.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. We request the Assistant Secretary of the Air Force (Financial Management and Comptroller) reconsider his position on A.1.a and A.1.b and the Central Site Director, Defense Finance and Accounting Service, Denver, reconsider his position on B.2.a and C.1.b. by January 23, 2007.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to Auddfs@dodig.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Ms. Amy J. Frontz at (303) 676-7392 (DSN 926-7392) or Mr. John W. Barklage at (303) 676-3298 (DSN 926-3298). See Appendix D for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

A handwritten signature in black ink, appearing to read "Paul J. Granetto", is written over a horizontal line.

Paul J. Granetto, CPA
Assistant Inspector General and Director
Defense Financial Auditing Service

Department of Defense Office of Inspector General

Report No. D-2007-027

November 24, 2006

(Project No. D2004-D000FD-0040.002)

Vendor Pay Disbursement Cycle, Air Force General Fund: Payments to Vendors

Executive Summary

Who Should Read This Report and Why? Air Force and Defense Finance and Accounting Service (DFAS) personnel who are responsible for certifying and making payments to vendors should read this report. This report discusses the need for improving internal controls over using appropriations to pay vendors, scheduling payments in accordance with the Prompt Payment Act, and following cash management practices.

Background. Management is responsible for establishing and maintaining internal control to assure effective and efficient operations, reliable financial reporting, and compliance with laws and regulations. The Inspector General Act of 1978, as amended, provides for the independent review of agency programs and operations in accordance with generally accepted government auditing standards which require audit to report on internal control and compliance with laws and regulations. Such a review of the vendor pay disbursement cycle spans the acquisition; funding; delivery, receipt, and acceptance; payment; and recording of the financial transactions in the official accounting records. This is the third in a series of five reports on internal control of the Air Force General Fund vendor pay disbursement cycle. This report cites weaknesses in internal control related to vendor payments and the appropriations used, and to compliance with the laws and regulations related to prompt payment and cash management practices.

Results. Internal control was not effective to ensure that vendors were paid with the correct appropriations and in accordance with the laws and regulations for prompt payment and cash management practices.

Defense Finance and Accounting Service personnel did not pay vendors from the correct appropriation in 3 of the 45 contracting actions examined. In two of these actions, personnel paid the vendors with appropriations unavailable for obligation in the period that the services were performed. In the third action, personnel charged a foreign currency fluctuation loss to the operating appropriation instead of the centrally managed allotment established for that purpose. As a result, the risk is high that numerous unidentified errors exist in the certification of vouchers and the appropriations used to pay vendors. The Assistant Secretary of the Air Force (Financial Management and Comptroller) should establish guidance to ensure the correct appropriations are used to pay for services in the periods that the services are performed. DFAS should establish an automated system edit to ensure foreign currency fluctuation losses are not charged to operating appropriations. See finding A for the detailed recommendations.

Defense Finance and Accounting Service personnel did not always ensure vendors were paid in accordance with the contract terms in 25 of the 45 contracting actions examined.

As a result, the risk is high that numerous vendor payments are paid late and do not include interest penalties. See finding B for the detailed recommendations.

Defense Finance and Accounting Service personnel did not follow cash management practices to prevent early payments to vendors and to accept cash discounts from vendors. In 16 of 45 contracting actions, personnel paid vendors earlier than seven days before the properly scheduled payment due date. In two other actions, personnel did not accept 15 economically justified vendor discounts offered by the contractor. As a result, the risk is high that numerous payments are paid earlier than allowed and discounts are not taken when offered. See finding C for the detailed recommendations.

Management Comments and Audit Response. The Director, Air Force Accounting and Finance Office, nonconcurrent with the findings and recommendations, stating that DoDIG should revise the draft report to direct recommendations to the appropriate officials. He further stated that the Air Force does not see it is necessary to take additional action to follow up on payments or recertify accounting officials. We do not agree that we should revise the recommendations. Since internal control of Air Force General Fund payments to vendors is a responsibility of Air Force management, the Secretary of the Air Force for Financial Management is the one to take action to improve these controls. Further, we believe it is warranted to follow up on payments because of the potential violation of laws and regulations that could occur from incorrectly using an appropriation (Antideficiency Act, illegal augmentation, and others). The recertification of accounting officials reinforces the importance that the Air Force places on the roles that these officials play in safeguarding against erroneous payments.

The Assistant Secretary of the Air Force (Acquisition) concurred with the three recommendations they determined to be their responsibility, stating that the Deputy Assistant Secretary (Contracting) will issue guidance and memorandums to eliminate designated billing office ambiguities in contracts, ensure that Contracting Officers clearly understand contract financing payments, and direct Contracting Officers to assure the proper contract payment clauses are in place.

The Central Site Director, Defense Finance and Accounting Service, Denver, concurred with, or concurred with the intent of, eight recommendations, and nonconcurrent with two recommendations. The Director did not agree that the findings constitute a high risk as presented in the audit, stating that the sample of 45 items was not a true representation of the total contracts and that one defect does not indicate a high risk. He also stated that they currently have a means of determining whether cost contracts and interim payments are for cost reimbursement services or contract financing. We do not agree that these conditions do not constitute a high risk since our assessment was based on the Government Accountability Office and President's Council on Integrity and Efficiency Financial Audit Manual criteria for conducting a control sample test of internal control and compliance with laws and regulations. We also do not agree that DFAS has a means of determining payments for cost reimbursement services or contract financing payments because we determined that six of nine contracting actions reviewed were not properly designated in accordance with the terms of the contract.

We request the Assistant Secretary of the Air Force (Financial Management and Comptroller) and the Central Site Director, Defense Finance and Accounting Service, Denver, reconsider their positions. We request all comments to the final report by January 23, 2007. See the Finding sections of the report for a discussion of management comments to the recommendations, Appendix C for management comments to the Findings, and the Management Comments section of the report for the complete text of the comments.

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Background

Management is responsible for establishing and maintaining internal control to assure effective and efficient operations, reliable financial reporting, and compliance with laws and regulations. The Inspector General Act of 1978, as amended, provides for the independent review of agency programs and operations in accordance with generally accepted government auditing standards which require audit to report on internal control and compliance with laws and regulations. Such a review of the vendor pay disbursement cycle spans the acquisition; funding; delivery, receipt, and acceptance; payment, and recording of the financial transactions in the official accounting records.

Three types of internal controls exist: compliance, operations, and financial reporting. In this audit, we conducted a series of control sample tests related to the three types of internal controls as presented in the Government Accountability Office and President's Council on Integrity and Efficiency Financial Audit Manual. In accordance with these guidelines,¹ we randomly selected 45 contracting actions for a comprehensive examination of:

- the nature and funding of the contracts;
- delivery, receipt, and acceptance;
- payment; and
- financial recording of the related budgetary and proprietary transactions in the official accounting records.

In a sample of 45 items, one defect indicates that the risk is high that the relevant internal control is not effective. Depending on the type and nature of the internal control deviation, the internal control defect might be significant as a separate finding or treated as one of a homogeneous group of like errors and related causes.

This is the third in a series of five audit reports on the effectiveness of internal control related to the Air Force General Fund vendor pay disbursement cycle. This report examines the effectiveness of financial controls, manual and automated, for appropriations charged, and the scheduling of payments in accordance with the Prompt Payment Act, and cash management practices.

The first report in this series, "Report on Vendor Pay Disbursement Cycle, Air Force General Fund: Contract Formation and Funding" (D-2006-056), March 6, 2006, covered the internal control related to contract formation and followup, with the focus on the contracting officer's role and responsibility. The second report in this series, "Vendor Pay Disbursement Cycle, Air Force General Fund: Funds Control" (D-2006-085), May 15, 2006, examined the effectiveness

¹ GAO/PCIE Financial Audit Manual, section 400, figure 450.1, "Sample Sizes and Acceptable Numbers of Deviations," July 2001.

of the compliance controls that ensure that the correct lines of accounting are used in paying contracts.

Objectives

Our overall audit objective was to assess internal controls and compliance with laws and regulations pertaining to the vendor pay disbursement cycle in the Air Force General Fund and supported activities. See Appendix A for a discussion on the scope and methodology and Appendix B for a complete list of the 45 contracting actions randomly selected for examination.

A. Identifying Appropriations for Payment

Internal control was not effective to ensure that vendors were paid from the correct appropriation in 3 of the 45 contracting actions examined. In two of the three contracting actions, Defense Finance and Accounting Service (DFAS) personnel paid vendors using appropriations that were unavailable to pay for the services in the fiscal year the services were rendered. In the third action, DFAS personnel charged a foreign currency fluctuation loss to an operating appropriation rather than to the centrally managed allotment (CMA) established to cover significant foreign exchange losses. We generally attributed the errors to a lack of DFAS and Air Force personnel oversight of the appropriations used to certify the vouchers for payment based upon the period of performance funded on the contract as a bona fide need and the purpose of the CMA to pay for a foreign currency loss. However, we also attributed the errors to a lack of accountability, and to the absence of automated detective, corrective, and preventative controls in the acquisition, vendor pay, and accounting systems. In the three contracting actions, DFAS personnel took corrective action after we notified them of the errors. We do not believe that DFAS and Air Force personnel would have identified and corrected the errors without our notice. As a result, the risk is high that numerous unidentified errors exist in the certification of vouchers and the appropriations used to pay vendors.

Critical Guidance

Appropriation Law. Section 1502, title 31, United States Code (31 U.S.C. 1502) states an appropriation is not available for expenditure beyond the period allowed by law. Section 2410a, title 10, United States Code (10 U.S.C. 2410a), which applies to contracts for severable services that cross fiscal years, states an appropriation may be obligated for the total amount of a contract as long as the contract period does not exceed one year.

Foreign Currency Fluctuations. In FY 1979 Congress authorized an appropriation, entitled Foreign Currency Fluctuation, Defense (FCF,D), to facilitate the transfer of funds to (and from) DoD operating appropriations to cover significant losses from foreign exchange rate fluctuations. The FCF,D appropriation was to alleviate the adverse effect that significant fluctuations had on authorized DoD programs that were funded by the Operation and Maintenance appropriation and, more recently, the Military Personnel appropriation. These funds are available only to fund each service's CMA to cover net losses because of unfavorable fluctuations in foreign currency rates.

According to the DoD Financial Management Regulation (FMR) 7000.14-R, disbursing officers are required to charge the variance between the budget rate and the current rate to the CMA.

Accountability. According to the DoD FMR, volume 5, chapter 33, section 3307, departmental accountable officers are pecuniary liable for illegal, improper, or incorrect payments if a certifying officer relies on the information, data, or services they provided in the certification of an invoice for payment under section 2773a, title 10, United States Code. Under section 3528, title 31, United States Code, a certifying officer is pecuniary liable for an illegal, improper, or incorrect payment if an invoice was improperly certified for payment. In addition, the certifying officer is responsible for the legality of a proposed payment under the appropriation. Finally, disbursing officers are pecuniary liable for illegal, improper, or incorrect payments, and for errors in their accounts in accordance with section 3325, title 31, United States Code.

System Controls. The Joint Financial Management Improvement Program (JFMIP) publication on Federal financial management systems, “Acquisition/Financial Systems Interface Requirements,” June 2002, states that interface requirements should exist between the contract administration and payment management function within the core financial system. Specifically,

As part of contract administrative management activities, receipt and acceptance of products and services are routinely addressed so that contractor performance and related payments can be accomplished in accordance with the contract’s terms and conditions.

The JFMIP further observed that the:

Documentation supporting payment, such as evidence of receipt and acceptance, may be provided through interfaces with acquisition, property management, inventory, or other systems involved in the receipt and acceptance of products or services.

Finally, with regard to the interface requirements (which included the mandatory and value-added requirements, data elements and entries for the funds certification, obligation, and payment processes), the JFMIP stated:

A need [exists] for information, such as data requirements, reporting needs, internal controls, or edit requirements, required by the acquisition and finance functions as a result of transactions within the single integrated financial management system.

Appropriations Charged

Internal control was not effective to assure that vendors were paid from the correct appropriation in 3 of the 45 contracting actions examined. In two of the three contracting actions, DFAS personnel charged payments to appropriations that were unavailable to pay for the services in the period the services were performed in violation of 31 U.S.C. 1502. In the third action, DFAS personnel charged a loss because of a foreign currency fluctuation to the operating appropriation instead of to the established CMA. In the three contracting actions, DFAS personnel took corrective action after we notified them of the errors.

-
- **Contracting Action, Sample Number 31.** DFAS personnel certified one voucher for payment using an FY 2002 Operation and Maintenance appropriation that was not available to pay the vendor for services performed in a subsequent option period of the contract during FY 2003. As a result, DFAS personnel violated 31 U.S.C. 1502 and did not appear to meet the requirements of 10 U.S.C. 2410a because the costs incurred for the services were not a bona fide need of the period the funds were available for obligation, and they were incurred in a subsequent contract period that exceeded the 1-year limitation. In two other vouchers, personnel used FY 2003 funds to pay the vendor for services that were a FY 2002 obligation. Using FY 2003 funds to cover the FY 2002 funded services was improper because the funds were not contractually obligated and available to pay for the costs incurred at the time the services were rendered.
 - **Contracting Action, Sample Number 50.** DFAS personnel certified two vouchers for payment using an FY 2002 Operation and Maintenance appropriation that was not available. In one voucher, Air Force personnel approved the payment of an invoice when DFAS personnel incorrectly used expired funds to pay for services rendered in a subsequent fiscal year and contract period of performance. In the second voucher, DFAS personnel continued to use the unliquidated balance of the FY 2002 funds to pay for services rendered in the later period. As a result, DFAS personnel again violated 31 U.S.C. 1502 and did not appear to meet the requirements of 10 U.S.C. 2410a.
 - **Contracting Action, Sample Number 33.** DFAS personnel certified a voucher for payment that improperly charged a FCF,D loss against an operating appropriation. In this case, DFAS personnel violated congressional intent and DoD policy when the loss was not charged against the CMA, and the organization absorbed the cost as part of its operating appropriation.

Internal Control

Management is responsible for establishing and maintaining internal control to ensure effective and efficient operations, reliable financial reporting, and compliance with laws and regulations. Internal control activities are the “policies, procedures, techniques, and mechanisms that help ensure that management’s directives to mitigate risks identified during the risk assessment process are carried out.”² We generally attributed the three errors to a lack of DFAS and Air Force personnel oversight and followup on the appropriations that were used to certify the vouchers for payment. However, we believe the lack of followup is an indication that improvements are needed in management’s internal control related to the existing segregation of duties³ and periodic acknowledgement by personnel

² GAO Internal Control Management and Evaluation Tool, Control Activities, page 33, August 2001.

³ A segregation of duties exists between contracting officers, fund holders, personnel who receive and accept performance, certifying officers, and disbursing officers.

of their accountability. We believe that officials who periodically acknowledge their accountability are more likely to follow up on questionable transactions, such as using expired funds for services rendered in a subsequent period or charging an operating appropriation when a CMA was available for that expense. However, because such manual followup is labor intensive, the automation of adequate edits, such as those envisaged in the JFMIP integration of the acquisition and financial management system, should provide a far more effective means to notify personnel of any required followup.

Automated Controls. Certifying officers rely on accountable officials for the information and data used to certify a voucher for payment. Because the three errors went undetected until we brought them to DFAS personnel's attention, the risk is high that a systemic weakness exists. Currently, the Air Force acquisition systems are not integrated so that critical contract terms, conditions, and lines of accounting are interfaced with the financial management systems. While some contract information is loaded into the financial management systems,⁴ the vendor pay and accounting systems are not fully integrated to link this information, such as the funded contract periods of performance, to critical data elements within the acquisition system. If the systems were integrated, an internal edit could preclude using the wrong appropriation to pay a vendor for services performed in a subsequent period of performance. In the two contracting actions where expired funds were used, such an internal edit would have prevented the violation of 31 U.S.C. 1502 and the failure to meet the requirements of 10 U.S.C. 2410a.

While the Integrated Accounts Payable System (IAPS) recognized the payment amount was to be paid in Japanese yen, DFAS personnel had not properly identified the payment as such and charged the FCF,D loss against the operating appropriation instead of the CMA. We attributed the error to a lack of oversight by the certifying officer and the need for a system edit that would notify the certifying officer of a potential error when a loss was not charged against the CMA.

Conclusion

We believe the risk is high that numerous unidentified errors exist in the certification of vouchers and appropriations used to pay vendors.

Management Comments on the Finding and Audit Response

Summaries of management comments on the finding and our audit response are in Appendix C.

⁴ The Integrated Accounts Payable System will identify those contractors who will be paid in a foreign currency, subject to the foreign currency exchange rate.

Recommendations, Management Comments and Audit Response

A.1. We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller), in coordination with the Under Secretary of Defense (Comptroller/Chief Financial Officer), and the Director, Defense Finance and Accounting Service:

a. Establish guidance, as necessary, requiring fund holders, contracting officers, and personnel who receive and accept performance to provide effective and timely followup on payments to ensure the correct appropriations are used to pay for services in the periods that the services are performed.

Management Comments. The Director, Air Force Accounting and Finance Office (SAF/FMP [AFAFO]), nonconcurred with the recommendation and stated that Air Force does not feel that it is feasible or warranted for fund holders and receiving personnel to perform additional post payment followup.

The DFAS Denver Central Site Director concurred with the recommendation and stated that the IAPS Version 2.0 release will assist in ensuring correct appropriations are used to pay for services in the periods that the services are performed. He further stated that DFAS will complete stand down training no later than October 1, 2006, to reiterate processes and procedures to technicians and certifiers to ensure correct appropriations are used to pay for services in the periods that the services are performed. The DFAS estimated completion date is May 1, 2007.

Audit Response. The Director's, (SAF/FMP [AFAFO]), comments were not responsive. The DoD FMR, volume 3, paragraph 080403, places the responsibility on the fund holders in reviewing unliquidated obligations. That responsibility exists because the funds holder initiates those actions that results in an obligation and is in the best position to determine the accuracy and status of transactions. According to the DoD FMR, volume 5, paragraph 330302 C.4, resource managers and fund holders are responsible for maintaining a system of positive funds control. In our opinion, the fund holders should have the responsibility, with the assistance of the accounting officer, to review the appropriation used in its obligation, whether unliquidated or liquidated, for the reasons cited in paragraph 080403. Under paragraph 330302, such followup is in keeping with a system of positive funds control. Given the potential violation of law and regulations that could occur because of the incorrect use of an appropriation (Antideficiency Act, illegal augmentation, and others), we believe it is warranted for fund holders and receiving personnel to perform additional post payment followup.

b. Require annual recertification of accountable officials to acknowledge their pecuniary liability in providing information and data used by certifying officials in approving vouchers for payment.

Management Comments. The Director, (SAF/FMP [AFAFO]), nonconcurred with the recommendation and stated that there is no requirement for annual recertification within the DoD FMR volume 5, chapter 33. He further stated that initial appointment will adequately inform accountable officials of their responsibilities.

Audit Response. The Director's, (SAF/FMP [AFAFO]), comments were not responsive. Although the DoD FMR, volume 5, chapter 33, does not require annual recertification, this requirement reinforces the importance that the Air Force places on the roles that departmental accountable officials play in safeguarding against erroneous payments and ensuring compliance with laws and regulations, such as using the correct appropriation to pay for goods or services. Further, an annual recertification reminds accountable officials of their pecuniary liability in preventing an erroneous payment or a violation of public law.

c. Coordinate with the Director, DoD Business Transformation Agency, to ensure proper integration when designing future acquisition and financial management systems, as required by the Joint Financial Management Improvement Program publication, "Acquisition/ Financial Systems Interface Requirements," June 2002.

Management Comments. The DFAS Denver Central Site Director concurred with the recommendation and stated DFAS has established the Strategic Business Management directorate and assigned it overall responsibility for agency strategic planning, transformation initiatives, standardization, integration, and implementation of new operational systems architecture.

A.2. We recommend that the Director, Defense Finance and Accounting Service establish an automated edit to the Integrated Accounts Payable System to ensure foreign currency fluctuation losses are not charged to operating appropriations.

Management Comments. The DFAS Denver Central Site Director concurred with the recommendation and stated that the IAPS Version 2.0 release will provide changes to foreign currency processing that will satisfy the intent of the recommendation. He further stated that it will provide a link between currency codes and obligation and budget rates and their fluctuation accounts. The estimated completion date is May 1, 2007.

We request the Assistant Secretary of the Air Force (Financial Management and Comptroller) reconsider his position on recommendations A.1.a and A.1.b and provide comments to the final report by January 23, 2006.

B. Compliance with Prompt Payment Act

Internal control was not effective to ensure that vendors were paid in accordance with the contract terms and conditions, as required by the Prompt Payment Act, for 25 of the 45 contracting actions examined.

- In 16 contracting actions, DFAS personnel did not make timely payments and did not accurately pay vendors the interest penalties that were due on 43 of the 277 invoices examined. In 14 of these contracting actions, personnel inaccurately scheduled disbursements because of ambiguous contract terms and practices, inaccurate invoice and receipt data, and other systemic and administrative errors.⁵
- In 9 contracting actions, DFAS personnel erroneously processed contract financing, and time, materials, and labor-hour payments that were subject to the payment of interest penalties. DFAS personnel processed the payments under the rules for cost reimbursement services, but the contracts did not support that action.

As a result, we believe a high risk exists that numerous vendors are not paid on time and interest penalties are not paid accurately, violating the contract terms and Prompt Payment Act.

Critical Guidance

Prompt Payment Act. In 1982, Congress passed the Prompt Payment Act requiring Federal agencies to pay their bills on time and to pay an interest penalty when bills are paid late. Title X, Subtitle A, Section 1010 of the National Defense Authorization Act of 2001 applied the provisions of the Prompt Payment Act to interim payments on cost-reimbursement service contracts. On September 29, 1999, the Office of Management and Budget issued the final rule cited in the Code of Federal Regulations, title 5, part 1315 (5 C.F.R. 1315 [1999]).

Criteria that are germane to this report and the internal control weaknesses identified are provided in 5 C.F.R. 1315.2(m) and 5 C.F.R. 1315.4(b). Specifically:

- The designated agency office is the “office designated by the purchase order, agreement, or contract to first receive and review invoices.” The designated agency office can be designated as the receiving entity and may be different from the office that makes the payment.

⁵ Two contracting actions were paid late for indeterminate reasons.

-
- The prompt pay period starts on the date a proper invoice is received by the designated agency office or the seventh day after the date on which the property is delivered or performance is completed, whichever is later. If the designated billing office does not show the date the invoice is received, the invoice date is used to calculate the payment due date. For invoices electronically transmitted, DFAS personnel should schedule a payment due date based on the date a readable transmission is received by the designated agency office, or the next business day if it is received after normal working hours.

Federal Acquisition Regulation (FAR). FAR Part 32.001 defines the designated billing office as the Government office first to receive the invoices and contract financing requests from vendors. The FAR use of the term, “designated billing office” is the same as the “designated agency office” as used in 5 C.F.R. 1315.2(m). According to the FAR, a designated billing office might be:

- the Government disbursing office,
- the contract administration office,
- the office accepting the supplies delivered or services performed by the contractor, or
- the contract audit office.

Interim payments for cost reimbursement services, which are subject to a payment of an interest penalty, are distinguished from contract financing payments under FAR 52.216-7, “Allowable Cost and Payment.” Contract financing payments are not subject to the payment of an interest penalty. FAR 52.216-7 instructs the contracting officer to distinguish between an interim payment for cost reimbursement services and a contract financing payment by inserting a reference to Alternate I, FAR 52.232-25 in the contract.

Interim payments processed under FAR 52.232-7, “Payments Under Time-and-Materials and Labor-Hour Contracts,” are contract financing payments and are not subject to the interest penalty provisions of the Prompt Payment Act. Contract financing payments are also referenced in FAR 52.232-26, “Prompt Payment for Fixed-Price Architect-Engineer Contracts,” and FAR 52.232-27, “Prompt Payment for Construction Contracts.”

Financial Management Regulation. FMR, volume 10, chapter 7, paragraph 070101 states that DoD policy requires disbursing offices to pay vendors in accordance with the terms of the contract. Disbursing offices must have a copy of supporting documents, such as the contract or purchase order, invoice, and receiving reports accomplished by the offices that received the goods and services, before making a payment.

Vendor Payments

Internal control was not effective to assure that vendors were paid in accordance with the contract terms and conditions, as required by the Prompt Payment Act, for 25 of the 45 contracting actions examined. In 16 of the 45 contracting actions⁶ examined, DFAS personnel did not make timely payments and did not accurately pay vendors the interest penalties that were due based on the contract terms. Of the 16 contracting actions, each action had one or more invoices not paid on time, affecting 43 of the 277 invoices examined.⁷ The interest penalties ranged from \$3.04 to \$608.69.⁸ In 9 contracting actions,⁹ DFAS personnel erroneously processed interim payments for contract financing (FAR 52.216-7), and time, materials, and labor-hour contracts (FAR 52.232-7), which are not subject to interest payments, as if they were cost reimbursement service contract payments, which are subject to the payment of an interest penalty under the Prompt Payment Act. Of the 25 contracting actions, DFAS personnel paid 15 of the actions through the Mechanization of Contract Administration Services (MOCAS) system. DFAS personnel paid the remaining 10 contracting actions in IAPS.

Payment Scheduling

DFAS personnel did not make payments on 16 contracting actions on time, and did not pay vendors the interest due them, because of inaccurate scheduling of disbursements. Payment due dates were not accurately scheduled because of:

- inaccurate invoice receipt and acceptance dates (6 actions);
- ambiguous contract terms identifying the designated billing office (3 actions);
- government administrative practices resulting in a “de facto” change of the designated billing office, requiring contract recognition and modification (3 actions);
- unexplained late payments (2 actions);
- incorrect invoice receipt date, system gateway (1 action); and
- incorrect wide-area workflow dates, construction (1 action).

⁶ Sample numbers 2, 3, 5, 6, 14, 21, 25, 28, 31, 36, 37, 40, 41, 42, 46, and 50.

⁷ We examined a total of 455 invoices for all 45 contracting actions.

⁸ We did not include deficiencies when the value of the interest owed was less than \$1.00.

⁹ Sample numbers 4, 7, 12, 19, 22, 26, 44, 48, and 56.

Inaccurate Invoice Receipt/Acceptance Dates. DFAS used the incorrect invoice receipt and acceptance dates to schedule payments in six contracting actions. In three actions,¹⁰ Air Force personnel did not accept performance on the receiving reports until after the constructive acceptance period had elapsed.¹¹ DFAS, which had the receiving reports as part of its documentation, scheduled the payments based on the erroneous acceptance dates. When we identified the error on sample number 3, DFAS agreed and paid the vendor the additional interest penalty. In three actions,¹² DFAS scheduled the payment due dates based on an invoice receipt date not supported by the hardcopy documents. In another action (sample number 50), DFAS scheduled the payment based on the date the invoice was received at DFAS, which was after the date it was received at the designated billing office.

Ambiguous Contract Terms. Three contracting actions¹³ were ambiguous as to which Government organization was to receive the invoices as the designated billing office. In one contracting action (sample number 6), both DFAS and installation personnel were identified as the designated billing office of record. In another contracting action (sample number 14), both DFAS and the contracting office were identified. In the last contracting action (sample number 46), both DFAS and Defense Contract Audit Agency (DCAA) were identified. In each contracting action, one section of the contract directed the vendor to send invoices to one party while another section directed the vendor to send invoices to DFAS. The invoices were actually sent first to the other parties, which approved them for payment and then forwarded them to DFAS. However, DFAS personnel scheduled the disbursement based on the date they received the invoice, rather than scheduling the payment from the date that the other installation received the invoice. As a result, the vendor payment due date was not accurately scheduled and an interest penalty was incurred but not paid.

According to DoD policy, DFAS should have a copy of the contract to support a payment. For the three contracting actions, we concluded that DFAS either did not have a copy of the contract or did not review the entire contract for the potential ambiguity in its terms after receiving the invoice from another Government office. We believe it is reasonable that DFAS personnel follow up when it receives an invoice from another Government office and request the contracting officer to modify the contract, as necessary.

¹⁰ Sample numbers 3, 37, and 40. In sample number 40, acceptance was withheld until completion of the Beneficial Occupancy Determination that was forestalled because of government delays (flight line limitations).

¹¹ Government personnel are given a 7-day constructive acceptance period to accept delivery or performance, unless the contract stipulates otherwise. If personnel take longer than 7 days to accept performance, the payment due date is calculated from the 7th day, regardless when actual acceptance occurred.

¹² Sample numbers 31, 36, and 37. Sample number 37 had separate invoices paid late because of either erroneous invoice or acceptance dates.

¹³ Sample numbers 6, 14, and 46.

Governmental Administrative Practices. In three contracting actions,¹⁴ the contracts specifically identified DFAS as the designated billing office, but the invoices were first sent to contracting officers or DCAA. In each contract, the contracting officers or DCAA approved the invoices and then forwarded the invoices to DFAS for payment. DCAA was required to approve the vendor's billing system before authorizing the vendor to directly send invoices to DFAS. While DFAS was the only designated billing office of record, we believe the contracting officers and DCAA were the "de facto" designated billing offices. One contracting officer agreed that the contract improperly made DFAS the designated billing office, thereby denying the vendor timely payment and payment of an interest penalty. The total interest owed was approximately \$266 for all invoices.¹⁵

We asked Headquarters DFAS personnel whether the date used to compute the start of the prompt pay period ("the clock") should begin on the date the invoice is received by any Government office or when the invoice is received by the designated billing office in the contract. DFAS personnel responded:

The PPA [Prompt Pay Act] must be interpreted in favor of the vendor. Congress' intent is to start the clock at the place first designated in the contract. In the case of ambiguity, the intent would be to use the first date received, which can be someplace other than DFAS or paying office. This is clearly recognized in regulations. To use another date puts the vendor at the mercy of the [G]overnment, and subject to our administrative delays. That is not the intent of the law.

The fact that the contract did not correctly identify the designated billing office, but DFAS personnel still relied on that information to make payment, would not prevent the vendor from filing a claim against the Government. If the vendor was denied timely payment due to an administrative error, the vendor might have a basis to submit a claim. Whether a vendor actually submitted a claim or not, strengthened internal control is needed to mitigate any potential claims. In that regard, the designated billing office in the contract must reflect what occurs in administrative practice. We reviewed the contracts in question and determined that the contract officers did not modify the contracts to change the designated billing office to reflect the administrative practice.

Unexplained Late Payments. DFAS personnel had unexplained late payments on two contracts.¹⁶ We reviewed the vendor invoices and the IAPS and MOCAS system supporting documents, but could not attribute the late payments to a specific cause.

Incorrect Invoice Receipt Date, System Gateway. Vendors authorized to submit invoices by using electronic format are processed through the Defense Information Systems Agency (DISA) gateway. We noted that invoices (sample number 41) were received at the DISA gateway up to three days prior to receipt in

¹⁴ Sample numbers 2, 5, and 21.

¹⁵ Sample number 21.

¹⁶ Sample numbers 25 and 28.

the MOCAS system. However, the MOCAS system scheduled the payment due date based on the date the invoices were received in the MOCAS system, not the DISA gateway received date. According to 5 C.F.R. 1315.4(b)(1)(i), for invoices electronically transmitted, the payment due date should be computed from the date a readable transmission is received by the designated agency (billing) office, or the next business day if received after normal working hours. Although DISA is not the formally recognized designated billing office, the payment due date should still be scheduled based on the date the invoice is first received at the DISA gateway to effect timely payment under the Prompt Payment Act.

Incorrect Wide-Area Workflow Dates, Construction. One vendor was not paid construction progress payments on time (sample number 42). DFAS personnel processed the progress payment relying on data processed in the wide-area workflow system, which provides vendors a means to electronically submit invoices to DFAS for payment. However, at that time, the wide-area workflow system program office did not recommend using the system to make construction progress payments because the vendor's certification of cost was not programmed in the system. In our examination of the certification of cost statement, we determined that Air Force personnel approved the payment earlier than what was reported in the wide-area workflow system. As a result, the vendor was not paid on time and an unpaid interest penalty was incurred. Management has taken action to make the certification of cost part of the wide-area workflow system and no further action is required.

Interim Payments

DFAS personnel erroneously processed contract financing payments in MOCAS under processing rules that would have paid vendors an interest penalty if the interim payments were paid late. The erroneous processing occurred because the interim payments were processed as Bureau Voucher Numbers. Under the Bureau Voucher Number processing rules, vendors were entitled to payment of an interest penalty if payments were not made within 30 days. However, in nine contracting actions, we determined that the interim payments were for contract financing. In our review of five of the contracting actions, we determined that the contracting officers did not insert the required reference to Alternate I at FAR 52.232-25 in the contract, which would designate the interim payments as cost reimbursement services, and hence, subject to the payment of an interest penalty. In four contracting actions, we determined that the contracting financing payments were made under FAR 52.232-7, "Payments Under Time-and-Material and Labor-Hour Contracts." That clause is not subject to payment of an interest penalty. As a result, a high risk exists that interest penalties are being paid on contract financing payments when processed as Bureau Voucher Number payments.

Conclusion

We believe a high risk exists that numerous vendors are not paid in accordance with the contract terms and conditions and in accordance with the Prompt Payment Act. The contract terms and conditions implement the Prompt Payment Act, which requires Federal agencies to pay their bills on time and to pay interest penalties when they pay vendors late. However, because of ambiguous contract terms and the use of inaccurate invoice receipt and acceptance dates, vendors were not paid on time and interest penalties were not paid. In a systems environment, such as the recording of receipt dates in the DISA gateway and MOCAS system, a systems change can remedy potential system-wide errors. In manual processes, such as the review of potentially ambiguous contract terms and supporting hardcopy documents to ensure data accuracy, management must affirm the importance of such reviews and provide training, as necessary, to personnel who are in a position to identify the potential ambiguities or incorrect data entry used to schedule payment due dates. Moreover, numerous interim payments were erroneously processed in MOCAS system under the rules for cost reimbursement services when the contract terms did not substantiate that process. This processing creates the possibility of interest penalty payments for non-interest bearing contract financing payments.

While the audit was conducted as an attribute test and we cannot project the total dollar value of late payments and unpaid interest penalties, we believe the risk is high that numerous vendor payments are paid late and interest penalties are not paid.

Management Comments on the Finding and Audit Response

Summaries of management comments on the finding and our audit response are in Appendix C.

Recommendations, Management Comments and Audit Response

B.1. We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller) in coordination with the Assistant Secretary of the Air Force (Acquisition) and the Director, Defense Finance and Accounting Service:

a. Require personnel who are responsible for receiving and accepting goods or services be properly trained on determining actual and the 7-day constructive acceptance period.

Management Comments. The Assistant Secretary of the Air Force (Financial Management and Comptroller) and the Assistant Secretary of the Air Force (Acquisition) did not comment on the recommendation.

The DFAS Denver Central Site Director concurred with the recommendation and stated that, because IAPS does not systemically calculate constructive acceptance, technicians must manually adjust acceptance dates that are more than 7 days outside the receipt date to comply with constructive acceptance requirements. He further stated that DFAS will continue to reiterate receipt and approval requirements and address repeat problems through various methods of routine training and communication. He also stated that DFAS will continue to contact receiving activities in any situation where supporting documents appear to conflict and receipt and acceptance dates appear to be misstated. DFAS will also reinforce training regarding the determination of actual and constructive acceptance periods to IAPS users and will investigate wide-area workflow system changes to automatically calculate constructive acceptance. The Director stated that personnel have recently reiterated the requirements for constructive acceptance with processing technicians and certifiers during a weekly team meeting.

b. Require personnel who receive and approve invoices be properly trained on determining the date stamping of invoices received.

Management Comments. The Assistant Secretary of the Air Force (Financial Management and Comptroller) and the Assistant Secretary of the Air Force (Acquisition) did not comment on the recommendation.

The DFAS Denver Central Site Director concurred with the recommendation and stated that DFAS agrees that proper date stamping of invoices going to designated billing offices has been a long-standing concern and there are many situations when the designated billing office fails to date stamp the invoice upon receipt. The Director further stated that when this occurs, DFAS uses the invoice date as the invoice receipt date, in accordance with DoD FMR requirements. The Director stated that DFAS reiterated its procedures to determine the proper date the invoice is received during recent weekly team meetings with processing technicians and certifiers. He further stated that procedures are in place to properly date stamp invoices upon receipt at the designated billing office, and that these procedures will continue to be reiterated through teleconferences, symposiums, briefings, and the Client Executive.

c. Develop procedures for the review and followup on contracts that, as a matter of record or administrative practice, create an ambiguity regarding the designated billing office.

Management Comments. The Assistant Secretary of the Air Force (Financial Management and Comptroller) did not comment on the recommendation, deferring to the Assistant Secretary of the Air Force (Acquisition) for comment. The Assistant Secretary of the Air Force (Acquisition) concurred with the recommendation and stated that the Deputy Assistant Secretary (Contracting) will issue guidance instructing Contracting Officers to work with DFAS personnel to eliminate designated billing office ambiguities in contracts by requiring the designated billing office data be included in the administrative data section of the contract. She further stated that the guidance will stipulate that the information in

the administrative data section must match the contract cover page payment information block.

The DFAS Denver Central Site Director concurred with the recommendation and stated the DFAS Columbus Entitlement Branch has recently developed procedures which instruct employees to review and follow up on contracts that create ambiguity regarding the designated billing office. When discrepancies are identified, a Contract Deficiency Report is issued for clarification on contracts written with the incorrect payment office. This process includes the tracking and followup procedures necessary to obtain corrected contractual agreements. He further stated that reiteration of policies and procedures and training is ongoing through in-house training programs.

d. Require that contracting officers review contracts to determine whether the interim payments are cost reimbursement services or contract financing, and process the payments under the rules that apply in accordance with the Federal Acquisition Regulation.

Management Comments. The Assistant Secretary of the Air Force (Financial Management and Comptroller) did not comment on the recommendation, deferring to the Assistant Secretary of the Air Force (Acquisition) for comment. The Assistant Secretary of the Air Force (Acquisition) concurred with the recommendation and stated that the Deputy Assistant Secretary (Contracting) will issue a memorandum to ensure that Contracting Officers clearly understand that contract financing payments are not subject to the payment of an interest penalty and to direct Contracting Officers to review contracts to assure the proper contract clauses are in place.

B.2 We recommend that the Director, Defense Finance and Accounting Service:

a. Require its personnel to review contracts prior to payment to determine whether the interim payments are cost reimbursement services or contract financing, and for personnel to assure that the payment systems process the payments under the rules that apply to the applicable Federal Acquisition Regulation.

Management Comments. The DFAS Denver Central Site Director nonconcurred with the recommendation and stated that Contract Pay Operations (MOCAS) currently has a means of determining whether cost contracts are for cost reimbursement services or contract financing. Contracts that are for cost reimbursement services are identified in MOCAS as a "Kind 6" (services) contract. He further stated that a memorandum issued by the Office of the Under Secretary of Defense (OUSD) (Deputy Chief Financial Officer), dated July 14, 2006, announced that DFAS would continue to apply the 14-day rule to all bureau (cost) voucher submissions, regardless of contract type. He further stated that the decision was upheld in a memorandum issued by the OUSD and Acquisition Logistics and Technology (Director, Defense Procurement and Acquisition Policy), dated July 19, 2006. Finally, the Director stated that pending receipt of additional information from the Office of Management and Budget or OUSD, DFAS will continue to follow current guidance.

Audit Response. The DFAS Denver Central Site Director's comments were not responsive to the specifics of the finding and recommendation. In the finding, we stated that we determined that the contracting officer had not inserted the required Alternate I at FAR 52.232-25, to classify the contract for cost reimbursable services. In a follow up with DFAS, we determined that six of the nine contracting actions were designated "Kind 6" for cost reimbursable services but that the designation was not in accordance with the terms of the contract. As a result, the vendor payments were subject to the payment of an interest penalty without the required contractual authority.

b. Modify the Mechanization of Contract Administration Services system to start the prompt payment period clock on the date that electronic invoices are received at the Defense Information Services Agency gateway.

Management Comments. The DFAS Denver Central Site Director concurred with the recommendation and stated that a system change request has been initiated and forwarded for review. This system change request will allow the capture of invoice receipt dates from the DISA Gateway for various electronic systems, and will also allow posting of the data into MOCAS. However, until the MOCAS Rehost is completed, DFAS will not be able to capture the invoice receipt date for those invoices received on the weekend. Status of the MOCAS Rehost and the system change request will be provided in April, 2007. The estimated completion date is May 15, 2007.

We request the DFAS Denver Central Site Director reconsider his position on Recommendation B.2.a, and provide comments to the final report by January 23, 2006.

C. Cash Management Practices

Internal control was not effective to ensure that cash management practices were in compliance with laws and regulations. Specifically,

- DFAS personnel did not prevent vendor payments from being made more than 7 days prior to the accurately scheduled payment due dates. In 16 of 45 contracting actions examined, DFAS personnel paid vendors earlier than 7 days prior to the payment due date, thus incurring an unnecessary borrowing cost.
- DFAS personnel did not accept economically justified cash discounts offered by vendors in 2 of 45 contracting actions.

We generally attributed the early payments to inadequate controls over payment systems, improper processing of payments as interim payments under a 14-day payment term, and inaccurate data entry. Economically justified discounts were not taken because of untimely processing of contract changes and requirements, and DFAS personnel did not reprocess a discount offer on an invoice after initially rejecting the invoice for cause. As a result, we believe a high risk exists that numerous vendors are paid prematurely thereby incurring unnecessary borrowing costs, and economically justified cash discounts are lost.

Critical Guidance

Prompt Payment. According to the final ruling on 5 C.F.R. 1315.4(j), “Prompt Payment,”¹⁷ the Office of Management and Budget will prescribe regulations that “permit an agency to make payment up to 7 days prior to the required payment, or earlier as determined by the agency to be necessary on a case-by-case basis.” However, 5 C.F.R. 1315.5(d) also authorizes, as a class of transactions, accelerated interim payments on cost reimbursement service contracts.

In 5 C.F.R. 1315.2(n) and 5.C.F.R. 1315.7, discounts are defined as “an invoice payment reduction offered by the vendor for early payment that agencies may take, if economically justified, whether included in the contract or offered on an invoice.” Whether an early payment is economically justified is determined by the discount formula found in the Treasury Financial Manual.

Federal Acquisition Regulation. FAR 52.216-7, “Allowable Cost and Payment,” provides for interim payments as either contract financing or cost reimbursement services. If the interim payments to be made are for cost reimbursement services, the FAR clause instructs contracting officers to insert a reference to Alternate I, at FAR 52.232-25, or the interim payments made are considered contract financing.

¹⁷ Section 3903(a)(8), title 31, United States Code.

FAR 52.232-8, “Discounts for Prompt Payment,” establishes that cash discounts can be included with the initial offer or on individual invoices, and that the discount period begins on the invoice date; if an invoice date is not indicated, the discount period begins on the date the invoice is received by the designated billing office, provided a date stamp is applied. FAR Subpart 13.4, “Fast Payment Procedures,”¹⁸ establishes a condition that individual purchasing instrument payments for fast pay invoices do not exceed \$25,000 unless an exception is granted.

Defense Federal Acquisition Regulation Supplement (DFARS). DFARS Subpart 232.9, “Prompt Payment” (Revised September 21, 1999), states that contracting officers will generally reference the standard due date of 14 days for interim payments on cost type contracts. Contracting officers make the reference in the contract in paragraph (b) (1) of the Prompt Payment clauses at FAR 52.232-25, 52.232-26, and 52.232-27.¹⁹

Financial Management Regulation. FMR volume 10, chapter 7 provides the DoD policy regarding the Prompt Payment Act. DoD policy states that:

- sound cash management dictates payments be made no earlier than the 23rd day²⁰ without being considered an early payment;
- early payments act as a waiver of cash management that must be approved by a DFAS Center Director or head of a disbursing office or their designee;
- payments for orders under the Fast Payment Procedures will be made no later than 15 days after receipt of a proper fast pay invoice;
- payments should be made as close as possible to the payment due date, but no later than the discount due date, if a cost-effective discount is offered; and
- if the contract discount terms conflict with the terms on the invoice, then the discount most advantageous to the Government will be taken. If personnel reject the invoice, the paying office should make an effort to have the invoice date changed or a new invoice provided with the current date so that the cash discount period will start anew.

Treasury Financial Manual. The Treasury Financial Manual, volume 1, part 6, chapter 8040.40, states that agency payment systems should be capable of handling cash discounts as a matter of routine. Chapter 8040.40 also establishes the formula by which a cash discount is determined economically justified. The

¹⁸ Fast pay procedures provide for payment within 15 days of receipt of the invoice, without evidence of the receipt and acceptance of the goods or services as a condition of payment.

¹⁹ DFARS Subpart 232.9 was revised on December 20, 2005. While the revision did not affect the results presented in this report, it could impact the results of future audits in this area.

²⁰ The DoD FMR use of the 23rd day is based on the standard 30-day payment due date established in the Prompt Payment Act, and the provision that payments should not be made earlier than 7 days from the payment due date.

cash discount is economically justified, and payment is made to take advantage of the discount, when the effective annual discount rate found using the formula is greater than the Treasury current value of funds rate.

Cash Management

Internal control was not effective to ensure cash management practices were in compliance with laws and regulations. Specifically, cash management practices were not followed to prevent vendor payments from being made more than 7 days prior to the accurately scheduled payment due dates, and to accept economically justified cash discounts offered by vendors. In 16 of 45 contracting actions²¹ reviewed, DFAS personnel paid 101 of 328 invoices more than 7 days prior to the scheduled due date. In 2 of 45 contracting actions,²² DFAS personnel did not take advantage of economically justified cash discount offers on 15 of the 23 invoices that were submitted.

Early Payments. DFAS personnel made early payments affecting both the IAPS and MOCAS system.

- **IAPS.** DFAS personnel paid vendors early on 7 of 16 contracting actions. On one contract, the vendor was paid early when the invoice date, not the later of the date the services were received, was used to schedule the payment due date (sample number 57). On another contract, the invoice was treated as a 15-day fast pay invoice although the amount was over the \$25,000 limit and no exception had been granted (sample number 53). In the remaining five contracting actions,²³ we could not determine why the payments were made early on the invoices. In general, where we could not determine why the invoices were paid early, an IAPS internal edit was not in evidence to notify certifying officers when payments were scheduled earlier than 7 days from the accurately scheduled payment due dates.
- **MOCAS System.** DFAS personnel paid vendors early on 9 of 16 contracting actions²⁴ because the MOCAS system was programmed to pay invoices that were coded as Bureau Voucher Numbers on a 14-day payment term. DFAS personnel made interim payments, which are authorized under FAR 52.216-7, "Allowable Cost and Payment," on 8 of the 9 contracting actions.²⁵ However, we determined the vendors that submitted invoices under the Bureau Voucher Numbers format did not have contract authority to receive payment under the 14-day payment term because they were not classified as cost reimbursement

²¹ Sample numbers 4, 6, 7, 12, 19, 22, 25, 31, 33, 36, 44, 48, 50, 53, 56, and 57. Samples represent invoices paid both in IAPS and the MOCAS system.

²² Sample numbers 38 and 50.

²³ Sample numbers 6, 31, 33, 36, and 50.

²⁴ Sample numbers 4, 7, 12, 19, 22, 25, 44, 48, and 56.

²⁵ Sample numbers 4, 7, 12, 19, 22, 44, 48, and 56.

services, and, therefore, not subject to accelerated payment under 5 C.F.R. 1315. Specifically, the contracting officers did not insert Alternate I in the clause at FAR 52.232-25, which was required to designate the interim payments for cost reimbursement services. Moreover, the contracting officers did not comply with DFARS Subpart 232.9 in designating the interim payments, which were for contract financing, as subject to the 14-day payment term. In 4 of the 9 contracting actions, the contracting officers specifically inserted a statement that the payment due date was on the 30th day. In one contracting action, the payment term related to FAR 52.212-4, “Commercial Items,” and was not a candidate for either accelerated or 14-day payment (sample number 25).

Discounts. DFAS personnel did not take advantage of the discounts offered because one discount was offered in the contract terms but not shown on the invoice (sample number 50); and a new invoice, or new invoice date, was not requested on a rejected invoice so the cash discount period should have started anew (sample number 38).

Discussion of Effect

Prudent cash management practices reduce the overall financing cost of the Government and the taxpayer burden. For payments made early, the borrowing cost to the Department of the Treasury ranged from \$1.17 to \$1,578.24 for the invoices examined.²⁶ For discounts offered but not taken, the opportunity loss ranged from \$3.12 to \$1,510.62 for the invoices examined. We conducted the audit as an attribute test, and the results cannot be projected to the overall borrowing cost and opportunity loss. However, because 17 of the 45 contracting actions²⁷ reviewed contained errors, the risk is high that numerous payments are paid earlier than allowed by waiver and economically justified discounts offered are not being taken.

Management Comments on the Finding and Audit Response

Summaries of management comments on the finding and our audit response are in Appendix C.

²⁶ Borrowing costs of less than \$1.00 for an invoice were not considered exceptions.

²⁷ Sample number 50 appears in both the Early Payments section and the Discounts section, but is only counted as one contracting action.

Recommendations, Management Comments and Audit Response

C.1. We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller), in coordination with the Assistant Secretary of the Air Force (Acquisition) and Director, Defense Finance and Accounting Service:

a. Establish an internal control edit within the Integrated Accounts Payable System to notify the certifying officer when a payment is approved earlier than 7 days prior to the scheduled payment due date and when discounts offered either by contract or by invoice should be taken.

Management Comments. The DFAS Denver Central Site Director concurred with the intent of the recommendation and stated that establishing an internal control edit in IAPS to notify the certifying officer of an early payment will not preclude a payment from being approved earlier than allowed and when discounts offered are not taken. He further stated that there are certain periods and circumstances when early release of payments is authorized to preclude payment delays. He further stated that certifying officers are required to validate all entered dates and the scheduled payment due date to ensure payments comply with the Prompt Payment Act and that all offered discounts are taken or recorded as lost. He identified several methods that DFAS uses to identify and resolve erroneous payments on a continual basis through which DFAS identifies problems and in-house training needs. DFAS now uses a spreadsheet to track and document early payment authorizations and mass early releases as a standard process.

b. Require that contracting officers and Defense Finance and Accounting Service personnel review the contracts to determine whether the interim payments are cost reimbursement services or contract financing, and process the payments under the rules that apply in accordance with the FAR and DFARS provisions.

Management Comments. The Assistant Secretary of the Air Force (Financial Management and Comptroller) did not comment on the recommendation, deferring to the Assistant Secretary of the Air Force (Acquisition) for comment. The Assistant Secretary of the Air Force (Acquisition) concurred with the recommendation and stated that the Deputy Assistant Secretary (Contracting) will issue a memorandum to ensure that Contracting Officers clearly understand that contract financing payments are not subject to the payment of an interest penalty and to direct Contracting Officers to review contracts to assure the proper contract clauses are in place.

The DFAS Denver Central Site Director nonconcurred with the recommendation and stated DFAS currently has procedures that allow personnel to properly identify whether interim payments on cost-type contracts are for cost reimbursement payments for services or contract financing. For additional information, he referred to the response on Recommendation B.2.a, and stated until additional guidance is received, DFAS will follow the OUSD decision.

Audit Response. The DFAS Denver Central Site Director's comments are not responsive. Specifically, in a followup with DFAS, we determined that six of the nine contracting actions were designated "Kind 6" for cost reimbursable services but that the designation was not in accordance with the terms of the contract. As a result, the vendor payments were subject to a 14-day payment without the required contractual authority.

We request the DFAS Denver Central Site Director reconsider his position on Recommendation C.1.b and provide comments to the final report by January 23, 2006.

Appendix A. Scope and Methodology

This is the third in a series of reports examining internal control and compliance with laws and regulations of the Air Force General Fund vendor pay disbursement cycle. In this report, we discuss the outcome of our tests of vendor payments for 45 contracting actions by the Defense Finance and Accounting Service. We performed internal control tests to determine whether payments were made properly, on time, and with prudent cash management practices. Our sample of 45 contracting actions was randomly selected from a universe of 15,096 items reported during the period July 1, 2003, through September 30, 2003. If a contracting action was not within the scope of audit, we replaced it with the next randomly selected item in the sample. The audit test period extended from October 1, 2003, through June 30, 2004. In a control sample test of 45 items, one deviation represents a high risk that internal control is not effective.

In our examination of the 45 contracting actions (which included funding modifications), we reviewed the contract file documentation for each sampled action to determine the timing, nature, character, and terms and conditions related to the action. We also obtained copies of the funding documents for the contracting action. Based upon the contract data gathered, we traced the delivery of the goods and services through receipt and acceptance by the Government, invoice certification, payment, and recognition of the related transactions in the budgetary and proprietary general ledger accounts in the official accounting records.

We performed this audit from January 2004 through March 2006 in accordance with generally accepted government auditing standards. Our review of the transactions related to the deliveries and payments made against the contracting actions during the period October 2003 through June 2004, except for those actions that were funding modifications. We reconstructed the funding and payment histories on all funding modifications back to the inception of the basic order.

Use of Computer-Processed Data. We relied on data from the IAPS, MOCAS, and Electronic Document Access systems. However, we did not perform a formal reliability assessment on those systems. Instead, we compared the system data to the hardcopy contracts, funding documents, invoices, and receiving documents to assess data accuracy for the lines of accounting charged and payments made against the 45 contracting actions selected for audit.

Use of Technical Assistance. The Office of General Counsel, Office of the Inspector General, assisted in the review of the legality of the contracting actions and funds used to pay vendors identified in this report. In addition, personnel from the Quantitative Methods Division, Office of the Inspector General, assisted in the development of the statistical analysis presented in this report.

Government Accountability Office High-Risk Area. The Government Accountability Office has identified several high-risk areas in DoD. This report addresses issues related to the Defense Financial Management high-risk areas.

Prior Coverage

During the last 5 years, the Inspector General of the Department of Defense (IG DoD) has issued two reports related to the Air Force General Fund vendor pay disbursement cycle. Unrestricted IG DoD reports can be accessed at <http://www.dodig.mil/audit/reports>.

DoD IG

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

DoD IG Report No. D-2006-056, “Vendor Pay Disbursement Cycle, Air Force General Fund: Contract Formation and Funding,” March 6, 2006

Appendix B. Contracting Actions Selected for Review

CONTRACTING ACTION NUMBER	SAMPLE NUMBER	CONTRACTING OFFICE	CONTRACTING ACTION	CONTRACT VALUE	DESCRIPTION GOODS/SERVICES
1	1	WR-ALC / LRK 750 3rd Street Robins AFB, GA 31098-2122	F34601-00-G-0006 RU32	319,431	Miscellaneous Engine Accessories, Aircraft
2	2	Air Force Material Command Aeronautical System Center 2640 Loop Road West, Building 557 Wright-Patterson AFB, OH 45433-7106	F33657-00-G-4029	645,500	Airframe structural components
3	3	OO-ALC / LGJ 6050 Gum Lane, Building 1215 Hill AFB, UT 84056-5825	GS-07F-7465C F42630-03-F-0059	677,385	Converters, Electrical, Nonrotating
4	4	Air Force Material Command Human System Center / PKR 7909 Lindbergh Drive Brooks AFB, TX 78235-5352	F41624-97-D-6004	112,000	RDT&E Other Research and Development-Eng. / Manuf. Development
5	5	Air Force Material Command Air Force Research Laboratory 2310 8th Street, Building 167 Wright-Patterson AFB, OH 45433-7801	F33615-03-M-2385	99,661	RDT&E / Aircraft-Applied Research
6	6	55 Contracting Squadron 101 Washington Square, Building 40 Offutt AFB, NE 68113-2107	F25600-02-D-0008	319,972	Automated Information System Design and Integration Services
7	7	OC-ALC/PSK B-52 3001 Staff Drive Building 3001, Suite 2AG87A Tinker AFB, OK 73145-3020	F34601-99-C-0006 P00130	75,000	Systems Engineering Services
8	10	ASC/PKW Area C Building 1 1940 Allbrook Drive, Suite 3 Wright-Patterson AFB, OH 45433-5309	NIH-26303D0541 F33600-03-F-3217	68,570	ADP Support Equip
9	11	18 CONS / Infrastructure Acquisition Unit 5199, Building 95 Kadena AB-Japan APO, AP 96368	F62321-00-D-0007	142,185	Maintenance / Other Miscellaneous Buildings
10	12	Department 8, AF Research Laboratory Directorate of Contracting / PK 2251 Maxwell Avenue SE Kirtland AFB, NM 87117-5773	F29601-97-C-0115 P00065	106,600	RDT&E / Weapons-Adv Tech Devopment
11	14	39 CONS / LGC FA5685 39 Uncu Kontrat Subayligi Bina Number 488, 10 Uncu Tanker US Incirlik/Adana, Turkey	F61358-03-P-0104	128,750	Aircraft Ground Servicing Equipment
12	17	R325 CONS / LGCB / STOP 28 501 Illinois Avenue, Suite 5 Tyndall AFB, FL 32403-5526	F08637-02-D-6999	680,028	Facilities Operations Support Services
13	18	OC-ALC / PKOAA 7858 5th Street, Suite 1 Tinker AFB, OK 73145	NAS501142 F34650-03-F-A384	148,127	ADPE System Configuration
14	19	Directorate of Contracting Building 1206, OO-ALC / LHKC 6039 Wardleigh Road Hill AFB, UT 84056-5838	F42600-01-D-0027	3,688,503	Systems Engineering Services
15	20	AAC / YUB Building 11, 102 W. D Avenue, Ste 300 Eglin AFB, FL 32542-6808	F08635-03-D-0007	195,626	Bombs

Note: Sample numbers are not in consecutive order. Twelve contracting actions resulting in deliveries and payment prior to October 1, 2003 were replaced.

CONTRACTING ACTION NUMBER	SAMPLE NUMBER	CONTRACTING OFFICE	CONTRACTING ACTION	CONTRACT VALUE	DESCRIPTION GOODS/SERVICES
16	21	Air Force Material Command 311th Human Systems Wing / PKV 3300 Sidney Brooks Brooks City Base, TX 78235-5112	F41624-01-D-8552	99,461	Other Industrial Buildings
17	22	OO-ALC / YWK Directorate of Contracting Building 1215, 6050 Gum Lane Hill AFB, UT 84056-5825	F42630-99-C-0170 P00085	56,862	Maintenance and Repair of Equipment / Training Aids and Devices
18	23	Contracting Squadron IT 14040 Building 17000 Andersen AFB, GU 96543-4040	F64133-03-P-0242	89,708	Miscellaneous Items
19	24	CONS / Infrastructure Acquisition Unit15199, Building 95 Kadena AB--Japan APO, AP 96368	F62321-03-D-0010	83,345	Maintenance / Other Miscellaneous Buildings
20	25	OC-ALC Directorate of Contracting / Aircraft 3001 Staff Dr, Suite 1AE1 107B Tinker AFB, OK 73145-3020	F34601-97-C-0032 P00126	587,000	Aircraft Fixed Wing
21	26	ESC / SRK Electronic Systems Center Air Force Material Command Hanscom AFB, MA 01731-3010	GS-35F-4668G F19628-02-F-8197 P00010	1,508,316	Other Professional Services
22	27	374 Contracting Squadron Unit 5228, Building 620 Yokota AB--Japan Fussa-Shi, Tokyo 197-0001	F62562-03-C-0049	620,200	Maintenance / Religious Facilities
23	28	AAC / PKO-FA2823 205 West D Avenue Building 350, Suite 541 Eglin AFB, FL 32542-6862	GS-07F-0397K F08651-03-F-A294	68,995	Recreational and Gymnastic Equipment
24	30	Air Force Material Command HQ Aeronautical Systems Center 2300 D Street Wright-Patterson AFB, OH 45433-7249	F33657-98-D-0021	876,488	Data Analyses (Other Than Scientific)
25	31	OO-ALC / PKOS 6038 Aspen Ave, B1289 NE Hill AFB, UT 84056-5805	F42650-02-C-0024 P00013	250,000	Custodial-Janitorial Services
26	32	82 CONS / LGC 136 Avenue, Ste 1, Building 1664 Sheppard AFB, TX 76311-2746	F41612-01-D-0006	573,366	Maintenance / Maintenance Building
27	33	374 Contracting Squadron Unit 5228, Building 620 Yokota AB--Japan Fussaa-Shi, Tokyo 197-0001	F62562-03-P-0648	42,085	Maintenance / Family Housing Facilities
28	34	88 ABW / PKS 1940 Allbrook Drive, Suite 3 Wright-Patterson AFB, OH 45433-5309	GS-28F-8021H F33601-03-F-0228	67,770	Office Furniture
29	35	USAFE Contracting Squadron Unit 3115 APO, AE 09094	GS-06F-0007J F61521-03-F-A494	206,530	Miscellaneous Items
30	36	OC-ALC / PKOE 7858 5th Street, Suite 1 Tinker AFB, OK 73145	F34650-98-D-0033	124,359	Architect - Engineering Services

Note: Sample numbers are not in consecutive order. Twelve contracting actions resulting in deliveries and payment prior to October 1, 2003 were replaced.

CONTRACTING ACTION NUMBER	SAMPLE NUMBER	CONTRACTING OFFICE	CONTRACTING ACTION	CONTRACT VALUE	DESCRIPTION GOODS/SERVICES
31	37	99 CONS / LGCB 5865 SWAAB Boulevard, Building 588 Nellis AFB, NV 89191-7063	GS-35F-4076D F26600-03-F-8613	486,000	ADP Input / Output and Storage Devices
32	38	35 CONS / LGC Unit 5201, Building 302 (Japan) APO, AP 96319-5201	GS-07F-8756D F62509-03-F-0067	77,173	Tractor, Wheeled
33	40	38 Contracting Squadron Unit 14040, Building 17000 Andersen AFB, GU 96543-4040	F64133-98-D-0009	128,590	Maintenance / Other Miscellaneous Building
34	41	Air Force Material Command Aeronautical Systems Center 2640-Loop Road West, Room 213 Wright-Patterson AFB, OH 45433-7106	F33657-03-C-3003 P00016	3,232,511	Drones
35	42	15th Contracting Squadron 90G Street, Building 1201 Hickam AFB, HI 96853-5230	F64605-03-C-0020	1,499,980	Maintenance / All Other Non-Building Facilities
36	44	Special Operations Forces Contracting Division WR-ALC / IUK 228 Cochran Street Robins AFB, GA 31098-2200	F09603-02-C-0286 P0007	442,297	Modification of Equipment / Aircraft Components & Accessories
37	46	Air Force Material Command Aeronautical Systems Center 2640 Loop Rd West, Rm 203 Wright-Patterson AFB, OH 45433-7106	F33657-00-G-4042	85,371	Systems Engineering Services
38	47	ASC / PKW Area C, Building 1 1940 Allbrook Drive, Suite 3 Wright-Patterson AFB, OH 45433-5309	F42620-00-D-0039 RZ16	71,092	Engineering Technical Services
39	48	OC/ALC / LGKIB (CFT) 3001 Staff Drive, Suite 1AC197E Tinker AFB, OK 73145-3028	F34601-97-D-0423	1,130,678	Maintenance and Repair of Equipment / Aircraft Structural Comps
40	50	12 CONS / LGCB-FA1691 395 B Street West, Suite 2 Randolph AFB, TX 78150-4525	GS-35F-4415G F41691-02-F-0653 P00001	74,630	Other ADP & Telecommunication Services
41	51	OO-ALC / LHKS Directorate of Contracting Building 1239, 6012 Fir Avenue Hill AFB, UT 84056-5820	F04606-97-D-0059 QPSB	317,027	Telephone & Telegraph Equipment
42	53	42nd Contracting Squadron 50 Lemay Plaza South Maxwell AFB, AL 36112-6334	F01600-03-F-A306	149,160	Office Furniture
43	54	22nd Contracting Squadron, FA4621 53147 Kansas Street, Suite 102 McConnell AFB, KS 67221-3606	DAHA14-02-D-5222 X406	168,272	Maintenance Religious Facilities
44	56	Air Force Material Command Air Armament Center Building 349 207 West D Avenue, Suite 622 Eglin AFB, FL 32542-6844	F08635-03-C-0098	2,500,000	Guided Missiles
45	57	50th Contracting Squadron, GWE 21D Falcon Parkway Schriever AFB, CO 80912-2118	GS-07F-6337A FA2550-03-F-A122	199,943	Miscellaneous Furniture and Fixtures

Note: Sample numbers are not in consecutive order. Twelve contracting actions resulting in deliveries and payment prior to October 1, 2003 were replaced.

Appendix C. Management Comments on the Findings and Audit Response

The Director, Air Force Accounting and Finance Office (SAF/FMP [AFAFO]), nonconcurrent with the findings and recommendations, stating that the DoD IG should revise the draft report to direct recommendations to the appropriate officials. He stated that the manner in which the report was issued required each agency in the overall recommendation to determine their responsibility for the recommendations and answer independently. He further stated that the DoD Internal Audit Manual, DoD 7600.7-M, June 1990, requires draft reports to be staffed through the management officials responsible for taking corrective action.

The Central Site Director, Defense Finance and Accounting Service, Denver, did not agree that the findings constitute a high risk as presented in the audit report. He stated that the sample of 45 items is not a true representation of the total contracts in IAPS and MOCAS, and that one defect does not indicate a high risk. He further stated that the sampling size is flawed, the risk is actually low, and internal controls are effective.

Audit Response. In the findings, we reported that a high risk existed that Air Force internal control was not effective to assure that vendors were paid with the correct appropriations and in accordance with laws and regulations for prompt payment and cash management practices. We determined that, because internal control of payments to vendors of Air Force General Funds is a responsibility of Air Force management, the Secretary of the Air Force for Financial Management (SAF/FM) is the primary organization to direct recommendations to improve these controls. However, we also recognize that other organizations must be involved to truly make the changes that we are recommending to the internal controls. Therefore, we recommended that the Secretary of the Air Force for Financial Management coordinate its actions with the other organizations that are involved with processing payments to vendors.

We also do not agree with the Central Site Director regarding our risk assessment and the sample size that we used in our assessment. Our assessment was based on the Government Accountability Office and President's Council on Integrity and Efficiency Financial Audit Manual criteria for conducting a control sample test of internal control and compliance with laws and regulations. The criteria states that in a sample of 45 items, one defect does constitute a high risk that controls are not effective, although the auditor should consider other qualitative aspects of the sample and the nature of the defects. One qualitative aspect we considered was the distribution of the errors between the IAPS and MOCAS systems. That distribution was 10 errors and 6 errors respectively. According to the Government Accountability Office and President's Council on Integrity and Efficiency Financial Audit Manual, those results would still have qualified as high risk even if we had sampled 209 contracting actions. Our audit assessment originated with a sample of contracting actions, and from that sample we determined compliance with the prevailing contract terms and the Prompt Payment Act. Thus, our risk assessment related to overall compliance, not the risk associated with each automated system that was used to pay vendors.

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
Director, Acquisition Resources and Analysis
Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Director, Program Analysis and Evaluation
Director, Defense Procurement and Acquisition Policy
Director, Business Transformation

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Assistant Secretary of the Air Force (Acquisition)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Finance and Accounting Service
Director, Defense Contract Audit Agency

Non-Defense Federal Organization

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Homeland Security and Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform

Department of the Air Force Comments



Office Of The Assistant Secretary

DEPARTMENT OF THE AIR FORCE
WASHINGTON DC

01 SEP 2006

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

FROM: AFAFO (SAF/FMP)
6760 E. Irvington Place
Denver, CO 80279-8000

SUBJECT: DoDIG Draft Audit Report, Vendor Pay Disbursement Cycle, Air Force General
Fund: Payments to Vendors, (Project No. D2004FD-0040.002)

Comments from SAF/AQ are provided for recommendations B.1.c., B.1.d and C.1.b.

If you have any questions or concerns with our comments, please contact Valli Fels,
AFAFO/FMFA, DSN 926-5862 or SMSgt Mike Hayes, AFAFO/QA Analyst, DSN 926-5859.

A handwritten signature in cursive script, appearing to read "Patrick A. Coe".

PATRICK A. COE, Colonel, USAF
Director, Air Force Accounting and
Finance Office

Attachment:
Management Comments



DEPARTMENT OF THE AIR FORCE
WASHINGTON, DC

AUG 30 2006

OFFICE OF THE ASSISTANT SECRETARY

MEMORANDUM FOR SAF/FMP

FROM: SAF/AQ

SUBJECT: Comments on DoDIG Draft Report: *Vendor Pay Disbursement Cycle, Air Force General Fund: Payments to Vendors* (Project No. D2004-D000FD-0040.002)

I asked the Deputy Assistant Secretary (Contracting) to review and comment on the subject DoDIG report. Three recommendations from the report were determined to be within the purview of Air Force Contracting, and thus Air Force Acquisition. These are the only recommendations that will be addressed in this memorandum. All other recommendations are considered to be the responsibility of either the Defense Finance and Accounting Service or the Assistant Secretary of Air Force (Financial Management and Comptroller).

Recommendation B.1.c. We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller) in coordination with the Assistant Secretary of the Air Force (Acquisition) and the Director, Defense Finance and Accounting Service develop procedures for the review and follow-up on contracts that, as a matter of record or administrative practice, create an ambiguity regarding the designated billing office.

Comment: Concur. The Deputy Assistant Secretary (Contracting) will issue guidance instructing Contracting Officers to work with Defense Finance and Accounting Service personnel to eliminate designated billing office ambiguities in Air Force contracts by requiring the designated billing office information to be included in the administrative data section of the contract and thereby reflect administrative practice. Further, the guidance will stipulate that the information in the administrative data section of the contract must match the contract cover page payment information block. In addition, I will continue to support the on-going implementation of electronic payments in accordance with the Defense Federal Acquisition Regulation Supplement (DFARS).

Recommendation B.1.d. We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller) in coordination with the Assistant Secretary of the Air Force (Acquisition) and the Director, Defense Finance and Accounting Service require that the contracting officers review contracts to determine whether the interim payments are cost reimbursement services or contract financing, and process the payments under the rules that apply in accordance with the Federal Acquisition Regulation.

Comment: Concur. The Deputy Assistant Secretary (Contracting) will issue a memorandum to ensure that Contracting Officers clearly understand that contract

financing payments are not subject to the payment of an interest penalty and to direct Contracting Officers to review contracts to assure the proper contract payment clauses are in place.

Recommendation C.1.b. We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller) in coordination with the Assistant Secretary of the Air Force (Acquisition) and Director, Defense Finance and Accounting Service require that the contracting officers and Defense Finance and Accounting Service personnel review the contracts to determine whether the interim payments are cost reimbursement services or contract financing, and process the payments under the rules that apply in accordance with the FAR and DFARS provisions.

Comment: Concur. The Deputy Assistant Secretary (Contracting) will issue a memorandum to ensure that Contracting Officers clearly understand that contract financing payments are not subject to the payment of an interest penalty and to direct Contracting Officers to review contracts to assure the proper contract payment clauses are in place.

Please incorporate the above comments into the consolidated Air Force response to the DoDIG. Questions regarding these comments may be directed to Major Bill Braden, SAF/AQCP, at william.braden@pentagon.af.mil or 703-588-7058.



SUE C. PAYTON
Assistant Secretary of the Air Force
(Acquisition)



DEPARTMENT OF THE AIR FORCE
WASHINGTON, DC

OFFICE OF THE ASSISTANT SECRETARY

30 August 2006

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

FROM: SAF/FMP (AFAFO)
6760 E. Irvington Place
Denver, CO 80279-8000

SUBJECT: DoDIG Draft Audit Report, Vendor Pay Disbursement Cycle, Air Force General
Fund: Payments to Vendors, (Project No. D2004FD-0040.002)

We nonconcur on the findings and recommendations of the DoDIG Draft Audit Report, Vendor Pay Disbursement Cycle, Air Force General Fund: Payments to Vendors, (Project No. D2004FD-0040.002) for A.1, B.1, and C.1. Specific management comments are attached.

If you have any questions or concerns with our comments, please contact Valli Fels, or Mike Hayes, SAF/FMP (AFAFO) at DSN 926-5862 or DSN 926-5859 respectively.

PATRICK A. COE, Colonel, USAF
Director, Air Force Accounting and
Finance Office

Attachment:
Management Comments

DoDIG Draft Audit Report
Vendor Pay Disbursement Cycle, Air Force General Fund: Payments to Vendors
Project No. D2004FD-0040.002

Recommendation A.1.: We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller), in coordination with the Undersecretary of Defense (Comptroller/Chief Financial Officer) and the Director, Defense Finance and Accounting Service:

- a. Establish guidance, as necessary, requiring funds holders, contracting officers, and personnel who receive and accept performance to provide effective and timely follow-up on payments to ensure the correct appropriations are used to pay for services in the periods that the services are performed.
- b. Require annual recertification of accountable officials to acknowledge their pecuniary liability in providing information and data used by certifying officials in approving vouchers for payment.
- c. Coordinate with the Director, DoD Business Transformation Agency to ensure proper integration when designing future acquisition and financial management systems, as required by the "Joint Financial Management Improvement Program, Acquisition/Financial Systems Interface Requirements," June 2002.

AFAFO Management Comments A.1.: Nonconcur

In accordance with DoD 7600.7-M, June 1990, Department of Defense Internal Audit Manual, draft reports are required to be staffed through the management officials responsible for taking corrective action. In order to allow timely, responsible, and appropriate responses, DoDIG should revise this draft report to direct recommendations to the appropriate official. Due to the manner in which this draft report is written, each agency in the overall recommendation had to determine their responsibility for the specific recommendations and answer independently. Air Force provides management comments for those specific recommendations applicable to SAF/FM and SAF/AQ. AQ response to be forwarded at a later date.

AFAFO Management Comments A.1.a.: Nonconcur

The findings in this recommendation were due to DFAS payment errors. This will be addressed in their response. Air Force does not feel it is feasible or warranted for funds holders and receiving personnel to perform additional post payment follow-up.

AFAFO Management Comments A.1.b.: Nonconcur

Our guide and implementation strategy for appointing accountable officials will inform said officials of their liability. There is no requirement for annual recertification within the DoDFMR Volume 5, Chapter 33. Initial appointment will adequately inform accountable officials of their responsibilities.

DFAS will provide management comments to A.1.a, c and A.2. separately.

Recommendation B.1.: We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller), in coordination with the Assistant Secretary of the Air Force (Acquisition) and the Director, Defense Finance and Accounting Service:

- a. Require personnel who are responsible for receiving and accepting goods or services be properly trained on determining actual and the 7-day constructive acceptance period.
- b. Require personnel who receive and approve invoices be properly trained on determining the date stamping of invoices received.
- c. Develop procedures for the review and follow-up on contracts that, as a matter of record or administrative practice, create an ambiguity regarding the designated billing office.
- d. Require that contracting officers review contracts to determine whether the interim payments are cost reimbursement services or contract financing, and process the payments under the rules that apply in accordance with the Federal Acquisition Regulation.

AFAFO Management Comments B.1.: Nonconcur

In accordance with DoD 7600.7-M, June 1990, Department of Defense Internal Audit Manual, draft reports are required to be staffed through the management officials responsible for taking corrective action. In order to allow timely, responsible, and appropriate responses, DoDIG should revise this draft report to direct recommendations to the appropriate official. Due to the manner in which this draft report is written, each agency in the overall recommendation had to determine their responsibility for the specific recommendations and answer independently. Air Force provides management comments for those specific recommendations applicable to AF/FM and SAF/AQ. AQ response to be forwarded at a later date.

SAF/AQC will provide management comments to B.1.a-d for Air Force.

DFAS will provide management comments to B.1.a-c and B.2. separately.

Recommendation C.1.: We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller), in coordination with the Assistant Secretary of the Air Force (Acquisition) and the Director, Defense Finance and Accounting Service:

- a. Establish an internal control edit within the Integrated Accounts Payable System to notify the certifying officer when a payment is approved earlier than 7 days prior to the scheduled payment due date and when discounts offered either by contract or by invoice should be taken.
- b. Require that contracting officers and Defense Finance and Accounting Service personnel review the contracts to determine whether the interim payments are cost reimbursement services or contract financing, and process the payments under the rules that apply in accordance with the FAR and DFARS provisions.

AFAFO Management Comments C.1.: Nonconcur

In accordance with DoD 7600.7-M, June 1990, Department of Defense Internal Audit Manual, draft reports are required to be staffed through the management officials responsible for taking corrective action. In order to allow timely, responsible, and appropriate responses, DoDIG should revise this draft report to direct recommendations to the appropriate official. Due to the manner in which this draft report is written, each agency in the overall recommendation had to determine their responsibility for the specific recommendations and answer independently. Air Force provides management comments for those specific recommendations applicable to SAF/FM and SAF/AQ. AQ response to be forwarded at a later date.

DFAS will provide management comments to C.1.a and b separately.

SAF/AQC will provide management comments to C.1.b. for Air Force.

Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE

6760 E. IRVINGTON PLACE
DENVER COLORADO 80279-8000

AUG 24 2006

DFAS-AD/DE

MEMORANDUM FOR PROGRAM DIRECTOR, DEFENSE FINANCIAL AUDITING
SERVICE, DEPARTMENT OF DEFENSE INSPECTOR
GENERAL

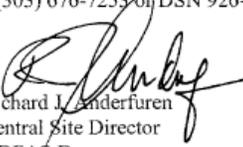
SUBJECT: Management Comments to the DoDIG Draft Audit Report "Vendor Pay
Disbursement Cycle, Air Force General Fund: Payments to Vendors," Project No.
D2004-D000FD-0040.002, dated June 20, 2006

In accordance with subject audit, DFAS management comments are provided for
Recommendations A.1.a, A.1.c, A.2, B.1.a, B.1.b, B.1.c, B.2.a, B.2.b, C.1.a, and C.1.b
(Attachment 1). Recommendations A.1.c, B.1.c, B.2.a, and C.1.b are considered closed. For
recommendations B.2.a and C.1.b DFAS non-concurs with the recommended action due to
conflicting OSD policy.

DFAS agrees with the majority of recommendations as improvements to the overall
process. We do not agree that these findings constitute a high risk as presented in this audit. The
sample of 45 items used is not a true representation of the total contracts loaded in IAPS and
MOCAS. Based on this limited sampling, one defect does not indicate a high risk. The sampling
size is flawed and risk, in fact, is low and internal controls are effective.

Included in our responses are two memoranda issued by the Office of the Under Secretary
of Defense (OUSD) in response to a previous DoDIG audit report "Providing Interim Payments
to Contractors in Accordance with the Prompt Payment Act," dated July 14, 2006, and July 19,
2006 (Attachments 2 and 3). This audit report's findings and recommendations were directed at
both DFAS Denver and SAF/FM. Therefore, with regard to the report's recommendations, we
provided specific comments to recommendations that were directed at DFAS-Denver.

Questions your staff may have concerning the audit may be directed to Mr. Paul
Mahoney, DFAS-ADNDE, commercial (303) 676-7253 or DSN 926-7253.


Richard J. Landerfuren
Central Site Director
DFAS Denver

Attachments:
As stated

www.dfas.mil
Your Financial Partner © Work

**Management Comments to the DoDIG Draft Audit "Vendor Pay Disbursement
Cycle, Air Force General Fund: Payments to Vendors,"
Project No. D2004-D000FD-0040.002, dated June 20, 2006**

Recommendation: A.1.a: We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller), in coordination with the Under Secretary of Defense (Comptroller/Chief Financial Officer), and the Director, Defense Finance and Accounting Service, establish guidance, as necessary, requiring fund holders, contracting officers, and personnel who receive and accept performance to provide effective and timely follow-up on payments to ensure the correct appropriations are used to pay for services in the periods that the services are performed.

Management Comments: Concur. The IAPS Version 2.0 (DEAR release) will assist in ensuring correct appropriations are used to pay for services in the periods that the services are performed by linking the line of accounting to the CLIN. In compliance with FAR 32.905, vendors invoices should include authorization for supplies delivered or services performed (including order number and contract line item number (CLIN)). Receipt and acceptance/approval for services received should reflect the same. Validating and ensuring compliance with proper documentation before processing in IAPS will reduce technician error and increase the ability to consistently charge correct appropriations for services in the periods that the services are performed. DEAR release will be fielded to all sites by April 2007. DFAS will complete stand down training no later than October 1, 2006 to reiterate processes and procedures to technicians and certifiers to ensure correct appropriations are used to pay for services in the periods that the services are performed. We do not believe the sample size was sufficient enough to establish a high risk assessment. This is evidenced by the consistent results found during our post payment reviews, both scheduled and randomly conducted, and our normal day to day supervisory reviews.

Estimated Completion Date: May 1, 2007

Point of Contact: Jana Haynie Chief, Accounts Payable Entitlements DFAS-CO, at 614-693-1103 or DSN 869-1103.

Recommendation: A.1.c: We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller), in coordination with the Under Secretary of Defense (Comptroller/Chief Financial Officer), and the Director, Defense Finance and Accounting Service: Coordinate with the Director, DoD Business Transformation Agency, to ensure proper integration when designing future acquisition and financial management systems, as required by the "Joint Financial Management Improvement Program, Acquisition/ Financial Systems Interface Requirements," June 2002.

Management Comments: Concur. DFAS has established the Strategic Business Management directorate, assigning it overall responsibility for agency strategic planning,

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transformation initiatives within DFAS; standardization and integration of functional requirements; integration and implementation of new operational systems architecture, and promulgating DoD accounting, finance, disbursing, and debt management policy to support the Department's goal toward achieving auditable financial statements.

Completion Date: This recommendation is considered closed.

Recommendation: A.2: We recommend that the Director, Defense Finance and Accounting Service establish an automated edit to the Integrated Accounts Payable System to ensure foreign currency fluctuation losses are not charged to operating appropriations.

Management Comments: Concur. The IAPS Version 2.0 (DEAR release) provides changes to foreign currency processing that will satisfy the intent of this recommendation. It establishes linkage between currency codes and their respective obligation/budget rates and their fluctuation accounts. This table driven process prevents users from using a fluctuation account not related to the currency, fund code, and fiscal year in the IAPS variable file table. We do not believe the sample size was sufficient enough to establish a high risk assessment. This is evidenced by the consistent results found during our post payment reviews, both scheduled and randomly conducted, and our normal day to day supervisory reviews.

Estimated Completion Date: May 1, 2007

Point of Contact: Terrie Smigiel DFAS-TSCAA/DE at 303-676-7774 or DSN 926-7774.

Recommendation: B.1a: We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller) in coordination with the Assistant Secretary of the Air Force (Acquisition) and the Director, Defense Finance and Accounting Service, require personnel who are responsible for receiving and accepting goods or services be properly trained on determining actual and the 7-day constructive acceptance period

Management Comments: Concur. IAPS does not systemically calculate constructive acceptance. As a result, upon receipt of receipt and acceptance information where the acceptance date is more than 7 days outside the receipt date, technicians must manually adjust acceptance date to comply with constructive acceptance requirements. DFAS will continue to reiterate receipt and approval requirements through email, customer symposiums, teleconferences and newsletters as well as use the Client Executive network for routine training/communication of requirements and address repeat problems. This will include clarification that receipt is the date the service or merchandise is actually received, acceptance is the date service or merchandise is actually accepted by the government and neither date is simply the date the receiving document is completed.

Atch 1

Furthermore, DFAS will continue to contact receiving activities in any situation where information in supporting documentation appears to conflict and/or receipt/acceptance dates appear to be misstated. DFAS will reinforce training regarding the determination of actual and constructive acceptance periods to IAPS users. IAPS sample review revealed one payment where the DFAS technician used incorrect dates in calculating constructive acceptance. Lastly, DFAS will investigate WAWF and or systems changes to automatically calculate constructive acceptance. We do not believe the sample size was sufficient enough to establish a high risk assessment. This is evidenced by the consistent results found during our post payment reviews, both scheduled and randomly conducted, and our normal day to day supervisory reviews.

Estimated Completion Date: November 1, 2006

Point of Contact: Jana Haynie Chief, Accounts Payable Entitlements DFAS-CO, at 614-693-1103 or DSN 869-1103.

Recommendation: B.1.b: We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller) in coordination with the Assistant Secretary of the Air Force (Acquisition) and the Director, Defense Finance and Accounting Service, require personnel who receive and approve invoices be properly trained on determining the date stamping of invoices received.

Management Comments: Concur. DFAS agrees that proper date stamping of invoices going to designated billing offices has been a long-standing concern and there are many situations when the designated billing office other than DFAS fails to date stamp the invoice upon receipt. However, when the designated billing office established by the contractual terms fails to properly date stamp the invoice upon receipt, then the invoice date is used as the invoice received date in accordance with DoDFMR requirements. DFAS communicates receipt and approval requirements during teleconferences, year-end meetings, customer symposiums/ conferences, newsletters and e-mails. DFAS also uses the Client Executive network for routine training and communication of requirements and to deal with repeat problems. Technicians are trained to review contractual terms for designated billing offices and to utilize the designated billing office date stamp to calculate payment due dates. DFAS will distribute reiteration of policy on date stamping invoices upon receipt at designated billing offices as well as reiterate procedures to determine proper date invoice received according to designated billing office to all DFAS personnel NLT November 1, 2006. IAPS sample review revealed three payments where the DFAS technician used incorrect dates in calculating the payment due date when the invoice was designated to go to a designated billing office other than DFAS. We do not believe the sample size was sufficient enough to establish a high risk assessment. This is evidenced by the consistent results found during our post payment reviews, both scheduled and randomly conducted, and our normal day to day supervisory reviews.

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Estimated Completion Date: November 1, 2006

Point of Contact: Jana Haynie Chief, Accounts Payable Entitlements DFAS-CO, at 614-693-1103 or DSN 869-1103.

Recommendation: B.1.c: We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller), in coordination with the Assistant Secretary of the Air Force (Acquisition) and Director, Defense Finance and Accounting Service, develop procedures for the review and follow-up on contracts that, as a matter of record or administrative practice, create an ambiguity regarding the designated billing office.

Management Comments: Concur. DFAS Columbus Entitlement Branch has developed procedures, dated June 5, 2006, which instruct our employees to review and follow-up on contracts that create an ambiguity regarding the designated billing office. When discrepancies are identified, a DD 1716, Contract Deficiency Report (CDR) is issued for clarification on contracts written with the incorrect payment office as determined by the contractor's geographical location.

DFAS utilizes the 1716 process to review and return contracts that create an ambiguity regarding designated billing offices, conflict between the front and narrative in contract terms, delivery orders that conflict with basic term agreements, line of accounting problems and/or any other associated contractual problems. When an invoice is received and cannot be paid due to contractual problems, it is suspended in EDM and follow-up action conducted to resolve the contractual problem. If it can be paid, contractual terms are followed to the best of the technician's ability to interpret the contract terms. However, the complexity of contractual agreements and required interpretation by a technician increases the possibility of technician error in calculating a proper payment due date. The 1716 process includes the tracking and follow-up procedures necessary to obtain corrected contractual agreements. Additionally, the receipt of an invoice will expedite the follow-up actions required. Follow-up actions in IAPS are further supported by daily systemic reports such as the TQ-31. Reiteration of policies and procedures and training is ongoing through in house training programs. We do not believe the sample size was sufficient enough to establish a high risk assessment. This is evidenced by the consistent results found during our post payment reviews, both scheduled and randomly conducted, and our normal day to day supervisory reviews.

Completion Date: This recommendation is considered closed.

Recommendation: B.2.a: We recommend that the Director, Defense Finance and Accounting Service, require its personnel to review contracts prior to payment to determine whether the interim payments are cost reimbursement services or contract

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financing, and for personnel to assure that the payment systems process the payments under the rules that apply to the applicable Federal Acquisition Regulation.

Management Comments: Non-concur. Contract Pay Operations (MOCAS) currently has a means of determining whether cost contracts are for cost reimbursement services or contract financing. Contracts that are for cost reimbursements services are entered into the MOCAS system as a "Kind 6" (services). This allows us to readily determine cost vouchers whose late payment is subject to interest penalties under the provisions of the Prompt Payment Act. In a memorandum issued by the Office of the Under Secretary of Defense (OUSD) in response to a previous Department of Defense Inspector General (DoDIG) audit report titled, "Providing Interim Payments to Contractors in Accordance with the Prompt Payment Act", dated July 14, 2006, OUSD announced that DFAS would continue to apply the 14-day rule to all cost/bureau voucher submissions, regardless of contract type. This decision was recently upheld (memorandum titled, "Providing Interim Payments to Contractors in Accordance with the Prompt Payment Act", dated July 19, 2006) by OUSD and Acquisition Logistics and Technology (AT&L) in response to the DoDIG audit finding that stated that cost/bureau vouchers should be subject to cash management provisions. Pending receipt of additional information from the Office of Management and Budget (OMB) or OUSD, we will continue to follow current guidance.

Completion Date: This recommendation is considered closed.

Recommendation: B.2.b: We recommend that the Director, Defense Finance and Accounting Service, modify the Mechanization of Contract Administration Services system to start the prompt payment period clock on the date that electronic invoices are received at the Defense Information Services Agency gateway.

Management Comments: Concur. A system Change Request (SCR) has been initiated and forwarded to the Technology Services Organization (TSO) for review. The SCR will allow capture of invoice receipt dates from DISA Gateway for the following electronics systems: Wide Area Work Flow (WAWF), Electronic Data Interchange (EDI), and the WEB Invoicing Systems (WINS); and will also allow posting of the data into MOCAS. MOCAS is currently programmed to capture electronic invoice date by subtracting one day from the MOCAS electronic received date giving consideration that the invoice was received at DISA Gateway one day prior to MOCAS receipt. This strategy provides a means for MOCAS and DISA Gateway to have the same invoice receipt date. However, because DISA Gateway processes seven days a week and MOCAS does not, we currently cannot capture the invoice receipt date for those invoices received on the weekend at DISA Gateway until the MOCAS Rehost is complete (scheduled for March 31, 2007) and the SCR is implemented. Status of the MOCAS Rehost and the SCR will be obtained in April 2007, and updated management comments will be provided at that time. We do not believe the sample size was sufficient enough to establish a high risk assessment. This is evidenced by the consistent results found during our post payment reviews, both scheduled and randomly conducted, and our normal day to day supervisory reviews.

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Estimated Completion Date: May 15, 2007

Point of Contact: Benjamin Allen Davis DFAS/CSQA-CO, at 614-693-9008 or DSN 869-9008.

Recommendation: C.1.a: We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller), in coordination with the Assistant Secretary of the Air Force (Acquisition) and Director, Defense Finance and Accounting Service, establish an internal control edit within the Integrated Accounts Payable System to notify the certifying officer when a payment is approved earlier than 7 days prior to the scheduled payment due date and when discounts offered either by contract or by invoice should be taken.

Management Comments: Concur with intent. Establishing an internal control edit in IAPS to notify certifying officer of an early payment will not preclude a payment from being approved earlier than 7 days prior to scheduled payment due date and when discounts offered by either contract or invoice are not taken. During periods of year-end processing, system releases and database mergers, authorization for early release of payments is requested and approved by DFAS Directors when justified to preclude payment delays during system downtime. Early payment authority would be applied to all payments processed in IAPS during the period of authorization. Small-disadvantaged businesses are authorized early release of payments in accordance with DFARS 232.905 and are made by reducing the IAPS contract terms. Individual one time early payments are considered based on vendor financial hardship upon receipt of signed request from a contracting officer. Request is submitted to the Accounts Payable Chief for coordination and authorization. Tracking and documentation of mass early release or individual early release will be instituted as a standard process across all IAPS sites effective NLT October 1, 2006. Discounts may be offered on either the invoice or in the contractual terms and IAPS systemically validates the best offer. Certifying officers are required to validate all dates input and the scheduled payment due date to ensure payments comply with the Prompt Payment Act and that all offered discounts are taken or recorded as lost. IAPS sample review revealed two errors where the DFAS technician failed to input discount offered on invoice and second used incorrect dates causing incorrect payment due date. Two additional findings were noted. One was correct in that it was payment to a Govt Agency (Unicor) and one was noted the tech should have requested a new invoice date on a return to vendor to restart the discount clock. Identification and resolution of erroneous payments is conducted through the following methods on a continual basis:

1. Post Payment Audits performed annually.
2. Post payment reviews randomly sampled monthly through MCR matrices.
3. Daily tracking of erroneous payments and monthly reporting via IPOD.
4. Daily supervisory review of interest penalty payments.

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5. Monthly analysis and review of lost discounts and interest paid.
 6. Customer service inquiries.

Through these avenues, DFAS identifies problem areas and conducts in house training.

Estimated Completion Date: November 1, 2006

Point of Contact: Jana Haynie Chief, Accounts Payable Entitlements DFAS-CO, at 614-693-1103 or DSN 869-1103.

Recommendation: C.1.b: We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller), in coordination with the Assistant Secretary of the Air Force (Acquisition) and Director, Defense Finance and Accounting Service, require, that contracting officers and Defense Finance and Accounting Service personnel review the contracts to determine whether the interim payments are cost reimbursement services or contract financing, and process the payments under the rules that apply in accordance with the FAR and DFARS provisions.

Management Comments: Non-concur. We currently have procedures in place that allow us to properly identify whether interim payments against cost-type contracts are for cost reimbursement payments for services or contract financing. As discussed earlier, this issue was previously addressed by OUSD and AT&L in response to a DoDIG audit finding. Until additional guidance is received, we will continue to follow their official decision. We do not believe the sample size was sufficient enough to establish a high risk assessment. This is evidenced by the consistent results found during our post payment reviews, both scheduled and randomly conducted, and our normal day to day supervisory reviews.

Completion Date: This recommendation is considered closed.

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DEFENSE FINANCE AND ACCOUNTING SERVICE

6760 E. IRVINGTON PLACE
DENVER COLORADO 80279-8000

OCT 31 2006

DFAS-AD/DE

MEMORANDUM FOR PROGRAM DIRECTOR, DEFENSE FINANCIAL AUDITING
SERVICE, DEPARTMENT OF DEFENSE INSPECTOR
GENERAL

SUBJECT: Status Update to Management Comments to the DoDIG Draft Audit Report
"Vendor Pay Disbursement Cycle, Air Force General Fund: Payments to
Vendors," Project No. D2004-D000FD-0040.002, dated June 20, 2006

Updated management comments for Recommendations B.1.a, B.1.b, and C.1.a,
are attached.

Questions your staff may have concerning the audit may be directed to Mr. Paul
Mahoney, DFAS-ADN/DE, commercial (303) 676-7253 or DSN 926-7253.


Richard J. Anderfuren
Central Site Director
DFAS Denver

Attachment:
As stated

**Management Comments to the DoDIG Draft Audit “Vendor Pay Disbursement
Cycle, Air Force General Fund: Payments to Vendors,”
Project No. D2004-D000FD-0040.002, dated June 20, 2006**

Recommendation: B.1a: We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller) in coordination with the Assistant Secretary of the Air Force (Acquisition) and the Director, Defense Finance and Accounting Service, require personnel who are responsible for receiving and accepting goods or services be properly trained on determining actual and the 7-day constructive acceptance period.

Prior Management Comments: Concur. IAPS does not systemically calculate constructive acceptance. As a result, upon receipt of receipt and acceptance information where the acceptance date is more than 7 days outside the receipt date, technicians must manually adjust acceptance date to comply with constructive acceptance requirements. DFAS will continue to reiterate receipt and approval requirements through email, customer symposiums, teleconferences and newsletters as well as use the Client Executive network for routine training/communication of requirements and address repeat problems. This will include clarification that receipt is the date the service or merchandise is actually received, acceptance is the date service or merchandise is actually accepted by the government and neither date is simply the date the receiving document is completed. Furthermore, DFAS will continue to contact receiving activities in any situation where information in supporting documentation appears to conflict and/or receipt/acceptance dates appear to be misstated. DFAS will reinforce training regarding the determination of actual and constructive acceptance periods to IAPS users. IAPS sample review revealed one payment where the DFAS technician used incorrect dates in calculating constructive acceptance. Lastly, DFAS will investigate WAWF and/or systems changes to automatically calculate constructive acceptance. We do not believe the sample size was sufficient enough to establish a high risk assessment. This is evidenced by the consistent results found during our post payment reviews, both scheduled and randomly conducted, and our normal day to day supervisory reviews.

Estimated Completion Date: November 1, 2006

Point of Contact: Jana Haynie Chief, Accounts Payable Entitlements, DFAS-CO, at 614-693-1103 or DSN 869-1103.

Current Management Comments: Requirements for constructive acceptance were reiterated with processing technicians and certifiers during weekly team training during the first two weeks of October 2006. Receipt and approval requirements will continue to be reiterated via teleconferences, symposium briefings and via Client Executive. Also, a follow-up email on this subject was distributed to all Accounts Payable employees on October 23, 2006.

Completed Date: October 23, 2006

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Point of Contact: Jana Haynie Chief, Accounts Payable Entitlements, DFAS-CO, at 614-693-1103 or DSN 869-1103.

Recommendation: B.1.b: We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller) in coordination with the Assistant Secretary of the Air Force (Acquisition) and the Director, Defense Finance and Accounting Service, require personnel who receive and approve invoices be properly trained on determining the date stamping of invoices received.

Previous Management Comments: Concur. DFAS agrees that proper date stamping of invoices going to designated billing offices has been a long-standing concern and there are many situations when the designated billing office other than DFAS fails to date stamp the invoice upon receipt. However, when the designated billing office established by the contractual terms fails to properly date stamp the invoice upon receipt, then the invoice date is used as the invoice received date in accordance with DoDFMR requirements. DFAS communicates receipt and approval requirements during teleconferences, year-end meetings, customer symposiums/ conferences, newsletters and e-mails. DFAS also uses the Client Executive network for routine training and communication of requirements and to deal with repeat problems. Technicians are trained to review contractual terms for designated billing offices and to utilize the designated billing office date stamp to calculate payment due dates. DFAS will distribute reiteration of policy on date stamping invoices upon receipt at designated billing offices as well as reiterate procedures to determine proper date invoice received according to designated billing office to all DFAS personnel NLT November 1, 2006. IAPS sample review revealed three payments where the DFAS technician used incorrect dates in calculating the payment due date when the invoice was designated to go to a designated billing office other than DFAS. We do not believe the sample size was sufficient enough to establish a high risk assessment. This is evidenced by the consistent results found during our post payment reviews, both scheduled and randomly conducted, and our normal day to day supervisory reviews.

Estimated Completion Date: November 1, 2006

Point of Contact: Jana Haynie Chief, Accounts Payable Entitlements, DFAS-CO, at 614-693-1103 or DSN 869-1103.

Current Management Comments: Policies to determine proper invoice date received based on contractual terms were reiterated with processing technicians and certifiers during weekly team training during the first two weeks of October 2006. Procedures are in place to properly date stamp the invoice upon receipt at the designated billing office. The date stamp will identify the receiving office. These procedures will continue to be reiterated via teleconferences, symposium, briefings, and via Client Executive. Additional direct contact will be made when interest penalties are incurred as a result of failing to date stamp an invoice and the invoice date is used as date invoice received. A follow-up

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email on this subject was distributed to all Accounts Payable employees on October 23, 2006.

Completed Date: October 23, 2006

Point of Contact: Jana Haynie Chief, Accounts Payable Entitlements, DFAS-CO, at 614-693-1103 or DSN 869-1103.

Recommendation: C.I.a: We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller), in coordination with the Assistant Secretary of the Air Force (Acquisition) and Director, Defense Finance and Accounting Service, establish an internal control edit within the Integrated Accounts Payable System to notify the certifying officer when a payment is approved earlier than 7 days prior to the scheduled payment due date and when discounts offered either by contract or by invoice should be taken.

Previous Management Comments: Concur with intent. Establishing an internal control edit in IAPS to notify certifying officer of an early payment will not preclude a payment from being approved earlier than 7 days prior to scheduled payment due date and when discounts offered by either contract or invoice are not taken. During periods of year-end processing, system releases and database mergers, authorization for early release of payments is requested and approved by DFAS Directors when justified to preclude payment delays during system downtime. Early payment authority would be applied to all payments processed in IAPS during the period of authorization. Small-disadvantaged businesses are authorized early release of payments in accordance with DFARS 232.905 and are made by reducing the IAPS contract terms. Individual one time early payments are considered based on vendor financial hardship upon receipt of signed request from a contracting officer. Request is submitted to the Accounts Payable Chief for coordination and authorization. Tracking and documentation of mass early release or individual early release will be instituted as a standard process across all IAPS sites effective NLT October 1, 2006. Discounts may be offered on either the invoice or in the contractual terms and IAPS systemically validates the best offer. Certifying officers are required to validate all dates input and the scheduled payment due date to ensure payments comply with the Prompt Payment Act and that all offered discounts are taken or recorded as lost. IAPS sample review revealed two errors where the DFAS technician failed to input discount offered on invoice and second used incorrect dates causing incorrect payment due date. Two additional findings were noted. One was correct in that it was payment to a Govt Agency (Unicor) and one was noted the tech should have requested a new invoice date on a return to vendor to restart the discount clock. Identification and resolution of erroneous payments is conducted through the following methods on a continual basis:

1. Post Payment Audits performed annually.
2. Post payment reviews randomly sampled monthly through MCR matrices.
3. Daily tracking of erroneous payments and monthly reporting via IPOD.

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4. Daily supervisory review of interest penalty payments.
 5. Monthly analysis and review of lost discounts and interest paid.
 6. Customer service inquiries.

Through these avenues, DFAS identifies problem areas and conducts in house training.

Estimated Completion Date: November 1, 2006

Point of Contact: Jana Haynie Chief, Accounts Payable Entitlements DFAS-CO, at 614-693-1103 or DSN 869-1103.

Current Management Comments: All early payment authorizations are tracked on a spreadsheet as well as mass early payment authorizations. The designated authority has authorized early payment release for 14 days in conjunction with FY2006 year end closeout for all Air Force Sites , 14 day early payment authorization for DFAS Limestone for November 1, 2006, PACAF database consolidation and 45 day early payment authorization for IAPS DEAR release system conversion for Japan IAPS effective November 10, 2006, conversion date, Dayton/Columbus database effective January 27, 2007 system conversion date and Limestone database system conversion effective late April 2007 date.

Completed Date: October 23, 2006

Point of Contact: Jana Haynie Chief, Accounts Payable Entitlements, DFAS-CO, at 614-693-1103 or DSN 869-1103.

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The Department of Defense Office of the Deputy Inspector General for Auditing, Defense Financial Auditing Service prepared this report. Personnel of the Department of Defense Office of Inspector General who contributed to the report are listed below.

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