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Missile Defense Agency Purchases for and
from Governmental Sources

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Acronyms

DFAS	Defense Finance and Accounting Service
DFARS	Defense Federal Acquisition Regulation Supplement
D&F	Determinations and Findings
FAR	Federal Acquisition Regulation
FCR	Funds Certification Request
FMR	Financial Management Regulation
GSA	General Services Administration
IPAC	Intra-Governmental Payment and Collection
MDA	Missile Defense Agency
MIPR	Military Interdepartmental Purchase Request
OIG	Office of Inspector General
OMB	Office of Management and Budget
O&M	Operation and Maintenance
RDT&E	Research, Development, Test, and Evaluation
U.S.C.	United States Code



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

August 20, 2007

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

SUBJECT: Report on Missile Defense Agency Purchases for and from Governmental
Sources (Report No. D-2007-117)

We are providing this report for information and use. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The comments from the Executive Director of the Missile Defense Agency were responsive. As a result of management comments and a change in our legal opinion, we deleted Recommendation 1.b. and the section on the Appropriation Classification in our finding. We renumbered Recommendation 1.a. to 1. The comments from the Director for Corporate Reporting Standards and Compliance of the Defense Finance and Accounting Service were responsive to the recommendation.

We appreciate the courtesies extended to the staff. Questions should be directed to Ms. Monica M. Harrigan at (703) 325-5930 (DSN 221-5930). See Appendix G 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", with a long horizontal line extending to the right.

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

Department of Defense Office of Inspector General

Report No. D-2007-117

August 20, 2007

(Project No. D2006-D000FH-0160.000)

Missile Defense Agency Purchases for and from Governmental Sources

Executive Summary

Who Should Read This Report and Why? Members of Congress, the Director of the Missile Defense Agency, and the Director of Defense Finance and Accounting Service should read this report. The users of this audit report will benefit from the review of controls over the Missile Defense Agency purchases for and from other governmental sources and gain information that can improve public accountability and decision making.

Background. This is the fifth in a series of reports discussing DoD use of interagency and interservice support. The prior reports discussed the lack of adequate internal controls over Military Interdepartmental Purchase Requests (MIPRs) at the Marine Corps, the Navy, the Army, and the Special Operations Command. This report discusses internal controls over the use of interagency and interservice support at the Missile Defense Agency. In accordance with Public Law 108-375, the Ronald W. Reagan National Defense Authorization Act of FY 2005, Section 802, "Internal Controls for Department of Defense Procurements Through [General Services Administration] GSA Client Support Centers," the DoD Office of Inspector General and the General Services Administration conducted an interagency audit of DoD purchases made by the General Services Administration. In that audit, the DoD Office of Inspector General determined that regulations were unclear and found that mismanagement and lack of acquisition planning for the funds transferred to the General Services Administration caused DoD funds, between \$1 billion and \$2 billion, to either expire or otherwise be unavailable to support DoD operations. That finding prompted the Office of the Inspector General management to conduct this series of audits on the subject.

Results. The Missile Defense Agency did not have adequate internal controls over governmental purchases. Specifically, the Missile Defense Agency did not properly manage the outgoing and incoming MIPR processes. The internal controls were inadequate because the Missile Defense Agency did not follow applicable MIPR regulations. As a result, the Missile Defense Agency personnel could not ensure that all purchases were in the best interest of the Government and complied with Federal, DoD, and the Missile Defense Agency regulations as well as public laws. In addition, the Defense Finance and Accounting Service did not timely respond to audit request for information and documentation for the Missile Defense Agency disbursements.

The Director of the Missile Defense Agency should direct the Business Management Office to develop procedures and controls that ensure required data and supporting documents are completed and reviewed before a MIPR is certified; develop procedures and controls to ensure that MIPR disbursements and reimbursable billings are verified against source documents and all documentation is maintained; and develop procedures

and controls to ensure recorded commitments, obligations, and deobligations are valid and timely. The Director of Defense Finance and Accounting Service should develop procedures and controls to ensure that the Defense Finance and Accounting Service centers and field offices make audit information and documentation readily available for timely review. (See finding)

Management Comments and Audit Response. The Executive Director of the Missile Defense Agency concurred with one of the recommendations and nonconcurred with the other recommendation. In response to management comments and a change in our legal staff opinion, the recommendation that the Executive Director nonconcurred with has been deleted as well as the section on the Appropriation Classification in the finding. The Director for Corporate Reporting Standards and Compliance of the Defense Finance and Accounting Service concurred with the recommendation providing an estimated completion date for the corrective action. No additional comments are required.

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Background

In accordance with Public Law 108-375, the Ronald W. Reagan National Defense Authorization Act of FY 2005, Section 802, “Internal Controls for Department of Defense Procurements Through [General Services Administration] GSA Client Support Centers,” DoD Office of Inspector General (OIG) and the GSA conducted an interagency audit of DoD purchases made by GSA. In DoD OIG Report No. D-2005-096, “DoD Purchases Made Through the General Services Administration,” July 29, 2005, DoD OIG determined that regulations regarding such purchases were unclear and misunderstood. The DoD OIG also determined that the mismanagement of funds and lack of acquisition planning for funds transferred to GSA caused between \$1 billion and \$2 billion of DoD funds to either expire or otherwise be unavailable to support DoD operations. Because of this finding, DoD OIG issued a series of reports that discuss DoD interagency support.

This is the fifth in the series of reports discussing DoD use of interagency and interservice support. It discusses the internal controls over the Missile Defense Agency (MDA) Military Interdepartmental Purchase Requests (MIPRs). The first report in the series, DoD OIG Report No. D-2006-102, “Marine Corps Governmental Purchases,” July 31, 2006, discusses the lack of adequate internal controls over outgoing and incoming MIPRs at the Marine Corps. The second, third and fourth reports in the series discuss the internal controls over Department of the Navy MIPRs, Department of the Army MIPRs and Special Operations Command MIPRs respectively.

Federal Regulation. Section 1535, United States Code, (U.S.C.) title 31, “Agency Agreements,” January 2, 2001, allows the head of an agency to place an order with another agency for goods or services if those goods or services are available, it is in the best interest of the U.S. Government, the other agency can fill the order, and the order cannot be provided by contract as conveniently or cheaply by a commercial enterprise.

The Federal Acquisition Regulation, Subpart 17.5, “Interagency Acquisitions Under the Economy Act,” defines an interagency acquisition as one agency obtaining supplies and services from another agency. The regulation states that the procedures for Economy Act orders between major organizational units within an agency are to be addressed in agency regulations.

DoD Military Interdepartmental Purchase Requests. The military interdepartmental purchase request, DD Form 448, is issued by one Military Service to another to procure services, supplies, or equipment. The supplying Service provides a DD Form 448-2, “Acceptance of MIPR,” agreeing to provide the requested services or supplies. DoD may also issue the MIPR to non-DoD agencies. DoD typically issues MIPRs under the authority of the Economy Act, funded on a direct citation or reimbursable basis.

Objectives

Our overall audit objective was to evaluate the internal controls over MDA's purchases for and from Governmental sources, excluding the General Services Administration, Department of the Treasury, Department of Interior, and the National Aeronautics and Space Administration. Specifically, we examined MDA's processes for initiating, preparing, obligating, disbursing, and accepting MIPRs. We examined whether MDA's purchase requirements were clearly defined and whether funds were properly used and tracked. We also reviewed the adequacy of the managers' internal control program as it related to our audit objectives. See Appendix A for a discussion of the scope and methodology. Appendix B lists prior coverage related to the objectives. Appendix C defines terms used in the report.

Review of Internal Controls

Using guidance defined by DoD Instruction 5010.40, "Managers' Internal Control (MIC) Program Procedures," January 4, 2006, we identified internal control weaknesses for MDA. MDA did not have adequate internal controls to ensure that funds were properly obligated, expensed, and disbursed. Implementing Recommendation 1. will improve MDA internal controls over MDA's MIPR purchases. We will provide a copy of the report to the senior MDA official responsible for management controls.

Adequacy of the Missile Defense Agency Internal Controls over Governmental Purchases

MDA did not have adequate internal controls over governmental purchases. Specifically, MDA did not properly manage the outgoing and incoming MIPR processes. The internal controls were not adequate because MDA did not follow Federal, DoD, and MDA regulations. As a result, governmental purchases made by and for MDA:

- may not have been in the best interest of the U.S. Government; and
- did not comply with Federal, DoD, and MDA regulations.

In addition, the Defense Finance and Accounting Service (DFAS) did not timely respond to audit request for information and documentation for MDA disbursements.

Missile Defense Agency MIPRs

MDA provided a universe of open MIPRs for the period, March 31, 2004, through March 31, 2006. MDA generated outgoing MIPR data from two separate systems. Transactions occurring before December 1, 2005, came from the Defense Joint Accounting System and transactions occurring after December 1, 2005, came from the Standard Operation and Maintenance Army Research and Development System. MDA generated incoming MIPR data from the MDA funds document database and the Standard Operation and Maintenance Army Research and Development System. We reviewed 47 MIPRs with a total value of \$60.3 million. Specifically, we reviewed 24 outgoing MIPRs totaling \$27.9 million and 23 incoming MIPRs totaling \$32.4 million. Appendix D lists the MIPRs we reviewed and the weaknesses we identified. Appendix E identifies the MIPRs fund citation.

Outgoing MIPRs

MDA did not have adequate internal controls over its outgoing MIPRs. We reviewed 24 MIPRs totaling \$27.9 million that MDA had issued to other governmental organizations. During the process of initiating, preparing, and executing the 24 MIPRs, MDA personnel did not follow applicable regulations.

MIPR Initiation

As the requesting agency, MDA was responsible for conducting market research and determining that MIPR purchases were in the best interest of the Government and justified under the applicable statute.

Market Research. For 24 MIPRs totaling \$27.9 million, MDA either did not provide evidence of market research or did not perform market research. The Federal Acquisition Regulation (FAR) Subpart 7.1, “Acquisition Plans,” March 2005, requires agencies to conduct market research for all acquisitions in order to promote and provide for:

- acquisition of commercial items, and
- full and open competition.

Furthermore, FAR Part 10, “Market Research,” March 2005, prescribes the policies and procedures for conducting market research to select the most suitable approach to acquire, distribute, and support supplies and services. To accomplish this objective agencies must:

- ensure that legitimate needs are identified and tradeoffs evaluated to acquire items that meet those needs,
- conduct market research appropriate to the circumstances, and
- use the results of market research to determine if there are sources capable of satisfying the agency’s requirements.

MDA did not provide evidence of market research for 5 of the 24 MIPRs, totaling \$4.5 million, and did not perform market research for 19 of the 24 MIPRs totaling \$23.4 million. MDA stated it does conduct market research in the acquisition of commercial items and services; however, if the acquisition is recurring, market research is not done. For example, MDA provided funds for items and services such as a perimeter security surveillance system and joint analysis display environment support, valued at \$6.9 million and \$5 million, respectively. Because MDA labeled these items as recurring acquisitions, they considered market research as “not applicable.” Without conducting market research, MDA could not ensure the fulfillment of the Government’s needs or that full and open competition existed.

Determinations and Findings or Support Agreements. For 22 MIPRs totaling \$23.9 million, MDA did not provide a Determinations and Findings document (D&F) or a Support Agreement. The FAR, Subpart 17.5, “Interagency Acquisitions Under the Economy Act,” and DoD Financial Management Regulation (FMR), volume 11A, chapter 3, “Economy Act Orders,” April 2000, require a D&F to support each Economy Act order that uses interagency support capabilities. To comply with the D&F requirements, the requesting agency should document that orders are in the best interest of the U.S. Government and that the Government entity requesting the goods or services cannot obtain them as

conveniently or economically by contracting directly with a commercial enterprise.

Furthermore, DoD FMR, volume 11A, chapter 3, states that a signed DD Form 1144, "Support Agreement," documents the required determination by both the requesting and the supplying activity for interservice support within DoD. MDA issued 22 MIPRs totaling \$23.9 million to other DoD organizations; however, none of the 22 MIPRs was supported by a support agreement. For example, MDA issued a MIPR valued at \$6.9 million, without a support agreement, to procure a perimeter security surveillance system using an Army contract. Because there was no support agreement to document the required determination, MDA could not determine whether the MIPR purchases were in the best interest of the Government.

MIPR Preparation

As the requesting organization, MDA was responsible for properly completing the DD Form 448 when issuing MIPRs to the accepting activity. MDA should properly complete DD Form 448 to ensure compliance with Federal and DoD regulations. However, MDA did not properly complete the DD Form 448 for the 24 MIPRs reviewed. The 24 MIPRs had one or more of the following weaknesses.

Delivery Requirements. For 18 MIPRs totaling \$21.1 million, MDA did not complete the DD Form 448 in accordance with 31 U.S.C. 1501 and with Defense Federal Acquisition Regulation Supplement (DFARS) 253.208, "Required Sources of Supplies and Services," August 31, 2000. DFARS 253.208 requires that the agency clearly state the required period of performance in each MIPR, taking into consideration administrative lead times. However, the 18 MIPRs did not specify the period of performance. Without the period of performance, MDA would have difficulty determining whether the supplying activity was performing the MIPR in accordance with the original agreement. Further, the lack of the period of performance may have limited MDA's ability to comply with the Bona Fide Needs Rule.

Delegation of Fiduciary Authority. MDA did not provide evidence that individuals certifying the MIPRs had the authority to administer funds. DoD FMR, volume 3, chapter 8, "Standards for Recording and Reviewing Commitments and Obligations," June 2005, and chapter 15, "Receipt and Use of Budgetary Resources, Execution Level," December 1996, state that a MIPR must be considered as a commitment until validly obligated and must be signed by a person authorized to reserve funds, that is, officials responsible for administrative control of funds. Further, DoD FMR, volume 14, chapter 1, "Administrative Control of Appropriations," October 2002, requires that the authority be delegated in writing. However, for 24 MIPRs totaling \$27.9 million, MDA could not provide documentation identifying that the individuals signing the DD 448 and its amendments had the authority to administer funds and certify fund availability. For example, MDA personnel certified \$4.3 million in funds for 14 MIPRs; however, these individuals did not exist on MDA's non-classified document as a certifying official. Without fiduciary authority, the MIPR and amendment procurement funds are not chargeable to MDA.

Segregation of Duties. MDA did not maintain proper segregation of duties for processing the Fund Certification Request (FCR) in accordance with OMB Circular A-123, "Management's Responsibility for Internal Control," December 21, 2004. According to the Office of Management and Budget (OMB) Circular A-123, separation of duties and responsibilities must be maintained for authorizing, processing, and reviewing transactions. MDA's outgoing MIPR process segregated roles and responsibilities for the fund certification process as follows:

- The program manager, in coordination with the performing agency, generates requirement documents, interagency agreements, and a D&F as appropriate. The program manager signs the FCR; and provides all supporting documentation to the budget analyst and requests release of funds for the acquisition.
- The budget analyst, in the Budget Execution Division, checks for the availability of funds and whether funds meet the criteria for purpose, time, and amount. If the budget analyst deems it appropriate, they will create, sign, and submit an FCR. The budget analyst electronically transmits the FCR along with the required supporting documentation to the program manager, the competition advocate (as necessary), the director of budget execution and funds control, and the funds certifying official.
- After certifying the availability of funds, the certifying official will digitally sign the FCR. Electronic notification is sent to the budget analyst indicating that the documents have been signed.

However, MDA personnel did not follow procedures for fund certification for 13 MIPRs totaling \$10.5 million. For example, the same individual signed the FCR as budget analyst and as certifying official for 9 of the 13 MIPRs. Without proper segregation of duties, MDA did not comply with its own operating procedures or OMB Circular A-123 and increased the risk of MDA personnel committing errors or fraud.

MIPR Execution

As the requesting agency, MDA was responsible for managing MIPR funds and documentation. However, MDA did not adequately perform these responsibilities for 15 of the 24 MIPRs. The 15 MIPRs had one or more of the following weaknesses.

Commitments. DoD FMR volume 3, chapter 8, "Standards for Recording and Reviewing Commitments and Obligations," June 2005, states that the signed DD Form 448 is a commitment until validly obligated. The amount to be recorded as a commitment is the estimated procurement cost set forth in the commitment documents. The date the commitment document is signed by an authorized official determines the accounting period in which the commitment is to be recorded. However, MDA posted the commitment for a MIPR valued at \$100,000 in two separate journal entries, 175 and 246 days after signing the

DD Form 448. In another instance, MDA recorded a \$100,000 MIPR amendment without a signed DD Form 448. MDA recorded the commitment without certifying its fund availability. The timely posting of commitments in the accounting system reserves funds for a particular purchase, and helps track available funds. By not recording commitments timely in the accounting system and not obtaining certification of funds available, MDA increased its risk of potential Antideficiency Act violations.

Obligations. For 12 of the 24 MIPRs totaling \$19.5 million, MDA did not timely record obligations or else made duplicate obligations. In accordance with DoD FMR, volume 3, chapter 8, an agency must record an obligation in the accounting system within 10 calendar days following the day the obligation occurred. It further states that an obligation shall be recorded only when supported by documentary evidence of the transaction. However, for these 12 MIPRs, MDA recorded obligations from 12 to 220 days after receipt of MIPR acceptance or contract modification. For 1 of the 12 MIPRs, MDA duplicated an obligation of \$317 in its accounting system. This error occurred because MDA obligated the funds without a contract modification. MDA personnel were not aware of the error until the audit team brought it to their attention. By not recording the obligations in the accounting system in a timely manner or when posting obligations without the proper documentation, MDA increased its risks for errors and potential Antideficiency Act violations.

Deobligations. DoD FMR, volume 11A, chapter 3, states that funds must be deobligated before the end of the appropriation's period of availability. It also states that funds should be deobligated commensurate with goods and services not provided or anticipated from an authorized contract with another organization. MDA either did not timely deobligate funds or deobligated funds without proper authorizing documentation.

Untimely Deobligation. For two MIPRs, MDA did not deobligate \$6,728 of excess funds after it received the DD Forms 448-2 from the performing agencies. The DD Forms 448-2 notified MDA that the excess funds were not required to fill the MIPR purchases. Therefore, MDA should have withdrawn the funds in accordance with DoD FMR.

Unauthorized Deobligation. MDA deobligated \$5,061 for three MIPRs without an authorizing amendment, DD Form 448-2. For example, MDA deobligated \$317 for one MIPR without a DD Form 448-2; and, more than a year later, MDA re-obligated the \$317. According to MDA personnel, the deobligations from the accounting system occurred during their internal reconciliation of non-active MIPRs.

By not complying with the DoD FMR and by deobligating funds untimely or without authorizing amendment, MDA has increased its risk for errors or for incurring an Antideficiency Act violation.

Disbursements

MDA, as the requesting agency, and DFAS, as the disbursing office, were responsible for ensuring that MIPR disbursements were supported. We reviewed 24 MIPRs totaling \$27.9 million that had one or more disbursement transactions in the MDA accounting records. MDA did not adequately support disbursements for 23 of the MIPRs, totaling \$26.7 million. Additionally, DFAS did not timely respond to our audit request for the disbursement documentation for 8 of the MIPRs, totaling \$4.5 million.

Validation of MDA Source Data. DoD FMR, volume 5, chapter 33, “Departmental Accountable Officials, Certifying Officer and Review Officials,” April 2005, requires accountable officials to be responsible for supporting their certifying officers with timely and accurate data to ensure supportable payments and to minimize erroneous payments. Additionally, DoD FMR, volume 6A, chapter 2, “Financial Reports Roles and Responsibilities,” March 2002, requires that DoD Components perform periodic validation of source data for commitments and obligations. It also states that the validations should include reviews of contracts and other procurement actions and receipts and acceptances to ensure the integrity and currency of the source data. However, MDA did not provide receiving reports and other supporting documents for the 23 MIPRs, totaling \$26.7 million.

By not validating disbursements against source data, MDA did not comply with DoD FMR requirements. MDA should implement policies and procedures to verify that disbursements incurred on MIPRs were valid, accurate, and supportable.

DFAS Timely Response. DFAS did not timely respond to our audit requests for information and documentation for disbursements processed through the Vendor Pay and Intra-Governmental Payment and Collection (IPAC) System. DoD Instruction 7050.3, “Access to records and information by the Inspector General, Department of Defense,” April 2000, requires heads of DoD Components to establish procedures to ensure that DoD Office of Inspector General requests for access to records or information relating to an audit are granted immediately. However, DFAS did not appear to have established such procedures. DFAS should have provided information and documentation to support disbursements for the 8 MIPRs totaling \$4.5 million in a timelier manner.

Vendor Pay System Documentation. DFAS processed 3 MIPRs totaling \$257,440 with 15 disbursement transactions through the Vendor Pay System. However, DFAS did not timely provide supporting documentation for the three MIPRs. For example, on October 24, 2006, we furnished DFAS with contract numbers and transaction information for two MIPRs and received the supporting documentation 168 days later on April 9, 2007, to complete our review.

IPAC System Documentation. DFAS processed 9 MIPRs totaling \$11.5 million with 226 disbursement transactions totaling \$11.4 million through the IPAC System. We received complete documentation for 4 of the 9 MIPRs, totaling \$7.2 million, timely. However, DFAS did not timely provide

information and documentation for the remaining 5 MIPRs totaling \$4.3 million. DFAS took approximately 240 days to provide all of the requested information and documentation.

By not timely providing information and documentation for our review, DFAS did not comply with DoD Instruction 7050.3. DFAS should develop procedures to ensure that DFAS centers and field offices make audit information and documentation readily available for review.

Incoming MIPRs

MDA did not have adequate internal controls over the incoming MIPR process. We reviewed 23 incoming MIPRs totaling \$32.4 million that MDA had received from other governmental organizations. MDA accepted improper MIPRs and did not properly administer the MIPRs.

MIPR Acceptance

As the accepting agency, MDA was responsible for properly accepting incoming MIPRs. However, MDA did not follow applicable regulations when accepting MIPRs.

Justification Documents. In accordance with the DFARS 217 Subpart 504, “Ordering Procedures,” March 25, 1999, MDA was responsible for ensuring that any request for goods or services from another agency had a D&F document attached to the DD Form 448, “Military Interdepartmental Purchase Request.” DoD Instruction 4000.19 states that DoD activities can provide requested support to other DoD activities when the requesting activity determines it would be in the best interest of the United States Government, and the head of the supplying activity determines capabilities exist to provide the support without jeopardizing assigned missions. These determinations are signified by signing a support agreement (blocks 8 and 9 on DD form 1144) – no further written determinations are required for agreements between DoD activities. However, MDA accepted 22 MIPRs, totaling \$32.1 million, from DoD Components and Federal agencies without a D&F document or a signed Support Agreement.

Use of MIPRs. According to DoD Instruction 4000.19, support is reimbursable to the extent that the servicing agency actually incurred costs to provide the goods or services requested. In addition, DoD FMR, volume 11A, Chapter 3, states actual costs include all direct costs attributable to providing the goods or services. However, MDA accepted three MIPRs totaling \$6,210 for employee performance awards on a reimbursable basis from other DoD agencies. According to MDA, these employees transferred from other DoD agencies; and the costs of awards were not associated with goods or services provided by MDA to the requesting agencies. Therefore, we consider that the use of MIPRs for employees’ performance awards was inappropriate and the requesting agencies should have paid awards directly to the employees.

Completion of Forms. For 6 MIPRs totaling \$14 million, MDA provided incomplete DD Forms 448-2. DFARS 208.70 requires that the acquiring departments formally accept a MIPR by DD Form 448-2, “Acceptance of MIPR,” in writing before expiration of the funds. However, MDA accepted two MIPRs totaling \$12.4 million without the written or electronic signature of the authorized official in block 16. In addition, according to DFARS 253.208, MDA was responsible for completing all applicable blocks on the DD Form 448-2. However, MDA did not complete all applicable blocks for four MIPRs, totaling \$1.7 million:

- block 6, which requires the specific terms (such as reimbursable or direct citation of funds) under which the MIPR is being accepted, and
- block 13, which requires (a) justification, by MIPR line item, for any additional funds required and (b) appropriation and subhead data.

MIPR Administration

As the accepting agency, MDA was responsible for properly administering incoming MIPR work and related funds. However, MDA did not properly administer 14 of the 23 incoming MIPRs we reviewed. The 14 MIPRs had one or more of the following weaknesses.

Timely Acceptance. MDA was responsible for ensuring that it properly accepted MIPRs within 30 days of receipt of the requesting activity’s MIPR request. DFARS Subpart 208.7004-2 states acquiring activities should formally accept a MIPR, by DD Form 448-2, “Acceptance of MIPR,” as soon as practicable, but no later than 30 days after receipt of the DD Form 448. However, MDA could not provide evidence of acceptance within 30 days for 9 of the 23 MIPRs totaling \$13.8 million, it received. For example, MDA received a MIPR valued at \$246,098 that was digitally certified by the requesting agency on July 8, 2005. MDA accepted the MIPR on September 30, 2005, approximately 84 days after the requesting agency certified the MIPR. Because MDA did not maintain a record of the receipt date, we could not determine whether the acceptance was within 30 days of receipt.

Formal Acceptance. MDA did not formally accept two MIPRs, totaling \$10 million, in accordance with the DoD FMR. DoD FMR volume 11A, chapter 1, “General Reimbursement Procedures and Supporting Documentation,” March 1997, states that orders must be supported by documented evidence of a formal offer and acceptance between the grantor and grantee of the order. However, MDA did not issue a DD 448-2 for the two MIPRs; instead, MDA accepted the MIPRs on the same DD Form 448 issued by the requesting department. For example, for one of the MIPRs, valued at \$10 million, MDA accepted the MIPR using a signature stamp; and MDA’s authorizing official neither signed nor dated the document. As a result, MDA could not provide documented evidence of a formal acceptance in accordance with DoD FMR requirements.

Reimbursable Billing. MDA files did not have the source documents, such as invoices, as required by DoD FMR, volume 11A, chapter 1, for 5 reimbursable MIPRs totaling \$196,210. In accordance with DoD FMR, volume 11A, chapter 1, DoD Components performing work or services on a customer order must bill the requesting DoD Component, other Federal agency, or the public for earned reimbursements (performance of work or services, payments to contractors, or delivery from inventory) within 30 calendar days after the month in which performance occurred. The payment due date must not be more than 30 calendar days from the date of the invoice. However, MDA could not provide documentation to support that it billed the requesting agencies for reimbursements it actually earned.

Missile Defense Agency Directives

MDA issued directives to implement the MIPR process in accordance with DoD FMR. We found MDA guidance sufficient. MDA directives included:

- MDA Directive 7200.01, “Funds Certification Request Process,” April 5, 2006, provides the policy and procedures for accomplishing the MDA Funds Certification Request. The guidance formally documents the review approval process to ensure that funds executed by MDA meet the fiscal requirements contained in the DoD FMR and the underlying legal requirements contained in the Code of Federal Regulations.
- MDA Directive 4000.01, “Interagency Acquisition Under the Economy Act,” July 28, 2004, implements policy, responsibilities, and procedures for accomplishing interagency acquisition under the Economy Act within MDA.¹
- Policy Memorandum No. 31, “Proper Use of Non-DoD Contracts,” February 4, 2005, provides MDA procedures for the use of non-DoD contract vehicles when procuring supplies and services on or after January 1, 2005, for amounts greater than the simplified acquisition threshold.
- Strategic Defense Initiative Organization Directive 7200, “Purchase Request Process,” April 1993. This guidance addresses MIPRs for “S” Program Management Agreements managed directly by the Strategic Defense Initiative Organization and procured from other Government Agencies (DoD and non-DoD).²

MDA personnel did not follow the directives during the MIPR process. They did not prepare the required MIPR documents. This occurred because MDA did not

¹ This regulation updated MDA Directive 4000, “Interagency Acquisition Under the Economy Act,” December 1999

² This regulation was superseded by MDA Directive 7200.01, “Funds Certification Request Process,” April 5, 2006

have standard operating procedures to ensure personnel involved in the MIPR process complied with MDA directives. The lack of standard operating procedures resulted in weak internal controls over MIPR management and non-compliance with the DoD FMR.

Conclusion

Adequate internal controls are critical to ensure the proper management of MIPRs. The lack of adequate internal controls at MDA over the MIPR process resulted in the violations of public law, and non-compliance with Federal, DoD, and MDA regulations. MDA and DFAS must improve internal controls over the MIPR process and audit support process by establishing standard operating procedures that will enforce Federal, DoD, and MDA regulations.

Management Comments on the Finding and Audit Response

A summary of management comments on the finding and our audit response are in Appendix F.

Recommendations and Management Comments

Deleted and Renumbered Recommendations. As a result of management comments and further analysis of facts on which we based our legal opinion, we deleted the section on the Appropriation Classification in our finding and Recommendation 1.b. We renumbered Recommendation 1.a. to 1.

1. We recommend that the Director, Missile Defense Agency direct the Deputy Director, Business Management to develop and promulgate standard operating procedures that will incorporate DoD Financial Management Regulation and Missile Defense Agency regulations for processing Military Interdepartmental Purchase Requests. The standard operating procedures should at a minimum include procedures and controls:

a. Such as a checklist that ensures all required data and supporting documents are developed and appropriately reviewed before a Military Interdepartmental Purchase Request is certified for issuance or acceptance.

b. That ensure the validity and accuracy of Military Interdepartmental Purchase Request disbursements and reimbursable billings are verified against source documentation including support for the receipt of ordered goods and services, and that all documentation is maintained.

c. Such as documentation of the receipt date that ensures the timeliness of obligations and acceptances for all Military Interdepartmental Purchase Requests issued and received.

d. That ensure recorded commitments, obligations, and deobligations are valid and timely.

Management Comments. The Executive Director of the Missile Defense Agency concurred with the recommendation stating that the Missile Defense Agency is developing procedures and controls to ensure all required data and supporting documents are developed and appropriately reviewed before a Military Interdepartmental Purchase Request is authorized for issuance and documentation is appropriately maintained.

2. We recommend that the Director, Defense Finance and Accounting Service develop procedures and controls that ensure the Defense Finance and Accounting Service centers and field offices make audit information and documentation readily available for timely review.

Management Comments. The Director for Corporate Reporting Standards and Compliance of the Defense Finance and Accounting Service concurred with the recommendation stating that Standards and Compliance will ensure audit procedures are developed for timely retrieval of documentation upon auditors' requests, and will include procedures for clearly understanding, executing, and monitoring audit requests. He estimated December 1, 2007, as completion date for the corrective actions.

Appendix A. Scope and Methodology

We conducted this performance audit from April 2006 through April 2007 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We performed an audit of the MDA process for initiating, accepting, obligating, and disbursing MIPRs, interagency purchases, and their equivalents. We performed site visits at the MDA headquarters from May 31, through June 16, 2006, and interviewed fund administrators and comptroller office staff to learn the process used by MDA to execute these transactions. We developed a MIPR review checklist, which we based on criteria established in the FAR, DFARS, DoD FMR, MDA Directives and Instructions, and other criteria as applicable. We compared the actual MDA process with the relevant criteria to assist in identifying weaknesses in internal controls.

We selected a judgmental sample from MIPR transactions, which were open during the period of March 31, 2004, through March 31, 2006. We reviewed 24 MIPRs, totaling about \$27.9 million¹ that MDA had issued to other Government sources. We also reviewed 23 MIPRs, totaling about \$32.4 million² that MDA had received from other Government sources. We requested and reviewed the supporting documentation for each transaction associated with the MIPRs selected. Specifically, we requested and reviewed the following (if available): DD Form 448 "Military Interdepartmental Purchase Request," DD Form 448-2 "Acceptance of MIPR," e-mail correspondence identifying requirements, travel authorizations and vouchers, Memorandums for the Record, Determination and Findings, support agreements, market research, invoices, and accounting data from the Standard Operation and Maintenance Army Research and Development System and Defense Joint Accounting System. We completed the MIPR review checklist for each MIPR selected in our sample.

We visited DFAS Indianapolis, Indiana, August 28 through August 30, 2006. We interviewed personnel from the Accounting Office, IPAC, and Vendor Pay Department and collected supporting documentation for payments and collections associated with MIPR transactions reviewed at the MDA headquarters. We also requested and received information on the Mechanization of Contract Administration Service process and supporting documentation via e-mails from the DFAS Columbus personnel.

¹ The outgoing MIPRs reviewed included one MIPR issued to the General Services Administration for \$3,814,000 and one MIPR issued to the Department of Interior for \$215,167.

² The incoming MIPRs reviewed included two MIPRs received from the National Aeronautics and Space Administration with a total value of \$190,000.

Use of Computer-Processed Data. To achieve the audit objective, we relied on computer-processed data extracted from the Defense Joint Accounting System, Standard Operation and Maintenance Army Research and Development System, IPAC, and the Mechanization of Contract Administration Service, provided directly from MDA and DFAS personnel. We did not perform a formal reliability assessment of the computer-processed data. We did not find significant errors between the computer-processed data and MIPR source documents that would preclude use of the computer-processed data to meet the audit objective or that would change conclusions in this report.

Use of Technical Assistance. The Quantitative Methods Division of the OIG-AUD provided assistance. The Quantitative Methods Division selected a random sample based on the data provided in the universe.

Government Accountability Office High-Risk Area. The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage of the Management of Interagency Contracting high-risk area.

Appendix B. Prior Coverage

During the last 5 years, the Department of Defense Inspector General (DoD IG) has issued 17 reports discussing Intragovernmental transactions. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>.

DoD IG

DoD IG Report No. D-2007-109, "Special Operations Command Governmental Purchases," July 9, 2007

DoD IG Report No. D-2007-075, "Department of the Army Purchases from Governmental Sources," March 22, 2007

DoD IG Report No. D-2007-062, "Department of the Navy Purchases for and from Governmental Sources," February 28, 2007

DoD IG Report No. D-2007-057, "Use and Controls over Military Interdepartmental Purchase Requests at the National Geospatial-Intelligence Agency," February 13, 2007

DoD IG Report No. D-2007-044, "FY 2005 DoD Purchases Through the Department of Interior," January 16, 2007

DoD IG Report No. D-2007-042, "Potential Antideficiency Act Violations on DoD Purchases Made Through Non-DoD Agencies," January 2, 2007

DoD IG Report No. D-2007-032, "Report on FY 2005 DoD Purchases Made Through the Department of the Treasury," December 8, 2006

DoD IG Report No. D-2007-023, "FY 2005 DoD Purchases Made Through the National Aeronautics and Space Administration," November 13, 2006

DoD IG Report No. D-2007-007, "FY 2005 DoD Purchases Made Through the General Services Administration," October 30, 2006

DoD IG Report No. D-2006-102, "Marine Corps Governmental Purchases," July 31, 2006

DoD IG Report No. D-2006-029, "Report on Potential Antideficiency Act Violations Identified During the Audit of the Acquisition of the Pacific Mobile Emergency Radio System," November 23, 2005

DoD IG Report No. D-2005-096, "DoD Purchases Made Through the General Services Administration," July 29, 2005

DoD IG Report No. D2003-095, "Financial Management: Accounting for Reimbursable Work Orders at Defense Finance and Accounting Service Charleston," June 4, 2003

DoD IG Report No. D-2003-090, "Use and Control of Military Interdepartmental Purchase Requests at the Air Force Pentagon Communications Agency," May 13, 2003

DoD IG Report No. D2003-005, "Readiness: DoD Use of the North Atlantic Treaty Organization Maintenance and Supply Agency," October 7, 2002

DoD IG Report No. D 2002-110, "Acquisition: Policies and Procedures for Military Interdepartmental Purchase Requests at Washington Headquarters Service," June 19, 2002

DoD IG Report No. D-2002-109, "Army Claims Service Military Interdepartmental Purchase Requests," June 19, 2002

Appendix C. Glossary of Technical Terms

Antideficiency Act Violation. The Antideficiency Act is codified in a number of sections of title 31 of the United States Code (such as 31 U.S.C. 1341(a), 1342, 1349, 1350, 1351, 1511(a), 1512, 1513, 1514, 1515, 1516, 1517, 1518, and 1519). The purpose of these statutory provisions, known collectively as the Antideficiency Act, is enforcing the constitutional powers of the purse residing in Congress with respect to the purpose, time, and amount of expenditures made by the Federal Government. Violations of other laws may create violations of the Antideficiency Act provisions (for example, the “Bona Fide Needs Rule,” 31 U.S.C. 1502(a)).

Appropriations. An appropriation is a provision of legal authority by an act of the Congress that permits Federal agencies to incur obligations and to make payments out of the Treasury for specified purposes. An appropriation usually follows enactment of authorizing legislation. An appropriation act is the most common means of providing budget authority. Appropriations do not represent cash actually set aside in the Treasury for purposes specified in the appropriation act; they represent limitations.

Direct Citation Procurement. Direct citation procurement refers to procurement accomplished by combining the requirements of one or more other DoD Components with those of the procuring DoD Component. The procuring DoD Component may issue one contract with separate schedules showing the quantities, prices, dollar amounts, and citation of funds of each requiring DoD Component. The direct citation order is recorded as an obligation by the requiring DoD Component when it is notified in writing that the procuring DoD Component’s contract or project order has been executed, or when a copy of the contract or project order is received.

Economy Act. The Economy Act authorizes agencies to enter into mutual agreements to obtain supplies or services by interagency or intra-agency acquisition. The Economy Act applies when a more specific statutory authority does not exist.

Economy Act Orders. Each Economy Act order must be supported by a Determination and Findings. The Determination and Findings must state that the use of an interagency acquisition is in the best interest of the U.S. Government and the supplies or services cannot be obtained as conveniently or economically by contracting directly with a commercial enterprise. A contracting officer of the requesting agency with authority to contract for the supplies or services to be ordered, or another official designated by the agency head must approve the Determination and Findings.

Expired Appropriation. An expired appropriation is budget authority whose period of availability for incurring new obligations has expired but the appropriation is not closed or canceled. During this period, the appropriation is available for adjustment to, or payment of, existing obligations. Appropriations remain in an expired status for 5 years. At the end of the 5-year expiration period,

the appropriation is closed or canceled and is no longer available for the payment of unliquidated (undisbursed) obligations.

Interservice Support. Interservice support is support provided by one DoD activity to a DoD activity of another Military Service, Defense Agency, Unified Combatant Command, Army Reserves, Navy Reserves, Air Force Reserves, Marine Corps Reserves, Air National Guard, or Field Activity.

Intragovernmental Support. Intragovernmental Support is support provided by a DoD organization to a non-DoD Federal organization and vice versa. It does not include support provided to or received from foreign governments.

Military Interdepartmental Purchase Request (MIPR). A MIPR is an order issued by one Military Service to another to procure services, supplies, or equipment for the requiring service. The MIPR, (DD Form 448), may be accepted on a direct citation or reimbursable basis. It is an “Economy Act” (31 U.S.C. 1535) order subject to downward adjustment when the obligated appropriation is no longer valid for obligation.

Obligations. Obligations are amounts of orders placed, contracts awarded, services received, or similar transactions made by Federal agencies during a given period, which will result in outlays during the same or some future period.

Operation and Maintenance (O&M) Funds. Expenses incurred in continuing operations and current services are budgeted with O&M appropriations. The DoD Comptroller considers all modernization costs under \$250,000 to be expenses, as are one-time projects such as developing planning documents and conducting studies. O&M funds are available for obligation for 1 year.

Reimbursable Procurement. Reimbursable procurement refers to an order for supplies, material, or equipment placed by a requiring DoD Component (a) for procurement by another DoD Component or Federal agency on a contract funded by the procuring DoD Component or Federal agency; and (b) with subsequent delivery to and reimbursement by the requiring DoD Component. The reimbursable order is recorded as an obligation by the requiring DoD Component when the procuring DoD Component accepts the reimbursable order in writing.

Research, Development, Test, and Evaluation (RDT&E) Funds. DoD organizations fund development, test, and evaluation requirements, including designing prototypes and processes, with RDT&E appropriations. DoD organizations use RDT&E funds to develop major system upgrades, to purchase test articles, and to conduct developmental testing and initial operational testing and evaluation before they accept systems and have them produced. In general, RDT&E funds should be used for all developmental activities involved with new systems or major upgrades. RDT&E funds are available for obligation for 2 years.

Support Agreement. A support agreement is an agreement to provide recurring support to another DoD or non-DoD Federal activity. Support agreements are recorded on a DD Form 1144, “Support Agreement,” or similar format. It defines the support to be provided by one supplier to one or more recipients and specifies

the basis for calculating reimbursement charges (if any) for each service, establishes the billing and reimbursement process, and specifies other terms and conditions of the agreement.

Agency Agreements. Section 1535, title 31, U.S.C. 1535, “Agency Agreements,” allows the head of an agency or major organizational unit within an agency to place an order with another agency for goods or services if amounts are available, it is in the best interest of the U.S. Government, the other agency can fill the order, and the order cannot be provided by contract as conveniently or economically by a commercial enterprise.

DoD Policy on Interagency Agreements. DoD Instruction 4000.19, “Interservice and Intragovernmental Support,” August 9, 1995, implements policies, procedures, and responsibilities for intragovernmental support as a result of agreements among Federal Government activities. DoD organizations may enter into interagency agreements with non-DoD Federal activities when funding is available to pay for the support, the agreement is in the best interest of the Government, the supplying activity is able to provide the support, the support cannot be provided as conveniently or economically by a commercial enterprise, and the agreement does not conflict with any other agency’s authority. Determinations must be approved by the head of the major organizational unit ordering the support and must be attached to the agreement.

Appendix D. MIPRs Reviewed

Outgoing MIPRs

Missile Defense Agency										
MIPR No.	MIPR Value	Initiation		Preparation			Execution			Disbursements
		No Market Research Documentation	No Determination & Findings, Memorandum for the Record, or Support Agreements	Delivery Requirements	Fiduciary Authority	Segregation of Duties	Untimely/Invalid Commitments	Untimely Obligation	Untimely/Unauthorized Deobligation	
BMDO0144550727	\$6,910,000	X	X	X	X	X		X		X
BMDO0146885386	\$834,000	X	X	X	X	X		X		X
BMDO0146945537	\$122,315	X	X	X	X	X		X		X
BMDO0107423288	\$400,000	X	X	X	X					X*
BMDO0135996294	\$7,273	X	X	X	X	X			X	X*
BMDO0137248997	\$179,000	X	X	X	X	X	X	X		X*
BMDO0147236332	\$300,000	X	X	X	X					X*
BMDO0135846073	\$7,316	X	X		X	X			X	X
BMDO0144300242	\$274,050	X	X	X	X	X		X		X
BMDO0134523579	\$320,000	X	X	X	X	X			X	X
BMDO0146945535	\$3,225,000	X	X	X	X			X		X*
BMDO0156091468	\$2,921,449	X	X	X	X					X
BMDO0134904232	\$288,000	X	X		X			X		X
BMDO0147025887	\$5,002,999	X	X		X			X	X	X
BMDO0125289405	\$100,000	X	X	X	X	X	X	X		X
BMDO0137449257	\$1,240,000	X	X		X			X		X
BMDO0127572744	\$78,317	X	X		X	X		X	X	
BMDO0137178900	\$200,000	X	X		X	X				X
BMDO0155049539	\$75,000	X	X	X	X					X
MD5081468PO267	\$35,000	X	X	X	X					X*
BMDO0134213065	\$1,215,616	X	X	X	X	X		X		X
BMDO0145262145	\$215,167	X		X	X	X				X*
BMDO0146925473	\$3,814,000	X		X	X					X
BMDO0154137404	\$173,900	X	X	X	X					X*
24	\$27,938,402	24	22	18	24	13	2	12	5	23

“X” indicates that the MIPR was deficient in the stated area.

“*” indicates that DFAS provided audit information and documentation untimely.

Incoming MIPRs

Missile Defense Agency							
MIPR No.	MIPR Value	Acceptance			Administration		
		No Required Justification Documents	Incorrect Use of MIPRs	Incomplete Forms	Timely Acceptance	Formal Acceptance	Reimbursable Billing
F3RTE05188G007	\$246,098				X		
DWAM40227	\$4,000,000	X					
PBAM50010	\$906,660	X					
05-D572	\$1,260,369	X		X			
MIPR4MGYR40142	\$2,500	X	X				X
NMIPR059800113	\$200,721	X			X		
MIPR3188049274	\$32,300	X			X		
LO5G3A15F051MP	\$300,000	X		X			
NMIPR59800160	\$405,000	X			X		
F3RTE05305G002	\$364,000	X			X		
F1AF1W5314GV01	\$290,000	X					
N000SY04730023	\$400,000	X					
F3LFF6523G001	\$510,000	X					
W31RY042598981	\$2,000	X	X			X	X
NNJO4HI52I	\$90,000	X		X	X		X
MIPR4MOPSD2180	\$1,710	X	X				X
DWAM50232	\$50,000	X		X	X		
FA8750MIPR5062	\$24,592.32	X		X			
4Y-4-PAC974Y	\$12,300,000	X		X	X		
MIPR4PEAR304	\$150,000	X			X		
H98230-RA06-3021	\$745,000	X					
NNH05AA9OI	\$100,000	X					X
4Y5PACA01Y	\$10,000,000	X				X	
23	\$32,380,950	22	3	6	9	2	5

Appendix E. MIPRs Fund Citation

Outgoing MIPRs

MIPR No.	MIPR Value	Direct Cite	Reimbursable Cite
BMDO0144550727	\$6,910,000	X	
BMDO0146885386	\$834,000	X	
BMDO0146945537	\$122,315	X	
BMDO0107423288	\$400,000		X
BMDO0135996294	\$7,273	X	
BMDO0137248997	\$179,000		X
BMDO0147236332	\$300,000		X
BMDO0135846073	\$7,316	X	
BMDO0144300242	\$274,050	X	
BMDO0134523579	\$320,000		X
BMDO0146945535	\$3,225,000		X
BMDO0156091468	\$2,921,449		X
BMDO0134904232	\$288,000	X	
BMDO0147025887	\$5,002,999	X	
BMDO0125289405	\$100,000	X	
BMDO0137449257	\$1,240,000	X	
BMDO0127572744	\$78,317	X	
BMDO0137178900	\$200,000		X
BMDO0155049539	\$75,000	X	
MD5081468PO267	\$35,000	X	
BMDO0134213065	\$1,215,616	X	
BMDO0145262145	\$215,167	X	
BMDO0146925473	\$3,814,000		X
BMDO0154137404	\$173,900		X
24	\$27,938,402	15	9

Incoming MIPRs

MIPR No.	MIPR Value	Direct Cite	Reimbursable Cite
F3RTE05188G007	\$246,098	X	
DWAM40227	\$4,000,000	X	
PBAM50010	\$906,660	X	
05-D572	\$1,260,369	X	
MIPR4MGYR40142	\$2,500		X
NMIPR059800113	\$200,721	X	
MIPR3188049274	\$32,300	X	
LO5G3A15F051MP	\$300,000	X	
NMIPR59800160	\$405,000	X	
F3RTE05305G002	\$364,000	X	
F1AF1W5314GV01	\$290,000	X	
N000SY04730023	\$400,000	X	
F3LFF6523G001	\$510,000	X	
W31RY042598981	\$2,000		X
NNJO4HI52I	\$90,000		X
MIPR4MOPSD2180	\$1,710		X
DWAM50232	\$50,000	X	
FA8750MIPR5062	\$24,592.32	X	
4Y-4-PAC974Y	\$12,300,000	X	
MIPR4PEAR304	\$150,000	X	
H98230-RA06-3021	\$745,000	X	
NNH05AA9OI	\$100,000		X
4Y5PACA01Y	\$10,000,000	X	
23	\$32,380,950	18	5

Appendix F. Summary of Management Comments on the Finding and Audit Responses

Executive Director of the Missile Defense Agency Comments on Appropriation Classification and Audit Response. The Executive Director nonconcurred with the Appropriation Classification finding that stated MDA might have violated the Antideficiency Act when it used RDT&E funds to execute a MIPR citing O&M funds. She stated that the MIPR transaction was consistent with DoD FMR and Section, 2205, title 10, United States Code, “Reimbursements,” and, therefore, did not constitute a potential ADA violation.

Audit Response. The audit team has removed the section from the report in response to management comments and further analysis by OIG legal staff.

Executive Director of the Missile Defense Agency Comments on Economy Act Transactions and Audit Response. The Executive Director was unable to concur with all the factual assertions presented in the report. She stated that the requirements for Economy Act order transactions are different depending on whether the servicing agency is a DoD Component or a non-DoD Federal entity. She feels the draft report describes discrepancies in a broad manner and does not address the differing requirements. However, she acknowledged that, for the MIPRs reviewed, the processes were not fully developed or implemented to document that MDA had positive control and accounted for both incoming and outgoing MIPRs throughout their lifecycle.

Audit Response. The audit team does not agree with the Executive Director’s position on the factual assertions in the report. We based the audit conclusions on statutory and regulatory requirements applicable for every MIPR. The audit team also factored in the distinction of DoD versus non-DoD transactions when determining applicable requirements. For example, MDA personnel identified all 24 outgoing MIPRs as Economy Act orders; however, the audit team reclassified 2 MIPRs issued to the Department of the Interior and the General Services Administration as non-Economy Act orders and excluded them from the D&F deficiency list.

Summary of Executive Director of the Missile Defense Agency Comments on Market Research and Audit Response.

The report implies that market research is required for all acquisitions although FAR part 10 states that market research will be conducted as appropriate to the circumstances, and does not require it for acquisitions under the simplified acquisition threshold, except in limited circumstances. However, Appendix D identifies deficiency in market research for all MIPRs evaluated, including five MIPRs that fell under the simplified acquisition threshold.

Audit Response. According to FAR 17.503, each Economy Act order must be supported by a D&F that states that the supplies or services cannot be obtained as conveniently or economically by contracting directly with a private source. The audit team believes that the only way the determination can be made is through conducting market research. Therefore, the audit team considers Economy Act orders as one of circumstances in which market research is required for acquisitions under the simplified acquisition threshold.

MDA Comment. The draft report suggests that MDA should have performed market research prior to placing orders for support or services; however, many of MDA's MIPRs are related to securing research assistance from Federally funded research and development centers, which do not compete with private industry and have their own ordering procedures.

Audit Response. According to FAR subpart 7.1, the purpose of market research is to promote and provide for acquisition of commercial items and full and open competition. When acquisitions are other than full and open competition (not competing with private industry), FAR subpart 6.3 requires a documented justification. However, MIPR files provided to the audit team for review did not contain a D&F, a justification, or evidence of market research.

MDA Comment. It is not clear that the requiring agency is responsible for market research and market research is conducted based on the level considered adequate for the acquisition.

Audit Response. FAR Part 10 states that the objective of market research is to select the most suitable approach to acquire, distribute, and support supplies and services. The objective is accomplished through identifying legitimate needs, evaluating trade-offs of sources, and using market research to determine which sources satisfy the agency's requirements. The audit team believes that those responsibilities fall under the project office of the requesting agency rather than the servicing agency.

MDA Comment. The Executive Director requested the audit team to revise the statement of "market research is not done" to "market research is not repeated" for recurring orders.

Audit Response. For recurring orders, the audit team was not able to verify that market research was done for initial orders because MDA personnel could not provide evidence. Therefore, the audit team cannot revise the statement.

Executive Director of the Missile Defense Agency Comments on a Determinations and Findings and Audit Response. The Executive Director stated that the draft report suggest that a D&F is required to support the agency determination. She stated DoDIG interpretation runs counter to the express provisions of DFARS 217.500, “Interagency Acquisitions Under the Economy Act,” March 1999. DFARS 217.500 provides that DoD Instruction 4000.19, “Interservice and Intragovernmental Support,” August 1995, applies to all purchases, except micro-purchases made for DoD by another agency. Furthermore, DoD Instruction 4000.19, states that these determinations are signified by a support agreement and that no further written determinations are necessary for interservice support.

Audit Response. The report does not state anything contrary to the comments. Therefore, the audit team reiterates that FAR subpart 17.5 states that a D&F is required to support each Economy Act order that uses interagency support capabilities. For interservice support, a signed support agreement documents the required determination by both the requesting and supplying activity in accordance with DoD FMR, volume 11A, chapter 3.

Executive Director of the Missile Defense Agency Comments on Delivery Requirements and Audit Response. The Executive Director stated that the draft report suggests that, as required by 31 U.S.C. 1501, all interdepartmental purchase requests require the use of a DD Form 448. However, the statute only requires some written documentation, not the use of the DD Form 448. She stated that the FAR and DoD FMR both provide guidance to the contrary. FAR 17.504 states that Economy Act orders may be placed on any form that is acceptable to both agencies and, similarly, the DoD FMR states that Economy Act orders may be placed on any form that is acceptable to both the requesting and servicing agencies. Furthermore, she stated that the report refers the reader to DFARS 253.208 for its discussion of MIPR requirements. However, that provision indicates that MIPRs are to be used as specified in DFARS 208.70, “Coordinated Acquisition,” a DoD program that appears inapplicable to these circumstances.

Audit Response. The audit team disagrees that the report suggested that interdepartmental purchase request require the use of DD Form 448. During the audit, the audit team noted that some agencies such as NASA used a form other than DD Form 448; however, the report did not raise the use of other forms as a deficiency. However, when a DD Form 448 was used to place an order, the audit team evaluated whether required elements of the form were properly stated in accordance with DFARS 253.208, which DoD FMR recognizes as the guidelines for DD Form 448 used for Economy Act orders. Furthermore, 31 U.S.C. 1501 requires that agencies base obligations on goods and services to be delivered during the period of appropriation or fund available for obligation. Therefore, the audit team considers delivery requirements as a critical element of the MIPR that needs to be clearly documented.

Executive Director of the Missile Defense Agency Comments on Delegation of Fiduciary Authority and Audit Response. The Executive Director stated that the audit team should delete the sentence that states, “without fiduciary authority, the MIPR and amendments procurement funds are not chargeable.”

She further states that the report contains an assertion that the MIPRs are not properly chargeable in the absence of written delegations. Although this assertion identifies an area in which MDA might strengthen its processes, it need not, and should not, be read to suggest that the transactions are invalid.

Audit Response. The audit report referred to a funds certifying official as an individual who has the authority to administer funds and who certifies the “fund availability” for a MIPR—not the “payment.” The individuals also certify fund-related data on the DD Form 448 (such as the fund cite chargeable) by signing the MIPR. The audit team based the audit conclusions on the DoD FMR which states that a MIPR must be signed by a person authorized to reserve funds, that is, officials responsible for administrative control of funds, and the authority must be in writing. Although the MIPRs were executed as valid after the fact; the audit team holds its position that signatures of individuals without proper authority do not constitute valid certification and, therefore, the MIPRs are not validly chargeable to the fund cite stated in the MIPR. The audit team did not assess the Defense Joint Accounting System but observed a digital signature of a certifying official on the Fund Certification Request form although that name was not on the list of certifying officials provided to us. The audit team brought the issue forward so that MDA can strengthen controls over funds as it began corrective actions by issuing a written designation for the Accountable Official and the Authorizing Official.

Executive Director of the Missile Defense Agency Comments on Segregation of Duties and Audit Response. The Executive Director stated the draft report as written, was more restrictive than the OMB Circular A-123 requires. She stated an examination of the circular discloses that there is a separation among separate personnel with authority to authorize a transaction, process the transaction, and review the transaction.

Audit Response. The audit team revised the section of the report to reflect three categories stated in the management comments. However, this does not change the audit team’s position. In the review, the audit team found that MDA did not comply with its own Fund Certification Request process.

Executive Director of the Missile Defense Agency Comments on Use of MIPRs and Audit Response. The Executive Director stated that it is unclear why the DoD Office of Inspector General apparently believes that the employees in question should not have received the performance awards earned at their prior agencies, or what mechanism would have been more appropriate to accomplish that payment. She also stated that all of MDA employees as well as these individuals are paid from RDT&E appropriations. The funds from the prior employer were to defray the cost of those earned awards, which MDA paid on their behalf.

Audit Response. The report does not suggest that the employees should not have received the performance awards but addresses the use of the MIPR instrument under the Economy Act and the reimbursable authority. The audit team considered the use of the MIPRs for employee awards inappropriate. During our audit, MDA personnel stated that 31 U. S. C. 1535 and 10 U. S. C. 2205 were the statutory authorities for the three MIPRs of concern. Section 2205, U.S.C.,

title 10 states that reimbursements made under the Economy Act for services rendered or supplies furnished, may be credited to authorized accounts. Pursuant to the statute, DoD FMR authorizes crediting reimbursements to the appropriation or fund of the activity performing the reimbursable work. DoD Instruction 4000.19 states that support is reimbursable to the extent that the servicing agency actually incurred costs to provide the goods or services requested. In addition, DoD FMR, volume 11A, chapter 3, states actual costs include all direct costs attributable to providing the goods or services. Because the MIPRs were not associated with costs of any reimbursable work MDA performed for the requesting activity, the audit team believes that the MIPRs did not fall under the Economy Act orders or the reimbursable authority. Taking administrative work and costs into account, therefore; the audit team suggested that direct pay would have been an appropriate method of paying the performance awards.

Executive Director of the Missile Defense Agency Comments on Reimbursable Billing and Audit Response. The Executive Director stated that the audit team should delete the paragraph “Reimbursable Billing.” She stated that the invoices to support incoming MIPRs obligated on MDA contracts are permanently filed within the Wide Area Work Flow; therefore, there is no need to file a copy of each invoice with each funding document on the contract. Additionally, for the performance awards there are no invoices—the disbursements are made based on the validity of the MIPR.

Audit Response. The report lists invoices only as an example of source documents that should support reimbursable billing. DoD Instruction 4000.19 states that support is reimbursable to the extent that the servicing agency actually incurred costs to provide the goods or services requested. And, according to the DoD FMR, actual costs include all direct costs attributable to providing the goods or services. DoD FMR also requires that reimbursable billings identify costs by each item listed in the Economy Act order. Based on the regulations, the audit team believes that MDA, as the performing activity, should keep track of actual costs incurred for reimbursable work and support the costs with documentary evidence, i.e. source documents. The audit team also finds it contrary to the DoD FMR that the disbursements for the performance awards were made based on the validity of the MIPR, which is merely a commitment document. Therefore, the audit team did not remove this section from the report.

Appendix G. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Director, Program Analysis and Evaluation

Other Defense Organizations

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

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 Oversight and Government Reform
House Subcommittee on Government Management, Organization, and Procurement,
Committee on Oversight and Government Reform
House Subcommittee on National Security and Foreign Affairs, Committee on Oversight
and Government Reform

Missile Defense Agency Comments



DO

DEPARTMENT OF DEFENSE
MISSILE DEFENSE AGENCY
7100 DEFENSE PENTAGON
WASHINGTON, DC 20301-7100

JUN 27 2007

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

SUBJECT: Missile Defense Agency Comments on Draft of a Proposed Report,
"Missile Defense Agency Purchases for and from Governmental Sources",
June 1, 2007, Project No. D2006FH-0160

The Missile Defense Agency (MDA) appreciates the changes you made to the subject report as a result of our prior comments on the Discussion Draft dated March 21, 2007, our discussion on April 3, 2007, and further comments on the second Discussion Draft dated April 19, 2007. MDA remains concerned, however, about the factual content and conclusions in the Draft Report, particularly the unsupported suggestion that there may be a potential Anti Deficiency Act violation. In addition, the Draft Report does not yet take account of the fact that there are different requirements for Economy Act and Non-Economy Act transactions or that the requirements differ depending on whether the other agency involved is DoD or Non-DoD. To the extent that the Draft Report still contains matters to which we have objected in our prior comments, MDA reasserts those objections for consideration in preparing the Final Report.

I have included in Attachments 1 and 2, additional comments on the Draft Report and its recommendations for your consideration.

My point of contact for this action is Mr. Mirza Baig, Assistant Director, Program Liaison, at (703) 692-6538.


for PATRICIA SANDERS
Executive Director

Attachment:
As Stated

MDA COMMENT INCORPORATION SUMMARY – Draft Report MIPR Audit

TITLE OF DOCUMENT DoD IG Draft Report, Project # D2006-FH-0160, (Missile Defense Agency Purchases for and from Governmental Sources)	DATE OF DOCUMENT June 1, 2007
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ITEM NO.	PAGE NO.	PARA. NO.	RECOMMENDED CHANGES	SIGNIFICANT/CRITICAL COMMENTS
1				<p>The facts do not present even the potential for an Anti Deficiency Act violation. The incoming MIPR in question was for a performance award from a previous employer to an individual who had recently begun employment with MDA. MDA is almost exclusively funded with RDT&E and funds all of its "O&M" activities with RDT&E. The DoD FMR recognizes this. See Vol 2A, Chapter 1, paragraph 010213(C)(1)(c): "Expenses of R&D management and administrative organizations at major systems commands, headquarters organizations and administrative organizations at DoD component departmental headquarters levels (except for the Defense Advanced Research Projects Agency and the Missile Defense Agency) will be financed in the Operation and Maintenance (O&M) appropriations." MDA's budget is submitted to, and approved by, the Department and the defense committees on this basis. Further, 10 USC 2205 provides statutory authority to credit reimbursements received to authorized appropriations. With respect to having funds available, MDA had, in sufficient amounts, both the funds sent to us from the previous employer and our own RDT&E appropriation. Both were appropriate for this expenditure. And finally, we note that purpose of this transaction did not involve any attempt to circumvent fiscal restrictions. The sole objective was to permit the previous employer to fund performance awards related to work at the previous employer. Given these facts, MDA does not concur with the suggestion in the Draft Report that our receipt of a MIPR with O&M funds to reimburse MDA's RDT&E appropriation for a valid disbursement constituted a potential statutory violation.</p>

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Revised
Pg 22

**MDA COMMENT INCORPORATION SUMMARY – Draft Report MIPR Audit
RECOMMENDED CHANGES**

ITEM NO.	PAGE NO.	PARA. NO.	
2			<p>The requirements are complex and differ between Economy Act transactions and non-Economy Act transactions. The requirements for Economy Act transactions are different depending on whether the servicing agency is a DoD component or a non-DoD federal entity. As written, the Draft Report describes discrepancies in a broad manner and does not address the differing requirements. As a result, MDA is unable to concur with all of the factual assertions presented in the report. MDA does acknowledge that during the time period of the actions associated with the MIPRs included in the review, processes were not fully developed or implemented to adequately document that MDA had positive control over, and accounted for, both incoming and outgoing MIPRs throughout their lifecycle.</p> <p>MDA efforts are already underway to develop standard operating procedures and internal controls to address the weaknesses identified with MDA's MIPR process. MDA intends to implement these procedures upon issuance of the revised MDA instruction 7200.01, Funds Authorization Process. The Instruction is currently in coordination. Work is also underway on the issuance of the new MDA Directive on Support Agreements, which is also in coordination.</p>
3	4	2	<ol style="list-style-type: none"> 1. The report, as written, implies that market research is required for all acquisitions. FAR Part 10 states that market research will be conducted as appropriate to the circumstances, and does not require it for acquisitions under the simplified acquisition threshold except in limited circumstances. Appendix D to the report indicates deficiency in market research for all MIPRs evaluated, including a number under the simplified acquisition threshold. 2. The Draft Report suggests that MDA should have performed market research prior to placing orders for support or services. But many of MDA's MIPRs are related to securing research assistance from Federally Funded Research and Development Centers, which do not compete with private industry, and have their own ordering procedures. 3. According to FAR part 17.504, "(d)(3) The servicing agency is responsible for compliance with all other legal or regulatory requirements applicable to the contract, including: <ol style="list-style-type: none"> (i) having adequate statutory authority for the contractual action, and (ii) complying fully with the competition requirements of Part 6 (see 6.002). However, if the servicing agency is not subject to the Federal Acquisition Regulation, the requesting agency shall verify that contracts utilized to meet its requirements contain provisions protecting the Government from inappropriate charges (for example, provisions mandated for FAR agencies by Part 31), and that adequate contract administration will be provided." <p>It is not clear that the requiring agency is responsible for market research. In addition, market research is to be conducted based on the level considered adequate for the acquisition at hand. In the case of very small value MIPRs, a simple knowledge of the market may suffice.</p>

MDA COMMENT INCORPORATION SUMMARY – Draft Report MIPR Audit
RECOMMENDED CHANGES

ITEM NO.	PAGE NO.	PARA. NO.	
4	4	4	The Draft Report suggests that a D&F is required to support the agency determinations. But this interpretation runs counter to the express provisions of DFARS 217.500 which provides that DoDI 4000.19 applies to all purchases, except micro-purchases made for DoD by another agency and DoDI 4000.19, para 4.3, which provides that these determinations are signified by signing a support agreement and that no further written determinations are necessary for interservice (support by one DoD component to another) support.
5	5	3	The Draft Report suggests that all interdepartmental purchase requests require use of a DD Form 448 (MIPR) as required by 31 USC 1501 (the Recording Statute). But the statute requires only some written documentation, not use of the MIPR form. And both the FAR and DoD FMR provide contrary guidance. FAR 17.504(b) provides that Economy Act orders may be placed on "any form that is acceptable to both agencies." Similarly, the DoD FMR provides, at Vol 11A, Ch 3, para 030501, that Economy Act orders may be placed on any form that is acceptable to both the requesting and servicing agencies.* Further, the report refers the reader to DFARS 253.208, for its discussion of MIPR requirements. However, that provision indicates that MIPRs are to be used as specified in DFARS 208.70, "Coordinated Acquisition," a DoD program that appears inapplicable to these circumstances.
6	5	4	<ol style="list-style-type: none"> 1. The Draft Report contains an assertion that the MIPRs are not properly chargeable in the absence of written delegations to show the MDA personnel certifying the MIPRs had written authority. While this assertion identifies an area in which MDA processes might be strengthened, it need not, and should not, be read to suggest that the transactions are invalid. 2. Delete: Without fiduciary authority, the MIPR and amendments procurement funds are not chargeable. <p>Rationale: The responsibility of the funds authorizing official on MDA's funding request document is to authorize commitments – an administrative reservation of funds – not to certify payments. The term "certifying officer" in the DoD FMR refers to the person with authority to certify payments. At the time of the audit, MDA controlled signature authority within the Defense Joint Accounting System. Only designated individuals with card-reader access could sign the funding request within DJAS on behalf of MDA.</p>
7	5	5	The Draft Report indicates that "According to OMB Circular A-123, separation of duties and responsibilities must be maintained for initiating, authorizing, processing, recording, and reviewing transactions." An examination of the circular discloses that it calls for separate personnel with authority to authorize a transaction, process the transaction, and review the transaction" (OMB Cir A-123, at page 8). As written, the Draft Report may be more restrictive than the circular requires.

MDA COMMENT INCORPORATION SUMMARY – Draft Report MIPR Audit

RECOMMENDED CHANGES		MAJOR COMMENTS	
ITEM NO.	PAGE NO.	PARA NO.	
1	4	4	In section "Market Research," Change "research is not done" to "research is not repeated"
2	9	3	The report indicates that 22 MIPRs had neither a D&F nor Support Agreement. As discussed above, a Support Agreement may or may not be appropriate, depending on the circumstances.
3	9	5	It is unclear why the OIG apparently believes that the employees in question should not have received the performance awards earned at their prior agencies, or what mechanism would have been more appropriate to accomplish that payment. As employees of MDA, the individuals were paid from RDT&E appropriations, as are all MDA employees. The funds MIPRd from the prior employer were to defray the cost of those earned awards, which MDA was asked to pay on their behalf.
4	10	5	Delete paragraph "Reimbursable Billing" Rationale: Invoices to support incoming MIPRs obligated on MDA contracts are permanently filed within WAWF. There is no need to file a copy of each invoice with each funding document on the contract. For the incoming Reimbursable MIPRs for performance awards, there are no invoices. The disbursements are made based on the validity of the MIPR.
5	11	2	Delete entire section "Appropriation Classification" Rationale: The incoming MIPR in question was for a performance award from a previous employer to an individual who had recently begun employment with MDA. MDA is almost exclusively funded with RDT&E and funds all of its "O&M" type activities with RDT&E. The DoD FMR recognizes this. See Vol 2A, Chapter 1, paragraph 010213(C)(1)(c): "Expenses of R&D management and administrative organizations at major systems commands, headquarters organizations and administrative organizations at DoD component departmental headquarters levels (except for the Defense Advanced Research Projects Agency and the Missile Defense Agency) will be financed in the Operation and Maintenance (O&M) appropriations." MDA's budget is submitted to, and approved by, the Department and the defense committees on this basis. Further, 10 USC 2205 provides statutory authority to credit reimbursements received to authorized appropriations. With respect to having funds available, MDA had, in sufficient amounts, both the funds sent to us from the previous employer and our own RDT&E appropriation. Both were appropriate for this expenditure. And finally, we note that purpose of this transaction did not involve any attempt to circumvent fiscal restrictions. The sole objective was to permit the previous employer to fund performance awards related to work at the previous employer. Given these facts, MDA did not violate the statutory limitation on the purposes for which the RDT&E appropriation may be used.

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MDA COMMENT INCORPORATION SUMMARY – Draft Report MIPR Audit
RECOMMENDED CHANGES

ITEM NO.	PAGE NO.	PARA. NO.	
6	12	2	"ADA Violation." -According to DoD IG report, MDA executed a MIPR valued at \$1,710 using an RDT&E appropriation; however, the requesting agency funded the MIPR with an O&M appropriation. Also, the report states that MDA interpretation would permit the DoD component to circumvent time and purpose limitations imposed by the appropriation Acts. Therefore, DoD IG concluded that MDA made an improper MIPR transaction that may have resulted in an ADA violation because the purpose and the time limitations differ between the two appropriations (Availability of funds- one year for O&M and two years for RDT&E). In this instance, as discussed above, there was no improper circumvention of statute or regulatory limitations on the expenditure of the funds.
7	12	3	It is not clear how the report reaches the conclusion that MDA used RDT&E for an improper purpose. As discussed above, MDA is funded for virtually all purposes, including personnel, in RDT&E. Congress and the Department are well aware of that situation and the MDA budget is approved with that understanding.
8	14	2	<u>Change to read:</u> "(2) that ensure the validity and accuracy of incoming Military" <u>Rationale:</u> MDA does not have access to the reimbursable billings or source documentation to support receipt of ordered goods and services on outgoing MIPRs that are paid through IPAC. The activity performing the service or providing the goods is responsible for maintaining that documentation.

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DoD IG DRAFT OF A PROPOSED REPORT, "Missile Defense Agency Purchases for and from Governmental Sources", June 1, 2007, Project No. D2006FH-0160

Missile Defense Agency Additional Comments on DoD IG Recommendations

General Comments:

MDA has been developing standard operating procedures and implementing internal controls to address the weaknesses identified in MDA's MIPR process. Standard operating procedures are being documented as a revision to MDA Instruction 7200.01, Funds Authorization Process. Issuance of the revised Instruction is pending MDA coordination.

Recommendation 1.a.

The DoD IG recommended that the Director, Missile Defense Agency:

a. Direct the Deputy Director, Business Management to develop and promulgate standard operating procedures that will incorporate DoD Financial Management Regulation and Missile Defense Agency regulations for processing Military Interdepartmental Purchase Requests. The standard operating procedures should at a minimum include procedures and controls:

(1) Such as a checklist that ensures all required data and supporting documents are developed and appropriately reviewed before a Military Interdepartmental Purchase Request is certified for issuance or acceptance.

(2) That ensure the validity and accuracy of Military Interdepartmental Purchase Request disbursements and reimbursable billings are verified against source documentation including support for the receipt of ordered goods and services, and all documentation is maintained.

(3) Such as documentation of the receipt date, that ensures the timeliness of obligations and acceptances for all Military Interdepartmental Purchase Requests, issued and received.

(4) That ensure recorded commitments, obligations, and deobligations are valid and timely.

MDA Response to Recommendation 1.a:

MDA concurs with the recommendation and is developing procedures and controls to ensure all required data and supporting documents are developed and appropriately reviewed before a

Attachment 2: Page 1 of 4

Renumbered
as Recom-
mendation 1.

MIPR is authorized for issuance and documentation is appropriately maintained. Process improvements include:

- MIPRs are processed and coordinated within the MDA's Command Information Management System (CIMS) database. A MIPR document is systematically generated by CIMS only when required fields and signatures are populated.
- Signature authority is controlled by CIMS so that Individuals authorized to commit funds and sign MIPRs on behalf of MDA have been issued written delegation of authority, and the delegation of authority letters are maintained in a database by MDA/DOBX. Access to CIMS is controlled via the Common Access Card.
- MDA Competition Advocate review and coordination is now required for all MIPRs issued to another activity to acquire supplies or services through a contract vehicle to ensure proper evidence of market research and other supporting documentation to ensure consistency with prescribed regulations and policies governing full and open competition, acquisitions made under the authority of the Economy Act, and Non-DoD contract actions.
- MDA Support Agreement Manager review and coordination is now required for all MIPRs procuring recurring reimbursable support from another activity to ensure support agreements and appropriate supporting documentation is in place prior to commitment of funds.
- The DRAFT revision to MDA Instruction 7200.01 will contain a checklist of required data and supporting documentation to support all acquisitions.
- MDA has instituted policy to require monthly financial reporting on all outgoing MIPRs so that disbursements can be verified. The monthly reports are maintained in the MIPR file and the final report is to be uploaded into the CIMS database at the time the MIPR is closed.
- To address untimely posting of obligations for outgoing MIPRs, the CIMS database has been programmed to send an e-mail notification to the MIPR originator every 5 days until the signed MIPR acceptance (448-2) and obligating contract mod (for Direct Cite MIPRs) are returned to MDA by the accepting activity. Upon receipt of a signed 448-2 and obligating mod, the MIPR originator is required to upload the documents and record the date of receipt into the appropriate fields in the CIMS. Once uploaded, CIMS automatically generates an e-mail notifying the MDA Accounting Operations Team that an obligation document is ready for posting to the accounting system.
- The Period of Performance is now printed on every MIPR document and the Period of Performance is monitored within CIMS. At the end of each performance period, CIMS generates an e-mail notifying the MIPR originator that the MIPR requires reconciliation and closeout. This notification is retained in a CIMS Action Item folder for the MIPR

Attachment 2: Page 2 of 4

originator until the MIPR is closed and the close-out date is entered into the appropriate field in CIMS.

- For Incoming MIPRs, MDA has developed a separate Incoming MIPR Module in CIMS to upload and coordinate incoming MIPRs and supporting documentation prior to acceptance.
 - Signature authority to accept an incoming MIPR has been restricted to the Director of Budget Execution and Funds Control, MDA/DOBX.
 - Once acceptance of the MIPR is approved and electronically signed by MDA/DOBX, CIMS generates the 448-2 and notifies the MDA analyst responsible for the MIPR that the 448-2 is ready to be forwarded to the acquiring activity.
 - The responsible analyst is required to record, in CIMS, the date the 448-2 was forwarded to the acquiring activity.
 - The financial analyst is also required to monitor MIPR expenditures and close out the MIPR at the end of the MIPR period of performance.

Recommendation 1.b:

The DoD IG recommended that the Director, Missile Defense Agency:

Initiate preliminary reviews and possible corrective actions for Military Interdepartmental Purchase Requests shown in Appendix D that potentially violated the Anti Deficiency Act as defined by DoD Financial Management Regulation.

MDA Response to Recommendation 1.b.

MDA non-concurs with this recommendation. MDA did not violate the statutory limitation on the purposes for which an RDT&E appropriation may be used. Accordingly there is no potential for a violation of the Anti Deficiency Act. The incoming MIPR in question was for a performance award from a previous employer to an individual who had recently begun employment with MDA. MDA is almost exclusively funded with RDT&E and funds all of its "O&M" type activities with RDT&E. The DoD FMR recognizes this. See Vol 2A, Chapter 1, paragraph 010213(C)(1)(c): "Expenses of R&D management and administrative organizations at major systems commands, headquarters organizations and administrative organizations at DoD component departmental headquarters levels (except for the Defense Advanced Research Projects Agency and the Missile Defense Agency) will be financed in the Operation and Maintenance (O&M) appropriations." MDA's budget is submitted to, and approved by, the Department and the Defense committees on this basis. In addition, sufficient funds were available from two different appropriations (RDT&E and O&M) to cover this obligation and both were proper to the purpose for which the funds were used. Given these facts, MDA did not violate the statutory limitation on the purposes for which the RDT&E appropriation may be used.

Further, 10 USC 2205 provides statutory authority to credit reimbursements received to authorized appropriations. With respect to having funds available, MDA had, in sufficient amounts, both the funds sent to us from the previous employer and our own RDT&E

Attachment 2: Page 3 of 4

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appropriation. Both were appropriate for this expenditure. And finally, we note that purpose of this transaction did not involve any attempt to circumvent fiscal restrictions. The sole objective was to permit the previous employer to fund performance awards related to work at the previous employer. Given these facts, MDA does not concur with the suggestion in the Draft Report that our receipt of a MIPR with O&M funds, to reimburse an expenditure of RDT&E funds, constituted a potential statutory violation.

Defense Finance and Accounting Service Comments



JJR/IN

DEFENSE FINANCE AND ACCOUNTING SERVICE

8899 EAST 56 TH STREET
INDIANAPOLIS, INDIANA 46249

JUN 29 2007

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCIAL AUDITING SERVICE,
OFFICE OF THE INSPECTOR GENERAL, DoD

SUBJECT: Comments to Recommendation Number 2 in the DoDIG Draft
Report/Project No. D2006-D000FH-0160.000

Attached are management comments to Recommendation Number 2 in the DoDIG
Draft Report, "Missile Defense Agency Purchases for and from Governmental Sources",
dated June 1, 2007.

Questions your staff may have concerning these matters may be directed to
Ms. Anita White at 303-676-4215.


William E. Bergmeyer
Director, Corporate Reporting
Standards & Compliance

Attachment:
As stated

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**DFAS comments to DoDIG Draft Report, "Missile Defense Agency Purchases for
and from Governmental Sources", dated June 1, 2007
(Project No. D2006-D000FH-0160.000)**

Recommendation 2: We recommend that the Director, Defense Finance and Accounting Service develop procedures and controls that ensure the Defense Finance and Accounting Service centers and field offices make audit information and documentation readily available for timely review.

Management Comments: Concur. Standards and Compliance will ensure audit procedures are developed that address documentation be retrieved in a timely manner. These procedures will include: 1) clarification of expectations at the entrance conference and subsequent meetings regarding requirements and expectations for auditor requests, 2) providing points of contact responsible for monitoring and executing requests, and 3) communication between auditors and auditees on acceptable timeframes for providing the requested information.

Estimated Completion Date: December 1, 2007

Team Members

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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Inspector General Department of Defense

