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DOD CONTRACTOR DEBT COLLECTION PROCESS

Report No. D-2001-114

May 7, 2001

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Acronyms

| | |
|-------|---|
| CAGE | Contractor and Government Entity |
| DDMS | Defense Debt Management System |
| DFARS | Defense Federal Acquisition Regulation Supplement |
| DFAS | Defense Finance and Accounting Service |
| DMO | Debt Management Office |
| MOCAS | Mechanization of Contract Administration Services |



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May 7, 2001

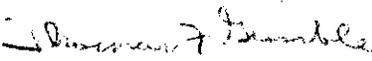
**MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE**

**SUBJECT: Audit Report on DoD Contractor Debt Collection Process
(Report No. D-2001-114)**

We are providing this report for review and comment. We conducted the audit in response to a request from the Defense Criminal Investigative Service. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all unresolved issues be resolved promptly. The comments were partially responsive. We request additional comments on Recommendations A.3, and A.11, by July 6, 2001.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Richard B. Bird at (703) 604-9159 (DSN 664-9159) (rbird@dodig.osd.mil) or Ms. Cindi M. Miller at (317) 510-3855 (DSN 664-3855) (cmiller@dodig.osd.mil). See Appendix C for the report distribution. The audit team members are listed inside the back cover.


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Office of the Inspector General, DoD

Report No. D2001-114
(Project No. D2000FI-0151)

May 7, 2001

DoD Contractor Debt Collection Process

Executive Summary

Introduction. This is the first in a series of reports related to the DoD debt collection process. Contractor debt cases within DoD occur for a variety of reasons. Some of these reasons include duplicate payments, damages or excess costs related to defaults in performance, and unliquidated progress payments. As of May 31, 2000, DoD had 3,061 contractor debt cases totaling \$3.6 billion. Because deferment agreements were pending or existed for 45 cases totaling \$2.8 billion, 3,016 cases for \$0.8 billion were to be actively researched and collected or resolved.

Objectives. The overall audit objective was to review the DoD contractor debt collection process and the controls associated with the List of Contractors Indebted to the United States. We also evaluated the effectiveness of the management control program as it related to the audit objective.

Results. The Defense Finance and Accounting Service did an inadequate job on debt collection from 37 large DoD contractors in the debt collection cases examined. DoD had 204 open debts valued at \$39.4 million with 37 large DoD contractors, some of which remained open from the mid-1980s. We determined that 29 cases for \$8.6 million were apparently invalid and there were 9 cases for \$0.4 million where the collection period had lapsed. Also identified one debt case for \$17.8 million was collected by the Department of Treasury but was not subsequently forwarded to the DoD. The net result was that DoD had not collected \$12.6 million in contractor debt. The amounts due ranged from \$25 to \$6.4 million. Implementing the recommendations would allow DoD to collect \$12.6 million. We identified 148 cases to the Defense Finance and Accounting Service during the audit and DoD took some actions to resolve those debts. If the Defense Finance and Accounting Service fully implements our recommendations, additional monetary benefits will be achieved (finding A).

The List of Contractors Indebted to the United States, prepared by the Defense Finance and Accounting Service, did not include sufficient data to ensure that disbursing officers could identify payments to administratively offset contractor debt, did not include all eligible contractor debts, included apparently invalid debts, and did not include sufficient data to ensure that debts were removed in a timely manner. As a result, the List of Contractors Indebted to the United States was not an effective tool to collect contractor debts, and potential administrative offsets were not made against payments to collect contractor debts (finding B).

See Appendix A for details on the management control program as it relates to DoD contractor debt collection process.

Summary of Recommendations. We recommend that the Director, Defense Finance and Accounting Service, establish and monitor management control procedures to ensure the timely identification, verification, and collection of valid contractor debt. We also recommend that the Defense Finance and Accounting Service provide the Debt Management Policy and Review Office with access to all entitlement systems and electronically interface the Defense Procurement and Payment System with the Defense Debt Management System and the List of Contractors Indebted to the United States.

Management Comments. The Director, Commercial Pay Services, Defense Finance and Accounting Service Columbus Center, provided comments on April 11, 2001. The Director concurred with most of our recommendations. Although the Defense Finance and Accounting Service nonconcurred with 6 of our recommendations, proposed actions on 4 of the recommendations met the intent of our recommendations. The Defense Finance and Accounting Service stated that costs to perform contract reviews on open contracts at least every four years is cost prohibitive. The Defense Finance and Accounting Service further stated that new system implementations negate the need to interface the Defense Procurement and Payment System with debt management systems and the List of Contractors Indebted to the United States. A discussion of the management comments is in the Finding sections of the report and the complete text of the comments is in the Management Comments section.

Audit Response. We fully recognize that there are associated costs with the administration of an effective debt management program; however, identifying contractor debts in a timely manner is critical to the debt collection process. If debts are not identified in a timely manner, DoD can lose its rights to collect the debt because the 6-year statute of limitations or the 10-year period for administrative offset could lapse. In addition, contract payment systems should be interfaced with the List of Contractors Indebted to the United States to ensure existing debts are offset against potential payments. As we have demonstrated in this audit, a number of cases have lapsed. Our recommendations were targeted to prevent recurrence of these problems. Specifically performance of contract reviews every 4 years seems appropriate. We request that the Director, Defense Finance and Accounting Service reconsider their comments and provide additional comments on the final report by July 6, 2001.

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Background

Contractor debt cases within DoD occur for a variety of reasons. The reasons include duplicate payments, damages or excess costs related to defaults in performance, overpayments related to errors in quantity or billing or deficiencies in quality, and unliquidated progress payments. As of May 31, 2000, DoD had 3,061 contractor debt cases for \$3.6 billion. Because deferment agreements were pending or had been approved for 45 cases totaling \$2.8 billion, 3,016 cases valued at \$0.8 billion were active. Several public laws and DoD and Treasury regulations outline procedures to be followed to collect outstanding contractor debts.

Public Law. Public Law 89-508, “Federal Claims Collection Act of 1966,” (codified as 31 U.S.C. 3711(a)(1)) requires DoD to attempt collection of all claims of the United States for money or property arising out of the activities of, or referred to, DoD. Public Law 97-365, “Debt Collection Act of 1982,” (codified as 31 U.S.C. 3716) allows DoD to collect a claim by means of administrative offset within 10 years. Public Law 97-365 (codified as 31 U.S.C. 3701(a)(1)) defines administrative offset as withholding money payable by the United States to or held by the United States on behalf of a person to satisfy a debt owed by the United States by that person. Further, Public Law 97-365 (codified as 31 U.S.C. 3717) allows DoD to charge a minimum annual rate of interest on outstanding debts and assess charges to cover the costs of processing and handling delinquent claims.

Public Law 104-134, “Debt Collection Improvement Act of 1996,” (codified as 31 U.S.C. 3711(g)(1)(A)) requires DoD to transfer any debts that have been delinquent for at least 180 days to the Treasury Department. The Treasury Department is then responsible to take action to collect or terminate collection actions on the debt or claim. This act also allows DoD to publish or otherwise publicly disseminate information regarding the identity of the debtor.

Six-year Statute of Limitation. Except as otherwise provided by statute, section 2415, title 28, United States Code, requires that action for money damages brought by the United States founded on any contract shall be barred unless the complaint is filed within 6 years after the right of action accrues or within 1 year after final decisions have been rendered in applicable administrative proceedings required by contract or by law, whichever is later. Some exceptions apply to include that the facts material to the right of action are not known and reasonably could not be known by an official of the United States charged with the responsibility to act in the circumstance.

DoD Regulations. DoD Regulation 7000.14-R, the “DoD Financial Management Regulation,” volume 10, “Contract Payment Policy and Procedures,” chapter 18, “Contractor Debt Collection,” November 1999, addresses the requirements for contractor debt collection for which the disbursing officer has primary collection responsibility. This regulation states that on determination by a disbursing officer that a debt exists from a contractor, the disbursing officer shall make an immediate written demand for payment for any debts over \$50. One demand letter will be sent if the amount is \$50 or greater but less than \$200. Two demand letters will be sent if the amount is \$200 or greater. Any debt that remains unpaid 30 days after the initial demand for payment is considered delinquent and is subject to interest and

administrative charges. If any debt of \$600 or greater has not been resolved after two demand letters have been sent to the contractor, it must be transferred by the disbursing office to the Defense Finance and Accounting Service (DFAS) Columbus Center, Debt Management Office, Policy and Review Office (Debt Management) for further action. In order to allow for collection through subsequent efforts, and to permit the accumulation of adequate supporting data, the disbursing office may retain the debt up to a maximum of 90 days following the date of the initial demand letter.

The Defense Federal Acquisition Regulation Supplement (DFARS) subpart 232.6, "Contractor Debts," prescribes procedures to be followed to collect contracting officer debts. The DoD Financial Management Regulation states that when a contracting officer makes a determination of a debt and sends a demand letter to a contractor, a copy also must be sent to the disbursing office and a copy to the funding and accounting station. The disbursing office sets up a memorandum accounts receivable for the debt and pursues collection on it as would be done for any other contractor debt.

Supporting Documentation Required. When a debt is transferred to Debt Management, it should include supporting documentation such as copies of vouchers paid under the contract which relate to the specific debt, amounts and dates of collections received, copies of negotiated checks, all demand letters and other correspondence with the debtor, and the taxpayer identification number.

Debt Management Procedures. Debt Management reviews each debt transferred to ensure that the debtor has been given proper notice and due process. Debt Management then sends the debtor a final contract debt notice to request payment and to notify the debtor of other collection methods available if payment is not received. These collection methods include registering the contractor on the List of Contractors Indebted to the United States (List). Once registered on the List, payments due the contractor will be subject to offset in payment of the debt. Any debts more than 180 days old should be forwarded to the Department of Treasury Offset Program

List of Contractors Indebted to the United States. The List of Contractors Indebted to the United States is developed and maintained by DFAS for use in offsetting any money due a contractor from the Government. DFAS includes the names of contractors indebted to other departments and agencies when informed by the creditor agencies for inclusion on the List. The List is published quarterly and distributed to multiple Federal agencies.

Treasury Offset Program. The Treasury Offset Program is a centralized debt collection program developed by the Financial Management Service and operated through its Regional Financial Centers. The Treasury Offset Program is designed to assist agencies in the collection of delinquent debt owed to the Federal Government. The Treasury Offset Program allows Federal agencies to collect debt through offset from Federal payments due to the contractor.

Major Defense Contractors. The Defense Debt Management System (DDMS) included debts with about 2,000 contractors. We focused our review on the largest DoD contractors. We identified these large DoD contractors based on the total contract dollar award.

Objectives

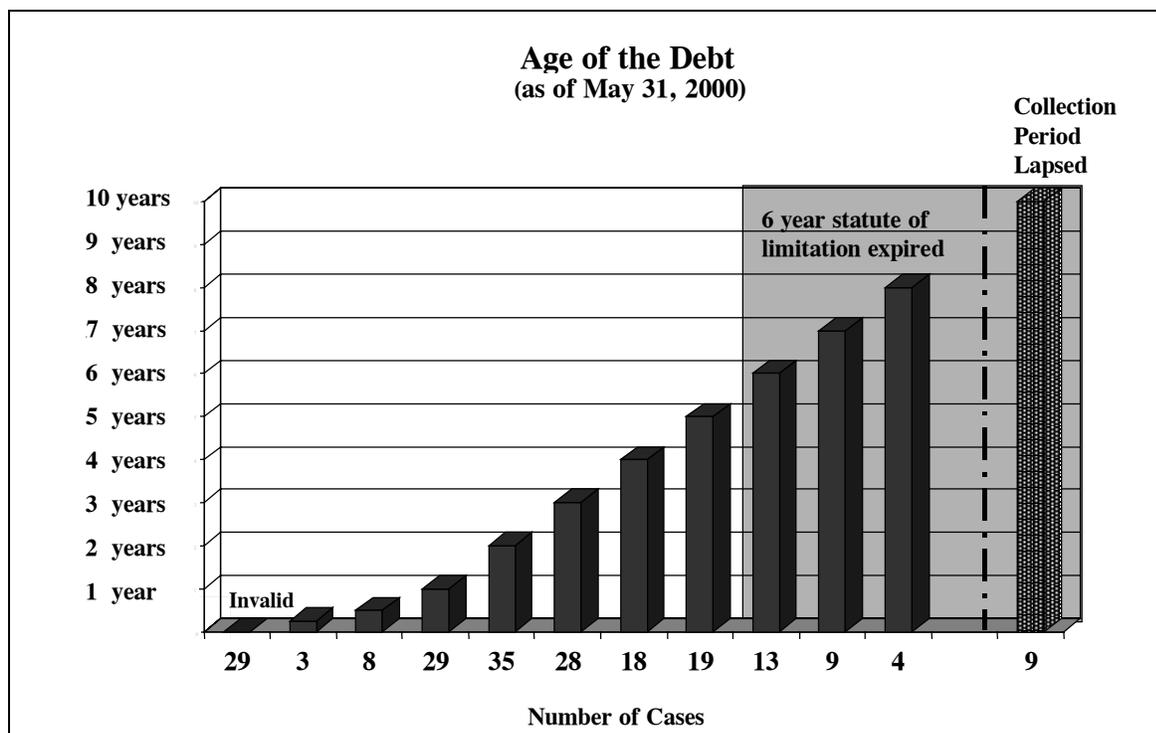
The overall audit objective was to review the DoD contractor debt collection process and the controls associated with the List of Contractors Indebted to the United States. We also evaluated the effectiveness of the management control program as it related to the audit objective. See Appendix A for a complete discussion of the scope, methodology, and prior coverage.

A. The DoD Contractor Debt Collection Processes

DFAS did an inadequate job on debt collection from large DoD contractors in the debt collection cases examined. DoD had 204 open debts for \$39.4 million with 37 large DoD contractors, some of which have remained open since the mid-1980s. Specifically, 29 cases for \$8.6 million were apparently invalid and the collection period had apparently lapsed for 9 cases valued at \$0.4 million. We identified one debt case for \$17.8 million that had been collected by the Department of Treasury, but was not subsequently forwarded to the DoD. Debts remained open for those DoD contractors because DoD did not identify all debts in a timely manner and did not actively work to collect or resolve those debts. As a result, DoD had not collected \$12.6 million in contractor debt. If DFAS fully implements our recommendations, additional monetary benefits will be achieved.

Age of Open Debt Cases

We identified and reviewed DoD contractor debt cases that were open as of May 31, 2000. Our review was limited to debt cases with large DoD contractors. As of May 31, 2000, DoD had 204 open debt cases with 37 large DoD contractors. Large DoD contractors are contractors who do a high dollar value of business with the DoD. Some of those debts remained open since the mid- to late 1980s. The following figure identifies the age of the debt cases we reviewed.



DoD was not effectively collecting or resolving debt cases with large DoD contractors. Problems occurred at all levels of the debt identification and collection processes. In some cases, DoD was not identifying the existence of debts until many years after they first accrued. It is imperative that DoD take action on the 19 contractor debts before the statute of limitations for litigation expires in less than a year. See Appendix C for a list of outstanding contractor debts.

Debt Cases for Which Collection Period Lapsed

DoD allowed the 10-year period for administrative offset to apparently lapse without taking an offset against payments or taking other actions to collect the debts. We identified nine cases with a total value of \$459,282 that apparently lapsed without successful collection actions. Following are two examples of debt cases that apparently lapsed.

- A series of overpayments were made to the General Electric Company totaling \$63,502 between February 20, 1987, and March 29, 1988. The overpayments were first identified on March 12, 1991, and transferred to Debt Management on May 18, 1992. Debt Management did not take any collection action on these debts until August 7, 2000, when collection of these debts was terminated. The reason given for termination of collection action was that the claim could not be substantiated with evidence because all the accounts receivable records had been destroyed because of age. The 10-year period for administrative offset apparently lapsed for these debts between February 20, 1997, and March 29, 1998.
- A debt arose on February 12, 1986, from ITT Cannon Electric in the amount of \$2,093, as the result of a credit memorandum for goods provided to the Defense Logistics Agency. The Defense Logistics Agency attempted to liquidate this debt through administrative offset on July 8, 1988, and by sending a demand letter requesting payment on January 18, 1989. The Defense Logistics Agency was not successful in collecting this debt and transferred it to Debt Management on February 8, 1994. Debt Management took no actions to collect this debt. The 10-year period for administrative offset apparently lapsed on February 12, 1996.

Date of Debt Recovery. Debt Management does not always use the correct date when identifying the debt recovery dates for the 6-year statute of limitations for litigation and the 10-year period for administrative offset. In many debt cases, Debt Management incorrectly used the date of the first demand letter as the date that the debt accrued. Debt Management should use the actual date the debt accrued. Use of the wrong debt recovery dates could cause DoD personnel to incorrectly believe they have additional time to collect debts or to incorrectly write off debts that have not lapsed. Following are two examples of Debt Management using an incorrect debt accrual date.

-
- McDonnell Douglas Corporation accrued a debt of \$13,650 on September 13, 1996. This case was transferred to Debt Management for collection assistance on November 30, 1999. Debt Management incorrectly established the debt as September 7, 1999, which was the date of the first demand letter by DFAS Charleston. Debt Management sent a final demand letter on June 29, 2000. This debt had not been collected.
 - A series of overpayments were made to Hughes Aircraft Company between October 12, 1989, and January 17, 1990, totaling \$675. This case was transferred to Debt Management for collection on September 7, 1993. Debt Management incorrectly established the accrual date as February 9, 1993, which was the date of the first demand letter by DFAS Columbus Center, Accounts Receivable Division. However, the debts accrued between October 12, 1989, and January 17, 1990. Although the amount was rather small, Debt Management took no actions to collect those debts. The 10-year period for administrative offset lapsed between October 12, 1999, and January 17, 2000. However, those debts remained open in DDMS as of May 31, 2000.

DoD must work contractor debt cases in a timely manner to ensure that debts are supported and collected before the statute of limitations expires or the 10-year period for offset lapses. Using the correct date of debt recovery will ensure that DoD personnel are working contractor debts in a timely manner and will prevent DoD from incorrectly writing off debts that have not lapsed.

Invalid Debt Cases

The DDMS had 29 open cases totaling \$8.6 million for large DoD contractors that were apparently invalid as of May 31, 2000. These cases were invalid because the debts were either collected or the debt cases were no longer active Debt Management debt cases. Following are two examples of debt cases that were open in DDMS but were invalid as of May 31, 2000.

- Raytheon Company accrued debts of \$3,880 and \$2,230 in January 1994. One of the debt files contained a check dated April 19, 1994, for \$6,110 that paid both debts in full. However, Debt Management had not closed these debts in DDMS as of May 31, 2000.
- Mobil Oil Corporation accrued a debt of \$1,507 with the Defense Supply Center Richmond, Defense Logistics Agency. Demand was made for payment in November 1998 and the debt was transferred to Debt Management on June 1, 1999. Debt Management sent a final demand letter requesting payment on July 31, 1999. Mobil Oil Company responded on October 28, 1999, with a copy of the canceled check dated December 31, 1998. Although payment was made in December 1998, Debt Management had not closed this debt in DDMS as of May 31, 2000.

Debt Management needs to take actions to close all invalid debts in DDMS.

DoD Identification, Transfer, and Collection of Contractor Debt

Debt Cases Received by Debt Management

Identification of Debts. DoD did not always identify the existence of debts in a timely manner. Following are two examples where the DoD did not identify the debt in a timely manner.

- Science Applications International Corporation incurred a debt for \$376,736 on July 19, 1985, as a result of overpayments of progress payments. A subsequent DFAS contract review reduced the debt to \$331,469. The 6-year statute of limitations date apparently lapsed on July 19, 1991, and the 10-year period for administrative offset apparently lapsed on July 19, 1995. The existence of this debt was not discovered until a DFAS contract review was performed on December 1, 1995, after the 6-year statute of limitations and 10-year period for administrative offset had apparently lapsed.
- McDonnell Douglas Aircraft accrued a debt of \$9,858 in April 1993, as the result of an unpaid bill for fuel. The debt was not discovered and a demand letter sent until May 5, 1997. This debt was over 4 years old before it was identified. DoD had not collected this debt.

Some debts were identified during DFAS contract reviews. DFAS contract reviews were not always performed timely to identify the existence of debts. DFAS contract reviews can be performed at any time during the contract period, as well as when the contract closes. These reviews can occur for a variety of reasons and can be requested by DFAS, the Contracting Officer, or the contractor. Since the statute of limitations date and the time available for administrative offset normally begins on the date the debt was accrued, it is imperative that DoD identify all debts as they occur to allow adequate time for collection. Identification would be accomplished through DFAS contract reviews on a routine basis.

Debts Sent to Debt Management. For many cases, DoD activities did not send the debt cases to Debt Management in a timely manner. DoD guidance states that debts should be forwarded to Debt Management for collection for any debts not collected within 90 days of sending the first demand letter. However, 123 debts we reviewed were not received into Debt Management for collection action until they were over 300 days old. Of the 123 debts, 35 were over 1,000 days old before transfer to Debt Management. Fifty-five of 123 were not received timely because the debts were not identified timely, and 117 of 123 were not transferred timely after demand was made for payment by the DoD activities. Forty-nine were in both categories. Following are two examples of debt cases not received by Debt Management in a timely manner.

-
- Rockwell International Corporation incurred a debt of \$36,042 as the result of a duplicate payment made on March 8, 1996. DFAS Charleston sent two demand letters to attempt to collect the debt. When their collection efforts were unsuccessful, DFAS Charleston transferred the debt to Debt Management. However, this transfer did not take place until April 21, 1999, after the debt was 1,144 days old. This debt remained open in DDMS.
 - Honeywell Incorporated accrued a debt of \$46,236 as the result of a duplicate payment made on March 8, 1996. DFAS Columbus sent a demand letter to attempt to collect the debt. When collection efforts were unsuccessful, DFAS Columbus transferred the debt to Debt Management. However, this transfer did not take place until February 4, 2000, when the debt was 1,428 days old. This debt remained open in DDMS.

Because successful debt collection becomes increasingly difficult as the delinquencies age, DoD organizations need to identify and transfer debts to Debt Management for collection action in a timely manner.

Documentation to Support Debt Validity. DoD organizations did not always provide Debt Management with the necessary documentation to support the validity of the debts and did not always respond to requests for additional documentation. As a result, Debt Management had to write off debts without collection because support could not be provided to the contractor to substantiate the validity of the debt. Following are two examples of DoD organizations not providing the necessary documentation.

- General Dynamics, Convair Division, accrued a \$3,591 debt as a result of a duplicate payment made on June 30, 1992. The Defense Accounting Office Cleveland transferred this debt to Debt Management in July 1994. Debt Management did not take any action on this debt until a final demand letter was sent on July 6, 1998. Debt Management terminated collection action for this debt on October 12, 2000, because it was unable to substantiate the validity of the debt. DoD did not maintain copies of both negotiated checks and was unable to obtain copies of the canceled checks from the Department of Treasury because the Department of Treasury does not retain canceled checks past 6 years. If the Defense Accounting Office Cleveland had sent all supporting documents or if Debt Management had taken collection action in a timely manner, this debt could have been substantiated and collected.
- Debt Management received a \$5,985 debt for Boeing North American Incorporated on April 26, 1999. Debt Management issued a final demand letter to Boeing requesting payment on May 20, 1999. Boeing disputed the debt on June 30, 1999. Debt Management sent a letter to DFAS Charleston requesting it review the debt, respond to the contractor dispute, and provide Debt Management with a copy of the response. Debt Management followed up on this case in April and June 2000 but no additional documentation was provided. Therefore, Debt Management returned this debt to the originating office, DFAS Charleston, on September 25, 2000, and terminated debt collection efforts.

Debt Management needs to review debt cases upon receipt for adequate supporting documentation and immediately return debts that are not properly supported to the originating organization.

Final Demand Letters

Once a debt case is received in Debt Management, the first action taken to attempt to collect the debt is to send the contractor a final demand letter. Section 3716, title 31, U.S.C., states that DoD must provide the contractor with the following:

- a written notice of the type and amount of the claim, the intention of the head of the agency to collect the claim by administrative offset, and an explanation of the rights of the debtor;
- an opportunity to inspect and copy the records of the agency related to the claim;
- an opportunity for a review within the agency of the decision of the agency related to the claim; and
- an opportunity to make a written agreement with the head of the agency to repay the amount of the claim.

DoD cannot proceed with any offsetting efforts until final demand letters are sent to the debtors notifying them of the debt and of other collection methods available if the debt is not liquidated. In addition, standard operating procedures for Debt Management require that a final demand be issued.

No Final Demand Letters Sent. Debt Management had not issued a final demand letter for 61 cases totaling \$7.8 million. Following are two examples of contractor debts for which Debt Management had not sent final demand letters.

- AT&T Networks accrued a debt on January 31, 1994, for \$9,367. That debt was transferred to Debt Management on January 6, 1995, for collection. For more than 5 years, Debt Management had not sent a final demand letter to the contractor or taken other actions in an attempt to collect the debt. The debt remained open in DDMS.
- Humana Care Plus accrued a \$2,076 debt on April 10, 1997, for a claim of aeromedical evacuation. That debt was transferred to Debt Management on August 4, 1998, for collection. For more than 2 years, Debt Management had not issued a final demand letter to the contractor or taken other actions in an attempt to collect the debt. The debt remained open in DDMS.

Debt Management should issue demand letters for which no collection efforts have been taken.

Timeliness of Final Demand Letters. Debt Management did not send final demand letters in a timely manner for 87 cases. We determined that final demand letters were not timely if Debt Management did not send a final demand letter within 30 days after receipt of the debt. Following are two examples of debt cases that Debt Management did not send final demand letters in a timely manner.

- AT&T Technologies Incorporated accrued a debt of \$4,093 on February 8, 1993, for missing material. That debt was transferred to Debt Management on July 20, 1993, and Debt Management did not take any action to collect that debt until a final demand letter was issued 2,078 days later on March 29, 1999. That debt remained open in DDMS.
- Raytheon Systems Company accrued a debt of \$1,459,970 on November 16, 1998, as a result of a modification to the contract. An offset was taken in February 1999 reducing the principal balance to \$1,455,722. Debt Management received the debt on February 5, 1999, but a final demand letter was not sent until May 15, 2000, 465 days after receiving the debt. That debt remained open in DDMS.

Debt Management needs to establish procedures to ensure that the final demand letters are issued in a timely manner.

Administrative Offsets

The DoD did not always execute administrative offsets for contractor debt. The DoD did not execute administrative offsets for 101 debts totaling \$22.5 million that had final demand letters issued. DoD had improperly limited its collection efforts through administrative offset because Debt Management routinely checks the Mechanization of Contract Administrative System (MOCAS) only once for payments due to the debtor, it only executes offsets against payments if the Contractor and Government Entity Code are the same, and because it does not have access to all entitlement systems. DoD needs to take actions to identify payments and perform administrative offsets for contractor debts in which a final demand letter has been issued.

Checking MOCAS for Offsets. The DoD did not always identify potential offsets in MOCAS. From our review of debt files, we determined that Debt Management personnel routinely check MOCAS just once for payments due to a debtor. That practice limits DoD collection abilities. Frequent review of payments due in MOCAS and all entitlement systems is warranted.

In addition, DoD debt collection processes did not allow for adequate identification of payments due to contractors for administrative offset purposes. For example, Lockheed Martin Corporation accrued four debts totaling \$6,315 between July 31, 1997, and November 30, 1997. In 1999, 41,409 invoices totaling about \$12.1 billion were paid to Lockheed Martin Corporation. Because DFAS Omaha did not have access to MOCAS and did not transfer the debts to Debt Management until March 17, 2000, those debts were not collected through administrative offset.

Offsetting within Contractor and Government Entity (CAGE) Codes. The DFAS did not use all available information to identify contractor payments that could have

been offset to liquidate debts. DFAS does not search for payments to offset debts by contractor name, tax identification number, or other information. Instead, it is DFAS practice to perform offsets only within the same CAGE Code. CAGE Codes are used to support a variety of mechanized systems throughout the Government and provide a standardized method of identifying a given facility at a specific location. All DoD contractors must be assigned at least one CAGE Code from the Defense Logistics Information Service, but frequently they are assigned multiple CAGE Codes if additional contracts are awarded. Since multiple CAGE Codes can be assigned to each contractor, DFAS was limited to collecting from one contract only. While this is occurring, payments due on other contracts are being made to the contractor. For example, McDonnell Douglas incurred a debt on October 24, 1997, for \$204,233 as a result of an overpayment under CAGE Code 28861. The debt was transferred to Debt Management for collection on July 2, 1999. Debt Management searched the MOCAS database by CAGE Code to identify payments due to McDonnell Douglas that could be used to offset this debt. Because the CAGE Code had subsequently changed to 76301, Debt Management was unable to locate a payment for offset.

During the audit, we requested that Debt Management obtain the tax identification number and forward the debt to the Treasury Offset Program for collection. Debt Management entered this debt into the Treasury Offset Program on June 9, 2000. The Treasury Offset Program, using the tax identification number, was able to offset a payment due to McDonnell Douglas within 6 days of receiving the debt to collect the debt in full, including an additional \$33,133 in interest and administrative fees. The use by Debt Management of the company name, tax identification number, and Dun and Bradstreet number, as well as other company-specific information, would increase the ability of DoD to identify payments to contractors that can be used to liquidate debts.

Access and Interfaces with Entitlement Systems. The only entitlement system that Debt Management has access to is MOCAS. The DDMS does not electronically interface with DoD entitlement systems or the Treasury Offset Program. As a result, Debt Management is limited on the potential offsets it can identify. Access to all DoD entitlement systems would increase Debt Management's ability to identify potential offsets.

The Defense Procurement Payment System will be the standard automated contract and vendor payment entitlement system for the DoD. The Defense Procurement Payment System does not interface with DDMS, the List, or the Treasury Offset Program. An interface between the Defense Procurement Payment System and DDMS would help DoD identify offsets for contractor debts. Interfacing the Defense Procurement Payment System with the List would also help identify offsets for contractor debts. Interfacing the Defense Procurement Payment Systems and other DoD entitlement systems to the Treasury Offset Program would streamline the process and eliminate the need for the List.

Referring Contractor Debts for Collection. DoD was not referring all eligible contractor debts to the Treasury Offset Program or the List. The DoD did not refer 99 eligible debts totaling \$22.4 million of large DoD contractors to the Treasury Offset Program. Since the Tax Identification Number of the contractor must be included when a debt is referred to the Treasury Offset Program, Debt Management should identify the tax identification number for contractor debts and refer them to the Treasury Offset

Program. Debt Management did not refer 89 eligible debts totaling \$22.2 million to the List. As a result, those debts remained uncollected. Debt Management should refer eligible contractor debt to the List.

UNICOR

As of May 31, 2000, DoD had four open debt cases accrued between September 1997 and December 1999 for \$88,581 with UNICOR Federal Prison Industries. Since UNICOR Federal Prison Industries is a federal entity, DoD is not allowed to collect any debts through administrative offset. However, DoD should perform other collection actions, such as sending final demand letters and contacting UNICOR Federal Prison Industries directly to collect these debts.

Cross-Servicing

DoD was not complying with the Debt Collection Improvement Act of 1996 requirement to send delinquent debts to the Treasury Department for cross-servicing for collection. Cross-servicing is one of two programs run by the Treasury to aid in debt collection. Treasury Department guidance for implementation of the Debt Collection Improvement Act of 1996 requires agencies to transfer a debt or claim that is delinquent for 180 days or more to the Treasury for collection, with the following exclusions:

- The debt is in litigation or foreclosure, meaning that the debt has been referred to the Department of Justice; a complaint has been filed; or a notice of default has been issued.
- The debt will be disposed of in an asset sales program within 1 year after becoming eligible for sale, or later than 1 year if consistent with an Office of Management and Budget/Treasury-approved asset sales program.
- The debt is at a private collection agency for a period of time established by Treasury.
- The debt has been referred to a Federal debt collection center designated by Treasury.
- The debt will be collected by internal offset within 3 years of delinquency.

Although the debts included in our review should not be eligible for the cross-servicing because the debts for large contractors should be collected by internal offset within 3 years of delinquency, DoD was not sending other eligible debts to the cross-servicing program. Debt Management should institute procedures to refer eligible debts to the Treasury cross-servicing program to aid in collection.

Conclusion

DoD was not identifying the existence of debts in a timely manner and effectively collecting or resolving debt cases. DoD did not use all collection tools available to actively collect contractor debt. As a result, \$12.6 million in contractor debt had not

been collected. The amounts due ranged from \$25 to \$6.4 million. To improve its financial management, DoD must identify contractor debt in a timely manner and more efficiently collect debts through offsets and other collection techniques.

Actions Taken During Audit

During the audit, Debt Management took actions to collect and resolve some of the debt cases. On August 23, 2000, we requested that Debt Management take immediate action to send demand letters to initiate collection efforts for 54 debt cases and to send 94 debt cases for administrative offset. DFAS responded to our request on September 20, 2000, and Debt Management took actions to initiate collection efforts and to collect or resolve some of those debt cases.

In Inspector General, DoD, draft report, Project No. D2000FI-0151, "DoD Contractor Debt Collection Process" December 15, 2000, we identified a debt owed by Hughes Aircraft Company in the amount of \$25.6 million. Subsequent to the issuance of the draft report, we determined that Hughes Aircraft Company and the United States Government settled this debt on April 9, 1997, for \$17.8 million. Hughes Aircraft Company paid the settlement amount of \$17.8 million to the U.S. Treasury on April 22, 1997. On February 13, 2001, we issued a memorandum to the Director, DFAS Columbus, Contract Pay Services, informing them that the Hughes Aircraft Company debt had been settled and the debt paid to the U.S. Treasury. We recommended that the Debt Management Policy and Review Office take all appropriate action to recover the funds from the U.S. Treasury, close this debt in DDMS, and notify the accounting office that the debt should be removed from its official accounts receivable records. We have revised the final report to reflect the amount of debt as \$17.8 million.

Recommendations, Management Comments, and Audit Response

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

1. Review all contractor debt accrual dates, identify the actual date that the debt was accrued, and revise the accrual date in the Defense Debt Management System.

Management Comments. DFAS nonconcurred and stated that the Debt Management Office (DMO) has issued instructions to its staff to identify, where applicable, the actual date the debt occurred to establish the Statute of Limitation. DFAS also stated that as the aged inventory is processed, each Statute of Limitation date will be reviewed to ensure compliance. However, since the Debt Management Office had approximately 3000 existing debts, of which many are in litigation, it would not be feasible nor cost effective to attempt a total review at this time.

Audit Response. Although DFAS nonconcurrent, the instructions issued by DFAS will ensure that the statute of limitations date will be maintained on debts accrued in the future. We consider these actions to be responsive to our recommendation.

2. Review all contractor debts for debt validity and take actions necessary to close all invalid debts in the Defense Debt Management System.

Management Comments. DFAS nonconcurrent and stated that contractor debts are determined by DFAS and other DoD components and are verified before it is set up in DDMS. DFAS stated that the debts identified in the audit were for debts not totally cleared in the DDMS. On a continuing basis, DMO technicians will manually review the End of Month Closed Listing and verify that applicable debt files are properly closed each month. DFAS further stated that a complete review of all debts in DDMS would not be cost effective due to the volume and age of the debts.

Audit Response. Although DFAS nonconcurrent, the manual review of the End of Month Closed Listing and verifying that applicable debt files are properly closed each month meets the intent of our recommendation. We consider these actions to be responsive to our recommendation.

3. Require the Defense Finance and Accounting Service Columbus Center, Contract Pay Services, perform contract reviews on open contracts at least every 4 years.

Management Comments. DFAS nonconcurrent and stated that the cost is prohibitive and that there was no correlation between this recommendation and the findings. DFAS estimated it would take 995 work years to implement this recommendation.

Audit Response. Some debts were not identified in a timely manner. Our example on page 7 of the report shows a debt that was not discovered until after the 6-year statute of limitations and 10-year period for administrative offset had apparently lapsed. A timely review of the contract would have disclosed the debt before the statute of limitations and 10-year period for administrative offset had lapsed. We request that the Director, DFAS reconsider their position and provide additional comments on this recommendation in response to the final report.

4. Instruct accounts receivable organizations to review all accounts receivable more than 90 days old, and refer the debt to the Debt Management Policy and Review Office.

Management Comments. DFAS concurred and stated that guidance was in place requiring debts over 90 days old to be forwarded to DMO if specific criteria were met.

DFAS stated that internal controls were now in place for supervisors to monitor all debts, by age, on a weekly basis. DFAS further stated that as part of the Management Control Review Program, the DMO is working with the Management Control Review Project Officer to document goals and internal controls and that the reviews would take place quarterly to determine and document the adequacy of internal controls.

5. Review debt cases on receipt for proper supporting documentation, and immediately return debts that are not properly supported to the originating activity.

Management Comments. DFAS concurred and stated that if missing documents can be acquired without returning the case file, then the DMO requests documentation and continues with the debt collection process. If DMO determines that a debt should be returned, a letter is prepared within 5 business days, explaining the reason for the action and the debt is returned to the originating activity.

6. Identify all contractor debt cases for which no collection efforts have been taken and issue final demand letters to inform the debtor of the debt, notify the debtor of other collection methods available if payment is not received, and perform administrative offsets for contractor debt in which payment is not received within 60 days.

Management Comments. DFAS concurred and stated that a suspense date will be established for review of files coded work in process to ensure collection action has been initiated.

7. Establish procedures to issue all final demand letters within 30 days of receiving the debt.

Management Comments. DFAS concurred and stated that as of January 4, 2001, procedures have been revised suspending new debt files to meet a 30 day window for issuance of the final demand letter.

8. Take action to identify payments and perform administrative offsets for contractor debts in which a final demand letter has been issued.

Management Comments. DFAS concurred and stated that a comprehensive review would be performed to initiate collection action on all debt files coded work in process.

9. Revise the business practice for performing administrative offsets against payments to include but not limited to company name, tax identification number, and Dun and Bradstreet number.

Management Comments. DFAS concurred and stated that the MOCAS database now includes a Tax Identification Number filed that may be accessed by DMO for identification of the contractors' Tax Identification Number. DFAS further stated that the controlling factors for Treasury Offset Program offsets are the Tax Identification Number, Social Security Number, or Debt Case Number.

10. Provide the Debt Management Policy and Review Office with access to all DoD entitlement systems to identify administrative offsets for contractor debts.

Management Comments. DFAS concurred and stated that they are working to identify the remaining DoD entitlement systems to which the DMO requires access and initiate the request. The DMO received access to the Vendor Pay Inquiry System on January 9, 2001, which provides DMO with visibility of invoices that are awaiting payment in the DFAS Vendor Pay Entitlement System. DFAS further stated that by April 16, 2001, the DMO will have access to the Contractor Debt System which will provide visibility of all MOCAS invoices.

11. Require the Defense Procurement and Payment System to electronically interface with the Defense Debt Management System and the List of Contractors Indebted to the United States so that administrative offsets can be made against payments for contractors with debts.

Management Comments. DFAS nonconcurred and stated that at the time that the Defense Procurement Payment System begins implementation, the Defense Procurement Payment System will begin to record and track debts. The current and temporary replacement systems will brown out and totally migrate to Defense Procurement Payment System by the end of August 2004. Until that time, DFAS stated that they are scheduled to replace DDMS with the Contractor Debt Collection System by April 30, 2001. DFAS stated that attempting to develop an automated interface between the Contractor Debt Collection System and the Defense Procurement Payment System is not feasible due to the development schedule of the Defense Procurement Payment System and the temporary nature of the Contractor Debt Collection System. DFAS further stated that an interface with all payments systems is imperative, however, the partially automated effort implemented subsequent to our audit, is effective and efficient until the Defense Procurement Payment System is deployed.

Audit Response. We agreed that the automated effort implemented subsequent to our audit is effective and efficient until the Defense Procurement Payment System is deployed. However, to ensure that debts on the List of Contractors Indebted to the United States are offset against potential payments, the Defense Procurement Payment System should interface with the List. We request that the Director, DFAS provide additional comments on this recommendation in response to the final report.

12. Take aggressive actions to identify the tax identification numbers for all DoD contractor debts and refer eligible debts to the Treasury Offset Program.

Management Comments. DFAS concurred and stated that DMO now has access to other to additional information to pursue obtaining the Tax Identification Numbers. The DMO office will continue to utilize all tools available to refer eligible debts to the Treasury Offset Program.

13. Review current DoD contractor debts and refer eligible debts to the List of Contractors Indebted to the United States.

Management Comments. DFAS concurred and stated procedures are in place to utilize the List and that instructions have been issued to ensure these procedures are followed.

14. Contact responsible personnel at UNICOR Federal Prison Industries directly and request reimbursement for all outstanding debts.

Management Comments. DFAS concurred and stated that UNICOR is listed in the Treasury Offset Program and payments are being offset. DFAS further stated that coordination has been established with a UNICOR representative and collection action is in process.

15. Refer delinquent contractor debt to the Department of Treasury Cross-Servicing Program in accordance with the Debt Collection Improvement Act of 1996.

Management Comments. DFAS concurred and stated that a Memorandum of Agreement is being drafted between the Treasury and DMO that will identify the services provided in the debt collection process. DFAS further stated that all eligible debts will be transferred to the Treasury Cross-Servicing Program in accordance with the Debt Collection Act of 1996.

B. The List of Contractors Indebted to the United States

The List of Contractors Indebted to the United States:

- did not include sufficient data to ensure that disbursing officers could identify payments in order to administratively offset contractor debt,
- did not include all eligible contractor debts,
- included debts that were apparently invalid, and
- did not include sufficient data to ensure that debts were removed in a timely manner.

The problems with the List occurred because DFAS did not add the tax identification numbers to the List, did not refer all eligible debts to the List, did not always update the List, and did not include the 10-year period for administrative offsets. As a result, the List was not an effective tool to collect contractor debts, and potential administrative offsets were not made against payments to collect contractor debts.

List of Contractors Indebted to the United States

Maintaining the List of Contractors Indebted to the United States. The List is maintained and distributed by the DFAS General Counsel located at the DFAS Indianapolis Center. All requests to add a debtor to the List come from Debt Management at the DFAS Columbus Center, Transportation Pay Office, at the DFAS Indianapolis Center, and from any Federal Government agency. The List is distributed quarterly through electronic mail. Hard copies are mailed only to those agencies unable to receive the List electronically.

Using the List of Contractors Indebted to the United States. The purpose of the List and disseminating the List is to put all contracting agencies of the Government on notice of debts arising under contracts with other agencies, so that amounts due the indebted contractors may be withheld for application against the debts. DoD disbursing officers should routinely check the List for potential offsets before payments are made to contractors.

Taxpayer Identification Number. Taxpayer identification numbers include three categories: the employer identification number, individual taxpayer identification number, and social security number. The employer identification number is a nine-digit number that the IRS uses to identify taxpayers who are required to file various business tax returns. Employers, sole proprietors, corporations, partnerships, certain individuals, and other business entities use employer identification numbers. The

individual taxpayer identification number is a nine-digit tax processing number that is for certain nonresident and resident aliens, who cannot acquire a social security number.

Duns Number. The Duns number is an exclusive nine-digit number assigned to each business location by Dun and Bradstreet. The Duns number is widely used as a tool for identifying, organizing, and consolidating information about businesses. Companies use it to link information about suppliers, customers, and trading partners, providing a more complete picture of risks and opportunities.

CAGE Code. The Defense Logistics Information Service has sole responsibility for assigning and maintaining the CAGE Code master file. The CAGE Code is a five-position code that identifies contractors doing business with the Federal Government, North Atlantic Treaty Organization member nations, and other foreign governments. The CAGE Code is used to support a variety of mechanized systems throughout the Government and provides a standardized method of identifying a given facility at a specific location. Having a CAGE Code alone is not sufficient to qualify a contractor to do business with DoD.

Data Maintained on the List of Contractors Indebted to the United States to Determine Offsets

The ability of disbursing officers to identify offsets is limited because not all available information is included on the List. For a disbursing officer to identify payments to administratively offset contractor debt, the disbursing officer needs to be able to determine that the company owing the debt and the company whose payment is being offset are the same. Currently, the disbursing officers can only use the name and address of the company. The taxpayer identification number, Duns and Bradstreet number, and CAGE Code could also be used. The tax identification number, CAGE Code, and Duns number were added to the List in January 2000. However, in most cases, those fields were not populated with the required data. Adding these identifying numbers to all existing debts on the List would assist disbursing officers in identifying eligible payments for offset. The Centralized Contractor Registry has the taxpayer identification number, Duns and Bradstreet number, and CAGE Code so that DFAS could use the Centralized Contractor Registry as a tool in populating these fields.

Referring Contractor Debts to the List of Contractors Indebted to the United States

DoD did not always add eligible contractor debts to the List. As discussed in finding A, Debt Management did not refer 89 debts of large DoD contractors to the List. As a result, disbursing officers were not aware that those debts needed to be collected and potential offsets were not accomplished.

Validity of Debts

The List contains debts that were apparently invalid. A comparison between debts that are closed in DDMS because they have been paid and debts appearing on the List for July through September 2000 revealed that 29 paid debts closed between February 23, 1996, and June 14, 2000, still appeared on the List. Following are two examples of debts that have been collected but remain on the List.

- McDonnell Douglas Corporation owed a debt in the amount of \$10,544 plus interest. Debt Management placed this debt on the List on May 18, 1998. McDonnell Douglas sent a letter to Debt Management paying the debt in full on July 31, 1998. On August 24, 1998, Debt Management sent a memorandum to DFAS Indianapolis requesting that the debt be removed from the List. However, the debt still appeared on the List.
- Lockheed Martin Corporation owed a debt in the amount of \$758 plus interest. Debt Management placed this debt on the List on April 1, 1999. On May 7, 1999, the debt was collected in full through an offset by the Treasury Offset Program. On June 17, 1999, Debt Management sent a memorandum to DFAS Indianapolis requesting that the debt be removed from the List. That debt still appeared on the List.

As a result, debts that are apparently invalid are appearing on the List, and there is potential for erroneous offsets to occur when the debt has already been paid in full by the contractor.

Data Needed to Remove Debts in a Timely Manner

DoD was not using the proper debt recovery date to determine when debts should be removed from the List. The List does not include the date when the 10-year period for offsetting the debt from an existing payment expires. An administrative offset for a debt may be made only for the period of 10 years after the debt is accrued. The List contains a "List Start Date," which is the date that the debt was placed on the List. Use of this date cannot accurately determine when a debt should be removed. Due to the advanced age of many debts at the time they are placed on the List, some debts could remain on the List after the 10-year period for offset has lapsed. Debt Management does provide the Statute of Limitation date in their requests to add debtors to the List; however, this date is not always accurate and is not being used by DFAS Indianapolis. As a result of not including the correct date for the 10-year period for offset on the List, the potential exists for debts to be removed before or after the 10-year period for administrative offset expires.

Conclusion

The List did not include sufficient data, did not include eligible debts, and included debts that were apparently invalid. As a result, the List is not an effective tool to collect contractor debts. DFAS needs to include sufficient data on the List so that disbursing officers can identify potential payments to offset the contractor debt. The List must also include sufficient data to identify and remove potentially lapsed and invalid cases.

Recommendations

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

1. Identify and add the taxpayer identification number, Dun and Bradstreet number, contractor and Government entity code, and the 10-year period for offset for all existing debts on the List of Contractors Indebted to the United States and all debts added to the List of Contractors Indebted to the United States.

Management Comments. DFAS nonconcurred and stated that the DMO office has ensured that all required information for commercial pay debt was entered on any debt added to the list within the last two years. DFAS stated that debts on the List older than two years are archived and it would be cost prohibitive to retrieve and review those debts.

Audit Response. Although DFAS nonconcurred, we consider these actions to be responsive to our recommendations.

2. Review the List of Contractors Indebted to the United States and remove invalid debts.

Management Comments. The DFAS Columbus Center nonconcurred and stated that as the DMO complies with Recommendation A.1, the statute of limitations dates will be reviewed and Debt Management Office's portion of the list verified.

Audit Response. Although DFAS nonconcurred, we consider these actions to be responsive to our recommendations.

Appendix A. Audit Process

Scope

Work Performed. The DoD had contractor debt totaling about \$3.6 billion for 3,061 debts. We reviewed 216 contractor debts totaling \$2.8 billion for large DoD contractors as of May 31, 2000. Large DoD contractors are contractors who do a high dollar value of business with the DoD. Of the 216 contractor debts, we identified 12 debt cases in deferment totaling \$2.76 billion. Of the 204 open debts, we identified 29 debt cases that were apparently invalid and 9 debt cases that had apparently lapsed totaling \$9.0 million. We also identified one debt case for \$17.8 million that had been collected by the Department of Treasury but was not subsequently forwarded to the DoD. We reviewed the remaining 165 contractor debt cases totaling \$12.6 million. We reviewed a database of all invoices paid in 1999 from MOCAS. We reviewed the List for April through June 2000 and July through September 2000. We reviewed laws and regulations applicable to debt collection and interviewed DFAS personnel involved in the debt collection process.

DoD-Wide Corporate Level Government Performance and Results Act Coverage. In response to the Government Performance and Results Act, the Secretary of Defense annually establishes DoD-wide corporate level goals, subordinate performance goals, and performance measures. This report pertains to achievement of the following goal and subordinate performance goal.

- **FY 2001 DoD Corporate Level Goal 2:** Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. (01-DoD-02)
- **FY 2001 Subordinate Performance Goal 2.5:** Improve DoD financial and information management. (01-DoD-02.5)

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objectives and goals.

Financial Management Functional Area: Objective: Reengineer DoD business practices. **Goal:** Improve data standardization of finance and accounting data items.

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the Defense Financial Management high-risk area.

Methodology

To determine whether DoD procedures for collecting and offsetting contractor debts were adequate, we reviewed debt cases for large DoD contractors. We reviewed applicable laws and regulations. We also received assistance from personnel in the Office of the Deputy General Counsel (Inspector General). To determine the procedures used by DoD to collect and offset contractor debts, we met with DFAS personnel.

Computer-Processed Data. We relied on computer-processed data from DDMS to identify debt cases for large DoD contractors. Although we did not perform a formal reliability assessment of the computer-processed data, we determined that the contractor debt cases in DDMS generally agreed with the hard copy contract debt case files. We did not find errors that would preclude use of the computer-processed data to meet the audit objectives or that would change the conclusions in this report.

Audit Type, Dates, and Standards. We performed this economy and efficiency audit from April 2000 through November 2000, according to auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls considered necessary.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD, the Department of Treasury, and the General Accounting Office. Further details are available on request.

Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. We reviewed management controls over the DoD contractor debt collection process including collection techniques and the List. We also reviewed management's self-evaluation of the management controls over the DoD contractor debt collection process.

Adequacy of Management Controls. We identified a material management control weakness as defined by DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996. Management controls over the DoD contractor debt collection process were not adequate to ensure that DoD collected contractor debts. If management implements Recommendations A.1., A.2., A.3., A.4., A.5., A.7., A.9., A.10., A.11., A.12., A.13., A.15., B.1., and B.2., DoD will be able to identify and collect an undeterminable amount of contractor debt. If management implements Recommendations A.6., A.8., and A.14., DoD will collect \$12.6 million in open contractor debt. The recommendations in this report,

if implemented, will improve controls over identifying and collecting contractor debt. A copy of the report will be provided to the senior official responsible for management controls in DFAS.

Adequacy of Management's Self-Evaluation. DFAS officials identified debt management as an assessable unit and, in our opinion, correctly identified the risk associated with debt management. Although Debt Management officials identified the material weaknesses related to the timeliness of actions on debt cases identified by the audit, DFAS officials did not report the material weaknesses in their annual statement of assurance because they did not consider the weaknesses significant enough to report to higher management.

Prior Coverage

GAO

GAO Report No. NSIAD-00-264, "Department of Defense Implications of Financial Management Issues," July 20, 2000

Inspector General, DoD

Inspector General, DoD, Report No. 96-038, "Debt Collection and Deposit Controls in the Department of Defense," December 11, 1995

Inspector General, DoD, Report No. 95-234, "Department of Defense Compliance with Federal Tax Reporting Requirements," June 14, 1995

Appendix B. Outstanding Contractor Debts

| Contractor Name | Amount of Debt | Age in Days |
|--|----------------|-------------|
| Allied Signal ¹ | \$ 1,582 | 1923 |
| Allied Signal ¹ | 4,533 | 2150 |
| Allied Signal ¹ | 994 | 1806 |
| Allied Signal Aerospace Canada ¹ | 1,038 | 1406 |
| Allied Signal Aerospace Company ¹ | 10,973 | 1682 |
| Allied Signal Commercial AV/Allied Signal Aerospace ¹ | 2,350 | 817 |
| Allied Signal Engines ¹ | 985 | 1283 |
| Allied Signal Engines ¹ | 39,342 | 1435 |
| Allied Signal Engines ¹ | 3,400 | 1253 |
| Allied Signal Technical Services Company ¹ | 622 | 1343 |
| Allied Signal Technical Services Company ¹ | 384 | 1252 |
| Allied Signal, Inc. ¹ | 139 | 1830 |
| Allied Signal, Inc. ¹ | 3,078 | 1740 |
| AT&T ¹ | 2,178 | 1135 |
| AT&T ¹ | 1,930 | 945 |
| AT&T ¹ | 1,884 | 1720 |
| AT&T Corporation ¹ | 18,438 | 3312 |
| AT&T FSAT Manufacturing Center ¹ | 4,985 | 2079 |
| AT&T Information ² | 13,298 | 4254 |
| AT&T NTWRKYS ¹ | 9,367 | 2312 |
| AT&T NTWRKYS ¹ | 992 | 2344 |
| AT&T Tech/Federal Systems ¹ | 1,417 | 2126 |
| AT&T Technologies ¹ | 917 | 2435 |
| AT&T Technologies ¹ | 4,093 | 2669 |
| AT&T Technologies ¹ | 25 | 2042 |
| AT&T Teletype ² | 688 | 3675 |
| Avondale ¹ | 90 | 2119 |
| Avondale Industries ¹ | 826 | 2073 |
| Bechtel ¹ | 1,556 | 669 |
| Boeing ¹ | 6,500 | 1044 |
| Boeing ¹ | 1,233 | 473 |
| Boeing ¹ | 1,668 | 314 |
| Boeing ¹ | 18,384 | 315 |

Note: See footnotes at the end of the appendix.

| Contractor Name | Amount of Debt | Age in Days |
|---|----------------|-------------|
| Boeing ¹ | \$ 46,738 | 953 |
| Boeing ¹ | 65,365 | 577 |
| Boeing Commercial Airplane ¹ | 61,503 | 944 |
| Boeing North American ¹ | 5,985 | 845 |
| DynCorp ² | 6,387 | 4039 |
| DynCorp ² | 2,299 | 4291 |
| General Dynamics ¹ | 3,591 | 2892 |
| General Dynamics ¹ | 1,290 | 3105 |
| General Dynamics ¹ | 68 | 2962 |
| General Electric | 634 | 1400 |
| General Electric ¹ | 85,992 | 1282 |
| General Electric ¹ | 5,310 | 1556 |
| General Electric ¹ | 8,489 | 1190 |
| General Electric ¹ | 13,629 | 1619 |
| General Electric Co./Lockheed Martin | 1,305 | 789 |
| General Electric Company ² | 63,502 | 4849 |
| Grumman Aerospace | 356 | 2436 |
| Grumman Aerospace | 636 | 2602 |
| Grumman Aerospace ¹ | 2,459 | 1497 |
| Grumman Aerospace ¹ | 3,073 | 1467 |
| Grumman Melbourne Systems ¹ | 5,724 | 1947 |
| GTSI ¹ | 353 | 611 |
| Halliburton ¹ | 838 | 2381 |
| Halliburton ¹ | 312 | 2315 |
| Harris Corp. ¹ | 145,795 | 1877 |
| Harris Corp. ¹ | 1,767,172 | 182 |
| Honeywell ¹ | 46,263 | 1545 |
| Hughes Aircraft | 3,168 | 1010 |
| Hughes Aircraft | 95,760 | 1261 |
| Hughes Aircraft | 1,091 | 2399 |
| Hughes Aircraft Company ² | 675 | 3884 |
| Hughes Aircraft Company | 11,866 | 531 |
| Hughes Aircraft Company | 6,261 | 531 |
| Hughes Aircraft Company | 17,784,492 | 2018 |
| Hughes Aircraft Company | 21,072 | 531 |
| Hughes Aircraft SCG | 785 | 1923 |
| Hughes Missile | 141,581 | 2372 |
| Hughes Missile Systems Co. | 2,345 | 729 |

Note: See footnotes at the end of the appendix.

| Contractor Name | Amount of Debt | Age in Days |
|---|----------------|-------------|
| Hughes Training Inc | \$ 175,275 | 1934 |
| Humana Care Plus ¹ | 2,076 | 1147 |
| ITT Barton | 5,070 | 1931 |
| ITT Canon Electric ² | 2,093 | 5222 |
| ITT Industries ¹ | 6,442,304 | 1226 |
| Jacobs Engineering ¹ | 2,638 | 782 |
| Johnson Controls World Service Inc. ¹ | 1,087 | 1265 |
| L-3 Communications Corp. ¹ | 20,604 | 433 |
| Lear Siegler Management Services Corp. ¹ | 2,389 | 2171 |
| Lear Siegler Services ¹ | 862 | 238 |
| Lear Siegler Services, Inc. ¹ | 924 | 182 |
| Lear Siegler Services, Inc. ¹ | 2,605 | 214 |
| Litton Systems ¹ | 73,054 | 2584 |
| Lockheed Aircraft Service ¹ | 850 | 1035 |
| Lockheed Martin ¹ | 686 | 943 |
| Lockheed Martin ¹ | 4,169 | 1035 |
| Lockheed Martin ¹ | 686 | 913 |
| Lockheed Martin ¹ | 774 | 974 |
| Lockheed Martin Astronautics ¹ | 224,046 | 981 |
| Lockheed Martin Services ¹ | 1,450 | 1066 |
| Lockheed Martin Services ¹ | 1,145 | 1308 |
| Lockheed Martin Services ¹ | 666 | 1278 |
| Lockheed Martin Services ¹ | 3,483 | 1004 |
| Lockheed Martin Services ¹ | 1,504 | 1035 |
| Lockheed Martin Services ¹ | 1,880 | 1127 |
| Lockheed Martin Services ¹ | 2,589 | 1308 |
| Lockheed Martin Services ¹ | 4,556 | 1096 |
| Lockheed Martin Services ¹ | 1,461 | 1247 |
| Lockheed Martin Services ¹ | 666 | 968 |
| Lockheed Martin Services ¹ | 1,095 | 1157 |
| Lockheed Martin Shared Services ¹ | 198,492 | 267 |
| Lockheed Martin Skunk Works ¹ | 5,170 | 555 |
| Lockheed Martin Tactical Defense Systems ¹ | 45,067 | 503 |
| Lockheed Tech. Operations Corp ¹ | 1,029 | 1035 |
| Lucent Technologies ¹ | 2,454 | 1105 |
| Mantech Field Engineering Co ¹ | 800 | 913 |
| Martin Marietta Services ¹ | 4,386 | 1790 |

Note: See footnotes at the end of the appendix.

| Contractor Name | Amount of Debt | Age in Days |
|--|----------------|-------------|
| Martin Marietta Services ¹ | \$ 16,744 | 1790 |
| Martin Marietta Technical Service ¹ | 948 | 575 |
| Martin Marietta Technical Services ¹ | 7,682 | 575 |
| Martin Marietta Technical Services ¹ | 452 | 575 |
| Martin Marietta Technical Services ¹ | 443 | 575 |
| Martin Marietta Technical Services ¹ | 442 | 575 |
| Martin Marietta Technical Services ¹ | 826 | 575 |
| Martin Marietta Technical Services ¹ | 497 | 575 |
| Martin Marietta Technical Services ¹ | 474 | 575 |
| Martin Marietta Technical Services ¹ | 1,887 | 575 |
| Martin Marietta Technical Services ¹ | 30,468 | 565 |
| Martin Marietta Technical Services ¹ | 1,733 | 575 |
| Massachusetts Institute ¹ | 10,506 | 985 |
| Massachusetts Institute ¹ | 13,438 | 985 |
| Massachusetts Institute ¹ | 10,506 | 985 |
| Massachusetts Institute Of Technology ¹ | 20,307 | 985 |
| Massachusetts Institute Of Technology ¹ | 17,660 | 985 |
| McDonnell Douglas | 1,500 | 1176 |
| McDonnell Douglas | 204,233 | 950 |
| McDonnell Douglas ¹ | 13,650 | 1356 |
| McDonnell Douglas ¹ | 9,858 | 2617 |
| McDonnell Douglas Aircraft | 1,249 | 653 |
| McDonnell Douglas Corp. | 24,170 | 421 |
| MCI Telecommunications ¹ | 11,780 | 903 |
| MCI Telecommunications ¹ | 8,500 | 974 |
| MCI Telecommunications ¹ | 3,604 | 1041 |
| Northrup Grumman ¹ | 8,960 | 363 |
| Northrup Grumman ¹ | 228,528 | 202 |
| OHM Remediation Services Corp ¹ | 800 | 1127 |
| OHM Remediation Services Corp ¹ | 3,851 | 832 |
| Raytheon ¹ | 3,070 | 2151 |
| Raytheon ¹ | 1,375 | 2199 |

Note: See footnotes at the end of the appendix.

| Contractor Name | Amount of Debt | Age in Days |
|--|----------------|-------------|
| Raytheon | \$ 22,160 | 1969 |
| Raytheon Company ¹ | 102,100 | 974 |
| Raytheon Data Systems | 8,255 | 1045 |
| Raytheon Missile Systems ¹ | 64,865 | 561 |
| Raytheon Service Company ¹ | 1,437 | 2737 |
| Raytheon Services | 291 | 2962 |
| Raytheon Services ¹ | 1,414 | 1505 |
| Raytheon Services ¹ | 11,871 | 1673 |
| Raytheon Services Nevada | 1,389 | 1673 |
| Raytheon Support Services | 601 | 959 |
| Raytheon Systems ¹ | 1,455,722 | 562 |
| Rockwell Collins Inc. | 12,050 | 570 |
| Rockwell Collins Inc. | 8,746 | 616 |
| Rockwell International ¹ | 2,389 | 2016 |
| Rockwell International ¹ | 1,118 | 2593 |
| Rockwell International ¹ | 2,057 | 1986 |
| Rockwell International ¹ | 4,980 | 1724 |
| Rockwell International ¹ | 9,991 | 2387 |
| Rockwell International ¹ | 36,042 | 1545 |
| Rockwell International Corp ¹ | 81,350 | 1514 |
| Rockwell International Corp ¹ | 558 | 2563 |
| Science Applications International Corp ¹ | 757 | 1096 |
| Science Applications International Corp ^{1,2} | 331,469 | 5430 |
| Science Applications International Corp ¹ | 1,244 | 1247 |
| TRW Inc. | 15,670 | 1128 |
| TRW Inc. ¹ | 17,064 | 2652 |
| UNICOR Federal Prison Industries ² | 38,866 | 3862 |
| UNICOR Federal Prison Industries | 938 | 978 |
| UNICOR Federal Prison Industries | 950 | 377 |
| UNICOR Federal Prison Industries | 85,376 | 167 |
| UNICOR Federal Prison Industries | 1,317 | 204 |
| United Technologies-Pratt & Whitney ¹ | 102,948 | 2252 |
| Westinghouse Electric ¹ | 1,379 | 2472 |
| Westinghouse Electric ¹ | 2,288 | 2533 |
| Westinghouse Electric ¹ | 83 | 1804 |

¹ These debts were included in our memorandum to the Director, Defense Finance and Accounting Service, dated August 23, 2000.

² The 10-year period for offset has apparently lapsed on these debts.

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

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

Other Defense Organizations

Director, Defense Contract Management Agency
Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency

Non-Defense Federal Organization

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency, Financial Management, and
Intergovernmental Relations, Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International
Relations, Committee on Government Reform
House Subcommittee on Technology and Procurement Policy, Committee on
Government Reform

Defense Finance and Accounting Service Comments



**DEFENSE FINANCE AND ACCOUNTING SERVICE
COLUMBUS CENTER**

P.O. BOX 182317
COLUMBUS, OHIO 43218-2317

IN REPLY
REFER TO

DFAS-BKF/CC

APR 11 2001

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING, OFFICE OF THE
INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Management Response to Audit Report on the DoD Contractor Debt Collection
Process (Project No. D2000PI-0151), dated December 15, 2000.

In response to your memorandum dated December 15, 2000, subject as above, comments
are provided for recommendations A.1 through A.15 and B.1 and B.2 (see attachment).

If you have any questions, please contact Mr. Melvin Tyler, DFAS-BKFPC/CC, at
DSN 869-7231 or 614 693-7231.


JoAnn Boutelle
Director, Commercial Pay Services

Attachment
As stated

**DFAS-BKF/CC Comments Regarding
DoD Contractor Debt Collection Process Audit Findings**

Recommendation A:

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

Recommendation A.1: Review all debt accrual dates, identify the actual date the debt was accrued, and revise the accrual date in the Defense Debt Management System.

Management Comments: Non-Concur. As a result of coordination with the DFAS General Counsel, DFAS-Debt Management Office (DMO) has issued instructions to its staff, to identify where applicable, the actual date the debt occurred to establish the Statute of Limitation (SOL) date. In reference to aged inventory, DMO has approximately 3000 debts in house. Without reviewing each, we cannot determine if the SOL date requires altering. As the aged inventory within the DMO's area of responsibility is processed, each SOL date will be reviewed to ensure compliance. Many of the above debts are in litigation and it would not be feasible nor cost effective to attempt a total review at this time. As part of DFAS Columbus scheduled Quality Management Reviews, a follow-up will be performed to ensure compliance.

Estimated Completion Date: This recommendation is considered closed. No further action required.

Recommendation A.2: Review all contractor debts for debt validity and take actions necessary to close all invalid debts in the Defense Debt Management System.

Management Comments: Non-Concur. Contractor debts in DDMS are determined by DFAS and other DoD components. The validity of each debt is verified before it is set up in the DDMS. The debts identified in the audit were for debts not totally cleared in the DDMS either after payment was received or notification that the debt was no longer valid. On a continuing basis, DMO technicians will manually review the End of Month (EOM) Closed Listing and verify that applicable debt files are properly closed each month. This listing will be retained in the DMO. All applicable invalid debts on the EOM listing will be closed in the DDMS on a monthly basis. However, a complete review of all debts in DDMS would not be cost effective due to the volume and age of the debts (approximately 3,500 debts, ranging in age from 1 to 10 years).

Estimated Completion Date: This recommendation is considered closed. No further action required.

Recommendation A.3: Require the Defense Finance and Accounting Service Columbus Center, Contract Pay Services, perform contract reviews on open contracts at least every 4 years.

Management Comments: Non-concur. The cost is prohibitive and there is no correlation between this recommendation and the findings. Based on the December MOCAS Contract Inventory by Fiscal Year issued, and the 12 month average level of effort for completed reconciliations, we would need 995 work years to do all the reconciliations/reviews that would be due this year.

Estimated Completion Date: This recommendation is considered closed. No further action required.

Recommendation A.4: Instruct accounts receivable activities to review all accounts receivable over 90 days old and refer the debt to the Debt Management Policy and Review Office (DFAS-BKRD/CC).

Management Comments: Concur. Currently, under Desk Procedure 901, Accounts Receivables (A/R) Procedures, dated March 1997, pages 1-5 state that all debts of \$600 or more, which are deemed uncollectable, will be forwarded to the Debt Management Office within 60 calendar days, up to a maximum of 90 days, from the date of the initial demand. Additionally, a Cage Indebtedness Code will be input into MOCAS. The circumstances that require the indebtedness file to be retained in the A/R area for more than 90 days are: the contractor disputes the debt, the contractor requests an Installment Plan (3 months maximum), and/or the contractor or ACO requests a 30 to 60 day extension to review their records for validity of the debt. Debts that do not meet these criteria and are over 90 days old have been transferred to DMO. Internal Controls are now in place for supervisors to monitor all debts, by age, on a weekly basis.

As part of the Management Control Review (MCR) Program, which has been implemented within DFAS Columbus, the DMO is working with the MCR Project Officer to document goals and internal controls. The reviews will take place quarterly to determine and document the adequacy of internal controls.

Estimated Completion Date: The Debt Management Office Management Control Reviews, to be performed quarterly, will begin June 30, 2001. This recommendation is considered closed. No further action required.

Recommendation A.5: Review debt cases on receipt for proper supporting documentation and immediately return debts that are not properly supported to the originating activity.

Management Comments: Concur. Debt cases are reviewed upon receipt for proper supporting documentation. If the missing documents can be acquired without returning the case file, then the DMO requests documentation and continues with the debt collection process. This ensures debts do not age for reasons that are easily corrected. If it has been determined that a debt should be returned, a letter is prepared within 5 business days, explaining the reason for the action and returned to the originating activity.

Estimated Completion Date: This recommendation is considered closed. No further action required.

Recommendation A.6: Identify all contractor debt cases for which no collection efforts have been taken and issue final demand letters to inform the debtor of the debt. Notify the debtor of other collection methods available if payment is not received, and perform administrative offsets for contractor debt in which payment is not received within 60 days.

Management Comments: Concur. A suspense date will be established for review of files coded work in process to ensure collection action has been initiated.

Estimated Completion Date: June 30, 2001.

Recommendation A.7: Establish procedures to issue all final demand letters within 30 days of receiving the debt.

Management Comments: Concur. As of January 4, 2001, procedures have been revised suspending new debt files to meet a 30 day window for issuance of the final demand letter.

Estimated Completion Date: This recommendation is considered closed. No further action required.

Recommendation A.8: Take action to identify payments and perform administrative offsets for contractor debts in which a final demand letter has been issued.

Management Comments: Concur. The comprehensive review performed in response to recommendation A.6 above, includes all actions necessary to identify payments and perform administrative offsets.

Estimated Completion Date: June 30, 2001.

Recommendation A.9: Revise their business practice for performing administrative offsets against payments to include but not limited to company name, Tax Identification Number, and Dun and Bradstreet Number.

Management Comments: Concur. In the past, it was difficult to locate a contractor's Tax Identification Number (TIN) so the debt could be referred for the Treasury Offset Program (TOP). The MOCAS database now includes a TIN field that may be accessed by Debt Management for identification of contractor's TIN. Dun and Bradstreet can be used to locate a Duns number, however, it is not a controlling factor for an offset. For example, the controlling factor in TOP for an offset, is the vendor's TIN, Social Security Number (SSN), or Debt Case Number.

Estimated Completion Date: This recommendation is considered closed. No further action required.

Recommendation A.10: Provide the Debt Management Policy Office with access to all DoD entitlement systems to identify administrative offsets for contractor debts.

Management Comments: Concur. The Interface Branch of the Systems Division (DFAS-BKFSI/CC), is working with the Debt Management Policy and Review Office to identify the remaining DoD entitlement systems to which the DMO requires access and initiate the request. The DMO received access to the Vendor Pay Inquiry System, (VPIS) on January 9, 2001. VPIS provides the DMO with visibility of invoices that are awaiting payment in the DFAS Vendor Pay Entitlement System. By April 16, 2001, the DMO will have access to the Contractor Debt System (CDS), which will provide visibility of all MOCAS invoices.

Estimated Completion Date: April 16, 2001.

Recommendation A.11: Require the Defense Procurement and Payment System to electronically interface with the Defense Debt Management System and the List of Contractors Indebted to the United States so administrative offsets can be made against payments for contractors with debts.

Management Comments: Non-Concur. The Defense Procurement System (DPPS) is scheduled to begin implementation for MOCAS paid contracts in August 2002. At that time, DPPS will begin to record and track debts associated with new contracts as well as contracts that will be converted from MOCAS to DPPS. Debts incorporated into DPPS with MOCAS replacement, will represent 46% of the total dollar amount of debts and 39% of the total number of cases managed by the DMO today. When the Navy Vendor Pay Sites are converted to DPPS, that system will accommodate another 42% of the dollar amount of debts and 14% of cases currently worked today. In effect, the current Contract Debt Collection System or process (DDMS/CDS) will brown out and totally migrate to DPPS by the end of August 2004.

The new DMO system (Access Database), under development called CDS, is replacing DDMS for all Contract Debt and is scheduled for complete implementation by April 30, 2001. The portion of CDS in use today allows DMO to easily search the MOCAS system for offsets while current practice is to manually review the Vendor Pay system through VPIS and for Navy, query the Vendor Pay System directly for potential offsets. With the elimination of our use of DDMS, an automated interface to DPPS will not be necessary. Our new CDS system is temporary until DPPS is implemented. Attempting to develop an automated interface between CDS and DPPS is not feasible due to the development schedule of DPPS and the temporary nature of CDS. An interface with all payments systems is imperative, however, the partially automated effort implemented subsequent to this audit, is effective and efficient until DPPS is deployed.

Estimated Completion Date: This recommendation is considered closed. No further action required.

Recommendation A.12: Take aggressive actions to identify the tax identification numbers for all DoD contractor debts and refer eligible debts to the Treasury Offset Program.

Management Comments: Concur. The DMO now has access to the Data Base Technology (DBT), Logistics On-Line Access (LOLA), Dun and Bradstreet reports, and MOCAS to pursue Tax Identification Numbers (TINs). The DMO will continue to utilize all tools available to refer eligible debts to the Treasury Offset Program.

Estimated Completion Date: This recommendation is considered closed. No further action required.

Recommendation A.13: Review current DoD contractor debts and refer eligible debts to the List of Contractors Indebted to the United States.

Management Comments: Concur. Procedures are in place to utilize the List of Contractors Indebted to the United States. Instructions have been issued to ensure these procedures are followed. The DMO has determined that the List of Contractors Indebted to the United States, when used in conjunction with the Treasury Offset Program (TOP) and the Treasury Cross-Servicing Program, will further enhance existing collection efforts.

Estimated Completion Date: Recommendation is considered closed. No further action required.

Recommendation A.14: Contact responsible personnel at UNICOR Federal Prison Industries directly and request reimbursement to the United States.

Management Comments: Concur. UNICOR is listed in the TOP and payments are being offset. Coordination has been established with a representative from UNICOR and collection action is in process.

Estimated Completion Date: Recommendation is considered closed. No further action required.

Recommendation A.15: Refer delinquent contractor debt to the Treasury Cross-Servicing Program in accordance with the Debt Collection Act of 1996.

Management Comments: Concur. During the audit, procedures were not in place to utilize the Treasury Cross-Servicing Program. At this time a Memorandum of Agreement (MOA) is being drafted, and the estimated completion date is May 1, 2001. The agreement is between the Treasury and DMO and will identify the services provided in the debt collection process. All eligible debts will be transferred to the Treasury Cross-Servicing Program, in accordance with the Debt Collection Act of 1996.

Estimated Completion Date: May 1, 2001.

Recommendation B:

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

Recommendation B.1: Identify and add the Taxpayer Identification Number, Dun and Bradstreet Number, contractor and Government entity code, and the 10 year period for offset for all existing debts on the List of Contractors Indebted to the United States and all debts added to the List of Contractors Indebted to the United States.

Management Comments: Non-concur. The List of Contractors Indebted to the United States Government is comprised of debts other than those submitted by the DMO, such as civilian debt and transportation payment debt. The DMO is the only office authorized to submit commercial pay debtors for placement on this list and has ensured that all required information for commercial pay debt was entered on any debt added to the list within the last 2 years. Debts on the list older than 2 years are archived and it would be cost prohibitive to retrieve and review those debts.

Estimated Completion Date: Recommendation is considered closed. No further action required.

Recommendation B.2: Review the List of Contractors Indebted to the United States and remove invalid debts.

Management Comments: Non-concur. The list of contractors Indebted to the United States Government is maintained by DFAS Indianapolis. When debts are submitted for inclusion to this list, the SOL date is provided. When that date has been reached, DFAS Indianapolis should automatically remove the debt from their list. The only exception to this would be if the debt were collected in full. As DMO complies with Recommendation A.1, the SOL dates will be reviewed and DMO's portion of the list verified.

Estimated Completion Date: Recommendation is considered closed. No further action required.

**DFAS Audit Issuance, Audit Recommendation, and Follow-up Action
Certification**

"I certify that recommendations A.4, A.5, A.7, A.9, A12, A.13, and A.14, of the of the DoD Contractor Debt Collection Process Draft Report, dated December 15, 2000, have been completed as requested".


for JoAnn Boutelle
Director, DFAS Columbus

**DFAS-BKF/CC Comments Regarding
DoD Contractor Debt Collection Process Audit Findings**

Recommendation A.4: Instruct accounts receivable activities to review all accounts receivable over 90 days old and refer the debt to the Debt Management Policy and Review Office (DFAS-BKRD/CC).

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As part of the Management Control Review (MCR) Program, which has been implemented within DFAS Columbus, the DMO is working with the MCR Project Officer to document goals and internal controls. The reviews will take place quarterly to determine and document the adequacy of internal controls.

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Recommendation A.5: Review debt cases on receipt for proper supporting documentation and immediately return debts that are not properly supported to the originating activity.

Management Comments: Concur. Debt cases are reviewed upon receipt for proper supporting documentation. If the missing documents can be acquired without returning the case file, then the DMO requests documentation and continues with the debt collection process. This ensures debts do not age for reasons that are easily corrected. If it has been determined that a debt should be returned, a letter is prepared within 5 business days, explaining the reason for the action and returned to the originating activity.

Estimated Completion Date: This recommendation is considered closed. No further action required.

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Recommendation A.9: Revise their business practice for performing administrative offsets against payments to include but not limited to company name, Tax Identification Number, and Dun and Bradstreet Number.

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Estimated Completion Date: This recommendation is considered closed. No further action required.

Recommendation A.12: Take aggressive actions to identify the tax identification numbers for all DoD contractor debts and refer eligible debts to the Treasury Offset Program.

Management Comments: Concur. The DMO now has access to the Data Base Technology (DBT), Logistics On-Line Access (LOLA), Dun and Bradstreet reports, and MOCAS to pursue Tax Identification Numbers (TINs). The DMO will continue to utilize all tools available to refer eligible debts to the Treasury Offset Program.

Estimated Completion Date: This recommendation is considered closed. No further action required.

Recommendation A.13: Review current DoD contractor debts and refer eligible debts to the List of Contractors Indebted to the United States.

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Estimated Completion Date: Recommendation is considered closed. No further action required.

Audit Team Members

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report. Personnel of the Office of the Inspector General, DoD, who contributed to the report are listed below.

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