Audit Report

OFFICE OF THE INSPECTOR GENERAL

REIMBURSABLE COSTS FOR SUPPORT SERVICES PROVIDED BY HOST INSTALLATIONS TO COMMISSARIES

Report No. 95-215 June 2, 1995

Department of Defense

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Acronyms

AFB	Air Force Base
DAO	Defense Accounting Office
DBOF	Defense Business Operations Fund
DeCA	Defense Commissary Agency
DFAS	Defense Finance and Accounting Service
DFAS-CO	Defense Finance and Accounting Service - Columbus Center
ISA	Interservice Support Agreement
MIPR	Military Interdepartmental Purchase Request
RPMR	Real Property Maintenance and Repair

INSPECTOR GENERAL
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June 2, 1995

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
ASSISTANT SECRETARY OF DEFENSE (ECONOMIC SECURITY)
DIRECTOR, DEFENSE COMMISSARY AGENCY
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Audit Report on Reimbursable Costs for Support Services Provided by Host Installations to Commissaries (Report No. 95-215)

We are providing this report for your review and comments. It discusses reimbursable costs for support services that host installations provided to the Defense Commissary Agency through interservice support agreements, and the control over funds obligated for real property maintenance and repair projects using the Defense Business Operations Fund. Management comments on a draft of this report were considered in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. We request that the Under Secretary of Defense (Comptroller), the Director, Defense Commissary Agency, and the Director, Defense Finance and Accounting Service provide additional comments on the recommendations, including estimated completion dates for agreed-upon actions. For details of specific response requirements, see the table at the end of each finding. All comments are requested by August 2, 1995.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. Robert J. Ryan, Audit Program Director, at (703) 604-9418 (DSN 664-9418) or Mr. John Yonaitis, Audit Project Manager, at (703) 604-9231 (DSN 664-9231). The distribution of this report is in Appendix F. The audit team members are listed on the inside back cover.

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Report No. 95-215 **June 2, 1995**
(Project No. 3LA-2002.06)

REIMBURSABLE COSTS FOR SUPPORT SERVICES PROVIDED BY HOST INSTALLATIONS TO COMMISSARIES

EXECUTIVE SUMMARY

Introduction. Host installations provide support services, including real property maintenance and repairs, to the commissary stores and other commissary activities located on host installations. The Defense Commissary Agency (DeCA) reimburses host installations for the costs of support services under the terms of individually negotiated interservice support agreements as part of the interservice support program. In FY 1993, reimbursable costs for support services included in interservice support agreements totaled $129 million and for commissary real property maintenance and repair projects totaled about $9.9 million.

Objectives. The initial audit objective was to determine whether the FY 1993 financial statements for the Commissary Operations Fund were presented fairly and in accordance with generally accepted accounting principles; however, the statements were not in an auditable condition. Instead, we used a modified approach and audited the adequacy of internal controls for selected DeCA operations. The objectives of this audit were to assess the adequacy of internal controls over reimbursable costs for support services that host installations provided to DeCA through interservice support agreements and to review funds control over real property maintenance and repair projects using the Defense Business Operations Fund.

Audit Results. Management of reimbursable costs for support services provided to DeCA through interservice support agreements could be improved. About $442,000 for nonreimbursable services was included in approved interservice support agreements, estimated support costs of about $5.1 million and reimbursable billings of about $4.5 million were unsupported by the host installations' documentation, and disbursements may have exceeded funded amounts by $450,000. DeCA also allowed the host installations to retain about $4.3 million because of delays in deobligating and reprogramming unused funds (Finding A).

Funds control over real property maintenance and repair projects was not properly managed. As a result, Government funds were improperly obligated, and repair projects were funded incorrectly (Finding B).

Because the funds expended were provided to DeCA through the appropriation process, DeCA has a responsibility to ensure that the funds are properly spent and at reasonable cost. This has not occurred. However, the Office of the Secretary of Defense managers and the Services have a shared responsibility to establish policies, procedures, and the necessary accounting systems and funds controls to provide DeCA with the means to ensure proper expenditure of funds for support services provided.

Summary of Recommendations. We recommend that the Office of the Secretary of Defense and DeCA improve policies and procedures for interservice support agreements. We recommend that the Office of the Secretary of Defense, and the Director, Defense Finance and Accounting Service, issue guidance on the acceptable

use of transactions by and for others to all installations involved with interservice support agreements. We recommend that DeCA establish specific obligational authority levels for its regional officers, and review procedures for funding real property maintenance and repair projects.

Management Comments. The Deputy Comptroller (Program/Budget), neither concurred nor nonconcurred with the recommendation to establish mandatory methods for determining relevant costs charged to tenant activities, and did not respond to two additional recommendations.

The Assistant Secretary of Defense (Economic Security) concurred with all recommendations, except the recommendation to establish a resolution process for failed negotiations between host and tenant activities. However, we consider the Assistant Secretary's alternative actions to revise current instructions to require unresolvable differences to be elevated for resolution through each component's chain of command to be responsive to the recommendation.

The Director, DeCA, concurred with the recommendations to issue guidance on the acceptable use of transactions by and for others; to periodically review all funding documents; and to review all real property maintenance and repair projects. DeCA was partially responsive to the recommendations to recoup the estimated overdisbursements, recover nonreimbursable charges, periodically review funding documents and identify excess funds, review real property and repair projects to prevent duplicate funding, and collect overpayments on real property maintenance and repair projects. DeCA nonconcurred with the recommendations to identify reimbursable services and associated costs relevant to DeCA, require support for reimbursable costs, require review and deobligation of excess funds, and ensure proper delegation of authority of military interdepartmental purchase requests. DeCA stated that it would not establish criteria it could not enforce with host installations; that it did not have the capability to monitor disbursements; and DeCA believed the delegation authority was appropriate. The Director, DeCA, also nonconcurred with the monetary benefits, pending verification of requested additional information, and did not consider the reimbursement problems identified as material internal control problems reportable by DeCA.

The Director, Defense Finance and Accounting Service, concurred with the recommendation to recoup the estimated overdisbursements. The Director, Defense Finance and Accounting Service, nonconcurred with the recommendation to issue guidance on the use of transactions by and for others and stated that the interfund billing system and cross disbursement procedures have been effectively implemented and DeCA had been given the capability to review billings prior to payment.

A discussion of managements' comments is in Part II and the complete texts are in Part IV.

Audit Response. We request that the Comptroller, DoD, reconsider his position and comment on the final report. Comments from the Director, DeCA, and the Director, Defense Finance and Accounting Service, were not responsive to all of the recommendations. We request that those officials provide additional comments. All comments are requested by August 2, 1995.

Part I - Introduction

Background

Mission. The primary mission of the Defense Commissary Agency (DeCA) is to provide an effective worldwide system of commissary stores for the resale of groceries and household supplies to members of the military and their families and other authorized users. On October 1, 1993, DeCA operated 370 commissary stores at host installations worldwide, of which 232 stores were in the continental United States.

Commissary Funding. Congress finances commissary operations through the Defense Business Operations Fund (DBOF). Within the DBOF, the Commissary Resale Stock Fund is a revolving fund used to purchase groceries, meat, and produce and the Commissary Operations Fund pays for operating expenses, such as salaries and general and administrative expenses, and the costs for certain types of maintenance and repairs. The Commissary Operations Fund totaled $1.2 billion for FY 1993.

A surcharge of 5 percent on all sales to commissary patrons and miscellaneous revenues received from vendor discounts and rebates generate additional funds. The Commissary Surcharge Collections Fund, which is not part of DBOF, is used to pay for store construction or major alterations, and for certain store operating supplies and expenses classified as direct costs.

Reimbursement for Support Services. Beginning in the second half of FY 1992, the then Comptroller of the Department of Defense, now the Under Secretary of Defense (Comptroller) (Comptroller, DoD) directed DeCA to reimburse host installations (Army, Navy, Air Force, and Marine Corps) posts, bases, and camps for all direct, indirect, and general and administrative costs used for the provision of goods or services supporting the operations of DeCA. DeCA was directed to negotiate interservice support agreements (ISAs), issue reimbursable orders to each host installation for the estimated support costs, and reimburse the host installations according to the negotiated ISAs. FY 1993 reimbursable costs for support services were about $129 million, with $70.5 million (55 percent) of the costs reimbursed from the appropriated funds of the Commissary Operations Fund, and the remaining $58.4 million (45 percent) paid from the Commissary Surcharge Collections Fund.

Reimbursement for Real Property Maintenance and Repair Costs. DeCA reimburses the host installations for the maintenance and repair costs of real property that its activities occupy and its commissary store patrons use. The general and administrative budget for real property maintenance and repair (RPMR) projects costs for FY 1993 was about $9.9 million. The budget was funded by DBOF through the Commissary Operations Fund.

Objectives

The initial audit objective was to determine whether the FY 1993 financial statements for the Commissary Operations Fund were presented fairly and in accordance with generally accepted accounting principles; however, the statements were not in an auditable condition. Instead, we used a modified approach and audited the adequacy of internal controls for selected DeCA operations. The objectives of this audit were to assess the adequacy of internal controls over reimbursable costs for support services that the host installations provided to DeCA through ISAs, and to review funds control over RPMR projects using DBOF funds. The Director, DeCA, had expressed concern that selected charges levied on the commissaries were excessive.

Scope and Methodology

We reviewed the internal controls over reimbursable costs for support services and for RPMR projects that host installations, except the Marine Corps, provided to DeCA. We did not review the Marine Corps for ISAs because the reimbursement for services was negotiated between DeCA Headquarters and the Commandant of the Marine Corps and not between DeCA regions and the individual Marine Corps host installations. We also did not include the Marine Corps activities during the review of RPMR projects. We did not use statistical sampling procedures or computer-processed data to perform this audit. We performed our work in two phases.

Phase I - Review at DeCA Headquarters and Regions. We performed Phase I of our audit from June through November 1993 at DeCA Headquarters and at the six DeCA regional headquarters located in the continental United States. We interviewed personnel responsible for administering ISAs and RPMR projects and for committing and obligating DeCA funds.

ISAs Reviewed. We judgmentally selected for analysis 190 (73 percent) of 259 ISAs funded in FY 1993. We reviewed and evaluated the provisions of the 190 ISAs to determine whether the reimbursable costs that host installations charged to DeCA were authorized, reasonable, and supported. We also reviewed 11 cost categories totaling approximately $52 million (72 percent) of the $72 million estimated on the 190 ISAs (see Appendix A).

RPMR Projects Reviewed. In FY 1993, DeCA used 74 Military Interdepartmental Purchase Requests (MIPRs) to fund about $9.9 million for RPMR projects. We reviewed the procedures that DeCA used to acquire reimbursable services for RPMR projects that the 74 MIPRs funded and the basis for the reimbursable costs identified on the MIPRs.

Phase II - Review at Host Installations. We performed Phase II of our review from December 1993 through April 1994 primarily at 21 host installations, excluding Marine Corps activities, located within the continental United States.

We also performed work and contacted personnel at the Defense Finance and Accounting Service - Columbus Center (DFAS-CO), Columbus, Ohio; at the six DeCA regional headquarters located within the continental United States; and at DeCA Headquarters to follow up on the results at the 21 host installations. We interviewed personnel responsible for preparing ISAs, for computing reimbursable costs, for preparing billings for cost reimbursement, for certifying billings for payment, and for disbursing and collecting reimbursements.

Selection Criteria. We judgmentally selected 21 host installations within the six DeCA regions for a detailed review of ISAs. Our selection was based on total funding provided to the host installations for FY 1993 support services; the results of a questionnaire provided to 33 host installations having ISAs with DeCA and other DBOF activities; and procedures for billing, collecting, and reimbursing for support services provided to DeCA activities. Of the 21 host installations, 17 had approved ISAs with DeCA. The 17 host installations received about $12 million (9 percent) of the $129 million in FY 1993 reimbursable costs for support services.

Review of Reimbursable Costs for Support Services. We reviewed, as detailed in Appendix A, the basis that the host installations used to compute estimated reimbursable costs for up to 10 categories of support services on each of 17 approved ISAs, and the basis used to compute actual costs billed to DeCA.

At DFAS-CO and DeCA Headquarters, we reviewed the procedures for accounting for reimbursable costs. Additionally, we compared the amount on 135 funding documents issued during FY 1993, valued at about $17 million, with expenditures and disbursements in the Appropriation Accounting Subsystem of the Defense Business Management System as of April 4, 1994. This system is used to account for DeCA commitments, obligations, expenditures, and disbursements.

Audit Period, Standards, and Locations. We performed this financial related audit from June 1993 through April 1994 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included tests of internal controls considered necessary. Appendix E lists the organizations visited or contacted.

Management Controls Program

Controls Assessed. We evaluated internal controls applicable to compliance with laws, regulations, and procedures for estimating, committing, and obligating funds to reimburse the costs for support services that the host installations provided to DeCA through ISAs. We also evaluated the DeCA implementation of the DoD Internal Management Control Program and internal controls applicable to compliance with laws, regulations, and procedures for the selecting, authorizing, and funding of RPMR projects.

Internal Control Weaknesses. The audit identified material internal control weaknesses. Controls over the negotiation, approval, billing, and reimbursement for support services on interservice support agreements were not effective. Additionally, funds control over RPMR projects using DBOF monies was inadequate.

The management of reimbursable costs for support services provided to DeCA and funds control for RPMR projects were not included in the DeCA annual assurance statements for FYs 1992 and 1993 because DeCA did not consider the issues to be material. All recommendations in this report, except Recommendations A.6.a., A.6.c., and B.5., if implemented, will correct the weaknesses and associated monetary benefits of about $5.2 million will be realized. Appendix D summarizes the benefits resulting from the audit. Copies of the final report will be provided to the senior officials responsible for internal controls within the Office of the Secretary of Defense, DeCA, and DFAS.

Prior Audits and Other Reviews

Since DeCA began operations on October 1, 1991, no audits or reviews directly related to the subject matter in this report have been performed.

Part II - Findings and Recommendations

Finding A. Management of Costs for Interservice Support

Management of reimbursable costs for support services provided to DeCA through interservice support agreements could be improved. The condition occurred because:

o the Deputy Under Secretary of Defense for Environmental Security (currently under the cognizance of the Assistant Secretary of Defense [Economic Security]); the Comptroller, DoD; and DeCA did not have effective policies and procedures to negotiate, accept, and administer interservice support agreements, and

o DFAS allowed the Defense Accounting Offices to charge funds belonging to DeCA, known as transactions by and for others, for making disbursements in connection with interservice support agreements without DeCA certification of the charges.

As a result, about $442,000 for support services that DoD identified as nonreimbursable costs during FY 1993 were included in approved interservice support agreements as reimbursable; about $5.1 million for support services were included in approved interservice support agreements without adequate documentation for the estimated reimbursable costs; and about $4.5 million for support services were billed to DeCA without adequate documentation for the charges. Additionally, disbursements may have exceeded the authorized cost authority for the Commissary Operations fund business area within DBOF because DFAS disbursed about $450,000 more than the amount DeCA funded for reimbursement of support services. DeCA delayed the deobligation and reprogramming of unused funds, which allowed the host installations to retain about $4.3 million.

Background

Before FY 1992, DeCA obtained support services from the military host installations without reimbursement. Starting in the second half of FY 1992, as a DoD Component funded through DBOF, DeCA was required to pay for support services or goods that were provided by military host installations.

Implementation of the Interservice Support Program. New policies and procedures for interservice support and cooperation between DoD organizations and between DoD organizations and other Federal agencies were established in DoD Instruction 4000.19, "Interservice, Interdepartmental, and Interagency Support," April 15, 1992. The Assistant Secretary of Defense (Economic Security) is responsible for administering the program including implementing interservice support policies and procedures. The Deputy Under Secretary of

Defense for Environmental Security and the former Assistant Secretary of Defense (Production and Logistics) was previously responsible for administering the interservice support program.

Supplemental guidance for DBOF activities was provided by the Comptroller, DoD, who is responsible for providing financial management policies and procedures for interservice support to DBOF activities. The guidance addressed issues such as procedures for accounting, including billing and payment.

Categories of Support Services. DoD Instruction 4000.19 identifies 46 categories of support services for which host installations can require reimbursement from receiving activities. Of the 46 categories, 11 are classified as mandatory, and 35 are classified as optional (see Appendix B). Host installations may prorate the costs of mandatory categories of support services to all tenants who benefit or have opportunity to benefit from the services. Host installations may only require reimbursement for optional categories of support services if receiving activities choose to use the service.

Recommended Methods for Determining Reimbursement. To assist the host installations in determining reimbursement, DoD Instruction 4000.19 recommends methods to prorate the reimbursable costs for mandatory categories of support services and requires that reimbursement for optional categories of support services be based on the level of service provided to each receiver. However, the instruction states that if the actual costs or a more accurate means of estimating costs are known, either should be used for the mandatory categories of support services. For both categories of support services, reimbursable costs cannot include costs for services not authorized to receive reimbursement through appropriated funds.

ISA Preparation. Host installations prepare ISAs in response to requests for recurring interservice support. Typically, interservice support coordinators prepare ISAs, in conjunction with departmental managers, using cost data that the host installation comptrollers provide. ISAs are to be negotiated at the lowest command level practical and documented on DD Form 1144, Support Agreement. DD Form 1144 identifies the parties to the agreement, the terms of the agreement, the support services to be provided, the basis for calculating reimbursable costs for the support services provided, and the estimated reimbursements. General provisions, such as billing instructions, and specific provisions, such as descriptions of reimbursement methodology or a listing of facilities, may be added to DD Form 1144.

The host installations' computation of all relevant costs is the basis for determining reimbursement. In determining reimbursement, the host installations are to follow the financial management policies and procedures established by the Comptroller, DoD, in the Department of Defense Financial Management Regulation (DoD 7000.14-R), volume 4, "Accounting Policy and Procedures," May 1993, when accounting for costs of operations.

DeCA Responsibilities. The six DeCA regional headquarters within the continental United States are responsible for negotiating the terms of the ISAs for their regional headquarters, commissary stores, central distribution centers, and service centers. DeCA Headquarters provides final approval of all proposed ISAs.

Normally, DeCA issues a MIPR to the host installations to fund the estimated costs for support services approved on ISAs. Host activities accept the provisions of the MIPR by completing DD Form 448-2, Acceptance of Military Interdepartmental Purchase Request.

Billings and Disbursements. Using Standard Form 1080, Voucher for Transfers Between Appropriations and/or Funds, the host installations are to send billings for the support services provided with supporting documentation to the DeCA activities for certification and subsequent reimbursement by DFAS-CO. DFAS-CO is responsible for the accounting and disbursing of DeCA funds. However, Defense Accounting Offices (DAOs) located at host installations also accept and process disbursements directly, citing DeCA funds, and forward the transactions to a DFAS service center other than DFAS-CO. Such transactions are commonly referred to as transactions by and for others.

Transactions by and for others facilitate prompt payments to those host installations providing support services to DeCA because disbursing offices directly charge the appropriations of DeCA and credit the appropriations of the host installations. If before making the payments, DAOs ensure that payments are properly authorized, supporting documentation is present, valid appropriations exist, and DeCA is provided a copy of the transaction to facilitate funds control, then transactions by and for others would ensure prompt payment for services.

Management of Reimbursable Costs

Management of reimbursable costs for support services provided to DeCA through ISAs could be improved.

Review of Estimated Reimbursable Support Services. The estimated reimbursable costs for 11 of 46 categories of support services included in the 190 ISAs we reviewed showed that:

o nonreimbursable support services were included in the ISAs as approved reimbursable costs, and

o the estimated costs for identical categories of support services varied widely between ISAs.

Approved Reimbursable Support Services. Support services valued at about $442,000 and determined by DoD to be nonreimbursable during FY 1993 were listed as approved reimbursable costs on 77 of 190 ISAs we reviewed.

For example, DoD identified mail services valued at less than $10,000 and all health services as nonreimbursable in FY 1993. Specifically, DoD Manual 4525.8M, "DoD Official Mail Manual," July 1987, states, in part, that mail services valued at less than $10,000 per activity do not require reimbursement from the receiving activity. Additionally, on October 6, 1992, the Office of the Comptroller, DoD, directed DeCA to exclude the costs for health services from the reimbursable costs on approved ISAs for FY 1993. Yet, such nonreimbursable costs were included on ISAs.

Variances in Costs for Support Services. Estimated costs for identical categories of support services varied widely among ISAs reviewed. For example, the estimated costs for the mandatory category of chapel and chaplain services (category A.1.) on the ISA between DeCA and Fort Meade was $5,600. In comparison, the estimated costs for the same category on the ISA between DeCA and Minot Air Force Base (AFB) was $10. DoD Instruction 4000.19 recommends that reimbursement be based on assigned military personnel. To evaluate the reasonableness of the variance between the two estimates, we compared the unit of measurement of military personnel assigned to the commissary stores. The costs for each assigned military person ranged from $5,600 at Fort Meade to $1.42 at Minot AFB. Appendix C shows the range of costs per unit of measurement for the 11 categories of support services included in our review of the 190 ISAs.

Review of Computations, Supporting Data, and Disbursements. We judgmentally selected and reviewed 21 host installations that provided support services to DeCA in FY 1993, to determine whether the estimated reimbursable costs, billings, and collections for support services provided were adequately managed. Our review showed that:

o no mandatory methods existed for host installations to compute estimated costs for the support services to be provided,

o estimated costs for approved ISAs and for the billings of actual general and administrative costs were insufficiently supported,

o disbursements for reimbursable costs exceeded the available funding, and

o FY 1993 funds remained undisbursed 6 months after the end of the fiscal year, without DeCA determining the availability of the funds.

Methods for Computing Reimbursable Costs. No mandatory methods existed for host installations to compute estimated costs for the support services to be provided. DoD Instruction 4000.19 recommended methods for computing reimbursable costs for mandatory support services, but allowed host installations to use alternative methods if a more accurate means of estimating the costs were known. For optional support services, the instruction did not recommend any methods for computing the reimbursable costs. However, it stated that reimbursement should be based on the level of services provided.

We reviewed 17 approved ISAs at 17 host installations, valued at about $12 million, and noted that different methods were used to compute the same category of reimbursable costs. Costs included in the computation to determine the estimated reimbursable costs for identical categories of support services varied between ISAs. In some cases, only direct costs were computed. In other cases, a combination of or all direct, indirect, and general and administrative costs were computed. Additionally, methods, such as prorating assigned personnel or square footage, to determine the DeCA share of reimbursable costs for identical categories of support services, varied between ISAs reviewed.

For example, our review included the mandatory category, common use facility operations, maintenance, repair and construction (category A.3.). For category A.3., DoD Instruction 4000.19 recommended that assigned personnel be used as the method to prorate reimbursable costs for support services provided to receiving activities. The host installations did not always use the recommended methods and did not always use the same methods within the respective Services to compute reimbursable costs for category A.3. The methods that three of the four Services used are discussed below.

Army. Fort Lee determined the estimated costs for category A.3., which included costs for services for master planning, snow and ice removal, and special maintenance, by dividing the square footage of the commissary store building by the total square footage of all buildings on the installation and multiplying the result by the total estimated overhead costs of the services. It also added the actual costs for maintenance and repair from the previous fiscal year. In contrast, Fort Devens computed costs included in category A.3. by dividing the square footage of the commissary store by the entire installation square footage and multiplying that result by the total estimated overhead costs to prorate administrative costs. It also added the costs of snow and ice removal for the commissary store as identified in a basewide commercial contract. Neither host installation used assigned personnel.

Navy. Charleston Naval Station did not charge DeCA for category A.3. services. In contrast, North Island Naval Air Station computed costs included in category A.3. for the commissary store at Imperial Beach Navy Outlying Landing Field by dividing the square footage of the commissary store by the total square footage of all the buildings on the installation and multiplying that result by the estimated overhead costs. When an increase in funding was required, the additional amount was based on assigned commissary store personnel. The change in the method, from using the square footage of buildings to using assigned personnel as the method of computation, resulted in DeCA funding about $51,000 more than the amount originally computed.

Air Force. Nellis AFB determined the estimated costs for category A.3. that included costs for base development, cable television, civil engineering operations, civil engineering resources, infrastructure electric, liquid fuels, readiness management, real estate, and self-help center, by dividing the number of assigned personnel for the commissary store into the entire base population and multiplying the result by the estimated overhead costs for the base. In contrast, Lackland AFB computed costs for category A.3. that included costs for beautification, common benefit signs, operations maintenance

repair, real property, and snow removal by multiplying 6 months of obligations times a square foot support factor times a resource allocation factor. The Air Training Command Headquarters supplied the resource allocation factor.

Support for Reimbursable Costs. Estimated costs for approved ISAs and for the billings of actual general and administrative costs were insufficiently supported.

Support for Estimated ISA Costs. Of the 17 host installations with approved ISAs with DeCA, 12 did not have documentation to adequately support about $5.1 million in cost estimates. Supporting documentation for reimbursable costs should identify the nature and source of all costs and the computation for estimated costs. However, adequate documentation supporting the estimated costs included in approved ISAs was not always provided to DeCA and DeCA did not always require the supporting documentation.

For example, about $327,000 of the $378,000 estimated for seven categories of support services in the ISA between the Presidio of San Francisco and DeCA was not fully supported. Personnel in the Directorate of Logistics, Resource Management at the Presidio, stated that they had no idea what documentation was available to support the costs in the ISA. In some cases, managers provided the costs telephonically and provided no support. Additionally, the original ISA that the Presidio submitted to the DeCA southwest region was changed by the southwest region to increase the dollar amounts. Of the unsupported costs of $327,000, about $66,000, in three categories, was included in the ISA because personnel at the Presidio were instructed by personnel at the DeCA southwest region to add the amount to the proposed ISA, although the Presidio originally excluded the costs. The estimated costs added to the ISA are in Table 1.

Table 1. Estimated Costs Added to the ISA Between Presidio of San Francisco and DeCA

Category of Support Service	Estimated Cost
Common Use Facility Operations, Maintenance, Repair and Construction	$30,000
Community Support Services	14,000
Environmental Compliance	22,000
Total	**$66,000**

Support for Billed General and Administrative Costs. Of the 21 host installations reimbursed by DeCA that we reviewed, 14 did not have adequate support for about $4.5 million billed to DeCA for general and administrative costs. Supporting documentation for reimbursable costs should show proper authorizations and how all relevant costs were computed. It should also identify the nature and source of all costs included in the computation. However, adequate documentation supporting the general and administrative costs billed to DeCA was not always provided to DeCA and DeCA did not always require the supporting documentation. For example, Vandenberg AFB

did not have supporting documentation for about $238,000 of about $537,000 billed to DeCA. Further, when the total amount billed for FY 1993 was less than the total funding received from DeCA, the Vandenberg budget office arbitrarily billed DeCA for about $43,000 as the DeCA contribution to operating the 30th Space Wing.

Disbursements for Reimbursable Costs. Disbursements for reimbursable costs exceeded the available funding. We compared the amounts on 135 funding documents issued to the 21 host installations with the disbursements that DFAS-CO recorded in the Defense Business Management System, the official accounting system for DeCA. Of the 135 funding documents, valued at about $17 million, 14 valued at about $1.7 million, had disbursements of about $450,000 more than the available funding.

Funds Undisbursed at Fiscal Year End. FY 1993 funds remained undisbursed 6 months after the end of the fiscal year, without DeCA determining the funds' availability. Of the 135 funding documents reviewed, 78 had available balances of about $4.3 million as of April 4, 1994. Although billings and disbursements were expected to occur monthly during FY 1993, in accordance with the Office of the Secretary of Defense guidance, DeCA had not reviewed the status of billings and disbursements against funding documents to determine the availability of funds. Because DBOF is a revolving fund, DeCA should have returned to DBOF for reprogramming the available funds apportioned to DeCA for FY 1993. The other option was to put the funds to better use within DeCA.

Policies and Procedures to Manage the Reimbursement Process

As discussed previously, management of reimbursable costs for support services provided to DeCA through ISAs could be improved. We attributed the condition, in part, to ineffective Deputy Under Secretary of Defense for Environmental Security (currently under the cognizance of the Assistant Secretary of Defense [Economic Security]); Comptroller, DoD; and DeCA policies and procedures to adequately, negotiate, accept, and administer ISAs.

Policies and Procedures of the Deputy Under Secretary of Defense for Environmental Security. The Deputy Under Secretary of Defense for Environmental Security (currently under the cognizance of the Assistant Secretary of Defense [Economic Security]) did not have effective policies and procedures to negotiate, accept, and administer ISAs. Policies and procedures for interservice support were established in DoD Instruction 4000.19. However, the instruction did not adequately:

- clarify mandatory reimbursable support services,

o specify costs that were considered relevant reimbursable costs and present all the methods to be used to prorate the relevant costs for support of a receiving tenant activity, and

o provide a means for resolving unsuccessful negotiations.

Consequently, DeCA attempts to negotiate with the host installations were hindered by varied and different interpretations of available DoD guidance. DeCA stated that negotiations with host installations often broke down, thereby pitting one opinion against another.

Mandatory Support Services. Because DoD Instruction 4000.19 did not adequately clarify the application of the term mandatory reimbursable support services, DeCA and the host installations had different interpretations of the instruction's direction on mandatory support services. DoD Instruction 4000.19 states that supplying activities are permitted to prorate the costs of the 11 categories of support services classified as mandatory to all tenants who benefit or have an opportunity to benefit from the services, command activities necessary to the accomplishment of mandatory reimbursable support services, and personnel eligible to use the services. DeCA regional personnel stated that they had difficulties negotiating ISAs because the host installations interpreted DoD Instruction 4000.19 to mean that DeCA was obligated to pay whatever was demanded for the 11 mandatory categories of support services without negotiation. In contrast, DeCA considered the 11 categories negotiable. DeCA regional personnel considered DeCA responsible for reimbursing only the costs of support services that DeCA identified as directly or potentially beneficial. Clarification of DoD Instruction 4000.19 is required for determining the intent of such terms as opportunity to benefit, command activities necessary to the accomplishment of mandatory reimbursable support services, and personnel eligible to use the services.

For example, the Aberdeen Proving Grounds/Edgewood Arsenal included about $143,000 on its FY 1993 ISA for the mandatory category of environmental compliance. Personnel at Aberdeen believed that DeCA had to reimburse all costs for mandatory support services, while DeCA did not agree because it did not directly benefit from the service. The ISA amounts remained unchanged and DeCA Headquarters approved the ISA.

Relevant Reimbursable Costs. DoD Instruction 4000.19 did not adequately specify costs that were considered relevant reimbursable costs and did not present all the methods to be used to prorate the relevant costs for support of a receiving tenant activity. DoD Instruction 4000.19 stated that reimbursable costs for mandatory and optional categories of support services be determined by the supplier's computation of all relevant costs. It did not specify the relevant costs for each category of support services. Additionally, the instruction recommended only the methods for computing reimbursement for mandatory categories of support services, and not the methods for computing optional categories of support services.

Because DoD Instruction 4000.19 did not adequately specify relevant reimbursable costs, the host installations disagreed with DeCA regional personnel about which costs were relevant to DeCA and which costs should be included in the reimbursable categories of support services.

For example, for category A.3., personnel from the DeCA southern region considered only as relevant reimbursable costs the costs for snow and ice removal of the area surrounding the commissary store. They did not consider as reimbursable the costs for a basewide grounds maintenance contract, civilian personnel benefits, minor repairs contract, and other personnel compensation. However, Barksdale AFB, Shreveport, Louisiana, determined that the DeCA prorated share of relevant costs should include the FY 1993 costs for a basewide grounds maintenance contract, civilian personnel benefits, minor repairs contract, and other personnel compensation.

For the optional category B.15., facilities maintenance and repair, personnel from the DeCA midwest region considered only actual costs for support services performed to be reimbursable. However, Randolph AFB, San Antonio, Texas, billed DeCA the actual costs for support services performed, as well as a prorated share of the annual costs to perform the services included in the category as reimbursable. We were unable to determine whether DeCA was being charged twice for personnel salaries because of insufficient documentation supporting the costs.

Because DoD Instruction 4000.19 did not present all the methods to be used to prorate the relevant costs for support of a receiving tenant activity, the methods used to prorate the costs for identical categories of support services varied between the host installations. For example, category variances for the optional category B.29., refuse collection and disposal, ranged from using the number of assigned personnel, to using the number of refuse containers, to using square footage to prorate the reimbursable costs for support services.

Resolving Negotiations DoD Instruction 4000.19 did not provide adequate guidance for DeCA and host installations to resolve unsuccessful negotiations. Because the instruction did not discuss any type of actions that were available to DeCA or the host installations for the resolution of unsuccessful negotiations, and because both DeCA and the host installations were reluctant to change their positions concerning the ISAs, DeCA funded ISAs without the host installations agreement. For example, DeCA received a draft ISA from Kelly AFB, San Antonio, Texas, on December 9, 1991. Because of unresolved differences for 13 of the reimbursement support categories on the ISA, the ISA remained unsigned for at least 2 years after the original draft was submitted. However, DeCA gave Kelly AFB an MIPR, totaling $1,182,000, for FY 1993 support costs and Kelly AFB received, through direct reimbursement, the entire dollar amount without identifying what services were provided to DeCA.

Policies and Procedures of the Comptroller, DoD. The Comptroller, DoD, did not have effective policies and procedures to negotiate, accept, and administer ISAs. The Comptroller, DoD, was responsible for revising financial policy and procedure regulations to reflect changes required by DBOF activities,

such as full reimbursement for base support. During FY 1994, the Comptroller, DoD, planned to establish financial procedures by testing full reimbursement for base support at selected sites. The Comptroller, DoD, was to assess the host installations' ability to implement base support as a fully reimbursable activity and to provide DoD with lessons learned before departmentwide implementation of reimbursable base support. At the selected test sites, the Defense Business Management System was to be used as the cost accounting system. The testing of the selected sites had not occurred as of April 30, 1995. In FY 1993, DeCA was one of only a few DBOF activities that actively implemented the reimbursement of base support services. Of the 17 host installations with approved ISAs with DeCA, only 7 had approved ISAs with other DBOF activities.

We proposed to the Director, Financial Management Policy, and Director, Business Management, Office of the Comptroller, DoD, that a need existed for more definitized policies and procedures to supplement the existing guidance. Specifically, they needed to standardize the methods of calculating reimbursable costs and requiring the host installations to support the reimbursable costs associated with the services provided. Personnel from the Office of the Comptroller, DoD, stated that no host installation had adequate cost accounting systems to accumulate charges for reimbursable costs. They stated that the host installations had a right to charge DeCA the dollar amounts in the ISAs and that DeCA and the host installations should have "used common sense" in negotiating reimbursable costs.

Policies and Procedures Within DeCA. DeCA did not have effective policies and procedures to review, negotiate, accept, and administer ISAs. DeCA distributed policy letters and memorandums, issued a directive, and conducted an official conference concerning interservice support and reimbursable costs. However, those actions were not effective to ensure that procedures were adequate among the DeCA regions. Consequently, nonreimbursable services were included in approved ISAs; unrealistic estimated reimbursable costs were included in ISAs; estimated support costs in ISAs and reimbursable billings were unsupported; and unliquidated funds could remain unused because of delays in deobligating and reprogramming the funds.

DeCA Policies and Procedures on ISA Management. In addition to policy letters and memorandums concerning general and administrative policy, procedures, funding, and costs directed to all of the regions, DeCA Headquarters issued DeCA Directive 70-12, "Interservice, Interdepartmental and Interagency Support Agreements (ISA)," August 28, 1992, to standardize the administrative procedures to process and manage support agreements. However, the directive only outlined DeCA policy, responsibilities, and administrative procedures. It did not address what DeCA considered relevant reimbursable services or what specific costs it considered reimbursable for those relevant services. DeCA also conducted the Resource Managers Conference on April 20, 1993, to address policies and procedures for general and administrative costs. However, the DeCA did not ensure that procedures were adequate among the regions.

Effectiveness of Regional Procedures to Administer ISAs. Because DeCA Headquarters guidance was not effective, procedures within the regions ranged from aggressive to complacent efforts to review, negotiate, accept, and administer ISAs. The midwest and northwest regions were the regions that regularly questioned reimbursable costs and requested supporting documentation for the costs in the ISA negotiation and acceptance process. When administering ISAs, the midwest and northwest regions attempted to obtain support for billings. However, none of the six regions took aggressive action to recoup excess funds. Therefore, funds remained at the host installations indefinitely, to be used as obligations to cover unexpected reimbursable charges.

Request for Supporting Documentation for ISA Costs and Billings. The midwest and northwest regions consistently questioned host installations about the basis of estimated costs for support services on proposed ISAs and requested supporting documentation for the costs on the ISAs and on billings. For example, reimbursable costs of about $1.3 million were included in the proposed ISA between the DeCA northwest region and Elmendorf AFB. Negotiations between the northwest region and Elmendorf AFB lasted 9 months; after which, the northwest region showed that Elmendorf AFB was unable to adequately support about $820,000 of the $1.3 million. Consequently, DeCA and Elmendorf AFB agreed on $510,000 as the final approved ISA amount.

DeCA Headquarters Support for Regions. Although the midwest and northwest regions were active in reviewing and questioning the reimbursable costs, the regions were not adequately supported by DeCA Headquarters. When the regions forwarded questioned ISA costs to DeCA Headquarters for assistance in resolving impasses in ISA negotiations, DeCA Headquarters would approve the ISAs before resolving the disputed costs. Sometimes, DeCA requested assistance from the Comptroller, DoD. For example, the midwest region questioned the reasonableness of about $858,000 included in the mandatory category A.3. for costs of common use facility operations, maintenance, repair and construction in the ISA with Randolph AFB, and requested that DeCA Headquarters assist in the resolution. DeCA Headquarters wrote a memorandum to the Directorate of Business Management, Office of the Comptroller, DoD, requesting additional policy and procedures to resolve disagreements associated with processing ISAs, and as an example, cited the difficulties associated with negotiating the Randolph AFB ISA. With no response from the Comptroller, DoD, DeCA Headquarters signed the ISA; thereby, approving all costs without making major changes to the ISA.

Providing Justifications for Costs. The remaining four regions, central, northeast, southern, and southwest, were unable to provide adequate justification for the selected costs because those regions had not adequately reviewed and questioned the estimated costs on ISAs and had not always required supporting documentation for the host installations that developed the costs. Personnel from the northeast region stated that they did not normally question the ISA cost estimates because of insufficient time and people to adequately review the ISAs.

Comparison of Costs Between Host Installations. The regions accepted ISAs without evidence that comparisons of costs for identical support services between similar DeCA activities and host installations were performed. For example, the cost for the optional category B.29., refuse collection and disposal, was about $104,000 on the ISA between DeCA and Fort Devens and about $21,000 on the ISA between DeCA and Hanscom Field. That was about a 5 to 1 difference in costs. However, the commissary stores are comparable in size and sales volumes; and the two activities are only 23 miles apart. The DeCA northeast region and the two commissary stores could not adequately explain the significant difference in costs for refuse collection and disposal.

Regional Adjustment of ISA Costs. The regions could not justify some selected costs because they adjusted the costs upward on ISAs after the host installations prepared and approved the ISAs; and the regions funded the host installations for more than the host installations had requested in the ISAs. For example, the southwest region changed the original ISA that the Presidio of San Francisco submitted to the DeCA southwest region to increase the dollar amounts by about $66,000. Responsible personnel at the southwest region stated that, in some instances, the estimated costs needed to be increased to ensure that the commissary store received adequate support services for the costs identified on the ISA. Additionally, the proposed ISA between Barksdale AFB and DeCA included an estimated cost of $14,000 for the optional category B.17., food services. Personnel at Barksdale AFB stated that the $14,000 was to reimburse the base for support services that the mess facilities provided to 15 military positions authorized at the commissary store. However, the southern region issued a MIPR to Barksdale AFB that included $105,000 for reimbursement of food services. Responsible personnel at the southern region were unable to justify the additional funding.

Transactions by and for Others

Management of reimbursable costs for support services provided to DeCA through ISAs was impaired, because DFAS allowed the use of transactions by and for others to disburse and collect the reimbursable costs without DeCA certification of the billings.

Commissary Store Officer's Certification of Reimbursable Costs. The commissary system historically relied on commissary store officers to certify billings associated with the day-to-day operations of the stores. The in-house certification allowed DeCA and the Military Departments, which ran the commissary operations before DeCA, a high degree of certainty that the commissary stores had received the goods and services prior to approved payment.

Authorized Use of Transactions by and for Others. DFAS authorized its DAOs to expedite payments through the use of transactions by and for others (commonly referred to as cross-disbursing). DeCA, the host installations, and a DFAS center other than DFAS-CO used cross-disbursing because it allowed

DAOs to directly charge the appropriations of DeCA for support services received and credit the appropriations of the host installations providing the support services. However, the use of cross-disbursing procedures did not allow commissary store officers to verify that the commissary actually received the goods or services and to certify billings before DFAS charged the DeCA appropriation. Because DFAS DAOs forwarded payment vouchers to DFAS centers other than DFAS-CO, that did not interface with the Defense Business Management System to complete the transaction, DeCA did not know that its funds had been cross-disbursed until the payment transfer documents reached the DeCA regions. DeCA had not questioned the DAOs at the host installations, to which DeCA provided funding documents, to determine whether funds had been cross-disbursed. The regions routinely experienced intervals ranging from 4 months to 2 years before receiving confirmation that funds to reimburse costs had been cross-disbursed. The documentation that DeCA received from cross-disbursing provided little or no detail of how or why the funds were disbursed. Disbursements without any detail provide the possibility for unauthorized payments, duplicate payments, and overpayments.

The DeCA attempted to eliminate cross-disbursing by directing the regions to include the following statements on MIPRs.

o MIPR must be accepted as a reimbursable order and not a direct fund citation. (As a reimbursable order, the host installation would have to use its own funds for the work or services and bill DeCA for reimbursement.)

o All Standard Form 1080 billings must be documented and submitted to DeCA monthly for certification.

o Processing of bills through cross-disbursing is prohibited.

o Final billing for the MIPR must be processed no later than September 30, 19XX. No bills will be accepted after that date.

Prohibiting Cross-Disbursing. DFAS-CO has supported DeCA in its attempts to stop cross-disbursing. DFAS-CO attempted to persuade the other four DFAS payment centers to abide by the terms of the DeCA MIPRs. On January 31, 1994, the Director of Accounting, DFAS-CO, issued a memorandum to all DFAS centers requesting their assistance in standardizing inter-governmental billings and collections for reimbursing the host installations and charging DeCA for local support. DFAS-Denver rejected the DFAS-CO request, stating that it conflicted with the accelerated cash collections policy of DFAS Headquarters. DFAS-Denver also stated that until a solution that is acceptable to both the debtor and creditor is approved, it will advise its DAOs to cross-disburse to the extent authorized in the MIPRs.

Receiving and Recording of Funds and Disbursement Transactions. By allowing the host installations to use both cross-disbursements and billings directly to DeCA, DFAS-CO was overdisbursing funds because of delays in the receiving and recording of funds and disbursement transactions. For example, DeCA midwest region sent a funding document, valued at about $450,000, to Kirtland AFB on October 16, 1992, for reimbursement of utilities. On

January 29, 1993, DeCA sent another funding document to decrease the amount to $300,000. As of April 4, 1994, Kirtland AFB had billed DeCA about $430,000 and the Kirtland AFB DAO had processed the disbursement, resulting in overdisbursements of about $130,000. The Kirtland AFB DAO was not aware of the decrease in funding.

Conclusion

Management of reimbursable costs for support services provided to DeCA through interservice support agreements could be improved. DeCA was overcharged in many of the agreements included in our sample, although not to such a degree as to hamper operations. The Office of the Secretary of Defense and the Services have a shared responsibility to establish policies, procedures, and the necessary accounting systems and fund controls to avoid mischarging and provide DeCA with the means to ensure the proper expenditure of funds for the support services provided.

Management Comments on the Finding and Audit Response

Although not required to comment, DeCA provided the following unsolicited comments on the finding. For the full text of DeCA comments, see Part III.

DeCA Comments. DeCA commented on the "disbursements for reimbursable costs." Regarding our review of 135 funding documents and our determination that 14 documents had disbursements of about $450,000 more than the available funding, DeCA stated that the report was unclear on whether auditors verified that the regions reduced funding and caused overdisbursements or that the overdisbursed documents were for correct charges.

Audit Response. As indicated elsewhere in the report, the 135 funding documents were reviewed for the 21 military components visited during phase II of our audit. We neither determined the reasons for the overdisbursements nor verified that the overdisbursed documents were for correct charges. It is the responsibility of DeCA to review amounts funded under military interdepartmental purchase requests and subsequent disbursements made by DFAS to ensure that billings and disbursements are for valid charges.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Deputy Under Secretary of Defense for Environmental Security (currently under the cognizance of the Assistant Secretary of Defense [Economic Security]) revise DoD Instruction 4000.19, "Interservice, Interdepartmental, and Interagency Support," to:

a. Clarify the application of the term mandatory reimbursement support services, and the intent of such terms as opportunity to benefit, command activities necessary to the accomplishment of mandatory reimbursable support services, and personnel eligible to use the services.

b. Establish standardized methods for the host installations and tenant organizations to use to identify costs associated with support services that are considered relevant to the activities receiving the support services and whether the costs should be reimbursable.

c. Establish procedures for the resolution of unsuccessful negotiations between host installations and tenant organizations.

Management Comments. The Assistant Secretary of Defense (Economic Security) concurred with Recommendations 1.a. and 1.b., stating that a revised instruction, currently in coordination, resolves the report findings and recommendations by eliminating mandatory reimbursable support and permitting reimbursement only for costs incurred to provide services requested by the receiver.

The Assistant Secretary nonconcurred with Recommendation 1.c., stating that disputed agreements are delayed or never signed because the parties do not follow existing policy for resolving disputes. The comments also stated that the revised instruction includes guidance on unresolvable differences.

Audit Response. Comments from the Assistant Secretary on Recommendations 1.a. and 1.b. are responsive, and comments on Recommendation 1.c. are acceptable. The revised DoD Instruction 4000.19, "Interservice, Interdepartmental, and Interagency Support," when implemented, will meet the intent of the recommendation.

2. We recommend that the Under Secretary of Defense (Comptroller) and the Deputy Under Secretary of Defense for Environmental Security (currently under the cognizance of the Assistant Secretary of Defense [Economic Security]) establish mandatory methods to be used by the host installations for determining the proportionate share of relevant costs charged to a tenant activity receiving support services.

Comptroller, DoD, Comments. The Comptroller, DoD, did not provide a concurrence or nonconcurrence to the recommendation. The Comptroller, DoD, stated that DoD Instruction 4000.19, is being updated to require reimbursement of all DoD tenants for directly attributable and identifiable costs;

however, the instruction will not define the composition of calculations used to determine attributable reimbursable costs. He further stated that the variability in host-tenant situations and in the cost accounting capabilities on DoD installations suggest the need for flexibility in determining appropriate and accurate bases for calculating attributable reimbursable costs.

Assistant Secretary of Defense (Economic Security) Comments. The Assistant Secretary of Defense (Economic Security) concurred with the recommendation. The Assistant Secretary stated that the Comptroller, DoD, and the DFAS should modify existing accounting policies and processes so that they will be capable of identifying actual cost incurred to provide support to a receiver. This would eliminate the need for estimating "proportionate share of relevant costs."

Audit Response. We do not consider the comments from the Comptroller, DoD, to be responsive. We recognize that host-tenant situations and cost accounting capabilities on DoD installations are variable. However, as shown in examples in the report, different methods were used to compute the same category of reimbursable costs, resulting in wide variances in estimated costs for identical categories of support services among the interservice support agreements we reviewed. We maintain that a need exists for host activities to have mandatory methods of calculating reimbursable support costs to ensure the proper expenditure of funds for support services provided. We agree with the Assistant Secretary that existing accounting policies should be modified. Therefore, we request that the Comptroller, DoD, reconsider his position and provide additional comments in response to the final report.

3. We recommend that the Under Secretary of Defense (Comptroller) establish procedures for host installations to support the estimated costs in interservice support agreements and the resulting billed amounts.

Management Comments and Audit Response. The Comptroller, DoD, did not respond to the recommendation. Therefore, we request that the Comptroller, DoD, provide comments in response to the final report.

4. We recommend that the Director, Defense Commissary Agency, and the Director, Defense Finance and Accounting Service, recoup the estimated $450,000 in overdisbursements from the host installations and periodically compare funding with disbursements.

DeCA Comments. The DeCA partially concurred with the recommendation, stating that DeCA, in coordination with DFAS-CO, will review the overdisbursements and determine whether the transactions are posted to the correct document/obligation record. Erroneous entries will be corrected and the proper document/obligation record posted accordingly. The DeCA requested the auditors to provide the specific audit examples to assist in the researching process and stated that a plan to complete the research and corrective actions will be developed by the end of September 1995.

DFAS Comments. The DFAS concurred with the recommendation, stating that internal procedures exist to research and correct overdisbursements. The DFAS

indicated that a verification process on the overpayments could be accomplished using specific MIPR numbers.

Audit Response. Comments from DeCA and DFAS are responsive. A listing of the overdisbursements by MIPR numbers has been provided to DeCA.

5. We recommend that the Under Secretary of Defense (Comptroller); in coordination with the Director, Defense Commissary Agency, and the Director, Defense Finance and Accounting Service, issue guidance on the acceptable use of transactions by and for others to all installations involved with interservice support agreements.

Comptroller, DoD, Comments. The Comptroller, DoD, did not respond to the recommendation.

DeCA Comments. The DeCA concurred with the recommendation, deferring to the Comptroller, DoD, on establishing a suspense date for completion of guidance.

DFAS Comments. The DFAS nonconcurred with the recommendation. It stated that United States Code, title 31, section 1535(c), "Economy Act," requires interagency payments by check without preaudit. It also stated that the Treasury Financial Manual 2500 states that Treasury checks will not be used as a payment method between agencies that can use a SF 1081, "Voucher and Schedule of Withdrawals and Credit." The interfund billing system and cross-disbursement procedures effectively implement both citations. DFAS stated that it has given DeCA the capability to review bills before payment. In an August 10, 1994, memorandum, DFAS answered most of the DeCA concerns about cross-disbursing procedures that will be included in formal billing procedures. The memorandum stated that the proposed billing procedures should be completed as early as possible.

Audit Response. We request that the Comptroller, DoD, provide comments in response to the final report.

We agree the provisions within the United States Code and the Treasury Financial Manual cited by DFAS allow for interfund billing and cross-disbursement procedures; but we disagree with the DFAS comment that DeCA had been given the capability to review bills before payment based on a draft of a proposed billing procedure. The billing procedure proposed by DFAS was not finalized and issued. We request that DFAS reconsider its position and provide additional comments in response to the final report.

6. We recommend that the Director, Defense Commissary Agency:

a. Recover from host installations the $442,000 of nonreimbursable charges for FY 1993.

b. Establish requirements within existing guidance to:

i. Identify relevant reimbursable services to the Defense Commissary Agency, and the relevant costs associated with those services.

ii. Require, as part of the interservice support agreement, host installations that provide base operating support services to support all reimbursable costs associated with those services.

c. Establish procedures for each region to periodically determine the amount of available funds remaining for reimbursement of costs approved on interservice support agreements and issue modifications to the host installations to deobligate those funds.

Management Comments. The DeCA generally agreed with Recommendation 6.a., stating that it will determine whether questioned nonreimbursable costs included on interservice support agreements were paid to host installations and that it will recoup the payments determined inappropriate. The planned completion date is September 30, 1995.

The DeCA nonconcurred with Recommendation 6.b., and stated that DeCA will revise guidance only to agree with changes to DoD Instruction 4000.19 and Comptroller, DoD, policy and guidance.

The DeCA nonconcurred with Recommendation 6.c., and stated that DeCA is incapable of monitoring disbursements flowing through the DoD financial system under cross-disbursing processes currently used. The comments also stated that DeCA would request DFAS, if capable, to provide monthly or quarterly information on payments against DeCA funds.

Audit Response. The revised DoD Instruction 4000.19 has not been accepted by the Comptroller, DoD. The DeCA guidance to the regions requiring support for interservice support agreement costs from host installations has not been enforced by the regions. DeCA should support the regions' requests to the host installations for documentation supporting reimbursable costs.

The DeCA comments on Recommendation 6.c. are nonresponsive. As part of the Defense Business Operations Fund reconciliation process, each commissary store, district office, and regional headquarters should periodically determine the availability of funds and periodically request disbursement data from DFAS. We request that DeCA reconsider its position and provide additional comments on the final report.

Management Comments Required

Management comments to the final report are required from the addressees shown for the items indicated with an "X" in Table 2.

Table 2. Management Comments Required on Finding A

Recommendation Number	Addressee	Concur/ Nonconcur	Proposed Action	Completion Date	Related Issue
A.2.	DoD,C[1]	X	X	X	MC[2]
A.3.	DoD,C	X	X	X	MC
A.5.	DoD,C	X	X	X	MC
	DFAS	X	X	X	MC
A.6.b.	DeCA	X	X	X	MC
A.6.c.	DeCA	X	X	X	MC

[1]DoD,C=Under Secretary of Defense (Comptroller).
[2]MC=Material Control Weakness.

Management Comments on Potential Monetary Benefits and Audit Response

DeCA Comments. The DeCA nonconcurred with the potential monetary benefits of $450,000 and $442,000 cited in Recommendations 4. and 6.a., pending verification of the specific audit examples of overdisbursements and pending verification of whether questioned nonreimbursable costs included on interservice support agreements were paid to host installations and ruled an inappropriate payment by appropriate DoD officials. DeCA stated that the draft audit report did not indicate that the auditors verified the accuracy of disbursements and premature reduction of funding by the regions.

Audit Response. The verification of the accuracy of disbursements is the responsibility of DeCA to adequately account for the operations funds and for reconciliation of outlay and expenditure data with obligation data. We believe that the DeCA should reconsider its comments and determine the magnitude of funds that could be saved by applying a more aggressive management approach to controlling scarce resources.

Management Comments on Internal Control Weaknesses and Audit Response

DeCA Comments. The DeCA stated that it did not consider the internal control weaknesses causing the reimbursement problems identified in the finding reportable. It believed the weaknesses were not reportable because the finding

highlighted material internal control weaknesses in the DoD installation support program and the DoD financial system.

Audit Response. The inability of DeCA to properly account for all its obligations, expenditures, and disbursements and the inconsistent management of assets constitute reportable material internal control weaknesses that DeCA should address. However, we agree that the control weaknesses underlying Finding A apply to multiple DoD components, not merely DeCA.

Finding B. Funds Control Over Real Property Maintenance and Repair Projects

Funding for real property maintenance and repair projects was not properly managed. The condition occurred because DeCA had delegated MIPR approval authority to individuals at levels below that authorized by Defense regulations, had not provided adequate controls to prevent the inconsistent application of funds, did not determine the status of real property maintenance and repair project funding, and did not determine whether projects were already supported under existing ISAs. As a result, inappropriate individuals had authorized the obligation of over $3.4 million, $577,000 had been improperly obligated, $26,000 had been overexpended on selected projects, and projects worth $79,000 had been funded twice.

Funding Management for RPMR Projects

Funding for RPMR projects was not being properly managed. DeCA issued 74 MIPRs in FY 1993 to host installations to provide $9.9 million for various RPMR projects at its headquarters, regions, and commissary stores. DeCA procedures for obligating funds, reviewing funding documents, preventing overdisbursements, and eliminating duplicate funding were not adequate. Specifically,

o inappropriate individuals were authorizing the obligation of funds.

o the wrong type of funds were used to fund RPMR projects because of inconsistent application and interpretation of terminology.

o expenditures were made in excess of authorized obligations.

o duplicate funding had been provided for projects.

Authority to Obligate Funds. DeCA regions had delegated MIPR approval authority to personnel at levels lower than those authorized by the Defense Federal Acquisition Regulation Supplement. The Defense Federal Acquisition Regulation Supplement, section 208.7002-2, "Assignment Authority," December 31, 1991, states, "A requiring department [DeCA] official, equivalent to the appropriate level stated in the Federal Acquisition Regulation, must approve the documentation before submission of the Military Interdepartmental Purchase Request to the acquiring department." Federal Acquisition Regulation, Section 6.304, "Approval of the Justification," requires contracting officers to approve proposed contracts for $100,000 and below, and a higher level officer to certify amounts exceeding $100,000.

At four of the six DeCA regions, $3.4 million was approved and obligated by persons that did not have any contracting authority through the use of MIPRs. At the DeCA southwest region, the regional director delegated authority to the commissary store officers to approve and obligate funds. At the central, northeast, and midwest regions, budget analysts prepared, approved and obligated the funds. At the remaining two regions, the northwest and southern, budget officers approved and obligated the funds. Commissary store officers, and budget analysts are not at the same level of authority as the regional contracting officer or budget officer and should not have been delegated authority to approve, commit, and obligate Government funds.

Proper Funding. DeCA inconsistently used DBOF and surcharge collection funds for RPMR projects. The MIPRs had the inappropriate funds applied because of inconsistent application and interpretation of terminology. Inconsistent application and interpretation of RPMR terminology were used by the regions when determining the type of funds (DBOF or Commissary Surcharge Collections Fund) for RPMR projects. Terminology, such as maintenance; repairs; replacement; construction; installations; improvement; and upgrade, were not fully defined and were used interchangeably. For example, the northwest region issued a MIPR for roof repairs at the Yongsan, South Korea, commissary store for $651,251 but misidentified the roof repairs as replacement of the roof and used the Commissary Surcharge Collections Fund. The region later issued an amendment to the same MIPR for $53,000 using the proper DBOF funds to cover the additional cost of the repair project. The region then withdrew $647,978 of the Commissary Surcharge Collections funds and issued a new MIPR for $1,137,047 citing DBOF funds to fund the project.

According to DeCA Headquarters, funding policy, minor construction, improvements, alterations, and modifications to real property are chargeable to the Commissary Surcharge Collections Fund. The cost of all other commissary real property maintenance and repairs, such as roof repairs, are chargeable to DBOF. DeCA Headquarters issued a memorandum to the regions in March 1992 stating, ".... the use of surcharge collections money for facilities maintenance is a violation of government regulations and is prohibited." DeCA policy was that the costs for DBOF funded RPMR projects were to be separated from those funded with surcharge collections funds.

The regions did not establish controls to ensure consistent application of funding. DeCA inconsistently used $577,000 of DBOF and surcharge collection funds for RPMR projects. For example, the southwest region issued a MIPR on August 11, 1993, for $577,000, citing DBOF funds for the alteration, upgrade, and repair of the roof at Edwards AFB commissary store in Rosamound, California, instead of appropriately issuing two MIPRs. One MIPR would charge the alteration and upgrade to the Commissary Surcharge Collections Fund and one MIPR would charge the roof repair to DBOF funds.

Excess Expenditures. Host installations were expending DeCA funds in excess of amounts authorized on MIPRs for RPMR projects. DeCA did not have controls to periodically determine the status of RPMR project funding, and host installations did not maintain a system to provide DeCA a status on the

availability of funds from outstanding MIPRs as required by regulations. The Defense Federal Acquisition Regulation Supplement, section 208.7004-9, "Status Reporting," December 31, 1991, states that the acquiring department (host installation) is to maintain a system for MIPR follow-up to inform the requiring department (DeCA) of the current status of its requests.

DeCA Headquarters and the regions located within the continental United States were not reconciling their outstanding obligations on RPMR projects. DeCA had not reviewed 61 (82 percent) of 74 MIPRs issued in FY 1993 for RPMR projects to determine the status of funds. Such reviews could have prevented three projects from exceeding the obligated amounts by $26,000. Further, the host installations did not maintain or report the status of the funds for the MIPRs, so that DeCA could perform the required reviews to determine the availability of excess funds.

Duplicate Funding. Of the six DeCA regions, five paid host installations a total of $79,000 for RPMR projects that had also been funded under ISAs with the host installations. The five regions did not have the controls to determine whether the costs of the RPMR projects were already supported under existing ISAs before issuing project MIPRs, as required by DeCA policy. A January 8, 1993, DeCA memorandum to the regions on general and administrative policies, required the regions to ensure that funding support for RPMR projects was not already provided under existing ISAs with the host installations before the regions issued MIPRs for RPMRs $15,000 or less. Existing ISAs generally included funds for repair and maintenance of facilities, provided the cost did not exceed $15,000. However, DeCA regional personnel were not coordinating between the Facilities Maintenance Division for the selection of RPMR projects, and the Resources Management Division for the type of funding used, and issuance of the MIPRs. Of the 74 RPMR projects we reviewed, 10 valued at $79,000, were $15,000 or less, and they were previously included in ISAs with the host installations.

Recommendations, Management Comments, and Audit Response

We recommend that the Director, Defense Commissary Agency:

1. Establish procedures to ensure that the approval authority and the amount of funds that may be obligated through the use of military interdepartmental purchase requests is not delegated below the regional budget officer level.

Management Comments. The DeCA nonconcurred with the recommendation. DeCA believes that approval authority for obligating funds and obligation amounts are appropriate and do not violate the Federal Acquisition Regulation or Defense Federal Acquisition Regulation.

Audit Response. The DeCA comments are nonresponsive. The Defense Federal Acquisition Regulation Supplement, section 208.7002-2, "Assignment Authority," December 31, 1991, states that the requiring department (that is, DeCA) is responsible for providing the acquiring department (that is, the host installation) the complete and certified documentation required by the Federal Acquisition Regulation 6.303-2(b).

> A requiring department official, equivalent to the appropriate level stated in the Federal Acquisition Regulation 6.304, must approve the documentation before submission of the Military Interdepartmental Purchase Request to the acquiring department; and the executed determination and findings required by the Federal Acquisition Regulation 6.302-7(c)(1).

The Federal Acquisition regulation 6.304 states that the contracting officer's certification is required for proposed contracts not exceeding $100,000 and will serve as approval unless a higher approving level is established by the agency. For proposed contracts over $100,000 but less than $1 million, the approving authority is the competition advocate for the procuring activity, and this authority is not delegable. As contract amounts increase, so do the levels of approval authority.

The DeCA inappropriately delegated approval and obligational authority to commissary officers and regional budget analysts who were not contracting officers, or above, to establish contractual agreements on behalf of the government as specified by the above regulations. DeCA personnel responsible for approval of MIPRs, both at the commissary officer or regional level, were not authorized contracting officers or higher, as required by Federal Acquisition Regulation 6.304. Therefore, we request that DeCA reconsiders its position in response to the final report.

2. Establish procedures to ensure that the proper type of funds are used on real property maintenance and repair projects.

Management Comments. The DeCA partially concurred with the recommendation, stating that it will investigate the audit examples of inappropriate funding on real property maintenance and repair projects and clarify guidance, if needed. The estimated completion date for the investigation and guidance revisions is September 30, 1995.

3. Establish procedures to periodically review all funding documents in accordance with regulations to prevent disbursements from exceeding obligations and to identify excess funds.

Management Comments. The DeCA concurred with the recommendation, stating that procedures to review funding documents will be strengthened by June 30, 1995.

4. Require regional offices to review all real property maintenance and repair projects to prevent funding by both interservice support agreements and separate real property maintenance and repair military interdepartmental purchase requests.

Management Comments. The DeCA concurred with the recommendation, stating real property maintenance and repair projects $25,000 or greater, were centralized to improve program management. Further, the comments stated that regions will be required to review real property maintenance and repair projects under $25,000 to determine whether the projects were paid for under both an interservice support agreement and a separate military interdepartmental purchase request. Actions to recoup duplicate payments will be taken, if necessary. The comments also stated that policy will be revised based on the regions' responses to queries to determine whether real property maintenance and repair projects under $25,000 are being funded under separate military interdepartmental purchase requests versus under interservice support agreements. The planned completion date is July 31, 1995.

5. Collect the $79,000 paid to host installations for real property maintenance and repair projects that had also been funded under interservice support agreements.

Management Comments. The DeCA partially concurred with the recommendation, stating that it will investigate the audit examples of alleged duplicate payments and recoup payments deemed to be duplicates.

Audit Response. The DeCA comments are considered responsive. However, we request that it provide an estimated completion date for planned actions.

Management Comments Required

Management comments to the final report are required from the addressee shown for the items indicated with an "X" in Table 3.

Table 3 Management Comments Required on Finding B

Recommendation Number	Addressee	Concur/ Nonconcur	Proposed Action	Completion Date	Related Issue
B.1.	DeCA	X	X	X	MC[1]
B.5.	DeCA	NR[2]	NR[2]	X	MC[1]

[1]MC=Material Control Weakness.
[2]NR=No further comment required.

Management Comments on Potential Monetary Benefits and Audit Response

DeCA Comments. The DeCA nonconcurred with the monetary benefits reported for the recommendation pending investigation of the $79,000 paid to

host installations for real property maintenance repair projects that had also been funded under interservice support agreements.

Audit Response. The DeCA comments were not responsive. A listing of MIPR numbers for real property maintenance and repair projects and interservice support agreements identifying funding for real property maintenance and repair projects has been provided to the DeCA.

Part III - Additional Information

Appendix A. Categories of Support Services Reviewed

Support Services Reviewed in Phase I

During Phase I, we reviewed 190 ISAs and approximately $52 million (72 percent) of the $72 million estimated on the 190 ISAs to determine whether DeCA adequately reviewed, negotiated, and administered the reimbursable costs. We obtained and analyzed available support data for the estimated reimbursable costs, and interviewed DeCA personnel to determine the basis for approving the costs. The $52 million covered the following 11 categories of support services, which were common to all ISAs for DeCA regions and Headquarters.

- Chapel and chaplain services
- Civilian personnel services
- Common use facility operations, maintenance, repair and construction
- Communication services
- Environmental compliance
- Equipment operation, maintenance, and repair
- Facility maintenance and repair
- Finance and accounting
- Police services
- Refuse collection and disposal
- Utilities

Support Services Reviewed in Phase II

During Phase II, we reviewed 21 host installations that provided support to DeCA commissary stores. Of the 21 host installations, 17 had approved ISAs with DeCA, valued at about $12 million. We reviewed approximately $8.3 million (70 percent) of the $12 million estimated on the 17 ISAs to determine whether reimbursable costs were adequately supported. We obtained and analyzed available support documentation for the estimated reimbursable costs included in the 17 ISAs identified as general and administrative costs for support of DeCA. We also interviewed responsible personnel at the host installations to determine the basis for the costs.

We analyzed the basis that the host installations used for computing actual reimbursable costs for up to 10 categories of support services on each of the 17 approved ISAs. The 10 categories were judgmentally sampled for the host installations. For the 17 ISAs, 6 categories of support services were consistently selected if identified on the ISA, and an additional 4 categories

were selected if their estimated costs were equal to or greater than 5 percent of the total costs estimated on the ISA. If identified on the ISA, the following six categories were regularly selected.

- Common use facility operations, maintenance, repair and construction
- Community support services
- Environmental compliance
- Facility maintenance and repair
- Morale and fitness support
- Refuse collection and disposal

Appendix B. Reimbursement Support Categories

REIMBURSEMENT SUPPORT CATEGORIES

A. MANDATORY REIMBURSEMENT SUPPORT CATEGORIES: Supplying components are permitted to prorate the cost of the following services to all tenants who benefit or have opportunity to benefit from the services. The recommended basis for computing reimbursement for nominal level support is provided within the parenthesis. Where actual costs or a more accurate means of estimating costs are known they should be used. Receivers requiring more than the nominal level of support provided to all tenants must reimburse for the higher level of service received. Charges may not include reimbursement for services not authorized to receive appropriated funds.

1. Chapel and Chaplain Services. Includes pastoral ministries, worship services, religious rites, pastoral visits, spiritual counseling and religious education. (Assigned military personnel)

2. Command Element. Includes command activities necessary to the accomplishment of mandatory reimbursable support services. Also includes installation wide public affairs services and social action counseling services. (Assigned personnel)

3. Common Use Facility Operations, Maintenance, Repair and Construction. Includes operation, maintenance, repair and minor construction or alteration of common use infrastructure, roads, grounds, surfaced areas, structures, real property and installed equipment. Also includes common benefit signs, energy consumption, snow removal and beautification projects. (Assigned personnel)

4. Disaster Preparedness. Includes operation of disaster preparedness programs and related services, equipment, and facility support for emergencies and wartime operations. (Square footage of facilities)

5. Environmental Compliance. Includes administration of programs for the control and disposal of hazardous materials and other forms of pollution. Also includes recycling and resource recovery programs. (Assigned personnel)

6. Fire Protection. Includes fire fighting, protection, and prevention programs. (Square footage of facilities)

7. Libraries. Includes recreational and general reference library services. (Assigned personnel eligible to use the services)

8. Morale and Fitness Support. Includes theaters, parks, recreational centers, gyms, fitness centers, athletic fields, and related services. (Assigned personnel eligible to use the services)

9. Police Services. Includes guards, security protection, maintenance of law and order, and crime prevention measures. (Assigned personnel)

10. Safety. Includes operation of safety programs, educational support, and promotional efforts. (Assigned personnel)

11. Shuttle Services. Includes common use taxies, vans and bus transportation services. (Assigned personnel)

B. OPTIONAL REIMBURSEMENT SUPPORT CATEGORIES. Supplying components are permitted to require reimbursement for the following services only from components who choose to use the service. Reimbursement should be based on the level of service provided to each receiver. Charges may not include reimbursement for services not authorized to receive appropriated funds.

1. Administrative Services. Includes records management, personnel locator, document control and handling, forms and publications, copying services, Armed Forces Courier Service support, and maintenance of official publications reference libraries. Also includes mail sorting, routing, and delivery services not provided by the United States Postal Service.

2. Audio/Visual Services. Includes still photography, graphics, presentation services, films, microfilms, micrographic services, video tapes, and other visual media information services.

3. Automated Data Processing/Automation Services. Includes data processing services and systems analysis, design, development, execution, and life cycle maintenance.

4. Civilian Personnel Services. Includes employment, placement, classification, employee management, labor relations, employee development, and equal employment opportunity services related to civilians and local nationals.

5. Clubs. Includes officer, enlisted, all hands, aero, community, and other recreational clubs. Also includes golf courses, bowling alleys, campgrounds, marinas, and related services.

6. Communication Services. Includes base communications facilities, telephone equipment and services. May also include leasing of communication equipment, lines, and special communications-electronics equipment services.

7. Community Support Services. Includes child development and care programs, youth services, family support center activities, hobby shops, and craft centers.

8. Confinement and Detention Centers. Includes the provision of personnel confinement and detention services.

9. Custodial Services. Includes janitorial and cleaning services for offices, common use areas, shops, and storage areas.

10. Education Services: Includes instruction, counseling, and testing.

11. Engineering Support. Includes planning, design and programming functions necessary to the construction, fabrication, and repair of facilities and equipment.

12. Equipment Operation, Maintenance, and Repair. Includes motor pool operations, maintenance and repair services. Also includes maintenance and repair of industrial equipment, electronic equipment, and office equipment.

13. Explosive Ordnance. Includes services and facilities for explosive ordnance storage, disposal and training.

2-2

14. Facilities and Real Property Support. Includes the provision of facilities and real property. Also includes construction of new facilities and structures, addition to existing facilities, and alterations that change the use of existing facilities.

15. Facility Maintenance and Repair. Includes maintenance and repair of real property, installed equipment, miscellaneous structures, roads, grounds, railroads, and surfaced areas. Also includes entomology and pest control.

16. Finance and Accounting. Includes expense, reimbursement, working fund, payroll and leave accounting. Also includes disbursing, voucher and invoice examination, financial reporting, and the development of accounting systems.

17. Food Services. Includes provisioning, preparation and serving of food to authorized personnel, and the operation of dining facilities.

18. Health Services. Includes furnishing of outpatient testing, treatment, rehabilitation, and associated professional services and medical support; may also include inpatient services. Also includes environmental health inspections, quality assurance services, and veterinarian services.

19. Housing and Lodging Services. Includes accommodations and housing referral services for authorized personnel. Also includes the provision of transient accommodations.

20. Information Services. Includes technical and legal libraries and services that provide limited reference information for specific purposes.

21. Installation Retail Supply and Storage Operations. Includes the storage and distribution of commodities, materiels, equipment and fuels. Also includes all operations from receipt of materiel and equipment into storage to issue and shipment of items from storage.

22. Laundry and Dry Cleaning. Includes cleaning, storage, and delivery.

23. Legal Services. Includes the provision of advice and services on all legal matters pertaining to legal assistance, military justice, initial claims processing, property utilization, award and execution of procurement contracts, and personnel matters such as conflicts of interest, standards of conduct, and grievance hearings/reviews.

24. Military Personnel Support. Includes passport, forces stamp, social security, and other personal affairs services for military personnel. Also includes processing of identification cards, testing of individuals, line-of-duty investigation reports, casualty assistance reporting, noncombatant evacuation operations, relocation assistance, and transition assistance.

25. Mobilization Support. Includes planning, provisioning and support for mobilization of reserve and guard forces.

26. Mortuary Services. Includes CONUS, port, and overseas mortuary services.

27. Printing and Reproduction. Includes the operation of centralized printing and duplication services.

28. Purchasing and Contracting Services. Includes acquisition and contract administration services for procurement of property, equipment, services, and supplies. Also includes services for renting and leasing equipment, facilities and real property.

29. Refuse Collection and Disposal. Includes collection and disposal of trash and waste materials. Also includes operation of incinerators and other facilities and equipment intended for the transportation, disposal, or destruction of waste materials.

30. Resource Management. Includes funds management, cost analysis services, and formulation, reporting and execution of operating budgets. Also includes reports of surveys actions.

31. Training Services. Includes instructions and use of target ranges, simulators and other training facilities.

32. Transportation Services. Includes travel office services, and other transportation services related to both commercial and government owned transportation of personnel and materiel. Also includes shipment planning, packing and crating, port clearance, scheduling, processing of transportation documents, and provision of related transportation services for both personnel and personal property.

33. Utilities. Includes the provision for procurement, production and distribution of utilities, heating, and air conditioning. Also includes energy consumption and conservation programs.

34. Weather Services. Includes advising and providing timely notification of weather conditions that would affect planned activities.

35. Other Support. Includes services not related to any other support category.

C. NON-REIMBURSABLE SUPPORT CATEGORIES. These are examples of services which are supported with revenues generated by the services they provide, contributions, or direct appropriations from the Congress or a Military Service.

1. Commissary Services. Includes services provided by the Defense Commissary Agency (DeCA).

2. Community Relations. Includes open house programs, charity fund raising events, and public relations activities.

3. Dependent Schools. Includes services provided by DoD Dependent Schools.

4. Exchange Services. Includes services provided by the Army & Air Force Exchange Service, Navy Exchange Service, and Marine Corps Exchange Service.

5. Museums. Includes facilities and services that display objects of historical military value and significance.

6. Retired Affairs. Includes operation of retired affairs support offices and provision of special services, activities and programs provided primarily for retired personnel.

Appendix C. Range of Costs per Unit of Measurement

Reimbursable Support Category [1]	Reimbursable Service	Range of Costs Per Unit Of Measurement Low	High	Unit of Measurement [2]
A.1	Chapel and chaplain	$ 1.42	$5,600.00	Per military personnel position
A.3	Common use OMR[3] and Construction	6.00	9,339.00	Per personnel position
A.5	Environmental compliance	.58	2,239.00	Per personnel position
A.9	Police	.31	4,223.00	Per personnel position
B.4	Civilian personnel	23.00	2,358.00	Per civilian personnel position
B.6	Communication	.86	4,733.00	Per personnel position
B.12	Equipment OMR	.26	2,575.00	Per personnel position
B.15	Facility maintenance and repair	.01	21.00	Per square foot of store
B.16	Finance and accounting	.50	645.00	Per personnel position
B.29	Refuse collection and disposal	8.61	2,128.00	Per personnel position
B.33	Utilities	.28	14.70	Per square foot of store

1 DoD Instruction 4000.19, "Interservice, Interdepartmental, and Interagency Support," Enclosure 2, April 15, 1992.
2 Depending on the information available from DeCA and the host installations, the unit of measurement may have been authorized or assigned personnel figures.
3 Operations, Maintenance, and Repair (OMR).

Appendix D. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
A.1.a.	Internal Control. Will provide clarification of terms.	Nonmonetary.
A.1.b.	Internal Control. Will establish standard methods of calculating reimbursements.	Nonmonetary.
A.1.c.	Internal Control. Will establish a resolution process for unsuccessful negotiations.	Nonmonetary.
A.2.	Internal Control. Establishes increased fund control.	Nonmonetary.
A.3.	Internal Control. Will provide support for reimbursements made.	Nonmonetary.
A.4.	Internal Control and Economy and Efficiency. Will prevent overpayments and provide increased monetary control.	Funds put to better use. Collection of $450,000. (Appropriation 97X4930.5J00).
A.5.	Internal Control. Establishes uniform procedures for using transactions by and for others disbursing and collecting procedures.	Nonmonetary.
A.6.a	Economy and Efficiency. Will provide recoupment of funds.	Funds put to better use. Recoupment of $442,000. (Appropriation 97X4930.5J00).
A.6.b	Internal Control. Will identify relevant costs and provide support for cost of services.	Nonmonetary.
A.6.c	Economy and Efficiency. Makes available unused funds.	Funds put to better use. To be determined.

Appendix D. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
B.1.	Internal Control. Establishes procedures ensuring authority to obligate funds is proper.	Nonmonetary.
B.2.	Internal Control. Will ensure real property maintenance and repair projects are properly funded.	Nonmonetary.
B.3.	Internal Control. Will prevent disbursements exceeding obligations.	Nonmonetary.
B.4.	Internal Control. Will prevent double payments for maintenance and repairs.	Nonmonetary.
B.5.	Economy and Efficiency. Will provide recoupment of funds.	Funds put to better use. Recoupment of $79,000. (Appropriation 97X4930.5J00).

Appendix E. Organizations Visited or Contacted

Office of the Secretary of Defense

Office of the Under Secretary of Defense (Comptroller), Washington, DC
Office of the Under Secretary of Defense for Personnel and Readiness, Washington, DC
Deputy Under Secretary of Defense for Environmental Security, Washington, DC

Department of the Army

Aberdeen Proving Grounds, Aberdeen, MD
Fort Belvoir, Springfield, VA
Fort Bragg, Fayetteville, NC
Fort Devens, Worcester, MA
Fort Gordon, Augusta, GA
Fort Huachuca, Sierra Vista, AZ
Fort Knox, Louisville, KY
Fort Lee, Petersburg, VA
Fort Monroe, Hampton, VA
Presidio of San Francisco, San Francisco, CA
Vint Hill Farms, Warrenton, VA

Department of the Navy

Charleston Naval Station, Charleston, SC
Imperial Beach Navy Outlying Landing Field, Imperial Beach, CA
North Island Naval Air Station, San Diego, CA

Department of the Air Force

Barksdale Air Force Base, Bossier City, LA
Bolling Air Force Base, Washington, DC
Charleston Air Force Base, Charleston, SC
Columbus Air Force Base, Columbus, MS
Dover Air Force Base, Dover, DE
Kelly Air Force Base, San Antonio, TX
Kirtland Air Force Base, Albuquerque, NM
Lackland Air Force Base, San Antonio, TX
March Air Force Base, Riverside, CA
McGuire Air Force Base, Trenton, NJ
Nellis Air Force Base, Las Vegas, NV
Randolph Air Force Base, San Antonio, TX

Department of the Air Force (cont'd)

Sheppard Air Force Base, Wichita Falls, TX
Vance Air Force Base, Enid, OK
Vandenberg Air Force Base, Lompoc, CA
Wright-Patterson Air Force Base, Fairborn, OH

Defense Organizations

Defense Commissary Agency Headquarters, Fort Lee, Petersburg, VA
Defense Commissary Agency Central Region Headquarters, Little Creek Naval Amphibious Base, Norfolk, VA
- Commissary Store, Fort Bragg, Fayetteville, NC
- Commissary Store, Fort Knox, Louisville, KY
- Commissary Store, Fort Lee, Petersburg, VA
- Commissary Store, Little Creek Naval Amphibious Base, Norfolk, VA
- Commissary Store, Wright-Patterson Air Force Base, Fairborn, OH

Defense Commissary Agency Midwest Region Headquarters, Kelly Air Force Base, San Antonio, TX
- Commissary Store, Kelly Air Force Base, San Antonio, TX
- Commissary Store, Kirtland Air Force Base, Albuquerque, NM
- Commissary Store, Lackland Air Force Base, San Antonio, TX
- Commissary Store, Randolph Air Force Base, San Antonio, TX

Defense Commissary Agency Northeast Region Headquarters, Fort Meade, Laurel, MD
- Commissary Store, Fort Belvoir, Springfield, VA
- Commissary Store, Fort Devens, Worcester, MA
- Commissary Store, Fort Meade, Laurel, MD
- Commissary Store, Griffiss Air Force Base, Rome, NY
- Commissary Store, Hanscom Field, Boston, MA
- Commissary Store, Walter Reed Army Medical Center, Wheaton, MD

Defense Commissary Agency Northwest Region Headquarters, Fort Lewis, Tacoma, WA
- Commissary Store, Fort Lewis, Tacoma, WA
- Commissary Store, McChord Air Force Base, Tacoma, WA

Defense Commissary Agency Southern Region Headquarters, Maxwell Air Force Base, Montgomery, AL
- Commissary Store, Charleston Naval Station, Charleston, SC
- Commissary Store, Fort Gordon, Augusta, GA
- Commissary Store, Barksdale Air Force Base, Bossier City, LA

Defense Commissary Agency Southwest Region Headquarters, El Toro Marine Corps Air Station, Santa Ana, CA
- Commissary Store, El Toro Marine Corps Air Station, Santa Ana, CA
- Commissary Store, Fort Huachuca, Sierra Vista, AZ
- Commissary Store, Imperial Beach Navy Outlying Landing Field, Imperial Beach, CA
- Commissary Store, March Air Force Base, Riverside, CA
- Commissary Store, Nellis Air Force Base, Las Vegas, NV

Defense Organizations (cont'd)

Commissary Store, Presidio of San Francisco, San Francisco, CA
Commissary Store, Vandenberg Air Force Base, Lompoc, CA
Defense Finance and Accounting Service, Columbus Center, Columbus, OH

Appendix F. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
  Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
  Deputy Under Secretary of Defense (Comptroller/Financial)
  Deputy Under Secretary of Defense (Comptroller/Program/Budget)
Under Secretary of Defense for Personnel and Readiness
Assistant Secretary of Defense (Economic Security)
Deputy Under Secretary of Defense (Environmental Security)
Assistant to the Secretary of Defense (Public Affairs)

Department of the Army

Assistant Secretary of the Army (Financial Management)
Auditor General, Department of the Army

Department of the Navy

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

Department of the Air Force

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

Defense Organizations

Director, Defense Commissary Agency
Director, Defense Finance and Accounting Service
Inspector General, Central Imagery Office
Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Director, National Security Agency
  Inspector General, National Security Agency

Non-Defense Federal Organizations

Office of Management and Budget
National Security and International Affairs Division, General Accounting Office
Technical Information Center
Defense and National Aeronautics and Space administration Management Issues
Military Operations and Capabilities Issues

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

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs and Criminal Justice, Committee on Government Reform and Oversight
House Committee on National Security
House Panel on Morale, Welfare and Recreation, Committee on National Security

Part IV - Management Comments

Under Secretary of Defense (Comptroller) Comments

Final Report Reference

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

COMPTROLLER
(Program/Budget)

January 20, 1995

MEMORANDUM FOR DIRECTOR, LOGISTICS SUPPORT DIRECTORATE, OFFICE OF THE DOD INSPECTOR GENERAL

SUBJECT: Draft Audit Report: DeCA Management of Reimbursable Costs for Support Services provided by Host Installations - Project No. 3LA-2002.06

You requested our comments on the findings, recommendations, and the potential monetary benefits in subject report.

Our comments are as follows:

16 On page 18 of the draft report, the first sentence of the first paragraph states: The Comptroller, DoD did not have effective policies and procedures to adequately negotiate, accept, and administer ISAs.

DoD Comment: The DoD Comptroller is not responsible for establishing policies and procedures to negotiate, accept, and administer ISAs. (The DUSD for Environmental Security is tasked with those responsibilities, as is correctly noted
9 on page 15 of the report.) As a result, the statement is inaccurate and should be eliminated.

16 The next sentence of the same paragraph also states that the Comptroller is responsible for revising financial policy and procedure regulations to reflect changes required by DBOF, such as full reimbursement for base support.

DoD Comment: Since its inception in FY 1992, DBOF policy has called for reimbursement of total costs, including base support. As a result, the draft report statement is inaccurate and should be eliminated. Since there was no FY 1994 testing of full reimbursement for base support at selected sites, report discussion of the Comptroller's plans to do so appears irrelevant and should be more closely linked to a conclusion if it is to be retained in the report.

Final Report Reference

2

Recommendation #2 is that the Comptroller and the DUSD for Environmental Security establish mandatory methods to be used by host installations for determining the proportionate share of relevant costs charged to a tenant for support services received. 22

DoD Comment: DODI 4000.19 (Interservice, Interdepartmental, and Interagency Support) is currently being updated. It appears at this time that Interservice, Interdepartmental, and Interagency tenant reimbursement policy will be standard for all DoD tenants - reimbursement will be required for all costs that are directly attributable and identifiable to them - but it will not define how calculations must be made.

The financial management objective in establishing base support reimbursement policy is to enable host and tenant organizations to identify, budget, justify, and account for the costs of operation that are attributable to them and their mission(s). To do so, Departmental reimbursement policies and procedures should promote determination of the most appropriate and accurate basis for calculating a tenant's attributable incremental costs of operation. The variability in both host-tenant situations as well as cost accounting capabilities on DoD installations suggest the need for some flexibility.

William C. Coonce
Director for Revolving Funds

Assistant Secretary of Defense (Economic Security) Comments

Final Report Reference

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
3300 DEFENSE PENTAGON
WASHINGTON, DC 20301-3300

ECONOMIC SECURITY

21 FEB 1995

MEMORANDUM FOR INSPECTOR GENERAL

SUBJECT: Audit Report on the Defense Commissary Agency Management of Reimbursable Costs for Support Services Provided by Host Installations (Project No. 3LA-2002.06)

We have reviewed the subject draft audit report and offer the following comments concerning the report's "Recommendations for Corrective Action".

22 Recommendation 1.a.. We agree that there has been miss interpretation and miss application of mandatory reimbursable support services defined in the current DoD Instruction for interservice support (DoDI 4000.19). The revised instruction (in coordination) has resolved this problem by eliminating mandatory reimbursable support. Providers of support will be permitted to require reimbursement only for costs incurred to provide services requested by a receiver -- not require reimbursement (i.e., mandatory category) for costs not caused by the receiver.

22 Recommendation 1.b. We agree that there has been confusion about what costs are "relevant" to providing specified support services. The revised instruction simplifies and clarifies the process of determining which costs may be included by permitting only "direct labor, materials, utilities, equipment, and support cost incurred by the supplier to provide the level of support defined in the agreement."

22 Recommendation 1.c. We disagree with this recommendation. Many agreements are delayed and some are never signed because of negotiation disagreements, however, this happens because the parties do not follow the existing policy for resolving disputes. We have been unable to identify a better disputes resolution process, therefore, the revised instruction requires "unresolvable differences ... be elevated for resolution through each component's chain of command."

22 Recommendation 2. We agree that the process for determining reimbursement costs needs to be improved, however, we believe the best way to improve the process is have the DoD(C) and DFAS modify existing accounting policies and processes so that they will be capable of identifying actual cost incurred to provide support to a receiver. This would eliminate the need for estimating "proportionate share of relevant costs" -- a process that will always breed controversy.

We concur with all other recommendations as written. If you have any questions regarding our comments, my point of contact for interservice support is Mr. Lewis Patterson (604-4616).

Russel Milnes
Director
Installations Management

Defense Commissary Agency Comments

Final Report Reference

DEFENSE COMMISSARY AGENCY
HEADQUARTERS
FORT LEE, VIRGINIA 23801-6300

REPLY TO ATTENTION OF

IR

27 FEB 1995

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

SUBJECT: Audit Report on the Defense Commissary Agency Management of Reimbursable Costs for Support Services Provided by Host Installations (Project No. 3LA-2002.06)

Reference: DoDIG Memorandum, dtd Dec 29, 1994, SAB.

Our comments to the draft report and our position on recommendations directed to DeCA are attached.

The establishment and management of commissary support agreements with host installations has been a significant challenge for DeCA. In fact, we have been the forerunner within DoD to attempt establishing equitable agreements for reimbursement of support costs.

Your audit identified the significance of the problems faced by organizations such as DeCA because of inadequate DoD policy, guidance, and financial systems. However, we do not believe you fairly presented DeCA's efforts to get DoD guidance and policy definitized and enforced. We also have some questions regarding the level of analyses the auditors performed in arriving at the projected overdisbursements, overpayments and improper payments based on our review of the draft report. DeCA will request the assistance of the Defense Finance and Accounting Service to research and validate the audit examples and take corrective actions where required.

We recommend that you convene a joint meeting with representatives from the Under Secretary of Defense (USD), Comptroller, Deputy USD Environmental Security, Defense Finance and Accounting Service and DeCA to discuss this draft report and the comments from the respective addressees.

If you have any questions, please contact Mr. Ben Mikell at (804) 734-8103.

CHARLES M. WIKER
Chief Executive Officer

Attachment:
As Stated

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DEFENSE COMMISSARY AGENCY REPLY

SUBJECT: Audit Report on the Defense Commissary Agency Management of Reimbursable Costs for Support Services Provided by Host Installations (Project No. 3LA-2002.06)

Additional Facts and Comments:

2 1. Page 2. Commissary Funding. The sentence, "The Commissary Operations Fund is an appropriated fund and totaled $1.2 billion for FY 1993" is not accurately stated.

The entire draft audit report is misleading because it treats DBOF commissary operations cost authority as if it were an appropriation which it is not.

The DoD requests a DBOF appropriation from Congress for reimbursement of commissary operation expenses to the DBOF. DeCA is authorized cost authority by the DoD Comptroller that is not tied directly to the DBOF appropriation nor is the amount of cost authority limited by the appropriation.

The Commissary Operations Business Area cost authority for FY 1993 was $1272 million and the DBOF appropriation for FY 1993 was $1107 million. Your narrative misleads the reader since DeCA does not receive the appropriation nor reflect it in the annual financial statements for the Commissary Operations Business Area required by the Chief Financial Officers Act.

4 2. Page 4. Selection Criteria. This paragraph refers to questionnaires being sent to 33 host installations then discusses 21 host installations as the scope of review which appears inconsistent.

8 3. Page 8. In the finding paragraph, the sentence, "Additionally, disbursements may have exceeded appropriations because DFAS disbursed ..." is an inaccurate and misleading statement when discussing the DBOF Commissary Operations Business Area.

As discussed earlier, DeCA is a DBOF activity and does not receive an appropriation for commissary operations. DeCA is authorized cost authority by the DoD Comptroller which is not limited to the amount of the DBOF appropriation.

The DBOF focus is on management of expenses. Expenses can and sometimes do exceed the level of revenue for DBOF business areas. When expenses exceed revenue it results in a net operating loss for the fiscal year. Conversely, when expenses are less than revenue it results in a net operating gain for the fiscal year. Under the DBOF operating concept, gains and losses are carried

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forward by the business area and the rates adjusted in subsequent fiscal years to recoup the loss or give back the gain to the DBOF customer. When expenses exceed cost authority so will disbursements. However, this is not relatable to your statement that "... disbursements may exceed appropriations."

For the DBOF Commissary Operations Business Area, the DoD Comptroller requests additional appropriation to offset prior year losses or reduces the DBOF appropriation request by prior year gains.

4. Page 8. Background. The statement, "Before FY 1992 DeCA obtained support services from the military host installations without reimbursement" is inaccurate. Additionally, DeCA was required to pay for support services or goods provided by military host installations for all of FY 1992. 8

DeCA did not exist prior to October 1 1991. Furthermore, the Military Services commissaries reimbursed the host installations for the same types of base support currently paid today from surcharge collections. The use of ISAs for this support varied by Military Service. With the establishment of the DBOF and the full costing concept in FY 1992 by the DoD Comptroller, commissaries were required to reimburse for support provided by the host installation above that were previously paid for by surcharge collections.

5. Page 10. Billings and Disbursements. DeCA published guidance in DeCA Directive 70-12, August 28, 1992, for the establishment of ISAs, prior to the audit. DeCA's guidance requires a reimbursable MIPR be issued to the host installation for support. The MIPR requests the 1080 billing and support documentation be submitted to the commissary for certification and forwarding of the bill to DFAS Columbus Center (DFAS-CO) for payment. However, as you have noted, host installations and Defense Accounting Offices (DAOs) refused to follow the terms of the MIPR and they processed payments as transaction by and for others (TBOs) without the concurrence of DeCA. Other host installations and DAOs, as noted in the finding, processed a direct fund cite against DeCA funds without our concurrence. 10

The TBOs and direct fund cites caused delays in posting to DeCA's account because it can take six months or longer for the disbursement transactions to reach DFAS-CO. Additionally, TBOs/direct fund cite transactions are frequently improperly coded and/or the backup documentation lost in the DoD financial system transmittal process. Consequently, when the transactions are received by DFAS-CO they frequently cannot identify the proper document/obligation against which to post the transactions and they improperly post the transactions to the wrong DeCA documents/obligations causing erroneous overdisbursements. This has been a continuing problem that we have addressed to DFAS-CO.

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We have seen no evidence in the report that indicates the overdisbursements were verified to determine if they were accurately posted to the correct DeCA documents/obligations.

10 6. Page 11. Approved Reimbursable Support Services. The DeCA is a DBOF activity subject to the provisions of full costing. The provision in the July 1987, DoD Official Mail Manual, that mail services valued at less than $10,000 per activity does not apply to DeCA as a DBOF activity.

DeCA made the decision in July 1991 to include health services on the ISAs in order to determine the potential costs if they became reimbursable in the future. As a DBOF activity under full costing, costs should be reimbursed according to DoD Comptroller policy. When we received verbal direction from the DoD Comptroller personnel that health services were not reimbursable in FY 1993, DeCA immediately took actions to notify regions in a policy memorandum. Although the ISAs were not revised to remove health service from them, the regions did not fund the host installations for health services in FY 1993. We do not believe that the auditors determined if host installations were actually paid for health services and they relied only on the ISAs.

With over 600 ISAs and the geographic dispersion of commissaries coupled with inadequate DoD policy and guidance, DeCA cannot redo ISAs annually due to the administrative costs and resource limitations. However, the regions did negotiate with the host installation to determine the level of reimbursement each fiscal year.

Health services continue to be provided to DeCA without reimbursement.

10-13 7. Page 11 and 12. Additional Facts. Under the current DoD policy guidance, all methodologies used to develop cost estimates for support services are justified. DeCA cannot recoup funds due to different costing methods used by host installations. The DoD guidance published by the Deputy Under Secretary of Defense for Environmental Security and the DoD Comptroller only recommends methods for determining support costs as you have pointed out in the finding. Furthermore, the guidance allows each host installation to develop their own methodologies for costing as you have noted. Because of the lack of specific policy guidance and methodology for determining support costs and inadequate enforcement by DoD, variances in costs for similar support services between host installations can and does occur. DeCA cannot force host installations to adopt any specific costing methodology or the way they package their support costs.

DeCA has taken aggressive actions to get definitive DoD policy guidance and costing methodology for support agreements. DeCA contacted DoD Comptroller personnel and provided examples of

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inconsistent costing starting in FY 1992 prior to your audit. Additionally, DeCA sent formal memorandums to the DoD Comptroller on these problems December 11, 1992, April 16, 1993 and August 10, 1993. DeCA also authorized additional personnel at regions to negotiate ISAs and provided them training on negotiation of ISAs. ISA training was also incorporated into the commissary officers formal training program established by DeCA in October 1992. Finally, DeCA participated recently as a member of the DoD team currently revising DoD Directive 4000.19. However, the Service's and other representatives on the team successfully opposed the more definitive controls, support definitions and costing criteria that DeCA wanted. The draft is currently in staffing in DoD.

As of February 1995, 333 of 369 (90 percent) of the major commissary support agreements and another 241 minor commissary support agreements were established by DeCA. With the large number of agreements and the lack of specific DoD policy guidance it is not feasible nor cost effective to redo these agreements annually. Consequently, DeCA requested the DoD Comptroller transfer the DBOF portion of base support back to the Military Services due to the excessive time required to establish and administer agreements; the magnitude of the problems DeCA was experiencing in validating and tracking billings/reimbursements in the DoD financial system; and the inadequate DoD policy guidance and costing methodology for establishing equitable ISAs.

8. Page 14. Support for Billed General and Administrative Costs. We nonconcur with the statement that DeCA did not require supporting documentation for the billings from Vandenberg AFB. Your statement misleads the reader because DeCA's guidance requires support for all bills and certification by the commissary officer before payment. 13

Your audit report does not indicate if Vandenberg AFB and the supporting DAO provided 1080 bills and backup to the commissary officer for certification prior to payment. Additionally, the audit report does not indicate how the DAO made payment (i.e., fund cite, TFO or check issued by DFAS-CO). The audit report points out that DAOs process payments via fund cite or TFO without having the commissary certify the bills. Additionally, the report does not indicate the elapsed time from the date the TFO or fund cite was processed by the DAO until it was received and processed by DFAS-CO to DeCA's account.

9. Page 14/15. Disbursements for Reimbursable Costs. It is not clear in the report if the 135 funding documents reviewed had funding reduced by the regions because they believed all billings were processed and subsequently late bills were posted to the documents/obligations causing the overdisbursements. Additionally, the report does not indicate if all the billings on the overdisbursed documents were validated to determine if they 14

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were correct charges. The extensive time required in processing a TFO/fund cite through the DoD financial system, coupled with coding errors/lost documentation that are inherent in the process could cause the overdisbursement conditions noted by the auditors. DeCA in coordination with DFAS-CO will conduct this verification if it was not done by the auditors.

14 10. Page 15. Funds Undisbursed at Fiscal Year End. Due to the excessive delays in processing TBOs and fund cites through the DoD financial system DeCA's policy is to deobligate funds on ISAs NLT 12 months after the end of the fiscal year.

14 11. Page 15. Policies and Procedures to Manage the Reimbursement Process. We believe that the conditions noted in the audit were primarily due to ineffective DoD policies and procedures to adequately negotiate, accept and administer ISAs. We believe that our internal controls and management of reimbursable costs for support services were adequate considering the problems with DoD policy, guidance and the DoD financial system.

17 12. Page 18. Policies and Procedures Within DeCA. We believe that actions taken by DeCA to establish, negotiate, accept and administer ISAs was adequate from the standpoint of the customer. Your report clearly shows the extent of deficiencies in the DoD policies, guidance and systems that would and did render ineffective the actions taken by DeCA to manage ISAs. We nonconcur with your conclusion that DeCA was at fault.

17 13. Page 18/19. DeCA Policies and Procedures on ISA Management. Nonconcur. DeCA does not have the authority to establish policy or policy guidance on what are relevant reimbursable services that are binding on host installations. As a DBOF activity operating under the full costing concept, DeCA was required by the DoD Comptroller to reimburse for base level support costs.

18 14. Page 19. DeCA Headquarters Support for Regions. ISAs were forwarded to DeCA Headquarters for approval after all negotiations were completed between the region and host installation. Due to the inadequate DoD policy, guidance and costing methodology for preparing ISAs, DeCA had no recourse to arbitrarily adjust the cost estimates. When DeCA Headquarters submitted examples of what we considered excessive and inconsistent cost estimates to the DoD Comptroller, we were not given authority to refuse to make payment. DeCA cannot operate commissaries without support from the host installations; therefore, we are in a lose - lose situation if we refuse to reimburse them.

19 15. Page 21. Transactions by and for Others. This section does not accurately describe the DoD financial system transaction flow which is a primary cause of untimely and/or inaccurate posting of

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disbursement transactions to DeCA's account. Without an accurate discussion of this system the problems are understated and the reader is misled. We recommend the report provide this description of the process and why it currently exists in DoD.

We nonconcur with your criticism of DeCA for not questioning each DAO on whether funds had been cross disbursed. DeCA has no authority to direct the actions of DAOs even though our MIPRs required 1080 billings to be issued through the commissary officer to DFAS-CO for payment by check.

Your statement that "The regions routinely experienced intervals ranging from 4 months to 2 years before receiving confirmation that funds to reimburse costs had been cross-disbursed" is the reason why DeCA does not deobligate funds at the end of the fiscal year. The confirmation you refer to occurs when DFAS-CO posts the disbursement transaction to DeCA's account. As you have noted, support documentation is generally missing as well as the accounting codes essential to accurately post the disbursement transactions to the proper document/obligation records.

16. Page 23. DeCA nonconcurs with your conclusion. DeCA's actions to establish ISA's was within DoD policy and guidance existing at the time of the audit. 21

The Deputy Under Secretary of Defense (USD) for Environmental Security is now the Deputy USD Economic Security.

20. Page 26. Authority to Obligate Funds. DeCA nonconcurs with your interpretation of the FAR as it relates to the issuing of MIPRs and certification of cost authority availability. Commissary store officers and budget analysts charged with fund management are at the proper level to certify and obligate resources. This does not supersede nor negate the responsibilities of the contracting officer as outlined in the FAR and DFAR. The host installations do the contracting for the RPMR projects not DeCA. 28

21. Page 26. Proper Funding. The statement that the region issued a MIPR with surcharge collection funding for $651,251 for roof repairs at Yongsan Commissary then later issued amendments to the same MIPR for $485,796 using DBOF funds is not an accurate statement. 29

The same MIPR cannot be used to obligate two different types of funds. However, funding for projects can be split between surcharge and DBOF depending on the type of work performed. DeCA will need to verify the specific example identified by the auditor to determine the appropriateness of the funding and the method used to issue funding for the Yongsan Commissary work.

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DeCA will also need to review the specifics of the work done on the Edwards AFB Commissary to determine if the costs were appropriately shared between surcharge and DBOF.

29 22. Page 27. Excess Expenditures. Host installations and their supporting DAOs processed payments against DeCA MIPRs for RPMR which prevented timely visibility of disbursements. It is not clear in the report how much time had elapsed between the DAO processing the cross disbursements and the transactions being posted to DeCA's account causing the $26,000 overdisbursement. Additionally, it is not clear if the auditor determined whether the overdisbursement was due to inaccurate posting of the disbursement transactions by DFAS-CO.

30 23. Page 27. Duplicate Funding. As pointed out earlier, DeCA has over 600 ISAs to manage and all are not in place after 3 years due to the difficulty in getting agreements with host installations. The large number of ISAs prevents DeCA from redoing them annually given our resource constraints.

However, the funding for support that is provided annually by regions to host installations can and is reduced through negotiation without redoing the ISAs. The audit report does not indicate whether the RPMRs under $15,000 were actually funded by the MIPRs given the host installations in FY 1993 for ISA support. Even though the ISAs may have had a provision for RPMR projects under $15,000, if the region did not provide funding in FY 1993 their was no duplicate funding. Conversely, if the commissary required RPMR work above any level funded by the region then the charges would be valid. DeCA will need to investigate each payment in question to determine whether payment was justified.

Finding A. Management of Costs for Interservice Support

23 **Recommendation 4.** We recommend that the Director, DeCA, and the Director, DFAS, recoup the estimated $450,000 in overpayments from the host installations and periodically compare funding with disbursements.

Action Taken. Partially concur. DeCA in coordination with DFAS-CO will review the overdisbursements and determine if the transactions are posted to the correct document/obligation record. Erroneous entries will be corrected and the proper document/obligation record posted accordingly.

If an overdisbursement exists after validation of the postings, DeCA will ascertain if the region reduced the obligation prior to the cross disbursement being posted, causing the overdisbursement. DeCA will obligate current year cost authority

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to cover the amount of overdisbursement where the region prematurely reduced the obligation.

The remaining overdisbursement will be reviewed with the host installation to determine if the commissary requested and/or received services above the original amount on the MIPR. Where additional services were received the obligation will be increased to cover the overdisbursement.

DeCA will request the host installation to refund any remaining payments that were not warranted and caused the overdisbursement.

DeCA will request the auditors provide the specific audit examples. DeCA will develop a plan of action to complete the research and corrective actions discussed above by the end of September 1995.

Recommendation 5. We recommend that the Under Secretary of Defense (Comptroller); in coordination with the Director, DeCA; and the Director, DFAS, issue guidance on the acceptable use of transactions by and for others to all installations involved with ISAs. 24

Action Taken. Concur. The suspense date for completion of this recommendation will be established by the USD (Comptroller).

Recommendation 6. We recommend that the Director, DeCA: 24

a. Recover from host installations the $463,000 of nonreimbursable charges for FY 1993.

b. Establish requirements within existing guidance to:

i. Identify relevant reimbursable services to DeCA, and the relevant costs associated with those services.

ii. Require, as part of the ISA, host installations that provide base operating support services to support all reimbursable costs associated with those services.

c. Require each region to periodically determine the amount of available funds remaining for reimbursement of costs approved on ISAs and issue modifications to the host installations to deobligate those funds.

Action Taken. Partially concur.

a. Partially concur. DeCA will determine if the support services questioned by the auditors were actually paid to host installations in FY 1993. If they have, DeCA will contact the DoD Comptroller to determine what support costs, if any, are not reimbursable to host installations. Based on DoD Comptroller

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guidance we will request recoupment of any payments that are determined to be inappropriate. Actions will be completed by September 30, 1995.

b. Nonconcur. DeCA will only revise region guidance for the establishment of ISAs consistent with changes to DoD Directive 4000.19 and DoD Comptroller policy and guidance. DeCA will not establish criteria that it cannot enforce with host installations and their supporting DAOs. DeCA's guidance to regions issued in August 1992, prior to this audit, requires backup support for all reimbursable costs associated with support provided by host installations.

c. Nonconcur. DeCA does not have the capability to monitor disbursements as they flow through the DoD financial system under the cross disbursing processes currently being used. DeCA will request DFAS to determine if their DAOs have the capability and will agree to provide us with monthly or quarterly information on payments they have made against our funds. Without this detail information, DeCA regions cannot know what disbursement transactions are in "float" in the DoD financial system on route to DFAS-CO for posting to DeCA's account.

Finding B. Funds Control Over Real Property Maintenance and Repair Projects

Recommendation. We recommend that the Director, DeCA:

30 1. Establish procedures to ensure that the approval authority and the amount of funds that may be obligated through the use of military interdepartmental purchase requests is not delegated below the region budget officer level.

Action Taken. Nonconcur. We believe the approval authority for obligation of funds and the amount of obligation are appropriate and do not violate the FAR or DFAR.

31 2. Establish procedures to ensure that the proper type of funds are used on real property maintenance and repair projects.

Action Taken. Partially concur. DeCA will investigate the examples identified in the audit to determine if project funding was inappropriate. DeCA guidance will be clarified if needed. Estimated date for completion of the investigation and any revision to DeCA guidance is September 30, 1995.

31 3. Establish procedures to periodically review all funding documents in accordance with regulations to prevent disbursements from exceeding obligations and to identify excess funds.

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Action Taken. Concur. Procedures for review of funding documents for RPMR projects will be strengthened by June 30, 1995.

4. Require regional offices to review all real property maintenance and repair projects to prevent funding by both ISAs and separate real property maintenance and repair military interdepartmental purchase requests. 32

Action Taken. Concur. Subsequent to this audit the RPMR projects $25,000 or greater were withdrawn from regions and centralized to improve program management. For RPMR projects under $25,000 DeCA will require the regions to review projects and determine if the same work was paid for under the ISA and paid a second time with a separate MIPR to the host installation. Actions will be taken to recoup duplicate payments were they are identified. Regions will be queried to determine if RPMR projects under $25,000 are being funded using separate MIPRs vs the ISA to ensure that funding is fenced for RPMR work performed. DeCA policy may be revised based on region inputs requested above. Actions will be completed by July 31, 1995.

5. Collect the $79,000 paid to the host installations for real property maintenance repair projects that had also been funded under ISAs. 32

Action Taken. Partially concur. DeCA will investigate the alleged duplicate payments of $79,000 and request host installations refund payments that are determined to be duplicates.

Estimated Monetary Benefits. Nonconcur with potential savings reported for recommendation A.4, A.6.a. and B.5 pending verification of the audit examples. The draft audit report does not indicate the auditors verified the accuracy of disbursements posted to DeCAs accounts; that disbursement were accurate and funding was reduced prematurely by DeCA regions because of transaction delays in the DoD financial system; and/or that costs charged to DeCA by host installations were valid based on DoD policy and guidance. DeCA will contact the appropriate DoD officials for rulings on the appropriateness of the charges in question. 43

Internal Control Weaknesses. The discussion in this section of the report highlights the material internal control weaknesses in the DoD installation support program and the DoD financial system that caused the reimbursement problems identified in this finding. We do not consider this a material internal control problem reportable by DeCA.

Defense Finance and Accounting Service Comments

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DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22240-5291

MAR 16 1995

DFAS-HQ/F

MEMORANDUM FOR DIRECTOR, LOGISTICS SUPPORT, INSPECTOR GENERAL

SUBJECT: Audit Report on the Defense Commissary Agency Management of Reimbursable Costs for Support Services Provided by Host Installations (Project No. 31A-002.06)

We have reviewed subject draft report, dated December 29, 1994. Attached are our comments and response to recommendations A.4 and A.5.

If additional information is needed, my point of contact is Ms. Esther Jones, DFAS-HQ/FC, on DSN 327-0528 or (703) 607-0528.

for R. Miskovich
Michael E. Wilson
Deputy Director for Finance

Attachment:
As stated

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DFAS Comments

Recommendation A.4: We recommend that the Director, Defense Commissary Agency, and the Director, Defense Finance and Accounting Service, recoup the estimated $450,000 in overdisbursements from the host installations and periodically compare funding with disbursements. 23

Comment: DFAS concurs with the recommendation. We have internal procedures established to research and correct overdisbursements associated with fixed price Military Interdepartmental Purchase requests MIPRs). In order to recoup the $450,000 identified in the audit report, specific MIPR numbers are required.

Recommendation A.5: We recommend that the Under Secretary of Defense (Comptroller); in coordination with the Director, Defense Commissary Agency; and the Director, Defense Finance and Accounting Service, issue guidance on the acceptable use of transactions by and for others to all installations involved with interservice support agreements. 24

Comments: DFAS non-concurs with the recommendation. The Defense Commissary Agency (DeCA) is concerned about the capability to certify billings prior to payment. The Economy Act, 31 U.S.C 1535, section c requires interagency payments be made promptly by check without pre-audit. The Treasury Financial Manual (I TFM 2500), states that Treasury checks will not be used as a payment method between agencies that can accept a transfer by using SF 1081 "Voucher and Schedule of Withdrawals and Credit." Within DoD, the interfund billing system and cross disbursement procedures effectively implement both policies. Specific procedures requiring use of the SF 1081, for inter-DoD component financial transactions will be included in DoD Financial Management Regulation 7000.14. Notwithstanding this procedure, we have given DeCA the capability to review the bill prior to payment. Our August 10, 1995 memorandum, subject, Policy on Cross Disbursements, outlined this guidance and addressed specific DeCA concerns (attached).

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DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22240-5291

AUG 10 1994

MEMORANDUM FOR CHIEF EXECUTIVE OFFICER, DEFENSE COMMISSARY AGENCY

SUBJECT: Policy on Cross Disbursements

This is in response to your memorandum of June 10, 1994, above subject. We share your concern that cross disbursing procedures are not always uniformly applied, and believe that within the Defense Finance and Accounting Service (DFAS) simplified standard procedures can now be appropriately developed. Efforts to accomplish this have been initiated.

Regarding your concern that you are unable to certify billings from other DoD components, that is not required for interagency transactions. Provisions of the "Economy Act," 31 U.S.C. 1535, section c read as follows:

> Payment shall be made promptly by check on the written request of the agency or unit filling the order. Payment may be in advance or on providing the goods or services ordered and shall be for any part of the estimated or actual cost, as determined by the agency or unit filling the order. A bill submitted or a request for payment is not subject to audit or certification in advance of payment. Proper adjustment of amounts paid in advance shall be made as agreed to by the heads of the agencies or units on the basis of the actual cost of goods or services provided.

Interfund billing and cross disbursing procedures are normally to be used for payments and collections between components of the DoD. This is in accord with Treasury Department policy, Treasury Financial Manual (TFM) 2510, which states, "Treasury checks will not be used as a payment method between agencies that can accept a transfer by using SF 1081, Voucher and Schedule of Withdrawals and Credits." Your referenced memorandum from the Defense Accounting Office (Kelly AFB) - Denver Center correctly gives the current policy.

About a year ago our respective staffs developed a draft of a proposed billing procedure that substantially met most of your requirements; however, it was not finalized. A copy of the relevant text from this proposal is attached. This should be completed as early as possible. My staff contact for this action is Mr. George Kielkopf, on DSN 327-1549 or (703) 607-1549.

Gary W. Amlin
Principal Deputy Director

Attachment

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PROPOSED PROCEDURE FOR DECA HOST-TENANT AGREEMENTS

Host activities will use self-pay procedures for reimbursable bills to DeCA activities provided that the local Commissary Officer is given review and release capability and an advance copy of the processed bill. Review and release capability means that the local Commissary Officer gets to view the prepared bill via either hard copy or CRT access to the local accounting system, and must release it for payment. The local Commissary Officer then receives an advance copy of the processed bill, and is responsible for forwarding to the proper DeCA office and/or DFAS-CO for compliance with unit cost requirements and recording of accruals. Review and release capability also provides the local commissary officer with negotiating capability regarding the degree of detail necessary for accepting the charges, and with both the capability and responsibility to ensure that the accountable station receives the required documents in a timely manner.

Attachment

Audit Team Members

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

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