# Audit Report

OFFICE OF THE INSPECTOR GENERAL

**BUNKER FUEL PAYMENTS**

Report No. 95-216 June 2, 1995

## Department of Defense

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**Acronyms**

| | |
|---|---|
| DFAS | Defense Finance and Accounting Service |
| DFSC | Defense Fuel Supply Center |
| EPA | Economic Price Adjustment |

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

June 2, 1995

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
DIRECTOR, DEFENSE LOGISTICS AGENCY
COMMANDER, MILITARY SEALIFT COMMAND
COMMANDER, NAVAL SUPPLY SYSTEMS COMMAND

SUBJECT: Audit Report on Bunker Fuel Payments (Report No. 95-216)

We are providing this final report for your review and comments. It discusses overpayments made to contractors for the purchase of bunker fuel. Comments on a draft of this report from the Defense Finance and Accounting Service, the Defense Logistics Agency, and the Navy were considered in preparing the final report.

The comments on a draft of this report, were generally responsive and conformed to the requirements of DoD Directive 7650.3. However, the Defense Logistics Agency and the Navy envisioned a series of sequential formal notifications before agreed-upon actions would be taken. We do not agree that such a complicated approach is needed and request additional comments from the Defense Logistics Agency and the Navy on the implementation schedule for agreed-upon corrective actions by August 2, 1995.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. John A. Gannon, Audit Program Director, at (703) 604-9427 (DSN 664-9427) or Mr. J.J. Delino, Acting Audit Project Manager, at (703) 604-9454 (DSN 664-9454). Copies of the final report will be distributed to the organizations in Appendix E. The audit team members are listed on the inside back cover.

Robert J. Lieberman
Assistant Inspector General
for Auditing

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# Office of the Inspector General, DoD

**Report No. 95-216** **June 2, 1995**
(Project No. 4LC-0043.01)

## BUNKER FUEL PAYMENTS

## EXECUTIVE SUMMARY

**Introduction.** Bunker fuel is used to propel seagoing vessels and is stored in compartments, called bunkers, on shipboard. Mission requirements sometimes require that DoD-controlled vessels obtain bunker fuel at commercial ports in the continental United States or overseas where Government fuel is not available. To obtain bunker fuel at discounted commercial prices and to ensure the availability of quality fuels, the Defense Fuel Supply Center, a field level component of the Defense Logistics Agency, established the bunker fuel program. Under the bunker fuel program, bunker fuel contracts are negotiated with commercial vendors. Bunker fuel contracts contain an economic price adjustment clause that allows the Government and contractors to calculate an adjusted market price at the time fuel is delivered. During FY 1993, bunker fuel contracts were awarded at 154 locations worldwide. Payment invoices totaled about $50 million.

**Audit Objectives.** The audit objectives were to determine whether bunker fuel contract invoices were paid correctly, and whether applicable management controls over bunker fuel contract payments were effective.

A separate report will address the remaining audit objectives included in our announcement memorandum on the Audit of Bunker Fuel Operations (see objectives, Part I).

**Audit Results.** The Defense Finance and Accounting Service overpaid contractors for fuel delivered under bunker fuel contracts. Of the 358 invoices that we examined, 132 (37 percent) were overpaid by $2.9 million during FY 1993 (see finding, Part II). Based on our statistical sampling procedures, we estimated an overpayment of about $3.2 million during FY 1993 (see Appendix A for the sampling procedures and statistical projections and Appendix C for a summary of potential benefits resulting from audit). The Defense Finance and Accounting Service also underpaid contractors about $100,000 on 12 invoices for delivered fuel. However, the contractors were diligent in identifying and seeking restitution from the Government.

The audit identified material internal control weaknesses, in that controls were not in place to ensure that contractors were properly paid. The implementation of the management control program was not effective. See Part I for the management controls assessed and Part II for a discussion of the material weaknesses identified.

**Summary of Recommendations.** We recommend that the Director, Defense Finance and Accounting Service, provide training to paying office personnel, require supervisory personnel to review high dollar bunker fuel payments, limit the number of paying offices authorized to make payments for bunker fuel contracts, and recoup the overpayments. We also recommend that the Director, Defense Logistics Agency, include a provision in all bunker fuel contracts that identifies the paying offices authorized to process payments. Additionally, we recommend that the Commanders,

Military Sealift Command and Naval Supply Systems Command, discontinue the requirement that commanding officers of vessels identify paying offices on delivery orders.

**Management Comments.** The Directors, Defense Finance and Accounting Service and Defense Logistics Agency, and the Principal Deputy Assistant Secretary of the Navy (Research, Development and Acquisition) concurred with the finding and recommendations.

The Defense Finance and Accounting Service took prompt corrective actions, including providing additional training on paying procedures; was reviewing high dollar bunker fuel payments and plans to consolidate all paying offices into one by October 1, 1995; and upon completion of review, will include in its management control procedure the requirement for supervisors to spot check high dollar payments. On April 10, 1995, it notified the Defense Logistics Agency of the paying offices that are authorized to pay bunker fuel. Additionally, recoupment of overpayment from contractors is scheduled to be completed by September 30, 1995, except for the three contractors that are under investigation.

The Defense Logistics Agency stated that upon notification that Columbus is ready to commence payments, bunker fuel contracts will be modified to incorporate the Defense Finance and Accounting Service, Columbus, address.

The Principal Deputy stated that the Military Sealift Command will delete any reference to paying offices on the delivery orders and the Naval Supply Systems Command will issue memoranda regarding revised delivery order procedures within 60 days after the Defense Logistics Agency identifies the paying office in each bunker contract and will delete references to paying offices from delivery orders. See Part II for a discussion of managements' comments and Part IV for the complete texts of the comments.

**Audit Response.** The Defense Finance and Accounting Service comments were responsive. The Defense Logistics Agency and Navy comments were generally responsive, except both components believed that a series of sequential notifications were necessary after Columbus assumes the paying office function. We see no reason why all corrective actions cannot be put into place as of October 1, 1995, without sequential notifications or other red tape. We request that the Director, Defense Logistics Agency and the Navy address the implementation dates of the agreed-upon actions in additional comments on the final report by August 2, 1995.

# Part I - Introduction

## Background

Bunker fuel is used to propel seagoing vessels and is stored in compartments, called bunkers, on shipboard. DoD-controlled vessels usually refuel at military facilities. However, mission requirements sometimes require DoD-controlled vessels to obtain fuel at commercial ports both in the continental United States and overseas. To obtain fuel in locations where Government sources of fuel are not available and to ensure the availability of quality products, the Defense Fuel Supply Center (DFSC), a field level component of the Defense Logistics Agency, established the bunker fuel program. Under the bunker fuel program, contracts are negotiated with commercial vendors to provide fuel at 154 locations worldwide where Government sources of fuel are not available. The Defense Finance and Accounting Service (DFAS) paying offices pay the contractor invoices. During FY 1993, about $50 million was paid to bunker fuel contractors.

The DFAS was established on January 1991 as a result of Defense Management Report Decision No. 910, "Consolidation of DoD Accounting and Finance Operations." It was chartered to standardize and consolidate DoD finance and accounting operations. Before January 1991, each Military Department was responsible for payments made to bunker fuel contractors.

## Objectives

The audit objectives were to determine whether bunker fuel contract invoices were paid correctly, and whether applicable management controls over bunker fuel payments were effective.

A separate report will address the following audit objectives, included in our announcement memorandum on the Audit of Bunker Fuel Operations (Project No. 4LC-0043), to determine whether:

o the Military Departments collect and submit fuel consumption data to DFSC to support the establishment of bunker fuel contracts,

o existing bunker fuel contracts are being used by DoD-controlled vessels, and

o applicable management controls over bunker fuel operations are effective.

## Scope and Methodology

We reviewed DFAS policies and procedures related to bunker fuel contract payments. Based on discussions with a DFSC contracting official, we identified a universe of 19 paying offices that made payments in FY 1993 for 78 bunker fuel contracts, consisting of 671 invoices, at a cost of about $50 million. Of the 671 invoices, we reviewed a statistical sample of 358 invoices, valued at $29.1 million, which were paid by 5 DFAS paying offices. Details of our audit sample and results are in Appendix A.

We did not rely on computer-processed data, because payments and supporting documentation were not in a central data base. Accordingly, we visited the five paying offices, interviewed personnel, and reviewed contract payment vouchers, contractor invoices, delivery orders, economic price adjustment (EPA) modifications, and receiving reports for FY 1993 bunker fuel payments.

This economy and efficiency audit was made from March through October 1994, in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly, included such tests of internal controls as considered necessary. Organizations visited or contacted during the audit are in Appendix D.

## Management Control Program

**Controls Assessed.** We evaluated the management controls associated with the accuracy of the payments of bunker fuel invoices made by DFAS paying offices.

**Management Control Weaknesses.** The audit identified material management control weaknesses as defined by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. Management controls were not in place to ensure proper payment of contractor invoices. Personnel had inadequate training on paying bunker fuel contract invoices with EPA provisions. Further, supervisors were not reviewing high dollar payments before checks were issued. Additionally, responsibility for payment of bunker fuel invoices was distributed among too many paying offices. DFAS did not identify those internal control weaknesses as assessable units in its annual statement of assurance for FY 1993.

The recommendations in this report, if implemented, will assist in correcting the weaknesses. We estimated that potential monetary benefits of $3.2 million can be realized by implementing the recommendations. See Appendix D for a summary of potential benefits resulting from audit. A copy of the report will be provided to the senior official responsible for management controls within the Office of the Secretary of Defense and DFAS.

## Prior Audits and Other Reviews

The General Accounting Office issued Report No. NSIAD-94-245 (OSD Case No. 9742), "DoD Procurement: Overpayments and Underpayments at Selected Contractors Show Major Problem," August 5, 1994. The report stated that DFAS had significant problems in reconciling contractor invoices to supporting documentation before payment. The General Accounting Office recommended that DoD mobilize available contract, financing, and audit resources to identify, verify, and correct payment discrepancies. Management nonconcurred with the recommendations and raised questions about the validity of the finding.

The Inspector General, DoD, issued Report No. 91-111, "Controls Over Fuel Payments," July 16, 1991. The report stated that DFSC controls over the recording and collection of overpayments and the certification of fuel delivered before payment of bulk fuel purchases were inadequate. The report recommended recording overpayments as accounts receivable instead of using the overpayments as offsets against accounts payable, prompt submission of billings, assessment of interest for debts contractors owed DFSC, compliance with write-off procedures, and proper verification of material inspection and receiving reports. The Director, Defense Logistics Agency, concurred.

## Other Matters of Interest

**Alleged Overpayments.** In May 1992, DFSC and the Naval Investigative Service received similar allegations of intentional overbillings by bunker fuel contractors. In May 1993, a DFSC contracting officer began a review of all bunker fuel payments from FY 1987 through FY 1992 to calculate the extent of any overpayments. Additionally, investigators from the Naval Investigative Service and the Defense Criminal Investigative Service investigated bunker fuel contract payments and concluded that contractor invoices were being overpaid. Investigators suspected that from FY 1987 through FY 1992 three contractors intentionally overbilled for bunker fuel deliveries and estimated the amount of overpayments at $25 million.

On October 29, 1993, the Defense Logistics Agency suspended two of the three suspected contractors. DFSC advised us that the third contractor had made partial restitution and therefore was not suspended. On October 14, 1994, an investigator from the Defense Criminal Investigative Service informed us that the remaining two contractors were plea-bargaining on the amount of overpayments.

# Part II - Finding and Recommendations

# Overpayments to Contractors

The Defense Finance and Accounting Service overpaid contractors who provided bunker fuel for DoD-controlled vessels. This condition occurred because of the following.

o Personnel in the paying offices had inadequate training on paying bunker fuel contract invoices with economic price adjustment provisions.

o Supervisors in the paying offices were not reviewing high dollar payments before checks were issued.

o Responsibility for payment of bunker fuel invoices was distributed among too many paying offices.

As a result, paying offices made about $3.2 million in overpayments to bunker fuel contractors in FY 1993.

## Background

**Characteristics of Bunker Fuel Contracts and Delivery Procedures.** DFSC awards all bunker fuel contracts. In FY 1993, 78 contracts provided commercial grade bunker fuel at 154 ports worldwide. Bunker fuel contracts are indefinite quantity requirement contracts awarded for 2 years. When a vessel needs fuel at a port where a bunker fuel contract exists, the commanding officer of the vessel or the supply officer of the vessel contacts the contractor. After the fuel is delivered to the vessel, the commanding officer or the supply officer provides the contractor with a certification as to receipt and acceptance of fuel and indicates the paying office to which the contractor should submit invoices for payment.

**Economic Price Adjustment Clause.** Each bunker fuel contract has an EPA clause, which provides that the price paid for fuel will be the market price at the time the fuel is delivered. Each EPA contract provision specifies that prices are tied to a preselected published market index, such as Pratt's Oilgram Price Report or the Journal of Commerce. The Government preselects the reference price that is used to adjust prices for individual items and market areas. To ensure that current market prices are paid, prices are updated weekly. DFSC forwards copies of weekly price changes, as contract modifications, to all DFAS paying offices and contractors involved in bunker fuel contracts.

**Payment Procedures for Bunker Fuel Contracts.** Naval Supply Publication 485, "Afloat Supply Procedures," December 1, 1993, specifies paying offices for bunker fuel deliveries. For Navy vessels assigned to Atlantic Fleet units, contractors are required to submit invoices to DFAS, Norfolk, Virginia; and for Navy vessels assigned to Pacific Fleet units, contractors are

required to submit invoices to DFAS, San Diego, California. Paying offices for the Military Sealift Command's chartered vessels are specified in individual charter agreements. The Military Sealift Command's chartered vessels are assigned to one of three Military Sealift Command area regions. The region that a vessel is assigned to determines the paying office to which contractors are required to submit bunker fuel invoices for payment. For vessels assigned to the Atlantic region, contractors are required to submit invoices to DFAS, Bayonne, New Jersey; for vessels assigned to the Pacific region, contractors are required to submit invoices to DFAS, Oakland, California; and for vessels assigned to the Washington, D.C., region, contractors are required to submit invoices to DFAS, Washington, D.C. Commanding officers or supply officers of the DoD-controlled vessels identified the paying offices for the contracts on the delivery order when fuel was received by the vessel.

To receive payment for delivered fuel, contractors are required to submit to the appropriate DFAS paying office an original invoice in quadruplicate, copies of orders for supplies or services, and copies of material inspection and receiving reports signed by the commanding officer or supply officer of the DoD vessel. An invoice is a written request for payment under the contract for bunker fuel. DFAS paying offices process invoices received from contractors for payment. When invoices are received, personnel in the paying office should compare invoices to receiving reports to verify quantity received, fuel type, date, and location of delivery. Paying office personnel should compare invoices to delivery orders to ensure that purchases were authorized. Personnel should also verify that receiving reports are signed by authorized officials and compare unit prices on contractors' invoices to the appropriate EPA contract modification to calculate the correct payment to the contractor.

## DFAS Overpayments

The DFAS overpaid contractors for fuel delivered under bunker fuel contracts. We reviewed a sample of 358 invoices paid by DFAS paying offices during FY 1993. Of the 358 invoices, 132 (37 percent) were overpaid by about $2.9 million. Based on our statistical sampling procedures, we estimated an overpayment of about $3.2 million during FY 1993 (see Appendix A). We attributed the overpayments to inadequate training on paying contracts with EPA provisions, supervisors not reviewing high dollar payments before checks were issued, and too many paying offices authorized to pay invoices. DFAS also underpaid contractors about $100,000 on 12 invoices for delivered fuel. However, the contractors were diligent in identifying and seeking restitution from the Government.

**Adequacy of Training for Paying Invoices With Contracts Including EPA Provisions.** DFAS personnel lacked adequate technical training on how to pay bunker fuel invoices. DFAS personnel at four of the five paying offices we visited stated they had not received training on paying bunker fuel invoices with EPA provisions. Paying office personnel indicated that they were confused in deciding the date that the EPA provision applied. Other DFAS personnel stated

that they paid bunker fuel invoices the same way they paid commercial accounts, without consideration of EPA provisions. Contractors were incorrectly paid the price shown on either the delivery orders or the invoices. Contractors should have been paid the price shown on the contract modifications for bunker fuel as of the date the fuel was delivered. For example, on March 17, 1993, a contractor submitted an invoice to the DFAS paying office at Washington Navy Yard for 2,296 metric tons of intermediate grade fuel oil, delivered to a vessel at Bremerhaven, Germany. The unit price shown on the invoice for this fuel was $134.35 per metric ton at a total cost of $308,468. According to the contract modification, the fuel price effective on this date, as forwarded to the contractor by DFSC, was $88.95 per metric ton at a total cost of $204,229. We believe that this inaccurate representation by the contractor and lack of control over the payment process by the DFAS paying office resulted in an overpayment of $104,239. The lack of training on how to pay bunker fuel invoices contributed to overpayments at four of five paying offices visited.

**Supervisory Review of High Dollar Payments.** Supervisors were not reviewing contractor payments and supporting documentation before high dollar checks were issued. Of 358 checks issued, 62 were for large amounts (more than $100,000). Spot checks by supervisors would identify cases in which subordinates failed to follow up on missing and incomplete documentation, used inaccurate price modification information to pay invoices, and did not properly examine contractor invoices for accurate quantities of fuel delivered. Those personnel could be given additional training. For example, of the 358 invoices reviewed, 24 contained invoiced qualities higher than the quantities on receiving reports. In 1 case, on January 16, 1993, a contractor delivered 1,662 metric tons of fuel oil to a vessel at Nordenham, Germany, per the receiving report. According to the contract modification, the fuel price effective on January 16, 1993, was $81.20 per metric ton. However, the contractor billed the Government for 1,727 metric tons at $120.75 per metric ton. The DFAS paying office personnel failed to properly compare the contractor's invoice with the receiving report and contract modification. As a result, the contractor was overpaid by $73,581.

**Number of Paying Offices.** The DFAS would have a greater degree of control over payments if fewer offices were authorized to pay bunker fuel invoices. The payment process for bunker fuel invoices was too decentralized. DFAS had 19 paying offices designated to pay bunker fuel invoices. Adequate specialized training of invoice examiners is more complicated in 19 separate paying offices than 1 or 2 paying offices. Further, decentralization of the payment function made it difficult for DFSC to provide current price modifications to all paying offices and the invoice examiners. In some cases, DFSC sent price modifications to paying offices that made no payments under bunker fuel contracts, because DFSC responsibility under the bunker fuel program was limited to contract administration.

The DFSC was unaware of the specific DFAS paying office authorized to process payments. That situation occurred because the paying offices authorized to process and pay invoices from contractors were not identified in the individual contracts. The paying offices were not identified to contractors

until after the bunker fuel was delivered. Instructions for payment of invoices were provided by the commanding officers or supply officers of vessels at the time fuel was delivered. That information was not provided to DFSC. If the DFSC contracting officer was authorized to insert the paying office into contracts when the contracts were awarded, then DFSC would not have to send a price modification to 19 different DFAS paying offices when only 1 or 2 needed it. During FY 1993, DFSC mailed about 2 million copies of modifications to paying offices and contractors. By reducing the number of paying offices to 2, DFSC would need to mail only 12,168 copies of contract price modifications.

## Policy Memo for Bunker Fuel Payments

On October 19, 1994, we met with personnel from Headquarters, DFAS, and informed them that DFAS paying offices were not making bunker fuel payments correctly, because of poor internal controls. On November 3, 1994, the Director, DFAS, issued a policy memo and directed that all the DFAS paying offices take immediate actions to ensure that the proper rate changes are being fully used and overpayments do not occur. Additionally, DFAS will establish a process action team to improve the payment process.

## Recommendations, Management Comments, and Audit Response

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

**a. Provide training to paying office personnel on the use of required documentation to properly pay bunker fuel contractor invoices with economic price adjustment provisions.**

**b. Require supervisors to spot check high dollar payments for bunker fuel before checks are issued and document the results.**

**c. Limit the number of paying offices that are authorized to process and make payments for bunker fuel contracts.**

**d. Notify the Director, Defense Logistics Agency, of the paying offices that are authorized to pay bunker fuel contracts.**

**Management Comments.** The DFAS concurred with the recommendations. It stated that DFAS and DFSC personnel, who are experts on bunker fuel payment procedures, visited paying offices to coordinate additional training for paying office personnel on the use of required documentation to properly pay bunker fuel contractor invoices with economic price adjustments. The first visit took place on March 20, 1995.

The DFAS is reviewing high dollar payments and on October 1, 1995, DFAS management control procedures will require supervisors to spot check high dollar payments for bunker fuel. Additionally, by October 1, 1995, all paying offices will be consolidated into one. Further, on April 10, 1995, DFAS notified the Defense Logistics Agency of the paying offices that are authorized to pay bunker fuel payments. The complete text of DFAS comments is in Part IV.

**2. We recommend that the Director, Defense Logistics Agency, include a provision in each contract awarded for bunker fuel that identifies the paying office authorized by the Defense Finance and Accounting Service to process payments under the bunker fuel contract to ensure that contractors submit DoD invoices only to DoD-authorized paying offices.**

**Management Comments.** The Defense Logistics Agency concurred with the recommendation. It stated that DFSC is working with DFAS to centralize DoD bunkers payments at Columbus, Ohio. Upon notification that Columbus is ready to commence payments, which is scheduled to start on October 1, 1995, bunker fuel contracts will be modified to incorporate the DFAS, Columbus, address in all bunker fuel contracts.

**3. We recommend that the Director, Defense Finance and Accounting Service, coordinate with the Director, Defense Logistics Agency, to collect the overpayments identified in this report.**

**Management Comments.** The DFAS concurred with the recommendation and stated that recoveries of overpayments from three contractors were postponed because of ongoing legal investigations. Recoupment of overpayments from all other contractors are scheduled to be completed by September 30, 1995.

**4. We recommend that the Commander, Military Sealift Command, revise charter agreements to discontinue the requirement that commanding officers or supply officers of vessels identify paying offices on delivery orders for bunker fuel contracts.**

**Management Comments.** The Navy partially concurred with our recommendation. It stated that no provisions are in the Military Sealift Command time charters requiring commanding officers or supply officers of vessels to identify paying offices on delivery orders for bunker fuel contracts; however, information contained in item 15 on the delivery orders specifies who the paying office will be. Accordingly, the Military Sealift Command will delete any reference to paying offices on the delivery orders after receiving confirmation that the Defense Logistics Agency has included in bunker fuel contracts the specific paying office authorized by DFAS to process payments

under bunker fuel contracts. Further, it stated that DFAS paying offices for Military Sealift Command did not receive contract modifications in a timely manner and a larger number of modifications were never sent.

**Audit Response.** The Navy's position is partially responsive to the intent of the recommendation. The DLA has agreed to modify bunker fuel contracts to specify DFAS Columbus Center as the paying office after October 1, 1995. Navy action should take place simultaneously.

We agree that the paying offices did not receive contract modifications in a timely manner. However, paying offices have an ultimate responsibility to pay contractor invoices correctly. Followup actions were not taken by paying office personnel to obtain the correct modification price from DFSC when contract price modification was not available.

**5. We recommend that the Commander, Naval Supply Systems Command, revise Naval Supply Publication 485, "Afloat Supply Procedures," to discontinue the requirement that commanding officers or supply officers of vessels identify paying offices on delivery orders for bunker fuel contracts.**

**Management Comments.** The Navy concurred with the recommendation and stated that within 60 days of the Defense Logistics Agency implementation of Recommendation 2., the Navy will issue memoranda regarding revised delivery order procedures.

**Audit Response.** The Navy's position is partially responsive. Rather than relying on sequential notifications from DFAS to DLA to Navy after DFAS Columbus Center has taken over the paying office functions, the three DoD components should set October 1, 1995 as a date certain and take simultaneous action. We request the Defense Logistics Agency and the Navy to reconsider the implementation schedule and provide additional comments in response to this report.

# Part III - Additional Information

# Appendix A. Sampling Procedure for Overpayments in FY 1993

In support of the objectives of this audit, we made statistical projections of the total dollar amounts of overpayments in the audit universe. We identified a universe of 19 paying offices that made payments for 78 bunker fuel contracts, consisting of 671 invoices, at a cost of $50 million, which were paid during FY 1993. For sampling purposes, we considered the 10 highest paying offices from the universe, which accounted for 99 percent of the total payments.

We used stratified multistage random sampling as the design for this audit. We grouped the paying offices into three strata based on the total dollar values. In the first stage of our sampling methodology, we selected the stratified random sample of paying offices from the three strata. In the second stage, we randomly selected the contracts within the selected paying offices, and reviewed all invoices within those contracts. Details of the audit universe and the sample plan with associated sample results are in the table below.

**Universe**

| Strata | Dollar Range | Number of Paying Offices | Number of Invoices | Amount (million) |
|---|---|---|---|---|
| 1 | ≥10 million | 1 | 281 | $21.7 |
| 2 | ≥3 million, <10 million | 4 | 292 | 22.6 |
| 3 | ≥300,000, <3 million | 5 | 64 | 5.0 |
| **Total** | | **10** | **637** | **$49.3** |

**Sample**

| | Sample Plan | | | Sample Results | |
|---|---|---|---|---|---|
| Strata | Number of Paying Office | Invoices Reviewed | Amount Paid (million) | Invoices Overpaid | Amounts Overpaid (million) |
| 1 | 1 | 173 | $19.0 | 91 | $2.6 |
| 2 | 2 | 170 | 8.5 | 32 | 0.1 |
| 3 | 2 | 15 | 1.6 | 9 | 0.2 |
| **Total** | **5** | **358** | **$29.1** | **132** | **$2.9** |

Using a 90-percent confidence level, we projected an overpayment of $3.24 million during FY 1993 with a margin of error of (+/-) 5.1 percent, which resulted in the lower and upper bounds of $3.07 million and $3.40 million, respectively. This means we are 90-percent confident that between $3.07 million and $3.40 million was overpaid in FY 1993. The unbiased point estimate of $3.24 million is the most likely single value for overpayment in this population.

# Appendix B. Overpayments in FY 1993 by Paying Office

| DFAS Paying Office Location | Invoices Reviewed | Amounts Paid | Invoices Overpaid | Amount Overpaid |
|---|---|---|---|---|
| Washington, DC | 173 | $18,983,393 | 91 | $2,594,478 |
| Norfolk, VA | 138 | 3,753,707 | 32 | 119,925 |
| Oakland, CA | 32 | 4,785,590 | 7 | 189,610 |
| Memphis, TN | 12 | 1,121,698 | 2 | 10,066 |
| Vicksburg, MS | 3 | 524,600 | 0 | 0 |
| **Total** | **358** | **$29,168,988** | **132** | **$2,914,079** |

# Appendix C. Summary of Potential Benefits Resulting From Audit

| Recommendation Reference | Description of Benefit | Amount and/or Type of Benefit |
|---|---|---|
| 1. and 3. | Management Controls and Economy and Efficiency. Strengthening management controls over the payment process on bunker fuel contracts will reduce the risk of overpayments to contractors. | Collection of bunker fuel overpayments could result in $3.2 million put to better use. (97x4930. NCIA). |
| 2. | Management Controls. Establishes management controls to ensure that contractors submit bunker fuel invoices only to DoD-authorized paying offices. | Nonmonetary. |
| 4. and 5. | Management Controls. Establishes management controls to ensure that paying offices are deleted from delivery orders. | Nonmonetary. |

# Appendix D. Organizations Visited or Contacted

## Office of the Secretary of Defense

Under Secretary of Defense (Comptroller), Washington, DC
Deputy Under Secretary of Defense for Logistics, Washington, DC

## Department of the Army

Headquarters, U.S Army Corps of Engineers, Washington, DC
  Army Corps of Engineers, Memphis, TN
  Army Corps of Engineers, Vicksburg, MS
Army Petroleum Center, New Cumberland, PA

## Department of the Navy

Headquarters, Military Sealift Command, Washington, DC
  Military Sealift Command, Eastern Area, Bayonne, NJ
  Military Sealift Command, Western Area, Oakland, CA
Navy Petroleum Office, Cameron Station, Alexandria, VA

## Defense Organizations

Defense Logistics Agency, Cameron Station, Alexandria, VA
  Defense Fuel Supply Center, Cameron Station, Alexandria, VA
Headquarters, Defense Finance and Accounting Service, Arlington, VA
  Defense Accounting Office, Bayonne, NJ
  Defense Accounting Office, Memphis, TN
  Defense Accounting Office, Norfolk, VA
  Defense Accounting Office, Oakland, CA
  Defense Accounting Office, Vicksburg, MS
  Defense Accounting Office, Washington, DC

## Unified Command

U.S. Transportation Command, Pentagon Liaison Office, Washington, DC

## Non-Defense Federal Organization

Washington National Records Center, General Services Administration, Suitland, MD

# Appendix E. Report Distribution

## Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
  Deputy Under Secretary of Defense (Comptroller/Management)
  Deputy Under Secretary of Defense (Comptroller/Program/Budget)
Deputy Under Secretary of Defense for Logistics
Assistant to the Secretary of Defense (Public Affairs)
Director, Defense Logistics Studies Information Exchange

## Department of the Army

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
Commander, Military Sealift Command
Commander, Naval Supply Systems Command

## Department of the Air Force

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

## Unified Command

Commander In Chief, U.S. Transportation Command

## Other Defense Organizations

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

## 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

# Part IV - Management Comments

# Defense Finance and Accounting Service Comments

DEFENSE FINANCE AND ACCOUNTING SERVICE
1931 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22240-5291

MAR 20 1995

DFAS-HQ/F

MEMORANDUM FOR DIRECTOR, LOGISTICS SUPPORT DIRECTORATE,
INSPECTOR GENERAL, DEPART OF DEFENSE

SUBJECT: Preparation of Response to OIG DoD Draft Report, "Bunker Fuel Payments" ((Project Number 4LC-0043.01)

Our detailed comments to the information requested on the findings and recommendations in the report are attached.

Michael E. Wilson
Deputy Director for Finance

Attachment:
As stated

Defense Finance and Accounting Service Comments on DoDIG Draft Report, "Bunker Fuel Payments" (Project number 4LC-0043.01)

FINDINGS:

- Personnel in the paying offices had inadequate training on paying bunker fuel contract invoices with economic price adjustment provisions.
- Supervisors in the paying offices were not reviewing high dollar payments before checks were issued.
- Responsibility for payment of bunker fuel invoices was distributed among too many paying offices.
- As a result, paying offices made about $2.9 million in overpayments to bunker fuel contractors in FY1993.

DFAS RESPONSE: Concur with the above findings.

RECOMMENDATION 1A: We recommend that the Director, Defense Finance and Accounting Service provide training to paying office personnel on the use of required documentation to properly pay bunker fuel contractor invoices with economic price adjustment provisions.

DFAS RESPONSE: Concur. During the period of May - August 1993, Defense Fuel Supply Center (DFSC) representatives conducted a site visit and review of twenty-one active paying offices. The purpose of the visit and review was to provide refresher training on payment procedures and to ensure that personnel utilize required documents when making payments against bunker fuel contracts. DFAS and DFSC subject matter experts are coordinating additional training to the paying offices. The first visit to take place on March 20, 1995.

RECOMMENDATION 1B: Require supervisors to spot check high dollar payments for bunker fuel before checks are issued and document the results.

DFAS RESPONSE: Concur. High dollar payments are currently being reviewed. Upon consolidation, this step will be incorporated in our internal control procedures.

RECOMMENDATION 1C: Limit the number of paying offices that are authorized to process and make payments for bunker fuel contracts.

DFAS RESPONSE: Concur. The number of paying offices will be reduced to one. DFAS and DFSC are jointly working on an effort

to centralize bunker fuel payments at the DFAS-Columbus Center by October 1, 1995.

RECOMMENDATION 1D: Notify the Director, Defense Logistics Agency, of the paying offices that are authorized to pay bunker fuel payments.

DFAS RESPONSE: Concur with the recommendation. Notification is dated April 10, 1995.

RECOMMENDATION 3: We recommend that the Director, Defense Finance and Accounting Service, coordinate with the Director, Defense Logistics Agency, to collect the overpayments identified in this report.

DFAS RESPONSE: Concur. Insofar as the collection of the overpayments is concerned, three companies are suspected of fraud. Overpayments to these contractors remain under investigation by the Department of Justice and the subject of litigation. Recovery action will be postponed, pending completion of the investigation within the next several months. A specific estimated completion date could not be obtained. Appropriate managerial measures will be initiated to recoup the funds from all other contractors (estimated completion date: September 30, 1995).

POTENTIAL BENEFIT: DFAS concurs with the $3.2 million (97X4930.NCIA) potential monetary cost benefit identified in appendix C of the draft audit report.

# Defense Logistics Agency Comments

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
CAMERON STATION
ALEXANDRIA, VIRGINIA 22304-6100

IN REPLY
REFER TO DDAI

10 March 1995

MEMORANDUM FOR THE ASSISTANT INSPECTOR GENERAL FOR AUDITING,
DEPARTMENT OF DEFENSE
(ATTN: Mr. Billy Johnson)

SUBJECT: DoD OG Draft Audit Report on Bunker Fuel Payments,
Project No. 4LC-0043.01

This is in response to your 3 February 1995 request.

2 Encl

JACQUELINE G. BRYANT
Chief, Internal Review

cc:
MMA

TYPE OF REPORT: AUDIT DATE OF POSITION:

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Bunker Fuel Payments (Project No. 4LC-0043.01)

FINDING: Overpayments to Contractors. The Defense Finance and Accounting Service overpaid contractors who provided bunker fuel for DoD-controlled vessels. This condition occurred because of the following:

- o Personnel in the paying offices had inadequate training on paying bunker fuel contract invoices with economic price adjustment provisions.
- o Supervisors in the paying offices were not reviewing high dollar payments before checks were issued.
- o Responsibility for payment of bunker fuel invoices was distributed among too many paying offices.

As a result, paying offices made about $3.2 million in overpayments to bunker fuel contractors in FY 1993.

DLA COMMENTS: Concur in the finding; however item is not for DLA action.

INTERNAL MANAGEMENT CONTROL WEAKNESSES
( ) Nonconcur.
( ) Concur; however weakness is not considered material
( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

Not for DLA comments or action.

MONETARY BENEFITS: N/A
DLA COMMENTS: N/A
ESTIMATED REALIZATION DATE: N/A
AMOUNT REALIZED: N/A
DATE BENEFITS REALIZED: N/A

ACTION OFFICER: William J. Gibson, MMSB, x47975
Mary Lehman, DFSC, x45957, 7 Mar 95

REVIEW/APPROVAL: J. S. Rountree, Capt, SC, USN, Acting Deputy Executive Director, Supply Management, MMSD, x70510, 7 Mar 95

COORDINATION: A. Broadnax, DDAI, x49607, 8 Mar 95

DLA APPROVAL:

[illegible]

[illegible]
Principal Deputy Director

TYPE OF REPORT: AUDIT DATE OF POSITION:

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Bunker Fuel Payments (Project No. 4LC-0043.01)

RECOMMENDATION 2: We recommend that the Director, Defense Logistics Agency, include a provision in each contract awarded for bunker fuel that identifies the paying office authorized by the Defense Finance and Accounting Service to process payments under the bunker fuel contract to ensure that contractors submit DoD invoices only to DoD-authorized paying offices.

DLA COMMENTS: Concur.. DFSC is currently working with DFAS to centralize DoD bunkers payments at Columbus, Ohio. Upon notification that Columbus is ready to commence payments, contracts will be modified to incorporate the DFAS Columbus address in all contracts.

DISPOSITION

(X) Action is ongoing. Estimated Completion Date: ~~1 May 1995~~
( ) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES

( ) Nonconcur.
(X) Concur; however weakness is not considered material.
( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

MONETARY BENEFITS: N/A
DLA COMMENTS: N/A
ESTIMATED REALIZATION DATE: N/A
AMOUNT REALIZED: N/A
DATE BENEFITS REALIZED: N/A

ACTION OFFICER: William J. Gibson, MMSB, x47975,
Mary Lehman, DFSC, x45957, 7 Mar 95
REVIEW/APPROVAL: J. S. Rountree, Capt, SC, USN, Acting Deputy Executive Director,
Supply Management, MMSD, x70510, 7 Mar 95
COORDINATION: A. Broadnax, DDAI, x49607, 8 Mar 95

DLA APPROVAL:

10 MAR 1995

**MEMORANDUM FOR RECORD**

In reference to the DoD Inspector General draft report, Bunker Fuel Payments (Project No. 4LC-0043.01), a correction has been entered by pen and ink to change the estimated completion date on Recommendation 2 from 1 May 1995 to 1 October 1995. This change has been confirmed with DLA Headquarters, Internal Review, DDAI.

Mary Lehman May 2

MARY LEHMAN
Chief, Internal Review
Defense Fuel Supply Center

# Department of the Navy Comments

DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(Research, Development and Acquisition)
WASHINGTON, D.C. 20350-1000

APR 18 1995

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR GENERAL FOR AUDITING

Subj: DODIG DRAFT REPORT: "BUNKER FUEL PAYMENTS" (PROJECT NO 4LC-0043.01)

Ref (a) DoDIG Memo of 3 Feb 1995

Encl: (1) Department of the Navy Comments

We have reviewed the findings and recommendations in reference (a). We concur in part with recommendation 4, as Defense Fuel Supply Center (DFSC) fuel contracts do not require Military Sealift Command (MSC) commanding officers or supply officers to identify paying offices on delivery orders. The MSC will delete any reference to paying offices on the DD form 1155 once the Defense Logistics Agency (DLA) has identified a specific paying office per recommendation 2 of the report.

We concur with recommendation 5, provided that recommendation 2 is approved and implemented by DLA for payment of Defense Fuel Supply Center bunker contracts from a single centralized location which is identified in the contract.

Department of Navy comments are provided at enclosure (1).

W. C. BOWES
Vice Admiral, U. S. Navy
Principal Deputy

Copy to:
NAVINSGEN
NAVCOMPT (NCB-53)

DEPARTMENT OF THE NAVY RESPONSE
ON
DODIG AUDIT REPORT
BUNKER FUEL PAYMENTS
(PROJECT NO. 4LC-0043.01)

Recommendation 4: We recommend that the Commander, Military Sealift Command, revise charter agreements to discontinue the requirement that commanding officers or supply officers of vessels identify paying offices on delivery orders for bunker fuel contracts.

DON Position: Concur in part. There are no provisions contained in MSC time charters which require commanding officers or supply officers of vessels to identify paying offices on delivery orders for bunker fuel contracts; however, there is information contained in item 15 on the orders for supplies or services (Form DD1155), that specifies who the paying office will be. Accordingly, MSC will delete any reference to paying offices on the DD1155 after receiving confirmation that the Director, Defense Logistics Agency has included in bunker fuel contracts the specific paying office authorized by the Defense Finance and Accounting Service to process payments under bunker fuel contracts. Lack of a payment office to be billed may result in refusal to bunker ships until DLA contracts are revised to include this information

Recommendation 5: We recommend that the Commander, Naval Supply Systems Command (COMNAVSUPSYSCOM), Naval Supply Publication 485, "Afloat Supply Procedures," discontinue the requirement that commanding officers and supply officers of vessels identify paying offices on delivery orders for bunker fuel contracts

DON Position: Concur. Concur with Recommendation #5 provided that: Revisions to applicable instructions make it clear that the requirement to leave block 15 of the DD1155 blank only applies to DFSC bunker contracts; DFSC/DFAS implements the DODIG recommendation to centralize at one location; and DODIG recommendation that DLA identify the paying office in each bunker contract is implemented so it becomes the contractor's obligation to ensure that the documents are sent to the correct paying office

In addition to P485, NAVPETOFFINSTs 4290 2A/1B and the CINCLANTFLTINST/CINCPACFLTINST 4026.1, "Fuel Management Afloat" will also require revision. Within 60 days of DLA implementation of recommendation 2, MSC and COMNAVSUPSYSCOM will issue memoranda regarding revised DD1155 procedures.

ENCLOSURE (1)

Final Report
Reference

OTHER COMMENTS CONCERNING RECOMMENDATION 4:

1. INTERNAL CONTROLS

The draft identified on page 3, material internal control weaknesses as defined be DOD Directive 5010.38, "Internal Management Control Program," April 14, 1987. Internal controls were not in place to ensure proper payment of contractor invoices. Personnel had inadequate training on paying bunker fuel contract invoices with EPA provisions. Further, supervisors were not reviewing high dollar payments before checks were issued Additionally, responsibility for payment of bunker fuel invoices was distributed among too many paying offices. DFAS did not identify those internal control weaknesses as assessable units in its annual statement of assurance for FY 1993."

COMSC Comment: Concur. Although we agree that the lack of adequate training in the unique EPA clauses played a part in the problem, supervisors should have spot checked high dollar payments and invoices which were distributed among too many paying offices. It should be noted that the DFAS paying offices for COMSC did not receive contract modifications in a timely manner and a large number of modifications were never sent. May of 1993 was the only time that DFSC had visited MSC CONUS payment offices to provide proper procedures and instructions on the payment of bunker fuel invoices. COMSC endorses the centralization of bunker fuel contract payments. MSC has verified, through a recent audit, that revised fuel bill payment procedures have eliminated overpayments in fuel processing. In addition, we are in the process of recovering overpayments from those contractors still in business by offsets against current contract billing or issuance of collection letters to recover overpayments.

2. BACKGROUND

a. Page 8, Paragraph 1: Characteristics of Bunker Fuel Contracts and Delivery Procedures. 6

COMSC Comment: The statement "When a vessel needs fuel at a port where a bunker fuel contract exists, the commanding officer of the vessel or the supply officer of the vessel contacts the contractor" does not apply to MSC. Normal procedures for an MSC vessel is to request bunkering assistance from the appropriate MSC area command. This office directs the ship where to bunker.

b. Page 8, Paragraph 2: Economic Price Adjustment Clause.

6 COMSC Comment: As stated previously, price change supplements are not distributed in a timely manner. The paying offices may receive the price change supplements for as much as three months from the actual date of fueling.

Final Report Reference

c. Page 9, Paragraph 1: Payment Procedures for Bunker Fuel Contracts. 6

COMSC Comment: Line eleven (11) states "For MSC vessels assigned to Atlantic region, contractors are required to submit invoices to DFAS, Norfolk, Virginia." Norfolk, VA should read Bayonne, NJ " Corrected

3. Appendix B. Overpayments in FY 1993 by Paying Office

COMSC Comment: MSC is currently in the process of validating payments on FY93 bunker fuel invoices to concur or non-concur with the precise dollars amounts shown for Washington, DC and Oakland, CA.

# Audit Team Members

This report was produced by the Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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