Audit Report

OFFICE OF THE INSPECTOR GENERAL

THE DOD CONTRACT FUND RECONCILIATION PROCESS

Report No. 98-031 December 5, 1997

Department of Defense

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Acronyms

ACO	Administrative Contracting Officer
ACRN	Accounting Classification Reference Number
DAO	Defense Accounting Office
DCMC	Defense Contract Management Command
DFAS	Defense Finance and Accounting Service
DLA	Defense Logistics Agency
MOCAS	Mechanization of Contract Administration Services
NULOs	Negative Unliquidated Obligations
OPLOC	Operating Location
SF	Standard Form
STARS	Standard Accounting and Reporting System
USD(C)	Under Secretary of Defense (Comptroller)

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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December 5, 1997

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
DIRECTOR, DEFENSE PROCUREMENT
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
DIRECTOR, DEFENSE CONTRACT MANAGEMENT COMMAND

SUBJECT: Audit Report on the DoD Contract Fund Reconciliation Process (Report No. 98-031)

We are providing this report for review and comments. Comments to the draft report from the Director, Defense Procurement, and Director, Defense Contract Management Command, were responsive and were considered in preparing the final report. Additional comments from their offices are not required.

The Under Secretary of Defense (Comptroller); the Director, Defense Finance and Accounting Service; and the Director, Defense Finance and Accounting Service Columbus Center, did not provide comments on the draft report. DoD Directive 7650.3 requires that all recommendations be resolved promptly. Therefore, we request that the Under Secretary of Defense (Comptroller) provide comments on Recommendations A.1., B.1. and B.2. and the Director, Defense Finance and Accounting Service, provide comments on Recommendations A.2., B.3., B.4., and C.1. by January 9, 1998.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. James L. Kornides, Audit Program Director, at (614) 751-1400 (email JKornides@DODIG.OSD.MIL) or Mr. Clarence E. Knight III, Acting Program Manager, at (614) 751-1400 (email CKnight@DODIG.OSD.MIL). See Appendix C for the report distribution. The audit team members are listed inside the back cover.

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Report No. 98-031 **December 5, 1997**
Project No. 6FJ-5039.00

The DoD Contract Fund Reconciliation Process

Executive Summary

Introduction. Contract fund reconciliation is the process of matching obligation and disbursement data in contracting, disbursing, and accounting and finance systems to the specifications in the contract document. All DoD contracts eventually require contract fund reconciliation. Many contracts require reconciliation only at contract closeout. However, some contracts are out of balance during their life cycle and require immediate reconciliation. During FY 1996, the Defense Finance and Accounting Service (DFAS) Columbus Center and the Military Departments identified 9,652 contracts that were out of balance by a total of more than $1 billion.

Audit Objectives. The audit objective was to determine whether contract reconciliations were performed efficiently and economically. We also evaluated whether added efficiency and economy could be realized through consolidation of the contract reconciliation processes. Finally, we evaluated management controls over the contract reconciliation process.

Audit Results. The Military Departments and DFAS did not routinely distribute the results of contract reconciliations. The inadequate distribution of information contributed to the Military Departments' need to obligate current-year funds to cover unmatched disbursements and negative unliquidated obligations that were more than 180 days old (Finding A).

DoD organizations did not use Standardized methods to perform contract reconciliation. Also, automated reconciliation systems in use and under development lacked a standardized output. As a result, contract fund reconciliations were not readily accepted or exchanged by the various DoD Components that performed them, resulting in duplication of reconciled contracts. In FY 1996, 278 contracts were reconciled concurrently (Finding B).

The DFAS Columbus Center did not ensure that Defense agencies with Army Fiscal Station numbers received copies of internal adjustments. As a result, contracts at those Defense agencies required extensive reconciliations (Finding C).

Officials did not identify contract fund reconciliations as a high-risk area, and therefore did not identify or report the material management control weaknesses identified by the audit. Appendix A describes the management controls assessed and discusses the material management control deficiencies found during the audit.

Summary of Recommendations. We recommend that the Under Secretary of Defense (Comptroller) establish policy in DoD 7000.14-R, the "DoD Financial Management Regulation," to assign responsibility for contract fund reconciliations to DFAS, standardize the business practices for contract fund reconciliation, and convert the current automated reconciliation systems to provide a standard process and output. We recommend that the Director, Defense Procurement, work with the Director, DFAS, to establish specific parameters for the implementation and mandatory use of an automated

reconciliation system compatible with DFAS systems, and that the Director, Defense Contract Management Command, reemphasize the benefits of using the automated reconciliation system at the DFAS Columbus Center for contract reconciliations needed by the Defense Contract Management Command. We also recommend that the Director, DFAS, establish an office to coordinate all contract fund reconciliation efforts performed by DoD organizations, and that the Director, DFAS Columbus Center, revise Desk Procedure 808, "Coding of Adjustments," to include the Army accounting offices and Defense agencies in the distribution of adjustments processed. We added a recommendation to this final report that the Director, DFAS establish performance measures for the DFAS Columbus Center liaison offices.

Management Comments. The Director, Defense Procurement, stated that she supported the overall objective of a standardized automated contract reconciliation process and would work with the Director, DFAS, toward that objective. The Principal Deputy Director, Defense Contract Management Command, concurred with the recommendation to use the automated reconciliation system at the DFAS Columbus Center. However, he believed that such use should begin after recommendations to standardize the process are implemented. The Deputy Director believed that the standardized reconciliation process should include criteria, agreed to by all users, for contracts that will be reconciled.The Under Secretary of Defense (Comptroller); the Director, DFAS; and the Director, DFAS Columbus Center, did not comment on a draft of this report.

Audit Response. Comments from the Director, Defense Procurement, and the Principal Deputy Director, Defense Contract Management Command, are responsive. We agree with the Principal Deputy Director, Defense Contract Management Command, that the reconciliation process should be standardized before the automated reconciliation process is adopted. We request written comments from the Under Secretary of Defense (Comptroller); the Director, DFAS; and the Director, DFAS Columbus Center, by January 9, 1998.

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Part I - Introduction

Audit Background

Reconciliation Processes. Contract fund reconciliation is the process of matching the obligation and disbursement data in the various DoD contracting, disbursing, and accounting and finance systems to the data specified in the contract document. All DoD contracts require contract funding reconciliation at final closure of the contract. However, some contracts are out of balance during their life cycle and require immediate reconciliation.

Defense Finance and Accounting Service Columbus Center Reconciliations. The Defense Finance and Accounting Service (DFAS) Columbus Center processed about 80 percent of DoD contract payments in FY 1996 and routinely reconciled DFAS Columbus Center records as a part of its responsibility for making accurate payments. Normally, reconciliations were done when obligations and disbursements appeared to be out of balance (disbursements were greater than obligations) or when a reconciliation was requested by the procuring Military Department.

In FY 1996, the DFAS Columbus Center had a backlog of contracts requiring reconciliation. The backlog had been a long-standing problem. In a letter to the DoD Components in October 1994, the Deputy Secretary of Defense set a goal of reducing the DoD backlog of unreconciled contracts by 75 percent by December 31, 1995. On September 30, 1994, the DFAS Columbus Center indicated, in a memorandum to the Under Secretary of Defense (Comptroller) (USD[C]), that it planned to reduce its backlog of unreconciled contracts from 3,839 to 960. DFAS Columbus Center has made progress towards this goal, but has been unable to meet it. As of December 31, 1996, 1,667 contracts were out of balance by a total of $523 million.

Other Organizations Reconciling Contracts. Contract fund reconciliations were also performed by personnel at other DFAS activities, including the DFAS personnel at Operating Locations (OPLOCs) and Defense Accounting Offices (DAOs). The reconciliations were performed when records at those locations indicated possible out-of-balance conditions.

Personnel in the Military Departments' resource management organizations also performed contract reconciliations. The reconciliations were done primarily when problems with the accuracy of the amounts DAOs had obligated were evident in their accounting records. The Navy used contractors to assist in performing contract fund reconciliations in FY 1996.

In addition to the efforts of DFAS and the Military Departments to reconcile contracts, the Defense Contract Management Command (DCMC) administrative contracting officers (ACOs) were required to review obligation balances at contract closeout. The reviews gave assurance that funds obligated on contracts were within specified limits. The Supervisor of Shipbuilding ACOs also reconciled contract obligations.

Cost of Reconciliations. The cost of the contract reconciliations performed in FY 1996 was not documented, except at the DFAS Columbus Center. However, the limited information that we obtained showed that DoD organizations spent about $23.9 million to reconcile 9,652 contracts during FY 1996.

Audit Objectives

The audit objective was to determine whether DoD organizations performed contract reconciliations efficiently and economically. We also evaluated whether added efficiency and economy could be realized through consolidation of the contract reconciliation processes. Finally, we evaluated management controls over the contract reconciliation process (Appendix A). Prior audit coverage is discussed in Appendix B.

Finding A. Coordination in the Reconciliation Process

The Military Departments and DFAS did not routinely distribute the results of the adjustments needed because of contract reconciliations. This condition existed because a DoD policy on distributing the information obtained through contract fund reconciliations did not exist, and the policies of the DFAS Columbus Center were either ineffective or not followed. As a result, information was not available to ensure that disbursing, contracting, and accounting and finance offices maintained accurate fund balances. Also, funding activities were not able to close their records in a timely manner. Additionally, the inadequate distribution of information contributed to the needs of the Military Departments to obligate current funds to cover unmatched disbursements and negative unliquidated obligations that were more than 180 days old and totaled more than $889.6 million at the end of FY 1996.

DoD Contract Fund Reconciliation Policies

DoD Financial Management Regulation. DoD 7000.14-R, the "DoD Financial Management Regulation," February 1996, volume 10, chapter 1, section 010303, "Contract Reconciliation," provides limited guidance on contract reconciliations. It states only that disbursing offices, contracting officers, and funding stations work together to reconcile contracts.

Communication of Contract Fund Balance Adjustments

The Military Departments and the DFAS offices we visited were not working together to share the information they developed through contract reconciliations. We visited five accounting activities: the U.S. Army Missile Command, the Naval Sea and Naval Air Systems Commands, and the DAOs at Warner Robins Air Force Base, Georgia, and Hill Air Force Base, Utah, to evaluate their procedures for reconciling contracts and communicating adjustments to the DFAS Columbus Center.

Adjustments of Army Contract Fund Balances. At the U.S. Army Missile Command, we judgmentally selected and reviewed 19 contracts with a total value of $22.3 million. The funds on those contracts were reconciled by the

U.S. Army Missile Command in FY 1996. We selected contracts that had discrepancies between the Mechanization of Contract Administration Services (MOCAS) system's contract fund balances and the balances in the Standard Army Procurement Accounting System, the Standard Operation and Maintenance System, the Army Research and Development System, and the Procurement Automated Document and Data System. DFAS used the MOCAS system to make payments on Army contracts. The Army used its systems to manage projects and to account for the funds it provided to MOCAS to make payments.

In 1996, the U.S. Army Missile Command had sent requests to the DFAS Columbus Center to correct errors in the amount of funds paid on all 19 contracts. However, 12 of the 19 contracts were not corrected. The DFAS Columbus Center informed the Army that the DFAS Columbus Center had corrected 7 of the 12 contracts within a month of receiving the requests. However, at the time of the audit, the out-of-balance conditions on the seven contracts still existed in MOCAS.

For example, at the time of the audit, U.S. Army Missile Command contract DAAH01-88-C0605 contained a difference of $479,943.24 in the amount shown as an expenditure on DFAS Columbus Center records and the amount shown as expended on the U.S. Army Missile Command records. The Army reconciliation had shown that according to the DFAS Columbus Center's "Contract Support Obligation and Disbursements Inquiry" report, a single disbursement of $9,261,888.76 was posted to accounting classification reference number (ACRN) "AA" on April 8, 1994, while the U.S. Army Missile Command's records indicated that ACRN AA was fully disbursed in the amount of $9,741,832.00 on October 24, 1991. About 2.5 years elapsed between the recorded posting of the disbursement and the communication of the differences between the accounting systems, exemplifying the need to improve the communication process. Although the DFAS Columbus Center indicated that it had posted the adjustment in 1994, as of October 1996, the contract was out of balance by $479,943.24.

Adjustments of Navy Contract Fund Balances. At the Naval Sea Systems Command and the Naval Air Systems Command, we reviewed reconciliations on 14 contracts. The Navy records indicated that as the Navy completed reconciliations, it sent requests for information about disbursements to the DFAS Columbus Center. The requests for information occurred during 4 years on the 14 contracts we reviewed. However, only 4 of the 14 requests were answered.

For the four requests that were answered, the DFAS Columbus Center took from 2 to 10 months to respond. For one contract, N00024-90-D4090-0002, the Naval Sea Systems Command requested supporting documentation for an

adjustment it identified through its review of MOCAS entries in September 1995. Navy personnel needed the supporting documentation to process the transaction in the Standard Accounting and Reporting System[1] (STARS). Navy personnel made a second request in March 1996. The DFAS Columbus Center sent a copy of the supporting documentation 9 months later, in June 1996.

Of the 14 requests we reviewed, 6 were for resolution of negative unliquidated obligations (NULOs).[2] No NULOs had been resolved in the STARS system because DFAS did not provide support for the NULOs. For example, the Naval Sea Systems Command identified a NULO of more than $1.8 million in STARS on contract N00024-90-C6013, ACRN BF. According to the "Contingent Liability Record Ledger" at the DFAS Columbus Center, contract N00024-90-C6013 also had a NULO for the same amount in MOCAS on September 30, 1996. The DFAS Columbus Center processed an adjustment on February 8, 1994, based on a contract reconciliation for the exact amount of the NULO. However, the DFAS Columbus Center did not communicate the adjustment to the Naval Sea Systems Command.

Navy personnel indicated that the remaining four requests for supporting documentation were not adequately answered by the DFAS Columbus Center.

Adjustments of Air Force Contract Fund Balances. At the DAO at Warner Robins Air Force Base, we reviewed 25 contracts that contained discrepancies in fund balances. Only 2 of the 25 contract files contained documentation indicating that the DFAS Columbus Center provided information to the DAO in response to requests.

MOCAS records showed that an additional request from the DAO at Warner Robins Air Force Base had been processed. However, the MOCAS contract files indicated that the DFAS Columbus Center communicated little information to the DAO. An example of the lack of communications between the DFAS Columbus Center and the DAO was contract F09603-89-C2940. A request for NULO research was received by the DFAS Denver Center liaison office on April 1, 1996, for a $1.1 million discrepancy. Documentation to support any

[1]The Navy uses the Standard Accounting and Reporting System, which includes Responsible Office accounting and reporting requirements for Procurement appropriations and Administering Office and Operating Budget accounting and reporting requirements for Procurement; Research, Development, Technology, and Engineering, Navy; and Operation and Maintenance, Navy, appropriations.

[2]A negative unliquidated obligation occurs at the contract level when disbursements exceed the amount obligated on a contract or on an ACRN, which is an individual contract line on a contract.

corrective actions taken by the DFAS Columbus Center or the DAO at Warner Robins Air Force Base was not available. DAO Warner Robins personnel stated that the request was still open.

Another contract, F33657-87-C2102 had a NULO balance of $8,336,199.60. The DAO at Warner Robins Air Force Base submitted a request for adjustment to the DFAS Columbus Center on March 29, 1996. The request was still pending as of September 1996.

Use of Liaison Offices

Timely Resolution by Liaison Offices. The DFAS Columbus Center has four liaison offices on-site. They provide customer support for each Military Department and act as a communication link with the DFAS Columbus Center. The liaison offices were established to resolve issues between DFAS and the Military Departments regarding contract fund balances at the DFAS Columbus Center. Liaison personnel required the Military Departments to send the liaison offices requests for adjustments based on reconciliations. The liaison offices assigned the requests to the DFAS Columbus Center office that was responsible for answering them.

Although the liaison offices were helping to answer requests from the Military Departments, resolution frequently was not timely. For example, based on contract reconciliations, the DAO at Hill Air Force Base sent 621 requests for documentation input, adjustments, audits, or reviews to the DFAS Columbus Center, beginning in February 1994. Needed corrections totaled about $192.9 million. Of the 621 requests, 412 were unanswered as of September 1996.

Likewise, since January 3, 1994, the DAO at Warner Robins Air Force Base sent the DFAS Columbus Center 681 requests for adjustments that resulted from their contract reconciliations. The needed corrections were valued at $246.5 million. Of the 681 requests, 283 were unresolved on September 30, 1996. Liaison personnel stated that the DFAS Columbus Center did not process any of the requests for adjustments without first performing its own reconciliation of the contract in MOCAS.

We believe that the Director, DFAS, should establish specific performance measures for the liaison offices at the DFAS Columbus Center. These products should measure performance in ensuring that all requests for reconciliations sent to DFAS Columbus Center offices are adequately resolved in a timely manner and that the results of all resolutions be forwarded to the respective offices making the request.

Policies for Communicating Results of Reconciliations

DoD Policy. DoD 7000.14-R, February 1996, volume 10, chapter 1, section 010202, "Contracting Relationship," discusses the need for a close working relationship between the DoD disbursing office and contracting officers to ensure timely and accurate handling of all financial transactions in contracting and paying for materials and services. However, the Under Secretary of Defense (Comptroller) (the USD[C]) had not established policy in the DoD 7000.14-R to reflect the specific responsibility for contract fund reconciliations. USD(C) personnel indicated that reconciliation efforts were not considered when the policy was established.

The overall responsibility for ensuring that the results of reconciliations are disseminated should be assigned to the DFAS. Policy should require, at a minimum, that the reconciling activity communicate the results of the reconciliation to the appropriate accounting or payment office and allow a reasonable amount of time for review, acceptance, and communication of any necessary corrections.

The DoD 7000.14-R also does not establish a focal point for contract fund reconciliations. No office has been made responsible for the coordination and input of all obligation and disbursement adjustments related to both the MOCAS and the Military Department accounting and finance systems. We believe such a focal point should be established in DFAS, because DFAS has the primary responsibility for fund accountability.

DFAS Columbus Center Policies. DFAS Columbus Center Draft Desk Procedure 607, "Contract Reconciliation," May 1996, provides guidance on how DFAS Columbus Center personnel are to perform contract reconciliations. The guidance states that contract reconciliations generally result in the processing of adjustments to MOCAS. Adjustments are made using Standard Form (SF) 1081, "Voucher and Schedule of Withdrawals and Credits," or Optional Form 1017-G, "Journal Voucher." Adjustments processed using an SF 1081 go through normal disbursement channels. The SF 1081 is used to alert the applicable funding stations and the Department of the Treasury of adjustments so the Department of the Treasury can adjust its records. However, adjustments made using a Journal Voucher are internal to the DFAS Columbus Center. Unless copies of the Journal Vouchers are forwarded to the affected activities, only MOCAS is adjusted.

New Policies. The DFAS Columbus Center has initiated several new policies in an effort to promote better communication and to improve the process of adjusting accounting systems after funds are reconciled. In August 1996, Headquarters, DFAS, approved a request from the DFAS Denver Center to allow Air Force accounting stations to accept and adjust accounting data that

normally would be rejected. This allowed immediate processing of corrections to critical data elements. The DFAS Columbus Center and the OPLOC Dayton began performing a pilot test program on September 17, 1996. The program was expanded to two additional Air Force locations and was still in the test phase.

The DFAS Columbus Center was also testing an Enterprise Audit system that performs preventive maintenance audits or early detection of out-of-balance conditions among the contract, accounting, and payment records. The process involved complete reconciliations within the first 2 years of a contract's life cycle, and encompassed both MOCAS and the applicable accounting records. The test population included 21 high-risk, high-dollar-value contracts for the Air Force. At the end of March 1997, the test was expanded to include Navy contracts. The DFAS Columbus Center is expected to expand the use of these audits on Army Materiel Command contracts.

Policy for Accepting Reconciliations. Although the new initiatives will assist in better communication and will improve the adjustment process, several existing policies either were not followed or were ineffective. Specifically, the Director, DFAS, issued a memorandum to the Military Departments and the Defense agencies on March 6, 1995, outlining the DFAS Columbus Center's policy on acceptance of reconciliations from other organizations. The memorandum discussed criteria for accepting adjustment requests and established a standard form to be used by the Military Departments as notification of adjustments processed in their accounting systems.

The DFAS Columbus Center could provide no evidence that the Military Departments used the form or followed the criteria, and DFAS Columbus Center personnel did not enforce the requirements. We believe that by following the criteria, adjustments could be processed faster at the DFAS Columbus Center, allowing disbursing and accounting records to be in agreement more frequently.

Processing of Adjustments. The DFAS Columbus Center issued another memorandum on August 27, 1996, discussing the processing of adjustments of Army and Defense Logistics Agency (DLA) funds in MOCAS. The memorandum explained the reasoning for processing internal adjustments to MOCAS instead of using standard forms. However, personnel at the U.S. Army Missile Command indicated that they did not receive information copies of all adjustments to their contracts that were processed in MOCAS. They maintained that the DFAS Columbus Center assumed that adjustments had been processed at the accounting station, although DFAS Columbus Center personnel had not informed them that an adjustment was required. U.S. Army Missile

Command personnel indicated that any adjustments made at the DFAS Columbus Center affected the accounting station's records and reconciliation process, but DFAS Columbus Center personnel did not communicate the adjustments.

Effects of Policies and Procedures

Effect on Accounting Records. As a result of the ineffective policies and procedures, the information needed to ensure that disbursing, contracting, and accounting and finance offices maintained accurate fund balances was not readily available. In addition, funding activities were not able to close their records in a timely manner.

Effect on Closing Contracts. A final payment voucher is the first indicator to the DFAS Columbus Center of the need to prepare to close out a contract to and begin reconciliation procedures. After reconciliation, DFAS Columbus Center personnel adjust MOCAS records, if necessary. The historical financial information in MOCAS is available only in electronic form for an additional 7 months after contract closure. If the accounting activities do not reconcile their contract fund balances to MOCAS and request MOCAS data during the 7-month period, DFAS Columbus Center personnel must recover the contract files from storage and send the information to the accounting activities.

Purging contract records from MOCAS after 7 months generally caused contracts to remain open on the financial records of the accounting activity longer than necessary. For example, on June 18, 1995, the Navy requested a copy of the historical transaction information for contract N00024-90-D4149-0013. The Navy did not receive the copy until April 19, 1996.

As a result of the findings and recommendations of the Air Force Materiel Command Interagency Contract Closeout Process Action Team, the DCMC set up a panel to review the contract closeout process and make recommendations for change. On March 4, 1995, as a result of that review, the DFAS Columbus Center proposed a Systems Change Request to create a Closed Contract History Database. The database was to be read-only and would allow users to restore records to the active MOCAS database if DFAS had to reactivate a contract.

The Systems Change Request stated that retention of the data should be 6 years and 3 months, which meets DLA storage requirements. According to DFAS Columbus Center personnel, the Systems Change Request was recently funded and was scheduled for full implementation by July 1997. As a result of those actions, we made no additional recommendations in this report.

Effect on Problem Disbursements. The inadequate communication increased the risk of creating an unmatched disbursement or NULO in the accounting records of the Military Departments. As of September 30, 1996, the Military Departments obligated a total of $889.6 million to cover transactions processed at the DFAS Columbus Center that had contributed either to NULOs or unmatched disbursements that remained unresolved after more than 180 days. The Army obligated $33 million to cover its problem disbursements, the Navy obligated $714.5 million, and the Air Force obligated $142.1 million.

Summary

Insufficient communication and coordination by the DFAS Columbus Center, the DAOs, and the Military Departments caused problems in reconciling contracts. The chief cause for the lack of coordination was the lack of policy defining specific roles and responsibilities for contract fund reconciliations throughout DoD. Also, there was no specific guidance that required the distribution of reconciliation information. As a result, management controls at the DAOs, the Military Departments, and the DFAS Columbus Center did not ensure that information obtained through contract fund reconciliations was adequately distributed. The adjustments that resulted because of various reconciliations were not communicated as needed to reconcile contract fund balances among all DoD organizations. The liaison offices at the DFAS Columbus Center helped to open the lines of communication. However, DoD 7000.14-R does not require that the results of contract fund reconciliations be distributed between the DFAS Columbus Center and DAOs. The USD(C) should establish policy that defines roles and responsibilities for contract fund reconciliation and that requires the coordination of contract fund reconciliations and the communication of reconciliation results.

Recommendations, Management Comments, and Audit Response

We renumbered draft report Recommendation A.2. as A.2.a. and added recommendation A.2.b. to this final report.

A.1. We recommend that the Under Secretary of Defense (Comptroller) establish policy in DoD 7000.14-R, the "DoD Financial Management Regulation," assigning the Defense Finance and Accounting Service as the office of principal responsibility for all DoD contract fund reconciliations and

for the coordination and input of all adjustments related to both the Mechanization of Contract Administration Services system and the Military Department accounting and finance systems. At a minimum, the policy should require the Defense Finance and Accounting Service to communicate the results of reconciliations to the appropriate accounting or payment office and allow a reasonable amount of time for review, acceptance, and communication of any necessary corrections.

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

a. Establish an office to coordinate all contract fund reconciliations performed by DoD activities. The office should provide oversight for and facilitate communications between the Defense Finance and Accounting Service centers, their Operating Locations, and DoD accounting and finance operations outside the Defense Finance and Accounting Service network.

b. Establish specific performance measures for the liaison offices at the Defense Finance and Accounting Service Columbus Center. Performance measures should require the timely resolution of requests for reconciliations and the submission of resolution results to the offices making the requests.

Management Comments. The USD(C) and the Director, DFAS, did not comment on the draft report. Therefore, we request that the USD(C) and the Director, DFAS, provide comments in response to the final report.

Finding B. Standardizing the Reconciliation Process

The methods used by DoD organizations to perform contract reconciliations were not standardized. Also, automated reconciliation systems in use and under development lacked standardized output. These conditions occurred because the USD(C) had not developed a policy that required uniform reporting and recording of the results of contract reconciliations. As a result, contract fund reconciliations were not readily accepted or exchanged among the various DoD Components that used them, which resulted in duplication of reconciled contracts. In FY 1996, 278 contracts were reconciled concurrently by two DoD organizations.

Contract Reconciliation Business Practices

DoD has no standard business practices for completing contract reconciliations. Specifically, DoD has no uniform methodology for reporting and recording the results of contract reconciliations.

The DFAS Columbus Center, other DFAS organizations, and resource managers throughout the Military Departments were performing contract reconciliations independently, using their own unique systems, methodologies, and reporting and recording procedures. As a result, reconciliation efforts were duplicated for the same contracts by personnel at both the DFAS Columbus Center and the Military Departments in the same time period.

Automated Reconciliation Systems

DoD Components used five automated contract reconciliation systems for reconciliation support. Also, one additional system was under development. The systems in use were as follows.

o The Contract Reconciliation System was used primarily by personnel at the DFAS Columbus Center to reconcile the contract and disbursement vouchers to the MOCAS system. The Contract Reconciliation System,

developed by a contractor, had a comprehensive reconciliation logic and was able to identify missing data and provide corrective adjusting entries automatically.

o The Automated Reconciliation System was used by personnel at Air Force DAOs to identify discrepancies between the contracting, accounting, cash management, and MOCAS systems. The system was developed by a contractor, and because the technology for the system was outdated, the contractor proposed that the DFAS Denver Center upgrade the system at an additional cost of about $3 million.

o The Computer Optimized Batch Reconciliation Application system was developed for contractor's use in performing Navy contract fund reconciliations. The system was developed to reconcile differences between the Navy Standard Accounting and Reporting System and MOCAS. The Computer Optimized Batch Reconciliation Application system contained logic similar to the Contract Reconciliation System system used at the DFAS Columbus Center.

o The Automated Balancing System was developed by personnel at the OPLOC Charleston to provide information similar to that contained in the Computer Optimized Batch Reconciliation Application system. The Automated Balancing System was designed to reconcile the Navy Standard Accounting and Reporting System to MOCAS.

o The Security Assistance Automated Reconciliation System was developed by personnel at the DFAS Denver Security Assistance Office to reconcile balances in the Security Assistance Management Information System - International Logistics system to balances in MOCAS.

In addition to those active systems, the DFAS Indianapolis Center was developing Phase I of the Payment, Accounting Reconciliation System to reconcile the Army accounting systems to MOCAS. The Payment, Accounting Reconciliation System will initially be a shared-data warehouse system that will compare the records from Army contracts to records in MOCAS.

Deficiencies in Systems

Only one of the five automated reconciliation systems had the logic necessary to both identify discrepancies and provide fully prepared adjustment documents. Another major drawback was the inability of the reconciliation systems to interface with each other. The lack of interface capability prevented complete reconciliations for multifunded contracts.

Also, no standardized reconciliation output existed to fully utilize electronic data interchange in correcting balances in accounting and finance, contracting, and disbursing systems throughout DoD. The USD(C) should convert current automated systems to provide a standard process and output.

The DFAS was studying the issue of a single standard contract reconciliation system. However, in our opinion, none of the five automated systems reviewed had the capability to perform contract reconciliations for the multitude of DoD financial management systems. Current reconciliation systems and those under development need to be modified to ensure a standardized process and result for all contract reconciliations.

Need for Standardization

Navy Reconciliations. The lack of standardized systems contributed to duplicate reconciliations. For example, the Naval Sea and Air Systems Commands and the DFAS Columbus Center had 278 of the same contracts scheduled for reconciliations in their contract reconciliation databases. Of those 278 contracts, 88 resulted in complete audits by both the Navy and the DFAS Columbus Center. Since complete obligation and disbursement reconciliations were performed on the 88 contracts, the results were duplicative.

Although the Navy and the DFAS Columbus Center used different systems for reconciling, they were reconciling the same obligation and disbursement data. In addition, because the methods were not standardized, the necessary support that would allow the DFAS Columbus Center to accept the Navy findings without completely reconciling the contract again was not available.

Army and Air Force Reconciliations. The Army and Air Force activities we contacted had forwarded to their respective liaison offices the documentation necessary for the DFAS Columbus Center to process corrections in MOCAS. DFAS Columbus Center personnel did not use that information, and stated that they wanted to use their own reconciliations for consistency. The Army and Air Force did not have information showing that the contracts they reconciled duplicated other efforts in DoD.

DCMC Reconciliations. Reconciliations were not standardized within the DCMC. Personnel at the DCMC believed that the Contract Reconciliation System used by personnel at the DFAS Columbus Center was an excellent tool for determining the status of and evaluating and correcting erroneous obligation and disbursement information at the contract level. Those personnel also believed that the system's use would facilitate timely reconciliations, which would assure prompt and accurate payments to contractors.

A draft memorandum issued by the DCMC in October 1996 proposed including language in the Contract Management Transition Team Concept of Operations, Revision 8, that encouraged the ACOs to use the Contract Reconciliation System software. However, the proposed change to Revision 8 did not require the use of the Contract Reconciliation System. The proposed change allowed other software to be used. Therefore, the DCMC reconciliation process was not standardized.

Supervisor of Shipbuilding. The Supervisor of Shipbuilding ACOs also reconciled contract obligations, and although the OPLOC Charleston used an automated reconciliation system, the Automated Balancing System, the ACOs were not required to use the automated system.

The ACOs responsible for the Supervisor of Shipbuilding program primarily provided missing documentation to the contractor personnel performing reconciliations at the OPLOC Charleston. Personnel at the OPLOC Charleston stated that the particular ACO determined the extent of ACO involvement in the reconciliation of obligation amounts.

In our opinion, the ACOs should use the automated system compatible with the system in use at the OPLOC Charleston as both a management tool and an improvement in the contract reconciliation process.

Efforts to Standardize Business Practices

The Chief Financial Officers Financial Management Status Report and Five-Year Plan 1996 - 2000, stated that "the success of the Department's financial management reform depends upon a reengineering of its business practice." DoD must eliminate needless or duplicative processes and standardize and consolidate the many systems and processes used in DoD financial management. The DoD is designing a Standard Procurement System, which is an automated information system intended to provide uniform support for all DoD procurement organizations. Additionally, the Defense Procurement Payment System will replace MOCAS as the standard disbursing system for DoD. Another process being standardized is the inputting of contract information directly into MOCAS by ACOs and procurement contracting officers. This process, once fully implemented, would ensure that obligation information agrees throughout the DoD.

Summary

We believe that efforts to standardize the reconciliation process should be undertaken. The lack of standardization of the contract reconciliation process throughout DoD caused unnecessary duplication of effort between the DFAS Columbus Center and other DoD activities. Although the Army, Navy, and Air Force accounting offices and the DFAS Columbus Center use different accounting and finance, contracting, and disbursing systems, those organizations should not spend scarce DoD funds reconciling the same obligations and disbursements.

We believe that the USD(C) should standardize the reconciliation process to allow each DoD activity to rely on the others' reconciliation efforts. Additionally, current automated contract reconciliation systems should be modified to ensure the standardization of processed information and standardized output of any corrections or adjustments. Also, the Director, Defense Procurement, should establish policy and guidance that will require all ACOs to provide input to DFAS organizations for obligation balances.

Recommendations, Management Comments, and Audit Response

B.1. We recommend that the Under Secretary of Defense (Comptroller) establish policy to standardize the business practices for contract reconciliation and require coordination between DoD Components performing reconciliations. This policy should:

a. Standardize the methodology and supporting documentation needed for all adjustments.

b. Direct the Director, Defense Finance and Accounting Service, to prevalidate all adjustments before posting to either the Mechanization of Contract Administration Services system or the applicable accounting and finance systems.

B.2. We recommend that the Under Secretary of Defense (Comptroller) convert the current automated reconciliation systems to provide a standard process for adjustments to DoD accounting systems and the Mechanization of Contract Administration Services system.

B.3. We recommend that the Director, Defense Finance and Accounting Service, develop policies and procedures to standardize the methodology for contract reconciliation at all Defense Finance and Accounting Service Centers and Operating Locations. The standard methodology should include:

a. Standard steps in the performance of reconciliations.

b. Standard forms for contract reconciliation results.

Management Comments. The USD(C) and the Director, DFAS, did not comment on the draft report. Therefore, we request that the USD(C) and the Director, DFAS, provide comments in response to the final report.

B.4. We recommend that the Director, Defense Procurement, and the Director, Defense Finance and Accounting Service, work together to establish specific parameters for implementation of Recommendation B.2. based on resource availability. DoD-wide use of an automated reconciliation system compatible with those used by the Defense Finance and Accounting Service Columbus Center and the Operating Location Charleston should be based on specific parameters.

Management Comments. The Director, Defense Procurement, stated that she supported the overall objective of a standardized automated contract reconciliation process and would work with the Director, DFAS, toward that objective.

Audit Response. The comments from the Director, Defense Procurement, were acceptable. The Director, DFAS, did not comment, and we request that the Director provide comments in response to the final report.

B.5. We recommend that the Director, Defense Contract Management Command, reemphasize the benefits of using the automated reconciliation system at the Defense Finance and Accounting Service Columbus Center for contract reconciliations needed by the Defense Contract Management Command.

Management Comments. The Principal Deputy Director, DCMC, concurred with the recommendation to use the automated reconciliation system at the DFAS Columbus Center. However, he believed that such use should begin after Recommendations B.1. through B.4. are implemented. The Principal Deputy Director believed that the final standardized reconciliation process should include criteria, agreed to by all users, on which contracts will require use of this process.

Audit Response. The comments from the Principal Deputy Director, DCMC, are responsive. We agree that a standardized process should be completed before adopting the automated reconciliation process.

Finding C. Defense Agencies' Receipt of MOCAS Adjustments

The DFAS Columbus Center did not ensure that adjustments processed in MOCAS were communicated to the Defense agencies with Army Fiscal Station numbers who were paid out of MOCAS. For the five Defense agency contracts reviewed, the DFAS Columbus Center processed adjustments totaling more than $434 million, but did not communicate that information to the Defense agencies. Copies of adjustments were not distributed because DFAS Columbus Center desk procedures specifically excluded Army activities from receiving copies of internal accounting adjustments. The desk procedures do not distinguish between Army activities and Defense agencies supported by the Army. As a result, contracts at Defense agencies with Army Fiscal Station numbers required more extensive reconciliations than necessary.

Procedures for Notifying Defense Agencies of Adjustments in MOCAS

Army Regulations. Army Regulation 37-1, "Army Accounting and Fund Control," chapter 33, April 30, 1991, provides policies to be followed for transactions for others, transactions by others, and cross-disbursement transactions. The Regulation states that transactions by others (processed at the DFAS Columbus Center) that are charged to incorrect appropriations should be accepted and corrected.

Desk Procedures at DFAS Columbus Center. Desk Procedure 808, "Coding of Adjustments," at the DFAS Columbus Center states that unless an adjusting transaction has been rejected by an Army or DLA accounting station, the DFAS Columbus Center presumes that the accounting station corrected the original disbursement upon receipt of the adjustment. Defense agencies that have Army Fiscal Station numbers are treated as Army activities when adjustments are processed in MOCAS; those Defense agencies are not notified of the adjustments.

Evaluation of Controls Over the Transfer of Information

Management controls at the DFAS Columbus Center did not ensure that adjustments processed in MOCAS were communicated to the Defense agencies with Army Fiscal Station numbers that were paid out of MOCAS. DFAS Columbus Center desk procedures did not ensure that Defense agencies received notification of adjustments processed in MOCAS, using both SF 1081, "Voucher and Schedule of Withdrawals and Credits," and Optional Form 1017-G, "Journal Voucher." Additionally, the DFAS Columbus Center did not ensure that Defense agencies received copies of the Army reports so that the Defense agencies were aware of all transactions processed on their contracts. Additionally, all adjustment transactions were not processed using SF 1081s, which would have ensured that the transactions appeared on the reports that were made available to the Defense agencies and were processed by the Department of the Treasury.

The DFAS Columbus Center did not have adequate management controls to ensure that Defense agencies with Army Fiscal Station numbers received information on adjustments processed in MOCAS. For example, the two agencies we visited, Washington Headquarters Services and the Defense Special Weapons Agency, did not receive copies of any internal adjustments processed in MOCAS. Additionally, those agencies did not receive complete copies of 110 reports to review for transactions processed in MOCAS.

We reviewed five contracts at Washington Headquarters Services. Four of the five contracts reviewed had a total of 10,185 adjustments processed in MOCAS with a value of $434 million. However, Washington Headquarters Services was unaware of the adjustments. For example, Washington Headquarters Services was unaware that 1 contract, DASW01-94-C0054, had 7,289 adjustments processed in MOCAS with a value of $312 million. The contract was only 2 years old, but needed extensive reconciliation at Washington Headquarters Services to match the balance in MOCAS.

The Defense Special Weapons Agency also did not receive adjustment documentation. Defense Special Weapons Agency personnel indicated they had been working closely with personnel in the DFAS Indianapolis Center liaison office to resolve discrepancies with MOCAS. Additionally, through its diligent work with the liaison office, the Defense Special Weapons Agency reduced its total outstanding problem disbursements from about $55 million to $5 million. Had the adjustment information been provided, the problem would not have existed.

The DFAS Columbus Center was aware of the problem of Defense agencies not receiving information on adjustments. DFAS Columbus Center personnel initiated a procedural change in FY 1996 whereby copies of all journal vouchers

were to be forwarded from the operating divisions to the Financial Reporting Division in the DFAS Columbus Center. The Financial Reporting Division was then to send the documentation to the applicable funding station at least once a week. However, the procedural change was not effective. Washington Headquarters Services personnel stated that they had not received any reports of transactions that identified internal adjustments.

Copies of adjustments were not forwarded because DFAS Columbus Center desk procedures were based on Army procedures that did not distinguish between Defense agencies and Army activities. Because Defense agencies were not distinguished from the Military Departments that supported them in MOCAS, the DFAS Columbus Center assumed that adjustments were processed by the accounting offices for those Defense agencies with Army Fiscal Station numbers.

Summary

Defense agencies did not receive the same reports of transactions as Army activities. Therefore, Defense agencies were not notified of the transactions being processed at the DFAS Columbus Center unless a copy of the transaction was forwarded directly to them. This lack of notification resulted in different accounting records at the DFAS Columbus Center, Defense agencies with Army Fiscal Station numbers, and the Treasury.

Recommendations for Corrective Action

C.1. We recommend that the Director, Defense Finance and Accounting Service Columbus Center, revise Desk Procedure 808, "Coding of Adjustments," to:

a. Include the Army accounting activities and Defense agencies in the distribution of all adjustments processed, using either Optional Form 1017-G, "Journal Voucher," or Standard Form 1081, "Voucher and Schedule of Withdrawls and Credits," in the Mechanization of Contract Administration Services system.

b. Distinguish between a Defense agency and an Army activity with an Army Fiscal Station number when processing adjustments in the Mechanization of Contract Administrative Services system.

Management Comments. The Director, DFAS Columbus Center, did not comment on a draft of this report. Therefore, we request that the Director, DFAS Columbus Center, provide comments on the final report.

Part II - Additional Information

Appendix A. Audit Process

Scope

Elements Reviewed. We performed this audit as part of our DoD-wide assessment of the reconciliation process. We reviewed five reconciliation systems that were used by the Military Departments, the DAOs, and the DFAS Columbus Center, and one system under development at the DFAS Indianapolis Center. We also reviewed 58 reconciliation requests that were sent to the DFAS Columbus Center from the DAOs or Military Departments, as well as contracts from Washington Headquarters Services and the Defense Special Weapons Agency. The focus of the audit was on reconciliations performed during the active period of the contract, not on contract closeout.

We reviewed FY 1996 contracts reconciled by the Military Departments and the DFAS Columbus Center for duplication of reconciliation efforts. We selected contracts from three major Navy organizations and the DFAS Columbus Center for review. Those DoD activities were selected because of the large volume of NULOs and unmatched disbursements reported by the Navy. In addition, both the Navy and the DFAS Columbus Center use contractors to assist them in reconciling contracts.

We did not evaluate the reliability of controls over computer-processed data fed into or produced by the reconciliation systems we reviewed because our audit focused on how the data were used to reconcile financial information.

Audit Period and Standards. We performed this financial-related audit from July 1996 through February 1997 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We included tests of management controls considered necessary.

Contacts During the Audit. We visited or contacted individuals and organizations in DoD and two contractors, Computer Products, Inc., and Logicon, Inc. Further information is available on request.

Methodology

A variety of reconciliation systems were in use or in development within DoD. We reviewed the five major systems in use within the Military Departments, DAOs, and the DFAS Columbus Center. We evaluated those systems to determine whether contract fund reconciliations were performed efficiently and economically.

We reviewed 58 requests for adjustments on specific contracts from DAOs and Navy organizations to the DFAS Columbus Center. Our review consisted of determining whether effective communication had been established to enable accurate and timely reconciliations among contracting, disbursing, and accounting and finance offices. The requests reviewed were judgmentally selected, and the results cannot be projected to the universe of requests at the DFAS Columbus Center.

We obtained reconciliation databases from the Naval Sea, Air, and Space Systems Commands; the Naval Warfare Systems Command; and the DFAS Columbus Center. We compared the databases to identify duplicate contract reconciliation efforts. Of the 278 contracts identified, we judgmentally selected 15 for review. The review consisted of analyzing of the reconciliation process and assessing the duplication of effort.

We also reviewed four Washington Headquarters Services contracts and one Defense Special Weapons Agency contract to quantify the adjustments processed by the DFAS Columbus Center. Those contracts were selected because they contained the largest reconciliation problems of the Defense agencies with Army Fiscal Station numbers.

We also evaluated the procedures for communicating funding adjustments used by Washington Headquarters Services, the Defense Special Weapons Agency, and the DFAS Columbus Center.

Management Control Program

DoD Directive 5010.38, "Management Control (MC) Program," August 16, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We reviewed the adequacy of DFAS management controls over contract fund reconciliation. The controls consist primarily of the procedures specified in DoD 7000.14-R and DFAS desk procedures. We also reviewed management's self-evaluation of those controls.

Adequacy of Management Controls. We identified material management control weaknesses, as defined by DoD Directive 5010.38 within the office of the USD(C). Management controls for contract fund reconciliation were not adequate to ensure that information obtained through the reconciliations was properly and promptly distributed to the DoD organizations that needed the information. Also, the controls did not prevent duplicate reconciliations of contracts and did not ensure that Defense agencies with Army Fiscal Station numbers obtained information about adjustments that affected their obligations. All of the recommendations, if implemented, should correct the deficiencies. A copy of the final report will be provided to the senior official responsible for management controls in the Office of the USD(C) and at Headquarters, DFAS.

Adequacy of Management's Self-Evaluation. Officials did not identify contract reconciliations as a high-risk area, and therefore did not identify or report the material management control weaknesses identified by the audit.

Appendix B. Prior Audits and Other Reviews

Inspector General, DoD

Report No. 96-141, "Overdisbursed and Unreconciled Contracts at the Defense Finance and Accounting Service Columbus Center," June 4, 1996. The report states that despite increased management emphasis on reconciling contracts to decrease overpayments, the number of overdisbursed contracts in the MOCAS system had increased to 3,029 contracts (overdisbursed by $1.59 billion) as of September 1995. The volume of overdisbursed contracts requiring reconciliation increased the risk of overpayments and the need for reconciliation of contracts prior to payment. The USD(C) nonconcurred with the finding, stating that only 1,842 contracts valued at $238 million, required review or reconciliation. However, the USD(C) partially concurred with the recommendation to revise Desk Procedure 401 because it had already been issued; concurred with making a system change request to MOCAS concerning fund availability; nonconcurred with including all overdisbursed contracts in the universe of contract reconciliations; and partially concurred with establishing a new reconciliation workload goal.

Report No. 94-144, "Controls Over Two Contract Payments at the Defense Finance and Accounting Service Columbus Center," June 20, 1994. The report concludes that contractor invoices totaling $15.9 million were not adequately verified prior to payment, and that when the resulting overpayments were identified, recoupment actions were not taken properly or promptly. The report recommended that the DFAS Columbus Center require contractor invoices to be verified prior to payment and implement formal procedures for the immediate refund of overpayments. The Deputy Director for Finance, DFAS, concurred, stating that safeguards were being strengthened and that new procedures were being implemented to verify invoices and require contractors to notify contracting officers of overpayments immediately.

Report No. 94-054, "Audit of Fund Control Over Contract Payments at the Defense Finance and Accounting Service Columbus Center," March 15, 1994. The report concludes that obligation and disbursement data in the automated system were not accurate, and that procedures for controlling appropriation fund data were not adequate to allow the Military Department accounting stations to properly record disbursements and maintain their accounting records. The Director, DFAS, and the Director, DFAS Columbus Center, concurred with the recommendation to terminate the reconciliation services of a commercial accounting firm, but nonconcurred with terminating

the interface with the Military Standard Contract Administration Procedures system. The DFAS Columbus Center planned to convert to a new system by December 1995. Based on the backlog of contract reconciliations, the Director, DFAS, subsequently requested and was granted an extension by the USD(C) for continued use of the commercial accounting firm. Continued use of the same accounting firms for contract reconciliations is the focus of an ongoing audit (Project No. 7CK-8009).

Report No. 94-048, "Uncleared Transactions by and for Others," March 2, 1994. The report states that the DFAS Centers took limited actions to research and resolve intra-Service disbursements that remained uncleared for extended periods. Also, the actions taken by the DFAS Centers to resolve cross-disbursements were not fully effective. The report recommended that DFAS improve procedures and controls over transactions that are not cleared promptly. The USD(C) generally concurred with all findings and recommendations. New procedures were implemented to prevent uncleared transactions and to resolve existing undistributed disbursements.

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
  Director, Defense Procurement
  Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Comptroller (Program/Budget)
Assistant Secretary of Defense (Public Affairs)

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
Assistant Secretary of the Navy (Research, Development, and Acquisition)
Naval Air Systems Command, Washington, DC
Naval Sea Systems Command, Washington, DC
Space and Naval Warfare Systems Command, Washington, DC

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 Contract Audit Agency
Director, Defense Finance and Accounting Service
  Defense Finance and Accounting Service Cleveland Center
  Defense Finance and Accounting Service Columbus Center
  Defense Finance and Accounting Service Denver Center
  Defense Finance and Accounting Service Indianapolis Center
Director, Defense Fuel Supply Center
Director, Defense Logistics Agency
  Director, Defense Contract Management Command
Director, Defense Special Weapons Agency
Director, National Security Agency
  Inspector General, National Security Agency
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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 Government Management, Information, and Technology, 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 III - Management Comments

Under Secretary of Defense for Acquisition and Technology Comments

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON DC 20301-3000

ACQUISITION AND TECHNOLOGY

DP/CPF

Sept 10, 1997

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE, ATTENTION: DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE

SUBJECT: Draft of a Proposed OIG Report, "DoD Contract Fund Reconciliation Process," dated July 17, 1997, Project No. 6FJ-5039

Your memorandum of July 17, 1997, requested review and comment from the Director of Defense Procurement (DDP) regarding the subject draft report. The draft report evaluates the contract fund reconciliation process, which is the process of matching obligation and disbursement data in disbursing, and accounting and finance systems to the accounting data of the contractual document.

The draft report notes the lack of standardization among the methods and systems used by DoD organizations to perform contract reconciliation. It recommends that the Under Secretary of Defense (Comptroller) assign responsibility for contract fund reconciliations to the Defense Finance and Accounting Service (DFAS) and take action to develop a standard reconciliation process. Additional recommendations are made to DFAS regarding development of policies and procedures for a standardized process, and for improved distribution of reconciliation information to DoD organizations that need the information. The report further recommends that the Defense Contract Management Command (DCMC) reemphasize the benefits of use of the automated reconciliation system at the DFAS Columbus Center for contract reconciliations needed by DCMC. I have no objection to any of these proposed recommendations.

The draft report also recommends that the DDP work with the Director, DFAS, to establish specific parameters for implementation and mandatory use of an automated reconciliation system compatible with DFAS organizations. It recommends that the DDP establish policy and guidance that will require all ACOs to provide input to DFAS organizations for obligation balances.

I support the overall objective of a standardized automated contract reconciliation process and I expect that, as a matter of course, I will be working with the Director, DFAS to that end. However, I do not believe a separate recommendation requiring that we work together is necessary. Moreover, DCMC has already provided

guidance to its ACOs directing them to provide input to DFAS regarding obligation balances. Duplicative direction from the DDP would be of little benefit.

I expect DFAS to develop standardized processes and procedures for accomplishment of contract reconciliation in conjunction with the affected accounting offices. However, I do not anticipate a primary role for the DDP in that effort. This is a matter to be principally dealt with in the financial regulations and procedural guidance provided to the financial management community. I will work with DFAS in the event that guidance is needed for contracting officers regarding their role in the reconciliation process, but I do not believe that the possibility that such guidance may be needed in itself warrants a specific recommendation for DDP action in the draft report.

Eleanor Spector

Eleanor R. Spector
Director, Defense Procurement

TOTAL P.03

Defense Logistics Agency Comments

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HEADQUARTERS
8725 JOHN J. KINGMAN ROAD, SUITE 2533
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IN REPLY REFER TO DDAI

AUG 19 1997

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
DEPARTMENT OF DEFENSE

SUBJECT: Draft Audit Report on DoD Contract Fund Reconciliation Process (Project No. 6FJ-5039)

This is in response to your July 17, 1997, subject draft report. For any questions, call Dave Stumpf, 767-6266.

Encl

JEFFREY GOLDSTEIN
Chief (Acting), Internal Review

cc:
AQOE
AQBE

Federal Recycling Program Printed on Recycled Paper

AUDIT TITLE: Draft Report on DoD Contract Fund Reconciliation Process (Project No. 6FJ-5039)

RECOMMENDATION No. B5: We recommend that the Director, Defense Contract Management Command, use the automated reconciliation system at the Defense Finance and Accounting Service Columbus Center for contract reconciliations needed by the Defense Contract Management Command.

DLA COMMENTS: We concur with the recommendation DCMC use the automated reconciliation system at the Defense Finance and Accounting Service Columbus Center (DFAS-CO) for contract reconciliations needed by our organization. However, the use of an automated reconciliation system should begin after recommendations B.1 through B.4 are implemented. This is recommended for two reasons. First, the DFAS Contract Reconciliation System (CRS) software is not user friendly, is labor intensive, and does not have a standardized output. To mandate its use, it is currently discretionary for DCMC use, would be an overwhelming workload burden on our field offices. Secondly, it would be unwise for the DCMC CAOs to institute mandatory use of CRS if the Services, the Defense Logistics Agency and DFAS are to develop a different standardized approach.

It is recommended the final standardized reconciliation process have criteria, agreed to by all users, on which contracts will require use of this process (e.g., large complex contracts, contracts above a certain dollar threshold, new vs. old contracts).

It should be noted, DCMC will be working with DFAS on a process for DCMC CAO negotiated reconciliations. This effort will be led by DFAS Headquarters with a business model case developed on or about October 1, 1997.

DISPOSITION: Action is ongoing. ECD: 60 days after Under Secretary of Defense (Comptroller) decision on standardized reconciliation system.

ACTION OFFICER: Stephanie Strohbeck, AQOE, 767-3445, or Patty Tellez, 767-3436
REVIEW/APPROVAL: Mr. Gary S. Thurber, Associate Director of Acquisition, AQ,
COORDINATION: D. Stumpf, DDAI

DLA APPROVAL:

RAY E. McCOY
Major General, USA
Principal Deputy Director

19 AUG 1997

Audit Team Members

This report was prepared by the Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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