Report No. D-2011-022 December 10, 2010

Inspector General
United States Department of Defense

Improving the Accuracy of Defense Finance and Accounting Service Columbus 741 and 743 Accounts Payable Reports

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Acronyms and Abbreviations

BVN	Bureau Voucher Number
DFAS	Defense Finance and Accounting Service
MILDEP	Military Department
MOCAS	Mechanization of Contract Administration Services
SFFAS	Statement of Federal Financial Accounting Standards

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December 10, 2010

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE, COLUMBUS

SUBJECT: Improving the Accuracy of Defense Finance and Accounting Service Columbus 741 and 743 Accounts Payable Reports (Report No. D-2011-022)

We are providing this report for your information and use. Defense Finance and Accounting Service Columbus misstated $296.9 million of accounts payable because it did not have adequate procedures in place for creating accurate and complete accounts payable reports.

We considered management comments on a draft of this report in preparing the final report. Comments on the draft of this report conformed to the requirements of DOD Directive 7650.3 and left no unresolved issues. Therefore, we do not require any additional comments.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5868.

Patricia A Marsh

Patricia A. Marsh, CPA
Assistant Inspector General
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Results in Brief: Improving the Accuracy of Defense Finance and Accounting Service Columbus 741 and 743 Accounts Payable Reports

What We Did

We determined whether the Defense Finance and Accounting Service (DFAS) Columbus methodology for capturing accounts payable balances for contracts administered in the Mechanization of Contract Administration Services (MOCAS) system results in accurate and timely accounts payable information. Specifically, we determined that DFAS Columbus needs to implement additional controls to compile the 741 and 743 reports provided to the Military Departments. The reports, as of March 31, 2009, contained $3.6 billion and $2.2 billion, respectively, in accounts payable for the Military Departments. The 741 and 743 reports include accounts payable balances related to invoices in the MOCAS system.

What We Found

DFAS Columbus did not collect accurate and complete accounts payable balances to prepare the 741 and 743 reports. DFAS misstated $296.9 million of accounts payable because it did not have adequate procedures in place for creating accounts payable reports in MOCAS and ensuring all valid accounts payable were included on the report. DFAS Columbus personnel did not:

- properly account for some of the contract financing payments that it made,
- input contract modifications into MOCAS in a timely manner,
- properly estimate some of the service invoices,
- ensure that its methodology used correct contract information to calculate accounts payable, or
- generate an accounts payable balance when a MOCAS receipt record was not created.

Until DFAS Columbus makes improvements to the accuracy of the accounts payable balances, the Military Departments will not be able to fully rely on the 741 and 743 accounts payable balances. In addition, improving the accounts payable report weaknesses will assist the Military Departments in their efforts to prepare audit-ready Statements of Budgetary Resources.

What We Recommend

We recommend that the Director, Defense Finance and Accounting Service Columbus, review procedures for capturing all valid accounts payable on the 741 and 743 reports.
In addition, DFAS Columbus should establish procedures to reconcile the accounts payable reports to invoiced amounts, develop a process to accurately value accounts payable associated with contract financing payments, generate accounts payable balances when a MOCAS receipt record is not created, and document procedures for compiling the accounts payable reports.

Management Comments and Our Response

Comments from the Deputy Director, DFAS Columbus, were responsive, and we require no additional comments. DFAS stated it will develop standard operating procedures, flow charts, and narratives to identify controls for the 741 and 743 accounts payable reports and will establish a quarterly reconciliation of accounts payable reports. See the Recommendations Table on page ii.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Deputy Director, Defense Finance and Accounting Service, Columbus		1, 2, 3, 4, 5

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Introduction

Objective

We determined whether the Defense Finance and Accounting Service (DFAS) Columbus methodology for capturing accounts payable balances for contracts administered in the Mechanization of Contract Administration Services (MOCAS) system results in accurate and timely accounts payable information. Specifically, we reviewed the DFAS methodology used to compile the monthly detailed accounts payable files provided to the Military Departments (MILDEPs). See the appendix for a discussion on the scope and methodology and prior coverage related to the objective.

Background

Financial Accounting and Auditing Standards

Statement of Federal Financial Accounting Standards (SFFAS) No.1, "Accounting for Selected Assets and Liabilities," March 30, 1993, states that accounts payable are amounts owed by a federal entity for goods and services received from other entities. The standard requires entities to recognize a liability for the unpaid amount of the goods when an entity accepts title to the goods, whether the goods are delivered or in transit. SFFAS No. 5, "Accounting for Liabilities of the Federal Government," September 1995, states that general-purpose federal financial reports should recognize probable and measurable future outflows or other sacrifices of resources arising from past exchange transactions.

American Institute of Certified Public Accountants Standard AU 326, "Evidential Matter," August 1980, requires that management make five assertions related to the financial statements. This audit focused on three of the management assertions (existence, valuation, and completeness) as they relate to the accounts payable balances.

- Existence: Management asserts that the liabilities it reports existed on a given date.
- Valuation: Management asserts that it has included liability components in the financial statements at appropriate amounts.
- Completeness: Management asserts that it has included all transactions that it should present in the financial statements.

DOD Accounts Payable Balance

DFAS Columbus administers and pays contracts using the MOCAS system. DFAS Columbus uses the MOCAS information to generate five accounts payable reports. It then combines the reports and makes the balances available to the applicable MILDEP reporting entity. This audit focused on two of the five reports, Invoices Matched to Acceptance and Unpaid Bureau Vouchers, called the 741 and 743 reports, respectively. These reports totaled $5.8 billion as of March 31, 2009. The accounts payable balances reported by DFAS do not always represent the amount it pays to contractors because

DFAS calculates the accounts payable balance and the payment amount at different times through different processes. As of March 31, 2009, DFAS required the MILDEPs to use MOCAS accounts payable data collected in the following reports to accrue accounts payable on the financial statements.

- ***741 Report: Invoices Matched to Acceptance.*** The 741 report consists of accounts payable balances for invoices matched to an acceptance document. DFAS Columbus calculates the accounts payable balances on the 741 report by matching its processed acceptance file to the MOCAS invoice file. DFAS then compares those recorded amounts with the total available funding per funding line by contract. If MOCAS lacks sufficient funding for the invoice, DFAS limits the accounts payable balance to the available funding balance. Finally, to calculate accounts payable associated with contract financing payments, DFAS estimates the amount of contract financing payments it already has paid and reduces the total accounts payable balance by that amount. DFAS estimated a net $3.6 billion DOD accounts payable on the March 31, 2009, 741 report.

- ***743 Report: Unpaid Bureau Vouchers.*** The 743 report contains accounts payable balances for unpaid bureau voucher number (BVN) invoices. BVN invoices represent interim payments for cost-reimbursement contracts. Based on the contract terms, DOD is required to pay the contractor up to the contract ceiling amount for the goods or services. The interim payment requests do not need Government acceptance. DFAS Columbus calculated the accounts payable balances for the 743 report on the basis of the contractor-submitted invoices and availability of funds. DFAS estimated a net $2.2 billion DOD accounts payable on the March 31, 2009, 743 report.

DOD reported an agency-wide accounts payable public balance of about $33 billion as of March 31, 2009. The DFAS-prepared 741 (Invoices Matched to Acceptance Detail) and 743 (Unpaid Bureau Voucher Detail) reports comprised 17.6 percent ($5.8 billion) of the $33 billion.

Statement of Budgetary Resources

In addition to the accounts payable balances reported on the Balance Sheet, entities also include accounts payable balances on their Statement of Budgetary Resources. The Under Secretary of Defense (Comptroller)/Chief Financial Officer has established as his first priority to focus on process improvement, controls, and systems that produce budgetary information. He has stated that this focus will be the starting point for meeting the goal of obtaining auditable financial statements, beginning with the Statement of Budgetary Resources.

Review of Internal Controls

DOD Instruction 5010.40, "Managers' Internal Control Program Procedures," January 4, 2006, requires DOD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal control weaknesses at

DFAS Columbus. DFAS Columbus did not have effective procedures for monitoring and reviewing the contents of the 741 and 743 reports. In addition, DFAS Columbus did not have written procedures for compiling the 741 and 743 reports or adequate procedures to input contract modifications into MOCAS in a timely manner. Implementing the recommendations will improve the DFAS Columbus internal control procedures and result in improved reporting of accounts payable. We will provide a copy of the report to the senior official responsible for internal controls in DFAS Columbus for compliance followup.

Finding. Valuation and Completeness of Data in the 741 and 743 Accounts Payable Reports Needed Improvement

In general, DFAS Columbus included only valid accounts payable on the March 31, 2009, 741 and 743 reports. However, DFAS Columbus did not properly value 368 accounts payable included in $5.8 billion of accounts payable that it reported and excluded 14 valid accounts payable from the reports. This occurred because DFAS Columbus did not have control procedures to:

- properly estimate contract financing payments that it made when calculating 8 accounts payable,
- input contract modifications into MOCAS in a timely manner for 37 accounts payable,
- properly estimate the accounts payable for 286 service invoices,
- ensure that its methodology used correct contract information to calculate accounts payable balances associated with 42 invoices, or
- generate an accounts payable balance for 9 invoices that did not have a MOCAS receipt record.

As a result, DFAS Columbus misstated $296.9[1] million of the $5.8 billion in accounts payable on the two reports. DFAS Columbus needs to implement additional controls to improve the accuracy of the MILDEP accounts payable balances. If DFAS implements the new controls, the MILDEPs should be able to rely on the reports. In addition, DFAS improvements to the reports will assist the MILDEPs in their efforts to prepare audit-ready Statements of Budgetary Resources, which rely in part on accurate accounts payable information.

741 and 743 Report Universe and Analysis

DFAS Columbus reported DOD accounts payable balances totaling $5.8 billion for 43,048 unpaid MOCAS invoices on the 741 and 743 reports. We determined that DFAS Columbus generally included only valid accounts payable on the two reports. However, our summary analysis and judgment sample testing identified that the DFAS Columbus methodology did not always ensure that the accounts payable balances were valued based on current data or included all valid accounts payable balances. See the appendix for additional details on the judgment sample.

[1] The valuation and completeness sample results presented on pages 5 through 6 total $296.8 million. The difference of $.01 million is the result of rounding. The sample results shown in the table on page 7 total $296.9 million in misstated accounts payable balances.

DFAS Columbus Generally Included Only Valid Accounts Payable Balances

In general, DFAS Columbus included only valid accounts payable on the March 31, 2009, 741 and 743 accounts payable reports. Specifically, DFAS reported 43,048 accounts payable balances on the March 31, 2009, 741 and 743 reports. DFAS paid 42,434 of the 43,048 accounts payable balances between April 1, 2009, and May 31, 2009. The payments made within two months after the March 31, 2009 reports indicate that DFAS should have included an accounts payable in the March 31, 2009, reports. See the Valuation section for an analysis of the valuation of these accounts payable balances.

As of May 31, 2009, DFAS had not paid 614 (just over 1 percent) of the 43,048 accounts payable that it included on the March 31, 2009, 741 and 743 accounts payable reports. These accounts payable totaled $0.064 billion of the total $5.8 billion balance. Because of the extremely low number of accounts payable that DFAS had not paid as of May 31, 2009, we did not perform additional procedures to determine why DFAS had not paid them.

DFAS Columbus Did Not Always Accurately Value the Accounts Payable Balances

The DFAS Columbus methodology did not always accurately value the accounts payable balances it reported on the 741 and 743 reports. Of the 43,048 accounts payable reported on the 741 and 743 reports, DFAS included 8,042 accounts payable that differed from the amount that DFAS paid. The absolute value difference between the accounts payable balance and the payment amount totaled $716 million (12 percent of the reported balances).

A difference in accounts payable balance and the payment amount does not necessary mean that DFAS misstated its accounts payable balance as of March 31, 2009. Therefore, we selected a judgment sample of 113 sample items from the two reports to determine if DFAS accurately valued the 113 accounts payable balances. We selected the sample based on either the greatest absolute dollar-value difference between the payable balance and payment amount or where DFAS reported a negative accounts payable balance (19 of the 113 sample items). A negative accounts payable balance would normally indicate an error or an adjustment to correct an accounts payable balance. The 113 sample items totaled $332 million of the $716 million in absolute difference.

We reviewed contract, invoice, acceptance, and MOCAS data for the 113 judgmentally selected sample items to determine if DFAS Columbus knew or should have known the payment amount as of March 27, 2009. We concluded that if DFAS should have been aware of the accurate accounts payable as of March 27, 2009, then it should have included the amount on either the 741 or 743 report. Of the 113 sample items, DFAS misstated the value of 89 sample items by $214.3 million using data that were not the most accurate as of March 27, 2009. In addition, based on our judgment sample results, we identified an additional 279 accounts payable balances that DFAS Columbus did not value correctly, with a total understatement of $30.3 million.

DFAS Columbus Sometimes Excluded Valid Accounts Payable Balances

The DFAS Columbus methodology for reporting accounts payable balances also excluded valid accounts payable. MOCAS data included 11,678 invoices DFAS paid between April 1, 2009, and May 31, 2009, which DFAS had received before March 27, 2009. However, DFAS did not report these invoices on the 741 or 743 accounts payable reports as of March 31, 2009. The payment amounts of these invoices totaled $1.63 billion. These invoices represented the potential amount of additional accounts payable that DFAS should have included on the March 31, 2009, 741 and 743 reports.

DFAS Columbus should not necessarily have reported all invoices received before March 27, 2009, and paid after April 1, 2009, on the 741 and 743 reports. For example, if a contractor submitted an invoice for a partial payment, DFAS Columbus would not have reported the account payable on the 741 report. Instead, DFAS would have estimated the account payable balance using a different methodology that DFAS does not incorporate into the 741 report. Therefore, we selected an additional 85 high-dollar payments that DFAS made before May 31, 2009, totaling $447.1 million, to determine if DFAS should have reported the amounts as accounts payable on the 741 or 743 reports as of March 31, 2009.

We reviewed contract, invoice, acceptance, and MOCAS data for the 85 sample items, to determine if DFAS Columbus knew or should have known that the invoice was a valid account payable as of March 27, 2009. From these judgment sample items, the data showed that DFAS Columbus should have reported 14 additional accounts payable on the 741 or 743 reports as of March 31, 2009. The 14 sample items had net payments of $52.2 million that DFAS should have reported as accounts payable on the 741 or 743 reports as of March 31, 2009.

Based on these results, we asked DFAS Columbus to provide us its policy and procedures for preparing the 741 and 743 reports and how it verifies the completeness of the reports. DFAS Columbus representatives stated that they do not have written policy detailing the accounts payable system process. Therefore, DFAS was unable to provide the requested information.

DFAS Lacked Adequate Control Procedures for the Reported Accounts Payable Balances

DFAS Columbus did not accurately value or include 103 of the 198 sample items (113 valuation sample items and 85 completeness sample items) on the 741 and 743 reports because its controls need improvement in five main areas. Based on the systemic problems identified through the sample, we identified that DFAS also inaccurately valued an additional 279 accounts payable balances for service invoices. Therefore, DFAS misstated 382 accounts payable balances (103 sample items and 279 additional service invoices) on the March 31, 2009, 741 and 743 accounts payable reports. DFAS did not accurately value or include all valid accounts payable balances because it did not have adequate control procedures, such as creating or maintaining documentation for

DFAS did not accurately value or include all valid accounts payable balances because it did not have adequate control procedures…

calculating accounts payable on the 741 and 743 reports to ensure the adequacy of the systems methodology or that the program operated as intended. DFAS needs to develop a written standard operating procedure, which includes preparation of the reports and methodologies for reporting and accurately valuing all accounts payable. The DFAS methodology used to create the 741 and 743 reports included several system programs that extracted certain data from MOCAS.

To improve the valuation and completeness of its accounts payable reports, the DFAS controls need improvement in five main areas: contract financing payment estimation, contract modifications input, service invoices program logic, timeliness and accuracy of data used by DFAS to value accounts payables, and excluded invoices. These weaknesses resulted in inaccurate data for 382 misstated accounts payable balances. See the table for a breakout of the number of accounts payable balances and dollar valuation of misstatements by the four main causes.

Cause and Number of Misstatements on 741 and 743 Accounts Payable Reports, March 31, 2009

Cause	Accounts Payable Balances Misstated	Dollar Amount Misstated (Millions)
Valuation of contract financing payments	8	$41.5
Timely input of contract modifications	37	70.2
Valuation of service invoices	286*	59.8
Timeliness and accuracy of data used by DFAS to value accounts payable	42	94.4
Excluded invoices	9	31.0
Total	**382**	**$296.9**

*Our judgment sample of 113 items included 7 service invoices that DFAS misstated. In addition to our sample, we identified an additional 279 service invoices that DFAS misstated on the 741 report.

DFAS Columbus Did Not Always Estimate Contract Financing Payments Correctly

DFAS Columbus incorrectly valued 8 of the 198 sample items on the 741 report because it did not accurately reduce the accounts payable balance for contract financing payments it had already made. According to DFAS Columbus personnel, DFAS Columbus estimates the amount of payments already made to a contractor and deducts that amount from the total invoice amount to ensure that the accounts payable is not overstated. DFAS Columbus stated, however, that it estimated this amount by multiplying the

invoice amount by the financing-payment liquidation rate of the contract. DFAS Columbus then compared that amount with the outstanding contract financing amount and estimated the lesser of the liquidation amount or the outstanding contract financing payments. DFAS Columbus was unable to provide written documentation for this procedure.

DFAS Columbus incorrectly estimated the accounts payable balances for six of the eight incorrectly valued sample items because it did not estimate the reduction for contract financing payments in accordance with their stated procedures. As a result, DFAS Columbus misstated the accounts payable balances by $17 million. For example, DFAS Columbus reported a total accounts payable balance of $3,409,188 for one invoice. This invoice was for a payment on a contract that had a liquidation rate of 72.7 percent and outstanding contracting financing of over $14 million. Therefore, DFAS Columbus should have reduced the accounts payable balance by $2,478,479.68 ($3,409,188 multiplied by 72.7 percent). However, DFAS Columbus did not estimate the reduction for the contract financing payments for this invoice and subsequently reported the entire invoice amount of $3,409,188 as the accounts payable balance. DFAS overstated the accounts payable accrual balance by $2,478,479.68 but accurately paid the contractor using the correct data. DFAS Columbus could not provide an explanation as to why it did not correctly estimate the reduction for the contract financing payments on the six sample items.

DFAS Columbus did not accurately estimate the reduction for the contract financing payments for two additional sample items totaling $24.5 million. DFAS overstated the two accounts payable balances because the estimation methodology for reducing accounts payable balances for contract financing payments differed from the payment process. Specifically, the accounts payable methodology will only calculate the reduction for contract financing payments based on the specific funding line that the contractor has billed. However, DFAS will reduce the payment on all contract funding lines if there are not enough outstanding contract financing payments on the funding line billed.

For example, the contractor billed on one funding line for an invoice, and DFAS Columbus estimated the reduction to the accounts payable balance for only that funding line. However, when DFAS Columbus paid the invoice, it also properly reduced the payment by an additional $1,575,236.38 on another funding line to account for the total liquidation rate. This resulted in an overstatement of $1,575,236.38 for that accounts payable balance.

DFAS Columbus accurately valued some of the accounts payable balances for contract financing payments on the 741 report. For example, DFAS reported an accounts payable balance of $2,996,173.36 associated with a certain payment request. This contract had a liquidation rate of 87.7 percent. The contractor submitted the invoice for $24,359,133 and DFAS accurately reduced the accounts payable balance by $21,362,959.64 to account for the contract financing payments that DFAS had already paid the contractor ($24,359,133 multiplied by 87.7 percent).

During the audit, DFAS Columbus researched the contract financing payment sample items to determine why the accounts payable balances were inaccurate but could not fully explain why the inaccuracies occurred. DFAS Columbus agreed to continue to analyze accounts payable associated with contract financing payments in an attempt to resolve the inaccuracies.

DFAS Columbus needs to document its accounts payable estimation methodology associated with contract financing payments. In addition, DFAS Columbus should test the program logic to determine why it did not estimate the reduction for contract financing payments on the six sample items in accordance with its stated program logic. DFAS Columbus should also monitor the payment process to ensure that accounts payable estimations are not significantly overstated because DFAS followed an estimation methodology that differed from the payment process.

DFAS Columbus Did Not Enter Contract Modifications Into MOCAS in a Timely Manner

DFAS Columbus misstated the accounts payable balance for 37 of the 198 sample items because it did not enter contract modifications timely into MOCAS. When DFAS does not enter the contract modifications in a timely manner, it cannot record the correct funding amounts in MOCAS or accurately value the MILDEPs accounts payable. Additionally, DFAS lacked a process to identify, review, and reconcile accounts payable amounts that differed from the contractor invoice amount.

For the 37 sample accounts payable with contract modifications that became effective as of March 27, 2009, DFAS did not enter the contract modifications as of March 27, 2009. For example, on March 19, 2009, a contractor submitted an invoice for $3,183,127 for a line item. DFAS estimated the accounts payable for the invoice as $1,457,383 because that was the amount of funding left on that contract line item in MOCAS. Contract modification 3 (effective as of February 24, 2009) added additional funding to the line item. However, DFAS did not input this modification into MOCAS until after it received the invoice. If DFAS Columbus had entered the modification earlier, it could have accurately estimated the accounts payable.

DFAS Columbus personnel stated that during the March 2009 time frame, a significant backlog of contract and modification input existed. They stated that they were aware of the backlog and were working on procedures to expedite the process for entering contract modifications into MOCAS, including allocation of personnel to the contract input function. By performing quarterly reconciliations of accounts payable balances that do not match contractor-billed amounts, DFAS Columbus would be better able to correctly estimate future accounts payable balances.

DFAS Columbus Did Not Adequately Estimate Service Invoice Accounts Payable Balances

DFAS Columbus inaccurately valued accounts payable balances for service invoices on the 741 report as of March 31, 2009. Service invoices are for contracts whose primary

purpose is to perform a service to the government rather than furnish an end item or supply. Services include such tasks as maintenance, advisory and assistance services, or modifications of supplies, systems, or equipment.

For 7 of the 198 sample items, DFAS reported $0 of accounts payables on the 741 report but paid contractors $29.5 million. In addition to the 7 sample items, DFAS reported 279 accounts payable balances for service invoices on the 741 report with a $0 accounts payable balance. DFAS subsequently paid $30.3 million for those 279 accounts payable balances within the next two months.

DFAS Columbus personnel stated that service invoices are similar to BVN[2] invoices in that DFAS should accrue an accounts payable equal to the service invoice amount and not the quantity-delivered amount contained in MOCAS. We agree with this methodology. However, for the seven sample service invoices, DFAS estimated the accounts payable based on contract data that indicated there was no quantity delivered, and DFAS consequently estimated a $0 accounts payable balance. DFAS Columbus could not provide written documentation for this process.

For example, on March 23, 2009, a contractor submitted a service invoice for $10,875,404. On March 25, 2009, MOCAS records indicated that DFAS had approved the accuracy of the invoiced amount. However, on the March 31, 2009, 741 report DFAS reported a $0 accounts payable accruable balance for the invoice based on contract data that indicated there was no quantity delivered. However, DFAS used the correct data to accurately pay the contractor. DFAS did not have controls in place for identifying and reconciling $0 accounts payable balances on the 741 report.

During the audit, DFAS Columbus stated it took action to significantly reduce the number of service invoices with a reported $0 accounts payable balance. DFAS stated it had initiated a system change that would partially correct the inaccurate accounts payable calculation associated with service invoices. We requested that DFAS provide more details about its actions in the draft report comments.

DFAS Columbus should implement controls to ensure that they estimate service invoices based on the invoice amount, and not contracting data. In addition, DFAS Columbus should develop written documentation for this process.

DFAS Columbus Used Out-Of-Date Information to Report Accounts Payable

DFAS Columbus did not accurately report accounts payable balances on the 741 and 743 reports because the accounts payable methodology did not always use current or accurate contract information to calculate the accounts payable balance. DFAS Columbus's methodology included using data extracted from various MOCAS reports to develop the

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[2]DFAS Columbus calculates the accounts payable balances for BVN invoices based on the contractor submitted invoices and availability of funds.

accounts payable balances. The reports used were not always the most timely or most accurate at the time of the accrual. This resulted in DFAS inaccurately valuing 42 of the 198 sample accounts payable balances on the 741 and 743 reports. For all 42, DFAS had more accurate data available in the system as of March 27, 2009. DFAS did not have controls in place to identify and reconcile accounts payable balances on the 741 and 743 reports that differed from invoice amounts.

Specifically, for 20 of the 42 items, DFAS did not use all data submitted by the contractor before March 27, 2009, to calculate accounts payable on the 741 and 743 reports. Instead, DFAS reported accounts payable balances based on data that had subsequently been updated and corrected in MOCAS before March 27, 2009. Generally, for these invoices, the contractor billed the correct amount. A comparison of the accounts payable estimate to the contractor-billed amount would have highlighted discrepancies that DFAS could research.

In addition, DFAS mistakenly identified 3 of the 42 items as standard invoices when the contractor had actually submitted the invoices as provisional billing.[3] DFAS also incorrectly concluded in 4 sample items that the contractor overbilled the DOD. The DFAS conclusion was not accurate because it did not calculate the four accounts payable shown on the 741 report using the best available data. DFAS subsequently used the most accurate data to pay the invoice.

On 6 of the 42 items, DFAS paid a different line of accounting than the contractor billed. The DFAS methodology only includes lines of accounting noted by the contractor on the invoices. Therefore, using this methodology, DFAS could not have accurately valued these accounts payable balances. In addition, DFAS improperly included lines of accounting associated with 3 of the 42 items that DFAS should have removed from the 741 report, had it followed its methodology for preparing the report. By including these lines of accounting, DFAS overstated the accounts payable balance.

For 6 of the 42 items, DFAS misstated the accounts payable balance because it used incorrect data to calculate the accounts payable. Specifically, for one invoice, DFAS erroneously recorded contracting data in MOCAS, which resulted in DFAS calculating the estimation incorrectly. For five invoices, DFAS misstated the accounts payable balance because the contractor billed on incorrect accounting lines. For all five invoices, instead of reporting a $0 accounts payable balance, DFAS reported a negative accounts payable balance. A negative accounts payable balance would normally indicate an error or an adjustment to correct an accounts payable balance that required research.

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[3]The contracts associated with the three invoices included provisional billing rates. Until the contracting officers finalize the contract terms, they had the ability to establish a provisional billing rate for the contract. This allowed the contractor to submit an invoice and DFAS to pay the invoice up to, but not to exceed, the dollar amount identified as the provisional rate in the contract before the contracting officer finalized the contract terms.

During the audit, DFAS Columbus acknowledged that it did not always use the most timely or accurate data to report accounts payable balances. DFAS management stated it would review our results further and seek possible solutions. DFAS expressed concern about the possible need for adding manual processes to verify system-generated amounts.

DFAS Columbus should perform analysis to ensure that it estimates the accounts payable balances based on the most current and accurate data as of a certain date. DFAS should also perform quarterly reconciliations of accounts payable balances that do not match invoiced amounts. This information would help DFAS Columbus correctly estimate future accounts payable balances.

DFAS Inappropriately Excluded Invoices From the Accounts Payable Balance

DFAS Columbus incorrectly excluded 9 of the 198 accounts payable balances from the 743 report because MOCAS did not generate a record when DFAS received these invoices. DFAS Columbus stated that a MOCAS record of invoice receipt was not necessary for it to process and pay these invoices if DFAS personnel appropriately adjusted MOCAS to allow for payment. However, DFAS excluded these invoices because these invoices bypassed the process that generates a MOCAS record of receipt, which is how DFAS Columbus estimates the accounts payable balance.

DFAS Columbus should develop a procedure to ensure that they still report invoices that do not generate a MOCAS receipt record on the 743 accounts payable report.

The 741 and 743 Accounts Payable Reports Could Be More Reliable

The DFAS Columbus methodology for the compilation of the 741 and 743 reports sometimes resulted in unreliable accounts payable balances for the MILDEPs. DFAS Columbus inaccurately reported 382 accounts payable balances, which resulted in a $296.9 million misstatement on the 741 and 743 reports. Specifically, DFAS misstated 103 sample items, which resulted in a $178.3 million misstatement on the 741 report and an $88.3 million misstatement on the 743 report. DFAS Columbus also misstated 279 accounts payable balances for service invoices on the 741 report by $30.3 million.

> *DFAS Columbus inaccurately reported 382 accounts payable balances, which resulted in a $296.9 million misstatement on the 741 and 743 reports.*

DFAS Columbus misstated and excluded $178.3 million of account payable balances on the 741 report as of March 31, 2009. Of the 129 judgment sample items on the 741 report, DFAS incorrectly valued or excluded 56 sample items. Of the 56 sample items, 54 had an absolute difference between the accounts payable balance and payment amount of $171.7 million. DFAS also excluded two sample items that it should have included with a net payment of $6.6 million, from the March 31, 2009, 741 report. In addition to the 56 judgmentally selected sample items, DFAS misstated 279 accounts payable balances for service invoices by $30.3 million on the 741 report.

DFAS Columbus also misstated and excluded $88.3 million[4] of accounts payable balances on the 743 report as of March 31, 2009. Of the 69 judgment sample items, DFAS incorrectly valued or excluded 47 items. Of the 47 sample items, 35 had an absolute difference between the accounts payable balance and payment amount of $42.6 million. DFAS also excluded 12 sample items that it should have included, with a net payment of $45.6 million, from the March 31, 2009, 743 report.

Until DFAS implements procedures to ensure that all valid accounts payable balances are included and valued correctly, certain accounts payable balances related to the 741 and 743 reports on the financial statements will not be reliable. In addition, DFAS improvements to the reports will assist the MILDEPs in their efforts to prepare audit-ready Statements of Budgetary Resources, which rely in part on accurate accounts payable information. Specifically, accurate accounts payable reports will assist the MILDEPs in accurately reporting unpaid obligations on Statements of Budgetary Resources for line items such as Undelivered Orders.

DFAS improvements to the reports will assist the MILDEPs in their efforts to prepare audit-ready Statements of Budgetary Resource, which rely in part on accurate accounts payable information.

Recommendations, Management Comments, and Our Response

We recommend that the Director, Defense Finance and Accounting Service Columbus, take corrective actions to ensure that accounts payable balances on the 741 and 743 reports are complete and accurately reported. Specifically:

1. Review control procedures for preparing valid accounts payable balances and accurately valuing those balances on the 741 and 743 reports.

Management Comments

The Deputy Director, Defense Finance and Accounting Service Columbus, stated that DFAS will review existing processes used to prepare the monthly MOCAS system accounts payable reports. In addition, DFAS will develop flow charts and narratives identifying the process flow controls for the 741 and 743 accounts payable reports. The flow charts and narratives will include source systems and database functions that DFAS uses when it prepares the MOCAS accounts payable reports. The Deputy Director anticipates completing and validating the reviews and creating flow charts and narratives by June 1, 2011.

Our Response

Comments from the Deputy Director, Defense Finance and Accounting Service Columbus, were responsive, and we require no additional comments.

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[4]Mathematical differences are due to rounding.

2. Develop and document a standard operating procedure for the accounts payable reporting process, which includes preparation of the 741 and 743 reports and methodologies for reporting all accounts payable that exist and accurately valuing reported accounts payable.

Management Comments

The Deputy Director, Defense Finance and Accounting Service Columbus, stated that DFAS will develop standard operating procedures for MOCAS accounts payable reporting processes. The standard operating procedures will include methodologies for reporting accounts payable balances and procedures for monitoring the accuracy of MOCAS accounts payable reports. The Deputy Director anticipates completing and validating the standard operating procedures by June 1, 2011.

Our Response

Comments from the Deputy Director, Defense Finance and Accounting Service Columbus, were responsive, and we require no additional comments.

3. Develop and document a process to accurately estimate 741 accounts payable balances associated with contract financing payments.

Management Comments

The Deputy Director, Defense Finance and Accounting Service Columbus, stated that DFAS will review the contract financing program logic to determine why they did not correctly estimate the six sample items with contract financing. Specifically, DFAS will review all variables and conditions that may prevent the contract financing logic from reducing the accounts payable amount by the amount that DFAS already has paid the contractor. The Deputy Director anticipates completing and validating the review of the contract financing payment by September 1, 2011.

Our Response

Comments from the Deputy Director, Defense Finance and Accounting Service Columbus, were responsive, and we require no additional comments.

4. Perform a quarterly reconciliation of the 741 and 743 reports to invoice billed amounts to ensure the reports are complete and the accounts payable balances are accurately reported.

Management Comments

The Deputy Director, Defense Finance and Accounting Service Columbus, stated that DFAS will establish a quarterly reconciliation of the 741 and 743 accounts payable reports. DFAS will perform a systemic analysis between the accounts payable amounts reported versus the amount paid. DFAS will then research the high dollar variances, zero/negative accounts payable balances, and inaccurate contract financing accounts payable balances using a judgmental sample. In addition, DFAS will compare 741 and 743 accounts payable balances with actual MOCAS disbursements data by developing a

Microsoft Access database. The Deputy Director anticipates completing and validating the review by September 1, 2011.

Our Response

Comments from the Deputy Director, Defense Finance and Accounting Service Columbus, were responsive, and we require no additional comments.

5. Develop and document a process to accurately capture and estimate the 743 invoices that do not generate a Mechanization of Contract Administration Services receipt record.

Management Comments

The Deputy Director, Defense Finance and Accounting Service Columbus, stated that DFAS Accounts Payable Acquisition issued a letter to the Supervisor of MOCAS Entitlements directing that office to approve and monitor payment requests that lack a MOCAS receipt record. DFAS will review 6 months' worth of data and determine the risk and materiality associated with processing payments without a MOCAS receipt record. The Deputy Director anticipates completing and validating the review by July 1, 2011.

Our Response

Comments from the Deputy Director, Defense Finance and Accounting Service Columbus, were responsive, and we require no additional comments.

Appendix. Scope and Methodology

We conducted this performance audit from June 2009 through August 2010 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

We selected a judgment sample of 198 items to test for valuation and completeness on the March 31, 2009 741 and 743 reports. We selected sample items with a high-dollar-value difference between the reported accounts payable amount and the amount paid by DFAS. We verified whether DFAS valued the sample items correctly or reported valid accounts payable by reviewing invoices and payment data. We used available documentation and discussions with DFAS personnel to determine whether DFAS-reported accounts payable were valued correctly. In addition, we performed an analysis of service invoices on the 741 report.

The 741 report consisted of 32,185 accounts payable totaling $3.6 billion. Of the 32,185 accounts payable, DFAS paid 31,816 between April 1, 2009, and May 31, 2009. For 6,699 of the 31,816 accounts payable, DFAS calculated an accounts payable balance different from the payment amount. From the 6,699 accounts payable, we selected 60 sample items with the highest dollar-value difference between the accounts payable balance and payment amount. We also selected an additional 9 sample items with negative accounts payable balances. In addition, to test for completeness of the 741 report, we identified that for 8,160 of the invoices, DFAS had received and Government acceptance had occurred before March 27, 2009. From the 8,160 invoices, we judgmentally selected 60 sample items with the highest payment amounts. Therefore, we selected 129 total sample items to test the valuation and completeness of the 741 report.

The 743 report consisted of 10,863 accounts payable totaling $2.2 billion. Of the 10,863 accounts payable, DFAS paid 10,618 between April 1, 2009, and May 31, 2009. For 1,343 of the 10,618 accounts payable, DFAS calculated an accounts payable balance different from the payment amount. From the 1,343 accounts payable, we selected 34 judgment sample items with the highest dollar-value difference between the accounts payable balance and payment amount. We also selected 10 sample items with negative accounts payable balances. In addition, to test for completeness of the 743 report, we identified 3,518 BVN invoices that DFAS had received before March 27, 2009, but did not include on the 743 report. From the 3,518 BVN invoices, we selected 25 judgment sample items with the highest payment amount. Therefore, we selected 69 total sample items to test the valuation and completeness of the 743 report.

Use of Computer-Processed Data

We relied on computer-processed data in MOCAS. We assessed the reliability of the payment data obtained from DFAS in a database by verifying that the payment data matched MOCAS (fields such as YINV and YCU2). We also relied on computer-

processed data obtained from Wide Area Workflow and Electronic Document Management. We verified that the lines of accounting, invoice amount, and payment amount in Wide Area Workflow and Electronic Document Management matched MOCAS. We did not find any discrepancies. Therefore, we determined that the data were sufficiently reliable for the purposes of this report.

Prior Coverage

During the last 5 years, the DOD Inspector General (DOD IG) and Air Force Audit Agency have issued four reports discussing MOCAS and accounts payable. Unrestricted DOD IG reports can be accessed at http://www.dodig.mil/audit/reports. Air Force Audit Agency reports can be accessed from .mil domains over the Internet at https://afkm.wpafb.af.mil/ASPs/CoP/OpenCoP.asp?Filter=OO-AD-01-41 by those with Common Access Cards.

DOD IG

DOD IG Report No. D-2008-117, "Accuracy of Mechanization of Contract Administration Services Accounts Payable Information," August 14, 2008

DOD IG Report No. D-2007-91, "Memorandum Report on Assessment of Defense Accounts Payable Compliance with Generally Accepted Accounting Principles," May 4, 2007

Air Force

F2008-0004-FB3000, "Defense Finance and Accounting Service Processing of Air Force Working Capital Fund Accounts Payable," June 9, 2008

F2007-FB3000-0105.000, "Closure Memorandum, General Fund Accounts Payable–Mechanization of Contract Administration Services System Transactions," November 21, 2007

Defense Finance and Accounting Service Columbus Comments

DEFENSE FINANCE AND ACCOUNTING SERVICE
P.O. BOX 182317
Columbus, OH 43218-2317

OCT 14 2010

DFAS-JBI/CO

MEMORANDUM FOR AUDIT PROGRAM DIRECTOR, DEFENSE BUSINESS OPERATIONS

SUBJECT: Management Comments to the DoD Inspector General Draft Report, "Improving the Accuracy of Defense Finance and Accounting Service Columbus 741 and 743 Accounts Payable Reports," Project Number D2009-D000FR-0236.000, dated August 23, 2010

In accordance with subject audit, management comments to the draft audit report are attached. The draft report identified five recommendations for DFAS Columbus.

For additional information, please contact [redacted] DFAS-JBI/CO, at [redacted] or [redacted]

Rebecca S Beck
for Pamela M. Franceschi
Deputy Director, DFAS Columbus

Attachment:
As stated

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Your Financial Partner @ Work

Management Comments to the DoD Inspector General Draft Report, "Improving the Accuracy of Defense Finance and Accounting Service Columbus 741 and 743 Accounts Payable Reports," Project Number D2009-D000FR-0236.000, dated August 23, 2010

Recommendation 1: Review control procedures for preparing valid accounts payable balances and accurately valuing those balances on the 741 and 743 reports.

Current Management Comments: The Defense Finance and Accounting Service Columbus Contract Pay Operations Division performs entitlement functions utilizing the Mechanization of Contract Administration Services (MOCAS), an integrated, automated financial and contract administration system. Typically, these contracts are administered by the Defense Contract Management Agency and tend to be complex, multi-year purchases with high dollar value, such as the purchase of major weapon systems. In Fiscal Year 2009, the Division processed 1,060,498 invoices and disbursed over $234 billion.

As stated in your report, DFAS Columbus misstated $296.9 million accounts payable balances as of the March 31, 2009, reporting date. Accounts Payable Acquisition shall review existing processes used to prepare the monthly MOCAS system accounts payable accrual reports. (UNFC741 – Acceptance Documents Match to Invoices and UNFC743 – Unpaid Bureau Vouchers) Our office will develop flow charts and narratives to identify the process flow controls for the UNFC741 and UNFC743 accounts payable reports. These flow charts will identify source systems and database functions that are used to prepare MOCAS accounts payable accrual reports. The documented process will provide increased reliability to provide complete and accurate accounts payable information to our Department of Defense customer's financial statements. Accounts Payable Acquisition will complete their summary analysis by February 1, 2011. In order for Audit Support to validate the corrective actions, the estimated completion date is extended to June 1, 2011.

Estimated Completion Date: June 1, 2011

Recommendation 2: Develop and document a standard operating procedure for the accounts payable reporting process, which includes preparation of the 741 and 743 reports and methodologies for reporting all accounts payable that exist and accurately valuing reported accounts payable.

Current Management Comments: Accounts Payable Acquisition will develop standard operating procedures for MOCAS accounts payable reporting process. These procedures will include methodologies for reporting accounts payable balances and procedures for monitoring the accuracy of MOCAS accounts payable reporting. Accounts Payable Acquisition will complete the standard operating procedure by February 1, 2011. In order for Audit Support to validate and review procedures, the estimated completion date is extended to June 1, 2011.

Estimated Completion Date: June 1, 2011

Recommendation 3: Develop a process to accurately estimate 741 accounts payable balance associated with contract financing.

Current Management Comments: Accounts Payable Acquisition in conjunction with MOCAS system personnel will review the contract financing program logic to determine why the six sample items with contract financing was not estimated correctly. We will review all variables and conditions that may have affected the contract financing logic from reducing the accounts payable amount by the amount that DFAS already paid the contractor. Accounts Payable Acquisition will complete the review of contract financing payments by June 1, 2011. In order for Audit Support to validate and review results, the estimated completion date is extended to September 1, 2011.

Estimated Completion Date: September 1, 2011

Recommendation 4: Perform a quarterly reconciliation of the 741 and 743 reports to invoice billed amounts to ensure the reports are complete and the accounts payable balances are accurately reported.

Current Management Comments: Accounts Payable Acquisition will establish a quarterly reconciliation of the UNFC741 and UNFC743 accounts payable reports to ensure the accuracy of the accounts payable balances reported to our Department of Defense customers. A systemic analysis will be conducted between the accounts payable amounts reported versus the amount paid to determine the variances. A judgmental sample will be used to research the high dollar variances; zero/negative accounts payable balances; and inaccurate contract financing accounts payable balances. In addition, a Microsoft Access database will be developed to compare the UNFC741 and UNFC743 accounts payable balances to actual MOCAS disbursements archived in the Shared Data Warehouse. Accounts Payable Acquisition will summarize three-quarters of Fiscal Year 2011 data, to establish a baseline and ensure a reconciliation process is in place. The summary results will be completed by June 1, 2011, and reported to Senior Management. In order for Audit Support to validate and review results, the estimated completion date is extended to September 1, 2011.

Estimated Completion Date: September 1, 2011

Recommendation 5: Develop and document a process to accurately capture and estimate the 743 invoices that do not generate a Mechanization of Contract Administration Services receipt record.

Current Management Comments: Accounts Payable Acquisition has issued a letter to the Supervisor (MOCAS Entitlements) to approve and monitor all requests to make a payment without processing a Material Acceptance Accounts Payable Report (MAAPR). The MAAPR is used to generate an accounts payable balance on the accounts payable reports. Sometimes, a payment must be made without a MAAPR to avoid large interest payments; to take discounts; to make payments before month end; and comply with congressional inquiries to make an immediate payment to a contractor. A review of six months of data will be conducted to determine the risk and materiality associated with processing payments without a MAAPR. The review will be completed by April 1, 2011. In order for Audit Support to validate and review results, the estimated completion date is extended to July 1, 2011.

Estimated Completion Date: July 1, 2011

Inspector General
Department of Defense