

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

VENDOR PAYMENTS AT DEFENSE
ACCOUNTING OFFICES

Report No. 96-030

November 30, 1995

Department of Defense

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Acronyms

AFES	Automated Financial Entitlement System
COMSAPS	Commercial Services Accounts Payable System
DAO	Defense Accounting Office
DeCA	Defense Commissary Agency
DFAS	Defense Finance and Accounting Service
IAPS	Integrated Accounts Payable System
IDAFMS	Integrated Disbursing and Accounting Financial Management System
NAVFACENGCOM	Naval Facilities Engineering Command
OMB	Office of Management and Budget
OPLOC	Operating Location
STARS-FL	Standard Accounting and Reporting System-Field Level



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November 30, 1995

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Audit Report on Vendor Payments at Defense Accounting Offices
(Report No. 96-030)

We are providing this audit report for information and use. We conducted the audit as a result of two DoD Hotline complaints involving alleged duplicate payments by Defense Accounting Office Oakland. Management comments on a draft of this report were considered in preparing the final report.

Management comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required. However, we request copies of the checklists that management addressed in their response to Recommendations A.2.e. and A.2.g.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Raymond D. Kidd, Audit Program Director, at (703) 604-9110 (DSN 664-9110) or Mr. John A. Richards, Audit Project Manager, at (703) 604-9133 (DSN 664-9133). The distribution of this report is listed in Appendix G. The audit team members are listed on the inside back cover.

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Office of the Inspector General, DoD

Report No. 96-030
(Project No. 3FH-5025)

November 30, 1995

Vendor Payments at Defense Accounting Offices

Executive Summary

Introduction. This audit was performed as a result of two DoD Hotline complaints alleging that duplicate payments were authorized by Navy Public Works Center, San Diego, California, and disbursed by Defense Accounting Office Oakland, California. Although we could not substantiate the allegations from the available data, we identified weaknesses in vendor payment procedures and methods of detecting duplicate payments. These weaknesses warranted expanding our field work. We reviewed vendor payment procedures at five additional Defense Accounting Offices. During FY 1993, these offices made \$17.4 billion of the approximately \$57.8 billion in total vendor payments. During FY 1994, the five Defense Accounting Offices made \$17.5 billion in vendor payments.

Audit Objectives. The primary audit objective was to evaluate the adequacy of procedures designed to prevent duplicate payments and to detect and correct duplicate payments when they occur. We also evaluated the implementation of the DoD Internal Management Control Program as it applied to the primary audit objective.

Audit Scope Limitations. Based on scope limitations encountered at the 5 Defense Accounting Offices, we terminated our review of the remaining 34 selected Defense Accounting Offices and military finance and accounting offices. We could not accomplish our objective to determine the extent of duplicative vendor payments because the data bases containing the transaction histories needed for validation of previous vendor payments were incomplete and inadequate. We concluded that the deficiencies at the five Defense Accounting Offices visited, and the deficiencies identified in the data bases provided for the remaining locations, sufficiently reflected systemic problems in vendor payments to warrant DoD-wide corrective actions. See Finding A and Appendix C for details of the limitations to the audit scope.

Audit Results. Vendor payment data bases and supporting documentation were incomplete and inaccurate. Additionally, implementation of the DoD Internal Management Control Program was ineffective.

o The accounts payable data bases used to validate vendor payments were incomplete and inaccurate. In addition, the inquiry data bases and supporting documentation did not adequately support the vendor payment transactions. The lack of complete, accurate, and reliable data increased the potential for erroneous and duplicate payments by hindering validation prior to payment. We identified at least \$2.4 million in duplicate payments at the activities visited; however, audit scope limitations precluded us from quantifying the full effect of vendor payment deficiencies. For details on duplicate payments identified, see Finding A and Appendixes A and E. In addition, incomplete, inaccurate, and unreliable data erode the

basis for sound management decisions, and ultimately impair the ability of the Defense Finance and Accounting Service (DFAS) to fulfill its mission to provide effective and efficient finance and accounting services to its customers (Finding A). DFAS plans to improve its ability to fulfill its mission by implementing a single migratory vendor payment system, but not until 2010.

o DFAS managers did not effectively implement the DoD Internal Management Control Program at the Defense Accounting Offices. As a result, DFAS management lacked the benefit of a structured process for evaluating and improving the management control environment (Finding B). The management control program did not identify that controls were not effective to ensure that data were converted correctly and properly from the old to the new accounts payable systems; that accounts payable and inquiry data bases were properly updated to reflect adjustments, corrections, and manual payments; and that supporting documentation was properly maintained. Finally, management did not know the level of risk for fraud, waste, and mismanagement. See Findings A and B for details of the material management control weaknesses identified and Appendix A for the management controls assessed.

Recommendations in this report, if implemented, will result in improved operations at the Defense Accounting Offices, increased accuracy and reliability of accounts payable systems and financial data for use by management in decisionmaking, improved compliance with regulations, and improved management controls. Appendix E summarizes the potential benefits of the audit.

The DFAS needs to address and correct the problems at the Defense Accounting Offices to eliminate further adverse effects as 281 Defense Accounting Offices are consolidated into 21 Operating Locations. As of the end of FY 1995, DFAS has already closed 42 Defense Accounting Offices, including Defense Accounting Office Arlington.

Summary of Recommendations. We recommend that the Under Secretary of Defense (Comptroller) accelerate the planned migration to a comprehensive vendor payment system before FY 2010, implement new DFAS procedures at military finance and accounting offices, and provide related training. We also recommend that the Director, DFAS, recoup duplicate payments, establish a uniform vendor payment process and provide related training, improve vendor payment procedures, and maintain adequate supporting documentation for accounting transactions. In addition, we recommend that the Director, DFAS, effectively implement the DoD Internal Management Control Program at DoD accounting activities.

Management Comments. The Under Secretary of Defense (Comptroller) and the Director, DFAS stated that accelerated planning for implementing a comprehensive vendor payment system has begun and implementation could be completed by 2005 with a potential for implementation as early as 2001. In addition, management agreed to develop new DFAS procedures and provide related training at all military finance and accounting offices. The Director, DFAS, agreed to recoup duplicate payments, establish a uniform vendor payment process and provide related training, improve vendor payment procedures, maintain adequate supporting documentation, and effectively implement the DoD Internal Management Control Program. See Part I for a complete discussion of management comments, and Part III for complete text of management comments.

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Part I - Audit Results

Audit Background

The audit originated as the result of two DoD Hotline complaints alleging that duplicate payments were made by Naval Supply Center, Oakland, California, currently known as Defense Accounting Office (DAO) Oakland.

The first complaint alleged that during a 2-year period, a particular contractor had received duplicate payments and had not returned the duplicate payments. Our audit did not identify any duplicate payments to the contractor.

The second complaint alleged that another company received a duplicate check in 1988 for about \$30,000. Due to an incomplete transaction history, our audit could not confirm this allegation. However, the DoD Hotline inquiry confirmed a duplicate payment of \$6,287.91 on November 30, 1988.

In addition, Navy Public Works Center, San Diego, California, identified 200 transactions in excess of \$1.4 million as duplicate payments or overpayments made by DAO Oakland from August 1988 to December 1991. Records at the Navy Public Works Center, San Diego, showed that approximately \$235,000 was outstanding as of December 1991. The inquiry disclosed that DAO Oakland had collected \$143,000 of the \$235,000 as of January 1992 when fieldwork was completed.

Defense Finance and Accounting Service. The DoD established the Defense Finance and Accounting Service (DFAS) in January 1991 to consolidate and revamp finance and accounting operations. The mission of the new organization was to provide effective and efficient finance and accounting services to its customers. In 1995, the Under Secretary of Defense (Comptroller) announced that 300 finance and accounting locations would be consolidated into 21 Operating Locations (OPLOCs), 5 DFAS Centers, and DFAS Headquarters.

Vendor Payment Responsibility. Within the DoD, payments for supplies and services are made by DFAS and some DoD Components. In FY 1993, DFAS had approximately 281 field locations known as DAOs that made disbursements for supplies and services. These DAOs will be consolidated into 21 OPLOCs. Before being taken over by DFAS, the DAOs operated under the Military Departments. With the DoD Components, finance and accounting offices also make vendor payments using unique systems and processes as compared to DFAS.

Vendor Payment Process. The vendor payment process includes an item's initial receipt, verification, accounting, and distribution of invoices and payment vouchers. On the average, vendor payment operations at DAOs process

approximately 55 million transactions (nearly 12 million contracts and modifications, 19 million receiving reports, and 15 million invoices) to disburse more than 9 million payments totaling more than \$30 billion a year. Documents to support vendor payments include vendor invoices, payment vouchers, receiving reports, contract documents, and reports generated by various automated accounts payable systems. Procedures and automated systems have been customized for each DoD Component, and for some major commands and installations as well.

Vendor Payment Systems. The DAOs and military finance and accounting offices use numerous automated systems to process vendor payments and to perform inquiries to retrieve vendor payment data. In addition to the automated systems, DAOs also process vendor payments manually.

Army. The Army uses two automated systems to process vendor payments. The Computerized Accounts Payable System is used at the installation level. During the audit, we reviewed data from the Automated Financial Entitlement System (AFES), which is used at all levels above the installation level.

Navy. The following is a partial list of the Navy vendor payment systems. The DAOs use variations of the systems depending on mission, and some systems are in different phases of implementation.

- o Standard Accounting and Reporting System-Field Level (STARS-FL): this is the most recent system introduced into Navy operations. However, there are no plans to implement this system at all Navy accounting entities.

- o Facilities Information System: this system is being implemented at all of the Naval Facilities Engineering Command accounting entities.

- o Integrated Disbursing and Accounting Financial Management System (IDAFMS),

- o Navy Industrial Fund Management System,

- o Financial Management Information System,

- o Integrated Financial Management Information System,

- o Naval Ordnance Management Information System,

- o Naval Ocean Systems Center Finance and Accounting System,

Audit Results

- o Navy Military Transportation Office Automated Transportation Data System, and
- o Shipyard Management Information System.

We reviewed data from the STARS-FL and the IDAFMS during the audit. We also reviewed data from the Amalgaman system used by the Naval Facilities Engineering Command (NAVFACENGCOM). At NAVFACENGCOM San Diego, this system has been replaced by the Facilities Information System. Additionally, we reviewed the Navy Filenet Optical Disk Imaging System (Filenet), a system used to view and retrieve payment data.

Air Force. The only automated system used for processing payments is the Integrated Accounts Payable System (IAPS). However, in FY 1993, use of this automated system for payments was not mandatory, and a significant number of payments were made manually. Additionally, the Air Force uses Paperview as an inquiry system to research vendor payments. The IAPS and Paperview were reviewed during the audit.

Migratory Vendor Payment System. DoD plans to substantially reduce the number of its accounting systems by integrating migratory systems that comply with Office of Management and Budget (OMB) Circular No. A-127, "Financial Management Systems," revised July 23, 1993. DFAS plans to consolidate vendor payment operations at the DFAS site that performs the accounting functions for the organization with the procurement function. DFAS believes this will enhance the timeliness and accuracy of accounting records, while greatly decreasing the effort needed for account reconciliation. Eventually, DFAS plans to reduce the number of vendor payment systems to three (one for each Military Department), then to a single vendor payment system throughout the DoD. DFAS expects the single system to drastically cut the costs of providing finance and accounting support, while offering improved service to the DoD Components.

Regulations. DFAS believes that regulations must be general enough to allow the DAOs to meet their unique system requirements. However, basic principles govern vendor payment activity. The regulations governing vendor payments are described in Appendix D.

Audit Objectives

The primary audit objective was to evaluate the adequacy of procedures designed to prevent duplicate payments and to detect and correct duplicate

payments when they occur. We also evaluated the adequacy of the DoD Internal Management Control Program as it applied to the primary audit objective. See Appendix A for a discussion of the scope, methodology, and management control program, and Appendix B for a summary of prior audit coverage.

Audit Scope Limitations

Based on scope limitations encountered at the 5 DAOs, we terminated our review of the remaining 34 selected DAOs and military finance and accounting offices. These limitations included problems with obtaining the universe data, retrieving vendor payment data, and reviewing sample transactions. Therefore, we could not accomplish our objective to determine if vendor payments were duplicative because the data bases containing the transaction histories needed for validation of previous vendor payments were incomplete and inadequate. See Finding A and Appendix C for details of the limitations on the audit scope.

Finding A. Vendor Payment Data Bases

The automated accounts payable data bases used to validate vendor payments were incomplete and inaccurate. In addition, the inquiry data bases and supporting documentation did not adequately support the vendor payment transactions. These conditions occurred because procedures for processing the data needed to perform validation of previous payments were either not established or not implemented and computer systems did not adequately interface to facilitate validation. In addition, inadequate procedures and controls covering DAO consolidations resulted in lost records and data required to validate future payments on the contracts. Finally, inadequate management and quality controls undermined the achievement of overall quality in the processing and prevalidation of vendor payments. As a result, at least \$2.4 million in duplicate payments were made at the organizations visited and there was a high risk of additional erroneous and duplicate payments. In addition, incomplete, inaccurate, and unreliable data erodes the basis for sound management decisions, and ultimately impairs the ability of the DFAS to fulfill its mission to provide effective and efficient finance and accounting services to its customers. However, DFAS planning documents stated that its ability to fulfill the mission would improve by implementing a single migratory vendor payment system by FY 2010. The Under Secretary of Defense (Comptroller) and DFAS revised the estimate so implementation is now expected to be completed by FY 2005.

Vendor Payment Procedures

Problems with converting systems, archiving payment data, processing manual payments, and maintaining support documentation occurred because DFAS-wide and local operating procedures needed improvement, and DAO personnel were not complying with established procedures. DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 5, "Disbursing Policy and Procedures," December 1993, establishes standards, responsibilities, and procedures for disbursements.

Converting Automated Vendor Payment Systems. DAO Los Angeles and DAO San Diego had recently converted to new accounts payable systems for making vendor payments. Both of these conversions resulted in the loss of transaction histories, which adversely affected the detection of duplicate payments.

DAO Los Angeles converted from the Commercial Services Accounts Payable System (COMSAPS) to the Integrated Accounts Payable System (IAPS) in October 1993. During the conversion, the outstanding contract balances from the open document listing in the General Accounting Finance System were entered without researching and reconciling the balances for accuracy. Therefore, the unliquidated obligation balances were not reliable. More than 1 year after the conversion, 50 percent of the open document listing balances remained unreconciled to contract records. Although plans had been made for quarterly reconciliations, the contract balances were still unreconciled and unreliable as of the end of our fieldwork. In addition, details in the data base on payments made before the IAPS conversion were lost. This information was not accessible for research to determine whether an invoice had already been paid in COMSAPS before making a payment in IAPS.

DAO San Diego converted from the Integrated Disbursing and Accounting Financial Management System (IDAFMS) to the Standard Accounting and Reporting System-Field Level (STARS-FL) during 1993. For 20 of the 106 contracts sampled, payment histories were incompletely transferred; that is, specific payments were missing. Sufficient checks of the accuracy of the data conversion were not performed to ensure that all of the active data in the IDAFMS data base were transferred to STARS-FL. The conversion was checked by judgmentally sampling the converted data and verifying the record count. These checks did not disclose conversion problems. However, a review of the IDAFMS data base provided by DFAS showed correctly paid transactions that had not been converted.

These problems resulted because adequate plans and procedures for converting data from the old to the new systems were not established at DAOs. DAO Los Angeles management indicated that sufficient time and resources were not available to both ensure accurate contract balances and accomplish the conversion. As a result, the data conversion process at both DAOs created incomplete and inaccurate contracts that did not list all payments made.

Archiving Vendor Payment Transactions. Archiving practices at DAO Tobyhanna and DAO San Diego resulted in incomplete histories for open contracts. Standard procedures required that payments be archived when a contract had been completed and closed. However, at these two DAOs, archiving of payments was performed based on delivery orders and time frames rather than contract completion.

Finding A. Vendor Payment Data Bases

DAO Tobyhanna archived payments based on delivery orders rather than on completion of the contract. For example, after not archiving any transactions for over 18 months, archiving was based on the oldest payments and delivery orders being archived on open contracts. Even using their locally developed standard, problems with both the archived and active data bases occurred. Delivery orders were recorded in both active and archived data bases; other delivery orders were in neither data base, but had been paid. The archived transactions were not part of the payment history in the active data base; therefore, duplicate payments could be made unless procedures are established and implemented to check archived transaction files. The system limitations require manual verification of archived transactions. Given the high volume of transactions processed, manual verification would be difficult and time-consuming.

DAO San Diego archived payments based on time frames rather than contract closure. Specifically, any payments over 9 months old were archived. This practice resulted in payments against multiyear contracts being archived while the contracts were still open. Archiving payments over 9 months old made researching for duplicate payments time-consuming and difficult. Research was more time-consuming at DAO San Diego because transactions were downloaded onto microfiche. In addition, DAO San Diego did not check the accuracy of the microfiche, only the readability.

Processing Manual Payments. For a variety of reasons, such as classified contracts and payments requiring quick turnaround, the DAOs manually processed vendor payments. At some DAOs, this was a large percentage of their total vendor payments. For example, DAO Los Angeles manually made 11,176 vendor payments (39.7 percent), valued at \$3.3 billion (82.5 percent), from a population of 28,136 vendor payments, totaling \$4 billion. Adequate procedures were not in place to ensure that automated systems were updated for the manual payments with applicable payment information. The updating would have ensured that payment histories were complete and provided an adequate research trail for duplicate payments. Procedures for processing manual payments were needed at DAO Tobyhanna, DAO Los Angeles, and DAO NAVFACENCOM San Diego.

DAO Tobyhanna manual payments were made independently of AFES and were not updated into AFES. The bills register reports, and all other reports produced from AFES, were understated by the total dollar amount of manual payments. In addition, any inquiries made to research potential duplicate payments did not show the manual payments. Payments could be made both manually and by AFES. This occurred because procedures for inputting manual payments into AFES had not been developed. As a minimum, operating procedures should require the recording of manual payments into AFES prior to payment to ensure that duplicate or erroneous payments are not made.

DAO Los Angeles processed manual payments outside of IAPS, but these payments were required to be updated into the system. Updates to IAPS payment histories occurred after processing manual payments. Manual payments recorded into IAPS became part of the IAPS contract histories, and IAPS had edit checks to preclude reuse of the invoice numbers. However, IAPS updates for manual payments were not always accomplished, and in such cases, the internal controls for preventing duplicate payments were compromised. No written policy or procedures addressed how to update manual payments into IAPS.

NAVFACENCOM San Diego did not have standard procedures for inputting manual payments into the Amalgam accounts payable data base. As previously stated, manual payments should be recorded prior to payment in order to prevent duplicate and erroneous payments. When we reviewed manual payments on 56 contracts, FY 1993 manual payments were not recorded in the Amalgam system for 2 contracts, data on 10 contracts were incomplete, and 5 contracts contained multiple entries of the same manual payments. In addition, a review of the Amalgam system showed that whenever manual payments were updated into the system, only the month and amount of the payment were inputted. This limited information compromised the ability of Amalgam system to prevent duplicate payments. As a result, NAVFACENCOM San Diego used contract files and a local Paradox data base for its research. Such a manual research process was cumbersome, inefficient, and ineffective. Also, the contract folders and Paradox data base were not accurate, which further weakened the management control environment. A detailed discussion of the supporting documentation inaccuracies at NAVFACENCOM San Diego follows.

Maintaining Supporting Documentation. Four of the five DAOs visited had significant problems with maintaining the documentation required to support the validity of processed payments. The primary cause for this problem was that procedures covering what documents were required and needed to be maintained were inadequate or not followed.

DAO Arlington maintained the supporting documentation on the Filenet system. The supporting documentation contained in Filenet was incomplete for many contracts. For 21 of the 36 contracts reviewed, 41 vouchers or invoices were missing. The missing documents occurred because no standard procedures showed who was responsible for processing and what data should be processed into the Filenet system to support each vendor payment.

DAO Los Angeles local operating procedures for maintaining supporting documentation were published in January 1994. For 20 of 79 contracts with vendor payment transactions processed before January 1994, insufficient documentation was available to determine whether duplicate payments were processed. Invoices, vouchers, receiving reports, contracts, and contract

Finding A. Vendor Payment Data Bases

amendments were missing. Appropriate documentation was not maintained because procedures covering documentation requirements were not established. Problems with insufficient data affected original contract balances, adjustments to the original contract balances, and other payments or adjustments related to disbursements and obligation balances.

DAO San Diego had established procedures; however, the procedures were not being implemented. For 17 of 106 contracts, supporting documentation was incomplete. Missing documentation included invoices, receiving reports, and payment posting sheets used to track automated payments. The 17 contracts could have duplicate payments processed against them without detection.

NAVFACENGCOM San Diego had 2 contracts out of the 56 reviewed where documentation and data were insufficient to determine whether duplicate payments had been made. In addition, although the Paradox data base was supposed to reflect the payment data in Amalgaman and be supported by the contract files, numerous differences occurred. A review of 50 contracts showed that 5 contracts had payments in the Paradox data base that were not in Amalgaman; 5 other contracts had payments in Amalgaman but not in Paradox; 8 contracts had payments in Paradox that were not listed in contract folders; and 18 contract folders listed payments that were not in Paradox. These problems occurred because no procedures addressed the updating of support systems and the maintaining of supporting contract documentation. Because the automated system was not effectively used, these additional systems and processes were necessary.

Interfaces Between Computer Systems

Vendor payment data bases were not updated with contracting and accounting systems data at DAO Tobyhanna and DAO Los Angeles because of inadequate interfacing between systems. Computer interfacing is the process of sending and receiving data in such a manner that the information content or meaning assigned to the data is not altered during transmission. This problem was compounded by the lack of coordination between personnel and lack of effective reconciliation procedures. Incomplete and inaccurate vendor payment data bases hinder the process of prevalidating vendor payments for detecting erroneous or duplicate payments. Additionally, the lack of interfacing was particularly significant for DAO Tobyhanna because internal controls were bypassed, which increased the potential for fraudulent payments.

Although the DAO Tobyhanna contracting and vendor payment systems were designed to have interfacing capabilities, these capabilities were not being utilized. These capabilities were not utilized because DAO management was

Finding A. Vendor Payment Data Bases

not coordinating with information systems personnel to resolve software problems. The interface that should have been available was for contracting personnel to input contract data into the Standard Army Automated Contracting System and have it automatically updated into the AFES vendor payment system. Instead of correcting the automated problems, management elected to have the voucher examiners input all data directly into the vendor payment system. Such duplicative data entry increases the probability of errors. In order to have voucher examiners input this information, they were given access to all the data fields necessary to make fraudulent payments. Specifically, voucher examiners could change the address where a payment would be sent, "company" name, amounts, and accounting codes. As a result, the internal controls developed to stop fraudulent and erroneous payments have been bypassed, leaving the DAO Tobyhanna vulnerable to misuse of funds.

In addition, having voucher examiners input the original contract balances and make adjustments to those balances also increased the potential for duplicate payments. Although standard procedures require reviewing each invoice against previous payments, DAO Tobyhanna locally developed procedures for validating invoices prior to payment that were based on automatically paying an invoice as long as a balance of funds was available on the contract. Therefore, if the voucher examiners originally input a larger contract amount than the awarded amount or were not notified of reductions to the contract amount, they would pay all invoices up to the incorrect balance. As a result, if duplicate invoices were submitted, they would be paid because funds would be available and checks would have been issued before an erroneous or duplicate payment was detected by the accounting system. However, had the designed interfacing capabilities been in place, internal controls would have eliminated the added manual inputs and potential human errors, and would have significantly reduced the potential for erroneous payments.

Adjustments made to vendor payment transactions in the Standard Industrial Fund Financial System (the accounting system) were not updated into AFES. For example, the Accounting Division canceled disbursement vouchers for potential duplicate payments. However, these cancellations were not reflected in AFES, which indicated that both the original and duplicate vouchers were paid and the contract funds balance was reduced for both amounts. Although AFES showed that both vouchers were paid, there was no evidence that voucher examiners identified the duplication, attempted corrective actions, or recouped the apparent duplicate payment. Both transactions were shown as paid in the vendor payment system because no interface capability existed between these two systems, coordination between accounting personnel and voucher examiners was lacking, and procedures were not established to reconcile these systems against one another. Because voucher examiners were not notified of accounting system adjustments (for example, to correct duplicate payments),

Finding A. Vendor Payment Data Bases

their basis for prevalidating payments, which was funds available on the contract, would be understated and could result in legitimate invoices not being processed for payment.

DAO Los Angeles processed manual payments and some collections through the accounting system without these transactions being reflected in the IAPS data base. This occurred because these transactions were not automatically transferred between systems due to a lack of interfacing between systems, and no procedures were established to update IAPS manually. As a result, payments made in IAPS could have duplicated manual payments without being detected. However, if the accounting system and IAPS had interfaced, manual payments and collections would have been automatically updated into the IAPS from the accounting systems; therefore, a complete transaction history could have been available for prevalidation of payments.

DAO Los Angeles had interface problems between the vendor payment system and the Air Force-developed vendor payment inquiry system, Paperview. Paperview is the main source for researching transaction histories prior to validation of payments. Therefore, the Paperview data base should contain all the payment information made in the vendor payment and accounting systems. However, because no interface capability existed to automatically update the inquiry system, the system had to rely on subsequent manual updating. For some dates, all of the daily transactions were missing from the Paperview data base; therefore, all of those payments were not available for determining the existence of duplicate payments.

Even though Paperview is the main source for researching transaction histories, no quality controls, such as performing reconciliations with the accounting system and IAPS, existed to ensure that data for all transaction dates were loaded into the Paperview data base. In addition, the technicians and management did not fully understand how to use Paperview. No procedures were established for the conducting of inquiries in order to validate payments, and personnel were not trained in the use of Paperview. As a result, the main tool for validating payments against transaction histories was incomplete, inaccurate, unreliable, and underutilized.

Based on discussions with DAO Tobyhanna management, the Army Materiel Command is planning to enhance the interface capabilities for the contracting, accounting, and vendor payment systems. Therefore, we see no need to make a recommendation to address the interfacing capabilities of DAO Tobyhanna. However, management should coordinate with information systems personnel to solve the software problem between the contracting and vendor payment systems, improve coordination efforts between all applicable personnel, and perform reconciliations until the Army Materiel Command plans are implemented. Finally, DFAS should consider the interfacing requirements when selecting the migratory system to be used throughout DFAS. The

migratory system should interface with both contracting and accounting systems to increase internal controls and strengthen the prevalidation of payments process.

DAO Consolidations

Vendor payment data for DAO Norton Air Force Base, California, and DAO Mountain Home Air Force Base, Idaho, were lost because procedures for transferring tracking records and data did not exist. The problem at DAO Norton was identified during our research for duplicate payments at DAO Los Angeles, where the records were transferred. The DAO Mountain Home problem surfaced when they could not provide a population of their FY 1993 vendor payment transactions for use in selecting our sample. The remaining four DAOs visited were not involved in DAO consolidations as of the end of the audit fieldwork. The consolidation negatively affected the ability of the two DAOs to validate vendor payments.

In April 1993, approximately 200 open contracts were transferred from DAO Norton, which was closing, to DAO Los Angeles. During the transfer, the payment histories were lost. In addition, during the fall of 1993, personnel at the Regional Processing Center, Hill Air Force Base, Utah, took over the accounting functions, including vendor payments, for DAO Mountain Home. As part of the transfer of responsibility, Hill Air Force Base personnel were to pick up data tapes from DAO Mountain Home and load the information into the vendor payment system at Hill Air Force Base. However, the tapes were not picked up, and personnel at DAO Mountain Home Air Force Base erased the tapes. This made the detection of duplicate payments on these contracts impossible. Both of these problems could have been avoided by having standard procedures for consolidating DAOs, proper management and quality control checks to verify that data were properly transferred, interfacing of systems between DAOs, and coordination between accounting and systems personnel.

In June 1993, DFAS Denver Center developed and distributed a checklist covering consolidation procedures for DFAS Denver Center DAOs at Air Force bases, and noncapitalized Air Force finance and accounting offices. This checklist referenced Air Force regulations and has been revised periodically, including the most recent change in March 1995. DAO Los Angeles provided us with the only consolidation checklist and deactivation checklist that they maintained. The consolidation checklist was dated December 1994, and the deactivation checklist was dated October 1994; these were not the most recent

Finding A. Vendor Payment Data Bases

versions. DFAS Kansas City Center developed procedural guidance in March 1995 for DAOs located at Marine Corps installations. The DAOs located at Army bases will be covered by a checklist currently being drafted by DFAS Indianapolis Center. DFAS Cleveland Center has not drafted a checklist for DAOs located at Navy installations. Although these checklists may correct the problem of lost data addressed here, DFAS should develop a DFAS-wide checklist providing a single set of guidelines that can be used regardless of the location of the DAOs involved in the consolidations. DFAS must address these problems as soon as possible because the data bases of the 281 DAOs are being consolidated into the 21 OPLOCs. Many of the future consolidations will involve DAOs located at different Service sites, and a DFAS-wide checklist should eliminate any conflicts between the versions currently used by the Services.

Management and Quality Controls

The lack of management and quality controls was a major cause of the significant deficiencies we identified in the accuracy of vendor payment records. While system deficiencies were evident at all locations visited, implementation of adequate controls could have overcome the system's shortcomings and substantially improved the vendor payment process. Since the DoD Information Strategy "Tree" Diagrams issued in April 1994 show DFAS projects that a standard vendor pay system may not be available until FY 2010, the need to have effective controls to complement existing systems is evident. Most of the deficiencies can be corrected through improved policies and procedures that establish appropriate management and quality controls. DoD must promptly improve the completeness, accuracy, and reliability of vendor payment data bases in order to preclude payment problems. Since numerous different systems are presently in use, DFAS needs standard guidelines that can be locally implemented within the capabilities of the existing systems. These guidelines should have as an underlying principle the need to prevalidate vendor payments. Additionally, the guidelines should address supporting documentation standards, separation of duties, reconciliation and research requirements, and quality control.

The lack of management and quality controls was evident when none of the five sites we visited could provide a complete history of contract payments for all of its contracts. Only one of the sites, DAO Tobyhanna, had complete documentation available for FY 1993 disbursements. Although we could not make statistical projections, we believe the procedural problems identified at the

five DAOs were representative of problems at all DoD accounting activities. These problems precluded us from accomplishing our stated audit objectives, but more importantly, impaired the ability of DoD to make only proper payments.

Conclusions

The impacts of the problems identified are as follows:

- o thirteen duplicate payments amounting to \$2.4 million were identified during our review;
- o the potential exists for erroneous and duplicate payments, and the risk is considered high, given the material management control weaknesses;
- o efforts to detect and research erroneous payments were hindered by incomplete transaction histories;
- o verification of contracts before payment was hindered (for example, whether a contract existed, whether payment had been made, and whether funds were available);
- o all levels of management, including DFAS, cannot rely on available data to make sound decisions; and
- o ultimately, the unreliable data will hinder the ability of DFAS to fulfill its mission to provide effective and efficient finance and accounting services to its customers.

Appendix E summarizes the potential benefits of the audit.

The Federal Financial Management Reform Act of 1994 expanded the requirements of the Chief Financial Officers Act of 1990. Beginning in 1996, all 24 agencies specified in the Chief Financial Officers Act must have their financial statements audited. The purposes of the Chief Financial Officers Act are to improve Federal agencies' systems of accounting, financial management, and internal controls to ensure reliable financial information and to deter fraud, waste, and abuse. Another purpose is to ensure the production of complete, reliable, timely, and consistent financial information for use by management in financing, managing, and evaluating programs. These benefits cannot be realized without reliable data on payments.

Finding A. Vendor Payment Data Bases

Senior DoD managers have stated that a fundamental flaw in DoD disbursement systems is the lack of prevalidation requirements before issuing checks. The goal is to eventually prevalidate all payments. An obstacle to prevalidation is the existence of approximately 260 different DoD accounting systems. DFAS does not plan to select a migratory vendor payment system until the complete consolidation of the finance and accounting sites, which is planned for 1997. At that time, the 281 DAOs will have been consolidated into 21 OPLOCs. DFAS Headquarters plans to select a migratory vendor payment system by December 1999 and implement it by FY 2010. These initial planned dates were established in the DoD Information Strategy "Tree" Diagram issued in April 1994. DFAS plans to first reduce the number of accounting systems and vendor payment systems to three (one for each Military Department). This plan is intended to follow consolidation efforts; however, we see no reason why DFAS cannot move expeditiously to select and field a migratory vendor payment system. The magnitude of the deficiencies in vendor payments warrants prompt corrective action, and decisions regarding vendor payment systems should be expedited commensurate with the financial risk to DoD.

While consolidating accounting systems should facilitate prevalidation of payments, reliable data will not automatically be produced as a result of the consolidation. If problems with vendor payment data bases still exist as the consolidation progresses, many OPLOCs will make payments on contracts that do not show all previously paid transactions. As a result, research for duplicate payments will be ineffective, and vendors could be paid again for the same goods or services. In addition, because each OPLOC will handle a large volume of transactions, correcting the database inaccuracies after the consolidation is likely to be very difficult. As a result, short-term action is required to strengthen policies and procedures and actively pursue implementation of a comprehensive vendor payment system.

Recommendations, Management Comments, and Audit Response

A.1. We recommend that the Under Secretary of Defense (Comptroller):

a. Direct the Director, Defense Finance and Accounting Service, to accelerate the planned migration to a comprehensive vendor payment system by decoupling system selection from the Defense Finance and Accounting Service's consolidation efforts. The system must accommodate all functional operations, and at a minimum, must interface with contracting and accounting systems and include capabilities for automated data processing queries, complete payment histories, and a master list of vendors.

Management Comments. Management partially concurred, stating DFAS determined that there were no suitable candidate migratory payment systems that have comprehensive bill paying functionality, modern software architecture, and hardware technical capabilities. Consequently, the DFAS established a Program Management Office in April 1995 to develop and implement the Defense Procurement Pay System. The planned implementation of this system at selected sites will be identified as part of the milestone plan expected to be provided in October 1995. Full implementation is now planned for 2005 with the potential of earlier implementation by 2001. Specific implementation milestone dates are still being developed. Management responded that the initial milestone plan was scheduled to be provided in October 1995.

Audit Response. Although management only partially concurred, we consider their comments responsive. DFAS is taking steps to convert to a standardized system and efforts are being made to accelerate implementation of the system. In addition, in their Transmittal Letter management objected to our reference to final implementation being accomplished in FY 2010. The only document provided that addressed the final implementation was the DoD Information Strategy "Tree" Diagrams issued in April 1994. This document provided the initial estimated planning and implementing dates. As stated in management comments, DFAS is currently working on milestones and expects to complete the implementation prior to the initial estimates.

b. Implement procedures in Recommendation A.2. and provide appropriate training for all military finance and accounting offices that are not under the Defense Finance and Accounting Service's control.

Management Comments. The Under Secretary of Defense (Comptroller) partially concurred, stating the Director, DFAS will be directed to implement the procedures in Recommendation A.2. and ensure that all DoD finance and accounting offices not under DFAS control are included in the training plan for the standardized vendor payment procedures. Based on management's estimates, action should now be completed.

Audit Response. Although management only partially concurred, we consider their comments responsive. Management was only redirecting the action official from the Under Secretary of Defense (Comptroller) level to the Director, DFAS.

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

a. Recoup the \$2.4 million in duplicate payments identified in this report.

Finding A. Vendor Payment Data Bases

Management Comments. DFAS concurred, stating research on the duplicate payments identified in the audit has been initiated. The appropriate recoupment action will be taken based upon the results of the this research. Planned completion date is February 28, 1996.

b. Review open contract balances to identify duplicate and erroneous payments, determine the causes of the duplicate and erroneous payments, and take corrective actions, including recoupment of any overpayments.

Management Comments. DFAS concurred, stating in addition to recouping the amounts identified in the audit, DFAS will review open contract balances to identify duplicate payments, determine the causes, and take corrective actions to preclude duplicate and erroneous payments. Management considers the review of open contracts an ongoing practice that will not have a completion date.

c. Issue standard guidelines for vendor payment processing to be implemented at all accounting organizations. The guidelines should include procedures for archiving data, updating of manual payments into the automated payment systems, and requirements for prevalidation of payments. This prevalidation should cover both the review of documents supporting current payments to avoid erroneous payments, and a review of all related payment transactions previously processed to avoid duplicate payments.

Management Comments. DFAS concurred, stating standard guidelines for vendor payment processing are being developed, and once developed, will be included in DoD 7000.14-R, the "DoD Financial Management Regulation." Planned completion date is December 31, 1995.

d. Train Defense Finance and Accounting Service personnel on the guidelines for a uniform vendor payment process developed from Recommendation A.2.c.

Management Comments. DFAS concurred, stating the new publications, guidance, and training, all are to be geared to a uniform vendor payment process within the Centers. Planned completion date is March 31, 1996.

e. Establish procedures for converting data and reconciling contract balances during conversions to new systems.

Management Comments. DFAS concurred, stating procedures for converting data were established in November 1993. However, sufficient time and resources were not always available both to ensure accurate contract balances and accomplish a timely conversion. Increased emphasis will be used to better

ensure a quality conversion. Management stated that this issue is closed because procedures are complete. However, the contract reconciliation efforts will continue until the consolidations are complete.

f. Establish procedures for periodic reconciliation of contract status (payments, adjustments, and other related contract payment transactions) between the contracting, accounting, and vendor payment systems.

Management Comments. DFAS concurred, stating standard guidelines for vendor payment processing, to include reconciliation between the contracting, accounting, and vendor payment systems, are being developed. Parts of those guidelines have been implemented and the remaining guidelines will be issued by December 31, 1995. Ultimately, all of these guidelines will be included in the DoD Financial Management Regulation. Planned completion date is December 31, 1995.

g. Establish and implement Defense Finance and Accounting Service-wide standard procedures for transferring data and documentation during the consolidation of Defense Accounting Offices.

Management Comments. DFAS concurred, stating standard procedures have been developed and implemented to govern the consolidation of the Defense Accounting Offices into the designated DFAS Operating Locations. Management stated they completed the action; the consolidated checklist was provided May 11, 1995, to all Military Department major commands, DFAS Operating Locations, and Defense Accounting Offices.

h. Establish procedures requiring the Defense Finance and Accounting Service Centers to monitor the implementation of vendor payment procedures addressed in DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 5, "Disbursing Policy and Procedures," December 1993, at their assigned Defense Accounting Offices and Operating Locations.

Management Comments. DFAS concurred, stating the DoD Financial Management Regulation (Volume 5 or 10) ultimately will contain the standardized instructions for both contract and vendor payments and will supersede the memoranda and multiple issuances currently used. The DFAS Center Directors will be required to implement and monitor compliance with required procedures. Based on management's estimates, action should now be completed.

Audit Response. Management comments are responsive to our recommendations. However, we request copies of the checklist management refers to in their responses to Recommendations A.2.e. and g. Both checklists were issued after the discrepancies in this report had occurred and were not

Finding A. Vendor Payment Data Bases

available at the sites visited or the DFAS Centers contacted. As shown by our finding, these checklists would have been valuable for consolidations that occurred in 1993 through the beginning of 1995. Because our recommendations address establishing procedures, we consider managements' development of these checklists sufficient to close these recommendations.

Finding B. Management Control Program

DFAS managers did not effectively implement the DoD Internal Management Control Program (Control Program) at the DAOs. Specifically, risk assessments were not performed, and management control reviews did not represent the organization's true management control environment. These conditions existed because management did not place a high priority on implementing the Control Program. For example, DFAS managers were not including management control requirements in performance plans of managers having significant internal control responsibilities, DFAS Centers' managers did not adequately monitor the Control Programs at assigned DAOs, and DAO managers did not maintain or follow the applicable guidance addressing risk assessments and management control reviews. As a result, DFAS management lacked the benefit of a structured process for evaluating the management control environment that would identify weaknesses requiring corrective actions.

Control Program Guidance

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, implements United States Code, title 31, section 3512, which requires Federal managers to strengthen management controls and maintain them continuously. This Directive outlines the Control Program, which determines whether material internal control weaknesses exist or whether the risk of loss is at an unacceptable level. DoD Directive 5010.38 requires the following for all DoD Components annually:

- o organize the Internal Management Control process;
- o segment the DoD Components into assessable units;
- o conduct risk assessments on the assessable units;
- o develop a Management Control Plan;
- o take appropriate management actions, including the conducting of internal or alternative management control reviews as necessary;
- o schedule and take corrective action;

Finding B. Management Control Program

- o provide for quality control; and
- o prepare reports.

An assessable unit is any organizational, functional, programmatic, or other applicable division capable of being evaluated by Internal Management Control risk assessment procedures, Internal Management Control Reviews, Alternative Internal Management Control Reviews, or other actions. DFAS Headquarters establishes the basic assessable units. Each DFAS Center customizes this standard list of units for its assigned DAOs. Each DAO Director designates an individual to execute the Control Program for each assessable unit. Control Program execution includes performing risk assessments and annual management control reviews. The DAO prepares and submits to its DFAS Center an annual Control Program statement of assurance. The DFAS Center combines its annual statement of assurance with the DAOs and forwards the combined statement to DFAS Headquarters.

Performance Plans

Directive 5010.38 also requires the Head of each DoD Component to ensure that accountability for the success or failure of management control practices is reflected in performance evaluations of civilian and military managers having significant internal management control responsibility. In December 1994, the DFAS Human Resources Division issued a memorandum to DFAS personnel components reinforcing the requirement to have internal control standards included in the performance plans for all Internal Management Control Program managers. The guidance also addressed performance standards for other management officials with significant responsibilities for establishing and maintaining an adequate management control environment and control procedures. However, at the five DAOs, the performance standards were not fully implemented in the performance plans for the individuals having management control responsibilities.

Monitoring Responsibilities

DFAS Centers did not monitor composition of the assessable units or even require that a Center be notified when assessable units changed. This occurred because no DFAS-wide or local policies or procedures had been established for notifying DFAS Centers. As a result, when substantial changes occurred to DAO assessable units, DFAS Centers were not in a position to evaluate the

changing control environment and be aware of any potential material management control weaknesses. Therefore, management was unaware of the control environment changes that occurred at DAO San Diego and DAO Los Angeles. DFAS Centers should be notified of changes and be involved with the reviews because major changes will occur when DFAS migrates to one automated system.

Risk Assessment and Management Control Review Guidance

Risk Assessment Guidance. In addition to annual requirements for risk assessments, DoD Directive 5010.38 requires that risk assessments be performed for assessable units that are new or substantially revised. No risk assessments were performed at DAO San Diego or DAO Los Angeles after assessable units within each DAO were substantially revised. Specifically, both DAOs had converted to new automated accounts payable systems, which constituted a substantial change to the assessable units. DAO San Diego did not perform the required assessment because they did not maintain a copy of DoD 5010.38, which addresses the criteria for frequency of risk assessments. DAO Los Angeles chose not to perform the assessment because they did not interpret the change in systems as a substantial change to the assessable unit. However, the guidance states that substantial changes include establishment of a new automated data processing system or resizing an assessable unit. Therefore, these DAOs did not know the effect the new systems had on their internal control environments and could not identify any weaknesses requiring corrective actions.

Management Control Review Guidance. DoD Directive 5010.38 requires an annual evaluation and reporting of the internal control environment in the DAO Annual Statement of Assurance on Internal Management Controls. The Defense Accounting Officer at DAO Tobyhanna stated in the Annual Statement of Assurance that internal controls provided reasonable assurance that assets were properly safeguarded and expenditures were made in accordance with the organization's mission. However, this positive assurance was not accurate; it was not representative of the entity's true management control environment.

Specifically, DAO Tobyhanna did not maintain copies of DoD Regulation 7000.14-R, volume 1 or volume 5. These regulations establish the guidelines for properly disbursing Government funds and address the internal control standards for all DoD financial activity. Part of the management review is to verify the existence of applicable guidance. The procedures used for assessing internal controls over duplicate and erroneous payments identified errors only after a check was issued; the procedures were not a preventive measure, as management had stated in its evaluation. These obvious deficiencies were

Finding B. Management Control Program

not identified by management's control reviews covering applicable assessable units. Therefore, the potential for duplicative and fraudulent payments could exist.

Conclusion

The DFAS Centers and the DAO management need to increase their efforts to ensure that the Control Program is effective. A strong and sustained commitment by the DFAS Center Directors is required in order to instill a sense of the importance of the Control Program in DAO management. The DFAS Centers should periodically conduct reviews to ensure that DAOs have an effective management control program, including performing risk assessments when major changes occur to assessable units.

Adequate management attention should start with ensuring that the successful implementation of the DoD Internal Management Control Program is included as a critical element in the performance plans of all DFAS personnel having significant management control responsibility.

Because 281 DAOs will eventually be consolidated into 21 OPLOCs, thus increasing the volume of transactions at each OPLOC, the DoD Internal Management Control Program and a sound management control structure will take on greater importance.

Recommendations, Management Comments and Audit Response

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

1. Direct Defense Finance and Accounting Service Centers to periodically review implementation of the DoD Internal Management Control Program at the Defense Accounting Offices and Operating Locations.

Management Comments. DFAS concurred, stating this requirement is included in the current version of the DFAS Internal Management Control (IMC) Program Regulation (DFAS 5010.38-R). That Regulation requires the DFAS Center IMC Coordinators, in conjunction with the Performance

Finding B. Management Control Program

Assessment staff member at each Operating Location, to perform an annual quality assurance review of each Operating Location's implementation of the IMC Program including the reliability of the current Assessable Units. The requirement has been expanded to include the Defense Accounting Offices. This issue is considered completed since the direction was given in a memorandum dated August 23, 1995.

2. Include the management control program in performance plans as a critical element for all managers having significant management control responsibilities.

Management Comments. DFAS concurred, stating a requirement to have a management control critical element in the performance agreements of all managers having significant management control responsibilities already exists in DFAS 5010.38-R and in a memorandum from the DFAS Human Resource Deputate dated December 14, 1994. On May 15, 1995, the DFAS issued instructions and criteria for judging a manager's successful implementation of the IMC Program. The DFAS Headquarters will instruct Center IMC Coordinators to prepare, where necessary, a memorandum for their Center Director's signature to remind Center, Operating Locations and Defense Accounting Offices to include a critical element for the IMC Program in their managers' performance agreements. The Center IMC Coordinators also were advised on August 23, 1995, to include this as a element in their quality assurance reviews of the Operating Locations and Defense Accounting Offices. Planned completion date is December 31, 1995.

3. Require Operating Locations and Defense Accounting Offices to perform risk assessments whenever a substantial change occurs in the assessable unit, such as the establishment of a new automated data processing system or resizing an assessable unit, and notify the appropriate Defense Finance and Accounting Service Center of any changes.

Management Comments. DFAS concurred, stating the requirement to perform a risk assessment whenever there is a significant change in an assessable unit is included in DFAS 5010.38-R. The Center IMC Coordinators were advised on August 23, 1995, to follow the existing guidance and perform the periodic reviews. The DFAS Headquarters will follow up to ensure implementation. Planned completion date is December 31, 1995.

4. Require that the current DoD guidance on implementation of the DoD Internal Management Control Program be maintained by all Defense Finance and Accounting Service organizations.

Management Comments. DFAS concurred, stating the current version of DFAS 5010.38-R has been distributed to all Center IMC Coordinators with instructions to distribute copies to all Operating Locations. The Center IMC

Finding B. Management Control Program

Coordinators were advised on August 23, 1995, to provide the guidance to the Operating Locations and Defense Accounting Offices. Planned completion date is December 31, 1995.

Audit Response. Management comments are responsive to all our recommendations. As stated in their comments, DFAS has had a structured management program to evaluate the management control environment and identify weaknesses, however, compliance has been less than satisfactory. Therefore, additional emphasis is required by DFAS to ensure proper implementation.

Part II - Additional Information

Appendix A. Scope and Methodology

Scope

Vendor Payments. We evaluated the adequacy of procedures that the Defense Finance and Accounting Service (DFAS) Defense Accounting Offices (DAOs)¹ used to prevent duplicate payments and to detect and correct duplicate payments when they occur. We also evaluated the adequacy of the DoD Internal Management Control Program as it applied to the primary objective. We visited the DAOs to understand the various vendor payment processes and accounting systems.

We selected 39 DAOs and military finance and accounting offices² for review. During FY 1992, those 39 DAOs and the finance and accounting offices made 3,302,706 vendor payments valued at \$45 billion. Because of problems discussed in Finding A of the report and audit scope limitations discussed in Appendix C, we ended our review after analyzing FY 1993 vendor payment records at five DAOs. These 5 DAOs made 381,561 vendor payments valued at approximately \$17.4 billion in FY 1993, and \$17.5 billion in FY 1994.

Use of Computer-Processed Data. We performed limited tests of the reliability of computer-processed data provided by the five DAOs. We analyzed computer-processed data by comparing payment history reports with source documents. We concluded that the computer-processed data were not reliable for meeting our audit objectives. Therefore, we could not make specific projections.

Audit Period and Standards. We performed this economy and efficiency audit from July 1993 through May 1995 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Accordingly, we included such tests of internal controls as were considered necessary. The audit was postponed from September 1993 until July 1994. Appendix F lists the organizations we visited or contacted.

¹A finance and accounting office that has been capitalized by DFAS.

²A military finance and accounting office that is located overseas and has not been capitalized by DFAS.

Statistical Sampling Methodology

The Quantitative Methods Division, Inspector General, DoD, developed the statistical sampling plan for this audit. Their work included statistically selecting the locations and the vendor payment transactions at each location. Due to scope limitations, we did not complete audit work associated with the statistical sampling plan.

Audit Universe. The audit universe consisted of 261³ Defense accounting organizations (88 Army, 54 Navy, 100 Air Force, and 19 Marine Corps). The locations were selected based on FY 1992 vendor payment transaction data. The sample transactions were selected based on the total vendor payments made by the 261 DAOs and the military finance and accounting offices for FY 1993.

Sampling Plan. We employed multistage random sampling for this audit. The first stage was the location sample, and the second stage was the transaction sample.

Location Sample. Using FY 1992 data provided by DFAS Headquarters, we grouped locations by military sites and total payment dollars. Locations with less than \$1 million in transactions were eliminated from the universe. For locations with transactions totaling \$1 million or more, we selected 39 locations (4 Army, 9 Navy, 10 Air Force, and 5 Marine Corps stateside locations and 11 overseas locations⁴) using probability-proportional-to-size sampling with replacement. This means that a location may be selected more than once, which may reduce the number of locations and the variability between locations. Those locations with higher total payments had a greater probability of being selected. The measure of size we used was the total amount of the payments associated with each location.

Transaction Sample. Using the FY 1993 data from various accounts payable systems, we selected sample items at each location. For the five DAOs reviewed, we obtained the following data.

DAO Tobyhanna. The Automated Financial Entitlement System data base provided a population of 18,811 vendor payments totaling \$93.9 million. We divided the population into 2 strata, less than \$25,000 and greater

³Data bases provided by DFAS represent the 261 accounting locations that processed vendor payments, out of 300 accounting locations identified in the "Chief Financial Officer Financial Management 5-Year Plan," November 1994.

⁴The Air Force considers Hawaii and Alaska bases overseas, while the Navy lists them as stateside.

Appendix A. Scope and Methodology

than or equal to \$25,000, and randomly selected 40 vendor payments from each stratum. The 80 payments had a total value of \$3.4 million. We additionally reviewed all payments made, using system matching software to identify possible duplicate payments, both within a contract and for contracts having vendor name variations. The system match identified 863 possible duplicate payments of \$500 and higher, and 647 possible duplicate payments of less than \$500 and more than \$100. To determine whether duplicate payments occurred, we reviewed payment vouchers of 270 (31.3 percent) of 863 and 66 (10.2 percent) of 647. We did not identify any duplicate payments.

DAO Arlington. The Standard Accounting and Reporting System-Field Level data base provided the population of 167,658 vendor payments totaling \$12.3 billion. For sampling purposes, transactions not in excess of \$10,000 (125,515 transactions, valued at \$161.2 million) were dropped from the universe. The adjusted population consisted of 42,143 transactions, valued at \$12.1 billion. We divided the population into 5 strata and randomly selected 200 vendor payments, totaling \$433.5 million. We did not find any duplicate payments on selected sample items. However, we found three duplicate payments, valued at \$2.3 million, in the contracts containing the originally selected sample items.

DAO San Diego. The total population was obtained from downloaded data and microfiche data from the Integrated Disbursing and Accounting Financial Management System. The downloaded data consisted of 47,243 transactions valued at \$156.5 million, and the microfiche data consisted of 94,657 transactions valued at \$363.6 million. The total population consisted of 141,900 vendor payments totaling \$520.1 million. We randomly selected 111 vendor payments, totaling \$580,518. We did not find any duplicate payments on selected sample items. However, we found four duplicate payments, valued at \$7,090, in the contracts containing the originally selected sample items.

Naval Facilities Engineering Command San Diego. The Amalgaman data base provided the population of 25,056 vendor payments totaling \$514.9 million. We randomly selected 80 vendor payments totaling \$6.1 million. We did not find any duplicate payments on selected sample items. However, we found a duplicate payment of \$58,414 in a contract containing an originally selected sample item.

DAO Los Angeles. The total population was obtained from the downloaded active data from the Integrated Accounts Payable System, archived data listings, and the manual payment log. The downloaded data consisted of 12,146 transactions valued at \$980.5 million; the archived data consisted of 4,814 transactions valued at \$12.8 million; and the manual payment data consisted of 11,176 transactions valued at \$3.3 billion. The total population consisted of 28,136 vendor payments totaling \$4 billion. We randomly selected

85 vendor payments totaling \$13.2 million. We did not find any duplicate payments on selected sample items. However, we found five duplicate payments totaling \$39,904 in the contracts of selected sample items.

Sample Results. The sample results are discussed in Finding A of the report. The sample selection was based on combined FY 1992 and 1993 data. The final analysis, however, was based on FY 1993 data only. Because of problems discussed in Finding A, no projection could be made.

Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, requires DoD organizations to have in place systems of management controls over their operations and to perform periodic self-evaluations of those management controls.

Scope of Review of the Management Control Program. The audit evaluated the implementation of the DoD Internal Management Control Program (Control Program) at the DAOs. Specifically, we examined all procedures and disbursing practices for making vendor payments at the five DAOs. We reviewed management's self-evaluation as applicable to vendor payments.

Adequacy of Management Controls. We identified material internal control weaknesses for DFAS as defined by DoD Directive 5010.38. DFAS management controls did not ensure that data were converted correctly and properly from old to new accounts payable systems; that accounts payable and inquiry data bases were properly updated to reflect adjustments, corrections, and manual payments; and that supporting documentation was properly maintained (Finding A).

Recommendations A.1.b., A.2.b., A.2.e., A.2.f., A.2.h., and B.1. through B.3. in this report, if implemented, will assist in correcting these weaknesses. Monetary benefits of \$2.4 million, as well as nonmonetary benefits that can be realized by implementing the recommendations related to management controls, are described in Appendix E. A copy of the report will be provided to the senior official responsible for management controls at DFAS Headquarters.

Adequacy of Management's Self-Evaluation. Management did not properly and effectively implement the Control Program to identify management control weaknesses. This resulted in a management control structure for vendor payment that was not effective in assessing the level of risk for fraud, waste, and mismanagement. In some instances, management control reviews did not represent an organization's true management control environment. The DFAS

Appendix A. Scope and Methodology

Centers management did not monitor the modifications to existing assessable units at the DAOs and did not evaluate the effectiveness of the DAO implementation of the Control Program. See Finding B for details.

Other Matters of Interest

Currently the Office of the Inspector General, Department of Defense, the Under Secretary of Defense (Comptroller), DFAS, and the Defense Manpower and Data Center are conducting a DoD-wide review of vendor payments, and payments made to retirees and "ghost" employees. The project, "Operation Mongoose," began in June 1994. In January 1995, we announced an audit, Controls Over Vendor Payments - Operation Mongoose (Project No. 5FG-5016), that will evaluate the internal controls over the payments to vendors, identify irregularities that may indicate contractor or payment fraud, and evaluate controls over the systems that are designed to prevent and detect erroneous payments. As a result, additional results and recommendations that may have come from continuing this project will be addressed by Operation Mongoose.

Appendix B. Summary of Prior Audits and Other Reviews

During the last 5 years, the IG, DoD, issued two audit reports that identified duplicate payments made to contractors for supplies or services. However, neither report had a specific objective of reviewing duplicate payments.

IG, DoD, Report No. 93-135, "Controls Over Vendor Payment Authorizations by the Defense Commissary Agency," June 30, 1993, reported that the vendor payment process at the Defense Commissary Agency (DeCA) lacked the internal controls necessary to ensure that all payments were authorized, valid, and accurate. DeCA authorized disbursements of \$404 million without proper supporting documentation, paid \$11 million in duplicate vendor payments, and entered another \$191 million in duplicate invoices into the bill-paying system. The audit identified potential duplicate payments of up to \$17 million. These occurred because DeCA did not require adherence to existing internal control procedures, directed employees to circumvent control practices, and did not test and adopt an adequate vendor payment system. As a result, DeCA's vendor payment records and financial accounts may have been materially misstated. The audit recommended that DeCA review records for potential duplicate payments and recoup duplicate payments, obtain documentation on the bill-paying system, provide additional edit checks, prepare and execute a written bill-paying plan, and evaluate employees on implementation of internal controls. Management was responsive to most recommendations. However, management did not agree with the amounts of projected duplicate payments and did not address the need for additional edit checks and the need to prepare and execute a written bill-paying plan for quality control. The unresolved recommendations and potential monetary benefits were referred for mediation and were resolved in favor of the audit.

IG, DoD, Report No. 90-099, "Finance and Accounting Offices in Europe," August 15, 1990, reported that finance and accounting offices in Europe made payments to contractors that were not for legitimate obligations and did not comply with applicable regulations. The audit identified \$733,404 in duplicate payments, \$266,462 in payments to the wrong contractors, and \$18,199 in overpayments. The problems occurred because operating personnel circumvented established internal controls, managers did not ensure the accuracy of their subordinates' work, available data were not used to identify unauthorized and erroneous payments, and operating procedures were not clearly established. Recommendations were made to strengthen internal controls. Management concurred with all recommendations and took actions to strengthen internal controls.

Appendix C. Limitations on Audit Scope

Our ability to detect duplicate payments at the five DAOs was severely limited by incomplete and inaccurate data bases (see Finding A) and by similar problems with the data bases of vendor payment transactions provided by DFAS. The vast number of systems used and changes currently occurring within DFAS limited the reviews of the procedures designed to detect and correct duplicate payments. As a result, we terminated our field work after visiting five DAOs. Since we did not perform our audit at the other 34 selected locations and could not rely on the data from the 5 DAOs visited, we could not make projections. The following conditions cover the scope limitations on universe data and individual DAO sample data.

Universe Data. We performed limited reviews to determine the reliability of universe data provided to us. Based on our review, the universe data were not reliable and could not be used to meet our audit objectives. The following are the universe data limitations.

First, we did not receive the downloaded data base from 8 of 39 sample locations. For example, DAO Mountain Home tapes containing the FY 1993 vendor payments were erased during the consolidation of records with Hill Air Force Base. Also, at Navy and Marine Corps locations overseas, vendor payments are made manually, and manual records did not contain all the required information. Further, the Army locations overseas could not provide the universe data because of base closures; their functions were transferred to other finance offices which also could not provide the requested data.

Second, 2 of 31 downloaded data bases could not be processed because of incorrect record layouts. Specifically, an Air Force DAO and a Marine Corps DAO provided incorrect record layouts. Therefore, we could not process the information provided to us.

Third, the universe was inaccurate, because some vendor transactions were omitted, non-vendor payments were provided, and canceled items were included but not identified.

DAO Arlington Sample Data. DAO Arlington had no on-line capability for obtaining data records of all payments made on a particular contract. In addition, numerous transaction records were incomplete.

DAO San Diego Sample Data. DAO San Diego's documentation supporting the sample transactions was stored at Laguna Niguel and was not readily available for review. DAO San Diego management stated that at Laguna Niguel, documents were stored in boxes, and retrieval was expensive and time-consuming. The time-consumption problem was verified by the

inordinate amount of time it took for our requests to be filled. DAO San Diego managers also stated that if documents were misfiled, those documents would be impossible to retrieve.

Naval Facilities Engineering Command San Diego Sample Data. At Naval Facilities Engineering Command San Diego, 18 (22.5 percent) of 80 sample items could not be reviewed because of an ongoing Naval Criminal Investigative Service investigation.

DAO Los Angeles Sample Data. Fifty-eight (40.6 percent) of 143 transactions in the total sample selected were excluded because of their security classification. However, these transactions still needed to be inputted into the automated system to avoid duplicate and erroneous payments.

Appendix D. Regulations

DFAS believes that regulations must be general enough to allow the DAOs to meet their unique system requirements; however, basic principles govern vendor payment activity. The regulations governing vendor payments are:

OMB Circular No. A-125, "Prompt Payment," revised December 12, 1989, implements the Prompt Payment Act of 1982, as amended, October 17, 1988. The Prompt Payment Act requires agencies to make payments on time, to pay interest penalties when payments are late, and to take discounts only when payments are made on or before the discount date. Payments must be based on receipt of proper invoices or progress payment requests and satisfactory performance of contract terms. OMB Circular No. A-125 lists standards for timely payment, better relationships with contractors, improved competition for Government business, and reduced costs to the Government for property and services.

OMB Circular No. A-127, "Financial Management Systems," revised July 23, 1993, sets policies and standards for Executive departments and agencies to follow in developing, operating, evaluating, and reporting on financial management systems. The Government's policy is to establish Government-wide financial systems and compatible agency systems, with standardized information and electronic data exchange between central management agencies' and individual operating agencies' systems, to meet the requirements of good financial management. OMB Circular No. A-127 requires that these systems provide complete, reliable, consistent, timely, and useful financial management information on Government operations to allow central management agencies, individual operating agencies, divisions, bureaus and other subunits to carry out their fiduciary responsibilities; to deter fraud, waste, and abuse of Government resources; and to facilitate efficient and effective delivery of programs by relating financial consequences to program performance.

DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 1, "General Financial Management Information, Systems, and Requirements," was issued in May 1993. Chapter 7 establishes the internal control standards to give reasonable assurance that the general ledger accounts are reliable, and may be used to prepare reliable financial reports. The internal control standards are Documentation, Recording of Transactions and Events, Execution of Transactions and Events, Separation of Duties, Access to and Accountability for Resources, and Supervision.

DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 4, "Accounting Policy and Procedures," January 1995, establishes the accounting policy for payables. This regulation requires that amounts recorded

as payables must have supporting documentation that clearly shows the basis for the amounts recorded as payables and the terms on which payments are to be made. Also, the basis for recording an accounts payable must be a receiving report that clearly shows the quantities received and accepted, or services performed and accepted by DoD. Documents to support vendor payments include vendor invoices, payment vouchers, receiving reports, and contract documents. At least annually, the balances in the accounts payable accounts must be reconciled to the supporting documentation. Differences must be researched and any necessary adjustments must be fully documented. Also, amounts recorded as payables must be net of all discounts offered by vendors, which are economically justified. This regulation replaced the criteria established in DoD Manual 7220.9-M, "DoD Accounting Manual." The "DoD Accounting Manual" was used as the applicable guidance for any transactions reviewed before January 1995. DoD Regulation 7000.14-R, volume 4, chapter 9, and the "DoD Accounting Manual," chapter 42, contained nearly identical guidance.

DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 5, "Disbursing Policy and Procedures," December 1993, establishes standards, responsibilities, and procedures for disbursements. A disbursement is a payment to an individual or organization for goods or services. In some cases, a disbursement is a transfer of funds from one appropriation to another; this is considered a "no check" transaction. Disbursement vouchers are the authority for disbursing offices to make payments for Government obligations and are the source documents for liquidating obligations. Disbursement vouchers must contain complete and accurate data to be considered valid.

Appendix E. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
A.1.a.	Economy and Efficiency. Operating a comprehensive vendor payment system at all DAOs and OPLOCs will be cost-effective and will improve the efficiency of DAO and OPLOC operations.	Nonmonetary.
A.1.b.	Management Controls, Compliance with Regulations, and Economy and Efficiency. Implementing the DFAS requirements in A.2. for military finance and accounting offices will improve operations and management controls over the vendor payment process.	Nonmonetary.
A.2.a.	Compliance with Regulations and Economy and Efficiency. Collecting duplicate payments from vendors will save the Government interest expense.	Funds put to better use. DFAS could recoup at least \$2.4 million in duplicate payments to vendors. (See table at end of this Appendix for an explanation of benefits.)
A.2.b.	Management Controls and Economy and Efficiency. Performing a review of open contract balances to identify duplicate and erroneous payments, determining the causes, and taking appropriate corrective actions will improve accounting operations. Collecting the duplicate and erroneous payments from the vendors will save the Government interest expense.	Undeterminable. Amount will depend on the number of duplicate and erroneous payments identified when DFAS reviews its vendor payments.

Appendix E. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
A.2.c.	Economy and Efficiency. Issuing standard guidelines for processing vendor payments will improve the operations of all DAOs and OPLOCs.	Nonmonetary.
A.2.d.	Economy and Efficiency. Establishing training programs covering the guidelines for a uniform vendor payment process for all levels of DFAS personnel will improve operations.	Nonmonetary.
A.2.e.	Management Controls. Establishing a reconciliation process for reconciling contract balances during conversions to new systems will improve the accuracy and reliability of accounting systems.	Nonmonetary.
A.2.f.	Management Controls and Compliance with Regulations. Establishing procedures for periodic reconciliation of contract status will improve operations and the reliability of the vendor payment systems.	Nonmonetary.
A.2.g.	Economy and Efficiency. Establishing and implementing DFAS-wide standard procedures to transfer applicable data and documentation during the consolidation of DAOs and OPLOCs will improve operations and the reliability of the vendor payment systems.	Nonmonetary.

Appendix E. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and or/ Type of Benefit
A.2.h.	Management Controls and Compliance with Regulations. Monitoring the DAOs and OPLOCs to ensure that they comply with disbursing policy and procedures will improve operations and bring the DAOs and OPLOCs into compliance with DoD regulations.	Nonmonetary.
B.1.	Management Controls and Compliance with Regulations. Requiring periodic reviews will enhance the implementation of an effective DoD Internal Management Control Program at the DAOs and OPLOCs and will improve operations and oversight of DAOs and OPLOCs.	Nonmonetary.
B.2.	Management Controls and Compliance with Regulations. Including management control responsibilities in performance plans will increase the importance placed on the management control program, thereby improving DFAS operations.	Nonmonetary.
B.3.	Management Controls and Compliance with Regulations. Performing required risk assessments will identify the management control weaknesses that require corrective actions. Notifying DFAS Centers of changes in assessable units will improve oversight of DAOs and OPLOCs.	Nonmonetary.

Appendix E. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and or/ Type of Benefit
B.4.	Compliance with Regulations. Maintaining the appropriate regulations will improve implementation of the DoD Internal Management Control Program and evaluation of the management control structure.	Nonmonetary.

Estimated Monetary Benefits
(See Recommendation Reference A.2.a.)

<u>Appropriation Number</u>	<u>Amount</u>
17910806	\$1,958,102.32
9790400	11,212.85
1791507	332,798.87
1711804	4,525.19
1721804	203.88
1731804	2,104.76
1731804	256.00
1731205	58,414.01
5723080	31,592.00
5723400	2,770.82
5723400	874.11
5723400	2,782.40
5723400	<u>1,884.77</u>
Total Duplicate Payments	\$2,407,521.98

Appendix F. Organizations Visited or Contacted

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller), Washington, DC

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller), Washington, DC
21st Theater Army Area Command (TAACOM), Kaiserslautern, Germany
266th Theater Finance Center, Heidelberg, Germany
7th Corps Regional Finance and Accounting Office (7th Medical Command [MEDCOM]),
Landstuhl, Germany
U. S. - Japan Finance Accounting Office, Camp Zama, Japan
5th Corps Finance Group, Frankfurt, Germany
U. S. Army Materiel Command, Systems Integration and Management Activity,
Chambersburg, PA

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller), Washington, DC
Navy Public Works Center, San Diego, CA
Naval Facilities Engineering Command, Alexandria, VA
U. S. Naval Forces Europe (Personnel Support Command [PSA] NOREUR), London,
England
U. S. Naval Forces Europe (PSA EUR), Naples, Italy
U. S. Navy Fleet Materiel Support Office, Mechanicsburg, PA
Marine Corps Base Camp Butler, Okinawa, Japan

Department of the Air Force

Commander in Chief, U. S. Pacific Air Forces, Pearl Harbor, HI
Assistant Secretary of the Air Force (Financial Management and Comptroller),
Washington, DC
Elmendorf Air Force Base, AK
Hickam Air Force Base, HI
Incirlik Air Base, Turkey
RAF Upper Heyford United Kingdom, England
U.S. Air Forces Europe, Ramstein Air Base, Germany
Standard System Group, Gunter Air Force Base, AL

Other Defense Organizations

Defense Finance and Accounting Service, Arlington, VA
Defense Finance and Accounting Service Center, Indianapolis, IN
 Defense Accounting Office, St. Louis, MO
 Defense Accounting Office, Fort Monmouth, NJ
 Defense Accounting Office, Fort Eustis, VA
 Defense Accounting Office, Fort Riley, KS
 Defense Accounting Office, Tobyhanna, PA
Defense Finance and Accounting Service Center, Cleveland, OH
 Defense Accounting Office, Arlington, VA
 Defense Accounting Office, Great Lakes, IL
 Defense Accounting Office, Jacksonville, FL
 Defense Accounting Office, Southern NAVFACENGCOCM, Charleston, SC
 Defense Accounting Office, Southwest NAVFACENGCOCM, San Diego, CA
 Defense Accounting Office, Norfolk, VA
 Defense Accounting Office, Oakland, CA
 Defense Accounting Office, Pearl Harbor, HI
 Defense Accounting Office, Port Hueneme, CA
 Defense Accounting Office, San Diego, CA
Defense Finance and Accounting Service Center, Denver, CO
 Defense Accounting Office, Columbus Air Force Base, MS
 Defense Accounting Office, Edwards Air Force Base, CA
 Defense Accounting Office, Eglin Air Force Base, FL
 Defense Accounting Office, Hill Air Force Base, UT
 Defense Accounting Office, Langley Air Force Base, VA
 Defense Accounting Office, Space Division Los Angeles, CA
 Defense Accounting Office, Mountain Home Air Force Base, ID
 Defense Accounting Office, Offutt Air Force Base, NE
 Defense Accounting Office, Scott Air Force Base, IL
 Defense Accounting Office, Tinker Air Force Base, OK
 Defense Accounting Office, Vandenberg Air Force Base, CA
 Defense Accounting Office, Wright-Patterson Air Force Base, OH
Defense Finance and Accounting Service Center, Kansas City, KS
 Defense Accounting Office, Marine Corps Logistics Base, Albany, GA
 Defense Accounting Office, Marine Corps Logistics Base, Barstow, CA
 Defense Accounting Office, Marine Corps Base, Camp Pendleton, CA
 Defense Accounting Office, Marine Corps Air Station, Cherry Point, NC
 Defense Accounting Office, Marine Corps Air Station, Yuma, AZ
Defense Finance and Accounting Service Center, Columbus, OH

Appendix G. Report Distribution

Office of the Secretary of Defense

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

Department of the Army

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

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Commander, Navy Public Works Center, San Diego
Commander, Naval Facilities Engineering Command
Auditor General, Department of the Navy

Department of the Air Force

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

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Finance and Accounting Service Indianapolis Center
Director, Defense Accounting Office, Fort Eustis
Director, Defense Accounting Office, Tobyhanna

Other Defense Organizations (cont'd)

- Director, Defense Finance and Accounting Service Cleveland Center
- Director, Defense Accounting Office, Southwest NAVFACENGCOCM
- Director, Defense Accounting Office, Norfolk
- Director, Defense Accounting Office, Oakland
- Director, Defense Accounting Office, Port Hueneme
- Director, Defense Accounting Office, San Diego
- Director, Defense Finance and Accounting Service Denver Center
- Director, Defense Accounting Office, Langley
- Director, Defense Accounting Office, Space Division Los Angeles
- Director, Defense Finance and Accounting Service Kansas City Center
- Director, Defense Accounting Office, Marine Corps Base Camp Pendleton
- Director, Defense Finance and Accounting Service Columbus Center
- Director, Defense Logistics Agency
- Director, National Security Agency
- Inspector General, National Security Agency

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division,
General Accounting Office

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

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

Part III - Management Comments

Under Secretary of Defense (Comptroller) Comments



COMPTROLLER

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



SEP 19 1995

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,
OFFICE OF THE DOD INSPECTOR GENERAL

SUBJECT: Draft Audit Report on Vendor Payments at Defense Accounting Offices
(Project No. 3FH-05052)

This is the Office of the Under Secretary of Defense (Comptroller) response to the Department of Defense Inspector General draft audit report. This memorandum contains the comments of both the Office of the Under Secretary of Defense (Comptroller) and the Director, Defense Finance and Accounting Service (DFAS).

In general, this office concurs with the findings and recommendations contained in the draft report. However, we do not agree with the statement in Finding A that the DFAS plans to improve its ability to fulfill its mission by implementing a single migratory vendor payment system by FY 2010. The DFAS has established a Program Management Office to develop and implement a standard Defense Procurement Pay System (DPPS) and currently is developing the milestone plans for that program. While the initial DPPS milestones will not be available until October 15, 1995, it is anticipated that the DPPS will be implemented well in advance of FY 2010. Attached are specific comments for each of the findings and recommendations along with the estimated completion dates for remaining actions.

This office appreciates the opportunity to comment on the draft report. The staff point of contact for this issue Mr. Henry Bezold. He may be reached at (703) 614-3523 or DSN 224-3523.

Alvin Tucker
Deputy Chief Financial Officer

Attachment

**DODIG DRAFT AUDIT REPORT ON
VENDOR PAYMENTS AT DEFENSE ACCOUNTING OFFICES,
DATED JUNE 30, 1995
(PROJECT NO. 3FH-05052)**

FINDINGS

Finding A. Vendor Payment Data Base: The automated accounts payable data bases used to validate vendor payments were incomplete and inaccurate. In addition, the inquiry data bases and supporting documentation did not adequately support the vendor payment transactions. These conditions occurred because the procedures for processing the data needed to perform validation of previous payments were either not established or not implemented and computer systems did not adequately interface to facilitate validation. In addition, the DAO consolidations resulted in lost records and data required to validate future payments on contracts. Finally, inadequate management and quality controls undermined the achievement of overall quality in the processing and prevalidation of vendor payments. As a result, at least \$2.4 million in duplicate payments were made at the organizations visited and there was a high risk of additional erroneous and duplicate payments. In addition, incomplete, inaccurate, and unreliable data erodes the basis for sound management decisions, and ultimately impairs the ability of the DFAS to fulfill its mission to provide effective and efficient finance and accounting services to its customers. DFAS plans to improve its ability to fulfill its mission by implementing a single migratory vendor payment system by FY 2010.

OUSD(C) Response: Partially Concur. This office objects to the statement that the DAO consolidations resulted in lost data and records. The consolidation of operations is a necessary and effective means of improving the level of service and cost effectiveness of the Department's financial operations. The cited records and data were lost because effective controls and procedures were not exercised during the transfer of the operations from one office to another. Corrective actions have been taken as indicated in the OUSD(C) response to Recommendation A.2.g.

The DFAS established a Program Management Office in April 1995 to develop and implement the Defense Procurement Payment System. This system will be used both for vendor pay and contract pay. Implementation of the Defense Procurement Payment System is dependent on implementation of the Standard Procurement System, which currently is under development by the Under Secretary of Defense (Acquisition & Technology) (USD(A&T)). While full implementation of the Standard Procurement System is scheduled for 2001, the DFAS intends to begin implementing the Defense Procurement Payment System (DPPS) as soon as the new payment programs are available.

Finding B. Management Control Program: DFAS managers did not effectively implement the DoD Internal Management Control Program (Control Program) at the DAOs. Specifically, risk assessments were not performed, and management control reviews did not represent the organization's true management control environment. These conditions existed because management

did not place a high priority on implementing the Control Program. For example, DFAS managers were not including management control requirements in performance plans of managers having significant internal control responsibilities, DFAS Centers' managers did not adequately monitor the Control Programs at assigned DAOs, and DAO managers did not maintain or follow the applicable guidance addressing risk assessments and management control reviews. As a result, DFAS management lacked the benefit of a structured process for evaluating the management control environment that would identify weaknesses requiring corrective actions.

OUSDC Response: Partially concur. The DFAS has a structured management program to evaluate the management control environment and identify weaknesses requiring corrective actions. However, compliance with the program has been less than satisfactory in some instances. Consequently, the actions identified in the responses to Recommendations B.1. through B.4. are being taken.

RECOMMENDATIONS

RECOMMENDATION A.1.a.: We recommend that the Under Secretary of Defense (Comptroller) direct the Director, Defense Finance and Accounting Service, to accelerate the planned migration of a comprehensive vendor payments system by decoupling system selection from the Defense Finance and Accounting Service's consolidation efforts. The system must accommodate all functional operations, and at a minimum must interface with contracting and accounting systems and include capabilities for automated data processing queries, complete payment histories, and a master list of vendors.

OUSDC RESPONSE: Partially concur. The DFAS determined that there were no suitable candidate migratory payment systems from the stand point of having comprehensive bill paying functionality, modern software architecture, and hardware technical capabilities. Consequently, the DFAS established a Program Management Office in April 1995 to develop and implement the Defense Procurement Pay System. The Defense Procurement Pay System will be integrated with the contracting and accounting systems. Implementation of the Defense Procurement Pay System is planned to be concurrent with the Standard Procurement System because it will use the shared contract data base being developed for the Standard Procurement System. The planned date for the initial implementation of the Defense Procurement Pay System at selected sites will be identified as part of the milestone plan expected to be provided in October 1995. Full implementation of the Standard Procurement System at all sites currently is scheduled for 2005; however, that schedule is under review and may be moved forward to 2001. The DFAS will begin implementing the Defense Procurement Pay System (DPPS) at selected sites as soon as the programs are available.

Estimated Completion Date: Formal milestones for the DPPS development and implementation are being developed. The initial milestone plan is scheduled to be provided in October 1995.

RECOMMENDATION A.1.b.: We recommend that the Under Secretary of Defense (Comptroller) implement procedures in Recommendation A.2. and provide appropriate training for all military finance and accounting offices that are not under the Defense Finance and Accounting Service control.

OUS(D) RESPONSE: Partially concur. The Director, DFAS will be directed to implement the procedures in Recommendation A.2. and ensure that all DoD finance and accounting offices not under DFAS control are included in the training plan for the standardized vendor payment procedures.

Estimated Completion Date: September 30, 1995.

RECOMMENDATION A.2.a.: We recommend that the Director, Defense Finance and Accounting Service recoup the \$2.4 million in duplicate payments identified in this report.

OUS(D) RESPONSE: Concur. Research on the duplicate payments identified in the audit has been initiated. The appropriate recoupment action will be taken based upon the results of this research.

Estimated Completion Date: February 28, 1996.

RECOMMENDATION A.2.b.: We recommend that the Director, Defense Finance and Accounting Service review open contract balances to identify duplicate and erroneous payments, determine the causes of the duplicate and erroneous payments, and take corrective actions, including recoupment of any overpayments.

OUS(D) RESPONSE: Concur. In addition to recouping the amounts identified during the audit, the DFAS will review open contract balances to identify any duplicate payments, determine the causes, and take corrective actions to preclude duplicate and erroneous payments.

Estimated Completion Date: Corrective action is ongoing.

RECOMMENDATION A.2.c.: We recommend that the Director, Defense Finance and Accounting Service issue standard guidelines for vendor payment processing to be implemented at all accounting organizations. The guidelines should include procedures of archiving data, updating manual payments into the automated payment systems, and requirements for prevalidation of payments. This prevalidation should cover both the review of documents supporting current payments to avoid erroneous payments, and a review of all related payment transactions previously processed to avoid duplicate payments.

OUS(D) RESPONSE: Concur. Standard guidelines for vendor payment processing are being developed, and once developed, will be included in DoD 7000.14-R, the "DoD Financial

Under Secretary of Defense (Comptroller) Comments

Management Regulation" (FMR). Some of the requirements that are to be included in the standard guidelines have been documented and implemented separately and will be included in the overall package. The DFAS will implement procedures to ensure that all invoices and payments for a contract, including those for individual orders and any manual payments, are maintained in the automated open contract records until the entire contract is formally closed. Also, each DFAS Center will be required to maintain system specific policies and procedures that conform to the standard guidelines published in the FMR. The guidelines will include a requirement to review the previous payments to preclude duplicate payments or payments exceeding the contract amount. Steps for prevalidation of payments against the official obligations prior to payment were implemented on July 1, 1995, for payments greater than \$5 million. This threshold will be lowered to \$1 million on October 1, 1995.

Estimated Completion Date: The guidelines for vendor payment processing will be issued to the DFAS Centers by December 31, 1995.

RECOMMENDATION A.2.d.: We recommend that the Director, Defense Finance and Accounting Service train DFAS personnel on the guidelines for a uniform vendor payment process developed from Recommendation A.2.c.

OUSDC(C) RESPONSE: Concur. The new publications, guidance, and training, all are to be geared to a uniform vendor payment process within the Centers.

Estimated Completion Date: March 31, 1996.

RECOMMENDATION A.2.e.: We recommend that the Director, Defense Finance and Accounting Service establish procedures for converting data and reconciling contract balances during conversions to new systems.

OUSDC(C) RESPONSE: Concur. Procedures for converting data were established in November 1993. However, sufficient time and resources were not always available both to ensure accurate contract balances and accomplish a timely conversion. Increased emphasis will be used to better ensure a quality conversion.

Estimated Completion Date: Closed. The procedures are complete. The contract reconciliation efforts will continue until the consolidations are complete.

RECOMMENDATION A.2.f.: We recommend that the Director, Defense Finance and Accounting Service establish procedures for periodic reconciliation of contract status (payment, adjustments, and other related contract payment transactions) between contracting, accounting, and vendor payment systems.

OUSDC(C) RESPONSE: Concur. Standard guidelines for vendor payment processing, to include reconciliation between the contracting, accounting and vendor payment systems, are being

developed. Parts of those guidelines have been implemented and the remaining guidelines will be issued by December 31, 1995. Ultimately, all of these guidelines will be included in the FMR.

Estimated Completion Date: The guidelines for vendor payment processing, to include reconciliations with the accounting and contracting systems, will be provided to the DFAS Centers by December 31, 1995.

RECOMMENDATION A.2.g.: We recommend that the Director, Defense Finance and Accounting Service establish and implement Defense Finance and Accounting Service standard procedures for transferring data and documentation during the consolidation of Defense Accounting Offices.

OUSD(C) RESPONSE: Concur. Standard procedures have been developed and implemented to govern the consolidation of the Defense Accounting Offices into the designated DFAS Operating Locations. The consolidated checklist was provided May 11, 1995, to all Military Department major commands, DFAS Operating Locations, and Defense Accounting Offices.

Estimated Completion Date: Closed. Procedures completed and implemented in May 1995.

RECOMMENDATION A.2.h.: We recommend that the Director, Defense Finance and Accounting Service establish procedures requiring the Defense Finance and Accounting Centers to monitor the implementation of vendor payment procedures addressed in DoD Regulation 7000.14-R, "Financial Management Regulation," Volume 5, "Disbursing Policy and Procedures," and Volume 10, "Contract Payment Policy and Procedures," at their assigned Defense Accounting Offices and Operating Locations.

OUSD(C) RESPONSE: Concur. As previously identified, the FMR (Volume 5 or Volume 10) ultimately will contain the standardized instructions for both contract and vendor payments and will supersede the memoranda and multiple issuances currently used. The DFAS Center Directors will be required to implement and monitor compliance with required procedures.

Estimated Completion Date: September 30, 1995.

RECOMMENDATION B.1.: We recommend that the Director, Defense Finance and Accounting Service direct Defense Finance and Accounting Service Centers to periodically review implementation of DoD Internal Management Control Program at Defense Accounting Offices and Operating Locations.

OUSD(C) RESPONSE: Concur. This requirement is included in the current version of the DFAS Internal Management Control (IMC) Program Regulation (DFAS 5010.38-R). That Regulation requires the DFAS Center IMC Coordinators, in conjunction with the Performance Assessment staff member at each Operating Location, to perform an annual quality assurance

review of each Operating Location's implementation of the IMC Program including the reliability of the current Assessable Units. The requirement has been expanded to include the DAOs.

Estimated Completion Date: Complete. The direction was given in a memorandum dated August 23, 1995.

RECOMMENDATION B.2.: We recommend that the Director, Defense Finance and Accounting Service include the internal management control program requirements in the performance plans as a critical element for all managers having significant management control responsibilities.

OUSD(C) RESPONSE: Concur. A requirement to have a management control critical element in the performance agreements of all managers having significant management control responsibilities already exists in DFAS 5010.38-R and in a memorandum from the DFAS Human Resource Deputate dated December 14, 1994. On May 15, 1995, the DFAS issued instructions and criteria for judging a manager's successful implementation of the IMC Program. The DFAS Headquarters will instruct Center IMC Coordinators to prepare, where necessary, a memorandum for their Center Director's signature to remind Center, Operating Locations and Defense Accounting Offices to include a critical element for the IMC Program in their managers' performance agreements. The Center IMC Coordinators also were advised on August 23, 1995, to include this as a element in their quality assurance reviews of the Operating Locations and the Defense Accounting Offices.

Estimated Completion Date: December 31, 1995.

RECOMMENDATION B.3.: We recommend that the Director, Defense Finance and Accounting Service require Operating Locations and Defense Accounting Offices to perform risk assessments whenever a substantial change occurs in the assessable unit, such as the establishment of a new automated data processing system or resizing an assessable unit, and notify the appropriate Defense Finance and Accounting Service Center of any changes.

OUSD(C) RESPONSE: Concur. The requirement to perform a risk assessment whenever there is a significant change in an assessable unit is included in DFAS 5010.38-R. The Center IMC Coordinators were advised on August 23, 1995, to follow the existing guidance and perform the periodic reviews. The DFAS Headquarters will follow up to ensure implementation.

Estimated Completion Date: December 31, 1995.

RECOMMENDATION B.4.: We recommend that the Director, Defense Finance and Accounting Service require that the current DoD guidance on implementation of the DoD Internal Management Control Program be maintained by all Defense Finance and Accounting Service organizations.

OUSDC RESPONSE: Concur. The current version of DFAS 5010.38-R has been distributed to all Center IMC Coordinators with instructions to distribute copies to all Operating Locations. The Center IMC Coordinators were advised on August 23, 1995, to provide the guidance to the Operating Locations and Defense Accounting Offices.

Estimated Completion Date: December 31, 1995.

Audit Team Members

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

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