

**Audit**



**Report**

OFFICE OF THE INSPECTOR GENERAL

CONTRACT ADMINISTRATION SERVICES  
FOR FOREIGN MILITARY SALES

Report No. 96-049

December 20, 1995

**Department of Defense**

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### **Acronyms**

|        |  |
|--------|--|
| CAS    | Contract Administration Services       |
| DFAS   | Defense Finance and Accounting Service |
| FMS    | Foreign Military Sales                 |
| NAVSEA | Naval Sea Systems Command              |
| PBAS   | Program Budget and Accounting System   |



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



December 20, 1995

MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL  
MANAGEMENT AND COMPTROLLER)  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE  
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on Contract Administration Services for Foreign Military  
Sales (Report No. 96-049)

We are providing this report for your review and comments. Management comments on a draft of this report were considered in preparing the final report.

The Defense Finance and Accounting Service comments were responsive to the recommendations, but did not include a completion date for the proposed actions. The Navy comments were partially responsive, but did not describe specific actions to correct the deficiencies or address the monetary impact. Army comments were partially responsive to the recommendations, but did not provide the results of its review of the foreign military sales cases and also did not address potential monetary benefits. DoD Directive 7650.3 requires that all unresolved issues be resolved promptly. Therefore, we request that the Defense Finance and Accounting Service, the Navy, and the Army provide comments to the final report by February 20, 1996.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Ms. Evelyn R. Klemstine, Audit Program Director, at (703) 604-9172 (DSN 664-9172) or Mr. Ronald C. Tarlaian, Audit Project Manager, at (703) 604-9632 (DSN 664-9632). Copies of the final report will be distributed to the organizations listed in Appendix F. The audit team members are listed on the inside back cover.

Robert J. Lieberman  
Assistant Inspector General  
for Auditing

## Office of the Inspector General, DoD

Report No. 96-049  
(Project No. 5LG-0011)

December 20, 1995

### Contract Administration Services for Foreign Military Sales

#### Executive Summary

**Introduction.** DoD Regulation 7000.14-R requires the Defense Finance and Accounting Service Denver Center to apply a 1.5 percent contract administration services (CAS) surcharge on reported payments made to contractors for foreign military sales (FMS) procurements. The surcharge is applied to FMS procurements for reimbursing the DoD Components\* for performing contract audits, contract management services, and quality assurance and inspections. The surcharge is collected from FMS customers' Trust Fund accounts and deposited into a CAS Clearing Account. For FY 1994, the Defense Finance and Accounting Service Denver Center collected \$105.7 million in CAS surcharges from FMS customers and reimbursed DoD Components \$108.1 million for performing CAS functions.

**Audit Objectives.** The primary objective of the audit was to determine the adequacy of the CAS surcharge applied to defense articles procured for FMS customers. We also reviewed the procedures and systems the Military Departments used to collect the CAS surcharge from FMS customers. In addition, we reviewed the procedures and systems the DoD Components used to report CAS costs to the Defense Security Assistance Agency for its approval prior to obtaining reimbursement through the Defense Finance and Accounting Service Denver Center. We also evaluated the management control program related to CAS functions and documentation supporting the DoD Components' claims for reimbursement of CAS costs.

**Audit Results.** The CAS surcharge applied to defense articles procured by the Military Departments for FMS customers was sufficient to reimburse DoD Components for performing CAS functions. However, based on a review of 120 case lines, the Army did not use an effective automated system and the Naval Sea Systems Command did not have effective procedures for collecting the CAS surcharge for defense articles procured for FMS customers. As a result, the Army and the Naval Sea Systems Command undercollected a net of \$21.9 million in cumulative CAS surcharges as of May 1995 from FMS customers pertaining to the sampled case lines.

The audit identified a material management control weakness, in that the Naval Sea Systems Command's case managers did not perform periodic reconciliations of payments made to contractors to ensure those payments were properly reported to the

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\*For report purposes, the DoD Components reimbursed for CAS functions were: the Army Ammunition Plants; the Navy Supervisor of Shipbuilding, Conversion, and Repair Activities; the Defense Contract Audit Agency; and the Defense Logistics Agency.

Defense Finance and Accounting Service Denver Center for billing FMS customers. Implementation of the recommendations in this report will result in monetary benefits. See Appendix D for a summary of audit benefits.

**Summary of Recommendations.** We recommend that the Program and Budget Accounting System that the Army used be reprogrammed to allow accurate processing of contractor payments. We also recommend that case managers at the Naval Sea Systems Command reconcile payments to contractors recorded in the financial system to ensure those payments are accurately reported to the Defense Finance and Accounting Service Denver Center. We further recommend the adjustment of CAS charges for the FMS case lines identified by the audit.

**Management Comments.** The Defense Finance and Accounting Service concurred with the recommendation to reprogram the Program Budget and Accounting System to allow payments made to contractors to be reported. However, the Defense Finance and Accounting Service did not provide a completion date for the proposed action. The Navy concurred in principle with the recommendations to ensure case managers perform periodic reconciliations of payments made to contractors and that contract administration services surcharges be corrected. However, the Navy did not provide the specific action to correct the FMS cases shown in Appendix C and did not comment on the monetary benefits. The Army concurred with the recommendation and stated that the Army Missile Command corrected the erroneous FMS cases shown in Appendix C and that the Tank-automotive and Armaments Command was in the process of reviewing the erroneous FMS cases. However, the Army did not provide the results of its review of the FMS cases and did not comment on the monetary benefits. A discussion of management comments is in Part I of the report. The complete texts of management comments are in Part III of the report.

**Audit Response.** We request that the Defense Finance and Accounting Service, the Navy, and the Army provide additional comments in response to the final report by February 20, 1996.

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## **Part I - Audit Results**

### Audit Background

**Procedures for Collecting the Contract Administration Services Surcharge.** DoD Regulation 7000.14-R, "Financial Management Regulation, Security Assistance Policy and Procedures," March 1, 1993, requires the Defense Finance and Accounting Service (DFAS) Denver Center to apply a 1.5 percent contract administration services (CAS) surcharge on reported payments made to contractors (progress and final payments) for foreign military sales (FMS) procurements. That surcharge is applied to reimburse authorized DoD Components<sup>1</sup> for the performance of contract audits, contract management services, and quality assurance and inspections. To collect CAS surcharges from FMS customers, the Military Departments are required to report progress and final payments made to contractors to the DFAS Denver Center using the proper delivery source code.<sup>2</sup> To report payments made to contractors, the Army major subordinate commands used the Program Budget and Accounting System (PBAS), the Naval Sea Systems Command (NAVSEA) used the Standard Accounting and Reporting System, and the Air Force used the Security Assistance Management Information System. The CAS surcharge funds collected from FMS customers' Trust Fund accounts were deposited into a CAS Clearing Account until the DoD Components submitted reimbursable billings for performing CAS functions. DoD Regulation 7000.14-R allows the Defense Security Assistance Agency to grant waivers for CAS charges to foreign governments that provide the same services to the U.S. Government on a reciprocal basis.

**Procedures for Reimbursements of CAS.** To receive reimbursement for performing CAS functions, the DoD Components submit DD Form 2060, "Request and Approval of FMS Obligational Authority" to the Defense Security Assistance Agency for approval. Upon approval, the DoD Components submit Standard Form 1080 (Voucher for Transfers Between Appropriations and/or Funds) to the DFAS Denver Center for the recoupment of CAS costs. For FY 1994, the DFAS Denver Center collected in CAS surcharges \$105.7 million from FMS customers and reimbursed \$108.1 million to DoD Components for performing CAS functions. Of the \$108.1 million approved for reimbursement to DoD Components, the Defense Contract Audit Agency received \$7.3 million and the Defense Logistics Agency received \$98.4 million. The Army Ammunition Plants and the Navy Supervisor of Shipbuilding, Conversion, and Repair Activities were reimbursed the remaining \$2.4 million. In February 1990, the responsibility for performing contract management services and

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<sup>1</sup>For report purposes, the DoD Components reimbursed for CAS functions were: the Army Ammunition Plants; the Navy Supervisor of Shipbuilding, Conversion, and Repair Activities; the Defense Contract Audit Agency; and the Defense Logistics Agency.

<sup>2</sup>Delivery source code is the code DFAS Denver Center uses to authorize the reimbursement of CAS surcharges from FMS customers.

quality assurance and inspections transferred to the Defense Logistics Agency; therefore, DoD Regulation 7000.14-R does not authorize reimbursement to the Military Departments (except the above mentioned activities) for performing CAS functions associated with FMS procurements.

## **Audit Objectives**

The primary objective of the audit was to determine the adequacy of the CAS surcharge applied to defense articles procured for FMS customers. We also reviewed the procedures and systems the Military Departments used to collect the CAS surcharge from FMS customers. In addition, we reviewed the procedures and systems the DoD Components used to report CAS costs to the Defense Security Assistance Agency for its approval prior to obtaining reimbursement through the DFAS Denver Center. We also evaluated the management control program related to CAS functions and the documentation supporting the DoD Components' claims for reimbursements of CAS costs. See the finding for a discussion of the material management control weakness identified and Appendix A for the audit scope and methodology and the management control program. See Appendix B for a discussion on the adequacy of CAS surcharge collections and DoD Component reimbursements for performing CAS functions.

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## **Collection of the Contract Administration Services Surcharge**

The Army did not use an effective system and NAVSEA did not have effective procedures for collecting the CAS surcharge for defense articles procured for FMS customers. That condition occurred because the Program Budget and Accounting System was not programmed to allow corrections of Army payments made to contractors reported by the Defense Accounting Offices to be processed using the proper delivery source code. Additionally, the NAVSEA case managers did not perform periodic reconciliations of payments to contractors to ensure those payments were properly reported to the DFAS Denver Center. As a result, the Army and NAVSEA undercollected a net of \$21.9 million in CAS surcharges from FMS customers.

### **Procedures for Collecting Contract Administration Services**

DoD Regulation 7000.14-R requires the Military Departments to report payments to contractors to the DFAS Denver Center for billing FMS customers. To report payments to contractors, the Military Departments are required to use a DE (progress and final payments made to contractors) delivery source code to ensure that the CAS surcharge is properly added to those payments and collected from FMS customers. To ensure payments made to contractors are accurately reported to the DFAS Denver Center, DoD Manual 5105.38-M, "Security Assistance Management Manual," October 1, 1988, requires case managers to perform periodic reconciliations of the financial aspects (payments and deliveries) of each FMS case and initiate corrective actions when problems occur.

### **Collection of Contract Administration Services**

The Army did not use an effective system and NAVSEA did not have effective procedures for collecting the CAS surcharge for defense articles procured for FMS customers. We judgmentally reviewed 120 FMS case lines<sup>3</sup> with cumulative progress and final payments made to contractors through May 1995. The 120 FMS case lines included: 20 case lines each at the Army Missile Command; the Tank-automotive and Armaments Command; NAVSEA; the Aeronautical Systems Command at Eglin Air Force Base; the Electronic Systems Command; and the San Antonio Air Logistics Center. Those 120 FMS

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<sup>3</sup>A line on the Letter of Offer and Acceptance that describes the defense article or service to be provided to the customer.

case lines included about \$9 billion in cumulative payments made to contractors, which equated to about \$135 million (\$9 billion x 1.5 percent) in potential collections of CAS surcharges from FMS customers. Our review did not identify any problems in the procedures and systems used by the Air Force to collect CAS surcharges from FMS customers. However, the Army and NAVSEA undercollected \$22.4 million in cumulative CAS surcharges and the Army overcollected \$500,000 in cumulative CAS surcharges from FMS customers. See Appendix C for a breakdown of the FMS case lines affected.

### **Systems and Procedures Used to Report Payments to Contractors**

The Army did not properly collect CAS surcharges from FMS customers on 23 of 40 case lines reviewed because the PBAS was not programmed to allow corrections of Army payments made to contractors reported by the Defense Accounting Offices to be processed using the proper delivery source code. Additionally, NAVSEA did not collect CAS surcharges from FMS customers on 18 of 20 case lines reviewed because case managers did not perform periodic reconciliations of payments made to contractors to ensure those payments were properly reported to the DFAS Denver Center.

**System the Army Used to Report Payments Made to Contractors.** The PBAS is an automated system managed by the DFAS Indianapolis Center to process and report Army payments made to contractors to the DFAS Denver Center for billing FMS customers. The PBAS was an Army system that transferred to the DFAS Indianapolis Center (January 18, 1991) with the restructuring of the finance and accounting offices. On August 1, 1995, the management of the FMS portion of the PBAS transferred to the DFAS Denver Center.

When the Army procured defense articles for FMS customers, the DFAS Columbus Center disbursed progress and final payments to contractors and reported those payments through the PBAS to Army major subordinate commands, such as the Army Missile Command. Within the major subordinate commands, the Defense Accounting Offices validated the reported payments to ensure the amounts and FMS case lines were correct. For those payments that were correct, the transactions were automatically processed through the PBAS to the DFAS Denver Center without further action by the Defense Accounting Office. When inaccurate payment transactions occurred, the Defense Accounting Offices submitted correcting entries through the PBAS for processing to the DFAS Denver Center. However, the PBAS was not programmed to properly process correcting entries reported by organizations other than the DFAS Columbus Center. Therefore, the PBAS automatically assigned a delivery source code of DF (DoD services in support of procurements) to the correcting entries; however, that code would not generate or eliminate CAS surcharges when the correcting entries were reported to the DFAS Denver Center.

## Collection of the Contract Administration Services Surcharge

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Because of the PBAS programming, the Defense Accounting Offices were required to manually prepare and process off-line adjustments using a delivery source code of DE to ensure that the CAS surcharge was properly applied to the reported payments. The Defense Accounting Offices informed us that they did not submit off-line adjustments for 23 of 40 case lines reviewed because those offices did not have the personnel resources to submit timely adjustments.

**Effect of Programming on CAS Surcharge Collections.** For the 40 FMS case lines reviewed at the Army Missile Command and the Tank-automotive and Armaments Command, the Army undercollected \$2.1 million on 16 case lines and overcollected \$500,000 on 7 case lines for CAS surcharges from FMS customers. (See Appendix C for a breakdown of the FMS case line affected.)

**NAVSEA Procedures for Reconciling Payments to Contractors.** The NAVSEA case managers did not perform periodic reconciliations of FMS case lines to ensure that payments made to contractors were properly reported to the DFAS Denver Center. When the Navy procured defense articles for FMS customers, the DFAS Columbus Center disbursed funds to contractors and reported those payments to the Defense Accounting Office Charleston. That office was responsible for validating and recording each individual payment made to contractors in the Standard Accounting and Reporting System and for using that system to report those payments to the DFAS Denver Center. Upon reporting payments made to contractors, the Defense Accounting Office Charleston did not take further action unless instructed to do so by the NAVSEA case managers. Within NAVSEA, case managers were responsible for accessing the accuracy of financial management reports within the Standard Accounting and Reporting System and for performing case line reconciliations to ensure that payments made to contractors were recorded in that system and were accurately reported to the DFAS Denver Center.

NAVSEA did not have effective management control procedures for reconciling payments made to contractors recorded in the Standard Accounting and Reporting System with those payments reported to the DFAS Denver Center. Using the Navy's reporting procedures, the Defense Accounting Office Charleston was required to report payments made to contractors to the DFAS Denver Center on a cumulative basis. To report those payments, the Defense Accounting Office Charleston reversed the previous month's transactions before reporting new cumulative payment amounts. However, the Defense Accounting Office reversed significantly more payments than were reported to the DFAS Denver Center, resulting in undercollections of CAS charges.

Although payments made to contractors were properly recorded in the Standard Accounting and Reporting System, case managers did not perform periodic reconciliations between payments recorded in that system to payments reported to the DFAS Denver Center to ensure that CAS surcharges were accurately collected from FMS customers for the 18 case lines. To illustrate the need for periodic case line reconciliations, we identified payments made to contractors totaling \$26.8 million for FMS case line CN-P-AJL/G01 that were recorded in

the Standard Accounting and Reporting System; however, the DFAS Denver Center's records showed a negative amount of \$10.5 million, a difference of \$37.3 million. The case manager would have detected that discrepancy between the systems had periodic reconciliations been performed.

**Effect of Periodic Case Line Reconciliations on CAS Surcharge Collections.** For the 20 FMS case lines reviewed at NAVSEA, CAS surcharges of \$20.3 million on 18 case lines were not collected from FMS customers. (See Appendix C for a breakdown of the FMS case lines affected.) The case manager should have performed periodic case line reconciliations of payments to contractors reported by the Defense Accounting Office, thereby identifying the undercollections and initiating corrective actions.

On June 26, 1995, the financial and case managers agreed that NAVSEA had problems reporting payments made to contractors for FMS cases to DFAS Denver Center and that reconciliations were not always accomplished. Because of the extensive amount of transactions inappropriately reported by the Defense Accounting Office Charleston, NAVSEA financial and case managers estimated that it would require at least a year to reconcile the 18 case lines for case closure.

## **Recommendations, Management Comments, and Audit Response**

**1. We recommend that the Director, Defense Finance and Accounting Service, reprogram the Program Budget and Accounting System to allow corrections to Army payments made to contractors reported by the Defense Accounting Offices to be accurately processed at the Defense Finance and Accounting Service Denver Center.**

**Management Comments.** The DFAS concurred with the recommendation and stated that a system change will be implemented to correct the process of reporting Army payments made to contractors. Further, DFAS will reemphasize to the Defense Accounting Offices the requirement to manually prepare adjustments to ensure the CAS surcharge is properly applied to reported disbursements.

**Audit Response.** We consider DFAS comments responsive; however, we request that DFAS provide a completion date for its proposed actions.

**2. We recommend that the Commander, Naval Sea Systems Command, establish controls to ensure case managers perform periodic reconciliations of payments made to contractors recorded in the Standard Accounting and Reporting System to the payments reported to the Defense Finance and Accounting Service Denver Center for foreign military sales case lines.**

**Management Comments.** The Navy concurred in principle that controls be established to ensure that case managers perform periodic reconciliations of

## Collection of the Contract Administration Services Surcharge

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payments made to contractors. However, the Navy's position was that DFAS take the lead to automate the system to ensure all records were reported and matched. NAVSEA has controls in place to ensure personnel reconcile payments recorded in the Standard Accounting and Reporting System to payments reported to DFAS Denver Center. Case managers continuously review the accuracy and consistency of disbursements recorded in the Standard Accounting and Reporting System; however, a backlog of erroneous disbursements exists. Although efforts were underway to resolve problem disbursements expeditiously, there are limited personnel available for correcting the erroneous disbursements. Although NAVSEA accepts responsibility for the accuracy of the Standard Accounting and Reporting System disbursements and is working with DFAS Charleston and DFAS Columbus, NAVSEA personnel are not in the position to manually verify the accuracy of each transaction submitted to DFAS Denver Center. NAVSEA believes the process could become more timely and accurate if DFAS Charleston developed an automated system to compare disbursement transactions recorded in the Standard Accounting and Reporting System to disbursement transactions reported to DFAS Denver Center.

**Audit Response.** We disagree that the Navy has established adequate controls for reconciling reported disbursement transactions. We also do not agree with the Navy that automated controls will ensure that all records are properly reported and matched. The Security Assistance Management Manual requires case managers to perform periodic reconciliations to ensure disbursement transactions are accurately reported to DFAS. The unmanageable number of erroneous disbursement transactions resulted from the Navy's procedures for reporting those transactions to DFAS Denver Center. While an automated system could assist the case manager during the reconciliation process, an automated system cannot authorize and eliminate transactions for duplicate shipments of material, identify and correct errors when an erroneous charge is applied to an FMS case, and report missing transactions that were not reported to the DFAS Denver Center. Therefore, we request that the Navy reconsider its position in response to the final report.

**3. We recommend that the Commander, Army Missile Command; the Commander, Tank-automotive and Armaments Command; and the Commander, Naval Sea Systems Command, correct the contract administration services surcharge collections for the case lines shown in Appendix C.**

**Army Missile Command Management Comments.** The Army Missile Command concurred with the recommendation to have the erroneous CAS surcharges identified in Appendix C reconciled with the Letters of Offer and Acceptance. The Army Missile Command coordinated with DFAS Huntsville to complete a review of the current contract disbursements for the FMS cases shown in Appendix C. On September 15, 1995, DFAS adjusted the progress payments to ensure the CAS amounts were in line with reported disbursements. However, those adjustments differed from the amounts shown in Appendix C

because DFAS used data as of September 14, 1995. Those adjustments resulted in undercollections of \$1,365,132 and overcollections of \$45,260 for the Army Missile Command FMS cases shown in Appendix C.

**Army Tank-automotive and Armaments Command Management Comments.** The Army Tank-automotive and Armaments Command concurred with the recommendation, stating that a review of the 11 FMS cases shown in Appendix C will be accomplished by November 30, 1995. As of December 11, 1995, the Tank-automotive and Armaments Command had not completed its review of the FMS cases.

**Navy Management Comments.** The Navy concurred in principle with the recommendation, stating that the amounts shown in Appendix C reflect out of balance conditions that routinely occur. The Navy stated that automation is the most effective solution to the problem.

**Audit Response.** We consider the Army comments to be responsive. We request that, in response to the final report, the Army provide the results of its review of the FMS cases and comment on the potential monetary benefits identified in Appendix C. This could alleviate the need for future separate followup inquiries to the Army on this matter.

We disagree with the Navy's position that FMS cases are routinely out-of-balance and that implementing an automated reconciliation process would correct the problem. When the case manager performs periodic reconciliations, FMS cases are not significantly out-of-balance. While an automated reconciliation process would provide a method to identify errors in reported disbursement transactions, the case manager would still be required to authorize any corrections to reported disbursement transactions. Therefore, we request that the Navy provide the specific action it plans to take to correct the case discrepancies identified in Appendix C, as well as comment on the potential monetary benefits in response to the final report.

## **Part II - Additional Information**

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## Appendix A. Scope and Methodology

### Scope and Methodology

**Adequacy of the CAS Surcharge.** To evaluate the adequacy of the CAS surcharge, we obtained CAS collection and reimbursement reports from the Defense Security Assistance Agency for FY 1981 through FY 1994 to determine whether significant variances occurred between collections and reimbursements. Also, we obtained Standard Form 1080s submitted by the Defense Contract Audit Agency (DCAA) and the Defense Logistics Agency (DLA) to the DFAS Denver Center for reimbursement of CAS costs incurred during FY 1992 through FY 1994. Additionally, we discussed the procedures for reviewing the CAS surcharge rate with financial managers at the Defense Security Assistance Agency.

**Collection of CAS Surcharge.** To determine whether the collection of CAS surcharges was correct, we selected six activities based on the activity's total payments to contractors. For the 6 activities, we reviewed the highest 20 FMS case lines at each activity based on cumulative payments to contractors recorded in the financial management systems used by the Military Departments as of May 1995. We reviewed 40 case lines valued at about \$1.6 billion in payments at the Army Missile Command and the Tank-automotive and Armaments Command; 20 case lines valued at about \$3.4 billion in payments at NAVSEA; and 60 case lines valued at about \$4 billion in payments at the Aeronautical Systems Center at Eglin Air Force Base, the Electronic Systems Center, and the San Antonio Air Logistics Center. For each case line, we determined whether the Military Departments were correctly reporting those disbursements to the DFAS Denver Center for collecting CAS surcharges from FMS customers.

**Elements of Scope for Collecting CAS.** For each case line selected, we reviewed Letters of Offer and Acceptance,<sup>1</sup> procurement contracts, Material Inspection and Receiving Reports, and other relevant information from financial and logistics records. The documents reviewed covered the period from March 1974 through May 1995. We also reviewed the Detailed Delivery History Search<sup>2</sup> to ensure the Military Departments reported payments made to contractors to the DFAS Denver Center using the correct delivery source code. We also discussed the policy and procedures for ensuring compliance with DoD regulations concerning the collection of CAS surcharges with various Military Departments' financial and logistical personnel.

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<sup>1</sup>An agreement between the U.S. Government and foreign governments for the sale of defense articles and services.

<sup>2</sup>A DFAS Denver Center detailed record of all financial and logistics aspects of an FMS case.

**Reimbursements for Performing CAS Functions.** To determine whether DoD Components were adequately reimbursed for performing CAS functions, we reviewed the FY 1994 reimbursements paid by the DFAS Denver Center to the DoD Components, valued at about \$108.1 million. We concentrated our efforts on DCAA and DLA because those activities received the majority of the reimbursement funds. For DCAA, we judgmentally selected seven sites, based on the dollar value and location, valued at about \$2.4 million of the total \$7.3 million reimbursed because DCAA submits reimbursements based on actual costs for each audit assignment. For DLA, we reviewed the entire \$98.4 million because DLA reimbursements were based on a pro rata share of the total CAS workload for DoD and FMS customers.

**Elements of Scope for CAS Reimbursements.** We reviewed the procedures and systems DCAA and DLA used for accumulating and reporting CAS costs to the Defense Security Assistance Agency for approval before reimbursement from DFAS Denver Center. We also reviewed the procedures those activities used to document the CAS costs submitted to the DFAS Denver Center for reimbursement. Further, we discussed the policy and procedures for accumulating and reporting CAS costs with DCAA and DLA finance and audit personnel.

**Use of Computer-Processed Data and Statistical Sampling Procedures.** From the Military Departments, we obtained financial records used by case and financial managers to monitor FMS case lines. Also, we obtained detailed delivery history searches from the DFAS Denver Center for sampling purposes. We did not evaluate the accuracy of all financial aspects of the computer-processed data. Rather, our evaluation was limited to determining whether the Defense Accounting Offices used the proper delivery source code to report payments made to contractors and whether those payments were accurately reported to the DFAS Denver Center for billing FMS customers. We did not use statistical sampling procedures for this audit.

**Audit Period, Standards, and Locations.** We performed this program audit from December 1994 through July 1995 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We included such tests of management controls considered necessary. Appendix E lists the organizations visited or contacted.

## Management Control Program

**Management Controls Assessed.** We evaluated the management control program within the Military Departments, DCAA, and DLA to ensure that adequate controls and procedures were in place to collect CAS surcharges from FMS customers and to reimburse the DoD Components for performing CAS functions. Specifically, we reviewed the management controls that:

- o financial managers used to record and report payments made to contractors in the financial data systems,

## Appendix A. Scope and Methodology

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- o case managers and financial managers used to reconcile and report payments made to contractors to the DFAS Denver Center for its use in collecting CAS surcharges from FMS customers, and

- o financial managers and supervisory auditors used to process and report CAS costs incurred to the DFAS Denver Center for the reimbursement of performing CAS functions.

We also assessed the Military Departments, DCAA, and DLA self-evaluation of those management controls associated with the collection of CAS surcharges from FMS customers and the reimbursement for performing CAS functions.

**Adequacy of Management Controls.** We identified a material management control weakness as defined by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. NAVSEA did not have effective procedures for reconciling payments made to contractors recorded in the Standard Accounting and Reporting System to ensure those payments were properly reported to the DFAS Denver Center. The potential monetary benefits of this audit totaled \$21.9 million. Appendix D summarizes the benefits associated with the audit. Copies of this report will be provided to senior officials within the Military Departments, DCAA, and DLA responsible for management control.

**Adequacy of the DoD Components' Self-Evaluation.** The Military Departments, DCAA, and DLA self-evaluations did not disclose the material weakness identified with the audit.

## Prior Audits and Other Reviews

During the past 5 years, no audits or reviews related to the CAS surcharge for FMS customers have been conducted.

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## **Appendix B. Other Matters of Interest**

### **Contract Administration Services Surcharge**

During the audit, we reviewed the adequacy of the 1.5 percent CAS surcharge applied to defense articles procured for FMS customers. Based on a review of DFAS Denver Center's FY 1981 through FY 1994 collections and reimbursements of CAS costs incurred, we determined that the CAS surcharge was sufficient for reimbursing DoD Components that performed CAS functions. Between FY 1981 and FY 1984, the reimbursements were greater than the collections of CAS costs; however, as of September 1994, the CAS clearing account balance had accumulated to \$129.7 million.

### **Reimbursements for Customers with Waivers**

DoD Regulation 7000.14-R allows the Defense Security Assistance Agency to grant waivers for CAS surcharges to foreign governments that provide the same services to the U.S. Government on a reciprocal basis. When DCAA field audit offices perform contract audit work for FMS customers with waivers, DCAA Accounting Manual 7200.1, January 31, 1982, specifies that those offices would not prepare billing statements for the reimbursement of CAS costs incurred. Instead, CAS costs for those contract audits would be considered as included in the current year appropriated funds. However, the field audit offices did not use DCAA Accounting Manual, but relied on DCAA Reimbursable Audit Program Pamphlet 7230.1, October 1, 1993, to administer the CAS reimbursable program for performing contract audit work. That pamphlet did not address reimbursement procedures for performing contract audit work for FMS customers with waivers. For six of the seven field audit offices visited, the resident officers and supervisory auditors were unaware of the reimbursement procedures governing FMS customers with waivers. As a result, DCAA was inappropriately reimbursed \$248,000 from the CAS Clearing Account in FY 1994 for performing contract audits for FMS customers with waivers.

During the exit conference on June 14, 1995, DCAA agreed that reimbursements were inappropriately received from the CAS Clearing Account for contract audits performed for FMS customers with waivers. DCAA also agreed that DCAA Pamphlet 7230.1 did not address the procedures governing reimbursements for contract audits performed for FMS customers with waivers. On July 5, 1995, DCAA issued a letter to its field audit offices instructing them not to process billing statements for FMS customers with waivers, and to correct any FY 1995 billing statements inappropriately submitted for those customers, in accordance with DCAA Accounting Manual 7200.1. Further,

## Appendix B. Other Matters of Interest

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that letter stated that DCAA Pamphlet 7230.1 would be revised to identify those FMS customers with waivers. As of December 1, 1995, DCAA Pamphlet 7230.1 has not been revised.

### Reimbursement of Contract Administration Services

We reviewed the documentation submitted by DLA to the DFAS Denver Center for the reimbursement of costs in performing CAS functions in FY 1994. DLA did not have adequate procedures for accumulating and reporting CAS costs (estimated actual costs) to DFAS Denver Center for reimbursement. As a result, DLA was reimbursed \$3.3 million more than the actual costs of performing CAS functions. The overreimbursed amount included errors in the functional workforce and employee work hours totaling \$1.6 million and unsupported year-end adjustments to CAS costs totaling \$1.7 million. On June 14, 1995, we discussed the inaccurate and unsupported CAS costs with DLA financial personnel and the need for improved management control procedures. As a result of those discussions, DLA established procedures for accumulating and reporting CAS costs to DFAS Denver Center for reimbursement.

## Appendix C. Summary of Contract Administration Services Undercollections and Overcollections

**Table C-1. Army Results**

| <u>Activity</u>    | <u>Country/Case/Line<sup>1</sup></u> | <u>Under-<br/>collected</u> | <u>Over-<br/>collected</u> |                  |
|--------------------|--------------------------------------|-----------------------------|----------------------------|------------------|
| MICOM <sup>2</sup> | EG-B-ULB/026                         |                             | \$153,367                  |                  |
|                    | EG-B-UOA/005                         | \$62,747                    |                            |                  |
|                    | IS-B-YCE/003                         | 67,235                      |                            |                  |
|                    | IS-B-YCE/005                         | 90,257                      |                            |                  |
|                    | KU-B-UJO/134                         | 218,333                     |                            |                  |
|                    | KU-B-UJO/138                         | 28,043                      |                            |                  |
|                    | NO-B-VHJ/001                         |                             |                            | \$31,730         |
|                    | SR-B-JBV/194                         | 40,302                      |                            |                  |
|                    | SR-B-VNX/001                         | 652,970                     |                            |                  |
|                    | SR-B-VNX/066                         | 175,946                     |                            |                  |
|                    | TC-B-UBH/066                         | 39,754                      |                            |                  |
|                    | TW-B-YQZ/001                         | 15,680                      |                            |                  |
|                    | <b>Subtotal</b>                      | <b>\$1,391,267</b>          |                            | <b>\$185,097</b> |
|                    | TACOM <sup>3</sup>                   | EG-B-UKJ/001                |                            |                  |
| KU-B-JAT/001       |                                      | \$449,547                   |                            |                  |
| KU-B-UIH/001       |                                      |                             | 4,898                      |                  |
| KU-B-UIH/003       |                                      |                             | 85,243                     |                  |
| MU-B-UCJ/033       |                                      | 18,194                      |                            |                  |
| SR-B-JBM/003       |                                      | 18,513                      |                            |                  |
| SR-B-JBO/003       |                                      | 28,778                      |                            |                  |
| SR-B-VMZ/001       |                                      |                             | 183,680                    |                  |
| SR-B-VMZ/002       |                                      |                             | 19,380                     |                  |
| SR-B-VMZ/003       |                                      | 17,382                      |                            |                  |
| SR-B-VNA/001       |                                      | 150,725                     |                            |                  |
| <b>Subtotal</b>    | <b>\$683,139</b>                     | <b>\$346,346</b>            |                            |                  |
| <b>Total</b>       | <b>\$2,074,406</b>                   | <b>\$531,443</b>            |                            |                  |

See footnotes at end of appendix.

Appendix C. Summary of Contract Administration Services Undercollections and Overcollections

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Table C-2. Navy Results

| <u>Activity</u> | <u>Country/Case/Line</u> | <u>Under-collected</u> |
|-----------------|--------------------------|------------------------|
| NAVSEA          | AT-P-SAS/1G1             | \$3,755,387            |
|                 | AT-P-SAY/8G1             | 2,207,808              |
|                 | AT-P-SBJ/6G1             | 2,316,891              |
|                 | CN-P-AIU/G01             | 176,466                |
|                 | CN-P-AJL/G01             | 118,368                |
|                 | IT-P-MBC/4G1             | 235,554                |
|                 | JA-P-LKL/G01             | 634,080                |
|                 | JA-P-LKL/G11             | 300,823                |
|                 | JA-P-LNW/G01             | 350,797                |
|                 | SP-P-AKD/G01             | 27,292                 |
|                 | SP-P-GBW/4G1             | 288,456                |
|                 | SP-P-LDE/6G1             | 1,064,389              |
|                 | SP-P-LDF/6G1             | 370,879                |
|                 | SP-P-LDG/6G1             | 403,306                |
|                 | SR-P-SAS/3B1             | 3,856,790              |
|                 | SR-P-SAT/3B1             | 3,022,280              |
|                 | SR-P-TAR/3M1             | 474,256                |
|                 | TW-P-LEJ/G01             | <u>673,612</u>         |
|                 | <b>Total</b>             | <b>\$20,277,434</b>    |

<sup>1</sup>Country identifiers

|    |           |    |                      |
|----|-----------|----|----------------------|
| AT | Australia | MU | Oman                 |
| CN | Canada    | NO | Norway               |
| EG | Egypt     | SP | Spain                |
| IS | Israel    | SR | Saudi Arabia         |
| IT | Italy     | TC | United Arab Emirates |
| JA | Japan     | TW | Taiwan               |
| KU | Kuwait    |    |                      |

<sup>2</sup>Army Missile Command.

<sup>3</sup>Tank-automotive and Armaments Command.

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## Appendix D. Summary of Potential Benefits Resulting From Audit

| Recommendation Reference | Description of Benefit  | Amount and/or Type of Benefit   |
|--------------------------|---|---|
| 1.                       | Program Results. Modification of the PBAS will allow payments made to contractors to be processed accurately.               | Unquantifiable.*  |
| 2.                       | Management Controls. Reconciliations of payments made to contractors will ensure accurate reporting against FMS case lines. | Unquantifiable.*  |
| 3.                       | Program Results. Collections or reimbursements of CAS surcharges will ensure FMS customers are accurately billed.           | Funds Put to Better Use. Recoupment of \$22.4 million in CAS surcharges, offset by \$500,000 in overcollections from customers. |

\*Benefits of modifying a system or implementing procedures could not be measured in dollar savings.

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## **Appendix E. Organizations Visited or Contacted**

### **Office of the Secretary of Defense**

Under Secretary of Defense (Comptroller), Washington, DC

### **Department of the Army**

Army Materiel Command, Alexandria, VA  
Army Missile Command, Huntsville, AL  
Army Tank-automotive and Armaments Command, Warren, MI

### **Department of the Navy**

Naval Sea Systems Command, Washington, DC  
Naval Supply Systems Command, Washington, DC

### **Department of the Air Force**

Air Force Materiel Command, Wright-Patterson Air Force Base, Dayton, OH  
Aeronautical Systems Center, Eglin Air Force Base, Fort Walton Beach, FL  
Electronic Systems Center, Hanscom Air Force Base, Boston, MA  
San Antonio Air Logistics Center, Kelly Air Force Base, San Antonio, TX

### **Other Defense Organizations**

Defense Contract Audit Agency, Washington, DC  
Defense Contract Audit Agency, General Dynamics Land Systems Division Resident Office, Sterling Heights, MI  
Defense Contract Audit Agency, GTE Government Systems Resident Office, Needham, MA  
Defense Contract Audit Agency, Lockheed Ft. Worth Company Resident Office, Ft. Worth, TX  
Defense Contract Audit Agency, Raytheon (Equipment Division) Resident Office, Marlboro, MA  
Defense Contract Audit Agency, Raytheon (Missile Systems Division) Resident Office, Andover, MA  
Defense Contract Audit Agency, UTC Pratt-Whitney Resident Office, East Hartford, CT  
Defense Contract Audit Agency, Westinghouse Electronics Corporation Resident Office, Linthicum, MD  
Defense Finance and Accounting Service Columbus Center, Columbus, OH  
Defense Finance and Accounting Service Denver Center, Denver, CO

**Other Defense Organizations (cont'd)**

Defense Finance and Accounting Service Indianapolis Center, Indianapolis, IN  
Defense Accounting Office, Redstone Arsenal, AL  
Defense Accounting Office, Warren, MI  
Defense Logistics Agency, Alexandria, VA  
Defense Contract Management Command International, Dayton, OH  
Defense Contract Management District South, Atlanta, GA  
Defense Security Assistance Agency, Washington, DC

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## **Appendix F. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense (Comptroller)  
Deputy, Chief Financial Officer  
Deputy Comptroller (Program/Budget)  
Director, Defense Logistics Studies Information Exchange

### **Department of the Army**

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

### **Department of the Navy**

Assistant Secretary of the Navy (Financial Management and Comptroller)  
Commander, Naval Sea Systems Command  
Commander, Naval Supply Systems Command  
Auditor General, Department of the Navy

### **Department of the Air Force**

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

### **Defense Agencies**

Director, Defense Contract Audit Agency  
Director, Defense Finance and Accounting Service  
Director, Defense Logistics Agency  
Director, Defense Security Assistance Agency  
Director, National Security Agency  
Inspector General, National Security Agency

### **Non-Defense Federal Organizations**

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

## Non-Defense Federal Organizations (cont'd)

National Security and International Affairs Division, Defense and National  
Aeronautics and Space Administration Management Issues  
National Security and International Affairs Division, Military Operations and  
Capabilities Issues

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

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

## **Part III - Management Comments**

# Army Comments



~~FOR OFFICIAL USE ONLY~~  
DEPARTMENT OF THE ARMY  
OFFICE OF THE DEPUTY CHIEF OF STAFF FOR LOGISTICS  
500 ARMY PENTAGON  
WASHINGTON, DC 20310-0500



DALO-SAA

9501573L

22 November 1995

MEMORANDUM THRU

DEPUTY CHIEF OF STAFF FOR LOGISTICS

~~DIRECTOR OF THE ARMY STAFF~~

ASSISTANT SECRETARY OF THE ARMY (INSTALLATIONS, LOGISTICS AND ENVIRONMENT)

FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE (AUDITING)

SUBJECT: IG DoD DRAFT Audit Report on Contract Administration Services for Foreign Military Sales (Project No. 5LG-0011)-- INFORMATION MEMORANDUM

1. This is in response to USAAA memorandum of 7 September 1995 (Tab A), which asked ODCSLOG to respond to your memorandum of 7 September 1995 (Encl to Tab A). Your memorandum requested that ODCSLOG review and comment on IG DoD DRAFT Audit Report on Contract Administration Services for Foreign Military Sales (Project No. 5LG-0011).
2. The Army's position on the IG DoD DRAFT Audit Report on Contract Administration Services for Foreign Military Sales (Project No. 5LG-0011) is at Tab B.

2 Encls

CF:  
VCSA  
CDR, AMC  
SAAG-PRF-E  
DALO-ZXA

AMC, AMCIR-A - Concur, Mr. Kurzer; 274-9025 (memorandum)

*Frank S. Besson III*  
FRANK S. BESSON III  
Director of Security Assistance

RECEIVED  
OFC. ASST SECY ARMY  
(I&L&E)  
9 NOV 28 AM 8:36

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This marking is canceled when separated from  
the material bearing a protective marking

Peter Liszewski/695-0390

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FINDINGS AND RECOMMENDATIONS

IG DoD DRAFT Report  
Contract Administration Services For Foreign Military Sales  
 (Project No. 5LG-0011)

**FINDING:** Collection of the Contract Administration Services Surcharge

**Summary:** The Army did not use an effective system and NAVSEA did not have effective procedures for collecting the CAS surcharge for defense articles procured for FMS customers. That condition occurred because the Program Budget and Accounting System was not programmed to allow corrections of Army payments made to contractors reported by the Defense Accounting Offices to be processed using the proper delivery source code. Additionally, the NAVSEA case managers did not perform periodic reconciliations of payments to contractors to ensure those payments were properly reported to the DFAS Denver Center. As a result, the Army and NAVSEA under-collected a net of \$21.9 million in CAS surcharges from FMS customers.

**ADDITIONAL FACTS:**

**U.S. Army Missile Command (MICOM):** MICOM agrees that systemic problems contributed to the CAS surcharges on MICOM Letters of Offer and Acceptance (LOAs) that are cited in the draft report (Appendix C) for corrective action. The financial system should be modified as cited in draft report in order to preclude future occurrences of erroneous omission or incorrect application of CAS surcharges in instances such as these. However, MICOM case managers do not control nor have direct interface with the financial systems that need to be accessed and modified to correct CAS surcharges as cited in Appendix C. These responsibilities are assigned to and must be performed within the finance and accounting arena. More specifically, the Defense Finance and Accounting Service (DFAS)-Huntsville will have to prepare a request through proper channels to DFAS-Denver to result in the type of adjustments to CAS surcharges recommended by this draft report.

**U.S. Army Tank-automotive and Armaments Command (TACOM):** TACOM takes exception with the finding because it fails to mention that TACOM and DFAS-Detroit were already aware of the systemic problems with the Program Budget and Accounting System. For example, a DFAS-Detroit staff member previously submitted a suggestion to correct the systemic problems but the suggestion was not implemented. Further, the report fails to mention that systemic errors are manually corrected during the case closeout process. Additionally, the auditors reviewed 120 FMS cases, including 20 managed by TACOM, and found the Army and NAVSEA under-collected a net of \$21.9 million in CAS surcharges from FMS customers. At TACOM, the auditors found six FMS cases with under-collections totaling \$2,074,406 and five FMS cases with over-collections totaling \$531,443.

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\*The Army approved the strike-out of the "For Official Use Only" marking.

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**RECOMMENDATION 3:** We recommend that the Commander, U.S. Army Missile Command; the Commander, U.S. Army Tank-automotive and Armaments Command; and the Commander, Naval Sea Systems Command, correct the contract administration services surcharge collections for the case lines shown in Appendix C.

**COMMAND COMMENTS:**

**MICOM.** Concur. MICOM concurred with the recommendation to have erroneous CAS surcharges reconciled on MICOM LOAs listed in Appendix C. However, the recommendation was misdirected to MICOM in lieu of DFAS. MICOM coordinated the problem with DFAS-Huntsville and they have completed a review of current contract disbursements on all country/case/lines listed in Appendix C of the report. On 15 September 1995, Progress Pay CAS messages were submitted to bring CAS in line with disbursements. Since the review included disbursements through 14 September 1995, the adjustment amounts required differ from those computed at the time of the audit. The corrections made were as follows:

| <u>Country/Case/Line</u> | <u>Under-collected</u> | <u>Over-collected</u> |
|--------------------------|------------------------|-----------------------|
| EG-ULB026                | \$                     | \$ 909.63             |
| EG-UOA005                | 8,923.88               |                       |
| IS-YCE003                | 67,235.00              |                       |
| IS-YCE005                | 89,651.85              |                       |
| KU-UJO134                | 288,759.83             |                       |
| KU-UJO138                | 25,422.85              |                       |
| NO-VHJ001                |                        | 31,730.00             |
| SR-JBV194                | 55,857.35              |                       |
| SR-VNX001                | 652,527.34             |                       |
| SR-VNX066                | 147,143.53             |                       |
| TC-UBH066                | 29,610.36              |                       |
| TW-YQZ001                |                        | 12,620.13             |

**TACOM.** Concur. TACOM will, upon completion of yearend accounting work, review the 11 FMS cases identified during the audit and take whatever corrective actions are necessary by 30 November 1995.

2  
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# Navy Comments



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

NOV 27 1995

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR  
GENERAL FOR AUDITING

Subj CONTRACT ADMINISTRATION SERVICES FOR FOREIGN MILITARY SALES  
(FMS) (PROJECT NUMBER 5LG-0011)

Ref: (a) DoDIG Memo of 7 Sept 1995

Encl: (1) Department of the Navy Comments

We have reviewed the Draft Audit Report results and recommendations provided by reference (a).

The Department of the Navy concurs in principle with Recommendation 2 that controls be established to ensure case managers perform periodic reconciliation of payments to contractors. The Navy position is that Defense Finance and Accounting Service (DFAS) take the lead to develop an automated capability to ensure all records are reported and match STARS transactions by FMS case to identify missing/duplicate records.

The Department of the Navy also concurs in principle with Recommendation 3 that the Contract Administration Service charges be corrected. These accounts are active, constantly in and out of balance, and result in delayed money flow. Again, automation is the most effective solution to this problem.

Detailed comments are provided in enclosure (1).

A handwritten signature in black ink, appearing to read "John W. Douglass".

John W. Douglass

Copy to:  
ASN (FMO-31)  
NAVINGEN

DEPARTMENT OF THE NAVY RESPONSE  
TO  
DODIG DRAFT AUDIT REPORT ON CONTRACT ADMINISTRATION  
SERVICES FOR FOREIGN MILITARY SALES (Project No. 5LG-0011)

DODIG Audit Recommendation 2:

We recommend that the Commander, Naval Sea Systems Command, establish controls to ensure case managers perform periodic reconciliation of payments made to contractors recorded in the Standard Accounting and Reporting System to the payments reported to the Defense Finance and Accounting Service Denver Center for foreign military sales case lines.

DON Response:

Concur in principle. The Naval Sea Systems Command (NAVSEA) currently has controls in place to ensure NAVSEA personnel reconcile payments recorded in the Standard Accounting and Reporting System (STARS) and payments reported to the Defense Finance and Accounting Service (DFAS), Denver Center. NAVSEA reconciles Foreign Military Sales (FMS) surcharges recorded by DFAS, Denver when cases become candidates for closure as prescribed in DoD 7000.14R paragraph 021104. Additionally, NAVSEA reviews STARS records with DFAS, Denver records before meeting with FMS customers for Program Management Reviews and Case Reconciliation Reviews. Often, the NAVSEA case manager identifies errors in the DFAS, Denver accounts and advises DFAS, Denver of these errors. Since the purpose of the audit recommendation is to improve timely and accurate recording and charging of payments of FMS surcharges, this process should be performed, to the maximum extent practicable, through automation.

The NAVSEA Comptroller and case managers continuously review disbursements made in STARS for accuracy and consistency with Mechanization of Contract Administration Service (MOCAS) system. It is recognized that a backlog of erroneous disbursements exists. This is due to the current level of erroneous disbursements recorded in MOCAS and limited personnel available for researching corrections based on FMS funding. Nevertheless, efforts are being made to resolve problem disbursements as expeditiously as possible. Thus, we believe NAVSEA is in compliance with recent DoD guidance regarding research and correction of Negative Unliquidated Obligations and Unmatched Disbursements in STARS.

Enclosure 1  
1 of 2

While NAVSEA takes responsibility for the accuracy of STARS and is working with DFAS, Charleston and Columbus to assure the accuracy of STARS records, NAVSEA is not in a position to manually verify DFAS, Charleston reporting to DFAS, Denver. Moreover, DFAS, Charleston is in position to verify the accuracy of data submitted to DFAS, Denver in an automated fashion. This would permit DFAS, Charleston and Denver to periodically compare account balances. Any account found to be out of balance should be subject to an automated match of detailed transactions so that manual matching of thousands of transactions would not be required by NAVSEA.

It is Navy's position that this recommendation be directed to DFAS, Charleston to develop an automated capability to compare STARS transaction reporting to DFAS, Denver to STARS records to ensure all records are reported. Additionally, an automated capability to match STARS transactions by FMS case to DFAS, Denver transactions to identify missing/duplicate records should be developed. It is the ability to automate a database under the control of Operating Location (OPLOC), Charleston which will permit the most accurate and timely collection of FMS surcharges.

DODIG Audit Recommendation 3:

**We recommend that the Commander, Army Missile Command; the Commander, Tank Automotive and Armaments Command; and the Commander Naval Sea Systems Command, correct the contract administration services surcharge collections for the case lines shown in Appendix C.**

DON Response:

Concur in principle. Figures in Appendix C reflect out of balance conditions which routinely occur. To effectively resolve these conditions, DFAS should obtain automated reconciliation features necessary to correct the contract administration services surcharge collection. Additionally, DFAS should take action to automatically correct their records when DFAS operating errors are made.

Enclosure 1  
2 of 2

# Defense Finance and Accounting Service Comments



## DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY  
ARLINGTON, VA 22240-5291

NOV 13 1985

DFAS-HQ/G

MEMORANDUM FOR DIRECTOR, LOGISTICS SUPPORT DIRECTORATE, INSPECTOR  
GENERAL, DOD

SUBJECT: Audit Report on Contract Administration Services for  
Foreign Military Sales (Project No. 5LG-0011)

We have attached management comments concerning subject  
audit report. We appreciate the opportunity to provide comments  
on this matter.

The DFAS-HQ/GB focal point for this response is  
Mr. Tom McIntire, 607-5071.

A handwritten signature in cursive script, appearing to read "T. McCarty".

Thomas F. McCarty  
Deputy Director for General  
Accounting

Attachment

**COMMENTS TO AUDIT REPORT ON CONTRACT ADMINISTRATION SERVICES FOR  
FOREIGN MILITARY SALES**

**Recommendation 1.** We recommend that the Director, Defense Finance and Accounting Service, reprogram the Program Budget and Accounting System (PBAS) to allow corrections to Army payments made to contractors reported by the Defense Accounting Offices to be accurately processed at Defense Finance and Accounting Service Denver Center.

**DFAS Comments:**

Concur with the recommendation. DFAS will undertake a system change to correct the reporting to DFAS-DE/I. In the meantime, DFAS will reemphasize to the DAOs the requirement to manually prepare and submit off line adjustments to ensure that the Contract Administration Services (CAS) surcharge is properly applied to reported disbursements.

## **Audit Team Members**

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

Shelton R. Young  
Evelyn R. Klemstine  
Ronald C. Tarlaian  
Carolyn B. Jones  
Averel E. Gregg  
William F. Bazemore  
Shawn L. James  
Vanessa S. Adams