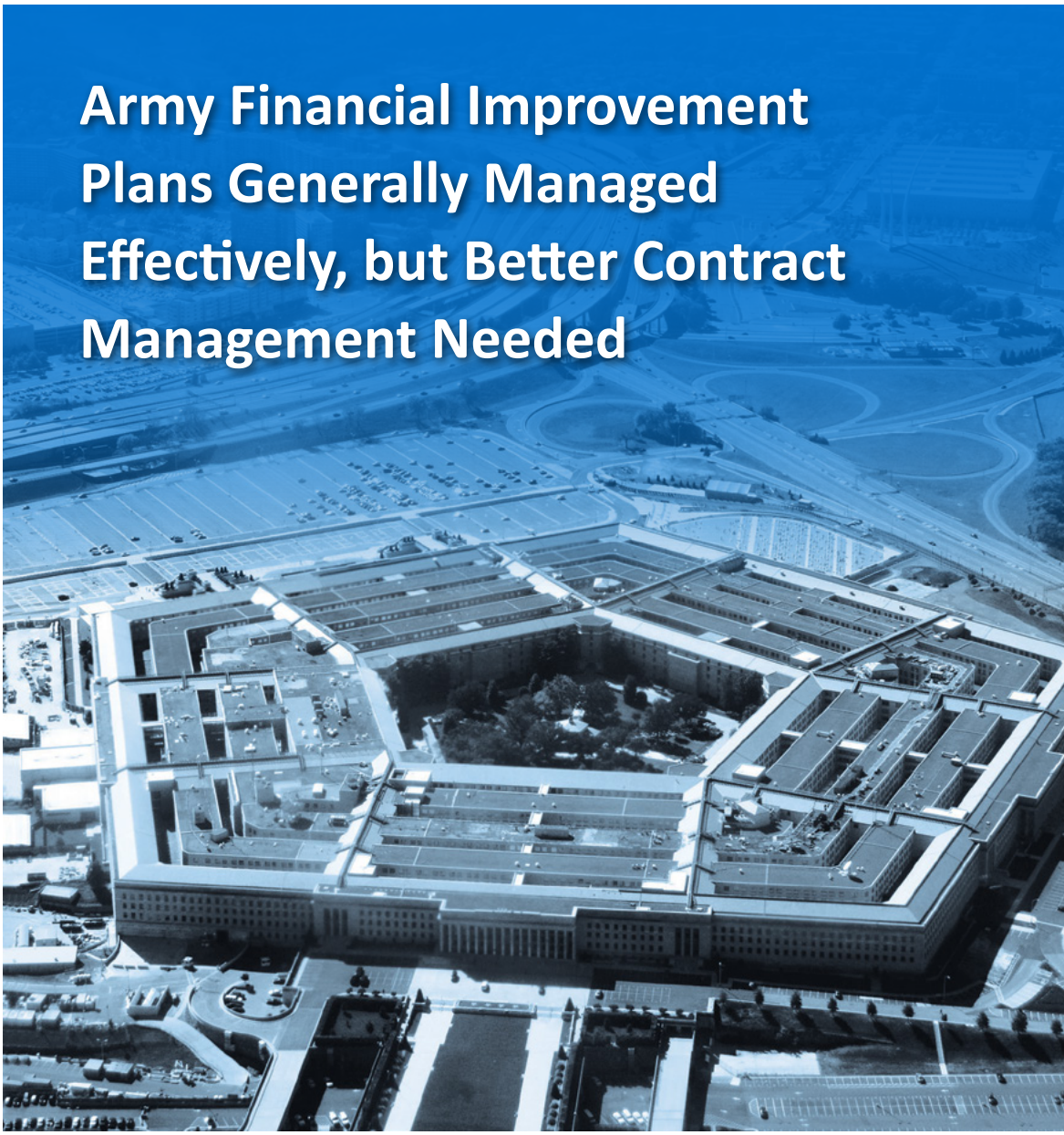
Report No. DODIG-2014-056

Inspector General

U.S. Department of Defense

APRIL 8, 2014

Army Financial Improvement Plans Generally Managed Effectively, but Better Contract Management Needed



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Results in Brief

Army Financial Improvement Plans Generally Managed Effectively, but Better Contract Management Needed

April 8, 2014

Objective

Our objective was to determine whether the Department of the Army effectively managed its Financial Improvement Plan (FIP), including contractor support, to meet Financial Improvement and Audit Readiness (FIAR) goals. Specifically, we focused on the FIAR priorities of improving budgetary information and verifying the existence and completeness of mission critical assets. We also assessed the Army's compliance with FIAR Guidance when developing 10 FIPs.

Findings

Assistant Secretary of the Army (Financial Management and Comptroller) (ASA[FM&C]) personnel generally managed 10 Army General Fund FIPs in an effective manner and made 6 assertions focused on the 2 FIAR priorities. However, FIAR Directorate personnel approved three Army financial statement assertions for examination despite significant internal control problems. This occurred because FIAR Directorate personnel deviated from FIAR Guidance. As a result, ASA(FM&C) personnel expended funds on examinations in areas with known internal control weaknesses.

The ASA(FM&C) contracting officer's representative (COR) did not perform appropriate contract oversight and surveillance on the Army General Fund audit readiness contract. Specifically, the COR did not perform onsite monitoring of the contractor, adequately document contractor performance or report the contractor's performance in accordance with

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Findings Continued

the COR designation memorandum, or complete thorough reviews of contractor invoices. This occurred because the four primary U.S. Army Corps of Engineers – Huntsville Engineering and Support Center (CEHNC) contracting officers did not ensure that the COR had the necessary resources to perform adequate oversight. As a result, ASA(FM&C) had reduced assurance that the $90.1 million spent on Army General Fund audit readiness services represented the actual quality and quantity of work performed.

CEHNC personnel used inadvisable accounting practices. This occurred because the U.S. Army Corps of Engineers did not definitize its reimbursable orders policy before contract issuance and CEHNC personnel did not record obligations in accounting records properly. As a result, CEHNC personnel processed $21.5 million in contractor payments, citing an incorrect obligation, and was at increased risk of overobligating Army military construction accounts.

Recommendations

We recommend that the Under Secretary of Defense (Comptroller)/ Deputy Chief Financial Officer, DoD, require a cost-benefit analysis when a reporting entity does not demonstrate that significant internal controls are operating effectively. Among other recommendations, we recommend that the ASA(FM&C) increase oversight of audit readiness contracts and the Chief of Contracting, CEHNC, verify compliance with the reimbursable orders policy.

Management Comments and Our Response

The response from the Under Secretary of Defense (Comptroller)/ Deputy Chief Financial Officer, DoD, on Recommendation A partially addressed the recommendation; however, we request additional comments. The response from the ASA(FM&C) was partially responsive on Recommendation B.2.b, but not on Recommendation B.2.a. Additionally, the response from the Chief of Contracting, CEHNC, addressed all of the aspects of the recommendations, and we do not require additional comments. Please see the Recommendation Table on the next page

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Under Secretary of Defense (Comptroller)/ Deputy Chief Financial Officer, DoD	A	
Assistant Secretary of the Army (Financial Management and Comptroller)	B.2.a	B.2.b
Chief of Contracting, U.S. Army Corps of Engineers – Huntsville Engineering and Support Center		B.1.a, B.1.b, B.1.c, B.1.d, B.1.e, C.1, C.2, C.3

Please provide comments by May 8, 2014.

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

April 8, 2014

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF FINANCIAL OFFICER, DOD
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Army Financial Improvement Plans Generally Managed Effectively, but Better Contract Management Needed (Report No. DODIG-2014-056)

We are providing this report for review and comment. Army personnel generally managed 10 Army General Fund Financial Improvement Plans in an effective manner. However, Financial Improvement and Audit Readiness personnel approved three Army financial statement assertions despite known deficiencies. Additionally, the contracting officer's representative did not perform appropriate contract oversight and surveillance on the Army General Fund audit readiness contract, valued at $90.1 million, and the contracting office used inadvisable accounting practices. The audit took longer than expected because the scope was expanded to include Army assertions made after the audit start. The report is still relevant because the Army plans to make additional assertions in FY 2014 and still oversees audit readiness contracts in conjunction with the Army financial improvement plan.

We considered management comments on a draft of this report when preparing the final report. DoD Directive 7650.3 requires that recommendations be resolved promptly. The response from the Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer, DoD, on Recommendation A, partially addressed the recommendation; however, we request additional comments. The response from the Assistant Secretary of the Army (Financial Management and Comptroller) addressed all the specifics of Recommendation B.2.b; however, the response did not address the specifics of Recommendation B.2.a. Therefore, we request additional comments on Recommendations A and B.2.a by May 8, 2014. The response from the Chief of Contracting, U.S. Army Corps of Engineers – Huntsville Engineering and Support Center, addressed all of the specifics of the recommendation, and we do not require additional comments.

Please send a PDF file containing your comments to audfmr@dodig.mil. Copies of your comments must have the actual signature of the authorizing official for your organization. We cannot accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-8905.

Lorin T. Venable

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Assistant Inspector General
Financial Management and Reporting

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INSPECTOR GENERAL

DEPARTMENT OF DEFENSE

Introduction

Objective

Our objective was to determine whether the Department of the Army effectively managed its Financial Improvement Plan (FIP), including contractor support, to meet Financial Improvement and Audit Readiness (FIAR) goals. Specifically, we focused on the FIAR priorities of improving budgetary information and verifying the existence and completeness of mission critical assets.[1] We also assessed the Army's compliance with FIAR Guidance when developing 10 Army General Fund (AGF) FIPs. The Army depends heavily on contractor support to carry out its audit readiness efforts. Consequently, we reviewed Army's contract oversight and financial administration of audit readiness contracts. See Appendix A for a discussion of the scope and methodology and Appendix B for prior audit coverage.

Background

DoD did not have an audit opinion on its FY 2012 financial statements. It is one of the 24 entities required by Public Law 101-576, "Chief Financial Officers Act of 1990," as amended by the Government Management Reform Act of 1994. Public Law 101-576 section 303, "Financial Statements of Agencies," November 15, 1990, mandates preparing financial statements and an annual audit of those financial statements in accordance with generally accepted government auditing standards. Public Law 111-84, "National Defense Authorization Act for Fiscal Year 2010," section 1003, "Audit Readiness of Financial Statements of the Department of Defense," (FY 2010 National Defense Authorization Act), October 28, 2009, requires auditable DoD financial statements by September 30, 2017. The FY 2010 National Defense Authorization Act also requires DoD to develop and maintain a FIAR Plan.

The FIAR Plan identifies DoD's strategy for improving financial management, prioritizing needs, and identifying the dependencies preventing auditability. To that end, the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (USD[C]/CFO), issued the first FIAR Plan in December 2005 and, thereafter, semiannual updates in May and November. The semiannual updates include each DoD Component's plan for achieving auditable financial statements. The USD(C)/CFO also established the FIAR Directorate to provide day-to-day

[1] Mission critical assets are military equipment, general equipment, real property, inventory, and operating materials and supplies. On September 20, 2013, DoD issued a memorandum that, among other things, combined military equipment and general equipment into a single category entitled "General Equipment."

management of the FIAR Plan and verify that DoD-wide financial improvement efforts were integrated with functional community improvement activities. The FIAR Directorate developed FIAR Guidance, which defines DoD's goals, priorities, strategy, and methodology for audit readiness (including roles, responsibilities, and processes for reporting entities and service providers). The FIAR Directorate periodically updates the FIAR Guidance.

Goal, Priorities, and Strategy for the Financial Improvement and Audit Readiness

On August 11, 2009, the USD(C)/CFO, established FIAR priorities as verifying the existence of mission critical assets and improving budgetary information and processes. The USD(C)/CFO also directed reporting entities to modify and regularly update their FIPs to achieve FIAR priorities. On October 13, 2011, the Secretary of Defense issued a memorandum that accelerated the audit readiness of the Statement of Budgetary Resources (SBR) for General Fund reporting entities to the end of FY 2014. Public Law 112-81, "National Defense Authorization Act for Fiscal Year 2012," section 1003, "Additional Requirements Relating to the Development of the Financial Improvement and Audit Readiness Plan," (FY 2012 National Defense Authorization Act), December 31, 2011, states the semiannual updates to the FIAR Plan should include:

> a plan, including interim objectives and a schedule of milestones for each military department and for the defense agencies, to support the goal established by the Secretary of Defense that the statement of budgetary resources is validated for audit by not later than September 30, 2014. …[T]he plan shall include process and control improvements and business systems modernization efforts necessary for the Department of Defense to consistently prepare timely, reliable, and complete financial management information.

The FIAR strategy provides the critical path for DoD while balancing the need to achieve short-term accomplishments with the long-term goal of an unqualified opinion on the DoD financial statements. The FIAR strategy groups and prioritizes the material business processes within four waves:

- Appropriations Received,
- SBR,

- Mission Critical Asset Existence and Completeness, and
- Full Audit Except for Existing Asset Valuation.

The ultimate goal of the FIAR strategy is achieving a full financial statement audit.[2]

Methodology Includes Phased Approach to Achieve Audit Readiness

The FIAR Directorate developed the FIAR Methodology, which is a specific, detailed, and phased approach to comply with the overall requirements in the FIAR Guidance and achieve audit readiness. In September 2011, the Government Accountability Office determined that the May 2010 FIAR Guidance provides a reasonable methodology for DoD reporting entities to use when developing and implementing their FIPs.[3] The FIAR Methodology contains six phases that reporting entities must comply with as they move toward audit readiness. The six phases of the FIAR Methodology contained in the FIAR Guidance[4] are summarized in Table 1.

Table 1. FIAR Methodology

FIAR Methodology Phase	Summary of Activities
1.0 Discovery	Management documents business environment, prioritizes processes into assessable units, assesses risk and tests controls, evaluates supporting documentation, and identifies weaknesses and deficiencies.
2.0 Corrective Action	Management designs audit ready environment, develops and documents solutions, identifies resources to implement actions, and defines validation procedures to verify that corrective action remediated the deficiency.
3.0 Evaluation	Management tests corrective actions and determines whether it can assert as audit ready.
4.0 Assertion	Management submits assertion documentation to FIAR Directorate and DoD Office of Inspector General. Documentation includes statement that controls are designed and operating effectively based on work performed in Phases 1 through 3.

[2] DoD memorandum, "Elimination of Military Equipment Definition and Increase to Capitalization Thresholds for General Property, Plant and Equipment," dated September 20, 2013, implemented changes to refocus Department efforts on valuing General Property, Plant, and Equipment. The November 2013 FIAR Guidance updated the FIAR strategy to reflect the new valuation requirements.

[3] Report No. GAO-11-851, "DOD Financial Management: Improvement Needed in DOD Components' Implementation of Audit Readiness Effort," September 13, 2011.

[4] The FIAR Guidance, updated in March 2013, accelerated involving an independent public accounting firm and reduced the FIAR Methodology from six to five phases.

FIAR Methodology Phase	Summary of Activities
5.0 Validation	FIAR Directorate and DoD Office of Inspector General reviews assertion documentation, provides feedback, and engages auditors to perform examination of assertion.
6.0 Audit	DoD Office of Inspector General or an independent public accounting firm audits financial statements.

Source: DoD FIAR Directorate

Financial Improvement Plans

The FIAR Plan is comprised of the individual FIPs prepared by the reporting entities. The Assistant Secretary of the Army (Financial Management and Comptroller) (ASA[FM&C]) is responsible for managing the Army's audit readiness activities with appropriate direction, guidance, and oversight. The Accountability and Audit Readiness Directorate, Deputy Assistant Secretary of the Army (Financial Operations), is responsible for managing the Army FIPs. The FIPs serve as the Army's roadmap to achieving a favorable audit opinion on its annual financial statements. The Army FIPs include the goals, objectives, and tasks that must be completed for the Army to provide its commanders, leaders, and managers with quality financial information for decision making on a consistent and routine basis.

Contracts Awarded to Address Auditability

U.S. Army Corps of Engineers (USACE) – Huntsville Engineering and Support Center (CEHNC) personnel awarded three service contracts for ASA(FM&C) to address problems preventing the auditability of the AGF and Army Working Capital Fund (AWCF) financial statements. On September 28, 2010, CEHNC personnel awarded the AGF audit readiness contract to International Business Machines (IBM). The contract contained time-and-material, firm-fixed-price, and cost-reimbursable elements. Also, the contract expired on April 9, 2013, before the end of the third option period (September 27, 2013) when it reached the contract ceiling.[5] The contract was closed out in January 2014,[6] with a total cost of $90.1 million. CEHNC personnel awarded a follow-on AGF audit readiness contract to IBM. The follow-on contract has a ceiling of $57.5 million and is a combination of firm-fixed-price and cost-reimbursable elements. This contract is scheduled to expire on July 9, 2014. The AWCF audit

[5] Based on input from ASA(FM&C), CEHNC's internal tracking of disbursements, and the contractor's cost estimates, the Army estimated the contract ceiling would be reached in April 2013.

[6] After receiving the final contactor invoice in December 2013, CEHNC personnel modified and closed out the contract in January 2014. They deobligated excess funds that reduced the ceiling price of the contract from $92.5 million to $90.1 million.

readiness contract was awarded on March 30, 2012, to PricewaterhouseCoopers LLP.[7] The contract has a ceiling of $7.3 million and is also a combination of time-and-material, firm-fixed-price, and cost-reimbursable elements. The contract is scheduled to expire on March 31, 2015, at the end of the second option period. See Appendix C for a discussion of our concerns with the strategy used to award Army audit readiness contracts.

ASA(FM&C) personnel, in conjunction with functional experts throughout the Army and Defense Finance and Accounting Service, developed the AGF FIP.[8] As of December 4, 2012, there were 10 AGF FIPs. See Appendix C for our assessment of how well the Army managed these FIPs. More details on the 10 FIPs and the Army's plan for meeting FIAR milestones are in Appendix D. On February 28, 2013, ASA(FM&C) personnel submitted an AWCF FIP covering Inventory.[9] As of April 2013, the Accountability and Audit Readiness Directorate had approximately 20 Government employees assigned to the office, including the contracting officer's representative (COR). The same person served as the COR for both the AGF and AWCF audit readiness contracts. As of April 2013, the AGF contract had at least 225 contractor personnel charging labor hours and travel expenses to the contract.

Review of Internal Controls

DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal control weaknesses in the oversight and administration of the AGF audit readiness contract. Specifically, the COR did not perform appropriate contract oversight and surveillance on the AGF audit readiness contract because the CEHNC contracting officers (COs) did not ensure that the COR had the necessary resources to perform adequate oversight. Additionally, CEHNC personnel did not follow the USACE reimbursable orders policy. Also, CEHNC personnel obligated different funding appropriations in the Corps of Engineers Financial Management System (CEFMS) than what was on the contract because they did not have the internal control mechanisms designed to prevent or identify such errors. We will provide a copy of the report to the senior official responsible for internal controls in the Department of the Army.

[7] We did not review the financial administration or oversight for the AWCF audit readiness contract. See Appendix A for a discussion of the scope and methodology.

[8] The AGF FIP consists of several FIPs that represent significant segments of the financial statements.

[9] The audit team did not review the AWCF Inventory FIP.

Finding A

Plans Generally Managed in an Effective Manner, but Assertions Approved Before Known Control Problems Corrected

ASA(FM&C) personnel generally managed 10 AGF FIPs[10] in an effective manner and made 6[11] assertions focused on the 2 FIAR priorities. However, FIAR Directorate personnel approved three Army financial statement assertions for examination despite significant internal control problems. This occurred because FIAR Directorate personnel deviated from the applicable FIAR Guidance when they approved the use of independent auditors before the Army could achieve and sustain effective internal controls over SBR business processes and relied on substantive testing results for quick win assertions related to mission critical assets. FIAR Directorate personnel later revised the FIAR Guidance in March 2013.[12]

As a result, ASA(FM&C) personnel expended funds on examinations in areas with known internal control weaknesses without conducting a cost-benefit analysis. The lack of an effective internal control environment increased the risk of the Army not meeting its auditability timelines and sustaining progress made toward auditable financial statements.

[10] As of December 4, 2012, there were 10 AGF FIPs. See Appendix D for more details on the 10 FIPs and the Army's plan for meeting FIAR milestones.

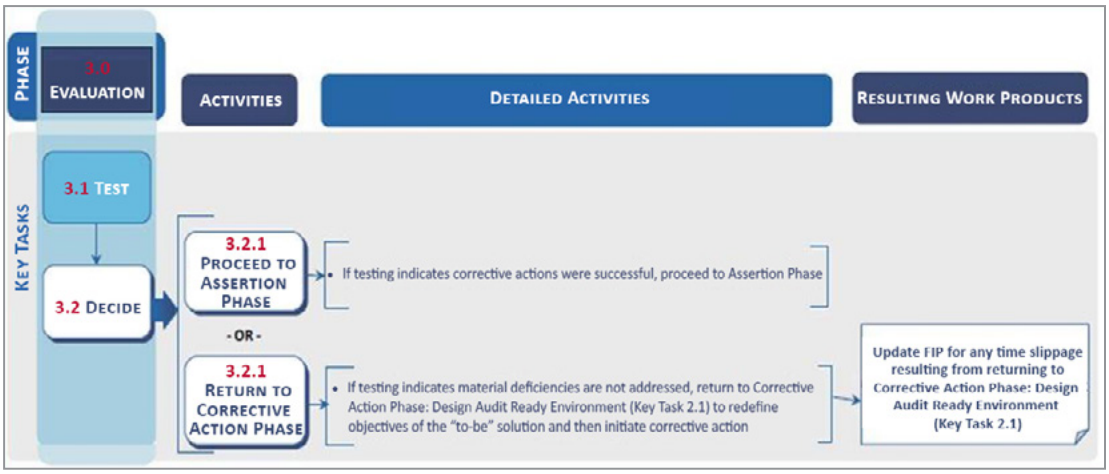
[11] On June 28, 2013, ASA(FM&C) asserted that GFEBS SBR Wave 3 was audit ready; however, we did not review the assertion.

[12] The FIAR Directorate updated the FIAR Guidance in March 2013 and November 2013. The November 2013 FIAR Guidance did not change the FIAR Methodology.

Methodology Phases and Assertions

FIAR Methodology Phase 3.0, Evaluation, is where entities test and evaluate their internal controls in accordance with the December 2011 FIAR Guidance. As part of the Army's effort to improve internal controls, ASA(FM&C) personnel conducted site visits, training, and monthly sampling of internal control processes. As shown in Figure 1, the final step in the Evaluation Phase for a DoD Component is to determine whether corrective actions were successful. The DoD Component should move to the Assertion Phase when testing indicates that corrective actions were successful.

Figure 1. Final Evaluation Step for Determining Whether Corrective Actions Were Successful



Source: December 2011 FIAR Guidance

After a DoD Component asserts to audit readiness of a financial statement segment, FIAR Directorate personnel review the assertion documentation to verify that it meets the FIAR Guidance requirements and is ready for an independent public accounting firm or the DoD Office of Inspector General to validate. Based on the review, the Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer, DoD (Deputy Chief Financial Officer), issues a memorandum to the DoD Component to either proceed with the assertion examination or stop and fix deficiencies identified during the FIAR Directorate's review before proceeding to the Validation Phase. Before June 2013, ASA(FM&C) personnel made six audit readiness assertions related to the FIAR priorities. We performed a detailed review of the last three Army assertions.

Plans Generally Managed in an Effective Manner

ASA(FM&C) personnel generally managed AGF audit readiness activities in an effective manner. Specifically, ASA(FM&C) personnel developed 10 AGF FIPs for significant segments of the financial statements in accordance with the FIAR Guidance. As of December 4, 2012, ASA(FM&C) personnel developed the 10 FIPs in Table 2 to help the Army meet the FIAR priorities.

Table 2. AGF FIPs as of December 4, 2012

Statement of Budgetary Resources	Existence and Completeness
Budgetary Authority	Military Equipment
Budget Execution	General Equipment
Fund Balance With Treasury	Operating Materials and Supplies
Military Pay	Real Property
Financial Reporting	Environment Liabilities

Source: ASA(FM&C)

The AGF FIPs generally complied with the FIAR Guidance, including incorporating applicable financial statement assertions, FIAR Methodology tasks, Key Control Objectives,[13] Key Supporting Documents,[14] and Corrective Action Plans. With the assistance of audit readiness contractor personnel employed to develop the FIPs, ASA(FM&C) personnel began to address problems preventing the auditability of the AGF SBR and existence and completeness of mission critical assets. ASA(FM&C) and audit readiness contractor personnel also conducted audit readiness training, performed site assistance visits, developed guidance as needed, and strived to meet self-imposed milestones. Based on the progress made, ASA(FM&C) personnel requested approval from the FIAR Directorate to continue with audit readiness efforts. ASA(FM&C) personnel asserted audit readiness of Appropriations Received[15] and selected SBR processes at General Fund Enterprise Business System (GFEBS) Waves 1 and 2 installations and commands[16]

[13] Key Control Objectives are control objectives entities must achieve by designing and implementing effective control activities. The FIAR Guidance updated in March 2013 retitled "Key Control Objectives" as "Financial Reporting Objectives."

[14] For SBR audits, Key Supporting Documents are the internal control documentation and supporting documentation necessary to support activity and balances asserted as audit-ready. For existence and completeness audits, Key Supporting Documents are internal control documentation; substantive, supporting documentation used by the reporting entity to directly demonstrate financial statement assertions; and financial management data representing supported data fields in Accountable Property Systems of Record that substantiate financial reporting assertions and management or budget information.

[15] Appropriations Received is a material line item on the AGF Combined SBR and represents legal authority for Federal agencies to incur obligations and make payments out of the Treasury for specified purposes. On the FY 2012 AGF Financial Statements, the Army represented that Appropriations Received was approximately $202 billion.

[16] The Army deployed GFEBS in multiple "waves," and these waves are different from the FIAR strategy waves. The Army began deploying GFEBS at Wave 1 installations in April 2009.

to help achieve an auditable SBR by September 30, 2014. ASA(FM&C) personnel also asserted audit readiness of the existence and completeness of select (quick win) military equipment and general equipment, Operating Materials and Supplies (OM&S), and real property assets to help achieve full financial statement auditability by September 30, 2017, as required by the FY 2010 National Defense Authorization Act. Table 3 identifies the date of each Army assertion and the outcome of the assertion as of June 30, 2013.

Table 3. ASA(FM&C) Assertions as of June 30, 2013

Army Assertion	Assertion Date	Result
Appropriations Received	September 28, 2010	Independent public accounting firm issued unqualified opinion on August 19, 2011.
Funds Distribution and Budget Execution Processes at GFEBS Wave 1 Installations and Commands	March 31, 2011	Independent public accounting firm issued qualified opinion on November 22, 2011.
Existence and Completeness of Military Equipment and General Equipment Quick Win Assets	March 31, 2011	DoD Office of Inspector General issued a memorandum on June 3, 2011, to FIAR Directorate recommending that the Army not proceed to examination. The Deputy Chief Financial Officer issued a memorandum to the ASA(FM&C) on July 28, 2011, concluding that the Army did not demonstrate audit readiness and should implement and test corrective actions before examination.
Control Environment at GFEBS Waves 1 and 2 Installations	June 29, 2012	FIAR Directorate approved the assertion on July 20, 2012. On April 9, 2013, the independent public accounting firm issued its report. The report stated that because of the effect of a material deviation from FIAR Guidance and the material weaknesses identified, the design and operating effectiveness of the Army's control activities and the sufficiency and availability of the documentation supporting control activities were not in conformity with audit readiness criteria in all material respects.
Existence and Completeness of OM&S Quick Win Assets	June 30, 2012	FIAR Directorate approved the assertion on June 28, 2012. On April 29, 2013, the DoD Office of Inspector General issued a memorandum stating that except for reporting deficiencies associated with missiles held at the contractor's facilities and material in transit, the assertion was fairly stated.
Existence and Completeness of Real Property Quick Win Assets	January 7, 2013	FIAR Directorate approved the assertion on March 28, 2013, and issued a contract in June 2013.

Source: ASA(FM&C) and FIAR Directorate

Assertions Approved Despite Known Deficiencies

FIAR Directorate personnel approved the two AGF June 2012 assertions and the January 2013 quick win assertion despite known deficiencies. Specifically, for the GFEBS Waves 1 and 2 assertion, ASA(FM&C) personnel did not adhere to the FIAR Guidance when they did not provide evidence to demonstrate effective implementation of corrective actions. However, FIAR Directorate personnel supported an independent examination before the Army could achieve and sustain effective internal controls. For the mission critical assets (OM&S and real property) quick win assertions, ASA(FM&C) personnel did not demonstrate that the Army had effective controls or could rely on its internal control environment. Instead, they relied heavily on substantive testing.[17] Subsequently, FIAR Directorate personnel revised the FIAR Guidance to pursue examination activities earlier in the process.

ASA(FM&C) personnel did not demonstrate that the Army had effective controls or could rely on its internal control environment.

GFEBS Waves 1 and 2 Assertion Approved Despite Internal Control Deficiencies

Despite FIAR Directorate personnel concluding that the Waves 1 and 2 assertion was not ready for the type of examination envisioned by the FIAR Guidance, on July 20, 2012, the Deputy Chief Financial Officer approved ASA(FM&C)'s GFEBS Waves 1 and 2 assertion package for examination. For the period from April 2012 through June 2012, ASA(FM&C) personnel performed an evaluation of the control environment at GFEBS Waves 1 and 2 installations and asserted it was audit ready on June 29, 2012. This assertion was part of the Army's overall effort to achieve an auditable SBR by FY 2014. The scope of the Army's GFEBS Waves 1 and 2 assertion included 10 of 227 installations where the system was fielded. ASA(FM&C) personnel stated the following in their GFEBS Waves 1 and 2 assertion package:

> [t]he results of test of operating effectiveness of internal controls across the various categories of controls (e.g. Army manual, DFAS manual, GFEBS

[17] Auditors perform substantive testing of balances to obtain evidence that provides reasonable assurance about whether the financial statements and related assertions are free of material misstatement. There are two types of substantive testing: substantive analytical procedures and tests of details. Substantive analytical procedures involve the auditor's comparison of a recorded amount with an expectation of that amount and subsequent investigation of any significant differences to reach a conclusion on the recorded amount. Tests of details are procedures applied to individual items selected by the auditor for testing and include confirmation of a balance or transaction, physical observation of assets, examination of supporting documentation, and recalculation of balances.

> automated, etc.) are largely ineffective. However, for the controls tested, the results of test of design were largely effective. As such, the capability to mitigate risks does exist in the Army environment. Army's challenges with maintaining effective manual controls are primarily due to the size of the organization and the large volume of transactions processed daily. Among Army's highest priorities for corrective action is decreasing the reliance on manual controls and implementing automated controls in GFEBS.

FIAR Directorate personnel stated that, in discussions subsequent to ASA(FM&C)'s assertion, ASA(FM&C) personnel stated that corrective actions were implemented and controls were operating effectively at GFEBS Waves 1 and 2 locations. However, the Deputy Chief Financial Officer further stated that ASA(FM&C) did not fully retest remediation actions because of time constraints and, as a consequence, did not provide evidence along with the assertion to demonstrate effective implementation of corrective actions. The Deputy Chief Financial Officer recommended that the Army proceed with an examination by an independent public accounting firm, but remain in the Evaluation Phase because FIAR Directorate personnel wanted to support ASA(FM&C)'s decision to proceed with an independent public accounting firm to assess progress in addressing control weaknesses.

Basis for Allowing GFEBS Waves 1 and 2 Assertion to Proceed

ASA(FM&C) personnel did not provide evidence that demonstrated effective implementation of corrective actions within its assertion package. The FIAR Guidance states that entities must achieve and sustain effective internal controls to demonstrate SBR audit readiness. However, FIAR Directorate personnel determined that there could be value in pursuing examination activities earlier in the process, which was the basis for allowing the GFEBS Waves 1 and 2 assertion to proceed. The Deputy Chief Financial Officer stated in the approval memorandum for the GFEBS Waves 1 and 2 assertion that under normal circumstances, FIAR Directorate personnel would have asked ASA(FM&C) personnel to resubmit the package after ASA(FM&C) personnel confirmed they had sufficient audit evidence to support transactions and balances. However, he stated that in this case, FIAR Directorate personnel determined that there was more value in engaging an independent public accounting firm to

FIAR Directorate personnel determined that there was more value in engaging an independent public accounting firm to pursue examination activities.

pursue examination activities to complete the Evaluation Phase. FIAR Directorate personnel stated on September 12, 2012, that they recognized through past lessons learned that there could be value in pursuing examination activities earlier in the process. As a result, they recommended changing the FIAR Guidance to entities to perform an examination asserting audit readiness.

However, when the Army made the assertion, ASA(FM&C) personnel could not confirm that internal controls were in place and operating effectively. Public Law 112-239, "National Defense Authorization Act for Fiscal Year 2013," section 1005, "Audit Readiness of Department of Defense Statements of Budgetary Resources," January 2, 2013, which amended Public Law 111-84, "National Defense Authorization Act for Fiscal Year 2010," section 1003(a)(2)(A)(ii), October 28, 2009, requires the Chief Management Officer and the Chief Management Officers for each Military Department to verify that plans to achieve an auditable SBR by September 30, 2014, include appropriate steps to minimize one-time fixes and manual workarounds, are sustainable and affordable, and will not delay full auditability of financial statements.

The continuing challenge for the Army is ensuring that business process owners at all levels implement effective internal controls to maintain sustainable auditable financial statements. In June 2012, the Army began testing for subsequent SBR planned assertions, with a focus on determining whether proper internal controls were in place. The Winter 2013 newsletter for ASA(FM&C) stated that the results of control testing indicate that significant improvement was needed in the internal control environment. Further, it stated, "[b]ased on the high percentage of failed samples, it does not appear that the current command corrective action efforts are effective." Subsequent internal control and substantive testing performed by ASA(FM&C) and reported during the 2nd quarter FY 2013 Army FIP In-Process Review indicated similar results. The internal control testing indicated that 55 percent of the samples did not pass, and substantive testing indicated that of the samples tested, approximately 30 percent were unsupported and 57 percent were unsupportable.

Mission Critical Asset Assertions Approved Despite Internal Control Deficiencies

FIAR Directorate personnel approved ASA(FM&C)'s mission critical asset assertions despite the Army having ineffective controls and not relying on its internal control environment. ASA(FM&C)'s OM&S quick win assertion covered about 98,000 assets in three tactical missile programs (Tube-launched, Optically-tracked, Wire-command link; Javelin; and Hellfire missiles). From February 2011 through January 2012, ASA(FM&C) personnel and audit readiness contractor personnel conducted field-level discovery, evaluation, and internal control testing of the three missile types included in the scope of the assertion. The Director of the Accountability and Audit Readiness Directorate provided a June 2012 memorandum to the Director, FIAR, with the assertion package and stated that:

> the existence and completeness of the Army's operating materials and supplies "Quick Win" programs, as defined in the attached documentation, are ready for audit. This assertion does not rely on the internal control environment, but is based on the results of substantive existence and completeness testing, including reconciliations with the accountable property system of record and installation &/or unit-level physical inventories.

On June 28, 2012, the Deputy Chief Financial Officer issued a memorandum approving the OM&S quick win assertion package for examination. However, ASA(FM&C) personnel identified several deficiencies within their OM&S quick win assertion package. These deficiencies included:

- the Army could not produce transaction-based financial statement balances for OM&S from its Enterprise Resource Planning systems. Rather, financial reporting was based on static asset balances at the end of the period.
- every internal control tested at the retail and wholesale locations did not pass financial reporting tests of design.
- the Army did not rely on the internal control environment based on the results of its internal control testing and the related corrective actions identified as part of the internal control testing.

ASA(FM&C) personnel also asserted audit readiness of the existence and completeness of real property quick win assets on January 7, 2013. Similar to the OM&S quick win assertion, ASA(FM&C) personnel stated they did not rely on the internal control environment because corrective actions were still underway. On March 28, 2013, FIAR Directorate personnel approved the assertion. In the memorandum approving the assertion FIAR Directorate personnel stated that an independent examination of the existence and completeness of real property assets at the 23 installations will provide valuable insight to the Army regarding its strategy and approach to achieving its goal of audit readiness for the entirety of its real property in 2014. However, FIAR Directorate personnel also provided recommendations to the Army for future consideration, including the need to improve internal controls over real property assets. They recognized that given the size and breadth of the Army's real property population, substantive testing alone was inadequate. Key control activities will need to be documented, tested, and verified as effective.

Basis for Allowing Mission Critical Asset Assertions to Proceed

Despite known deficiencies, the Deputy Chief Financial Officer approved the OM&S and real property quick win assertions. On September 12, 2012, FIAR Directorate personnel stated that, in their opinion, an acceptable mix of internal control and substantive testing for audit readiness depended on the size of the population. The FIAR Guidance allows entities to assert audit readiness using substantive testing when internal controls are ineffective. However, this should occur when the population is very small, thus allowing the entity to demonstrate audit readiness while completing work on internal controls. The FIAR Guidance states that for populations with a large number of items or with a high volume of transaction activity, it is more effective and efficient to place reliance on internal controls, which requires detailed control documentation, including risk assessments, Key Control Objectives, and control assessments. Additionally, the FIAR Guidance states that entities must achieve and sustain effective internal controls to demonstrate audit readiness for existence and completeness.

Ultimately, FIAR Directorate personnel concluded that the extent of ASA(FM&C) personnel's substantive testing was likely enough to counterbalance the larger population of OM&S assets. The FY 2012 National Defense Authorization Act mandates that the FIAR Plan contain process and control improvements and business system modernization efforts necessary for DoD to consistently prepare timely, reliable, and complete financial management information.

Funds Expended in Areas With Known Internal Control Weaknesses

ASA(FM&C) personnel expended funds for examinations in areas with known internal control weaknesses. The audit readiness examinations performed in response to Army assertions identified numerous internal control weaknesses similar to those in assertion packages and in FIAR Directorate reviews. For example, the independent public accounting firm contracted in July 2012 to review the Funds Distribution and Budget Execution Processes at GFEBS Wave 1 Installations and Commands identified several internal control weaknesses that were previously identified. The results of the $2,025,588, Control Environment at GFEBS Waves 1 and 2 Installations examination provided similar results. Additionally, the Spring 2013 newsletter for ASA(FM&C) stated that the independent public accounting firm's notice of findings and recommendations aligned with the findings that ASA(FM&C) already reported in the Winter 2012 newsletter, namely that installations were not consistently executing all of the controls as designed.

Cost-Benefit Analysis Needed in FIAR Guidance

FIAR Guidance does not require a cost-benefit analysis before making an assertion as to audit readiness. December 2011 FIAR Guidance states that, any DoD Component that had testing results that indicated controls were not designed or operating effectively should return to the Corrective Action Phase. However, in March 2013, the FIAR Directorate changed its FIAR Guidance to condense the previous six-phase approach to five phases. Consequently, the audit readiness assertion examination now occurs in the Assertion or Evaluation Phase (Phase 3.0) after the FIAR Directorate evaluates final "audit ready" documentation against audit readiness dealbreakers to determine the audit readiness state.[18] If FIAR Directorate personnel determine that audit readiness dealbreakers are sufficiently addressed, the reporting entity is to provide a management assertion letter declaring that the assessable unit is audit ready in accordance with the requirements of the FIAR Guidance. Then, the FIAR Directorate engages auditors (either an independent public accounting firm or DoD Office of Inspector General) to perform an examination of the reporting entity's audit readiness assertion. Once the auditors submit their examination report, along with its notice of findings and recommendations, the reporting entity evaluates thenature and extent of the deficiencies reported, implements corrective

[18] Drawing on lessons learned from past audit readiness efforts, the FIAR Directorate compiled a list of dealbreakers that prevented reporting entities from achieving audit readiness. The March 2013 FIAR Guidance identified the 10 most common audit readiness dealbreakers.

actions, and verifies that corrective actions successfully remediated deficiencies. The Validation Phase (Phase 4.0) begins when the reporting entity submits the examination report and additional documentation demonstrating successful remediation of auditor identified deficiencies to the FIAR Directorate and DoD Office of Inspector General.

Although the change in FIAR Guidance provided DoD Components with additional flexibility when making an initial assertion as to audit readiness, it did not require a cost-benefit analysis before proceeding with known significant internal control weaknesses. FIAR Directorate personnel should fully consider the cost of performing an examination during the Assertion or Evaluation Phase when the Army or another reporting entity does not demonstrate that significant internal controls are operating effectively. The analysis should consider the likelihood that previously identified internal control weaknesses continue to exist and are significant enough to result in material misstatements or a conclusion that account balances are not fairly stated. The Deputy Chief Financial Officer should require a cost-benefit analysis that fully considers the costs associated with performing an independent examination during the Assertion or Evaluation Phase when a reporting entity does not demonstrate that significant internal controls are operating effectively. As required by FIAR Guidance, DoD entities should proceed to the Audit Phase when they demonstrate that internal controls are established and working effectively.

Conclusion

ASA(FM&C) personnel generally managed 10 AGF FIPs in an effective manner and made 6 assertions focused on the 2 FIAR priorities. However, ASA(FM&C) personnel submitted, and FIAR Directorate personnel approved, three Army financial statement assertions for examination since June 2012 with known internal control deficiencies. Effective internal controls mitigate risks and provide assurance that financial information is properly and accurately recorded and reported. Additionally, internal controls are key to sustaining auditable financial statements. ASA(FM&C) personnel need to continue to focus on internal control testing and ensure that Army personnel at headquarters, commands, and installations design internal controls correctly and implement them effectively. Significant reliance on substantive testing may eventually result in auditability but without strong, well-designed internal controls that operate effectively, sustaining full auditable financial statements is not achievable. The Army should correct internal control deficiencies as soon as possible during the Assertion or Validation Phase. Doing

otherwise risks the expenditure of funds to have independent auditors identify known problems. Without an effective internal control environment, ASA(FM&C) was at an increased risk of not meeting its auditability timelines and might not be able to sustain progress made toward auditable financial statements. Much work needs to be done to achieve audit readiness of the AGF SBR by September 30, 2014, and the complete set of financial statements by September 30, 2017.

Recommendation, Management Comments, and Our Response

Recommendation A

We recommend that the Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer, DoD, require a cost-benefit analysis that fully considers the costs associated with performing an independent examination during the Assertion or Evaluation Phase when a reporting entity does not demonstrate that significant internal controls are operating effectively.

Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer, DoD, Comments

The Deputy Chief Financial Officer partially agreed and stated that instead of the recommended cost-benefit analysis, the Director, FIAR, would reassess the criteria the FIAR Directorate used to evaluate audit readiness assertions. He also stated that new review procedures will likely require all assertions to ascertain that the reporting entity demonstrated internal controls operated effectively and that all dealbreakers have been met before FIAR's approval to move forward to an examination.

Our Response

The response from the Deputy Chief Financial Officer partially addressed the recommendation. We support requiring reporting entities demonstrate that internal controls are operating effectively and all dealbreakers have been met before the FIAR Directorate approves audit readiness assertions. However, until the FIAR Guidance is changed, the risk remains that resources will be expended inappropriately on examinations. We request additional comments on when the FIAR Directorate plans to change the guidance and how it plans to mitigate the risk that resources will be expended inappropriately if the FIAR Guidance is not changed to require effective internal controls.

Finding B

Appropriate Contract Oversight Not Performed and Adequate Resources Not Provided

The ASA(FM&C) COR did not perform appropriate contract oversight and surveillance on the AGF audit readiness contract. Specifically, the COR did not:

- monitor the contractor during site visits,
- adequately document contractor performance or report the contractor's performance in accordance with the COR designation memorandum, or
- complete thorough reviews of contractor invoices.

This occurred because the four primary CEHNC COs did not ensure that the COR had the necessary resources to perform adequate oversight. Specifically, CEHNC COs did not:

- develop an adequate quality assurance surveillance plan (QASP) in coordination with ASA(FM&C) personnel;
- properly appoint the COR; or
- adequately monitor the COR's performance and workload, which included monitoring 6 contracts,[19] valued at $184.8 million, with approximately 300 contractor personnel.

As a result, ASA(FM&C) personnel had reduced assurance that the $90.1 million spent on AGF audit readiness services represented the actual quality level of services and quantity of work performed.

[19] Of the six contracts that the COR was responsible for monitoring, CEHNC personnel awarded four contracts, including the AGF audit readiness follow-on contract that was awarded on April 9, 2013, and Army Contracting Command personnel awarded two contracts.

Guidance for Contract Oversight

Federal Acquisition Regulation (FAR) Subpart 1.602, "Contracting Officers," March 2005, states that COs are authorized to enter into contracts on behalf of the Government and are responsible for verifying contractor performance and compliance with the contract terms. In general, the CO performs or delegates oversight and verifies an effective process for measuring and reporting contractor performance. Specifically, the CO is responsible for verifying that a QASP is prepared in conjunction with the statement of work and specifies all work requiring surveillance and the method of surveillance in accordance with FAR Subpart 46.4, "Government Contract Quality Assurance." The COR should use the QASP to verify that the Government receives and pays for an acceptable level of services specified in the contract. Further, Army Regulation 70-13, "Management and Oversight of Service Acquisitions," July 30, 2010, states that the level of surveillance should be commensurate with the dollar value, risk,[20] complexity, and criticality of the acquisition. The CO is authorized to designate a COR to provide technical direction, clarification, and guidance on the contract specifications. However, before awarding a service contract in support of Army requirements, the CO should formally designate a properly trained COR. The requiring activity[21] is responsible for nominating the COR. Also, the Deputy Secretary of Defense Memorandum, "Monitoring Contract Performance in Contracts for Services," August 22, 2008, states that upon nomination, the requiring activity should affirm that the COR will receive the necessary resources (such as time, equipment, and opportunity) to perform designated responsibilities.

Contract Oversight Was Inadequate

The COR did not perform adequate contract oversight and surveillance on the AGF audit readiness contract. Specifically, the COR did not:

- perform onsite monitoring of the contractor,
- adequately document contractor performance and report the contractor's performance in accordance with the COR designation memorandum, or
- complete thorough reviews of contractor invoices.

[20] According to GAO-09-362T, time-and-material contracts, such as the AGF audit readiness contract, are high risk to the Government.

[21] The requiring activity is the organization that actually receives the benefit of the goods or services provided by the service contract. In most cases, the requiring activity is the organization that both pays for and receives the benefit of the contract service being purchased. For the AGF audit readiness contract, ASA(FM&C) is the requiring activity.

Although, the Director of the Accountability and Audit Readiness Directorate nominated the COR in May 2010, and the COR began to perform his responsibilities from the start of the contract (September 28, 2010), the CEHNC CO did not formally delegate each of these contract oversight and surveillance tasks to the COR until January 18, 2012. In addition, the CEHNC CO performed the first COR File Review in November 2012.

Site Inspections Not Performed

The COR did not observe and inspect the contractor's performance during any site visits. Although the COR did not attend any site visits, he stated that he relied on Army employees who accompanied the contractors on site visits along with trip reports for contractor surveillance. As of April 9, 2013, contractor personnel performed 402 site visits to Army installations and activities. On the site visits, contractor personnel conducted discovery activities,[22] performed training, identified corrective actions, and tested internal controls. Of the 402 site visits, 236 of them were to provide training to Army personnel on audit readiness or specific business process training. The Director, AGF Audit Readiness, Accountability and Audit Readiness Directorate (Director, AGF Audit Readiness), ASA(FM&C) personnel were not required to attend training site visits. However, ASA(FM&C) personnel only attended 28 of the remaining 166 site visits. Table 4 identifies the 166 visits completed, as of April 9, 2013, that did not include training and the number of times ASA(FM&C) personnel accompanied contractor ersonnel on these visits.

Table 4. DoD Office of Inspector General Analysis of 166 Site Visits

FIP Focus	AGF Contractor Completed	ASA(FM&C) Attended	
		Number	Percent
SBR*	7	1	14
Military Equipment and General Equipment	45	5	11
OM&S	53	7	13
Real Property	37	6	16
Environmental Liabilities	16	3	19
Military Pay	8	6	75
Total	**166**	**28**	**17**

**SBR includes the Budget Execution, Appropriations Received, Fund Balance With Treasury, and Financial Reporting FIPs.*

[22] The purpose of discovery is to define and prioritize processes, assess risks, test controls, and identify weaknesses.

The COR was co-located in Arlington, Virginia, with up to 50 contractor personnel who primarily provided ASA(FM&C) with audit readiness strategy support. The Director, AGF Audit Readiness, stated there were Government personnel present, either ASA(FM&C) personnel or local Internal Review staff, on each site visit. However, the CEHNC CO did not formally designate Army personnel to assist the COR. CEHNC Quality Management Standard 18511.0-HNC, "Appointment and Duties of Contracting Officer Representative," August 15, 2011, states that if necessary, and when determined to be in the Government's best interests, the CO may appoint a properly trained contracting officer's technical representative (COTR)[23] in writing. The COR stated that he obtained performance feedback from Army employees who assisted him with validating contractor performance. However, he did not document the feedback. The COR also stated that he relied on weekly status reports from the contractor and weekly staff meetings with ASA(FM&C) management personnel. The COR or properly appointed COTRs should have accompanied contractor personnel onsite visits because of the heavy reliance on contractor personnel.

Contractor Performance Not Documented

The COR did not effectively document contractor performance. The COR did not document any surveillance until December 2011, 15 months after the contract was awarded. At that time, he began maintaining a Surveillance Sheet and a COR Inspection Checklist and Data Report. However, the schedule listed only the three specific tasks identified in the contract:

- Task 1 – Audit Readiness Strategy Support,
- Task 2 – Information Technical Infrastructure Development, and
- Task 3 – Miscellaneous Reports/Requirements.

Those three tasks represented the 15 deliverables required by the AGF audit readiness contract. (See Appendix E for the deliverables associated with each task.) However, the COR simply checked a box indicating that the COR performed surveillance without documenting the dates or results, such as the specific tasks that the contractor completed, whether the contractor was on schedule, or whether the quality of the contractor's work was acceptable. Because the COR did not provide enough detail in the reports, he did not effectively demonstrate that

[23] According to the CEHNC standard, a COTR is an individual who is appointed by the CO to assist with contract monitoring or administration. A COTR normally has experience in the technical area that is critical to the successful completion of the contract.

contractor performance was in accordance with the contract requirements and was reasonable for the time and materials that the contractor charged.

In addition, the COR did not report contractor performance in accordance with the COR designation memorandum. Specifically, the COR did not submit monthly reports on contractor performance to the CO and complete annual performance assessments. (See Appendix F, Topics 3, 5, 6, and 7 for more details.)

Limited Reviews of the Contractor's Invoices

The COR performed limited reviews of the contractor's invoices, which reduced the assurance that the invoice amounts represented the actual level of contractor performance. The COR's designation memorandum and the QASP did not identify the method that the COR should use to review invoices. The COR stated that the CENHC CO instructed him to review the invoices for reasonableness. However, the COR did not document the specific methodology that he used to review invoices. The Deputy Secretary of Defense Memorandum, "Monitoring Contract Performance in Contracts for Services," August 22, 2008, states that CORs should verify that contractors comply with all contract requirements and that overall performance is commensurate with the level of payments made throughout the life of the contract.

The COR reviewed the labor and travel invoices that the contractor provided. Each invoice included the billed amount by sub-Contract Line Item Number (CLIN),[24] for that invoice, and a running total of the cumulative amount billed. Each submitted invoice also included spreadsheets that the contractor generated.

The contractor's spreadsheets provided the following details to support labor and travel invoices.

- **Labor Invoices.** A list of all contractor and subcontractor employees showing: (1) employee name, (2) labor category, (3) hourly billing rate, (4) day and number of hours worked that day, and (5) billing rate multiplied by the number of hours worked per day.
- **Travel Invoices.** A list of contractor employees with their travel dates and billable and nonbillable totals. The contractor also provided separate summary sheets, by subcontractor, for all subcontractor travel. Those lists also included travel dates and billable and nonbillable totals.

[24] CLINs are items or services to be acquired as separate contract line items.

However, the COR could not provide evidence other than the contractor-generated spreadsheets to support the labor and travel charges. The COR did not obtain items, such as timekeeping records, to verify the employees' labor categories or the actual travel vouchers. As a result, the COR had the ability to verify only the sum total for each invoice with the subtotals provided in the contractor-generated spreadsheets. Therefore, for labor invoices, the COR could not verify the accuracy of the labor categories, the labor hours, or whether the employee listed was actually working on the contract. Similarly, without an actual travel voucher, the COR could not verify any of the travel charges submitted. Because of the lack of substantiating documentation, the COR could not verify that the $90.1 million that the contractor billed for labor and travel costs were valid. Rather, the COR had to rely on the contractor to submit and bill the proper amount as well as to identify any errors since he did not have the supporting documentation.

The COR did not identify any discrepancies. However, the contractor identified billing errors. For example, the contractor charged the wrong labor category for 17 employees over a 15-month period, which the COR did not detect. In April 2012, the contractor identified the labor category error and refunded approximately $228,000 through credits in the April, May, and June 2012 invoices. If the contractor did not identify the error or refund the $228,000, the COR and CO would not have known about the overbilling. The COR should not rely on the contractor to verify the accuracy of the invoices.

Adequate Resources Not Provided

The four individuals who served as primary CEHNC COs during the life of the contract did not ensure that the COR dequate resources to perform appropriate oversight and surveillance. The CEHNC COs did not:

- develop an adequate QASP,
- properly appoint the COR, or
- adequately monitor the COR performance and workload.

Using several COs for the AGF audit readiness contract led to a lack of continuity and contributed to inconsistent recordkeeping and ineffective COR monitoring.

Quality Assurance Surveillance Plan Was Inadequate

The initial CEHNC CO awarded the AGF audit readiness contract without an adequate QASP. The QASP is the key element for contract monitoring and surveillance. The FAR Subpart 46.4, "Government Contract Quality Assurance," states that the QASP should specify all work requiring surveillance as well as the method of surveillance. However, the QASP that the CEHNC CO approved did not correspond to the tasks in the contract and provided vague and unclear methods for surveillance. For example, the QASP did not include the following surveillance procedures:

- provide a schedule for periodic onsite inspections, floor checks, and audits of contractor billings to verify that costs charged to the contract were legitimate and reasonable;
- identify what would be checked during an inspection, how it would be checked, and what type of sample would be used;
- describe the method that would be used for checking contract invoices to verify that only those labor categories used for the performance of a task or project were invoiced to the Government; or
- explain how the CO would verify that payments did not exceed the quality and quantity of work completed.

Without measurable inspection and surveillance criteria, the COR could not adequately determine whether the contractor performed work in accordance with the contract requirements. The lack of oversight could ultimately lead to the Army not meeting its audit readiness goals, or it could allow the Army to pay too much for the services that the contractor provided. Based on the dollar value, risk, complexity and criticality of the acquisition, the QASP should have included detailed surveillance procedures to ensure that the Government received and paid for the acceptable quality level of services.

On April 9, 2013, the AGF audit readiness contract expired because contract costs reached the contract ceiling. CEHNC personnel awarded an AGF audit readiness follow-on contract with an effective date of April 9, 2013. CEHNC personnel, in coordination with ASA(FM&C), developed a QASP for the follow-on contract that incorporated requirements from the FAR and DoD COR Handbook, March 22, 2012. However, the Chief of Contracting, CEHNC, should require the CEHNC CO implement the procedures outlined within the QASP.

Appointment and Training Weaknesses Identified

The CEHNC CO did not properly appoint the COR. Army Regulation 70-13 states that before work can begin on the contract, the CO must verify that the COR received the necessary appointment, training, and orientation needed to perform the delegated duties. The CO is also responsible for verifying that the COR receives the COR designation memorandum, a complete copy of the contract, the contractor's quality control plan, the QASP, and other pertinent documents.

On May 24, 2010, the Director of the Accountability and Audit Readiness Directorate nominated a civilian employee from ASA(FM&C) as the COR for the AGF audit readiness contract. The COR began performing surveillance, which primarily included approving invoices when the contract was awarded on September 28, 2010. However, the CEHNC CO did not officially designate the COR until January 18, 2012, when the CEHNC CO assigned in late 2011 could not locate the original designation memorandum that should have been issued before the start of the contract. Although the COR was identified and briefed on his duties and responsibilities during the post award conference on September 29, 2010, the Defense FAR Supplement 201.602-2, "Responsibilities," revised September 20, 2011, requires designating a COR, in writing.

As of August 24, 2010, the COR did not complete the required USACE COR training, so the CEHNC CO provided a 90-day training waiver.[25] The training waiver stated that the contract was to be a firm-fixed-price contract, which the COR had prior experience monitoring. The contract's 1-month base period was firm-fixed-price. However, the funded CLINs covering the subsequent two option periods included time and material. The COR did not have experience monitoring time-and-material contracts. Although the COR met the basic training requirements within the 90-day waiver period, he did not receive specific training for monitoring time-and-material contracts. Based on the COR File Review completed in November 2012, the CEHNC CO recommended that the COR take additional training which the COR completed on August 26, 2013, 9 months after the recommendation.

Performance Not Routinely Reviewed

The CEHNC CO did not review the COR's performance until the third year of the AGF audit readiness contact. Army FAR Supplement 5101.602-2, "Responsibilities," May 22, 2007, states that the COs must validate the COR's records every 12 months.

[25] The waiver allows the CO to appoint a COR who does not possess the required training with the understanding that the appointed COR is to complete all required training within 90 days of appointment.

The CEHNC CO performed a COR File Review on November 7 and 8, 2012. This was the first review that the CEHNC CO performed since the start of the contract in September 2010. The CEHNC CO identified numerous weaknesses in the performance of the COR. Specifically, the CEHNC CO completed a COR File Review Checklist, which identified 11 weaknesses in the 24 areas reviewed. On December 4, 2012, the CEHNC CO issued a memorandum that documented the required corrective actions to be completed. For a summary of the results and the required corrective actions, see Appendix F. Figure 2 shows a timeline of the significant events for the AGF audit readiness contract, highlighting when the first COR file review took place.

The CEHNC CO performed a COR File Review on November 7 and 8, 2012. This was the first review that the CEHNC CO performed since the start of the contract in September 2010.

Figure 2. Significant Events for AGF Audit Readiness Contract

May 2010	2010	COR Nominated
August 2010		AGF Audit Readiness COR Obtains Training Waiver From CO
September 2010		AGF Audit Readiness Contract Awarded
October 2010		COR Completes Required Training
January 2011	2011	COR Approved First Contractor Invoice on AGF Audit Readiness
January 2012	2012	CO Officially Designated AGF Audit Readiness COR
November 2012		**CO Performed First COR File Review**
December 2012		**CO Issued Corrective Actions Based on the COR File Review**
April 2013	2013	AGF Audit Readiness Contract Concluded AGF Audit Readiness Follow-on Contract Issued
January 2014		AGF Audit Readiness Follow-on Contract Concludes

Since completion of the first COR File Review, the CEHNC CO initiated several corrective actions identified in her December 4, 2012, memorandum. We commend the CEHNC CO for taking some corrective actions. However, because the previous CEHNC COs did not review the COR's performance in a timely manner, the COR performed inadequate surveillance for more than 2 years. The Chief of Contracting, CEHNC, should require the CEHNC CO and the COR to complete corrective actions based on the COR File Review within 6 months of the date of this audit report to verify that the CO and the COR followed CEHNC policies and procedures.

In addition, the Chief of Contracting, CEHNC, should direct the CEHNC CO to require the COR to obtain the substantiating documents needed to determine the accuracy of labor and travel charges on invoices submitted by the contractor since the beginning of the AGF audit readiness contract in September 2010. Further, the CEHNC CO should require the COR to routinely obtain and review substantiating documents in support of labor and travel invoices before approving them.

In addition, the Director of the Accountability and Audit Readiness Directorate did not adequately assess the COR's performance of his delegated duties. The Deputy Secretary of Defense Memorandum, "Monitoring Contract Performance in Contracts for Services, August 22, 2008," states that the COR management should include the performance of the COR responsibilities as a part of the COR's performance standards. The COR's supervisors are encouraged to request input on performance of COR duties from the CO. The Director, AGF Audit Readiness, stated that the COR's duties were included in his performance standards. However, the COR's supervisor did not obtain feedback from the CEHNC CO for the COR's performance assessment to verify that the COR was performing his delegated duties. ASA(FM&C) should require the Director of the Accountability and Audit Readiness Directorate to solicit and use input received from the CO and assess the performance of COR based on the input.

Workload Was Excessive

The CEHNC CO did not adequately review the COR's performance and, consequently, did not identify that the COR's excessive workload impeded him from thoroughly completing his responsibilities until the third year of the contract. After completing the COR File Review, the CEHNC CO was concerned that the COR could not adequately perform all of his COR responsibilities because of the size and complexity of the AGF audit readiness contract and his additional assigned duties.

The nomination package stated that, the COR was responsible for the AGF audit readiness contract and the contract might require 5 percent of the nominee's time. The AGF audit readiness contract, valued at $90.1 million, included 15 deliverables, comprised of 65 detailed tasks that more than 200 contractor personnel performed at more than 200 sites. ASA(FM&C) personnel relied heavily on contractor support to perform AGF audit readiness efforts. The extent and significance of this reliance warranted an increased level of contractor surveillance to verify that contractors were providing quality services in a timely manner. In addition to the AGF audit readiness contract, valued at about $90.1 million, the COR was designated as the COR on five other contracts, which included the AWCF audit readiness contract and the AGF audit readiness follow-on contract. In total, the COR monitored 6 contracts, valued at $184.8 million, with approximately 300 contractor personnel. The COR also performed his duties as the senior building representative, which included preparing office work orders, ordering supplies, supervising building maintenance, and preparing Army budget reports.

ASA(FM&C) personnel did not place the same level of emphasis on contractor oversight and surveillance as they did with funding efforts for achieving audit readiness. The CO's December 4, 2012, memorandum identified the need for an alternate COR or COTR. Although we did not review CEHNC's oversight of the AWCF audit readiness contract, the oversight problems identified on the AGF audit readiness contract could be occurring on the AWCF audit readiness contract because the AGF and AWCF audit readiness contracts had the same COR. The Chief of Contracting, CEHNC, should direct the CO to perform an analysis of the COR's workload to determine the level of additional support needed for adequate oversight and request that ASA(FM&C) nominate additional personnel to perform oversight on the AGF and AWCF audit readiness contracts. Additionally, ASA(FM&C) should adhere to the findings and recommendations from the Chief of Contracting, CEHNC, regarding the need for additional oversight personnel.

Multiple Contracting Officers Contributed to Problems

The Chief of Contracting, CEHNC, assigned nine COs to the AGF audit readiness contract from contract award through April 9, 2013. The Chief of Contracting, CEHNC, designated four primary COs to administer the AGF audit readiness contract and assigned five other COs to sign modifications on the contract in the absence of the primary COs. Two of the primary COs were terminated during the life of the contract, including the initial CO who signed the COR training waiver, approved the QASP, and was responsible for designating the COR in

writing before contract award. Using numerous COs led to a lack of continuity and contributed to the inconsistent record keeping and poor COR monitoring.

Conclusion

Because the COR provided inadequate contract oversight and surveillance, the Army had reduced assurance that the $90.1 million spent on AGF audit readiness services represented the actual quality level of services and quantity of work that was performed. The Army depends heavily on contractor support to carry out its audit readiness efforts. The critical reliance on contractor support to meet audit readiness goals and the large expenditures involved make contract surveillance all the more vital to verify that contractors are providing quality services in a timely manner.

Recommendations, Management Comments, and Our Response

Recommendation B.1

We recommend that the Chief of Contracting, U.S. Army Corps of Engineers – Huntsville Engineering and Support Center:

a. **Require the contracting officer to implement the procedures established within the quality assurance surveillance plan.**

Chief of Contracting, U.S. Army Corps of Engineers – Huntsville Engineering and Support Center Comments

The Chief of Contracting, CEHNC, agreed and stated that the CO implemented the requirements of the QASP for the AGF follow-on contract and the AWCF contract. CEHNC personnel transferred those contracts to the Army Contracting Command – Aberdeen Proving Ground. The Chief of Contracting stated that the QASP included in the original AGF contract was issued before implementing the DoD COR Handbook, dated March 22, 2012. However, in the COR Annual File Review, dated December 4, 2012, the CO cited multiple corrective actions related to contract surveillance. He further stated that the COR made required corrections and continued compliance through the end of the contract performance period, which was April 9, 2013.

Our Response

The response from the Chief of Contracting, CEHNC, addressed all of the specifics of the recommendation, and no additional comments are required.

b. Require the contracting officer and the contracting officer's representative to complete corrective actions based on the Contracting Officer's Representative File Review within 6 months of the date of this report to verify that the contracting officer and the contracting officer's representative follow U.S. Army Corps of Engineers – Huntsville Engineering and Support Center policies and procedures.

Chief of Contracting, U.S. Army Corps of Engineers - Huntsville Engineering and Support Center Comments

The Chief of Contracting, CEHNC, agreed and stated that personnel completed all corrective actions as a result of the COR Annual File Review, dated November 7 and 8, 2012. He outlined specific actions taken and completion dates (for example, the COR submitting monthly surveillance reports and performance reports starting in January 2013).

Our Response

The response from the Chief of Contracting, CEHNC, addressed all of the specifics of the recommendation, and no additional comments are required.

c. Direct the contracting officer to require the contracting officer's representative to obtain the substantiating documents needed to determine the accuracy of all labor and travel charges on invoices submitted since September 2010 by the contractor for services rendered on the Army General Fund audit readiness contract.

Chief of Contracting, U.S. Army Corps of Engineers – Huntsville Engineering and Support Center Comments

The Chief of Contracting, CEHNC, agreed and stated that in April 2013, the CO directed the COR to obtain and provide substantiating documentation in accordance with Federal Acquisition Regulation (FAR) Part 52, "Solicitation Provisions and Contract Clauses," Subpart 52.232-7, "Payments under Time-and-Materials and Labor-Hour Contracts," for all submitted and subsequent invoices. CEHNC's Contracting and Program Management team conducted an independent review of these invoices based on substantiating documentation in January 2014,

before the contract closeout. In addition, he stated in accordance to FAR 52.232-7, the following can substantiate contractor invoices:

i. Individual daily job timekeeping records,

ii. Records that verify the employees meet the qualifications for the labor categories specified in the contract, or

iii. Other substantiation approved by the CO.

The Chief of Contracting stated that the CEHNC CO used information consistent with items ii and iii to substantiate all invoices. He also stated that CEHNC acknowledged that the auditors considered individual daily job timekeeping records to be the most appropriate form of substantiating documentation. As a result, the CENHC CO will obtain those records and conduct a review of all labor and travel charges on invoices submitted since September 2010. The estimated completion date is July 2014.

Our Response

The response from the Chief of Contracting, CEHNC, addressed all of the specifics of the recommendation, and no additional comments are required.

d. Direct the contracting officer to require the contracting officer's representative to routinely obtain and review substantiating documents in support of all labor and travel invoices before approving them.

Chief of Contracting, U.S. Army Corps of Engineers – Huntsville Engineering and Support Center Comments

The Chief of Contracting, CEHNC, agreed and stated that, in April 2013, the CO directed the COR to obtain and review substantiating documentation in accordance with FAR 52.232-7 for all contractor invoices.

Our Response

The response from the Chief of Contracting, CEHNC, addressed all of the specifics of the recommendation, and no additional comments are required.

e. Direct the contracting officer to perform an analysis of the workload for the contracting officer's representative to determine the level of additional support needed for adequate oversight and request that

the Assistant Secretary of the Army (Financial Management and Comptroller) nominate additional personnel to perform oversight of the Army General Fund and Army Working Capital Fund audit readiness contracts, if determined necessary.

Chief of Contracting, U.S. Army Corps of Engineers - Huntsville Engineering and Support Center Comments

The Chief of Contracting, CEHNC, agreed and stated that the CO conducted a workload analysis during the COR file review in December 2012 and recommended that either an alternate COR or a COTR be appointed to assist the primary COR with his oversight responsibilities. ASA(FM&C) appointed a COTR on the original AGF contract in January 2013 and on the AGF follow-on contract in April 2013. The Chief of Contracting stated that on transfer of contracts to Army Contracting Command – Aberdeen Proving Ground in April 2013, CEHNC informed the new contracting office of the potential need for additional COTRs. Additionally, he explained that CEHNC focused more heavily on proper COR management across the organization and implemented the Army's Contracting Officer's Representative Management System. Furthermore, all COR nominations, appointments, and records are processed, tracked, and managed within the Virtual Contracting Enterprise Contracting Officer Representative Module. The COR nomination provides the CO with the necessary information to determine if the nominee is qualified to serve as a COR for a specific contract and requires the nominee's supervisor to support the nomination. He further stated the Contracting Officer's Representative Management System allows a prospective COR to create a profile and process a nomination package for one or multiple contracts or orders as well as provide contracting personnel a Web-based portal for all relevant COR actions, such as training certificates, monthly reports, termination letters, and annual reviews.

Our Response

The response from the Chief of Contracting, CEHNC, addressed all of the specifics of the recommendation, and no additional comments are required.

Recommendation B.2

We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller):

a. **Require the supervisor for the contracting officer's representative to solicit and use input received from the contracting officer and assess the performance of the contracting officer's representative based on the input.**

b. **Adhere to the findings and recommendations from the Chief of Contracting, U.S. Army Corps of Engineers–Huntsville Engineering and Support Center, regarding the need for additional oversight personnel.**

Assistant Secretary of the Army (Financial Management and Comptroller) Comments

The Director, Accountability and Audit Readiness, on behalf of the ASA(FM&C), agreed with our recommendation and stated that all existing contract vehicles were transferred to Army Contracting Command–Aberdeen Proving Ground in April 2013, and the ASA(FM&C) would comply with the contracting regulations set forth by the Army Contracting Command. The Director also stated that the ASA(FM&C) executed plans for additional personnel to receive COTR training and appointment to assist the COR in oversight efforts.

Our Response

The response from the Director, Accountability and Audit Readiness, partially addressed the recommendation. His response on Recommendation B.2.b addressed all of the specifics of the recommendation, and we require no additional comments. However, the Director's response on Recommendation B.2.a partially addressed the recommendation because he did not specifically address the need for the COR's supervisor to solicit input from the CO when addressing the performance of the COR. We request that the ASA(FM&C) provide additional comments on Recommendation B.2.a.

Finding C

Enhanced Oversight Required for Financial Administration of the Contract

CEHNC personnel used inadvisable accounting practices in performing the financial administration of the AGF audit readiness contract. Specifically, of the $90.1 million obligated on the AGF audit readiness contract, CEHNC Center Support Branch, personnel:

- obligated about $66 million of Army military construction funds instead of the Operation and Maintenance (O&M) funds provided by ASA(FM&C) and the Army National Guard. This occurred because USACE did not definitize its reimbursable orders policy before contract issuance. Subsequently, CEHNC personnel did not follow the USACE reimbursable order policy and CEHNC work instruction regarding the financing of contract costs. CEHNC personnel inappropriately applied standard business practices for financing construction-type activities to the AGF audit readiness contract.
- could not match all contract obligations to the obligations recorded in CEFMS. This occurred because CEHNC personnel did not record obligations in the accounting records properly. In addition, CEHNC did not have procedures in place to ensure that obligations recorded in CEFMS matched the supporting documentation in the contract.

As a result, CEHNC personnel processed $21.5 million[26] in contractor payments citing different obligating accounts than those cited in the contract,[27] leading to an increased risk of overobligating Army military construction funds. Although the use of the Intra-Governmental Payment and Collection System[28] helped prevent overobligations in the USACE financing account, the risk remained.

[26] The $21.5 million constitutes a portion of the $66 million of incorrectly obligated military construction funds.

[27] Obligating accounts are appropriations, funds, and authority used to create obligations that will require payment during the same or some future period.

[28] The Intra-Governmental Payment and Collection System facilitates intra-governmental Federal e-commerce by transferring funds, with related descriptive data, between Federal agencies. For the AGF contract, fund transfers occurred on a monthly basis, usually at the start of each month.

Incorrect Obligation of Funds

Of the $90.1 million obligated against the AGF audit readiness contract CEHNC Center Support Branch personnel incorrectly obligated about $66 million using funds from the Army military construction financing account. For 10 of the 12 CLINs[29] in the AGF audit readiness contract, CEHNC did not use the funding (O&M) appropriations that the Army and Army National Guard provided.

USACE, "Reimbursable Work Financing Appropriation Policy," December 2, 2010, states:

- the fiscal limitations of the source appropriation (funding appropriation to be cited in the contract) are adhered to regardless of the carrier appropriation used.
- the carrier (financing) account will not be recorded as the source appropriation for a Federal customer, as it can lead to an Antideficiency Act violation.
- reimbursable orders citing a military appropriation shall be financed (carried) with the same military appropriation cited by the requesting organization when that appropriation is available as a carrier.
- the closest (similar purpose) military appropriation must finance the work if the performing organization does not have authority to use the source appropriation as a carrier.

The Army and Army National Guard provided funding through Military Interdepartmental Purchase Requests that CEHNC accepted under their automatic reimbursable authority. In accordance with the USACE reimbursable orders policy, CEHNC used financing accounts to provide the funds needed to make the initial payments on contractor invoices. Subsequently, the Army and Army National Guard reimbursed USACE through the Intra-Governmental Payment and Collection System.

The funding appropriations that ASA(FM&C) and the Army National Guard provided to CEHNC cited either the O&M, Army, or O&M, Army National Guard, appropriations for each of the 12 CLINs. However, on five CLINs (0001, 0002, 1001, 1004, and 2004) established by CEHNC, the financing accounts cited Army military construction

[29] There were 21 CLINs on the AGF audit readiness contract through modification P00020. However, nine of them were not used. The nine unused CLINs were 1002, 1003, 1005, 2002, 2003, 2005, 3002, 3003, and 3005.

financing accounts. On five other CLINs (2001, 2006, 2007, 3001, and 3004), CEHNC cited a combination of O&M and Army military construction financing accounts. CEHNC personnel cited O&M financing accounts on CLINs 1006 and 1007.[30] Table 5 shows the funding appropriations and financing accounts for the 12 CLINs.

Table 5. Funding Appropriations and Financing Accounts by CLIN

CLIN	Contract Period[1]	Effective Date	Funding Appropriation		Financing Account	
			2020[2]	2065[2]	2020	2050[2]
0001	Base Period	9/28/2010	X			X
0002	Base Period	9/28/2010	X			X
1001	Option Period 1	12/10/2010	X			X
1004	Option Period 1	12/10/2010	X			X
1006	Option Period 1	8/29/2011		X	X	
1007	Option Period 1	8/29/2011		X	X	
2001	Option Period 2	9/28/2011	X		X	X
2004	Option Period 2	9/28/2011	X			X
2006	Option Period 2	9/28/2011		X	X	X
2007	Option Period 2	9/28/2011		X	X	X
3001	Option Period 3	9/28/2012	X		X	X
3004	Option Period 3	9/28/2012	X		X	X

[1]See Appendix E for a description of the base period and the three option periods on the AGF audit readiness contract.
[2]Account codes 2020 and 2065 are the O&M appropriations used by the Army and the Army National Guard, respectively. Account code 2050 is the Army military construction appropriation.

For example, on CLIN 2001, CEHNC obligated about $6.8 million in the account code 2020 (O&M, Army) and about $32.6 million in account code 2050 (Army military construction) financing accounts. Of the approximately $90.1 million obligated against the contract, CEHNC personnel obligated about $66 million in Army military construction financing account funds and about $24.1 million in O&M, Army, financing account funds against the AGF audit readiness contract. The cited financing accounts should have been exclusively tied to the O&M funding appropriations that ASA(FM&C) and the Army National Guard provided.

[30] For CLINs 1006 and 1007, CEHNC cited account code 2020 (O&M, Army) financing account funds, whereas the funding documents cited account code 2065 (O&M, Army National Guard) appropriated funds. Account codes 2020 and 2065 are both O&M-type funds, which for the purposes of this analysis, constitute the same class of funding appropriations.

Reimbursable Order Policy Not Followed Once Issued

CEHNC personnel initially used incorrect financing accounts because USACE did not definitize its reimbursable orders policy before issuing the AGF audit readiness contract. USACE issued "Reimbursable Work Financing Appropriation Policy" on December 2, 2010, about 2 months after CEHNC personnel awarded the AGF audit readiness contract and funded CLINs 0001 and 0002.

However, CEHNC personnel continued to use the incorrect financing accounts after USACE issued its policy on reimbursable orders. After December 2010, CEHNC funded 10 additional CLINs on Option Periods 1, 2, and 3 of the AGF audit readiness contract. CEHNC personnel used O&M financing accounts for a portion of 7 of the 10 CLINs and used Army military construction financing accounts on 8 of the 10 CLINs (see Table 5).

CEHNC issued Work Instruction CEHNC-WI-71-03, "Accepting and Returning Funds," effective September 2, 2011. In April 2012, USACE began using account code 2020 (O&M, Army) financing accounts because of the change in the reimbursable orders policy. The Work Instruction serves as the local guide for how CEHNC accepts reimbursable work. The Work Instruction states:

- finance all 1-year Military (DoD) funded orders in O&M, Army (account code) 2020, with the exception of (account code) 2080 and O&M, Army (account code) 2020 construction.
- finance all multi-year Military (DoD) funded orders and O&M, Army 2020 construction in (account code) 2050.

USACE issued two CLINs (3001 and 3004) after April 2012. In both instances, CEHNC personnel used Army military construction financing account funds for a portion of both CLINs. CEHNC personnel did not provide an adequate explanation for why it did not follow USACE policy and the CEHNC Work Instruction when using Army military construction funding instead of O&M funding, but the Director for Resource Management, CEHNC, acknowledged that the policy was not followed for this contract. The Chief of Contracting, CEHNC, should establish controls to verify that COs comply with the USACE reimbursable orders policy and Work Instruction CEHNC-WI-71-03. In addition, the Chief of Contracting, CEHNC, should correct the financing appropriations for the 10 CLINs, so they match the funding appropriations that ASA(FM&C) and the Army National Guard provided.

Standard Business Practices Inappropriately Applied

CEHNC personnel inappropriately applied standard business practices for financing construction type activities to the AGF audit readiness contract. CEHNC typically issued medical facility, range and training, electronic security system, utility monitoring and control system, environmental, and munitions contracts. Based on the types of contracts typically issued by CEHNC personnel, the AGF audit readiness contract was outside their area of expertise. CEHNC personnel assigned account code 2050 (Army military construction) financing accounts because they routinely followed that practice for most of the CEHNC workload.

Mismatched Obligations on the Audit Readiness Contract

The CO failed to check the funding document against the contract document and the CEFMS obligation before signing the contract. In addition, the CO did not verify that the lines of accounting in the procurement system were accurate. CEHNC could reconcile the $90.1 million total cost of financing accounts obligated on the contract to the total amount obligated in CEFMS. However, $21.5 million in financing accounts obligated in the contract at the sub-CLIN[31] level did not match the financing accounts obligated in CEFMS at the sub-CLIN level. The CO for the AGF audit readiness contract acknowledged that the contract documents reflected the incorrect funding appropriations for sub-CLINs on 4 of the 12 CLINs (1001, 1004, 2001, and 2004) and stated that CEFMS was correct.

Correct Obligations Not Recorded

Recording different appropriations or fiscal years in CEFMS than those in the contract was contrary to DoD 7000.14-R, "DoD Financial Management Regulation" (DoD FMR) guidance. DoD FMR, volume 3, chapter 8, states that amounts are to be recorded as obligations when supported by documentary evidence of the transaction. For contracts, documentary evidence consists of information in contract documents identifying obligating accounts to be used and amounts to be charged against them. While the obligations on the AGF audit readiness contract matched the obligations recorded in CEFMS at the summary level, the contract obligations did not match those recorded in CEFMS at the sub-CLIN level. For seven sub-CLINs, AGF audit readiness contract

The contract obligations did not match those recorded in CEFMS at the sub-CLIN level.

[31] Sub-CLINs (or subline items) provide flexibility to identify elements within a contract line item for tracking performance or simplifying administration.

documentation identified a FY 2010 Army military construction financing account while CEFMS showed either an FY 2011 or FY 2012 account. Table 6 identifies the $21.5 million in discrepancies between the contract and CEFMS by sub-CLIN.

Table 6. Discrepancies in Sub-CLIN Obligations

Sub-CLIN	Financing Account in Contract*	Financing Account in CEFMS*	Amount (in millions)
100101	21-0-2050	21-1-2050	$3.0
100105	21-0-2050	21-1-2050	1.4
100106	21-0-2050	21-1-2050	1.1
100401	21-0-2050	21-1-2050	1.0
200101	21-0-2050	21-1-2050	3.0
2001AA	21-0-2050	21-2-2050	11.0
200401	21-0-2050	21-1-2050	1.0
Total			**$21.5**

* The difference between the two account columns is in the third number, which depicts the fiscal year of the identified funds for each sub-CLIN.

CEHNC personnel could not support the obligations recorded in CEFMS for the seven sub-CLINs identified in Table 6. Because the contract documentation serves as the source for obligating accounts, the only proper disbursements that can or should be paid on these sub-CLINs were those citing the same accounts appearing on the contract documentation. Therefore, CEHNC personnel disbursed $21.5 million in invoice payments to the contractor citing different obligating accounts than those cited in the contract. When questioned about the discrepancies between the contract and CEFMS, the CO described the misstatements as clerical errors and stated that the CEFMS obligation amounts for each sub-CLIN were correct based on the year the work was performed.

Internal Procedures Needed to Identify Incorrect Obligations

CEHNC personnel acknowledged that CEHNC did not have internal procedures in place to verify that recorded obligations in CEFMS matched the source documentation in the AGF audit readiness contract. The EHNC, Director for Resource Management, also acknowledged that the system used to input contract funding did not interface with CEFMS. Therefore, contract funding had to be manually entered into CEFMS, resulting in a higher risk of error. The CO failed to check the funding document

CEHNC did not have internal procedures in place.

against the contract document and the CEFMS obligation before signing the contract and approving the obligation. In addition, the CO did not verify that the lines of accounting in the procurement system were accurate. Although CEHNC personnel identified some procedures on how they would deal with clerical errors of this type, none included any form of automated or third-party examinations of the two sets of data to verify that they matched. Procedures centered primarily on due diligence by the CO regarding contract obligations.

Necessary System Corrections Were Not Performed

On July 17, 2012, the CEHNC, Chief of the Special Projects Support Branch, stated that her office was working with local administrators for the contract writing system (Procurement Desktop Defense/Standard Procurement System) to determine the best path for correcting the appropriation errors on the contract document. The Chief also provided three options for CEHNC to correct the appropriation errors on the contract, which are presented below in order of CEHNC's preference.

- **Option 1.** CEHNC will attempt to execute an administrative modification to see whether the contract writing system will allow a correction to be made.
- **Option 2.** The contract writing system administrator will submit a ticket to the helpdesk to see whether the system administrators can make the changes.
- **Option 3.** CEHNC will document in the contract file a memorandum for record from the CO indicating why CEHNC believes these errors occurred, the steps taken to try to correct the errors, and a statement affirming why the appropriations should have been the same as those that appear in CEFMS.

On October 15, 2012, CEHNC personnel stated that they selected Option 3. CEHNC personnel did not select the first two options because they were not easy to perform and the system administrator recommended not making changes to the system becuase of concerns about database corruption. Consequently, the discrepancies remained in the system as of March 2013, which undermined data reliability. The CO prepared a memorandum for record dated November 8, 2012, explaining how the errors occurred based on a CEHNC analysis of the contract funding, and stated that the amounts recorded in CEFMS were correct.

CEHNC personnel should have modified the contract because the analysis validated the obligating accounts in CEFMS. The contract is the official obligating document and should be correct. On April 3, 2013, we discussed our concerns with CEHNC personnel. Afterwards, CEHNC personnel issued an administrative contract modification correcting the financing accounts cited in the contract for the seven sub-CLINs that did not match the financing account in CEFMS. The contract modification corrected the errors identified for the seven sub-CLINs. However, the Chief of Contracting, CEHNC, should develop procedures to validate that the AGF audit readiness contract obligations are correct and match those in CEFMS in accordance with the DoD FMR.

Conclusion

CEHNC personnel used inadvisable accounting practices when they:

- obligated $66 million in Army military construction financing account funds instead of O&M financing account funds that would have matched the O&M appropriated funds provided to CEHNC by ASA(FM&C) and the Army National Guard, and
- could not match all obligations on the contract to the obligations recorded in CEFMS.

The exclusive use of O&M, Army, financing accounts, as applied to a limited extent in the AGF audit readiness contract, would have been in accordance with the USACE reimbursable orders policy and Work Instruction CEHNC-WI-71-03. Not following this guidance increased adverse effects of misapplying contract financing and increased the risk of CEHNC financing account funds being overobligated. Risks of overobligating funds remain although the use of the Intra-Governmental Payment and Collection system provides CEHNC with mitigating controls. Additionally, CEHNC personnel were responsible for verifying that contract-related obligations were recorded in accordance with documentary evidence. CEHNC's inability to match contract obligations in the AGF audit readiness contract documentation and CEFMS at the sub-CLIN level resulted in the recording of incorrect obligations and the processing of $21.5 million of contractor payments citing those incorrect obligations. Although CEHNC personnel eventually issued an administrative contract modification correcting the financing accounts in the contract, proper fund control mechanisms should be established at CEHNC.

Recommendations, Management Comments, and Our Response

Recommendation C

We recommend that the Chief of Contracting, U.S. Army Corps of Engineers – Huntsville Engineering and Support Center:

1. **Establish controls to verify that the contracting officers comply with the reimbursable orders policy and Work Instruction CEHNC-WI-71-03, "Accepting and Returning Funds," September 2, 2011.**

Chief of Contracting, U.S. Army Corps of Engineers - Huntsville Engineering and Support Center Comments

The Chief of Contracting, CEHNC, agreed and stated that a control process was established to ensure a CEHNC supervisor or senior analyst reviews, validates, and certifies every action against a financing appropriation. Additionally, the process is audited as part of the quality assurance program and is continually emphasized in training and counseling. The Chief of Contracting also stated that CEHNC does not process any action against the financing appropriation without a source funding document from the customer to support the action. In addition, the source funds are documented in CEFMS and therefore it is not possible to overobligate military construction accounts. He also stated that no statutory violation occurred regarding the obligation or recording of funds.

Our Response

The response from the Chief of Contracting, CEHNC, addressed all of the specifics of the recommendation, and no additional comments are required. Although the Chief of Contracting stated that there is no possibility to overobligate the military construction accounts, whenever control policies are not adhered to, the risk of fund mismanagement increases. While the risk of overobligating military construction funding may be low, the risk remains when controls are not followed.

2. **Correct the financing appropriations for the 10 contract line item numbers, so they match the funding appropriations that the Assistant Secretary of the Army (Financial Management and Comptroller) and the Army National Guard provided.**

Chief of Contracting, U.S. Army Corps of Engineers - Huntsville Engineering and Support Center Comments

The Chief of Contracting, CEHNC, agreed in concept with our recommendation. The Chief of Contracting stated that CEFMS would not allow changes after personnel selected the financing appropriation and recorded an obligation recorded against the reimbursable order. He also stated CEHNC personnel performed an administrative modification on April 4, 2013, and included additional informational sub-CLINs for correcting the funding appropriations.

Our Response

The response from the Chief of Contracting, CEHNC, addressed all of the specifics of the recommendation, and no additional comments are required.

3. Develop procedures to validate that the Army General Fund audit readiness contract obligations are correct and match those in the Corps of Engineers Financial Management System in accordance with DoD 7000.14-R, "DoD Financial Management Regulation."

Chief of Contracting, U.S. Army Corps of Engineers - Huntsville Engineering and Support Center Comments

The Chief of Contracting, CEHNC, agreed and stated that the CEHNC Contracting Directorate would initiate an annual module dedicated to this subject within its training curriculum and add a section to all branch desk guides. The Chief of Contracting stated that the Resource Management Directorate also conducted training and reviewed procedures to identify possible discrepancies. As an additional control mechanism, CEHNC plans to maximize the use of reviews by enior specialists before award, which includes validation of funding information. In addition, validation of funding information will be added as a component of monthly Program Compliance Reviews conducted by the Business Oversight Branch.

Our Response

The response from the Chief of Contracting, CEHNC, addressed all of the specifics of the recommendation, and no additional comments are required.

Appendix A

Scope and Methodology

We conducted this performance audit from February 2012 through January 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We focused our review on ASA(FM&C)'s management of the AGF FIP and its oversight of the AGF audit readiness contract. We interviewed personnel from USD(C), ASA(FM&C), the Army Contracting Command (ACC), CEHNC, and audit readiness contractor personnel and performed site visits to Washington, D.C., and Fort Irwin, California. We assessed the Army's compliance with the FIAR Guidance in developing 8 individual FIPs. We also reviewed the FIAR Directorate's responses to the AGF financial statement assertions. We reviewed the AGF FIPs for coverage of the AGF financial statements, reviewed reported progress on the AGF FIP, identified potential milestone risks, and assessed the impact of the FY 2012 National Defense Authorization Act, section 1003, and Public Law 112-239, "The National Defense Authorization Act for Fiscal Year 2013," section 1005, "Audit Readiness of Department of Defense Statements of Budgetary Resources," January 2, 2013, on the audit readiness goal. ASA(FM&C) personnel developed an AWCF FIP as of February 2013. However, our primary focus was on AGF FIPs.

We reviewed the AGF audit readiness contract awarded to IBM as delivery order W912DY-10-F-0640 against General Services Administration Federal Supply Schedule[32] GS-23-F-8126H and decisions leading to its award by CEHNC, and CEHNC's financial administration of the contract. We also examined the rationale for why ACC did not issue the AGF and AWCF audit readiness contracts and we reviewed the costs for CEHNC to award and administer them. We did not review the financial administration or oversight for the AWCF audit readiness contract awarded to PricewaterhouseCoopers as delivery order W912DY-12-F-0088 against General Services Administration Federal Supply Schedule GS-23F-0165N.

[32] General Services Administration requires an industrial funding fee for use of its Federal Supply Schedules. This fee is set at 0.75 percent of the contract sales and is paid by the contractor, not the agency requesting or awarding the contract.

As part of our review of the AGF audit readiness contract, we determined whether:

- Army audit readiness funds were accurately obligated in CEFMS from the inception of the AGF audit readiness contract through June 2012,
- CEHNC appropriately used military construction funds as a contract financing account,
- contract costs were appropriately assigned to CLINs, and
- key deliverables were performed by the contractor.

We identified the responsibilities of the AGF audit readiness contract CO and COR concerning the oversight and monitoring of contractor performance and assessed whether the CO and COR performed their duties in accordance with the FAR, DoD and USACE policies, and Army Regulation 70-13. We obtained the documentation that ASA(FM&C) personnel prepared and used to monitor contractor performance. We reviewed 27 CEHNC invoice payments to the contractor, valued at $37.8 million, as well as ASA(FM&C) and Army National Guard reimbursements to CEHNC to verify that appropriations were properly applied. We reviewed contractor invoices submitted between January 2011 and June 2012 to identify any potential problems regarding labor and travel charges for subcontractors.

Use of Computer-Processed Data

To perform this audit, we obtained data from CEFMS, the Electronic Document Access system, and the Army Audit Data Repository. We used CEFMS to determine the amount and type of funding transferred from ASA(FM&C) and Army National Guard to USACE as well as the information on the obligations and disbursements made by CEHNC personnel related to the AGF audit readiness contract as of November 13, 2012. We compared the CEFMS data to copies of the military interdepartmental purchase requests and to obligation data contained in the contract documentation. We verified a selection of CEFMS disbursement vouchers to the actual disbursement amount received by the contractor.

We used the Electronic Document Access system to obtain contract documentation and we verified that the contract information from the system matched to what was maintained in the CEHNC contract file. We also verified a portion of the documents obtained from the Army Audit Data Repository to what ASA(FM&C) personnel uploaded into the repository. When we compared the data from CEFMS with the contract documents, we identified $21.5 million of differences in contract

financing between CEFMS and the contract documents. The Electronic Document Access system and Army Audit Data Repository were both used for data storage and did not manipulate or alter the data stored in the systems. Based on this information, we determined that the data were sufficiently reliable for the purposes of this report.

Appendix B

Prior Coverage

During the last 5 years, the Government Accountability Office (GAO), the Department of Defense Office of Inspector General (DoD IG), and the Army Audit Agency issued 23 reports discussing financial improvement and audit readiness. Unrestricted GAO reports can be accessed over the Internet at http://www.gao.gov. Unrestricted DoD IG reports can be accessed at http://www.dodig.mil/pubs/index.cfm. Unrestricted Army reports can be accessed from .mil and gao.gov domains over the Internet at https://www.aaa.army.mil/.

GAO

Report No. GAO-13-123, "DOD Financial Management: Ineffective Risk Management Could Impair Progress toward Audit-Ready Financial Statements," August 2, 2013

Report No. GAO-13-28, "DOD Financial Management: Actions Needed to Address Deficiencies in Controls Over Army Active Duty Military Payroll," December 12, 2012

Report No. GAO-12-406, "DOD Financial Management: The Army Faces Significant Challenges in Achieving Audit Readiness for Its Military Pay," March 22, 2012

Report No. GAO-12-444T, "Fiscal Year 2011 U.S. Government Financial Statements: The Federal Government Faces Continuing Financial Management and Long-Term Fiscal Challenges," March 1, 2012

Report No. GAO-12-132, "DOD Financial Management: Ongoing Challenges with Reconciling Navy and Marine Corps Fund Balance with Treasury," December 20, 2011

Report No. GAO-12-177T, "DOD Financial Management: Challenges in the Implementation of Business Systems Could Impact Audit Readiness Efforts," October 27, 2011

Report No. GAO-11-830, "DOD Financial Management: Marine Corps Statement of Budgetary Resources Audit Results and Lessons Learned," September 15, 2011

Report No. GAO-11-851, "DOD Financial Management: Improvement Needed in DOD Components' Implementation of Audit Readiness Effort," September 13, 2011

Report No. GAO-11-864T, "DOD Financial Management: Numerous Challenges Must Be Addressed to Achieve Auditability," July 28, 2011

Report No. GAO-11-331T, "Contract Audits: Role in Helping Ensure Effective Oversight and Reducing Improper Payments," February 1, 2011

Report No. GAO-11-53, "DOD Business Transformation: Improved Management Oversight of Business System Modernization Efforts Needed," October 7, 2010

DoD IG

Report No. DODIG-2012-115, "Improved Oversight, but No Invoice Reviews and Potential Antideficiency Act Violation May Have Occurred on the Kuwait Observer Controller Team Task Orders," August 2, 2012

Report No. DODIG-2012-111, "Enterprise Resource Planning Systems Schedule Delays and Reengineering Weaknesses Increase Risks to DoD's Auditability Goals," July 13, 2012

Report No. DODIG-2012-087, "Logistics Modernization Program System Procure-to-Pay Process Did Not Correct Material Weaknesses," May 29, 2012

Report No. DODIG-2012-066, "General Fund Enterprise Business System Did Not Provide Required Financial Information," March 26, 2012

Report No. DODIG-2012-027, "Deficiencies in Journal Vouchers That Affected the FY 2009 Air Force General Fund Statement of Budgetary Resources," December 1, 2011

Report No. D-2011-072, "Previously Identified Deficiencies Not Corrected in the General Fund Enterprise Business System Program," June 15, 2011

Report No. D-2010-002, "Summary of DoD Office of the Inspector General Audits of Financial Management," October 19, 2009

Report No. D-2009-084, "Controls Over Army Working Capital Fund Real Property Assets," May 29, 2009

Report No. D-2009-069, "Independent Auditor's Report on the Defense Information Systems Agency General Fund FY 2007 Balance Sheet," March 27, 2009

Report No. D-2009-068, "Independent Auditor's Report on the Defense Information Systems Agency Working Capital Fund FY 2007 Balance Sheet," March 27, 2009

Report No. D-2009-002, "Attestation of the Department of the Navy's Environmental Disposal for Weapons Systems Audit Readiness Assertion," October 10, 2008

Army Audit Agency

Report No. A-2011-0090-FFM, "Audit Readiness: Statement of Budgetary Resources-Appropriations Received," April 1, 2011

Appendix C

Cost-Effective Strategy Not Used to Award Audit Readiness Contract

ASA(FM&C) personnel did not use a cost-effective strategy to award the AGF audit readiness contract. Specifically, ASA(FM&C) personnel used CEHNC rather than ACC[33] to award the AGF audit readiness contract. This occurred because ASA(FM&C) and ACC could not agree on an acquisition strategy to award the contract by September 30, 2010. Additionally, ASA(FM&C) personnel allowed CEHNC to issue the AWCF contract in March 2012, because it awarded the AGF audit readiness contract and was familiar with the audit readiness scope of work.

Contracting Office Selection Process

ASA(FM&C) personnel initially selected ACC to award the AGF audit readiness contract by the end of FY 2010. Annually, ACC personnel provide a letter to their customers identifying the yearly cutoff times to award contracts. The letter detailed the cutoff dates for various types of requirements. When customers sent requests beyond those cutoff dates, the likelihood of a contract award depended upon its anticipated dollar value and whether there was an existing contract already in place. ACC personnel could not locate a copy of the FY 2010 cutoff letter that they sent to their customers; however, the letter ACC issued on February 9, 2012,[34] identified a 12- to 18-month lead-time for service acquisitions over $50 million. An ACC CO[35] stated that although ACC received the AGF audit readiness requirement in the beginning of August 2010, it accepted the requirement and began to work the action.

During the award process, ASA(FM&C) and ACC personnel disagreed on how to acquire audit readiness services. The Director, AGF Audit Readiness, stated that the disagreement centered on whether the work should be performed by a small or large business entity. The Director, AGF Audit Readiness, stated that in ACC's opinion, a small business could accomplish the required work; however,

[33] The National Capital Region Contracting Center was established in April 2010 to provide contracting and acquisition support for the Army. In April 2011, the National Capital Region Contracting Center was renamed the ACC-National Capital Region. The ACC-National Capital Region closed on July 20, 2013, and its workload was distributed to other ACCs. For consistency, we refer to this contracting organization as ACC throughout this report.

[34] ACC personnel stated that FY 2012 cutoff dates would have been similar to FY 2010 cutoff dates.

[35] The CO was not directly involved with the AGF audit readiness requirement at ACC and stated that many personnel involved with the audit readiness requirement have departed ACC. The CO stated the AGF audit readiness requirement was submitted to ACC in early August 2010.

ASA(FM&C) disagreed and its opinion was that a large business with more knowledge of and expertise in Government accounting and audit requirements was needed to perform and manage the effort. ASA(FM&C) personnel decided to award the AGF audit readiness contract by September 30, 2010, and did not wait to reach an agreement with ACC on how to acquire audit readiness services. On August 17, 2010, ASA(FM&C) personnel withdrew the AGF audit readiness requirement from ACC and transferred the requirement to CEHNC.

Army General Fund Audit Readiness Contract Awarded

The Deputy Assistant Secretary of the Army (Financial Operations) stated, USACE headquarters personnel identified CEHNC as specialists in service contracts because they performed the majority of service acquisitions within USACE. CEHNC used schedules from the General Services Administration, which reflects extensive experience in using the contracting tool used for the AGF audit readiness contract. In FY 2010, CEHNC personnel awarded 6,132 contracts, but only the AGF audit readiness contract was related to financial audit readiness. The Director, AGF Audit Readiness, stated CEHNC was the only office available to award the AGF audit readiness contract within the timeframe that ASA(FM&C) desired.[36] Through FY 2012, ASA(FM&C) paid $93,502 to CEHNC for award and administration fees. An ACC contracting official stated that if ASA(FM&C) allowed ACC to award and administer the contract, it would not have charged award and administration fees.

Army Working Capital Fund Audit Readiness Contract Awarded

ASA(FM&C) personnel used CEHNC to award the AWCF audit readiness contract and did not contact ACC before the contract award. The Director, AGF Audit Readiness, stated ASA(FM&C) went directly to CEHNC to award and administer the AWCF contract because CEHNC already administered the AGF audit readiness contract and was familiar with the audit readiness scope of work. On March 30, 2012, CEHNC personnel awarded the AWCF audit readiness contract to PricewaterhouseCoopers.[37] Through FY 2012, ASA(FM&C) paid $258,470 to CEHNC for award and administration fees. As with the AGF audit readiness contract, an ACC contracting official stated that ACC would not have charged award and administration fees.

[36] On April 30, 2012, ASA(FM&C) personnel requested blanket purchase agreements to cover potential contracts for an independent public accounting firm to assist the Army in performing audit readiness activities.

[37] On March 29, 2012, the CEHNC CO determined that PricewaterhouseCoopers represented the best value to the Government. As of March 2013, the base period of the AWCF contract, which covered the performance from April 2012 through March 2013, was valued at $3.3 million. Option Period I was exercised on March 27, 2013, which was valued at $3.4 million, and ends on March 31, 2014. The contract is scheduled to conclude on March 31, 2015, at the end of Option Period II.

FY 2013 Fees

Through FY 2012, CEHNC charged $351,972 in award and administration fees for the AGF and AWCF audit readiness contracts. Since the start of FY 2013, CEHNC charged ASA(FM&C) an additional $244,714, as of September 4, 2013, for services associated with the AGF, AWCF, and the follow-on AGF audit readiness contracts.[38] Again, if ACC awarded and administered the contracts, it would not have charged for award and administration fees.

Contract Transfer Plans Delayed

On May 17, 2012, the Chief of Finance and Accounting Policy, CEHNC, stated that ASA(FM&C) personnel planned to transfer the AGF and AWCF audit readiness contracts to ACC. The Director, AGF Audit Readiness, stated that on June 15, 2012, his office planned to transfer the administration of the AGF and AWCF audit readiness contracts from CEHNC to ACC. However, the transfer did not occur and was delayed several times throughout FY 2012. On October 16, 2012, the Director, AGF Audit Readiness, confirmed that discussions on the potential contract transfer between the three Army organizations (ASA[FM&C], CEHNC, and ACC) were ongoing. The Director, AGF Audit Readiness, also stated that his office planned to use ACC to award and administer the next AGF audit readiness contract. Transferring the AGF and AWCF audit readiness contracts to ACC would eliminate future administrative costs.

In April 2013, ASA(FM&C) personnel stated that they started the process to transfer the audit readiness contracts to ACC-Aberdeen Proving Ground. On April 9, 2013, CEHNC personnel awarded a follow-on contract to bridge the AGF audit readiness contract and a new competitive replacement contract, which ACC-Aberdeen Proving Ground will execute.[39] On April 19, 2013, CEHNC personnel issued a contract modification to adjust the period of performance on the AGF audit readiness contract to reflect the actual performance date based on the established contract ceiling. This action changed the performance completion date from September 28, 2013 to April 9, 2013.

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[38] CEHNC personnel could not differentiate between the amounts charged for work performed on the three contracts. The total amount on the military interdepartmental purchase request was $260,000.

[39] Rather than seeking a Justification and Approval to increase the capacity of the existing AGF audit readiness contract, CEHNC determined that issuance of a new task order would allow for the necessary capacity and time needed to complete key audit readiness milestones and ensure adequate transition time to the successful offeror, if necessary. The period of performance of the follow-on contract ends January 9, 2014, and adds up to $36.8 million to the cost of the AGF audit readiness activities.

Appendix D

Priorities for Achieving Audit Readiness

USD(C)/CFO established the following two FIAR priorities on August 11, 2009:

- improving budgetary information and processes, and
- verifying the existence and completeness of mission critical assets.

The overarching FIAR milestones are:

- September 30, 2014, for achieving an auditable General Fund SBR, as mandated by the FY 2012 National Defense Authorization Act in support of the Secretary of Defense memorandum on October 13, 2011, and
- September 30, 2017, for achieving auditability of all financial statements, as mandated by the FY 2010 National Defense Authorization Act.

Plan to Achieve Auditable General Fund Statement of Budgetary Resources

Table D-1 provides key information on the five AGF SBR-related FIPs that ASA(FM&C) and audit readiness contract personnel developed to achieve an auditable AGF SBR by September 30, 2014.

Table D-1. Key Information on the AGF SBR-Related FIPs

FIP Title	Key Information
Budgetary Authority	Includes Appropriations Received, Allotments, and Apportionments. FY 2012 Appropriations Received was approximately $202 billion.
Budget Execution	Includes the Army processes of Funds Receipt, Distribution, and Monitoring; Contracts; Reimbursables In/Out; Temporary Duty Travel; Civilian Payroll; Supplies; Government Purchase Card; and Miscellaneous Payments.
Military Payroll	FY 2012 Military Personnel cost was approximately $68 billion.
Fund Balance With Treasury	Fund Balance With Treasury was approximately $153 billion as of September 30, 2012.
Financial Reporting	Defense Finance and Accounting Service-Indianapolis performs the majority of Army's financial reporting.

Table D-2 identifies milestones associated with meeting the September 30, 2014, AGF SBR milestone.

Table D-2. Timeline for Achieving Auditable AGF SBR

Milestone Date	Description
September 28, 2010	Asserted audit readiness of Appropriations Received (line 1290 of the SBR).
March 31, 2011	Asserted audit readiness of various funds distribution and budget execution processes at GFEBS Wave 1 sites.
August 19, 2011	Received unqualified opinion and four management letters from independent public accounting firm for Appropriations Received.
November 22, 2011	Received a qualified audit opinion on the audit readiness assertion at the GFEBS Wave 1 sites.
June 29, 2012	Asserted audit readiness of the control environment at GFEBS Waves 1 and 2 sites for the period April 2012 through June 2012.
June 28, 2013	Asserted audit readiness of all General Fund activities at all GFEBS locations.
June 30, 2014	Plan to assert audit readiness of all AGF activities and Fund Balance With Treasury.

As ASA(FM&C) personnel prepared to assert audit readiness on all AGF activities, they synchronized the SBR audit readiness site visit schedule with the GFEBS deployment plan because of the importance of GFEBS to Army audit readiness. In August 2012, DoD modified the FIAR Methodology to limit the scope of the first year (FY 2015) audits to current year appropriation activity and transactions. Consequently, the initial General Fund SBR audits will not include balances from prior year activity.

Plan to Achieve Auditability of Existence and Completeness Financial Improvement Plans

Table D-3 provides key information on the five existence and completeness FIPs that ASA(FM&C) and audit readiness contract personnel developed to help achieve an auditable balance sheet by September 30, 2017.

Table D-3. Key Information on the AGF Existence and Completeness FIPs

FIP Title	Key Information	Net Book Value as of 9/30/12 (billions)
Military Equipment	Ships, aircraft, and combat vehicles	$92
General Equipment	Equipment for material handling, training, and special tooling and testing	11
OM&S	Missiles, ammunition, and munitions	31
Real Property	Land, buildings, structures, and utilities	46
Environmental Liabilities	Liabilities related to Army's obligation to cleanup contamination from past waste disposal practices, leaks, spills, and other incidents.	30

The Army milestone for asserting audit readiness of the existence and completeness of most mission critical assets is December 31, 2013. The Army plans to assert audit readiness of real property on September 30, 2014.

Table D-4 identifies milestones associated with meeting the December 31, 2013, and September 30, 2014, milestones for asserting audit readiness of the existence and completeness of mission critical assets.

Table D-4. Timeline for Asserting Existence and Completeness of Mission Critical Assets

Milestone Date	Assertion*
March 31, 2011	Asserted Military Equipment and General Equipment quick win assets
June 30, 2012	Asserted OM&S quick win assets
January 7, 2013	Asserted Real Property quick win assets
December 30, 2013	Asserted General Equipment
September 30, 2014	Plan to assert OM&S assets and all Real Property Assets

**ASA(FM&C) has not published a milestone for asserting on environmental liabilities.*

The May 2013 FIAR Plan Status Report showed June 2015 as the milestone for achieving audit readiness (existence and completeness) of Inventory. ASA(FM&C) personnel did not develop FIPs for achieving audit readiness of the two remaining financial statements (Statement of Net Cost and Statement of Changes in Net Position). The May 2013 FIAR Plan Status Report states that DoD Components did not develop and were not required to provide detailed work plans for accomplishing the goals and objectives of Wave 4 (Full Audit).

Appendix E

Army General Fund Audit Readiness Contract Deliverables and Contract Line Item Numbers

Table E-1 lists the 15 deliverables associated with the 3 tasks in the AGF audit readiness contract.

Table E-1. AGF Audit Readiness Contract Tasks and Deliverables

Tasks	Deliverables
1. Provide subject matter expertise, advice and recommendations, studies and reports on the overall audit readiness approach, generally accepted accounting principles, generally accepted government auditing standards, and Office of Management and Budget Circular No. A-123 policy and compliance.	1. Organize and facilitate the FIP quarterly in process reviews.
	2. Prepare for the Army Audit Committee quarterly meeting.
	3. Document "as-is" situation and provide risk assessment forms and corrective action plans.
	4. Identify current auditability impediments and best practices to resolve impediments.
	5. Conduct SBR field level process evaluation and support SBR auditability efforts.
	6. Verify the existence and completeness of mission critical assets and Environmental Liabilities.
	7. Assist in the development of existence and completeness test plans for mission critical assets and Environmental Liabilities.
	8. Identify corrective actions for existence and completeness of mission critical assets and Environmental Liabilities based on results of testing.
2. Assist the Deputy Assistant Secretary of the Army (Financial Operations) with developing information technology infrastructure needed to help Army achieve its FIAR goals.	9. Provide analysis, design, programming, implementation and training for automation of the data collection required to manage the Army's FIP.
	10. Update and maintain a comprehensive audit readiness strategy.
	11. Establish an Army-wide training program to provide training to Army command and installation staff.
3. Provide miscellaneous reports or requirements.	12. Develop weekly status reports and inform COR and CO of any problems or potential problems affecting performance.
	13. Provide to the COR a report showing contractor hours worked and work performed.
	14. Assist with briefings with senior Army leaders and key stakeholders.
	15. Develop additional written reports within the scope of the contract as requested by COR.

Table E-2 lists the 21 CLINs in the AGF audit readiness contract as of November 2012.

Table E-2. AGF Audit Readiness CLINs

Period	CLIN	Description
Base Period (9/28/10 – 10/31/10)	0001	Financial Management Audit
	0002	Travel and Per Diem
Option Period 1 (11/1/10 – 9/27/11)	1001	Financial Management Audit Task 1 and 2
	1002	Other Direct Costs
	1003	Defense Base Act Insurance
	1004	Travel and Per Diem
	1005	Contract Manpower Reporting FY 2011
	1006	Financial Management Audit Task 1 and 2 National Guard Bureau
	1007	Travel and Per Diem National Guard Bureau
Option Period 2 (9/28/11 – 9/27/12)	2001	Financial Management Audit Task 1 and 2
	2002	Other Direct Costs
	2003	Defense Base Act Insurance
	2004	Travel and Per Diem
	2005	Contract Manpower Reporting FY 2012
	2006	Financial Management Audit Task 1 and 2 National Guard Bureau
	2007	Travel and Per Diem National Guard Bureau
Option Period 3* (9/28/12 – 9/27/13)	3001	Financial Management Audit Task 1 and 2
	3002	Other Direct Costs
	3003	Defense Base Act Insurance
	3004	Travel and Per Diem
	3005	Contract Manpower Reporting FY 2013

**The AGF audit readiness contract expired on April 9, 2013, before the end of the third option period because it reached the contract ceiling. On April 9, 2013, a follow-on AGF audit readiness contract was awarded with a ceiling of $37.6 million and is scheduled to expire on July 9, 2014.*

Appendix F

Summary of the Contracting Officer's Representative File Review

On November 7 and 8, 2012, the CEHNC CO performed the first COR File Review of the AGF audit readiness contract. In a memorandum dated December 4, 2012, the CEHNC CO identified the corrective actions needed to remedy weaknesses. The following table lists 7 topics from the COR File Review, 24 specific areas reviewed, and the corrective actions for 11 weaknesses identified.

Table. Results of COR File Review and the Corrective Actions

Topic	Area Reviewed	Results	Corrective Action
1. Administrative Issues	Is the COR nomination memorandum on file?	No	Requested the nomination package from the nominating supervisor.
	Has the COR been designated in writing?	Yes	Not Applicable
	Is the COR's training complete?	Yes	Not Applicable
2. Interview	Is the COR aware of his responsibility to identify any conflict of interest?	Yes	Not Applicable
	Is the COR aware of his responsibility to notify the CO of reassignment or separation?	Yes	Not Applicable
	Does the COR verify labor categories?	Yes	Not Applicable
3. Contract Surveillance	Is the COR signing written communication with the contractor as "COR?"	No	All correspondence from the COR should include a signature block that specifies that he is the COR.
	Does the COR file contain surveillance reports that are complete and well documented?	No	A narrative of the results of the surveillance or inspection should be composed by the COR, signed, and submitted after each occurrence; monthly at a minimum.
	Does the COR produce memorandum for record or minutes of all meetings with the contractor?	No	The COR should develop a brief high level memorandum for record to document meetings concerning the contract and contractor performance. Attached to that summary should be detailed minutes produced by the contractor as appropriate.

Topic	Area Reviewed	Results	Corrective Action
4. Invoice or Receiving Reports	Are invoices annotated to reflect timely and proper processing?	Yes	Not Applicable
	Does the COR routinely determine the reasonableness of the costs incurred?	Yes	Not Applicable
	Does the COR appropriately apply the provisions of the Prompt Payment Act?	Yes	Not Applicable
5. Contractor Performance Assessment	Is the COR documenting contractor performance in accordance with FAR 42.1502?	No	Documentation tied to performance should be generated regarding surveillance or inspection reports, COR meeting minutes pertaining to contractor performance, and initiation of the contract in the Contractor Performance Assessment Reporting System.
6. Procedures	Does the COR receive and review progress reports?	Yes	Not Applicable
	Is the COR submitting the periodic performance reports to the CO?	No	Performance reports should be submitted in conjunction with the monthly surveillance reports. Suggest that a section be added to the surveillance report that discusses contractor performance for streamlining purposes.

Topic	Area Reviewed	Results	Corrective Action
7. Records	Is COR maintaining copies of contract, mods, property records and designation memorandum?	Yes	Not Applicable
	Is COR maintaining copies of all letters to and from contractor and all deliverables?	Yes	Not Applicable
	Is COR maintaining copies of invoices?	Yes	Not Applicable
	Is COR maintaining a copy of QASP?	Yes	Not Applicable
	Is COR maintaining evidence of oversight?	No	Monthly reports of surveillance and contractor performance should be submitted and validated.
	Is COR maintaining copies of contractor's periodic performance reports?	No	Monthly reports of surveillance and contractor performance should be submitted and validated.
	Is COR maintaining a record of inspections?	No	A narrative of the results of the surveillance or inspection should be composed by the COR, signed, and submitted after each occurrence; monthly at a minimum.
	Is COR maintaining a memorandum for record or minutes of any meetings with the contractor?	No	A sample survey will be provided to the COR and that annual customer satisfaction survey should be completed in January 2013 and used as input for documenting contractor performance.
	Is COR maintaining records relating to the contractor's quality control system and plan?	No	The COR should provide appropriate documentation pertaining to the contractor's quality control plan as required.

Management Comments

Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer, DoD

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

COMPTROLLER

FEB 21 2014

MEMORANDUM FOR PROGRAM DIRECTOR, FINANCIAL MANAGEMENT AND REPORTING, DOD OFFICE OF INSPECTOR GENERAL

SUBJECT: Response to Department of Defense Office of Inspector General Draft Report, "Army Financial Improvement Plans Generally Managed Effectively but Better Contract Management Needed"

We received the subject January 21, 2014, draft audit report and reviewed your recommendation to the Under Secretary of Defense (Comptroller)/Chief Financial Officer. A response that addresses your recommendation is attached.

We appreciate the opportunity to review and comment on the draft audit report. My staff point of contact is [redacted] She can be reached a[redacted]

Mark E. Easton
Deputy Chief Financial Officer

Attachment:
As stated

Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer, DoD (cont'd)

DOD IG DRAFT REPORT – DATED JANUARY 21, 2014
DOD IG PROJECT NO. D2012-D000FI-0111.000

"ARMY FINANCIAL IMPROVEMENT PLANS GENERALLY MANAGED EFFECTIVELY BUT BETTER CONTRACT MANAGEMENT NEEDED"

OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER) (OUSD(C)) RESPONSE TO THE DOD IG RECOMMENDATION

RECOMMENDATION A: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, require a cost-benefit analysis that fully considers the costs associated with performing an independent examination during the Assertion/Evaluation Phase when a reporting entity does not demonstrate that significant internal controls are operating effectively.

OUSD(C) RESPONSE: Partially concur. In lieu of the recommended cost-benefit analysis, the Director, Financial Improvement and Audit Readiness (FIAR), will reassess the criteria the FIAR Directorate uses to evaluate audit readiness asssertions. New review procedures will likely require all assertions to ascertain that the reporting entity has demonstrated that internal controls are operating effectively, and that all deal breakers have been met prior to FIAR's approval to move forward to an exam.

Attachment

Assistant Secretary of the Army (Financial Management and Comptroller)

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
FINANCIAL MANAGEMENT AND COMPTROLLER
109 ARMY PENTAGON
WASHINGTON DC 20310-0109

REPLY TO
ATTENTION OF

MEMORANDUM FOR Assistant Inspector General for Audit, Department of Defense Inspector General, 4800 Mark Center Drive, Alexandria, VA 22350-1500

SUBJECT: Army Follow-Up Response to (Army Financial Improvement Plans Generally Managed Effectively But Better Contract Management Needed) Draft Report - D2012FI-0111

1. Enclosed please find our follow-up response to recommendations in the subject final report. You requested comments on the following Recommendations B.2.a and B.2.b

2 . My point of contact for this action is [redacted] He can be reached by e-mail at [redacted] or by telephone at [redacted]

Enclosure

Thomas Steffens
Director, Accountability and Audit Readiness

Printed on Recycled Paper

Assistant Secretary of the Army (Financial Management and Comptroller) (cont'd)

Enclosure: Official Follow-Up Comments

Army Financial Improvement Plans Generally Managed Effectively But Better Contract Management Needed Draft Report - D2012FI-0111

Recommendation

B.2.a Require the supervisor for the contracting officer's representative to solicit and use input received from the contracting officer and assess the performance of the contracting officer's representative based on the input.

B.2.b Adhere to the findings and recommendations from the Chief of Contracting, U.S. Army Corps of Engineers – Huntsville Engineering and Support Center, regarding the need for additional oversight personnel.

Army Follow-up Response: The Assistant Secretary of the Army (Financial Management and Comptroller) (ASA (FM&C)) concurs with the DoDIG assessment and recommendation. ASA (FM&C) transferred all existing contract vehicles to the Aberdeen Proving Ground, Army Contracting Command in April 2013. ASA (FM&C) will comply with the contracting regulations set forth by ACC. In addition, ASA (FM&C) executed plans for additional personnel to receive COTR training and appointment to assist the COR in oversight efforts.

Chief of Contracting, U.S. Army Corps of Engineers – Huntsville Engineering and Support Center

DEPARTMENT OF THE ARMY
HUNTSVILLE CENTER, CORPS OF ENGINEERS
P.O. BOX 1600
HUNTSVILLE, ALABAMA 35807-4301

REPLY TO
ATTENTION OF:

CEHNC-CT 19 February 2014

MEMORANDUM FOR Assistant Inspector General for Audit Policy and Oversight, Office of the Inspector General, Department of Defense

SUBJECT: Draft Response to Department of Defense Office of Inspector General Draft Report, Army Financial Improvement Plans Generally Managed Effectively but Better Contract Management Needed (Project No. D2012-D000FI-0111.000) dated 21 January 2014

This Memorandum responds to the subject report issued on 21 January 2014. The responses in this memorandum are in response to the recommendations addressed to the Chief of Contracting, US Army Corps of Engineers, Huntsville Engineering and Support Center:

Department of Defense Office of Inspector General (DoDIG) Draft Report, recommendations B.1 (a-e), pages 29-30 and C.1 – C.3, page 39.

1. DoDIG Draft Report, recommendation B.1a, page 29.

a. DoDIG Draft Report Recommendation: We recommend that the Chief of Contracting, US Army Corps of Engineers, Huntsville Engineering and Support Center, require the contracting officer to implement the procedures established within the quality assurance surveillance plan.

b. US Army Corps of Engineers, Huntsville Engineering and Support Center's Response to Draft Report Recommendation: CONCUR AND IMPLEMENTED. The Contracting Officer has implemented the requirements of the QASP for the AGF follow-on contract, W912DY-13-F-0037, and the AWCF contract, W912DY-12-F-0088. Both QASPs are compliant with the requirements of the DoD COR Handbook, 22 March 2012. These contracts were subsequently transferred to ACC-APG in May 2013. The QASP, as included in the original General Fund contract, W912DY-10-F-0640, was issued prior to the implementation of the DoD COR Handbook, 22 March 2012. The COR Annual File Review, MFR dated 4 December 2012, cited multiple corrective actions related to contract surveillance. Upon follow-up, the COR made required corrections and continued through the end of the performance period, which ended 9 April 2013.

1

Chief of Contracting, U.S. Army Corps of Engineers – Huntsville Engineering and Support Center (cont'd)

CEHNC-CT
SUBJECT: Draft Response to Department of Defense Office of Inspector General Draft Report, Army Financial Improvement Plans Generally Managed Effectively but Better Contract Management Needed (Project No. D2012-D000FI-0111.000) dated 21 January 2014

2. DoDIG Draft Report, Recommendation B.1b – Page 29.

a. DoDIG Draft Report Recommendation: We recommend that the Chief of Contracting, US Army Corps of Engineers, Huntsville Engineering and Support Center, require the contracting officer and the contracting officer's representative to complete corrective actions based on the Contracting Officer's Representative File Review within six months of the date of this report to verify that the contracting officer and the contracting officer's representative follow US Army Corps of Engineers, Huntsville Engineering and Support Center policies and procedures.

b. US Army Corps of Engineers, Huntsville Engineering and Support Center's Response to Draft Report Recommendation: CONCUR AND IMPLEMENTED. All corrective actions as a result of the 7-8 November 2012 COR Annual File Review have been accomplished. Specific actions and completion dates are outlined below:

- COR Nomination package for the January 2012 nomination was provided.
- E-mails from COR after November 2012 included his signature block.
- Monthly Surveillance reports provided started January 2013.
- Contract loaded into CPARs on 17 December 2012. CPARs final assessment was completed in January 2014.
- Performance reports submitted in conjunction with surveillance reports starting on January 2013.
- COTR appointed in April 2013.

3. DoDIG Draft Report, Recommendation B.1c – Page 29.

a. DoDIG Draft Report Recommendation: We recommend that the Chief of Contracting, US Army Corps of Engineers, Huntsville Engineering and Support Center, direct the contracting officer to require the contracting officer's representative to obtain the substantiating documents needed to determine the accuracy of all labor and travel charges on invoices submitted since September 2010 by the contractor for services rendered on the Army General Fund audit readiness contract.

b. US Army Corps of Engineers, Huntsville Engineering and Support Center's Response to Draft Report Recommendation: CONCUR. The Contracting Officer directed the COR to obtain and provide substantiating documentation in accordance with FAR 52.232-7 in April 2013 for all invoices and for subsequent invoices submitted

2

Chief of Contracting, U.S. Army Corps of Engineers – Huntsville Engineering and Support Center (cont'd)

CEHNC-CT
SUBJECT: Draft Response to Department of Defense Office of Inspector General Draft Report, Army Financial Improvement Plans Generally Managed Effectively but Better Contract Management Needed (Project No. D2012-D000FI-0111.000) dated 21 January 2014

after April 2013. Huntsville Engineering and Support Center's Contracting and Program Management conducted an independent review of these invoices based upon this substantiating documentation. This review was completed in January 2014 upon receipt and review of the final invoice and prior to contract closeout. FAR 52.232-7 indicates that contractor invoices can be substantiated by the submission of any of the following: (i) Individual daily job timekeeping records; (ii) Records that verify the employees meet the qualifications for the labor categories specified in the contract; or (iii) Other substantiation approved by the Contracting Officer. The Contracting Officer utilized information consistent with items (ii) and (iii) above to substantiate all invoices. Huntsville Engineering and Support Center acknowledges that the DoDIG has now qualified in the report that it considers item (i) as the most appropriate form of substantiating documentation. As a result, the Contracting Officer will obtain documentation consistent with item (i) and conduct a review of all labor and travel charges on invoices submitted since September 2010. An estimated schedule is listed for completion of the review:

1. Request documents from IBM - February 2014
2. Receive documents from IBM - April 2014
3. Conduct review of substantiating documentation - April-May 2014
4. Management review – June 2014
5. Submission of review to DoDIG – July 2014

4. DoDIG Draft Report, Recommendation B.1d – Page 30.

a. DoDIG Draft Report Recommendation: We recommend that the Chief of Contracting, US Army Corps of Engineers, Huntsville Engineering and Support Center, direct the contracting officer to require the contracting officer's representative to routinely obtain and review substantiating documents in support of all labor and travel invoices before approving them.

b. US Army Corps of Engineers – Huntsville Engineering and Support Center's Response to Draft Report Recommendations: CONCUR. The Contracting Officer directed the COR to obtain and review the substantiating documentation in accordance with FAR 52.232-7 in April 2013 for all invoices and for subsequent invoices submitted after April 2013. The contract was closed out in January 2014.

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Chief of Contracting, U.S. Army Corps of Engineers – Huntsville Engineering and Support Center (cont'd)

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5. DoDIG Draft Report, Recommendation B.1e – Page 30.

   a. DoDIG Draft Report Recommendation: We recommend that the Chief of Contracting, US Army Corps of Engineers, Huntsville Engineering and Support Center, direct the contracting officer to perform an analysis of the workload for the contracting officer's representative to determine the level of additional support needed for adequate oversight and request that the Assistant Secretary of the Army (Financial Management and Comptroller) nominate additional personnel to perform oversight of the Army General Fund and Army Working Capital Fund Audit Readiness Contracts, if determined necessary.

   b. US Army Corps of Engineers, Huntsville Engineering and Support Center's Response to Draft Report Recommendations: CONCUR. The Contracting Officer conducted this workload analysis during the COR file review in December 2012 and recommended that either an alternate COR or a COTR be appointed to assist the primary COR with his oversight responsibilities. A COTR was appointed on the original GF contract in January 2013 and the AGF follow-on contract in April 2013. Upon transfer of contracts to ACC-APG in April 2013, CEHNC informed the new contracting office of the potential need for additional COTRs. USACE has been focusing more heavily on proper COR management across the organization and has implemented the use of the Army's Contracting Officer's Representative Management System (CORMS) in accordance with OPORD 2012-53. All COR nominations, appointments and records are processed, tracked and managed within the Virtual Contracting Enterprise (VCE) Contracting Officer Representative Module (CORM). The COR nomination provides the contracting officer with the necessary information to determine if the nominee is qualified to serve as a COR for a specific contract and requires the nominee's supervisor to support the nomination. CORMS allows a prospective COR to create a profile and process a nomination package for one or multiple contracts and/or orders as well as provide contracting personnel a web based portal for all relevant COR actions; such as training certificates, monthly reports, termination letters and annual reviews. CORMS is an essential tool for tracking and managing Army CORs. The use of CORMs addresses one of the critical

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shortcomings identified in Army Contracting; the lack of oversight over service contracts worldwide.

6. DoDIG Draft Report, Recommendation C.1 – Page 39.

a. DoDIG Draft Report Recommendation: We recommend that the Chief of Contracting, US Army Corps of Engineers, Huntsville Engineering and Support Center, establish controls to verify that the contracting officers comply with the Reimbursable Orders Policy and Work Instruction CEHNC-WI-71-03, "Accepting and Returning Funds," 2 September 2011.

b. US Army Corps of Engineers, Huntsville Engineering and Support Center's Response to Draft Report Recommendations: CONCUR. A control process is now in place where the supervisor/senior analyst reviews, validates and certifies every action against a financing appropriation. Additionally, the process is audited as part of the quality assurance program and is continually emphasized in training and counseling. The use of a financing appropriation is common for reimbursable activity. Huntsville Center does not process any action against the financing appropriation without a source funding document from the customer to support the action. The source funds are documented in CEFMS and therefore it is not possible to over obligate Army Military Construction accounts. There were no statutory violations regarding the obligation or recording of funds.

7. DoDIG Draft Report, Recommendation C.2 – Page 39.

a. DoDIG Draft Report Recommendation: We recommend that the Chief of Contracting, US Army Corps of Engineers, Huntsville Engineering and Support Center, correct the financing appropriations for ten contract line item numbers, so they match the funding appropriations that the Assistant Secretary of the Army (Financial Management and Comptroller) and the Army National Guard provided.

b. US Army Corps of Engineers, Huntsville Engineering and Support Center's Response to Draft Report Recommendations: QUALIFIED CONCUR. We agree in concept to this recommendation, however, the Corps of Engineers Financial System will not allow changes once the financing appropriation is selected and an obligation recorded against the reimbursable order. CEHNC performed an administrative modification on 4 April 2013, which included additional informational sub-CLINs that indicated a correction to the funding appropriations.

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Chief of Contracting, U.S. Army Corps of Engineers – Huntsville Engineering and Support Center (cont'd)

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8. DoDIG Draft Report, Recommendation C.3 – Page 39.

a. DoDIG Draft Report Recommendation: We recommend that the Chief of Contracting, US Army Corps of Engineers, Huntsville Engineering and Support Center, develop procedures to validate that the Army General Fund Audit Readiness Contract Obligations are corrected and match those in the Corps of Engineers Financial Management System in accordance with DoD 7000.14-R, "DoD Financial Management Regulation."

b. US Army Corps of Engineers, Huntsville Engineering and Support Center's Response to Draft Report Recommendations: CONCUR. The Contracting Directorate will initiate an annual module dedicated to this subject within its Train for Knowledge, Train for Determination, & Train for Success (TTT) training curriculum and add a section to all branch desk guides that were established in 2013. The Resource Management Directorate has also conducted training and reviewed procedures to identify discrepancies. As a control mechanism, we have maximized the use of competent reviews of contract actions by senior specialists/KO prior to award which includes validation of funding information. In addition, validation of funding information will be added as a component of monthly Program Compliance Reviews (PCR) conducted by the Business Oversight Branch. Resource Management will be added as a PCR team member.

JOHN MAYES
Chief of Contracting Directorate

ROBERT J. RUCH
Colonel, EN
COMMANDING

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Acronyms and Abbreviations

ACC	Army Contracting Command
AGF	Army General Fund
ASA(FM&C)	Assistant Secretary of the Army (Financial Management and Comptroller)
AWCF	Army Working Capital Fund
CEFMS	Corps of Engineers Financial Management System
CEHNC	U.S. Army Corps of Engineers - Huntsville Engineering and Support Center
CLIN	Contract Line Item Number
CO	Contracting Officer
COR	Contracting Officer's Representative
COTR	Contracting Officer's Technical Representative
DoD FMR	DoD Financial Management Regulation
FAR	Federal Acquisition Regulation
FIAR	Financial Improvement and Audit Readiness
FIP	Financial Improvement Plan
GFEBS	General Fund Enterprise Business System
IBM	International Business Machines
O&M	Operation and Maintenance
OM&S	Operating Materials and Supplies
QASP	Quality Assurance Surveillance Plan
SBR	Statement of Budgetary Resources
USACE	U.S. Army Corps of Engineers
USD(C)/ CFO	Under Secretary of Defense (Comptroller)/ Chief Financial Officer, DoD

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