

November 14, 2005



# Financial Management

## Report on Accuracy of Air Force Contract Financing Amounts (D-2006-025)

Department of Defense  
Office of Inspector General

Constitution of  
the United States

A Regular Statement of Account of the Receipts and Expenditures of all public Money shall be published from time to time.

Article I, Section 9

### **Additional Copies**

To obtain additional copies of this report, visit the Web site of the Department of Defense Inspector General at <http://www.dodig.mil/audit/reports> or contact the Secondary Reports Distribution Unit, Audit Followup and Technical Support at (703) 604-8937 (DSN 664-8937) or fax (703) 604-8932.

### **Suggestions for Future Audits**

To suggest ideas for or to request future audits, contact Audit Followup and Technical Support at (703) 604-8940 (DSN 664-8940) or fax (703) 604-8932. Ideas and requests can also be mailed to:

ODIG-AUD (ATTN: AFTS Audit Suggestions)  
Department of Defense Inspector General  
400 Army Navy Drive (Room 801)  
Arlington, VA 22202-4704

DEPARTMENT OF DEFENSE

**hotline**

**To report fraud, waste, mismanagement, and abuse of authority.**

Send written complaints to: Defense Hotline, The Pentagon, Washington, DC 20301-1900  
Phone: 800.424.9098 e-mail: [hotline@dodig.osd.mil](mailto:hotline@dodig.osd.mil) [www.dodig.osd.mil/hotline](http://www.dodig.osd.mil/hotline)

### **Acronyms**

ACRN	Accounting Classification Reference Number
CPAS	Central Procurement Accounting System
DFAS	Defense Finance and Accounting Service
FAR	Federal Acquisition Regulation
GAFS-BL	General Accounting and Financial System - Base Level
GAFS-R	General Accounting and Financial System - Rehost
MOCAS	Mechanization of Contract Administration Services



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-4704

November 14, 2005

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE  
(COMPTROLLER)/CHIEF FINANCIAL OFFICER  
ASSISTANT SECRETARY OF THE AIR FORCE  
(FINANCIAL MANAGEMENT AND COMPTROLLER)  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE DENVER CENTER

SUBJECT: Report on Accuracy of Air Force Contract Financing Amounts (Report  
No. D-2006-025)

We are providing this report for information and use. We considered management comments on a draft of this report when preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore no additional comments are required.

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. James L. Kornides at (614) 751-1400 ext. 211 or Mr. Mark Starinsky (614) 751-1400 ext. 231. See Appendix B for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

A handwritten signature in black ink, reading "Paul J. Granetto", is positioned above the typed name.

Paul J. Granetto, CPA  
Assistant Inspector General  
Defense Financial Auditing  
Service

## Department of Defense Office of the Inspector General

Report No. D-2006-025

(Project No. D2005FJ-0039)

November 14, 2005

### Accuracy of Air Force Contract Financing Amounts

#### Executive Summary

**Who Should Read This Report and Why?** Civilian and military personnel who are responsible for collecting, summarizing, and reporting contract financing payments on financial statements should read this report. It discusses ways the Air Force can increase the accuracy of the amount it reports for contract financing in its financial statements.

**Background.** Contract financing payments are authorized Government payments to a contractor prior to delivery of supplies or services to the Government. The Air Force reported \$10.7 billion as a contract financing balance in FY 2004. The balance is a part of the amount reported in the FY 2004 Balance Sheet as “Other Assets.” We did not examine all of the data included in the FY 2004 outstanding contract financing balance but we reviewed the detailed transactions from the first 6 months of FY 2004 to evaluate the Air Force process for deriving the balance.

**Results.** The Air Force financial statements did not reflect approximately \$2.6 billion of the contract financing transactions that occurred during the first 6 months of FY 2004. The \$10.7 billion reported balance excluded the following data:

- about \$2.2 billion of transactions that were funded with non-procurement appropriations,
- \$185 million of transactions that were generated by certain Air Force accounting stations,
- \$29 million of transactions that involved canceled appropriations, and
- \$233 million of contract financing transactions that were misidentified or incorrectly posted as “Expenses” rather than “Other Assets.”

Additionally, the Air Force and the Defense Finance and Accounting Service (DFAS) lacked adequate supporting documentation for \$245 million (absolute) of the amount that it did report. As a result, the Air Force mid-year financial statement did not accurately reflect the amounts of contract financing transactions processed by DFAS. Unless the Air Force corrects its processes for reporting contract financing, there is a risk that future Air Force financial statements will be materially misstated. (See the Finding section of the report for the detailed recommendations.)

We also reviewed the management control program as it related to the completeness and accuracy of Air Force contract financing payment amounts.<sup>1</sup> The Air Force and DFAS

---

<sup>1</sup> The management control program includes management’s self-evaluation and reporting processes.

Denver management controls for accurately reporting contract financing balances were not adequate to ensure that the outstanding contract financing balance was complete and supportable. Our recommendations, if implemented, will correct the identified weaknesses.

**Management Comments and Audit Response.** The acting Assistant Secretary of the Air Force (Financial Management and Comptroller) concurred and took action to direct all accounting stations to report all contract financing payments to DFAS Denver. The DFAS Denver, Director, Accounting Services Air Force concurred and began actions to include all Air Force appropriations in the contract financing balance and established controls to prevent duplicate posting. Therefore, no additional comments are required. See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

**Management Actions.** During the audit, DFAS updated the posting rules of future contract financing payments to general ledger account code 1450, Prepayments. The process is now automated in the General Accounting and Financial System-Rehost thus eliminating manual journal vouchers. We commend DFAS for implementing corrective actions. See the Finding section for the complete discussion of the management actions.

# Table of Contents

---

<b>Executive Summary</b>	i
<b>Background</b>	1
<b>Objectives</b>	2
<b>Finding</b>	
Accuracy of Air Force Contract Financing Amounts	3
<b>Appendixes</b>	
A. Scope and Methodology	9
Management Control Program Review	10
Prior Coverage	11
B. Report Distribution	12
<b>Management Comments</b>	
Department of the Air Force	15
Defense Finance and Accounting Service Denver	16

---

## Background

This audit was performed in support of Public Law 101-576, the “Chief Financial Officers Act of 1990,” November 15, 1990, as amended by Public Law 103-356, the “Federal Financial Management Act of 1994,” October 13, 1994.

**Outstanding Contract Financing Balance.** The Air Force reports its contract financing as an outstanding contract financing balance and that amount is included in the Other Assets account on the Balance Sheet of the Air Force financial statements. The outstanding contract financing balance comprises several types of transactions. The first type of transaction is contract financing payments, which are authorized Government payments to a contractor before the Government actually accepts the supplies or services, such as components for Air Force weapon systems. Another type of transaction that affects the outstanding contract financing balance occurs when the final product or service is delivered. Upon delivery, the Air Force records a negative adjustment (recoupment) to remove the associated contract financing amounts, which results in a reduction of the total contract financing balance. Other transactions, such as adjustments that the Air Force or Defense Finance and Accounting Service (DFAS) records as a result of research related to the original contract financing payments, also affect the outstanding balance.

Federal Acquisition Regulation (FAR) 32.503-5, “Administration of Progress Payments,” requires that contract financing be supported by documentation establishing the fair value of the work accomplished by the contractor. In its financial statements, the Air Force reported three types of contract financing payments: performance-based payments, progress-based payments, and commercial financing interim payments.

**Performance-Based Payments.** According to the FAR, performance-based payments are contract financing payments made on the basis of performance measured by objective, quantifiable methods; accomplishment of defined events; or other quantifiable measures of results.

**Progress-Based Payments.** Progress-based payments are contract financing payments made on the basis of the contractor cost or percentage of completion of the contract accomplished. Defense Federal Acquisition Regulation Supplement 232.501-1, “Customary Progress Payment Rates,” designates a customary DoD progress payment rate of 80 percent of a contractor’s cumulative allowable costs. Contractors provide cost data through progress payment invoices that summarize the total allowable costs incurred on a contract as of a specified date. The FAR states that progress payments may include reasonable and applicable costs consistent with generally accepted accounting principles. In addition, payments that the contractor made in some form to subcontractors or suppliers are allowable. However, progress payments to the contractor may not include costs that subcontractors or suppliers have incurred, pension contributions accrued by the contractor, or costs that would otherwise be capitalized. As goods and services are provided, progress payments are recouped based on the progress payment rate established in the contract.

---

**Commercial Financing Interim Payments.** Commercial financing interim payments are contract financing payments made under the following three circumstances: the contract item financed is a commercial supply or service, the contract price exceeds the simplified acquisition threshold, and the contracting officer determines that it is appropriate or customary in the commercial marketplace to make financing payments for the item.

**Amount of Contract Financing in FY 2004.** The Defense Contract Management Agency is primarily responsible for administering and approving contract financing payments on DoD contracts, and DFAS is responsible for payment. In the first 6 months of FY 2004, the DFAS Columbus Center disbursed about \$12.6 billion in progress payments, performance-based payments, and commercial financing interim payments to Defense contractors, \$11.4 billion of which were for non-foreign military sales. Air Force contract financing disbursements totaled about \$4.8 billion for the first 6 months of FY 2004. The Air Force reported \$10.7 billion in contract financing payments on the financial statements for FY 2004.

**Processing Contract Financing Payments.** DFAS Columbus personnel process contract financing transactions through the Mechanization of Contract Administration Services (MOCAS) system. MOCAS assigns all Air Force contract financing transactions (payments, liquidations, and adjustments) the transaction code “W” and electronically transmits the information to the responsible DFAS accounting stations. At the time of the audit, the MOCAS transactions were transmitted into either the Central Procurement Accounting System (CPAS) or General Accounting and Financial System – Base-Level (GAFS-BL). The CPAS and GAFS-BL systems at the accounting stations apply a code of “9940” to all transactions that have been coded W. During the audit, DFAS ceased using CPAS for processing Air Force contract financing transactions and began using GAFS-BL exclusively.

DFAS Denver uses General Accounting and Financial System - Rehost (GAFS-R) to account for Air Force contract financing transactions. GAFS-R receives contract financing data transmitted by other accounting stations that use CPAS and GAFS-BL. At year end, DFAS Denver runs a query that pulls the cumulative balance of contract financing transactions coded 9940 for open procurement appropriations from GAFS-R and reports this amount on the Air Force financial statements.

## Objectives

The primary objective of our audit was to determine whether the Air Force accurately aggregated and reported contract financing payments that were paid by DFAS Columbus during FY 2004. We also reviewed the management controls related to the completeness and accuracy of reporting Air Force contract financing payment amounts in the financial statements. See Appendix A for a discussion of the scope and methodology, our review of the management control program, and prior audit coverage related to the objectives.



---

## **Accuracy of Air Force Contract Financing Amounts**

The Air Force process for reporting contract financing amounts on the General Fund Balance Sheet needed improvement in the areas of accuracy and supporting documentation. Specifically, our review of contract financing transactions dated October 1, 2003, through March 31, 2004, showed that the Air Force and DFAS did not report approximately \$2.6 billion (absolute) worth of transactions associated with contract financing payments. Additionally, the Air Force and DFAS lacked adequate supporting evidence for \$245 million (absolute) of reported transaction amounts.

The amounts were not reported because the Air Force and DFAS did not have specific written policy for including all contract financing transactions in the Air Force trial balance and did not have controls in place to ensure that only valid, supportable contract financing transactions are included in the financial statements. As a result, the Air Force mid-year financial statement did not accurately reflect the amounts of contract financing transactions processed by DFAS. Unless the Air Force corrects its process of reporting contract financing, there is a risk that future Air Force financial statements will be materially misstated.

## **Reconciliation of Contract Financing Transactions**

We reconciled MOCAS and GAFS-R contract financing transactions and determined that the Air Force excluded about \$2.6 billion of data from its second quarter financial statements. To the extent possible, we reconciled MOCAS contract financing payments and related transactions to GAFS-R contract financing postings for transactions dated October 1, 2003, through March 31, 2004. To perform the reconciliation, we summarized the detailed MOCAS transactions by contract number, accounting classification reference number, and transaction date so that we could compare them to the summary-level data in GAFS-R. Although we were able to match a majority of the transactions, the reconciliation identified completeness and validity questions about the contract financing data presented in the Air Force financial statements. Table 1 shows a summary of MOCAS data reconciliation results.

	<u>Number of Invoices</u>	<u>Net Dollar Value (millions)</u>	<u>Percentage of Net Total</u>	<u>Absolute Dollar Value (millions)</u>	<u>Percentage of Absolute total</u>
Accurately Matched with GAFS-R	5,845	\$339	70	\$10,106	79
Excluded Non-Procurement Funds	2,338	(214)	(44)	2,195	17
Excluded Accounting Stations	26	181	37	185	1
Excluded Canceled Appropriations	104	(27)	(6)	29	0
Excluded Miscellaneous	<u>416</u>	<u>205</u>	<u>42</u>	<u>233</u>	<u>2</u>
<b>Total MOCAS Transactions</b>	<b>8,729</b>	<b>\$484</b>	<b>100*</b>	<b>\$12,748</b>	<b>100*</b>

\*Rounded.

Based on our testing, the Air Force needed to have a process in place so that all valid contract financing balances were reported.

**MOCAS Matched with GAFS-R.** Our reconciliation of MOCAS records for the 6 month period between October 1, 2003, and March 31, 2004, showed that 5,845 of 8,951 transactions matched GAFS-R records. The 5,845 transactions totaled \$339 million (net) and \$10.1 billion (absolute). The reconciled amount represented 70 (net) and 79 (gross) percent of the total MOCAS transactions for that period. All MOCAS contract financing transactions should be recorded in GAFS-R.

**Completeness of GAFS-R Postings.** According to MOCAS records, DFAS Denver excluded a net \$145 million of contract financing transactions from the Air Force financial records. The \$145 million was material in relation to the net MOCAS disbursement amount of \$444 million for the 6 month period. We sorted the transactions into the four categories that follow.

**Excluded Non-Procurement Funds.** DFAS Denver did not include any contract financing associated with non-procurement appropriations in the Air Force financial statements.<sup>2</sup> About negative \$214 million (net) and \$2.2 billion

<sup>2</sup> Non-procurement appropriations include Operations and Maintenance as well as Research, Development, Testing, and Evaluation funding.

---

(absolute) of the transactions we examined were funded with non-procurement appropriations. According to DFAS Denver records, the cumulative balance for contract financing amounts for these appropriations totaled \$405 million (net).

DFAS Denver personnel responsible for posting contract financing amounts could not provide written policy for excluding payments from non-procurement appropriations from the financial statements. The DFAS accountant responsible for posting the transactions stated that the posting logic was in place when she took the position and, therefore, she continued to include only the contract financing payments funded through the procurement appropriation. To correct this condition DFAS Denver needs to write a revised policy that directs that all contract financing payments be included for financial reporting, regardless of the appropriation type and provide training to personnel who post the transactions.

**Excluded Accounting Stations.** DFAS Denver excluded approximately \$181 million (net) of contract financing amounts from the Air Force Balance Sheet because two Air Force accounting stations did not properly identify the contract financing transactions when reporting them to DFAS Denver.

According to the Office of the Assistant Secretary of the Air Force (Financial Management and Comptroller), the \$181 million in contract financing was not included in the contract financing balance on the financial statements because the accounting systems were not coding the transactions properly. To correct this condition, the Assistant Secretary of the Air Force (Financial Management and Comptroller) needs to establish controls to ensure that these accounting stations report all contract financing payments.

**Excluded Canceled Appropriations.** The Air Force did not report outstanding contract financing amounts totaling negative \$27 million (net) or \$29 million (absolute) that involved canceled appropriations. Contract financing transactions should not automatically be excluded from financial reporting when the related appropriation becomes canceled. For example, it may take up to 8 years for a final product to be delivered on a contract that was financed by the Air Force in the first or second year of the contract. The recoupments associated with those financing payments should not automatically be excluded simply because the paying appropriation will cancel before all recoupments are made.

According to DFAS Denver personnel, there was no written policy to exclude these amounts. Cognizant DFAS Denver personnel stated that DFAS Denver has been excluding these types of transactions for some time. However, it is not proper to exclude all balances related to contract financing simply because appropriations have canceled. To correct this condition, DFAS needs to establish a policy that ensures proper reporting of contract financing balances, regardless of the status of the appropriation.

**Other Excluded Transactions.** The reconciliation between MOCAS records and GAFS-R records also showed that contract financing transactions from MOCAS totaling \$205 million (net) or \$233 million (absolute) were excluded from GAFS-R. We provided DFAS Denver data on the transactions that were not included in the GAFS-R balance for their review.

DFAS Denver personnel determined that the contract financing transactions had already been entered into GAFS-R. However, these transactions were not included in the contract financing balance, and therefore, should still be in the expense account. DFAS Denver could not provide an explanation as to why the system did not include these when the query was run for contract financing balances. To correct this process, DFAS Denver needs to write procedures to ensure that all contract financing amounts are posted to the correct account.

**Validity of GAFS-R Data.** The reconciliation of MOCAS contract financing transactions demonstrates that the majority of the GAFS-R transactions from October 1, 2003, through March 31, 2004, match the MOCAS records. These are the transaction data DFAS uses to support the Other Assets amount on the Air Force balance sheet. However, DFAS Denver posted a significant amount, \$245 million (absolute), in contract financing transactions in GAFS-R that did not match any MOCAS transactions. Table 2 shows a breakout of the reconciliation between the GAFS-R contract financing data and the MOCAS transactions.

**Table 2. Analysis of GAFS-R data**

	Number of <u>Invoices</u>	Net Dollar Value <u>(millions)</u>	Percentage of Net Total	Absolute Dollar Value <u>(millions)</u>	Percentage of Absolute <u>Total</u>
Accurately Matched with MOCAS*	3,846	\$339	61	\$10,029	98
Unsupported	<u>78</u>	<u>214</u>	<u>39</u>	<u>245</u>	<u>2</u>
<b>Total</b>	<b>3,924</b>	<b>\$553</b>	<b>100</b>	<b>\$10,274</b>	<b>100</b>

\* The Number and absolute value of the matches do not correspond exactly with the MOCAS matches because the GAFS-R data were provided at a more summary level.

We provided 78 unsupported transactions valued at \$214 million (net) to DFAS Denver for further review. As of the date of this report, they have been unable to provide a valid explanation for the source of these transactions. Many of the transactions represented journal vouchers with no detailed supporting documentation. In addition, on one occasion, transactions coming from DFAS Dayton were inadvertently transmitted twice, resulting in a double-posting of that day's transactions. The error was not corrected until the audit brought this issue to the attention of DFAS Denver.

DFAS Denver and DFAS Dayton did not have controls in place to prevent duplicate postings of contract financing transactions or to ensure that documentation support manual entries related to contract financing.

## Effect on Air Force Financial Statements

The Air Force did not accurately report \$2.8 billion (gross) of contract financing payments and associated transactions for the 6 month period between

---

October 1, 2003, and March 31, 2004. A lack of adequate internal control procedures, such as transaction-based reconciliations, was the primary cause of the inaccurate reporting. The \$2.8 billion misstatement includes transactions that, if posted, could have increased or decreased the reported Other Assets amount on the Air Force balance sheet. The inaccuracies that we identified in the data that we reviewed were material to the dollar value of the balance sheet amount. The reporting weaknesses associated with the contract financing data could materially impact the \$10.7 billion of reported Air Force contract financing payments on the FY 2004 Air Force General Fund Balance Sheet.

Implementing the recommendations in this report should improve the accuracy and completeness of the reported Air Force contracting balance, assist the Air Force in preparation for a full audit of its reported contract financing balance, and move the Air Force closer to obtaining an audit opinion.

## Management Actions

During the audit, DFAS updated the posting rules of future contract financing payments to general ledger account code 1450, Prepayments. The process is now automated in GAFS-R thus eliminating manual journal vouchers.

## Recommendations and Management Comments

**Revised Recommendation.** As a result of discussions with Air Force personnel, we revised Recommendation 2. to clarify the intent of the recommendation. Specifically, the recommendation referred to only those accounting stations that are under the Air Force control, as discussed on page 5 of the report.

### 1. We recommend that Director, DFAS Denver:

**a. Establish procedures that require reporting of all contract financing transactions including those associated with non-procurement and canceled appropriations and provide training to personnel responsible for posting contract financing transactions.**

**Management Comments.** DFAS Denver concurred with the recommendation and stated that it had issued policy and took corrective action to include all Air Force appropriations in the Air Force contract financing payment balance. Management agrees that all contract financing payments should be included in the Air Force balance whether applicable to an open or canceled appropriation. The new policy requires that amounts included in accounting records for canceled appropriations citing materiel program code 9940 (contract financing) must be reviewed and validated prior to inclusion in the Air Force contract financing payment balance.

**b. Establish internal control procedures to ensure that only valid contract financing transactions are reported in the financial statements, such**

---

**as adequate supporting documentation requirement for manual journal vouchers and controls to prevent duplicate posting of transactions.**

**Management Comments.** DFAS Denver concurred with the recommendation. Management stated that the controls to prevent duplicate posting of transactions from MOCAS is controlled by the prevalidation process. Each payment MOCAS processes is required to be revalidated and earmarked within the appropriate accounting system to ensure that funding is reserved for the actual payment without duplication. In addition, management stated that the Defense Cash Management System - Data File Inventory module will monitor whether the interface file name is duplicated and will not forward duplicate files, if received.

**2. We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller) direct that all accounting stations under the Assistant Secretary of the Air Force (Financial Management and Comptroller) report all contract financing payments to DFAS Denver.**

**Management Comments.** The Assistant Secretary of the Air Force (Financial Management and Comptroller) concurred with the recommendation. He stated that the Air Force was in the process of changing their systems to capture and report all contract financing to DFAS Denver for the applicable accounting stations.

---

## Appendix A. Scope and Methodology

We requested all payments made through MOCAS from October 2003 through March 2004. We requested all accounting associated with these payments, including breakout by ACRN (Accounting Classification Reference Number), type of disbursement (adjustment, collection, disbursement), the accounting station, and appropriation.

We received the disbursement and invoice tables from DFAS Columbus. We performed queries to obtain information about contract financing payments on the disbursement table throughout the course of our audit.

We also received detailed support for the change in the outstanding contract financing amount from October 1, 2003, through March 31, 2004, and summary support for the change from DFAS Denver.

To determine if the detailed transactions for the first two quarters of FY 2004 supported the change in the financial statement amounts, we took the beginning FY 2004 balance (the ending FY 2003 balance). We subtracted the appropriations reported in the FY 2003 ending balance that would have expired in FY 2004 (FY 1996 funds), the excluded accounting stations reported on the FY 2003 amounts, and the FY 2003 in-transit amounts from that balance. We then added the detailed transactions on open and closed appropriations for the 6-month timeframe, and added the FY 2004 in-transit amounts to determine a calculated FY 2004 second quarter ending balance. We then compared the calculated ending balance with the reported ending balance.

We summed the MOCAS records by ACRN with the same posting date to compare against the GAFS-R transactions because GAFS-R generally posted records for contracts with the same ACRN rolled up on the posting date. We then matched the detailed GAFS-R transactions to the MOCAS summary transactions by contract number, ACRN, and dollar amount. For the records that had multiple matches, we manually determined the matching records based on MOCAS transaction date and GAFS-R posting date.

We excluded the MOCAS records with transaction dates from March 25, 2004, through March 31, 2004, and the GAFS-R records with a posting date prior to September 5, 2003 because of the timing differences.

We reviewed contracting financing payments from the first two quarters of FY 2004 to determine the Air Force's process for ensuring completeness and existence.

This financial audit was conducted from October 2004 to April 2005. The audit was performed in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the DoD IG. Audit results are based on contract financing payment balances as of March 31, 2004, as reported by the Air Force. We included tests of management controls considered necessary.

---

**Use of Computer-Processed Data.** We relied on computer-processed data from the MOCAS system to identify contract financing payments disbursed from October 1, 2003, through March 31, 2004, although we did not perform a formal reliability assessment of the computer-processed data. We did not perform a formal reliability assessment of the data because in a prior audit, which used the same data, we determined that the contract number, shipping numbers, and disbursement amounts on the contracts and invoices selected for review generally agreed with the information in the computer-processed data. We did not find errors that would preclude use of the computer-processed data to meet the audit objectives or that would change the conclusions of this report.

**Government Accountability Office High-Risk Area.** The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage of the Defense Financial Management high-risk area.

## Management Control Program Review

DoD Directive 5010.38, “Management Control (MC) Program,” August 26, 1996, and DoD Instruction 5010.40, “Management Control (MC) Program Procedures,” August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

**Scope of the Review of the Management Control Program.** We reviewed the adequacy of the management controls of the Air Force and DFAS Denver over the reporting of contract financing payments on the Balance Sheet. Specifically, we determined whether the Air Force and DFAS Denver accurately reported contract financing balances. We also reviewed the adequacy of management’s self-evaluation of those controls.

**Adequacy of Management Controls.** We identified material management control weaknesses for the Air Force and DFAS Denver, as defined by DoD Instruction 5010.40. The Air Force and DFAS Denver management controls for accurately reporting contract financing balances were not adequate to ensure that the outstanding contract financing balance was complete and supportable. Recommendations 1.a., 1.b., and 2., if implemented, will correct the identified weaknesses. A copy of the report will be provided to the senior official responsible for management controls in the Air Force and DFAS Denver.

**Adequacy of Management’s Self-Evaluation.** The Air Force and DFAS Denver officials did not identify the reporting of the outstanding contract financing balance as an assessable unit and, therefore, did not identify or report the material management control weaknesses identified by the audit.



---

## **Prior Coverage**

During the last 5 years, the Air Force Audit Agency has issued one report discussing the accuracy of the progress payment general ledger account. Unrestricted Air Force Audit Agency reports can be accessed at <https://www.afaq.af.mil/afck/plansreports/reports.shtml>

## **Air Force**

Air Force Audit Agency Report No. F2003-0005-FB3000, "Air Force Progress Payments" April 16, 2003

---

## **Appendix B. Report Distribution**

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

Under Secretary of Defense (Comptroller)/Chief Financial Officer  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)  
Director, Program Analysis and Evaluation

### **Department of the Army**

Auditor General, Department of the Army

### **Department of the Navy**

Naval Inspector General

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

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

### **Other Defense Organizations**

Director, Defense Finance and Accounting Service

### **Non-Defense Federal Organization**

Office of Management and Budget

---

## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Reform  
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform  
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform  
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform



# Department of the Air Force Comments

Final Report  
Reference



DEPARTMENT OF THE AIR FORCE  
WASHINGTON, DC

OFFICE OF THE ASSISTANT SECRETARY

OCT 11 2005

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDITING  
OFFICE OF THE DOD INSPECTOR GENERAL

FROM: SAF/FM

SUBJECT: DoDIG Draft Audit Report, Accuracy of Air Force Contract Financing Amounts,  
(Project D2005FJ-0039), Suspense: 11 Oct 05

This is in reply to your memorandum requesting the Assistant Secretary of the Air Force  
(Financial Management and Comptroller) to provide comments on subject draft report

**Recommendation 2.** We recommend that the Assistant Secretary of the Air Force  
(Financial Management and Comptroller) direct that all accounting stations report all contract  
financing payments to DFAS Denver

**MANAGEMENT COMMENTS.** Concur. I will direct accounting stations to report all  
contract financing payments to DFAS Denver. We have spoken to the affected accounting  
stations, and they are in the process of changing their financial management systems to capture  
and report contract financing payments to DFAS Denver

Please direct any questions to Mary Jean Johnson, SAF/FMBMB, (303) 607-3601

A handwritten signature in black ink, appearing to read "John G. VonGLIS".

JOHN G VONGLIS  
Acting Assistant Secretary of the Air Force  
(Financial Management and Comptroller)

Revised

*Financing the Fight*

---

# Defense Finance and Accounting Service Denver Comments



## DEFENSE FINANCE AND ACCOUNTING SERVICE

6760 E. IRVINGTON PLACE  
DENVER COLORADO 80279-8000

DFAS-ADN/DE

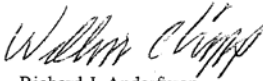
AUG 29 2005

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL, DEFENSE FINANCIAL  
AUDITING SERVICE

SUBJECT: Management Comments to DoDIG Draft Audit Report, "Report on Accuracy of  
Air Force Contract Financing Amounts (Project D2005FJ-0039)

We reviewed the subject draft report of audit and are providing our management  
comments to Recommendations 1 a and 1 b in the attached document.

Questions your staff may have concerning the audit may be directed to Mr. Dan Valdez,  
DFAS-ADN/DE, comm. (303) 676-7253 or DSN 926-7253.

*RJA*  
  
Richard J. Anderfuren  
Director, Accounting Services  
Air Force

Attachment:  
As stated

[www.dfas.mil](http://www.dfas.mil)  
Your Financial Partner @ Work

---

**Management Comments**

**D2005FJ-0039**

**Response to Recommendations**

**Recommendation 1.a.** Establish procedures that require reporting of all contract financing transactions including those associated with non-procurement and canceled appropriations and provide training to personnel responsible for posting contract financing transactions.

**Management Comments.** Partially Concur. Corrective action was taken to include all Air Force appropriations in the Air Force contract financing payment balance. Queries are now run in GAFS-R to extract balances in the applicable materiel program code (MPC) of 9940 for all Treasury Index '57' accounts in lieu of only procurement accounts. The 3rd Quarter Fiscal Year 2005 financial statements included contract financing payments for the Operations & Maintenance and Research, Development, Testing and Evaluation appropriations.

Management agrees that all contract financing payments should be included in Air Force balances whether applicable to an open or canceled appropriation. Amounts included in accounting records for canceled appropriations citing the contract financing payment MPC must be reviewed and validated prior to inclusion in the Air Force contract financing payment balance. These years have large abnormal balances that could greatly understate the reported amount. DFAS field sites will be tasked to provide an initial assessment of the validity of outstanding progress payments in accounting records for canceled accounts, reasons for abnormal amounts, and an estimate of the amount of time needed to accomplish complete validation and corrections. DFAS will then project the estimated completion date to complete action on this recommendation.

**Estimated Completion Date.** December 31, 2005.

Point of Contact: Debra Henderson, DFAS-ADGG/DE, DSN 926-6071.

**Recommendation 1.b.** Establish internal control procedures to ensure that only valid contract financing transactions are reported in the financial statements, such as adequate supporting documentation requirement for manual journal vouchers and controls to prevent duplicate posting of transactions.

**Management Comment.** Concur. The posting of future contract financing payments to general ledger account code (GLAC) 1450, Prepayments, will be automated in GAFS-R with manual journal vouchers being eliminated. The data interfacing into GAFS-R from the field sites coded with the applicable materiel program code of 9940 will directly update GLAC 1450 with no manual intervention necessary.

The controls to prevent duplicate posting of transactions from MOCAS is controlled via the Prevalidation process between MOCAS and GAFS-BL. Each payment MOCAS is processing is

---

required to be revalidated and earmarked within the appropriate accounting system to ensure funding is reserved for when the actual payment is made and processed. Upon the merger of CPAS into GAFS-BL in October 2004, GAFS-BL began receiving the MOCAS transaction interface file through the Defense Cash Management System - Data File Inventory (DCMS-DFI) module where an inventory of files is performed. This module monitors if the interface file name is duplicated and will not forward duplicate files, if received. The actual content/transactions of the file is then handled via the Prevalidation process or through the normal transaction processing within GAFS-BL.

**Estimated Completion Date** September 30, 2005.

**Point of Contact:** Lisa Duggan, DFAS-ADGR/DE, DSN 926-8192





**DEFENSE FINANCE AND ACCOUNTING SERVICE**

6780 E. IRVINGTON PLACE  
DENVER COLORADO 80279-8000

OCT 05 2005

DFAS-ADN/DE

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL, DEFENSE  
FINANCIAL AUDITING SERVICE

SUBJECT: Management Comments to DoDIG Draft Audit Report, "Report on  
Accuracy of Air Force Contract Financing Amounts (Project D2005FJ-  
0039)

Per telephone conversation with Mr Mark Starinsky, action for Recommendation 1.b is closed. We accomplished the posting of future contract financing statements to the general ledger account code (GLAC) 1450, Prepayments, by automating the update posting rules. This automation of posting rules eliminates manual journal vouchers. The automated process and generation of journal vouchers was tested and validated by September 30, 2005.

Questions your staff may have concerning the audit may be directed to Mr. Dan Valdez, DFAS-ADN/DE, comm. (303) 676-7253 or DSN 926-7253.

Richard J. Anderfuren  
Director, Accounting Services  
Air Force

Attachment:  
As stated

---

**Management Comments**

D2005FJ-0039

**Response to Recommendations**

**Recommendation 1.b.** Establish internal control procedures to ensure that only valid contract financing transactions are reported in the financial statements, such as adequate supporting documentation requirement for manual journal vouchers and controls to prevent duplicate posting of transactions.

**Previous Management Comments.** Concur. The posting of future contract financing payments to general ledger account code (GLAC) 1450, Prepayments, will be automated in GAFS-R with manual journal vouchers being eliminated. The data interfacing into GAFS-R from the field sites coded with the applicable materiel program code of 9940 will directly update GLAC 1450 with no manual intervention necessary.

The controls to prevent duplicate posting of transactions from MOCAS is controlled via the Prevalidation process between MOCAS and GAFS-BL. Each payment MOCAS is processing is required to be revalidated and earmarked within the appropriate accounting system to ensure funding is reserved for when the actual payment is made and processed. Upon the merger of CPAS into GAFS-BL in October 2004, GAFS-BL began receiving the MOCAS transaction interface file through the Defense Cash Management System - Data File Inventory (DCMS-DFI) module where an inventory of files is performed. This module monitors if the interface file name is duplicated and will not forward duplicate files, if received. The actual content/transactions of the file are then handled via the Prevalidation process or through the normal transaction processing within GAFS-BL.

**Previous Estimated Completion Date.** September 30, 2005.

Point of Contact: Lisa Duggan, DFAS-ADGR/DE, DSN 926-8192

**Current Management Comments.** Posting rules have been updated to post to GLA 1450 automatically, no longer requiring journal vouchers.

**Completion Date or Estimated Completion Date.** Completed and validated September 30, 2005

Point of Contact: Lisa Duggan, DFAS-ADGR/DE, DSN 926-8444

## **Team Members**

The Department of Defense Office of the Deputy Inspector General for Auditing, Defense Financial Auditing Service prepared this report. Personnel of the Department of Defense Office of Inspector General who contributed to the report are listed below.

James L. Kornides  
Mark Starinsky  
Lisa S. Sherck  
Amber M. B. White  
Rebecca J. Thompson