Inspector General

United States
Department *of* Defense

Acronyms

ACRN	Accounting Classification Reference Number
CPBL	Commercial Pay Business Line
DCN	Document Control Number
DFAS	Defense Finance and Accounting Service
DoD FMR	Department of Defense Financial Management Regulation
DoN	Department of the Navy
EDI	Electronic Data Interchange
EDM	Electronic Data Management
EFT	Electronic Funds Transfer
MICP	Managers' Internal Control Program
NGF	Department of the Navy General Fund
PIIN	Procurement Item Identification Number
SFFAS	Statement of Federal Financial Accounting Standards
STARS	Standard Accounting and Reporting System
STARS-FL	STARS Field Level
STARS-HCM	STARS Headquarters Claimant Module
VPPL	Vendor Payment Product Line

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

January 2, 2007

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
NAVAL INSPECTOR GENERAL

SUBJECT: Navy General Fund Vendor Payments Processed by
Defense Finance and Accounting Service
(Report No. D-2007-041)

We are providing this report for review and comment. We considered
management comments on a draft of this report in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly.
Comments from the Defense Finance and Accounting Service were partially responsive.
We request additional comments on Recommendations A.2.a., A.2.c., A.3., revised
B.2.a., and B.2.c. by February 28, 2007. The Assistant Secretary of the Navy, Financial
Management and Comptroller did not respond to the draft report. Therefore, we request
that the Assistant Secretary of the Navy, Financial Management and Comptroller provide
comments on Recommendation A.2.c. and A.3 by February 28, 2007.

If possible, please send management comments in electronic format (Adobe
Acrobat file only) to Auddfs@dodig.mil. Copies of the management comments must
contain the actual signature of the authorizing official. We cannot accept the /Signed/
symbol in place of the actual signature. If you arrange to send classified comments
electronically, they must be sent over the SECRET Internet Protocol Router Network
(SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed
to Mr. Edward A. Blair at (216) 706-0074, extension 226. See Appendix D for the report
distribution. The audit team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

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

Report No. D-2007-041   **January 2, 2007**
(Project No. D2005-D000FC-0151.000)

Navy General Fund Vendor Payments Processed by Defense Finance and Accounting Service

Executive Summary

Who Should Read This Report and Why? Department of the Navy personnel responsible for financial management, and Defense Finance and Accounting Service individuals responsible for processing, paying, or accounting for vendor payment transactions should read this report. The report discusses the reliability and auditability of vendor payment transactions and associated Accounts Payable balances processed by the Defense Finance and Accounting Service for the Department of the Navy General Fund.

Background. The Defense Finance and Accounting Service provides professional finance and accounting services for the Department of the Navy and is responsible for processing and paying Department of the Navy General Fund vendor payments. Vendor payments are authorized Government disbursements made for goods and services purchased against obligations. The disbursement of funds for vendor payments must be made in accordance with applicable laws and regulations including the Prompt Payment Act, which requires that vendors be paid interest on any payment remitted beyond its due date.

Results. This audit was performed to assess the effectiveness and reliability of vendor payment transactions processed by the Defense Finance and Accounting Service for the Department of the Navy General Fund. The processes for recording and supporting Department of the Navy General Fund vendor payment transactions were not effective. Specifically, corresponding Accounts Payable were not recorded timely, and vendor payment transactions were not adequately supported and recorded in compliance with published guidance.

Accounts Payable transactions were not recorded timely in the Defense Finance and Accounting Service accounting system. Specifically, 89 of 199 vendor payment transactions sampled were not recorded in compliance with the DoD Financial Management Regulation, which requires establishing the Accounts Payable on the same day as performance notification is received. The timely establishment of Accounts Payable transactions would allow for immediate recognition of liabilities. As a result, Accounts Payable balances totaling $212,730,742 were misstated in Department of the Navy General Fund (finding A).

Additionally, the Defense Finance and Accounting Service did not adequately support 33 of 199 vendor payment transactions sampled. These included 25 transactions for which the Defense Finance and Accounting Service did not provide supporting documentation and 8 transactions that contained errors between what was recorded in STARS One Pay and the supporting documents provided. Vendor payment processing

required stronger management controls and clerical support. As a result, vendor payment transactions totaling $143,583,031 were unsupported or contained material errors potentially affecting Department of the Navy General Fund financial reports (finding B). We also reviewed the managers' internal control program as it related to the processing of vendor payment transactions and identified that Defense Finance and Accounting Service internal controls were not adequate. See the Findings section of the report for the detailed recommendations.

Management Comments and Audit Response. The Director, Defense Finance and Accounting Service concurred with ten of the recommendations, concurred in principle with one recommendation, and nonconcurred with one recommendation. We disagree with the Director that our recommendation should be directed to the Navy. Because the Defense Finance and Accounting Service is the accountant and preparer of the Navy financial statements, it is responsible for implementing internal control procedures to detect and prevent Accounts Payable misstatements in the financial statements. We request that the Director reconsider her position and provide additional comments. The Director also stated that the Defense Finance and Accounting Service records all Accounts Payable transactions immediately. We disagree because we identified 67 accounts payable transactions that were recorded 3 or more days after the Defense Finance and Accounting Service received notification. Additionally, although the Director concurred with our recommendation to suspend payment when key data elements are absent in the supporting documentation, we consider the comment unresponsive. The Director concurred on the basis of being compliant with the DoD Financial Management Regulation. Consequently, we revised our recommendation to suspend payment when key data elements are not clearly supported by documentation. We request that the Director reconsider the revised recommendations and provide comments on the final report by February 28, 2007. The Assistant Secretary of the Navy, Financial Management and Comptroller did not respond to the draft report. Therefore, we request that the Assistant Secretary of the Navy, Financial Management and Comptroller provide comments on the final report by February 28, 2007. See the Finding section of the report for a discussion of Director, Defense Finance and Accounting Service – Cleveland comments and audit response, and the Management Comments section of the report for the complete text of the comments.

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Background

The Defense Finance and Accounting Service (DFAS) provides finance and accounting services for the Department of the Navy (DoN). This audit focused on Navy General Fund (NGF) vendor payments processed by DFAS.

DFAS Commercial Payment. The Commercial Pay Business Line (CPBL) at DFAS Columbus is responsible for entitlement determination and payments to all businesses that have provided goods or services to DoD. The CPBL consists of two Product Lines: Contract Pay Services and Vendor Pay Services. Pursuant to the DFAS Business Evolution Plan, the two product lines were consolidated into the CPBL at the end of FY 2001. Our audit focused on vendor payments processed within the DFAS Vendor Payment Product Line (VPPL). The VPPL operates from 20 DFAS sites worldwide and is responsible for payment of contracts not administered by the Defense Contract Management Agency. For the purpose of this audit, we defined vendor payments as Government disbursements made for goods and services purchased against obligations.

Laws and Regulations. NGF vendor payments are governed by several laws and regulations. The following criteria were used to help accomplish the objective of this audit.

- Documentary requirements for obligations were established under section 1501, chapter 15, title 31, United States Code, (31 U.S.C. 1501).

- 5 C.F.R. Part 1315 (2003) establishes requirements for the Prompt Payment Act of 1999.

- Statement of Federal Financial Accounting Standards No. 1 (SFFAS No. 1) provides accounting standards for recording and reporting assets and liabilities.

- DoD Financial Management Regulation, volume 3, chapter 8, section 80302 specifies that an amount should be recorded as an obligation only when supported by documentary evidence of the transaction.

- DoD Financial Management Regulation, volume 4, chapter 9 specifies the requirements for recording an Accounts Payable transaction.

- DoD Financial Management Regulation, volume 10, chapter 17 specifies the guidance for implementing and using Electronic Commerce, which includes Electronic Data Interchange (EDI) and Electronic Funds Transfer (EFT).

- DoD Financial Management Regulation, volume 5, chapter 11, Appendix D establishes procedures for documenting and support public vouchers.

- Under Secretary of Defense (Comptroller)/Chief Financial Officer Memorandum, "Financial Improvement Initiative Business Rules" June 23, 2004, states that the client should be able to provide supporting documentation promptly to auditors upon request.

- DoD Office of Inspector General (OIG) Memorandum, "Auditor Access for Financial Statement Audits," January 24, 2005, provides guidelines for providing supporting documentation during a financial statement audit.

Payment Systems. The DFAS VPPL uses 18 different systems to make payments. Some systems support only a single commodity type (e.g., fuels, subsistence, Commissary items), while others are used at multiple sites for a variety of goods and services. We reviewed vendor payments processed within the Standard Accounting and Reporting System (STARS) including: STARS One Pay, STARS-Field Level (FL), and STARS-Headquarters Claimant Module (HCM).[1]

STARS One Pay is used by DFAS to process vendor payment transactions for NGF. When invoices are received by DFAS, they are entered into STARS One Pay, which is capable of retrieving and displaying invoice data based on search criteria (e.g., "Document Control Number" [DCN], "Procurement Item Identification Number" [PIIN], etc.).

DFAS uses STARS-FL and STARS-HCM to account for vendor payments processed for NGF. STARS-FL provides a means of tracking allocated funds from the time they are authorized through the appropriations' life cycles at the field level. STARS-FL is also designed to provide the Operating Location and Fund Administrator Activity with real-time financial data. STARS-HCM is used to support a majority of the DoN budget, using special coding to classify and track budget dollars. STARS-HCM is used to carry out financial management responsibilities. STARS-HCM is the official accounting system for all funds allocated to the Systems Commands, the Strategic Systems Project Office, and Office of Naval Research; and funds authorized for certain major Foreign Military Sales and orders from other agencies.

DFAS is responsible for processing and paying invoices that are received in hard-copy and electronic formats. When DFAS receives a hard-copy invoice, it requires manual processing prior to the invoice being paid. Invoice processing involves identifying key data elements such as vendor name, invoice number, and invoice amount.

EDI is a form of electronic commerce that involves an exchange of routine business information in a standard format. EDI allows DFAS to support contracting functions and improve accounting processes by reducing manual data entries. EDI also allows vendors to submit invoices directly into STARS, eliminating the need for DFAS personnel to re-enter invoice and contract data.

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[1] For the purpose of our audit, any further reference in this report to STARS includes a review of data in the STARS One Pay System, STARS-FL, or STARS-HCM.

Guidance for the use and implementation of EDI transactions is discussed in the DoD Financial Management Regulation (DoD FMR).

Objectives

The overall objective was to determine whether Navy General Fund vendor payment transactions processed by Defense Finance and Accounting Service are being paid in an effective and reliable manner. Specifically, we planned to determine whether vendor payments were properly supported and paid in accordance with applicable laws and regulations. We also reviewed the adequacy of the Managers' Internal Control Program (MICP) as it related to the overall objectives. See Appendix A for a discussion of the scope and methodology, and prior coverage related to the objectives.

Review of Internal Controls

DoD Directive 5010.38, "Management Control (MC) Program," and DoD Instruction 5010.40, "Management Control (MC) Program Procedures, " 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.[2]

Scope of the Review of the Managers' Internal Control Program. We assessed the adequacy of DFAS management controls over the processing and recording of vendor payment transactions within STARS One Pay. Specifically, we analyzed DFAS management controls established for receiving and distributing mail containing invoice certification packages, the processing of invoices for payment, and the audit of invoices prior to disbursement. Additionally, we examined the electronic indexing of invoices received, the retention of key data and supporting documentation, and the timely recording of accounting data into the STARS One Pay system. We assessed management's self-evaluation applicable to those controls.

Adequacy of Managers' Internal Controls. We detected weaknesses in the DFAS MICP as defined by DoD Instruction 5010.40. DFAS personnel located at various paying locations identified management control weaknesses, however corrective actions were not incorporated. For example, DFAS Norfolk recognized such weaknesses as missing vouchers and improper separation of duty and the Fleet Material Supply Office and DFAS Cleveland both have full access

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[2] Our review of internal controls was done under the auspices of DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996. DoD Directive 5010.38 was canceled on April 3, 2006. DoD Instruction 5010.40, "Managers' Internal Control (MIC) Program Procedures," was reissued on January 4, 2006.

to STARS One Pay. In addition, response from ships regarding Fast Pay[3] reports were not annotated for receipt then returned, and special requisitions were not performed as intended due to transfer of personnel. DFAS Pensacola management identified problems with ensuring timely payments, reducing interest payments, and losing discounts due to the recent implementation of Electronic Data Management (EDM). DFAS Pensacola management also recognized problems involving incorrect use of Fast Pay clauses and lack of required receipts when receiving documentation from DoN Activities. However, management did not take the necessary steps to correct the problems they identified.

In addition, our audit identified weaknesses that were not addressed by the DFAS Managers' Internal Control Program (MICP). The DFAS MICP did not ensure that Accounts Payable transactions were established in a timely manner pursuant to the DoD FMR (see finding A). Recommendations A.1., A.2., and A.3., if implemented, will improve DFAS Vendor Pay policies, procedures, and management controls and will reduce the possibility of misstatement of the Accounts Payable line item on the NGF Balance Sheet, which will improve the ability of DoN to obtain an unqualified audit opinion during future fiscal years. Furthermore, the DFAS MICP did not ensure that key data elements and supporting documentation were adequately retained (see finding B). Recommendations B.1., B.2., and B.3., if implemented, will improve DFAS Vendor Pay policies, procedures, and management controls to ensure that key data elements and supporting documentation are adequately retained and readily available to internal and external users.

Adequacy of Managers' Self-Evaluation. DFAS managers performed quarterly reviews of their system of internal administrative and accounting controls to satisfy the management control requirements. They used quarterly Matrix and DFAS 5010.38, "Management Control Program, Assessable Unit Summary and Certification Statement," reports to evaluate the Vendor Pay Assessable Unit. Managers based their quarterly certification statements on the results noted during the reviews of their respective assessable unit. However, in the self-evaluations, they did not identify the establishment of Accounts Payable and the retention of key data elements and supporting documentation as specific management control weaknesses because the self-evaluations did not incorporate those specific areas as part of the assessable unit. Therefore, managers did not identify or report these weaknesses.

The Vendor Pay MICP, although comprehensive, was not complete. DFAS did not centrally manage the program. Even though the controls addressed the risk areas for each site, they did not promote central management of risk, material weaknesses detection, and related actions necessary to properly manage vendor pay processes. Consequently, Accounts Payable were not established in a timely manner, and key data elements and supporting documentation were not adequately retained. In addition, DFAS MICP did not adequately incorporate the necessary corrective actions needed to resolve internally detected weaknesses.

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[3] The Fast Pay contract clause allows for contractor payment prior to verification that supplies have been received and accepted, under the limited conditions listed in Federal Acquisition Regulation 13.402 and Defense Federal Acquisition Regulation Supplement 213.402.

A. Establishing Accounts Payable Transactions

Accounts Payable transactions were not recorded timely in the DFAS accounting system. Specifically, 89 of 199 transactions sampled were not recorded on the same day that notification of performance was received by DFAS. This occurred because STARS One Pay will not permit the recording of Accounts Payable unless sufficient obligations have also been recorded in the accounting system and the DoD FMR does not require recording in accordance with SFFAS No. 1, "Accounting for Selected Assets and Liabilities." As a result, NGF Accounts Payable balances were misstated.

Accounting for Liabilities

SFFAS No. 1. defines Accounts Payable as, "amounts owed by a federal entity for goods and services received from, progress in contract performance made by, and rents due to other entities." Further, when an entity accepts title to goods, the entity should recognize a liability for the unpaid amount. However, DoD FMR volume 4, chapter 9, section 090203 requires that Accounts Payable transactions be recorded when evidence of performance is received by the accounting station (DFAS). The DoN can improve the accuracy of liabilities reported in NGF financial statements if Accounts Payable transactions are established when goods or services are accepted. If invoices for goods are not available when financial statements are prepared, the amounts owed should be estimated. We noted DFAS is not accounting for liabilities in accordance with the DoD FMR and the DoD FMR did not incorporate key elements identified by SFFAS No. 1 pertaining to when an entity should recognize a liability.

Recording Accounts Payable Transactions in STARS

Vendor Payments and Corresponding Accounts Payable Amounts. Accounts Payable for 89 of the 199 transactions were not recorded timely, even though DFAS had received and recorded evidence of performance from DoN certifying officials. DFAS did not comply with the DoD FMR requirement of recording Accounts Payable transactions on the same day notification of performance was received. We compared the date DFAS received notification of performance to the date DFAS actually recorded the Accounts Payable transactions in STARS One Pay. Our audit discovered 22 Accounts Payable transactions recorded within 1 to 2 days from the time DFAS was notified by the DoN that notification of performance was received. The DoD FMR specifically requires the recording of an Accounts Payable on the same day that DFAS receives notification of performance from the DoN. However, a 1-or 2-day delay may be reasonable, depending on when DFAS received notification of performance from the DoN certifying official. However, the remaining 67 transactions were recorded 3 or more days after notification of performance was received. This is an unacceptable delay that impacts the accuracy of Accounts Payable balances. To

ensure the proper recognition of the liability in the correct accounting period, DFAS should give special attention to those Accounts Payable transactions that occur at the end of an accounting period. Table 1 provides a breakout of the number of days it took for DFAS to record an Accounts Payable in STARS One Pay. See Appendix C, Table C-1 for a complete listing of the 89 improperly established Accounts Payable transactions.

Table 1. Recording of Accounts Payable[4]				
Number of Transactions	Percent of Transactions	Days to Record	Transaction Amounts	Percent of Transaction Amounts
110	55%	0	$814,521,869	79%
22	11%	1 – 2	$59,344,754	6%
43	21%	3 – 10	$107,032,106	10%
10	5%	11 – 20	$ 45,052,373	4%
8	4%	21 – 30	$1,292,484	1%
3	2%	31 – 45	$6,684	0%
3	2%	46 – 61	$2,341	0%
Total 199	100%		$1,027,252,611	100%

Impact on Financial Statements. When an account payable is not recorded in the correct accounting period, the key management assertions of Existence and Completeness[5] are not satisfied. The DoD FMR requires that Accounts Payable be recorded when evidence of performance is received. Although we identified 22 Accounts Payable transactions that were recorded within 1 to 2 days, we did not consider this delay unreasonable given the current processing and accounting system environment. The remaining 67 Accounts Payable transactions represented a potential Accounts Payable misstatement totaling approximately $153.3 million on NGF Financial Statements. While DoN management has not yet represented the Accounts Payable line as being ready for audit, this condition must be corrected in order to improve the accuracy of amounts reported. As DoN and DFAS systems and procedures progress, DFAS should work towards meeting the DoD FMR requirement to record Accounts Payable transactions on the same day it receives notification of performance from DoN certifying activities.

Our audit specifically identified 10 Accounts Payable transactions that were not recorded in the appropriate accounting period. Of 199 sampled transactions, 10 transactions recorded in the wrong accounting period represented an error rate

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[4] The percentages shown in the table represent only the values of sample transactions and cannot be representative of the population.

[5] Existence (or Occurrence) means that when a liability exists at a given date it has been recorded during the appropriate accounting period. Completeness means that the reported Accounts Payable amount includes all transactions.

of 5 percent.[6] We were unable to select an audit sample that would enable us to quantify and project a potential misstatement for the overall population. Our results indicated that DoN and DFAS must improve the recording of Accounts Payable as required by standards in order to represent that Accounts Payable balances are fairly presented in all material aspects.

Verifying Obligations to Record Accounts Payable. DFAS personnel advised us that STARS One Pay will not permit the recording of Accounts Payable unless sufficient obligations have also been recorded in the accounting system. When an invoice is entered into STARS One Pay for payment, One Pay electronically communicates with STARS-FL to verify the correct line of accounting and that an obligation with sufficient funds exists in order to process the payment. If sufficient funds are obligated, STARS-FL will reserve these funds until the disbursement is made and simultaneously establish an Accounts Payable for that specific invoice. If there are insufficient funds obligated, a reservation of funds will not occur and the Accounts Payable will not be established. SFFAS No. 1. requires that DoN recognize a liability for the unpaid amount of any goods or services when the goods or services are accepted. However, the DoD FMR allows for the recording of the Accounts Payable once "evidence of performance is received by the accounting station." This deviates from SFFAS No. 1. which requires the recognition of the liability by recording an Accounts Payable transaction when an entity accepts title. DoN and DFAS must develop and implement a process that allows DoN activities to post or record Accounts Payable transactions in their accounting system upon acceptance of goods or services. The DoD FMR should be updated to require the recognition of a liability by an entity when goods or services are accepted and not wait until the accounting station (DFAS) has been notified.

Currently, if the reservation of funds does not occur in STARS-FL, STARS One Pay automatically places the transactions in suspense until the correct line of accounting is entered into STARS One Pay or additional funds are obligated in STARS-FL. This current process prevents DoN and DFAS from recording Accounts Payable transactions in their accounting system as required, when the DoN has accepted the goods or services. A distinction must be made between the recording of Accounts Payable transactions and the establishment of an obligation. STARS should not prevent the recording of a valid and certified Accounts Payable transaction, a legal liability of DoN, just because the accounting systems do not have correct obligation data recorded. Valid obligations are necessary for the disbursement of funds but are not needed for recording a liability. In other words, the lack of correct corresponding obligation data in the accounting system does not relieve DoN from its requirement to properly account for liabilities when incurred.

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[6] The percentage error rate represents only the values of sampled transactions and cannot be representative for the population.

Summary

Financial Reporting Accuracy. The untimely recording of accounts payable transactions in DFAS accounting systems may materially impact the accuracy of Accounts Payable balances reported on NGF financial statements. If current policies, procedures, and accounting systems are not improved, the NGF Accounts Payable line will continue to be subject to misstatement, which will negatively impact the DoN ability to obtain an unqualified audit opinion for future fiscal years.

Management Internal Control Program. We found material management control weaknesses that relate to recording accounts payable. The DFAS MICP did not identify timely recording of Accounts Payable transactions upon receipt of goods or services as an assessable unit. This was a material weakness because management had not established a method of ensuring compliance with SSAFS and the DoD FMR regarding accurate recording of accounts payable transactions. Recommendations A.1. through A.3., if implemented should correct this material internal control weakness.

Recommendations, Management Comments, and Audit Response

A.1. We recommend the Under Secretary of Defense (Comptroller)/Chief Financial Officer update the DoD Financial Management Regulation, volume 4, chapter 9 to be in full compliance with Statement of Federal Financial Accounting Standards Number 1. "Accounting for Selected Assets and Liabilities." Specifically the DoD Financial Management Regulation should require the recording of liabilities when an entity accepts title to goods or recognizes services as performed instead of when notification of performance is received by the accounting station.

Management Comments. We did not receive comments from the Under Secretary of Defense (Comptroller)/Chief Financial Officer by the date requested in the report.

Audit Response. We held discussions with representatives from the Under Secretary of Defense (Comptroller)/Chief Financial Officer. One of the representatives indicated that the revised DoD Financial Management Regulation, volume 4, chapter 9, was issued in November 2006. We reviewed the revised regulation and found that the revisions made to the regulation sufficiently address our recommendation. As a result, no additional comments are required for the final report.

A.2. We recommend the Director of Defense Finance and Accounting Service Cleveland Central Site in conjunction with the Assistant Secretary of the Navy, Financial Management Comptroller improve the recording of Department of the Navy Accounts Payable transactions by revising current procedures that would allow for the immediate recognition of a liability upon

acceptance of goods or services performed. Specifically the Defense Finance and Accounting Service should:

 a. Use current accounting systems to ensure that all Accounts Payable transactions are recorded immediately when the Defense Finance and Accounting Service receives notification from the Department of the Navy certifying official that the goods or services are received or performed.

Management Comments. The DFAS Cleveland Central Site Director concurred and stated, "All commercial vendor pay Accounts Payable transactions are recorded immediately" when DFAS receives notification from Department of the Navy certifying officials that goods or services are received or performed. DFAS identified a completion date for this recommendation as September 25, 2006, and considers this recommendation closed.

Audit Response. The DFAS Cleveland Central Site Director's comments are not responsive. During the audit, 67 Accounts Payable transactions were recorded between 3 and 61 days after DFAS received notification from Department of the Navy certifying officials. We request that DFAS reconsider its position and provide comments on the final report that identify what steps have been developed or implemented to ensure that all Accounts Payable transactions are recorded immediately when notification is received.

 b. Require the recording of Accounts Payable transactions independent from the corresponding obligation data required for budgetary accounting.

Management Comments. The DFAS Cleveland Central Site Director concurred in principal and stated that the STARS-FL system is programmed to accept Material Receipt data when entered, and that an Accounts Payable transaction is processed independently from the corresponding obligation data. In addition, the Director's comments further clarified that DFAS does not have the ability to ascertain when material receipt occurs. She stated, "Navy entities are responsible for establishing obligations and for recording the receipt information into STARS-FL." DFAS identified a completion date for this recommendation as October 24, 2006, and considers this recommendation closed.

 c. Establish procedures in conjunction with the Assistant Secretary of the Navy, Financial Management Comptroller that allow Department of the Navy certifying activities to record an Accounts Payable (liability) transaction in the accounting system immediately upon acceptance of goods or services.

Management Comments. The DFAS Cleveland Central Site Director concurred, and stated, "Procedure and programming is established to use the Automated Receipts Module (ARM) in One Pay by the Navy," that posts liabilities into STARS Accounting Modules automatically. The Director also stated that, "DFAS does not have the ability to ascertain when the event of material receipt," occurs, further indicating that the process is dependent on Navy end-users to post the Budgetary and Financial Data timely. DFAS identified a completion date for

this recommendation as October 24, 2006, and considers this recommendation closed.

Audit Response. The DFAS Cleveland Central Site Director's comments were partially responsive and indicate that Navy end-users are responsible for posting Budgetary and Financial Data timely. However, as the accountant and the preparer of the Department of the Navy Financial Statements, DFAS is responsible for ensuring that financial transactions are accounted for properly and in accordance with Department of Defense, Financial Management Regulations. We request DFAS reconsider its position and provide comments on the final report that address what steps have been developed or implemented to ensure that Accounts Payable transactions are established immediately upon acceptance of goods or services in accordance with established DoD Regulations.

A.3. We recommend that the Department of the Navy and the Defense Finance and Accounting Service identify the accounts payable recording as an assessable unit and develop procedures to test compliance within Navy General Fund. Specifically, the Department of the Navy and the Defense Finance and Accounting Service should design and implement internal control procedures to detect and prevent a misstatement of reported Accounts Payable balances on Navy General Fund Financial Statements.

Management Comments. The DFAS Cleveland Central Site Director nonconcurred and stated that, "Recording of Accounts Payable is a Navy functional responsibility."

Audit Response. The DFAS Cleveland Central Site Director's comments are not responsive. We recognize that the Navy has certain functional responsibilities for financial transactions. However, DFAS, as the accountant and preparer of the Department of the Navy General Fund Financial Statements, and the Department of the Navy are responsible for coordinating and implementing internal control procedures to detect and prevent misstatement of reported Accounts Payable balances on the Navy General Fund Financial Statements. We request that DFAS reconsider its position and provide comments on the final report that address what steps have been developed or implemented individually or jointly that would detect and prevent a misstatement of reported Accounts Payable balances on Navy General Fund Financial Statements.

Management Comments Required

The Department of the Navy, Office of the Assistant Secretary of the Navy, Financial Management and Comptroller did not comment on a draft of this report. We request that the Department of the Navy, Office of the Assistant Secretary of the Navy, Financial Management and Comptroller provide comments on the final report.

B. Supporting Accounts Payable Transactions

DFAS did not adequately support 33 vendor payment transactions of 199 sampled. The total dollar value of the 199 items sampled was approximately $1.03 billion. No supporting documentation was provided for 25 of the 33 transactions. The remaining eight transactions contained errors between what was recorded in STARS One Pay and the supporting documents provided. This occurred because DFAS did not have adequate procedures in place to readily identify and provide supporting documentation. Also, STARS One Pay and supporting documentation did not agree because of DFAS processing errors. As a result, vendor payment transactions totaling $143.6 million were unsupported or contained material errors potentially affecting Navy General Fund (NGF) financial reports.

Criteria

DoD FMR on Accounts Payable, volume 4, chapter 9, section (090201) specifies that recorded payables amounts shall be supported by documentation that clearly shows the origin for the amount recorded as a payable and the terms upon which payments are to be made. Additionally, section (090203) specifies that Accounts Payable shall be recorded when supported by evidence of performance.

DoD FMR on DoN Disbursing Operations, volume 5, chapter 11, appendix D, specifies that a public voucher is required to have complete supporting documentation in order to discharge a U.S. Government liability and charge expenditures to funds. Furthermore, the control, maintenance, and disposition of records shall prevent duplicate payments or overpayments.

DoD FMR on Electronic Data Interchange, volume 10, chapter 17 specifies the guidance for implementing and using Electronic Commerce, which includes EDI and EFT. It also specifies that EDI transactions will be treated the same as a hard- copy invoice and generally it is not necessary to physically transfer the hard-copy documentation to the disbursing office for examination.

5 Codification of Federal Regulations, Part 1315 establishes the requirements for the Prompt Payment Act of 1999, which requires that vendors be paid interest on any payment remitted beyond its due date.

Under Secretary of Defense (Comptroller)/Chief Financial Officer memorandum, "Financial Improvement Initiative Business Rules," June 23, 2004, states that the client should be able to provide supporting documentation promptly to auditors upon request.

DoD OIG Memorandum, "Auditor Access for Financial Statement Audits," January 24, 2005, specifies that DFAS is responsible for providing supporting documentation to the auditors within 2 working days.

Selection of Vendor Payment Transactions

DFAS provided a data file of NGF vendor payment transactions disbursed during the second quarter of FY 2005. The data file included 517,695 vendor payment transactions with a total dollar value of $4.8 billion. Each vendor payment transaction contained a DCN that was used to identify supporting documentation. We selected a sample of 199 vendor payment transactions for substantive testing. The total dollar value of the 199 items sampled was approximately $1.03 billion. See Appendix A for details on how our audit sample was selected.

Of the 199 payments selected for review, 105 represented EDI transactions. According to the DoD FMR, a contractor can submit an invoice for payment electronically instead of hard-copy invoices. Therefore, we considered the 105 EDI transactions to be supported by a valid invoice and performed no further testing. Instead, we focused on verifying the support and accuracy of the remaining 94 STARS One Pay transactions supported by hard-copy invoices. Table 2 illustrates the breakdown of the issues identified with the transaction sample selected for the audit.

Table 2. Vendor Payment Transaction Sample Breakdown	
Description	Number of Transactions
Electronic Data Interchange processed transactions in sample	105
Manually processed transactions with supporting documentation	61
Manually processed transactions not adequately supported - no supporting documentation received	25
Manually processed transactions with errors between supporting documentation and STARS One Pay	6
Manually processed transactions with information missing from supporting documentation	2
Total number of vendor payment transactions sampled	**199**

To verify the accuracy and support of these 94 vendor payments, we compared key elements such as "Document Control Number (DCN)," "Payment Date," "Invoice Net Amount," and "Accounting Classification Reference Number (ACRN) Accounting Line" in STARS One Pay to the hard-copy invoices.

Verifying Whether Vendor Payments are Supported and Accurate

Unsupported Transactions. We requested supporting documentation by DCN for the 199 vendor payment transactions. DFAS did not provide supporting documentation for 25 of the 199 vendor payment transactions. Our initial request for support was made on December 28, 2005. We set a due date for DFAS to provide us the support by January 18, 2006. However, after additional coordination with DFAS, we extended the due date to February 9, 2006. After the 43 days had elapsed, DFAS still did not provide support for the 25 transactions.

While the objectives of our audit did not include the validation of account balances as reported on NGF Financial Statements, it is important to note that during a financial statement audit, DoN and DFAS would be expected to provide supporting documents promptly upon the request of the auditors as stated in the "Financial Improvement Initiative Business Rules." The term "promptly" is outlined in the DoD OIG Memorandum "Auditor Access for Financial Statement Audits," to mean within 2 working days. DFAS was unable to explain why they could not readily provide supporting documentation for the 25 transactions. Establishing procedures would allow DFAS to readily identify and retrieve supporting documentation in order to be compliant with the DoD FMR and to improve DoN financial statement audit readiness. The inability to readily provide supporting documents indicates weak internal controls and may impede future financial statement audits. See the Review of Internal Control section for further details.

Accuracy. We identified eight vendor payment transactions that had different data elements on the supporting invoices than what was recorded in the STARS system. Of the 199 transactions sampled, 105 were EDI transactions and 94 were non-EDI transactions. From the 94 non-EDI transactions tested, DFAS did not provide support for 25 vendor pay transactions (discussed previously). Of the 94 non-EDI transactions tested, we validated the accuracy of only 69 items. Of the 69 sample items, 7 had differences between STARS One Pay and the supporting documentation. While the variances in data did not appear to impact the payment of these seven transactions, it is important to note that errors were present and indicate a weak control environment. Data elements such as, "Invoice Date," "Invoice Received Date," and "Material Received Data" are critical because they impact the Prompt Payment Act calculation; if necessary, help to establish proper accounting of liabilities (record an Accounts Payable); and are an indication of the effectiveness of internal controls over the vendor payment process. Table 3 identifies the inaccurate data by sample item.

Table 3. Inaccurate Data Items Identified				
DCN	**Exception**	**Date in STARS One Pay**	**Date on Supporting Documentation**	**Difference (Days)**
5BAM6BM	Invoice Date	02/02/2005	01/25/2005	8
5CXRSGR	Invoice Date	01/20/2005	02/08/2005	19
5CYPGAF	Cannot Determine Dates	03/24/2005		
5CCFQ4K*	Invoice Received Date	02/05/2005	03/01/2005	24
	Material Received Date	01/01/2005	03/01/2005	59
5CWB1AE*	Invoice Received Date	03/02/2005	03/09/2005	7
	Material Received Date	03/02/2005	03/09/2005	7
4LFES3S	Invoice Received Date	11/23/2004	12/20/2004	27
5AWB1AA	Invoice Received Date	12/17/2004	12/20/2004	3

* Multiple exceptions identified on two DCNs.

Additionally, we identified one transaction in which information was missing from the supporting documentation and could not be verified. A vendor payment transaction, DCN 5BYYNHU, had a Material Accepted Date of 02/12/2005 and an Invoice Received Date of 02/15/2005 in STARS One Pay. However, we were not able to validate the information in STARS One Pay to the information contained in the supporting documentation provided by DFAS to support the transaction. Because we could not verify all the supporting data, we were unable to determine whether the vendor payment was accurately paid. Specifically, we could not verify whether the payment was subject to the Prompt Payment Act or whether a corresponding Accounts Payable was properly recorded.

Entering Hard-Copy Invoices. Internal controls over entering financial data into STARS need to be strengthened. Manual vendor payment transactions originate from hard-copy documentation. Once received, information from the supporting documentation is entered into the STARS system. We identified one transaction where even though data was not identified in the supporting documentation, DFAS populated the missing information into the STARS system (two DCNs had multiple exceptions). For example, "Invoice Received Date" and "Material Received Date" were not on the supporting documentation but were captured in the STARS system. Because supporting documentation is considered to be the source of data entered in the STARS system, any variance between supporting documentation and the STARS system would be attributed to DFAS entering data that were not supported or contained manual data entry errors. Of the 69 non-EDI transactions tested, 8 errors represent a significant error rate. Management internal controls over the manual entry of vendor payment supporting documentation data must be improved. For a complete discussion of management internal controls, see the Review of Internal Controls section of this report. See Appendix C, Table C-2 for a complete listing of the 25 transactions missing supporting documentation, and Table C-3 for a complete listing of the eight transactions with incorrect data in the STARS accounting system.

Summary

The processing and payment of vendor payment transactions with missing, incomplete, or inaccurate supporting documentation could negatively impact future NGF financial statements. Additionally, if management controls are not improved, the NGF Balance Sheet will continue to be subject to misstatements that could negatively impact the ability of DoN to obtain an unqualified audit opinion for future fiscal years.

The Government Accountability Office/President's Council on Integrity and Efficiency Financial Audit Manual requires auditors to establish a three percent Planning Materiality and a Design and Test Materiality of one percent of the Planning Materiality. The total value of our 199 sampled items was approximately $1.03 billion. Of that amount, 33 transactions were unsupported or inaccurate, totaling approximately $143.6 million or approximately 14 percent. Because the audit planning materiality threshold is three percent, the percentage of inaccuracy reported in the vendor payments materially affects NGF financial statements. When payment transactions are unsupported or inaccurate, the key management assertions of Existence and Completeness cannot be ascertained. While DoN has not represented NGF financial statements as being ready for audit, this condition must be corrected in order to improve the accuracy of amounts reported.

The inability of DFAS to provide supporting documentation for 25 vendor payment transactions and the errors noted in 8 transactions clearly show non-compliance with the DoD FMR. The DoD FMR states that recorded payables amounts shall be supported by documentation that clearly shows the origin for the amount recorded as a payable. Additionally, it specifies that Accounts Payables shall be recorded when supported by evidence of performance. It is imperative that DFAS adequately and successfully addresses the issue of unsupported vendor payment transactions. DFAS was unable to provide us with timely supporting documentation. DFAS did not provide supporting documentation for 25 vendor payment transactions and it took DFAS over 40 days to provide us supporting documentation for only 69 vendor payment transactions. According to DoD OIG Memorandum, "Auditor Access for Financial Statement Audits," January 24, 2005, DFAS is responsible for providing supporting documentation to the auditors within 2 working days. As this Memorandum pertains to financial statement audits, DFAS in coordination with the Navy must correct these issues in order to become ready for audit.

Other Matters of Interest-Obligation Data

We noted from the 199 transactions sampled that the STARS system did not contain obligation data for 67 of the transactions sampled. 31 U.S.C. 1501 and DoD FMR, "Standards for Recording and Reviewing Commitments and Obligations," volume 3, chapter 8, section 80302, specify that an amount shall be recorded as an obligation only when supported by documentary evidence of the transaction. We accessed both STARS-FL and STARS-HCM to verify the

obligation data of our 199 sample items. We pinpointed 67 transactions where STAR-FL or STARS-HCM did not show that an obligation was recorded. See Appendix C, Table C-4 for a complete list of the 67 transactions detected.

We requested that DFAS provide the missing obligation data on January 3, 2006. We set a due date of January 18, 2006, but subsequently extended the date to February 9, 2006. After 36 days and multiple attempts to coordinate our request, DFAS still did not provide obligation data for 67 transactions. DFAS did not provide the obligation data because either STARS One Pay had invalid DCN and therefore could not be matched to an existing document or a thorough search of all systems was not completed to ascertain whether the obligation data was in a system other than STARS. DFAS must provide support for obligations associated with disbursements, as required by 31 U.S.C. 1501. Additionally, the DoD FMR requires that amounts recorded as payables be supported by documentation that clearly shows the basis for the amount recorded. We understood that the obligations were posted in some accounting system other than STARS One Pay because DFAS is required to pre-validate the obligation prior to disbursement. However, we could not complete our audit testing because of missing obligation data.

Recommendations, Management Comments, and Audit Response

Revised Recommendations. As a result of management comments, we revised draft Recommendation B.2.a. to clarify the nature of actions required to improve existing operating procedures used to make vendor payments.

B.1. We recommend the Director of Defense Finance and Accounting Service - Cleveland strengthen procedures to ensure that supporting documentation for all non-Electronic Data Interchange vendor payment transactions is adequately maintained and supports proper disbursements. Specifically, for the payments for the 25 vendor payment transactions identified where supporting documents were not provided Defense Finance and Accounting Service Cleveland should:

> **a. Validate the payments were properly disbursed in accordance with the Prompt Payment Act;**

> **b. Ensure that the payment amounts were accurate, supported, and legitimate; and**

> **c. Verify that a corresponding Accounts Payable was properly recorded in the Standard Accounting and Reporting System.**

Management Comments. The Defense Finance and Accounting Service Central Site Director concurred and stated that DFAS would confirm that the 25 vendor payment transactions identified were disbursed in accordance with the Prompt Payment Act, and that these payment amounts were accurate, supported, and legitimate. The Director also stated that DFAS would further review the

identified transactions to validate that they were properly recorded in STARS as an Accounts Payable. The Director projected that these validations will be complete February 1, 2007.

B.2. We recommend that Director of Defense Finance and Accounting Service Cleveland improve payment processes and operating procedures used to make vendor payments. Specifically, the Defense Finance and Accounting Service should:

a. Ensure that when key data elements are not included on supporting documents–required by the DoD Financial Management Regulation volume 5, chapter 11, appendix D–or when such key data elements are not clearly supported by documentation-required by the DoD Financial Management Regulation volume 4, chapter 9, section (090201)-the payment is suspended until required data elements are obtained from the certifying official;

Management Comments. The Defense Finance and Accounting Service Central Site Director concurred and stated that DFAS currently requires key data elements from Certifying Officials and is consequently compliant with the DoD Financial Management Regulation. The Director further stated that this recommendation is considered closed as of September 25, 2006.

Audit Response. Although the Defense Finance and Accounting Service Central Site Director concurred, the comments are not responsive. DFAS requires key data elements from Certifying Officials; however, such compliance with DoD Financial Management Regulation does not ensure valid payment transactions. Of the 69 non-EDI transactions tested, 8 identified errors represent a significant error rate. Management internal controls over the manual entry of vendor payment supporting documentation data must be improved. Moreover, the comments do not address room for improvement in the current vendor payment processes. By consistently suspending payments when data elements are either absent or unsupported, DFAS will create a proactive environment that will enhance current payment processes and operating procedures. Therefore, we revised the recommendation and request that the Director of the Defense Finance and Accounting Service Cleveland provide additional comments in response to the final report identifying specific actions that will improve both vendor payment processes and operating procedures used to make vendor payments.

b. Develop operating procedures in coordination with Department of the Navy, Office of the Assistant Secretary of the Navy, Financial Management and Comptroller that allow for the identification and gathering of transaction-level supporting documents in accordance with Under Secretary of Defense (Comptroller)/Chief Financial Officer, "Financial Improvement Initiative Business Rules," dated June 23, 2004, and Department of Defense Office of Inspector General memorandum, "Auditor Access for Financial Statement Audits," dated January 24, 2005;

Management Comments. The Defense Finance and Accounting Service Central Site Director concurred and stated that Defense Finance and Accounting Service Cleveland would coordinate with the Navy Financial Management Office and

develop a procedure to ensure compliance. The Director estimated the operating process will be complete December 1, 2008.

c. Develop management internal control procedures that improve processes for identifying and supporting vendor payment transactions. Internal controls should include assessable units that test the accuracy of payments against supporting documentation and the ability to readily provide such documentation when required.

Management Comments. The Defense Finance and Accounting Service Central Site Director concurred and stated that Defense Finance and Accounting Service Cleveland would develop assessable units that will test the accuracy of payments against supporting documentation. The Director estimated that this effort to address internal control measures used to identify and support vendor payment transactions will be complete February 1, 2007.

Audit Response. Although the Defense Finance and Accounting Service Central Site Director concurred, we consider the comments partially responsive. We agree with the plans to develop assessable units; however, the Director did not identify any internal control procedures that may improve the ability to readily provide supporting documentation when required so that auditors may, in turn, provide timely and useful products. We believe creating assessable units that will test the accuracy of vendor payments against supporting documentation and improve the ability to provide timely supporting documentation will enhance current procedures for identifying and supporting payments. Therefore, we ask that the Director of Defense Finance and Accounting Service Cleveland provide additional comments in response to the final report identifying specific actions that will improve the availability of supporting documentation.

B.3. We recommend that Department of the Navy, Office of the Assistant Secretary of the Navy, Financial Management and Comptroller require all certifying officials to provide complete and accurate supporting documents such as an invoice or request for payment that provides all critical data elements such as "Material Received Date," "Invoice Date," and "Invoice Received Date."

Management Comments Required

The Department of the Navy, Office of the Assistant Secretary of the Navy, Financial Management and Comptroller did not comment on a draft of this report. We request that the Department of the Navy, Office of the Assistant Secretary of the Navy, Financial Management and Comptroller provide comments on the final report.

Appendix A. Scope and Methodology

We performed this audit to establish whether NGF vendor payment transactions processed by DFAS were being paid reliably and effectively. We focused the audit on the areas of establishing, processing, and paying vendor payment transactions in accordance with established laws and regulations. Additionally, we evaluated retention, availability, and audit ability of supporting documentation. We performed the audit from May 2005 through April 2006 in accordance with generally accepted government auditing standards.

In order to accomplish the audit objectives, we obtained a database file of 517,695 NGF vendor payments from DFAS Commercial Pay Business Line Columbus, which included 21,301 transactions with values < 0. The database file was named "Audit Population – Navy General Fund Vendor Pay." The database file represented vendor payment transactions processed by Charleston, Norfolk, San Diego, Pensacola, Pacific, and Japan DFAS paying locations during the second quarter FY 2005 (January through March 2005). Transactions were possessed and paid through STARS One Pay system. We coordinated with the Quantitative Methods Division (QMD), DoD OIG in developing the statistical sample design. QMD selected a sample of 199 STARS One Pay vendor payment transactions. We tested the sample transactions against established audit criteria. See Appendix B for a discussion of the statistical sampling methodology.

Our testing plan included a determination about whether vendor payments were processed and paid accurately and proper supporting documentation was maintained and was readily available. To accomplish our audit objective, we verified the data obtained from Standard Accounting and Reporting System to the data presented in the supporting documentation for each of 199 sample transactions. Available supporting documentation was obtained from DFAS Columbus representatives, EDI, EDM, and Electronic Data Access electronic tools. Specifically, the test included determining the "Invoice Date," "Material Accepted Date," "Obligation Date," "Accounts Payable Established Date," and other key data elements contained within STARS One Pay.

Use of Computer-Processed Data. To achieve the audit objectives we relied on computer-processed data contained in the "Audit Population – Navy General Fund Vendor Pay" database. The database contained the population of Vendor Pay transactions processed by DFAS Vendor Pay paying sites during second quarter of the FY 2005. Nothing came to our attention as a result of specified procedures that caused us to doubt the reliability of the computer-processed data.

Testing the reliability of STARS One Pay was not an announced audit objective given the intended use of the data. Therefore, the reliability of the data was not assessed. However, not establishing the reliability of the database has not materially affected the results of the audit. Our audit included tests of the data contained in STAR One Pay that were verified against other independent data. No material discrepancies were detected that would negatively affect our audit results. The level of reliability of STARS One Pay data extracted from the database was adequate and sufficient to achieve specific audit objectives.

Use of Technical Assistance. QMD Analysts provided technical assistance in developing a sample design, and selecting a sample of vendor payment transactions. Specifically, QMD provided a statistically selected sample of 199 vendor payment transactions, which were analyzed and tested to achieve the objectives of the audit. See Appendix B for a discussion of the statistical sampling methodology.

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

Prior Coverage

During the past 5 years, the Naval Audit Service (NAS) issued one report related to DoN vendor payment transactions. Unrestricted NAS reports can be accessed over the Internet at http://www.hq.navy.mil/NavalAudit/.

Naval Audit Service

NAS Report No. N2005-0011, "Erroneous Payments Made to Navy Vendors," December 2, 2004.

Appendix B. Statistical Sampling Methodology

Population. The database file represented NGF vendor payment transactions with 517,695 records, and a total dollar value of $4,851 million for ACRN Net Pay transactions. The file included 21,301 negative value transactions with a total dollar value of -$159.29 million.

Sample Plan. The statisticians designed a stratified sample design by developing five strata based on the range of values for ACRN Net Pay transactions. An overall sample of 249 transactions was selected over the five strata as shown in the table B-1 below

Table B-1 Statistical Sample Plan				
Strata:	ACRN Net Pay Range:	Number of Transactions:	Dollar Value of Transactions:	Sample Size:
1	> $10M	49	$ 878,580,945	49
2	> $1M - $10M	534	1,580,813,819	50
3	> $100K - $1 M	4,747	1,190,422,651	50
4	> $0 -$100K	491,064	1,359,997,549	50
5	< $0	21,301	(159,293,852)	50
	Totals	**517,695**	**$ 4,850,521,112**	**249**

Stratum 5 was considered out of audit scope as it included transactions with negative values, and as such was not included in the audit analysis. This resulted in a revised sample size of 199 transactions out of 496,394 transactions distributed into four strata by ACRN Net Pay Range.

Analysis and Interpretation. Statistical projections over the universe were not computed during the audit due to an incomplete population. However, the sample results were used to achieve the audit objectives.

Appendix C. Audit Sample Data

During the audit, we performed attribute testing on a statistically selected sample of 199 NGF vendor payment transactions processed by DFAS. As a result, we discovered numerous issues with the transactions evaluated including:

- DFAS did not establish Accounts Payable transactions in accordance with DoD FMR requirements for 89 of the transactions;

- DFAS was not able to locate or provide supporting documentation for 25 of the transactions;

- STARS and the supporting documentation contained inaccurate or missing information for eight of the transactions; and

- DFAS was not able to locate or provide obligation data for 67 of the transactions.

Table C-1. Improperly Established Accounts Payable					
Item	DFAS Site	DCN	Date	PIIN	AcrnNetPd
1	Charleston	5BCAVNW	2/15/2005	N0002404C2118	$10,042,483.48
2	Charleston	5BCAVNW	2/15/2005	N0002404C2118	10,535,068.18
3	Charleston	5BC9ANS	2/18/2005	N0002404C2204	10,953,604.00
4	Charleston	5BCAVNW	2/15/2005	N0002404C2118	11,061,012.44
5	Charleston	5CCLBRS	3/17/2005	N0002404C2118	13,023,429.85
6	Charleston	5CCLBRS	3/17/2005	N0002404C2118	13,172,506.47
7	Charleston	5CCAVTI	3/21/2005	N0002402C2102	13,262,209.19
8	Charleston	5CCLBRS	3/17/2005	N0002404C2118	13,681,775.61
9	Charleston	5CCFQ4K	3/10/2005	N0002403C2116	13,743,631.00
10	Japan	5CYPGAF	3/24/2005	DA92557FEC28000	30,471,752.35
11	Japan	5BYYNHU	2/22/2005	DA92557FEC28000	30,505,501.73
12	Norfolk	5AFG1DS	2/2/2005	N6927200D3170	1,284,678.74
13	Japan	5CYPGAF	3/24/2005	DA92557FEC28000	5,884,020.63
14	Norfolk	4LFES3S	1/3/2005	N0002404D4409	2,793,515.00
15	Norfolk	5CFF9EM	3/24/2005	N6927200D3170	1,284,001.99
16	Pensacola	5CX9AIK	3/31/2005	N0014097G2984	1,508,216.00
17	Norfolk	5AFG1BF	2/22/2005	N6267004C0147	2,892,207.68
18	Pacific	5CHB9BM	3/30/2005	N0002402D8506	1,002,967.88
19	San Diego	5BAM6BM	2/16/2005	N0024205MDQA001	3,936,361.00
20	Japan	5CYYFDL	3/18/2005	N6283603C5516	1,581,029.61
21	Charleston	5CCFQ5P	3/14/2005	N0002404C2105	1,630,459.00
22	Charleston	5ACAVPS	1/14/2005	N0002404C2104	5,624,385.12
23	Norfolk	5ZA0D54	3/2/2005	N634085048TRNS	3,297,411.00

Item	DFAS Site	DCN	Date	PIIN	AcrnNetPd
		Table C-1. Improperly Established Accounts Payable – cont'd			
24	Charleston	5ACYMS6	1/26/2005	N0003904F0013	$2,310,982.60
25	Pacific	5CHI6EA	3/30/2005	FA500004D0001	126,662.97
26	Charleston	5CCAVEM	3/14/2005	N6247402D8010	231,323.00
27	Norfolk	5BFFLAN	2/7/2005	N6246702D8369	106,421.36
28	San Diego	5BAVECG	2/7/2005	SPO60004D7906	295,138.08
29	Norfolk	5CFDSJG	3/24/2005	N4002605C0006	141,667.14
30	Charleston	5CCAVGX	3/31/2005	N6246701D0320	108,551.82
31	Charleston	5CW9ART	3/8/2005	N000140410336	134,500.70
32	Japan	5BYSRBS	3/17/2005	N6264904C0496	259,673.34
33	Charleston	5ACLBBV	1/14/2005	N0014002CK003	373,971.69
34	Charleston	5CW9DMH	3/28/2005	N0002496C2108	786,180.00
35	San Diego	5CAEVB9	3/22/2005	N6871101D0197	109,226.61
36	San Diego	5CATLIZ	3/29/2005	N6871184C0004	370,535.06
37	Japan	5AYYNGT	2/2/2005	F6256297H0002	103,301.35
38	San Diego	5AA9DYE	1/24/2005	N0002498D8503	450,303.60
39	Norfolk	5AFFLBQ	1/12/2005	N6246704C5754	234,243.00
40	Charleston	5ACQFBW	2/10/2005	N0002400D6000	168,000.00
41	Norfolk	5CFC229	3/23/2005	N6247700D0114	107,585.51
42	Norfolk	4LFCL4D	1/3/2005	N0018904P1237	868,647.17
43	Pacific	5AHG9FZ	1/27/2005	MISC05N107OTHER	133,886.32
44	Charleston	5BCFS1X	3/1/2005	N6246701D8306	607,890.28
45	Norfolk	5ZA0C77	2/28/2005	N634085048TRNS	481,877.04
46	Japan	5AYYWBC	1/13/2005	N6824604C0195	296,895.37
47	Charleston	5BCAVKM	2/18/2005	N0018903D0008	323,357.23
48	Norfolk	5AFA327	2/10/2005	N6247003D2083	136,499.50
49	Pensacola	5CXQNEA	3/17/2005	N6227197G0026	169,400.00
50	Norfolk	4KFL3DZ	1/5/2005	N00003100000GTS	369.90
51	Charleston	4LCYME5	1/4/2005	N0010402FQ764	14,813.84
52	Pensacola	5C50296	3/24/2005	GS23F98004	298.80
53	San Diego	5BAPX7K	2/2/2005	GS23F98006PC1	11,693.72
54	Norfolk	5BFL3GS	3/2/2005	N00007500000GTS	807.05
55	Pensacola	5C50297	3/24/2005	GS23F98004	811.90
56	San Diego	5CATKWR	3/30/2005	N4523A05RV01479	75.00
57	San Diego	5BAPZ5D	2/28/2005	GS23F98006PC1	400.00
58	Norfolk	5ZKY333	3/16/2005	N634085070TRNS	148.66
59	Pensacola	5CXIILK	3/7/2005	N6832205MMARN	750.00
60	Norfolk	5ZK4082	1/18/2005	N634085011TRNS	3.08
61	San Diego	5CAIZLH	3/21/2005	N6671505F0006	22.65
62	Pensacola	5AXQV2Z	1/18/2005	GS23F98006PC1	2,682.80
63	San Diego	5A29851	1/18/2005	GS23F98006PC1	4,148.85
64	Norfolk	5ZK7399	1/21/2005	N634085018TRNS	345.54
65	Pensacola	5AXKXIT	1/20/2005	N6832204MNAVY	540.00
66	Norfolk	5BFL3GK	3/3/2005	N00005400000GTS	564.90

Item	DFAS Site	DCN	Date	PIIN	AcrnNetPd
				Table C-1. Improperly Established Accounts Payable – cont'd	
67	San Diego	4LA5ZBR	1/20/2005	GS23F98006PC1	849.23
68	Norfolk	5BFL3FZ	3/4/2005	N00005300000GTS	$378.40
69	Charleston	5ACFR1R	2/10/2005	NBCH0002D0037	2,275.26
70	Norfolk	5BFL3GA	3/3/2005	N00000400000GTS	679.10
71	Charleston	4LC9AUH	1/14/2005	N0060002C1514	600.00
72	Norfolk	5AFL3FX	1/31/2005	N00007400000GTS	531.75
73	Norfolk	5ZL1849	3/28/2005	N634085076TRNS	3,819.61
74	Norfolk	5AFL3GJ	3/3/2005	N00007400000GTS	436.00
75	San Diego	5BAPY8V	2/15/2005	GS23F98006PC1	2,395.00
76	Norfolk	4LFL3GH	1/12/2005	N00007300000GTS	471.20
77	San Diego	5A83429	1/20/2005	N6600199D5016	10.18
78	Norfolk	5BFFF4Y	2/28/2005	GS23F98006PC1	300.00
79	Norfolk	5CFZIJ2	3/4/2005	N01772000074CBA	412.20
80	Norfolk	5AFZIQ8	2/4/2005	N14121000017CBA	1,871.20
81	Pensacola	5CXRSGR	3/23/2005	N0014004P0938	348.19
82	Charleston	5ACYNB4	2/9/2005	N0010403FQ088	59,326.13
83	Norfolk	4LFCL3H	2/10/2005	N0018904P1237	1,121.79
84	Norfolk	5AFF9FJ	1/10/2005	N6247001D6049	399.00
85	Norfolk	5BFL3FB	2/25/2005	N00003300000GTS	165.90
86	Norfolk	5BF5EAY	2/14/2005	N01612000074CBA	325.40
87	San Diego	5BASQPQ	3/22/2005	N0024402P3528	6,244.50
88	San Diego	5AAPZ2Y	1/26/2005	GS23F98006PC1	288.19
89	Norfolk	5BFTM9Z	3/1/2005	DAHC2596G1610	68.09
Total					**$ 212,730,741.70**

Item	DFAS Site	DCN	Date	PIIN	AcrnNetPd
				Table C-2. Missing Supporting Documentation	
1	Japan	5CYPGAF	03/24/2005	DA92557FEC28000	$5,884,020.63
2	Norfolk	5BFD371	02/22/2005	N6247201D0073	1,027,909.00
3	Norfolk	5AFA166	01/14/2005	N6247003C3065	1,441,044.00
4	Norfolk	5AFE265	01/27/2005	N6247202C0018	2,316,799.00
5	Norfolk	5BFFLAN	02/07/2005	N6246702D8369	106,421.36
6	Norfolk	5AFD379	01/31/2005	N6247202D0079	250,565.26
7	Norfolk	5AFA198	01/14/2005	N6247000C0150	158,462.00
8	Norfolk	5AFFLBQ	01/12/2005	N6246704C5754	234,243.00
9	Norfolk	5CFL048	03/15/2005	N6247001D1086	167,271.25
10	Norfolk	5CFC229	03/23/2005	N6247700D0114	107,585.51
11	Norfolk	5CFA153	03/16/2005	N0018799D6981	255,057.00
12	Norfolk	5ZA0C77	02/28/2005	N634085048TRNS	481,877.04

	Table C-2. Missing Supporting Documentation – cont'd				
Item	DFAS Site	DCN	Date	PIIN	AcrnNetPd
13	Norfolk	5AFA327	02/10/2005	N6247003D2083	136,499.50
14	Pensacola	5C50296	03/24/2005	GS23F98004	$298.80
15	Norfolk	5BFL3GS	03/02/2005	N00007500000GTS	807.05
16	Pensacola	5C50297	03/24/2005	GS23F98004	811.90
17	San Diego	5A29851	01/18/2005	GS23F98006PC1	4,148.85
18	Pensacola	5AXKXIT	01/20/2005	N6832204MNAVY	540.00
19	Norfolk	5AF/3FX	01/31/2005	N00007400000GTS	531.75
20	Norfolk	5CFZIJ2	03/04/2005	N01772000074CBA	412.20
21	Norfolk	5AFZIQ8	02/04/2005	N14121000017CBA	1,871.20
22	Norfolk	4LFCL3H	02/10/2005	N0018904P1237	1,121.79
23	Norfolk	5AFF9FJ	01/10/2005	N6247001D6049	399.00
24	Norfolk	5BF5EAY	02/14/2005	N01612000074CBA	325.40
25	Norfolk	5BFTM9Z	03/01/2005	DAHC2596G1610	68.09
Total					**$12,579,090.58**

	Table C-3. Incorrect Data in STARS				
Item	DFAS Site	DCN	Date	PIIN	AcrnNetPd
1	Charleston	5CCFQ4K	03/10/2005	N0002403C2116	$13,743,631.00
2	Japan	5BYYNHU	02/22/2005	DA92557FEC28000	30,505,501.73
3	Charleston	5CWB1AE	03/11/2005	N0002498C2104	47,533,149.00
4	Charleston	5AWB1AA	01/11/2005	N0002401C2103	2,019,682.00
5	Japan	5CYPGAF	03/24/2005	DA92557FEC28000	30,471,752.35
6	Norfolk	4LFES3S	01/03/2005	N0002404D4409	2,793,515.00
7	San Diego	5BAM6BM	02/16/2005	N0024205MDQA001	3,936,361.00
8	Pensacola	5CXRSGR	03/23/2005	N0014004P0938	348.19
Total					**$131,003,940.27**

	Table C-4. Missing Obligation Data				
Item	DFAS Site	DCN	Date	PIIN	AcrnNetPd
1	Charleston	5CC9AUA	03/25/2005	N0002497C2202	$10,403,538.31
2	Charleston	5CCAVTI	03/21/2005	N0002402C2102	13,262,209.19
3	Charleston	5AWB1AC	02/03/2005	N0002498C2104	19,438,935.00
4	Charleston	5CWB1AH	03/24/2005	N0002498C2104	20,768,780.00
5	Charleston	5CWB1AE	03/11/2005	N0002498C2104	47,533,149.00
6	San Diego	5BAM6BM	02/16/2005	N0024205MDQA001	3,936,361.00
7	Charleston	5AW9DEZ	01/27/2005	N0002403C2101	3,679,869.00
8	Norfolk	5BFD371	02/22/2005	N6247201D0073	1,027,909.00
9	Japan	5CYYFDL	03/18/2005	N6283603C5516	1,581,029.61

Item	DFAS Site	DCN	Date	PIIN	AcrnNetPd
			Table C-4. Missing Obligation Data – cont'd		
10	Charleston	5BW9CVF	02/22/2005	N0002498C2307	2,561,442.00
11	Charleston	5CW9BIL	03/10/2005	N0002496C2100	$1,634,224.00
12	Norfolk	5ZA0D54	03/02/2005	N634085048TRNS	3,297,411.00
13	Charleston	5ACYMS6	01/26/2005	N0003904F0013	2,310,982.60
14	Charleston	5BW9BKJ	02/14/2005	N0002402C2901	3,061,400.00
15	Pacific	5CHI6EA	03/30/2005	FA500004D0001	126,662.97
16	Charleston	5BCQETC	03/14/2005	N0002400D6000	506,727.34
17	Norfolk	5CFDSJG	03/24/2005	N4002605C0006	141,667.14
18	Charleston	5BCQDXL	03/10/2005	N0002400D6000	142,553.52
19	Charleston	5ACQDUM	02/03/2005	N0002400D6000	417,005.03
20	Norfolk	5AFD379	01/31/2005	N6247202D0079	250,565.26
21	Japan	5BYSRBS	03/17/2005	N6264904C0496	259,673.34
22	Charleston	5CW9DMH	03/28/2005	N0002496C2108	786,180.00
23	Charleston	5ACQGBD	02/15/2005	N0002400D6000	638,194.62
24	Japan	5AYYNGT	02/02/2005	F6256297H0002	103,301.35
25	Charleston	5ACQELQ	02/15/2005	N0002400D6000	105,590.03
26	Norfolk	4LFCL4D	01/03/2005	N0018904P1237	868,647.17
27	Norfolk	5BFC436	02/18/2005	N6247704D0176	197,328.00
28	Pacific	5AHG9FZ	01/27/2005	MISC05N107OTHER	133,886.32
29	Norfolk	5ZA0C77	02/28/2005	N634085048TRNS	481,877.04
30	Charleston	5BCQFWB	03/10/2005	N0002400D6000	129,750.93
31	Japan	5AYYWBC	01/13/2005	N6824604C0195	296,895.37
32	Norfolk	4KFL3DZ	01/05/2005	N00003100000GTS	369.90
33	Pensacola	5C50296	03/24/2005	GS23F98004	298.80
34	Charleston	5ACQGCA	02/11/2005	N0002400D6000	262.01
35	San Diego	5BAPX7K	02/02/2005	GS23F98006PC1	11,693.72
36	Norfolk	5BFL3GS	03/02/2005	N00007500000GTS	807.05
37	Pensacola	5C50297	03/24/2005	GS23F98004	811.90
38	San Diego	5BAPZ5D	02/28/2005	GS23F98006PC1	400.00
39	Norfolk	5ZKY333	03/16/2005	N634085070TRNS	148.66
40	Pensacola	5CXIILK	03/07/2005	N6832205MMARN	750.00
41	Norfolk	5ZK4082	01/18/2005	N634085011TRNS	3.08
42	San Diego	5CAIZLH	03/21/2005	N6671505F0006	22.65
43	Pensacola	5AXQV2Z	01/18/2005	GS23F98006PC1	2,682.80
44	San Diego	5A29851	01/18/2005	GS23F98006PC1	4,148.85
45	Norfolk	5ZK7399	01/21/2005	N634085018TRNS	345.54
46	Pensacola	5AXKXIT	01/20/2005	N6832204MNAVY	540.00
47	Norfolk	5BFL3GK	03/03/2005	N00005400000GTS	564.90
48	Pacific	4LHG8KR	01/11/2005	NATS2005X1510	24.50
49	San Diego	4LA5ZBR	01/20/2005	GS23F98006PC1	849.23
50	Norfolk	5BFL3FZ	03/04/2005	N00005300000GTS	378.40
51	Norfolk	5BFL3GA	03/03/2005	N00000400000GTS	679.10
52	Norfolk	5AFL3FX	01/31/2005	N00007400000GTS	531.75
53	Norfolk	5ZL1849	03/28/2005	N634085076TRNS	3,819.61
54	Norfolk	5AFL3GJ	03/03/2005	N00007400000GTS	436.00
55	San Diego	5BAPY8V	02/15/2005	GS23F98006PC1	2,395.00

Table C-4. Missing Obligation Data – cont'd					
Item	DFAS Site	DCN	Date	PIIN	AcrnNetPd
56	Norfolk	4LFL3GH	01/12/2005	N00007300000GTS	471.20
57	Charleston	5ACQFLI	02/15/2005	N0002400D6000	5.93
58	San Diego	5A83429	01/20/2005	N6600199D5016	10.18
59	Norfolk	5BFFF4Y	02/28/2005	GS23F98006PC1	$300.00
60	Norfolk	5CFZIJ2	03/04/2005	N01772000074CBA	412.20
61	Charleston	5ACQBPM	01/14/2005	N0002400D6000	1,466.71
62	Norfolk	5AFZIQ8	02/04/2005	N14121000017CBA	1,871.20
63	Norfolk	4LFCL3H	02/10/2005	N0018904P1237	1,121.79
64	Norfolk	5BFL3FB	02/25/2005	N00003300000GTS	165.90
65	Norfolk	5BF5EAY	02/14/2005	N01612000074CBA	325.40
66	San Diego	5AAPZ2Y	01/26/2005	GS23F98006PC1	288.19
67	Norfolk	5BFTM9Z	03/01/2005	DAHC2596G1610	68.09
Total					**$140,123,215.38**

Appendix D. 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 Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Naval Inspector General
Auditor General, Department of the Navy

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 Homeland Security and 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 Government Efficiency and Financial Management
House Subcommittee on Technology, Information Policy, Intergovernmental Relations,
    and the Census, Committee on Government Reform

Defense Finance and Accounting Service - Cleveland Comments

DEFENSE FINANCE AND ACCOUNTING SERVICE
CLEVELAND
1240 EAST NINTH STREET
CLEVELAND, OH 44199

DFAS-CL/ADB

OCT 2 7 2006

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCIAL AUDITING SERVICE,
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF
DEFENSE (ATTN: MR. RAYMOND KIDD)

SUBJECT: Office of the Inspector General Draft Report, Project No. D2005-D000FC-0151.000,
"Navy General Fund Vendor Payments Processed by Defense Finance and
Accounting Service," dated September 11, 2006

The Defense Finance and Accounting Service is providing the attached response to
Recommendations A.2.a, A.2.b, A.2.c, A.3, B.1.a, B.1.b, B.1.c, B.2.a, B.2.b, and B.2.c of the
subject draft audit report in Attachment 1.

The point of contact is Mr. Stanley Koch. Mr. Koch can be reached at 216-204-7066 or
DSN 580-5628.

Martha J. Stearns
Central Site Director

Attachment:
As stated

cc:
DFAS-DDI/AR

DFAS Comments to DoD IG Draft Report, Project No. D2005-D000FC-0151.000, "Navy General Fund Vendor Payments Processed by Defense Finance and Accounting Service," Dated September 11, 2006.

A. Establishing Accounts Payable Transactions.

Recommendation A.2. We recommend the Director of Defense Finance and Accounting Service Cleveland Central Site in conjunction with the Assistant Secretary of the Navy, Financial Management Comptroller improve the recording of Department of the Navy Accounts Payable transactions by revising current procedures that would allow for the immediate recognition of a liability upon acceptance of goods or services performed. Specifically the Defense Finance and Accounting Service should:

A.2.a. Use current accounting systems to ensure that all Accounts Payable transactions are recorded immediately when the Defense Finance and Accounting Services receives notification from the Department of the Navy certifying official that the goods or services are received or performed.

Management Comments. Concur. All commercial vendor pay Accounts Payable transactions are recorded in STARS immediately when DFAS receives notification from the DON official that the goods or services are received or performed.

Completion Date. September 25, 2006. This recommendation is considered closed.

A.2.b. Require the recording of Accounts Payable transactions independent from the corresponding obligation data required for budgetary accounting.

Management Comments. Concur in principal. STARS-FL is programmed to accept Material Receipt data when posted by the end-user. STARS-FL will process an Accounts Payable independent from the corresponding required obligation data. DFAS does not control, nor does it have the ability to ascertain when the event of material receipt actually occurs. Navy entities are responsible for establishing obligations and for recording the receipt information in STARS-FL.

Completion Date. October 24, 2006. This recommendation is considered closed.

A.2.c. Establish procedures in conjunction with the Assistant Secretary of the Navy, Financial Management Comptroller that allows Department of the Navy certifying activities to record an Accounts Payable (liability) transaction in the accounting system immediately upon acceptance of goods or services.

Management Comments. Concur. Procedure and programming is established to use the Automated Receipts Module (ARM) in One Pay by the Navy that automates the posting of the liability in STARS Accounting Modules. However, DFAS does not control, nor does it have the ability to ascertain when the event of material receipt

actually occurs, this process is dependent on Navy end-users to post the Budgetary and
Financial Data timely.

Completion Date. October 24, 2006. This recommendation is considered closed.

Recommendation A.3. We recommend that the Department of the Navy and the
Defense Finance and Accounting Service identify the accounts payable recording as an
assessable unit and develop procedures to test compliance within Navy General Fund.
Specifically, the Department of the Navy and the Defense Finance and Accounting
Service should design and implement internal control procedures to detect and prevent a
misstatement of reported Accounts Payable balances on Navy General Fund Financial
Statements.

Management Comments. Nonconcur. Recording of Accounts Payable is a Navy
functional responsibility. This needs to be directed to the Navy.

Estimated Completion Date. Not Applicable.

B. Supporting Accounts Payable Transactions.

Recommendation B.1. We recommend the Director of Defense Finance and Accounting
Service Cleveland strengthen procedures to ensure that the supporting documentation for
all non-Electronic Data Interchange vendor payment transactions is adequately
maintained and supports proper disbursements. Specifically, for the payments for the 25
vendor payment transactions identified where supporting documents were not provided
Defense Finance and Accounting Service Cleveland should:

B.1.a. Validate the payments were properly disbursed in accordance with the Prompt
Payment Act.

Management Comments. Concur. DFAS will validate payments identified as missing
supporting documentation were properly disbursed in accordance with the Prompt
Payment Act.

Estimated Completion Date. February 1, 2007.

B.1.b. Ensure that the payment amounts were accurate, supported, and legitimate..

Management Comments. Concur. DFAS will validate payments identified as missing
supporting documentation to ensure the payment amounts were accurate, supported, and
legitimate.

DFAS Comments to DoD IG Draft Report, Project No. D2005-D000FC-0151.000, "Navy General Fund Vendor Payments Processed by Defense Finance and Accounting Service," Dated September 11, 2006.

Estimated Completion Date. February 1, 2007.

B.1.c. Verify that a corresponding Accounts Payable was properly recorded in the Standard Accounting and Reporting System system.

Management Comments. Concur. DFAS will validate payments identified as missing supporting documentation were properly recorded in STARS as an Accounts Payable.

Estimated Completion Date. February 1, 2007.

Recommendation B.2. We recommend that Director of Defense Finance and Accounting Service Cleveland improve payment processes and operating procedures used to make vendor payments. Specifically, the Defense Finance and Accounting Service should:

Revised

B.2.a. Ensure that when key data elements are not included on supporting documents-required by the DoD Financial Management Regulation volume 5, chapter 11, appendix D-the payment is suspended until required data elements are obtained from the certifying official.

Management Comments. Concur. DFAS is in compliance since current procedures require key data elements from Certifying Officials.

Completion Date. September 25, 2006. This recommendation is considered closed.

B.2.b. Develop operating procedures in coordination with Department of the Navy, Office of the Assistant Secretary of the Navy, Financial Management and Comptroller that allow for the identification and gathering of transaction-level supporting documents in accordance with Under Secretary of Defense (Comptroller)/Chief Financial Officer, "Financial Improvement Initiative Business Rules," dated June 23, 2004, and Department of Defense Office of Inspector General memorandum, "Auditor Access for Financial Statement Audits," dated January 24, 2005.

Management Comments. Concur. DFAS Cleveland will develop a procedure with the Navy FMO to insure compliance.

Completion Date. December 1, 2008.

3   Attachment 1

**DFAS Comments to DoD IG Draft Report, Project No. D2005-D000FC-0151.000,
"Navy General Fund Vendor Payments Processed by Defense Finance and
Accounting Service," Dated September 11, 2006.**

B.2.c. Develop management internal control procedures that improve processes for
identifying and supporting vendor payment transactions. Internal controls should include
assessable units that test the accuracy of payments against supporting documentation and
the ability to readily provide such documentation when required.

Management Comments. Concur. DFAS Cleveland will develop Assessable Units to
address internal control procedures for identifying and supporting vendor payment
transactions that test the accuracy of payments against supporting documentation.

Estimated Completion Date. February 1, 2007.

4   Attachment 1

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.

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Inspector General
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