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Acronyms

ACL	Audit Command Language
ACRN	Accounting Classification Reference Number
ARN	Authorization Request Number
AWCF	Army Working Capital Fund
CLIN/SLIN	Contract Line Item Number/ Sub-Line Item Number
DEAMS	Defense Enterprise Accounting and Management System
DFAS	Defense Finance and Accounting Service
ERP	Enterprise Resource Planning
EUD	Elimination of Unmatched Disbursements
FADA	Financial Accounting Data Abstract
FFMSR	Federal Financial Management Systems Requirements
FMR	Financial Management Regulation
GAO	Government Accountability Office
GFEBs	General Fund Enterprise Business System
GLAC	General Ledger Account Code
JFMIP	Joint Financial Management Improvement Program
LMP	Logistics Modernization Program
MOCAS	Mechanization of Contract Administration Services
NULO	Negative Unliquidated Obligation
OMB	Office of Management and Budget
ULO	Unliquidated Obligation
UMD	Unmatched Disbursement



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

March 2, 2007

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,
TECHNOLOGY, AND LOGISTICS
UNDER SECRETARY OF DEFENSE
(COMPTROLLER)/CHIEF FINANCIAL OFFICER
DEPUTY UNDER SECRETARY OF DEFENSE
FOR BUSINESS TRANSFORMATION
NAVAL INSPECTOR GENERAL
AUDITOR GENERAL, DEPARTMENT OF THE ARMY
ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Report on Controls Over the Prevalidation of DoD Commercial Payments
(Report No. D-2007-065)

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

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer and the Defense Finance and Accounting Service comments were partially responsive. We request additional comments on Recommendations A.1., A.2., A.3.b., A.4.b., and B.3.d. by April 2, 2007. The comments from the Deputy Under Secretary of Defense for Business Transformation and the Army were responsive.

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. Carmelo G. Ventimiglia at (317) 510-4801 ext. 275 (DSN 699-4801) or Mr. George DeBlois at (317) 510-4801 ext. 273 (DSN 699-4801). See Appendix G 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 printed name.

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

Department of Defense Office of Inspector General

Report No. D-2007-065

March 2, 2007

(Project No. D2005-D000FI-0164.000)

Controls Over the Prevalidation of DoD Commercial Payments

Executive Summary

Who Should Read This Report and Why? DoD personnel responsible for accounting for and disbursing commercial payments should read this report. It discusses the internal controls needed to match proposed disbursements with corresponding obligations before making commercial payments.

Background. DoD accounting and disbursing officials are responsible for ensuring that DoD organizations spend funds according to the purposes and limitations established by Congress. In 1994, DoD officials and Congress recognized that problems existed in properly matching disbursements with corresponding obligations. As a result, Senator Charles Grassley proposed an amendment to the FY 1995 DoD Appropriations Act that required DoD to match proposed disbursements with corresponding obligations before making payments (referred to as prevalidation). Every year since then, Congress has amended the annual DoD Appropriation Act to require prevalidation. In 1996, to comply with Senate Report No. 104-286, which accompanied Public Law 104-208, "DoD Appropriations Act, FY 1997," DoD developed and implemented plans to prevalidate commercial payments. Prevalidation ensures that DoD organizations have recorded obligations properly in an official accounting system and reserved sufficient funds in accounting records to cover the proposed disbursement. The prevalidation of proposed disbursements should reduce DoD problem disbursements, avoid costly contract payment reconciliations, and provide accurate financial information to managers.

Results. Since 1995, DoD has made progress in prevalidating commercial payments and reducing problem disbursements. However, effective internal controls were not in place to ensure that DoD matched each commercial payment request to the corresponding obligation and that, once prevalidated, the disbursement transaction correctly posted in the official accounting records without manual intervention. As a result, errors detectable during the entitlement and prevalidation processes continued to occur, compromising the benefits of the prevalidation process. An effective prevalidation process could have reduced some of the more than \$18.8 million spent by the Defense Finance and Accounting Service (DFAS) and its DoD customers to correct and reconcile contract payment data. DoD needs to update its prevalidation plan to provide time frames for achieving the prevalidation of all commercial payments and accounting adjustments. DoD management must also implement policies to standardize contract billing and payment instructions and require prevalidation at the contract line item number/sub-line item number level. DFAS must work with the Military Departments and improve internal controls over the prevalidation process by ensuring data integrity, developing a single source for obligation data, and ensuring that financial managers have recorded all obligations in the official accounting systems within 10 days. DFAS needs to review prevalidation as part of its self assessment, require certification officials to review

entitlement records for accuracy and completeness before attempting prevalidation, and develop the system functionality to perform root cause analyses and reverse canceled transactions (finding A).

The Army failed to correct its long-standing weaknesses in matching obligations with proposed disbursements for the Army Working Capital Fund. The Army developed the Logistics Modernization Program without the internal capability to perform the prevalidation function directly with DoD entitlement systems, and DFAS continued to use an ineffective and unreliable off-line database to prevalidate Army Working Capital Fund payments. In addition, DFAS St. Louis did not identify disbursements covered by temporary obligations in the Logistics Modernization Program as unmatched disbursements until 30 days after the system attempted to post the disbursements. As a result, the Army could not ensure that the Logistics Modernization Program complied with Federal Financial Management System Requirements for matching obligations to disbursements and continues to incur additional costs to research and reconcile disbursements that cannot post correctly. The Army also understated the reported value of unmatched disbursements. The Deputy Under Secretary of Defense for Business Transformation and the Army Program Executive Officer, Enterprise Information Systems must take steps to ensure that new core financial systems have the interfaces to perform prevalidation at the contract line item number and sub-line item number level. DFAS must ensure that the Logistics Modernization Program can match payments to corresponding obligations, accomplish proper general ledger accounting, report all “ZK” transactions as unmatched disbursements until they post to the correct corresponding obligation, and perform root cause analyses (finding B).

DFAS managers permitted the disbursement of vendor payments without ensuring that technicians had properly prevalidated all commercial payment requests. As a result, DFAS could have made payments that violate the requirements of Public Law 108-287. In addition, the risk of making erroneous payments to vendors and the need to incur additional costs to properly post payments in the official accounting records have increased. DFAS must cease making commercial payments that it has not prevalidated and rescind locally developed prevalidation policies (finding C). See the Findings section for detailed recommendations.

DFAS internal controls over the prevalidation of commercial payments were not adequate. We identified material weaknesses related to the entitlement of payments, recording of obligations, and prevalidation of payments. See the Review of Internal Controls section and finding A for more information.

Management Comments and Audit Response. The Acting Deputy Chief Financial Officer, commenting for the Under Secretary of Defense (Comptroller)/Chief Financial Officer, generally concurred with the recommendations. He agreed with the need to update the DoD prevalidation plan and develop new time frames for prevalidating all commercial payments. He partially concurred with the need to prevalidate accounting adjustments and provide payment offices with detailed payment instructions. He nonconcurred with requiring entitlement and prevalidation of each payment to the contract line item number and sub-line item number level to comply with the Standard Financial Information Structure initiative. The Acting Deputy Chief Financial Officer’s comments were partially responsive. We disagree with his position that no relationship exists between the Standard Financial Information Structure and the entitlement and prevalidation of commercial payments. In order for the DoD’s Standard Financial Information Structure to provide meaningful financial data to managers, the payment entitlement and prevalidation process must begin to use a Demand Unique Identifier for all disbursements.

The Deputy Under Secretary of Defense for Business Transformation concurred with the recommendation to ensure future core financial systems prevalidate payments. He stated that the Business Enterprise Architecture would include prevalidation requirements and define the specific requirements for entitlement, Standard Financial Information Structure compliance, and contract line item/sub-line item number level prevalidation.

The DFAS Deputy Director for Standards and Compliance, commenting for the DFAS Deputy Director for Operations, generally concurred with the recommendations. She agreed to identify the data fields required to properly prevalidate and post disbursement transactions, perform edit checks, and identify recurring problems. She also agreed to the eventual use of a single source data file to record obligation data in all financial systems, develop a reconciliation process between entitlement and accounting systems, and correct system limitations in the prevalidation process. In addition, the Deputy Director agreed to direct field locations to cease making vendor payments without positive confirmation that corresponding obligations exist in the official accounting records and rescind any contrary locally developed policies and procedures. She partially concurred with the requirement that payment requests and entitlement records contain all necessary information before prevalidating payment requests. She nonconcurred with requiring lead technicians to perform the functions of certifying officials and with reporting "ZK" transactions as unmatched disbursements until the transactions post to corresponding detail obligations. The Deputy Assistant Secretary of the Army (Financial Operations) concurred with the proposed DFAS action plans. The DFAS comments were generally responsive. We disagree with the DFAS position to not require lead entitlement technicians to perform payment certification functions. We also do not agree that the Logistics Modernization Program system should create obligations for unmatched disbursements without supporting obligating documents and without reporting these disbursements as unmatched disbursements.

The Program Executive Officer, Enterprise Information Systems concurred with the recommendation to develop system requirements and interfaces within the Logistics Modernization Program to prevalidate DoD commercial payments. See the Findings section of the report for a discussion of the management comments and the Management Comments section for a complete text of the comments.

We request that the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer and DFAS reconsider their position and provide comments on the final report by April 2, 2007.

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Background

DoD accounting and disbursing officials are responsible for ensuring that DoD organizations spend funds according to the purposes and limitations established by Congress. In 1994, DoD officials and Congress recognized that problems existed in properly matching disbursements with corresponding obligations. As a result, Senator Chuck Grassley proposed an amendment to Public Law 103-335, “DoD Appropriations Act, FY 1995,” September 30, 1994, requiring DoD to match proposed disbursements with corresponding obligations before making any payments (hereafter referred to as prevalidation). Every year since then, the annual DoD Appropriation Act has included the prevalidation requirement. Prevalidation ensures that DoD organizations have properly recorded obligations and reserved sufficient funds to cover the proposed disbursements in the official accounting records. The prevalidation of disbursements should reduce DoD problem disbursements,¹ avoid costly contract payment reconciliations, and provide accurate financial information to managers.

The Defense Finance and Accounting Service (DFAS) processes commercial payments using a multitude of automated entitlement² systems. DoD has not integrated all entitlement systems with the accounting systems used to record obligation data. DFAS Columbus, in Columbus, Ohio, pays centrally administered contracts using the Mechanization of Contract Administration Services (MOCAS) system. DFAS vendor payment offices, located in multiple field locations, pay contracts not administered by the Defense Contract Management Agency and make non-contractual payments. Effective January 2006, the Deputy Director for Operations, DFAS became responsible for DFAS commercial payment operations.

Public Law Requirements. Public Law 103-335, section 8137, required that the Secretary of Defense develop a plan for DoD disbursing officials to establish and implement a requirement to match proposed disbursements to corresponding obligations before making payments. It also required that, no later than July 1995, the Secretary of Defense match each disbursement in excess of \$5 million to a particular obligation before making payment. Congress lowered the dollar threshold to:

- \$3 million as of June 1997, as part of Public Law 104-208, “DoD Appropriations Act, FY 1997,” September 30, 1996.
- \$1 million as of June 1998, as part of Public Law 105-056, “DoD Appropriations Act, FY 1998,” October 8, 1997.
- \$500,000 as of October 1, 1999, as part of Public Law 106-079, DoD Appropriations Act, FY 2000,” October 25, 1999.

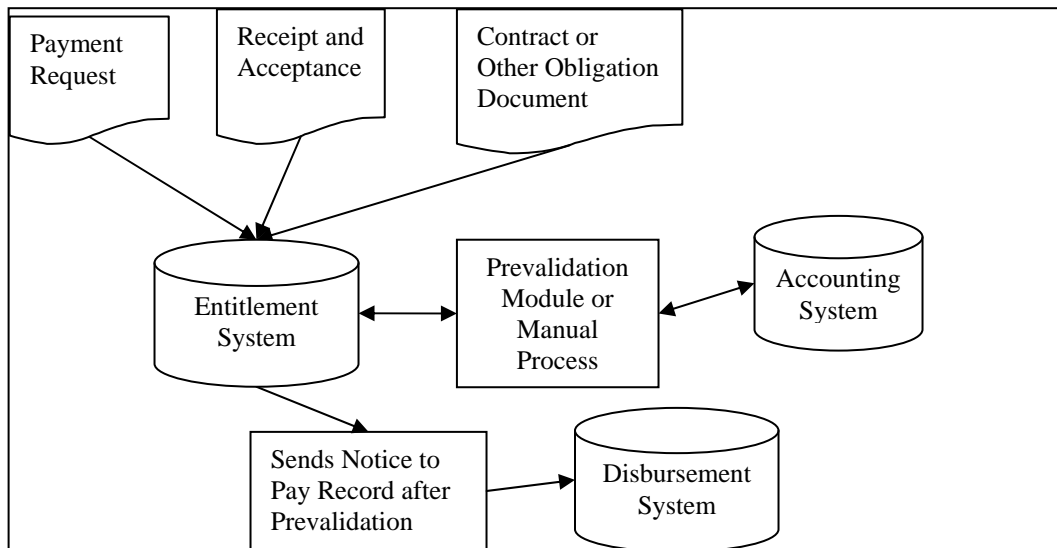
¹ Problem disbursements reported by DoD include unmatched disbursements, negative unliquidated disbursements, and aged in-transit disbursements.

² Entitlement is the process of preparing a payment for disbursement. It includes matching the data provided on the vendor invoice to the data provided on the receiving report and contract. The entitlement process ensures that the payment is for goods or services received in compliance with the specific contract terms.

In Public Law 108-287, “DoD Appropriations Act, FY 2005,” August 5, 2004, Congress also required that DoD prevalidate disbursements valued at \$500,000 or more in FY 2005.

DoD Prevalidation Plans. Senate Report No. 104-286, June 20, 1996, which accompanied Public Law 104-208, required the Under Secretary of Defense, (Comptroller)/Chief Financial Officer, to direct the prevalidation of all payment requests³ paid by DFAS Columbus on contracts issued on or after October 1, 1996. Senate Report No. 104-286 also required the Secretary of Defense to develop a detailed plan for matching disbursements to corresponding obligations for amounts below \$1 million. In April 1997, DoD provided Congress with a plan for lowering the prevalidation dollar threshold. DoD developed one schedule to lower the dollar threshold for MOCAS contract payments. The second schedule addressed how and when to lower the dollar threshold for all other commercial payment systems. DoD planned to reduce the threshold to \$0 for MOCAS contract payments by June 30, 2000. All other commercial payment systems were to prevalidate all disbursements by October 1, 1998. By 2004, DFAS Columbus had not yet begun to prevalidate all MOCAS contract payments. On July 12, 2004, DFAS reduced the prevalidation threshold for MOCAS contract payments to \$10,000 for all contracts issued before FY 2005 and to \$0 for all contracts issued after September 30, 2004.

DoD Prevalidation Process. The prevalidation process requires that the commercial payment office verify that a corresponding obligation exists in the official accounting records for the items invoiced by a vendor before DFAS makes a commercial payment. At the time of prevalidation, the accounting system should also reserve sufficient funds to cover the payment. The following figure provides an overview of the prevalidation process.



Prevalidation Process Overview

³ Payment requests as used in this report include contract payment requests and requests for financing payments, as well as vendor invoices.

The prevalidation process begins when the commercial payment office receives evidence of the receipt and acceptance of goods and services for items invoiced by a vendor. The commercial payment office entitles the payment request and initiates the prevalidation process, either through use of an automated system interface between the DoD entitlement and accounting systems or manually between DFAS entitlement and accounting technicians at various DFAS field accounting sites. The prevalidation process provides accounting systems with the data needed to record or update budgetary and proprietary account entries. In FY 2005, DFAS paid more than 14.2 million payment requests valued at about \$276 billion. See Appendix B for a glossary of technical terms used in this report. See Appendix C for a detailed description of the contract payment prevalidation process.

Internal Control Requirements. Government Accountability Office (GAO) Report No. GAO/AIMD 00-21.3.1, “Standards for Internal Controls in the Federal Government,” November 1999, provides standards for designing and applying internal controls. Internal controls should provide reasonable assurance that DoD achieves the following objectives:

- effective and efficient operations,
- reliable financial reporting, and
- compliance with applicable laws and regulations.

Office of Management and Budget (OMB) Circular No. A-123, “Management’s Responsibility for Internal Controls,” December 2004, defines management’s responsibility for internal controls. Internal control, organization, policies, and procedures are tools to help program and financial managers achieve results and safeguard the integrity of their programs.

DoD Guidance. The DoD Financial Management Regulation (FMR) provides guidance for commercial payment entitlement, accounting, and disbursement. DoD FMR, volume 3, “Budget Execution Availability and Use of Budgetary Resources,” chapter 8, “Standards for Recording and Reviewing Commitments and Obligations,” June 2005, provides budgetary guidance. The guidance states that DoD should record an obligation in the official accounting records within 10 days of a legally binding obligation of the Government to pay for a service or product.

DoD FMR, volume 10, “Contract Payment Policy and Procedures,” chapter 1, “Financial Control of Vendor and Contract Payments,” March 2002, discusses entitlement procedures. To establish internal controls that ensure that payments are timely and accurate, managers are to create and maintain segregation of duties, adhere to policy and procedures, ensure authentic electronic transmissions, and use sound internal accounting and system access controls. In addition, it states that complete, consistent, and accurate contract files and related disbursement and accounting records are necessary to reduce the potential for Antideficiency Act violations and minimize the number and dollar value of problem disbursements.

To ensure the accuracy of payments, DoD FMR, volume 5, “Disbursing Policy and Procedures,” chapter 33, “Departmental Accountable Officials and Certifying Officials,” April 2005, requires that a certifying official review all payment vouchers to ensure that all items listed are correct, legal, and proper for payment from the appropriations or funds designated.

Objectives

The overall audit objective was to evaluate controls over the prevalidation of DoD commercial payments. Specifically, we evaluated actions taken by DFAS and the Military Departments to ensure that proposed disbursements matched the corresponding detail obligations and that the accounting systems reserved funding before making the disbursements. We determined whether prevalidated payments posted correctly to the accounting systems or resulted in problem disbursements. We also reviewed the management control program as it related to the overall objective. 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,” August 26, 1996, and DoD Instruction 5010.40, “Management Control (MC) Program Procedures,” August 28, 1996,⁴ 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 controls. DFAS and DoD managers did not identify compliance with prevalidation requirements as an assessable unit in the payment cycle.

We identified material internal control weaknesses for DFAS and the Military Departments as defined by DoD Instruction 5010.40. DFAS and the Military Departments did not have the following internal controls implemented for the prevalidation process:

- supervisory reviews and entitlement system edit checks to prevent the forwarding of inaccurate and incomplete entitlement records for prevalidation and payment;
- policies and procedures to prevent the approval of payment requests and accounting adjustments before confirmation that sufficient obligations exist in the accounting system;

⁴ 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.

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- procedures and supervisory oversight to ensure obligations were recorded in the accounting records within established timeframes, citing the correct line of accounting and obligation amount;
 - procedures for technicians to follow when matching obligations to payment requests;
 - reconciliation of obligation balances recorded in entitlement and accounting systems; and
 - financial and entitlement system interfaces to accomplish the prevalidation process internally with an automated obligation matching function at the contract line item and sub-line item level.

Implementing Recommendations A.2, A.3, B.2, and B.3 will improve DFAS prevalidation procedures. A copy of the final report will be provided to the senior official responsible for internal controls in DFAS and the Military Departments.

A. Effectiveness of the Contract Payment Prevalidation Process

Since 1995, DoD has made progress in prevalidating commercial contract payments and reducing problem disbursements. However, effective internal controls were not in place to ensure that DoD matched each contract payment request to the corresponding obligation(s) and that, once prevalidated, the disbursement transaction posted correctly in the official accounting records without manual intervention. Internal controls were ineffective because technicians circumvented prevalidation requirements and controls were not in place to ensure that:

- entitlement records were complete and accurate;
- the accounting systems had obligation data recorded within established time frames citing the appropriate accounting classification reference number (ACRN), contract line item number/sub-line item number (CLIN/SLIN), and other required accounting data elements needed to accurately post the disbursement;
- technicians conducted proper oversight and reviews of the entitlement records, payment requests, canceled authorization request numbers (ARNs),⁵ and adjusted payments; and
- accounting and entitlement activities analyzed, tracked, and corrected errors found during the process.

As a result, errors detectable during the entitlement and prevalidation processes continued to occur, compromising the benefits of the prevalidation process. An effective prevalidation process could have reduced some of the more than \$18.8 million spent by DFAS and its DoD customers to correct and reconcile contract payment data.

DoD Prevalidation Plan

Since DoD began prevalidating commercial payments in July 1995, DoD made steady progress in prevalidating contract payments. DoD improved the process by using automated interfaces between the entitlement and payment systems and lowered the dollar threshold for MOCAS contract payments. These efforts have contributed to an overall reduction in the dollar value of reportable DoD problem disbursements. In 1997, DoD provided Congress a plan for lowering the prevalidation threshold for contract payments to \$0 by June 30, 2000. Table 1 shows key milestones achieved for reducing the prevalidation dollar threshold for

⁵ An ARN is the unique identifier used to track prevalidation requests sent between MOCAS and the various accounting systems. In this report, ARN refers to a prevalidation request.

contract payments and the corresponding dollar values of problem disbursements at the end of the fiscal year that a change in the prevalidation threshold occurred.

Table 1. Changes in the DoD Prevalidation Threshold and Problem Disbursements			
Fiscal Year of Dollar Threshold Change	Prevalidation Threshold	Reported Unmatched Disbursements (billions)	Reported Negative Unliquidated Obligations (billions)
1995	\$5,000,000	\$12.5	\$.9
1998	1,000,000	8.2	3.0
2000	500,000	1.7	1.2
2004	10,000	0.7	0.1

MOCAS Prevalidation Plan. DoD did not achieve its goal to prevalidate all contract payments by June 2000. The MOCAS prevalidation plan called for a phased reduction in the dollar threshold that allowed DFAS Columbus to closely monitor the effect that lowering the prevalidation threshold had on payment timeliness. DoD based its decisions to reduce the prevalidation threshold on the ability to meet and maintain a goal of making at least 95 percent of the payments on time. On April 5, 2006, DoD reduced the MOCAS prevalidation threshold to cover all payments on contracts awarded after FY 2004 and payments valued at \$7,500 or greater on contracts awarded in FY 2004 and earlier. However, DoD has not updated the plan it provided Congress to establish milestones for achieving a \$0 threshold for all contract payments.

Using Audit Command Language (ACL) software, we queried the MOCAS Invoice History File (YDF1) from March 1 through June 16, 2005, and determined that 57 percent of the payment requests received during that period, representing 99 percent of the \$56 billion disbursed, met the prevalidation threshold in effect. DFAS Columbus did not prevalidate the remaining 43 percent of the payment requests, representing about 141,000 payment requests valued at \$459 million, that had individual values less than \$10,000. The MOCAS payment requests that DFAS Columbus did not prevalidate represented only a small percentage of the dollars disbursed. Thus, DoD would have seen only a minimal impact on interest charges had payment delays occurred when they extended prevalidation requirements to the remaining 141,000 payment requests. Also, requiring the prevalidation of all payment requests enhances DoD's ability to post disbursements in the official accounting systems correctly, thereby further reducing the inflow of DoD problem disbursements. DoD should develop and implement a plan to accomplish prevalidation on all contract payment requests with time frames for each scheduled reduction in the threshold. The plan should assess and compare the cost of not prevalidating contract payments and the risk of making erroneous payments against the cost of incurring prompt payment interest charges on late payments.

Reported Success of MOCAS Prevalidation Efforts. DFAS Columbus may have overstated the reported success of MOCAS prevalidation efforts. In FY 2005, DFAS reported that the Elimination of Unmatched Disbursements

(EUD) system, used by DFAS Columbus to prevalidate payments, prevalidated approximately 1.3 million payment requests. In June 2005, DFAS Columbus reported that accounting systems approved 96 percent of the ARNs processed between October 2004 and April 2005 on the first attempt. However, the 96 percent pass rate included ARNs that required manual intervention to complete the prevalidation process. We obtained and analyzed EUD files processed by DFAS Columbus from March 1 through June 16, 2005. We found that accounting systems automatically approved only 64 percent of the ARNs. The remaining 36 percent of the ARNs received one or more of a series of denial codes requiring a technician to perform some form of manual intervention before granting payment approval. Including ARNs that require manual processing in the first-attempt approval rate overstates DoD's success rate for prevalidating contract payments. Manual processing also increases the costs associated with making contract payments. Because the EUD system is not integrated with some accounting systems, the commercial payment offices must use a manual process to request prevalidation. For ARNs directed to those non-integrated accounting systems, the EUD system automatically assigned denial code 031, identifying the need for manual intervention.⁶ If these were returned approved, DFAS Columbus counted them as passing the first time. However, while manually processing these ARNs, accounting technicians sometimes identified and corrected errors in the accounting records without assigning additional denial codes to the ARN. As a result, DFAS Columbus did not have accurate statistics on the overall prevalidation error rate.

Testing for Effective Internal Controls

DFAS did not conduct detailed root cause analyses to determine the effectiveness of the contract payment prevalidation process. Consequently, we obtained the database of payment requests processed by DFAS Columbus and DFAS field accounting sites to test internal controls in the entitlement and accounting processes. We isolated specific subpopulations to test whether internal controls were in place and operating effectively. Appendix D provides a detailed explanation of the data mining processes and analytical techniques used in reviewing the data. See Appendix E for details about the sampling methodology and tables showing our sample projections of each test.

Entitlement Testing. To test for internal control weaknesses in the entitlement process, we analyzed four attribute samples. We tested an attribute sample of:

- 68 entitlement records that were missing a contract number, shipment number, ACRN, or CLIN/SLIN to determine whether contractors submitted proper payment requests. We also determined whether DFAS Columbus entitlement technicians entered the payment request information provided by the vendor in the entitlement record.

⁶ In FY 2006, 12 Navy Working Capital Fund organizations started using a new MOCAS Financial Accounting Data Abstract file. The EUD system interfaces directly with the MOCAS Financial Accounting Data Abstract file to prevalidate payment requests. As a result, the number of "031" prevalidation denials has been reduced for MOCAS payment requests.

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- 67 ARNs with entitlement related denial codes to determine whether DFAS Columbus had entitled the payment according to the contract and payment request data provided.
 - 69 shipments with canceled ARNs to determine whether DFAS Columbus had entitled the payment correctly or needed to make changes to the entitlement record.
 - 67 adjustments to shipments that had passed prevalidation and disbursed to determine whether DFAS Columbus had entitled the originally approved disbursement correctly.

Obligation Testing. To test for internal control weaknesses in the accounting process, we selected an attribute sample of 68 ARNs with accounting related denial codes to determine whether the EUD system denied the ARNs because field accounting sites did not enter obligation data timely and accurately in the accounting systems. In addition, we tested whether the denial codes assigned by the system accurately identified the errors.

Internal Controls Over the MOCAS Entitlement Process

DFAS Columbus did not maintain an adequate control environment, establish proper control activities, and conduct sufficient monitoring to ensure the accurate and proper entitlement of contract payments. Specifically, the control environment and control activities did not identify inaccurate or incomplete entitlement records. In addition, DFAS personnel did not conduct sufficient monitoring to identify erroneous entitlement records before submitting them for prevalidation. DFAS entitlement organizations are key control points for ensuring that the entitlement record provides accurate data for the official accounting system to match the payment request and acceptance data to the appropriate obligation. These organizations need control activities such as approvals, authorizations, verifications, and reconciliations to ensure that the entitlement records are accurate, complete, and promptly processed. The EUD system denies ARNs when sufficient controls are not in place during the entitlement process, causing costly and unnecessary research and followup work by technicians. Furthermore, because DFAS monitoring techniques did not identify erroneous entitlement records, field accounting sites posted payments to incorrect obligations. This may result in future disbursement problems and the need for costly contract reconciliation.

Completeness of Entitlement Data

DFAS Columbus did not ensure that entitlement personnel identified incomplete or inaccurate payment requests and entitlement records. We selected 68 sample records from the subpopulation of 7,058 entitlement records with potential errors. We are 90-percent confident that between 3,623 and 5,096 of the entitlement records were missing information in MOCAS. DFAS Columbus did not have system and other controls in place to prevent vendors from submitting incomplete payment requests and entitlement technicians from submitting entitlement records

for prevalidation that lacked all the information provided in the contract and on the vendors' payment requests. In addition, DFAS Columbus did not require that lead technicians review each entitlement record for accuracy and completeness in accordance with the requirements in DoD FMR, volume 5, chapter 33.

Payment Request Completeness. DFAS controls did not prevent incomplete payment requests from entering MOCAS and creating inaccurate entitlement records. Of the 68 entitlement records we reviewed, DFAS Columbus technicians submitted 14 entitlement records for financing payments, such as cost vouchers and performance-based payments, using payment requests that did not contain CLIN/SLIN information. We are 90-percent confident that between 831 and 2,075 payment requests used to develop entitlement records were missing CLIN/SLIN information necessary for prevalidation (Table E-5). DFAS Columbus entitlement technicians did not perform research to identify the availability of the missing information. We examined the payment requests associated with the 14 entitlement records and determined that the contractors had billed for specific milestones or performance. When we compared the invoices to the contracts, we were able to match each milestone and performance measure on the invoices to a specific CLIN/SLIN in the contracts. DFAS Columbus personnel stated that because DoD contracts do not require contractors to always submit CLIN/SLIN information on financing payments, DFAS does not need to include the information in the entitlement records. DFAS Columbus personnel also expressed concern that they cannot consistently and accurately entitle payments to the CLIN/SLIN level unless the acquisition community provides detailed billing and payment instructions in all contracts. For those contracts that do not require billing to the CLIN/SLIN level, contracting officers should include payment instructions that state how DFAS should allocate payments to the contract CLIN/SLINs. Detailed contract payment instructions would have enabled DFAS Columbus technicians to research and include information in the entitlement record to permit prevalidation at the CLIN/SLIN level. See Appendix F, Table F-1 for details on the 14 entitlement records.

Based on the results of our review of the 68 sample entitlement records, we completed an additional ACL analysis of the EUD files to determine the percentage of financing payments that contained CLIN/SLIN information. We determined that 90 percent of the financing payments prevalidated from March 1, through June 16, 2005, had CLIN/SLIN information in the entitlement record. Federal Acquisition Regulation Subpart 32.206, "Solicitation Provisions and Contract Clauses," states that financing payments computed on the line item basis should be liquidated to that line item. The Standard Financial Information Structure that DoD plans to implement requires accounting for items at the CLIN/SLIN level.⁷ Therefore, DFAS Columbus technicians should have attempted to identify and include CLIN/SLIN information in the entitlement records submitted for prevalidation. The Under Secretary of Defense (Comptroller)/Chief Financial Officer, in conjunction with the acquisition community, should develop a policy to require detailed contract billing and payment instructions at the CLIN/SLIN level for payment offices. The policy

⁷ The Standard Financial Information Structure will include a requirement for Components to create Demand Unique Identifiers when they commit funds. The Demand Unique Identifier is an alphanumeric combination that will track obligations to the CLIN/SLIN level.

should also require that payments are entitled to the CLIN/SLIN level based on the payment request and contract terms and that financial managers use CLIN/SLIN information to prevalidate disbursements, including financing payments and their recoupment.

Entitlement Record Completeness. DFAS Columbus technicians did not verify the completeness of each entitlement record before prevalidation. Of 68 sample items, 28 records were missing information contained on the supporting payment requests, such as the CLIN/SLIN or ACRN. We are 90-percent confident that between 2,163 and 3,650 of the sample entitlement records did not contain all of the information provided on the supporting contract or payment requests (Table E-5). The entitlement records were incomplete because DFAS Columbus personnel did not use information present in the payment requests and the associated contracts to properly develop the entitlement records. In addition, DFAS Columbus did not require that lead entitlement technicians review the entitlement records prepared by their assigned clerks to ensure that they contained proper and accurate information before attempting prevalidation. Using the same contract and payment request information available to DFAS Columbus personnel, we traced each of the 28 entitlement records to a specific ACRN and CLIN/SLIN. When the entitlement technicians can identify the specific ACRN and CLIN/SLIN invoiced, they should include that information in the entitlement record. This permits the prevalidation process to properly match the payment request to the correct obligation in the accounting system and reduces the number of ARNs requiring research before payment approval. See Appendix F, Table F-2 for details on the 28 entitlement records.

Accuracy of Entitlement Records

DFAS Columbus did not adequately research and resolve the root causes of entitlement errors that resulted in canceled or denied ARNs. Inadequate reviews and improper certification procedures caused the prevalidation of incorrectly entitled payments. DFAS Columbus did not identify the root causes of recurring entitlement errors or develop corrective actions to prevent their future occurrence. Instead, DFAS Columbus repeatedly canceled or reworked ARNs after the EUD system identified errors. Reworking ARNs required additional research to correct errors that technicians should have identified before prevalidation. DFAS Columbus lead entitlement technicians only reviewed the accuracy of entitlement records for payment requests greater than \$1 million and 10 percent of the payment requests under \$1 million. DoD FMR, volume 5, chapter 33, requires certification officials to examine all payment vouchers before certification and ensure that the information contained on the vouchers agrees with the supporting documentation. If DFAS Columbus lead entitlement technicians had performed this certification function prior to prevalidation, DFAS would have ensured that the prevalidation process used accurate entitlement records and reduced the need for unnecessary ARN cancellations and manual rework.

Prevalidation Attempts Denied Because of Entitlement Issues. We are 90-percent confident DFAS incorrectly entitled between 1,277 and 1,782 ARNs denied because of entitlement issues. DFAS Columbus did not ensure that the entitlement records were accurate and complete (Table E-4). DFAS Columbus

entitlement technicians had not entered the correct information in the entitlement record and were not loading financing payments into MOCAS timely. We also found further evidence that DFAS Columbus did not entitle and liquidate financing payments to the CLIN/SLIN level even though that information was readily available. Furthermore, DFAS Columbus did not identify recurring entitlement errors for resolution.

Requests for Liquidation. DFAS could not properly match 34 of the 67 sample ARNs requesting liquidation of previous financing payments to the work-in-progress lines⁸ in accounting systems because technicians had not loaded financing payments timely, or system anomalies prevented the processing of the ARN. The EUD system assigned denial code “058-Request is over recoupment” and returned the 34 sample ARNs to DFAS Columbus for correction. In order for the request for liquidation to prevalidate automatically, DFAS Columbus must promptly entitle financing payments and record them in MOCAS so that accounting stations can establish the appropriate work-in-progress line in the official accounting records for future liquidation. In addition, none of the 34 sample ARNs included CLIN/SLIN information.

DFAS Columbus could have prevented the denial of 10 of the 34 ARNs by ensuring that MOCAS had disbursed previously entitled financing payments before attempting to liquidate them. MOCAS only records financing payments as work-in-progress at the time of disbursement. Therefore, technicians must ensure the posting of all entitled financing payments in MOCAS before entitling the liquidation request. We found delays of 10 to 24 days between the time DoD received the financing payment requests from the vendor and DFAS Columbus disbursed the payments. Because of the delays, there were insufficient funds recorded in the work-in-progress lines when the EUD system attempted to prevalidate an ARN requesting liquidation of a previous financing payment. DFAS Columbus should research and correct the timing problem. See Appendix F, Table F-3 for details on the 10 sample ARNs with outstanding financing payments not loaded timely.

Technicians had loaded the remaining 24 of the 34 ARNs timely and accurately in MOCAS, but could not prevalidate automatically because of errors in the EUD system entitlement-to-accounting matching process or because funds were not loaded timely in the accounting system. For 21 of the denied sample ARNs, DFAS loaded the financing-associated payments timely in both MOCAS and the accounting system, but errors still occurred when the EUD record attempted to find a matching obligation in the accounting systems. DFAS personnel were unable to identify the basis of the system anomalies that prevented processing the ARNs. As a result, we used ACL to conduct further analysis and isolated all ARNs with denial code 058. We determined that 847 of 1,030 ARNs belonged to DFAS Rock Island in Rock Island, Illinois, and DFAS St. Louis in St. Louis, Missouri, and both DFAS field accounting sites used the same accounting system. However, we could not identify discrepancies between the entitlement and accounting records that would cause the denial of the ARNs.

⁸ DFAS establishes work-in-progress lines in the accounting records to record contract financing payments. The work-in-progress line is liquidated based on a percent of the invoices submitted as goods or services are delivered.

DFAS should research the root cause of the mismatch and correct the problem. For the three other sample ARNs, DFAS Dayton in Dayton, Ohio, and DFAS Charleston in Charleston, South Carolina, had not loaded all of the previous financing payments timely in the accounting system; therefore, work-in-progress balances were insufficient when the EUD system attempted prevalidation. See Appendix F, Table F-4 for details on the 24 sample ARNs with outstanding financing payments not loaded timely or denied because of system anomalies.

Accurate Information. DFAS Columbus did not adequately review entitlement records to ensure the information matched information contained in the payment requests and contracts before prevalidation. DFAS Columbus entitled eight sample ARNs with erroneous accounting station, CLIN/SLIN, quantity, or ACRN information even though the payment request or contract contained the correct information. The errors caused the EUD system to deny and return the eight ARNs to DFAS Columbus entitlement technicians for research and correction. If DFAS Columbus personnel had an effective process to review all entitlement records for accuracy, they would have identified and corrected the errors before prevalidation. An effective process should reduce or eliminate the costs of performing additional research and correcting the entitlement records. See Appendix F, Table F-5 for details on the eight sample ARNs.

Tracking and Resolving Entitlement Denial Codes. Although DFAS Columbus personnel tracked accounting stations with the most common errors, they did not take steps to identify the root causes and develop corrective actions to resolve future entitlement errors. For example, we identified four sample ARNs that the EUD system assigned denial code “014-Mismatched accounting station.” A review of these ARNs identified that no error had occurred. By using ACL, we isolated all ARNs with a denial code 014 and determined that 262 of 314 ARNs belonged to the U.S. Army Aviation and Missile Command. Neither DFAS Columbus nor DFAS St. Louis, the responsible accounting station, researched the cause of this recurring problem to determine the appropriate corrective actions needed to prevent future occurrences.

Likewise, DFAS Dayton accounted for 459 of the 513 ARNs that received a denial code “013-Inability to match fiscal year.” DFAS Dayton recognized that many prevalidation requests would not pass automatically because the fiscal year field in the entitlement record showed “XXXX” and did not match the same field in the accounting record, which was blank. However, neither DFAS Columbus nor DFAS Dayton took action to research and resolve the disparity in how the fiscal year field is populated in each system. Failure to research and resolve these recurring errors resulted in DFAS incurring additional costs to have technicians manually approve these prevalidation requests. DFAS Columbus should identify and monitor the root causes for entitlement denial codes, attribute recurring causes to specific accounting stations, and promptly resolve the problems.

Canceled Prevalidation Requests

DFAS Columbus personnel did not perform comprehensive reviews of entitlement records. They performed limited reviews that did not identify errors before prevalidation. We identified a population of 58,094 ARNs that DFAS Columbus

canceled because of errors in the entitlement record or at the request of the contractor. These ARNs comprised 26,984 unique shipment numbers submitted for payment. We tested a sample of 69 shipments that contained canceled ARNs to determine whether DFAS Columbus could have prevented the cancellation and need for rework. We are 90-percent confident that DFAS Columbus inaccurately entitled between 5,912 and 11,295 shipments that contained canceled ARNs (Table E-2). DFAS Columbus entitled 22 of the sample shipments' ARNs with incorrect information. The EUD system could not match 20 of the 22 ARNs to the appropriate obligation because the ARNs were missing information or DFAS Columbus had entitled the shipments with incorrect information, such as ACRNs, CLINs/SLINs, commitment reference numbers, or dollar amounts. Incorrect entitlement records cause ARNs to fail the prevalidation process, requiring technicians to perform additional research and rework. If the controls within the prevalidation process do not identify errors, or technicians overlook the errors, the official accounting records will erroneously post the shipment information containing the errors.

DFAS Columbus must review the entitlement of each shipment before prevalidation to ensure accuracy. The prevalidation process should not allow the processing of entitlement records without the accounting data needed to properly post a payment in the official accounting record. DFAS Columbus had identified the data elements required by each Military Department to properly prevalidate and post disbursements in the official accounting records. However, DFAS Columbus did not develop edit checks or other control procedures that would prevent the prevalidation of entitlement records that were missing the required data elements. DFAS should re-assess the data fields required by each Military Department and develop system controls within the EUD system that would require complete entitlement records before attempting prevalidation. Additionally, DFAS Columbus did not monitor or research the root causes for canceled ARNs to develop solutions for resolving common anomalies and errors made by vendors or entitlement personnel. See Appendix F, Table F-6 for details on the 22 sample canceled ARNs.

Adjustments Needed to Correct Entitlement Errors

Inadequate reviews by both entitlement and accounting technicians allowed shipments to be paid for and posted in the official accounting records with incorrect obligations data. These errors occurred even though the shipments had passed the prevalidation process. We are 90-percent confident that DFAS technicians did not ensure that the entitlement records used to prevalidate and pay between 1,385 and 2,159 ARNs contained accurate and correct information (Table E-6). This type of error required DFAS to make an accounting adjustment after disbursing the funds to correctly post the payment in the official accounting records.

Of the 67 sample ARNs that required an adjustment after prevalidation, DFAS Columbus personnel entitled:

- 19 to the incorrect ACRN;
- 3 to an ACRN containing errors in the line of accounting; and
- 11 shipments with other incorrect information, such as the quantity, vendor, or amount.

In some instances, DFAS Columbus did not adjust the payments until a contract review or the contractor identified the error. Supporting documentation indicated that DoD and DFAS financial management personnel should have identified these errors before prevalidation through the review and certification process required by DoD FMR, volume 5, chapter 33. DFAS Columbus also did not have adequate authorization and approval controls over accounting adjustments. We found that adjustments that DFAS Columbus made did not always correct the original entitlement error or contained additional errors. Furthermore, DoD did not require prevalidation of the adjustments before posting them to the accounting and entitlement systems. To ensure that the adjustments correctly identify the accounting changes needed, DFAS should prevalidate accounting adjustments before posting them. See Appendix F, Table F-7 for details on the 33 adjustment transactions.

Conclusion. The control environment over the entitlement of contract payments did not ensure that payments properly matched corresponding obligations in the official accounting records. A majority of the errors we identified in the prevalidation process were the result of DFAS Columbus not ensuring that the entitlement records were accurate and complete. In addition, contract billing and payment instructions did not always identify how payments were to be allocated to CLIN/SLIN level.

DFAS Columbus also did not have an effective payment certification process that reviewed each proposed payment for accuracy and completeness. As a result, inaccurate and incomplete entitlement records entered the prevalidation process resulting in denied and canceled ARNs. These errors result in an additional cost to DFAS customers because accounting and entitlement technicians must perform manual research and entitlement efforts or costly contract reconciliations before making the disbursements and properly posting them in accounting records. In addition, we identified incorrect entitlements that went undetected during the prevalidation process and required additional research and adjustment actions after disbursement to post to the proper obligations. DoD did not require the prevalidation of these adjustments, compromising the integrity of the process designed to maintain the accuracy of the official accounting records. Finally, because DFAS Columbus personnel did not identify, analyze, or correct the root causes of prevalidation errors, the errors continued to occur and jeopardized the accuracy of the official accounting data.

Internal Controls Over Obligation Balances

DoD did not maintain an adequate control environment to ensure that DoD organizations recorded obligations timely and accurately in the official accounting systems. Specifically, DoD personnel did not comply with the DoD FMR requirement to record all obligations in the official accounting systems within 10 days of incurrence. Furthermore, DoD financial managers and system controls did not monitor the accounting records to ensure that the accounting systems maintained accurate obligation information and balances. Monitoring and review procedures should have identified the DoD organizations that did not record obligations timely. DFAS did not trace recurring problems to the responsible officials so that Military Department financial managers could take corrective actions. DFAS also did not identify and correct inadequate system controls. Obligation information was not entered simultaneously or accurately in both entitlement and accounting systems, and system controls did not identify or prevent transactions that led to the out-of-balance conditions.

Recording Obligations Within 10 Days. DoD did not comply with the DoD FMR requirement in volume 3, chapter 8 to record obligations in the official accounting records within 10 days of a legally binding obligation of the Government to pay for a service or product. We are 96.6-percent confident that between 1,740 and 5,487 ARNs that received an accounting denial code did not have an obligation entered in the accounting system before attempting to process the ARN (Table E-3). For 15 sample ARNs, DoD personnel entered the obligations in the accounting systems from 13 to 302 days after the legal obligation occurred. In addition, controls were not in place to ensure accounting technicians corrected data errors before approving the ARN for payment, and DFAS personnel sometimes approved ARNs for payment even though they did not have positive assurance that the accounting stations had entered the obligation in the accounting records. These activities circumvent prevalidation process controls and result in the need for additional research and rework after making the disbursements, in order to match and post the payments to the correct obligations. DFAS should track and report to the Military Departments the organizations that do not record obligations on time. See Appendix F, Table F-8 for details on the 15 prevalidation requests.

Accuracy of Obligation Data. DoD did not have adequate internal controls to ensure that accounting stations recorded obligations accurately and maintained a proper obligation balance. DoD personnel did not adequately review the obligation data entered in the official accounting records to ensure the accuracy of the recorded obligations and the obligation balances. Overall, we are 96.6-percent confident that between 6,680 and 11,148 ARNs that received an accounting denial code did not have the corresponding obligation recorded correctly or had insufficient obligation balances available to approve the ARN (Table E-3). Of the 68 ARNs in the sample, 37 failed prevalidation because the accounting stations posted obligations to the incorrect CLIN/SLIN, failed to reverse accounting entries for previously canceled ARNs, or posted prior payments against the wrong obligations. When entitling the payment requests, DFAS Columbus determined that MOCAS had an unliquidated obligation balance large enough to make the payment. However, DFAS and the Military Departments did not sufficiently

monitor the accuracy of obligation balances in the official accounting records, thus jeopardizing the integrity of the prevalidation process. Because DoD does not have a single entry system that enters obligations in MOCAS and the accounting systems at the same time, DoD needs to conduct periodic system checks between MOCAS and the various accounting systems to identify inaccuracies in obligation balances before prevalidation. Furthermore, DFAS needs to create the system functionality to reverse the accounting entries for previously canceled ARNs to maintain accurate obligation balances. See Appendix F, Table F-9, for details on the 37 sample prevalidation requests with errors.

Misclassified Accounting Station Denial Codes. The EUD system did not always accurately identify the cause of prevalidation failures. We are 96.6-percent confident that between 1,349 and 4,915 ARNs sent to accounting stations for correction failed prevalidation because entitlement technicians had incorrectly entitled the payment requests (Table E-3). Our review showed that 14 sampled ARNs assigned denial codes “001-CLIN/SLIN not in accounting record” or “023-amount exceeds unliquidated obligation” were misrouted to an accounting station for correction. After some research, accounting stations determined that the entitled information was in error and had to reroute the ARNs to DFAS Columbus for correction. (See Appendix F, Table F-10, for details on the 68 sample prevalidation requests that required corrections). For example, DFAS Columbus received a payment request that billed CLIN 0001AA but incorrectly entitled the request to CLIN 0001AB, causing the ARN to fail prevalidation. The EUD system assigned denial code 001, requiring the accounting station to research and correct the ARN. However, only DFAS Columbus could correct the entitlement record so that the ARN would pass prevalidation. By sending these denied ARNs to accounting stations for correction, DFAS accounting technicians performed unnecessary research. DFAS Columbus could have prevented these errors if the lead entitlement technicians had reviewed entitlement records before prevalidation. Furthermore, if DFAS Columbus had analyzed the root causes of denial codes, it would have determined that entitlement problems were causing these errors and taken steps to correct the entitlement process.

Conclusion. For the prevalidation process to succeed, DoD must maintain the integrity of the obligation balances maintained in both the accounting systems and MOCAS. DoD management needs to strengthen internal controls to ensure that accounting stations record obligations in a timely manner. By not recording obligations in the accounting systems within 10 days, DoD organizations not only failed to comply with the DoD FMR but created unneeded research and rework to prevalidate and post disbursements to the accounting systems. DFAS should identify and track the DoD organizations that fail to enter obligations timely and report them to the Military Department Comptrollers for corrective action. DoD also needs to develop control techniques to monitor and reconcile obligation balances recorded in the entitlement and accounting systems and identify inaccurate data or out-of-balance conditions. DoD lacks a means to simultaneously enter the same obligation data into MOCAS and the various accounting systems. Without a single entry system, technicians enter obligation data into MOCAS and the various accounting systems at different times. Furthermore, the information in the two sets of systems is not always the same. To facilitate prevalidation between the accounting and entitlement systems, DoD should develop a process to record the identical obligation data in both MOCAS

and the accounting systems. In the interim, DoD should periodically identify obligation balances that are out of balance between MOCAS and the accounting systems.

System Limitations at DFAS Field Accounting Sites

DFAS accounting stations lacked internal controls to ensure that disbursements matched corresponding obligations without the need for manual intervention. The three DFAS field accounting sites we visited had to work within system limitations that hindered the prevalidation process. Based on our test of ARNs denied and returned to the accounting stations for correction, we found that 17 of 68 sample ARNs did not pass prevalidation automatically because of system limitations that required manual intervention to complete the prevalidation process.

DFAS St. Louis. DFAS St. Louis did not have internal controls that ensured that requests would process accurately. At DFAS St. Louis, the EUD system did not directly interface with the official accounting systems. Instead, DFAS St. Louis downloaded accounting data to an off-line database to prevalidate payments. DFAS St. Louis management acknowledged that the database contained inaccurate information, which caused the erroneous approval or denial of some ARNs. In DoD IG memorandum, "Termination of the Audit of the Procedures for Prevalidating Payments," April 4, 2003, we informed DFAS that this database was corrupt and recommended that they identify the cause for the corruption and implement corrective actions. Although DFAS St. Louis personnel had identified the reoccurrence of this problem, they did not implement effective corrective actions. In addition, DFAS St. Louis personnel did not identify the number of transactions affected or determine why the database periodically became corrupted with inaccurate data. To resolve the problem, DFAS needs to establish a direct link between the EUD system and the accounting systems to ensure that the most up-to-date and accurate obligation data is used to prevalidate contract payments. The Logistics Modernization Program (LMP) system should have resolved these issues but has not.⁹ (See Finding B for a discussion of how LMP prevalidates payments.) In the meantime, DFAS should take steps to correct DFAS St. Louis' off-line database so that the database maintains accurate obligation data to accomplish the prevalidation process.

DFAS Charleston. DFAS Charleston did not have sufficient internal controls to ensure that ARNs processed accurately. The EUD system interacted with an off-line database instead of processing information directly with the accounting system. DFAS Charleston used the Financial Accounting Data Abstract (FADA) file to prevalidate ARNs. However, the FADA did not contain accurate obligation data, and could not process certain ARNs on the same day as the prevalidation attempt. In addition, the Department of Navy did not update the FADA routinely

⁹ In December 1999, the Army Materiel Command contracted with a vendor to develop and implement a comprehensive logistics management system. The Army used a commercial enterprise resource planning software application (obtained from SAP Public Sector and Education Inc.) that included financial and funds accounting modules to develop LMP.

with the most current obligation data. This caused some ARNs to erroneously pass prevalidation and other ARNs to erroneously fail. Furthermore, the FADA did not have the capability to process both payment and recoupment transactions simultaneously against the same obligation record, causing one of the two types of transactions to fail. DFAS had identified the problems but had not developed the corrective actions needed to resolve the problems.

DFAS Dayton. Inadequate controls caused some ARNs to fail and required manual intervention even though there was an obligation balance large enough to approve the ARN for payment. When DFAS Dayton approved ARNs, the system reserved funds by moving the prevalidated amount to the Accrued Expenditure Unpaid general ledger account code (GLAC). However, when DFAS Columbus subsequently canceled those ARNs, the funds remained in that GLAC because of the inability of the system to reverse the previous transaction. When DFAS Dayton technicians failed to manually reverse these transactions, the system understated the Unliquidated Obligation GLAC while overstating the Accrued Expenditures Unpaid GLAC balance. Consequently, when DFAS Columbus submitted subsequent ARNs affecting that obligation, the system was sometimes incapable of identifying that a sufficient obligation balance existed to approve the ARN. As a result, technicians had to accomplish unnecessary manual research to ensure adequate funding existed to approve the subsequent ARNs. Although technicians sometimes identified this problem for a specific obligation, DFAS did not systematically correct the problem. To prevent unnecessary manual intervention, DFAS should implement a system change that would automate reversing the general ledger transactions for canceled ARNs.

Managers' Assessment of Internal Controls

DFAS and DoD managers did not identify compliance with prevalidation requirements as an assessable unit and accomplish the requirements contained in DoD Instruction 5010.40 and OMB Circular No. A-123. As a result, they did not identify and report the material weaknesses related to the entitlement of payments, recording of obligations, and prevalidation of payments that we identified. To maintain compliance with the DoD and OMB internal control requirements, managers were responsible for ensuring complete documentation of the prevalidation process and identification of the key internal controls required to ensure compliance with the public law requirements. Managers should have established internal controls to mitigate any potential for circumventing this process and ensure that each prevalidated payment posted accurately to the official accounting record without an adjustment. The control environment did not ensure that each payment would post to the correct obligation.

Controls, such as edit checks and proper certification of payments, were not sufficiently in place to ensure that entitlement records used during prevalidation were accurate and correct. Other controls were not in place to identify and correct errors during the prevalidation process before approving the payments. With the exception of the manual prevalidation function identified by DFAS Columbus, DFAS did not identify the prevalidation function as a separate assessable unit within the disbursement cycle, which would have enabled management to monitor

a significant financial function. We found that the prevalidation function was usually incorporated within the larger process of contract payments. There was no consistency in documenting, evaluating, and reporting on the prevalidation process within the internal control program. DoD managers must continuously monitor the prevalidation process, identify anomalies, and develop corrective action plans for any shortfalls.

Cost of Erroneous Entitlements and Prevalidation Requests

Insufficient manual and system controls caused DFAS to conduct unnecessary research and rework of contract payments to resolve errors generated during the entitlement and prevalidation processes. The errors created unnecessary work for the entitlement technicians and accounting stations or went undetected until after DFAS made the payments and required contract reconciliation. In most cases, DFAS Columbus should have identified these errors before attempting prevalidation. The uncorrected errors increased the costs of making and recording payments and contributed to the need for costly contract reconciliation. Although not easily quantifiable, had DFAS implemented an effective prevalidation process, DoD could have reduced a portion of the cost of making contract payments by eliminating rework. A more effective prevalidation process could have reduced some of the more than \$18.8 million spent by DFAS and its DoD customers to correct and reconcile contract payment data. Specifically, DoD could have saved some of the \$6.3 million budgeted in FY 2005 for technicians to manually match payments during prevalidation and post payments after disbursement. In addition, DoD may have been able to reduce some of the more than \$12.5 million in contract reconciliation costs spent by DFAS and the DoD Components in FY 2005 to correct improperly posted disbursements.

Summary

DoD has made steady progress since 1995 in improving the prevalidation of contract payments. DFAS has also lowered the prevalidation threshold for contract payments made by MOCAS from \$5 million to \$7,500. Despite this progress, more needs to be done to ensure that each payment request matches the correct obligation before making the disbursement. Improvements are needed in the MOCAS entitlement process and in controls over obligation balances. The DFAS Columbus commercial payment office had ineffective manual and systematic entitlement review procedures. System controls did not identify missing data in entitlement records and technicians did not review contract terms to ensure that entitlement records contained the required CLIN/SLIN information. DFAS Columbus prevalidated incomplete or inaccurate entitlement records because they did not review, compare, and certify that each entitlement record matched the supporting documentation before attempting prevalidation. The incomplete and inaccurate entitlement records resulted in unneeded research and rework of the prevalidation requests by entitlement, prevalidation, and accounting technicians. If left uncorrected, the inaccuracies will create problem disbursements that require

additional efforts by DFAS personnel to research and resolve. Also, DFAS was not prevalidating accounting adjustments needed to correct disbursement errors compromising the integrity of the prevalidation process.

DFAS lacked sufficient monitoring procedures to identify and correct the root causes of errors in the prevalidation and disbursement processes. Although DFAS Columbus personnel identified the most common errors in the prevalidation process, they did not analyze canceled prevalidation attempts and accounting adjustments to identify causes and resolve common problems. DFAS also did not track and report DoD organizations that did not comply with the DoD FMR requirement to record obligations in a timely manner. In addition, when obligations were entered into the accounting systems, DFAS personnel did not adequately review the obligations to ensure their accuracy in both the accounting and entitlement systems.

DoD system limitations hindered the effective prevalidation of contract payments. When the EUD system identified errors, DFAS did not ensure that the prevalidation technicians made the necessary corrections to ensure that the payments would post accurately without intervention once disbursed. DoD must take steps to update the plan for achieving full compliance with the prevalidation requirements. DoD must also implement strong internal control measures to ensure that DoD commercial payment offices and accounting field sites effectively accomplish the prevalidation process and maintain accurate accounting records.

Management Comments on Internal Control Weaknesses

In her comments to the draft report, the DFAS Deputy Director for Standards and Compliance addressed the material internal control weaknesses identified in this report. She stated that DFAS will correct inadequate policies and procedures as it implements corrective actions in the accounts payable business area. She also stated that the lack of interfaces and edit checks would be addressed with the implementation of the new Enterprise Resource Planning (ERP) systems and the use of a new Business Activity Monitoring tool. The Deputy Director also stated that DFAS would identify any other internal control weaknesses through the DFAS Annual Statement of Assurance process.

Recommendations, Management Comments, and Audit Response

A.1. We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, in conjunction with the Director, Defense Finance and Accounting Service, update the DoD prevalidation plan. The plan should include:

a. time frames for lowering the dollar threshold for all contract payments to \$0 based on a detailed cost analysis.

Management Comments. The DoD Acting Deputy Chief Financial Officer concurred and stated that DFAS will update the plan to reduce the MOCAS prevalidation threshold incrementally to \$0, if the benefits of further reductions support the additional costs.

Audit Response. The Acting Deputy Chief Financial Officer comments were partially responsive. Until DoD can implement integrated financial management systems, the prevalidation process is essential for ensuring data integrity between legacy DoD accounting and payment systems. Senate Report No. 104-286 required DoD to submit a plan to match all DoD disbursements to corresponding obligations before payment. Since DoD did not achieve the original planned milestones provided to Congress, DFAS needs to update the plan and inform Congress of the revised milestones for prevalidating all commercial payments. We request that the Under Secretary of Defense (Comptroller)/Chief Financial Officer provide additional comments outlining the DoD revised milestones for lowering the prevalidation dollar threshold to \$0 and identify an estimated completion date for updating the prevalidation plan.

b. a requirement to prevalidate all accounting adjustments.

Management Comments. The DoD Acting Deputy Chief Financial Officer partially concurred and stated that DFAS is currently prevalidating accounting adjustments greater than \$1 million and working to lower this threshold. He also stated that DFAS will develop a plan to lower the threshold for prevalidating accounting adjustments in MOCAS, assuming the reduction is supported by a cost-benefit analysis.

Audit Response. The Acting Deputy Chief Financial Officer comments were partially responsive. Although we agree a cost-benefit analysis should guide further reductions in the prevalidation threshold, allowing DFAS to make adjustments to previously prevalidated payments without also prevalidating them compromises the integrity of the prevalidation process. When determining the cost benefit, DoD must also consider the additional costs associated with researching and resolving data integrity issues within the accounting and payment systems resulting from adjustments bypassing the prevalidation process. We request that the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer provide additional comments detailing DoD plans to lower the threshold for accounting adjustments, including an estimated completion date for updating the plan.

A.2. We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, in conjunction with the Under Secretary of Defense for Acquisition, Technology, and Logistics, develop a policy to:

a. provide payment offices with detailed contract billing and payment instructions requiring payment at the contract line item number and sub-line item number level.

Management Comments. The DoD Acting Deputy Chief Financial Officer partially concurred and stated that DoD established standard billing and payment

instructions in October 2005. The Defense Federal Acquisition Regulation Supplement Procedures, Guidance, and Instruction 204.7108 requires contracting officers to include standard payment instructions in Section G of contracts. He also stated that DoD is assessing the feasibility of automating the standard payment instructions in MOCAS.

Audit Response. The Acting Deputy Chief Financial Officer comments were partially responsive. We agree that Defense Federal Acquisition Regulation Supplement Procedures, Guidance, and Instruction 204.7108 now requires contracting offices to provide detailed payment instructions. However, until DoD automates these standard payment instructions, the Under Secretary of Defense (Comptroller)/Chief Financial Officer must develop controls to ensure that the DoD payment offices properly entitle, prevalidate, and disburse payments covered by Section G of the contract. DFAS should prevalidate payments for all other contracts that do not meet the scope of Defense Federal Acquisition Regulation Supplement Procedures, Guidance, and Instruction 204.7108 to the CLIN/SLIN. We request that the Under Secretary of Defense (Comptroller)/Chief Financial Officer coordinate with the Under Secretary of Defense for Acquisition, Technology, and Logistics and provide additional comments detailing the implementation of controls to ensure that contracting officers and payment technicians comply with the requirements of Defense Federal Acquisition Regulation Supplement Procedures, Guidance, and Instruction 204.7108.

b. comply with the Standard Financial Information Structure by requiring the entitlement and prevalidation of each payment to the contract line item number and sub-line item number level, including financing payments and their recoupment.

Management Comments. The DoD Acting Deputy Chief Financial Officer nonconcurred and stated that there was no relationship between the Standard Financial Information Structure and the requirement for the entitlement and prevalidation of each payment.

Audit Response. The Acting Deputy Chief Financial Officer comments were not responsive. We do not agree that the Standard Financial Information Structure is unrelated to the requirement to entitle and prevalidate each payment. As highlighted in the Deputy Under Secretary of Defense for Business Transformation comments, the Standard Financial Information Structure is important for DoD to fully meet prevalidation requirements. The Concept of Operations for the Standard Financial Information Structure, Version 2.4, September 19, 2005, requires unique identification to the CLIN/SLIN level for all obligation data and ties a Demand Unique Identifier suffixed at the SLIN level directly to the accounting classification on all obligating documents. As DoD feeder systems implement the Standard Financial Information Structure, documents used in the entitlement process need to cite this Demand Unique Identifier. Therefore, DoD must take steps to accomplish prevalidation using this Standard Financial Information Structure format. We request that the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer reconsider its position on the recommendation and provide additional comments on the final report.

A.3. We recommend that the Deputy Director for Operations, Defense Finance and Accounting Service, in conjunction with the Assistant Secretaries for Financial Management and Comptroller of the Military Departments:

a. Identify the data fields required by each Military Department to properly prevalidate and post disbursement transactions in the official accounting systems, and develop edit checks within the Mechanization of Contract Administrative Services system and the Elimination of Unmatched Disbursement system that would require complete information in those data fields before attempting prevalidation.

Management Comments. The DFAS Deputy Director for Standards and Compliance concurred and stated that data fields required to properly prevalidate and post disbursements will be identified for new ERP systems. She also stated that DFAS has been working to improve the prevalidation process related to other Army and Navy accounting systems. In addition, DFAS will develop a plan of action and milestones to identify the requirements to automate the Standard Army Finance Information System prevalidation process and review the edits required in the Standard Operations Maintenance Army Research Development System to post disbursement transactions. DFAS has also initiated the implementation of the Enterprise Risk Management Business Activity Monitoring tool to perform edit checks to ensure that complete information is available before attempting to prevalidate commercial payments.

b. Require that payment requests and entitlement records contain all necessary information before prevalidating payment requests.

Management Comments. The DFAS Deputy Director for Standards and Compliance partially concurred and stated that DFAS will complete a plan of action and milestones to address mismatch conditions between the information required on the invoice by the accounting systems and the information required on the invoice by the contract. She stated that MOCAS entitled all information required by contracts, but accounting systems required data that were not contractually required on invoices. She also stated that CLIN/SLIN information is not always contractually required and that contract financing payments were not CLIN/SLIN specific.

Audit Response. The DFAS comments were partially responsive. We agree that not all contracts require CLIN/SLIN information. However, DFAS did not entitle contract financing payments to the CLIN/SLIN level even when the contractor had provided the information or the proper CLIN/SLIN information was readily identifiable in the contract. DFAS needs to develop policies to ensure that when the contractor submits an invoice for payment that, if the invoice or contract payment information provides the appropriate CLIN/SLIN-level data reflecting the level of work performed, DFAS organizations will entitle, obligate, and prevalidate the payments to the proper CLIN/SLIN level. We request that DFAS reconsider its position and provide additional comments on the final report.

c. Use a single source data file to record identical obligation data in both the entitlement and accounting systems. In the interim:

(1) Develop and provide to fund managers an automated report that identifies out-of-balance obligation data between the Mechanization of Contract Administrative Services system and corresponding accounting systems for each accounting classification reference number and contract line item number/sub-line item number.

(2) Develop control procedures to monitor, reconcile, and correct differences between the systems.

Management Comments. The DFAS Deputy Director for Standards and Compliance partially concurred and stated that DFAS will work with the ERP systems to develop a single source data file for obligation data. In the interim, DFAS will conduct reconciliations between entitlement and accounting systems. The Deputy Director stated that DFAS has identified the need for a reconciliation process in the DFAS Financial Improvement Audit Readiness plan. She also stated that as workload transfers to DFAS Columbus, DFAS will develop automated reports to identify out-of-balance situations between the entitlement and accounting systems.

Audit Response. The DFAS comments were responsive. The intent of the recommendation was to develop a method of resolving differences in the obligations data recorded in the entitlement and accounting systems. Planned management actions will meet the intent of the recommendation.

d. Identify the DoD organizations that do not record obligations in the accounting systems within 10 days, and provide status reports to the Assistant Secretaries for Financial Management and Comptroller of the Military Departments.

Management Comments. The DFAS Deputy Director for Standards and Compliance partially concurred and stated that DFAS had limited capability to fully implement the recommendation because it does not have immediate visibility over obligations loaded in the accounting systems. However, the Deputy Director agreed to conduct root cause analyses and provide relevant information concerning the untimely recording of obligations to the Military Departments.

Audit Response. The DFAS comments were responsive. The intent of the recommendation was to provide visibility of known violations of the requirement to record obligations within 10 days to the Military Departments for corrective actions. Planned management actions will meet the intent of the recommendation.

e. Identify and correct system limitations that prevent the interim, off-line databases used for prevalidation from maintaining accurate obligation data, and modify procedures and interfaces to ensure that all transactions affecting obligation balances are used to update obligation data in the:

(1) Financial Accounting Data Abstract file used by the Department of the Navy, and

(2) Off-line database used by Defense Finance and Accounting Service St. Louis.

Management Comments. The DFAS Deputy Director for Standards and Compliance concurred and stated that DFAS Cleveland has established automated daily feeds from accounting systems to the Standard Accounting and Reporting System One Pay and FADA files to ensure that the obligation data are current. She also stated that DFAS St. Louis will correct the system limitations and modify procedures and interfaces by April 1, 2007.

A.4. We recommend that the Deputy Director for Operations, Defense Finance and Accounting Service:

a. Establish the prevalidation process as an area for inclusion in the DFAS self assessment of the DoD disbursement cycle.

Management Comments. The DFAS Deputy Director for Standards and Compliance concurred and stated that the prevalidation process will be a subset of the accounts payable assessable unit under the Director for Operations initiative to standardize assessable units at all DFAS sites. She also stated that special emphasis will be placed on this area because of its high visibility and impact on the overall operational accuracy of posting disbursements.

Audit Response. The DFAS comments were responsive. Establishing the prevalidation process as a subset of the accounts payable assessable unit meets the intent of the recommendation.

b. Require lead technicians to perform the functions of certifying officials and review all contract payments for accuracy and completeness before submitting entitlement records for prevalidation.

Management Comments. The DFAS Deputy Director for Standards and Compliance nonconcurred and stated that having lead technicians perform the reviews required by the certification officials would be a duplication of effort and not cost effective. However, she stated that DFAS recognizes the need for improving the accuracy and completeness of contract payments and has financial analysts and branch chiefs perform high-level reviews of proposed, manual contract payments.

Audit Response. The DFAS comments were not responsive. Our review of payment and prevalidation error transactions showed that the DFAS Columbus certification process did not comply with DoD FMR, volume 5, chapter 33. The process did not require certifying officials to review the accuracy of facts and computations related to each proposed payment before certification. In addition, the reviews performed by certifying officials were not comprehensive. Many of the errors occurring during the prevalidation process, which caused adjustments to be made subsequent to disbursement, would have been identifiable during the entitlement process if a certifying official had reviewed the documentation available at DFAS Columbus. The prevalidation of improperly entitled payments raises questions about the comprehensiveness of payment certifications. DFAS should assign the payment certification functions to its lead entitlement

technicians and require them to review all proposed contract payments for accuracy and completeness before attempting prevalidation. This would permit the use of the prevalidation process to help verify the legality of payments, which the certification officials could then rely on to certify the payment. These reviews would also effect a reduction in the number of adjustments required to correct improperly prevalidated payments, saving DoD considerable time and money. We request that DFAS reconsider its position and provide additional comment on the final report.

c. Use data mining tools to track and analyze the root causes of recurring errors identified in the prevalidation process, identify recurring causes, and develop corrective actions to prevent future occurrence. At a minimum, the Defense Finance and Accounting Service should periodically conduct root cause analyses on:

- (1) denied prevalidation requests,**
- (2) canceled prevalidation requests,**
- (3) disbursements that require manual intervention to post to the accounting systems, and**
- (4) disbursements that require accounting adjustments.**

Management Comments. The DFAS Deputy Director for Standards and Compliance concurred and stated that DFAS will use its new Business Activity Monitoring capabilities to perform root cause analyses on errors detected in the prevalidation process. The Deputy Director also stated that DFAS Columbus will establish processes to perform root cause analyses. Based on the analyses, DFAS will recommend solutions, provide training, and implement additional controls.

d. Develop the functionality in accounting systems to reverse the previously recorded Accrued Expenditures Unpaid and Accounts Payable accounting entries when the Elimination of Unmatched Disbursements system cancels a prevalidation request that has already been approved.

Management Comments. The DFAS Deputy Director for Standards and Compliance concurred and stated that, except for the LMP system, all accounting systems that use the EUD system have the functionality to reverse a previously recorded Accrued Expenditure Unpaid and Accounts Payable accounting entry upon receipt of a canceled prevalidation request. She stated that DFAS will communicate this requirement to the LMP Program Director.

Audit Response. The DFAS comments were responsive. DFAS Dayton has developed the functionality to reverse a previously recorded Accrued Expenditure Unpaid and Accounts Payable accounting entry upon receipt of a canceled prevalidation request.

B. Prevalidation in Future Accounting Systems

The Army failed to correct its long-standing weaknesses in matching obligations with proposed disbursements for the Army Working Capital Fund (AWCF). The Army developed the Logistics Modernization Program (LMP) without the capability to internally perform the prevalidation function directly with DoD entitlement systems, and DFAS continued to use an ineffective and unreliable off-line database to prevalidate AWCF payments. The prevalidation of AWCF payments was ineffective because financial managers failed to:

- develop an interface with DoD entitlement systems for accomplishing the prevalidation function internally within LMP, and
- place the correct budgetary data into the off-line database to permit accurate prevalidation of the payment requests.

In addition, DFAS St. Louis did not identify disbursements covered by temporary obligations in LMP as unmatched disbursements (UMDs) until 30 days after the system attempted to post the disbursements. As a result, the Army cannot ensure that LMP complies with the Federal Financial Management System Requirements (FFMSR) for matching obligations to disbursements and continued to incur additional costs to research and reconcile disbursements that cannot post correctly within LMP. In addition, the Army understated the dollar value of UMDs reported in DoD performance metrics.

Financial Management Systems Requirements

Office of Management and Budget Requirements. OMB Circular No. A-127, “Financial Management Systems,” July 23, 1993, established policies and standards for executive departments and agencies to follow when developing, operating, evaluating, and reporting on financial management systems. The circular also stated that the Joint Financial Management Improvement Program (JFMIP) defines and issues the FFMSR. In December 2004, OMB revised the circular and transferred this responsibility from the JFMIP to the Chief Financial Officers Council and the Office of Federal Financial Management.

Core Requirements Relative to Prevalidation. JFMIP Report No. SR-02-01, “Core Financial System Requirements,” November 2001, established a series of requirements relevant to the prevalidation of payments in future financial systems. Specifically, new financial systems should have the capability to:

- match payment requests to obligations, receiving reports, and acceptance information by document line item (CLIN/SLIN) and quantity before making any payment;

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- capture additional detailed data from the invoice, such as invoice number and date, unit price and quantity, description, discount terms, and obligating document reference;
 - move from summary information to the detailed transactions that make up the commitment, obligation, and expenditure data within the system;
 - generate a payment when the receiving report matches the obligation information on a payment request; and
 - validate that payments will not cause a negative fund balance.

Office of Federal Financial Management Report No. 01-06, “Core Financial System Requirements,” January 2006, also contains these requirements. DoD financial managers and system developers should ensure that new systems comply with established core financial system requirements and correct previously identified system deficiencies. To comply with these requirements, new financial systems should include the internal functionality to receive data from the DoD entitlement systems to accomplish automated obligation matching before allowing any payment to occur.

Future Financial System Development

DoD has begun developing four new financial systems that will replace many of the legacy systems currently used in the prevalidation process. Table 2 shows the four systems and the projected implementation dates.

Table 2. Future Financial Systems			
System Name	Department Utilizing System	Projected Implementation Dates	
		Initial	Final
Defense Enterprise Accounting & Management System (DEAMS)	Air Force	2007	2009
Navy ERP	Navy	2007	2011
General Fund Enterprise Business System (GFEBS)	Army	2007	2010
LMP	Army	2003	2010

Future Systems’ Compliance with Prevalidation Requirements. A core objective of the DoD Business Transformation Agency is to eliminate existing DoD financial management weaknesses and deficiencies. The Deputy Under Secretary of Defense for Business Transformation is responsible for the rapid transformation of DoD business processes and systems. System program managers for the Army GFEBS, Navy ERP, and Air Force DEAMS have

included system requirements for an integrated prevalidation function. Specifically,

- GFEBS is to prevalidate payments to the CLIN/SLIN level at least 98 percent of the time;
- Navy ERP is to prevalidate payments to the CLIN/SLIN level; and,
- DEAMS is to prevalidate payments to the CLIN/SLIN level.

Implementing these requirements in the new financial systems will reduce manual intervention and increase the accuracy of accounting data. As the Military Departments implement the new financial systems, DoD financial managers and system developers must include the planned integrated prevalidation function to ensure FFMSR compliance. DoD began implementing phase one of the Standard Financial Information Structure in January 2006 and plans to finish phase one by January 2007. Phase one requires DoD Components to create Demand Unique Identifiers when activities commit funds. The Demand Unique Identifier is an alphanumeric combination that will track the obligations to the CLIN/SLIN level. The Office of the Deputy Under Secretary of Defense for Business Transformation, in conjunction with the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, should ensure that all new financial systems implement an integrated prevalidation module that prevalidates payments to the CLIN/SLIN level.

LMP Prevalidation Limitations

The Army Materiel Command developed and began implementing LMP, the core financial system for the AWCF, without complying with the core financial system requirement that the system perform prevalidation functions internally with DoD entitlement systems. The Army also did not correct prevalidation problems identified in the legacy financial systems.¹⁰ Specifically, LMP did not:

- receive data from DoD entitlement systems to prevalidate commercial payments and approve requests for payment, and
- properly post accounting entries throughout the payment cycle.

Instead, the Army continued to use an off-line database to compare entitlement and accounting data and provide approval for prevalidation requests. The database, managed by DFAS, contained errors in the accounting data. This resulted in prevalidation failures and the need for additional research and rework. Furthermore, whenever LMP could not match an actual disbursement to an existing obligation, it automatically created a temporary obligation. However, DFAS St. Louis would not report the payment as a UMD until 30 days later.

¹⁰ In March 2006, the Army Program Executive Office, Enterprise Information Systems assumed responsibility for the future fielding and system functionality of LMP.

Integrated Prevalidation Functionality. Army financial and system managers did not include an internal prevalidation function as part of the LMP requirements. They also failed to develop the interfaces required to receive and process prevalidation data from DoD entitlement systems within LMP and approve prevalidation requests for payment. When establishing the LMP financial requirements, the LMP Program Management Office failed to correct long-standing deficiencies in the Army's ability to prevalidate its AWCF payments. DFAS financial management personnel told us that the Army intended LMP to have the same functionality as the legacy systems it replaced, therefore developers had no plans to develop the prevalidation requirement in LMP. As a result, the implementation of LMP did not correct Army's inability to match payment requests with corresponding obligations, and DFAS continued to complete prevalidation using an ineffective work-around outside the new financial system.

LMP's Ability to Perform Prevalidation. LMP would have the capability to perform the prevalidation process within its system functionality if the Army had implemented the SAP invoicing module as part of LMP. However, because the Army did not want LMP to have disbursement capability in the invoicing module, they did not purchase that functionality or develop an interface with the DoD entitlement systems to accomplish prevalidation. LMP made the appropriate accounting entries needed upon the receipt and acceptance of goods and services, but did not make the required accounting entries when the vendor submitted a payment request and an entitlement system requested prevalidation. Instead, LMP recorded these accounting entries only after DFAS disbursed the payment and LMP processed the disbursement transaction.

Processing Notice of Receipt and Acceptance. LMP recorded the receipt and acceptance of goods and services upon notice at either the receiving activity or the source acceptance point. When receipt and acceptance occurs, LMP:

- debits an inventory account (GLAC 15XX) or an expense account (GLAC 61XX) and the Undelivered Orders-Obligations Unpaid account (GLAC 4801), and
- credits either the Federal or public "Goods Receipt/Invoice Receipt" Accounts Payable accounts (GLAC 2110.1000 or .2000) and the Delivered Orders-Obligations Unpaid account (GLAC 4901).

Processing the Receipt of Payment Request. When DFAS receives a payment request from the vendor, LMP should debit a "Goods Receipt/Invoice Receipt" Accounts Payable account (GLAC 2110.1000 or .2000) and credit the proper Federal or Public Accounts Payable account (GLAC 2110.9100 or .9200). Because vendors submit their payment requests directly to DFAS for entry into entitlement systems, the entitlement systems must have the ability to interface with LMP in order to properly update the accounts payable GLACs. A prevalidation request sent to LMP by an entitlement system would have been the first notification that a vendor had submitted a payment request and should have triggered the immediate update to the accounts payable account in LMP. However, LMP did not have the interface to accept or reject the prevalidation

request files needed to automatically record these accounting entries. Instead, LMP used the disbursement files to both update the accounts payable file to reflect the receipt of a payment request and to liquidate the accounts payable after the payment had occurred.

The Army Program Executive Office, Enterprise Information Systems, in coordination with DFAS, needs to develop an interface between LMP and DoD entitlement systems that permits LMP to receive and match prevalidation data to the data found in GLAC 4901 (by contract and shipment number) for each ACRN and CLIN/SLIN invoiced by the vendor. Once matched, LMP should complete the required GLAC entries to move the funds to the proper accounts payable accounts and send an approval to pay notice to the entitlement system. If no match is found, the interface should provide a denial code to the entitlement system, identifying the reason(s) for denial. In addition, since the entitlement system cannot process a prevalidation request without the receipt and acceptance documentation, DFAS should develop business rules on how LMP will record missing receipt and acceptance transactions for any request for payment for which a corresponding entry in GLAC 4901 (by contract, shipment number, ACRN, and CLIN/SLIN) cannot be found.

Accuracy of Data in Off-Line Database. Until LMP has the required internal prevalidation functionality, DFAS must continue to use its off-line database. However, DFAS needs to address problems with its off-line database routines. DFAS St. Louis incorrectly matched prevalidation requests to GLAC 4801 instead of GLAC 4901, resulting in prevalidation failures. When Army field activities entered receipt and acceptance transactions into LMP, LMP moved the corresponding obligation dollar amounts from GLAC 4801 to GLAC 4901 and established the accounts payable. As a result, these funds were no longer available in GLAC 4801 for prevalidation purposes. DFAS should have been prevalidating against GLAC 4901. In addition, because some Army field activities did not always promptly enter receipt and acceptance documentation into LMP, the obligation funds for some ARNs remained in GLAC 4801 and did not transfer to GLAC 4901. To address this problem, DFAS must routinely identify shipments with acceptance documents that were not previously recorded in LMP and develop edit checks that prevent the prevalidation technicians from approving prevalidation requests without the obligation and acceptance data recorded correctly in LMP.

Resolving Unmatched Disbursements Within LMP. DFAS St. Louis did not properly identify, research, and resolve UMDs in LMP and understated the dollar value of Army UMDs. Whenever LMP received a disbursement transaction that would not post to an existing obligation record, LMP automatically created a temporary obligation, known as a “ZK” transaction, using the line of accounting identified on the payment voucher. Once LMP created these “ZK” transactions, DFAS St. Louis personnel stated that they considered the disbursements matched and did not include them in their problem disbursement reports. DFAS St. Louis personnel also stated that they thought their process complied with the DoD FMR. They tracked the “ZK” transactions and attempted to post them to proper obligations within 30 days. The creation of these temporary obligations occurred without technicians performing the necessary research to obtain the actual

obligation documents and determining why the disbursements were unable to post to LMP.

DoD FMR, volume 3, chapter 11, “Unmatched Disbursements, Negative Unliquidated Obligations, In-transit Disbursements, and Suspense Accounts,” January 2001, states that it is DoD policy to match disbursements to the corresponding obligation and requires that when a disbursement is recorded in the accounting system but not matched to a corresponding obligation, the disbursement shall be recorded as a UMD. DFAS St. Louis should report all “ZK” transactions as UMDs until resolved, because these “ZK” transactions were not properly matched to corresponding detail obligations. DFAS St. Louis should also perform a root cause analysis as to why these transactions occur. During our visit to DFAS St. Louis, we identified one likely reason for disbursements not posting to LMP. Technicians prevalidated LMP payments without first ensuring that an Army activity had accurately recorded the obligation in LMP. While researching denied prevalidation requests, DFAS technicians should have ensured that the field activities corrected the obligations balance in LMP before approving the request for payment. If they had verified the posting of the obligations, the system should have automatically posted the disbursement, avoiding the need for the “ZK” transactions.

Summary

FFMSR specifies that core financial systems must have an automated obligation matching function. DoD is designing three future financial systems with the capability to perform prevalidation internally. However, the Army’s development of LMP did not include an internal prevalidation function. DFAS continued to use an off-line database developed to prevalidate payments in the legacy system. However, DFAS placed incorrect data in the database resulting in some prevalidation failures of payment requests. In addition, LMP automatically created temporary obligations to cover UMDs and DFAS St. Louis did not report the dollar value of these UMDs in accordance with the requirements in the DoD FMR.

As a planned core financial system for the AWCF, LMP needs to comply with FFMSR. The Army Program Executive Office, Enterprise Information Systems should develop a plan for establishing and implementing the proper configuration to enable LMP to internally perform prevalidation. DFAS St. Louis should establish and implement internal controls to ensure the:

- use of GLAC 4901 when prevalidating payments in LMP,
- establishment of edit checks to prevent prevalidation technicians from approving prevalidation requests without the obligation and acceptance data recorded in LMP,
- recording of accounts payable at the time of the prevalidation approval, and

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- reporting of “ZK” transactions as UMDs.

DFAS St. Louis should also perform root cause analysis to determine why the disbursements for which “ZK” transactions were established did not post automatically.

Recommendations, Management Comments, and Audit Response

B.1. We recommend that the Deputy Under Secretary of Defense for Business Transformation, in conjunction with the Under Secretary of Defense (Comptroller)/Chief Financial Officer, monitor and ensure the implementation of an integrated prevalidation function for the Defense Enterprise Accounting and Management System, General Fund Enterprise Business System, and Navy Enterprise Resource Planning System. The financial systems should contain the internal functionality to receive data from DoD entitlement systems and perform prevalidation by matching payment requests to the appropriate detailed obligations at the contract line item number and sub-line item number level.

Management Comments. The Deputy Under Secretary of Defense for Business Transformation concurred and stated that the Business Transformation Agency will ensure the Business Enterprise Architecture includes prevalidation requirements. The architecture will break down the current processes and define the specific requirements for entitlement, Standard Financial Information Structure compliance, and CLIN/SLIN level prevalidation.

B.2. We recommend that the Army Program Executive Officer, Enterprise Information Systems, in coordination with the Deputy Director for Operations, Defense Finance and Accounting Service, develop system requirements and interfaces within the Logistics Modernization Program to prevalidate all commercial payments with DoD entitlement systems by contract and shipment number for each accounting classification reference number, contract line item number, and sub-line item number invoiced.

Management Comments. The Program Executive Officer, Enterprise Information Systems concurred and stated that the LMP Program Manager will work with DFAS and the Army Audit Agency to develop the appropriate functionality and interfaces to support the prevalidation of DoD commercial payments. The Program Executive Officer also stated that the Program Manager will develop a short-term and a long-term strategy that would eventually lead to LMP encompassing all functionality associated with prevalidation and entitlements for AWCF. He also stated that the prevalidation requirements would be part of the calendar year 2007 Federal Financial Management Improvement Act attestation.

B.3. We recommend that the Director, Defense Finance and Accounting Service St. Louis implement internal controls to ensure that prevalidation

requests are properly matched to corresponding obligations and funds are reserved in official accounting records by:

a. Using the Delivered Orders - Obligations Unpaid account when prevalidating payments in the Logistics Modernization Program.

b. Establishing edit checks that would:

(1) Identify shipments for which the Logistics Modernization Program system has not recorded a Delivered Orders-Obligations Unpaid account upon receipt of the goods and services,

(2) Prevent prevalidation approvals until the appropriate entries are made to the Delivered Orders-Obligations Unpaid account, and Federal or Public Accounts Payable accounts, and

(3) Establish business rules for how to resolve receipt and acceptance transactions that have not been recorded for requests for payment.

c. Recording the entries to the Accounts Payable account and the Delivered Orders-Unpaid Obligations account before prevalidation approval.

Management Comments. The DFAS Deputy Director for Standards and Compliance concurred and stated that DFAS will coordinate and work with the LMP Program Manager to ensure the implementation of prevalidation requirements in the LMP system. She also stated that DFAS will assist the LMP Program Manager in establishing, developing, testing, and implementing the system's prevalidation requirements.

d. Reporting all "ZK" transactions as unmatched disbursements until the transactions post to corresponding detail obligations.

Management Comments. The DFAS Deputy Director for Standards and Compliance nonconcurred and stated that the Army programmed the LMP system to establish obligations to cover disbursements processed against Army funds managed in the system. The Deputy Director also stated that the LMP system processes disbursements and creates "ZK" transactions as programmed and approved by the Army. The Army and DFAS later research and resolve these "ZK" transactions.

Audit Response. The DFAS comments were not responsive. DoD FMR, volume 3, "Budget Execution Availability and Use of Budgetary Resources," chapter 8, "Standards for Recording and Reviewing Commitments and Obligations," states that before recording an obligation, the accounting office responsible for the official accounting records of the fund holder shall have either a copy of the obligation document or an electronic data interchange transaction set that represents or supports an obligation. Since the prevalidation process requires DFAS to match each disbursement to a corresponding detail obligation recorded in LMP before making a payment, an actual obligation should have already

existed for each of these “ZK” transactions. The DoD FMR further requires DFAS accounting office and Army personnel to conduct specific levels of research when a UMD occurs before recording another obligation to cover the UMD. Automatically establishing obligations violates the requirement to record obligations based on actual documentation and increases the risk of duplicate obligations being established and improper and fraudulent payments going undetected. DFAS should research the “ZK” transactions and report them as

unmatched disbursements before establishing potentially duplicate obligations in the LMP system. We request that DFAS reconsider its position and provide additional comments on the final report.

e. Performing root cause analysis on “ZK” transactions to determine why they occur and the appropriate corrective action needed.

Management Comments. The DFAS Deputy Director for Standards and Compliance concurred and stated that DFAS personnel will use Business Activity Monitoring technology to perform root cause analyses to determine why “ZK” transactions occur.

C. Vendor Payment Prevalidation Controls

DFAS managers permitted the disbursement of vendor payments without ensuring that technicians had properly prevalidated all commercial payment requests. This occurred because DFAS Dayton and DFAS St. Louis implemented local procedures that contradicted the DoD prevalidation policy for all vendor payments. DFAS managers placed more emphasis on avoiding interest charges caused by late vendor payments. As a result, DFAS could have made payments that violate the requirements of Public Law 108-287. In addition, DFAS increased the risk of making erroneous payments to vendors and increased the likelihood that DoD would incur additional costs to properly post payments in the official accounting records.

Prevalidating Vendor Payments

DFAS vendor payment offices entitle commercial payments that are not processed by DFAS Columbus using the MOCAS system. By FY 2000, DFAS had lowered the prevalidation threshold for vendor payments to \$0. DFAS vendor pay locations process “for self” and “for others” payments. At DFAS vendor payment offices collocated with associated accounting stations, technicians prevalidate “for self” payments through the integration of the accounting and entitlement systems. Typically these “for self” payments were prevalidated without a problem. When a vendor payment office had to send a prevalidation request to an accounting station other than the one collocated with the payment office, it was considered a “for others” payment. DFAS Instruction 7000.7-I, “Payment Prevalidation Instruction for Commercial Pay Business Line,” March 2003, states that prevalidation approval must be based upon a positive response from the accounting station. Without receipt of a positive response, DFAS would not have assurance that an obligation corresponding to the payment request exists in accounting records. Public Law 108-287 requires that DoD organizations match disbursements that exceed \$500,000 to corresponding obligations before they make payments.

Procedures at Vendor Payment Offices

Two of the three DFAS field locations we visited had local policies and procedures that contradicted prevalidation guidance. DFAS Charleston had policies and procedures that were consistent with prevalidation guidance in Public Law 108-287 and DFAS Instruction 7000.7-I. However, DFAS Dayton and DFAS St. Louis had local policies and procedures that were inconsistent with prevalidation requirements.

DFAS Dayton. Management at the DFAS Dayton vendor payment established procedures that allowed technicians to process “for others” payments before

receiving a positive acknowledgement from the official accounting station that an obligation existed that matched the payment request. DFAS Dayton vendor payment procedures advised entitlement technicians to process payments valued at less than \$2,500 after 3 days regardless of whether technicians received confirmation that an obligation existed in the official accounting records. For payments valued at \$2,500 or more, entitlement technicians had to wait 10 days, before processing payments without a positive confirmation. When questioned why these procedures were in place, DFAS Dayton personnel told us that their primary concern was to avoid paying interest to vendors for late payments.¹¹ However, making payments that have not been prevalidated may result in inaccurate or erroneous payments and could cause DFAS to incur additional costs to research and resolve errors. DFAS Dayton procedures did not comply with the DFAS Instruction 7000.7-I requirement that the payment office receive a positive response from the accounting station before making a payment. In addition, DFAS Dayton could have made payments that violate the requirements of Public Law 108-287 by allowing disbursements without confirming that corresponding obligations existed in the accounting records.

DFAS St. Louis. DFAS St. Louis lacked sufficient internal controls to ensure that payment requests matched to the appropriate obligations before making “for others” payments. DFAS St. Louis vendor pay technicians approved payment requests before obtaining a positive verification from the accounting station that a corresponding obligation existed. DFAS St. Louis processed payments after 10 days, whether or not it received a prevalidation approval from the accounting station. DFAS St. Louis personnel also told us that their priority was to make timely payments and avoid making interest payments to vendors. During our site visit, DFAS St. Louis discontinued the practice of processing payments without receiving prevalidation approvals. However, DFAS St. Louis had not updated its policies and procedures to require that technicians receive prevalidation approvals from accounting stations before processing payments. DFAS St. Louis should revise its procedures to ensure compliance with prevalidation requirements.

Conclusion

Managers at two DFAS field locations established a local control environment that permitted the circumvention of DoD prevalidation policy. By not requiring positive confirmation on all prevalidation requests before approving vendor payments, DFAS failed to comply with DFAS Instruction 7000.7-I. As a result, DFAS could have made payments that violate the prevalidation requirements in Public Law 108-287. Managers at DFAS Dayton and DFAS St. Louis placed a higher priority on complying with the Prompt Payment Act than with prevalidation requirements. The additional costs incurred to correct payments that have not been prevalidated may exceed the cost of interest accrued by waiting and ensuring that a proper obligation existed in the accounting records.

¹¹ The Prompt Payment Act requires Federal agencies to make payments in a timely manner. If a payment is late, the contractor is entitled to an interest penalty payment.

Recommendations and Management Comments

C. We recommend that Deputy Director of Operations, Defense Finance and Accounting Service:

1. Direct field locations to cease making vendor payments unless technicians receive positive confirmation from the accounting stations that obligations exist in the official accounting records that correspond with the payment requests.

2. Rescind local policies and procedures that do not comply with the standard prevalidation procedures in the DoD Financial Management Regulation and Defense Finance and Accounting Service Instruction 7000.7-I.

Management Comments. The DFAS Deputy Director for Standards and Compliance concurred and stated that DFAS now has controls in place to ensure that vendor payment offices will not make payments without first obtaining approval from the accounting station. She also stated that DFAS has rescinded all local policies and procedures that do not comply with standard prevalidation procedures.

Appendix A. Scope and Methodology

We evaluated the controls over the prevalidation of commercial contract and vendor payments. We assessed DFAS implementation of the DoD prevalidation plan and DoD's progress in reducing problem disbursements. To identify the control environment at DFAS, we interviewed management and prevalidation technicians to gain their perspective on the importance placed on prevalidation within the organization. To determine the control activities related to prevalidation policies and procedures, we interviewed DFAS personnel and determined the policies and procedures they followed. We reviewed the DoD FMR guidance for commercial payment entitlement, accounting, and disbursement. We also reviewed the policies and procedures in place for changing, entering, and verifying data within the prevalidation process and maintaining supporting documents. To determine whether DFAS monitored prevalidation issues and problem disbursements, we reviewed management reports, identified reoccurring problems, and obtained documentation supporting corrections. In addition, we reviewed the entitlement procedures to determine whether information sent for prevalidation was correct.

We reviewed the contract payment process including the entitlement procedures at DFAS Columbus and the prevalidation procedures at DFAS Charleston, DFAS Dayton, and DFAS St. Louis. From the DFAS organizations, we obtained the EUD files, MOCAS invoice line item and disbursement history files, and the Contract Payments Not Posting Automatically files for the period of March 1 through June 16, 2005. Using ACL, we performed data mining techniques to isolate subpopulations of known or potential errors in the entitlement and prevalidation records. See Appendix D for details concerning the use of data mining techniques. We then conducted attribute sampling of five subpopulations to test whether controls were effective. See Appendix E for the statistical sampling methodology. To test the samples, we obtained supporting documentation for the contract payments from the Electronic Document Access and Electronic Document Management systems. In addition, we used the Wide Area Work Flow, Web Invoicing System, and the Electronic Data Interchange systems to gather payment requests and receiving reports.

We reviewed the vendor payment process at DFAS Charleston, DFAS Dayton, and DFAS St. Louis from June 27 through July 1, 2005. We reviewed policies and procedures, interviewed personnel, and conducted a walkthrough of the vendor payment process at the three DFAS field locations. Our review at DFAS Charleston did not identify policies and procedures contradictory to the prevalidation guidance. Therefore, we did not conduct additional tests at DFAS Charleston. At DFAS Dayton and DFAS St. Louis, we found local policies that were inconsistent with prevalidation requirements. We judgmentally reviewed payments at DFAS Dayton and DFAS St. Louis from October 24 through 28, 2005, to identify whether internal controls were sufficient to ensure compliance with DFAS Instruction 7000.7-I and Public Law 108-287. Specifically, we judgmentally selected "for others" payments to determine whether each payment received a positive prevalidation approval before disbursement. In addition, we reviewed the system plans and conducted interviews with system support personnel to gain an understanding of prevalidation function for

the future Army, Navy, and Air Force financial systems. We performed this audit from June 2005 through July 2006 in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data. The Data Mining Directorate, Office of the Deputy Inspector General for Policy and Oversight conducted limited tests of reliability of data from the EUD and MOCAS systems by comparing the files to record layouts, comparing totals, and reviewing the data for valid entries. We also relied on additional evidence to validate data integrity. We compared the data used in our samples with physical documentation used to establish the entitlement and prevalidation records. Nothing came to our attention during these procedures that caused us to doubt the reliability of the computer-processed data. Therefore, although we did not perform a formal reliability assessment of the computer-processed data, we were able to use the information in conjunction with physical documentation to test the controls over prevalidation.

Use of Technical Assistance. Two directorates of the Office of the Deputy Inspector General for Policy and Oversight assisted on this audit. The Data Mining Directorate imported the original files from the MOCAS and EUD systems into ACL and conducted limited tests of reliability on the computer processed data. In addition, the Quantitative Methods Directorate assisted in the development of the statistical analysis presented in this report.

GAO High-Risk Area. GAO has identified several DoD high-risk areas. This report provides coverage of the Approach to Business Transformation, Business Systems Modernization, and Financial Management high-risk areas.

Prior Coverage

During the last 5 years, GAO and the DoD IG have issued three reports discussing prevalidation and commercial payment processing. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>.

GAO

GAO Report No. GAO-05-521, "DoD Problem Disbursements: Long-standing Accounting Weaknesses Result in Inaccurate Records and Substantial Write-offs," June 2005

GAO Report No. GAO-03-727, "DoD Contract Payments: Management Action Needed to Reduce Billions in Adjustments to Contract Payment Records," August 2003

DoD IG

DoD IG Report No. D-2005-100, "Identification and Reporting of DoD Erroneous Payments," August 17, 2005

Appendix B. Glossary

Contract Financing Payments. Contract financing payments are authorized Government payments to a contractor before the receipt of goods or services. Financing payments include advance payments, performance-based payments, commercial advance and interim payments, progress payments, and interim payments under a cost reimbursement contract. Financing payments do not include invoice payments, partial delivery payments, or lease and rental payments. DoD intends contract financing payments to be self-liquidating through contract performance.

Commercial Payments. Commercial payments are contract payments made to contractors through formal long-term contract instruments and vendor payments made on contracts not administered by the Defense Contract Management Agency (DCMA). Non-contractual payments to businesses and individuals are also considered commercial payments.

Entitlement. Entitlement is the process of preparing a payment for disbursement. It includes matching the data provided on the vendor invoice to the data provided on the receiving report and contract. The entitlement process ensures that the payment is for goods or services received in compliance with the specific contract terms.

Elimination of Unmatched Disbursements System. The EUD system is used by DFAS to match entitlements in the pay system to obligation records in the accounting system. The system consists of the Pay Prevalidation Module and two Accounting Prevalidation Modules (the Accounting Prevalidation Module and the Unisys Accounting Prevalidation Module). The Pay Prevalidation Module receives entitlement information and sends it to the Accounting Prevalidation Module. The Accounting Prevalidation Module matches the payment information to the appropriate accounting station for processing and identifies potential errors that prevented a proper match or returns an approval to the Pay Prevalidation Module.

Invoice Payments. Invoice payments are disbursements of monies to contractors under a contract or other authorization for supplies or services accepted by the Government.

Negative Unliquidated Obligation (NULO). NULOs are created when the disbursement transaction that is matched to the correct detail obligation by the accounting stations exceeds the amount of available obligation.

Obligation. Obligations are orders placed, contracts awarded, services received, and similar transactions during an accounting period that will require payment during the same or a future period. The amount of obligations incurred is segregated in the accounting record into undelivered orders and expended authority paid or unpaid general ledger accounts.

Payment Requests. Payment requests are bills submitted in the form of invoices or contract financing payments submitted by the vendor.

Performance-Based Payments. Performance-based payments are contract financing payments that DoD makes based on contractor performance that is measurable and quantifiable, such as accomplishment of defined events or other quantifiable measures.

Prevalidation. Prevalidation is the process of matching a proposed disbursement with a specific recorded obligation in the accounting system before making a payment.

Problem Disbursements. Problem disbursements include UMDs and NULOs that occur when expenditures cannot reconcile with the official accounting records. Problem disbursements also include in-transit disbursements and collections that have been reported to the Treasury Department but either have not been received by the accounting station or have been received but not processed or posted.

Progress Payments. Progress payments are contract financing payments made based on costs incurred by the contractor as work progresses or on a percentage or stage of completion. The payments liquidate based on the recoupment rate established within the contract as the contractor provides goods or services.

Unmatched Disbursements. UMDs are disbursement transactions that have been received by an accounting station but not matched to the correct obligations.

Unliquidated Obligation (ULO). ULOs are obligation amounts not liquidated by disbursements.

Appendix C. Contract Payment Prevalidation Process

The contracting offices of the Military Departments and Defense agencies place requirements for goods and services on contracts. To request payment for goods or services placed on contracts, contractors submit invoices or contract financing payment requests through the mail or electronically using the Wide Area Work Flow, the Virtual Area Network, or the Web Invoicing System. Entitlement personnel at DFAS Columbus scan all hard copy payment requests into the Electronic Document Management system for processing by a contract payment system. Electronic data enters through an Electronic Data Interchange which routes the data to MOCAS for processing. DFAS Columbus entitles and pays most DoD contract payments. In FY 2005, DFAS Columbus made \$276 billion in contract payments.

MOCAS Payment Entitlement

Entitlement of Payment Requests. For active contracts, MOCAS receives and stores payment request data in the YDF1 file and invoice line item and ACRN level data in the YDF2 file. Entitlement technicians or the Automated Payment of Invoices system matches the payment request to its corresponding contract and acceptance data and determines the amount to be paid to the contractor. DFAS Columbus uses the Automated Payment of Invoices system to automatically process payment requests for contracts without special payment instructions. Otherwise, entitlement technicians process the payment request using the Entitlement Automation System. If the payment request requires research, technicians use the Contract Reconciliation System and the Standard Contract Reconciliation Tool to resolve any conflicts. Once the manual entitlement process is complete, the Entitlement Automation System generates a Form 477 “Advice of Payment” and a Form 457 “Fiscal Posting Slip,” and creates a batch file. The Entitlement Automation System sends the Forms 477 and 457 to the Electronic Document Management system and the batch file updates MOCAS. A lead accounting technician reviews all payments over \$1 million, all “force through” payments used when a valid payment request would be rejected by the standard MOCAS process, and 10 percent of the remaining entitlement records. Both the manual and automatic payment requests requiring prevalidation then enter the MOCAS ND01 hold file. From this file, MOCAS generates an authorization request transaction which contains the information needed to prevalidate the payment.

Contract Financing Payments. Contract financing payments are paid to a contractor prior to acceptance of goods or services. Contractors may submit financing payment requests when authorized by the contract terms. The contractor computes the contract financing payment requests on a whole contract basis with distribution only to the ACRN level or on a CLIN/SLIN basis depending on the financing option written in the contract. The DoD Financial Acquisition Regulation permits the contracting officer to choose between 11 different financing options for contracts that authorize financing payments and incorporates appropriate terms within the contract. For example, the contract may require payments be line-item

specific in which case payment requests must contain the CLINs. The contract may also require contract-wide proration of payments in which case the entitlement technicians must allocate the amount charged on the payment request to all of the ACRNs based on rates written in the contract.

Contractors submit contract financing payment requests to DFAS Columbus through the same systems as invoices. Once entitled, the accounting station establishes a work-in-progress line in the accounting system. When the contractor submits a payment request for completed work, a percentage of that payment request, called the liquidation amount, reduces the work-in-progress line.

Prevalidation of Contract Payments

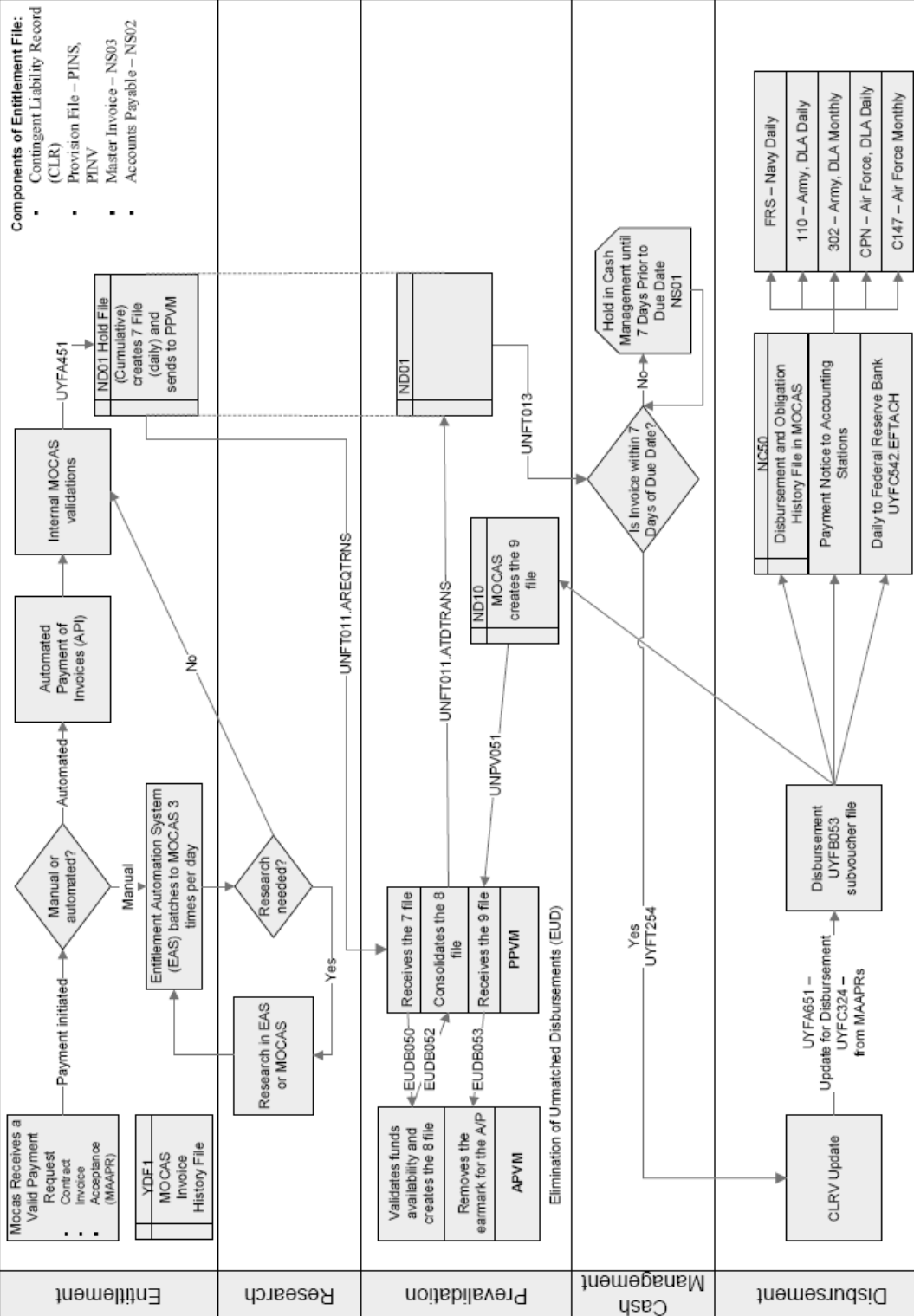
Prevalidation Request. Once DFAS Columbus entitles the payment request, if the total value of the payment request exceeds the prevalidation threshold, DFAS Columbus sends an authorization request transaction through MOCAS to the EUD system. At that time, the EUD system assigns an ARN to each line item on the payment request. The ARN ties together all prevalidation requests, denials, approvals, and payment notices. The initial prevalidation request, called the initial “7” record, is sent to the Accounting Prevalidation Module used by the various DFAS accounting sites. For integrated accounting systems, the Accounting Prevalidation Module searches the accounting records for a matching obligation line and determines whether sufficient funds are available to cover the amount of the ARN. If the system does not find a match or the funds are insufficient, the system denies the prevalidation request and assigns a reason code describing what elements the system could not match. Based on the reason code, the system will either route the ARN to the payment office (DFAS Columbus) or the accounting station for correction, manual posting, or resubmission. The record containing the reason codes is called the payment authorization notice (“8” records). For non-integrated accounting systems, the DFAS Columbus prevalidation technician sends the prevalidation request by e-mail to the accounting station.

Reservation of Funds. Once the system or the prevalidation technician locates the matching obligation and identifies sufficient funding, the system assigns a code indicating approval. For non-integrated accounting systems, the DFAS Columbus technician assigns the ARN a code indicating approval once the accounting station responds with an approval. At this time, the system or technician should reserve funding by moving the amount of the authorized request transaction from an Obligations Unpaid GLAC 4801 to a separate budgetary GLAC 4901 for Accrued Expenditure Unpaid. The system or technician should then record an Accounts Payable, if not previously established. However, if the system records the Accounts Payable at the time of goods or services receipt, then the funding would have previously moved to the appropriate GLAC. In this case, the initial ARN matches against the reserved funds and the approved ARN does not post additional entries. The EUD system returns the approval to MOCAS, which schedules it for payment.

Payment Notice. Upon disbursement, DFAS Columbus uses the MOCAS sub-voucher file to send payment records to the EUD system, other DFAS centers, Department of Treasury, and a history file. The ND10 file contains the disbursement records sent to the EUD system. DFAS Columbus extracts data from the ND10 file

to generate the payment notices (“9” records) that are then sent to the accounting station to remove the reservation of funds and move the ARN to history status. At the same time, DFAS Columbus sends a separate file to each of the DFAS centers (a contract payment notice file to DFAS Denver, a 110 daily report to DFAS Indianapolis, and a Financial Reporting System file to DFAS Cleveland). DFAS uses these files to post the disbursements in the accounting systems. See the diagram on the next page for a detailed flowchart of the contract payment prevalidation process.

MOCAS Payment Process



Contract Payment Prevalidation Process

Appendix D. Data Mining Methodology

The Data Mining Directorate imported into ACL three EUD databases obtained from DFAS Indianapolis, three MOCAS databases obtained from DFAS Columbus, and three accounting station databases obtained from DFAS Dayton, DFAS St. Louis, and DFAS Charleston. Table D-1 shows the nine files and their populations imported into ACL.

Table D-1. Populations for Testing			
Source	File Name	Description	Total Population (Records)
EUD	“7” Records	Prevalidation Requests	449,147
EUD	“8” Records	Payment Authorizations	519,104
EUD	“9” Records	Payment Notices	357,231
MOCAS	YDF1	Invoice History	5,424,939
MOCAS	YDF2	Invoice Line Items	1,306,753
MOCAS	NC50	Disbursement and Adjustment Records	870,800
DFAS Dayton	CPN	Contract Payments Not Posting Automatically	82,523
DFAS St. Louis	900 status and Rejects	Payments Not Posting Automatically	3,445
DFAS Charleston	Indata	Payments Not Posting Automatically	183,453

Tests of Reliability

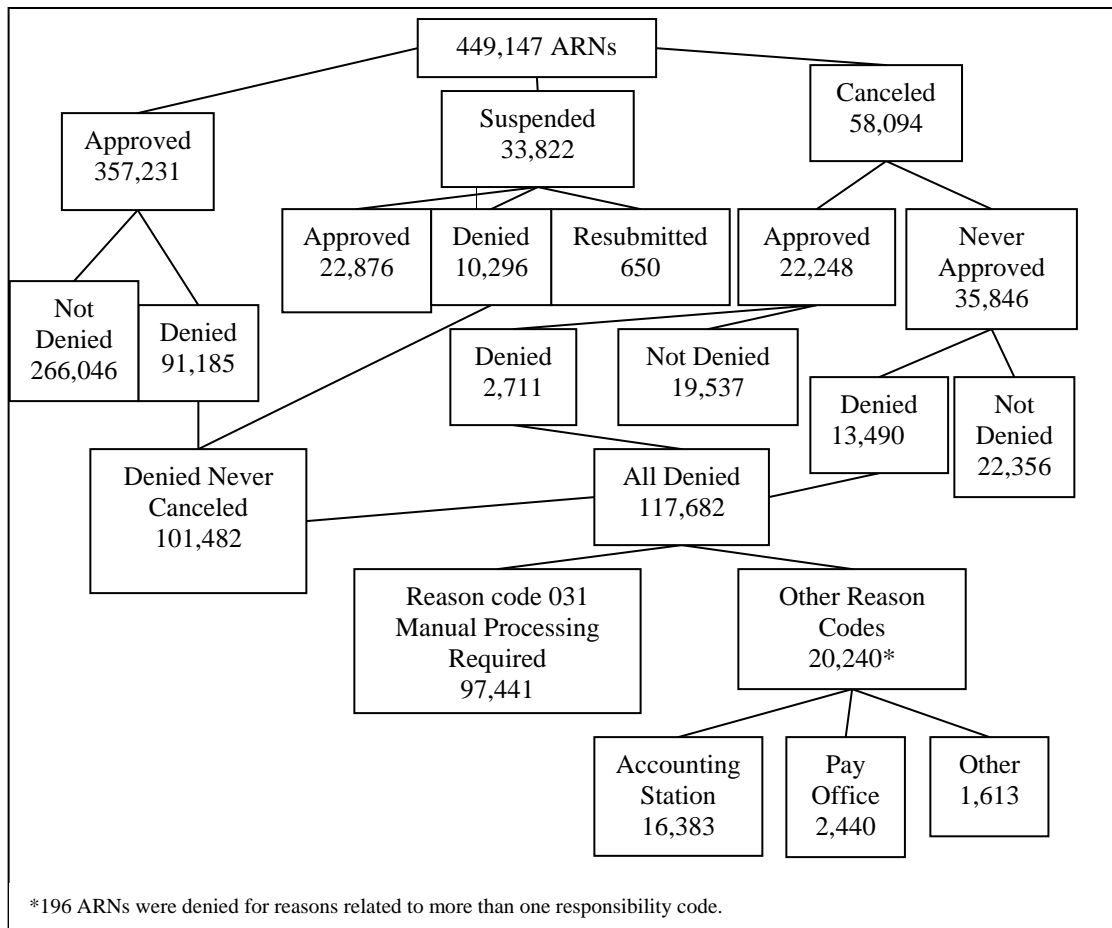
The Data Mining Directorate performed limited tests of reliability on the data. The Data Mining Directorate imported files based on the MOCAS record layouts provided by DFAS Columbus and the software manuals for the EUD files. The Data Mining Directorate tested the data for invalid entries and verified field totals in ACL with the original data populations. The auditors evaluated the EUD records within ACL for anomalies and worked with DFAS systems personnel to resolve them. We did not conduct an extensive review of the system controls and therefore used corroborating evidence to support data reliability. During the audit, auditors compared the computer-processed data to physical documentation, including payment requests, receiving reports, and EUD screens.

We examined prevalidation, entitlement, and disbursement records to identify known or potential errors. Errors in entitlement or prevalidation records indicate potential internal control weaknesses. We used ACL to analyze the records and identify data that were missing or changed during the disbursement cycle. Missing data may result in erroneous prevalidation actions by the accounting systems. In addition, unauthorized changes may bypass the prevalidation process. By testing the

data for known or potential errors, we isolated subpopulations for testing purposes. We 100-percent tested or statistically sampled the subpopulations to determine whether internal controls were adequate.

Methodology for Testing Controls

Analysis of EUD Data Files. We used ACL to analyze the EUD files and identify areas within the prevalidation process that required internal control testing. The EUD files recorded prevalidation data using ARNs. The population consisted of 449,147 unique ARNs. For each unique ARN, the prevalidation file should contain a “9” record showing payment, an additional “7” record canceling that ARN, or a “7” record in suspense awaiting resolution. We performed a series of analytical procedures to identify canceled and denied ARNs. We used the status codes assigned by the EUD system to “7” records and the reason codes assigned to “8” records to determine the canceled and denied ARNs. The figure shows the results of our analysis of the ARNs processed by DFAS Columbus from March 1, through June 16, 2005.



Status of ARNs Processed from March 1 through June 16, 2005

Prevalidation Status Codes. The EUD system uses status codes to track the progress of each ARN. Every time the ARN receives a new status, the previous status moves to the history file. For example, when the EUD system first sends a “7” record, it is assigned a unique ARN with status code “A” (new automated “7” record) or “M” (new manual “7” record) representing an initial request. If an ARN receives a denial code during the prevalidation process, it updates the “7” record status code with an “E” (automated accounting denied) or “F” (manual denied). In addition, an ARN may receive a status code “C” (cancel) or status codes “I” and “J” (approval to pay) during the process. We analyzed the status codes for each ARN and determined that:

- 357,231 ARNs received an approval and were no longer in suspense. These ARNs matched to a “9” record signifying payment;
- 33,822 ARNs were still in suspense awaiting approval or cancellation;
- 58,094 ARNs were canceled.

Shipments with Canceled ARNs. We isolated the 58,094 canceled ARNs for further testing. If the original entitlement record was accurate and correct, the ARN should not have required cancellation unless DoD personnel or the vendor recalled the payment. If there were multiple ARNs associated with a single shipment, DFAS canceled all ARNs associated with the shipment if one ARN required cancellation. We sampled the entire shipment to avoid reviewing a correctly entitled ARN that canceled because of the incorrect entitlement of an additional ARN on the same shipment. The 58,094 ARNs were associated with 26,984 unique shipments. Therefore, we identified a subpopulation of 26,984 shipments for further testing.

ARNs Approved Without a Denial Code. We analyzed the 391,053 (357,231 + 33,822) approved and suspended ARNs to determine whether they required manual intervention to process prevalidation. If the ARN received a status code “E” or “F,” then the EUD system denied the ARN during the process and the technicians were required to manually intervene. Of the 357,231 approved and paid ARNs, 266,046 received an approval without a denial code. Our analysis also showed that another 22,876 of the 33,822 ARNs in suspense received an approval without a denial code. In total, 288,922 (266,046 ARNs in history status plus 22,876 ARNs in suspense status) of the 449,147 ARNs (64.3 percent) received an approval without a denial code.

Denied - Manual Processing Required. To identify all denied ARNs we combined denied ARNs in paid status, in suspense, or canceled. We identified 117,682 ARNs that were denied based on the status code “E” or “F.” The denied ARNs consisted of:

- 91,185 ARNs that DFAS eventually approved and paid,
- 10,296 ARNs still in suspense,
- 2,711 ARNs canceled after approval, and
- 13,490 ARNs canceled without an approval.

We divided the 117,682 ARNs into two categories: (a) ARNs assigned denial code “031 Manual Processing Required” and (b) ARNs assigned all other denial codes. We identified that the EUD system assigned denial code 031 to 97,441 ARNs. Each required a manual approval by the accounting station after verifying that the ARN was accurate. It was not possible to determine whether accounting stations accomplished any corrective actions before granting approval. We determined that entitlement issues we related to these ARNs would be identifiable during other tests and, therefore, did not test this data further. The EUD system assigned the remaining 20,240 ARNs specific denial codes that identified a problem when matching the ARN to the official accounting record.

Denied - Identified Mismatch. We isolated the remaining 20,240 denied ARNs between those sent to DFAS Columbus and those sent to an accounting station for correction. Along with the denial code, the EUD system assigned a responsibility code indicating where to send the ARN for correction. To identify what denial codes the 20,240 ARNs received, we matched “8” records to the denied ARNs and determined that:

- The EUD system denied 16,383 ARNs because of accounting reasons and sent them to an accounting station for correction. We isolated this subpopulation to test whether controls were in place to ensure activities had loaded accounting information timely and correctly to allow payments to post.
- The EUD system denied 2,440 ARNs because of entitlement reasons and sent them to DFAS Columbus for correction. We isolated this subpopulation to test whether entitlement personnel entered the correct information based on contract and payment request terms.

We did not review the remaining 1,613 ARNs because the denial codes did not relate to the accuracy of the accounting information. For instance, denial code “016-quantity not numeric” is not a problem with the proper loading or matching of funds.

Analysis of Invoice Line Item Data Files. We obtained the YDF2 Invoice Line Item files to test the information entering prevalidation. Of the 1,306,753 transactions, 329,769 were for the period March 1 to June 16, 2005. Using ACL, we isolated 9,964 records that did not contain the contract number, ACRN, CLIN, and shipment number information necessary to prevalidate the payment. To narrow the population further, we used the YDF1 Invoice History file to identify and remove any record with a payment request amount below the prevalidation threshold. This resulted in a subpopulation of 7,058 records that required prevalidation and were missing the contract number, ACRN, CLIN, or shipment number.

Analysis of Disbursements History Data Files. We used the 870,800 records in the NC50 file, to test the accuracy of the entitlement and prevalidation information. The NC50 file contained 311,657 records that matched a “9” record on the same contract number, shipment number, CLIN, ACRN, and voucher number. We then compared the disbursement records to the prevalidation records to identify ARNs that were potential duplicates or were approved and disbursed the same day or more than 23 days later, and transactions that contained shipment lines in both paid and suspense status or contract information that did not match the disbursement records.

We reviewed the potential duplicates to determine whether DFAS disbursed a shipment more than once. We tested the payments approved and disbursed the same day to determine whether controls prevented payments from bypassing prevalidation reviews and approvals. We reviewed the payments approved more than 23 days after the approval to determine what factors contributed to prevalidation delays and potential interest charges. According to the Prompt Payment Act of 1998, section 3903, title 31, United States Code, invoices may be paid no earlier than the 23rd day. Lastly, we reviewed shipments with payments in suspense and paid status to ensure that controls prevent DFAS from disbursing invoice lines separately. The comparison used to determine whether contract information matched between EUD and the NC50 file identified records that were not potential errors because the software considered a blank CLIN/SLIN field and all zeros in the CLIN/SLIN field to be a mismatch. Therefore, we did not use this sample for statistical sampling. However, 3,307 ARNs were missing the CLIN in the prevalidation file, but not in the NC50. This condition indicates that not all available information is passing to prevalidation.

Adjustment Records. We used ACL to identify a population of adjustment transactions for payment requests that had already been prevalidated and paid. We examined this population to determine whether the adjustments corrected entitlement errors that DFAS personnel should have identified during the entitlement and prevalidation process. The 870,800 records in the NC50 file contained both disbursements and adjustments made to payments after prevalidation. We extracted 68,776 adjustment transactions based on the type of payment code (“8” and “9”). To identify adjustments made to previously prevalidated and paid ARNs, we matched the 68,776 adjustments to the history 9 records by contract number, shipment number, and ACRN fields. As a result, we obtained a subpopulation of 3,598 previously approved ARNs with an adjustment on the same shipment and ACRN. These transactions were isolated to test whether controls ensured that the entitlement was correct, the EUD system identified errors, and prevalidation technicians corrected the errors before DFAS disbursed the payments.

Subpopulations for Testing

Based on this analysis we isolated five subpopulations for further statistical testing. Table D-2 shows the five subpopulations for statistical sampling and the number of records.

Table D-2. Subpopulations for Statistical Sampling	
Subpopulation	Number of Records
Shipments with canceled ARNs	26,984
ARNs denied for accounting reasons	16,383
ARNs denied for entitlement reasons	2,440
Entitlement records missing information in MOCAS	7,058
ARNs with adjustments on the same shipment and ACRN	3,598

Appendix E. Statistical Sampling Methodology

Sampling Plan

Sampling Purpose. We used statistical sampling to estimate the number of errors associated with selected types of internal control weaknesses. In particular, we estimated the number of inaccurately entitled shipments with canceled ARNs, ARNs denied for accounting reasons, ARNs denied for entitlement reasons, entitlement records missing information in MOCAS, and adjustments made to correct entitlement errors.

Sampling Design. We applied statistical sampling to five sets of ARNs or shipment records, each selected through data mining to focus on particular potential internal control weaknesses. Because some of the subpopulations may overlap, the individual projections for the subpopulations cannot be added to each other. For this reason, and because each subgroup of actions was selected on different criteria, the results cannot be generalized to the population of all prevalidation requests.

We selected the subpopulations based on the known or potential errors identified during the data mining analysis. We developed tests for controls specific to each subpopulation and drew simple random samples from each of the five subpopulations. We used statistical sampling to project the audit results to their respective subpopulations. See Appendix D for the analytical procedures used to identify the subpopulations. Table E-1 identifies the five subpopulations and the number of randomly selected sample items tested.

Table E-1. Subpopulations Statistically Sampled		
Subpopulation	Records	Sample Size
Shipments with canceled ARNs	26,984	69
ARNs denied for accounting reasons	16,383	68
ARNs denied for entitlement reasons	2,440	67
Entitlement records missing information in MOCAS	7,058	68
ARNs with adjustments on the same shipment and ACRN	3,598	67

Sampling Results

Shipments with Canceled ARNs. Table E-2 identifies the statistical estimates of shipments with canceled ARNs due to incorrect entitlement.

Table E-2. Inaccurately Entitled Shipments with Canceled ARNs (90-Percent Confidence Level)		
Lower Bound	Point Estimate	Upper Bound
5,912	8,604	11,295

We are 90-percent confident that between 5,912 and 11,295 out of 26,984 shipments entered prevalidation with entitlement errors.

ARNs Denied for Accounting Reasons. The Quantitative Methods Directorate made three independent projections from the same sample which was drawn from the subpopulation of 16,383 ARNs.¹ Table E-3 shows, by type of error, the statistical estimates of ARNs denied because of accounting reasons.

Table E-3. ARNs Denied for Accounting Reasons (96.6-Percent Confidence Level)			
Type of Error	Lower Bound	Point Estimate	Upper Bound
Obligation not loaded in the accounting system	1,740	3,614	5,487
Incorrect ACRN, CLIN, or insufficient unliquidated obligation in the accounting record	6,680	8,914	11,148
Identified as accounting error, although entitled incorrectly	1,349	3,132	4,915

We are 96.6-percent confident that between 1,740 and 5,487 out of 16,383 ARNs did not have the obligation entered in the accounting records before prevalidation. We are 96.6-percent confident that between 6,680 and 11,148 out of 16,383 ARNs did not have the ACRN or CLIN/SLIN established correctly in the accounting system or the unliquidated obligation balance in the accounting record was less than the prevalidation request. We are 96.6-percent confident that DFAS Columbus incorrectly entitled between 1,349 and 4,915 out of 16,383 ARNs.

ARNs Denied for Entitlement Reasons. Table E-4 identifies the statistical estimates of ARNs denied because of entitlement reasons.

Table E-4. ARNs Denied for Entitlement Reasons (90-Percent Confidence Level)		
Lower Bound	Point Estimate	Upper Bound
1,277	1,530	1,782

We are 90-percent confident that DFAS incorrectly entitled between 1,277 and 1,782 out of 2,440 ARNs.

Entitlement Records Missing Information in MOCAS. The Quantitative Methods Directorate calculated statistical projections for three different types of errors identified by testing invoice line item records, used as the entitlement records, for missing data in MOCAS such as the contract number, ACRN, CLIN/SLIN, or shipment number. Even though we made three projections from the same sample,

¹ The Bonferroni correction was applied to determine the overall error risk, which is the complement of the confidence level. This adjustment resulted in a simultaneous confidence bound of 90 percent. This means that we can be 90 percent confident that all three intervals simultaneously include their respective number of subpopulation errors. Conversely, there is a 10 percent risk that at least one of these intervals does not encompass its number or errors.

we did not apply the Bonferroni correction because these three sample results are not independent of each other. Table E-5 shows, by type of error, the statistical estimates of invoice line items missing information in MOCAS.

Table E-5. Entitlement Records Missing Information in MOCAS (90-Percent Confidence Level)			
Type of Error	Lower Bound	Point Estimate	Upper Bound
Payment request missing CLIN/SLIN information	831	1,453	2,075
Payment request information not used to develop entitlement record	2,163	2,906	3,650
Total entitlement records missing information	3,623	4,359	5,096

We are 90-percent confident that between 831 and 2,075 out of 7,058 payment requests used to develop entitlement records were missing the CLIN/SLIN information necessary for prevalidation. We are 90-percent confident that between 2,163 and 3,650 out of 7,058 entitlement records did not contain all of the information provided on the supporting contract and payment request. We are 90-percent confident that between 3,623 and 5,096 out of 7,058 entitlement records were missing information in MOCAS. Some sample items had more than one type of error; therefore, the sum of the errors may exceed the total of the subpopulation.

Adjustments Made to Prevalidated Payments. Table E-6 identifies the statistical estimates of adjustments to prevalidated payments to correct errors in the entitlement of the shipment.

Table E-6. Adjustments Made to Correct Entitlement Errors (90-Percent Confidence Level)		
Lower Bound	Point Estimate	Upper Bound
1,385	1,772	2,159

We are 90-percent confident that DFAS prevalidated and paid between 1,385 and 2,159 out of 3,598 shipments records that contained inaccurate and incorrect information.

Appendix F. Sample Results

We used statistical sampling to efficiently test aspects of the prevalidation process. This appendix provides detailed information about the testing results and provides details concerning the errors identified in each sample population for each of the internal control test conducted. This appendix also supports the discussion presented in finding A.

Payment Requests Missing Information in MOCAS

Control activities did not prevent incomplete payment requests from entering MOCAS and creating incomplete entitlement records. Incomplete information can include a missing contract number, shipment number, ACRN, CLIN/SLIN, and amount. We reviewed 68 sample payment requests identified as missing information. Fourteen payment requests were for financing payments, such as cost vouchers and performance-based payments. Table F-1 shows the 14 payment requests missing CLIN/SLIN information.

Table F-1. Payment Requests Missing CLIN/SLIN Information in MOCAS			
Contract	Shipment No.	ACRN	Missing CLIN/SLIN
DAAB0700CJ606	PBPA041	FM	0509AA
DAAB0702CJ204	PBPA033	BB	0301AA & 0303AA
DAAB0795DE6040025	BVNM148	BE	0001BC
F3060202C0212	BVN0036	AH	000108
F336150123152	BVN0043	AE	0001
HDTRA104C0009	BVN0020	AC	0001
N0001403C0172	BVN0028	AC	000103
N0002404C6101	PBPA011	AH	Multiple cited in contract
N0016400G00070030	PBPA005	A3	0071
N0042100G01430016	CFIA001	AA	0001AA, 0001AB, & 0001AC
N6660402C2307	BVN0071	A9	000109
N6833504C0039	BVN0017	AB	000201 & 000501
W15QKN04C1092	BVN0013	AB	000102 & 0005
W31P4Q04CR250	BVN0013	AC	0003AB

Of the 68 sampled payment requests, 28 lacked information contained on the supporting payment request. Table F-2 shows the missing data elements for the 28 sample payment requests.

Table F-2. Entitlement Records Missing Information			
Contract	Shipment No.	Invoiced ACRN – CLIN/SLIN	Missing Data Element
DAAA2193C0057	BVN0297	BX - 0063BX	ACRN
DAAB0702CB213	PBPA013	AE - 0009AD	CLIN/SLIN

Table F-2. Entitlement Records Missing Information (cont'd)			
Contract	Shipment No.	ACRN - CLIN/SLIN	Missing Data Element
DAAE0701DS0140161	PBPA007	AA - 0104AA, 0104AE, 0104XA, 0105AA, 0105AE, 0105AL, 0105BB, 0105CF, 0105DC, 0107AA, 0107AE, 0107AH, 0107AL, 0107BU, 0107XA, 0107XB, 0108AA, 0108AE, 0108AL, 0108AC, 0108CW, 0108DC, 0108DM, 0108DN, 0108DQ, 0301AA, 0301AB, 0301AE, 0301AL, 0401AA, 0401AC, 0401AE, and 0402AL	CLIN/SLIN
DAAE0701DS0140169	PBPA007	AE - 0302AA	CLIN/SLIN
DASG6203D00085006	BVN0008	AA – 0001	CLIN/SLIN
F0470100D02030020	BVN0090	AJ – 0001	CLIN/SLIN
F0470102C0011	PBPA013	BA - 0215CL, 0213CL, 0209CL, 0203CL, 0201CL, 0200CL, 0204CL, 0222CL, 0223CL, 0227CL, 0228CL, 0229CL, 0231CL, and 0235CL	CLIN/SLIN
F0863503D00010002	PBPA004	AA – 0107	CLIN/SLIN
F4162497D80060028	BVN0031	AB AA-0001	Wrong ACRN; CLIN/SLIN
F4262003D00020042	PBPB002	AG - 0001AH	CLIN/SLIN
FA704600D00020001	BVN0049	AM - 0001 and 0002	CLIN/SLIN
FA867505C0070	PBPB002	AT - 0007 and 600003	CLIN/SLIN
N0001900C0307	BVN0093	BN - 0001-0009; 0014-0017; 0019-0022 and 0100-0103	CLIN/SLIN
N0001904C0012	PBPA006	BB - 000102 and 000701	CLIN/SLIN
N0001904C0028	PBPA015	JA - 0008AA and 0008AB	CLIN/SLIN
N0001904C0569	PBPA006	AJ - 0101AB	CLIN/SLIN
N0003905C0026	PBPA001	AF - 0001AF, 0003AF, 0006AF, 0007AF, and 0010AF	CLIN/SLIN
N0016704D00580001	BVN3536	AA – 0001	CLIN/SLIN
N0017302C6027	BVN0077	AE - 0002, 0002AA, 0002AB	CLIN/SLIN
N0017804C1065	BVN0014	AA - 0001AA and 0001AB	CLIN/SLIN
N0038303CP026	BCS0001	AA - 0001AB	ACRN
N0042101C0260	PBPB004	CF - 0302AA and CL - 0402AA	Wrong ACRN; CLIN/SLIN
N6133903C0007	PBPA013	AJ – 000406	CLIN/SLIN
N6523603D57230026	BVN0005	AA - 0026BP	ACRN
N6600104D50250003	BVN0031	AA - 0001 & 0002	CLIN/SLIN
N6600104D50250007	BVN0003	AA - 0001 & 0002	CLIN/SLIN
W31P4Q05C0055	BVN0011	AA – 0001	CLIN/SLIN
W56HZV04D03220005	PBPA005	AA - 0206AA, 0216AA, 0402AA and 0412AA	CLIN/SLIN

Accuracy of Entitlement Records

Control activities did not ensure the entitlement record was accurate and complete. We reviewed 67 sample ARNs that failed prevalidation because the EUD system assigned entitlement denial codes. Of the 67 ARNs, entitlement personnel had not processed financing payments timely for 10 ARNs; therefore, MOCAS had not recorded the full amount available for liquidation at the time of prevalidation. Table F-3 shows the 10 ARNs with financing payments not loaded timely and the financing payment information.

Table F-3. Untimely Financing Payments				
ARN	Financing Payment Loaded after Sample ARN	Date of Financing Payment	MOCAS Entry Date	Delay In Entering in MOCAS (days)
HQ033720050691205D	PPRA013	3/15/2005	4/7/2005	23
HQ033720050891522D	PPRA013	3/15/2005	4/6/2005	22
HQ033720051091491D	PPRA006	4/15/2005	4/25/2005	10
HQ033720051241499C	PPRA010	4/11/2005	5/5/2005	24
HQ033920050780185D	PBPA015	3/14/2005	3/25/2005	11
HQ033920050780197D	PBPA015	3/14/2005	3/25/2005	11
HQ033920051380033D	PBPA017	5/13/2005	6/1/2005	19
HQ033920051410292D	PBPA017	5/13/2005	6/1/2005	19
HQ033920051450113D	PBPA017	5/13/2005	6/1/2005	19
HQ033920051520093D	PBPA032	6/3/2005	6/14/2005	11

Of 67 sample ARNs, the EUD system could not identify the work-in-progress line or the accounting system did not have sufficient funds on the work-in-progress line for 24 ARNs. Table F-4 shows the 24 ARNs that could not match the accounting system because of system errors.

Table F-4. System Errors Preventing Proper Match				
ARN	Contract	Shipment Number	Type of Contract Term	Accounting Station
HQ033720050620281D	DAAE0703CS114	ATC0223	Performance	S20113
HQ033820050611099D	F1962898C0046	LAR0595	Progress	503000
HQ033720051470113D	DAAE2002C0134	GSD0149	Progress	S11116
HQ033720050740207D	DAAE2000C0045	GDC0084	Cost Voucher	S20113
HQ033920051450204D	DAAE3001D10030004	SPR0009	Progress	S28017
HQ033920050840778D	F3365701D00260004	MCA0042	Performance	668300
HQ033820051300303D	DAAH2303C0267	MMO0050	Progress	S23204
HQ033820051460145D	DAAH2302D03210015	MMO0093	Progress	S23204
HQ033720051320203D	DAAE0701DT0260010	LSP0001Z	Progress	S20113
HQ033720050690227D	DAAE3001C1101	AAA0077	Progress	S28017
HQ033720051530197D	DAAE3003C1121	KDI0026	Progress	S28017
HQ033820051520919D	F3365798D00020029	FWB0004	Progress	503000
HQ033920051050111D	DAAE0701DS0140118	OTC0663	Performance	S20113
HQ033720051550338D	DAAE0703DN1090001	IVF0058	Progress	S20113

Table F-4. System Errors Preventing Proper Match (cont'd)

ARN	Contract	Shipment Number	Type of Contract Term	Accounting Station
HQ033720051030201D	DAAE3003C1121	KDI0023	Progress	S28017
HQ033720050820136D	DAAE0703CS114	ATC0235	Performance	S20113
HQ033720050720165D	DAAE0700CN001	IVF0613	Performance	S20113
HQ033920051620177D	DAAE0701DS0140118	OTC0772	Performance	S20113
HQ033920051520402D	DAAE0703CS023	TVS1938	Performance	S20113
HQ033720050620283D	DAAE0703CS114	ATC0224	Performance	S20113
HQ033720050720171D	DAAE0700CN001	LMW1798	Performance	S20113
HQ033720051200172D	DAAE0703CS114	ATC0266	Performance	S20113
HQ033920051520386D	DAAE0703CS023	TVS1930	Performance	S20113
HQ033720050840181D	DAAE0703CS114	ATC0241	Performance	S20113

Of the 67 sample ARNs, DFAS Columbus incorrectly entitled eight ARNs for which the correct information was available on the payment request or in the related contract at the time of entitlement. Table F-5 shows the eight incorrectly entitled ARNs.

Table F-5. ARNs Entitled Incorrectly

ARN	Contract	Shipment No.	Error
HQ033720050670047C	DAAB0701CC206	BVN0075	Accounting station should be S28043
HQ033720051301176D	W52P1J04C0084	SNC0029	Accounting station should be S28017
HQ033720051521501D	SP010002DNA050016	GHF0020	CLIN should be 0019AA and quantity should be 14
HQ033720051610471D	FA810405G0003TY02	LYN0001	CLIN/SLIN should be 0001AA
HQ033820051401170C	N0014098DM3230800	BVN0015	ACRN should be AB
HQ033920050750896C	F336150295325	BVNB016	No CLIN or description on Payment Request
HQ033920050840178D	DAAJ0994G00090032	WTH9078	Withhold not charged to the CLIN on the original payment request
HQ033920051311366C	F3365701C2002	BVN2029	ACRN should be CA

Shipments with Canceled ARNs

DFAS Columbus did not have adequate controls in place to prevent the canceling of ARNs because of inaccurately entitled shipments. Of 69 sample shipments with canceled ARNs, DFAS Columbus incorrectly entitled 22 shipments. Table F-6 shows pertinent information about the 22 inaccurately entitled shipments with canceled ARNs.

Table F-6. Shipments with Canceled ARNs		
Contract	Shipment No.	Entitlement Error
DAAB0786DK0230446	ENC0029	Missing CLINs 0002AA and 0040AA
DAAH2300D01480021	BVN0024	Removed CLIN 0002AA and left blank
DASG6000C0087	BVN0077*	Payment request returned for insufficient funds
DASG6002D00110023	BVN0065	Missing CLIN 0005
DASG6003P0194	BVN0001Z	Missing CLIN 0001
F4162402D70030005	BVN0032	Missing CLINs 0003 and 0007
F4262001D0058SC48	BVN0010	ACRN changed from AU to BQ
FA704600D00020170	BVN0017	Nonspecific SLIN AG
FA867804C0024	BVN0025	Nonspecific SLIN 02
HQ000602C0054	BVN1018	Incorrect Commitment Reference Number on CLINs 0202, 0206AC, 0206AD, and 0206AE
M6785400D10110058	BVN0004	Supplemental data contained an extra "0"
N0001499D05020003	BVN0013	Nonspecific SLIN 03
N0001903G0014YR14	BVN0002	Activity code "S3315A" in supplemental data did not agree with the "000000" contract.
N0002402C5100	AND0182	CLIN was L008 instead of CLIN 0010AA
N0014097CG22	ACS0067Z	CLINs billed different than Payment Requested
N6523600D78020280	BVN0029	Supplemental data contained an extra "0"
N6523600D78120645	BVN0003	Nonspecific SLIN 01
N6523602D78370012	BVN0002	Entitled CLIN 0004 instead of 0003
SP010004D40830001	STN0049*	Amounts on the payment request and receipt disagreed
USZA2202D00170193	BVN0007	Missing CLINs 0307AA and 0407AE
W56HZV04D03280002	SWT0007*	Recoupment calculated incorrectly
W911SR04C0094	BVN0009	Commitment document number was missing and the correction was missing the SLIN 02
*Denotes a payment request incorrectly entitled more than once.		

Entitlement Errors That Passed Prevalidation

Inadequate reviews by both entitlement and accounting technicians cause the disbursement and posting of erroneously entitled shipments in the official accounting records. Of the 67 sample shipments, DFAS Columbus personnel entitled 33 shipments that had errors with the ACRN, line of accounting, or other information, such as the quantity, vendor, or amount. Table F-7 shows the 33 shipments that required an accounting adjustment after DFAS prevalidated the payment. DFAS had not identified the entitlement errors during prevalidation.

Table F-7. Accounting Adjustments Required on Previously Prevalidated Shipments			
ARN	Contract	Shipment No.	Error
HQ033820050970022C	DAAB0701DG0010048	BVN0025	Over billed ACRN AE and excluded CLIN 0028
HQ033920050850183D	DAAB0702CJ204	MCK1871	Should have recouped ACRN BF
HQ033920050850186D	DAAB0702CJ204	MCK1872	Should have recouped ACRN BF
HQ033720050850079C	DAAD0501C0017	BVN0061	ACRN should be AA
HQ033820050640318C	DAAD1701D0004BG01	BVN0020	ACRN should be AB
HQ033720051440197D	DAAE0703DN1020001	SMG0326	Incorrectly charged quantity variance line
HQ033920051120171D	DAAH0100C0108	PBPB019	Entitled before funding on ACRN CD
HQ033820051320324C	DASG6000C0097	BVN0104	Underpayment on original payment; ACRN should be AX on second payment
HQ033720051530267C	DASG6098C0001	BVN0138	Duplicate payment made in MOCAS
HQ033920050610352D	F0460682C1482	REFM001	Underpaid original Payment Request
HQ033820051520722P	F0470101C0001	PPRA002	Wrong ACRN
HQ033920050641042D	F0960303C0402	SAB0093	Under recoupment caused overpayment
HQ033720050760812C	F0960303D00951011	BVN0007	ACRN should be AB and AC
HQ033720051110514C	F0960303D00951062	SER1783	Wrong Property Accountability Activity in line of accounting
HQ033720050780660C	F1962802F8162	BVN0071	ACRN should be L8
HQ033720050970661D	F3365701D20740002	MCA0086	ACRN should be AC
HQ033720051452277C	F4162403C1007	BVN0029	Line of accounting erroneously omitted a "0" (zero)
HQ033720050840964D	F4260001C0025	REF0035	Under recoupment caused overpayment
HQ033920051461026C	F4262001D0058SC26	BVN0030	Wrong ACRN, adjust did not correct
HQ033920051390316D	FA810304C0075	TUD0001	Entitled to the wrong vendor
HQ033920051320612D	FA862004G40100004	COM0004	ACRN should be AB
HQ033720050640554C	FA862204F8001	BVN0010	ACRN should be AB
HQ033720051452006C	FA955004F0004	BVN0012	ACRN should be AC
HQ033920050641943C	HQ000604D00020002	BVN0016	ACRN should be AA and adjustment should be CLIN 0002
HQ033920050740922D	M6785404D50160003	OTC0001	Overpayment; recoupment wasn't calculated
HQ033820050620926D	MDA91193C0008	LAR0249	No ACRN on payment request or receipt
HQ033920051062077C	N0003900D21010001	ADD2007	ACRN should be AJ
HQ033820050831299C	N0014001D0787Z529	BVN0032	ACRN charged wrong amount; adjustment should include AK
HQ033820051240848C	N0014098DM3230927	BVN1101	Vendor returned duplicate payment; ACRN should be AA

Table F-7. Accounting Adjustments Required on Previously Prevalidated Shipments (cont'd)			
ARN	Contract	Shipment No.	Error
HQ033720051583673D	N0016403D89070002	VBD0010	Vendor billed for more quantity than received
HQ033820050922361D	N6133900D07120002	SPR0009	ACRN should be AJ
HQ033820051261283D	SP010000D40300030	PIE0013	Incorrectly charged quantity variance
HQ033820050762131C	USZA2202D00170138	BVN0013	Contract loaded in MOCAS with incorrect accounting station

Internal Controls Over Obligation Balances

DoD did not maintain an adequate control environment to ensure that DoD activities recorded obligations timely and accurately in the official accounting systems. Of the 68 sample ARNs, 15 did not have corresponding obligations entered in the accounting system before the prevalidation request or within 10 days of the Government incurring the obligation. Table F-8 shows the 15 sample ARNs with obligations not loaded timely in the accounting system.

Table F-8. Recording Obligations Timely				
ARN	Contract	Obligation Date	ARN Date	Obligation Recorded Date
HQ033920050630079D	DAAB0700CJ606	01/31/05	03/04/05	05/09/05
HQ033720051250097D	DAAB0786CH007	03/31/05	05/05/05	06/16/05
HQ033920051600046D	DAAB1500A10260001	05/04/05	06/09/05	06/28/05
HQ033720050750114C	DAAD1302C0008	02/25/05	03/16/05	03/17/05
HQ033820051620817C	DAAH0196C0027	12/02/04	06/13/05	07/11/05
HQ033920050640888C	F0470100D02030052	08/25/04	03/12/05	03/16/05
HQ033920050640892C	F0470100F5005	08/27/04	03/12/05	04/05/05
HQ033920050720936D	F0960399D01090014	11/01/04	03/15/05	03/25/05
HQ033920050923104D	F3460199D00020058	01/10/05	04/5/05	04/18/05
HQ033920051620528C	FA852805D00110001	05/25/05	06/14/05	09/28/05
HQ033820051230652C	N0014003D00066002	07/22/04	05/03/05	05/20/05
HQ033720051552818D	N0016405P0482	04/29/05	06/05/05	06/08/05
HQ033820051611464C	N0042102C3235	05/31/05	06/10/05	06/13/05
HQ033820050632281C	N6523699D68090472	06/30/04	03/04/05	03/24/05
HQ033820051623802C	W911SR04D00120001	01/31/05	06/13/05	06/14/05

Of the 68 sample ARNs, accounting stations had not correctly obligated 37 ARNs at the ACRN/CLIN/SLIN level or the ULO balances were less than the amounts of the prevalidation requests. Table F-9 shows the 37 sample ARNs.

Table F-9. Recording Obligations Accurately			
ARN	Contract	Shipment No.	Error in Recording the Obligation
HQ033720050690136C	DAAB0798DH5030035	BVN0018	Insufficient ULO. Funds deobligated in 2003; new funds had to be found
HQ033720050960125D	DAAE0701GN0010003	WTH9851	Zero ULO balance when prevalidation approved, causing \$24,600 NULO
HQ033920050921177D	DAAK6096C3009	EAS0384	ARN prevalidated against CLIN 1007; should have been SLIN specific because CLIN funded by 3 ACRNs (FH, FJ, FK). CLIN had insufficient ULO to pay this ARN; prevalidation approved erroneously against another CLIN
HQ033920051330370D	DABL0103D1002009	STI0009	Did not record CLIN 2006FE; previous canceled payments not reversed
HQ033820051620817C	DASG6099C0075	BVN0122	Obligated incorrectly on ACRN HT instead of ACRN VN; contract modification was not entered
HQ033820051180510C	DASW0104C0003	BVNC090	NULO balance (\$5180) required correction before prevalidation request could be approved
HQ033920050820429C	F0470100C8029	BVN9951	Did not record CLIN 5901
HQ033920050640888C	F0470100D02030052	BVN0024	No CLIN recorded or entitled
HQ033920050640892C	F0470100F5005	BVN0050	Did not record CLIN 0006
HQ033920050720936D	F0960399D01090014	KAE0058	Did not record CLIN 4004
HQ033720051590879C	F0960403D00080008	BVN0036	Did not record CLIN 1004; previous canceled payments not reversed
HQ033920051543603D	F1962802C0010	REFM082	Did not record CLIN 0104
HQ033720050950686C	F2960103C0192	BVN0020	Did not record CLIN 0001; previous canceled payments not reversed
HQ033820051621751C	F3361500D55420009	BVN0033	Did not record CLIN 0009; previous canceled payments not reversed

Table F-9. Recording Obligations Accurately (cont'd)			
ARN	Contract	Shipment No.	Error in Recording the Obligation
HQ033720051180703C	F3361502C1193	BVN0049	Did not record CLIN 0002; previous payment posted in unpaid status twice
HQ033920050970621P	F3365700G40280265	PPRA026	No CLIN recorded or entitled
HQ033820051591592P	F3365700G40280314	PPRA020	No CLIN recorded or entitled
HQ033920051440858D	F3365701C0022	TSD0042	Did not record CLIN 2021; previous canceled payments not reversed
HQ033920051440871D	F3365701G50050026	SNC00572	Did not record CLIN B008; funds moved to unpaid status before receipt
HQ033720050970683D	F3460100G0006RU32	BVN0015	Did not record CLIN/SLIN 0003AA
HQ033720051520675C	F3460197D0423RJ15	BVN0116	Did not record CLIN/SLIN 6001AD; funds moved to unpaid status before receipt
HQ033920051241105C	F3460199C0006	BVN0078	Did not record CLIN/SLIN 2001BE; funds moved to unpaid status before receipt
HQ033920050923104D	F3460199D00020058	KAC0465	Did not record CLIN 1011
HQ033820050980731C	F4162403D86090054	BVN0019	Did not record CLIN 0003; previous canceled payments not reversed
HQ033820050700850C	F4262000D0029RJ20	BVN0024	Did not record CLIN/SLIN 0009AE
HQ033920050720592C	FA704600D00030149	BVN0055	Did not record CLIN/SLIN 0009AB; previous canceled payments not reversed
HQ033720051230200D	FA820304M0260	ABS0001	Did not record CLIN 0001
HQ033820051410505D	FA852304C0066	PCA0001	Did not record CLIN 0001AB; previous payment removed funds erroneously
HQ033920051620528C	FA852805D00110001	BVN0016	Did not record CLIN 0019
HQ033720050840429C	FA865104D0428	BVNA071	No CLIN recorded or entitled; funds moved to unpaid status before receipt
HQ033820050620613C	FA945104C0045	BVN0008	Did not record CLIN 0004; previous canceled payments not reversed
HQ033720050680870D	H9223604C1002	IMP0105	Did not record CLIN 0001; previous work in progress charged to material line
HQ033920051391094C	HC104704C4055	BVN1129	Did not record CLIN 0104; void payment returned to unpaid not undelivered
HQ033820051180963D	N0001902D31570075	EPX0011	Did not record CLIN 0209

Table F-9. Recording Obligations Accurately (cont'd)			
ARN	Contract	Shipment No.	Error in Recording the Obligation
HQ033920051610991D	N0001904C0069	IAC0005	Obligation at ACRN level only. No obligation at CLIN level (0003 for this ARN)
HQ033920050771535D	N0002402C5318	RSV0065	Did not record CLIN 0048. Obligated at ACRN only
HQ033820050691884D	N0042100D03610003	REF0015	Obligated at ACRN level only. No obligations at CLIN level (0001, 0002, 0003, and 0004 for this Payment Request)

Of the 68 sample ARNs, DFAS Columbus had incorrectly entitled 14 ARNs and the EUD system should have returned the ARNs to the paying office instead of the accounting station for rework. Table F-10 shows the 14 sample ARNs sent to the accountants for rework even though the ARN had entitlement errors.

Table F-10. ARNs with Entitlement Errors Sent to Accountants for Rework			
ARN	Contract	Shipment Number	Error in Recording the Obligation
HQ033720050702235C	SP070000D31800105	BVN0046	Blank CLIN
HQ033720050851582C	SP070000D31800273	BVN0015	CRN should be 7031204029N830
HQ033720050970683D	F3460100G0006RU32	EVN0015	Cost code should be 978400
HQ033720051021012C	N0014001DN642GE8G	BVN0010	CRN should be N4523A42649141
HQ033720051061416C	SP070000D31800283	BVN0011	Should have split between CRN NMIPR049209813 and BMDO01449931553
HQ033820050700850C	F4262000D0029RJ20	BVN0024	ACRN AH should be AE
HQ033820051020270C	DAAH0102CR190	BVN0070	CRN should be RB4KCR01RV
HQ033820051031257D	N0010404PCM38	CMR0001Z	CLIN should be 0001AA
HQ033820051230652C	N0014003D00066002	BVN0022	ACRN deobligated
HQ033820051340446C	DASG6099C0075	BVN0122	Blank CRN
HQ033920050820429C	F0470100C8029	BVN9951	ACRN ML should be QD
HQ033920050921177D	DAAK6096C3009	EAS0384	ACRN should be FH, FJ, and FK; and Payment Request did not include SLIN
HQ033920051031728C	N6133900D00010029	BVN0014	Blank CRN
HQ033920051110028C	DAAB07003L517	BVN0088	Blank CLIN and CRN

Appendix G. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Deputy Under Secretary of Defense for Business Transformation

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Auditor General, Department of the Army
Program Executive Officer, Enterprise Information Systems

Department of the Navy

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

Department of the Air Force

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

Other Defense Organization

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
Senate Committee on Finance
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Oversight and Government Reform
House Subcommittee on Government Management, Organization and Procurement,
Committee on Oversight and Government Reform
House Subcommittee on National Security and Foreign Affairs, Committee on Oversight
and Government Reform

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



COMPTROLLER

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

NOV 8 2006

MEMORANDUM FOR PROGRAM DIRECTOR, DEFENSE FINANCIAL
AUDITING SERVICE, OFFICE OF THE
INSPECTOR GENERAL, DEPARTMENT OF
DEFENSE

SUBJECT: Response to Draft Audit Report, entitled "Controls Over the
Prevalidation of DoD Commercial Payments", Office of the Inspector
General (OIG), Department of Defense (DoD)

This memorandum is in response to the subject September 11, 2006, draft
audit report, which addresses controls over the prevalidation of Department of
Defense (DoD) commercial payments.

OIG Recommendation A.1.a. We recommend that the Under Secretary of Defense
(Comptroller)/Chief Financial Officer, in conjunction with the Director, Defense
Finance and Accounting Service (DFAS), update the DoD prevalidation plan. The
plan should include:

- a. time frames for lowering the dollar threshold for all contract
payments to \$0 based on a detailed cost analysis, and
- b. a requirement to prevalidate all accounting adjustments.

Office of the Under Secretary of Defense (Comptroller) response:

- a. Concur. DFAS will update the plan to reduce the Mechanization of
Contract Administration Services (MOCAS) prevalidation threshold incrementally
to zero, provided that the benefits of further reductions support the additional
costs.

DFAS's prevalidation policies far exceed the current requirements and,
while not all disbursements are prevalidated, 99 percent of the dollars are
prevalidated. Regulatory requirements dictate that every MOCAS payment over
\$500,000 be prevalidated; currently, MOCAS prevalidates payments made for
contracts dated FY 2005 and forward to zero. Beginning November 17, 2006, all
MOCAS payments over \$5,000 on FY 2004 and prior contracts will be
prevalidated. Another decrease is planned for April 2007, dependent on workload
implications.

b. Partially Concur: Although not required by regulation, DFAS currently prevalidates accounting adjustments of \$1 million and greater and is working to lower this threshold. This policy and procedure exceeds prevalidation requirements. DFAS management will develop a plan to lower the threshold for prevalidating accounting adjustments in MOCAS, assuming the reduction is supported by a cost/benefit analysis.

OIG Recommendation A.2. We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, in conjunction with the Under Secretary of Defense for Acquisition, Technology, and Logistics, develop a policy to:

a. provide payment offices with detailed contract billing and payment instructions requiring payment at the contract line item number and sub-line item number level, and

b. comply with the Standard Financial Information Structure by requiring the entitlement and prevalidation of each payment to the contract line item number and sub-line item number level, including financing payments and their recoupment.

Office of the Under Secretary of Defense Comptroller) response.

a. Partially Concur. In October 2005, the Department established standard billing and payment instructions, which were incorporated in Section 204.7104-1(a) of the Defense Federal Acquisition Regulation Supplement (DFARS) and Procedures, Guidance, and Instruction (PGI) 204.7108. DFARS 204.7104 requires that Contracting Officers follow the procedures at PGI 204.7108 for inclusion of payment instructions in contracts. Because the DFAS pay contracts in accordance with contract terms and conditions, and the Contracting Officer must include standard payment instructions in the contracts, a specific policy to this effect is not required.

PGI 204.17-08 directs Contracting Officers to incorporate standard payment instructions in Section G of the contract. These standard payment instructions were developed in response to a Government Accountability Office (GAO) report issued in August 2003, entitled "DoD Contract Payments." In this report, the GAO recommended that DoD develop payment allocation options for presenting standard payment instructions in contracts containing multi-funded contract line items, and issue guidance to the contracting community reiterating the requirement in DFARS that all contracts containing multi-funded contract line items contain payment instructions. The Department implemented the GAO's recommendation by

developing DoD-wide standard payment instructions, which were incorporated in the DFARS in October 2005. These standard payment instructions provide payment offices with detailed contract billing and payment instructions and a specific methodology for the assignment of payments to the appropriate accounting classification citation(s), based on anticipated contract work performance. The PGI 204-1708 standard payment instructions are at TAB A.

* 1

The Department currently is assessing the feasibility of automating the standard payment instructions in the MOCAS entitlement system, which processes the majority of DoD contract payments. Automating the standard payment instructions will directly comply with the GAO's August 2003 report recommendation, and will also result in cost savings to the Department by reducing improper and/or erroneous payments and efforts spent in contract reconciliation. The Department plans to complete the automation feasibility study in November 2006, and the OUSD(Acquisition, Technology, and Logistics) will notify the GAO of the Department's determination.

b. Nonconcur. The DoD initiative to comply with the Standard Financial Information Structure (SFIS) is unrelated to the requirement for the entitlement and prevalidation of each payment. SFIS is a common business language that provides an enterprise-wide standard for categorizing financial information along several dimensions to support financial management and reporting functions.

The department recognized the need for standardization and in August 2005, issued the SFIS implementation policy at TAB B. The SFIS policy lays out three implementation approaches and requires that systems containing financial information provide the ability to capture and transmit SFIS data. Specifically within this policy, the Business Feeder System Approach requires that systems that create source transactions, and certain entitlement and disbursing systems that receive source transactions, be SFIS compliant. As various legacy accounting, business feeder, and target accounting systems are developed, they are required to be SFIS compliant

* 2

We appreciate the opportunity to respond to your draft audit report. My point of contact is Ms. Carol Phillips, who can be contacted by telephone at 703-693-6503 or e-mail at carol.phillips@osd.mil.


Robert P. McNamara
Acting Deputy Chief Financial Officer

Attachments
As stated

¹ Tab A omitted because of length. Copies will be provided upon request.

² Tab B omitted because of length. Copies will be provided upon request.

Deputy Under Secretary of Defense for Business Transformation Comments



ACQUISITION,
TECHNOLOGY
AND LOGISTICS

OFFICE OF THE UNDER SECRETARY OF DEFENSE
3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

NOV 16 2006

MEMORANDUM FOR PROGRAM DIRECTOR, DEFENSE FINANCIAL
AUDITING SERVICE, OFFICE OF THE
INSPECTOR GENERAL, DEPARTMENT OF
DEFENSE

✓ THROUGH: DIRECTOR, ACQUISITION RESOURCES AND ANALYSIS

RA Mcm
11/16

SUBJECT: Response to DoDIG Draft Report, D2005-D000FI-0164.000, "Controls over the Prevalidation of DoD Commercial Payments."


This is the Deputy Under Secretary Of Defense for Business Transformation (DUSD(BT)) response to the subject September 11, 2006, draft report, which addresses the controls over the prevalidation of DoD commercial payments.

OIG Recommendation B. 1. We recommend that the Deputy Under Secretary of Defense for Business Transformation, in conjunction with the Under Secretary of Defense (Comptroller) Chief Financial Officer, monitor and ensure the implementation of an integrated prevalidation function for the Defense Enterprise Accounting and Management System, General Fund Enterprise Business System, and Navy - Enterprise Resource Planning System. The financial systems should contain the internal functionality to receive data from DoD entitlement systems and perform prevalidation by matching payment requests to the appropriate detailed obligations at the contract line item number and sub-line item number level.

DUSD(BT) Response - Concur. The Business Transformation Agency (BTA) through close collaboration with the Principal Staff Assistants (PSAs) within Office of the Secretary of Defense (OSD) and the leadership of the Core Business Mission Areas (CBMs) will analyze alternatives and assign responsibility to define the business capability requirements needed to standardize entitlement. These prevalidation requirements will be included in the Business Enterprise Architecture, which will be decomposed within the manage entitlement process to define the specific requirements for entitlement, Standard Financial Information Structure (SFIS) compliance and Contract Line Item Number (CLIN)/ Sub Line Item Number (SLIN) level prevalidation. In accordance with the National Defense Appropriation Act of 2005, the BTA in coordination with the Financial Management Investment Review Board will ensure these



systems comply with the architecture. We appreciate the opportunity to respond to your draft audit report. My point of contact is Ms. Kimberly Pisall, who can be contacted by telephone at 703-607-3333 or e-mail at kimberly.pisall@bta.mil.


Paul A. Brinkley
Deputy Under Secretary of Defense for
Business Transformation

Department of Army Comments



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
FINANCIAL MANAGEMENT AND COMPTROLLER
100 ARMY PENTAGON
WASHINGTON DC 20310-0100

DEC 01 2006

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCIAL AUDITING SERVICE,
400 ARMY NAVY DRIVE, ARLINGTON, VA 22202-4704

SUBJECT: Report on Controls Over the Prevalidation of DoD Commercial Payments
(Project No. D2005-D000FI-0164.000)

1. References:

- a. Your memorandum, dated September 11, 2006, enclosed.
 - b. Defense Finance and Accounting Service memorandum, dated November 9, 2006, enclosed.
2. We met with the DFAS-Indianapolis staff and discussed their approach to improve controls over the prevalidation of DoD commercial payments. We concur with the DFAS plan, as presented in the attached response. The DFAS-Indianapolis staff will take the lead and we will work closely with them to ensure all tasks are addressed.
3. The point of contact for this action is Jerry W. Bogle, (703) 693-2773.


John J. Argodale
Deputy Assistant Secretary of the Army
(Financial Operations)

Enclosures



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
OFFICE OF THE PROGRAM EXECUTIVE OFFICER
ENTERPRISE INFORMATION SYSTEMS
(PEO EIS)
9350 HALL ROAD, SUITE 141
FORT BELVOIR, VIRGINIA 22060-5526

SFAE-PS

25 October 2006

MEMORANDUM FOR Deputy Inspector General for Auditing, ATTN: Mr. Carmelo G. Ventimiglia, 400 Army Navy Drive, Arlington, Virginia 22202-4704

SUBJECT: Report on Control Over Prevalidation of DoD Commercial Payments (Project No. D2005-D000FI0164)

1. Enclosed is the Program Executive Office, Enterprise Information Systems (PEO EIS) reply to the subject draft report. PEO EIS concurs with the recommendation in this report; comments from PM Logistics Modernization Program regarding corrective action is enclosed.
2. If you have any questions, please contact Ms. Victoria J. Wise DSN 656-3627, commercial 703-806-3627 or via email at victoria.wise@us.army.mil.

Encl


KEVIN CARROLL
Program Executive Officer

SFAE-PS-A

SUBJECT: Comments to Draft DoD Inspector General Report: Report on Controls Over the Prevalidation of DoD Commercial Payments Project Number D 2005-D000FI-0164

1. PEO EIS has reviewed the DoD Inspector General draft audit and concurs with the recommendation B2, page 38.
2. We have staffed the draft report with Project Manager, Logistics Modernization Program and provide the following assessment and path forward to comply with the recommendation.
3. PM LMP will work with Deputy Director for Operations, Defense Finance and Accounting Service (DFAS) and the Army Audit Agency (AAA) to develop the appropriate functionality and interfaces to support the prevalidation of DoD commercial payments as identified in this audit.
4. PM LMP will continue to work with DFAS and AAA to access the Federal Financial Management System Requirements (FFMSR) and appropriately apply those requirements that specifically deal with Controls over the Prevalidation of DoD Commercial Payments in future FFMIA attestations. The following is provided as historical information:
 - a. The Federal Financial Management System Requirements (FFMSR) specifies that core financial systems must have an automated obligation matching (internal prevalidation) function.
 - b. The core financial system for the AWCF, LMP was developed without including an internal prevalidation function because DFAS was developing the Defense Joint Accounting System (DJAS) which was a modern accounting system having this functionality.
 - c. LMP does have the system capability to perform prevalidation process within its system functionality; however, the decision was made not to use this functionality based on DJAS development.
 - d. PM LMP has coordinated with AAA (Ms. Anita Bales) and DFAS (Ms. Noreen Poorman) and their respective offices are in agreement with PM LMP that the FFMIA Blue Book requirements which cover Prevalidation of DoD Commercial Payments are Not Applicable (N/A) to the current FFMIA attestation for LMP.
5. Recommended Next Steps:

a. PM LMP, in conjunction with DFAS and assistance from AAA, will determine and define the requirement(s) that will be applicable for Controls over the Prevalidation of DoD Commercial Payments.

b. PEO EIS/PM LMP in coordination with DFAS will determine if an interface is appropriate and/or determine if the full functionality of prevalidation and entitlement be subsumed by LMP.

c. PM LMP will develop a short term and a long term strategy that would, in the end, encompass LMP subsuming all functionality associated with prevalidation & entitlement system(s) for AWCf. Bottom line is there should NOT be two systems doing prevalidation.

d. PM LMP has included the requirement for Controls over the Prevalidation of DoD Commercial Payments in PM LMP Calendar Year (CY) 2007 requirements and prioritized as an FFMI requirement.

e. PEO EIS has received an email concurrence on the recommendation in this audit from the AMC G3/G8.

Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE

8899 EAST 56 TH STREET
INDIANAPOLIS, INDIANA 46249

NOV 09 2006

DFAS-JJN/IN

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCIAL AUDITING SERVICE

SUBJECT: DFAS Response to the DoD IG Draft Report Project No. D2005-D000FI-0164.000, "Controls of the Prevalidation of DoD Commercial Payments," dated September 11, 2006

Attached are management comments to Recommendations A.3 (a) through (e), A.4 (a) through (d), B.3 (a) through (e), C.1, and C.2. of the subject draft report.

Questions your staff may have concerning these matters may be directed to Beth Winsor at 614-693-8340.

Edna J. Knight
Deputy Director, Standards
and Compliance

Attachment:
As stated

**DFAS comments on DoD IG draft report, "Controls over the Prevalidation of DoD
Commercial Payments" Project No. D2005-D000FI-0164.000, dated
September 11, 2006**

**A.3: We recommend that the Deputy Director for Operations, Defense Finance and
Accounting Service, in conjunction with the Assistant Secretaries for Financial
Management and Comptroller of the Military Departments:**

Action Plan A: Identify the data fields required by each Military Department to properly prevalidate and post disbursement transactions in the official accounting systems, and develop edit checks within the Mechanization of Contract Administrative Services (MOCAS) system and the Elimination of Unmatched Disbursement system that would require complete information in those data fields before attempting prevalidation.

Management Comments: Concur. The data fields required properly prevalidate and post disbursement transactions will be identified to the service specific Enterprise Resource Planning (ERPs) systems to ensure future systems require complete information for prevalidation with MOCAS. In the interim, Contract Pay has been working with the Army and Navy networks to improve the prevalidation process. Contract Pay established a process in August 2006 to capture the Standard Document Number (SDN) within the Standard Operations Maintenance Army Research Development System (SOMARDS) accounting system and back populate MOCAS. This provided the ability to pass the SDN on the prevalidation and disbursement transaction to the SOMARDS accounting system. As this is a necessary data field, Contract Pay has been working with the Army to ensure the SDN is captured. Similarly, the prevalidation process for Navy working capital fund lines of accounting was manual. However, the prevalidation process was automated for all Defense Industrial Fund Management System (DIFMS) Navy working capital fund sites in the summer of 2006, thereby assisting in the effort to reduce the number of rejects. A meeting was conducted at DFAS Indianapolis on October 26, 2006, to identify the requirements to automate the Standard Army Finance Information System (STANFINS) prevalidation process and review the edits required in SOMARDS to post disbursement transactions. In addition to personnel from DFAS Indianapolis, personnel with experience in STANFINS and SOMARDS from DFAS St. Louis and DFAS Columbus were also in attendance. A plan of action and milestones (POAM) will be developed based on the outcome of the October 26, 2006, meeting in Indianapolis. The Estimated Completion Date (ECD) for validating development and completeness of the POAM is January 15, 2007. It should also be noted that the DFAS has initiated the implementation of the Enterprise Risk Management (ERM) Business Activity Monitoring (BAM) tool that will perform the edit checks required to ensure that complete information is available before attempting to prevalidate contract and vendor payments.

The BAM functionality for prevalidation will be utilized with the current and future systems.

Estimated Completion Date: February 01, 2008

Action Plan B: Require that payment requests and entitlement records contain all necessary information before prevalidating payments requests.

Management Comments: Partially Concur. A plan of action and milestones will be completed by January 15, 2007, to address conditions when there is a mismatch between the information required on the invoice by the accounting systems and the information required on the invoice by the contract. The draft audit report identified missing data elements, such as the Accounting Classification Reference Number (ACRN) or Contract Line Item Number (CLIN)/Subline Item Number (SLIN) information. The report also stated that DFAS Columbus did not entitle all information provided on payment requests and in associated contracts. However, MOCAS did entitle all information required by the contract; but the accounting systems require data that is not contractually required on the invoice. CLINs are not always contractually required. For example, transportation charges and discounts do not require CLIN information. Also, contract financing payments are not CLIN specific. The prevalidation module is part of our internal control processes and serves as another mechanism in identifying payment discrepancies. This is an additional step in the process to ensure accurate payments.

Estimated Completion Date: February 01, 2007

Action Plan C: Use a single source data file to record identical obligation data in both the entitlement and accounting systems. In the interim:

(1): Develop and provide to funds managers an automated report that identifies out-of-balance obligation data between the Mechanization of Contract Administrative Services system and corresponding accounting systems for each accounting classification reference number and contract line item number/sub-line item number.

(2): Develop control procedures to monitor, reconcile, and correct differences between the systems.

Management Comments: Partially Concur: DFAS believes there should be one obligation that feeds from the entitlement system into the accounting system and will work with the ERPs to develop this process. Under the Accounting High Performing

Organization (HPO) concept, the accounts payable function is responsible for ensuring the obligations and receipts are updated, therefore the accounting system should be updated by the entitlement system. In the interim, implementation of the Business Activity Monitoring tool will assist in reconciling and correcting differences between entitlement and accounting systems.

In interim, over the past year a report containing new obligation data posted to MOCAS is provided weekly to Air Force Material Command and NAVAIR. This report is used by the customers to identify inconsistencies between MOCAS and the various accounting systems. This same information is provided on an "as requested basis" to other customers. To correct differences between the SOMARDS accounting system and MOCAS, the SDN is pulled from the accounting systems through Standard Contract Reconciliation Tool (SCRT) and populated in MOCAS when data is required.

DFAS Charleston provides a direct Standard Accounting and reporting System (STARS) file to the DFAS Columbus SCRT for the purpose of reconciling Navy obligation and expenditure records with valid MOCAS contract numbers. Problems currently exist with this interface. A project to address these problems by providing a new file of STARS obligation and expenditure records to the SCRT for processing has been initiated and is currently being tested.

DFAS agrees a reconciliation process would be beneficial, and a process has been addressed in the DFAS Financial Improvement Audit Readiness (FIAR) plan. In addition, a working group has been established to develop a plan to reconcile MOCAS to the accounting systems. The first meeting was held October 2, 2006. As workload transfers to the Acquisition Center of Excellence (DFAS Columbus), systems will be reviewed to develop automated reports which identify out of balance situations between entitlement and accounting systems. The estimated completion date for the last workload transfer is June 30, 2008.

Estimated Completion Date: July 1, 2008

Action Plan D: Identify the DoD organizations that do not record obligations in the accounting systems within 10 days, and provide status reports to the Assistant Secretaries for Financial Management and Comptroller of the Military Departments.

Management Comments: Partially Concur. DFAS does not have immediate visibility over obligating documents to meet the 10 day rule and often does not know an obligation was not loaded into the accounting system until an invoice is received for payment. Although a reconciliation process as discussed in Recommendation A.3.c would identify

some of the missing obligations, it would not be all inclusive. To adequately resolve the issue of late obligations in the accounting systems, contract writing systems must feed the accounting systems. As discussed, we do agree that providing information to the Military Departments would be beneficial and we will take this action as stated. However, efforts to address the larger issue will require the actions of the Office of the Secretary of Defense (OSD) and the Business Transformation Agency (BTA), the office responsible for future information infrastructure for DoD system development.

DFAS has a limited capability of implementing this recommendation, but we do concur with providing information that is available. We will begin performing root cause analyses, and as root causes are identified, we will provide this information to Military Departments if it is determined that funds are not being obligated in a timely manner. Processes will be established no later than January 31, 2007, to perform root cause analyses and recommend feasible solutions. The ECD for verifying implementation of corrective actions is March 15, 2007.

Estimated Completion Date: March 15, 2007

Action Plan E: Identify and correct system limitations that prevent the interim, off-line databases used for prevalidation from maintaining accurate obligation data, and modify procedures and interfaces to ensure that all transactions affecting obligation balances are used to update obligation data in the:

(1): Financial Accounting Data Abstract (FADA) file used by the Department of the Navy

Management Comments: Concur: The ACCESS Database that DFAS Charleston uses for prevalidation does not contain obligation data, nor does it affect the accuracy and timeliness of data that updates the FADA file. The DFAS does not load Department of the Navy obligation data and cannot systemically ensure that all obligations have been timely added to the accounting system. However, DFAS Cleveland does concur in principal that obligation data used to update the FADA files used for Department of the Navy prevalidation is to be current and include all obligations known to the accounting system. To that end, DFAS Cleveland accounting systems have established automated daily accounting feeds to both the One Pay and MOCAS FADAs to ensure that obligation data presented by the FADAs is current.

Completion Date: Closed

(2): Off-line database used by Defense Finance and Accounting Service St. Louis.

Management Comments: Concur. The DFAS St. Louis systems office is attempting to fix the problem by implementing a past process that would help to correct system limitations that prevent the interim, off-line databases used for prevalidation from maintaining accurate obligation data. The process would re-establish records in the Accounting PreValidation Module (APVM) with current data in Commodity Command Standard System (CCSS), SOMARDS and possibly Logistics Modernization Program (LMP), in an effort to maintain accurate obligation data. In addition, we will modify procedures and interfaces to ensure that all transactions affecting obligation balance are used to update obligation data in the off-line database.

Estimated Completion Date: April 1, 2007

A.4: We recommend that the Deputy Director for Operations, Defense Finance and Accounting Service:

Action Plan A: Establish the prevalidation process as a separate assessable unit within the DoD disbursement cycle.

Management Comments: Concur: The Director for Operations initiative to standardize assessable units at all sites will ensure the prevalidation process will be a subset of the overall accounts payable assessable unit. Special emphasis will be placed on this area because of the high visibility and impact on the overall operational accuracy of posting disbursements. The HPO initiative also establishes prevalidation as separate section.

Estimated Completion Date: May 01, 2007

Action Plan B: Require lead technicians to perform the functions of certifying officials and review all contract payments for accuracy and completeness before submitting entitlement records for prevalidation.

Management Comments: Non Concur: The DoD Financial Management Regulation, Volume 5, Chapter 33, Section 330303 "Certifying Officer," states in part, "...Certifying officers are responsible for the ...legality of a proposed payment under the appropriation or fund involved..." Prevalidation, in part, forms the basis for making such determination. To request that certifying officials certify payments prior to prevalidation would require duplication of effort. Contract Pay recognizes the need for improving the accuracy and completeness of contract payments. In an effort to improve the quality of

the manual transactions, Contract Pay conducts a higher level review of proposed contract payments. These reviews are performed by the financial analysts and branch chiefs prior to the invoice flowing to prevalidation. This is yet another control in facilitating an improved payment process. Having leads perform these identical reviews or to perform the review required by certifying officials would result in a duplication of effort which is not cost effective.

Estimated Completion Date: None

Action Plan C: Use data mining tools to track and analyze the root causes of recurring errors identified in the prevalidation process, identify recurring causes, and develop corrective actions to prevent future occurrence. At a minimum, the Defense Finance and Accounting Service should periodically conduct root cause analyses on:

- (1): Denied prevalidation requests.
- (2): Canceled prevalidation requests.
- (3): Disbursements that require manual intervention to post to the accounting system.
- (4): Disbursements that require accounting adjustments.

Management Comments: Concur: Action was initiated in FY 2006 to procure Business Activity Monitoring (BAM) capabilities which include prevalidation capabilities for contract and vendor payments. The BAM functionality for prevalidation will be utilized with the current and future systems and assist in performing root cause analysis on errors detected in the prevalidation process. In addition, processes will be established in Columbus to perform root cause analyses and recommend feasible solutions. Root causes will be documented and training provided during monthly all-hands meetings where appropriate. Also, as a result of the analyses, where necessary, additional controls will be implemented and applicable goals added to the Federal Managers' Financial Integrity Act (FMFIA) matrix.

Estimated Completion Date: July 01, 2007

Action Plan D: Develop the functionality in accounting systems to reverse the previously recorded Accrued Expenditures Unpaid and Accounts Payable accounting entries when the Elimination of Unmatched Disbursements system cancels a prevalidation request that has already been approved.

Management Comments: Concur: We have confirmed that all accounting systems that use the Elimination of Unmatched Disbursements (EUD) system have the functionality to reverse a previously recorded Accrued Expenditures Unpaid and Accounts Payable accounting entry upon receipt of a canceled prevalidation request except the Army Logistics Modernization Program (LMP). The DFAS will communicate this requirement to the Army LMP Program Director.

Estimated Completion Date: February 1, 2007

B.3: We recommend that the Director, Defense Finance and Accounting Service St. Louis implement internal controls to ensure that prevalidation requests are properly matched to corresponding obligations and funds are reserved in official accounting records by:

Action Plan A: Using the Delivered Orders – Obligations Unpaid account when prevalidating payments in the Logistics Modernization Program.

Management Comments: Concur. DFAS will coordinate and work with the Army LMP Program Director to ensure that prevalidation requirements are implemented in the LMP system. The implementation of prevalidation in LMP will require major configuration changes to the core R/3 operating environment. We have already communicated the audit findings to the LMP Program Management Office and were informed they are preparing an appropriate response. DFAS will assist in the establishment, development, testing and implementation.

Estimated Completion Date: February 1, 2007

Action Plan B: Establishing edit checks that would:

(1): Identify shipments for which the Logistics Modernization Program system has not recorded a Delivered Orders-Obligations Unpaid account upon receipt of the goods and services.

Management Comments: Concur. See response to action item B.3.A.

Estimated Completion Date: February 1, 2007

(2): Prevent prevalidation approvals until the appropriate entries are made to the Delivered Orders-Obligations Unpaid account, and Federal or Public Accounts Payable accounts.

Management Comments: Concur. See response to action item B.3.A.

Estimated Completion Date: February 1, 2007

(3): Establish business rules for how to resolve receipt and acceptance transactions that have not been recorded for requests for payment.

Management Comments: Concur. See response to action item B.3.A.

Estimated Completion Date: February 1, 2007

Action Plan C: Recording the entries to the Accounts Payable account and the Delivered Orders – Unpaid Obligations account before prevalidation approval.

Management Comments: Concur. See response to action item B.3.A.

Estimated Completion Date: February 1, 2007

Action Plan D: Reporting all “ZK” transactions as unmatched disbursements until the transactions post to corresponding detail obligations.

Management Comments: Non-Concur. The LMP system is processing disbursements and creating obligations for ZK transactions in the manner in which the system was programmed and approved by the Army. The obligations are established to cover the disbursements processed against Army funds managed in the LMP system. The DoDFMR Volume 3, Chapter 11, paragraph 110301 states that when a disbursement is recorded in the accounting system but not matched to an obligation, the disbursement shall be recorded as a UMD. The LMP system was programmed to create an obligation and reserve the Army Command’s funding for that disbursement to ensure obligations are recorded for disbursements made. The transactions are later researched and validated by Army and DFAS staff.

Estimated Completion Date: None

Action Plan E: Performing root cause analysis on "ZK" transactions to determine why they occur and the appropriate corrective action needed.

Management Comments: Concur. St. Louis staff will perform root cause analysis to determine why ZK transactions occur and also work with Standards and Compliance to utilize the Business Activity Monitoring technology to assist in the root cause analysis of these transactions.

Estimated Completion Date: January 01, 2008

C.1: We recommend that the Deputy Director of Operations, Defense Finance and Accounting Service: direct field locations to cease making vendor payments unless technicians receive positive confirmation from the accounting stations that obligations exist in the official accounting records that correspond with the payment requests.

Management Comments: Concur: All field sites have been directed, and internal controls put in place to ensure no disbursement that requires prevalidation is made without acknowledgement and approval from the accounting station.

Completion Date: Closed.

C.2: We recommend that the Deputy Director of Operations, Defense Finance and Accounting Service: rescind local policies and procedures that do not comply with the standard prevalidation procedures in the DoD Financial Management Regulation and Defense Finance and Accounting Service Instruction 7000.7-I.

Management Comments: Concur. All local policies and procedures have been rescinded. No payments will be made without acknowledgement and approval of the prevalidation request.

Estimated Completion Date: Closed

Possible Material Weakness:

The DoD IG identified the following material internal control weaknesses:

- Inadequate supervisory reviews
- Inadequate system edits
- Inadequate/local policies and procedures
- Lack of reconciliations
- Lack of interfaces

DFAS Position/Actions: Inadequate policies and procedures are addressed in recommendation C 2 and will be enhanced with Standard Operating Procedures that are currently being written and cover all accounts payable. While the lack of interfaces and system edits will be addressed with the ERPs, use of the Business Activity Monitoring (BAM) tool and interim systemic initiatives will improve the processes in the short term. Lack of reconciliations is included in the Financial Improvement and Audit Readiness plan tasks and included in the BAM scope. Any other reportable conditions, control deficiencies and/or material weaknesses will be identified through the Annual Statement of Assurance Process.

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