

Inspector General

United States
Department of Defense



Accuracy of Mechanization
of Contract Administration
Services Accounts Payable Information

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Acronyms and Abbreviations

DCMA	Defense Contract Management Agency
DFAS	Defense Finance and Accounting Service
DFARS	Defense Federal Acquisition Regulation Supplement
DLAM	Defense Logistics Agency Manual
MILDEP	Military Department
MOCAS	Mechanization of Contract Administration Services
USD(AT&L)	Under Secretary of Defense for Acquisition, Technology, and Logistics
WAWF	Wide Area Workflow



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

August 14, 2008

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

SUBJECT: Accuracy of Mechanization of Contract Administration Services Accounts Payable
Information (Report No. D-2008-117)

We are providing this report for review and comment. We considered comments on a draft of this report from the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics, Defense Contract Management Agency, and Defense Finance and Accounting Service when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The comments from Under Secretary of Defense for Acquisition, Technology, and Logistics, Defense Contract Management Agency, and Defense Finance and Accounting Service, Columbus were only partially responsive. Therefore, we request additional comments on Recommendations A.1.c., B.1.a., B.1.b., B.2.c.1., B.2.c.2. and B.3.a. by September 14, 2008.

Please provide comments that conform to the requirements of DoD Directive 7650.3. If possible, send your comments in electronic format (Adobe Acrobat file only) to Audcolu@dodig.mil. Copies of your comments must have the actual signature of the authorizing official for your organization. We are unable to accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to Mr. Jim Kornides at (614) 751-1400, ext. 211 or Mr. Mark Starinsky at (614) 751-1400, ext. 231. The team members are listed inside the back cover.

Patricia A. Marsh
Patricia A. Marsh, CPA
Assistant Inspector General
Defense Financial Auditing Service



Results in Brief: Accuracy of Mechanization of Contract Administration Services Accounts Payable Information

What We Did

We assessed whether Defense Finance and Accounting Service (DFAS) Columbus collected accurate and timely accounts payable data in the Unmatched Detail Report for March 31, 2007 (742 Report) that it maintains in the Mechanization of Contract Administration Services (MOCAS) system. We reviewed the internal controls as related to the audit objective and assessed DFAS Columbus' compliance with the Prompt Payment Act. The DFAS Columbus 742 Report contained \$3 billion in accounts payable incurred by the Military Departments. We limited the scope of the audit to data contained in the 742 Report.

What We Found

DFAS Columbus did not properly identify and value the Military Department accounts payable balances reported in its 742 Report. Specifically, DFAS Columbus:

- inaccurately reported 73 percent of the \$3 billion 742 Report accounts payable balance, with \$2.1 billion overstated and \$0.1 billion understated and
- did not include at least \$453.9 million of valid accounts payable in the DoD accounts payable balance.

The Defense Contract Management Agency (DCMA) offices, DFAS Columbus, and the buying activities did not always enter shipment and acceptance data into MOCAS accurately or in a timely manner.

Contractors did not always prepare or distribute the receiving report correctly or in a timely manner.

What We Recommend

DFAS Columbus needs to review and correct Military Department accounts payable balances so that reported accounts payable are valid and accurate. They also need to develop guidance to increase the accuracy of receiving report entry into MOCAS.

The Under Secretary of Defense for Acquisition, Technology, and Logistics needs to ensure that the buying activities follow Federal and contractual requirements for completing receiving reports.

DCMA needs to ensure that the DCMA accepting officials follow Federal and contractual requirements for completing receiving reports, revise the DCMA Guidebook to increase the timeliness of the receiving report preparation process, and develop a proposal so that contractors can submit corrected receiving reports through Wide Area Workflow.

Client Comments and Our Response

The Director, Defense Procurement, Acquisition Policy and Strategic Sourcing concurred with the recommendations. However, the comments did not address our recommendation to develop policy for receiving officials or assign responsibility for shipment date accuracy.

The Director, DCMA partially concurred with the recommendations. The Director did not concur with the recommendation that contractors prepare receiving reports before shipment and he did not adequately address how DCMA would ensure the correct acceptance date was entered. We revised our recommendation to clarify our intention.

The Director, DFAS Columbus partially concurred with the recommendations. The Director stated that a "proper" DD250 is one that is free from material defects and that the corrected copy is the "proper" DD250. We disagree with the Director's comments that acceptance cannot occur before DFAS receives a corrected DD250.

We request additional comments to clarify these positions by September 14, 2008. Please see the recommendations table on the back of this page.

Recommendations Table

Client	Recommendations Requiring Comment	No Additional Comments Required
Under Secretary of Defense for Acquisition, Technology, and Logistics	B.1.a., B.1.b.	
Defense Contract Management Agency	B.2.c.1., B.2.c.2.	B.2.a., B.2.b.
Defense Finance and Accounting Service, Columbus	A.1.c., B.3.	A.1.a., A.1.b., A.1.d.

Please provide comments by September 14, 2008.

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Introduction

Objectives

Our audit objective was to assess whether the Mechanization of Contract Administration Services (MOCAS) system contains accurate and timely accounts payable information. We also reviewed the internal control program as it related to the overall objective and assessed compliance with the Prompt Payment Act¹ as it related to the accounts payable information. See Appendix A for a discussion of the scope and methodology and prior coverage related to the objectives.

Background

The Defense Finance and Accounting Service (DFAS) Columbus and the Defense Contract Management Agency (DCMA) use MOCAS to administer and pay more than 317,000 contracts annually. DFAS Columbus uses information from MOCAS to create four general reports of accounts payable. It then combines the reports and makes the balances available to the applicable DFAS reporting entity for the Military Departments (MILDEPs).

This audit focuses only on one of those reports, the Unmatched Detail Report, called the 742 Report. In this report are the accounts payable balances for goods or services accepted within the last 6 months that are not matched to a contractor invoice. In most instances, DFAS Columbus derives the accounts payable balance on the 742 Report by taking the number of units accepted and multiplying it by the unit price. As of March 31, 2007, the 742 Report included \$3 billion in accounts payable for the MILDEPs.

The MILDEPs reported a total accounts payable balance of about \$18 billion as of March 31, 2007. DFAS Columbus records indicated that \$7.1 billion of the \$18 billion reported was derived from information contained in MOCAS. Approximately \$3 billion of the \$7.1 billion was for goods or services accepted by DoD, but that DFAS had not yet matched to an invoice from the contractor.

This audit was performed in support of Public Law 101-576, the “Chief Financial Officers Act of 1990,” November 15, 1990, as amended by Public Law 103-356, the “Federal Financial Management Act of 1994,” October 13, 1994. Other criteria include the Statement of Federal Financial Accounting Standards (SFFAS) No. 1, “Accounting for Selected Assets and Liabilities,” March 30, 1993, and SFFAS No. 5, “Accounting for Liabilities of the Federal Government,” September 1995.

SFFAS No. 1 provides that accounts payable include amounts owed by a federal entity for goods and services received from other entities. The Standard requires an entity to

¹ Title 31 United States Code § 3901 (31 U.S.C. 3901).

recognize a liability for unpaid goods when it accepts title to the goods, whether the goods are delivered or in transit. SFFAS No. 5 states that general purpose Federal financial reports should recognize probable and measurable future outflows or other sacrifices of resources arising from past exchange transactions.

Review of Internal Controls

We identified material internal control weaknesses at DCMA and DFAS Columbus as defined by DoD Instruction 5010.40, “Managers’ Internal Control (MIC) Program Procedures,” January 4, 2006. DFAS Columbus did not have adequate internal controls in place for monitoring or reviewing the contents of the 742 Report. DCMA, DFAS Columbus, and the buying activities did not have adequate internal controls in place to ensure that shipment and acceptance data were input accurately and in a timely manner. DCMA did not have internal controls in place to ensure that contractors distribute receiving reports in a timely manner. In addition, DFAS Columbus did not have controls in place to identify all instances for which it owed the contractor Prompt Payment interest.

Implementing Recommendations A.1., B.1., B.2.a., B.2.b., and B.3. will improve the DCMA and DFAS Columbus internal control procedures and result in improved reporting of accounts payable. A copy of the final report will be provided to the senior official responsible for internal controls in DCMA and in DFAS Columbus for compliance followup.

Finding A. The Valuation and Existence of Data in the 742 Accounts Payable Report

DFAS Columbus did not properly value accounts payable that it included on the 742 Report and also included accounts payable that were not valid. This occurred because DFAS Columbus did not have a process in place to monitor the valuation and existence of the data used to compile the report. Specifically, DFAS Columbus:

- did not reduce the accounts payable balances to account for financing payments made before the final delivery of the item,
- included shipments that would never be paid through the MOCAS system,
- designed a system that does not value partial shipments correctly, and
- did not enter vital contract modifications in a timely manner.

As a result, DFAS Columbus inaccurately reported at least 73 percent of the \$3 billion 742 Report accounts payable balance, with \$2.1 billion in overstated payables and \$0.1 billion understated. The MILDEPs will not be able to rely on the 742 Report for financial statement purposes until DFAS implements controls to ensure that all valid accounts payable balances are included and are valued correctly. During the audit, DFAS began taking corrective action to improve its processes.

742 Report Audit Sample and Analysis of Paid Invoices

To determine the accuracy of the 742 Accounts Payable Report, the audit included judgmental sampling techniques and an analysis of paid invoices. We used judgmental sampling to assess the valuation of amounts that DFAS reported and the reasons for inaccuracies, and we used an analysis of paid invoices to assess the remaining shipments' existence and valuation in the 742 Report as of March 31, 2007. See Appendix A for additional detail on the judgmental sample.

The 742 Report contained 58,846 shipments. We judgmentally tested 171 of them to determine if their accounts payable balances were valid and accurate as of March 31, 2007. In addition, we determined the reasons for the inaccuracies. The shipments totaled \$1.8 billion (60 percent) of the \$3 billion reported in the 742 Report.

Based on the results of the judgmental sample, we used DFAS payment data to assess the existence and valuation of the remaining 58,675 shipments on the March 2007 742 Report. Specifically, we compared the 742 Report balances with the DFAS Columbus paid invoice file from April 1, 2007, through September 1, 2007. We used the payment amounts to determine if DFAS Columbus correctly valued the accounts payable balances. We did not attempt to determine the reasons for differences between the 742 Report payable amounts and the paid amounts.

Valuation and Existence of Accounts Payable

DFAS Columbus did not correctly value the goods or services that contractors had delivered or provided to DoD for which DFAS had not received an invoice. Further, DFAS included shipment values that were not valid or could not be determined in the valid accounts payable balances. Overall, for the 58,846 shipments that DFAS included in the March 2007 742 Report, the data showed that DFAS correctly reported an accurate accounts payable for only 3,237 shipments. Table 1 shows how many shipments DFAS either valued correctly or incorrectly or where it included accounts payable that were not valid or were undeterminable.

Table 1. 742 Report Judgmental Sample and Payment Analysis

Results	Judgmental Sample	Paid Invoice Analysis	Total
Correct	12	3,225	3,237
Valued Incorrectly	69	3,607	3,676
Not Valid	48	1,368	1,416
Undeterminable	42	50,475	50,517
Total	171	58,675	58,846

For 117 (69 plus 48) of the 171 sample shipments, the DFAS-reported accounts payable balance was either inaccurate or not valid. An analysis of paid invoices showed that 4,975 (3,607 plus 1,368) shipment values were inaccurate or not valid. Incorrect or invalid amounts were recorded by DFAS personnel, and DFAS Columbus did not detect them because it did not perform any testing on the transactions that made up the 742 Report balance. In total, 42,715 (73 percent) of 58,846 shipments had a reported dollar value of zero. DFAS did not perform research to determine whether these shipments were goods and services received with a dollar value other than zero. We noted 772 shipments assigned a zero balance on the 742 Report for which DFAS Columbus subsequently paid a total of \$72 million.

We identified 42 sample shipments as undeterminable because adequate records were not available to support the 742 Report accounts payable balances. The sample shipments lacked cost records, and DFAS had not paid for the shipments when we concluded our fieldwork. We also identified, through an analysis of paid invoices, that an additional 50,475 shipments that DFAS had not paid as of September 30, 2007, were undeterminable.

As part of the judgmental sample, we examined the top 30 high-dollar accounts payable on the 742 Report. The dollar value of the top 30 shipments represented more than half of the reported amount for all 58,846 shipments. The data showed that DFAS significantly misstated these balances. For example, the largest payable balance on the report was \$630 million. The supporting documentation for this balance showed the account payable was valued at no more than \$40,000. The contractor had not been paid for the shipment as of September 30, 2007. The abnormally high-dollar value of this one

shipment would have raised concern from DFAS Columbus personnel had they had procedures to review and monitor the report.

Assigning an Accounts Payable Value to Shipments

In most instances, DFAS Columbus derived the accounts payable balance on the 742 Report by taking the number of units accepted and multiplying it by the unit price. DFAS obtains the units accepted from the MOCAS data, which are derived from a DD Form 250, "Material Inspection and Receiving Report" (DD250). See Appendix B for more specifics about this guidance.

The Federal Acquisition Regulation does not require the contractor or DCMA to enter unit prices on the receiving report. To compensate, DFAS normally uses contract records contained in MOCAS to obtain unit prices of accepted goods and services.

The DFAS data showed that DFAS incorrectly valued 69 of the 171 sample shipment accounts payable balances in the 742 Report. We identified three main causes for 48 of the 69 inaccurate accounts payable balances for the shipments. The valuation errors occurred because DFAS Columbus did not reduce the accounts payable balance for the contract financing payments it had already made. In addition, DFAS did not enter contract modifications in a timely or accurate manner or properly calculate the payable balance for receipt of partial shipments. The remaining 21 shipments were incorrectly valued for reasons specific to a shipment, or the data were unavailable for us to determine why.

Our analysis of paid invoices showed that DFAS also incorrectly valued at least 3,607 other shipment payable balances. We did not attempt to identify the underlying causes for the 3,607 shipments that our analysis of payment data showed were incorrectly valued.

Contract Financing Payments Associated With the Shipment

DFAS Columbus incorrectly valued 21 shipments on the 742 Report because it did not reduce the reported account payable for contract financing payments already made for the delivered item. For these shipments, DFAS Columbus had paid the contractor at least 80 percent of the unit price. DFAS, therefore, significantly overstated the payable amount when it included the total unit price of the shipment in the 742 Report. DFAS Columbus should have considered the prior payments when estimating the accounts payable balance.

For example, DFAS Columbus reported an accounts payable balance of \$10.8 million for one shipment, even though it had already paid \$9.8 million to the contractor. DFAS Columbus should have only reported the unpaid amount of \$1 million as the accounts payable balance for this shipment.

Had procedures been in place to review and monitor the 742 Report, DFAS Columbus would have realized that contract financing payments were not taken into account. The 742 Report includes a field specifically for contract financing payments made; however,

the March 2007 report always contained a zero dollar value. A DFAS review of the 742 Report would have most likely detected this oversight.

We discussed this issue with DFAS Columbus personnel during the course of the audit, and they agreed that these shipments were overstated. They planned to develop an estimate that would remove prior contract financing payments from the accounts payable balances.

Contract Modifications

DFAS Columbus did not enter contract modifications into MOCAS accurately or in a timely manner. This directly resulted in DFAS inaccurately valuing 18 shipments. DFAS either entered the unit price incorrectly or it did not input in a timely manner a modification to increase contract quantity. In four instances, MOCAS reported a zero dollar accounts payable balance because information contained in the system indicated that the shipments were not authorized. The information was incorrect.

Partial Shipments

DFAS Columbus did not correctly value nine shipments that were designated as partial deliveries on the receiving report. DFAS either overstated the payable by valuing it at the entire delivery price (two instances observed) or reported zero as an accounts payable balance because MOCAS indicated that the quantity shipped was zero. The misstatements occurred because DFAS did not design the 742 Report to accurately value partial deliveries. For partial deliveries, DFAS should establish procedures to obtain better valuation data, such as obtaining the dollar value on the receiving report, if one is available.

We discussed this issue with DFAS Columbus personnel during the course of the audit. They agreed that the shipments were not valued correctly and that they would develop an estimation method to accurately value these payables.

Including Only Valid Accounts Payable

The March 2007 742 Report contained 1,416 shipments that were not valid accounts payable. DFAS should not have included these shipments because they were either already paid (13), were not MOCAS contracts (15), or had DCMA Notices of Completion and were never intended for payment (1,388). Of the 1,416 shipments that were not valid accounts payable, we identified 48 shipments through our judgmental sample and identified the remaining 1,368 through our analysis of MOCAS payment records.

Shipments That DFAS Already Paid

DFAS Columbus inappropriately included 13 shipments as accounts payable that it had already paid. Five of those shipments had a zero dollar value on the 742 Report and no misstatement occurred. DFAS personnel entered the remaining eight shipments into MOCAS incorrectly and never removed them even though they had already paid them.

Shipments for a Non-MOCAS Contract

DFAS included 15 shipments for one contract that it had transferred to a different payment system. DFAS should not have included those shipments on the 742 accounts payable balance because the 742 Report is only for MOCAS payables.

DCMA Notices of Completion as Accounts Payable

In preparing the 742 Report, DFAS Columbus inappropriately included Notice of Completion data entered by DCMA contracting officers. The Notices of Completion are not intended to signify government acceptance. DCMA uses them solely to track the progress and completion of certain items in MOCAS. The only way for MOCAS to process the Notices of Completion is to use a unique shipment number and process them as source acceptances if they were actual DD250s. DCMA identifies Notices of Completion by a shipment number beginning with “YYY.”

The 742 Report included payable balances for these shipments; specifically, 20 of our sample shipments and 1,368 identified through our analysis of paid invoices. DFAS Columbus should establish procedures so that acceptance data with shipment numbers beginning with YYY are not included in the 742 Report balance.

We discussed this issue with DFAS Columbus personnel during the course of the audit. They stated that these shipments should not have been included in the accounts payable balance and that they would issue a systems change request to remove these shipments from future accounts payable balances.

Supporting Documentation Not Available for Some Accounts Payable Balances

Detailed records were not available to support accounts payable balances for 42 sample shipments that DFAS included on the March 2007 742 Report, and the payables for these shipments are likely not valid. For example, DFAS Columbus reported a balance of \$14 million for a sample shipment that did not have a price and indicated that it was a partial delivery. We could not verify the reported payable amount because the receiving report lacked unit cost information. DFAS had not paid the shipments as of September 30, 2007, and there were either no receiving reports available or no unit price on the receiving report to allow for valuation.

The 742 Report also included 50,475 shipments that DFAS had not paid as of September 30, 2007. We did not determine why these shipments remained unpaid.

Conclusions

The current MOCAS 742 Report compilation process results in unreliable account payable balances for the MILDEPs. DFAS Columbus inaccurately reported at least 73 percent of the \$3 billion 742 Report accounts payable balance, with \$2.1 billion overstated and \$0.1 billion understated. Until DFAS implements controls to ensure all valid accounts payable balances are included and they are valued correctly, MILDEPs will not be able to rely on the 742 Report for financial statement reporting purposes.

DFAS Columbus documentation supported only \$164 million (5 percent) of the \$3 billion balance. We verified \$164 million of accounts payable through judgmental sampling and an analysis of subsequent MOCAS payment records for the shipments included on the March 2007 742 Report. We determined that the remaining \$2.88 billion of accounts payable (95 percent) was either misstated or not verifiable through payment data. Table 2 provides a summary of the misstatements.

Table 2. Summary of 742 Report Misstatements
(in millions)

Results	Reported 742 Balance	Actual Accounts Payable Balance	Difference (Absolute)
Correct	\$164.0	\$164.0	0
Overstated	2,227.3	116.6	\$2,110.8
Understated	30.0	129.2	99.1
Unverified	626.3	Unknown	Unknown
Total	\$3,047.6	\$409.8	\$2,209.9

DFAS overstated the 742 accounts payable detailed balance by at least \$2.1 billion (69 percent) and understated it by at least \$0.1 billion (3.2 percent) as of March 31, 2007. We were unable to validate \$626.3 million (21 percent) of our judgmental sample and payment analysis because those shipments were not paid as of September 30, 2007. Although some of the reported accounts payable balances could be accurate, they likely were either not valid or misstated.

DFAS needs to take immediate action to improve the accuracy of the 742 Report accounts payable balances and establish procedures to monitor those improvements. Without corrective action, DFAS will continue to calculate inaccurate accounts payable balances for the MILDEPs.

Recommendations, Client Comments, and Our Response

A1. We recommend that the Director, Defense Finance and Accounting Service Columbus take corrective action so that shipments on the 742 Report are valid accounts payable balances and accurately valued. Specifically:

a. Review the high-dollar-value accounts payable balances at least three times a year, including year-end, to ensure they are valid and accurately valued.

Client Comments. The Director, DFAS Columbus concurred with Recommendation A.1.a. The Director stated that DFAS Columbus plans to conduct a review of the Unmatched Detail Report three times a year to ensure all high-dollar accounts payable balances are valid, accurate, and properly recorded in the financial statements.

b. Reduce the accounts payable amount by any contract financing that DFAS has already paid the contractor on the line item.

Client Comments. The Director, DFAS Columbus partially concurred with Recommendation A.1.b. The Director agreed that accounts payable should be reduced to amounts that will actually be paid, as opposed to the entire invoice amount. DFAS Columbus plans to implement a system change request that will estimate the accounts payable using the contract liquidation rate. The estimate will not factor in line item data, but will use all previous contract liquidation information.

Our Response. The Director's comments are responsive.

c. Develop a process to accurately value the accounts payable balance for partial shipments.

Client Comments. The Director, DFAS Columbus concurred with Recommendation A.1.c. The Director stated that a system change request has been initiated to remove one-lot shipments from the 742 Report. To compensate, DFAS Columbus will estimate the accounts payable balances for partial shipments. The estimate will be based on the average one-lot payment by appropriation over the previous 6 months. DFAS plans to apply that amount to the number of one-lot shipments without invoices.

Our Response. The Director's comments were responsive; however, we have concerns that a 6-month average will not be statistically valid. DFAS personnel have indicated that historical data are only available for the previous 6 months. We acknowledge that it might not currently be feasible to estimate beyond 6 months. We request that the Director reconsider the estimation methodology to continue to include keeping more historical data so that a valid statistical projection is possible in the future. We recommend that the Director reconsider her position on this recommendation and provide comments to the final report.

d. Exclude shipments that DFAS has already paid, will not pay through MOCAS, or are Notices of Completion. Notices of Completion can be identified with the shipment number beginning with "YYY."

Client Comments. The Director, DFAS Columbus concurred with Recommendation A.1.d. The Director stated that DFAS personnel have already successfully removed all fabricated shipment numbers beginning with "YYY" from the report.

Finding B. Accuracy and Timeliness of Shipment and Acceptance Data

The DCMA offices, DFAS Columbus, and the buying activities did not always enter shipment and acceptance data into MOCAS accurately or in a timely manner, and Defense contractors did not always prepare or distribute the receiving report correctly or in a timely manner. This occurred for several reasons.

- DCMA did not always follow Federal and internal DCMA guidance related to using and processing receiving reports.
- The DCMA guidance did not have specific instructions to direct the receiving officials to ensure that the contractors followed Federal guidance related to the preparation and distribution of receiving reports.
- The buying activities did not always follow Federal guidance for use of the receiving report to annotate the receipt of goods.
- DFAS Columbus did not have adequate guidance for processing receiving reports.

As a result of the inaccurate and untimely data, DFAS Columbus understated the DoD March 31, 2007, accounts payable balance by at least \$453.9 million. Additionally, there is a risk that DFAS Columbus did not comply with the Prompt Payment Act because it was unable to identify all instances in which DoD owed Defense contractors Prompt Payment interest.

Material Inspection and Receiving Report

Defense contractors, DCMA personnel, and DFAS Columbus personnel use a DD Form 250, “Material Inspection and Receiving Report” (DD250) to process and record shipment, receipt, and acceptance of goods and services purchased by DoD. The DD250 provides evidence of Government contract quality assurance and evidence of acceptance of goods and services.

Defense Federal Acquisition Regulation Supplement (DFARS) Appendix F, “Material Inspection and Receiving Report,” December 19, 2006, contains instructions for the use, preparation, and distribution of the DD250. The DCMA Guidebook provides DD250 input procedures for DCMA. See Appendix B for more specifics about this guidance.

Judgmental Sample of Shipment and Acceptance Records

DFAS Columbus provided us with a database of shipment and acceptance records entered into MOCAS between April 1, 2007, and June 30, 2007, based on the processed date. We selected a judgmental sample of shipments associated with 16 DCMA offices. The sample universe included 201 individual contracts and 1,824 shipment and acceptance records that DFAS Columbus did not report in the DoD March 31, 2007, accounts

payable balance. Of the 1,824 sample shipments, 1,476 shipments used source acceptance and 348 used destination acceptance. See Appendix A for more specifics about the sample universe.

Providing Accurate and Timely Acceptance Data

DCMA, DFAS Columbus, the buying activities, and the contractors did not always ensure that MOCAS contained accurate or timely shipment and acceptance data. Specifically, our discussions with DCMA personnel, the documentation we obtained during site visits, and DD250s we reviewed revealed that MOCAS contained inaccurate or untimely information for 636² out of 1,824 total sample shipments. These shipments represent about 35 percent³ of the total sample reviewed, and the activities' actions resulted in both inaccurate and untimely data for many shipments.

Timeliness of the Shipment and Acceptance Data

Of the 1,824 sample shipments, the activities did not enter the shipment and acceptance information into MOCAS in a timely manner for 592 shipments.⁴ Of the 592 untimely shipments, 378 shipments used source acceptance and 214 used destination acceptance. The number of days they entered the information late ranged from 1 day to 1,070 days, with about 100 days on average for all shipments. Shipments with source acceptance averaged 122 days late. Shipments with destination acceptance averaged 62 days late.

For these shipments, we determined who or what caused the delay in entering the shipment and acceptance data, and we found five different categories. Table 3 summarizes the categories and the number of shipments for each one. A discussion of the delays follows the table.

Table 3. Categories of Untimely Shipment and Acceptance Data

Cause of Delay	Number of Shipments	Shipments With Source Acceptance	Shipments With Destination Acceptance
Buying Activity/Destination	52	0	52
Contractor	85	82	3
DCMA	26	21	5
Undeterminable*	429	268	161
Total	592	371	221

*For these shipments, a lack of date stamps on the DD250s prevented us from determining which activity caused the delay.

² The 636 shipments with deficiencies in accuracy and timeliness included 592 untimely shipments and 334 inaccurate shipments, with 290 shipments deficient in both areas.

³ This percentage only applies to the judgmental sample, and it cannot be applied to the entire universe.

⁴ Of the 592 untimely shipments, we could quantify the number of days the activities delayed the shipment and acceptance information for 523 shipments. For the remaining 69 shipments, we could not quantify the number of days the activities delayed the information.

Buying Activity/Destination Delays

For 52 shipments, the receiving officials at the destinations did not annotate on the DD250 the actual date they received the goods or the accepting officials at the buying activities did not use Wide Area Workflow (WAWF)⁵ to show acceptance as required by the contract. Of the 52 shipments delayed by the buying activities or receiving officials, 7 shipments used source acceptance and 45 used destination acceptance.

DFARS Appendix F requires receiving officials to annotate the actual arrival date of the carrier in the Receiver's Use block (Block 22)⁶ of the DD250. If the receiving official does not sign and date this block when the goods arrive, there is a risk that DFAS Columbus could not comply with the Prompt Payment Act. DCMA representatives offered no explanation as to why the buying activities or destinations did not comply with the Federal guidance or the contract requirements.

The Under Secretary of Defense for Acquisition, Technology, and Logistics (USD[AT&L]) provides oversight and policy direction for the DoD's acquisition system and contracting. Therefore, USD(AT&L) is in the best position to ensure that the buying activities and destinations are properly annotating the actual date they received the goods and using WAWF as required by the contract.

Contractor Delays

On 85 shipments, either the contractors delayed preparation of DD250s in WAWF or did not distribute signed hardcopy DD250s in a timely manner. Of the 85 shipments, 82 shipments used source acceptance and 3 used destination acceptance. For the shipments with WAWF DD250s, the associated bills of lading indicated that goods were shipped before the preparation of the electronic DD250. For the hardcopy DD250s, DCMA date stamps showed that the contractors did not distribute them promptly after the receiving official signed.

Generally, DCMA was unable to determine why the contractors delayed preparation of electronic DD250s or the distribution of signed hardcopy DD250s. On one occasion, DCMA indicated to us that the contractor stated that it fell behind in entering DD250s into WAWF. Because DFARS Appendix F states that the contractor is responsible for distributing the DD250 promptly, the contractor must prepare electronic DD250s in WAWF in a timely manner. DCMA should ensure that this occurs.

⁵ WAWF is a secure web-based system for electronic invoicing, receipt, and acceptance. The WAWF application enables electronic form submission of invoices, government inspections, and acceptance documents (receiving reports).

⁶ Block 22 is for Receiver's Use. In this block, the receiving official signs to show receipt, quantity, and condition of the items delivered.

Defense Contract Management Agency Delays

For 26 shipments, DCMA actions caused the delay. Of the 26 shipments, 21 shipments used source acceptance and 5 used destination acceptance. Examples of delays include the following.

- The accepting official did not sign the DD250 in a timely manner.
- The assigned DCMA office did not enter the DD250 information into MOCAS in a timely manner.

For the 26 shipments, DCMA provided various and differing reasons for the delays, such as personnel being on extended leave.

Based on the guidance in DFARS Appendix F related to Block 21⁷ of the DD250, the accepting officials should ensure that they sign the DD250 in a timely manner. In addition, the requirements outlined in the DCMA Guidebook for processing DD250s state that the DCMA offices must ensure that they input the acceptance information no later than the business day following receipt of the DD250.

Undeterminable Delays

For 429 shipments, we could not determine whether the contractor or another activity caused the delay of shipment and acceptance data in MOCAS. Of the 429 shipments, 268 shipments used source acceptance and 161 used destination acceptance. In these instances, we could not determine whether the contractor, the buying activity, DCMA, or DFAS caused the delay because the activities did not date-stamp the hardcopy DD250s upon receipt.

For 58 of the 429 shipments, contractors prepared the DD250s in WAWF. Because of incorrect data on the DD250, the contractor subsequently prepared a hardcopy correction to the WAWF DD250s for 12 of these shipments. WAWF currently does not have the capability to allow the contractor to submit a corrected copy electronically. If WAWF had this capability, some of these delays could be reduced. In addition, for the remaining 371 shipments, contractors originally prepared hardcopy DD250s. In March 2008, DoD revised DFARS to require all acceptances to be input into WAWF. Therefore, as the hardcopy acceptances are eliminated through the use of WAWF, these types of delays could also be reduced.

Accuracy of the Shipment and Acceptance Data

Of the 1,824 sample MOCAS shipments, the responsible activities did not enter accurate shipment and acceptance information for 334 shipments. Of the 334 inaccurate shipments, 144 shipments used source acceptance and 190 used destination acceptance. For these shipments, we determined four different causes for the inaccurate data. Table 4

⁷ Block 21 is for Contract Quality Assurance. In this block, the accepting official signs that the items listed on the DD250 conform to the contract in quality and quantity.

shows the causes of the inaccurate data and the number of shipments for each one. A discussion of each cause follows the table.

Table 4. Cause of Inaccurate Shipment and Acceptance Data

Cause of Inaccuracy	Number of Shipments	Shipments With Source Acceptance	Shipments With Destination Acceptance
Acceptance and Receipt Date Accuracy	156	82	74
Manual Entry Error	82	58	24
WAWF Entry Error	5	4	1
Wrong Shipment Date Used on DD250	91	0	91
Total	334	144	190

Acceptance and Receipt Date Accuracy

For 156 shipments, the accepting or receiving officials did not document an accurate acceptance or receipt date on the DD250 for several reasons. Of the 156 shipments with an inaccurate acceptance or receipt date, 82 shipments used source acceptance and 74 used destination acceptance.

- The accepting officials at DCMA inaccurately recorded as the acceptance date the date they physically signed the DD250 rather than the date they actually accepted the goods. For some of these shipments, the DCMA accepting officials physically signed the DD250 after they accepted the goods because the contractor had not prepared the DD250 before acceptance. For others, the DCMA accepting officials simply did not sign the DD250 as soon as the contractor prepared it.

FAR 46.501 requires that acceptance take place according to the terms of the contract. Therefore, if the contract had a source acceptance clause, acceptance should take place before shipment of the goods unless the contract or DCMA provides for alternate release procedures or certificate of conformance. For these shipments, we had evidence that the DCMA had previously accepted the goods through another DD250. However, DCMA personnel selected a later date when they signed the new WAWF or hardcopy DD250. The late dates were not the actual acceptance date, as evidence of earlier acceptance existed. By not entering the correct date, the accepting officials caused the acceptance date in MOCAS to be inaccurate.

- The receiving officials at the destinations did not complete Block 22 of the DD250 as required. Specifically, they did not record the actual receipt date but the date they accepted the goods, or they left Block 22 blank.

When completing Block 22 of the DD250, receiving officials at the destinations must record the date that goods arrive, not the date that they physically sign for

acceptance. When the destinations recorded the later date, they provided MOCAS with an inaccurate date of receipt.

Manual Entry Error

For 82 shipments, manual entry of the acceptance data by either DCMA or DFAS caused inaccuracies. Of the 82 shipments, 58 shipments used source acceptance and 24 used destination acceptance. In some cases, the input technicians entered the wrong dates from hardcopy DD250s into MOCAS. Specifically, in some instances the input technicians entered the inspection date or the date the accepting official verified the hardcopy corrections, rather than acceptance signature date, into the acceptance date field. In other instances, human error in mistyping the signature dates and shipping document receipt dates caused the inaccuracy in the MOCAS acceptance data. The DCMA and DFAS input technicians must ensure that they enter the correct dates from the DD250 when entering acceptance data into MOCAS.

As noted above, DoD revised the DFARS to require that all acceptances be input into WAWF. Therefore, as hardcopy acceptances are eliminated through WAWF use, these entry errors should be reduced.

Wide Area Workflow Entry Error

On five shipments, it appears that WAWF did not transfer the acceptance information to MOCAS correctly. Of the five shipments with a WAWF entry error, four shipments used source acceptance and one used destination acceptance. For these shipments, we could not determine if WAWF was truly to blame for the inaccuracy or if someone manually changed the dates in MOCAS because there was no data trail showing the information that originally transferred from WAWF. DCMA could not provide a reason why the WAWF data did not transfer to MOCAS correctly. DFAS Columbus personnel researched these shipments and said that many of the errors occurred because of duplicate submissions, but they could not provide additional support.

Shipment Date Used on DD250

For 91 shipments, the contractor did not enter an accurate shipment date on the DD250. All 91 shipments that contained an inaccurate shipment date on the DD250 used destination acceptance. The bills of lading showed that the shipment dates on the DD250s were not the dates the contractor actually shipped the items and, in most cases, were long before the actual shipment date. DFARS Appendix F provides that the shipment date is the date that the shipment is released to the carrier. However, it also permits contractors to estimate the shipment date, but it does not limit the amount of time allowed between the estimated and actual shipment dates. We observed estimated shipment dates of up to 6 months before the actual shipment date. In these instances, the estimated dates were not representative of the actual shipment date.

A contractor also prepared DD250s for a period of performance for services and entered the performance starting date as the shipment date. According to DFARS, the shipment date for services must be the date the services are completed. The contractor dates were inaccurate because the earliest date the receiving official can accept the services is the

ending date of the period of performance. DCMA was unable to explain why the contractor did not enter the correct shipment dates on the DD250s.

For destination acceptances, DFAS Columbus relies on the shipment date to calculate constructive acceptance for determining the date Prompt Payment interest begins to accrue. An inaccurate shipment date hinders the correct calculation of any Prompt Payment interest due to the contractor. We did not observe any DoD policy or actions to ensure that estimated shipment dates were accurate. Additionally, in most instances, the contractor provided estimated shipment dates that were long before the actual shipment date. Therefore, USD(AT&L) should develop policy that assigns responsibility for ensuring the accuracy of destination acceptance shipment dates.

Conclusions

Because of the untimely shipment and acceptance data in MOCAS, DFAS Columbus understated the DoD March 31, 2007, accounts payable balance by at least \$453.9 million. Out of the 1,824 shipments we sampled, DFAS Columbus should have reported 1,022, totaling \$98.8 million, as accounts payable as of March 31, 2007, but did not. Specifically, all shipments in our sample that had a MOCAS acceptance date before March 27, 2007, and that DFAS eventually paid were valid accounts payable.

Therefore, we used these results to conclude that all shipments in our universe of MOCAS shipment and acceptance data that had an acceptance date before March 27, 2007, and that DFAS paid by September 30, 2007, also were valid payables. In our universe of MOCAS data, 3,915 shipments fell into this category. DFAS Columbus did not report any of these shipments in the March 31, 2007, accounts payable balance. Table 5 shows the number of unreported shipments and the unreported accounts payable amounts related to those shipments.

Table 5. Unreported Accounts Payable Balance
(in millions)

Accounts Payable Shipments	Number of Shipments	Dollar Value
Sample	1,022	\$98.8
Remaining Universe	3,915	355.1
Unreported Balance	4,937	\$453.9

Compliance With the Prompt Payment Act

Because of inaccurate shipment, receipt, and acceptance dates in MOCAS, a risk exists that DFAS Columbus may not have complied with the Prompt Payment Act on 334 shipments.⁸ According to the Act, the date upon which any interest penalty begins to

⁸ Of the 334 shipments with inaccurate shipment, receipt, or acceptance dates, the inaccuracies also had an effect on the accounts payable balance for 290 shipments. The remaining 44 shipments only represent a potential noncompliance with the Prompt Payment Act.

accrue is the later of the invoice receipt date or the date acceptance of goods or services occurs.

DFAS Columbus has procedures for calculating a constructive acceptance date for instances in which it needs to determine interest owed to the contractor. Specifically, for destination shipments, DFAS relies on either the receipt or shipment date of the goods to determine the constructive acceptance date. DFAS compares the constructive acceptance date to the invoice receipt date to determine the payment due date, which is the date any interest penalty begins to accrue. For source shipments, DFAS relies on the acceptance date entered in MOCAS and the invoice receipt date to determine the date in which any late payment interest penalty begins to accrue, as prescribed by the Act.

Therefore, if MOCAS contains inaccurate shipment, receipt, and acceptance dates, DFAS Columbus may not properly identify whether it owes the contractor Prompt Payment interest or what amount of interest is owed. We did not perform specific audit procedures related to this risk; we only identified that noncompliance with the Prompt Payment Act could occur for these shipments.

Recommendations, Client Comments, and Our Response

Revised Recommendation. As a result of client comments, we deleted Recommendation B.1.c. and revised draft Recommendation B.2.c.(1) to clarify our intention that this recommendation only applied to receiving reports for source acceptance contracts that did not have alternate release procedures. We also renumbered Recommendation B.3.a to B.3.

B.1. We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics:

a. Develop policy to ensure that the receiving officials at the buying activities follow the Federal guidance that directs them to sign the Receiver's Use block (Block 22) of the receiving report (DD Form 250) to annotate the receipt of goods on the date of the carrier's arrival.

b. Develop policy that assigns responsibility for ensuring the accuracy of destination acceptance shipment dates.

Client Comments. The Director, Defense Procurement, Acquisition Policy and Strategic Sourcing concurred with the recommendations. He stated that WAWF, the mandatory system for submission of receiving reports requires that "Inspectors" and "Acceptors" of the goods and services being delivered accurately account for their receipt and acceptance.

Our Response. The Director's comments were not responsive. Recommendation B.1.a. suggests that he develop better policy for receiving officials, not the inspecting or accepting official. The Director did not respond to Recommendation B.1.b. that he develop a policy to assign responsibility to DoD personnel to ensure the accuracy of the

contractor shipment date for destination shipments. Additionally, the Director's comments did not explain how the required use of WAWF meets the intent of the recommendations.

We request that the Director reconsider his position on Recommendation B.1.a. and B.1.b. and provide comments to the final report that indicate whether he plans to develop policy to improve the accuracy of shipment date information.

B.2. We recommend that the Director, Defense Contract Management Agency:

a. Enforce the Federal guidance that directs the DCMA accepting officials to sign and date the Contract Quality Assurance block of the receiving report to annotate the date of acceptance of goods or services.

Client Comments. The Director, DCMA partially concurred with this recommendation. He stated that DCMA will clarify the procedures for processing a replacement transaction through a DCMA information memorandum to its workforce. However, he stated that these circumstances are extremely limited both in volume and location and will be eliminated as paper documents will no longer be used.

Our Response. The Director's comments were responsive. We did not perform a statistically valid random sample of corrected DD250s, and our results cannot be statistically projected. Therefore, we did not confirm whether corrections occur in limited volume and locations.

b. Direct the DCMA accepting officials to identify and follow contractual requirements for signing receiving reports for acceptance.

Client Comments. The Director, DCMA partially concurred with the recommendation. He stated that DCMA will ensure that the DCMA Guidebook will clearly state the requirement that the receiving reports be accepted or rejected in a timely manner. He also stated that he did not believe the audit was convincing that this was a significant systemic issue.

Our Response. The Director's comments were responsive. We performed a judgmental sample, so our results could not be projected to the entire population. Therefore, we could not confirm with statistical confidence that this was a significant systemic issue. However, because we identified the problem in the judgmental sample and the DMCA guidance did not address this situation, DMCA should provide guidance in the Guidebook to ensure compliance with contractual requirements.

c. Revise the Defense Contract Management Agency Guidebook to include more specific guidance to ensure that the receiving report preparation process occurs correctly and in a timely manner. Specifically, direct the DCMA accepting officials to:

(1) Ensure that the contractor prepares the receiving reports prior to shipment on source acceptance contracts that do not permit Alternative Release Procedures or Certificates of Conformance.

Client Comments. The Director, DCMA did not concur with the recommendation. He stated that there is no requirement that the contractor prepare the receiving reports at the time goods are ready for shipment. He stated that the recommendation is not consistent with Federal and DoD regulations and that he cannot direct procedures that are contrary to Federal regulations.

Our Response. We revised the recommendation to clarify that this recommendation is related to source acceptance contracts that do not have alternate release procedures or where use of certificates of conformance are permitted. We specified that in those cases, the receiving reports are prepared before shipment, as opposed to as soon as the goods are ready for shipment.

This recommendation does not conflict with the Federal or DoD regulations. Specifically, the DFARS Appendix F provides instruction on when a contractor is required to distribute the receiving report. It states that distribution of the DD250 on source acceptance contracts that do not permit alternate release procedures or certificates of conformance should occur the day after the DD250 is signed. For those DD250s where the contract specifies source acceptance, acceptance should occur before shipment. Therefore, to ensure that acceptance occurs in accordance with the contract terms, the contractor needs to prepare the DD250 for the DCMA accepting official before the shipment. If the contractor does not prepare the DD250 before shipment on a source acceptance contract without alternate release procedures, acceptance will not occur in conformance with the contract.

We request that the Director, DCMA provide comments to the final report on our revised recommendation.

(2) Sign the receiving report with the date that the DCMA accepting official had actually accepted the shipment. Specifically, if a prior DD250 was signed, and a new DD250 is created, the DCMA official should use the original acceptance date.

Client Comments. The Director, DCMA partially concurred with the recommendation. He stated that the replacement should use the date of acceptance on the original document. However, he referred back to his comments for Recommendation B.2.a. that he did not believe that this was a significant issue.

Our Response. The Director's comments were nonresponsive. Although he agreed that the original date should be used, he did not state that he would take action to revise the DMCA Guidebook on this topic. We request that the Director provide comments to the final report regarding revisions to the Guidebook.

d. Develop and submit an Engineering Change Proposal to Defense Business Transformation Agency and the Mechanization of Contract Administration Services system to allow contractors to submit corrected DD250s through Wide Area Workflow.

Client Comments. The Director, DCMA concurred with the recommendation. He stated that DCMA is working on a MOCAS system change request and an engineering change proposal for WAWF is to be developed.

B.3. We recommend that the Director, Defense Finance and Accounting Service Columbus ensure that the input technicians enter receiving report data into the Mechanization of Contract Administration Services system correctly and in a timely manner. Specifically, develop guidance related to processing receiving reports that provides detailed instructions to enter the actual acceptance date when the contractor submits a corrected copy of the receiving report.

Client Comments. The Director, DFAS Columbus partially concurred with Recommendation B.3. The Director stated that acceptance occurs when a “proper” DD250 is signed and does not relate to the signing of a materially defective DD250 or other acceptance document.

Our Response. The Director’s comments were not responsive. Neither the FAR nor the Prompt Payment Act mentions that acceptance occurs when a “proper” DD250 is signed. We also could not locate any “materially defective” definition for a DD250 as referenced by DFAS Columbus. During the audit, we noted instances in which the accepting official did not date the corrected copy. In those instances, DFAS employees would be unable to follow the Director’s policy because the date of the “proper” DD250 was unavailable.

We request that the Director provide comments to the final report regarding the development of guidance that provides better instruction for entering dates for corrected copies of receiving reports.

Client Comments on Material Control Weakness and Our Response

Although not required to comment, the Director, DCMA commented on the Review of Internal Controls section of the report. For the full text of DCMA comments, see the Client Comments section of the report.

DCMA Comments. The Director, DCMA did not concur with the audit assessment that material internal control weaknesses exist at DCMA. Specifically, the Director did not believe that the audit sample selected represented enough contracts or shipments for the auditors to reach that conclusion. The Director stated that because DCMA personnel were using WAWF to accept goods and services, they had already implemented the solution to the problems identified in the report.

Our Response. We disagree with DCMA’s assessment that there is no material internal control weakness. We identified DCMA weaknesses that materially affected DFAS-reported accounts payable balances for the MILDEPs. The weaknesses in the accuracy and timeliness in processing acceptance and shipment data directly contributed to underreported accounts payable balances.

We understand the Director's concerns about our scope of sample items and the locations that we visited. We acknowledge that the scope may be small as they relate to the entire population of DCMA acceptance and shipment records. However, we focused on large transactions for the purpose of testing the valuation of MILDEP accounts payable balances, and the sample transactions and audit results clearly demonstrate that corrective actions are needed for the misstated accounts payable balances.

Appendix A. Scope and Methodology

We conducted this financial-related audit from June 2007 through May 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We selected a judgmental sample of 171 shipments to assess the valuation and existence of the DFAS Columbus-prepared 742 Report. We selected shipments with a high-dollar accounts payable balance and those with zero dollar balances. We verified if the accounts payable were valid and accurately valued by reviewing available invoices and receiving reports. In some instances, we contacted the administrative contracting officer. We used the available documentation and discussions with DFAS to determine whether the accounts payable for the sample shipments were accurate. We also performed postpayment analysis on the remaining 742 Report accounts payable balances. We did not determine the causes for inaccuracies observed as a result of this analysis.

We selected a judgmental sample of 16 DCMA offices in similar geographic locations with a large number of shipment records entered. Table A.1 shows a summary of our sample universe with the number of individual contracts and shipment and acceptance records for each DCMA office selected.

Table A.1. Sample of Shipment and Acceptance Records

DCMA Office	Total Contracts	Total Records
Maryland	10	340
Philadelphia	6	32
Boeing – Philadelphia	10	235
Hartford	5	40
APO – Pratt & Whitney	5	26
APO – Hamilton Sundstrand	10	14
Sikorsky Aircraft	7	14
Boeing – St. Louis	17	72
Chicago	51	176
Boston	7	37
Boston – Needham	6	25
APO – GE Lynn	16	522
Texas	15	66
Phoenix	7	25
Northern California	16	171
Santa Ana	13	29
Total	201	1,824

In selecting the sample, we pulled high-dollar contracts and associated shipments and selected shipments that DFAS Columbus did not report in its March 31, 2007, accounts payable balance for sample review. We tried to ensure that we pulled mostly shipments that appeared to have inconsistencies.

For the judgmental sample records, we verified validity of shipment and acceptance information in MOCAS and confirmed information in Electronic Document Management and Wide Area Workflow (WAWF). During site visits, we spoke with administrative contracting officers, quality assurance specialists, and procurement technicians about our sample shipment records. We requested and reviewed DD250s, bills of lading, and other documentation to explain and augment the MOCAS information.

Based on the research and analysis performed for each sample record, we determined that for shipments with both source and destination acceptance sites, the majority of our shipments used hardcopy DD250s. Table A.2 shows the number of hardcopy and WAWF DD250s for source and destination acceptances.

Table A.2. Type of DD250 by Acceptance Site

Acceptance Site	Hardcopy DD250	WAWF DD250
Source	857	618
Destination	286	61
Total	1,143	679

For our analysis of paid invoices, we selected all transactions from the DFAS Columbus 742 Report valued at over \$4 million that were not selected in our judgmental sample. We checked MOCAS to determine if invoices were paid after March 31, 2007, and if the dollar value of the accounts payable on the 742 Report matched the net dollar value disbursed. We determined unit prices from Electronic Document Access and noted the dollar values we were able to find on acceptances in Electronic Document Management and WAWF.

To determine the timeliness of the shipment and acceptance information we allowed 2 business days for the authorized government representative to sign the DD250 after the contractor prepared it, for source acceptances, or the carrier delivered the goods, for destination acceptances. We also allowed an additional 3 business days for either DCMA or DFAS input technicians to enter the date into MOCAS after the DD250s were signed. We based our determinations on the DFARS requirements for contractors related to timely distribution of DD250s. We counted any days beyond 2 that the authorized government representative took to sign the DD250 and any days beyond 3 that it took for the information to get entered into MOCAS, and we classified the shipment as untimely.

We applied SFFAS No. 1 and No. 5 to the receipt and acceptance information contained in MOCAS and associated feeder systems for the contracts selected for review. Federal Acquisition Regulation 46.5, Acceptance, was also relevant as it provides that acceptance can occur at various locations and points in time. For consistency across the MILDEPs

and representative of the business practices that we observed, we deemed acceptance for accounting purposes to occur as specified by the terms of the contract, normally as either source or destination. In instances that the contract stated source acceptance, we concluded that acceptance must occur before shipment.

We limited the scope of the audit to information contained in the Unmatched Detail Report (742 Report) for March 31, 2007. During the course of the audit, some information, such as bills of lading, were not always available. If no information or documentation was available for us to verify shipping, receipt, and acceptance dates, we used the government-provided date.

Use of Computer-Processed Data

We relied on computer-processed data contained in MOCAS. Specifically, we relied on MOCAS acceptance data when the government acceptance date was before March 27, 2007. We performed tests on the acceptance data and found that the MOCAS acceptance date never occurred before the actual acceptance date. We relied on computer-processed MOCAS payment information related to those data. We performed limited analysis on the summary data to ensure they generally represented lower level feeder data.

Prior Coverage

During the last 5 years, the Department of Defense Inspector General and Air Force Audit Agency have issued two reports discussing accounts payable. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>.

DoD IG

DoD IG Report No. D-2007-091, "Memorandum Report on Assessment of Defense Accounts Payable Compliance with Generally Accepted Accounting Principles," May 4, 2007

Air Force

Air Force Audit Agency Project F2007-FB3000-0105.000, "Closure Memorandum, General Fund Accounts Payable- Mechanization of Contract Administration Services System Transactions," November 21, 2007

Appendix B. Material Inspection and Receiving Report Guidance

Defense Federal Acquisition Regulation Supplement Appendix F

DFARS Appendix F, “Material Inspection and Receiving Report,” December 19, 2006, contains procedures and instructions for the use, preparation, and distribution of the receiving report (DD250). It states that the contractor is responsible for distributing the DD250. It also states that contractors are to make distribution promptly, but no later than the close of business of the workday following, in most cases, the signing of the DD250 by the receiving official and shipment when contract quality assurance and acceptance are performed at the destination.

DFARS Appendix F states that Block 3 of the DD250 is the Date Shipped. In this block, the contractors should enter the date they release the shipment to the carrier or the date the services are completed. Appendix F also states that the contractor may enter an estimated date of release if the contractor will release the shipment after the date of contract quality assurance, acceptance, or both. The contractors should enter an “E” after the date when they estimate. DFARS Appendix F does not require the contractor to reissue the DD250 showing the actual shipment date. It also allows the contractor to prepare the DD250 at the time of contract quality assurance or acceptance before the time of actual shipment when individual shipments are held at the contractor’s facility for authorized transportation consolidation to a single bill of lading.

According to DFARS Appendix F, Block 21 of the DD250 is for Contract Quality Assurance. In this block, the receiving official signs that the items listed on the DD250 conform to the contract in quality and quantity. DFARS Appendix F directs the receiving official to sign and date in this block.

DFARS Appendix F states that Block 22 of the DD250 is for Receiver’s Use. The authorized representative at the receiving activity must use this block to show receipt, quantity, and condition of the items delivered. DFARS Appendix F states that the authorized representative must enter the date the supplies arrived. It provides the example of when off-loading or in-checking of the goods occurs after the day of arrival of the carrier at the installation, and states that the date of the carrier’s arrival is the date the goods were received for the purpose of Block 22 of the DD250.

Defense Contract Management Agency Guidebook

The DCMA Guidebook references DLAM 8000.3, Part 1, Chapter 10, “Material Acceptance Processing DD Form 250 Procedures,” which is a historical guide containing input procedures for processing DD250s as they apply to DCMA. Chapter 10 states that the contract management office is responsible for processing source acceptance documents and the shipment side of a destination acceptance DD250. It also states that for internal control and Prompt Payment purposes, all DD250s are to be date-stamped

immediately upon receipt at the contract management office and the office is to process DD250s expeditiously, preferably within one business day of receipt.

According to DLAM 8000.3, Part 1, Chapter 10, the contractor is responsible for preparing and distributing DD250s. The contractor must forward signed source acceptance DD250s and the unsigned copies of destination acceptance DD250s to the appropriate DCMA office. When the office receives a DD250, a DCMA input technician enters the DD250 information into MOCAS, including the date the receiving official signed the DD250 and the shipment document received date.

When entering the receiving official signature date, DCMA must enter the date from Block 21A of the DD250. If this block is signed but not dated, DCMA must enter the date from Block 3, which is the date shipped. For the shipment document received date, DCMA must enter the date the office received the shipment document. This should be the date stamped on the DD250.

Defense Procurement, Acquisition Policy and Strategic Sourcing Comments

Final Report
Reference



OFFICE OF THE SECRETARY OF DEFENSE
1950 DEFENSE PENTAGON
WASHINGTON, DC 20301-1950

JUN 30 2008

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL AND DIRECTOR,
DEFENSE FINANCIAL AUDITING SERVICE, DoDIG

THROUGH: DIRECTOR, ACQUISITION RESOURCES AND ANALYSIS *7/1/08*

SUBJECT: Response to DoDIG Proposed Report on Department of Defense Accuracy
of Mechanization of Contract Administration Services Accounts Payable
Information (Project No. D2007-D000FJ-0196.000)

As requested, I am providing responses to the findings and recommendations contained in the subject report. The Defense Contract Management Agency (DCMA) and the Defense Finance and Accounting Service (DFAS) have responded directly on their specific findings, recommendations and material control weaknesses, as cited in the report. The issues raised by DCMA and DFAS, when considered in their responses, would service the recommendations, findings and weaknesses for the bulk of the audit's results. Recommendation B.1. pertains to the Under Secretary of Defense (Acquisition, Technology and Logistics) and our response follows. DPAP appreciates the opportunity to review and comment.

Recommendation: B.1. We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics:

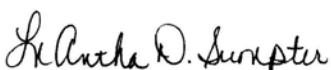
- a. Develop policy to ensure that the receiving officials at the buying activities follow the Federal guidance that directs them to sign the Receiver's Use block (Block 22) of the receiving report (DD Form 250) to annotate the receipt of goods on the date of the carrier's arrival.
- b. Develop policy that assigns responsibility for ensuring the accuracy of destination acceptance shipment dates.
- c. Direct the receiving officials at the buying activities to identify and follow contractual requirements for signing receiving reports for acceptance.

C. Deleted



Response: B.1.a., b., & c. Concur. Wide Area Workflow (WAWF) is the Department's enterprise system for submission of vendor invoices and receiving reports. Defense Federal Acquisition Regulation Supplement (DFARS) language communicating the mandatory use and application of WAWF was published March 3, 2008. WAWF requires that "Inspectors" and "Acceptors" of the goods and services being delivered accurately account for their receipt and acceptance through the system's online inspection and acceptance procedures. DPAP considers this recommendation complete.

Please contact Craig Curtis at (703) 602-8032 or craig.curtis@osd.mil if additional information is required.


for Shay D. Assad
Director, Defense Procurement,
Acquisition Policy and
Strategic Sourcing

Defense Contract Management Agency Comments



DEFENSE CONTRACT MANAGEMENT AGENCY

6350 WALKER LANE, SUITE 300
ALEXANDRIA, VIRGINIA 22310-3226

IN REPLY
REFER TO DCMA-DMI

JUN 9 2008

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

SUBJECT: DCMA Comments to Draft Audit Report on the "Accuracy of Mechanization
of Contract Administration Services Accounts Payable Information," Project
Number D2007-D000FJ-0196.000, dated May 8, 2008

Reference: DoD Project Number D2007-D000FJ-0196.000, dated May 8, 2008

We have attached the Headquarters, Defense Contract Management Agency
response to recommendation B.2 cited in the subject audit report.

Point of contact is Ms. Dorotherine Eaddy at 703-428-1446 or
Dorotherine.Eaddy@dcma.mil.


CHARLIE E. WILLIAMS, JR.
Director

**DCMA Comments to Draft Audit Report on the "Accuracy of Mechanization of
Contract Administration Services Accounts Payable Information,"
Project Number D2007-D000FJ-0196.000, dated May 8, 2008**

REVIEW OF INTERNAL CONTROLS (As identified in the audit report): We identified material internal control weaknesses at DCMA and DFAS Columbus as defined by DoD Instruction 5010.40, "Managers' Internal Control (MIC) Program Procedures," January 4, 2006.....DCMAdid not did not have adequate internal controls in place to ensure that shipment and acceptance data were input accurately and in a timely manner.

DCMA Response: Non-concur with assessment as material internal control weakness. First, the data does not support that conclusion. The audit looked at a sample of 201 contracts and 1824 shipments, representing less than 1% of the universe of either transaction. The sample was selected based on contracts with known problems and the findings from that sample cannot be broadly applied to DCMA as a whole.

DCMA untimely input of transactions is identified for 12 shipments representing .8% of the judgmental sample of source accepted transactions and .006% of source acceptances during the sample period.

Manual data entry errors related to DCMA input total 58 shipments, representing 3.9% of the judgmental sample. This is consistent with the manual data entry errors for receiving reports and all other transactions in MOCAS that are manually entered. With the adoption of Wide Area Workflow (WAWF), DCMA has already implemented the solution to any problem with the timeliness or accuracy of receiving reports. WAWF automatically distributes receiving reports at Government acceptance and enters the document into MOCAS. The need for the Government to input receiving reports is removed from the process. Also eliminated are the opportunities for documents to be lost, delayed or incorrectly input. Currently, DCMA averages over 57,000 receiving reports each month through WAWF, over 94% of source acceptances. Since the deployment of WAWF by DCMA, invoices rejected due to failure to make distribution on source acceptances have been reduced by 83%. Prompt Payment Act interest penalties have been reduced by 80% and lost documents and input errors have been reduced by more than 80,000 per year.

Additionally, effective March 3, 2008, the Defense Federal Acquisition Regulation Supplement (DFARS) provision 252.232-7003, Electronic Submission of Payment Requests and Receiving Reports, was modified to require vendors to submit acceptance documents through WAWF. With DCMA fully deployed in WAWF and the DFARS requiring its use, the potential for problems with the timeliness and accuracy of input of receiving reports no longer exists. Quoting from the Government

Accountability Office report, DOD PAYMENTS TO SMALL BUSINESS, May 2006, "WAWF, if fully implemented and utilized as planned, can eliminate paper and redundant data entry; improve data accuracy; reduce the number of lost or misplaced documents...."

In regards to the statement that DCMA did not have internal controls in place to ensure that contractors distribute receiving reports in a timely manner, DCMA non-concurs. The audit looked at a sample of 201 contracts and 1824 shipments, representing less than 1% of the universe of either transaction. The sample was selected based on contracts with known problems and the findings from that sample cannot be broadly applied to DCMA as a whole.

Within the audit, contractor delays in distribution on source accepted contracts (those where DCMA would have influence) accounted for 82 transactions representing 4.5% of the judgmental sample and only .04% of the total of source acceptances during the sample period. Further, 70 of the 82 transactions were from a single vendor, Vision Systems International. The vendor during the time frame covered by the audit had been recently acquired by Rockwell Collins, was in the process of implementing Rockwell's SAP accounting system, and was adopting Wide Area Workflow. This set of circumstances created significant confusion in the contractor's systems. That confusion was resolved and lost or undistributed transactions were replaced. This unique set of circumstances leading to a contractor's failure to make distribution and the ultimate resolution of that situation do not indicate a systemic failure on the part of DCMA but instead point to the fact that failure to make distribution is a rare occurrence and that DCMA and the vendor took actions to resolve that occurrence.

As above with the adoption of Wide Area Workflow (WAWF), DCMA has already implemented the solution to any problem with contractor distribution of receiving reports. WAWF automatically distributes receiving reports at Government acceptance. The need for the contractor to make distribution is removed from the process. Effective March 3, 2008, The Defense Federal Acquisition Regulation Supplement (DFARS) provision 252.232-7003 Electronic Submission of Payment Requests and Receiving Reports was modified to require vendors to submit acceptance documents through WAWF. With DCMA fully deployed in WAWF and the DFARS requiring its use, the potential for problems in the distribution of receiving reports is eliminated.

Recommendations

B.2. We recommend that the Director, Defense Contract Management Agency:

Recommendation B.2.a. Enforce the Federal guidance that directs the DCMA accepting officials to sign and date the Quality Assurance block of the receiving report to annotate the date of acceptance of goods or services.

Comments: DCMA partially concurs. The circumstances cited in the audit where DCMA accepting officials failed to follow the Federal (actually DoD) guidance for signing and dating receiving reports appears to be limited to the processing of replacements for receiving reports lost by vendors. As noted above, this circumstance was extremely limited both in volume and location. And as contracts with paper documents close, the opportunity for this to happen in the future will be eliminated. However, to avoid the possibility of any confusion DCMA will clarify the procedures for processing a replacement transaction through a DCMA information memorandum to its workforce.

Recommendation B.2.b. Direct the DCMA accepting officials to identify and follow contractual requirements for signing receiving reports for acceptance.

Comments: DCMA partially concurs. There are 26 shipments identified as being delayed in processing by DCMA. Five of those shipments are identified as destination acceptance and are neither accepted nor input by DCMA. There are nine shipments that appear to be related to this recommendation representing .47% of the judgmental sample and 5/1000th of a percent of the source accepted transactions during the sample period.

Eight of the nine shipments are for services on two orders on the same Indefinite Delivery – Indefinite Quantity contract with a single vendor. In the sample data provided various elapsed times are cited from shipment date (presumably the end of the services) to the Government acceptance date. There is insufficient data to determine when the contractor prepared and submitted the receiving reports and what issues may have prevented Government acceptance for DCMA to concur that accepting officials failed to follow contractual requirements let alone conclude that this is a systemic issue that needs to be addressed. However, DCMA will ensure that the requirement that receiving reports need to be accepted or rejected in a timely manner is clearly stated in the Agency Guidebook.

Recommendation B.2.c. Revise the Defense Contract Management Agency Guidebook to include more specific guidance to ensure that receiving report preparation process occurs correctly and in a timely manner. Specifically, direct the DCMA accepting officials to:

Recommendation B.2.c.(1) Ensure that the contractor prepares the receiving reports at the time goods are ready for shipment.

Comments: DCMA non-concurs. The Federal Acquisition Regulation (FAR) at 46.501 clearly states "Acceptance may take place before delivery, at the time of delivery, or after delivery, depending on the provisions of the terms and conditions of the contract." Additionally DFARS appendix F, as cited in appendix B of this report, states, "If the shipment will be released after the date of CQA and/or acceptance, enter the estimated

B.2.c(1) Revised

date of release." Clearly the requirement that goods be ready to ship at time of acceptance is not consistent with the requirements of the FAR and DFARS. Many contracts have requirements that shipments and acceptance happen at different times. The DCMA Guidebook cannot direct procedures contrary regulation or contractual requirements.

Recommendation B.2.c.(2) Sign the receiving report with the date that the DCMA accepting official had actually accepted the shipment. Specifically, if a prior DD250 was signed and a new DD250 is created, the DCMA official should use the original acceptance date.

Comments: DCMA partially concurs. In the circumstances where a DD250 is created to replace one previously signed but lost by the contractor in distribution, the replacement should use the date of acceptance on the original document. But also see response to B.2.a above.

Recommendation B.2.d. Develop and submit an Engineering Change proposal to Defense Business Transformation Agency and the Mechanization of Contract Administration Services system to allow contractors to submit corrected DD250s through Wide Area Workflow.

Comments: DCMA concurs. While corrected transactions represent less than 2% of the total volume of receiving reports, the benefits of eliminating manual transactions and providing a complete electronic environment to vendors and Government personnel will make this a worthwhile change to WAWF and MOCAS. Work has begun on a MOCAS System Change Request and an ECP for WAWF will be developed to support the next possible release.

Other comments

Page i in the recommendations to DCMA states that "DCMA needs to: ensure that the accepting officials follow Federal and contractual requirements..." DCMA has authority only over DCMA accepting officials. As the report includes recommendations that address accepting officials outside of DCMA that statement could be construed as recommending that DCMA exceed its existing authority.

Defense Finance and Accounting Services Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE
P.O. BOX 182317
COLUMBUS, OHIO 43218-2317

DFAS-JBI/CO

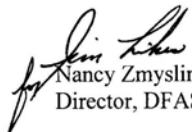
MAY 29 2008

MEMORANDUM FOR DIRECTOR, DEPARTMENT OF DEFENSE INSPECTOR GENERAL

SUBJECT: Management Comments to DoDIG Draft Report, "Accuracy of Mechanization of Contract Administration Services Accounts Payable Information," Project Number D2007-D000FJ-0196.000, dated May 8, 2008

This memorandum is in response to your request for comments to the subject draft audit report. Upon review of the draft report, we concur with three recommendations and partially concur with the remaining two recommendations. Our management comments to subject draft report are attached.

My point of contact for additional information is Gary Bethea, DFAS-JBI/CO, at 614-693-0840 or DSN 869-0840.


Nancy Zmyslinski
Director, DFAS Columbus

Attachment:
As stated

**Management Comments to DoDIG Draft Report, "Accuracy of Mechanization of
Contract Administration Services Accounts Payable Information,"
Project Number D2007-D000FJ-0196.000, dated May 8, 2008**

Recommendation A.1. We recommend that the Director, Defense Finance and Accounting Service Columbus take corrective action so that shipments on the 742 Report are valid accounts payable balances and accurately valued. Specifically, at least three times a year, including year end:

Recommendation A.1.a: Review the high dollar value accounts payable balances to ensure they are valid and accurately valued.

Management Comments: Concur. During our discussion draft meetings, both parties agreed that Defense Finance and Accounting Service (DFAS) Columbus will conduct a review of the Unmatched Detail Report (UNFC742 Report) three times a year (four month periods ending January 31, May 31, and September 30). The review will ensure all high accounts payable balances are valid, accurate, and properly recorded in the financial statements. The first review for the period of February to May 2008, will commence on June 2, 2008.

Estimated Completion Date: August 1, 2008

Recommendation A.1.b: Reduce the accounts payable amount by any contract financing that DFAS has already paid the contractor on the line item.

Management Comments: Partially Concur. DFAS Columbus agrees that the amount of the account payable should be reduced to the amount that will actually be paid to satisfy the invoice. To do so, the invoice amount should be reduced by the amount of contract financing that will be liquidated in the invoice payment process. The recommendation states that DFAS should "Reduce the accounts payable amount by any contract financing that DFAS has already paid the contractor on the line item." Outstanding contract financing is not liquidated only against the Contract Line Item Number (CLIN)/Accounting Classification Reference Number (ACRN) cited in the invoice. The liquidation is taken against any available CLIN/ACRN until the contract financing is exhausted or until the liquidation amount prescribed by the contract is satisfied. The exact amount of the liquidation will not be known until the invoice is entitled. A System Change Request (SCR) has been initiated for FY09 business as an addendum to SCR# MOCAS-05-018R3. The SCR will apply an estimation methodology to estimate the amount of liquidation by applying the liquidation rate prescribed in the contract to the invoice. This is consistent with previous conversations between DFAS Columbus and the Department of Defense Inspector General (DoDIG) auditors during the April 3, 2008, discussion draft meeting.

Estimated Completion Date: December 1, 2008

Recommendation A.1.c: Develop a process to accurately value the accounts payable balance for partial shipments.

Management Comments: Concur. The SCR# MOCAS-05-018R3 has been initiated to remove one-lot shipments from the UNFC742 report for FY09 business. The estimation for partial payments will reduce accounts payables for partial shipments by determining the average one-lot payment by appropriation over the last six month period as an estimate and apply that figure to the number of open one-lot shipments without invoices. In addition, the reviews as stated in Recommendation A.1.a will be used to review and analyze the accuracy of accounts payables for partial shipments.

Estimated Completion Date: December 1, 2008

Recommendation A.1.d: Exclude shipments that DFAS has already paid, will not pay through MOCAS, or are Notices of Completion. Notices of Completion can be identified with the shipment number beginning with "YYY."

Management Comments: Concur. The Mechanization of Contract Administration Services (MOCAS) System Office has received the Certification of Function Test on MOCAS Accounts Payable Files Dates on May 1, 2008. The test successfully removed all fabricated shipment numbers beginning with "YYY" on the UNFC742 Report and resolved this issue. Review action will occur as stated in Recommendation A.1.a to identify shipments on the UNFC742 Report that have already paid or will not pay through MOCAS.

Estimated Completion Date: October 1, 2008

Recommendation B.3. We recommend that the Director, Defense Finance and Accounting Service Columbus ensure that the input technicians enter receiving report data into the Mechanization of Contract Administration Services system correctly and in a timely manner. Specifically, develop guidance related to processing receiving reports that provides detailed instructions to:

Recommendation B.3.a: Enter the actual acceptance date when the contractor submits a corrective copy of the receiving report.

B.3.a Renumberd
to B.3

Management Comments: Partially concur. The recommendation states that DFAS should "Enter the actual acceptance date when the contractor submits a corrective copy of the receiving report." 5 C.F.R. 1315.2 defines acceptance as "(b) Acceptance means an acknowledgement by an authorized Government official that goods received and services rendered conform with the contract requirements. Acceptance also applies to partial delivery." The determination of the acceptance date is made by the Defense Contract Management Agency (DCMA). However, DFAS believes that "actual acceptance" occurs when an authorized government official signs a proper DD250 or other acceptance document. DFAS Columbus knows of no instance in which a contractor has asserted under the Contract Disputes Act that "acceptance" occurred for purposes of the Prompt Payment Act when an authorized government official signed a DD250 or other acceptance document prepared by the contractor in such a materially defective manner that a corrective copy was required. DFAS would vigorously defend such a claim. Under these circumstances, although the establishment of the acceptance date is a DCMA function, DFAS Columbus believes that "actual acceptance" for purposes of the Prompt Payment Act occurs

when a proper DD250 or other acceptance document is signed and "actual acceptance" does not relate back to the signing of a materially defective DD250 or other acceptance document prepared by the contractor.

Estimated Completion Date: Recommendation is considered closed.

Other Matters to Consider: Review of Internal Controls

DoDIG Comments: We identified material internal control weaknesses for DCMA and DFAS Columbus as defined by DoD Instruction 5010.40, "Managers' Internal Control (MIC) Program Procedures," January 4, 2006. DFAS Columbus did not have adequate internal controls in place for monitoring or reviewing the contents of the 742 report. DCMA, DFAS Columbus, and the buying activities did not have adequate internal controls in place to ensure that shipment and acceptance data is input accurately and timely. DCMA did not have internal controls in place to ensure that contractors distribute receiving reports in a timely manner. In addition, DFAS Columbus did not have controls in place to identify all instances when they owed the contractor Prompt Payment interest. Implementing Recommendations A.1, B.1, B.2.a, B.2.b, and B.3 will improve DCMA and DFAS Columbus internal control procedures and result in improved reporting of accounts payable. A copy of the final report will be provided to the senior official responsible for internal controls in DCMA and in DFAS Columbus.

DFAS Columbus Comments: In accordance with DoDI 5010.40, Sec. 6.1.4 which states: "A material weakness is a reportable condition which the Head of the DoD Component determines to be significant enough to be reported to the next highest level . . . The determination of materiality is management's judgment." The failure to consider outstanding contract financing in reporting accounts payable would have a significant impact on financial statements. The failure to properly account for partial deliveries on one lot CLIN's might possibly have a significant impact on financial statements. DFAS Columbus has identified a way to mitigate the impact of these issues pending permanent process changes. The remaining issues do not have a material impact on DoD's operations or financial reporting. Since a mitigation plan has been identified for any significant items, a material weakness will not be reported.

Team Members

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

James L. Kornides

Mark Starinsky

Lisa S. Sherck

Amber M. White

Kate S. Fortkamp

Liz W. Scullin



Inspector General Department of Defense

