

**Audit**



**Report**

OFFICE OF THE INSPECTOR GENERAL

IMPLEMENTATION OF THE DOD PLAN TO  
MATCH DISBURSEMENTS TO OBLIGATIONS  
PRIOR TO PAYMENT

Report No. 96-156

June 11, 1996

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**Department of Defense**

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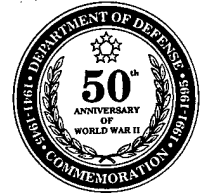
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### **Acronyms**

ACRN	Accounting Classification Reference Number
CPAS	Central Procurement Accounting System
DAO	Defense Accounting Office
DFARS	Defense Federal Acquisition Regulation Supplement
DFAS	Defense Finance and Accounting Service
GAO	General Accounting Office
MOCAS	Mechanization of Contract Administration Services
STARS	Standard Accounting and Reporting System



**INSPECTOR GENERAL**  
**DEPARTMENT OF DEFENSE**  
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**ARLINGTON, VIRGINIA 22202-2884**



June 11, 1996

**MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)**  
**DIRECTOR, DEFENSE FINANCE AND ACCOUNTING**  
**SERVICE**

**SUBJECT: Audit Report on Implementation of the DoD Plan to Match Disbursements to Obligations Prior to Payment (Report No. 96-156)**

We are providing this audit report for review and comments. It discusses the actions DoD has taken to match, or prevalidate, proposed disbursements to obligations in official accounting records before actually making payments. We performed the audit in collaboration with the General Accounting Office to avoid duplication and use available audit resources effectively. Management comments on a draft of this report were considered in preparing the final report.

Management comments on the draft report were generally responsive, but certain clarifications would be useful. We request that the Under Secretary of Defense (Comptroller) provide additional comments on the recommendations in this final report by August 9, 1996. The comments should describe planned actions and should designate completion dates for developing plans to expand prevalidation efforts, correcting system and procedural processes, and improving the quality and use of prevalidation data.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Richard B. Bird, Audit Program Director, at (317) 542-3859 (DSN 699-3859), or Mr. Carmelo G. Ventimiglia, Audit Project Manager, at (317) 542-3852 (DSN 699-3852). See Appendix F for the report distribution. The audit team members are listed inside the back cover.

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Assistant Inspector General  
for Auditing

## Office of the Inspector General, DoD

Report No. 96-156  
(Project No. 5FI-2031)

June 11, 1996

### Implementation of the DoD Plan to Match Disbursements to Obligations Prior to Payment

#### Executive Summary

**Introduction.** Disbursements must be matched with corresponding obligations in official accounting records to ensure that funds are spent in accordance with the purposes and limitations set by Congress and to avoid fraudulent disbursements or erroneous payments. The matching process becomes difficult when disbursing officials do not validate requests for payment against official records in accounting systems. In those situations, disbursements are validated and entitled based on either hard copies of documentation indicating that an obligation exists, or data in systems that support the entitlement process. The Mechanization of Contract Administration Services system is the primary DoD system for contract entitlement and payment.

The Department of Defense Appropriations Act, FY 1995 (Public Law 103-335, section 8137), required the Secretary of Defense to develop and implement a plan to match disbursements to corresponding obligations before making payments (commonly referred to as prevalidating disbursements). Public Law 103-335 required that beginning on July 1, 1995, DoD disbursing officials must prevalidate each disbursement that exceeds \$5 million. This threshold was to be reduced to \$1 million on October 1, 1995. Public Law 103-335 also required the Inspector General, DoD, to assess the DoD plan to match disbursements to corresponding obligations. The Department of Defense Appropriations Act, FY 1996 (Public Law 104-61, section 8102), amended the FY 1995 legislation by keeping the threshold at \$5 million.

The audit was performed in collaboration with the General Accounting Office in order to avoid duplication and use audit resources effectively.

**Audit Objectives.** The overall audit objective was to evaluate the implementation of the DoD plan to match disbursements to obligations prior to making payments, as required by Public Law 103-335. We also evaluated the law's impact on reducing the backlog of unmatched disbursements and negative unliquidated obligations, and DoD progress in eliminating system deficiencies that prevent all disbursements from being matched to obligations. In addition, we evaluated the adequacy of the management control program as it related to the audit objectives.

**Audit Results.** The Defense Finance and Accounting Service (DFAS) took aggressive actions to meet legislative requirements by implementing the DoD plan to match contractor and vendor invoices to corresponding obligations before paying them. Those actions identified errors and prevented problem disbursements from being recorded in official accounting records. Nevertheless, the prevalidation program did not reduce problem disbursements as the Congress and DoD anticipated; problem disbursements actually increased by \$2.3 billion between October 1995 and January 1996. Although DoD reported matching \$34.6 billion on 2,864 invoices to corresponding obligations before making payments, further actions are needed to ensure that payments are posted correctly and promptly and do not result in unmatched

disbursements and negative unliquidated obligations. Despite the actions already taken, the prevalidation of disbursements will not significantly reduce unmatched disbursements and negative unliquidated obligations until the dollar thresholds are lowered and the prevalidation process covers more types of payments, or until systems are reengineered and a single, shared data repository is achieved (Finding A).

In addition, managers at Headquarters, DFAS, did not have all the information they needed to appropriately monitor the status and measure the success of prevalidation efforts. Consequently, DoD cannot fully evaluate the progress made in preventing problem disbursements through prevalidation efforts (Finding B).

This audit report identifies material management control weaknesses in the prevalidation of disbursements (Appendix A). Recommendations in this report, if implemented, will help to reduce problem disbursements and ensure accurate reporting of the status of disbursements subject to prevalidation.

**Summary of Recommendations.** We concur with the General Accounting Office's recommendation that the Under Secretary of Defense (Comptroller) develop a management plan for prevalidating all disbursements at all DFAS disbursing stations, including lowering the threshold to \$4 million at the DFAS Columbus Center, Columbus, Ohio. We recommend that the management plan require disbursing officials to prevalidate all invoices on contracts issued after September 30, 1996, that are paid by the DFAS Columbus Center. Disbursing officials should also be required to prevalidate certain disbursements not currently included in the prevalidation program. Further, we concur with the General Accounting Office's recommendation that the Under Secretary of Defense (Comptroller) ensure that existing accounting policies and procedures are followed. We also recommend that the Director, DFAS, correct system and procedural problems in the prevalidation process, and improve the quality of the data needed to monitor the status and measure the success of prevalidation efforts.

**Management Comments.** The Deputy Chief Financial Officer, Office of the Under Secretary of Defense (Comptroller), consolidated comments from the DFAS with his response. Generally, his office and DFAS concurred or partially concurred with the findings and recommendations in the report. The Deputy Chief Financial Officer stated that he could not commit to expanding prevalidation until requirements for resources, procedures, and system changes have been thoroughly analyzed. He agreed to correct systems and procedures and improve the quality and use of prevalidation data. However, he did not provide the specific planned actions and completion dates for these actions. See Part I for a summary of management comments on the recommendations and Part III for the full text of management comments.

**Audit Response.** The comments of the Deputy Chief Financial Officer generally met the intent of our recommendations. However, the comments were not fully responsive because they did not include planned actions and intended completion dates for analyzing requirements for resources, procedures, and system changes; correcting systems and procedures; and improving the quality and use of prevalidation data. We request that the Under Secretary of Defense (Comptroller) provide additional comments by August 9, 1996.

# Table of Contents

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<b>Executive Summary</b>	i
<b>Part I - Audit Results</b>	
Audit Background	2
Audit Objectives	3
Finding A. Matching Disbursements to Obligations Prior to Payment	4
Finding B. Reporting Data on Prevalidation	17
<b>Part II - Additional Information</b>	
Appendix A. Scope and Methodology	24
Scope	24
Methodology	24
Management Control Program	25
Appendix B. Summary of Prior Audits and Other Reviews	27
Appendix C. Automated Prevalidation Processes	30
Appendix D. Inspector General, DoD, Letter to Congressional Defense Committees, February 28, 1995	34
Appendix E. Organizations Visited or Contacted	36
Appendix F. Report Distribution	38
<b>Part III - Management Comments</b>	
Under Secretary of Defense (Comptroller) Comments	42

## **Part I - Audit Results**

### Audit Background

DoD disbursing officials are responsible for ensuring that funds are spent in accordance with the purposes and limitations set by Congress. To comply with legal and regulatory requirements, accounting and fund control systems must record disbursements as expenditures of appropriations and as corresponding reductions of previously recorded obligations. Proper matching of disbursements with related obligations is also necessary to ensure that fraudulent disbursements or erroneous payments are detected. Before a disbursement is made, disbursing officials should ascertain that each line of accounting to be charged represents a valid obligation and that sufficient unliquidated funds are available to cover the obligation. DoD officials recognize that problems exist in properly matching disbursements with corresponding obligations.

Within DoD, one organization (the disbursing station) may disburse funds that are accounted for by a different organization (the accountable station). For example, the Defense Finance and Accounting Service (DFAS) Columbus Center, Columbus, Ohio, makes contract payments using Army, Navy, Air Force, and other Defense agencies' funds. During FY 1995, the DFAS Columbus Center paid about 1.2 million contractor invoices valued at about \$60 billion. Payments are accounted for in the systems used by the accountable stations. Information on the disbursements flows from the disbursing station to the accountable station so that disbursements can be matched with corresponding obligations and recorded in the official accounting records. Disbursement data often take more than 30 days to flow from the disbursing station to the accountable station. When disbursements do not match obligations, resources must be expended to research and resolve the problems, and corrections are less likely to be made promptly and accurately.

The Department of Defense Appropriations Act, FY 1995 (Public Law 103-335, section 8137), required the Secretary of Defense to develop and implement a plan to match disbursements to corresponding obligations before making payments. Public Law 103-335 required that beginning July 1, 1995, DoD disbursing officials must prevalidate each disbursement that exceeded \$5 million. This threshold was to be reduced to \$1 million on October 1, 1995. However, the Department of Defense Appropriations Act, FY 1996 (Public Law 104-61, section 8102), amended the FY 1995 legislation by keeping the threshold at \$5 million.

The Director, DFAS, required disbursing stations to prevalidate all invoices over \$1 million, except for the DFAS Columbus Center. The prevalidation process requires disbursing officials to determine, before making payments, that each line of accounting to be charged represents a valid obligation, and that the unliquidated obligation balance is equal to or greater than the proposed disbursement. In verifying the unliquidated obligation balance, officials must also consider other proposed disbursements that have been previously validated but not yet recorded as disbursed.



In response to Public Law 103-335, we independently assessed the DoD plan that required disbursing officials to match disbursements to corresponding obligations before making payments. In a February 28, 1995, letter to congressional committees that have DoD oversight, we supported the DoD plan but acknowledged its risk (see Appendix D). The plan recognized the benefits of matching all disbursements to obligations, but applied specifically to payments made by DoD to the private contractors and vendors. We were concerned that problems with matching disbursements to obligations would continue until DoD achieved its long-term goal of eliminating multiple data bases and establishing a single, shared repository for data.

## **Audit Objectives**

The overall audit objective was to evaluate the implementation of the DoD plan to match disbursements to obligations prior to payment, as required by Public Law 103-335. We also evaluated the public law's impact on reducing the backlog of unmatched disbursements and negative unliquidated obligations, and DoD progress in eliminating system deficiencies that prevent all disbursements from being matched to obligations. In addition, we evaluated the adequacy of the management control program as it related to the audit objectives. Appendix A discusses the audit scope and methodology, including the extent of our reliance on work by the General Accounting Office (GAO), and the results of our evaluation of the management control program. See Appendix B for a summary of prior coverage related to the audit objectives.

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## **Finding A. Matching Disbursements to Obligations Prior to Payment**

DFAS took aggressive actions to meet legislative requirements by implementing the DoD plan to match contractor and vendor invoices to corresponding obligations before paying them. For transactions that were prevalidated, those actions generally ensured that disbursements could be matched to corresponding obligations; however, prevalidation efforts did not reduce the overall magnitude of problem disbursements. Between October 1995 and January 1996, problem disbursements actually increased by \$2.3 billion. Although DFAS has made significant progress, further actions are needed to ensure that payments are posted correctly and promptly and do not result in unmatched disbursements and negative unliquidated obligations. Major reductions in problem disbursements are unlikely until a management plan is developed to expand the prevalidation program, and until systemic and procedural deficiencies are corrected.

### **Implementing the Prevalidation Process**

**Implementation Plan.** In response to Public Law 103-335, section 8137, the Under Secretary of Defense (Comptroller) issued an implementation plan on February 28, 1995, that required contractor and vendor invoices meeting the dollar thresholds to be matched to corresponding obligations before payment. The prevalidation requirement applied to individual invoices with a gross dollar value that exceeded \$5 million and were paid on or after July 1, 1995. As of October 1, 1995, the threshold was to be lowered to \$1 million. The plan stated that each year, DFAS makes approximately 3,500 payments on invoices exceeding \$5 million and 17,000 payments on invoices exceeding \$1 million. The plan recognized the need to develop manual procedures for prevalidating disbursements until automated processes can be put into place.

DoD makes payments in two operating environments. In one environment, disbursing and accounting functions are performed in the same system, or an interface exists between the disbursing system and the accounting system. In that environment, the request for payment is automatically validated against obligations in official accounting records before payment. In the other environment, no interface exists, and payments are not validated against obligations in the official accounting records before paying invoices. Both operating environments require disbursing officials to ensure that contractors and vendors are entitled to payment by verifying that the

## Finding A. Matching Disbursements to Obligations Prior to Payment

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Government has received and accepted goods and services and that payment amounts are computed accurately. Disbursing officials also must determine the lines of accounting to be charged for each payment. These actions constitute the entitlement process.

**Automated Processes.** The DFAS Columbus Center uses the Mechanization of Contract Administration Services (MOCAS) system to pay all centrally managed contracts. Before July 1, 1995, MOCAS did not interface with the accounting systems that accounted for the funds it paid. Since then, system interfaces have been established between MOCAS and eight major contract accounting systems. As of January 10, 1996, 56 accountable stations used the 8 systems to prevalidate disbursements made by the DFAS Columbus Center. The automated process generally works as follows.

Information needed to prevalidate a disbursement is electronically sent from the disbursing system to the accounting system, or to a prevalidation module that connects to the accounting system using a "record 7" transaction. The validation process determines, before disbursement, whether each line of accounting to be charged (summarized in the form of an accounting classification reference number [ACRN]) represents a valid obligation in the accounting system. The process also determines whether the unliquidated obligation balance is equal to or greater than the proposed disbursement. The verification of the unliquidated obligation balance must also consider other proposed disbursements that have been previously validated but not yet recorded as disbursed.

If the validation process is successful, a "record 8" transaction is sent from the accounting system to the disbursing system, approving the disbursement. At the same time, funds are reserved within either the accounting system or the supporting prevalidation module. If the validation process is unsuccessful, a record 8 transaction is sent to the disbursing system; this transaction denies the request and gives a code indicating the reason that the transaction was not accepted by the accounting system. After the disbursing station or the accountable station researches and resolves the problem, either the original record 7 transaction or another record 7 transaction is sent to the responsible accounting system. Since more than one ACRN is usually associated with each invoice, the disbursing system could send prevalidation data to more than one accounting system.

When an approved record 8 transaction is received for each record 7 transaction associated with the invoice, the invoice is scheduled for payment in accordance with cash management policies. After payment, a "record 9" transaction is electronically transmitted to each associated accounting system, giving the authority to release the reserved funding and providing the expenditure data needed to record the payment.

Other initiatives were taken to establish connectivity between disbursing and accounting systems. For example, the DFAS Cleveland Center, Cleveland, Ohio, expanded the connectivity of the Standard Accounting and Reporting System (STARS) at eight field locations. Prevalidation was established for all requests for payment, regardless of the dollar value. Additionally, plans were

## **Finding A. Matching Disbursements to Obligations Prior to Payment**

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under way to establish electronic connectivity between major vendor payment systems and the accounting systems that are primarily used to account for those types of payments. DFAS plans to establish connectivity in those systems beginning in June 1996.

**Manual Processes.** A manual process was used to prevalidate all other contractor and vendor invoices that met dollar thresholds for prevalidation. With the manual process, which served the same purpose as the automated process, the disbursing station sent a facsimile with the prevalidation data to the accountable station. Personnel at the accountable station reviewed the accounting data and verified that associated unliquidated obligation balances were equal to or greater than the proposed disbursement amounts. Responses were usually returned to the disbursing stations by facsimile. As with the automated process, when a validation was denied, personnel at the accountable and disbursing stations had to research and resolve the problems before a payment could be made. Approved transactions were processed for payment and expenditure data were sent to the accountable stations, using existing methods such as contract payment notices and disbursing vouchers.

**Extent of Prevalidation.** Between July 1, 1995, and January 31, 1996, DFAS reported that 2,864 invoices, valued at about \$34.6 billion, had been prevalidated. The process required the prevalidation of 8,731 ACRNs and the disbursement of about \$15 billion to contractors and vendors. For the 1,157 payments made by the DFAS Columbus Center, 1,643 ACRNs, valued at about \$1.1 billion, were prevalidated manually by about 50 accountable stations.

### **Increased Prevalidation Needed to Reduce Problem Disbursements**

DFAS took aggressive actions to meet legislative requirements by implementing the DoD plan to match contractor and vendor invoices to corresponding obligations before paying them. Although those actions generally ensured that disbursements could be matched to corresponding obligations, prevalidation efforts did not reduce the overall magnitude of problem disbursements. Between October 1995 and January 1996, problem disbursements actually increased by \$2.3 billion, from \$23.1 billion to \$25.4 billion. Problem disbursements will continue until DoD requires DFAS to match more disbursements to corresponding obligations before payment, or until management control and system deficiencies are corrected.

**Problem Disbursements.** As of January 31, 1996, about \$25.4 billion in disbursements had not been properly matched to corresponding obligations in accounting records. That amount included:

- o \$10.6 billion in disbursements that had been paid and sent to accountable stations, but had not yet been matched to corresponding obligations in accounting records (unmatched disbursements);

## Finding A. Matching Disbursements to Obligations Prior to Payment

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- o \$3.2 billion in disbursements for which corresponding obligations either had not been established in accounting records or were insufficient to cover the amount of the disbursements (negative unliquidated obligations); and

- o \$9.4 billion in disbursements that had been sent by disbursing stations to accountable stations, but had not yet been received by the accountable stations.

The \$25.4 billion also included \$2.2 billion in problem disbursements that have since been accounted for by additional obligations recorded in accordance with guidance issued on June 30, 1995, by the Under Secretary of Defense (Comptroller). DFAS reported as of October 1, 1995, that about \$23.1 billion in disbursements had not been properly matched to corresponding obligations in official accounting records.

**Impact of the Dollar Threshold.** The prevalidation process is intended to eliminate problem disbursements within DoD and bring disbursing and accounting systems into closer agreement. While the disbursements that were prevalidated generally did not result in problem disbursements, only a small portion of all disbursements was prevalidated. Lowering the dollar threshold at which disbursements must be prevalidated and expanding the types of payments that are subject to prevalidation would improve the credibility of DoD financial management.

The \$5 million threshold was too high to ensure that most disbursements would be prevalidated. For example, the DFAS Columbus Center processed 521,262 disbursements totaling \$37.1 billion during the period July 1, 1995, through January 31, 1996. Only 1,157 of those disbursements, totaling \$12.4 billion, met the \$5 million threshold and were prevalidated.

Personnel at the DFAS Columbus Center estimated that about 33 percent of all requests for prevalidation were denied and required some type of resolution before payment. Our limited review of invoices that were originally denied by an accountable station showed that payments were not always entitled correctly. Therefore, errors related to the disbursements that were not prevalidated had probably been sent to accountable stations for posting in official accounting records. Since most disbursements paid by DoD were not subject to prevalidation, elimination of problem disbursements was not possible.

**Concerns About Payment Delays.** The original plan to lower the threshold to \$1 million was implemented at all disbursing stations except the DFAS Columbus Center. Plans to lower the threshold at the DFAS Columbus Center had changed several times since prevalidation began. Managers at the DFAS Columbus Center were concerned that lowering the threshold would increase the work load. In February 1996, the DFAS Columbus Center added 25 employees to monitor and resolve the problems that prevented disbursements from being prevalidated. According to the list of invoices that were subject to prevalidation but not yet paid, as of January 31, 1996, no significant backlog of invoices existed at the DFAS Columbus Center. The list showed that only

## Finding A. Matching Disbursements to Obligations Prior to Payment

69 invoices had not been successfully prevalidated; of the 69 invoices, only 8 invoices were over 30 days old. As of March 1, 1996, only 4 invoices were over 30 days old.

The DFAS Columbus Center had planned to lower the threshold to \$4 million beginning February 26, 1996. However, this plan was suspended because managers were concerned that invoices, primarily progress payments and cost vouchers, were not being paid in a timely manner. The Defense Federal Acquisition Regulation Supplement (DFARS) set a goal of paying progress payments within 7 days and cost vouchers within 14 days. As of December 1995, the average number of days taken was 16 days for progress payments and 15 days for cost vouchers. Our review showed that the manual prevalidation process could be completed in 1 day, but the automated prevalidation process added at least 2 days to the process. Additional delays could occur if disbursement problems had to be researched and resolved. Also, the time taken to prevalidate invoices was often lengthened because several ACRNs required prevalidation, and differences existed in how obligations and disbursements were accounted for in MOCAS and the accounting systems. In January 1996, prevalidation averaged 6 days for all types of invoices. At the DFAS Columbus Center, the list of prevalidated invoices showed that as of March 13, 1996, 232 cost vouchers and 356 progress payments had been paid. For each invoice, the report showed the date of the invoice, the date the invoice entered prevalidation, the date of payment, and the total number of days taken to pay it. The analysis showed that 402 (68 percent) of the 588 invoices exceeded the DFARS goals of 7 days for progress payments and 14 days for cost vouchers. However, the longest delays were caused by the entitlement process, not prevalidation. Table 1 shows the number of prevalidated invoices that were not paid on time because of delays in entitlement.

**Table 1. Analysis of Delays in Payment of Invoices**

<u>Type of Invoice</u>	<u>Number of Paid Invoices</u>	<u>Payment Goal (in Days)</u>	<u>Number Exceeding Goal</u>	<u>Average Days in Entitlement</u>
Progress Payments	356	7	290	12
Cost Vouchers	<u>232</u>	14	<u>112</u>	18
<b>Total</b>	<b>588</b>		<b>402</b>	

The DFAS Columbus Center's data for the 6-month period ending June 30, 1995, indicated that prevalidation did not add appreciably to delays in paying contractors.

We found no adequate reason to delay lowering the dollar threshold at the DFAS Columbus Center. A review of calendar year 1995 disbursement data for the DFAS Columbus Center showed that lowering the threshold from \$5 million

## **Finding A. Matching Disbursements to Obligations Prior to Payment**

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to \$4 million would subject only about 557 more invoices to prevalidation. An additional 8,890 invoices would be subject to prevalidation if the threshold were incrementally lowered from \$4 million to \$1 million. At the \$1 million level, at least 50 percent of the total funds disbursed by the DFAS Columbus Center would be subject to prevalidation.

**Expanding the Use of Prevalidation.** Opportunities exist to expand prevalidation to more contract payments as well as other types of payments. The DoD plan addressed only the immediate solution for compliance with section 8137: prevalidating contractor and vendor payments. As automated financial systems were enhanced, the dollar thresholds were to be reduced. Since a large volume of transactions fall below the existing dollar thresholds and many of the management control weaknesses and system deficiencies identified in prior audits continue to exist (see Appendix B), problem disbursements continue to be created, both on existing contracts and on contracts being paid for the first time.

One method of increasing the number of disbursements that are subject to prevalidation is to require all payments on new contracts to be prevalidated. On new contracts, data in the disbursing and accounting systems should be identical. Prevalidating disbursements on new contracts will minimize problem disbursements on those contracts. Using automated processes that match disbursements to obligations before payment, these disbursements should be relatively easy to prevalidate. Personnel at the DFAS Columbus Center estimated that about 80,000 new contracts had been established in MOCAS in the first 6 months of FY 1996. They said that a system change could be made to require prevalidation of all disbursements on contracts with a designated fiscal year. A requirement should be established to prevalidate all disbursements on contracts issued after September 30, 1996.

The Under Secretary of Defense (Comptroller), in his memorandum on "Matching of Obligations to Proposed Disbursements," issued on November 18, 1994, stated that all disbursements should be subject to prevalidation, including transfers between appropriations and other reimbursements. Although the DoD plan recognized the need to eventually prevalidate all disbursements and transfers, it did not address prevalidation of other types of disbursements. DoD should require gradual reduction in the dollar thresholds at which disbursements are matched to obligations, and should expand prevalidation requirements to other types of disbursements.

### **Weaknesses in the Prevalidation System**

DFAS needs to solve system design problems in order to eliminate obstacles to expanding the use of prevalidation. We reviewed the prevalidation modules that connect MOCAS with the major contract accounting systems used by the accountable stations that report to the DFAS Cleveland Center and the DFAS Indianapolis Center, Indianapolis, Indiana. The GAO reviewed the prevalidation modules that connect MOCAS with the major contract accounting

## **Finding A. Matching Disbursements to Obligations Prior to Payment**

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systems used by the accountable stations that report to the DFAS Denver Center, Denver, Colorado, and the DFAS Kansas City Center, Kansas City, Missouri. Each module had specific strengths and weaknesses. A detailed explanation of the automated process at each activity is in Appendix C. Although each module performed the prevalidation function, we identified several system design problems that should be corrected.

**Reserving Funds and Posting Prevalidated Disbursements in Official Accounting Records.** Each module reserved funds for proposed disbursements that had been validated, but not yet recorded as disbursed. These funds were to be reserved until the accounting system received a record 9 transaction from the disbursing system, and the transaction was posted in the official accounting records. This process was fully implemented in the two DFAS Cleveland Center accounting systems that interfaced with MOCAS: the Standard Accounting and Reporting System and the Management Information System International Logistics. Funds were reserved in each accounting system when a request for payment was received, and the record 9 transactions were used to post disbursements in the accounting systems. However, automated processes developed for the contract accounting systems used by the DFAS Denver Center and the DFAS Indianapolis Center needed improvement.

**DFAS Denver Center.** We reviewed the interface between MOCAS and the DFAS Denver Center's Central Procurement Accounting System. Funds initially reserved in the accounting system were no longer set aside after a valid record 9 transaction was received. However, the record 9 transactions were not used to post disbursements to the accounting system. The disbursements were not posted to the accounting system until the accountable station received a contract payment notice. A contract payment notice is an electronic data set containing the expenditure data for each disbursement. Also, because contract payment notices were subject to more stringent edits than prevalidated disbursements, some prevalidated disbursements could result in unmatched disbursements.

**DFAS Indianapolis Center.** We reviewed the interfaces between MOCAS and the three systems used by the DFAS Indianapolis Center to account for Army contract payments. The three systems are the Standard Operations and Maintenance Army Research and Development System, the Standard Army Procurement and Appropriation System, and the Commodity Command Standard System. We found that funds were reserved in the module, but not in the three accounting systems. We were told this was done because the accounting systems could not be modified to reserve funds. At the Defense Accounting Office (DAO) U.S. Army Missile Command, Huntsville, Alabama, and the DAO U.S. Army Aviation and Troop Command, St. Louis, Missouri, the system application designed to release the reserved funds in the module was not being run because personnel at the DAOs could not determine when a disbursement would actually be posted to the accounting system. Instead, more funds than necessary were reserved. Eventually, this condition may prevent some disbursements from being prevalidated and paid promptly. For example, at the DAO U.S. Army Missile Command, the prevalidation module had overreserved about \$1.1 million against an ACRN, causing the ACRN to appear as a negative unliquidated obligation, although sufficient funding actually



## Finding A. Matching Disbursements to Obligations Prior to Payment

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existed. We also found that record 9 transactions were not used to post disbursements in the accounting systems. The DAO U.S. Army Missile Command used contract payment notices to post disbursements in accounting systems, and the DAO U.S. Army Aviation and Troop Command used disbursing vouchers to post disbursements. Contract payment notices arrived 2 to 4 days after the disbursement was made, and vouchers took from 1 week to several months to post in the accounting systems.

**Other System Concerns.** Despite the DFAS Cleveland Center's success in automating the prevalidation process, a management control weakness caused unmatched disbursements. Expenditure data for each disbursement are processed and sent to the accountable station for posting in the accounting system. Since expenditure data were also in the record 9 transaction, the accountable stations received duplicate expenditure data on each disbursement. To prevent disbursements from being posted twice, DFAS Cleveland Center personnel required a digit to be inserted in the line of accounting data to identify the expenditure as a prevalidated disbursement. All disbursements coded in this manner would not be posted twice. However, problems sometimes caused unmatched disbursements. As of January 31, 1996, records showed that at least two disbursements, valued at \$32 million, had been prevalidated but were later identified as unmatched disbursements.

The other DFAS Centers did not have the same problem because they did not post the record 9 transactions to their accounting systems. When funds are no longer reserved, the record 9 transactions should be used to post expenditure data to accounting systems. Unreserved funds make unliquidated obligation balances available for use by other prevalidation requests and disbursements that fall below the dollar thresholds. This is critical in the current environment, in which most disbursements are not subject to prevalidation. The risk exists that some prevalidated disbursements could become negative unliquidated obligations. DFAS should prevent the duplicate posting of expenditure data by posting only the record 9 transactions to accounting systems.

**Data Control Methods.** File transfer programs had not been fully developed to provide end-of-file record counts and edit checks to ensure that all data were transmitted, received, and processed correctly. Accountable stations could not always determine whether all transactions sent by the DFAS Columbus Center had been properly received.

**End-of-File Record Counts.** File transfers did not contain an end-of-file record count that would identify the number of records transmitted or verify that the complete file was received. Consequently, accountable stations could not determine whether they received all records sent by the DFAS Columbus Center. Normally, when the DFAS Columbus Center canceled a prevalidation request, a record 7 transaction was sent to the accountable stations to cancel each authorization request number sent previously. A new prevalidation request would then be transmitted. Accountable stations did not always receive these cancellations; consequently, they did not remove canceled transactions from their file. Because the accountable stations did not receive all cancellation transactions, they had to spend resources unnecessarily to research prevalidation requests that were paid using other authorization request numbers.

## **Finding A. Matching Disbursements to Obligations Prior to Payment**

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For instance, as of January 1996, Operating Location Charleston, Charleston, South Carolina, had an aged prevalidation list identifying 35 invoices that were at least 30 days old. Our review showed that most of these invoices had already been paid by the DFAS Columbus Center, but still appeared on the aged prevalidation list because the accounting system had not received record 7 cancellations. Records at the DFAS Columbus Center indicated that the cancellation transactions had been sent to Operating Location Charleston. If the accountable stations do not receive cancellation transactions, unliquidated obligation balances may be incorrect because funds could be reserved twice. This was the case for the data in the prevalidation module at the DAO U.S. Army Missile Command.

**Edit Checks.** At the two DFAS Indianapolis Center accountable stations we visited, the prevalidation module allowed authorization request numbers to be processed more than once. Existing controls did not prevent an authorization request number from being processed more than once if the related transaction had been approved and stored in the history file of the prevalidation module. The system edits checked only the active acceptance list for duplicate authorization request numbers. If the authorization request number was not present in the active acceptance list, the system processed the transaction. However, if a duplicate request was received after the transaction was subsequently transferred to the history file, a second prevalidation transaction would be processed. DFAS should develop an edit check to ensure that no duplicate authorization request numbers can be processed.

### **Procedures for Prevalidation**

Some disbursing and accountable stations lacked adequate desk procedures for implementing the DoD plan. Individual procedures for prevalidation should have been developed at each activity to ensure compliance with prevalidation requirements. The lack of standard procedures may cause further problems when activities are consolidated.

**Variations in Processing at Each Activity.** Various systems and procedures were used to prevalidate disbursements, and each activity accomplished prevalidation differently. At some activities, the process was centralized, and appropriate management controls had been developed to ensure that prevalidation was done properly. At other activities, the process was decentralized, and disbursements may not have been prevalidated as required. Employees needed detailed procedures explaining how to process prevalidation requests, how and when disbursing and accountable stations should resolve rejected prevalidation requests, and how to reserve funds for prevalidated disbursements. As a result, prevalidation was not always accomplished and disbursements were not always recorded properly in accounting records. The need for procedures was especially evident at stations that prevalidated disbursements manually.

## **Finding A. Matching Disbursements to Obligations Prior to Payment**

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The activities we visited had not established adequate controls over their processes for manual prevalidation of disbursements. Procedures either had not been developed or were not sufficient to control the process. DFAS Columbus Center's records showed that most of the manually prevalidated disbursements paid by MOCAS were accounted for by the Navy's Strategic Systems Programs Office, Arlington, Virginia. The Strategic Systems Program Office prevalidated 1,143 ACRNs using manual processes during the first 7 months of the program. Our visit to the office showed that documented procedures had not been established to guide the process of manually prevalidating disbursements. Records were not routinely maintained on the status of the unliquidated obligation balances at the time of prevalidation, and effective procedures had not been established to reserve approved funds. Because of the time lag between approval of requests for prevalidation and posting of disbursements in the accounting records, procedures should have included a method for reserving funds that had been prevalidated but not yet paid.

At the DAO U.S. Army Aviation and Troop Command, controls were weak over the processing of disbursements that required prevalidation. Procedures had not been developed to guide the prevalidation process, and controls over requests for authorization to prevalidate were weak. The status of each authorization request manually received from disbursing stations was difficult to determine, and an audit trail did not exist for many prevalidated disbursements. Also, disbursements that were prevalidated were sometimes posted to ACRNs other than the ACRN that had been approved for prevalidation. Further, we found that procedures did not exist to guide the process of prevalidating disbursements made and accounted for by the DAO. Consequently, DFAS had limited assurance that disbursements were properly prevalidated and reported. Problems with reporting prevalidated disbursements are discussed in more detail in Finding B.

**Coordination Between Disbursing and Accountable Stations.** Although the original guidance assigned responsibility to the disbursing station or the accountable station for resolving disbursements that could not be properly matched to accounting records, none of the accountable stations we visited took actions to solve problems with proposed MOCAS disbursements. DFAS Columbus Center personnel told us that because of the need for timely payment, they took followup actions on all record 8 transactions that were not accepted by accountable stations. In some cases, personnel at the accountable stations were also researching the problem, but had not yet informed DFAS Columbus Center personnel. As a result, accountable station personnel used their time ineffectively. Desk procedures should clearly assign responsibilities for clearing rejected transactions.

### **Field-Level Training in Prevalidation**

DFAS developed and fielded complex modules for automated prevalidation at accountable stations before personnel received training in systems and procedures. As a result, personnel were not sure how the process worked,

## Finding A. Matching Disbursements to Obligations Prior to Payment

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whether problems were occurring, or how to correct errors. Although some training had been provided since the initial fielding of the automated modules, DFAS should ensure that all affected accounting personnel receive appropriate training.

**System Training.** The automated process for prevalidating disbursements was implemented before accounting personnel were properly trained on the new applications. Because of the lack of training at activities supported by the DFAS Indianapolis Center, accounting personnel were not sure how the new system applications operated, how the applications affected accounting records, and whether system errors were occurring. Initially, personnel at the DAO U.S. Army Missile Command and the DAO U.S. Army Aviation and Troop Command were denied access to most files in the prevalidation module. Consequently, they could not review data to detect potential errors, such as differences between data in the prevalidation module and in accounting records. Likewise, personnel at Operating Location Charleston were unaware that two authorization request numbers could be processed for the same invoice, and the system generated erroneous data on prevalidation requests that had not been paid.

**Procedural Training.** Personnel did not receive formal training on procedures to ensure that prevalidation was implemented properly. At most of the accountable stations we visited, personnel expressed concerns about their level of knowledge of how the prevalidation process worked. They were unfamiliar with the procedures for resolving transactions that could not be prevalidated and with deadlines for sending data to the disbursing stations. For example, personnel at Operating Location Charleston and the Naval International Logistics Command, Philadelphia, Pennsylvania, did not review accepted transactions to ensure that the process worked correctly. None of the activities we visited had trained their personnel in how to reserve funds for disbursements that were manually prevalidated.

## GAO Results and Concerns

In collaboration with the GAO, we determined whether DoD implementation of the prevalidation program complied with legislative requirements, and whether prevalidation efforts significantly reduced problem disbursements. The GAO reported that DoD exceeded the legislative requirements by lowering the dollar threshold to \$1 million on October 1, 1995, for all disbursing stations except the DFAS Columbus Center. Nevertheless, although prevalidation was in effect, DoD efforts to correct existing problem disbursements were overshadowed by the inflow of new problem disbursements. The GAO recommended that DoD develop a management plan for prevalidating all disbursements at all DFAS disbursing stations. As a first step, GAO recommended that the threshold for prevalidating disbursements at the DFAS Columbus Center be reduced to \$4 million. Further, GAO recommended that DoD ensure that existing

## Finding A. Matching Disbursements to Obligations Prior to Payment

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accounting policies and procedures are followed in recording obligations, detecting and correcting errors, and posting complete and accurate accounting information in systems supporting the disbursement process.

### Conclusion

By matching many disbursements to corresponding obligations before payments were made, DFAS avoided some problem disbursements. DFAS is expanding prevalidation requirements. However, because of the lack of overall progress in reducing problem disbursement balances and resolving long-standing control and system weaknesses (identified in the reports discussed in Appendix B), prevalidation must be further expanded at a more aggressive pace. System solutions will not solve the control and system weaknesses in the near term. New initiatives such as the Defense Procurement Pay System are not scheduled for full implementation until calendar year 2001. In the meantime, DFAS must make system changes related to the automated prevalidation process, establish and document procedures, and provide training for all affected personnel. Additional resources must be provided if necessary. We recognize that DFAS is already hard pressed to meet its requirements while downsizing; however, problem disbursements must be brought under control.

### Recommendations, Management Comments, and Audit Response

**A. 1. We recommend that the Under Secretary of Defense (Comptroller), in the management plan recommended by the General Accounting Office, include requirements to:**

**a. Prevalidate all invoices on contracts issued after September 30, 1996, that are paid by the Defense Finance and Accounting Service Columbus Center.**

**b. Prevalidate other types of payments, such as transfers between appropriations and other reimbursements.**

**Management Comments.** The Deputy Chief Financial Officer partially concurred. He stated that resource, procedural, and system change requirements must be thoroughly analyzed before DoD can commit to specific time frames or dollar levels for:

- o incrementally lowering the prevalidation threshold;

## **Finding A. Matching Disbursements to Obligations Prior to Payment**

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- o prevalidating all invoices on contracts issued after September 30, 1996, that are paid by the DFAS Columbus Center; or
- o validating other types of payments.

He also stated that problem disbursements increased between October 1995 and January 1996 by \$2.3 billion, from \$23.1 billion to \$25.4 billion, rather than by \$2.9 billion, as stated in the draft report.

**Audit Response.** The threshold for prevalidating disbursements at the DFAS Columbus Center should be immediately lowered to \$4 million. We agree that subsequent efforts to expand prevalidation should be done after the resource, procedural, and system requirements are studied. We request that the Deputy Chief Financial Officer provide the specific planned actions and milestones for the study. We have revised the report to reflect the \$2.3 billion increase in problem disbursements.

### **A. 2. We recommend that the Director, Defense Finance and Accounting Service:**

#### **a. Implement system changes to correct weaknesses in the automated prevalidation process. Specifically:**

(1) Develop a method of preventing duplicate posting of expenditure data by posting only record 9 transactions to accounting systems.

(2) Implement end-of-file record counts and edit checks to ensure that all data are transmitted, received, and processed correctly.

**b. Develop and document procedures for prevalidation.** The procedures should require disbursing and accountable stations to process automated and manual requests properly, post prevalidated disbursements to accounting records promptly, and resolve rejected authorization requests efficiently.

**c. Provide training to all affected accounting personnel to ensure that prevalidation is effective.**

**Management Comments.** The Deputy Chief Financial Officer concurred. Management plans to take actions to implement system changes to the automated prevalidation process, develop and document procedures for prevalidation, and provide needed training.

**Audit Response.** Although the Deputy Chief Financial Officer concurred, the comments did not indicate specific planned actions. We request that the Under Secretary of Defense (Comptroller) provide details on the corrective actions and milestones to improve these processes in response to the report.

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## **Finding B. Reporting Data on Prevalidation**

Managers at Headquarters, DFAS, did not have the information they needed to appropriately monitor the status and measure the success of prevalidation efforts. This condition occurred because DFAS personnel did not always ensure accurate reporting that complied with existing guidance or identify needs for other management information. Consequently, DoD cannot fully evaluate the progress made in preventing problem disbursements through prevalidation efforts.

### **Requirements for Prevalidation Reporting**

**Implementing Guidance.** The DoD plan, which required that disbursements be matched to corresponding obligations before payments are made, recognized the need to report information on the prevalidation program. On July 20, 1995, the Director, DFAS, issued a memorandum directing that prevalidations be reported daily, retroactive to July 1, 1995. He stated, "Prudent management dictates that the Headquarters be continually informed of the status of payments that require prevalidation." The reported information was to be used to monitor efforts to match disbursements to corresponding obligations.

**DFAS Requirements.** Between July 1, 1995, and September 30, 1995, the DFAS Centers and their subordinate disbursing stations were required to prevalidate disbursements before paying contractor invoices that exceeded \$5 million. On October 1, 1995, DFAS lowered the threshold to \$1 million for all disbursing stations except the DFAS Columbus Center. The following information was to be reported daily:

- o cumulative numbers and dollar values of prevalidated disbursements paid;
- o numbers and dollar values of disbursements for which prevalidation had been requested but payment had not yet been made; and
- o detailed data on each prevalidated disbursement that had not been paid, including the status of prevalidation, the contractor's name, and the accountable station.

The DFAS Columbus Center was also required to prepare a report that identified disbursements that were subject to prevalidation but had not been paid within 30 days of receipt. On November 22, 1995, Headquarters, DFAS, changed the frequency of reporting from daily to weekly, and added a requirement that a prevalidation report also be prepared at the end of each month.

## Finding B. Reporting Data on Prevalidation

### Reporting by the DFAS Centers

Most DFAS Centers did not furnish complete and accurate information to managers at Headquarters, DFAS, on actions taken to meet prevalidation requirements. Available reporting guidance had not been properly disseminated and used. Little was done to ensure that the data submitted to higher headquarters accurately described actions taken to prevalidate disbursements. Only the DFAS Columbus Center submitted reports that contained information useful for assessing whether prevalidation requirements had been met. Our review showed that while the extent of efforts to match disbursements to obligations was more than reported, some disbursements were not prevalidated before the payments were made.

**Extent of Prevalidation.** Between July 1, 1995, and January 31, 1996, DFAS reported that 2,864 invoices, valued at about \$34.6 billion, had been prevalidated. This process required the prevalidation of 8,731 ACRNs and the disbursement of about \$15 billion to contractors and vendors. DFAS reported the full value of invoices (gross) as well as the value of the invoices minus any recoupments or discounts taken (net). Table 2 shows disbursements prevalidated through January 31, 1996, as reported by each DFAS Center.

**Table 2. Prevalidation Statistics Reported by DFAS Center for the Period July 1, 1995, to January 31, 1996 (Millions)**

<u>DFAS Center</u>	<u>Number of Invoices</u>	<u>Number of ACRNs</u>	<u>Gross Dollar Value</u>	<u>Net Dollar Value</u>
Columbus	1,157	5,932	\$17,860	\$12,351
Cleveland	1,213	1,213	14,975	933
Indianapolis	384	1,476	1,254	1,162
Denver	103	103	509	509
Kansas City	<u>7</u>	<u>7</u>	<u>9</u>	<u>9</u>
<b>Total</b>	<b>2,864</b>	<b>8,731</b>	<b>\$34,607</b>	<b>\$14,964</b>

Although we found few problems with the data furnished by the DFAS Columbus Center, the other DFAS Centers significantly misstated the numbers and dollar values of prevalidated disbursements that were subject to prevalidation. In addition, required information and other useful data were not reported. Incomplete reporting prevents full assurance that all disbursements were properly prevalidated; it also limits the usefulness of the information to management for making decisions on the status of prevalidation, the need to lower thresholds, and the impact of prevalidation on the DFAS Centers.



## Finding B. Reporting Data on Prevalidation

**DFAS Cleveland Center.** The reporting requirements were not distributed to personnel responsible for compiling data on the prevalidation of disbursements at the DFAS Cleveland Center. Personnel at the DFAS Cleveland Center reported the information submitted by subordinate disbursing stations without questioning its completeness or accuracy. Our review showed that the DFAS Cleveland Center should have questioned the information before sending it to Headquarters, DFAS. We used information from the DFAS Cleveland Center on invoices that disbursing stations had paid using STARS. We identified 894 invoices, valued at about \$4.6 billion, that should have been prevalidated and reported. Table 3 shows the numbers and dollar values of invoices that should have been prevalidated and reported.

**Table 3. Unreported Invoices Subject to Prevalidation and Paid by DFAS Cleveland Center's Disbursing Stations**

<u>Month</u>	<u>Number of Invoices</u>	<u>Gross Dollar Value</u>	<u>Net Dollar Value</u>
July 1995*	22	\$ 221,098,748	\$ 198,122,814
August 1995*	38	364,140,629	297,799,115
September 1995*	54	548,832,106	350,918,439
October 1995	221	1,223,205,804	670,687,422
November 1995	191	822,977,479	559,687,764
December 1995	226	876,786,479	728,540,130
January 1996	<u>142</u>	<u>584,294,451</u>	<u>521,249,053</u>
<b>Total</b>	<b>894</b>	<b>\$4,641,335,695</b>	<b>\$3,327,004,737</b>

\*Only invoices exceeding \$5 million were required to be prevalidated.

We did not verify that all the disbursements were actually prevalidated. Disbursing stations were responsible for ensuring that all disbursements that met the dollar thresholds were prevalidated and reported to the DFAS Cleveland Center.

Although information on all disbursements that met the dollar thresholds was not reported, information on other disbursements that did not meet the dollar thresholds was sometimes reported. Our review of statistics reported by the DFAS Cleveland Center showed that the gross dollar values of the invoices prevalidated were often significantly more than the net dollar values of the same invoices. The differences between gross and net dollar values should usually be due to recoupments of progress payments and discounts taken. We reviewed eight invoices with large differences between the gross and net dollar values. In each instance, Operating Location Norfolk, Norfolk, Virginia, erroneously reported the dollar value of the contract instead of the gross dollar value of the

## Finding B. Reporting Data on Prevalidation

invoice that had been prevalidated. If Operating Location Norfolk had followed existing guidance, none of the invoices would have been reported. Table 4 gives information on the eight invoices.

**Table 4. Invoices That Did Not Meet Reporting Requirements**

<u>Contract Number</u>	<u>Invoice Number</u>	<u>Total Contract</u>	<u>Gross Invoice</u>	<u>Amount Paid</u>
N62472-92-D-3640	125	\$ 5,616,630	\$ 145,000	\$ 142,069
N62472-92-D-3640	126	5,616,630	3,300	3,300
N00024-92-H-8008	11	5,213,465	726,312	726,312
N00024-92-H-8008	12	5,213,465	179,557	179,557
N62470-91-C-0294	16	13,482,213	427,725	427,727
N62470-91-C-0294	17	13,482,213	117,641	103,727
N62470-93-C-2760	23	6,327,967	267,046	267,046
N62470-93-C-2760	24	<u>6,327,967</u>	<u>183,612</u>	<u>183,612</u>
<b>Total</b>		<b>\$61,280,550</b>	<b>\$2,050,193</b>	<b>\$2,033,350</b>

The DFAS Cleveland Center personnel who were responsible for reporting the information did not attempt to verify its accuracy because they thought verification would be time-consuming. They also provided incomplete information on the numbers and dollar values of invoices that were being prevalidated. This information should have been questioned and actions taken to ensure that accurate and complete information was reported to DFAS managers.

**DFAS Denver Center.** DFAS Denver Center personnel did not report complete and accurate information to Headquarters, DFAS, on the numbers and dollar values of prevalidated disbursements. The responsibility for preparing the reports had been transferred, and DFAS Denver Center personnel did not ensure that all required information was furnished. The DFAS Denver Center did not report complete information on the numbers and dollar values of invoices being prevalidated, the numbers of ACRNs associated with the invoices paid, and the net dollar values of prevalidated disbursements that had been paid. In addition, no one tracked the reasons that accountable stations denied prevalidation requests. The disbursing stations did not send information to the DFAS Denver Center promptly, and did not include all information needed to complete the reports. Without such data, DFAS Denver Center personnel could not analyze invoices subject to prevalidation but not yet paid. Consequently, management did not have accurate information on the length of time needed to prevalidate invoices and the reasons that accountable stations did not approve prevalidation requests.

## Finding B. Reporting Data on Prevalidation

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DFAS Denver Center personnel recognized the need to develop a management control to ensure that all prevalidated disbursements were reported. The DFAS Denver Center periodically obtained a detailed list that identified checks issued by disbursing stations for amounts greater than \$1 million. This list was used to determine whether the disbursing stations were reporting most prevalidated disbursements. Despite this initiative, disbursing stations did not report all prevalidated disbursements, although lists indicated that they had made disbursements that would have been subject to prevalidation. On March 7, 1996, the DFAS Denver Center issued a second message that questioned the completeness of reporting. For Operating Location Dayton, Dayton, Ohio, we reviewed the invoices for high-value checks issued by that office in December 1995 and January 1996. We identified 54 invoices, valued at \$330 million, that had been prevalidated but were not reported. Three other invoices, valued at \$4.2 million, had not been prevalidated prior to payment.

**DFAS Indianapolis Center.** DFAS Indianapolis Center personnel did not report all the information furnished by disbursing stations. As of January 31, 1996, the numbers and dollar values of prevalidated disbursements were understated by 15 invoices, valued at \$78 million. More important, although DFAS Indianapolis Center personnel were concerned that all disbursements subject to prevalidation may not have been reported, they did not verify the completeness of the data submitted by disbursing stations. For example, at several larger Army installations and many Army Corps of Engineers divisions, disbursing stations did not report prevalidated disbursements. At the DAO U.S. Army Aviation and Troop Command, we reviewed the voucher and check registers for several days between October 1995 through January 1996. We identified two invoices that should have been prevalidated. Responsible personnel assured us that the disbursements had been prevalidated, but we found no data to verify that they had been prevalidated before payment. The accuracy and completeness of reported information should be verified.

**DFAS Kansas City Center.** DFAS Kansas City personnel reported information from only one disbursing station and did not differentiate between the numbers of invoices and ACRNs and the associated gross and net dollar values. Other disbursing stations should have furnished information on the disbursements they prevalidated. Subordinate activities did not furnish complete information to the DFAS Kansas City Center because they did not know that requirement existed.

### Useful Management Information

Because the reported prevalidation data were inaccurate and incomplete, managers did not have the information they needed to fully demonstrate the progress made in eliminating problem disbursements by prevalidating disbursements. Information on the total numbers and dollar values of DoD disbursements should be used to place the numbers and dollar values of prevalidated disbursements in context. As dollar thresholds are lowered and additional types of disbursements become subject to prevalidation, progress in

## **Finding B. Reporting Data on Prevalidation**

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expanding prevalidation can be monitored. DFAS managers should also obtain the information needed to determine how often disbursements fail to promptly match obligations, so that they can monitor progress in correcting problems that cause problem disbursements. On the other hand, some data on the individual invoices that were prevalidated had questionable value. When managers' needs are clearly defined, guidance on reporting requirements should be refined and reissued. The inability to report complete and accurate information distorts the data that managers need for making decisions and assessing compliance with legislative requirements.

### **Recommendations, Management Comments, and Audit Response**

**B. We recommend that the Director, Defense Finance and Accounting Service:**

**1. Identify and analyze the reasons for failure to promptly match disbursements to obligations, and develop performance indicators to monitor progress in prevalidating disbursements.**

**2. Revise and reissue guidance on reporting requirements, emphasizing the need for complete and accurate information.**

**Management Comments.** The Deputy Chief Financial Officer concurred. Management plans to take actions to improve the accuracy and use of the data collected on prevalidation efforts.

**Audit Response.** Although the Deputy Chief Financial Officer concurred, the comments did not describe specific planned actions. We request that the Under Secretary of Defense (Comptroller), in response to the final report, provide details of corrective actions and milestones to improve the quality and make better use of prevalidation data.

## **Part II - Additional Information**

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## Appendix A. Scope and Methodology

### Scope

In accordance with our letter to Congress on February 28, 1995, we reviewed and evaluated the actions taken by DFAS personnel to comply with the requirements of Public Law 103-335, section 8137, as amended by Public Law 104-61, section 8102. We also considered the impact of those requirements on reducing problem disbursements, including unmatched disbursements and negative unliquidated obligations. The DoD plan applied only to contractor and vendor payments, but recognized the benefits to be gained by prevalidating all disbursements and transfers. We reviewed contractor and vendor payments; we also evaluated DoD progress in eliminating system deficiencies that prevented all contractor and vendor payments from being matched to obligations.

### Methodology

From lists maintained by the DFAS Centers in Cleveland, Columbus, Denver, Kansas City, and Indianapolis, we selected invoices that had been prevalidated and paid since July 1, 1995. We reviewed those invoices and invoices that met the dollar thresholds but had not been matched to obligations in accounting records. We also reviewed the guidance for reporting information on the prevalidation process. We analyzed the information that disbursing stations submitted through the DFAS Centers to Headquarters, DFAS.

We visited the Operating Locations and Defense Accounting Offices of the DFAS Cleveland, DFAS Denver, DFAS Kansas City, and DFAS Indianapolis Centers where most disbursements made by the DFAS Columbus Center were prevalidated. We evaluated the procedures followed at accountable stations to ensure that sufficient funds were available on each line of accounting before disbursing stations were authorized to make payments. At activities that also served as disbursing stations, we evaluated actions taken to ensure that all invoices subject to prevalidation were identified and matched to corresponding obligations prior to payment. We also reviewed some invoices that initially were not accepted by accountable stations but were later resubmitted for prevalidation. At each activity, we reviewed the manual and automated processes used to prevalidate disbursements. To review the costs of delays in prevalidating disbursements, we obtained and analyzed reports showing interest paid on invoices subject to the Prompt Payment Act.

We relied on the work performed by the GAO, announced under GAO Code 511331, "Review of DoD's Efforts to Implement Controls to improve

Accounting and Reporting of Disbursements," June 13, 1995. Congress asked the GAO to assess DoD initiatives to reduce problem disbursements. The request came from the Ranking Minority Member, Senate Committee on Governmental Affairs; the Chairman, House Subcommittee on National Security, Committee on Appropriations; and the Chairman, House Subcommittee on Government, Management, Information, and Technology, Committee on Government Reform and Oversight. Because we share the GAO concerns in this area, we agreed to divide the work and coordinate our audit results and conclusions. The GAO evaluated the prevalidation process at the DFAS Denver Center and the DFAS Kansas City Center, and at selected Operating Locations and the Defense Accounting Offices for which those two DFAS Centers are responsible. This report includes the results of the GAO work, and the GAO report includes the results of our work.

**Use of Computer-Processed Data.** We relied on computer-processed data provided by the DFAS Centers and their disbursing and accountable stations. We did not review the accuracy of the reported dollar values of problem disbursements. To test the reliability of the computer-processed data provided by the DFAS Centers on the invoices that were subject to prevalidation, we compared information on selected invoices and disbursement vouchers to data in management reports and accounting systems. To the extent that we reviewed those data, we concluded that the data generally were sufficiently reliable to be used in meeting our audit objectives. Finding B of this report discusses incomplete and inaccurate data.

**Audit Period, Standards, and Locations.** We conducted this economy and efficiency audit from September 1995 through April 1996. The audit was made in accordance with auditing standards issued by the Comptroller of the United States as implemented by the Inspector General, DoD. Accordingly, we included such tests of management controls as were considered necessary. Appendix E lists the organizations we visited or contacted during the audit.

### Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

**Scope of Review of Management Control Program.** We reviewed the adequacy of DFAS management controls for ensuring that disbursements were matched to corresponding obligations prior to making payments. We reviewed DoD requirements for establishing controls to ensure that funds were properly spent. At the DFAS Centers, Operating Locations, and Defense Accounting Offices we visited, we examined procedures for matching disbursements to obligations prior to making payments, and we examined the controls established

## Appendix A. Scope and Methodology

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to ensure compliance with legislative requirements. We also reviewed reports issued by the GAO and the Inspector General, DoD, on related problems in making and accounting for disbursements.

**Adequacy of Management Controls.** We identified material management control weaknesses as defined by DoD Directive 5010.38. DFAS had not corrected problems preventing further implementation of the prevalidation process. Specifically, system changes were required; detailed procedures needed to be established; and quality control over data sent to Headquarters, DFAS, on the status of the prevalidation process needed to be improved. Recommendations A.1., A.2., B.1., and B.2., in this report, if implemented, will help correct the weaknesses. A copy of the report will be provided to the senior official responsible for management controls in DFAS.

**Adequacy of Management's Self-Evaluation.** DFAS officials did not identify the prevalidation of disbursements as an assessable unit, and did not identify or report the material management control weaknesses identified in the audit. They planned to identify the prevalidation process as an assessable unit in FY 1997. DFAS reported the lack of an effective interface between contract payment and accounting systems as an uncorrected material weakness in its FY 1995 annual statement of assurance. Prevalidation should help to bring disbursing records into agreement with accounting records. DFAS reported that it plans to correct the weakness by the end of FY 1997.



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## Appendix B. Summary of Prior Audits and Other Reviews

During the last 5 years, the GAO and the Inspector General, DoD, issued eight audit reports that discussed problems with making and accounting for disbursements. The eight reports are summarized below.

### GAO Reports

GAO/NSIAD 96-8 (OSD Case No. 9966), "Millions in Contract Payment Errors Not Detected and Resolved Promptly," October 6, 1995, concluded that contractors generally followed up to collect underpayments and usually notified the DoD of overpayments. However, contractors did not always return overpayments unless told to do so. The DFAS Columbus Center could not readily detect payment discrepancies because of significant errors in its automated payment records. Despite these errors, DFAS Columbus Center personnel paid contractors' invoices as if the payment data were correct. Even after identifying overpayments, the DFAS Columbus Center often did not respond immediately; GAO estimated that this cost the Government about \$10.6 million in interest. DFAS began a new project to identify and resolve payment discrepancies.

GAO/AIMD 95-7 (OSD Case No. 9618-A), "Status of Defense Efforts to Correct Disbursement Problems," October 5, 1994, concluded that DoD had problems in properly matching disbursements with corresponding obligations because of weaknesses in control procedures and DoD fund control systems. The GAO recommended resolving weaknesses in control procedures that allow problem disbursements to occur, and improving DoD systems for contractor payments and accounting. DoD concurred with the recommendations and planned to make changes to procedures and systems.

GAO/AIMD 93-21 (OSD Case No. 9315), "Navy Records Contain Billions of Dollars in Unmatched Disbursements," June 9, 1993, concluded that the Standard Accounting and Reporting System contained \$12.3 billion in unmatched disbursements. The GAO observed that unmatched disbursements were caused by poor compliance with management controls, or the lack of adequate controls, over:

- o recording obligations in the accounting system before disbursing funds,
- o detecting and correcting errors in the disbursement process, and
- o posting accurate and complete accounting information in systems that support the disbursement process.

## Appendix B. Summary of Prior Audits and Other Reviews

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The Deputy Comptroller (Management Systems) agreed to enforce existing procedures and provide training and management oversight to the accounting organizations responsible for resolving unmatched disbursements.

### Inspector General, DoD, Reports

Report No. 96-145, "Obligation Management of Navy Appropriations," June 6, 1996, reported that controls were not adequate to ensure that Navy obligations were promptly recorded in the Standard Accounting and Reporting System. As a result, the DFAS Columbus Center made about \$1.6 million in payments before the Navy recorded the obligations. Additionally, the Navy did not record obligations for two approved contract modifications totaling \$30.9 million, and payments totaling \$5.6 million were not made because sufficient funds were not available in the appropriate Navy appropriations. The Under Secretary of Defense (Comptroller) concurred with the finding and the recommendation to issue guidance requiring the prompt recording of obligations in official accounting records. The Principal Deputy of the Assistant Secretary of the Navy (Financial Management and Comptroller) agreed to establish and implement control procedures to ensure compliance with the guidance.

Report No. 96-141, "Overdisbursed and Unreconciled DoD Contracts at the Defense Finance and Accounting Service Columbus Center," June 4, 1996, reported that despite increased management emphasis on reconciling contracts to decrease overpayments, the numbers and dollar values of overdisbursed contracts within MOCAS increased. In addition, the DFAS Columbus Center did not achieve the Deputy Secretary of Defense's goal for reducing its most pressing unreconciled contracts by 75 percent by the end of calendar year 1995. The DFAS Columbus Center also excluded 12,688 other out-of-balance contracts in its plan to reduce its backlog of unreconciled contracts. The Deputy Chief Financial Officer, Office of the Under Secretary of Defense (Comptroller) agreed to issue guidance and expedite the completion and processing of a systems change request to incorporate improved internal controls in MOCAS. However, he did not agree to include all contracts that contain out-of-balance amounts in the plan for performing contract reconciliations.

Report No. 95-046, "Data Input Controls for the Mechanization of Contract Administration Services System," November 30, 1994, reported that the automated system accepted invalid data and that edit tables were not being used, allowing negative unliquidated obligations, unmatched disbursements, and incorrect or duplicate payments. Data rejected at initial input were not properly managed, and controls were not adequate to prevent unauthorized access to the automated system. The Deputy Comptroller (Financial Systems) concurred with the need to issue guidance and implement controls. Implementation is expected in FY 1996.

Report No. 94-054, "Fund Control Over Contract Payments at the Defense Finance and Accounting Service Columbus Center," March 15, 1994, concluded that obligation and disbursement data in the automated system were

## Appendix B. Summary of Prior Audits and Other Reviews

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not accurate, and that procedures for controlling appropriation fund data were not adequate to allow the Military Departments' accountable stations to properly record disbursements and maintain their accounting records. The Director, DFAS, and the Director, DFAS Columbus Center, concurred with the recommendation to terminate the reconciliation services of a commercial accounting firm, but nonconcurred with the recommendation to terminate the interface with the Military Standard Contract Administration Procedures system.

Report No. 94-048, "Uncleared Transactions By and For Others," March 2, 1994, concluded that DFAS had not taken prompt and effective actions to clear about \$35 billion in undistributed disbursements. The procedures used to solve problems with disbursements were less than effective, and were not always followed. The Deputy Comptroller (Management Systems) agreed to issue detailed guidance for clearing transactions and reducing undistributed disbursements, and to improve procedures and controls over transactions that were not cleared promptly.

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## Appendix C. Automated Prevalidation Processes

Over the years, the DoD Components developed and used various systems and payment practices to meet their business requirements. Consequently, systems were not standard, and no single set of payment practices existed. To comply with Public Law 103-335, the DFAS Centers developed a variety of automated and manual processes for matching disbursements to corresponding obligations before payments. In this appendix, we describe the interface between MOCAS, the primary DoD system for contract entitlement and payment, and seven of the eight major contract accounting systems. We did not review the interface between the Defense Business Management System and MOCAS. The following table gives the number of accountable stations that have an automated interface with MOCAS and the dates that interfaces were established.

## Appendix C. Automated Prevalidation Processes

**Table C-1. Automated Interfaces With MOCAS**

<u>Accounting System</u>	<u>Number of Stations</u>	<u>Dates Interface Established</u>
<u>Army</u>		
Standard Army Procurement and Appropriation System	6	September 6, 1995 - January 10, 1996
Commodity Command Standard System	6	September 6, 1995 - January 10, 1996
Standard Operations and Maintenance Army Research and Development System	6	September 6, 1995 - January 10, 1996
<u>Navy</u>		
Standard Accounting and Reporting System	7	August 18, 1995
Management Information System International Logistics	1	August 19, 1995
<u>Air Force</u>		
Central Procurement Accounting System	10	October 25, 1995 - November 27, 1995
<u>Marine Corps</u>		
Headquarters Accounting System	1	July 1, 1995
<u>DoD</u>		
Defense Business Management System	31	November 13, 1995

Each DFAS Center developed a different interface for its accounting systems in order to accommodate system differences. The discussion that follows is organized according to the DFAS Center responsible for each contract accounting system.

**DFAS Cleveland Center.** The DFAS Columbus Center and accounting activities of the DFAS Cleveland Center prevalidated disbursements using a direct interface between MOCAS and the Standard Accounting and Reporting System, and MOCAS and the Management Information System International Logistics. Both systems received a record 7 transaction from MOCAS. Each transaction was electronically transmitted and identified by a unique authorization request number. The accounting system compared the information on the authorization request to the accounting data and the unliquidated

## Appendix C. Automated Prevalidation Processes

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obligation balance shown in the system for a contract. If the accounting information on the request matched the accounting record and the unliquidated obligation balance was sufficient, the system reserved the funds for the request in the accounts payable general ledger account and sent a record 8 transaction, indicating approval, to the disbursing station. Such transactions did not require any manual intervention. If the accounting data did not match or the unliquidated obligation balance was not sufficient to cover the disbursement, a record 8 transaction was sent to MOCAS, disapproving the authorization request and including an error code that identified the problem.

If personnel at the DFAS Columbus Center found errors in any of the original record 7 transactions, the MOCAS system issued either a record 7 transaction to cancel the original transaction, or a record 7 transaction that deleted the original transaction. The accounting system matched the record 7 transaction to authorization request numbers that had been previously received and approved. Reserved funds were canceled and unliquidated obligation balances were increased. The disbursing station issued another prevalidation request using a new authorization request number.

After the disbursing station made the payment, a record 9 transaction was sent to the accounting station. The system compared the record 9 transaction to the record 7 transaction in the data base; if a match was found, the accounts payable balance was reduced and the disbursement was posted to the accounting records.

**DFAS Denver Center.** The DFAS Columbus Center and the accounting activities of the DFAS Denver Center prevalidated disbursements using an accounting prevalidation module that interfaced MOCAS with the Central Procurement Accounting System (CPAS). The module was used for invoices citing all appropriations except for those citing operation and maintenance, which had to be prevalidated manually. The module received the record 7 transactions from MOCAS and processed the transactions against the CPAS obligation data base. CPAS processed the record 7 transactions daily, validated the data, and recorded a response in the module. If the authorization request was approved, CPAS reserved funds using a file called "accrued expenditure unpaid." If the authorization was not approved, a record 8 transaction was returned to MOCAS, indicating the reason for disapproval. For activities that also had the General Accounting and Finance System, the request was initially rejected and the transaction had to be prevalidated manually. Requests to cancel and delete record 7 transactions were handled as described in a previous paragraph.

After a payment was made, MOCAS sent a record 9 transaction to CPAS. The accounting system validated the record 9 transaction to the "accrued expenditure unpaid" file; if the record 9 transaction matched the data in the file, the funds were unreserved. However, disbursements were not posted based on the record 9 transaction. To post disbursements, the DFAS Denver Center's accountable stations used MOCAS data from contract payment notices.

**DFAS Indianapolis Center.** The DFAS Columbus Center and the accounting activities of the DFAS Indianapolis Center prevalidated disbursements using the module called Elimination of Unmatched Disbursements that interfaced

## Appendix C. Automated Prevalidation Processes

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MOCAS with three contract accounting systems. Daily, the module duplicated the contract data in the Standard Army Procurement and Appropriation System, the Commodity Command Standard System, and the Standard Operations and Maintenance Army Research and Development System. When a record 7 transaction was received from MOCAS, the module compared the record 7 transaction information with the accounting data and unliquidated obligation balances for each ACRN. If the accounting information matched and the unliquidated obligation balances were sufficient to cover the disbursements, the module reserved funds for the request and sent a record 8 transaction to MOCAS. Funds were reserved in the module, not in the accounting systems. If the record 7 transaction could not be prevalidated, a record 8 transaction was sent to MOCAS, denying the request. The module processed requests to cancel and delete record 7 transactions as described earlier.

After MOCAS made the payment, a record 9 transaction was sent to the module. Accounting personnel posted disbursements to the accounting systems based on a contract payment notice or a disbursing voucher from the DFAS Columbus Center. The reserved funds remained in the module.

**DFAS Kansas City Center.** The DFAS Columbus Center and the accounting activities of the DFAS Kansas City Center prevalidated disbursements using an interface between MOCAS and the Headquarters Accounting System. For each authorization request, MOCAS electronically sent a record 7 transaction to the Headquarters Accounting System. In some cases, the information had to be manually compared to the accounting data and the unliquidated obligation balance in the accounting system. If the accounting information matched and the unliquidated obligation balance was sufficient to cover the disbursement, data were entered in the accounting system for transmission to MOCAS. Funds were reserved in the accounting system, and the record 9 transaction was used to post disbursements.

# Appendix D. Inspector General, DoD, Letter to Congressional Defense Committees, February 28, 1995



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-2884



FEB 28 1995

Honorable Strom Thurmond  
Chairman  
Committee on Armed Services  
United States Senate  
Washington, DC 20510-6050

Dear Mr. Chairman:

In response to Section 8137, FY 1995 Department of Defense Appropriations Act (Public Law 103-335), we independently assessed the Department of Defense (DoD) plan for establishing and implementing a requirement that disbursing officials at the DoD match disbursements to particular obligations before making disbursements.

Overall, we agree with the implementation plan, which provides a reasonable approach to compliance with Section 8137 of the Public Law. The plan goes well beyond the requirements of the statute in addressing the need to match all disbursements to obligations, not just those above the \$1,000,000 threshold included in the law. However, the plan is not without risk. For example:

- o The schedule for implementation of automated prevalidation programs is dependent on establishing connectivity with numerous DoD accounting systems. While appropriate priorities have been established, the technical challenges are significant and the schedule could well be optimistic.

- o Should implementation of automated prevalidation programs be delayed or prove to be unworkable, the Defense Finance and Accounting Service (DFAS) may lack the resources needed to match manually disbursements to obligations.

- o The planned electronic data interchange actions will reduce, but not solve, present reconciliation problems. Unmatched disbursement problems will remain until the long-term goal to eliminate multiple data bases and establish a single shared data repository is achieved.

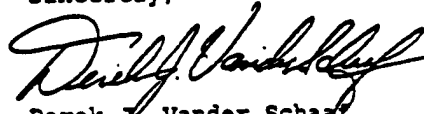


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We are closely monitoring the actions taken by the DFAS to implement the requirements of Public Law 103-335. We will provide the Department and the Committee a report by June 30, 1996 on the success in complying with those requirements and reducing unmatched disbursements on a DoD-wide basis.

A similar letter has been provided to the Chairmen and Ranking Minority Members of the other defense committees. Should you have any questions, please contact me or Mr. John R. Crane, Office of Congressional Liaison, at (703) 604-8324.

Sincerely,



Derek J. Vander Schaaf  
Deputy Inspector General

cc: Honorable Sam Nunn  
Ranking Minority Member

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## **Appendix E. Organizations Visited or Contacted**

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

Under Secretary of Defense (Comptroller), Washington, DC

### **Department of the Army**

Assistant Secretary of the Army (Financial Management and Comptroller),  
Washington, DC

### **Department of the Navy**

Assistant Secretary of the Navy (Financial Management and Comptroller),  
Washington, DC  
Strategic Systems Programs Office, Arlington, VA  
Naval Supply Systems Command, Arlington, VA  
Naval International Logistics Command, Philadelphia, PA

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

Air Force Materiel Command, Wright-Patterson Air Force Base, OH

### **Other Defense Organizations**

Defense Finance and Accounting Service, Arlington, VA  
Defense Finance and Accounting Service Cleveland Center, Cleveland, OH  
Operating Location Charleston, Charleston, SC  
Operating Location Norfolk, Norfolk, VA  
Defense Finance and Accounting Service Columbus Center, Columbus, OH  
Defense Finance and Accounting Service Denver Center, Denver, CO  
Defense Accounting Office, Los Angeles Air Force Base, Los Angeles, CA  
Operating Location Dayton, Dayton, OH  
Defense Finance and Accounting Service Indianapolis Center, Indianapolis, IN  
Defense Accounting Office, U.S. Army Missile Command, Huntsville, AL  
Operating Location St. Louis, St. Louis, MO

**Other Defense Organizations (cont'd)**

Defense Finance and Accounting Service Kansas City Center, Kansas City, MO  
Defense Accounting Office, Quantico Marine Corps Base, VA  
Defense Accounting Office, Camp Lejeune Marine Corps Base, NC  
Defense Information Systems Agency, Denver, CO  
Defense Megacenter Huntsville, Huntsville, AL  
Defense Megacenter St. Louis, St. Louis, MO

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## **Appendix F. Report Distribution**

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

Under Secretary of Defense (Acquisition and Technology)  
Deputy Under Secretary of Defense (Acquisition Reform)  
Director, Defense Procurement  
Director, Defense Logistics Studies Information Exchange  
Under Secretary of Defense (Comptroller)  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)  
Assistant to the Secretary of Defense (Public Affairs)

### **Department of the Army**

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

### **Department of the Navy**

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

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

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

### **Other Defense Organizations**

Director, Defense Finance and Accounting Service  
Director, Defense Finance and Accounting Service Cleveland Center

## Other Defense Organizations (cont'd)

Director, Defense Finance and Accounting Service Columbus Center  
Director, Defense Finance and Accounting Service Denver Center  
Director, Defense Finance and Accounting Service Indianapolis Center  
Director, Defense Finance and Accounting Service Kansas City Center  
Director, Defense Logistics Agency

## Non-Defense Federal Organizations

Office of Management and Budget  
Technical Information Center, National Security and International Affairs Division,  
General Accounting Office

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on National Security, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Operations  
House Committee on Government Reform and Oversight  
House Subcommittee on Government, Management, Information, and Technology,  
Committee on Government Reform and Oversight  
House Subcommittee on National Security, International Affairs, and Criminal  
Justice, Committee on Government Reform and Oversight  
House Committee on National Security

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## **Part III - Management Comments**

# Under Secretary of Defense (Comptroller) Comments



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



JUN 5 1996

MEMORANDUM FOR ACTING DIRECTOR, FINANCE AND ACCOUNTING  
DIRECTORATE, OFFICE OF THE ASSISTANT INSPECTOR  
GENERAL FOR AUDITING, DoD

SUBJECT: DoDIG Draft Audit Report on the "Implementation of the DoD Plan to Match Disbursements to Obligations Prior to Payment" (Project No. 5FI-2031) dated May 9, 1996

This is the Office of the Under Secretary of Defense (Comptroller) response to your request for review and comments on the subject draft audit report.

Beginning on page ii and throughout the draft report, it is stated that the DoD problem disbursements increased by \$2.9 billion between October 1995 and January 1996. While the Department agrees that there was an increase in the amount of problem disbursements during this period, the amount reflected in the report is in error. The correct amount of the increase is \$2.3 billion. Attached are tables showing the DoD reported increases for the period in question.

Additionally, attached are specific comments addressing each of the recommendations contained in the draft report.

My point of contact on this matter is Mr. Henry Bezold. He may be reached at (703) 614-3523.

A handwritten signature in cursive script, appearing to read "Alvin Tucker".

Alvin Tucker  
Deputy Chief Financial Officer

Attachments

cc: Director, DFAS



**DRAFT AUDIT REPORT ON IMPLEMENTATION  
OF THE DOD PLAN TO MATCH DISBURSEMENTS  
TO OBLIGATIONS PRIOR TO PAYMENT  
(PROJECT NO. 5FI-2031) DATED MAY 9, 1996**

\*\*\*\*\*  
**RECOMMENDATIONS**

**DODIG RECOMMENDATION A.1:** We recommend that the Under Secretary of Defense (Comptroller), in the management plan recommended by the General Accounting Office, include requirements to:

- a. Prevalidate all invoices on contracts issued after September 30, 1996, that are paid by the Defense Finance and Accounting Service Columbus Center.
- b. Prevalidate other types of payments, such as transfers between appropriations and other reimbursements.

**DOD RESPONSE:** Partially Concur. While the Department agrees with developing the GAO recommended plan, until the resource, procedural and system change requirements have been thoroughly analyzed, the Department cannot commit to (1) specific timeframes or dollar levels for incrementally lowering the prevalidation threshold, (2) prevalidating all invoices on contracts issued after September 30, 1996, that are paid by the Defense Finance and Accounting Service-Columbus Center or (3) validating other types of payments.

**DODIG RECOMMENDATION A.2:** We recommend that the Director, Defense Finance and Accounting Service:

- a. Implement systems changes to correct weaknesses in the automated prevalidation process. Specifically:
  - (1) Develop a method of preventing duplicate posting of expenditure data by posting only record "9" transactions to accounting systems.
  - (2) Implement end-of-file record counts and edit checks to ensure that all data are transmitted, received and processed correctly.
- b. Develop and document procedures for prevalidation. The procedures should require disbursing and accountable stations to process automated and manual requests properly, post prevalidated disbursements to accounting records promptly and resolve rejected authorization requests efficiently.
- c. Provide training to all affected accounting personnel to ensure that prevalidation is accomplished effectively.

Attachment

## Under Secretary of Defense (Comptroller) Comments

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**DOD RESPONSE:** Concur. While the examples cited in the draft report are the exception and not the norm, the Department concurs with the recommendations and will take actions to improve these processes.

**DODIG RECOMMENDATION B.1:** We recommend that the Director, Defense Finance and Accounting Service identify and analyze the reasons for failure to promptly match disbursements to obligations, and develop performance indicators to monitor progress in prevalidating disbursements.

**DOD RESPONSE:** Concur.

**DODIG RECOMMENDATION B.2:** We recommend that the Director, Defense Finance and Accounting Service revise and reissue guidance on reporting requirements, emphasizing the need for complete and accurate information.

**DOD RESPONSE:** Concur.

Attachment

## **Audit Team Members**

This report was prepared by the Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD.

F. Jay Lane  
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Derrick E. Miller  
Susanne B. Allen  
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## INTERNET DOCUMENT INFORMATION FORM

**A . Report Title: Implementation of the DOD Plan to Match Disbursements to Obligations Prior to Payment**

**B. DATE Report Downloaded From the Internet: 11/29/99**

**C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #):**  
OAIG-AUD (ATTN: AFTS Audit Suggestions)  
Inspector General, Department of Defense  
400 Army Navy Drive (Room 801)  
Arlington, VA 22202-2884

**D. Currently Applicable Classification Level: Unclassified**

**E. Distribution Statement A: Approved for Public Release**

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