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United States
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Controls Over Air Force Materiel Command Unliquidated Obligations on Department of the Air Force Contracts Supporting the Global War on Terror

Report Documentation Page

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Acronyms and Abbreviations

AFAA	Air Force Audit Agency
AFB	Air Force Base
AFCEE	Air Force Center for Engineering and the Environment
AFMC	Air Force Materiel Command
AFALO	Air Force Accounting Liaison Office
AMC&R	Accounts Maintenance Control and Reporting
DFAS	Defense Finance and Accounting Service
FMR	Financial Management Regulation
GWOT	Global War on Terror
IG	Inspector General
SIGIR	Special Inspector General for Iraq Reconstruction
ULO	Unliquidated Obligation



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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April 3, 2009

MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE FOR FINANCIAL
MANAGEMENT AND COMPTROLLER
COMMANDER, AIR FORCE MATERIEL COMMAND
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
DIRECTOR, AIR FORCE ACCOUNTING AND FINANCE OFFICE

SUBJECT: Report on Controls Over Air Force Materiel Command Unliquidated Obligations on
Department of the Air Force Contracts Supporting the Global War on Terror
(Report No. D-2009-067)

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

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3
and left no unresolved issues. Therefore, we do not require any additional comments.

We appreciate the courtesies extended to the staff. Please direct questions to me at
(703) 601-5868.

Patricia A. Marsh
Patricia A. Marsh, CPA
Assistant Inspector General
Defense Business Operations

April 3, 2009



Results in Brief: Controls Over Air Force Materiel Command Unliquidated Obligations on Department of the Air Force Contracts Supporting the Global War on Terror

What We Did

Our audit objective was to determine whether the Defense Finance and Accounting Service (DFAS) and the Air Force properly accounted for and de-obligated unliquidated obligations (ULOs) on contracts supporting the Global War on Terror. See Appendix A for a discussion of the scope and methodology and prior coverage related to the objective.

What We Found

DFAS Columbus and six Air Force bases erroneously reported that they reviewed and validated 100 percent of Air Force Materiel Command ULOs. This increased the risk of Air Force losing funds not de-obligated timely.

DFAS Columbus could not provide evidence that it accomplished tri-annual reviews for 31 ULOs. As a result, the Air Force has no assurance that DFAS Columbus reviewed and validated ULOs valued at \$169.7 million and that the Air Force still needs the obligated funds.

DFAS and Air Force internal controls were not effective. DFAS and the Air Force did not provide adequate oversight of the tri-annual review process. DFAS Columbus did not maintain supporting documentation of its reviews. See the findings for further details on the material internal control weaknesses.

What We Recommend

The Assistant Secretary of the Air Force for Financial Management and Comptroller should de-obligate \$2.7 million on 1 of 31 ULOs.

The Director, Air Force Accounting and Finance Office should verify that the ULOs reported on the fund holder confirmation statements match the DFAS management reports and ensure Air Force Accounting Liaison Offices verify that the percentage of ULOs validated on fund holder confirmation statements correspond to tri-annual review files.

The Director, Air Force Accounting and Finance Office and the Director, DFAS Denver should clarify DFAS and Air Force guidance to establish one code for ULOs requiring research.

The Director, DFAS Columbus should require the DFAS Columbus Accounts Maintenance Control and Reporting Directorate to use progress and management reports to confirm the number of ULOs reviewed and validated and ensure it supports the confirmation statements; ensure DFAS Columbus complies with the requirement to maintain tri-annual review supporting documentation and determine the validity of 30 ULOs; and request that DFAS Internal Review independently assess the DFAS Columbus tri-annual review process.

Management Comments and Our Response

The Director, DFAS Columbus and the Director, Air Force Accounting and Finance Office agreed with the recommendations in the report and the comments were responsive. The Director, Financial Management, Air Force Materiel Command, although not required to respond, also agreed with recommendations in the report. See the Management Comments section for the full text of the comments.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Assistant Secretary of the Air Force for Financial Management and Comptroller		B.2.
Director, Air Force Accounting and Finance Office		A.2.a., A.2.b., A.3.
Director, Defense Finance and Accounting Service Columbus		A.1.a., A.1.b., A.1.c., B.1.a., B.1.b.
Director, Defense Finance and Accounting Service Denver		A.3.

Table of Contents

Results in Brief	i
Introduction	1
Objective	1
Background	1
Review of Internal Controls	2
Finding A. Air Force Tri-Annual Review Process	5
Recommendations, Management Comments, and Our Response	8
Finding B. Defense Finance and Accounting Service Columbus Evidence	13
Recommendations, Management Comments, and Our Response	14
Appendices	
A. Scope and Methodology	17
Prior Coverage	19
B. Tri-Annual Review Process	21
C. Air Force Materiel Command Unliquidated Obligations	23
Management Comments	
Defense Finance and Accounting Service Columbus Comments	25
Air Force Finance and Accounting Office Comments	28
Financial Management, Air Force Materiel Command Comments	31

Introduction

Objective

Our audit objective was to determine whether the Defense Finance and Accounting Service (DFAS) and the Air Force properly accounted for and de-obligated unliquidated obligations (ULOs) on contracts supporting the Global War on Terror (GWOT). See Appendix A for a discussion of the scope and methodology and prior coverage related to the objective.

Background

Following the terrorist attacks of September 11, 2001, the United States initiated military operations to combat terrorism in the United States, Iraq, and Afghanistan. Through the enactment of the FY 2008 Consolidated Appropriations Act on December 26, 2007, Congress has approved approximately \$700 billion since the September 11 attacks for military operations, base security, reconstruction, foreign aid, embassy costs, and veterans' health care. This \$700 billion covers all war-related appropriations including supplemental appropriations, regular appropriations, and continuing resolutions. As of September 2008, the DoD monthly obligations for GWOT averaged \$10.9 billion for Iraq and \$2.7 billion for Afghanistan. The Air Force Center for Engineering and the Environment (AFCEE) has awarded approximately \$4 billion of these funds for reconstruction projects in Iraq and Afghanistan. We reviewed Air Force Materiel Command (AFMC) ULOs related to 17 AFCEE contracts.

Obligation Process

An obligation is the amount of an order placed, contract awarded, or service received during an accounting period that requires future payment. It is recorded when an authorized agent of the Federal Government enters into a legally binding agreement to purchase specific goods or services. The recorded obligation is reduced by the amount of payments made as bills are received. The obligated balance still owed is referred to as the ULO balance. When all services or goods have been received and paid for, the obligation is considered "liquidated," and any remaining ULO balance should be de-obligated. Funds would then be available for other uses. However, the funds can only be obligated in the fiscal year(s) for which they are made available or used for adjustments to or payments of existing obligations.

Tri-Annual Review Guidance

The DoD Financial Management Regulation (FMR), volume 3, chapter 8, "Standards for Recording and Reviewing Commitments and Obligations," June 2005, implemented a tri-annual review process. This process requires fund holders¹ and supporting accounting offices to monitor obligations and review and validate all ULOs over three tri-annual

¹ A fund holder is the comptroller/fiscal officer of an activity or office that is issued a formal subdivision of funds.

review periods for timeliness, accuracy, and completeness. To properly validate a ULO, DFAS or the fund holder must verify that there is documentary evidence to support the continued need for the obligation and any remaining balance. In addition, the DoD FMR requires fund holders to maintain adequate documentation supporting those reviews for 24 months. The fund holders must also complete a signed confirmation statement that they reviewed the accuracy and completeness of the recorded amounts.

Each Military Department is responsible for confirming to the Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer that it conducted tri-annual obligation reviews. The Air Force chose to assign DFAS a portion of its ULO review. DFAS Denver, in conjunction with the Air Force Accounting and Finance Office, developed the DFAS Denver 7220.4-G, “Tri-Annual Review Program,” March 2008 (DFAS and Air Force guidance), to implement tri-annual review procedures. The DFAS and Air Force guidance requires each of its field sites and Air Force users to complete portions of the tri-annual review and maintain supporting documentation for 24 months after the tri-annual review period. These reviews provide the basis for certifying the percentage of ULOs reviewed and validated on DFAS and Air Force confirmation statements. These statements must confirm that DFAS or the Air Force fund holders matched validated obligations to a hardcopy or an electronic source document. In the event that the Air Force fund holder does not provide a confirmation statement supporting a 100 percent review and validation, the fund holder must provide a full explanation and any corrective actions taken.

Tri-Annual Review Process

The Air Force’s tri-annual review process begins when DFAS Denver downloads ULO information from the General Accounting and Finance System² and provides this information to the DFAS Columbus Account Maintenance Control and Reporting (AMC&R) Directorate. The DFAS Columbus AMC&R Directorate creates two files, one containing contractual obligations reviewed by DFAS Columbus users and one containing miscellaneous obligations reviewed by the Air Force fund holders. DFAS Columbus users and Air Force fund holders must review and properly code the ULOs to describe the status of the ULO review.³ See Appendix B for additional information on the DFAS and Air Force responsibilities for reviewing these ULOs.

Review of Internal Controls

We determined that material internal control weaknesses in the Air Force tri-annual review process existed as defined by DoD Instruction 5010.40, “Managers’ Internal Control (MIC) Program Procedures,” January 4, 2006. Neither DFAS Columbus nor the Air Force Accounting Liaison Offices (AFALOs) performed adequate oversight of the tri-annual review reporting process for ULO review and validation. In addition, DFAS

² The General Accounting and Finance System is the primary Air Force financial accounting system maintaining official accounting records.

³ Air Force fund holders must use the standard base codes established within the DFAS guidance to identify the obligation status. Obligations can be valid, invalid, no longer needed, or require additional action.

Columbus did not maintain supporting documentation of its reviews. Implementing recommendations A.1., A.2., and B.1.a. will improve the DFAS Columbus and Air Force tri-annual review process. We will provide a copy of the final report to the senior DFAS and Department of the Air Force officials responsible for internal controls.

Finding A. Air Force Tri-Annual Review Process

DFAS and six Air Force Bases (AFBs) erroneously reported the 100 percent review and validation of ULOs during the FY 2007 third period tri-annual review. DFAS Columbus and the AFALOs did not provide adequate oversight for their portions of the Air Force tri-annual review process. DFAS Columbus reviewed or validated only 37 percent (47,577 of 129,666) of its ULOs and six of seven AFBs did not validate all of its ULOs. In addition, DFAS and Air Force guidance for coding validated ULOs is conflicting. As a result, the Air Force is at an increased risk of losing funds that are not de-obligated in a timely manner.

Tri-Annual Review

We chose to review the tri-annual review process used by DFAS and the Air Force. This was limited to those activities involved in the AFMC tri-annual review process. AFMC, an Air Force major command at Wright-Patterson AFB, Ohio, allocates funds to nine fund holders at seven AFBs for the 17 GWOT contracts. DFAS Columbus and the nine Air Force fund holders each conducted portions of the AFMC tri-annual reviews. Table 1 identifies the DFAS operating location, AFB and AFALO locations, and Air Force fund holder locations responsible for reviewing the ULOs

Table 1. DFAS and Air Force Fund Holder Locations

DFAS Operating Location	Air Force Base/AFALO	Fund Holder
Columbus	Arnold	Arnold Engineering Development Center
Columbus	Brooks City	AFCEE
Columbus	Edwards	95 th Air Base Wing
Columbus	Hill	75 th Air Base Wing
Columbus	Hill	Ogden-Air Logistics Center
Columbus	Kirtland	377 th Air Base Wing
Columbus	Robins	Warner Robins Air Logistics Center
Columbus	Wright-Patterson	AFMC
Columbus	Wright-Patterson	Aeronautical Systems Center

Management Reports

Following each tri-annual review period, the DFAS Columbus AMC&R Directorate has the ability to generate progress and management reports from the Tri-Annual Review Program database to determine the status of ULOs reviewed and validated by DFAS Columbus users and Air Force fund holders. DFAS Columbus representatives, Air Force fund holders, and AFALOs can use reports prepared from this system. Two reports available for their use include the “Percent Complete by Site Code by Operating Location Code” (DFAS Progress Status Report) and the “Total Base Lines not Receiving Air Force

Response” (Tri-Annual Review Results). According to DFAS and Air Force guidance, the DFAS Progress Status Report indicates the percentage of DFAS ULOs reviewed and validated. The Tri-Annual Review Results indicates the total number of ULOs not reviewed by the Air Force fund holders.

DFAS Reporting and Oversight

DFAS Columbus erroneously reported to the Air Force that it had reviewed and validated 100 percent of the ULOs. However, DFAS Columbus did not verify that the percentage of ULOs reported as reviewed and validated on the confirmation statements agreed with the DFAS Progress Status Report. The Director, DFAS Columbus AMC&R Directorate prepared confirmation statements for the FY 2007 third period tri-annual review and provided those statements to the AFALOs. Each statement specified that DFAS Columbus performed a "100 percent review and validation" of its ULOs. These statements did not match the DFAS Progress Status Report, which indicated that DFAS Columbus did not review or validate 63 percent (82,089 of 129,666) of its ULOs.

DFAS Columbus representatives could not explain why the FY 2007 confirmation statement did not match the status report because the employee who prepared the statement was no longer in that position. DFAS Columbus representatives told us that they had improved the FY 2008 process. However, the FY 2008 third period tri-annual review status report showed that DFAS Columbus did not review or validate 34 percent (30,564 of 89,370) of its ULOs. DFAS Columbus representatives told us that less than 100 percent review and validation occurred for FY 2008, but they had certified 100 percent on their confirmation statements. The Director, DFAS Columbus should take appropriate action to prevent the erroneous certification of ULO reviews. For future review periods, DFAS Columbus needs to verify the accuracy of its signed confirmation statements to the percentage reviewed on the DFAS Progress Status Report.

Air Force Tri-Annual Review Reporting and Oversight

Six of the seven AFBs reporting FY 2007 third period tri-annual review results to AFMC erroneously reported 100 percent review and validation of its ULOs. The erroneous reporting occurred because the AFALOs did not provide adequate oversight of the Air Force fund holder tri-annual review process. The DFAS and Air Force guidance states that the AFALO is responsible for ensuring Air Force fund holders accurately report ULOs that require additional research. In addition, DoD FMR, volume 3, chapter 8 requires the confirmation statements to identify why a fund holder was unable to complete the review. Fund holder confirmation statements at the six AFBs indicated a 100 percent review and validation. However, when interviewed, officials at the six AFBs indicated that some ULOs still required research to determine validity at the end of the review period. The officials reported ULOs not validated in the remarks section of their review file. The AFB officials did not accurately disclose ULOs not validated on their confirmation statements and erroneously certified to a 100 percent review. The Director, Air Force Accounting and Finance Office should take appropriate action to stop the erroneous certification of ULO reviews. For future review periods, the AFALOs should identify and report the discrepancy between ULOs not validated as reported by the fund holders and the fund holder confirmation statements.

DFAS and Air Force guidance provided conflicting definitions for codes used to identify obligations as not validated and requiring additional research. Chapter 6 of the DFAS and Air Force guidance states that fund holders should use code R to identify valid obligations. However, Chapter 7 of that same guidance states to use code R to identify when research on a ULO is on-going and de-obligation of the funds cannot occur until research is complete. In addition, Chapter 5 states that fund holders code ULOs requiring additional research at the end of the review period with code W in the review file. Because ULOs requiring additional research can be coded with either the R or W codes, fund holders at the seven bases interpreted the DFAS and Air Force guidance differently. As a result, two fund holders used code W and seven fund holders used code R. The inconsistent use of codes did not allow the Air Force to accurately report the number of ULOs validated. DFAS Denver and the Air Force Finance and Accounting Office need to establish one code for ULOs requiring additional research.

Conclusion

Because of DFAS and Air Force erroneous reporting, the Air Force lacked the necessary information to make informed decisions related to the use of Air Force funds. Erroneous reporting could increase the risk that funds are unavailable for other Air Force needs because the funds may not be timely identified for de-obligation. The erroneous reporting could also lead to an inaccurate conclusion that a continued need still exists for all ULO amounts. DFAS Columbus and the AFALOs need to conduct additional oversight to ensure that confirmation statements accurately reflect the status of Air Force ULOs. In addition, DFAS Columbus and the AFALOs need to use available progress and management reports, like the DFAS Progress Status Report and the Tri-Annual Review Results, to verify the number of ULOs reviewed and validated corresponds to the number of ULOs reviewed on the confirmation statements. DFAS and the Air Force can also improve its process by establishing one code for ULOs requiring research. DFAS and the Air Force should take action to prevent the erroneous certification of ULO reviews.

Management Actions

During the audit, the Director, DFAS Columbus agreed with our conclusions and initiated actions establishing the use of the DFAS Progress Status Reports to identify the status of the tri-annual reviews. The Director also indicated that employees would be required to attend training to improve the tri-annual review process. In addition, the Director plans to request an independent assessment of DFAS Columbus' FY 2009 first period tri-annual review to determine if the problems with supporting documentation were resolved because of DFAS Columbus' actions.

Recommendations, Management Comments, and Our Response

A.1. We recommend that the Director, Defense Finance and Accounting Service Columbus:

a. Require the Defense Finance and Accounting Service Columbus Accounts Maintenance Control and Reporting Directorate to use the progress and management reports when confirming the number of unliquidated obligations reviewed and validated.

Director, Defense Finance and Accounting Service Columbus Comments

The Director, Defense Finance and Accounting Service Columbus agreed and stated that beginning with the first tri-annual review period of FY 2009, his office is using the progress reports to confirm the number of unliquidated obligations reviewed and validated.

Our Response

The Director, Defense Finance and Accounting Service Columbus comments are responsive and conform to requirements; no additional comments are needed.

b. Verify that the Defense Finance and Accounting Service Columbus confirmation statements accurately report the review and validation of unliquidated obligations by comparing the confirmation statements to the Defense Finance and Accounting Service management reports.

Director, Defense Finance and Accounting Service Columbus Comments

The Director, Defense Finance and Accounting Service Columbus agreed and stated that his office made changes to modify the confirmation statements so they accurately reflect the number of lines that have been reviewed and validated as indicated in a specified progress report.

Our Response

The Director, Defense Finance and Accounting Service Columbus comments are responsive and conform to requirements; no additional comments are needed.

c. Request the Defense Finance and Accounting Service Headquarters Internal Review perform an independent assessment of the current Defense Finance and Accounting Service Columbus tri-annual review process.

Director, Defense Finance and Accounting Service Columbus Comments

The Director, Defense Finance and Accounting Service Columbus agreed and requested that Internal Review conduct a review of the Defense Finance and Accounting Service tri-annual review process. Internal Review announced this review on January 12, 2009.

Our Response

The Director, Defense Finance and Accounting Service Columbus comments are responsive and conform to requirements; no additional comments are needed.

A.2. We recommend that the Director, Air Force Accounting and Finance Office:

a. Verify that Air Force fund holder confirmation statements accurately report fund holder review and validation of unliquidated obligations and match the Defense Finance and Accounting Service management reports.

Director, Air Force Accounting and Finance Office Comments

The Director, Air Force Accounting and Finance Office agreed with the intent of the recommendation and plans to work with the Directors of the Defense Finance and Accounting Service Denver and Columbus to modify the existing Tri-Annual program. This modification will provide management reports to the Air Force before the Air Force provides confirmation statements to the Office of the Secretary of Defense. The modification will be implemented by January 2010.

Our Response

The Director, Air Force Accounting and Finance Office comments are responsive and conform to requirements; no additional comments are needed.

Director, Financial Management, Air Force Materiel Command Comments

Although not required to comment, the Director, Financial Management, Air Force Materiel Command stated that the Defense Finance and Accounting Service and Air Force Accounting and Finance Office must establish one code for identifying which unliquidated obligations require additional research. The Air Force Materiel Command will then be able to track open obligations “coded as needing research.”

Our Response

We appreciate the comments from the Director, Financial Management, Air Force Materiel Command and commend the office for planned actions.

b. Ensure Air Force Accounting Liaison Offices follow DoD Financial Management Regulation 7000.14R, volume 3, chapter 8 by verifying that the percentage of unliquidated obligations validated on the fund holder confirmation

statements correspond with the total number of unliquidated obligations validated in the fund holder tri-annual review files.

Director, Air Force Accounting and Finance Office Comments

The Director, Air Force Accounting and Finance Office agreed with the intent of the recommendation and is deploying a tool to assist the Accounting Liaison Office with the daily management of the open document listing. This tool will enhance the distribution and tracking of lines reviewed during specific Tri-Annual periods, the visibility of fund holder responses, and the transfer of data between the base and their servicing Defense Finance and Accounting Service field site. The Air Force Accounting and Finance Office will deploy the management tool by October 2009.

Our Response

The Director, Air Force Accounting and Finance Office comments are responsive and conform to requirements; no additional comments are needed.

Director, Financial Management, Air Force Materiel Command Comments

Although not required to comment, the Director, Financial Management, Air Force Materiel Command stated that the Air Force Materiel Command requires the Accounting Liaison Office to accomplish a 100 percent review and validation of the Tri-Annual review data. To ensure the 100 percent review is accomplished, the Accounting Liaison Offices must provide an explanation of why the review was not completed and identify further actions to be taken. Air Force Materiel Command personnel will follow up on the explanations provided by the Accounting Liaison Offices.

Our Response

We appreciate the comments from the Director, Financial Management, Air Force Materiel Command and commend the office for actions taken.

A.3. We recommend that the Director, Air Force Accounting and Finance Office and the Director, Defense Finance and Accounting Service Denver clarify the Defense Finance and Accounting Service Denver 7220.4-G to establish one code for unliquidated obligations requiring additional research.

Director, Air Force Accounting and Finance Office

The Director, Air Force Accounting and Finance Office agreed and will reassess the codes used to identify additional research required for unliquidated obligations and modify the regulation as necessary. The Air Force Accounting and Finance Office will assess and modify the regulation by January 2010.

Director, Defense Finance and Accounting Service Denver Comments

The Director, Defense Finance and Accounting Service Columbus commented on behalf of the Director, Defense Finance and Accounting Service Denver. The Director, Defense

Finance and Accounting Service Columbus agreed with the recommendation and stated that the Director, Air Force Accounting and Finance Office and the Director, Defense Finance and Accounting Service Denver will reassess the codes used to identify additional research for unliquidated obligations and modify the regulation as necessary. The offices will assess and modify the regulation by April 2010.

Our Response

The Director, Air Force Accounting and Finance Office and Director, Defense Finance and Accounting Service Columbus comments are responsive and conform to requirements; no additional comments are needed.

Finding B. Defense Finance and Accounting Service Columbus Evidence

DFAS Columbus could not provide the required evidence that they performed the tri-annual reviews for 31 Air Force ULOs. DFAS Columbus did not maintain supporting documentation of its review as required by DoD FMR and DFAS and Air Force guidance. As a result, the Air Force has no assurance that DFAS Columbus reviewed and validated ULOs valued at \$169.7 million and that the Air Force still needs the obligated funds.

Unliquidated Obligation Reviews

DFAS Denver and the Assistant Secretary of the Air Force for Financial Management and Comptroller agreed that DFAS field sites would complete the contractual portion of the Air Force ULO tri-annual review. We selected 31 AFMC ULOs related to the 17 AFCEE contracts supporting GWOT to review. DFAS Columbus was responsible for reviewing the validity of all 31 selected contractual ULOs in the FY 2008 first period tri-annual review.

DFAS Columbus Evidence

DFAS Columbus did not provide the required evidence that they accomplished the FY 2008 first period tri-annual review for the 31 ULOs. A DFAS Columbus employee stated that employees either did not maintain the hard-copy documentation or temporarily misplaced the documentation, but had reviewed the 31 ULOs during the FY 2008 first period tri-annual review. The DoD FMR, and DFAS and Air Force guidance, require DFAS users and fund holders to maintain adequate supporting documentation for the 24-month period following each review. This allows independent organizations to verify personnel properly completed the reviews and provides the Air Force assurance that unliquidated funds are still needed. The lack of supporting documentation did not allow for an assessment of the performance or completeness of the DFAS Columbus ULO review. DFAS Columbus should maintain supporting documentation of their reviews.

Air Force Fund Holder Evidence and Our Review

Because DFAS Columbus could not provide verification that they reviewed and validated the 31 ULOs, to conduct our independent review we requested supporting documentation from the Air Force fund holders. As of October 28, 2008, the fund holders were able to provide adequate supporting documentation for 6 ULOs, but could not provide adequate supporting documentation for 24 ULOs. The remaining one ULO, valued at \$2.7 million, is no longer valid. Table 2 identifies whether a valid need exists for the 31 ULOs based on our review of the supporting documentation.

Table 2. Valid Need for the 31 ULOs

Number of ULOs	Adequacy of ULOs	Balance as of 9/30/07
6	Valid	\$ 7,137,390.36
24	Unknown	\$159,507,001.44
1	Invalid	\$ 3,031,246.00
31		\$169,675,637.80

For the invalid ULO, AFCEE awarded a delivery order on September 8, 2007, that obligated approximately \$3 million of Operation and Maintenance funds. The 95th Air Base Wing at Edwards AFB provided these funds for an environmental restoration project. As of October 2008, the agencies involved have not signed the environmental agreement, have not started project design or construction, and made only minimal payments to the contractor. Of the approximately \$3 million originally obligated, \$2.7 million remains obligated despite the lack of need for the funds in FY 2007. Based on our review and identification of an invalid ULO, DFAS Columbus should confirm our conclusion that the six ULOs are still valid and determine the validity of the remaining 24 ULOs. See Appendix C for a list of the 30 ULOs.

Conclusion

The Air Force had no assurance that DFAS Columbus adequately reviewed and validated ULOs valued at \$169.7 million and that a continued need still exists for the funds. Because DFAS Columbus could not verify that they performed a review of the 31 ULOs and did not retain the required supporting documentation, the Air Force and the Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer did not have full assurance that the 31 ULOs were valid and correct. DFAS Columbus representatives may have identified the \$2.7 million in unnecessary ULO balances if they had followed the requirements to properly review the ULOs and maintain adequate supporting documentation. DFAS Columbus needs to ensure that tri-annual reviews are completed and it maintains supporting documentation in accordance with established laws and regulations.

Recommendations, Management Comments, and Our Response

B.1. We recommend that the Director, Defense Finance and Accounting Service Columbus:

a. Establish a plan to ensure Defense Finance and Accounting Service Columbus maintains supporting documentation for 24 months following a completed tri-annual review as required by the DoD Financial Management Regulation, volume 3, chapter 8 and the Defense Finance and Accounting Service Denver 7220.4-G.

Director, Defense Finance and Accounting Service Columbus Comments

The Director, Defense Finance and Accounting Service Columbus agreed and stated that his office will develop a standard process for reviewing and validating unliquidated obligation balances in accordance with the Defense Finance and Accounting Service Denver 7220.4-G. The process will identify information needed to be reviewed for the tri-annual review, information to be used in creating a review package, and requirements for maintaining supporting documentation. Defense Finance and Accounting Service Columbus will develop and implement the process by August 3, 2009, and will validate the process by October 1, 2009, to ensure it is in place and working.

Our Response

The Director, Defense Finance and Accounting Service Columbus comments are responsive and conform to requirements; no additional comments are needed.

b. Require the Defense Finance and Accounting Service Columbus to determine the validity of the 30 unliquidated obligations and take appropriate action to de-obligate any unliquidated obligations identified as invalid and provide us the results.

Director, Defense Finance and Accounting Service Columbus Comments

The Director, Defense Finance and Accounting Service Columbus agreed and stated his office reviewed the 30 unliquidated obligations and provided the supporting documentation for the review to the DoD Inspector General's Office on February 24, 2009.

Our Response

The Director, Defense Finance and Accounting Service Columbus comments are responsive and conform to requirements; no additional comments are needed.

B.2. We recommend that the Assistant Secretary of the Air Force for Financial Management and Comptroller de-obligate \$2.7 million in funds on contract FA8903-04-D-8671, delivery order 0058, that are not valid.

Assistant Secretary of the Air Force for Financial Management and Comptroller Comments

The Director, Air Force Accounting and Finance Office commented on behalf of the Assistant Secretary of the Air Force for Financial Management and Comptroller. The Director agreed with the recommendation and stated that the Air Force Materiel Command Financial Management will be directed to review the delivery order and take appropriate action based on the documented review. The Air Force Materiel Command Financial Management will review the order by June 2009.

Our Response

The Director, Air Force Accounting and Finance Office comments are responsive and conform to requirements; no additional comments are needed.

Appendix A. Scope and Methodology

We conducted this performance audit from June 2008 through January 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The audit focused on Department of the Air Force ULOs for contracts supporting GWOT. We reviewed a Federal Procurement Data System-Next Generation list of the 100 highest-dollar value contracts for FY 2004 through FY 2006 where the place of performance was either Iraq or Afghanistan. We reviewed these contracts to determine the activities that awarded the highest dollar value of funds on contracts supporting GWOT. We determined that the Department of the Air Force awarded 20 of the 100 highest-dollar value contracts, and AFCEE at Brooks City Base, Texas, awarded 17 of those 20. The table shows the Air Force contracts and obligated amounts from FY 2004 through FY 2007 included in our review:

AFCEE Contracts Supporting GWOT		
	Contract Number	Obligated Amount
1.	FA890304D8669	\$ 423,573,985.54
2.	FA890304D8670	241,701,296.11
3.	FA890304D8671	169,307,728.20
4.	FA890304D8672	795,659,644.58
5.	FA890304D8676	221,985,688.54
6.	FA890304D8677	375,351,442.05
7.	FA890304D8678	287,467,544.69
8.	FA890304D8680	184,848,989.00
9.	FA890304D8681	497,765,293.67
10.	FA890304D8683	160,837,357.70
11.	FA890304D8689	151,062,403.57
12.	FA890304D8690	314,266,123.00
13.	FA890304D8694	135,516,898.00
14.	FA890306D8511	435,653,039.19
15.	FA890306D8513	243,437,446.00
16.	FA890306D8519	208,265,319.37
17.	FA890306D8520	245,880,938.00
	Total:	\$5,092,581,137.21

DFAS Columbus provided the universe of Air Force ULO balances for FY 2004 through FY 2007 related to the 17 contracts from the General Accounting and Finance System. This universe contained 538 ULOs totaling approximately \$369 million. We

judgmentally selected ULOs greater than \$100,000 and selected AFMC as the Major Command. AFMC had the highest dollar value of ULO balances. This sample encompassed 31 ULOs valued at approximately \$169.7 million.

To accomplish the audit objectives, we met with the following offices and reviewed the following data:

- We accessed the Electronic Document Access System and the Federal Procurement Data System-Next Generation to download contracts, orders, and modifications related to our universe and sample.
- We interviewed representatives from the Under Secretary of Defense (Comptroller)/Chief Financial Officer; Assistant Secretary of the Air Force for Financial Management and Comptroller; DFAS Columbus; DFAS Denver; DFAS Indianapolis; AFCEE; AFMC; 377th Air Base Wing at Kirtland AFB; Arnold Engineering Development Center at Arnold AFB; 75th Air Base Wing at Hill AFB; Ogden-Air Logistics Center at Hill AFB; Warner Robins Air Logistics Center at Robins AFB; and 95th Air Base Wing at Edwards AFB. During these interviews, we identified the policies and procedures in place for management controls over ULOs and documented the tri-annual review process.
- We reviewed financial reports to identify the amounts and status of ULOs on the 17 AFCEE contracts.
- We reviewed tri-annual review files, contract delivery orders, contract modifications, invoices, vouchers, transaction history reports, and a contract disbursement history report to determine whether the 31 ULOs were included within the tri-annual reviews and whether the ULO amounts were valid.
- We reviewed applicable laws and regulations, including the DoD FMR and the DFAS Denver 7220.4-G. We reviewed these to determine the procedures for performing tri-annual reviews and to identify supporting documentation requirements.

Use of Computer-Processed Data

To perform this audit, we used data that originated in the General Accounting and Finance System. The General Accounting and Finance System is the official Air Force financial accounting system. We used the data only to determine the sample of ULOs for our review. However, to determine data validity of our 31 ULO sample amounts, we compared the system data to source documents such as contract delivery orders, contract modifications, invoices, vouchers, and contract disbursement history reports. This assessment indicated the data was sufficiently reliable to accurately reflect the recorded obligations and disbursement amounts for the purpose of our review.

Prior Coverage

During the last five years, the DoD Inspector General (IG), Special Inspector General for Iraq Reconstruction (SIGIR), and the Air Force Audit Agency (AFAA) have issued eight reports discussing topics related to unliquidated obligations and tri-annual reviews.

Unrestricted DoD IG reports can be accessed over the Internet at

<http://www.dodig.mil/audit/reports>. Unrestricted SIGIR reports can be accessed at

<http://www.sigir.mil>. Unrestricted AFAA reports can be accessed at

<http://www.afaa.hq.af.mil>.

DoD IG

DoD IG Report No. D-2008-026, “Management of the Iraq Security Forces Fund in Southwest Asia – Phase III,” November 30, 2007

DoD IG Report No. D-2008-027, “Air Force Use of Global War on Terrorism Supplemental Funding Provided for Procurement and Research, Development, Test, and Evaluation,” November 21, 2007

DoD IG Report No. D-2006-085, “Vendor Pay Disbursement Cycle, Air Force General Fund: Funds Control,” May 15, 2006

SIGIR

SIGIR Report No. 07-011, “Controls Over Unliquidated Obligations in the Iraq Relief and Reconstruction Fund,” October 23, 2007

AFAA

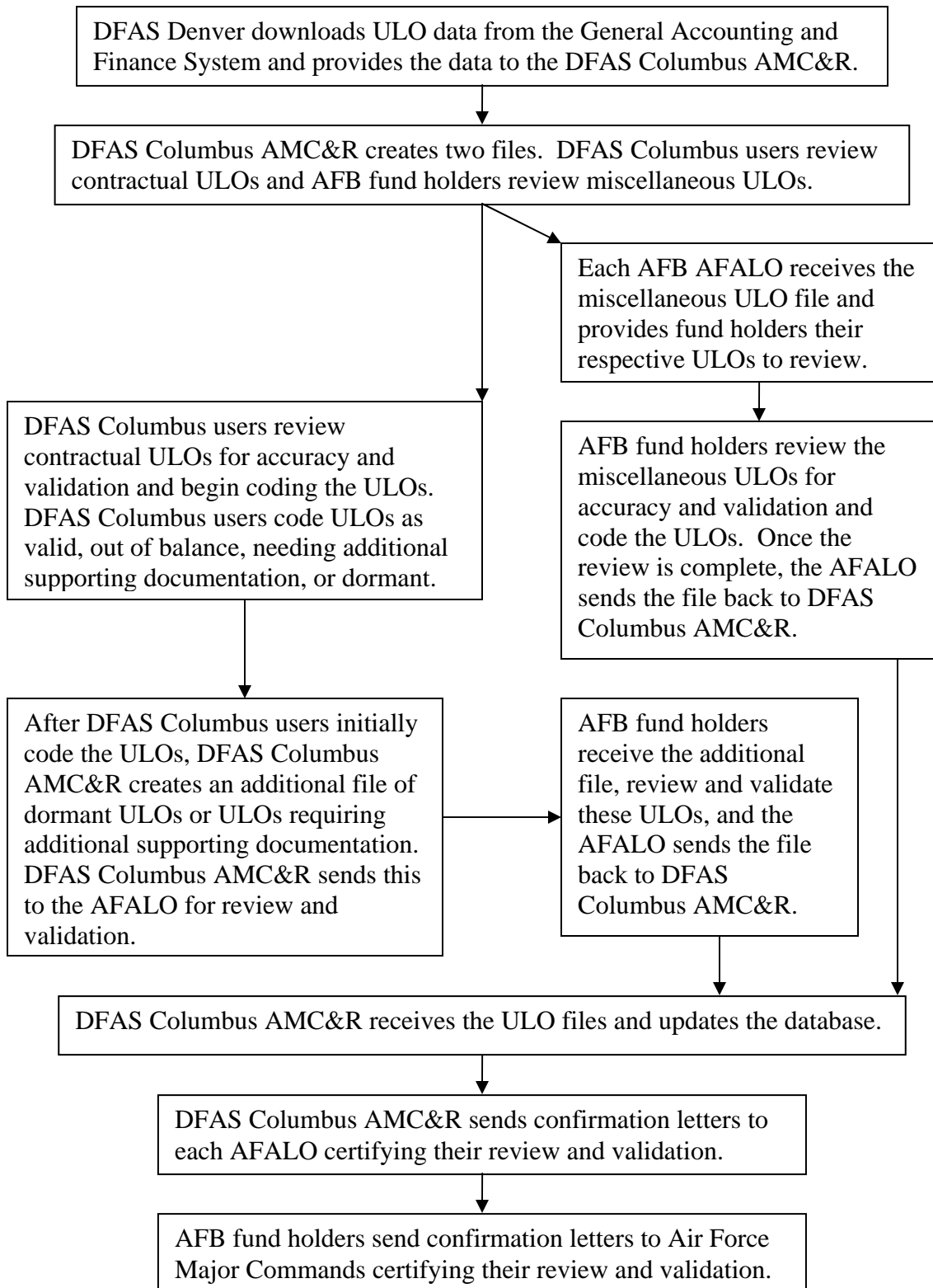
AFAA Report No. F2008-0007-FC2000, “Foreign Military Sales Unliquidated Obligations,” April 29, 2008

AFAA Report No. F2008-0001-FB3000, “Air Force General Fund Tri-Annual Review Process,” April 28, 2008

AFAA Report No. F2005-0011-FB1000, “Global War on Terrorism Funds Management,” June 20, 2005

AFAA Report No. F2005-0010-FB1000, “Air Force Reserve Unliquidated Obligations,” June 17, 2005

Appendix B. Tri-Annual Review Process



Appendix C. Air Force Materiel Command Unliquidated Obligations

	Document Number	Adequacy of ULOs	ULO Balance as of 9/30/07
1	FA890304D86700221AAX	Unknown	\$ 150,496.92
2	FA890304D86700221ABX	Unknown	117,053.15
3	FA890304D86700221ACX	Unknown	300,932.53
4	FA890304D86700286AAX	Valid	884,173.04
5	FA890304D86710053AAX	Unknown	1,233,738.82
6	FA890304D86780131 X	Unknown	162,085.41
7	FA890304D86700248AAX	Unknown	369,362.72
8	FA890304D86700255AAX	Unknown	2,985,507.38
9	FA890304D86700265AAX	Unknown	1,243,381.17
10	FA890304D86700265ABX	Unknown	133,869.16
11	FA890304D86710060AAX	Unknown	2,136,641.00
12	FA890304D86760111AAX	Unknown	785,460.00
13	FA890304D86760138AAX	Unknown	466,947.87
14	FA890304D86720040AA	Unknown	910,052.46
15	FA890306D85110018	Unknown	455,980.50
16	FA890306D85110018 X	Unknown	38,546,056.46
17	FA890306D85130002 X	Unknown	626,699.00
18	FA890306D85130002 X	Unknown	923,300.00
19	FA890306D85130002 X	Unknown	15,894,475.67
20	FA890306D85130010	Unknown	949,154.00
21	FA890306D85130010	Unknown	35,796,926.99
22	FA890306D85190012	Unknown	21,779,145.08
23	FA890306D85200002	Unknown	10,905,325.39
24	FA890306D85200008 X	Unknown	10,819,879.76
25	FA890306D85200013AA	Unknown	11,814,530.00
26	FA890304D86700256AA	Valid	596,926.00
27	FA890304D86940009AB	Valid	114,804.00
28	FA890304D86710054AAX	Valid	150,762.87
29	FA890304D86890094AAX	Valid	403,844.45
30	FA890306D85130014	Valid	4,986,880.00
	Total		\$166,644,391.80

Defense Finance and Accounting Service Columbus Comments



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

FEB 25 2009

DFAS-JBI/CO

MEMORANDUM FOR PROGRAM DIRECTOR, DEFENSE BUSINESS OPERATIONS

SUBJECT: Management Comments to the Department of Defense Inspector General Final Draft Audit Report "Controls Over Air Force Materiel Command Unliquidated Obligations on Department of the Air Force Contracts Supporting the Global War on Terror," Project Number D2008-D000FC-0208.000, dated January 26, 2009

In accordance with subject audit, management comments to the draft audit report are attached. Recommendations A.1.a, A.1.b, A.1.c, and B.1.b are considered closed. The estimated completion date for recommendation B.1.a is October 1, 2009. Recommendation A.3 is being extended to April 1, 2010.

My point of contact for additional information concerning recommendations A.1.a, A.1.b, A.1.c, B.1.a, and B.1.b is Mr. John Yerkey, DFAS-JBI/CO, at 614-693-1375 or DSN 869-1375. My point of contact for recommendation A.3 is Pat Ulm-Mazer, DFAS-JB/DE, at 303-676-7708 or DSN 926-7708.

A handwritten signature in black ink, appearing to read "Gregory P. Keiling".

Gregory P. Keiling
Acting Deputy Director, DFAS Columbus

Attachment:
As stated

Management Comments to the Department of Defense Inspector General Draft Audit Report "Controls Over Air Force Materiel Command Unliquidated Obligations on Department of the Air Force Contracts Supporting the Global War on Terror," Project Number D2008-D000FC-0208.000, dated January 26, 2009

Recommendation A.1: We recommend that the Defense Finance and Accounting Service Columbus:

a. Require the Defense Finance and Accounting Service Columbus Accounts Maintenance Control and Reporting Directorate to use the progress and management reports when confirming the number of unliquidated obligations reviewed and validated.

Management Comments: Concur. Beginning with the first tri-annual review period of fiscal year 2009, the Defense Finance and Accounting Service (DFAS) Columbus Accounts Maintenance Control and Reporting Directorate (AMC&R) is using P1, P2, and P3 progress reports to confirm the number of Unliquidated Obligations (ULOs) that have been reviewed and validated. The P1 report is used to identify the percentage of reviews completed by Processing Center (PC) Code and Operating Location (OPLOC). The P2 report reflects the percentage of lines that are reviewed and validated by site code and OPLOC. The P3 report shows the number of lines on the tri-annual review that were assigned a DFAS code. The P2 report is reflected on the confirmation statements that are sent to the individual bases. This recommendation is considered closed.

Estimated Completion Date: This recommendation is considered closed.

b. Verify that the Defense Finance and Accounting Service Columbus (DFAS) confirmation statements accurately report the review and validation of unliquidated obligations by comparing the confirmation statements to the DFAS management reports.

Management Comments: Concur. DFAS Columbus has made changes to the tri-annual review database to modify the confirmation statements to accurately reflect the number of lines that have been reviewed and validated as reflected on the P2 report. This recommendation is considered closed.

Estimated Completion Date: This recommendation is considered closed.

c. Request the Defense Finance and Accounting Service Headquarters Internal Review perform an independent assessment of the current Defense Finance and Accounting Service (DFAS) Columbus tri-annual review process.

Management Comments: Concur. DFAS Columbus has requested that Internal Review conduct a review of the DFAS Air Force tri-annual review process. An announcement letter was issued for the audit on January 12, 2009, and the field work has started. This recommendation is considered closed.

Estimated Completion Date: This recommendation is considered closed.

Recommendation A.3: We recommend that the Director, Air Force Accounting and Finance Office and the Director, Defense Finance and Accounting Service (DFAS) Denver clarify the DFAS Denver 7220.4-G to establish one code for unliquidated obligations requiring additional research.

Management Comments: Concur. The Director, Air Force Accounting and Finance Office (AFAFO) and the Director, DFAS Denver will reassess the codes used to identify additional research for unliquidated obligations and modify the regulation as necessary. The update of the regulation will be completed by January 31, 2010.

Estimated Completion Date: January 31, 2010

Recommendation B.1: We recommend that the Director, Defense Finance and Accounting Service Columbus:

a. Establish a plan to ensure Defense Finance and Accounting Service (DFAS) Columbus maintains supporting documentation for 24 months following a completed tri-annual review as required by the DoD Financial Management Regulation, volume 3, chapter 8 and the DFAS Denver 7220.4-G.

Management Comments: Concur. Accounts Maintenance Control and Reporting (AMC&R) will develop a standard process for reviewing and validating un-liquidated obligation balances for the tri-annual review in accordance with the Defense Finance and Accounting Service Denver (DFAS-DE) 7220.4-G. The process will include the information that needs to be reviewed for the tri-annual review and identify the information to be used in creating a review package along with the requirements for maintaining supporting documentation. The standard process will be developed and implemented by August 3, 2009. To validate the process is in place and working, the estimated completion date is October 1, 2009.

Estimated Completion Date: October 1, 2009

b. Require the Defense Finance and Accounting Service (DFAS) Columbus to determine the validity of the 30 unliquidated obligations and take appropriate action to de-obligate any unliquidated obligations identified as invalid and provide us the results.

Management Comments: Concur. DFAS Columbus has reviewed the 30 Unliquidated Obligations (ULO) and has taken appropriate actions. The supporting documentation for the reviews of the 30 ULOs has been placed on the ePortal project titled "DoDIG Audit Support for ULO Audit" for review by the DoDIG. The results of each of the ULOs reviewed are included with the documentation placed on the ePortal. This recommendation is considered closed.

Estimated Completion Date: This recommendation is considered closed.

Air Force Accounting and Finance Office Comments



DEPARTMENT OF THE AIR FORCE
WASHINGTON, DC

OFFICE OF THE ASSISTANT SECRETARY

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDITING
OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

FROM: SAF/FMP (AFAFO)
6760 East Irvington Place
Denver, CO 80279-8000

SUBJECT: DoDIG Draft Audit Report, Controls Over Air Force Materiel Command
Unliquidated Obligations on Department of the Air Force Contracts Supporting the
Global War on Terror, (Project No. D2008-D000FC-0208.000)

Management comments on the findings and recommendations of the DoDIG Draft Audit Report, Controls Over Air Force Materiel Command Unliquidated Obligations on Department of the Air Force Contracts Supporting the Global War on Terror are attached.

If you have any questions or concerns with our comments, please contact Valli Fels, AFAFO/FMFA, DSN 926-5862.

A handwritten signature in black ink, appearing to read "Thomas L. Prochazka".

THOMAS L. PROCHAZKA
Acting Director, Air Force Accounting and
Finance Office

Attachment:
Management Comments

"Financing the Fight"

DoDIG Draft Audit Report
Controls Over Air Force Materiel Command Unliquidated Obligations on Department of the Air
Force Contracts Supporting the Global War on Terror
Project No. D2008–D000FC-0208.000

Recommendation A.2.: We recommend that the Director, Air Force Accounting and Finance Office:

a. Verify that Air Force fund holder confirmation statements accurately report fund holder review and validation of unliquidated obligations and match the Defense Finance and Accounting Service management reports.

b. Ensure Air Force Accounting Liaison Offices follow DoD Financial Management Regulation 7000.14R, volume 3, chapter 8 by verifying that the percentage of unliquidated obligations validated on the fund holder confirmation statements correspond with the total number of unliquidated obligations validated in the fund holder tri-annual review files.

AFAFO Management Comments A.2.: Concur with intent

a. The Director of the Air Force Accounting and Finance Office (AFAFO) will work with the Directors of the Defense Finance and Accounting Service (DFAS) Denver and Columbus to modify the existing Tri-Annual program. This modification will provide management reports to Air Force in a time period that can be validated and acted upon prior to the confirmation statement being provided by the Air Force to the Office of the Secretary of Defense. ECD: Jan 2010.

b. The Air Force Financial Systems Office is deploying the FMSuite Open Document Analysis (ODA) tool to assist Air Force Financial Management Analysis/Accounting Liaison Office (FMA/ALO) with the day-to-day management of the open document listing. An enhancement to this tool is the distribution and tracking of lines reviewed during specific Tri-Annual periods. FMA/ALO visibility of fund holder responses in this web-based system and transfer of data between the base and their servicing DFAS field site will be enhanced with the deployment of the Tri-Annual capability within ODA. ECD: Oct 2009.

Recommendation A.3.: We recommend that the Director, Air Force Accounting and Finance Office and the Director, Defense Finance and Accounting Service Denver clarify the Defense Finance and Accounting Service Denver 7220.4-G to establish one code for unliquidated obligations requiring additional research.

AFAFO Management Comments A.3.: Concur. The Director of AFAFO and the Director of DFAS Denver will reassess the codes used to identify additional research required for unliquidated obligations and modify the regulation as necessary. ECD: Jan 2010.

Recommendation B.2.: We recommend that the Assistant Secretary of the Air Force for Financial Management and Comptroller de-obligate \$2.7 million in funds on contract FA8903-04-D-8671, delivery order 0058, that are not valid.

Management Comments B.2.: Concur. Air Force Materiel Command Financial Management will be directed to review the order and take appropriate action based on the documented review. ECD: Jun 2009.

Air Force Materiel Command Comments



DEPARTMENT OF THE AIR FORCE HEADQUARTERS AIR FORCE MATERIEL COMMAND WRIGHT-PATTERSON AIR FORCE BASE OHIO

FEB 20 2009

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

FROM: HQ AFMC/FM
4375 Chidlaw Road, Rm N201
Wright-Patterson AFB OH 45433-5001

SUBJECT: Report on Controls Over Air Force Materiel Command (AFMC) Un-liquidated Obligations on Department of the Air Force Contracts Supporting the Global War on Terror (GWOt)

1. We have reviewed the draft report and concur with the findings and recommendations identified within. Although the audit report addresses 17 AFCEE contracts supporting GWOt, our response to the recommendations will address the entire Tri Annual Review process. In addition, our response includes the internal controls AFMC will implement to rectify the process problem.

- a. Verify that Air Force fund holder confirmation statements accurately report fund holder review and validation of un-liquidated obligations and match the Defense Finance and Accounting Service management reports.
 - 1) Prior to accomplishing this, DFAS and AFAFO must establish one code for identifying which ULOs require additional research. Once DFAS codes have been reconciled and coordinated with AFAFO, AFMC/FMA will track open obligations "coded as needing research", submitted in the Tri Annual Review process.
- b. Ensure Air Force Accounting Liaison Offices follow DoD Financial Management Regulation 7000.14R, volume 3, chapter 8 by verifying that the percentage of un-liquidated obligations validated on the fund holder confirmation statements correspond with the total number of un-liquidated obligations validated in the fund holder tri-annual review files.
 - 1) Currently, AFMC/FMA requires ALO's at the Wings to accomplish a 100 percent review and validation of the Tri Annual Review data. To ensure 100 percent review is accomplished, AFMC/FMA requires ALO's at the Wings, to provide an explanation why the review was not completed and what further action must be taken. AFMC/FMA, follows-up on submitted explanation.

War-winning capabilities ... on time, on cost

2. Please direct any questions to Kurt D. Jackson, DSN: 787-4736 or Glenda LeBlanc, DSN: 787-7832, HQ AFMC/FMAO.



JOSEPH S. WARD JR.
Colonel, USAF
Director, Financial Management



Inspector General
Department of Defense

