August 13, 2003

Financial Management

Closing the Army's 1985 M1A1 Tank Contract (Contract DAAE07-85-C-A043)

(D-2003-122)

Office of the Inspector General of the Department of Defense

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This report should be read by civil service and uniformed officers in the acquisition and finance and accounting areas who are responsible for contract maintenance and closeout. The report discusses the process of completing a contract fund reconciliation prior to closure of the Armys 1985 M1A1 Tank contract.

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Acronyms

ACRN	Accounting Classification Reference Number
DCMA	Defense Contract Management Agency
DCMR	Defense Contract Management Region
DFAS	Defense Finance and Accounting Service
DFAS-CO	Defense Finance and Accounting Service Columbus
FAR	Federal Acquisition Regulation
FMR	Financial Management Regulation
MOCAS	Mechanization of Contract Administration Service
RAID	Request And Inspection of Documents
SAPAS	Standard Accounts Payable and Accounting System
SOMARDS	Standard Operations and Maintenance Army Research and Development System
TACOM	Tank-Automotive and Armaments Command

INSPECTOR GENERAL
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August 13, 2003

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF FINANCIAL OFFICER
DIRECTOR, DEFENSE CONTRACT MANAGEMENT AGENCY
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Report on Closing the Army's 1985 M1A1 Tank Contract (Contract Number DAAE07-85-C-A043) (Report No. D-2003-122)

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

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Under Secretary of Defense (Comptroller)/Chief Financial Officer did not provide comments on the draft report. We request comments be provided on Recommendations 3 and 5 by September 15, 2003. The Defense Finance and Accounting Service Columbus comments were partially responsive. We request additional comments on Recommendation 4.b. by October 10, 2003.

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

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. James L. Kornides at (614) 751-1400, extension 211 or Mr. John K. Issel at (614) 751-1400, extension 212. See Appendix B for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing

Paul J. Granetto
Director
Defense Financial Auditing Service

Office of the Inspector General of the Department of Defense

Report No. D-2003-122 **August 13, 2003**
(Project No. D2002FJ-0180)

Closing the Army's 1985 M1A1 Tank Contract (Contract Number DAAE07-85-C-A043)

Executive Summary

Who Should Read This Report and Why? This report should be read by civil service and uniformed officers in the acquisition and finance and accounting areas who are responsible for contract maintenance and closeout. The report discusses the process of completing a contract fund reconciliation prior to closure of the Army's 1985 M1A1 Tank contract.

Background. On June 18, 2002, the DoD hotline received a complaint that DoD planned to close the Army's 1985 M1A1 Tank contract (DAAE07-85-C-A043) prematurely. The complaint cited a modification, signed on October 24, 2001, that required the Defense Finance and Accounting Service Columbus to reduce the $1.01 billion unliquidated balance in the Mechanization of Contract Administration Services system to zero without performing a contract fund reconciliation. The official accounting records that are maintained at the Defense Finance and Accounting Service, St. Louis, showed that no unliquidated obligation balance remained for the $3.82 billion contract. The hotline complainant concluded that without a proper reconciliation of the balances in the Mechanization of Contract Administration Services system, issuance of the modification could result in a misuse of funds.

Results. The allegations were substantiated. The Defense Contract Management Agency inappropriately attempted to use a contract modification to adjust the Mechanization of Contract Administration Services system records that were out of balance by $1.01 billion for the Army tank contract. Additionally, although the Defense Finance and Accounting Service Columbus did not accept the Defense Contract Management Agency modification, it did not perform the thorough contract fund reconciliation that was needed to minimize and correct the out of balance condition. As a result, without an adequate contract fund reconciliation, the Defense Finance and Accounting Service Columbus could not close the contract in the Mechanization of Contract Administration Services system. Additionally, the audit showed a potential over-disbursement of $1.9 million. However, until a full reconciliation is completed, any over-disbursed amount cannot be confirmed or recovered. To improve the process and reduce the risk of undetected over or under payments, the Defense Contract Management Agency needed to provide the Defense Finance and Accounting Service Columbus with a complete and validated obligation review for the total value of the contract. Upon receipt of the obligation review, the Defense Finance and Accounting Service Columbus needed to perform a reconciliation of total obligations in the Mechanization of Contract Administration Services system and make adjustments as necessary. Additionally, the Defense Finance and Accounting Service Columbus needed to perform a reconciliation of total disbursements using all files and records available prior and subsequent to the transfer of the disbursing function from the Tank-Automotive and Armaments Command

to the former Defense Contract Management Region, Cleveland, in July 1990. In performing the reconciliation, the Defense Finance and Accounting Service Columbus also needed to consider data available at the Defense Finance and Accounting Service, St. Louis, and the Tank-Automotive and Armaments Command. In addition, the Defense Finance and Accounting Service Columbus and the Tank-Automotive and Armaments Command needed to determine whether the potential over-disbursement of $1.9 million is accurate and recoverable. Finally, DoD record retention regulations needed to be revised to conform with the requirements of the Federal Acquisition Regulation. See the Finding section for a discussion of details.

Management Comments and Audit Response. The Under Secretary of Defense (Comptroller)/Chief Financial Officer did not provide comments. We request that the Under Secretary provide comments on the final report. The Defense Contract Management Agency did not agree with parts of this report but concurred with all of the recommendations. The Defense Contract Management Agency believed that the report was inappropriately silent on the existence of a draft replacement of the final contract modification that it had prepared and the report did not fully portray the circumstances surrounding the non-processing of the original final contract modification. The Defense Contract Management Agency stated that actions related to the recommendation to provide the Defense Finance and Accounting Service Columbus with a complete and validated obligation review that equaled the total value of the contract were completed and submitted in February 2003. Additionally, the Defense Contract Management Agency stated that it completed action related to the recommendation to add language to the draft, "Unreconcilable Contract Guidance," that required contacting the applicable records holding activity if all their efforts fail in obtaining original source documents. The Defense Finance and Accounting Service Columbus concurred or partially concurred with the finding and six of the recommendations and nonconcurred with two recommendations. The Defense Finance and Accounting Service Columbus stated that it would not be cost-effective to expend additional resources and work hours in an attempt to retrieve databases no longer in use. The Defense Finance and Accounting Service Columbus also stated that the retention period for original disbursing records should extend to 6 years and 3 months after *contract closure* rather than the current requirement in the Federal Acquisition Regulation of 6 years and 3 months after *final payment*.

Comments from the Defense Contract Management Agency to the recommendations were responsive. We did not discuss the draft replacement modification because the proposed modification would not result in the Defense Finance and Accounting Service Columbus correcting its substantial out of balance condition or closing this contract in Mechanization of Contract Administration Services. Comments from the Defense Finance and Accounting Service Columbus were also responsive except on the use of all other databases. We believe that identifying additional electronic databases from either the fund holder or accounting station that might assist in the reconciliation process could be a prudent use of resources. Although electronic databases no longer in use might not contain all data, an attempt should be made, on a case-by-case basis, to pursue every available record when reconciling contracts for which hard copy documentation is not available. We do agree that the costs versus the benefits should be considered in each case. We request that the Under Secretary of Defense (Comptroller)/Chief Financial Officer and the Defense Finance and Accounting Service Columbus provide comments by October 10, 2003.

See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

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Background

On June 18, 2002, the DoD hotline received a complaint that the Defense Contract Management Agency (DCMA) and the Defense Finance and Accounting Service (DFAS) were in the process of modifying the Army's M1A1 Tank contract (DAAE07-85-C-A043) prematurely. The modification would have removed an unliquidated obligation balance of $1.01 billion from the MOCAS records without reconciling the contract funds to determine the reason for the unliquidated balance.

The Army's M1A1 Tank contract was awarded on April 1, 1985, and was administered by the DCMA office in Warren, Michigan. The contract was awarded to the General Dynamics Land Systems, Inc., in Sterling Heights, Michigan.

The procuring contracting office was the Tank-Automotive and Armaments Command (TACOM) in Warren, Michigan. DCMA Detroit personnel stated that, at the time of the hotline complaint, the Army had procured approximately 5,404 M1A1 tanks using the contract. No further purchases were planned. The total contract value was $3.82 billion, according to the final TACOM funding modification on August 12, 1997.

TACOM performed the initial payment functions when the contract was awarded. TACOM personnel recorded payments manually until they began recording them in the Army's Standard Accounts Payable and Accounting System (SAPAS). The payment function was transferred to the Cleveland Office of Defense Contract Management Region (DCMR-Cleveland) on July 6, 1990. In the transfer, TACOM included a spreadsheet identifying all purchase request order numbers and ACRN balances up to the date of the transfer. TACOM also provided a certification memorandum identifying total disbursements and the remaining unliquidated obligations. DCMR-Cleveland entered the remaining unliquidated obligations into the MOCAS system on July 13, 1990.

Additional payments and obligations were made by DCMR-Cleveland until the function was transferred to DFAS Columbus (DFAS-CO) where it remained until the final payment on the contract on September 18, 1997.

The contract was physically complete, and the contractor had agreed that there were no outstanding bills that required payment. However, MOCAS showed an unliquidated obligation balance of $1.01 billion. To determine why the unliquidated obligation existed, DFAS-CO needed to perform a contract reconciliation.

Objective

The objective of the audit was to evaluate the validity of the allegations in the hotline complaint. Specifically, we focused our audit on determining whether all possible efforts were made to administratively and financially close the Army's M1A1 contract out of the MOCAS system. See Appendix A for a discussion of the audit scope and methodology.

Other Matters of Interest

During the audit, a potential over-disbursement of approximately $1.9 million was disclosed in the Army's M1A1 Tank contract. We performed a reconciliation of total disbursements made by DCMR-Cleveland and DFAS-CO. DFAS-CO also performed a reconciliation during our audit by performing a cash audit and verification of hard copy sub-vouchers. The DFAS-CO reconciliation identified errors in the work-in-progress line items. The errors, made at the time of the transfer of the contract payment function, contributed to erroneous transactions being posted to MOCAS.

We compared the data in the automated records of obligations and disbursements with the data available when TACOM transferred the payment function to DCMR-Cleveland. We used the signed certification prepared by the TACOM finance and accounting director as the starting point for disbursements made by TACOM. However, the documentation showed that the obligation review prepared by DCMA-Detroit was understated. Total obligations were $3,817,595,905.18. Disbursements were greater than obligations by $610,268.14.

DFAS-CO performed a cash audit of the TACOM disbursing documents during the audit. The cash audit indicated total disbursements were almost $1.3 million more than the disbursement dollar figure that TACOM had certified. This raised the potential over-disbursement to approximately $1.9 million. The ultimate value of the potential over-disbursement cannot be determined until DFAS-CO, TACOM, and DCMA-Detroit complete their reconciliation effort.

At the time of our audit, the procuring contracting officer from TACOM agreed with our preliminary conclusions and began working with personnel from DFAS-CO in an attempt to identify the actual amount of the potential over-disbursement. The Office of the Inspector General of the Department of Defense will continue to monitor this issue until it is resolved.

Contract DAAE07-85-C-A043 Closeout

The allegations were substantiated. DCMA attempted to use a modification of the Army tank contract to adjust MOCAS records by $1.01 billion to bring the financial records into balance—a necessary step to close the contract. DFAS-CO refused to make the modification, but did not perform an exhaustive search for supporting documents or fully consider posting errors, incorrect obligation reviews, and incomplete databases—a necessary step to reconcile the contract. Further, some records that should have been available for the reconciliation had been destroyed in accordance with the record retention polices in the Financial Management Regulation. The records were destroyed because DoD record retention policies require shorter holding periods than the Federal Acquisition Regulation does. As a result of the inadequate contract reconciliation, DFAS-CO could not eliminate the $1.01 billion in unliquidated obligations in MOCAS to bring the financial records back into balance so they could close out the contract.

DCMA Plans to Modify the Contract

DCMA attempted to close the Army tank contract using a modification that required DFAS-CO to use accounting adjustments to close out every open contract line item in MOCAS. DCMA-Detroit issued Modification Number A00776 to the Army tank contract on October 24, 2001. This administrative modification was an attempt to balance the MOCAS records by making adjustments to each record that showed either an unliquidated or negative unliquidated obligation amount. In total, there were $1.01 billion of unliquidated obligations remaining on the contract at the time the modification was signed. DCMA and DFAS-CO personnel indicated that in previous cases the use of this type of modification had been an accepted business practice for closing out-of-balance contracts in MOCAS.

DFAS-CO did not accept the contract modification. DFAS-CO personnel indicated they believed it was not appropriate to close the contract using a contract funding modification that adjusted MOCAS. DFAS-CO based its conclusion on the General Accounting Office report, "Canceled DoD Appropriations—$615 Million of Illegal or Otherwise Improper Adjustments," July 26, 2001. The GAO report discusses numerous contracts that had been adjusted illegally or improperly using external vouchers thus affecting Treasury accounts. DFAS-CO personnel believed the criteria GAO used to make its determination was also applicable to modifying the Army's tank contract.

We examined the adjustments proposed in the modification and concluded that DFAS-CO did not need to use canceled funds. The adjustments that needed to be made to MOCAS records were internal bookkeeping adjustments only, and would not affect Treasury accounts. However, a contract modification to reduce the $1.01 billion unliquidated obligation shown in MOCAS was not the appropriate method for closing the MOCAS records. The unliquidated obligation amount in MOCAS should have been fully investigated, and a full contract reconciliation

should have been performed to reduce the unliquidated obligation amount to the minimum using all existing records.

DFAS-CO Reconciliation Process

DFAS-CO Desk Procedure (DP) 607, "Contract Reconciliation," indicates that the first step in performing a reconciliation is data collection. This process, "Request And Inspection of Documents" (RAID), requires DFAS-CO personnel to collect all pertinent documents for a contract to show all ACRNs, modifications, payments, and other transactions that may affect an audit. Data collection is in the form of hard copy documents, MOCAS reports, accounting station obligation and unliquidated obligation records, electronic documents such as those processed in the Electronic Data Interchange, and microfiche. Subsequent to the RAID process, if it has been determined that all documentation has been found or substituted with documentation recreated by other means, the contract can move forward to a reconciliation.

The reconciliation process could entail either a partial or full reconciliation. A full reconciliation includes an analysis of all obligation and disbursement documents for the entire contract. DP 607 specifies that a RAID must be completed prior to starting the full reconciliation process. If excessive documentation is missing from the contract file during the pre-audit review, the contract status is logged as either "open" or "work-in-progress" until all the necessary documentation is found.

Adequacy of Reconciliation Efforts to Close Contract

At the time of our audit, DFAS-CO had not performed an adequate reconciliation of the funds disbursed on the contract for the following reasons:

- inaccurate information in the automated databases,
- inadequate search for and use of available supporting documentation,
- DoD record retention policies that were not in conformance with the FAR, and
- inadequate use of the standard contract reconciliation tool.

Database Accuracy. According to documentation from the TACOM Finance and Accounting Director, $3.7 billion had already been obligated on the contract and $2.9 billion had been disbursed as of the transfer of the records on July 6, 1990. However, DCMR-Cleveland personnel never entered the original obligation and disbursement data into MOCAS. DCMR-Cleveland entered $853 million in obligations—the net amount that was transferred by TACOM on July 13, 1990. The reason DCMR-Cleveland did not enter all obligations and disbursements in MOCAS may have been that TACOM did not provide electronic

data that identified each obligation and disbursement transaction.[1] As a result, only those ACRNs with balances remaining on them were input into MOCAS.

Later, when populating the MOCAS database, DFAS-CO personnel made errors. Specifically, they entered obligations as undispersed, although they had already been posted and disbursed by TACOM prior to the transfer. As a result, an additional $1.4 billion in obligations appeared in the MOCAS system erroneously.

According to DFAS-CO personnel, the additional obligations were entered at a time when DFAS-CO received invoices requiring payment. The contract lines being disbursed did not have sufficient obligations recorded in MOCAS. To compensate, DFAS-CO personnel entered additional obligations in MOCAS. In addition to the $853 million already entered, obligations totaling $1.4 billion were posted. The money was entered from any funded contract modification that was available. However, $1.3 billion of those funds were never needed because the funds had been obligated and liquidated by TACOM prior to the 1990 transfer of the payment function. As a result, most of the obligations became excess in MOCAS and constituted the unliquidated balance that remained when DCMA attempted to close the contract using a modification that balanced the records. Of the $3.8 billion on the contract, TACOM had disbursed $2.9 billion by 1990. DFAS needed to find the proper documentation and enter only $106 million in obligations in MOCAS, in addition to the $853 million already entered, to cover the remaining invoices that were processed on the contract.

In addition to the inaccurate MOCAS data introduced by DFAS-CO personnel, an obligation review prepared by DCMA-Detroit and provided to DFAS-CO contained inaccurate data. Specifically, the DCMA administrative contracting officer indicated that modification number P00302, the final funding modification deobligating funds, reflected a final contract value of $3,821,191,546.18. However, the administrative contracting officer's obligation review that was provided to DFAS-CO showed a contract value of $3,820,634,233.18—a difference of $557,313. Additionally, the value reported on the obligation review did not reflect two de-obligations in the amount of $3.0 million on the final funding modification (P00302). Therefore, the value reported on the obligation review should have been $3.817 billion, roughly $3.6 million less than the cumulative contract value identified on the final funding modification.

The discrepancies in MOCAS that were introduced at the initial transfer date and the erroneous obligation review contributed to the problems in reconciling this contract.

Supporting Documentation. DFAS-CO personnel perceived the lack of supporting documentation as more extensive than it actually was, and the RAID process led them to conclude that this contract was unreconcilable. For instance, if a disbursement sub-voucher did not have a corresponding invoice attached,

[1] The contract administration function was transferred from DCMR-Cleveland to DFAS-CO after DFAS came into existence in 1991. DFAS-CO personnel could not provide a cause for the failure to input total obligations and disbursements into MOCAS because documentation was not available from the 1990 time period.

DFAS-CO personnel considered the sub-voucher non-supportable. Likewise, if they found an invoice without a corresponding sub-voucher, they considered the invoice non-supportable. Other documentation was available but not used. Specifically, DCMR-Cleveland office had not properly posted the TACOM disbursing documentation when it was originally transferred. Also, DFAS-CO personnel did not consider that documentation when they reviewed the contract files to assess the documentation available for reconciliation.

TACOM Documentation. During the audit we obtained 40 TACOM files that were originally transferred to DCMR-Cleveland on July 6, 1990, and that contained sub-vouchers and invoices. The files were at DFAS-CO but never used in the reconciliation effort. Had DCMR-Cleveland used those documents to post disbursement data into MOCAS in 1990, subsequent confusion about the disbursement status might have been minimized throughout the life of the contract. The documents could have been used to post and verify the amounts the TACOM Finance and Accounting Director included and certified as disbursed when he transferred payment responsibility. Also, any discrepancies could have been resolved at that time.

If the decision was made not to enter the TACOM file data manually into MOCAS because of resource constraints, at a minimum, DCMR-Cleveland should have performed a cash audit. The cash audit would have included a review of the hard copy disbursing and collection documents in a spreadsheet format, allowing them to add or subtract total values without regard for the line item that was involved. This methodology would have been another means of verification of the disbursement figure received from TACOM. The cash audit method could also have resolved balance discrepancies at that time. However, the TACOM documents remained un-reconciled until the time of our audit.

Assessment Process. DFAS-CO personnel did not properly review the 40 file folders transferred from TACOM to DCMR-Cleveland in 1990. Prior to performing a full reconciliation, the DFAS-CO reconciliation procedure requires cognizant personnel to perform a RAID, which requires a review of all contract files to determine whether all modifications and disbursement documents are available, along with supporting documentation. DFAS-CO personnel concluded that there were too many documents for this contract that did not have corresponding support, which prevented a full and valid reconciliation. According to DFAS-CO personnel, they believed that the original RAID process failed because the documentation in the 40 file folders did not appear to contain the same type of documents usually processed in MOCAS. Therefore, they did not to identify these documents as proper sub-vouchers and nothing was done with the files until they were identified as appropriate documentation during our audit.

Record Retention Polices. The records DFAS-CO needed to properly reconcile and close the contract had not been retained. DoD regulations do not conform to FAR Subpart 4.805, which prescribes the procedures for the handling, storing, and disposal of contract files. The FAR states that the retention period for

contracts, including related records or documents such as disbursing documents, shall be 6 years and 3 months after final payment.[2]

However, the DoD Financial Management Regulation (FMR) and DFAS 5015.2 M, "Records Disposition Schedule," January 2000, requirements differ from the FAR requirements. The FMR, volume 5, chapter 21, "Disbursing Office Records," last updated October 30, 2002, states that original Disbursing Officer records shall be retained for a 6-year and 3-month period after the fiscal year of the disbursement. The FMR states that this retention requirement applies to both paper and electronic copies. Finally, original disbursing officer records include several categories—one of which includes disbursement and collection vouchers, including supporting documentation such as invoices, receiving reports, purchase orders or contracts, and lodging receipts. The DFAS Manual mirrors the FMR requiring that original disbursing documents covered under Schedule 7300, be maintained for just 6 years and 3 months after the fiscal year of the disbursement.

DFAS adhered to the requirements in the Manual, and the records holding office at DFAS Indianapolis destroyed all original disbursing documents in 1996, a full year before final payment.

In order to improve the record retention process, the records retention policies in the DoD FMR, volume 5, chapter 21, and the DFAS 5105.2-M need to be revised to require the maintenance of records for all contracts in conformance to provisions in the FAR. The regulations should require DoD Components and DFAS to retain records for 6 years and 3 months after the final payment. The revision would ensure a second source of data for DoD Components and DFAS activities attempting to reconcile long-term contracts, and also would provide support in the event any claims affecting the U.S. Government are identified subsequent to a contract's final payment.

Reconciliation Tool. DFAS-CO use of the Standard Contract Reconciliation Tool was not effective. DFAS-CO personnel compared MOCAS records to the Standard Operations and Maintenance Army Research and Development System (SOMARDS), using the Standard Contract Reconciliation Tool. However, SOMARDS did not contain all the needed data. The tank contract was primarily accounted for in the Army's older database system, Standard Accounts Payable and Accounting System (SAPAS) that was retired in 1998. Personnel at DFAS-St. Louis indicated that all of the data did not transfer from SAPAS to SOMARDS in 1998, and additional data had been lost during previous conversions of the SAPAS database. However, DFAS St. Louis provided our office a download of the SAPAS database that contained a significant portion of data on this contract that DFAS-CO personnel could have used in their reconciliation effort.
DFAS-CO failure to identify the inadequacies of current systems resulted in inadequate use of resources, including the reconciliation tool, and also resulted in inaccurate conclusions concerning the comparison between MOCAS and SOMARDS.

[2] For contracts exceeding the simplified acquisition threshold, excluding construction contracts.

Actions Being Taken to Improve Guidance on Locating Missing Documentation

During the audit, the reconciliation sub-group of the MOCAS Transition Assistance Center provided our office a draft document that deals with contract reconciliation entitled, "Unreconcilable Contract Guidance." The purpose of this document is to outline procedures that will assist in the determination of whether a contract is unreconcilable. The guidance describes the new process that will be used to move a contract to the "Contract Administration Record Section 4" in MOCAS, conduct a documentation search, and make a final determination of the contracts reconcilability status. The process identifies who should be contacted during the RAID to find missing documentation. An exhaustive search is performed using available documentation and records at DFAS-CO. The draft guidance identifies the following four resources that will be used:

- administrative contracting officer records,
- procuring contracting officer records,
- fund holder's records, and
- accounting station's records.

We believe the guidance should include additional steps to ensure that all potential sources of data have been contacted and a final determination of documentation availability can be made. If all efforts to provide documentation for a complete reconciliation fail, DFAS should request that the applicable records holding activity obtain copies of original source documents. The guidance should also include provisions to ask the applicable fund holder or accounting station whether any data might be available outside of current databases that might assist DFAS-CO in reconciling and closing contracts.

Actions Needed to Close Contract

Although the allegation that the Army's tank contract should be reconciled to ensure that there was no misuse of funds was substantiated, the contract may never be completely reconciled. Inadequate management of data during the contract transfer process contributed to the lack of an adequate audit trail and a complete accounting of all documentation to perform a completely accurate reconciliation. However, this contract is physically complete, the contractor has certified that no further obligations are due from the Government, and the official accounting records maintained at DFAS, St. Louis show a zero balance.

As a result, the process of closing this contract needs to go forward. Therefore, all reasonable efforts should be made to identify total obligations and total disbursements in as much detail as possible through a complete reconciliation process. The need to perform this reconciliation is based upon the possibility that perhaps documentation or records not found during the audit may be found that

will assist in definitively identifying whether this contract was over-disbursed. Once DFAS-CO has reconciled this contract to the maximum extent possible, it should prepare a package that fully documents a complete audit trail identifying what was done. In addition to the support for efforts to reconcile this contract, a cost versus benefit analysis should be performed to determine what the impact of maintaining this contract in MOCAS is and whether further reconciliation efforts would not benefit the U.S. Government.

The package should be forwarded to the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer through the Director, DFAS requesting approval to close the Army's M1A1 Tank contract through the use of internal journal vouchers. In our opinion, the journal voucher adjustments to MOCAS will not affect either the official accounting records or any Treasury appropriations that could cause Anti-Deficiency Act violations. Therefore, after analysis and validation by the Under Secretary of Defense (Comptroller)/Chief Financial Officer, approval should be given to close this contract.

Management Comments on the Finding and Audit Response

The Executive Director, Contract Management Operations, DCMA did not agree with parts of this report but concurred with all of the recommendations. The Executive Director stated that DCMA did not consider the allegations substantiated. He also stated that the report was inappropriately silent on the existence of a draft replacement modification and did not fully portray the circumstances surrounding the non-processing of the original modification and the $1.01 billion unliquidated obligation in the MOCAS disbursement records. According to DCMA, the draft replacement modification would have administratively closed the contract, but would not enable DFAS to close the contract in MOCAS. As such, the Executive Director requested that our report be modified to acknowledge the draft replacement modification and that the report recommend the issuance of the DCMA replacement modification. See the Management Comments Section of the report for the full text of the comments.

Audit Response. The report did not address the draft replacement modification because, as stated by the Executive Director, the modification would not result in DFAS correcting its substantial out of balance condition or closing this contract in MOCAS. We strongly believe that prior to DFAS forcing the balance of MOCAS records, DFAS needs to perform as complete a reconciliation as possible and the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer needs to review the results of the reconciliation, evaluate the circumstances resulting in any remaining unreconcilable amounts, and authorize closing the Tank contract in the MOCAS records. At that point, DCMA could prepare a final modification to both administratively and financially close this contract.

Recommendations, Management Comments, and Audit Response

1. **We recommend that the Director, Defense Contract Management Agency, Detroit, provide the Defense Finance and Accounting Service Columbus with a complete and validated obligation review that equals the total value of the contract.**

Defense Contract Management Agency Comments. The Executive Director, Contract Management Operations, Defense Contract Management Agency concurred. The Director stated that a new obligation review was completed and submitted to the Defense Finance and Accounting Service. However, the Director stated that the review only "narrowed the gap" because it did not equal the total value of the contract. The Director also stated that the Army Accounting Office said that the final obligation value could not be determined, however, it was in the range between $3.817 billion and $3.821 billion. The review fell within that range when an obligated value of $3.820 billion was determined.

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

    a. **Perform a full reconciliation on total obligations in the Mechanization of Contract Administration Services system using the data obtained from the Defense Contract Management Agency, Detroit and make adjustments as necessary.**

Defense Finance and Accounting Service Columbus Comments. The Director, Commercial Pay Services DFAS-CO partially concurred and stated that DCMA provided a revised obligation review, but DCMA stated that the revised review was not a complete, accurate, and validated obligation audit. Additionally, the Army Accounting Office indicated the final obligation amount of the contract could not be determined because of missing documentation and other issues. As a result, DFAS-CO would attempt to research and reconcile the obligation data in MOCAS to the extent possible. Any errors identified during the research will be corrected through obligation adjustment transactions.

    b. **Complete a reconciliation of total disbursements, using all available files and records from the periods before and after the transfer of the disbursing function from the Tank-Automotive and Armaments Command to the Defense Contract Management Region, Cleveland, and make internal adjustments as necessary.**

Defense Finance and Accounting Service Columbus Comments. The Director, Commercial Pay Services DFAS-CO partially concurred and stated that a full reconciliation is not possible because of the quantity of missing documentation and insufficiency of systemic data from the period prior to transfer to Defense Contract Management Region, Cleveland. The Director further stated that a cash audit of available disbursement documentation is in progress in order to substantiate any over/under payment on the overall contract. In addition, the

Director stated that errors that have been found in the application of progress payment transactions would be corrected with internal adjustments.

c. Prepare a package that documents a complete audit trail to include what was done, justification for adjustments, cost-benefit analysis, and certification that no further audit efforts can be made to reconcile this contract.

Defense Finance and Accounting Service Columbus Comments. The Director, Commercial Pay Services DFAS-CO concurred and stated that upon completion of the cash audit and applicable adjustments in progress, they will prepare a package documenting reconciliation efforts for submission to the Director, Defense Finance and Accounting Service.

d. Forward package prepared in Recommendation 2.c. to the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer through the Director, Defense Finance and Accounting Service requesting approval to close this contract in the Mechanization of Contract Administration Services records.

Defense Finance and Accounting Service Columbus Comments. The Director, Commercial Pay Services DFAS-CO concurred and stated that the package will be reviewed for submission to the Director of Defense Finance and Accounting Service. Upon approval, the Director, Defense Finance and Accounting Service will forward the package to the Under Secretary of Defense (Comptroller)/Chief Financial Officer for consideration.

e. Adjust the Mechanization of Contract Administration Services system using internal journal voucher entries to zero out any remaining balances after approval is received from the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer.

Defense Finance and Accounting Service Columbus Comments. The Director, Commercial Pay Services DFAS-CO concurred and stated that upon approval by the Under Secretary of Defense (Comptroller)/Chief Financial Officer, internal journal vouchers will be processed to zero out balances remaining in the Mechanization of Contract Administration Services system.

3. We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer:

a. Review the package from the Defense Finance and Accounting Service identified in Recommendation 2.d. and validate that the M1A1 Tank contract has been reconciled and adjusted to the point that further efforts by Defense Finance and Accounting Service Columbus is not reasonable.

b. Approve closure of the M1A1 Tank contract through the use of internal adjustments to the Mechanization of Contract Administration Services system.

Under Secretary of Defense (Comptroller)/Chief Financial Officer Comments. The Under Secretary of Defense (Comptroller)/Chief Financial Officer did not comment on a draft of this report. We request that the Under Secretary of Defense (Comptroller)/Chief Financial Officer provide comments in response to the final report.

4. **We recommend that the Director, Defense Contract Management Agency and the Director, Defense Finance and Accounting Service require the Reconciliation Sub-Group of the Mechanization of Contract Administration Services Transition Assistance Center to revise the current draft procedures on, "Unreconcilable Contract Guidance," to include:**

    a. **Contacting the applicable records holding activity if all other efforts fail in obtaining original source documents.**

Defense Finance and Accounting Service Columbus Comments. The Director, Commercial Pay Services DFAS-CO concurred and stated that the instructions to obtain archived records were included in the, "Unreconcilable Contract Guidance," dated January 17, 2003.

Defense Contract Management Agency Comments. The Executive Director, Contract Management Operations, Defense Contract Management Agency concurred. The Director stated that the recommendation has already been included in the, "Unreconcilable Contract Guidance."

    b. **Identifying additional electronic databases from either the fund holder or accounting station no longer in use that might assist in the reconciliation process.**

Defense Finance and Accounting Service Columbus Comments. The Director, Commercial Pay Services, DFAS-CO nonconcurred, stating that the data received from the Standard Accounts Payable and Accounting System, the original electronic database, were incomplete as not all the data had transferred to the Standard Operations and Maintenance Army Research and Development System. The Director stated that this situation is likely to occur with other systems, as the technology to read the data contained therein has become obsolete. Therefore, it is not cost-effective to expend additional resources and work hours to attempt to retrieve and validate this information.

Audit Response: Comments from the Director, DFAS-CO were nonresponsive. We do not agree that identifying additional electronic databases from either the fund holder or accounting station that might assist in the reconciliation process would be a waste of resources. Although electronic databases that are no longer in use might not contain all data, an attempt should be made, on a case-by-case basis, to pursue every available record in reconciling contracts for which hard copy documentation is not available. We believe that a review of the types of databases mentioned in the report has the potential to fill in missing pieces in the reconciliation process. If the data are in a format that cannot be used, this should be documented to demonstrate that every effort has been made to reconcile those contracts to the fullest extent possible. The costs versus the benefits should be

considered in each case. We request that DFAS-CO reconsider its position and provide additional comments on the final report.

Defense Contract Management Agency Comments. The Executive Director, Contract Management Operations, Defense Contract Management Agency concurred. The Director stated that the, "Unreconcilable Contract Guidance," already included this recommendation. Funds holder and accounting stations are identified as sources for missing documentation in the documentation search process and the unreconcilable worksheet in the guidance. The Director further stated that if data are provided outside of current databases in a readable and usable format, the data could be used.

5. **We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer revise the DoD Financial Management Regulation, volume 5, chapter 21, to state that the retention of original disbursing documentation be in conformance with the Federal Acquisition Regulation, which requires maintenance of these documents until 6 years and 3 months after final payment.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer Comments. The Under Secretary of Defense (Comptroller)/Chief Financial Officer did not comment on a draft of this report. We request that the Under Secretary of Defense (Comptroller)/Chief Financial Officer provide comments in response to the final report.

6. **We recommend that the Director, Defense Finance and Accounting Service, revise DFAS 5015.2-M to state that the retention of original disbursing documentation be in conformance with the Federal Acquisition Regulation, which requires maintenance of these documents until 6 years and 3 months after final payment.**

Defense Finance and Accounting Service Columbus Comments. The Director, Commercial Pay Services, DFAS-CO nonconcurred, stating that the recommendation is inadequate for DFAS-CO reconciliation purposes. The Reconciliation Sub-Group of MOCAS, in conjunction with the Reconciliation Director, recommends all guidance directing the length of record retention be revised to reference the date of contract closure and not the date of final payment. The Director further stated that currently, the Mechanization of Contract Administration Services system has more than a hundred open contracts reflecting a last payment that occurred more than 6 years and 3 months ago. The Director felt that destruction of contract files according to the guidelines recommended in the recommendation would greatly hinder efforts to reconcile and close those contracts.

Audit Response. Although the Director, Defense Finance and Accounting Service Columbus nonconcurred, the comments were responsive. Requiring guidance on record retention to extend 6 years and 3 months after contract closure will ensure that documentation is available for contract reconciliation and is an acceptable alternative.

Appendix A. Scope and Methodology

Based on a hotline complaint, we reviewed the steps that DCMA and DFAS-CO were taking to close out M1A1 Tank contract. The contract was valued at $3.82 billion, although the exact figure cannot be verified until a complete reconciliation is performed. We attempted to verify whether the allegations were valid, including the need for a contract reconciliation to ensure there was not a misuse of funds through an over-disbursement. We conducted interviews, reviewed records maintained by DFAS-CO, DCMA Detroit, DFAS St. Louis, DFAS Indianapolis, and TACOM. The records included all relevant correspondence; MOCAS, SAPAS, and SOMARDS systems data; and documentation supporting disbursements from the implementation of the contract until its transfer in July 1990.

We performed this audit from June 2002 through March 2003 in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data. We did not evaluate the general and application controls of the MOCAS, SOMARDS, or SAPAS systems that process disbursement and obligation data, although we used data produced by those systems to conduct the audit. We did not evaluate the controls because the objective of the audit was to determine whether the hotline allegation was valid. Not evaluating the controls did not affect the results of the audit.

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in DoD. This report focuses on the area of Financial Management by providing coverage of DoD efforts to confront and transform pervasive, decades-old financial management systems.

Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. We did not perform a review of the adequacy of management controls because the audit was focused on a specific complaint to the DoD hotline.

Prior Coverage

No prior coverage has been conducted on contract number DAAE07-85-C-A043 during the last 5 years.

Appendix B. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)/Chief Financial Officer
    Deputy Chief Financial Officer
    Deputy Comptroller (Program/Budget)

Department of the Army

Auditor General, Department of the Army
Commander, US Army Tank-Automotive and Armaments Command

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

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

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Contract Management Agency
Director, Defense Finance and Accounting Service
    Director, Defense Finance and Accounting Service Columbus
Director, Defense Information Systems Agency

Non-Defense Federal Organization

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform
House Subcommittee on Technology, Information Policy, International Relations, and the Census, Committee on Government Reform

Defense Contract Management Agency Comments

DEFENSE CONTRACT MANAGEMENT AGENCY
6350 WALKER LANE, SUITE 300
ALEXANDRIA, VIRGINIA 22310-3226

JUN 24 2003

IN REPLY REFER TO DCMA-DSI

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCIAL AUDITING SERVICE, OAIG-AUD

SUBJECT: DoD IG Draft Report, Closing the Army's 1985 M1A1 Tank Contract (DAAE07-85-C-A043), Project No. D2002FJ-0180

In response to your April 22, 2003 request, we have reviewed subject draft audit report and provided comments in the attached.

Please address related questions to Mrs. Nayda Katzaman at (703) 428-0992 or nayda.katzaman@dcma.mil.

ROBERT W. SCHMITT
Executive Director
Contract Management Operations

Attachment

DCMA Comments to DoD IG Draft Report
Closing the Army's 1985 M1A1 Tank Contract
(Contract Number DAAE07-85-C-A043)
Project No. D2002FJ-0180

IG FINDING: Contract DAAE07-85-C-A043 Closeout.
The allegations were substantiated. DCMA attempted to use a modification of the Army tank contract to adjust MOCAS records by $1.01 billion to bring the financial records into balance - a necessary step to close the contract. DFAS-CO refused to make the modification, but did not perform an exhaustive search for supporting documents or fully consider posting errors, incorrect obligation reviews, and incomplete databases - a necessary step to reconcile the contract. Further, some records that should have been available for the reconciliation had been destroyed in accordance with the record retention policies in the Financial Management Regulation. The records were destroyed because DoD record retention policies require shorter holding periods than the Federal Acquisition Regulation does. As a result of the inadequate contract reconciliation, DFAS-CO could not eliminate the $1.01 billion in unliquidated obligations in MOCAS to bring the financial records back into balance so they could close out the contract.

DCMA Comments:

Non-concur. We do not consider the allegation to be substantiated. The modification reviewed, A00776, was never processed by DFAS and was in the final stages of being rescinded and replaced with modification A00777 at the time the Hotline complaint was filed. The replacement modification was held in abeyance upon notification of the audit of the Hotline complaint. The report is silent on the existence of draft replacement modification A00777 and does not fully portray the circumstances surrounding the non-processing of modification A00776 and the $1.01B unliquidated obligation (ULO) in MOCAS disbursement records. A ULO in MOCAS represents money potentially owed the contractor. The contractor had attested it neither owed nor was owed monies on this contract.

Modification A00776 was issued to close the contract via the Negotiated Contract Closeout process. This process involves negotiating a settlement between the parties to the contract when there is uncertainty over money owed the contractor or Government due to the unavailability of adequate documentation (contract unreconcilable). The action was coordinated with the PCO, DFAS, DCAA, and the accounting office. The modification was patterned after others that had successfully been used in the past. This modification was at DFAS for processing when the impacts of the GAO audit on "Canceled Appropriations - $615M of Illegal or Otherwise Improper Adjustments" were known. As a result of the GAO audit, DFAS informed the ACO they were no longer able to process these types of modifications and it was mutually agreed that the modification be returned to the ACO for correction. Among other things, the modification rescinded A00776 and did not include adjustments to level the $1.01B ULO in MOCAS disbursement records. The replacement modification would administratively close the

DCMA Comments to DoD IG Draft Report
Closing the Army's 1985 M1A1 Tank Contract
(Contract Number DAAE07-85-C-A043)
Project No. D2002FJ-0180

contract but would not enable DFAS to close the contract in MOCAS. Since the MOCAS records were the only ones reflecting a ULO balance and the official accounting records reflected a $0 ULO, the parties agreed to obtain a certification from the accounting station attesting to the status of their records. This certification would be the basis for DFAS to determine whether they could make the necessary adjustments in the disbursement records to close the contract in MOCAS. Notwithstanding the errors made in completing the reconciliation, the IG report validates our original intent to pursue the Negotiated Contract Closeout process when it states the contract "may never be completely reconciled," that the official accounting records "show a zero ULO," and that the adjustments "needed to be made to MOCAS were internal bookkeeping adjustments."

Based on the above, we recommend that draft replacement modification A00777 be acknowledged in the IG report. Also, recommend the report be modified to include action for DCMA to issue the replacement modification. Suggest this be included in the **Actions Needed to Close** and **Recommendations** sections of the report.

IG Recommendation 1: We recommend that the Defense Contract Management Agency, Detroit, provide the Defense Finance and Accounting Service, Columbus, with a complete and validated obligation review that equals the total value of the contract.

DCMA Comments: Concur. A new obligation review was completed by the ACO and submitted to DFAS on February 27, 2003. Although the review "narrowed the gap" it does not equal the total value of the contract. According to the Army Accounting Office email sent to the DoD IG on February 14, 2003, the final obligation amount can not be determined and the best they can do is establish a range of the total contract obligation value. The Army has established that range to be from $3.817B to $3.821B. The new review completed by the ACO reflects an obligated value of $3.820B, which is well within that range.

Disposition:
( ) Action is ongoing. Estimated Completion Date:
(X) Action is considered complete.

DCMA Comments to DoD IG Draft Report
Closing the Army's 1985 M1A1 Tank Contract
(Contract Number DAAE07-85-C-A043)
Project No. D2002FJ-0180

IG Recommendation 4: We recommend that the Director, Defense Contract Management Agency and the Director, Defense Finance and Accounting Service require the Reconciliation Sub-Group of the Mechanization of Contract Administration Services Transition Assistance Center to revise the current draft procedures on "Unreconcilable Contract Guidance" to include:

a. Contacting the applicable records holding activity if all other efforts fail in obtaining original source documents.

b. Identifying additional electronic databases from either the fund holder or accounting station no longer in use that might assist in the reconciliation process.

DCMA Comments:

a. Concur. The Unreconcilable Contract Guidance already included the recommendation. Archived records are identified as a source for missing documentation in the **Documentation Search Process** and the **Unreconcilable Worksheet** of the Guidance.

Disposition:
( ) Action is ongoing. Estimated Completion Date:
(X) Action is considered complete.

b. Concur. The Unreconcilable Contract Guidance already included the recommendation. Funds holders and accounting stations are identified as sources for missing documentation in the Documentation Search Process and the Unreconcilable Worksheet of the Guidance. If they provide data outside of current databases in a readable and usable format, the data can be used.

Disposition:
( ) Action is ongoing. Estimated Completion Date:
(X) Action is considered complete.

Defense Finance and Accounting Service Comments

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

JUL 10 2003

DFAS-BA/CC

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE, OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: IG Draft Report, Project No. D2002FJ-0180, "Report on Closing the Army's M1A1 Tank Contract (Contract Number DAAE07-85-CA043)," Dated April 22, 2003

In response to additional information supplied by DoD IG on June 25, 2003, in reference to Recommendation 2.a of draft report dated April 22, 2003, subject as above, management comments for this recommendation have been revised. The management comments attached reflect these changes and include previous management comments for all other Recommendations 2.b through 2.e, 4.a, 4.b and 6.

If you have any further questions, please contact Ms. Simone Lordier, DFAS-BAQA/CC, at DSN 869-6800 or 614-693-6800.

Sally A. Smith
Director, Commercial Pay Services

Attachment:
As stated

DFAS-BAQ/CC Comments Regarding
IG Draft Report "Closing the Army's M1A1 Tank Contract
(Contract Number DAAE07-85-CA043),"
Dated April 22, 2003

Recommendation 2: We recommend that the Director, Defense Finance and Accounting Service, Columbus:

Recommendation 2.a.: Perform a full reconciliation on total obligation in the Mechanization of Contract Administration Services system using the data obtained from the Defense Contract Management Agency, Detroit and make adjustments as necessary.

Management Comments: Partially concur. DCMA provided a revised obligation review in February 2003 to the Reconciliation Branch of Defense Finance and Accounting Service, Columbus. However, DCMA stated it is not a complete, accurate, and validated obligation audit. In addition, the Army Accounting Office indicated the final obligation amount of the contract can not be determined due to missing documentation, inaccurate obligation tracking by the contracting officer(s), and the potential misinterpretation of memorandum data Change Order Obligations. As a result, DFAS Columbus will attempt to research and reconcile the obligation data in the Mechanization of Contract Administration Services system to the extent possible. Any errors identified during this research will be corrected through obligation adjustment transactions.

Estimated Completion Date: August 29, 2003

Recommendation 2.b.: Complete a reconciliation of total disbursements, using all available files and records from the periods before and after the transfer of the disbursing function from the Tank-Automotive and Armaments Command to the Defense Contract Management Region, Cleveland, and make internal adjustments as necessary.

Management Comments: Partially concur. A full reconciliation is not possible due to the quantity of missing documentation and insufficiency of systemic data from the period prior to transfer to Defense Contract Management Region, Cleveland. A cash audit of available disbursement documentation, to the extent possible, is in progress in order to substantiate an over/under payment on the overall contract. To date, some errors in the application of progress payment transactions have been identified and will be corrected by internal adjustments.

Estimated Completion Date: August 29, 2003

Recommendation 2.c.: Prepare a package that documents a complete audit trail to include what was done, justification for adjustments, cost-benefit analysis, and certification that no further audit efforts can be made to reconcile this contract.

Management Comments: Concur. Upon completion of the cash audit and applicable adjustments in progress, DFAS Columbus will prepare a package documenting reconciliation efforts for submission to the Director, Defense Finance and Accounting Service.

Estimated Completion Date: To be determined upon completion of the cash audit by DFAS Columbus reconciliation staff.

Recommendation 2.d.: Forward package prepared in Recommendation 2.c. to the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer (OUSD/CFO) through the Director, Defense Finance and Accounting Service requesting approval to close this contract in the Mechanization of Contract Administration Services records.

Management Comments: Concur. The Director, Commercial Pay Services will review and approve the package for submission to the Director of Defense Finance and Accounting Service. Upon approval, the Director of Defense Finance and Accounting Service will forward the package to OUSD Comptroller/CFO for consideration.

Estimated Completion Date: To be determined upon approval of the package by Director, Commercial Pay Services and Director, Defense Finance and Accounting Service.

Recommendation 2.e.: Adjust the Mechanization of Contract Administration Services system using internal journal voucher entries to zero out any remaining balances after approval is received from the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer.

Management Comments: Concur. Upon approval by the OUSD Comptroller/CFO, internal journal vouchers will be processed to zero out balances remaining in MOCAS.

Estimated Completion Date: To be determined upon approval of the package by OUSD Comptroller/CFO.

Recommendation 4: We recommend that the Director, Defense Contract Management Agency and the Director, Defense Finance and Accounting Service require the Reconciliation Sub-Group of the Mechanization of Contract Administration Services Transition Assistance Center to revise the current draft procedures on "Unreconcilable Contract Guidance" to include:

Recommendation 4.a.: Contacting the applicable records holding activity if all other efforts fail in obtaining original source documents.

Management Comments: Concur. Instructions to obtain archived records are included in the Unreconcilable Contract Guide dated January 17, 2003.

Estimated Completion Date: This recommendation is considered closed. No further action required.

Recommendation 4.b.: Identifying additional electronic databases from either the fund holder or accounting station no longer in use that might assist in the reconciliation process.

Management Comments: Non-concur. The data received from Standard Accounts Payable and Accounting System (SAPAS), the original electronic database, was incomplete as not all the data had transferred from SAPAS to Standard Operations and Maintenance Army Research and Development System (SOMARDS). This situation is likely to occur with other systems, as the technology to read the data contained therein has become obsolete. Therefore, it is not cost effective to expend additional resources and work hours to attempt to retrieve and validate this information.

Estimated Completion Date: This recommendation is considered closed. No further action required.

Recommendation 6.: We recommend that the Director, Defense Finance and Accounting Service, revise DFAS 5015.2-M to state that the retention of original disbursing documentation be in conformance with the Federal Acquisition Regulation which requires maintenance of these documents until 6 years and 3 months after final payment.

Management Comments: Non-concur. The recommendation of 6 years and 3 months after final payment is inadequate for DFAS Columbus Reconciliation purposes. The Reconciliation Sub-Group of MOCAS, in conjunction with the Reconciliation Director, recommends all guidance directing the length of record retention be revised to reference the date of contract closure and not the date of final payment. Currently, MOCAS has over a hundred open contracts reflecting a last payment that occurred more than 6 years 3 months ago. Destruction of contract files according to the guidelines recommended above would greatly hinder efforts to reconcile and close these contracts.

Estimated Completion Date: This recommendation is considered closed. No further action required.

Team Members

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

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