Audit Report

CLOSING OVERAGE CONTRACTS PRIOR TO FIELDING A NEW DOD CONTRACTOR PAYMENT SYSTEM

Report No. D-2002-027 December 19, 2001

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Acronyms

ACO	Administrative Contracting Officer
DCAA	Defense Contract Audit Agency
DCMA	Defense Contract Management Agency
DFAS	Defense Finance and Accounting Service
DLA	Defense Logistics Agency
DPPS	Defense Procurement Payment System
DRID	Defense Reform Initiative Directive
FAR	Federal Acquisition Regulation
IPT	Integrated Process Team
MOCAS	Mechanization of Contract Administration Services
MTAC	MOCAS Transition Assistance Center
PCO	Procuring Contracting Officer

INSPECTOR GENERAL
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December 19, 2001

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION, TECHNOLOGY, AND LOGISTICS
UNDER SECRETARY OF DEFENSE (COMPTROLLER)
DIRECTOR, DEFENSE PROCUREMENT
DIRECTOR, DEFENSE CONTRACT MANAGEMENT AGENCY
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Audit Report on Closing Overage Contracts Prior to Fielding a New DoD Contractor Payment System (Report No. D-2002-027)

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

Comments from the Director, Defense Procurement; the Deputy Chief Financial Officer; and the Executive Director, Contract Management Operations, Defense Contract Management Agency, on the draft of this report were responsive. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. James L. Kornides at (614) 751-1400, extension 211 (jkornides@dodig.osd.mil), or Mr. John K. Issel at (614) 751-1400, extension 212 (jissel@dodig.osd.mil). See Appendix C for the report distribution. The audit team members are listed inside the back cover.

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Report No. D-2002-027 **December 19, 2001**
(Project No. D2000FJ-0268)

Closing Overage Contracts Prior to Fielding a New DoD Contractor Payment System

Executive Summary

Introduction. DoD plans to transition from its present contract payment system, the Mechanization of Contract Administration Services (MOCAS) system, to a new payment system, the Defense Procurement Payment System, by October 2002. As of the end of April 2001, there were about 324,000 contracts valued at $844 billion administered using MOCAS. Of those contracts, 116,563 were open in MOCAS but eligible for closure (that is, work was completed because goods and services were delivered and accepted).

The Federal Acquisition Regulation permits contracts to be eligible for closure from 6 to 36 months after work is completed, depending on the type of contract, before categorizing them as overage. Of the contracts eligible for closure in MOCAS, at the end of March 2001, DoD classified 22,628 as overage (that is, beyond the maximum time allotted to close a contract). The contracts became overage over a period of 20 years, between March 1981 and March 2001.

Objectives. The overall audit objective was to evaluate actions to close out completed contracts and transition from the MOCAS system to its successor, the Defense Procurement Payment System. We focused this part of the audit on the actions to close out overage contracts.

Results. DoD made progress and closed about 30,393 overage contracts from February 2000 to March 2001. However, another 26,610 contracts became overage during that period. Based on the closure rate overage contracts achieved during the February 2000 to March 2001 period, we estimate that it will take at least 6 years for DoD to close all remaining overage contracts. To accelerate the closure of contracts, additional actions were needed. Our judgmental sample of 80 contracts showed that there were weaknesses in the closure process, including inadequate monitoring of contracts that could be closed, inattention to closure requirements, erroneous data about contracts available for closure, lack of coordination, lack of sufficient funding, a shortage of personnel, and untimely contractor input. Unless improvements are made and additional resources applied, DoD will have a significant number of overage contracts when it begins the new payment system, which could adversely affect its orderly transition. For details of audit results, see the Finding section of the report.

Summary of Recommendations. We recommend that the Steering Committee, consisting of the Under Secretary of Defense (Acquisition, Technology, and Logistics) and the Under Secretary of Defense (Comptroller), establish a process to closely monitor the progress of contract closures. We recommend that the Under Secretary of Defense (Acquisition, Technology, and Logistics) determine the DoD acquisition staffing requirements and, based upon identified needs, seek additional acquisition resources to accelerate the closure of contracts. We recommend that the Director, Defense Contract Management Agency, reiterate the policy that administrative contracting officers must exercise their authority for unilateral rate determination to encourage vendors to fulfill their responsibilities to submit final vouchers for payment.

Management Comments. The Director, Defense Procurement; the Deputy Chief Financial Officer; and the Executive Director, Contract Management Operations, Defense Contract Management Agency, concurred or partially concurred with the Finding and recommendations and stated that recommended actions were in process. The Director, Defense Procurement, and the Deputy Chief Financial Officer stated that impediments to administrative closure were being identified and efforts to resolve them are ongoing. The Executive Director, Contract Management Operations, Defense Contract Management Agency, stated that monthly data were sent to the Services and other Working Group members to take action toward contract closure. The Director, Defense Procurement, also stated that developing an acquisition manpower strategic plan was a current management initiative. Additionally, the Executive Director, Contract Management Operations, Defense Contract Management Agency, stated that all Defense Contract Management Agency offices were trained in the process of exercising authority on unilateral rate determination. However, the Executive Director stated, "We take exception to the comment that DCMA [Defense Contract Management Agency] has inadequate monitoring of overage contracts and inattention to closeout timeframes." See the Finding section of the report for a discussion of management comments and the Management Comments section for the complete text of the comments.

Audit Response. Comments to the recommendations from the Director, Defense Procurement; the Deputy Chief Financial Officer; and the Executive Director, Contract Management Operations, Defense Contract Management Agency on the draft of this report were responsive and no additional comments are required.

Regarding the inadequate monitoring and inattention to closeout time frames, we did not address that condition solely to the Defense Contract Management Agency. We observed that DoD, as a whole, faced a challenge closing overage contracts. The challenge had been created by multiple parties and will require the coordinated effort of multiple parties, within and external to DoD, to resolve. The report did not state that Defense Contract Management Agency was solely responsible for the quantity of overage contracts. Additionally, the report recognized that Defense Contract Management Agency had established performance goals to close overage contracts. The report states the causes for those contracts becoming overage were multiple and multiple solutions to resolving the contracts are needed.

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Background

Introduction. DoD procures a wide range of products and services from commercial sources and uses multiple systems to manage and pay for the products and services it buys. DoD planned to modernize and standardize its acquisition management and payment systems. As part of the modernization process, DoD is replacing its Mechanization of Contract Administration Services (MOCAS) system.

MOCAS is an automated system used primarily by the Defense Contract Management Agency (DCMA) and the Defense Finance and Accounting Service (DFAS) to administer, pay, and close major DoD contracts. The system was developed in the early 1960's as a batch processing system. It has been enhanced and modified over time to have an on-line capability and a data warehousing function. MOCAS was designed to comply with Federal and Defense contracting regulations and to decrease manual efforts by contracting personnel. It interfaces with some DoD activities' logistics systems to update various logistics data. It is also used by DFAS to initiate the contract payment process. However, MOCAS is not used by most DoD activities to perform procurement functions and is not integrated with most of the DoD acquisition systems. Therefore, along with replacing the various acquisition systems used by the buying activities, DoD has decided to replace the MOCAS payment function with a single integrated system, the Defense Procurement Payment System.

To support the replacement of MOCAS, the Deputy Secretary of Defense issued Defense Reform Initiative Directive (DRID) 53, "Reconciliation of Contracts in the Mechanization of Contract Administration Services (MOCAS) System," on March 23, 2000. DRID 53 established a DoD-wide team to integrate and coordinate the reconciliation, closeout, and conversion of contracts from MOCAS to the replacement system. The team consists of the Military Departments, the Defense Logistics Agency (DLA), DFAS, and DCMA. Additionally, DRID 53 directed the Military Departments and the DCMA to develop comprehensive plans for closing out all completed contracts, and the orderly transition from MOCAS to the replacement system for contracts with continuing requirements. One of the primary objectives expressed in the DRID was to retire MOCAS by October 1, 2002.

To make the orderly transition from MOCAS to a new system easier and to minimize the transfer of information from MOCAS into the new system, DoD needed to close out as many contracts as possible. In particular, DoD needed to expeditiously close contracts that are overage (beyond the maximum time of 6 to 36 months allotted to close a contract, depending on the type of contract).

Objective

The overall audit objective was to evaluate actions to close out completed contracts and transition from MOCAS to its successor, the Defense Procurement Payment System (DPPS). We focused this part of the audit on the actions to close out overage contracts. See Appendix A for a discussion of the audit scope and methodology.

Controls Over Overage Contract Closure

DoD made progress and closed about 30,393 overage contracts from February 2000 to March 2001. However, another 26,610 contracts became overage during that period. Based on the net reductions to overage contracts achieved during the February 2000 to March 2001 period, we estimate that it will take at least 6 years for DoD to close all remaining overage contracts. Review of 80 judgmentally selected contracts showed that there were weaknesses in the closure process, including inadequate monitoring of contracts that could be closed, inattention to closure requirements, erroneous data about contracts available for closure, lack of coordination, lack of sufficient funding, a shortage of personnel, and untimely contractor input. Unless improvements are made and additional resources applied, DoD will have a significant number of overage contracts when it begins the new payment system, which could adversely affect its orderly transition.

Contracting Policies

Acquisitions of goods and services by the DoD are governed by public laws, including those set forth in congressional appropriations and in the Federal Acquisition Regulation (FAR). Appropriation laws govern the amount, purpose, and time frame for the use of money in the U.S. Government.

The FAR establishes the rules for making acquisition agreements between contractors and the U.S. Government. The FAR governs who may take certain actions, when, and under what circumstances. The FAR also specifies when a contract should be closed and the records retired.

Contract Closure Standards. FAR 4.804, "Closeout of Contract Files," sets out specific time periods for closing contracts. The time period is based upon both the type of contract and the date of delivery of the goods and services, known as physical completion. Contracts not closed within the specified time frame are considered overage. As of the end of March 2001, DCMA identified 22,628 contracts that were physically complete awaiting closure actions, but that were past the FAR time periods for closure.

The following table outlines the time standards in accordance with the FAR.

Time Standards for Contract Closure	
Contract Type	**Time Period to Close**
Contracts Using Simplified Acquisition	Evidence of Receipt and Final Payment
All Other Firm Fixed Price Contracts	6 Months
Cost Reimbursement Contracts	36 Months
All Other Contract Types	20 Months

Overage Contracts. DCMA is responsible for identifying the reason physically completed contracts cannot be closed. DoD has established specific codes to identify those reasons. The codes are input in MOCAS by an Administrative Contracting Officer (ACO). ACOs are individuals employed by DCMA who have been delegated contract administrative functions by an originating procurement office.

If a contract has been completed (that is, the goods and services have been satisfactorily delivered and accepted), but is not closed within the allotted time frame, the ACO is responsible for coding the MOCAS record with the reason the contract is overage. See Appendix B for a complete listing of overage reason codes.

Initiatives to Close Contracts

In DRID 53, the Deputy Secretary of Defense emphasized to the department the closure of completed contracts by October 2002. The Deputy directed the Military Departments and the DCMA to develop comprehensive plans to close all completed contracts and to orderly transition to the new payment system, the DPPS.

To execute the plan and enhance the closure of completed contracts, the Deputy Secretary directed the formation of an Integrated Process Team (IPT), co-chaired by the Principal Deputy Under Secretary of Defense (Acquisition, Technology, and Logistics) and the Principal Deputy Under Secretary of Defense (Comptroller). The IPT was directed to monitor and report the progress on the closeout and conversion of contracts.

The IPT formed a working group, the DRID 53 Working Group, to accomplish the purposes of the DRID. The DRID 53 Working Group is co-chaired by DCMA and DFAS, but includes representatives from each Military Department,

the Defense Contract Audit Agency (DCAA), DCMA, DFAS, DLA, and two Offices of the Secretary of Defense; that is, Acquisition, Technology, and Logistics; and Comptroller.

DCMA Actions. To assist the DRID 53 Working Group and DCMA activities with the closure and conversion of MOCAS contracts, DCMA formed the MOCAS Transition Assistance Center (MTAC). MTAC, via the DRID 53 Working Group, also worked with the Services and DFAS to find solutions to transition challenges. MTAC has established web-based tools and information to assist in the closure of contracts. MTAC has also worked with DCMA activities to increase the rate of closure of MOCAS contracts. Furthermore, MTAC has worked with the 15 top DoD vendors with overage contracts awaiting final invoice to ensure the vendors were aware of the MOCAS transition and to enlist the vendors' cooperation in closing contracts.

Assistance Center Actions

In March 2000, MTAC analyzed information on the scope of work needed to deactivate MOCAS. MTAC found that, as of February 2000, MOCAS maintained an inventory of about 330,000 contracts. Over time, additional contracts would be added to the 330,000. The MTAC analysis showed that before the deactivation of MOCAS in October 2002, about 600,000 contracts would be available to be closed and about 30,000 would be candidates for transfer to the new payment system.

MTAC projected that, of the 330,000 contracts then in MOCAS, about 152,000 would be hard to close and would require labor intensive effort. MTAC projected that the more difficult to close contracts would include about 12,000 large contracts with values over $10 million; 121,000 contracts between 5 and 20 years old; and 19,000 contracts with labor intensive resolution issues (such as reconciliation, litigation, investigation, termination, and overhead issues). The other 178,000 contracts would be easy and low risk contracts to close. Those contracts tended to be closed automatically in MOCAS and required little manual effort.

As a result of the MTAC effort, the DRID 53 Working Group, in an effort to reduce the number of contracts that would transfer and reduce their implications on transitioning to new systems, developed a strategy. The plan was to close as many contracts as possible in MOCAS.

A year later, in February 2001, MTAC segregated the MOCAS inventory of contracts into clusters of responsibility for action to close the contracts. The responsible parties identified were DCAA, DCMA, DFAS, industry (vendors coordinating with DCMA or DFAS), and the buying activities (that is, the Services and DLA). The percentage of MOCAS contracts and the party responsible for actions contributing to the closing process, according to MOCAS coding, are shown in the following table.

Offices of Primary Responsibility for Contract Closure

DCAA	3%
DCMA	75%
DFAS	14%
INDUSTRY	6%
SERVICES	2%

In March 2001, DCMA distributed the lists of contracts in each cluster to the responsible parties and action was initiated to increase the closure of contracts.

Audit Sample Results

From February 2000 to March 2001, DCMA stated they had closed 30,393 overage contracts. In February 2000, there were 26,411 overage contracts in MOCAS. By the end of March 2001, there were still 22,628 overage contracts reflected in MOCAS, even though 30,393 were closed during the period. This indicated that about 26,610 contracts became overage while contracts were being closed. It became evident that as overage contracts were closed, others became overage, thus reflecting the challenges and dynamics of the contract closure issue.

We focused our audit on overage contracts to determine what factors affected reducing the balance of overage contracts. To review the actions taken by responsible parties to close overage contracts, we judgmentally selected 80 contracts that were overage as of October 2000.

Some contracts in our sample had been overage for many years. As an illustration of the delinquency of the contracts for closure, we reviewed one contract in the sample that went overage as far back as April 1987.

We contacted personnel at Military Departments' procurement offices, DCMA, DCAA, and DFAS, as appropriate, to determine the actions taken to close the overage contracts in the sample. See Appendix A for our judgmental sample selection methodology and Appendix B for a list of the acquisition actions in our sample.

The audit showed that the process of closing and monitoring the closure of overage contracts needed improvement. For the 80 judgmentally selected overage contracts, there was inadequate monitoring of contracts that could be closed, inattention to closure requirements, erroneous data about contracts available for closure, lack of coordination, lack of sufficient funding, a shortage

of personnel, and untimely contractor input. Many of the contracts in our sample were affected by more than one of these problems, as shown in the following table.

Problems Affecting the Closure of Contracts

Lack of Attention:	14	
Erroneously in MOCAS (6 of 14)		
Data Quality Problems:	52	
Erroneous Overage Reason Code:		31
Without Reason Code:		12
Erroneous Buying Activity:		7
Erroneous ACO:		2
Lack of Coordination:	11	
Lack of Sufficient Funds:	13	
Shortage of Personnel:	80	
Untimely Vendor Input:	37	

While not statistically projectable, our review of the 80 overage contract actions indicated that DoD needed to focus additional attention on the overage contracts' closure process.

Attentiveness. For 14 contracts in the sample, no DoD procurement official had focused on the contracts prior to our inquiry. The 14 contracts had been overage from April 1987 to October 2000. Six of the 14 were not valid contracts because they were either canceled (the procuring activity decided not to make the acquisition) or else not complete (which generally means that the contract was not signed by the potential vendor or the contracting officer). The six were closed because we brought attention to them. Specifically, when we distributed our list of contracts to DCAA, DCMA, and DFAS, either DCMA or DFAS reviewed the sample, took action, and closed the six contracts in MOCAS. One contract, N00140-92-DCE10/0014, which went overage in February 2000, was coded as requiring an audit, but DCAA stated they did not have a record of it. DCAA then contacted the vendor and the vendor indicated they did not have the contract. DCMA was contacted and the contract was processed out of MOCAS. However, in the 8 months prior to our inquiry, the contract had not been attended to nor processed out of MOCAS. One contract, N00024-83-C4161, had gone

overage in April 1987 awaiting a final invoice from the vendor. The action had remained dormant.

Data Quality. In our sample there were data quality issues for 52 contracts. Of the 52 contracts, 31 contracts reflected an erroneous reason code, 12 did not have a reason code assigned; 7 had the wrong buying activity code, and 2 had the wrong ACO code. For 7 of the 31 contracts (with erroneous reason codes), the reason code used indicated the contracts were being reconciled by DFAS. However, DFAS stated they were not in reconciliation. Additionally, for contract N00421-89-C0128, the final DCAA audit report was issued in April 2000, yet the action was still coded awaiting audit at the end of October 2000. Also, this contract was in reconciliation at DFAS, but not coded as such in MOCAS. For two of the seven contracts (with the wrong buying activity code), the MOCAS data indicated that the responsible buying activity was one Air Force activity. The contracts were actually handled by two other Air Force activities. An example of the wrong ACO code was contract DAHC94-90-D0012/2MF3. MOCAS records indicated the ACO was at Manassas, Virginia, but the contract was really administered in Philadelphia, Pennsylvania.

Any database is only as good as the data input, the quality reviews performed, and the use people make of the data. The errors we found were indicative of inadequate actions for ensuring the quality of the data in the system and the expeditious closure of contracts. Also, the errors resulted in misstating the inventory of contracts requiring closure action. Further, relying on an erroneous overage reason code would direct the contract requiring corrective action to the wrong entity.

Coordination and Communication. Eleven contracts in our sample of overage contracts remained in MOCAS because of a lack of coordination and communications among responsible parties. To initiate, administer, and close a contract requires communications among many entities. Without appropriate communication, issues become unresolved and the contract remains open.

Both DCMA and DFAS had access and used the same MOCAS database. However, the communications capabilities of the access were not exploited. When DCMA coded a contract as needing financial reconciliation, DFAS did not access that coding and respond to it. In our sample, there were seven contracts coded “P,” meaning they were overage because they needed financial reconciliation. When we provided our sample to DFAS, to determine the actions on the sample, DFAS responded that the seven sample contracts were not in reconciliation and had not been at any time. DFAS stated that they did not perform a reconciliation unless they received a DD Form 1797, “Request for MOCAS Action/Information.”

However, two contracts that were being reconciled by DFAS at the time of our sample selection were not coded in MOCAS to indicate the reconciliation was in process, thus DCMA would not have known about the reconciliation. Solely relying on a form that can be lost, misdirected, or not accomplished, when an automated system is available, did not result in an efficient process or fully utilize the potential of the system.

Funding Issues. Thirteen sample contracts had internal DoD funding issues that were yet to be resolved. For these, the Services might need to obtain additional funds from current year appropriations to resolve a contract. When we selected our sample, we noted that the unliquidated balances recorded in MOCAS may not necessarily reflect the amount of funds needed to close out the contract. To illustrate, 6,658 of the 21,468 contracts coded as overage in MOCAS as of October 2000 showed an unliquidated balance of zero to one dollar. The issues related to these samples will be addressed in a subsequent report.

Other Limiting Factors. Lack of personnel directly affected contracts that were overage. Reviewing the staffing levels and work efficiency of the sites we visited was not within the scope of our audit. However, the large workload, lack of attentiveness, errors in data, and document handling problems are indications from our review of personnel resource challenges.

For the overage contracts, records were lost, misplaced, or retired by the ACO, Procuring Contracting Officer (PCO), or DFAS before closure of the contract could occur in MOCAS. Discussions with PCOs and ACOs indicated that the main reason for the document problems was lack of personnel, such as document clerks. The entities stated that their support staff positions were eliminated and contracting officer authorizations were reduced. As a result, the traditional clerical functions were delegated to the remaining contracting personnel.

Also, the lack of storage space caused files to be temporarily stored off site, then forgotten, misplaced, or disposed. Transfers of responsibilities for the contracts, such as Defense facility consolidations or vendor headquarters' moves caused the change of the ACO and thus files were lost in the process of being transferred (N00600-95-D1834/0012, and F04701-91-D0092/0055 were examples of this). These challenges may be mitigated by such innovations as electronic documents and an integrated acquisition system.

At each of the PCO and ACO offices we visited, the personnel told us that their offices had inadequate staffing to meet the workload. At one DCMA office we visited, personnel related that some of the ACOs were administering over 1,000 contracts each while their subordinates were administering over 500 each.

The adverse effects of workload and staffing imbalances were also reported recently in DoD Inspector General Report No. D-2000-088, "DoD Acquisition Workforce Reduction Trends and Impacts," February 29, 2000. The report stated that the DoD acquisition workforce had been reduced by about 50 percent; however, the workload had not been proportionately reduced. The report did not make specific recommendations, but it concluded:

> It is vitally important that the Department undertake and sustain intensive analytical efforts to acquire a better understanding of the human resources implications of its mission and process changes. The adverse consequences of the acquisition workforce reductions through FY 1999, as well as the prospect of massive losses of experienced personnel in the near future, make it imperative that the likely impact of further cuts be carefully assessed.

From FY 1990 through FY 1999, the DoD acquisition workforce was reduced from 460,516 to 230,556 personnel (about 50 percent). While the dollar volume of DoD acquisitions decreased from about $144.7 billion to about $139.8 billion (about 3 percent), the procurement actions increased from about 13.2 million to 14.8 million (about 12 percent). The greatest amount of work for acquisition personnel occurs on contracting actions over $100,000, and the annual number of those actions increased from 97,948 to 125,692 (about 28 percent). DCMA has been reduced from 15,229 personnel in September 1997 to 11,755 in December 2000, about 23 percent. For the same time period, the workload decreased from 391,241 contracts to 309,208 or about 21 percent. An effect of the disproportionate change in workload and workforce has been an increased backlog in closing out completed contracts. We observed that human capital issues increased the challenges to contract closure. We believe that DoD needs to study its acquisition staffing requirements and, as needed, seek additional acquisition resources for contract closure.

Vendor Documentation. Vendors were not submitting required documentation, primarily a final invoice, for overage contracts. For example, contract number N00024-83-C4161 from our sample had been overage since April 1987, because the vendor did not provide a final voucher.

As of October 2000, about 7,553 of the 21,468 overage contracts could not be closed because the contracts were awaiting a final invoice from vendors for costs incurred. Occasionally, the U.S. Government acquires goods and services that are not commonly available or do not have established prices. For example, DoD may contract for the technical review of manuals or for engineering support of acoustical testing of ships' hulls. For those instances, complex contracts that reimburse the vendors for their costs, including indirect overhead costs, have been developed.

FAR 52.216-7, "Allowable Cost and Payment," reflects provisions on payments. In order for a vendor to be reimbursed for its overhead costs, the vendor must submit the costs (called an incurred cost proposal) within 6 months of the end of the vendor's fiscal year. The proposals are audited by DCAA to ensure the proposals are appropriate. The last year after final delivery of the goods and services is an important starting point. After the cost proposal is audited and settled, the vendor is required by the FAR to submit a final invoice and release of liability for the U.S. Government within 120 days of the date of settlement, even if the invoice is for zero dollars. This final invoice indicates the end of the contract and that the U.S. Government will no longer have a liability to the vendor.

For buying actions involving cost reimbursement to the vendor, final overhead rates are needed in order to make final payments to the vendor. DCMA analysis for May 2001 indicated that about 16,000 contracts were complete and awaiting a final invoice from the vendor. Another 8,000 were complete and awaiting final indirect rate proposals.

ACOs told us that many vendors were in the same situation as Government contracting offices. First, there was a low priority to close contracts. The emphasis was on new work. Second, many vendors were encountering difficulty

obtaining and retaining qualified contract administration and financial personnel. However, unlike the DoD, there was a third factor. Generally the contractors had received a satisfactory quantity of payments. DoD had disbursed as much of the obligations for the contracts as possible, to avoid the expiration of the appropriation of funds. If funds expiration was approaching, vendors were encouraged to submit interim invoices that equated to almost all of the obligated funds. Thus, the vendors had already received most of the obligated funds. For example, eight contracts in the sample were coded awaiting vendors' final invoice, but had less than $2 available to obligate for additional invoices from vendors. An additional and final invoice to DoD would cost the vendor further time and money. As a result, the vendors had little incentive to invoice DoD.

Indirect Cost Rates. For cost reimbursable contracts, the FAR provides the contracting officer or ACO an option to encourage nonresponsive vendors to comply with FAR provisions. FAR 42.703-2, "Certificate of Indirect Costs," allows the contracting officer to unilaterally establish indirect cost rates. For two of our sample, when the ACOs were unable to obtain acceptable rates from the vendor, each ACO took action to resolve the challenges. For buying action N00244-95-D5092/L602, the ACO and the vendor were negotiating the rates. For buying action N00600-95-D0269/0008, the ACO applied FAR 42.703-2, which allowed the ACO to determine the overhead rates, based upon the best judgment of the ACO. This option, however, would require additional administrative time and effort. We believe ACOs need to be encouraged to exercise their authority for unilateral rate determination to encourage vendors to cooperate.

Contract Closure Monitoring

DCMA initiated distribution of the lists of contracts in each cluster to the responsible parties in March 2001. However, the information provided to the responsible parties did not include a feedback mechanism. The initiative by MTAC to cluster contracts into areas of responsibility is a good first step. However, in our sample, 13 contracts were closed because we brought attention to them. For example, the six actions in MOCAS that were not contracts were closed when attention was drawn to them.

Coordination and Communications Initiative. The March 2001 DCMA initiative to sort MOCAS data into clusters of responsibility was an effort to enhance communications and improve MOCAS data. The responsible entities will need to act upon the data.

As of May 2001, the Services had not distributed the information within their organizations or otherwise acted upon the lists of contracts provided. The responsible entities need to review the list of contracts provided to them and verify the provided data. Further, the parties need to either take the actions required to close the contracts or, if the actions are not within their incumbencies and capabilities, forward, through the working group, the contracts to the appropriate entity.

Action Feedback. Feedback for any initiative is vital to ensuring goal attainment. In addition to distributing a list of contracts to the responsible

activities, the working group needs to periodically receive feedback from them on their actions to close the contracts. The feedback should include the actions taken, whether there are any challenges to closure, and what actions have been taken to resolve the challenges.

Future Overage Contracts

Unless increased efforts are made, DoD will have a significant number of overage contracts when it begins the transfer to the new payment system, which could adversely affect an orderly transition to the new DPPS. As of April 2001, DoD still had about 22,628 overage contracts in MOCAS. We estimate there will be about 22,000 overage in September 2002. These could require at least 6 years to close.

The number of overage contracts varies from month to month. As some contracts are closed, others become overage. In some months, more contracts are closed than become overage, such as in March 2000 when a net of 963 more were closed than became overage. However, in some months, more become overage than closed, such as November 1999 when a net of 1,172 became overage. DCMA estimated that about 33 more per month will close than become overage between May 2001 and September 2002. With that rate of closure, there will be about 22,067 overage contracts in September 2002.

We believe that regardless of what procurement management and payment systems DoD uses, contracts will continue to become overage. With an inventory of 22,000 overage contracts to close at October 2002, DoD faces a future years challenge. The inventory of overage contracts decreased from 26,411 in February 2000 to 22,628 in March 2001, a net decrease rate of 291 a month. If the DoD net closure rate were a net of 291 per month, it would still take about 6 additional years to close the 22,000 contracts.

Summary

From February 2000 to March 2001, DCMA acknowledged they had closed 30,393 overage contracts. In February 2000, there were 26,411 overage contracts in MOCAS. By the end of March 2001, there were still 22,628 overage contracts reflected in MOCAS, even though 30,393 were closed during the period. As overage contracts were closed, others became overaged.

DoD is attempting to have all overage contracts reflected in MOCAS closed by October 2002. The DCMA cluster concept is a good step toward improving closure results. Responsible parties need to take the appropriate actions to close overage contracts in MOCAS. However, an adequate monitoring system, which includes data quality reviews by the responsible parties, and reporting periodically the status of actions taken, could improve the effort to close MOCAS. The monitoring system will assist the IPT with its mission of monitoring and reporting the progress on the closeout and conversion of contracts. Human resource issues have hampered past contract closures and will continue to have a slowing effect

without future actions for a resolution. Further, vendor responsiveness can still hamper efforts to meet DoD closure expectations without action to encourage vendors' cooperation.

Management Comments on the Finding and Audit Response

Management Comments. The Executive Director, Contract Management Operations, Defense Contract Management Agency, partially concurred with the finding. The Director stated that DCMA takes exception to the comment that DCMA has inadequate monitoring of overage contracts and inattention to closeout time frames. The Director stated that DCMA believes it adequately monitors overage contracts. The Director pointed out that DCMA had established performance goals that included reviews of overage contracts by DCMA on a monthly basis at the local, district, and agency levels.

Audit Response. We did not direct the finding to any particular DoD component. DoD faces a challenge closing overage contracts. The challenge requires the coordinated effort of multiple parties, both within and external to DoD, to resolve. The report did not state that DCMA was solely responsible for the quantity of overage contracts. Additionally, the report recognized that DCMA had established performance goals to close overage contracts. DoD had a significant quantity of overage contracts. This report shows that the causes for those contracts becoming overage were multiple and multiple solutions to resolving the contracts will be required.

Recommendations, Management Comments, and Audit Response

1. The Steering Committee, which consists of the Under Secretary of Defense (Acquisition, Technology, and Logistics) and the Under Secretary of Defense (Comptroller), should develop a process to regularly evaluate the progress in accomplishing the goals of Defense Reform Initiative Directive 53. The process should include:

a. A methodology for the Services and Defense agencies, upon receipt of a listing of contracts from the Defense Reform Initiative Directive 53 working group, to either take the action required to close each contract or, if, after verifying the data provided, the actions are not within their responsibilities and capabilities, forward, through the working group, the contract to the appropriate entity for action.

b. A reporting process that will periodically provide information to the Steering Committee and the working group on each contract. The reporting process should specifically address records disposition and storage issues, include the actions taken to close the contracts, whether there are any other challenges to closure, and what actions have been taken to resolve the challenges.

Under Secretary of Defense (Acquisition, Technology, and Logistics) and Under Secretary of Defense (Comptroller) Comments. The Director, Defense Procurement, and Deputy Chief Financial Officer concurred with the recommendations and stated that the recommended actions were in process. Specifically, impediments to administrative closure are being identified and efforts to resolve them are ongoing. Also, reporting by the Military Departments and Defense agencies to the working group is expected to be formalized in the near future. Summary information will be presented to the Steering Committee periodically.

Defense Contract Management Agency Comments. The Executive Director, Contract Management Operations, Defense Contract Management Agency, concurred with the recommendations and stated the recommended actions had been implemented. Monthly data are sent to the Services, DCAA, and DFAS Working Group members to take action to move contracts towards closure. The Executive Director also stated that summary information, representing a roll-up of individual contract status, was periodically provided to the Steering Committee. The Executive Director expressed concern with the cost effectiveness of providing information on over 300,000 contracts in the MOCAS system.

Audit Response. The comments satisfy the intent of the recommendations. However, the Executive Director misinterpreted the intent of our recommendation to provide summary information. The recommendations address the need for providing information to the Steering Committee and the working group on

overage contracts only, not on the entire universe of contracts in the MOCAS system. No further comments are required.

2. The Under Secretary of Defense (Acquisition, Technology, and Logistics) should study the DoD acquisition staffing requirements and, based upon identified needs, seek additional acquisition resources.

Under Secretary of Defense (Acquisition, Technology, and Logistics) Comments. The Director, Defense Procurement, concurred with the recommendation. The Director stated that one of the goals of the Under Secretary of Defense (Acquisition, Technology, and Logistics) is to revitalize the quality and morale of the acquisition workforce. The Director also stated that developing an acquisition manpower strategic plan was a current management initiative.

Defense Contract Management Agency Comments. Although not required to comment, the Executive Director, Contract Management Operations, Defense Contract Management Agency, agreed that there was a need to add additional resources at specific sites.

3. The Director, Defense Contract Management Agency, should institute a program to encourage administrative contracting officers to exercise their authority for unilateral rate determination to encourage vendors to fulfill their responsibilities.

Management Comments. The Executive Director, Contract Management Operations, Defense Contract Management Agency, concurred with the recommendation and stated that a process had been implemented to obtain timely submission of final indirect rate proposals. The Executive Director stated that all DCMA offices were trained in the process of exercising authority on unilateral rate determination.

Appendix A. Audit Process

Scope and Methodology

We concentrated our audit effort on the 21,468 contracts that were coded as overage for closure in MOCAS as of October 13, 2000. To determine the actions undertaken to close overage contracts, we judgmentally selected a total of 80 contracts coded as overage in MOCAS. We selected 20 contracts for each Service (a total of 60 contracts) based upon geographic areas with a large volume of overage contracts. MOCAS data indicated geographic areas with large quantities of overage contracts were Los Angeles and San Diego, California; Washington, D.C.; Dayton, Ohio; and Huntsville, Alabama. We also selected 10 contracts at the DLA supply center at Columbus, Ohio. In addition, we selected a sample of 10 overage contracts coded as awaiting an audit, which we provided to DCAA to determine the actions on those contracts. Overall our sample was a judgmental sample; however, we used random techniques to select individual contracts at buying activities within the geographic areas. We also visited the buying activities and inquired on actions to close the sample contracts. We visited DCMA offices in those geographic areas responsible for administration of contracts in our sample and inquired into actions to close the contracts.

Audit Type, Dates, and Standards. We performed this economy and efficiency audit from August 2000 through May 2001 in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data. We relied on computer-processed data from the DFAS Shared Data Warehouse of MOCAS data to determine the activities to visit and to determine audit sample selection. Although we did not perform a formal reliability assessment of the computer-processed data, we determined that the data reviewed were reasonably accurate with minor discrepancies. We did not find errors that would preclude use of the computer-processed data to meet the audit objective or that would change the conclusions in this report.

Contacts During the Audit. We visited or contacted individuals or organizations within DoD. Further details are available on request.

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the DOD contract management, strategic human capital management, and financial management high-risk areas.

Management Control Program Review

DoD Directive 5010.28, “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 Review of the Management Control Program. We did not perform a full review of the adequacy of DoD controls over the closure of overage contracts. DoD has repeatedly reported systemic weaknesses in its financial management processes and systems. The DoD Statement of Assurance reported "the Department's accounting, finance, and feeder systems do not fully comply with Federal financial management systems requirements." MOCAS is among those systems used by DoD for financial related operations. Also, DoD has reported under its acquisition process and systems, weaknesses in acquisitions, but did not specifically identify weaknesses in its contract closure processes.

Prior Audit Coverage

There has been no audit coverage on the subject of contract closure in the past 5 years. However, a related report, DoD Inspector General Report No. D-2000-088, "DoD Acquisition Workforce Reduction Trends and Impacts," February 29, 2000, addressed the reduction of acquisition resources.

Appendix B. October 2000 Overage Sample

PIIN	SPIIN	CAO	Date Overage	Overage Reason Code
Army, Washington, DC				
DAHC9496D0003	0050	Philadelphia	11/30/99	A
DAHC9490D0012	2MF3	Manassas	3/31/00	W
DAHC9496D0003	0054	Philadelphia	9/30/00	A
MDA90392D0084	0004	Manassas	12/31/96	1
MDA90389C0050		San Diego	4/30/98	P
MDA90392D0103	0012	Manassas	3/31/99	P
MDA90392D0058	0028	Manassas	6/30/99	M
DASW0196D0030	0002	Manassas	6/30/00	P
MDA90391D0061	0279	Manassas	7/31/00	M
MDA90393D0020	0056	San Diego	10/31/00	
Army, Huntsville, AL				
DAAJ0987GA012	0021	Phoenix	8/31/99	P
DAAJ0986CA013		Phoenix	11/30/99	H
DAAJ0996L0006		Bell Helicopter Textron	4/30/00	
DAAH2398D0102	0012	Phoenix	10/31/00	
DAAH0184C0974		Manassas	7/31/93	S
DAAH0192CR303		DB Boston	4/30/98	M
DAAH0193CR182		Manchester	3/31/99	1
DAAH0193DR005	0061	Birmingham	2/29/00	A
DAAH0189C0370		Lockheed Martin Orlando	7/31/00	
DAAH0185EA001		Lockheed Martin Orlando	9/30/00	
Navy, Washington, DC				
N0001489C2055		Lockheed Martin Orlando	7/31/00	
N0002483C4161		Manassas	4/30/87	A
N0014092DAE05	EHQ6	Norfolk	2/28/98	M
N0016793D0066	0026	Manassas	10/31/99	H
N0016794D0007	0016	Baltimore	9/30/00	A
N0060088D3717	FG4P	Manassas	10/31/98	A
N0060090D2889	0038	Manassas	10/31/96	H
N0060095C3233		Baltimore	6/30/99	A
N0060095D1834	0012	Manassas	1/31/00	A
N0060095D0269	0008	Manassas	4/30/00	A

Note: See the list of acronyms at the end of the appendix

PIIN	SPIIN	CAO	Date Overage	Overage Reason Code
Navy, San Diego, CA				
N6600187D0054	0011	Manassas	3/31/93	A
N0012392D5252	3ELF	Baltimore	9/30/97	N
N0012392D5465	4F89	Norfolk	8/31/98	A
N0012392D0253	L66U	Manassas	3/31/99	A
N0012392D5465	7N88	Norfolk	10/31/99	A
N0003996D0074	0037	Manassas	7/31/00	M
N0024495D5093	7N14	Baltimore	7/31/99	A
N0024495D5001	7N95	Baltimore	1/31/00	A
N0024495D5001	7N96	Baltimore	4/30/00	A
N0024495D5092	L602	Twin Cities	9/30/00	
Air Force, Dayton, OH				
F3365781C0324		San Francisco	3/31/97	7
F3365787C2122		Northrop Grumman Baltimore	3/31/99	P
F3365792D0034	0021	Dayton	6/30/00	H
F3365795D2018	0032	Dayton	9/30/00	
F3361586C1121		Lockheed Martin-Ft Worth	10/31/93	N
F3361586C0552		Manassas	5/31/98	M
F3361593D5302	0018	Manassas	7/31/99	M
F3361590D4010	0024	Manassas	11/30/99	A
F3361593C3400		Boeing-St. Louis	3/31/00	A
F3361595D5615	0001	San Diego	8/31/00	A
Air Force, Los Angeles, CA				
F0470180C0045		San Francisco	11/30/93	H
F0470182C0052		Van Nuys	4/30/96	A S D
F0470171C0139		Raytheon-Tucson	8/31/97	P
F0470195D0002	0023	Manassas	2/28/98	A
F0470191D0092	0055	Manassas	7/31/98	A
F0470185C0069		Boeing Space & Com Seal Beach	3/31/99	Y
F0470190C0031		Manassas	7/31/99	M
F0470195D0003	0021	Manassas	10/31/99	H
F0470195D0002	0013	Manassas	3/31/00	A
F0470195D0002	0001	Manassas	7/31/00	A

Note: See the list of acronyms at the end of the appendix

PIIN	SPIIN	CAO	Date Overage	Overage Reason Code
Defense Logistics Agency, Columbus, OH				
F4260096G0001	UBTF	Lockheed Martin-Ft Worth	9/30/99	W
SP075094M2911		Santa Ana	2/29/00	W
DLA75091D3001		Denver	5/31/00	P
SP074099MQQ95		Van Nuys	7/31/00	
SP074099MQW27		Orlando	8/31/00	
SP070099D9714	0001	Seattle	9/30/00	A
SP076000M4696		St. Petersburg	10/31/00	
DLA90093MDP25		Santa Ana	5/31/96	W
DLA90089D2023	0007	Chicago	10/31/98	1
DLA90088P1635		Baltimore	10/31/00	
Defense Contract Audit Agency				
DAAB0791DF005	0028	General Dynamics Gov. Sys	8/31/00	H
DAAJ0993D0065	0020	Birmingham	7/31/99	H
N0014092DCE10	0014	Atlanta	2/29/00	H
MDA90392D0010	0028	Manassas	6/30/00	H
N0038389D4264	0002	Orlando	10/31/99	H
N0060093D2258	0003	Baltimore	3/31/98	H
N0042189C0128		Baltimore	5/31/97	H
N6660492D0692	0043	Baltimore	9/30/00	H
N0003991C0066		Manassas	12/31/98	H
F336158D0664	0009	Manassas	3/31/94	H

Note: See the list of acronyms at the end of the appendix

Definitions for October 2000 Overage Sample Table

Procurement Instrument Identification Number (PIIN)	Contract Number
Supplemental Procurement Instrument Identification Number (SPIIN)	Order Number
Contract Administrative Office (CAO)	Name of Contract Management Office (CMO) or formally referred to as CAOs
Overage Date	Date Contract is Overage for Closeout in MOCAS

Overage Reason Code:

A:	Contractor has not submitted final invoices/voucher
B:	Final acceptance has not been received
C:	Contractor has not submitted patent/royalty report
D:	Patent/Royalty clearance required
E:	Contractor has not submitted proposal for final price redetermination
F:	Supplemental Agreement covering final price redetermination is required
G:	Settlement of subcontract required
H:	Final audits in process
J:	Disallowed cost pending
K:	Final audit of Government property pending
L:	Independent research and development rates pending
M:	Negotiation of overhead rates pending
N:	Additional funds required but not yet received (underfunded)
P:	Reconciliation with paying office and contractor being accomplished
Q:	Armed Services Board of Contract Appeals Case
R:	Public Law 85-804 case
S:	Litigation/investigation pending
T:	Termination in process
U:	Warranty clause action pending
V:	Disposition of Government property pending
W:	Contract modification pending
X:	Contract release and assignment pending
Y:	Awaiting notice of final payment
Z:	Disposition of classified material pending
1:	Replacement funds required to complete closeout
2:	Appropriations in the red
3:	Prevalidation pending
4:	Reserved
5:	Reserved
6:	Fee withheld
7:	Awaiting removal of excess funds
8:	Reserved
9:	Reserved

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
  Director of Defense Procurement
Under Secretary of Defense (Comptroller)
  Deputy Comptroller (Program/Budget)
  Deputy Chief Financial Officer
    Director for Accounting Policy

Department of the Army

Auditor General, Department of the Army

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 Management Agency
Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Director, Defense Finance and Accounting Service

Non-Defense Federal Organizations

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, Financial Management, and Intergovernmental Relations, Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform
House Subcommittee on Technology and Procurement Policy, Committee on Government Reform

Under Secretary of Defense (Comptroller) Comments

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

COMPTROLLER

OCT 4 2001

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

SUBJECT: Office of the Inspector General Draft Audit Report, "Closing Overage Contracts Prior to Fielding a New DoD Contractor Payment System" (Project No. D2000FJ-0268)

This is in response to Recommendations 1.a. and 1.b. in the subject draft report. Specifically, the recommendations propose that the Under Secretary of Defense (Acquisition, Technology and Logistics) and the Under Secretary of Defense (Comptroller) develop a:

--Methodology for recipients of contract data lists to close contracts or process misdirected data to the appropriate entity for action.

--Reporting process to periodically provide contract closeout statistics and information on closeout issues to the Integrated Product Team's Steering Committee and Closeout/Conversion Working Group.

Both actions are in process. The Defense Contract Management Agency and the Defense Finance and Accounting Service are devoting increased attention to the physically complete contracts in the Mechanization of Contract Administration Services system. The number of overage contracts is being reduced, as stated in the draft report. The Defense Contract Management Agency maintains detailed performance statistics. In fact, reducing the number of overage contracts is a metric in the Defense Contract Management Agency Director's performance contract with the Defense Management Council. Impediments to administrative closure are being identified and efforts to resolve them are ongoing.

The Military Departments and Defense Agencies review contract data lists provided by the Defense Contract Management Agency to disclose problem data and identify the organizations that must act to resolve matters that impede administrative closure of physically complete contracts. Most information has been passed to the responsible field activities for examination and action. The Working Group has discussed overage contract closure metrics and status reporting options. Military Department and Defense Agency reporting to the Working Group is expected to be formalized in the near future and summary information will be presented to the Steering Committee periodically.

Thank you for the opportunity to comment on the draft report.

The point of contact for this matter is Mr. Chuck Crichley. He may be reached by e-mail: crichlec@osd.pentagon.mil or by telephone at (703) 602-0369.

Nelson Toye
Deputy Chief Financial Officer

Under Secretary of Defense (Acquisition, Technology and Logistics) Comments

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON DC 20301-3000

ACQUISITION AND TECHNOLOGY

DP

12 OCT 2001

MEMORANDUM FOR THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE
ATTN: ACTING ASSISTANT INSPECTOR GENERAL FOR AUDITING

THROUGH: Director, Acquisition Resources and Analysis 10/12/01

Subject: Draft Audit Report on Closing Overage Contracts Prior to Fielding a New DoD Contractor Payment System dated August 15, 2001 (Project No. D2000FJ-0268)

The subject report addresses the actions required to close out completed contracts and transition from the Mechanization of Contract Administration Services (MOCAS) system to the successor payment system. In general, the report found that the Department has made progress in closing overage contracts but that additional actions are needed.

I concur with the draft report's recommendations 1 and 2. Actions are currently underway to address the intent of these recommendations. My detailed comments are attached.

Thank you for the opportunity to comment on the draft report. The point of contact for this matter is Mr. Bob Bemben, e-mail: robert.bemben@osd.mil or by telephone at (703) 695-1098.

for Deidre A. Lee
Director, Defense Procurement

Attachment:
As stated

DODIG Draft Report
August 15, 2001

"Closing Overage Contracts Prior to Fielding a New DoD Contractor Payment System"

PROJECT NO. D2000FJ-0268

COMMENTS OF THE OFFICE OF THE UNDER SECRETARY OF DEFENSE (ACQUISITION, TECHNOLOGY, AND LOGISTICS)

RECOMMENDATION 1: The Steering Committee, which consists of the Under Secretary of defense (Acquisition, Technology, and Logistics) and the Under Secretary of Defense (Comptroller), should develop a process to regularly evaluate the progress in accomplishing the goals of Defense Reform Initiative Directive 53. The process should include:

a. A methodology for the Military Services and Defense Agencies, upon receipt of a listing of contracts from the Defense Reform Initiative Directive 53 working group, to either take the action required to close each contract or, if, after verifying the data provided, the actions are not within their responsibilities and capabilities, forward, through the working group, the contract to the appropriate entity for action,

b. A reporting process that will periodically provide information to the Steering Committee and the working group on each contract. The reporting process should specifically address records disposition and storage issues, include the actions taken to close the contracts, whether there are any other challenges to closure, and what actions have been taken to resolve the challenges.

RESPONSE: Concur. Both actions are in process. The Defense Contract Management Agency and the Defense Finance and Accounting Service are devoting increased attention to the physically complete contracts in the Mechanization of Contract Administration Services system. The number of overage contracts is being reduced, as stated in the draft report. The Defense Contract Management Agency maintains detailed performance statistics. In fact, reducing the number of overage contracts is a metric in the Defense Contract Management Agency Director's performance contract with the Defense Management Council. Additionally, impediments to administrative closure are being identified and efforts to resolve them are ongoing.

The Military Departments and Defense Agencies review contract data lists provided by the Defense Contract Management Agency to disclose problem data and identify the organizations that must act to resolve matters that impede administrative closure of physically complete contracts. Most information was passed to the responsible

field activities for examination and action. The Working Group discussed overage contract closure metrics and status reporting options. Military Department and Agency reporting to the Working Group is expected to be formalized in the near future and summary information will be presented to the Steering Committee periodically.

RECOMMENDATION 2: The Under Secretary of Defense (Acquisition, Technology, and Logistics) should study the DoD acquisition staffing requirements and, based upon identified needs, seek additional acquisition resources.

RESPONSE: Concur. This effort in ongoing. In October 2000, the Under Secretary of Defense (Acquisition, Technology, and Logistics) released the final report of the Acquisition 2005 Task Force, "Shaping the Civilian Acquisition Workforce of the Future." This report acknowledges the challenges facing the Department in shaping the future acquisition workforce. One of the goals of the USD(AT&L) is to revitalize the quality and the morale of the acquisition workforce and developing an acquisition manpower strategic plan is a current management initiative within the Office of the USD(AT&L).

Defense Contract Management Agency Comments

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

OCT 23 2001

IN REPLY REFER TO DCMA-OCB

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL

SUBJECT: DoDIG Revised Draft Report, Closing Overage Contracts Prior to Fielding a New DoD Contractor Payment System, Project No. Report D2000FJ-0268

As requested in your August 15, 2001 revised draft report referenced above, attached is the Defense Contract Management Agency (DCMA) response to the recommendations contained in subject report.

The point of contact for DCMA action on this report is Felisha Hitt, 703-428-0988, fhitt@hq.dcma.mil.

ROBERT W. SCHMITT
Executive Director
Contract Management Operations

Attachment

SUBJECT: DoDIG Draft Report, Project No. D2000FJ-0268, Closing Overage Contracts Prior to Fielding a New DoD Contractor Payment System

FINDING: Controls Over Overage Contract Closure.
DoD made progress and closed about 30,393 overage contracts from February 2000 to March 2001. However, another 26,610 contracts became overage during that period. Based on the net reductions to overage contracts achieved during the February 2000 to March 2001 period, and the projected future net reductions provided by the Defense Contract Management Agency, we estimate that it will take between 6 years and 56 years for DoD to close all overage contracts. Review of 80 judgmentally selected contracts showed that there were weaknesses in the closure process, including inadequate monitoring of contracts that could be closed, inattention to closure requirements, erroneous data about contracts available for closure, lack of coordination, lack of sufficient funding, a shortage of personnel, and untimely contractor input. Unless improvements are made and additional resources applied, DoD will have a significant number of overage contracts when it begins the transfer of information to the new payment system, which could adversely affect its orderly transition.

DCMA COMMENTS: Partially concur. DCMA concurs that DoD has made progress in closing contracts. We take exception to the comment that DCMA has inadequate monitoring of overage contracts and inattention to closeout timeframes.

The DCMA goal is to complete all aspects of contract closeout in a timely manner. DCMA has identified certain contracts as being extremely difficult, if not impossible, to close. We are working to identify new initiatives and streamlined procedures to aid in the closure of these contracts. Upon deployment of a new payment system, DCMA will work through a brownout period in order to close as many contracts as possible. At the end of the brownout period, MOCAS can be shut down. Considering the many variables that play a part in shutting down MOCAS, we have found that it is very difficult to determine the exact number of physically complete contracts remaining in MOCAS after the brownout period and ultimately the impact on the transition.

As mentioned above, we believe DCMA adequately monitors overage contracts. DCMA has established performance goals that review overage contracts on a monthly basis at the local, district and agency levels. The three closeout performance goals are as follows:

- To close contracts within FAR mandated guidelines.
- To assure all physically completed contracts are in MOCAS Section 2.
- To reduce the backlog of overage contracts.

DCMA continually pursues quality data integrity of all information contained in MOCAS.

Recommendation No. 1: The Steering Committee, which consists of the Under Secretary of Defense (Acquisition, Technology, and Logistics) and the Under Secretary of Defense (Comptroller), should develop a process to regularly evaluate the progress in accomplishing the goals of Defense Reform Initiative Directive 53. The process should include:

a. A methodology for the Military Services and Defense agencies, upon receipt of a listing of contracts from the Defense Reform Initiative Directive 53 working group, to either take the action required to close each contract or, if, after verifying the data provided, the actions are not within their responsibilities and capabilities, forward, through the working group, the contract to the appropriate entity for action.

b. A reporting process that will periodically provide information to the Steering Committee and the working group on each contract. The reporting process should specifically address records disposition and storage issues, include the actions taken to close the contracts, whether there are any other challenges to closure, and what actions have been taken to resolve the challenges.

DCMA Comments:
Recommendation 1.a: Concur. We concur that there is a need for a methodical way of determining which entity is responsible for closeout actions. This has already been accomplished. In January 2001, MOCAS Closeout/Conversion Working Group developed the MOCAS Office of Primary Responsibility (OPR) Matrix. The OPR Matrix is a tool used to determine where responsibilities lie in the contract closeout process. Monthly data is sent to the Services, DCAA and DFAS Working Group members who analyze their areas of responsibilities ("buckets") and take the necessary action to move the contract towards closure. The Working Group has a process in place for correcting discrepancies identified during the review by the OPR and

routing the contract to the correct party to take action. This action is considered to be complete.

Recommendation 1.b: Concur. DCMA concurs that the Working Group should provide periodic information to the Steering Committee on the status of each contract and challenges regarding closeout. This is already being accomplished. Summary information, representing a roll-up of individual contract status, is periodically provided to the Steering Committee. MOCAS contains over 300,000 contracts and it would not be cost effective to provide information on each contract. Each contract in MOCAS is worked and information is gathered to develop tools and initiatives on the challenges to closure and is reported to the Steering Committee. This action is considered to be complete.

Recommendation 2: The Under Secretary of Defense (Acquisition, Technology, and Logistics) should study the DoD acquisition staffing requirements and, based upon identified needs, seek additional acquisition resources.

DCMA Comments: Although the recommendation is not directed to DCMA, we agree that there is a need to add additional resources at specific sites.

Recommendation 3: The Director, Defense Contract Management Agency, should institute a program to encourage administrative contracting officers to exercise their authority for unilateral rate determination to encourage vendors to fulfill their responsibilities.

DCMA Comments: Concur. DCMA has already implemented a process for this recommendation. DCMA and DCAA have jointly established a process to obtain timely submission of final indirect rate proposals. The unilateral rate determination process starts with DCAA issuing a memorandum to the ACO six months after a proposal is overdue. DCAA provides recommended final rates for the ACO's use in establishing unilateral rates. All DCMA offices were trained on this process at the recent Closeout Summit. This action is considered to be complete.

Audit Team Members

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report. Personnel of the Office of the Inspector, DoD, who contributed to the report are listed below.

Paul J. Granetto
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