Audit Report

OFFICE OF THE INSPECTOR GENERAL

BILLING OF DEPOT MAINTENANCE TRANSACTIONS FOR FOREIGN MILITARY SALES

Report No. 94-013 November 4, 1993

Department of Defense

Acronyms

AFSAC	Air Force Security Assistance Center
ALC	Air Logistics Center
DFAS	Defense Finance and Accounting Service
FMS	Foreign Military Sales
MASS	Maintenance Automated Support System
MSA	Maintenance Support Arrangement
NAVILCO	Navy International Logistics Control Office
USASAC	U.S. Army Security Assistance Command

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

November 4, 1993

MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
DIRECTOR, DEFENSE SECURITY ASSISTANCE AGENCY
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on the Billing of Depot Maintenance Transactions for Foreign Military Sales (Report No. 94-013)

We are providing this final report for your information and use. The report discusses whether the Military Departments accurately charged foreign military sales customers for the repair and return of component parts for major end items. Army, Navy, and Air Force comments on the draft report were considered in preparing the final report.

DoD Directive 7650.3 requires that all audit recommendations be resolved promptly. Therefore, the Air Force and the Defense Finance and Accounting Service must provide final comments on the unresolved recommendations and monetary benefits by January 3, 1994. See the "Response Requirements for Each Recommendation" section at the end of the finding for the recommendations you must comment on and the specific requirements for your comments. Those comments must indicate concurrence or nonconcurrence with the finding and the recommendations addressed to you. If you concur, describe the corrective actions taken or planned, the completion dates for actions already taken, and the estimated dates for completion of planned actions. If you nonconcur, you must state your specific reasons for nonconcurrence. If appropriate, you may propose alternative methods for accomplishing desired improvements. If you nonconcur with the estimated monetary benefits or any part thereof, you must state the amount you nonconcur with and the basis for your nonconcurrence. Recommendations and potential monetary benefits are subject to resolution in accordance with DoD Directive 7650.3 in the event of nonconcurrence or failure to comment. We also ask that your comments indicate concurrence or nonconcurrence with the internal control weaknesses highlighted in Part I.

The courtesies extended to the audit staff are appreciated. If you have any questions about this audit, please contact Mr. Alvin L. Madison, Program Director, at (703) 614-1681 (DSN 224-1681) or Mr. Ronald C. Tarlaian, Project Manager, at (703) 614-1365 (DSN 224-1365). Appendix F lists the distribution of this report.

Robert J. Lieberman

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, Department of Defense

Audit Report No. 94-013 November 4, 1993
(Project No. 2FA-0055)

BILLING OF DEPOT MAINTENANCE TRANSACTIONS FOR FOREIGN MILITARY SALES

EXECUTIVE SUMMARY

Introduction. Depot maintenance transactions for foreign military sales (FMS) involve the periodic scheduled maintenance or the repair and return of component parts for major end items, items such as helicopters, tanks, and missiles. From October 1, 1987, through June 30, 1992, 804 FMS cases had depot maintenance transactions amounting to $265.4 million. We reviewed 83 of those FMS cases, for which maintenance transactions were valued at $76.8 million.

Objectives. The objectives of the audit were the following:

o to determine whether the Military Departments accurately charged FMS customers for depot maintenance transactions,

o to determine whether the Military Departments had adequate procedures for supporting and documenting each expenditure billed to FMS customers, and

o to evaluate internal controls that the Military Departments had established to ensure accurate and prompt billing to FMS customers.

Audit Results. The Army and the Air Force did not accurately charge FMS customers for depot maintenance transactions, and the Navy did not have documentation to support depot maintenance transactions billed to FMS customers. We project that the Army and the Air Force overcharged FMS customers $6.3 million on 36 cases and undercharged FMS customers $23.0 million on 54 cases. We further project that the Navy will not be able to support $13.6 million in depot maintenance charges billed to FMS customers, which the Navy may have to pay if customers submit claims of material discrepancies.

Internal Controls. The audit identified two material internal control weaknesses. The Army and the Air Force did not have an effective system to accurately track and validate all depot maintenance costs for billing to FMS customers. Also, the Military Departments did not have effective internal control procedures and experienced case managers to ensure that all charges for depot maintenance billed to FMS customers were accurate. See Part I, "Internal Controls," and the discussion in Part II for details of those weaknesses.

Potential Benefits of Audit. We project that FMS customers were overcharged $6.3 million and undercharged $23.0 million for depot maintenance. However, due to limits on the precision in the statistical sampling data, we could not project the net monetary benefits resulting from the audit. Appendix D of the report summarizes the monetary and nonmonetary benefits.

Summary of Recommendations. We recommended that the Army and the Air Force modify the systems used to track and validate depot maintenance charges. We also recommended that the Military Departments strengthen internal control procedures to ensure that all costs are accurately reported to the Defense Finance and Accounting Service for billing to FMS customers. In addition, we recommended that the Director, Defense Finance and Accounting Service, require Defense Accounting Offices to provide documentation to the Military Departments to support customer billings and that the Military Departments require subordinate commands to correct the erroneous billings.

Management Comments. The Army concurred with Recommendations 1.a. and 1.b. and concurred in principle with Recommendation 4. The Navy concurred in principle with Recommendation 2.a. and nonconcurred with Recommendation 2.b. The Air Force concurred with the intent of Recommendation 3.a. and concurred with Recommendations 3.b. and 4. Comments are required from the Air Force and the Defense Finance and Accounting Service by January 3, 1994. See Part II for a full discussion of management comments received and those still needed and Part IV for the complete comments received in response to the draft of this report.

Audit Response. Based on the Navy's comments, we revised Recommendation 2.a. (now Recommendation 2), deleted Recommendation 2.b., and added a recommendation to the Defense Finance and Accounting Service, Recommendation 5. Because the Navy considers existing internal control procedures over the performance of the contractor in question to be adequate, we now recommend that Defense Accounting Offices provide supporting documentation to the Military Departments to facilitate accurate billings to FMS customers.

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This report was prepared by the Financial Management Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate, (703) 614-6303 (DSN 224-6303).

Part I - Introduction

Background

Processing of Depot Maintenance. Depot maintenance transactions for foreign military sales (FMS) are transactions for the scheduled periodic maintenance of, or the repair and return or modification of, component parts for major end items, items such as helicopters, tanks, and missiles. The Military Departments, through Letters of Offer and Acceptance, enter into agreements with FMS customers for depot maintenance. The Military Departments have the maintenance performed either by contractors or by personnel at their own maintenance depots, both of whom submit costs to the Military Departments for reimbursement. The Military Departments absorb the costs until the transactions have been completed, then report those accumulated costs to the Defense Finance and Accounting Service-Denver Center (DFAS). The DFAS then bills FMS customers for the depot maintenance.

Governing Regulations. The DoD Manual 5105.38-M, "Security Assistance Management Manual," specifies the costs that must be included in the Letters of Offer and Acceptance in order for the Military Departments to recoup depot maintenance costs. Also, DoD Manual 7220.9-M, "DoD Accounting Manual," specifies the recording procedures the Military Departments are required to follow for proper reimbursement of all depot maintenance costs. Further, DoD Regulation 7000.14-R, "Financial Management Regulation, Security Assistance Policy and Procedures," which replaced DoD Manual 7290.3-M, specifies the procedures to be followed when the Military Departments report deliveries to the DFAS. The DoD Regulation 7000.14-R also requires the Military Departments to maintain documentation to support each expenditure billed to FMS customers.

Objectives

The objectives of this audit were to determine whether the Military Departments accurately charged FMS customers for depot maintenance transactions for repair and overhaul of major end items. The announced objective was to review contractual transactions; however, we also included organic transactions (the maintenance work done at the Military Departments' depots) in our review because FMS cases had billings that included both contractual and organic charges. Also, we reviewed the procedures for supporting and documenting each expenditure billed to FMS customers. We also evaluated the internal controls established within the Military Departments to ensure that FMS customers were billed accurately and promptly.

Scope and Methodology

Sample Selection Process. We obtained reports from the Military Departments that listed all depot maintenance cases that had charges billed to FMS customers from October 1, 1987, through June 30, 1992. The reports listed 804 cases with estimated maintenance costs totaling $265.4 million. From those reports, we selected a stratified sample of 83 FMS cases totaling $76.8 million. Appendix A lists the depot maintenance cases by major activity.

Elements of Scope. We obtained Letters of Offer and Acceptance and other relevant information from logistical and financial case files at the DoD Components visited. We also analyzed detail delivery history searches that showed the amounts the Military Departments reported (for maintenance costs and repair parts) to the DFAS for billing to FMS customers. For each case, we reviewed all documentation in the case files (billing worksheets, production status reports, cost worksheets, delivery and financial records) to ensure that FMS customers were accurately billed and the billings properly documented. We also reviewed the procedures and systems used to accumulate and record depot maintenance charges reported to the DFAS for billing.

Technical Expert. In developing a stratified statistical sampling method, we were assisted by an operations research analyst from the Office of the Assistant Inspector General for Auditing, Audit Planning and Technical Support Directorate. Appendix B details the statistical sampling plan.

Audit Time Period, Locations, and Standards. This economy and efficiency audit was made from August 1992 through March 1993 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, Department of Defense, and accordingly included such tests of internal controls as were considered necessary. Appendix E lists the organizations we visited or contacted.

Internal Controls

Controls Assessed. We evaluated the Military Departments' internal control procedures to determine whether:

- o depot maintenance costs were accurately and promptly reported by the Military Departments for billing to FMS customers,
- o documentation was maintained for depot maintenance cases to verify the accuracy of FMS billings, and
- o Military Departments were accurately reimbursed for all costs.

Internal Control Weaknesses. We identified material weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and

DoD Directive 5010.38. The Army and the Air Force did not have an effective system to accurately track and validate all depot maintenance costs for billing to FMS customers. Also, the Military Departments did not have effective internal control procedures to ensure the accuracy of depot maintenance charges billed to FMS customers. The internal control weaknesses are discussed in the finding, together with recommendations to correct the weaknesses. If implemented, Recommendations 1.a. and 3.a. to modify Army and Air Force management information systems will provide a means for case managers to track and validate depot maintenance costs. In addition, Recommendations 1.b. and 3.b. to strengthen internal control procedures will allow for ensuring the accuracy of depot maintenance charges reported to the DFAS. We project that FMS customers were overcharged $6.3 million and undercharged $23.0 million for depot maintenance. Due to limits on the precision in the statistical sampling data, however, we could not project the net monetary benefits that can be realized by implementing the recommendations. Appendix D, "Summary of Potential Benefits Resulting from Audit," details the monetary and nonmonetary benefits. Copies of this report will be provided to the senior Military Department and the DFAS officials responsible for internal controls for use in preparing annual internal control statements.

Prior Audits and Other Reviews

Inspector General, Department of Defense, Report No. 93-034, "Audit of Documentation of Reimbursable Foreign Military Sales Transactions," December 17, 1992, showed that Air Force Air Logistics Centers (ALCs) did not accurately bill FMS customers for reimbursable depot maintenance transactions. Also, the ALCs did not maintain documentation to support $13.5 million in depot maintenance charges billed to FMS customers. As a result, the ALCs might have to absorb $13.5 million in depot maintenance costs should FMS customers submit reports of discrepancies. The Air Force generally concurred with the recommendations and was in the process of establishing internal control procedures to correct the deficiencies. Those procedures should be implemented by December 31, 1993.

Part II - Finding and Recommendations

Billing and Documenting Depot Maintenance Transactions

The Military Departments did not adequately bill and document depot maintenance costs for foreign military sales (FMS). The condition occurred because the Army and the Air Force did not have effective systems to track all depot maintenance costs that were billed to FMS customers. Also, some Army and Air Force case managers were new in their positions and lacked experience with DoD procedures for validating depot maintenance costs before they reported the costs to the Defense Finance and Accounting Service (DFAS) for billing to FMS customers. Further, the Navy disagreed with the DoD policy on the retention period for FMS case documents. As a result, we project, based on a statistical sample, that the Army and the Air Force overcharged FMS customers $6.3 million on 36 cases and undercharged FMS customers $23.0 million on 54 cases for depot maintenance costs. Another result was that the Navy did not have documentation in case files to support a projected $13.6 million in customer billings, which would cause delays in the case closure process. Further, the potential exists for the U.S. Government to make unnecessary reimbursements to customers for claims of discrepancies.

Background

Depot maintenance transactions involve the scheduled periodic maintenance and the repair and return of component parts for major end items, items such as helicopters, tanks, and missiles. The DoD Regulation 7000.14-R, "Financial Management Regulation, Security Assistance Policy and Procedures," which replaced DoD Manual 7290.3-M, requires that the Military Departments establish an effective system to accumulate, record, and bill FMS customers for the transactions. The DoD Regulation 7000.14-R also requires that FMS case managers and finance and accounting office personnel validate the accuracy of charges reported to the DFAS for billing to FMS customers. The DoD Regulation 7000.14-R further requires the Military Departments to maintain documentation in FMS case files. The requirements thereby constitute a complete audit trail for processed depot maintenance transactions.

Reporting of Depot Maintenance Costs

We statistically reviewed 83 depot maintenance cases, with a delivered value of $76.8 million, for the repair and return of component parts for major end items. (Appendix A shows the sampled cases by activity.) We projected that the Army and the Air Force overcharged FMS customers $6.3 million on 36 cases and undercharged FMS customers $23.0 million on 54 cases. We also estimated the Navy did not adequately document $13.6 million in depot maintenance charges billed to FMS customers. Appendix B provides details of these estimates. We were unable to provide details of estimates for the Army and the Air Force separately due to limits on the precision in the statistical sampling data.

Army. Case managers and finance and accounting offices at Army major subordinate commands are responsible for accumulating and reporting depot maintenance costs to the U.S. Army Security Assistance Command (USASAC). The case managers at the USASAC are required to perform periodic reviews of all costs and report the costs to the DFAS for billing. We sampled 30 FMS depot maintenance cases, valued at $31.2 million, at three Army major subordinate commands. FMS customers were overcharged $2.1 million on five cases and undercharged $1.4 million on three cases. (Appendix C identifies the sample billing errors by activity.)

Case managers and finance and accounting offices used different control numbers (e.g., various types of document numbers, procurement request order numbers, and fund cite codes) to accomplish their duties and report logistical and financial transactions to the USASAC. With the use of multiple control numbers, however, the Army's management information system did not provide an interface between logistical and financial information. As a result, case managers and finance and accounting offices had difficulty tracking costs associated with depot maintenance transactions. In addition to this system problem, case managers and finance and accounting offices were not complying with the DoD requirement to validate the accuracy of depot maintenance costs reported to the DFAS for billing. Some case managers were new in their positions and not fully cognizant of their responsibilities and those of other activities for validating the costs. The lack of an effective system to track all costs and the Army's noncompliance with DoD procedures resulted in duplicate billings to customers and caused costs to be incurred for materiel shipments not reported to the DFAS for billing.

Navy. The Navy International Logistics Control Office (NAVILCO) is responsible for recording all financial transactions and maintaining documentation to support depot maintenance costs reported to the DFAS for billing. The NAVILCO, however, is dependent on other activities, such as the DFAS paying offices, to submit documentation for all contractual payments, such as vouchers and Material Inspection and Receiving Reports. We sampled 20 Navy depot maintenance cases, valued at $11.1 million, and we projected that the Navy could not support $13.6 million in charges billed to FMS customers. The problem occurred because the NAVILCO did not have adequate procedures to ensure documentation was maintained in case files to support all billings. The Navy retained all documents for a maximum period of

5 years instead of following the DoD Regulation 7000.14-R requirement to maintain the FMS documents for an indefinite period. That regulation required documentation to be maintained from case initiation to case closure. Also, the NAVILCO did not always record depot maintenance charges to the appropriate case line requisitions. Such lack of documentation and inaccurate recording of depot maintenance costs could result in unnecessary credits granted to customers for material claims of discrepancies.

The Navy experienced difficulties in the case closure process because financial exception transactions were not resolved promptly. Transactions that are not accurately recorded to an appropriate case line requisition are processed as financial exceptions. Although the NAVILCO reports those transactions to the DFAS for billing, the costs are not identified to a case line requisition to support the billings. To resolve the financial exceptions, the NAVILCO attempts to resolve and process the transactions within 60 days of the recording of a financial exception. For 4 of the 20 cases reviewed, the NAVILCO had not processed 22 financial exception transactions valued at $472,000. Further, 20 of the 22 transactions were financial exceptions that had been recorded for more than one year.

Air Force. Air Force Logistic Centers (ALCs) use the "Contract Depot Maintenance Production and Cost System" (G072D) to accumulate and report costs to the Air Force Security Assistance Center (AFSAC). The case managers and the finance and accounting office at the AFSAC are required to validate all costs and submit the costs to the DFAS for billing. We reviewed 33 depot maintenance cases, with a delivered value of $34.5 million, at three ALCs. The FMS customers were overcharged $750,000 on four cases and undercharged $1.5 million on four cases. (Appendix C identifies the sample billing errors by activity.)

The GO72D system does not provide the AFSAC case managers and finance and accounting offices with logistical and financial case visibility due to the use of different control numbers. Also, the G072D system did not interface with the Security Assistance Management Information System, which the AFSAC used to report depot maintenance costs to the DFAS for billing. In addition, we determined that case managers for the ALCs and the AFSAC, as well as finance and accounting offices, were not complying with the DoD requirements to validate the accuracy of costs reported to the DFAS for billing. As was the case with the Army, some case managers were new in their positions and were unfamiliar with their responsibilities and those of other activities to ensure the accuracy of the reported costs. Due to the ineffectiveness of the system used by the Air Force to track all logistical and financial costs, and to a lack of proper case management procedures, we identified depot maintenance FMS cases that had costs billed to inappropriate customers and depot maintenance FMS cases that had costs not promptly reported to the DFAS for billing.

Recommendations for Corrective Action

1. We recommend that the Commander, Army Materiel Command, require:

a. The U.S. Army Security Assistance Command to modify its management information system to allow case managers to track and validate depot maintenance costs.

b. Army major subordinate commands to validate the accuracy of depot maintenance costs submitted to the U.S. Army Security Assistance Command for forwarding to the Defense Finance and Accounting Service.

2. We recommend that the Commander, Navy International Logistics Control Office, retain documentation in case files to support customer billings.

3. We recommend that the Commander, Air Force Materiel Command, require:

a. The Air Force Security Assistance Center to modify the G072D system to allow an interfacing between logistical and financial information associated with depot maintenance transactions.

b. Air Force Logistic Centers to perform periodic reviews to validate depot maintenance costs submitted to the Defense Finance and Accounting Service.

4. We recommend that the Commander, Army Materiel Command, and the Commander, Air Force Materiel Command, require subordinate commands to correct the erroneous billings for the sampled cases listed in Appendix C.

5. We recommend that the Director, Defense Finance and Accounting Service, require Defense Accounting Offices to provide documentation to the Military Departments to support customer billings.

Management Comments

Army Comments. Recommendations 1.a., 1.b., and 4. were directed to the Commander, Army Materiel Command.

Recommendation 1.a. The Army concurred and stated that the USASAC data base can be modified to record and track depot maintenance costs. With the use of multiple control numbers, the Army's management information system does not provide an interface between logistical and financial information. Since the Maintenance Support Arrangement (MSA) and the Depot Maintenance processes are incompatible, the processes must be reviewed in order to develop a method to adequately track FMS customer material through the depot repair system. The Army also stated that the

USASAC can modify its system to accept any information provided by the major subordinate commands; however, the major subordinate command information has not been reliable. The USASAC proposed that the major subordinate commands implement the Maintenance Automated Support System (MASS) to solve the information management issue. The Army noted, however, that since MSA cases are minimal and major system changes are not cost effective, the major subordinate commands have developed local personal computer data bases.

The Army stated that during an upcoming Executive Security Assistance Conference, the USASAC will pursue the implementation of the MASS or the use of the personal computer-based MSA data using common data elements. The Army further stated that the use of standard pricing for depot level repairables would simplify the billing of MSA cases. Since the number of MSA cases is small, the Depot System Command could develop a standard price list for the repairables. That alternative would improve the accuracy and timeliness of the MSA billings without major system changes. The Army stated that one of those alternative plans of action will be completed by December 31, 1993.

Recommendation 1.b. The Army concurred and stated that the Defense Accounting Office-St. Louis has procedures in place that should precluded customer overbillings. Those procedures and the guidance contained in DoD Regulation 7000.14-R, "Financial Management Regulation, Security Assistance Policy and Procedures," will be emphasized. However, the Army stated that maintenance costs provided by the Depot System Command through program status reports and unfunded cost reports were not always received or received promptly.

Recommendation 4. The Army concurred in principle and stated that for the Tank Automotive Command cases, appropriate adjustments have been made for FMS cases CN-ZDL, UK-VAL, and MO-UNB. Regarding FMS case MO-UMY, the Army nonconcurred and stated that the estimated discrepancy of $59,694 is based on costs reported on addenda to the program status reports. The billings were based on values calculated on billing worksheets since the addenda data were incorrect. Therefore, the Army stated, no adjustments are required.

For the Aviation and Troop Command cases, the Defense Accounting Office-St. Louis stated that the FMS customers were not overcharged because the billings were non-cash transactions, only progress payments involve funds. For FMS cases ES-VIQ and JO-VQJ, the reported discrepancies represent progress payments for work in process. The deliveries and billings are reported as the repairables are returned to the FMS customer. For FMS case PI-URB, the customer was overbilled (overstated deliveries). The billings are being reversed and the case manager is validating the DD 250s that were provided for billing purposes. For FMS case CO-ULW, progress payments from the customer's account did not exceed the Letter of Offer and Acceptance value. However, funds were not available to initially reimburse the unfunded costs. Subsequently, the case manager made an amendment to the Letter of Offer and Acceptance.

Navy Comments. Recommendations 2.a. and 2.b. were directed to the Commander, Navy International Logistics Control Office.

Recommendation 2.a. The Navy concurred in principle and stated that the NAVILCO has existing internal control procedures to identify and pursue documentation that is not received from the DFAS paying offices. The contractor, upon receipt of vouchers from the DFAS paying offices, checks each voucher against the information in the Consolidated Expenditure Reimbursement Processing System. When supporting documentation is unavailable, the contractor prepares a letter to the appropriate DFAS paying office requesting the documentation. The Navy said it will take aggressive action to advise the DFAS of noncompliance by the DFAS with DoD Regulation 7000.14-R and the Navy will monitor compliance by the DFAS. Further, the Navy will ensure that all documentation related to FMS case files is retained, in accordance with DoD Regulation 7000.14-R.

Recommendation 2.b. The Navy nonconcurred and stated that the NAVILCO had established procedures to ensure that the contractor processes financial exceptions in accordance with the contract terms. The NAVILCO utilizes a comprehensive quality assurance plan to monitor the contractor's performance. When the contractor does not meet the processing standards established in the contract, a monthly monetary deduction is included in the monthly billing. Further, the Naval Audit Service performed a study of the contractor's compliance with the contract terms and provisions and determined that the NAVILCO's oversight of the contractor's performance was adequate.

Air Force Comments. Recommendations 3.a., 3.b., and 4. were directed to the Commander, Air Force Materiel Command.

Recommendation 3.a. The Air Force concurred with the intent of the recommendation and stated that Air Force personnel are working with the DFAS to modify the G072A (Organic Depot Maintenance Production and Cost System) and the G072D (Contract Depot Maintenance Production and Cost System) to improve data accuracy. The Joint Logistics Systems Center will have to establish the completion date for the system modifications.

Recommendation 3.b. The Air Force concurred and stated that the AFSAC will conduct follow-up actions to ensure that effective procedures have been implemented to validate the accuracy of depot maintenance costs. The estimated completion date is March 31, 1994.

Recommendation 4. The Air Force said it will review and correct the erroneous billings reported in Appendix C.

Audit Response to Management Comments

Response to Army Comments. The Army comments were fully responsive to the recommendations. However, pertaining to Recommendation 4., for the

Tank Automotive Command FMS case MO-UMY, the overcharged amount of $59,694 resulted from duplicate charges for unfunded costs reported by the maintenance depots. Subsequent to the audit, an adjustment of $59,694 was processed to the DFAS. Also, we agree with the Aviation and Troop Command that the reported discrepancies did not involve FMS customers' funds, however, the Aviation and Troop Command adjusted the erroneous billings listed in Appendix C.

Response to Navy Comments. Based on the Navy's response to Recommendation 2.a., the recommendation has been revised to require the NAVILCO to retain documentation in FMS case files to support customer billings. The Navy's response to Recommendation 2.a. (now Recommendation 2) satisfies the intent of the recommendation. Based on the Navy's response to Recommendation 2.b., we have deleted Recommendation 2.b. We had recommended internal control procedures to monitor and ensure that TPI Incorporated resolve and process financial exceptions within prescribed time frames. However, the Navy nonconcurred with this recommendation since the Navy considers existing internal controls over the contractor's performance to be adequate. Because the NAVILCO must actively pursue the paying offices to obtain documentation required to support FMS customer billings, we directed a new recommendation to the Defense Finance and Accounting Service as Recommendation 5. Recommendation 5 requires the Defense Accounting Offices to provide documentation to the Military Departments to support FMS customer billings. Recommendation 5, along with Recommendation 2 will facilitate the receipt of supporting documentation to be retained by the Military Departments.

Response to Air Force Comments. The Air Force comments were not fully responsive to the recommendations. The Air Force did not provide specific completion dates for actions proposed in response to Recommendations 3.a. and 4. Therefore, we request that the Air Force provide this information when responding to the final report.

Response Requirements for Each Recommendation

Responses to the final report are required from the addressees shown for the items indicated with an "X" in the chart below.

Number	Addressee	Concur/ Nonconcur	Proposed Action	Completion Date	Related Issues[1]
3.a.	ASAF (FM&C)[2]			X	IC
4.	ASAF (FM&C)			X	M
5.	Director, DFAS	X	X	X	IC

[1]IC = Internal Controls M = Monetary Benefits
[2]Assistant Secretary of the Air Force (Financial Management and Comptroller)

Part III - Additional Information

Appendix A. Depot Maintenance Cases and Case Selection

Activity	Total Cases	Dollar Value (Millions)	Number of Sample Cases	Dollar Value (Millions)
ARMY				
Tank Automotive Command	29	$ 21.0	6	$ 8.4
Armament, Munitions, and Chemical Command	54	12.4	0	0.0
Communications Electronic Command	16	.4	0	0.0
Aviation Troop Command	79	46.3	11	15.8
Missile Command	195	39.2	13	7.0
Others	42	2.9	0	0.0
Army Total	415	$122.2	30	$31.2
NAVY				
International Logistics Control Office				
Requisition	136	$26.1	13	$ 9.4
Suballotment	49	8.1	7	1.7
Navy Total	185	$34.2	20	$11.1

Activity	Total Cases	Dollar Value (Millions)	Number of Sample Cases	Dollar Value (Millions)
AIR FORCE				
Sacramento Air Logistics Center	17	$ 2.9	0	$ 0.0
Ogden Air Logistics Center	50	12.1	8	5.0
Oklahoma Air Logistics Center	5	.7	0	0.0
Warner Robins Air Logistics Center	42	23.9	9	12.8
San Antonio Air Logistics Center	90	69.4	16	16.7
Air Force Total	204	$109.0	33	$34.5
Total	804	$265.4	83	$76.8

Appendix B. Statistical Sampling Plan and Results

Sampling Plan

In support of the objectives of this audit, we made separate statistical projections of the dollar amounts of overpayments and of underpayments of FMS depot maintenance charges for 4 of 12 Army and Air Force locations. Further, we projected statistically the numbers of cases of overpayments and of underpayments for this same group of locations. Also, we projected statistically the total dollar amount and number of cases of inadequately documented FMS depot maintenance charges at one Navy location.

Originally, the audit universe was all FMS maintenance transactions reported by the Military Departments to the DFAS for the period October 1, 1987, through June 30, 1992, consisting of 804 FMS cases that totaled $265.4 million. Fifteen Military Department locations were responsible for those transactions. From the universe, the largest three of the seven Army locations and the three largest of the five Air Force locations (in terms of total dollars of reported FMS maintenance transactions) were selected judgmentally. Initially, both Navy locations were included; however, one Navy location was dropped due to unavailability of data. The statistical sample was drawn from a population of seven locations: three Army, three Air Force, and one Navy. The revised population included 670 FMS cases with a value totaling $246.1 million.

For overpayments and underpayments, the "dollar error" measure was defined as the difference between the audit calculation of the appropriate amount for an FMS maintenance charge and the dollar amount of that charge reported by the Military Department to the DFAS. The associated "number of cases in error" measure was defined as the count of cases with non-zero overpayment or underpayment errors.

For inadequate documentation, the "dollar error" measure was defined as the difference between the portion of an FMS maintenance charge found by the auditor to be adequately documented and the dollar amount of that charge reported to the DFAS. The associated "number of cases in error" measure was defined as the count of cases with non-zero inadequate documentation dollar errors.

We employed stratified random sampling as the design for the statistical sample used in this audit. The reported FMS maintenance transactions for each of the seven selected locations were divided into two groups: those greater than $1.0 million, and those less than $1.0 million. The resulting sampling design consisted of 14 strata. A total of 83 cases were sampled from those strata. Within a stratum, cases were selected randomly.

Sampling Results

Both overpayment and underpayment errors were found at four of the seven locations sampled. Focusing the analysis of the sample results, we eliminated from the analysis the three sites that had no payment errors. Because we projected total dollars and numbers of cases, the elimination of the three locations did not affect either the point estimates or the precisions of the statistical projections. Inadequate documentation errors were found only at one Navy location, so we dropped the other six locations from the analysis of inadequate documentation and focused on the area requiring corrective action. Statistical projections of the sample data, using a 90-percent confidence level, are shown in Tables 1, 2, and 3.

Table 1. Projected Total Dollar Amounts of Overpayments and Underpayments of FMS Maintenance Charges at Four Army and Air Force Locations (millions)

	Lower Bound	Point Estimate	Upper Bound	Relative Precision
Overpayments	$3.8	$ 6.3	$ 8.8	+/- 39.9%
Underpayments	$5.1	$23.0	$41.0	+/- 78.0%

Using a 90-percent confidence level, Table 1 shows that overpayments between $3.8 million and $8.8 million were reported by the four Army and Air Force locations from October 1, 1987, through June 30, 1992. The unbiased point estimate, $6.3 million, is the most likely single dollar value for overpayments in that population.

Using a 90-percent confidence level, between $5.1 million and $41.0 million in underpayments was reported for those four locations during the period October 1, 1987, through June 30, 1992. The most likely single value for the dollar amount of underpayments in that population is $23.0 million.

Table 2. Projected Numbers of Cases of Overpayments and Underpayments of FMS Maintenance Charges at Four Army and Air Force Locations

	Lower Bound	Point Estimate	Upper Bound	Absolute Precision
Overpayments	16	36	56	+/- 8.3%
Underpayments	20	54	88	+/- 13.9%

Using a 90-percent confidence level, Table 2 shows that between 16 and 56 cases of overpayment were reported by the four Army and Air Force locations from October 1, 1987, through June 30, 1992. The unbiased point estimate, 36 cases, is the most likely single number of overpayments for that population.

Using a 90-percent confidence level, between 20 and 88 cases of underpayment occurred at the four locations during the period October 1, 1987, through June 30, 1992. The unbiased point estimate, 54 cases, is the most likely single number of underpayments for that population.

Table 3. Projected Total Dollar Amount and Number of Cases of Inadequately Documented FMS Maintenance Charges at One Navy Location

	Lower Bound	Point Estimate	Upper Bound	Precision
Total Dollars (in millions)	$8.9	$13.6	$18.3	+/- 34.6% (relative)
Number of Cases	99	120	132	+/- 15.5% (absolute)

Using a 90-percent confidence level, as seen in Table 3, between $8.9 million and $18.3 million in inadequately documented FMS maintenance charges was reported to the DFAS by the Navy location from October 1, 1987, through June 30, 1992. The unbiased point estimate, $13.6 million, is the most likely single dollar value for inadequately documented FMS charges in that population.

Using a 90-percent confidence level, between 99 and 132 cases of inadequate documentation occurred at that location during that time period. The most likely single number of cases of inadequate documentation in that population is 120.

Notes:

1. Six of the randomly selected FMS maintenance cases (four at an Air Force location and two at the Navy location) could not be audited due to unavailability of data. Those six items were excluded from both the sample and the audit universe.

2. Sample results for overpayments and underpayments did not contain sufficiently detailed information to support separate statistical projections for the Army and the Air Force with acceptable levels of precision.

Appendix C. Billing Discrepancies For Depot Maintenance Transactions

(Sampled Cases)

Activity	Case	Line	Overbilled	Underbilled
ARMY				
Aviation Troop Command	CO-ULW	002	$ 630,991	$ 0
	PI-URB	001	622,272	0
	JO-VQJ	001	0	461,248
	ES-VIQ	001	0	810,856
Tank Automotive Command	MO-UNB	001	$ 0	$ 125,314
	MO-UMY	001	59,694	0
	UK-VYL	001/002	370,164	0
	CN-ZDL	001/002	450,846	0
Army Total			$2,133,967	$1,397,418
AIR FORCE				
Ogden Air Logistics Center	EG-MCJ	002	$ 120,802	$ 0
	KU-YBA	004	11,610	0
	BA-SGA	059	16,200	0
	NE-QBB	014	0	297,332
San Antonio Air Logistics Center	TK-MCD	001	$ 595,195	$ 0
	HO-YBB	001	0	49,084
	PK-MEV	001	0	1,116,100
	TU-MAF	001	0	66,957
Air Force Total			$ 743,807	$1,529,473
Total			$2,877,774	$2,926,891

Note: For case CO-ULW the amount includes overliquidated deliveries. For cases JO-VQJ and ES-VIQ, the amounts include delays in the delivery reporting process.

Appendix D. Summary of Potential Benefits Resulting from Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
1.a.	Improved management information system will ensure case managers track and validate depot maintenance costs.	Nonmonetary
1.b.	Adherence to internal control procedures will ensure depot maintenance costs are accurate.	Nonmonetary
2.	Adherence to DoD regulations will ensure adequate documentation is maintained to support customer billings.	Nonmonetary
3.a.	Modified management information systems will ensure logistical and financial depot maintenance transactions are valid.	Nonmonetary
3.b.	Periodic reviews of depot maintenance costs by case managers will ensure that FMS billings are accurate.	Nonmonetary
4.	Program results. Recovery of depot maintenance costs will ensure FMS customers have been accurately charged.	Funds put to better use. Recoupment by the Army and the Air Force of $2.9 million, offset by refunds of $2.9 million for overcharges.
5.	Adherence to internal control procedures will ensure depot maintenance costs are adequately documented.	Nonmonetary

Appendix E. Organizations Visited Or Contacted

Office of the Secretary of Defense

Comptroller of the Department of Defense

Department of the Army

U.S. Army Materiel Command, Alexandria, VA
- U.S. Army Aviation and Troop Command, St. Louis, MO
- U.S. Army Depot System Command, Letterkenny, PA
- U.S. Army Missile Command, Huntsville, AL
- U.S. Army Security Assistance Command, New Cumberland, PA
- U.S. Army Tank-Automotive Command, Warren, MI

Department of the Navy

Naval Air Systems Command, Washington, DC
Naval Sea Systems Command, Washington, DC
Naval Supply Systems Command, Washington, DC
Aviation Supply Office, Philadelphia, PA
Navy Ships Parts Control Center, Mechanicsburg, PA
Navy International Logistics Control Office, Philadelphia, PA

Department of the Air Force

Air Force Materiel Command, Wright-Patterson Air Force Base, OH
- Air Force Security Assistance Center, Wright-Patterson Air Force Base, OH
- Ogden Air Logistics Center, Ogden, UT
- San Antonio Air Logistics Center, San Antonio, TX
- Warner Robins Air Logistics Center, Warner Robins, GA

Other Defense Organizations

Headquarters, Defense Finance and Accounting Service, Washington, DC
- Defense Finance and Accounting Service Center, Columbus, OH
- Defense Finance and Accounting Service Center, Denver, CO

Defense Logistics Agency, Alexandria, VA
- Defense Contract Management District, Philadelphia, PA
- Defense Distribution Depot, Letterkenny, PA

Defense Security Assistance Agency, Washington, DC

Appendix F. Report Distribution

Office of the Secretary of Defense

Comptroller of the Department of Defense

Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Financial Management)
Inspector General, Department of the Army
Army Materiel Command

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management and Comptroller)

Other Defense Organizations

Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency
Director, Defense Security Assistance Agency

Non-Defense Organizations

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

Chairman and Ranking Minority Member of Each of the Following Congressional Committees and Subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Committee on Legislation and National Security, Committee on Government Operations

Part IV - Management Comments

Department of the Army Comments

DEPARTMENT OF THE ARMY
OFFICE OF THE DEPUTY CHIEF OF STAFF FOR LOGISTICS
WASHINGTON, DC 20310-0500

9 SEP 1993

DALO-SAA

9/27/93

MEMORANDUM THRU ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT)

FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE (AUDITING), 400 ARMY NAVY DRIVE, ARLINGTON, VA 22202-2884

SUBJECT: DODIG Draft Report, "Billing of Depot Maintenance Transactions for Foreign Military Sales", Project No.2FA-0055, July 2, 1993

1. Reference your memorandum, JUL 2, 1993, subject as above.

2. Comments as requested by reference are at Tab S.

3. The comments provided at Tab S, present the position as forwarded by HQ U.S. Army Materiel Command to Secretary of the Army, Inspector General. The forwarding memorandum is at Tab T.

FOR THE DEPUTY CHIEF OF STAFF FOR LOGISTICS:

2 Encls

FRANK S. BESSON III
Director of Security Assistance

CF:
ASA(I,L,&E)
SAIG-PA (Mrs. Flanagan)

Mr. Liszewski/50390

FINDINGS AND RECOMMENDATIONS
Billing and Documenting
Depot Maintenance Transactions

FINDING: The Military Departments did not adequately bill and document depot maintenance costs for Foreign Military Sales (FMS). This condition occurred because the Army and the Air Force did not have effective systems to track all depot maintenance costs that were billed to FMS customers. Another reason was that the Military Departments did not comply with DOD procedures for validating and documenting depot maintenance costs they reported to the Defense Finance and Accounting Service (DFAS) for billing to FMS customers. As a result, we project, based on a statistical sample, that the Army and the Air Force overcharged FMS customers $6.3 million on 36 cases and undercharged FMS customers $23.0 million on 54 cases for depot maintenance costs. Other results were that the Navy did not have documentation to support a projected $13.6 million in customer billings and quarterly billing statements were distorted. The potential exists for contractor payments to be duplicated and for the U.S. Government to make unnecessary reimbursements to customers for claims of discrepancies.

RECOMMENDATIONS:

Recommendation 1.A. We recommend that the Commander, Army Materiel Command (AMC), require the U.S. Army Security Assistance Command (USASAC)to modify its management information system to allow case managers to track and validate depot maintenance costs.

Action Taken. Concur. The USASAC data base can be modified to record and track depot maintenance costs. The requirement to validate the accuracy of depot maintenance costs, as the DODIG stated in Recommendation 1.B, should be the responsibility of the Major Subordinate Commands (MSCs).

Modifying USASAC's information system will not correct the problem of tracking, pricing, and billing FMS depot maintenance costs. As indicated in the audit report, different document numbers, procurement request order numbers, and fund cite codes are used to track customer material (asset visibility) and associated repair costs. With the use of multiple control numbers, the Army's management information system does not provide an interface between logistical and financial information.

The FMS Maintenance Support Arrangement (MSA) process is not compatible with the U.S. Army Depot Maintenance System. In order to properly address identified deficiencies, the FMS MSA process must be reviewed along with the Depot Maintenance Process in order to integrate the two processes and develop a sound method to track FMS customer material through the depot repair process.

The USASAC can modify its system to accept any information provided by the MSCs. The root cause of the problem is a lack of valid MSC (including DESCOM) data. Little usable maintenance data is available to USASAC. This has been a longstanding problem. In 1991, USASAC proposed that all MSCs implement MICOM's Maintenance Automated Support System (MASS) as a long term solution to the information management issue. To date, there has been little progress in making MASS the MSC standard. Some MSCs have taken the position that MSA cases comprise such a small component of FMS that it is not cost effective to make major system changes such as MASS. Generally, the MSCs have preferred to develop local Personal Computer (PC) data bases.

An MSA work group is planned to discuss how to improve data flow to USASAC. At an upcoming Executive Security Assistance Conference, USASAC will pursue the implementation of MASS. As a cost effective alternative to MASS, USASAC will pursue the use of PC based MSA data using a set of Common Data elements developed from the Maintenance Data Management System.

Alternatively, the use of standard prices for Depot Level Repairables (DLRs) would simplify the billing of FMS MSA cases. Given the relatively small number of frequently repaired DLRs under FMS (about 400), DESCOM could develop a standard price list for selected DLRs. The price used for stock-funded DLRs could be modified by DESCOM for FMS cases. This would improve the accuracy and speed of MSA billings without major system changes.

A decision as to which alternative to pursue will be made by the end of the first quarter FY 94.

Recommendation 1.B. We recommend that the Commander, Army Materiel Command, require the Army major subordinate commands to comply with DOD requirements to validate the accuracy of depot maintenance costs submitted to the U.S. Army Security Assistance Command.

Action Taken. Concur. Maintenance costs provided by DESCOM in the form of Program Status Reports and Unfunded Cost Reports were not always received or not received in a timely manner. The Defense Accounting Office-St. Louis has procedures in place that should preclude overbilling. In the future, we will ensure these procedures are enforced. In addition, the guidance in the DOD Financial Management Regulation, DOD 7000.14-R, Volume 15, Security Assistance Policy and Procedures, will be emphasized.

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Recommendation 4. We recommend that the Commander, Army Materiel Command, require subordinate commands to correct the erroneous billings for the sampled cases listed in the report.

Action Taken. Concur in Principle. As shown below, action is underway to correct discrepancies where appropriate.

TACOM DISCREPANCIES:

(a) FMS Case CN-ZDL -- Concur. Billing adjustments totaling $413,776 were finalized in March 1993. The final billed value is $6,159,154. No other adjustments are required.

(b) FMS Case UK-VAL -- Concur. Overbilling occurred when adjustments were made to correct delivery source codes and transportation charges. Although the billing adjustments were correct, numerous credit billings rejected. This created the overbilled condition. The billing value of $615,964 should be correctly reported by September 1993.

(c) FMS Case MO-UNB -- Concur. A Program Status Report (PSR) had not been received when delivery billing/reporting occurred. A copy of the PSR has been requested from DESCOM. Anticipated completion date for case re-billing is September 1993.

(d) FMS Case MO-UMY -- Non-concur. The estimated $59,694 discrepancy is based on costs reported on addenda (Unfunded Cost Elements for FMS PRONs) to PSRs. Addenda were not to be used prior to FY91 because the data was not correct. Billings were based upon values calculated on billing worksheets per AR 37-60. No adjustments are required.

ATCOM DISCREPANCIES:

The Defense Accounting Office-St. Louis does not agree that countries were over or undercharged. These billings are non cash transactions. They liquidate cash and report deliveries to the countries. Only progress payments involve funds. The report recommendations were based on delivery billings and not progress payments. Our position on the cited cases follows:

(a) FMS Cases ES-VIQ and JO-VQJ -- Concur-in-Part. These countries have not been undercharged. The amounts stated in the report represent progress payments for work in process. Deliveries/Billings are being reported as the repaired items are returned to the country.

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(b) FMS Case PI-URB -- Concur. The country was overbilled (overstated deliveries). All billings are being reversed and the case manager was requested to validate the DD 250s that were provided for billing purposes. Non-concur that the country is due a refund because delivery billings do not affect the country's funds.

(c) FMS Case CO-ULW -- Concur. At the time of billing, progress payments from the country's account were not in excess of the LOA. The billing price is the total cost to repair the item. This includes funded and unfunded costs. The unfunded costs are charged and reimbursed at the time of billing. The billing/delivery is reported when the item is returned to the country. There were not enough funds available to initially reimburse the unfunded costs. The case manager was notified and the LOA was amended. Additional funds were requested and received. The U.S. Government was reimbursed for unfunded costs.

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Department of the Navy Comments

DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(Research, Development and Acquisition)
WASHINGTON, D C 20350-1000

31 AUG 1993

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR GENERAL FOR AUDITING

Subj: DODIG DRAFT REPORT ON THE BILLING OF DEPOT MAINTENANCE TRANSACTIONS FOR FOREIGN MILITARY SALES (PROJECT NO. 2FA-0055)

Ref: (a) DODIG memo of 2 Jul 93

Encl: (1) DON comments

In reply to your memorandum of 2 July 1993, we have reviewed the subject report. We generally concur with the finding that the Navy does not always maintain documentation to support Foreign Military Sales (FMS) billings in FMS case files. We will take action to ensure that all documentation related to FMS case files is properly maintained. We do not concur that internal controls need to be established to ensure that the contractor processes financial exceptions within established time frames. Adequate controls already exist.

Navy detailed comments are in enclosure (1).

Edward C. Whitman

Copy to:
NAVINSGEN
NAVCOMPT (NCB-53)
NAVY (IPO-04B)

Final Report Ref.

DEPARTMENT OF THE NAVY RESPONSE
TO
DRAFT REPORT OF 2 JULY 1993
ON
BILLING OF DEPOT MAINTENANCE TRANSACTIONS
FOR FOREIGN MILITARY SALES
(PROJECT NO. 2FA-0055)

I. Billing and Documenting Depot Maintenance Transactions

Summary of Findings

The Navy did not comply with DOD regulations to maintain documentation to support FMS billings in FMS case files.

DON Comment: Concur.

Recommendations

2. We recommend that the Commanding Officer, Navy International Logistics Control Office (NAVILCO), establish:

2. a. Internal control procedures to ensure documentation is maintained to support customers' billings.

DON Comment: Concur in Principle. NAVILCO has existing internal control procedures in place that identify and pursue documentation that is not received from the Defense Finance and Accounting Service (DFAS) paying office. Specifically, upon receipt of voucher packages from the DFAS paying offices, the contractor checks every voucher against the information on the Consolidated Expenditure/Reimbursement Processing System (CERPS). In those instances where the supporting documentation to match the CERPS tape is missing, the contractor prepares a letter to the appropriate DFAS paying office requesting the missing documentation. DFAS has 30 days to respond to the NAVILCO request for supporting documentation. If the documentation is not received within 45 days from the date of the original NAVILCO request, a tracer action is initiated. If a response to the tracer is not received within 45 days, the contractor passes the voucher request back to the Government for action.

Navy will take aggressive action to advise DFAS of their non-compliance with existing policy as specified in DOD 7000.14-R, and monitor compliance. Navy will ensure that all documentation related to FMS case files is retained in accordance with DOD 7000.14-R.

Enclosure (1)

Final Repor
Ref.

Deleted.

b. Internal control procedures to monitor and ensure that TPI Incorporated resolves and processes financial exceptions within the prescribed time frames.

DON Comment: Nonconcur. Procedures are in place to ensure that the contractor processes financial exceptions within the time frames specified in the contract. NAVILCO has established and utilizes a comprehensive quality assurance plan to monitor contractor performance. An example of the type of routine check performed by the Contracting Officers Technical Representative (COTR) is the stratifying of financial exceptions by age and dollar value. If the contractor does not meet the processing time standards established by the contract, the contractor is penalized for poor performance by a monetary deduction from the monthly billing. The previous contractor was penalized $78.7K in FY 91 and $90.8K in FY 92. As a result of the poor performance, the contract was resolicited and awarded to TPI. The FY 93 penalties to date are $10.2K. The previous contract was in place at the time of this audit.

As a result of this audit, the Naval Audit Service performed a study of contractor compliance with contract terms and conditions and federal acquisition regulations applicable to surveillance of contractor performance. Research did not find sufficient basis for an audit. The Naval Audit Service stated "NAVILCO's process for determining the effectiveness of the contractor procedures/ performance in resolving exceptions, and contractor compliance with contract terms and conditions was considered adequate."

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Department of the Air Force Comments

DEPARTMENT OF THE AIR FORCE
WASHINGTON DC

OFFICE OF THE ASSISTANT SECRETARY

8 SEP 1993

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

SUBJECT: Draft Audit Report on Billing of Depot Maintenance Transactions for Foreign Military Sales, DoD(IG) Report Number 2FA-0055 - INFORMATION MEMORANDUM

This is in reply to your memorandum requesting the Assistant Secretary of the Air Force (Financial Management and Comptroller) to provide Air Force comments on subject report.

We concur with the intent of the Recommendation 3.a. The Air Force Security Assistance Center (AFSAC) is currently working with appropriate Air Force Materiel Command (AFMC) and Defense Accounting and Finance Service (DFAS) personnel to modify G072A (identifies organic cost data) and the G072D (identifies contract cost data) to improve the accuracy of data. The date for completion of system changes, which are likely to be extensive, must be set by The Joint Logistics Systems Center (JLSC).

Beginning in FY94, AFSAC plans to conduct follow-up actions to ensure effective internal management procedures for depot maintenance costs for accuracy have been implemented (reference Recommendation 3.b.). Estimated completion date is March 31, 1994.

In regards to Recommendation 4., we will work with your office over the next four months to review and correct the specific erroneous billings reported in the audit.

Point of contact for questions is Ms Belinda Randle, SAF/FMBMR, DSN 224-3803 and Mr John Hunt, SAF/FMBIS, DSN 225-3980.

Bob Stuart

ROBERT D. STUART
Deputy for Budget

Audit Team Members

Nancy L. Hendricks	Director, Financial Management
Terry L. McKinney	Deputy Director
Alvin L. Madison	Program Director
Ronald C. Tarlaian	Project Manager
Julius L. Hoffman	Team Leader
Carolyn B. Jones	Team Leader
Averel E. Gregg	Auditor
Julie A. Koth	Auditor
Jacqueline M. Rocco	Auditor
Frank C. Sonsini	Research Analyst
Joan E. Fox	Editor