January 16, 2003

Financial Management

Reopening of Contracts in the Mechanization of Contract Administration Services System (D-2003-048)

Office of the Inspector General of the Department of Defense

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Acronyms

ACO	Administrative Contracting Officer
ACRN	Accounting Classification Reference Number
CAR	Contract Administrative Report
DCMA	Defense Contract Management Agency
DFAS	Defense Finance and Accounting Service
DLA	Defense Logistics Agency
FFP	Firm Fixed Price
MOCAS	Mechanization of Contract Administration Services
NLA	Notice of Last Action
PCO	Procurement Contracting Officer

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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January 16, 2003

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
DIRECTOR, DEFENSE CONTRACT MANAGEMENT AGENCY

SUBJECT: Report on the Reopening of Contracts in the Mechanization of Contract Administration Services System (Report No. D-2003-048)

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

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Defense Finance and Accounting Service, Columbus comments were partially responsive. We request additional comments on Recommendation 1.c. by March 17, 2003.

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

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

David Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General of the Department of Defense

Report No. D-2003-048 **January 16, 2003**
Project No. D2000FJ-0268.003

Reopening of Contracts in the Mechanization of Contract Administration Services System

Executive Summary

Who Should Read This Report and Why? This report should be read by acquisition and finance and accounting officials responsible for contract maintenance and closeout, as well as those responsible for the development of a new Defense contract payment system. The report discusses the lack of controls that cause inadvertent closure of contracts that must then be reopened and the effect of this process on the transition to a new payment system.

Background. The Defense Finance and Accounting Service planned to replace the payment and entitlement function performed by the Mechanization of Contract Administration Services system with a new or modified system. In anticipation of transitioning to the new contract payment system, the Defense Finance and Accounting Service and the Defense Contract Management Agency were attempting to close out as many contracts as possible.

Results. The Defense Finance and Accounting Service, Columbus and the Defense Contract Management Agency closed a substantial number of contracts prematurely and had to subsequently reopen them. In July 2002, the Mechanization of Contract Administration Services system contained 10,819 contracts that had been closed out and later reopened. Of these contracts, 6,631 were reopened in the 18-month period from January 2, 2001, to July 3, 2002, or on average, 368 contracts per month. Although the Defense Finance and Accounting Service, Columbus identified their errors that resulted in premature contract closure, additional improvements were needed to proactively prevent errors before they occurred. Likewise, the Defense Contract Management Agency needed to do a better job assisting the Defense Finance and Accounting Service, Columbus in the closure process on contracts for which it has primary responsibility. Contracts closed out in error cause the unnecessary use of resources at both Defense Finance and Accounting Service, Columbus and throughout the contracting community.

Management Comments and Audit Response. The Executive Director, Contract Management Operations, Defense Contract Management Agency planned to form a Rapid Improvement Team to address why contracts reopen, review closeout procedures, and recommend process improvements to prevent contracts from reopening in the future. The Director stated that less than one percent of the 321,000 contracts it administers require an obligation review. The Director indicated that the recommendation to require periodic obligation reviews at the accounting classification reference number level during

the life cycle of a contract would require two or more reviews on each contract and would significantly increase workload without changing the number of contracts that reopen. The Director stated that if an unexplained payment discrepancy is discovered, an obligation recap and a request for audit are prepared and submitted to the Defense Finance and Accounting Service, which he believed was sufficient to assist DFAS with validating the accuracy of contract obligations. The Director, Commercial Pay Systems, Defense Finance and Accounting Service, Columbus concurred with the finding and all recommendations. The Director, stated that Indefinite Delivery Order, Blanket Purchase Agreement, and Basic Ordering Agreement type contracts can only be closed by the administrative contracting officer. Therefore, the Director does not believe any additional notification needs to be made to the administrative contracting officer. The Director agreed to revise and reissue the Interim Guidance for the Mechanization of Contract Administration Services Contract Closeout checklist.

Comments from the Defense Contract Management Agency on the draft of this report were responsive. Although the Director nonconcurred with performing obligation reviews for each contract administered, the Director proposed alternative actions that are responsive. The use of the proposed Rapid Improvement Team should help improve the process, through its review of current procedures and study of methods that prevent contracts from being inadvertently reopened in the future. Comments from the Defense Finance and Accounting Service, were partially responsive. We do not agree with the Director that Indefinite Delivery Order, Blanket Purchase Agreement, and Basic Ordering Agreement type contracts can only be closed by the administrative contracting officer. Contracts that are coded R, S, T, U, V, or W will close out of the Mechanization of Contract Administration Services system without the administrative contracting officer's approval. Some approval notification must be made to the administrative contracting officer that the contracts are complete and can be closed prior to their closure in the Mechanization of Contract Administration Services system. We request that the Director, Defense Finance and Accounting Service, Columbus provide comments on the final report by March 17, 2003.

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Background

This is the third in a series of planned reports on the efforts the Defense Finance and Accounting Service (DFAS), Columbus and the Defense Contract Management Agency (DCMA) are making to transition to a new payment system. At the time of the audit, DFAS planned to replace the payment and entitlement function performed by the Mechanization of Contract Administration Services (MOCAS) system with a new or modified system.

DFAS and DCMA were planning for an orderly transition to a new payment system and were focusing attention on transitioning only those contracts in MOCAS that were active or had continuing requirements to be in a payment information system. DFAS was assisting DCMA to close all completed contracts to minimize work and ensure the success of the transition. It was important that DFAS and DCMA close contracts properly to prevent the need for reopening them.

Contracts may be reopened when a modification is received that increases or decreases the amount of a contract, or when a financial transaction and/or administrative action is received. If a contract is closed with funds remaining, it is the responsibility of the DFAS, Columbus accounting technician to research the contract to determine whether it needs to be reopened.

DCMA administrative contracting officers (ACOs) reopen contracts for various other reasons including requests from customers. Customers include the Congress, the procurement contracting officer (PCO), funding activities, contract auditors, and contractors. Once a contract is closed, the ACO must provide DFAS, Columbus with a Request for MOCAS Action (Defense Logistics Agency Form 1797) to reopen a contract in MOCAS.

At the time of audit, DFAS, Columbus records showed that MOCAS contained 10,819 contracts that had been reopened. The value of all obligations on those contracts was $37.5 billion.

Objective

The overall audit objective was to evaluate actions to close completed contracts and transition from MOCAS to a new or modified system. We focused this part of the audit on closed contracts that had to be subsequently reopened. See Appendix A for a discussion of the audit scope and methodology.

Reopening of Closed Contracts

In anticipation of transitioning to a new DoD contract payment system, DFAS, Columbus and DCMA were attempting to close as many contracts as possible. However, a substantial number of contracts were being closed prematurely and as a result, were subsequently reopened. Specifically, MOCAS contained 10,819 contracts that had been closed and later reopened. Of these, 6,631 contracts were reopened between January 2, 2001, and July 3, 2002, or an average of 368 contracts per month. Inadequate DFAS, Columbus and DCMA reviews and processes, and lack of attention to the policies and procedures that govern the closure process contributed to the reopening of contracts. Contracts closed out in error cause unnecessary use of resources at both DFAS, Columbus and throughout the contracting community.

Contract Closeout Procedures

Administering and Managing Contract Closeout. DFAS and DCMA personnel stated they classify contracts by parts to administer and manage them, such as Part A and Part B. The part letter refers to the degree of attention and management that the ACO or personnel at DFAS, Columbus is expected to give a contract. The ACO is responsible for contract closure for Part A contracts. DFAS, Columbus is responsible for contract closure for Part B contracts. Generally, Part B contracts do not require extensive review and are closed automatically by MOCAS.

DFAS, Columbus Closeout Procedures. Generally, contracts should be closed after final delivery of goods or services, final payment, and completion of all administrative duties by the ACO. When a contract closes, MOCAS produces a daily closed contract report that is commonly referred to as the Q-Final listing. Contracts on the Q-Final listing were closed with funds remaining on the contract. When a contract appears on the Q-Final listing, the amount of funds remaining are de-obligated from the contract automatically by MOCAS, to be returned to the funding activity. If a contract is found to have been closed in error, the Contract Administration Report (CAR) accounting technician should process a reverse Q-Final to re-establish the funds de-obligated.

Part B contracts that are Firm Fixed Price (FFP) Unilateral Purchase Orders for less than $25,000 close automatically upon physical completion (that is, final delivery of goods or services) of the contract. When final payment is made, MOCAS records are updated, and the contract is automatically moved to CAR Section 5 (closed status). FFP contracts that do not exceed $99,999 in Part B are also closed when final payment has been made. MOCAS records are updated, and any excess funds are automatically de-obligated.

Certain types of Part A contracts can be closed out by DFAS, Columbus personnel. Specifically, certain cost contract types will automatically close if the invoice is coded as a final payment without an ACO certification and if the ACO's signature is on the final invoice. Upon processing of the final voucher,

MOCAS records are updated, and the contract is moved to a closed status. A de-obligation transaction is automatically generated to remove excess funds.

DCMA Closeout Procedures. Other Part A contracts not subject to previous conditions are closed upon final payment and ACO certification. The certification consists of a signed DLA Form 1797 requesting closure, signed Final Pay Notice of Last Action (NLA), and input of the Final Pay NLA. Therefore, the ACO must certify that all administrative actions have been completed and any excess funds have been reviewed. Contracts paid by a disbursing office other than DFAS, Columbus when a funds review cannot be performed are the only exceptions to this process that was identified by DCMA. Upon receipt of the ACO certification, a closing notice is issued to the purchasing office, MOCAS records are updated, and the contract is moved to CAR Section 5. Informational alerts are required to be forwarded to the ACO prior to final payment as advice of the status of physically completed contracts.

DFAS, Columbus and DCMA policies and procedures required that adequate steps be taken to ensure that contracts were properly closed, thereby preventing the need to reopen them. However, the policies and procedures were either not followed or did not adequately prevent the substantial number of contracts that had to be reopened.

Reopening of Closed Contracts

MOCAS records showed a balance of 10,819 contracts that had been closed and subsequently reopened. Of these 10,819 reopened contracts, 6,631 were reopened between January 2, 2001, and July 3, 2002, or an average of 368 contracts per month.

To determine why such a substantial number of closed contracts had to be reopened, we judgmentally selected two DCMA offices that administered the majority of these contracts. We randomly selected and reviewed 71 contracts that were reopened in MOCAS. We determined that 58 were reopened because of errors made by DFAS, Columbus and DCMA in the closeout process. For 8 of the remaining 13 contracts, there was insufficient documentation to determine the reason the contract was reopened. The other five contracts were reopened for other reasons. The following table shows the results of the contracts reviewed.

Results of Reviewed Contracts	
	Number of Contracts
DFAS, Columbus Closed in Error	53
DCMA Closed in Error	5
Insufficient Documentation	8
Other	5
Total	**71**

Causes for Premature Contract Closure

The following list outlines the primary reasons DFAS, Columbus and DCMA personnel inappropriately closed 58 of the 71 contracts we judgmentally selected for review:

- payment invoices and indefinite delivery contract orders improperly coded as final,
- improper obligations and disbursements,
- missing obligations or disbursements, and
- overall inconsistent guidance concerning level of review.

Coding Issues and Indefinite Delivery Contracts

Proper coding of invoices is an integral part of ensuring that contracts are not closed prematurely.

Coding of Invoices. Twenty-two of the contracts were prematurely closed because invoices were improperly coded as final invoices. DFAS, Columbus did not follow established procedures in performing reviews of invoice payment packages to ensure that they were properly coded to prevent premature closure.

DFAS, Columbus Desk Procedure 401, "Contract Entitlement," states that DFAS, Columbus personnel should only code a payment as final if there are no outstanding payments and the payment will use all the money remaining. Otherwise, it should be coded as a partial payment.

For example, contract numbers SP0100-97-D-CB11/0040 and DAAB07-98-D-R013/DG06 were inadvertently closed and had to be reopened. On each contract, work was performed at two separate prison facilities. One facility completed its portion of the contract and submitted its final voucher. The invoice was coded as a final payment by DFAS, Columbus, even though appropriate research by DFAS, Columbus personnel would have shown that the second prison facility performing work on the same contract had not shipped and invoiced work performed. As a result, the contracts were not complete and should not have been closed.

Indefinite Delivery Contracts. While performing a detailed review of the 21 prematurely closed contracts discussed previously, we noted that DFAS, Columbus records showed that 458 indefinite delivery contracts had been inappropriately closed and as a result, had to be subsequently reopened.

Three types of indefinite delivery contracts are definite-quantity, requirements, and indefinite-quantity. They are identified by the ninth position of the contract number, in this case by the letter "D." Indefinite delivery contracts are required to remain open until all associated delivery orders have been physically completed and closed. However, our review of the 458 indefinite delivery contracts disclosed that DFAS, Columbus was closing indefinite delivery contracts before all delivery orders were completed and, as a result, had to be subsequently reopened.

For example, DFAS, Columbus personnel closed contract number DAAL02-86-D-0021 on several occasions. Each time the contract was closed, the ACO had to request that the contract be reopened because performance for all of the associated delivery orders had not been completed. According to DCMA personnel, blanket purchase agreement contracts, identified by the letter "A" in the ninth position, and basic ordering agreements, identified by the letter "G" in the ninth position, are to be treated the same as indefinite delivery contracts. Therefore, it is important that these type of contracts remain open until performance on all associated delivery orders is complete.

Obligations and Disbursements

Accurate posting of obligations and disbursements throughout the life cycle of a contract is essential to prevent premature contract closure.

Processing and Posting of Obligations and Disbursements. Twenty-three of the prematurely closed contracts had to be reopened because either DFAS, Columbus or DCMA personnel discovered erroneous obligations and disbursements processed. For example, contract number DAAA21-85-C-0208 was closed erroneously by DFAS, Columbus personnel. The contract was reopened by the ACO when a review of MOCAS data showed that DFAS, Columbus had recorded an obligation and disbursement on this contract to an accounting classification reference number (ACRN) belonging to an entirely different contract.

Another example involved contract number N00014-91-C-2248. This contract was an FFP supply contract for the purchase of one computer. The total value of the contract was $42,000. The contract was paid in full by the Naval Research Laboratory on October 25, 1991. The contract was not closed by the Naval Research Laboratory, instead it was transferred to DFAS, Columbus on October 16, 1992. Several errors occurred subsequent to the transfer, including a duplicate payment of $42,000 made by DFAS, Columbus on March 27, 1998. The contract was automatically closed by DFAS, Columbus in April 1998 after the payment was posted. The contract was reopened on June 27, 2001, when DFAS, Columbus personnel identified the duplicate payment. A demand letter was issued July 12, 2001, for the overpayment. However, DFAS, Columbus personnel input the data erroneously in MOCAS when they reopened the contract. Specifically, the contract was identified as a Part A Time and Material service type contract rather than a FFP supply contract.

DCMA Obligation Reviews. Five Part A contracts were inadvertently closed by the ACO and had to be reopened due to improper posting of obligations. For example, contract number N00014-91-C-2226 was reopened on August 6, 1999, after inaccurate obligations that had been posted to the contract were identified. Had an obligation review been performed by the ACO, the inaccurate obligations would have been recognized prior to initial contract closure. Another example of a contract closed without the required ACO obligation review was contract number N00024-91-C-4214. This contract was reopened on December 20, 1996, and, at the time of the audit, was still open. There were multiple problems with this contract, including the fact that one of the accounting stations on the contract reported erroneous obligations against the contract. The ACO stated that DCMA personnel closed the contract in error.

During the closeout process, the ACO was required to perform a review of the modification index to determine whether all modifications to the contract had been entered in MOCAS. This process was used to ensure that the amount obligated on the contract in MOCAS matched the obligated amount in the contract file to include increases and decreases resulting from funding modifications. If the contract file and MOCAS did not match, a reconciliation of the contract funding modifications at the ACRN level was required to be prepared and attached to a request to DFAS, Columbus for a contract reconciliation. DCMA personnel stated that the request for reconciliation was usually not done until all other administrative closeout requirements had been completed. ACO personnel were also required to ensure that the quantity on the contract was shipped, accepted, and paid according to the contract. Finally, after establishing the corrected obligated amount, the ACO was required to determine if the unliquidated obligation amount was correct and make a determination concerning any excess funds. For the five contracts we reviewed, these procedures were not adequately followed.

Payments and Modifications

Twelve prematurely closed contracts had to reopened because invoices had not been paid, were never posted in MOCAS, or modifications identifying obligations were either not posted or were erroneous. For example, contract number N00024-92-C-6456 was inadvertently closed and was reopened on January 7, 1994. According to DFAS, Columbus personnel, this contract was reopened due to missing disbursement data for 11 invoices that had to be re-entered. At the time of the audit, this contract was still open. In addition, contracts were reopened because modifications were not processed prior to closure or to correct erroneous modifications input during the life cycle of the contract. Specifically, contract number DAAB07-96-D-L510/0305 was reopened because modification P00003, issued on March 28, 2000, which de-obligated funds by $2,525.45, was never processed. Therefore, the procurement contracting officer had to request that the contract be reopened and a demand letter be issued to the contractor for an overpayment. In another case, the ACO provided DFAS, Columbus with a DLA Form 1797 to reopen contract number HQ0006-94-C-0015 because modification P00021, which increased the total obligation value by $769,108, was not input into the contract.

Contract Review Guidance

Inconsistency in DFAS, Columbus guidance also contributed to premature closure. The primary issue was the level of review during the entitlement process versus the closeout process. Specifically, during the contract entitlement process for disbursements, DFAS, Columbus Desk Procedure 401, "Contract Entitlement," chapter 17, requires that the accounting technician ensure that an invoice payment does not create a negative unliquidated obligation at contract level. However, DFAS, Columbus Interim Guidance 97-PRO-028, "Interim Guidance "Checklist" for MOCAS Contract Close-out," specifies that the accounting technicians are required to determine whether there are any ACRNs that have offsetting debit and credit unliquidated balances during the contract close-out process. Performing ACRN-level reviews throughout the life cycle of contract disbursements, and not just at contract close-out, decreases the possibility of contracts being reopened due to a credit balance on any ACRN. A contract-level negative unliquidated obligation review does not preclude the possibility that there may be offsetting debit and credit balances at the ACRN level. For example, contract number N00123-92-D-5252/KUHL was closed with excess funds in the amount of $52.41. However, it also had several ACRNs with credit balances, requiring DFAS, Columbus to reopen the contract. ACRN-level reviews during the entitlement process should have prevented the overpayments that caused the credit balances. In addition, DFAS, Columbus personnel were not following their own guidance to ensure that no offsetting balances were present during the close-out process.

Notification of Contract Reopening

The process DFAS, Columbus used to notify the contracting community that it was reopening contracts in MOCAS was inadequate. Specifically, DFAS, Columbus was reopening closed contracts and placing them in an open and active status (CAR Section 1) after the ACO had administratively closed the contracts. This situation has a negative impact for contracting officers because they must shift ACO and procurement contracting officer resources to re-establish the reopened contract for any administrative duties that may be required. According to DCMA personnel, contracts that were administratively closed should not be reopened to CAR Section 1 without notification to the responsible contracting officer. For any contracts reopened subsequent to the purging of data from MOCAS and placed in CAR Section 1, notification should be made to the appropriate contracting offices so that they may be able to track the progress of the contract and be able to provide any assistance to DFAS, Columbus that may be required. Additionally, ACOs were not made aware that their contracts had been closed in error and subsequently reopened. DFAS, Columbus personnel did not adequately annotate in the remarks field in MOCAS with clear and concise language that specific contracts were reopened. The remarks that were used were inconsistent and ambiguous.

According to DCMA personnel, they are presently working with DFAS, Columbus to come up with a solution to improve the notification process. Therefore, we are not making additional recommendations addressing this issue.

Effect of Inappropriately Closed Contracts

Contracts closed out in error cause unnecessary use of resources at both DFAS, Columbus and throughout the contracting community. The process of closing contracts needs improvement to decrease the number of contracts closed in error and subsequently reopened. Enforcement of established desk procedures as well as adding the requirement for ACRN-level reviews during the entitlement process at the DFAS, Columbus will decrease the number of contracts closed inadvertently.

Decreasing the number of contracts closed in error will aid in the transition from MOCAS to the new or enhanced system. However, improvements must be made before implementation of the new system so that contracts that require reopening will not be populated in the new system. Additional enhancements to the design of a new system–such as prompting the accounting technician to verify that all obligations have been recorded, all invoices have been processed, and all provisions of the contract related to financial transactions have been completed–will decrease the likelihood of inadvertent contract closure.

Management Comments on the Finding and Audit Response

Management Comments. The Director, Defense Contract Management Agency nonconcurred with the finding because out of the 26,000 contracts that close each month, only 368 (1.4 percent) reopen each month. Therefore, they believe that the successful closeout rate suggests that their reviews and processes are satisfactory. However, they agreed that DCMA and DFAS will form a joint Rapid Improvement Team to address why contracts reopen, review closeout procedures, and recommend process improvements to prevent contracts from reopening in the future. The team will be chartered for 90 days beginning December 2, 2002, and hope to have recommendations and lessons learned by April 30, 2003.

Audit Response. Contracts were being, in most cases, closed in error without the knowledge of DCMA activities. Therefore, unnecessary resources were being used by both DCMA and DFAS, especially if the error is not recognized in time before data drops from MOCAS and/or contract files have already been sent to records holding. However, we believe that the institution of the Rapid Improvement Team is a step in the right direction that will at least bring more focus on the problem of contracts closing in error and should alleviate problems in the future if and when a new system to replace MOCAS is brought online.

Recommendations, Management Comments, and Audit Response

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

a. Require that adequate research be performed to ensure proper coding of invoices to prevent premature closure of contracts.

Defense Finance and Accounting Service, Columbus Comments. The Director, Commercial Pay Services DFAS Columbus concurred and stated that the Contract Pay Operations, Entitlement Division, is continuing efforts towards providing training for its personnel on the timely and accurate closeout of contracts. The Director stated that this effort includes ensuring that personnel are aware of conditions that indicate when contract closeout is appropriate. In addition, proper usage of type payment codes is being routinely monitored through daily quality review and their Front End Analysis process. Finally, the Director stated that within the last
6 months, Contract Pay Operations has adopted procedures that ensure the accurate processing of zero dollar final vouchers, which has facilitated the timely and accurate closeout of numerous overage contracts.

b. Revise Desk Procedure 401, "Contractor Entitlement," to require review of invoice payments at the accounting classification reference number level to ensure that negative unliquidated obligations do not occur during the life cycle of disbursements for all new contracts until the transition to the new payment system.

Defense Finance and Accounting Service, Columbus Comments. The Director concurred and stated that Desk Procedure 401 has provisions for the establishment of Negative Unliquidated Obligations only under controlled situations. The Director cited two memorandums previously signed out that emphasized and enforced this issue.

c. Require notification and approval from the administrative contracting officer prior to closure of indefinite delivery contracts, blanket purchase agreements, and basic ordering agreements to ensure that all administrative and financial transactions have been completed for all delivery orders.

Defense Finance and Accounting Service, Columbus Comments. The Director concurred and stated that indefinite delivery order contracts, blanket purchase agreements, and blanket ordering agreements are Contract Administration Reconciliation Part A contracts that are not closed by DFAS. The Director stated that closeout is initiated by the administrative contracting officer for these type contracts, negating a need for notification. The Director said that the Interim Guidance "checklist" for MOCAS Contract Closeout, 97-PRO-028, dated March 26, 1997, will be revised and reissued.

Audit Response. Although the Director concurred, we do not agree that the type of contracts mentioned in this recommendation can only be closed by the administrative contracting officer. The audit disclosed that 148 of these types of contracts were closed inadvertently because the delivery orders of the contracts had been closed in error. Part A contracts coded as an R, S, T, U, V, or W will close out of the Mechanization of Contract Administration Services system without the administrative contracting officer's prior approval. As noted in the Finding, 458 indefinite delivery type contracts were closed and had to be reopened because the associated delivery orders were not complete. These indefinite delivery contracts were not closed by the administrative contracting officer. We agree with the proposed revision of the checklist for contract closeout, however, the Director's response does not state how or what the revision will entail. Therefore, we request clarification of the Director, DFAS Columbus response to this recommendation by addressing the issue of Part A contracts being closed without the knowledge of the administrative contracting officer.

2. **We recommend that the Director, Defense Contract Management Agency revise current procedures to require periodic obligation reviews at accounting classification reference number level during the life cycle of a contract and at contract closeout to aid DFAS, Columbus in validating the accuracy of obligation balances.**

Defense Contract Management Agency Comments. The Executive Director, Contract Management Operations, Defense Contract Management Agency nonconcurred with the recommendation. The Director stated that of the 321,000 contracts that DCMA administers, less than one percent require obligation reviews. The Director believes that the recommendation will require two or more reviews for each contract, and this will significantly impact their workload. The Director further stated that they use a contract modification index to track obligation amount changes to a contract. When an unexplained payment discrepancy is discovered, an obligation recap and a request for audit are prepared and submitted to DFAS. The Director believes that their current procedures are sufficient to assist DFAS with validating the accuracy of a contract obligation.

Audit Response. Comments from the Defense Contract Management Agency were responsive. Although the Director nonconcurred, the proposed alternative actions are responsive. We believe the use of a Rapid Improvement Team to review current procedures and recommend changes to prevent contracts from being inadvertently reopened in the future is an acceptable action that should result in improvements in the methods used to validate obligation balances.

3. **We recommend that the Director, Defense Finance and Accounting Service develop an internal control structure in the new Defense payment system that will prompt the accounting technician to ensure that all obligations have been recorded, all invoices have been processed, and all provisions of the contract related to financial transactions have been completed.**

Defense Finance and Accounting Service, Columbus Comments. The Director, Commercial Pay Services, Defense Finance and Accounting Service, Columbus concurred and stated that the revised guidance in Recommendation 1.c. will include an internal control structure for the new Defense Procurement Payment System that will ensure that all obligations are recorded, all invoices are processed, and all provisions of the contract related to financial transactions have been completed.

Appendix A. Scope and Methodology

We reviewed records related to the reopening of contracts and reasons for the reopening. Our scope included 10,819 contracts that for various reasons were reopened and still in the MOCAS database at the time of the audit. The contracts were reopened between June 29, 1981, through July 3, 2002. In addition, MOCAS records showed that 6,631 contracts were reopened between January 1, 2001, and July 3, 2002, an average of 368 contracts per month.

We judgmentally selected contracts at the two largest DCMA offices for review. Contracts chosen for review were randomly selected. Because the original database used for the selection criteria was at the ACRN level, the 71 contracts contained 80 line items.

We reviewed all obtainable contract files, held discussions with ACO and DFAS, Columbus personnel, and obtained relevant printouts from the MOCAS database in order to determine the reasons for contract closures and subsequent reopening.

We performed this audit from August 2001 through July 2002, in accordance with generally accepted Government auditing standards. Document retention was limited at both DCMA and DFAS. This limited our ability to adequately research all documentation, and we relied on computer printout information from MOCAS.

Use of Computer-Processed Data. We relied on computer-processed data from the MOCAS database 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 did not find errors that would preclude the use of the computer-processed data to meet the audit objective or that would change the conclusions in this report.

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 and financial management high-risk areas.

Management Control Program Review

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

Scope of Review of the Management Control Program. We did not perform a full review of the adequacy of management controls over the inadvertent closure and reopening of contracts. DoD has repeated 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 these systems used by DoD for financial-related operations.

Prior Coverage

No prior coverage has been conducted on the reopening of closed contracts during the last 5 years.

Appendix B. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
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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
    Director, Defense Finance and Accounting Service, Columbus
Director, National Security Agency
    Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency

Non-Defense Federal Organizations and Individuals

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

Defense Finance and Accounting Service Comments

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

DFAS-BS/CC NOV 1 8 2002

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

SUBJECT: Management Comments for DoD IG Draft Report, Project No. D2000FJ-0268.003, "Reopening Contracts in the Mechanization of Contract Administration Services System," dated September 20, 2002

Per your request, management comments regarding Recommendations 1.a, 1.b, 1.c, and 3 for the subject draft report are attached.

If you have any questions or comments, please contact Mr. Melvin Tyler, DFAS-BSPC/CC, at DSN 869-7231 or 614 693-7231.

Sally A. Smith
Director, Commercial Pay Services

Attachment
As stated

DoD IG Draft Report, Project No. D2000FJ-0268.003,
"Reopening Contracts in the Mechanization of Contract Administration Services System"
dated September 20, 2002

Recommendation 1.a: We recommend that the Director, Defense Finance and Accounting Service, Columbus, require that adequate research be performed to ensure proper coding of invoices to prevent premature closure of contracts.

Management Comments: Concur. The Contract Pay Operations, Entitlement Division, Columbus, is continuing efforts towards providing training to personnel on the entire MOCAS process to include timely and accurate closeout of contracts. That effort includes ensuring that personnel are aware of conditions that indicate when contract closeout is appropriate. Additionally, proper usage of type payment codes is routinely monitored through daily quality review and the Front End Analysis process. In addition, within the last 6 months, Contract Pay Operations has adopted procedures that ensure the accurate processing of zero dollar final vouchers, which has facilitated the timely and accurate closeout of numerous overage contracts.

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

Recommendation 1.b: We recommend that the Director, Defense Finance and Accounting Service, Columbus, revise Desk Procedure 401, "Contractor Entitlement," to require review of invoice payments at the Accounting Classification Reference Number (ACRN) level to ensure negative unliquidated obligations do not occur during the life cycle of disbursements for all new contracts until the transition to the new payment system.

Management Comments: Concur. Desk Procedure 401 has provisions for the establishment of Negative Unliquidated Obligations (NULOs) only under controlled situations with the use of "Force Through" and must be resolved through continued reconciliation efforts. A memorandum signed by the Director, Contract Pay Services, dated October 29, 2002, re-emphasized the memorandum signed by the Director, Contract Entitlement, dated March 10, 1998, which further enforced the aforementioned issue. The memorandum incorporated the previously issued policies and procedures regarding payment "Force Through." In summary, the memorandum, along with its attached policy guidance, states "Contract/ACRN level NULOs occur as a result of actions performed during the following operations: Contract Input, Contract Entitlement and Contract Reconciliation. All actions of these functions that result in the creation of Contract/ACRN level NULOs will be required to be forced through in order to be disbursed from, or posted to, MOCAS contractual records. Work-in-Progress balances that exceed corresponding material line balances for associated ACRNs must also be addressed as they create NULO balances at the accounting station. MOCAS and accounting station NULOs resulting from payments should not occur. NULOs from reconciliation adjustments should not occur on a routine basis and when created are required to be immediately resolved through continued reconciliation efforts. Those NULOs resulting from decrease modifications should be resolved quickly."

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

Recommendation 1.c: We recommend that the Director, Defense Finance and Accounting Service, Columbus, require notification and approval from the Administrative Contracting Officer, prior to closure of Indefinite Delivery Contracts, Blanket Purchase Agreements (BPAs), and Basic Ordering Agreements (BOAs), to ensure that all administrative and financial transactions have been completed for all Delivery Orders.

Management Comments: Concur. Many Indefinite Delivery Order Contracts, Blanket Purchase Agreements (BPAs), and Basic Ordering Agreements (BOAs) are Contract Administration Reconciliation (CAR) Part A contracts and are not closed by DFAS. Closeout is initiated by the Administrative Contracting Officer (ACO) for these contracts, negating the need for notification. The Interim Guidance "checklist" for MOCAS Contract Closeout, 97-PRO-028, dated March 26, 1997, will be revised and reissued.

Estimated Completion Date: January 15, 2003.

Recommendation 3: We recommend that the Director, Defense Finance and Accounting Service, Columbus, develop an internal control structure in the new Defense Payment System that will prompt the accounting technicians to ensure that all obligations have been recorded, all invoices have been processed and all provisions of the contract related to financial transactions have been completed.

Management Comments: Concur. The revised guidance mentioned in Recommendation 1.c. will include an internal control structure for the new Defense Procurement Payment System that will ensure all obligations are recorded, all invoices are processed and all provisions of the contract related to financial transactions have been completed.

Estimated Completion Date: January 15, 2003.

Defense Contract Management Agency Comments

DEFENSE CONTRACT MANAGEMENT AGENCY
6350 WALKER LANE, SUITE 300
ALEXANDRIA, VA 22310-3241

NOV 18 2002

IN REPLY REFER TO DCMA-OCB

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL

SUBJECT: DoDIG Draft Report, Reopening Contracts in the Mechanization of Contract Administration Services System (Project No. D2000FJ-0268.3)

This is in response to the Department of Defense Inspector General audit report, subject as above. The Defense Contract Management Agency comments to the draft audit report are attached. Please refer any questions you may have to Mr. Sam Davis, email: sdavis@hq.dcma.mil, telephone (703) 428-0991.

ROBERT W. SCHMITT
Executive Director
Contract Management Operations

Attachment

FINDING: Reopening of Closed Contracts.

In anticipation of transitioning to a new DoD contract payment system, DFAS, Columbus and DCMA were attempting to close as many contracts as possible. However, a substantial number of contracts were being closed prematurely and as a result, were subsequently reopened. Specifically, MOCAS contained 10,819 contracts that had been closed and later reopened. Of these, 6,631 contracts were reopened between January 2, 2001, and July 3, 2002, or an average of 368 contracts per month. Inadequate DFAS, Columbus and DCMA reviews and processes, and lack of attention to the policies and procedures that govern the closure process contributed to the reopening of contracts. Contracts closed out in error cause unnecessary use of resources at both DFAS, Columbus and throughout the contracting community.

DCMA COMMENTS:

DCMA nonconcurs with this finding. DCMA closes about 26,000 contracts each month with only 1.4 percent (368 contracts) reopening. This equates to a 98.6 percent successful closeout rate and suggests that our reviews and processes are satisfactory. However, DCMA and DFAS are forming a joint Rapid Improvement Team to address why contracts reopen, review closeout procedures, and recommend process improvements to prevent contracts from reopening in the future. This team will be charted for 90 days beginning December 2, 2002. The recommendations and lessons learned by the team will be provided to DFAS and DCMA field activities to close any remaining reopened contracts by April 30, 2003.

Recommendation 2: We recommend that the Director, Defense Contract Management Agency revise current procedures to require periodic obligation reviews at accounting classification reference number (ACRN) level during the life cycle of a contract and at contract closeout to aid DFAS, Columbus in validating the accuracy of obligation balances.

DCMA COMMENTS:

DCMA nonconcurs with this recommendation. We administer about 321,000 contracts of which less than one percent require obligation reviews. The recommendation requires DCMA to perform two or more reviews on each contract. This will significantly increase workload without changing the number of contracts that reopen. We use a contract modification index to track obligation amount changes to a contract. When

an unexplained payment discrepancy is discovered, an obligation recap (ACRN review) and a request for audit are prepared and submitted to DFAS. We believe this is sufficient to assist DFAS with validating the accuracy of a contract obligation.

Disposition:
(X) Action is ongoing. ECD: April 30, 2003
( ) Action is considered complete.

Team Members

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

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