

March 14, 2005



Financial Management

Contracts Classified as
Unreconcilable by the Defense
Finance and Accounting Service
Columbus (Contract No. F30602-81-
C-0153)
(D-2005-040)

Department of Defense
Office of the Inspector General

Constitution of
the United States

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Article I, Section 9

Report Documentation Page

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Acronyms

ACO	Administrative Contracting Officer
ACRN	Accounting Classification Reference Number
AFB	Air Force Base
AFRL	Air Force Research Laboratory
DCMA	Defense Contract Management Agency
DFAS	Defense Finance and Accounting Service
MOCAS	Mechanization of Contract Administration Services
NULO	Negative Unliquidated Obligation
PCO	Procurement Contracting Officer
RAID	Request and Inspection of Documents



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

March 14, 2005

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

SUBJECT: Report on Contracts Classified as Unreconcilable by the Defense Finance
and Accounting Service Columbus (Contract No. F30602-81-C-0153)
(Report No. D-2005-040)

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

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

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

By direction of the Deputy Inspector General for Auditing:

A handwritten signature in black ink, appearing to read "Paul J. Granetto".

Paul J. Granetto, CPA
Assistant Inspector General
Defense Financial Auditing
Service

Department of Defense Office of Inspector General

Report No. D-2005-040

March 14, 2005

(Project No. D2004FJ-0205)

Contracts Classified as Unreconcilable by the Defense Finance and Accounting Service Columbus (Contract No. F30602-81-C-0153)

Executive Summary

Who Should Read This Report and Why? Defense personnel in the areas of acquisition and finance and accounting who are responsible for maintaining and closing out contracts should read this report. It discusses contracts classified as “out of balance” and “unreconcilable” because of lost documentation.

Background. On November 14, 2003, the Department of Defense Office of Inspector General entered into an agreement with the Under Secretary of Defense (Comptroller)/Chief Financial Officer to review contracts that the Defense Finance and Accounting Service (DFAS) Columbus considers unreconcilable because of lost documentation. We agreed to determine whether DFAS Columbus has made adequate attempts to obtain the documentation needed to reconcile the contracts. If the actions were adequate, and we agreed that a contract was unreconcilable, DFAS Columbus would forward a contract closeout summary to the Director of DFAS requesting approval to close the contract in the Mechanization of Contract Administration Services system.

DFAS Columbus made extensive efforts to locate documents needed to reconcile Air Force contract number F30602-81-C-0153. A total of 109 documents out of 467 were located, however, 358 documents were still missing, which prevented a full reconciliation of the contract. The missing documentation included a complete original contract, modifications, invoices, and shipping documents.

Results. During the audit, we did not locate any additional documentation that would allow DFAS Columbus to perform a full reconciliation. Therefore, we concur with the DFAS Columbus assessment that Air Force contract F30602-81-C-0153 is unreconcilable. DFAS Columbus needed to perform an obligation review using the available documentation and determine if the out of balance condition was below \$100,000. If so, DFAS Columbus was permitted by law to forward a request to the Director of DFAS to prepare internal adjustments to close out the contract. If the obligation reconciliation showed that the out of balance condition was above \$100,000, DFAS Columbus needed to maintain the contract in Mechanization of Contract Administration Services pending a change in legislation to increase the threshold. The Assistant Secretary of the Air Force (Financial Management and Comptroller) needed to grant permission for the Air Force accounting station to close the Air Force records using internal adjustments.

Management Comments. The Deputy Assistant Secretary Financial Operations (Financial Management) for the Air Force and the Deputy Director of Commercial Pay Services at the Defense Finance and Accounting Service Columbus concurred with the

recommendations; therefore, no further comments are required. See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

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Background

Air Force contract F30602-81-C-0153 was awarded to the Harris Corporation on April 22, 1981, to design and provide Vinson Autovon Secure Voice Terminals (secure communication devices) for use throughout DoD. Rome Air Development Center at Griffis Air Force Base, New York, awarded the contract and initially obligated \$9,675,382. According to records in the Mechanization of Contract Administration Services (MOCAS) system, the total contract value and the amount obligated over the life of the contract was \$40,766,838. The Defense Contract Management Agency (DCMA) office in Orlando, Florida, administered the contract until October 7, 1985, when the responsibility for contract administration was transferred to the DCMA office in Palm Bay, Florida.

At the time of the audit, the contract had a negative unliquidated obligation (NULO) balance of \$606,898 in the MOCAS system. Because a NULO existed in MOCAS, the contract could not be closed until a full reconciliation was performed.

In an attempt to perform a full reconciliation, the Defense Finance and Accounting Service (DFAS) Columbus initiated a "Request and Inspection of Documents" (RAID) in July 2003. However, the RAID personnel could not locate all the necessary documents required to perform a full reconciliation.

In accordance with "Unreconcilable Contract Guidance," DFAS Columbus attempted to contact the Administrative Contracting Officer (ACO) and the Procurement Contracting Officer (PCO) in July 2003 to request assistance in obtaining the missing documentation. DFAS Columbus also initiated efforts to contact personnel at the National Air Guard offices at the former Sacramento Air Logistics Center in August 2003. DFAS Columbus was able to obtain 109 documents out of the 467 from the ACO during the RAID process. However, the remaining 358 missing documents prevented a full reconciliation of the contract.

On January 30, 2004, DFAS Columbus notified our office that Air Force contract number F30602-81-C-0153 was unreconcilable because of the missing documentation.

The Department of Defense Office of Inspector General reached an agreement with the Under Secretary of Defense (Comptroller)/Chief Financial Officer on November 14, 2003. We agreed that when DFAS Columbus determines that a contract is unreconcilable because of missing documentation, our office will review the adequacy of actions taken by DFAS Columbus and the DCMA activities to obtain the documents needed to fully reconcile the completed contract to allow closure in the MOCAS system. If our office agrees with the assessment of DFAS Columbus and DCMA that the contract is unreconcilable, DFAS Columbus will forward the contract closeout summary to the Director of DFAS requesting approval to close the contract in the MOCAS system.

Objectives

Our audit objective was to review the actions DFAS Columbus and DCMA activities took in attempting to locate missing documentation and reconcile contracts that were considered unreconcilable. See Appendix A for a discussion of the audit scope and methodology.

Contract Number F30602-81-C-0153

On January 30, 2004, DFAS Columbus notified our office that they had determined that Air Force contract number F30602-81-C-0153 was unreconcilable because of missing documentation and all possible actions to locate the missing documents had been taken.

During the audit, we did not locate any additional documentation that could be used to support DFAS Columbus in performing a full reconciliation.

Therefore, we concur with DFAS Columbus that Air Force contract F30602-81-C-0153 is unreconcilable. DFAS Columbus should use the information it has available to perform a review of obligations to determine whether the out of balance condition in the MOCAS system is within the provisions of the National Defense Authorization Act for Fiscal Year 2004, title VIII, "Acquisition Policy," section 804. The Act allows contracts to be closed if the balance that cannot be reconciled is below \$100,000.

If the out of balance condition is below \$100,000 after the reconciliation, DFAS Columbus needs to forward a request for approval to the Director, DFAS to prepare internal adjustments to close out the contract. If the obligation reconciliation results fail to meet established provisions of current legislation, DFAS Columbus should mark the contract "Unreconcilable" and set it aside until new legislation is approved.

All hard copy documentation related to Air Force contract number F30602-81-C-0153 should be retained in a separate file for future reference. In addition, the Assistant Secretary of the Air Force (Financial Management and Comptroller) needs to grant permission for the Air Force accounting station at the Air Force Research Laboratory to close their records using internal adjustments.

Documentation Needed for Contract Closure

Air Force contract F30602-81-C-0153 had been awaiting closure in MOCAS for 7 years, since April 10, 1996, when DFAS Columbus received a "Request for MOCAS Action/Information" (DD Form 1797) from DCMA. The form was used by DCMA to request that DFAS Columbus initiate the process of reconciling and closing the contract. Although the contractor and the Government reached a final settlement on this contract 3 years earlier, on July 8, 1993, no explanation was available at DCMA for the delay between the final settlement and the request for action.

The primary reason for the delay in closing the contract in MOCAS was that DFAS Columbus did not have the 467 documents it needed to perform a full reconciliation. DFAS Columbus gave the contract a low priority for

reconciliation and closure because of the missing documents, and that priority remained low for more than 7 years.

Actions Taken on Missing Documents

DFAS Columbus Search for Missing Documentation. In an effort to close the contract in MOCAS, DFAS Columbus personnel began a new search for missing documentation in July 2003. They began by contacting the ACO at the DCMA office in Palm Bay, Florida, and in August 2003, the DCMA office sent DFAS Columbus a box containing source documents for contract modification numbers PP0001 through PP 0027, and P00001 through P00059 as well as progress payment documents PPRA0001 through PPRA0057. The receipt of those documents reduced the number of missing documents from 467 to 358. However, DFAS Columbus still did not have the complete original contract and could not determine the identity and location of the PCO from the documents it had.

The DCMA personnel at the Harris Corporation in Palm Bay, Florida, did not have any information about the original PCO for the contract, and did not have a copy of the original contract awarded by Griffis Air Force Base (AFB). DCMA personnel subsequently provided DFAS Columbus a point of contact at Hanscom AFB who was the PCO of record for the contract. However, the PCO at Hanscom AFB informed DFAS Columbus that the contract was no longer in his database. The PCO told DFAS that the contract document may have been classified.

DFAS Columbus personnel made several other attempts to obtain information from other activities identified by the fund codes on the contingent liability record in the MOCAS system, however, those inquiries did not result in the location of any additional documentation.

DFAS Columbus personnel also searched their own file room for missing documentation because seven of the contract folders, that were in the possession of DFAS Columbus personnel in November 2001, had been misplaced. However, the search failed to produce any additional contract files.

DoD Inspector General Review and Search. During the audit, we were not able to obtain any additional documentation that would allow DFAS Columbus personnel to perform a complete reconciliation. We visited the DCMA office at the Harris Corporation and did obtain a partial copy of the original contract, but numerous essential pages were missing. We also obtained various spreadsheets, printouts, pieces of correspondence, a Defense Contract Audit Agency final report, and other documents that supported a conclusion that the contract was complete and ready for closure.

At our request, the Air Force Materiel Command Procurement Office at Wright-Patterson AFB performed an exhaustive search throughout the contracting community and determined that the files from the contract may have ultimately been sent to the San Bruno, California, Federal Records Holding Facility from the former Sacramento Air Logistics Center. We contacted personnel at San Bruno who confirmed that files from the former Sacramento Air Logistics Center had

been transferred to their facility in early 2001 when the Air Logistics Center closed. However, San Bruno personnel could not locate the files.

Other Sources of Information and Remedy

Funding and Accounting Records. DFAS Columbus personnel also attempted to contact all of the DoD activities providing funds on the contract (funding stations) to determine whether any stations maintained balances in their accounting records. DFAS Columbus RAID personnel determined that contract F30602-81-C-0153 was assigned to 12 different funding stations. These funding stations involved three of the Military Departments and one Defense Agency. A breakout of the funding stations is as follows:

- Army - six funding stations,
- Navy - two funding stations,
- Air Force - three funding stations, and
- Defense Logistics Agency - one funding station.

Despite the relatively high number of funding stations, DFAS Columbus personnel were successful in obtaining information from only one station in March 2004. The other activities had been closed as a result of the base realignment and closure process, or DFAS Columbus could not find a good point of contact.

The only funding station that still maintained data on the contract in its accounting system was the Air Force Research Laboratory (AFRL) in Rome, New York. DFAS Columbus RAID personnel did contact AFRL accounting personnel who provided information on two accounting classification reference numbers (ACRNs). Those ACRNs contained balances, one of \$60,093 and the other a negative \$18,118. AFRL personnel provided DFAS Columbus with spreadsheets to show the ACRN histories and also certified their accounting balances by signing the “Document Source Certification” sent to them by DFAS Columbus. The existence of an out of balance condition at the official accounting station indicates that the contractor may have been overpaid on one ACRN and underpaid on the other.

Legislative Remedy for Air Force Accounting Station Records. Under current legislation, the outstanding amounts on ACRNs identified at the AFRL can be settled without further research. The National Defense Authorization Act for Fiscal Year 2004, title VIII, “Acquisition Policy,” section 804, allows contracts to be written off if those contracts contain an unreconciled balance of plus or minus \$100,000. It states that the Secretary of Defense has the authority to settle any financial account for a contract entered into by the Secretary or the Secretary of a Military Department before October 1, 1996, that is administratively complete, if the financial account has an unreconciled balance, either positive or negative, that is less than \$100,000.

DFAS Columbus Remedy. The unreconciled balance for contract F30602-81-C-0153 is a negative \$606,898 in MOCAS. This amount is well over the \$100,000 threshold cited in the legislation for settling the contract. Therefore, DFAS Columbus personnel will require alternative procedures to close the contract. Specifically, DFAS Columbus personnel proposed conducting a review of obligations using the data it has to determine whether the out of balance condition can be adjusted within the provisions of current legislation. We agreed with this approach as a first step. If the out of balance condition remains above the current threshold, DFAS Columbus should take steps to annotate the “Remarks” field in the Active MOCAS system identifying this contract as “Unreconcilable” until such time that legislation is approved that will allow the contract to be officially closed. All hard copy documentation should also be maintained in a separate file for future reference as an audit trail for actions taken on the contract.

Actions Needed to Close Contract

Because documentation could not be obtained that would allow a complete and full reconciliation of this contract, DFAS Columbus needs to take steps to close this contract in MOCAS using internal adjustments or identify this contract as unreconcilable and is awaiting closure pending legislative relief. Annotating the contract will notify all activities that the contract is unreconcilable and will be closed at a future date.

Recommendations and Management Comments

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

a. Perform a review of obligations using all information available to determine whether the out of balance condition of Air Force contract number F30602-81-C-0153 was beneath the threshold of \$100,000 that the National Defense Authorization Act for Fiscal Year 2004, title VIII, “Acquisition Policy,” section 804 sets as the ceiling allowed for closing a contract without a full reconciliation.

Management Comments. The Deputy Director of Commercial Pay Services concurred with the recommendation and stated the obligation review was in process and has resulted in positive adjustments to the out of balance condition.

b. Prepare a contract closeout summary requesting that the Director, Defense Finance and Accounting Service grant approval to close Air Force contract number F30602-81-C-0153 using only internal adjustments in the Mechanization of Contract Administration Services system if the obligation reconciliation in Recommendation 1.a. results in meeting provisions of current legislation.

Management Comments. The Deputy Director of Commercial Pay Services concurred with the recommendation and stated that if the provisions of the legislation are met, they will forward the necessary contract closeout package to the Director, Defense Finance and Accounting Service.

c. Annotate the “Remarks” field in the Mechanization of Contract Administration Services system that the contract is unreconcilable and awaiting closure in the event that legislative relief is approved and if the steps taken in Recommendations 1.a. and 1.b. do not result in the closure of contract F30602-81-C-0153.

Management Comments. The Deputy Director of Commercial Pay Services concurred with the recommendation and stated that if the provisions of the current legislation are not met, the “Remarks” field in the Mechanization of Contract Administration Services system will be annotated to identify this contract as unreconcilable awaiting closure, pending legislative relief.

2. We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller) request approval from the Office of the Secretary of Defense to instruct the accounting station at the Air Force Research Laboratory in Rome, New York, to close its official accounting records on contract F30602-81-C-0153 in accordance with the provisions of the National Defense Authorization Act for Fiscal Year 2004, title VIII, “Acquisition Policy,” section 804.

Management Comments. The Deputy Assistant Secretary Financial Operations (Financial Management) of the Air Force concurred with the recommendation and stated that the Air Force will work with the Office of the Secretary of Defense (Comptroller)/Chief Financial Officer to close out this contract.

Appendix A. Scope and Methodology

We reviewed the steps taken by DFAS Columbus and DCMA in their attempt to reconcile contracts considered unreconcilable. The contract was valued at \$40.8 million according to MOCAS records. We conducted interviews and reviewed records maintained by DFAS Columbus, DCMA Harris, and the Air Force Research Laboratory. The records obtained included all relevant correspondence, emails, and MOCAS system data.

We performed this audit from February 2004 through September 2004 in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data. We did not evaluate the general and application controls of the MOCAS system that processes disbursement and obligation data, although we used data produced by MOCAS to conduct the audit. We did not evaluate the controls because the objective of this audit was to review the actions taken to locate missing contract documents. Not evaluating the controls did not affect the results of the audit.

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

Management Control Program Review

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

Scope of the Review of the Management Control Program. We did not review the management control program because the audit focused on actions taken to obtain missing contract documents.

Prior Coverage

During the last 5 years, no prior coverage had been conducted on contract number F30602-81-C-0153.

Appendix B. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Director, Program Analysis and Evaluation
Director, Defense Procurement and Acquisition

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

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

Other Defense Organizations

Director, Defense Finance and Accounting Service
Director, Defense Finance and Accounting Service Columbus
Director, Defense Contract Management Agency
Director, Defense Contract Management Agency Harris Office

Non-Defense Federal Organization

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations

Senate Subcommittee on Defense, Committee on Appropriations

Senate Committee on Armed Services

Senate Committee on Governmental Affairs

House Committee on Appropriations

House Subcommittee on Defense, Committee on Appropriations

House Committee on Armed Services

House Committee on Government Reform

House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform

House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform

House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform

Department of the Air Force Comments



Office Of The Assistant Secretary

DEPARTMENT OF THE AIR FORCE
WASHINGTON DC

05 JAN 2005

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

FROM: SAE/FMP

SUBJECT: DoDIG Draft Report, "Contracts Classified as Unreconcilable by the Defense
Finance and Accounting Service Columbus (Project F2004FJ-0205)

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 draft audit report.

Concur with draft finding and the intent of the recommendation. This will be the first time that this legislation will be put to use by any of the services. There is currently no provision in the DoDFMR that specifies the mechanism to accomplish closing the official accounting books. We will work with the OSD Comptroller to close the contract and to determine the required approval level.

Please address any questions to LtCol Jeff Manley at DSN 926-5112.


JAMES E. SHORT
Deputy Assistant Secretary
Financial Operations
(Financial Management)

Defense Finance and Accounting Service Comments



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

DFAS- CS/CO

10/29/04

MEMORANDUM FOR OFFICE OF THE DEPUTY INSPECTOR GENERAL FOR
AUDITING, DEPARTMENT OF DEFENSE, FINANCIAL
AUDITING SERVICE

SUBJECT: DoD IG Draft Audit Report, Project No. D2004FJ-0205, "Contracts Classified as
Unreconcilable by the Defense Finance and Accounting Service Columbus
(Contract No. F30602-81-C0153)," dated October 22, 2004.

As requested, management comments for Recommendations 1 a, 1 b and 1 c are
provided.

My point of contact for additional information is Ms. Lisa Levy, DFAS-CSQA/CO. She
may be reached at 614-693-7398 or DSN 869-7398.

A handwritten signature in black ink, appearing to read "Martha J. Stearns".

Martha J. Stearns
Deputy Director
Commercial Pay Services

Attachment:
As stated

www.dfas.mil
Your Financial Partner @ Work

**Management Response to DoD IG Draft Audit Report,
Project No. D2004FJ-0205, "Contracts Classified as Unreconcilable
by the Defense Finance and Accounting Service Columbus
(Contract No. F30602-81-C0153)," dated October 22, 2004**

Recommendation 1.a: The Director, Defense Finance and Accounting Service Columbus, should perform a review of obligations using all information available to determine whether the out of balance condition of Air Force contract number F30602-81-C0153 was beneath the threshold of \$100,000 that the National Defense Authorization Act for Fiscal Year 2004, title VIII, "Acquisition Policy," section 804 sets as ceiling allowed for closing a contract without a full reconciliation.

Management Comments: Concur. Personnel in the Reconciliation Directorate have been performing an obligation audit. Although it is not yet completed, obligation adjustments have been identified that have already changed the MOCAS out of balance condition from a negative unliquidated obligation (ULO) balance to a positive ULO balance. It is anticipated that the obligation audit will be completed by December 30, 2004.

Estimated Completion Date: December 30, 2004

Recommendation 1.b: The Director, Defense Finance and Accounting Service Columbus, should prepare a contract closeout summary requesting that the Director, Defense Finance and Accounting Service grant approval to close Air Force contract number F30602-81-C0153 using only internal adjustments in the Mechanization of Contract Administration Services system if the obligation reconciliation in Recommendation 1 a. results in meeting provisions of current legislation.

Management Comments: Concur. If the provisions of current legislation are met due to the obligation audit cited in Recommendation 1 a, the Director, Commercial Pay Services, will forward a contract closeout summary requesting that the Director, Defense Finance and Accounting Service, grant approval to close Air Force contract number F30602-81-C0153. The estimated completion date is January 14, 2005, to allow time to prepare the request and obtain all necessary approvals.

Estimated Completion Date: January 14, 2005.

Recommendation 1.c: The Director, Defense Finance and Accounting Service Columbus, should annotate the "Remarks" field in the Mechanization of Contract Administration Services system that the contract is unreconcilable and awaiting closure in the event that legislative relief is approved and if the steps taken in Recommendations 1 a and 1 b do not result in the closure of contract F30602-81-C0153.

Management Comments: Concur. If the provisions of current legislation are not met due to the obligation audit recommended in 1. a, the Director, Commercial Pay Services will annotate the "Remarks" field in the Mechanization of Contract Administration Services system. It will be noted in the system that the contract is unreconcilable and awaiting closure in the event that legislative relief is approved

Estimated Completion Date: December 30, 2004.

Team Members

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

Paul J. Granetto
James L. Kornides
John K. Issel
Clarence E. Knight III
Karen M. Bennett