

April 1, 2005



# Financial Management

Contracts Classified as  
Unreconcilable by the Defense  
Finance and Accounting Service  
Columbus (Contract DAAA09-81-G-  
2008/0031)  
(D-2005-047)

Department of Defense  
Office of the Inspector General

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Article I, Section 9

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### **Acronyms**

ACO	Administrative Contracting Officer
DCMA	Defense Contract Management Agency
DFAS	Defense Finance and Accounting Service
MSA	Mine Safety Appliances Company
MOCAS	Mechanization of Contract Administration Services
NULO	Negative Unliquidated Obligation
PCO	Procurement Contracting Officer
RAID	Request and Inspection of Documents
TACOM	Tank Automotive and Armaments Command



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

April 1, 2005

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE  
(COMPTROLLER)/CHIEF FINANCIAL OFFICER  
ASSISTANT SECRETARY OF THE ARMY (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 DAAA09-81-G-2008/0031)  
(Report No. D-2005-047)

We are providing this report for information and use. We considered management comments on a draft of this report in 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", is positioned above the typed name.

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

## Department of Defense Office of Inspector General

Report No. D-2005-047

(Project No. D2004FJ-0207)

April 1, 2005

### Contracts Classified as Unreconcilable by the Defense Finance and Accounting Service Columbus (Contract No. DAAA09-81-G2008/0031)

#### 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.** Army contract DAAA09-81-G2008/0031 was awarded in 1983 to procure chemical and biological masks. Defense Contract Management Agency personnel stated that work was completed on the contract in 1987. However, the Defense Finance and Accounting Service (DFAS) Columbus was unable to close Army contract DAAA09-81-G2008/0031 in its Mechanization of Contract Administration Services (MOCAS) database because the MOCAS records showed an over disbursed balance of \$103,595, and 40 documents needed to reconcile that amount were missing.

In July 2003, DFAS Columbus used new procedures to make another effort to locate the missing documents. Despite an extensive search, the 40 missing documents were not located. This prevented a full reconciliation of the contract. The missing documentation included modifications, payment documents, and shipping documents. DFAS Columbus concluded that the contract was unreconcilable.

**Results.** We evaluated whether the DFAS actions were adequate to support their assessment that the contract was unreconcilable. During the audit, we located four missing modification documents and two payment documents. However, the additional documentation was not sufficient to allow DFAS Columbus to perform a full reconciliation. Therefore, we concur with the DFAS Columbus assessment that Army contract DAAA09-81-G-2008/0031 was unreconcilable. DFAS Columbus needed to perform an obligation review using all available documentation and determine the exact amount of the out of balance condition. If it is below \$100,000, DFAS Columbus is permitted by law to forward a request to the Director, Defense Finance and Accounting Service to prepare internal adjustments to close out the contract. If the obligation reconciliation shows that the out of balance condition is above \$100,000, DFAS Columbus will need to maintain the contract in the MOCAS system pending a change in legislation to increase the threshold.

**Management Comments.** The Deputy Director of Commercial Pay Services at the Defense Finance and Accounting Service Columbus concurred with the recommendations and completed actions that have resulted in the closure of this contract. 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

Army contract DAAA09-81-G-2008/0031 was awarded to the Mine Safety Appliances Company (MSA) on May 5, 1983, to provide 542,873 chemical and biological masks to the Army. The procurement contracting office was located at the Tank Automotive and Armaments Command (TACOM) in Rock Island, Illinois. The Army made 101 modifications to the contract during its life and obligated a total of \$123.8 million. Defense Contract Management Agency (DCMA), Pittsburgh, Pennsylvania, personnel stated that the former Defense Contract Administration Services Region Philadelphia initially paid the contract until the payment function was transferred to the Defense Finance and Accounting Service (DFAS) Columbus in 1992. The DCMA office in Pittsburgh, administered the contract. The contract was physically completed in 1987.

At the time of the audit, the contract had a negative unliquidated obligation (NULO) balance of \$103,595 in the Mechanization of Contract Administration Services (MOCAS) system. Because a NULO existed in MOCAS, the contract could not be closed until a full reconciliation was performed.

DFAS Columbus' previous attempts to reconcile Army contract DAAA09-81-G-2008/0031 were unsuccessful. Communications between personnel at DCMA, Pittsburgh, and DFAS Columbus showed that Coopers and Lybrand, an accounting firm, attempted to perform a full reconciliation in 1994, and DFAS Columbus personnel attempted a full reconciliation in 1997. However, neither reconciliation could be completed due to missing documentation.

In another attempt to perform a full reconciliation, DFAS Columbus initiated a "Request and Inspection of Documents" (RAID) in July 2003. However, the personnel assigned to the RAID could not locate the necessary documents required to perform a full reconciliation. In total, 40 documents were missing.

DFAS Columbus initiated efforts to contact the Administrative Contracting Officer (ACO), the Procurement Contracting Officer (PCO), and the DFAS Rock Island accounting office to request assistance in obtaining the missing documentation. However, DFAS Columbus was not able to obtain the additional documentation required to reconcile the contract.

On January 30, 2004, DFAS Columbus notified our office that Army contract number DAAA09-81-G-2008/0031 was classified as 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,

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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 scope and methodology.



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## **Contract No. DAAA09-81-G-2008/0031**

We did not locate the 40 missing documents that DFAS Columbus needed to perform a full reconciliation of Army contract DAAA09-81-G-2008/0031. Therefore, we concur with the DFAS Columbus conclusion that Army contract DAAA09-81-G-2008/0031 was unreconcilable. However, DFAS Columbus needed to use the information it has available to perform a review of obligations to determine whether the out of balance condition is within the provisions of Section 852 of the National Defense Authorization Act for Fiscal Year 2005, title VIII, "Acquisition Policy." This Act allows contracts to be closed across appropriations if the balance that cannot be reconciled, either positive or negative, is less than \$100,000.

Upon completion of the obligation review, if the out of balance condition is below \$100,000, DFAS Columbus is permitted by law to forward a request to the Director, Defense Finance and Accounting Service to prepare internal adjustments to close out the contract. If the obligation reconciliation shows that the out of balance condition is above \$100,000, DFAS Columbus will need to maintain the contract in the MOCAS system pending a change in legislation to increase the threshold.

### **Documentation Needed for Contract Closure**

DCMA Pittsburgh, Pennsylvania, personnel indicated that, with the exception of a 15-month period, Army contract DAAA09-81-G-2008/0031 was pending closure in MOCAS for 17 years, since 1987 when the contract was physically completed. This contract was initially closed in MOCAS in 1992 and reopened in 1994. Current DFAS Columbus personnel could not explain why the contract was initially closed and reopened.

At the time of the audit, DFAS Columbus did not have 40 essential documents it needed to perform a full reconciliation. The missing documentation consisted of 8 modification documents, 25 payment documents, and 7 shipment documents.

### **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 Pittsburgh; the PCO at TACOM in Rock Island, Illinois; and the DFAS accounting station also at Rock Island. Personnel at those locations informed DFAS Columbus that they had no additional documentation related to this contract.

Additionally, the PCO contacted the contractor, Mine Safety Appliances, and requested assistance in obtaining missing documentation. However, the

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contractor performed another review and determined that it could not locate any of the missing documents.

**DoD Inspector General Review and Search.** During the audit, we were able to obtain six of the 40 missing documents. The DCMA office in Pittsburgh provided us two of the modification documents that DFAS was missing. We also were able to obtain two additional modification documents and two of the missing payment documents from the DFAS Rock Island office.

We asked cognizant personnel at the DCMA Pittsburgh and DFAS Rock Island offices why they were able to locate documentation for us but did not provide the information to DFAS Columbus earlier. They indicated that they had overlooked the documents in earlier searches.

Despite the limited success we had in obtaining additional documentation, we confirmed that the remaining 34 documents were not available. Therefore we confirmed the RAID team's conclusion that the contract is unreconcilable.

## Remedy for Contract Closure

Section 804(a) of the National Defense Authorization Act for Fiscal Year 2004 (Public Law 108-136; 117 Stat.1541) allowed that a contract that is considered unreconcilable with an out of balance condition, either positive or negative, that is less than \$100,000 can be adjusted for the purpose of contract closure. Section 852 of the National Defense Authorization Act for Fiscal Year 2005, title VIII, "Acquisition Policy," amended Section 804(a) by adding the following provisions:

Section 804(a) of the National Defense Authorization Act for Fiscal Year 2004 (Public Law 108-136; 117 Stat. 1541) is amended—

(1) by inserting "(1)" after "(a) AUTHORITY.—"; and

(2) by adding at the end the following new paragraph:

"(2) Under regulations which the Secretary of Defense may prescribe, a settlement of a financial account for a contract for the procurement of property or services under paragraph (1) may be made without regard to—

"(A) section 1301 of title 31, United States Code; and

"(B) any other provision of law that would preclude the Secretary from charging payments under the contract—

"(i) to an unobligated balance in an appropriation available for funding that contract; or

"(ii) if and to the extent that the unobligated balance (if any) in such appropriation is insufficient for funding such payments, to any current appropriation that is available to the Department of Defense for funding contracts for the procurement of the same or similar property or services."

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The Army's accounting records show a zero balance. However, the out of balance condition for contract DAAA09-81-G-2008/0031 in MOCAS is a negative \$103,595. The out of balance condition is only \$3,595 over the threshold established in the legislation. Nevertheless it exceeds the maximum threshold and cannot be adjusted without further evidence.

To ensure that the out of balance condition has been determined correctly, DFAS Columbus personnel should perform a final review of all obligations using all information available and the additional documentation identified by the audit. The review should examine the newly located documentation and all other available obligation documents to determine whether there is a change in the amount of the out of balance condition or if an error was made in posting obligations or de-obligations. This review will determine whether the out of balance condition can be adjusted under the \$100,000 threshold using internal adjustments to MOCAS only.

If the out of balance condition remains above the \$100,000 threshold, DFAS Columbus cannot adjust and close the contract. DFAS Columbus needs to take steps to annotate the "Remarks" field in the active MOCAS system to identify this contract as "unreconcilable." This will ensure that the contract is not included in the active files that are pending reconciliation.

Until additional legislative remedy is obtained that provides authority to the Secretary of Defense to close contracts that exceed the current limit of an out of balance threshold of \$100,000 on a case-by-case basis, contracts such as Army contract DAAA09-81-G-2008/0031 must remain in the MOCAS system.

The Department plans to propose an amendment to increase or eliminate the \$100,000 threshold in the FY 2007 or FY 2008 legislative cycle. Because the Department is taking this initiative, we are not recommending further action at this time.

## **Recommendations and Management Comments**

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

**1. Perform a review of obligations using all information available to determine whether the out of balance condition of Army contract number DAAA09-81-G-2008/0031 is beneath the threshold of \$100,000 that Section 804 of the National Defense Authorization Act for Fiscal Year 2004, title VIII, "Acquisition Policy," sets as the ceiling allowed for closing a contract without a full reconciliation.**

**Management Comments.** The Deputy Director of Commercial Pay Services concurred and stated the obligation audit has been performed, adjustments have been made, and the contract is currently awaiting closure.

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**2. Prepare a contract closeout summary requesting that the Director, Defense Finance and Accounting Service grant approval to close Army contract number DAAA09-81-G-2008/0031 using only internal adjustments in the Mechanization of Contract Administration Services system if the obligation reconciliation in Recommendation 1 results in meeting provisions of current legislation.**

**Management Comments.** The Deputy Director of Commercial Pay Services stated that because of the actions taken to process internal adjustments in the Mechanization of Contract Administration Services system that resulted in a zero unliquidated obligation balance, approval from the Director, Defense Finance and Accounting Service was not required.

**3. If the steps taken in Recommendations 1 and 2 do not result in the closure of contract number DAAA09-81-G-2008/0031, annotate the “Remarks” field in the Mechanization of Contract Administration Services system that the contract is unreconcilable awaiting closure in the event legislative relief is approved.**

**Management Comments.** The Deputy Director of Commercial Pay Services stated that this recommendation was considered closed because of the actions taken to process internal adjustments that allowed closure of the contract.

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## 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 \$127.8 million according to MOCAS records. We conducted interviews and reviewed records maintained by DFAS Columbus, DCMA Pittsburgh, DFAS Rock Island, and the PCO at TACOM. The records included all relevant correspondence, emails, MOCAS system data, and Army accounting system data.

We performed this audit from February 2004 through December 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 only on actions taken to obtain missing contract documents.

### Prior Coverage

During the last 5 years, no prior coverage had been conducted on Army contract number DAAA09-81-G2008/0031.

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## **Appendix B. Report Distribution**

### **Office of the Secretary of Defense**

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Director, Program Analysis and Evaluation  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)  
Director, Program Analysis and Evaluation

### **Department of the Army**

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

### **Department of the Navy**

Naval Inspector General  
Auditor General, Department of the Navy

### **Department of the Air Force**

Auditor General, Department of the Air Force

### **Other Defense Organizations**

Director, Defense Contract Audit Agency  
Director, Defense Finance and Accounting Service  
Director, Defense Finance and Accounting Service-Columbus  
Director, Defense Finance and Accounting Service-Rock Island  
Director, Defense Contract Management Agency  
Director, Defense Contract Management Agency, Pittsburgh Office

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Senate Subcommittee on Defense, Committee on Appropriations

Senate Committee on Armed Services

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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





# Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE  
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DFAS-CS/CO

FEB 16 2005

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

SUBJECT: DoDIG Draft Audit Report, Project No. D2004FJ-0207, "Contracts Classified as  
Unreconcilable by the Defense Finance and Accounting Service Columbus  
(Contract No. DAAA09-81-G2008/0031)," dated December 20, 2004

In accordance with subject audit, the Commercial Pay Business Line has implemented  
Recommendation 1. Management comments for Recommendations 1, 2, and 3 are provided. All  
recommendations are considered closed.

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.

Martha J. Stearns  
Deputy Director  
Commercial Pay Services

Attachment:  
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**Management Response to DoDIG Draft Audit Report, Project No. D2004FJ-0207,  
“Contracts Classified as Unreconcilable by the Defense Finance and Accounting Service  
Columbus (Contract No. DAAA09-81-G2008/0031),” dated December 20, 2004**

**Recommendation 1:** Perform a review of obligations using all information available to determine whether the out of balance condition of Army contract number DAAA09-81-G2008/0031 is beneath the threshold of \$100,000 that Section 804 of the National Defense Authorization Act for Fiscal Year 2004, title VIII, “Acquisition Policy,” sets as the ceiling allowed for closing a contract without a full reconciliation.

**Management Comments:** Concur. Personnel in the Reconciliation Directorate have performed an obligation audit. With the documentation retrieved by the DoDIG, adjustments have been processed; and the unliquidated obligation (ULO) balance is zero. The contract is currently in Section 8 awaiting closure.

**Estimated Completion Date:** This recommendation is considered closed.

**Recommendation 2:** Prepare a contract closeout summary requesting that the Director, Defense Finance and Accounting Service, grant approval to close Army contract number DAAA09-81-G2008/0031 using only internal adjustments in the Mechanization of Contract Administration Services system if the obligation reconciliation in Recommendation 1 results in meeting provisions of current legislation.

**Management Comments:** Due to receipt of additional documentation, adjustments were processed to the contract that resulted in a zero ULO. Therefore, approval from the Director, Defense Finance and Accounting Service, is not required. The contract is currently in Section 8 awaiting closure.

**Estimated Completion Date:** This recommendation is considered closed.

**Recommendation 3:** If the steps taken in Recommendations 1 and 2 do not result in the closure of contract number DAAA09-81-G2008/0031, annotate the “Remarks” field in the Mechanization of Contract Administration Services system that the contract is unreconcilable, awaiting closure in the event that legislative relief is approved.

**Management Comments:** Due to receipt of additional documentation, adjustments were processed to the contract that resulted in a zero ULO. The contract is currently in Section 8 awaiting closure.

**Estimated Completion Date:** This recommendation is considered closed.

## **Team Members**

The Department of Defense Office of the Deputy Inspector General for Auditing, 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  
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John Frawley  
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