Audit Report

OFFICE OF THE INSPECTOR GENERAL

DEFENSE AGENCIES' COMPLIANCE WITH PROMPT PAYMENT PROCEDURES

Report Number 92-088 May 8, 1992

This special version of the report has been revised to omit certain unclassified information relating to the organization and function of the National Security Agency that may be protected by Public Law 86-36, May 29, 1959.

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Department of Defense

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The following abbreviations and acronyms are used in this report.

AFRTS.....Armed Forces Radio & Television Service
COR.....Contracting Officer's Representative
DCA.....Defense Communications Agency
DCA-HQ.....Defense Communications Agency Headquarters
DCMR.....Defense Contract Management Region
DDOU.....Defense Depot, Ogden, Utah
DDRW.....Defense Distribution Region West
DFAS.....Defense Finance & Accounting Service
DGSC.....Defense General Supply Center
DISC.....Defense Industrial Supply Center
DLA.....Defense Logistics Agency
DLAFC.....Defense Logistics Agency Finance Center
DMA.....Defense Mapping Agency
F&AO.....Finance and Accounting Office
NSA.....National Security Agency
OMB.....Office of Management and Budget
QMD.....Quantitative Methods Division

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

May 8, 1992

MEMORANDUM FOR COMPTROLLER OF THE DEPARTMENT OF DEFENSE
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Report on the Audit of Defense Agencies' Compliance with Prompt Payment Procedures (Report No. 92-088)

We are providing this final report for your information and use. Your comments on a draft of this report were considered in preparing the final report. This audit was made as part of a DoD-wide audit of DoD's implementation of the Prompt Payment Act. It addresses the implementation of the Prompt Payment Act at Defense agencies. Observations in this report and in audits by the Military Departments will be reported in a DoD-wide report to be published later.

We concluded that Defense agencies were not consistently complying with the Prompt Payment Act. Prompt payment reports were not accurate, and payments were often made outside of the times specified by the Act.

Your comments conformed to the requirements of DoD Directive 7650.3, except that further comments are required on monetary benefits and corrective actions taken or planned. Please provide us with completion dates for actions already taken and estimated dates for completion of planned actions. You have concurred in the $17 million estimated savings that could have been realized in the 6-month period reviewed; please comment on the $204 million in Appendix M. This amount is a projection of the 6-month estimate to FYs 1992 through 1997, a 6-year period.

If you nonconcur with the projected monetary benefits or any part thereof, please state the amount you nonconcur with and the basis for your nonconcurrence. Recommendations and potential monetary benefits are subject to resolution in accordance with DoD Directive 7650.3 in the event of nonconcurrence or failure to comment. Please provide your comments by July 6, 1992.

The courtesies extended to the audit staff are appreciated. If you have any questions about this audit, please contact Mr. Raymond D. Kidd, Program Director, at (703) 614-1682, (DSN 224-1682), or Mr. Richard A. Levine, Project Manager, at (703) 693-0461 (DSN 223-0461). The distribution of this report is listed in Appendix O.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Enclosures

SPECIAL WARNING

This special version of the report has been revised to omit certain unclassified information relating to the organization and function of the National Security Agency that may be protected by Public Law 86-36, May 29, 1959.

Office of the Inspector General

AUDIT REPORT NO. 92-088 May 8, 1992
(Project No. 0FH-3001)

AUDIT OF DEFENSE AGENCIES' COMPLIANCE WITH PROMPT PAYMENT PROCEDURES

EXECUTIVE SUMMARY

Introduction. The Prompt Payment Act, dated May 21, 1982, and amended on October 17, 1988, requires Federal agencies to make payments on time, pay interest penalties when payments are late, and take discounts only when payments are made within the discount period. On December 12, 1989, the Director of the Office of Management and Budget (OMB) revised the implementing regulations in OMB Circular A-125, "Prompt Payment." Chapter 98 of DoD Manual 7220.9-M, the "DoD Accounting Manual," issued by the Comptroller of the Department of Defense on August 31, 1990, implemented the reporting requirements in OMB Circular A-125.

Objectives. This audit was requested by the Comptroller of the Department of Defense and was made as part of a DoD-wide audit of DoD's implementation of the Prompt Payment Act. The objectives of the audit were:

o to determine whether DoD Components were paying bills in accordance with the provisions of the Prompt Payment Act, OMB Circular A-125, and the DoD Accounting Manual;

o to evaluate whether the prompt payment reports submitted by DoD Components were accurate, and whether economically advantageous discounts were taken; and

o to evaluate the effectiveness of internal controls over prompt payment procedures.

Audit Results. The audit showed that the Defense agencies were not complying with the Prompt Payment Act.

o Between October 1, 1989, and March 31, 1990, quarterly prompt payment reports submitted to the Comptroller, DoD, were overstated by $16 billion and understated by $627.9 million. These overstatements and understatements consisted primarily of reported payments subject to the Prompt Payment Act, invoices paid late and early, and interest penalties due **(Finding A)**.

o $2.6 billion was paid early or late, but not within the time frame specified for payment for supplies and services **(Finding B)**.

o Interest penalties on late payments, interest paid by the Government on funds borrowed to make early payments, and forfeited discounts totaled an estimated $17 million for the 6-month period **(Finding B)**.

o DoD Components were not implementing internal controls as required by the Federal Managers' Financial Integrity Act **(Finding B)**.

Internal Controls. We identified material internal control weaknesses in payment operations, including control of supporting documents and records. Details are discussed in Part I and Part II, Finding B.

Potential Benefits of the Audit. The audit showed an estimated $204 million in unnecessary interest on early and late payments and available discounts that will be forfeited unless the payment process is improved to achieve better prompt pay performance (Appendix M). Effective internal controls over payment records, documentation of proper receiving reports, separation of duties, and the establishment of quality assurance programs will improve the payment process.

Summary of Recommendations. We recommended that the Comptroller, DoD, direct the paying offices to fully comply with the requirements in OMB Circular A-125 for quality control and reporting. We also recommended that the Director, Defense Finance and Accounting Service (DFAS), ensure that all new or enhanced accounting systems collect the necessary data on payments subject to the Prompt Payment Act, and that material internal control weaknesses in payment operations are reported in the agencies' annual statements of assurance to the Secretary of Defense. Details of the recommendations are discussed in Part II, Findings A and B.

Management Comments. The Comptroller, DoD, and the DFAS, were asked to comment on the report. (See Part IV for joint comments.) Although the Comptroller, DoD, and the Director, DFAS, concurred with the findings and each recommendation, we have requested further comments on the monetary benefits and expected completion dates for corrective actions.

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This report was prepared by the Financial Management Directorate, Office of the Assistant Inspector General for Auditing, DoD. Copies of the report can be obtained from the Information Officer, Audit Planning and Technical Support Directorate (202) 614-6303 (DSN 224-6303).

PART I: INTRODUCTION

Background

Prompt Payment Act. The Prompt Payment Act (the Act) (Public Law 97-177), dated May 21, 1982, requires Federal agencies to pay their bills on time for property or services acquired from business concerns, to pay interest penalties on late payments, and to take discounts when economically justified. Bills are to be paid 30 days after receipt of a proper invoice. Implementation of the Act was expected to result in timely payments, better business relationships with suppliers, improved competition for Government business, and reduced costs to the Government for goods and services. The Act also specifies that if the Government and contractors agree to payment terms differing from the Act, the contract terms take precedence over the Act.

Act amended in 1988. The Act was amended by Public Law 100-496, October 17, 1988, which changed several aspects of prompt payment requirements. Significant changes were:

- Agencies were required to use the invoice date, instead of the date the invoice was received, to determine the discount period;

- The 15-day grace period, during which interest need not be paid on late payments, was eliminated;

- Early payments could be made up to 7 days instead of up to 3 days before the due date; and

- Agencies were required to pay additional interest penalties when interest was not paid on late payments and when discounts were taken after the discount period.

Implementing regulations. Section 3903(a) of the Act requires the Director of the Office of Management and Budget (OMB) to issue implementing regulations. The Director, OMB, revised OMB Circular A-125, "Prompt Payment," on December 12, 1989. The revision required Federal agencies to make payments as close as possible to but not after the due date, or if appropriate, the discount date. Payments are based on receipt of proper invoices and satisfactory performance of contract terms. Agencies may take discounts only when payments are made within the discount period. Interest penalties are to be paid when agencies take discounts after the discount period expires or fail to make timely payments.

Federal Acquisition Regulation. On March 31, 1989, the final rules for implementing the Act were published in the Federal Acquisition Regulation (FAR) subpart 32.9. The new rules apply to all contracts awarded and renewed and to other options exercised on or after April 1, 1989. The original prompt payment criteria applied to payments on contracts awarded before April 1, 1989.

DoD Accounting Manual. The Comptroller of the Department of Defense implemented the reporting requirements in OMB Circular A-125 by publishing Chapter 98 of DoD Manual 7220.9-M, "DoD Accounting Manual," August 31, 1990. Chapter 98 gave definitions, prompt payment standards, and reporting requirements.

Objectives

This audit was requested by the Comptroller of the Department of Defense. The audit objectives were:

- to determine whether DoD Components were paying bills in accordance with the Act, with OMB Circular A-125, "Prompt Payment," and with DoD Manual 7220.9-M, the "DoD Accounting Manual";

- to evaluate whether prompt payment reports submitted by DoD Components were accurate, and whether economically advantageous discounts were taken; and

- to evaluate the effectiveness of applicable internal controls.

Scope

DoD-wide audit of prompt payments. This audit was made as part of the DoD-wide audit of DoD's implementation of the Act. Auditors for the U.S. Army Audit Agency, the Naval Audit Service, and the Air Force Audit Agency simultaneously audited the Military Departments. The results will be consolidated in a DoD-wide audit report.

Six Defense agencies that are not serviced by Military Department finance and accounting offices (F&AOs) and one Defense activity serviced by the F&AO at Fort Ord, California, disbursed $34.1 billion for commercial payments between October 1, 1989, and March 31, 1990 (see Appendix B).

Statistical sample. We reviewed payments made by 12 F&AOs of the 6 agencies and 1 activity, representing $17.1 billion in reported commercial payments (see Appendix C). To project the implementation of the Act for all Defense agencies not serviced by the Military Departments' F&AOs, we selected a statistical

sample from invoices at the 12 F&AOs visited (see Appendix D). The period reviewed was from October 1, 1989, through March 31, 1990. Selection of sites for the sample was based on the aggregate dollar value of commercial disbursements by F&AOs. Appendix E outlines the statistical sampling plan and methodology used. Of the 12 F&AOs visited, samples from sites in St. Louis, Missouri, and Columbus, Ohio, were judgementally selected and therefore could not be used for projections. Projected estimates were calculated at the 95-percent confidence level.

Determining if invoices were paid. For each sampled invoice, we ascertained whether the terms of the contract took precedence over the Act, and determined whether the original Act or the 1988 amendment was applicable. For each invoice selected, we obtained documentation, including a copy of the invoice, the related contract or purchase order, evidence of receipt and acceptance of the items or services purchased, and a list that showed the check date or check mailing date. We extracted contract terms and dates needed to determine the invoice due date. Based on this information, we then determined if the agency had:

- paid invoices by due dates,
- paid any interest due on late payments,
- taken vendor-offered discounts within established terms, and
- prudently managed cash by not paying too early.

Audit period, location, and standards. This performance audit was made from November 1, 1989, through January 1, 1991, in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly included such tests of internal controls as were considered necessary. Activities visited or contacted are listed in Appendix N.

Internal Controls

Controls assessed. We evaluated the effectiveness of the F&AOs' internal management control programs in identifying and reporting internal control deficiencies, and we verified whether internal control weaknesses addressed in prior audit reports and the Defense agencies' annual statements of assurance had been corrected as reported. Material internal control deficiencies should be corrected as part of the agencies' internal management control programs.

Material internal control weaknesses. The audit identified material internal control weaknesses as defined by Public Law 97-255, OMB Circular A-123, "Federal Managers' Financial Integrity Act," and DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. We found that agencies needed

to improve controls over payment operations by issuing payments promptly and in accordance with OMB Circular A-125, and by maintaining adequate documentation to support payments to contractors. Estimated savings of $204 million will result from correcting internal control deficiencies (see Appendix M). The details of these conditions are discussed in Part II, Finding B; Recommendation B.1. will correct the internal control deficiencies. A copy of this report will be provided to senior DoD officials responsible for internal controls.

Prior Audits and Other Reviews

The Office of the Assistant Inspector General for Auditing, DoD, had issued four audit reports on cash management initiatives and prompt payment procedures at Defense agencies: Report No. 86-058 on the Armed Forces Radio & Television Service, January 31, 1986; Report No. 87-022 on the Defense Logistics Agency, October 23, 1986; Report No. 87-023 on the National Security Agency, October 23, 1986; and Report No. 87-024 on the Defense Communications Agency [1/], October 23, 1986. These reports showed that interest penalties were not paid, discounts were taken improperly, discounts were lost, and invoices were paid early.

Although recommendations for three of four agencies were implemented prior to the 1988 amendment to the Prompt Payment Act, our review has disclosed that improvements still need to be made in order to comply with the revised requirements (see Findings A and B).

The Defense Logistics Agency failed to implement recommendations to:

- direct paying offices to fully comply with the requirements and the intent of the Act, especially when invoices must be processed manually; and

- establish procedures to require agency paying offices to maintain accountability over interest penalties due for late payment.

The Defense Logistics Agency (DLA) had acknowledged that problems existed and had stated that all recommendations would be implemented. During our audit, DLA reported to the Office of the Assistant Inspector General for Analysis and Followup, DoD, that all recommendations had been implemented. However, the "Audit of the Internal Review Activity at the Defense Logistics Agency," DoD, IG, Report No. 91-013, November 23, 1990, showed that DLA had not fully implemented corrective actions.

1/ This agency was officially redesignated the Defense Information Systems Agency on January 25, 1991. However, we refer to the Defense Communications Agency in this report.

Other Matters of Interest

FAR subpart 32.9 provides that payments on contracts awarded to foreign vendors are exempt from interest penalty provisions of the Prompt Payment Act. This exemption is not reflected in the wording of the Act or in OMB Circular A-125. At the time of the audit, the FAR Council was considering whether to exempt foreign vendors from the provisions of the Act.

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PART II: FINDINGS AND RECOMMENDATIONS

A. ACCURACY OF PROMPT PAYMENT REPORTS

The Defense Agencies sent inaccurate prompt payment reports to the Comptroller of the Department of Defense. For the period October 1, 1989, through March 31, 1990, the aggregate reportable items in quarterly prompt payment reports were overstated by $16 billion (2.8 million transactions) and understated by $627.9 million (1.4 million transactions). These conditions occurred because F&AOs reported vouchers instead of invoices; F&AOs did not report all early and late payments, discounts offered and taken, discounts forfeited, and payments subject to the Act; F&AO managers did not comply with OMB Circular A-125 by drawing statistical samples to collect data on payments subject to the Act; and accounting systems were not designed to identify invoices subject to the Act. As a result, the Comptroller of the Department of Defense was not able to report accurate statistics to the Office of Management and Budget or Congress on the Defense agencies' implementation of the Act.

DISCUSSION OF DETAILS

Background. The 1988 amendment to the Act (Public Law 100-496), dated October 17, 1988, and the revised OMB Circular A-125, issued December 12, 1989, require the Director, OMB, to report to Congress by the 120th day after the end of each fiscal year (January 28), summarizing agencies' prompt payment reports and analyzing progress made in improving payment operations. In addition, the Director, OMB, submits the annual prompt payment report to Congress with the President's Budget. Each Federal agency is to report prompt payment data to the Director, OMB, by November 30 following the end of the fiscal year (see Appendix A).

The Comptroller, DoD, implemented OMB Circular A-125 by publishing Chapter 98 of DoD Manual 7220.9-M, "DoD Accounting Manual." Chapter 98 requires Defense agencies and F&AOs under the Office of the Secretary of Defense to submit quarterly prompt payment reports to the Director of Budget and Finance, Washington Headquarters Services, by the 25th calendar day after the close of each quarter. The prompt payment report for the fiscal year is due November 10.

DoD 7220.9-M requires the Military Departments and Washington Headquarters Services to submit quarterly prompt payment reports to the Comptroller, DoD, by the end of the month following the close of each quarter. The annual prompt payment reports are due to the Comptroller, DoD, by November 15.

Prompt payment data are to be consolidated into DoD-wide reports for the Comptroller, DoD. The Comptroller, DoD, sends the DoD

prompt payment report to OMB by November 30 each year; OMB reports the data to Congress when the President's Budget is submitted.

The "Scope" section in Part I of this report explains our audit approach. Appendix E, "Statistical Sampling Plan and Methodology," outlines statistical requirements, analyses, exceptions, and projections.

Compliance with Prompt Payment Reporting Requirements

During the 6-month period between October 1, 1989, and March 31, 1990, we found inconsistencies in the following areas:

- reporting payments subject to the Act;
- details of early and late payments;
- payment of interest penalties; and
- reporting of discounts offered, taken, or forfeited.

This resulted in overstatements of $16 billion and understatements of $627.9 million of reportable items in the prompt payment reports submitted to the Comptroller, DoD, for the first and second quarters (see Appendixes F and K).

Defense Logistics Agency. For the period October 1, 1989, through March 31, 1990, the Defense Logistics Agency (DLA) overstated its quarterly prompt payment reports by $15.3 billion and understated the reports by $2.2 million. Overstatements totaling $14.6 billion resulted from the use of inappropriate statistical methods to project payments that would be subject to the Act. DLA headquarters instructed the F&AOs at the Defense Contract Management Regions (DCMRs) to use a 60-percent ratio as an estimate for identifying and reporting payments subject to the Act. The DCMRs used this percentage to establish the universe of payments subject to the Act, causing a significant miscalculation. To obtain the number and dollar value of these payments, the percentage was multiplied by the amount of total commercial payments, obtained from the Mechanization of Contract Administration Services accounting system. Instead of using a 60-percent ratio, each DCMR's accounting data base should have been statistically sampled in order to project payments subject to the Act.

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* Information relating to the organization and function of the National Security Agency has been deleted.

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Armed Forces Radio and Television Service. The budget officer for the Armed Forces Radio and Television Service (AFRTS) did not file any reports to comply with the requirements of OMB Circular A-125. Reports for AFRTS should have included $9.5 million in payments subject to the Act; early and late payments; interest penalties; and discounts offered, taken, and forfeited. The AFRTS budget officer stated that his organization precertifies invoices for payment, and that the F&AO at Fort Ord, California (AFRTS's disbursing office), was responsible for complying with the reporting requirements of the Act. However, the F&AO at Fort Ord did not include AFRTS in its quarterly prompt payment reports to the Department of the Army. The finance officer at Fort Ord stated that AFRTS should have reported the data because the payments were precertified before receipt by the F&AO.

DoD Manual 7220.9-M, "DoD Accounting Manual," states that the paying office should pay and report all payments for which it is responsible, regardless of the agency being serviced. Agencies that receive disbursing support are to ensure that their prompt payment data are accurately reflected in the quarterly and annual prompt payment reports of the disbursing office. The F&AO at Fort Ord should file reports in accordance with prompt payment requirements, and AFRTS should ensure that reports contain accurate data.

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Comptroller of the Department of Defense direct paying offices to fully comply with the reporting requirements of Office of Management and Budget Circular A-125 by:

* Information relating to the organization and function of the National Security Agency has been deleted.

a. Using data derived from invoices to compile reports;

b. Ensuring that finance and accounting offices accurately report all required data, such as early and late payments, discounts available and taken, and payments subject to the Prompt Payment Act;

c. Following an approved statistical method to derive accurate data for all reported items.

2. We recommend that the Director, Defense Finance and Accounting Service, ensure that all new or enhanced accounting systems in DoD include specifications for collecting data on payments subject to the Prompt Payment Act, in accordance with reporting requirements in revised Office of Management and Budget Circular A-125.

MANAGEMENT COMMENTS

Comments from the Comptroller of the Department of Defense and the Defense Finance and Accounting Service were responsive. However, management needs to provide us with completion dates for corrective actions. The management response also contained the statement, "Based on DFAS identification of certain statistical inaccuracies, the IG Audit staff agreed to modify the statistics it developed on pages 49, 50, and 77 of the draft." (See Part IV, Management Comments.)

AUDIT RESPONSE

We modified the statistics to provide further details, not because they were inaccurate. Data on pages 49 and 50 of the draft report are shown in Appendixes H and I of this report. Data on page 77 of the draft report have been deleted from this report. Schedules for the aging of late and early payments are in Finding B on pages 12 and 13 of this report.

STATUS OF RECOMMENDATIONS

		Response Should Cover:			
Number	Addressee	Concur or Nonconcur	Proposed Action	Completion Date	Related Issues*
A.1.	Comptroller, DoD			X	IC
A.2.	Comptroller, DoD			X	

* IC = material internal control weakness

B. PAYMENT PROBLEMS

DoD agencies were not fully complying with Public Law 97-177 (amended by Public Law 100-496) and OMB Circular A-125, revised on December 12, 1989. We found that 12 F&AOs periodically made payments late, incurring interest penalties; failed to pay interest on late payments; made payments too early, which increased interest costs due to accelerated borrowing by the U.S. Government; did not take advantage of discounts; and issued payments without proper receiving reports. These conditions occurred because finance and accounting officers did not implement adequate quality control programs; followed procedures designed to avoid late payments, thereby paying too early; and did not maintain adequate documentation for payments. As a result, $2.6 billion of supplies and services, or 66 percent of the Defense agencies' transactions subject to the Act, were not paid on time. We estimated that interest penalties on late payments, interest paid by the Government as a result of early payments, and forfeited discounts totaled $17 million for the 6-month period ended March 31, 1990. Using a nonstatistical extrapolation from the sample estimate, we found that DoD could avoid interest and late payment penalties of up to $204 million in FYs 1992-1997 by improving compliance with prompt payment procedures. Furthermore, $649.7 million of supplies and services, or 22 percent of transactions subject to prompt payment, were paid without certification that goods were received.

DISCUSSION OF DETAILS

Background. The revised OMB Circular A-125 made each agency head responsible for assuring that payments were timely and interest penalties were paid when required, and gave standards for timely payment under the Act. Payments were due within 30 days after the start of the payment period (or other date if specified by the contract). Timely payments were those made as close as possible to but no more than 7 days before the due date and not after the due date. In the April 1985 version of OMB Circular A-125, the definition of timely payments was similar, but making payments more than 3 days before the due date was prohibited.

According to revised OMB Circular A-125, interest on late payments was to be computed from the day after the due date until the date paid. The original OMB Circular A-125 allowed a 15-day grace period on late payments, so that no interest accrued unless payments were made more than 15 days after the due date. Interest was to be computed at the renegotiation board interest rate, published semiannually by the Secretary of the Treasury.

Revised OMB Circular A-125 provided that discounts should be taken whenever economically advantageous. Economic advantages

were to be determined from "Treasury Financial Manual for Guidance of Departments and Agencies" (Vol. I), Part 6, Section 8040.30, by comparing the effective annual discount rate to the current value of funds.

Revised OMB Circular A-125 required agency heads to ensure that applicable and effective internal controls were established, and required agencies to maintain proper documentation for payments. Agency heads were also required to establish quality control programs to assess the performance of payment systems. The audit approach and statistical sampling plan are detailed in Part I of this report under "Scope." Additional details are provided in Appendix E, "Statistical Sampling Plan and Methodology." Unless specifically stated, the figures in the following discussion are statistical projections.

Analysis of late payments. Interest penalties due on late payments totaled $8 million, of which only $3.5 million had been paid (see Appendix G). The agencies underpaid approximately $4.5 million and overpaid $7,000. Our projections showed that over 303,000 transactions were paid late (see Appendix H). Based on the actual sample, we found that 67 percent of invoices paid late were paid more than 10 days after the due dates. More than a third were paid over 30 days late.

AGING OF LATE PAYMENTS FOR FINANCE AND ACCOUNTING OFFICES VISITED

	Days Late			
	1-5	6-10	11-30	Over 30
Number	151	57	194	240
Percentage	24	9	30	37

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Analysis of early payments. We projected sample data to the Defense agencies' universe of transactions subject to the Prompt Payment Act for the 6 months ended March 31, 1990. Projections showed that 37 percent of all transactions were paid before the due dates, resulting in $4 million in unnecessary interest paid by the Federal Government (see Appendix I). Paying invoices in advance of their due dates causes the Government to borrow before

* Information relating to the National Security Agency has been deleted.

funds are needed, which increases borrowing costs. Based on the actual sample from activities visited, we found that 71 percent of the invoices paid early were paid more than 5 days early.

AGING OF EARLY PAYMENTS FOR FINANCE AND ACCOUNTING OFFICES VISITED

	Days Early			
	1-5	6-10	11-15	Over 16
Number	214	192	171	152
Percentage	29	26	24	21

One example of early payments was at the Defense Logistics Agency Finance Center (DLAFC) where 62 percent of all sampled transactions were paid early. As a result, accelerated borrowing by the Treasury of the United States resulted in $.4 million in interest for the 6-month period reviewed. (The $.4 million is not a statistical estimate and was not used in our projection.) At DLAFC and other DLA sites, overreaction to DLA headquarters' emphasis on avoiding late payments may have contributed to the higher incidence of early payments.

Analysis of discounts forfeited. For the 6-month period, the Defense agencies forfeited an estimated $5 million in discounts on 116,000 transactions subject to the Act. This represents 61 percent of the number of discounts offered and 50 percent of the discounts' value (see Appendix J). The amended Act changed the start of the discount period from the date the invoice was received by the paying office to the date of the invoice, which shortened the time available for processing discounts. However, we could not establish that this change in the Act caused discounts to be forfeited.

Missing payment records. For DLAFC and the Defense General Supply Center (DGSC), payment records were missing for 69 percent of all transactions (not a statistical projection). At DLAFC, we noted control weaknesses in that access to records was not restricted to authorized personnel and record inventories were not maintained. Since the time of our audit, DLAFC has become the DFAS-Columbus Center, and management has restricted access to payment files to improve control.

At DGSC, the payment files were physically maintained away from the F&AO in the Contract and Procurement Division. We were unable to determine whether the records were lost before or after being transferred to the Contract and Procurement Division.

Missing and improper receiving reports. Appendix L shows a projection of the number of missing or improper receiving reports at each agency visited. At the Defense Communications Agency

Headquarters, 83 percent of the receiving reports were missing or improper. A receiving report was considered improper if the goods or services received were insufficiently identified, or if receipt or acceptance dates were omitted.

At Defense Communications Agency Headquarters, disposition forms were frequently used as receiving reports and were forwarded to the contracting officer's representative (COR) for certification that goods had been received. In many cases, the CORs administered contracts and served as receiving agents for the same contracts. This was an inadequate separation of duties, which constituted an internal control weakness.

Quality control program. DoD agencies gave various reasons for making untimely payments. However, most activities lacked viable quality control programs. The revised OMB Circular A-125 updated policies and procedures to conform to the Act, and added the requirement to establish quality control programs "... to assess performance of payment systems and provide a reliable way to estimate payment performance." Where the number of payment actions is too numerous to permit a total review, gathering data through a statistically valid sample is acceptable to OMB, provided that quality control reviews ensure accuracy and propriety.

In contrast to the statistical projections on late payments observed elsewhere, sample data from DCMR St. Louis, Missouri, indicated that interest charges were negligible. Late payments occurred on only 3 percent of all sample invoices, representing .02 percent of amounts paid. We attributed this low occurrence of late payments to the DCMR's quality control program for payments, which was part of a Productivity Gain Sharing Program. The program gave incentives to F&AO employees or teams of workers for exceptional performance in paying invoices according to the Prompt Payment Act. Of all the sites visited, only DCMR St. Louis had a quality control program in place that met the requirements of revised OMB Circular A-125. Other F&AOs have developed quality control programs, but have not fully implemented the programs.

With the large number of transactions and multiple processing locations in DoD, reliance on occasional audits of prompt payment is not sufficient to spot significant problem areas. A reliable quality control program would enhance the implementation of the Act. The program should assess the performance of accounting clerks and provide a basis for estimating data for the annual prompt payment report. The program should determine which items are subject to prompt payment, and should ensure that:

- payments are made on time;
- interest is paid on late payments;
- discounts are taken when offered;

o invoices are not paid more than 7 days before the due date;

o payments are supported with proper receiving reports;

o internal controls are maintained over the management of payment records; and

o separation of duties exists between contract administrators and certifying agents.

Savings and cost avoidance. For the 6-month period reviewed, we projected that potential savings of $17 million could result from improved compliance with prompt payment criteria. This projection includes $8 million of decreased interest due on late payments (Appendix G), $4 million of reduced interest costs to the U.S. Government to borrow funds as a result of early payments (Appendix I), and $5 million of increased discounts (Appendix J). By extending the 6-month projection of the sampled data to the period FYs 1992-1997, the savings potential for the same items is $204 million, a nonstatistical extrapolation (see Appendix M).

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Comptroller of the Department of Defense strengthen the implementation of the Prompt Payment Act by ensuring that finance and accounting offices fully comply with quality control requirements in Office of Management and Budget Circular A-125, Section 3.e.

2. We recommend that the Director, Defense Finance and Accounting Service, report material internal control weaknesses in payment operations in the agency's annual statement of assurance to the Secretary of Defense.

MANAGEMENT COMMENTS AND AUDIT RESPONSE

Management comments were responsive. However, further comments are required on the monetary benefits and estimated completion date for Recommendation B.1. (See Part IV, Management Comments.)

STATUS OF RECOMMENDATIONS

		Response Should Cover:			
Number	Addressee	Concur or Nonconcur	Proposed Action	Completion Date	Related Issues 2/
B.1.	Comptroller, DoD	X 1/		X	M, IC

1/ Monetary benefits only.
2/ M = monetary benefits; IC = material internal control weakness

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PART III: ADDITIONAL INFORMATION

APPENDIX A - Prompt Payment Reporting Requirements in OMB Circular A-125

APPENDIX B - Universe of Commercial Payments by Agency and Activity

APPENDIX C - Universe of Finance and Accounting Offices Reviewed

APPENDIX D - Actual Invoices Sampled at DoD Finance and Accounting Offices

APPENDIX E - Statistical Sampling Plan and Methodology

APPENDIX F - Understated/Overstated Projections for Comparison to the Defense Agencies' Prompt Payment Reports

APPENDIX G - Projected Dollar Value of Late Payments for All DoD Agencies

APPENDIX H - Projected Number of Late Payments for All DoD Agencies

APPENDIX I - Projected Early Payments for All DoD Agencies

APPENDIX J - Projected Discounts for All DoD Agencies

APPENDIX K - Comparison of Audit Projections with Consolidated Defense Agency Prompt Payment Report

APPENDIX L - Projected Missing or Improper Receiving Reports for DoD Agencies

APPENDIX M - Summary of Potential Benefits Resulting from Audit

APPENDIX N - Activities Visited or Contacted

APPENDIX O - Report Distribution

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APPENDIX A. PROMPT PAYMENT REPORTING REQUIREMENTS IN OMB CIRCULAR A-125 *

The Act requires the Director of OMB to report to Congress by the 120th day after the end of each fiscal year (January 28th), summarizing agency reports and analyzing progress made. In addition, OMB submits the annual prompt payment report to Congress with the President's Budget. Each Federal agency is to report annually to the Director of OMB by November 30th the following information for the prior fiscal year:

a. Invoices subject to the Prompt Payment Act and OMB Circular A-125:
   (1) Dollar value of invoices,
   (2) Number;
b. Invoices paid after due date:
   (1) Dollar value of invoices,
   (2) Number,
   (3) Interest penalties paid:
      -- Dollar amount,
      -- Number,
      -- Relative frequency,
      -- Frequency distribution;
   (4) Additional penalties paid:
      -- Dollar amount,
      -- Number,
      -- Relative frequency;
   (5) Reasons why interest or other late payment penalties were incurred in order of frequency of occurrence:
      -- Delay in paying office's receipt of:
         Receiving report,
         Proper invoice,
         Purchase order or contract;
      -- Delay or error by paying office in:
         Taking discount,
         Notifying contractor of defective invoice,
         Computer or other system processing;
   (6) Interest and other late payment penalties which were due but not paid (use interest rate in effect on the date obligation accrues):

* Extract from revised OMB Circular A-125.

-- Total:
  Interest dollars;
  Number;
-- Interest was less than $1.00:
  Interest dollars;
  Number;
-- Other reason:
  Interest dollars;
  Number;
  Specify reasons;

c. Invoices paid 1-15 days after due date, where appropriate:
   (1) Dollar amount,
   (2) Number,
   (3) Relative frequency;
d. Invoices paid 8 days or more before due date (except where cash discounts taken) subject to a determination by the agency head under subsection 4.1. of circular:
   (1) Dollar amount,
   (2) Number,
   (3) Relative frequency;
e. Invoices paid 8 days or more before due date (except where cash discounts taken) without a determination by the agency head under subsection 4.1. of circular:
   (1) Dollar amount,
   (2) Number,
   (3) Relative frequency;
f. Discounts:
   (1) Number available,
   (2) Number taken,
   (3) Number not taken because not economically justified,
   (4) Reasons for failing to take discounts;
g. For each payment center:
   (1) Number of payments subject to the Act and the circular,
   (2) Number and dollar amount of interest penalties paid;
h. Description of progress made, problems identified, and corrective actions taken in agency vendor payment systems during the fiscal year in implementing the provisions of the Act and OMB Circular A-125 (include a description of agency experience in determining the most appropriate timing for release of payment authorization so that invoices are paid as close as possible to the due date without exceeding it);

APPENDIX A. PROMPT PAYMENT REPORTING REQUIREMENTS IN OMB CIRCULAR A-125 (cont'd)

i. Updated description of agency quality control system;
j. Address and telephone number where the public may obtain updated list of designated agency contacts within payment centers or finance offices to provide assistance in determining the status of invoices and agency schedule for publishing the list.

In order to minimize the cost of reporting, statistical sampling may be used to derive the information above. Agency reports to OMB must be certified by the agency official with line authority over both procurement and payment processes.

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APPENDIX B. UNIVERSE OF COMMERCIAL PAYMENTS REPORTED BY AGENCY AND ACTIVITY 1/

October 1, 1989, to March 31, 1990

Activity	Universe Value	Number of Invoices/Vouchers
Defense Logistics Agency	$31,734,859,187	1,001,273
Defense Communications Agency	*	*
National Security Agency	*	*
Defense Mapping Agency	*	*
Defense Investigative Service	*	*
Defense Nuclear Agency	*	*
Armed Forces Radio & Television Service 2/	*	*
Total	$34,108,579,035	1,290,139

1/ Defense agencies and activities for which invoices are paid by Military Departments are included in the DoD-wide audit but not in this report.

2/ Armed Forces Radio & Television Service is part of the American Forces Information Service.

* Information relating to the organization and function of the National Security Agency has been deleted

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APPENDIX C. UNIVERSE OF FINANCE AND ACCOUNTING OFFICES REVIEWED

October 1, 1989, to March 31, 1990

	Total Commercial Payments Reported 1/		Population from which Sample was Drawn	
Activity	Dollar Value	Number	Dollar Value	Number
DDOU Ogden	$ 9,256,719	3,114	$ 9,256,719	3,114
DDRW Tracy	7,030,217	5,563	7,030,217	5,563
DISC Philadelphia	67,606,000	53,633	67,606,000	53,633
DGSC Richmond	123,268,971	131,129	100,807,187	113,446 2/
DCMR Atlanta	3,115,914,032	59,179	3,115,914,032	59,179
DCMR Philadelphia	4,321,365,454	84,988	4,321,365,454	84,988
DCMR St. Louis	2,499,000,000	28,680	2,499,000,000	28,680
DLAFC	5,524,105,000	288,375	5,260,027,345	92,080 3/
DCA Arlington	*	*	*	*
DMA St. Louis	*	*	*	*
NSA Ft. Meade	*	*	*	*
AFRTS Burbank	*	*	*	*
Total	$17,409,006,382	727,952	$17,122,466,943	513,974

1/ From finance and accounting offices' records of commercial payments.
2/ Commercial payments made from the Standard Automated Materiel Management System Teleprocessing Capabilities accounting system.
3/ Sample only; commercial payments made from the Mechanization of Contract Administration Services accounting system.

* Information relating to the organization and function of the National Security Agency has been deleted

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APPENDIX D. ACTUAL INVOICES SAMPLED AT DOD FINANCE AND ACCOUNTING OFFICES

October 1, 1989, to March 31, 1990

Agency/Activity	Number of Invoices	Amount
Defense Mapping Agency	262	$ 880,198
National Security Agency	*	*
Defense Communications Agency Headquarters	262	1,324,719
Armed Forces Radio & Television Service	*	*
Defense Logistics Agency (DLA):		
DLA Depots:		
Defense Depot Ogden	224	434,214
Defense Distribution Region West (Tracy)	254	226,052
DLA Service Centers:		
Defense Logistics Agency Finance Center	222	2,209,181
Defense Industrial Supply Center	152	229,221
Defense General Supply Center	138	1,082,867
Defense Contract Management Regions:		
Atlanta	205	4,288,735
St. Louis	205	3,318,349
Philadelphia	*	*
Totals	2,489	$25,309,936

Note: The samples from Defense Contract Management Region St. Louis and the Defense Logistics Agency Finance Center could not be used for projections.

* Information relating to the organization and function of the National Security Agency has been deleted.

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APPENDIX E. STATISTICAL SAMPLING PLAN AND METHODOLOGY

Sample and Analysis

Overall design of sample. Between October 1, 1989, and March 31, 1990, six Defense agencies that were not serviced by Military Department F&AOs, and one Defense activity serviced by the F&AO at Fort Ord, California, disbursed $34.1 billion. The Defense Logistics Agency (DLA) comprised $24.0 billion of the DoD total, the DLA Finance Center (DLAFC) disbursements comprised $7.7 billion, and the remainder, $2.4 billion, consisted of disbursements by other DoD agencies/activities. The sample design split the DoD agencies into four groups: DLA, DLAFC, the Armed Forces Radio & Television Service (AFRTS), and all other agencies.

Quantitative Methods Division (QMD) selected four of the remaining non-DLA activities to audit. The Office of the Inspector General, DoD (IG, DoD), audit teams selected transactions at the non-DLA sites except for AFRTS, using a simple random sample. Sample sizes were computed using a 95-percent confidence level. These samples were two-stage designs (the agency within the remaining non-DLA group and the transaction within the agency). AFRTS was treated as a separate category based on the type of data available.

The DLA samples use a three-stage design. The three DLA stages were:

- o activity type (depot, supply center, Defense Contract Management Region [DCMR], and in a separate category, DLAFC);
- o DoD activity within each activity type (two were selected from each class at random); and
- o individual transaction.

At the Defense General Supply Center, the transactions were grouped according to dollar value into four strata; the team selected transactions at random within each stratum. The transactions were vouchers or invoices.

Vouchers and invoices were the most common units for sampling and reporting. Depending on the form and availability of data at each activity, QMD developed a sample design using vouchers or invoices as the unit that was sampled at random. Activities reported their actions in either unit, or occasionally in both. Sources included record books with lists of invoices, contract listings on microfiche, and mainframe computer files. The following table summarizes the characteristics of the sample design.

SAMPLE TRANSACTION UNITS

Activity	Sampling Unit	Exam Unit	Number of Sample Units	Number of Invoices	Universe Format
DLA:					
DCMR's					
Atlanta	Voucher	Invoice	95	205	Master file
Philadelphia	Invoice	Invoice	159	159	Master file
Centers					
DGSC	Voucher	Invoice	135	138	ADP tape
DISC	Voucher	Invoice	152	152	Master list
Depots					
Ogden	Voucher	Invoice	109	224	Master list
Tracy	Invoice	Invoice	191	254	Master list
Other DoD:					
DCA-HQ	Voucher	Invoice	199	262	Master list
DMA	Voucher	Invoice	222	262	Check register
NSA	*	*	*	*	*
Exceptions:					
AFRTS	Contractor invoice	Contractor invoice	188	201	Contractor log/ worksheets
DLAFC	Contract (voucher)	Invoice	98	222	Contract file
DCMR St. Louis	Voucher	Invoice	0	205	ADP Tape

Sampled Universe Scope

The DLA activities used various automated systems for payments, management information systems, and other functions. The auditors selected, by activity type, the system that provided the greatest coverage of potential prompt payment transactions for each type of activity. Audit universes excluded prompt payment transactions that did not fall within the scope of the automated system used to construct the audit universe at an activity.

Special Cases

The DLAFC disbursed funds for two DCMR's, but has become a DoD-level activity under the Defense Finance and Accounting Service (DFAS). It was treated separately from DLA. The IG, DoD, audit team could not obtain a list of payments made during

* Information relating to the organization and function of the National Security Agency has been deleted.

the audit period, either vouchers or invoices, in any format. The audit team used a microfiche catalog of contracts to select contract numbers at random. The audit team thereafter used the contract files to select up to four invoices (two each for two vouchers), for contracts that had enough documentation to determine whether invoices were subject to the Prompt Payment Act. Most contracts selected had no file, no documents in the file, or insufficient documentation. The audit team also could not obtain definitive information on the total number and dollar value of invoices and vouchers that fell within the audit period.

The microfiche data allowed characterization of the contract universe (11,836 contracts - see next page); they did not, however, provide a direct link to the total DLAFC and DLA transactions and payment values. QMD used the sample data to compute values that are used to calculate DLAFC-wide figures. The figures gave an indication of the situation at DLAFC, but were not a statistical estimate.

The audit team visited DLAFC twice for data collection. On the first visit, the team used the microfiche contract file to collect data on 222 invoices. Files or documentation were missing for most contracts, so the team could not determine whether actions were subject to the Prompt Payment Act. Out of the 481 selections that were initially undetermined, the team was able to determine the status of 52 actions on the second visit: 24 were subject to the Prompt Payment Act and 28 were not. QMD used the ratio of the value of the 24 to the value of the 52 to calculate the Prompt Payment Act portion of the $7.7 billion that DLAFC reported as a total value of its commercial contracts. The result is not a statistical estimate, but provides the best indication that could be obtained from the data available. QMD used the ratio of 24 to 52 to compute the number of actions subject to the Prompt Payment Act[1]. The total number of contracts with missing or incomplete information was 677.

The DCMR St. Louis data did not meet the standards for a random sample and could not be used in the projections. Projections from the DCMR Atlanta sample were based on 156 invoices, after eliminating additional invoices where multiple vouchers were selected from the same contracts.

1/ The proportions of the 481 reexamined actions were as follows: 110 were outside the time scope, 319 had no documentation, 24 were subject to the Prompt Payment Act, and 28 were not subject to the Prompt Payment Act.

ESTIMATED NUMBER OF DLAFC CONTRACTS IN VARIOUS ACCESSIBILITY CATEGORIES

Initial Result of Examination	Sample	Estimate	Margin of Error	Percentage in Group
Total contracts	n/a	11,836	n/a	n/a
Initial NIF 2/	358	4,522	164	38.21
Undetermined	481	6,076	173	51.33
Initial prompt payments examined	98	1,238	65	10.46
Total sample	937	n/a	n/a	n/a

(Margin of error is based on a 95-percent confidence level.)

AFRTS maintains contract information in electronic spreadsheets, one per contractor. QMD sampled the spreadsheets at random and selected payments from the sampled contractors to estimate the value and number of transactions that met conditions of interest to the auditors. The spreadsheets identified the number and dollar value of transactions, and provided an adequate basis for estimates for AFRTS.

Analysis

Sampling unit vs. examination unit. The sampling unit defined the lowest level of transaction that was sampled in a scientific manner. This was the level that QMD used to calculate the estimates for the various attributes of the transactions. Unless invoices could be sampled directly, audit teams selected one to three invoices per voucher in a nonprobabilistic manner (the largest or the most recent). The estimates used the value of the examined vouchers and invoices only, where that could be determined. The DLAFC was an exception, as discussed above. The effect of selecting invoices within vouchers in a nonprobabilistic manner was that the invoices were not statistically representative of the voucher, unless they comprised all the invoices under the voucher. For the remaining vouchers with partial coverage, the analysis excluded the value of the voucher not covered by the examined invoices. This represented one adjustment to the universe.

2/ NIF - not in file; no documentation was available for the action.

Missing or incomplete documentation. At several DLA activities, the sample invoices or vouchers frequently had no documentation or partial documentation, or the activity could not provide documentation promptly. QMD used this information to estimate the part of the audit universe at an activity that is subject to the Prompt Payment Act and for which IG, DoD, audit teams could obtain documentation. Several activities had no documentation or had documentation that did not contain data needed to determine whether a payment was subject to the Prompt Payment Act or not. A second visit and request for documentation allowed audit teams to categorize some of the indeterminate transactions as subject to the Prompt Payment Act or not. At the DCMR's, the audit teams requested the highest dollar transactions of those that remained undetermined at the end of the first visit. Estimates of undocumented transactions reported elsewhere reflect only those that remained undetermined or clearly undocumented after a second visit.

Overall analysis plan. The activities were divided into four groups: the DLA activities, AFRTS, DLAFC, and the remaining DoD activities (treated as a group). DCMR St. Louis data were not used in the projections. The analysis segregated the DLAFC estimates into another category, since we had difficulty in obtaining a defined, statistically sampleable universe. The overall totals represented QMD's best estimate of the prompt pay situation in the DoD agencies during the audit period.

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APPENDIX F. UNDERSTATED/OVERSTATED PROJECTIONS FOR COMPARISON TO THE DEFENSE AGENCIES' PROMPT PAYMENT REPORTS

October 1, 1989, to March 31, 1990 1/

Reportable Items	Gross Number of Transactions		Gross Dollar Value of Transactions ($000's)	
	Understated	Overstated	Understated	Overstated
Payments subject to the Act 2/	398,087	530,515	$ 7,832	$15,359,941
Invoices paid late	280,142	1,648	398,177	213,628
Interest penalties due	282,838	891	5,171	90
Invoices paid early	318,600	0	216,747	423,756
Number of discounts offered	49,620	1,134,111	NR 3/	NR 3/
Number of discounts taken	183	1,086,804	NR 3/	NR 3/
Number of discounts lost	64,418	62,288	NR 3/	NR 3/
Totals	1,393,888	2,816,257	$627,927	$15,997,415

1/ Includes seven DoD Agencies but not the DLA Finance Center.
2/ The Act = Prompt Payment Act.
3/ NR = not required in prompt payment report.

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APPENDIX G. PROJECTED DOLLAR VALUE OF LATE PAYMENTS FOR ALL DOD AGENCIES

October 1, 1989, to March 31, 1990

Agency	Estimated Prompt Payment Universe	Paid Late	Interest On Transactions Paid Late ($000's) Due	Paid	Not Paid	Overpaid
Defense Logistics Agency 1/	$4,901,550	$514,553	$3,074	$ 360	$2,714	
Armed Forces Radio & Television Service	7,832	1,089	10	1	9	
Other Agencies						
Agencies Visited						
Defense Mapping Agency	18,502	5,065	74	81		$7
National Security Agency	*	*	*	*	*	
Headquarters, Defense Communications Agency	34,666	17,141	126	98	28	
Agencies Not Visited	*	*	*	*	*	*
Other Agencies Combined	*	*	* 2/	* 2/	* 2/	* 2/
DoD Agency-wide Totals	$5,923,085	$1,160,766	$8,016	$3,525	$4,498	$7

1/ Except for the DLA Finance Center.

2/ The "Other Agencies Combined" estimates relate to the total universe value for all DoD agencies exluding DLA and AFRTS. They are based on the dollar value estimates for the three agencies visited. There is no specific estimate for "Agencies Not Visited," as no sample data are available for them. However, a statistical projection across the "Other Agencies Combined" group is possible because of the method used to select the sampled agencies for review.

* Information relating to the organization and function of the National Security Agency has been deleted.

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APPENDIX H. PROJECTED NUMBER OF LATE PAYMENTS FOR ALL DOD AGENCIES

October 1, 1989, to March 31, 1990

Agency	Estimated Prompt Payment Universe	Transactions Paid Late	Interest on Transactions Paid Late: Paid	Interest on Transactions Paid Late: Not paid
Defense Logistics Agency 1/	193,308	24,353	2,956	21,397
Armed Forces Radio & Television Service	847	135	13	122
Other Agencies				
Agencies Visited				
Defense Mapping Agency	6,026	3,174	3,220 2/	*
National Security Agency	*	*	*	
Headquarters, Defense Communications Agency	7,772	2,699	2,343	356
Agencies Not Visited	*	*	*	*
Other Agencies Combined	*	* 3/	* 3/	* 3/
DoD Agency-wide Totals	1,038,904	303,320	224,411	78,955

1/ Except for the DLA Finance Center.

2/ Includes 46 transactions for which interest should not have been paid.

3/ The "Other Agencies Combined" estimates relate to the universe transactions for all DoD agencies excluding DLA and AFRTS. They are based on the transaction estimates for the three agencies visited. There is no specific estimate for "Agencies Not Visited," as no sample data are available for them. However, a statistical projection across the "Other Agencies Combined" group is possible because of the method used to select the sampled agencies for review.

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APPENDIX I. PROJECTED EARLY PAYMENTS FOR ALL DOD AGENCIES

October 1, 1989, to March 31, 1990

Agency	Estimated Prompt Payment Universe $000's	Estimated Prompt Payment Universe Transactions	Paid Early $000's	Paid Early Transactions	Interest 1/ $000's
Defense Logistics Agency 2/	$4,901,550	193,308	$1,189,273	101,684	$3,487
Armed Forces Radio & Television Service	7,832	847	569	202	1
Other Agencies					
Agencies Visited					
Defense Mapping Agency	18,502	6,026	1,622	575	3
National Security Agency	*	*	*	*	*
Headquarters, Defense Communications Agency	34,666	7,772	4,042	1,187	10
Agencies Not Visited	*	*	*	*	*
Other Agencies Combined	*	*	* 3/	* 3/	* 3/
DoD Agency-wide Totals	$5,923,085	1,038,904	$1,407,734	380,064	$4,005

1/ Increased interest costs due to accelerated borrowing.
2/ Except for the DLA Finance Center.
3/ The "Other Agencies Combined" estimates relate to the total universe value or transactions for all DoD agencies excluding DLA and AFRTS. They are based on the dollar or transaction estimates for the three agencies visited. There is no specific estimate for "Agencies Not Visited," as no sample data are available for them. However, a statistical projection across the "Other Agencies Combined" group is possible because of the method used to select the sampled agencies for review.

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APPENDIX J. PROJECTED DISCOUNTS FOR ALL DOD AGENCIES

October 1, 1989, to March 31, 1990

Agency	Offered		Forfeited		Taken	
	Amount	Number of Transactions	Amount	Number of Transactions	Amount	Number of Transactions
Defense Logistics Agency 1/	$ 9,407,941	111,004	$4,637,382	49,541	$4,770,559	61,463
Armed Forces Radio & Television Service	8,698	47	4,094	13	4,604	34
Other Agencies						
Agencies Visited						
Defense Mapping Agency	8,588	690	8,132	667	456	23
National Security Agency	*	*	*	*	*	*
Headquarters, Defense Communications Agency	39,578	445	23,877	415	15,701	30
Agencies Not Visited	*	*	*	*	*	*
Other Agencies Combined	* 2/	* 2/	* 2/	* 2/	* 2/	* 2/
DoD Agency-wide Totals	$10,032,318	188,911	$4,999,981	115,603	$5,032,337	73,308

1/ Except for the DLA Finance Center.

2/ The "Other Agencies Combined" estimates relate to the total universe or transactions for all DoD agencies excluding DLA and AFRTS. They are based on the dollar or transaction estimates for the three agencies visited. There is no specific estimate for "Agencies Not Visited," as no sample data are available for them. However, a statistical projection across the "Other Agencies Combined" group is possisble because of the method used to select the sampled agencies for review.

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APPENDIX K. COMPARISON OF AUDIT PROJECTIONS WITH CONSOLIDATED DEFENSE AGENCY PROMPT PAYMENT REPORT

October 1, 1989, to March 31, 1990

	Per Prompt Payment Report		Audit Projection		Net Amounts (Overstated)/Understated	
	Number of Transactions	Dollar Value ($000's)	Number of Transactions	Dollar Value ($000's)	Number of Transactions	Dollar Value ($000's)
Payments subject to Prompt Payment Act 1/	1,171,332	$21,275,194	1,038,904	$5,923,085	(132,428)	($15,352,109)
Invoices paid late 2/	24,825	976,217	303,319	1,160,766	278,494	184,549
Interest penalties due	21,372	2,935	303,319	8,016	281,947	5,081
Invoices paid early	61,463	1,614,743	380,063	1,407,734	318,600	(207,009)
Number of discounts offered	1,273,403	NR 3/	188,912	NR 3/	(1,084,491)	NR 3/
Number of discounts taken	1,159,929	NR 3/	73,308	NR 3/	(1,086,621)	NR 3/
Number of discounts lost	113,474	NR 3/	115,604	NR 3/	2,130	NR 3/

(Note: Because understatements and overstatements have been consolidated in this Appendix, the figures shown do not match those shown in Appendix F.)

1/ Includes seven DoD Agencies except for the DLA Finance Center.
2/ Interest payable of $1 or more.
3/ NR = not required.

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APPENDIX L. PROJECTED MISSING OR IMPROPER RECEIVING REPORTS FOR DOD AGENCIES

October 1, 1989, to March 31, 1990

Agency	Dollar Value	Number of Transactions
Defense Logistics Agency 1/	$211,846,910	43,201
Armed Forces Radio & Television Service	0	0
Defense Mapping Agency	224,870	391
National Security Agency	*	*
Headquarters, Defense Communications Agency	28,764	5,369
Other Agencies Not Sampled	*	*
Totals	$649,652,512	226,186

1/ Excludes DLA Finance Center.

* Information relating to the organization and function of the National Security Agency has been deleted.

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APPENDIX M. SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

Recommendation Reference	Description of Benefits	Amount and/or Type of Benefit
A.1.	Internal controls and compliance with regulations. Ensure that finance and accounting offices file reports as required by DoD Manual 7220.9-M, "DoD Accounting Manual."	Nonmonetary.
A.2.	Economy and efficiency. Enhance efficiency by standardizing accounting systems to incorporate prompt payment reporting requirements.	Nonmonetary.
B.1.	Internal controls and compliance with regulations. Improve compliance with the Prompt Payment Act and reduce interest and late payment penalties.	Funds put to better use; $204 million in FYs 1992-1997. 1/
B.2.	Internal controls and compliance with regulations.	Nonmonetary.

1/ A followup audit will be planned to determine whether the implementation of this recommendation has in fact achieved compliance with the Prompt Payment Act and resulted in this magnitude of savings.

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APPENDIX N. ACTIVITIES VISITED OR CONTACTED

Defense Agencies

Defense Finance and Accounting Service, Arlington, VA
  Defense Finance and Accounting Service, Columbus Center, Columbus, OH
Defense Information Systems Agency, 1/ Arlington, VA
Defense Logistics Agency, Alexandria, VA
  Defense Depot, Ogden, UT
  Defense Distribution Region West, Tracy, CA
  Defense Industrial Supply Center, Philadelphia, PA
  Defense General Supply Center, Richmond, VA
  Defense Contract Management Region, Atlanta, GA
  Defense Contract Management Region, Philadelphia, PA
  Defense Contract Management Region, St. Louis, MO
Defense Mapping Agency, Fairfax, VA
  Defense Mapping Agency, Aerospace Center, St. Louis, MO
National Security Agency, Fort Meade, MD
American Forces Information Service, Arlington, VA
  Armed Forces Radio & Television Service, Burbank, CA

1/ Referred to elsewhere in this report as the Defense Communications Agency.

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APPENDIX O: REPORT DISTRIBUTION

Office of the Secretary of Defense

Comptroller of the Department of Defense

Department of the Army

Department of the Army, Inspector General
Assistant Secretary of the Army (Financial Management)
Auditor General, U.S. Army Audit Agency

Department of the Navy

Comptroller of the Navy
Assistant Secretary of the Navy (Financial Management)
Auditor General, Naval Audit Service

Department of the Air Force

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

Defense Agencies

Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency
Director, Defense Information Systems Agency
Director, Defense Mapping Agency
Director, Defense Nuclear Agency
Director, Defense Investigative Service
Director, National Security Agency
Director, American Forces Information Service

Non-DoD Federal Organizations

Office of Management and Budget
U.S. General Accounting Office, NSIAD Technical Information Center

Congressional Committees:

Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
Ranking Minority Member, Senate Committee on Armed Services
Senate Select Committee on Intelligence
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
Ranking Minority Member, House Committee on Appropriations

House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on Government Operations
House Permanent Select Committee on Intelligence

PART IV: MANAGEMENT COMMENTS

Comptroller of the Department of Defense

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MANAGEMENT COMMENTS: COMPTROLLER OF THE DEPARTMENT OF DEFENSE

COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON DC 20301-1100

FEB 04 1992

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: DoD Draft Audit of Defense Agencies' Compliance with Prompt Payment Procedures (Project No. OFH-3001)

The joint comments of this office and the Defense Finance and Accounting Service to the findings and recommendations in the subject draft report are attached.

The point of contact is Mr. Ken Sweitzer, DFAS-HQ/FCC. He may be reached at (703) 607-0528.

D B Shycoff

Donald B. Shycoff
Principal Deputy Comptroller

Attachment

Final Report Recommendation and Page No.	DoD Comptroller and Defense Finance and Accounting Service Comments on DoDIG Draft Audit of Defense Agencies' Compliance with Prompt Payment Procedures (Project No. OPE-3001)
7	**FINDING A.** Between October 1, 1989, and March 31, 1990, quarterly prompt payment reports submitted to the Comptroller, DoD were overstated by $16.0 billion and understated by $627.9 million. These overstatements and understatements consisted primarily of reported payments subject to the Prompt Payment Act, invoices paid late and early, and interest penalties.
	COMMENT: Concur. DFAS will issue a policy message instructing all finance and accounting offices to evaluate and improve internal controls over payment operations by issuing payments in accordance with DoD 7220.9-M (DoD Accounting Manual) requirements. Note: Based on DFAS identification of certain statistical inaccuracies, the IG Audit staff agreed to modify the statistics it developed on pages 49, 50, and 77 of the draft.
11	**FINDING B-1.** The payment of $2.6 billion was paid early or late, but not within the timeframe specified for payment for supplies and services.
	COMMENT: Concur. The DFAS will inform all finance and accounting offices to comply with the payment guidance in DoD 7220.9-M (DoD Accounting Manual). Guidance also will be provided on the establishment of quality assurance programs to assess and improve performance of payment systems.
11	**FINDING B-2.** Interest penalties on late payments, interest paid by the Government on funds borrowed to make early payments, and forfeited discounts totaled an estimated $17.0 million for the 6-month period.
	COMMENT: Concur. The DFAS will inform all finance and accounting offices of the savings and cost avoidance that could result from improved compliance with prompt payment criteria.
3	**FINDING B-3.** DoD Components were not implementing internal controls as required by the Federal Managers' Financial Integrity Act.
	COMMENT: Concur. The DFAS will emphasize to all finance and accounting offices the need to conform with existing internal control guidance in DoD 7220.9-M (DoD Accounting Manual).
Rec. A.1. 9	**RECOMMENDATION 1.** We recommend that the Comptroller of the Department of Defense direct paying offices to fully comply with the reporting requirements of the Office of Management and Budget Circular A-125 by:
	a. Using data derived form invoices to compile reports.

Final Report Recommendation and Page No.	
	b. Ensuring that finance and accounting offices accurately report all required data, such as early and late payments, discounts available and taken, and payments subject to the Prompt Payment Act.
	c. Following an approved statistical method to derive accurate data for all reported items.
	COMMENT: Concur. The Comptroller, DoD, will ask DFAS to reemphasize existing DoD 7220.9-M (DoD Accounting Manual) guidance for all reporting requirements. This re-emphasis will be part of DFAS' Prompt Payment Act compliance improvement efforts over the next 120 days.
Rec. A.2. 10	**RECOMMENDATION 2.** We recommend that the Director, Defense Finance and Accounting Service ensure that all new or enhanced accounting systems in DoD include specifications for collecting data on payments subject to the Prompt Payment Act, in accordance with reporting requirements in revised Office of Management and Budget Circular A-125.
	COMMENT: Concur. As Executive Agent for DoD financial systems, the DFAS is tasked to recommend single migration systems for each business area. Noncompliant systems will be eliminated and enhanced or new contract/vendor payment systems will include specifications for collecting required payment data.
Rec. B.1. 15	**RECOMMENDATION 3.** We recommend that the Comptroller of the Department of Defense strengthen the implementation of the Prompt Payment Act by ensuring that finance and accounting offices fully comply with quality control requirements in the Office of Management and Budget Circular A-125, Section 3.e.
	COMMENT: Concur. The Comptroller, DoD, will ask DFAS to issue guidance reemphasizing the existing policy requirements in DoD 7220.9-M (DoD Accounting Manual). The DFAS also will emphasize quality control efforts as part of this ongoing Prompt Payment Act compliance improvement effort.
Rec. B.2. 15	**RECOMMENDATION 4.** We recommend that the Director, Defense Finance and Accounting Service report material internal control weaknesses in payment operations in the Agency's Annual Statement of Assurance to the Secretary of Defense.
	COMMENT: Concur. The Agency's Annual Statement of Assurance to the Secretary of Defense will include internal control weaknesses in the payment operations which are determined by management to be material.

LIST OF AUDIT TEAM MEMBERS

Nancy L. Hendricks	Director, Financial Management
Raymond D. Kidd	Program Director
Richard A. Levine	Project Manager
Yung K. Chen	Team Leader
Sheela M. Javeri	Team Leader
Ernest R. Taylor	Team Leader
William F. Bazemore	Auditor
Robert L. Hoss	Auditor
Young J. Jin	Auditor
Ronald L. Smith	Auditor
Cordelia A. Williams	Auditor

INTERNET DOCUMENT INFORMATION FORM

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B. DATE Report Downloaded From the Internet: 05/12/99

C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #): **OAIG-AUD (ATTN: AFTS Audit Suggestions)**
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-2884

D. Currently Applicable Classification Level: Unclassified

E. Distribution Statement A: Approved for Public Release

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