



National Security and
International Affairs Division

B-278092

October 28, 1997

The Honorable Tom Harkin
United States Senate

Subject: DOD Procurement: Funds Returned by Defense Contractors

Dear Senator Harkin:

Over the past few years, we have reported on the Department of Defense (DOD) overpayments to its contractors. In response to your request, we are providing updated information on money returned to the Defense Finance and Accounting Service's (DFAS) Columbus Center by defense contractors. More specifically, we are providing information on (1) the center's process to record, research, and categorize money returned by defense contractors; (2) the dollar value of checks received since fiscal year 1993; and (3) the results of the center's research on the cause of the returned amounts.

BACKGROUND

The Columbus Center is the largest of the DOD contract payment centers. According to the center, it handles about 389,000 contracts and pays an average of about \$7 billion on about 100,000 invoices a month.

In recent years, we have reported on DOD's problems in making accurate payments to defense contractors. These reports identified millions of dollars in government overpayments, underpayments, and interest on late payments. For example, during a 6-month period in fiscal year 1993, the Columbus Center processed \$751 million in checks received from defense contractors.¹

In our February 1997 high-risk series on defense contract management, we reported that if DOD did not achieve effective control over its payment process, it would continue to risk erroneously overpaying contractors by millions of

¹DOD Procurement: Millions in Overpayments Returned by DOD Contractors (GAO/NSIAD-94-106, Mar. 14, 1994).

it would continue to risk erroneously overpaying contractors by millions of dollars and perpetuating other financial management and accounting control problems.² More recently, we reported to you on the important factors that contribute to DOD's payment problems and increase its costs.³

RESULTS IN BRIEF

The Columbus Center has a process in place to record the checks received from defense contractors and to research and categorize the reasons why the checks were received (see encl. I). This process provides the Columbus Center with a way of determining if the checks it receives are the result of factors within its control and facilitating corrective actions, if needed.

Between fiscal years 1994-96, the Columbus Center received checks from defense contractors totaling about \$1 billion a year. For the first 7 months of fiscal year 1997, the Columbus Center received checks totaling about \$559 million (see encl. II).

The Columbus Center's data show that, of the \$5.1 billion that the center received from contractors during the period of fiscal year 1993 through the first 7 months of fiscal year 1997, \$3.7 billion was attributable to factors outside of its control. These include contract administration actions, such as reductions in contract prices due to contractors' not meeting delivery dates, reallocations of costs to other contracts resulting in returned progress payments, and contract definitizations resulting in lower unit costs than previously billed by the contractor and paid by DFAS. The remaining \$1.4 billion was due to payment errors at the Columbus Center. The center's data also show that the dollar amounts of its errors have been declining, totaling \$592 million in fiscal year 1993, \$283 million in fiscal year 1994, \$252 million in fiscal year 1995, \$191 million in fiscal year 1996, and \$67 million through the first 7 months of fiscal year 1997 (see encl. III).

AGENCY COMMENTS

DOD reviewed a draft of this report. It concurred with the information in the report.

²High Risk Series: Defense Contract Management (GAO/HR-97-4, Feb. 1997).

³Contract Management: Fixing DOD's Payment Problems Is Imperative (GAO/NSIAD-97-37, Apr. 10, 1997).

SCOPE AND METHODOLOGY

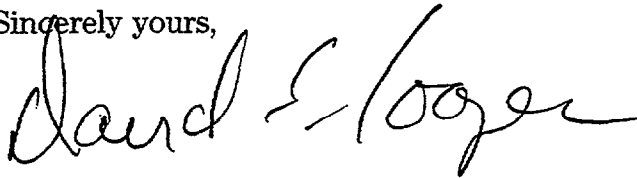
To develop information for this report, we analyzed copies of the computerized data files provided by the Columbus Center showing the amounts and reasons for checks received from defense contractors. We also interviewed personnel at the center to ascertain the process for receiving and classifying checks received. We relied on the checks received data that was provided us by the center. We did not validate the reliability or completeness of the data.

We conducted our review during July and August 1997 in accordance with generally accepted government auditing standards.

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We are providing copies of this correspondence to the Secretary of Defense; the Director, Office of Management and Budget; and other appropriate congressional committees and members. We will also make copies available to others on request.

Please contact me at (202) 512-4587 if you or your staff have any questions concerning this report. Major contributors to this report were Charles W. Thompson and John P. Ting.

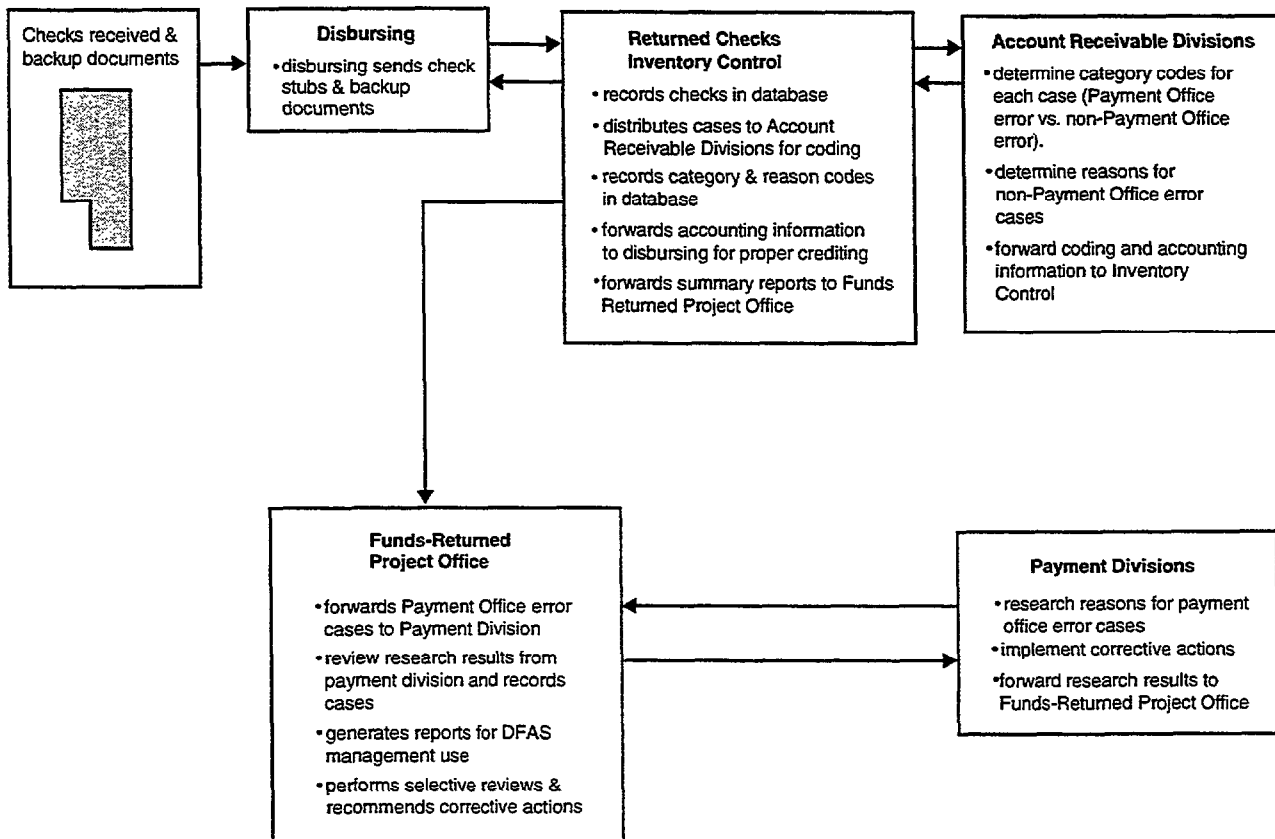
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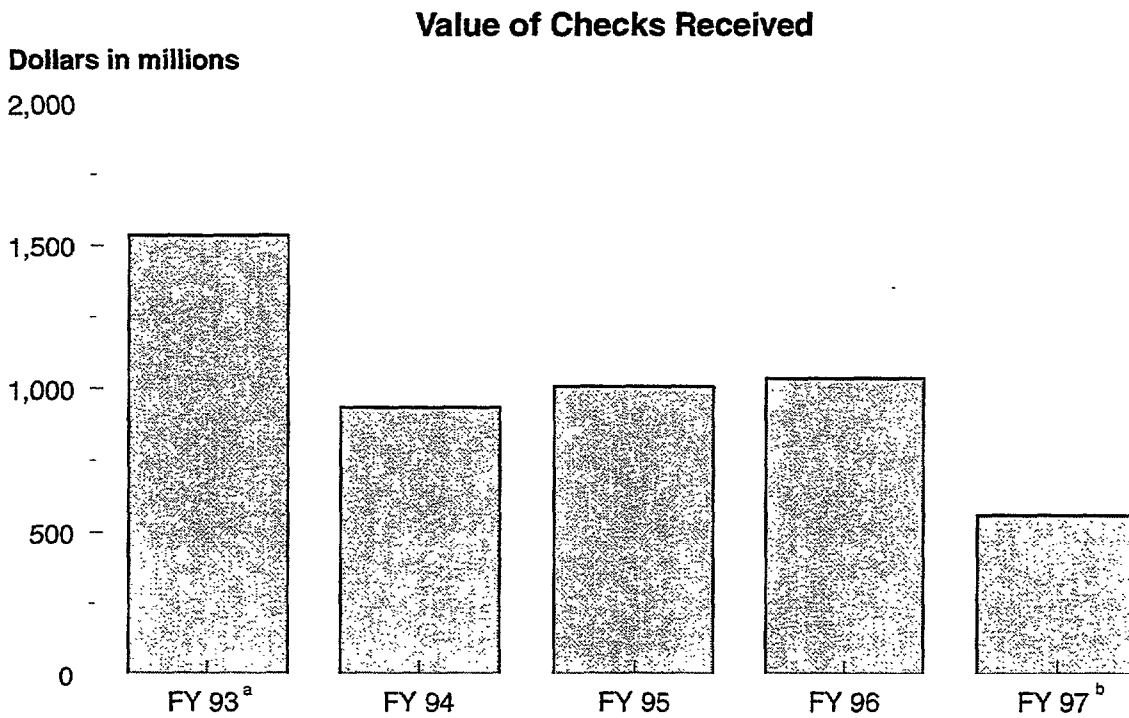
David E. Cooper
Associate Director
Defense Acquisitions Issues

Enclosures - 3

GAO DFAS Process For Recording and Categorizing Checks Received



GAO Dollar Value of Checks DFAS Columbus Received From Contractors

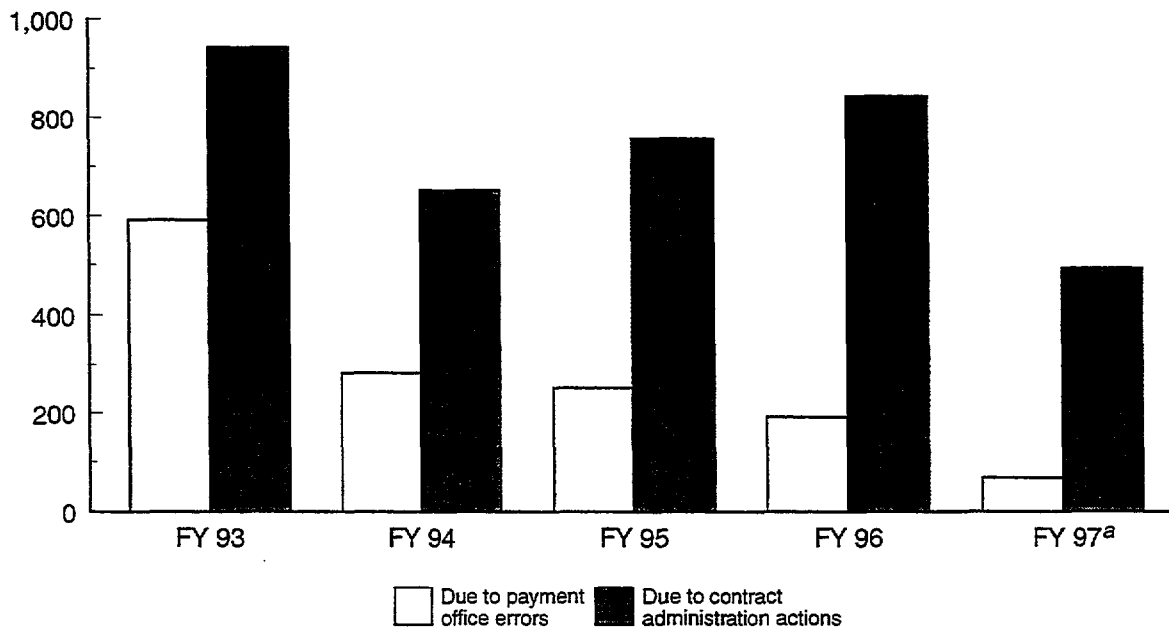


a Includes one check for \$252 million.

b Through April 1997.

GAO Reasons Why Contractors Returned Funds as Determined by DFAS Columbus

Dollars in millions



^aThrough April 1997.

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