Inspector General
United States
Department *of* Defense

Controls Over Billing Customers
and Collecting Revenue for
Work Performed at
Corpus Christi Army Depot

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Acronyms and Abbreviations

APO	Automated Parts Ordering
ATAAPS	Automated Time Attendance and Production System
CCAD	Corpus Christi Army Depot
DFAS	Defense Finance and Accounting Service
DFAS-CO	Defense Finance and Accounting Service Columbus
DFAS-RI	Defense Finance and Accounting Service Rock Island
DOF	Depot Overhaul Factor
FMR	Financial Management Regulation
FTAC	Financial Transaction Accounting Code
JV	Journal Voucher
LMP	Logistics Modernization Program
LSI	Lear Siegler Services, Inc.
PAR	Parts Analysis Report
PC	Production Controller
PM&A	Production Management and Analysis
QMD	Quantitative Methods Directorate
SIFS	Standard Industrial Fund System
SIMA	Systems Integration and Management Activity

December 16, 2008

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE
(COMPTROLLER)/DoD CHIEF FINANCIAL OFFICER
AUDITOR GENERAL, DEPARTMENT OF THE ARMY
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Report on Controls Over Billing Customers and Collecting Revenue for
Work Performed at Corpus Christi Army Depot (Report No. D-2009-033)

We are providing this report for review and comment. We considered comments from
Corpus Christi Army Depot and the Defense Finance and Accounting Service on a draft
of this report when we prepared the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The
comments from Corpus Christi Army Depot and the Defense Finance and Accounting
Service were partially responsive. Therefore, we request additional comments on
Recommendations A.4. and C.2. by January 16, 2009.

Please provide comments that conform to the requirements of DoD Directive 7650.3. If
possible, send your comments in electronic format (Adobe Acrobat file only) to
AudDBO@dodig.mil. Copies of your comments must have the actual signature of the
authorizing official for your organization. We are unable to accept the / Signed / symbol
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electronically, you must send them over the SECRET Internet Protocol Router Network
(SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to
Mr. Carmelo G. Ventimiglia at (317) 510-4801, extension 275 (DSN 699-4801) or
Mr. Stephen C. Borushko at (317) 510-4801, extension 221 (DSN 699-4801). The team
members are listed inside the back cover.

Patricia A. Marsh, CPA
Assistant Inspector General
Defense Business Operations

Results in Brief: Controls Over Billing Customers and Collecting Revenue for Work Performed at Corpus Christi Army Depot

What We Did

We evaluated the controls for billing customers and collecting revenue at Corpus Christi Army Depot (CCAD) and the Defense Finance and Accounting Service (DFAS) Rock Island.

What We Found

The controls at CCAD did not ensure that it properly billed customers for direct labor and materials. Specifically:

* Personnel did not always record employee direct labor correctly or have adequate documentation to support it.
* Supervisors did not always segregate the timekeeping duties.
* Employees did not certify the time they worked on projects.
* Supervisors did not always have adequate oversight of contract labor hours, which personnel did not always record correctly.
* Production controllers did not track material usage and did not consistently order material against the correct projects.
* Parts managers did not consistently review orders with a Depot Overhaul Factor of 0.00000 for accuracy.
* Journal voucher preparers did not always have adequate or clearly identified documentation to support cost transfers between projects.

DFAS Rock Island did not ensure that billing and collection transactions posted correctly to the general ledger. Specifically, the Standard Industrial Fund System (SIFS) incorrectly posted general ledger transactions to unearned revenue when it generated bills or received collections.

What We Recommend

We recommend that the Commander, CCAD:

* establish policies and procedures to improve the controls over recording employee and contract labor;
* establish a policy to ensure that direct materials are tracked and ordered against the projects for which they are used;
* require the use of the Automated Parts Ordering application for ordering material, except for material needed for indirect projects; and
* establish a policy to ensure that all journal vouchers are fully supported with clearly identified documentation.

We recommend that the Director, DFAS:

* modify the SIFS billing and collection Financial Transaction Accounting Codes to comply with the DoD Financial Management Regulation, and
* develop procedures to ensure that SIFS accounting transactions properly post to the general ledger.

Client Comments and Our Response

The Commander, CCAD agreed with our recommendations but did not fully address the controls established to ensure accurate recording of contract labor. The Director, DFAS Columbus disagreed with modifying the Financial Transaction Accounting Codes and partially agreed with developing procedures to ensure that general ledger transactions are properly posted. The CCAD and DFAS comments were partially responsive. We request that the Commander and the Director provide additional comments by January 16, 2009. Please see the recommendations table on the back of this page.

Recommendations Table

Client	Recommendations Requiring Comment	No Additional Comments Required
Commander, Corpus Christi Army Depot	A.4.	A.1., A.2., A.3. B.1., B.2., B.3.
Director, Defense Finance and Accounting Service Columbus	C.2.	C.1.

Please provide comments by January 16, 2009.

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Introduction

Objective

The objective was to evaluate the controls for billing customers and collecting revenue for work performed at Army Working Capital Fund maintenance depots in the Industrial Operations activity group. Specifically, we identified relevant processes and evaluated the controls for recording and accumulating direct labor and direct materials and for billing customers and collecting the resulting revenue at selected maintenance depots. This report addresses controls over billing customers and collecting revenue for work performed at Corpus Christi Army Depot (CCAD). This is the first of two reports. The second report will address controls at Tobyhanna Army Depot. See Appendix A for a discussion of the audit scope and methodology and the prior audit coverage directly related to our audit objective.

Background

Corpus Christi Army Depot

There are five maintenance depots in the Army Working Capital Fund Industrial Operations activity group: Anniston Army Depot, Alabama; Corpus Christi Army Depot, Texas; Letterkenny Army Depot, Pennsylvania; Red River Army Depot, Texas; and Tobyhanna Army Depot, Pennsylvania. The Army Materiel Command manages the maintenance depots in the Industrial Operations activity group through the Life Cycle Management Commands. CCAD reports to the Aviation and Missile Life Cycle Management Command. CCAD overhauls and repairs helicopters and related components for the Military Services and Foreign Military Sales customers. It also resets equipment returning from operations in Iraq and Afghanistan in support of the Global War on Terror.

During FY 2007, CCAD had 1,651 active overhaul and repair projects. As of September 30, 2007, the 1,651 active projects had approximately $1.7 billion of authorized funds with cumulative costs of about $1.2 billion. The cumulative costs included material, labor, and overhead. For FY 2007, CCAD generated revenue totaling about $1.1 billion from the sale of services.

CCAD charged customers a fixed-price for all programs except for cost reimbursable programs such as crash battle damage, Foreign Military Sales, and new programs for which CCAD had not established historical data. Fixed-price projects comprised approximately 63 percent (1,036) of the 1,651 active projects. CCAD established annual cost estimates for fixed-price programs to provide customers with predictable costs. For cost-reimbursable programs, CCAD charged customers for direct labor and direct materials.

Defense Finance and Accounting Service Rock Island

Defense Finance and Accounting Service (DFAS) Rock Island (DFAS-RI) (Rock Island, Illinois) was responsible for monthly, quarterly, and yearly data processing for a variety of Army Materiel Command installations. DFAS-RI performed billing and collection functions for CCAD. In July 2008, DFAS Columbus (DFAS-CO) (Columbus, Ohio) assumed this function because of an FY 2005 Base Realignment and Closure Commission recommendation.

Standard Industrial Fund System

CCAD uses the Standard Industrial Fund System (SIFS) as its accounting system. SIFS is a subsystem of the Standard Depot System. SIFS consists of five interrelated modules: Cost Accounting, General Fund, Financial Inventory Accounting, Methods and Standards, and the Automated Time Attendance and Production System (ATAAPS). These modules process, measure, and account for workforce and production costs in the Army Operating Commands, including the Aviation and Missile Life Cycle Management Command. We reviewed three modules: Cost Accounting, Methods and Standards, and ATAAPS. The Cost Accounting module accumulates costs at the project level and allows management to monitor performance on specific projects. Methods and Standards is a functional interface module that provides for the collection, evaluation, and application of operational and managerial data relating to work-hours and units of work. It provides daily labor and production accounting and daily reporting by individual and work center. It provides similar information weekly by work center. The interface module validates labor and production data through edit and control procedures. The ATAAPS module reports all hours worked on projects and the production counts associated with those projects. DFAS Indianapolis (Indianapolis, Indiana) performs SIFS program management. The Army plans to replace SIFS with the Logistics Modernization Program (LMP) system at CCAD in March 2009. The Army will not replace SIFS with the LMP system at all Army Working Capital Fund maintenance depots until FY 2010.

Cost Accumulation

The objective of cost accounting is to accumulate and record all elements of costs incurred to complete a unit of work on a specific project. In terms of depot maintenance, costs can take one of three forms: direct material, direct labor, and overhead.[1] This audit focused only on direct material and direct labor. Direct material includes all materials, such as components and parts, readily and practically identified with specific projects. This includes the cost of material used in process cost-type operations such as cleaning, plating, and painting. Direct material is of sufficiently large value to be worth charging to the job and identified as a major cost element of the finished product or service. Direct labor transforms various components into a finished product or service. The labor must be directly attributed to the project. Otherwise, the labor is indirect labor and considered overhead.

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[1] Overhead includes, but is not limited to, labor and materials that cannot be directly attributed to a specific project. These are known as indirect labor and indirect materials.

CCAD personnel, in coordination with the Army Materiel Command and the Aviation and Missile Life Cycle Management Command, conduct an annual fixed-price exercise during which cost estimates for overhaul and repair projects are determined two years in advance. Historical ordering data comprised these cost estimates. Cost estimates help determine the costs the commands can charge customers.

Finding A. Controls Over Direct Labor

Controls at CCAD did not ensure that personnel correctly recorded direct labor hours at the seven work centers that we reviewed. Specifically:

- supervisors at four work centers did not always have clearly documented support for the direct labor costs of their employees,
- timekeeping duties at one work center were not properly segregated,
- employees did not certify the time they worked on projects, and
- supervisors at three work centers did not always have adequate oversight of contract labor hours.

As a result, CCAD may have incorrectly billed customers for work performed on cost reimbursable projects. Additionally, CCAD did not have reliable data to forecast personnel requirements or estimate direct labor costs when establishing fixed-price programs. We recommend that the Commander, CCAD establish policies and procedures to improve the controls over recording employee and contract labor.

CCAD Direct Labor

DoD Financial Management Regulation (FMR), volume 4, chapter 20, "Job Order Cost Accounting," January 1995, defines direct labor as labor used to transform various components into a finished product or service. At CCAD, direct labor was used to overhaul and repair helicopters and their components for the Military Services and for Foreign Military Sales customers. During FY 2007, CCAD had 2,372 direct labor employees and 417 contract employees who charged about $162.8 million and $20.2 million, respectively, in direct labor costs to CCAD projects. At the end of FY 2007, CCAD had 108 direct labor work centers. We reviewed the controls over direct labor at seven work centers from the four CCAD primary production directorates. We identified and tested controls at five work centers, which had 238,139 direct labor hours and $10.1 million in direct labor costs. We also identified and tested controls at two work centers, which CCAD created in FY 2008. The table in Appendix B identifies the work centers that we selected and their organizational names.

DoD FMR, volume 11B, chapter 13, "Cost Accounting Requirements for Depot Maintenance," October 2002, requires a labor distribution system to charge all direct labor hours and costs to the applicable projects. CCAD uses ATAAPS to report all hours worked on projects and the production counts associated with those projects. CCAD uses historical data on direct labor to forecast personnel requirements and to estimate direct labor cost to support the planned workload.

CCAD Regulation 37-17, "Maintenance Accounting Reporting Systems Manual," November 17, 2006, provides guidance and establishes policies, procedures, and responsibilities, including definitions and requirements, for performing uniform cost accounting and reporting. The regulation requires that supervisors or timekeepers report

all costs incurred, "man-hours" expended, and report production and work unit counts related to specifically assigned project numbers designated for use in the work centers. The regulation also states that employees should report or relate all man-hours and costs incurred in accordance with the specific definitions of the assigned projects and use only those projects applicable to the functional work area or work center to which the employee is officially assigned.

Control Activities Over Direct Labor

The Government Accountability Office, "Standards for Internal Control in the Federal Government," November 1999, states that control activities help ensure that actions are taken to address risks and that they are an integral part of an entity's accountability for stewardship of Government resources and for achieving effective results. Control activities include approvals, verifications, and maintenance of records, which provide evidence of the control activities. Certain control activity categories are common to all agencies, including segregation of duties, accurate recording of transactions and events, and appropriate documentation. Management should divide key duties and responsibilities among different people to reduce the risk of error or fraud. No one person should control all key aspects of a transaction. In addition, all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. Control activities help to ensure that all transactions are completely and accurately recorded.

CCAD did not have a standard process to record direct labor, and the compensating controls developed by work center supervisors did not ensure that direct labor was accurately recorded in ATAAPS. CCAD Regulation 37-17 did not include a standard process with effective control activities to record direct labor. Specifically, control weaknesses existed at each work center in one or more of the following areas:

- recording employee labor,
- documenting employee labor,
- segregating timekeeping duties,
- certifying employee time, and
- approving and recording contract labor.

The table in Appendix C summarizes the control weaknesses by work center.

Employee Direct Labor

Recording Employee Labor
Personnel did not correctly record employee direct labor at four work centers that we reviewed. Personnel at two work centers did not record the actual hours that employees worked on individual projects. Instead, they improperly assigned the employee time among projects. At two other work centers, the direct labor charged to projects did not always agree with the source documents.

Plating Branch

The employees at the Plating Branch (first shift) frequently worked on multiple projects, which they listed on their daily timesheets. However, when the employees worked on multiple projects within the same day, they did not record the time that they worked on specific projects on their timesheets, and they did not consistently record the related operation codes.[2] This made it difficult for the timekeeper, who prepared a daily summary as the source document for entering the employee time into ATAAPS. The timekeeper generally assigned the total number of hours an employee worked to only one project, regardless of the specific projects that an employee worked on during the day. For example, on December 5, 2007, four employees listed 39 unique projects on their timesheets, but the timekeeper did not charge time to 38 projects. Instead, the timekeeper charged one employee's time to one of the seven unique projects the employee listed on his timesheet, and he charged each of the other three employees' time to projects that they did not list on their individual timesheets. During the 2-week pay period ending September 15, 2007, the same timekeeper recorded 319 direct labor hours for five employees. We compared the employees' timesheets with the time charges recorded in SIFS and identified 143 instances when the employees listed a project on their timesheets, but the timekeeper did not charge their time to the projects. In contrast, there were 10 instances during the same period when the same timekeeper charged time to projects that the employees did not list on their timesheets.

One supervisor at the Plating Branch (first shift) explained that the work center did not have the personnel that would be required to record the actual time worked on each project because of the significant number of projects that the employees may work on during the day. Employees were not always aware when projects had closed and the number of projects that the employees worked on during a day increased the complexity of the timekeeping for the projects. The supervisor also stated that the timekeeping responsibilities for the three shifts already required about 4 hours per day.

Engine Test Branch

The supervisor at the Engine Test Branch improperly charged employees' time to projects that had unused hours accumulated against them. The supervisor recorded the actual projects that the employees worked on in a daily log. However, near year-end, the supervisor charged the employees' time to projects with unused hours regardless of whether the employees worked on the projects during the day that he charged the projects. For example, during the 2-week period ending December 8, 2007, the supervisor assigned 134 hours for five employees to 12 projects that he did not record in his daily log on that day. From September 2, 2007, through September 15, 2007, the supervisor charged 157 of 269 direct labor hours for five other employees to projects that were not recorded in the daily log on that day. The supervisor explained that each unit

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[2] Operation codes are assigned to identify a specific task, operation, or standard. Employees may perform multiple tasks within the same day. For example, one employee recorded 17 unique projects and 6 different operation codes on his timesheet for December 5, 2007.

required a standard number of labor hours to complete. When a project was to be closed and fewer hours than planned were charged for employees in his work center, he charged additional direct labor hours to the projects.

DoD FMR, volume 11B, chapter 13, requires that all direct labor hours and costs be charged to the projects that benefited from the direct labor. The regulation allows the agencies to allocate employee hours to projects based upon industrially engineered standards if the employees perform similar work. The regulation also states that the labor hour allocation is to be properly adjusted for variances to arrive at the actual hours worked. However, although the regulation allows labor hours to be allocated between benefiting projects, it does not suggest that employee time can be distributed across projects without regard to when employees performed the work.

At two work centers, the direct labor charged to projects also did not always agree with the source documents. We found discrepancies with 34 hours that two UH-60/AH-64 Transmission Assembly Branch employees charged for September 2, 2007, through September 15, 2007, and 20 hours that three OH-58/AH-1W/UH-1N Transmission/Gear Box Assembly Branch employees charged for November 26, 2007, through December 8, 2007. For example, personnel charged 16 hours in ATAAPS for one employee in the UH-60/AH-64 Transmission Assembly Branch to a different project than the project recorded on the source document. The supervisor stated that she was told that she could no longer charge time to the original project and had to charge time to a different project.

Because the controls did not ensure that personnel correctly recorded employee time in ATAAPS, the direct labor charged to the projects was not always the actual hours that the employees worked on the projects. As a result, CCAD may have inaccurately charged customers. Additionally, CCAD did not always have reliable data to forecast its personnel requirements and estimate the direct labor costs. CCAD should establish a policy and implement procedures that ensure personnel charge the actual hours that employees work to the correct projects. The procedures should consider the timekeeping challenges of those work centers where employees work on numerous projects within the same day or whose time may be allocated to projects based on industrially engineered standards and the actual hours the employees worked.

Documenting Employee Labor

The supervisors in work centers used various forms of source documents to support direct labor charged by employees to projects. Source documents included timesheets, work logs, rosters, and assignment sheets. The source documents varied between the work centers because CCAD Regulation 37-17 did not require standard forms to support the employees' direct labor charges.

Supervisors at four work centers did not have source documents or the source documents lacked accurate or sufficient detail to support the direct labor hours employees worked. The Engine Test Branch supervisor did not identify the employees or the time they worked on specific projects in his daily logs. Employees in the Plating Branch (first shift) did not identify the time they worked on specific projects when they worked on

multiple projects within the same day, and the timekeeper did not always include the projects that the employees listed on their timesheets in the daily summaries that he prepared when entering the employees' time into ATAAPS. At the Cross Service Aircraft Production Branch #2, the supervisor could not provide daily job assignment sheets to support the employee labor for the week ending September 8, 2007, because he did not start using the daily job assignment sheets until after September 10, 2007. Furthermore, the supervisor of a fourth work center did not have source records for the time that employees worked on projects.

Without sufficiently detailed source documents, there was an increased risk that direct labor was inaccurately recorded and charged to customers. CCAD Regulation 37-17 did not stipulate acceptable forms of source documentation. CCAD should issue a policy that defines acceptable forms of documentation and requires supervisors to use this documentation.

Segregating Timekeeping Duties

Management in the Engine Test Branch did not properly segregate timekeeping duties at one work center. Employees did not individually record their daily time charges to projects either manually on a timesheet or in ATAAPS. Instead, the supervisor performed all timekeeping duties for the employees in his work center. The supervisor recorded the employee time and attendance as well as the projects that the employees worked on. The supervisor also entered the employee time into ATAAPS and certified that it was correct. As the only person performing the timekeeping duties, the supervisor was solely responsible for the accuracy of the labor hours entered into ATAAPS. CCAD Regulation 37-17 did not clearly define or segregate the responsibilities of personnel with timekeeping duties. CCAD should establish a policy to ensure that personnel maintain effective control through the proper segregation of timekeeping duties.

Certifying Employee Time

DoD FMR, volume 11B, chapter 13, states that supervisors have responsibility for the validity of the timekeeping records. It also states that employees are responsible for certifying that the time charged to a project is correct. DoD FMR, volume 8, chapter 2, "Time and Attendance," April 2007, also requires that employees attest to the accuracy of their time and attendance. Employees may document the attestation in writing or electronically with the employee signature or initials affirming that the information is correct.

The employees at the seven work centers did not certify the time charged to the projects or attest to the accuracy of their time and attendance. Although Plating Branch (first shift) employees listed the projects they worked on and their regular and overtime hours on daily timesheets, they did not record the time that they worked on individual projects when working on multiple projects. Employees in the Mechanical Branch entered their own regular time into ATAAPS, but they did not enter the overtime or compensatory time worked on projects. Additionally, the six supervisors that we observed certifying time did not verify the accuracy of the projects or the time charged by employees to the projects. The supervisors verified the number and the type of hours entered into

ATAAPS, such as the regular hours worked or leave taken. However, the supervisors did not compare the projects or the hours charged to the projects against source documents as part of the certification process. Because CCAD Regulation 37-17 did not require the employees to certify the time worked on individual projects, supervisors, work leaders, timekeepers, and project managers had increased opportunities to distribute or move labor hours between projects. As a result, there was a greater risk that CCAD may have inaccurately billed customers. CCAD should require employees to certify the time they worked on individual projects.

Contract Direct Labor

Supervisors did not always have adequate oversight of contract labor hours, which personnel did not always record correctly. Two contractors (Lear Siegler Services, Inc. [LSI] and L-3 Vertex Aerospace) performed direct labor on the helicopters and components at CCAD. L-3 Vertex Aerospace personnel also supported CCAD by working in the Production Management and Analysis (PM&A) Office. L-3 Vertex Aerospace personnel performed administrative tasks, such as entering contract employees' time into ATAAPS and preparing journal vouchers (JVs) to charge specific projects for the cost of contract direct labor.

Approving Contract Labor

Supervisors in three work centers lacked sufficient oversight of the contract labor charged to projects. Before the process changed in the Aircraft Production Directorate, work center supervisors were responsible for preparing timesheets for the LSI contract employees in their work centers. They sent the timesheets to the directorate office, where the timesheets were compiled into a combined time record for the directorate. The supervisor at the Cross Service Aircraft Production Branch #2 did not receive copies of the timesheets that were prepared for the LSI contract employees in his work center, and he did not review or approve the timesheets. Around November 2007, the supervisors in the directorate were given responsibility to enter the LSI contract employees' time directly into ATAAPS. The Cross Service Aircraft Production Branch #2 supervisor stated that he began to review the time entered into ATAAPS. Supervisors at the UH-60/AH-64 Transmission Assembly Branch and OH-58/AH-1W/UH-1N Transmission/Gear Box Assembly Branch in the Power Train Production Directorate did not review and approve LSI timesheets. We also determined that LSI personnel electronically mailed timesheets for contract employees in other work centers directly to the L-3 Vertex Aerospace personnel in the PM&A Office without evidence of supervisory review or approval.[3]

Recording Contract Labor

Controls did not ensure that personnel correctly recorded contract labor. We judgmentally selected eight LSI and seven L-3 Vertex Aerospace contract employees, and we reviewed 1,059 direct labor hours that 15 contract employees charged during the

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[3] The timesheets included employees in work centers other than the seven work centers at which we tested the controls over direct labor.

2 weeks ending either September 15, 2007, or December 8, 2007. Before the change in the Aircraft Production Directorate in November 2007, the directorate sent the combined time records to L-3 Vertex Aerospace personnel in the PM&A Office, who entered the contract employees' time into ATAAPS and into an Excel workbook. The L-3 Vertex Aerospace personnel also queried the data in the workbook to create JVs, which they used to charge the applicable projects and recover the cost of contract labor from the customer. We identified 36 hours worked by five LSI contract employees in the Aircraft Production Directorate that were missing from the Excel data for September 11, 2007. This occurred because the directorate did not provide its combined time record for that day in a timely manner to the PM&A Office. Additionally, when we compared the directorate's combined time record with the individual work center timesheets, we identified a total of 32 hours with differences in the projects or the type of hours that three LSI contract employees had charged. We also identified differences in 15 hours between the timesheets and the data in the Excel workbook that four contract employees had charged.

The Contract Project Manager, who was the contracting officer's representative for both the LSI and L-3 Vertex Aerospace contracts, acknowledged in February 2008 that the process lacked accountability and was inadequate for the demands placed upon it. CCAD had weak controls over contract labor because supervisors did not have formal policies or established procedures to record contract labor. As a result, the contract hours charged to the projects were not always the actual hours contractors worked, and CCAD may have inaccurately charged customers for the contract labor.

In March 2008, the Contract Project Manager standardized the process to record contract labor. He assigned supervisors the responsibility for entering the contract employees' hours into ATAAPS. His office also implemented an automated process to download data directly from ATAAPS to prepare JVs to charge the contract labor cost to the specific projects.

Certifying Contract Labor

The Contract Project Manager stated that he did not require work center supervisors to certify the contract employees' hours recorded in ATAAPS. He considered the contract employees' time to have supervisor approval when it was entered into ATAAPS. However, the supervisors at several work centers assigned the responsibility to record the time to their work leaders. Without supervisory review and approval, personnel could inaccurately record contract labor and customers could be inaccurately charged. CCAD should establish policies and procedures to accurately record contract labor. Additionally, work center supervisors should be required to certify their review and approval of contract labor because of the significant number of direct labor contract employees and their cost to CCAD.

Conclusion

Effective controls are critical elements to ensure that direct labor is recorded correctly. However, CCAD Regulation 37-17 did not establish a standard process with effective control activities over recording direct labor. As a result, CCAD did not always record

direct labor correctly, and CCAD may have incorrectly billed customers for work performed on cost reimbursable projects. Additionally, CCAD did not have reliable data to forecast personnel requirements or estimate direct labor cost when establishing fixed-price programs. The Commander, CCAD should establish policies and procedures to improve the controls over recording employee and contract labor.

Recommendations, Client Comments, and Our Response

A.   We recommend that the Commander, Corpus Christi Army Depot, amend Corpus Christi Army Depot Regulation 37-17 or establish new policies and procedures to:

1.   Establish a standard process to record employee time that segregates the responsibilities of timekeeping personnel and identifies acceptable forms of source documentation. The process should consider those work centers where employees work on multiple projects within the same day.

2.   Require employees to certify the time worked on individual projects.

3.   Require supervisors to verify that direct labor is recorded correctly.

Corpus Christi Army Depot Comments

The Commander, Corpus Christi Army Depot (CCAD) agreed and stated that CCAD is revising CCAD Regulation 37-17. The Commander stated the revised regulation will require segregating timekeeping personnel responsibilities for recording and verifying each employee's labor by project to properly account for direct labor. The regulation will contain a new requirement to use a standard format timesheet in all work centers. Employees will sign their timesheets, certifying the time worked on individual projects each day. The Commander stated that the timesheet will serve as a reliable source document to support automated direct labor project charges. The regulation will also require supervisors to verify employee hours worked on a project through a comparison of the employee's certified timesheet and the detail available in Automated Time Attendance and Production System (ATAAPS). CCAD will complete the action by January 1, 2009.

Our Response

The Commander's comments are responsive, and no additional comments are required.

4. Record contract labor accurately and require work center supervisors to certify their review and approval of the contract labor charged to projects.

Corpus Christi Army Depot Comments

The Commander, CCAD stated that CCAD completed a business process improvement effort that recommended fully automating the time accounting process, limited recording direct labor hours into ATAAPS to designated timekeepers, and standardized the timekeeping process for contractor labor hours. In March 2008, CCAD standardized the timekeeping process to allow supervisors for contract personnel to download data directly from ATAAPS and prepare journal vouchers to charge contract labor cost to the specific projects. The Commander stated this recommendation has been fully implemented.

Our Response

Although the Commander agreed with the recommendation, we consider his comments partially responsive. We acknowledge that limiting the recording of direct labor hours in ATAAPS to designated timekeepers will improve the process to record contractor time; however, this procedure alone will not ensure that contractor labor is recorded accurately. The comments also did not explain how the work center supervisors will certify their review and approval of the contract labor charged to projects. Although the work center supervisors are able to review the contractors' time in ATAAPS and are responsible for what has been entered, the comments did not address the procedures to ensure that the supervisors reviewed the time entered by the designated timekeeper. In addition, work center supervisors are not required to prepare the journal vouchers. Personnel in the Contract Project Manager Office downloaded the data from ATAAPS and prepared the journal vouchers to charge specific projects rather than the work center supervisors. As a result, this process does not ensure that the contractor time is recorded accurately in ATAAPS or that supervisors have reviewed or approved the contractor time. We request that the Commander, CCAD provide comments on the final report by January 16, 2009, addressing the specific actions that CCAD has taken to ensure that contract labor is recorded accurately and that work center supervisors certify their review and approval of the contract labor charged to projects.

Army Materiel Command Comments

Although not required to comment on the recommendations, the Executive Deputy to the Commanding General, Army Materiel Command endorsed the CCAD comments on the recommendations for finding A.

Our Response

We appreciate the Army Materiel Command comments.

Finding B. Controls Over Direct Material

Controls over ordering direct material at CCAD did not ensure that costs accumulated on depot maintenance projects were accurate. Specifically, production controllers (PCs) did not consistently order material against the correct projects, the computer systems did not always review material orders for accuracy, and some JVs did not have sufficient documentation to support cost transfers between projects. As a result, CCAD may have billed customers inaccurately for work performed on cost reimbursable projects. CCAD also did not have reliable historical data to forecast material usage requirements or estimate direct material cost when establishing fixed-price programs. We recommend that the Commander, CCAD:

- establish a policy which ensures direct material stored at work centers is tracked and ordered against the projects for which it is used,
- require personnel to use the Automated Parts Ordering (APO) application when ordering materials, and
- establish a policy that ensures JVs are reviewed and all documentation is included in the JV package.

CCAD Responsibilities

DoD FMR, volume 4, chapter 20, defines direct material as items used to produce a specific product or to perform a specific service. In FY 2007, CCAD purchased equipment, material, and supplies, valued at approximately $697.2 million, to overhaul and repair helicopters and their components for the Military Services and Foreign Military Sales customers.

CCAD PCs direct and coordinate production efforts to meet customers scheduled maintenance requirements. As of May 22, 2008, there were 110 PCs at CCAD. PCs ordered material for overhaul and repair projects using either the Systems Integration and Management Activity (SIMA) computer application or the APO Web-based application. SIMA is a menu-driven system that interfaces with the Standard Depot System. Information entered into SIMA is batch-processed into the Standard Depot System daily. CCAD began implementing APO in January 2007. APO streamlines and improves the parts ordering process. APO:

- processes information into the Standard Depot System through SIMA;

- validates the entry data quality for material to be ordered, which minimizes material order rejects;

- manages and draws down existing internally managed excess stock; and

- identifies the "Source of Supply" for the requested material.[4]

PCs used Parts Analysis Reports (PARs) to guide how they ordered material. Parts managers were responsible for approving all material orders, and they used PARs to monitor program costs. Parts managers created PARs for each project that included all material, identified by national stock number, which they expected personnel to use in completing a project. The PAR listed information about the material on the project, such as the Depot Overhaul Factor (DOF), demand codes, and unit prices. The DOF was the quantity of a particular part that the parts manager expected personnel to use in the overhaul or repair of an end item (such as a helicopter). For example, parts managers expected a project with a national stock number that had a DOF of 1.00000 to use one of those parts for each end item overhauled or repaired. For new projects, parts managers assigned the initial DOF to each national stock number listed on the PAR based on similar projects material usage and input from experienced mechanics. Parts managers were responsible for updating the DOFs as often as they determined necessary. PCs typically ordered mandatory replacement material, identified with a DOF at least equal to 1.00000, before work started on a project. PCs based the pre-order quantities on the number of end items they expected would be repaired and on the DOFs listed on the PAR. PCs ordered non-mandatory replacement material while the project was in progress, usually at a mechanic's request and without regard to the PAR. Non-mandatory replacement material had a DOF less than 1.00000. Personnel typically transferred material remaining after the project was completed to other projects that they expected would use the material.

The PM&A Office managed the JV program at CCAD. The office prepared JVs for a variety of reasons, to include transferring direct labor and material costs between projects based on errors identified during the review process. DoD FMR, volume 6A, chapter 2, "Financial Reports, Roles, and Responsibilities," March 2002, requires personnel to include sufficient documentation with all JVs so that the approving official and others, such as auditors, can understand the reason for each JV and verify that it is proper and accurate. The dollar amount of the JV must be clearly and readily identifiable within the supporting documentation. The DoD FMR further states that approval of the JV constitutes acceptance of the supporting documentation. In FY 2007, CCAD processed 1,350 JVs that explained 82 labor transfers, 1,257 material transfers, and 11 transfers of both material and labor costs. These JVs transferred approximately 39,300 total direct labor hours and $110 million of material costs. The PM&A Office checks the JVs for validity, justification, and approval signature before forwarding the JVs to the CCAD Finance and Accounting Office for processing in SIFS.

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[4] Source of Supply is defined as the Original Equipment Manufacturer partner on contract with CCAD to deliver material or the associated Source of Supply designated by the Federal Logistics database.

Ordering Material

Controls over ordering material did not ensure that PCs ordered material against the projects that used it. DFAS Indianapolis Regulation 37-1, chapter 15, "Cost Accounting," January 2000, states that accurate cost allocation requires careful cost identification to the correct periods, organizations, cost pools, and jobs. PCs should order material against the projects on which they expect personnel to use it. Of the 12 PCs we observed ordering material, 2 PCs followed practices that did not comply with DFAS Indianapolis Regulation 37-1. The two PCs kept material on hand at the work centers and replenished material used so it would be available when needed. However, the PCs did not track the material usage to a specific project and did not order based on actual usage. One of these PCs received a CCAD Form 700-11-e, "Shop Material Request," from a mechanic listing three projects that needed material. However, when the PC placed the order, he ordered material for only two of the three projects, and he ordered different quantities than what the mechanic requested for those two projects. The PC stated that he ordered material against those projects with the longest interval since he ordered against them. The other PC judgmentally determined the need for material, without a request from a mechanic, and ordered against the projects based on the expected material usage. Neither of the two PCs was able to track which projects actually used the material. Therefore, when the PCs ordered material, they were unable to determine which project used it and against which project they should order the material. Because PCs ordered materials based on elapsed time since the previous order or expected usage instead of actual usage, customers may have been charged for material that CCAD personnel did not use on their project. Furthermore, the cost estimates for overhaul and repair projects, which were based on past ordering patterns and used to set expected costs for future projects, may have been inaccurate for these two work centers because material orders were inaccurate. This could result in additional customer mischarges. CCAD should establish a policy to ensure that personnel track direct material usage and order direct material in the proper quantities against the proper projects at work centers that keep material on hand.

Order Approval and Review

Controls over material order approval at CCAD did not ensure that the material orders were necessary or for the appropriate quantities when PCs used SIMA to order material with a DOF of 0.00000. APO had systematic controls that notified parts managers that conflicts existed with the order before the system recorded the order and ordered the material. APO compared each line of the order to the parameters in the application and notified the parts managers of any orders not within the established parameters.[5] Parts managers then either processed the order after determining it was appropriate and accurate or sent the order back to the PC for verification. SIMA had the same systematic

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[5] Parameters included in APO are: (1) the person ordering material must have approval to order material, (2) material ordered must be listed on the associated PAR, and (3) the order quantity must be in line with the associated DOF. Orders placed by someone without access to the project, for material not listed on the associated PAR or for an order quantity not in line with the associated DOF, would create conflicts in APO, and the parts managers would be systematically notified.

controls; however, it did not notify parts managers about conflicts on orders for material with a DOF of 0.00000. Of the 12 PCs that we observed, 2 used SIMA to order material because they believed it was easier to use. CCAD kept SIMA available for use because SIMA processed all material orders, including those placed in APO, into the Standard Depot System. Because some PCs used SIMA to order material, SIMA may have processed, without systematic review, ordering mistakes for which APO would have alerted the parts managers. This could have led to inaccurate or excess material being charged to projects.

To better understand the extent of the problem, we selected a sample of 50 projects to review that contained 62,303 material orders placed from October 18, 2004, through November 30, 2007. During that time, 9,092 of the 62,303 lines of material ordered had a DOF of 0.00000. Of these 9,092 lines of material, 6,368 lines with a cost of $50.2 million were ordered in SIMA and were not systematically reviewed before being recorded. The other 2,724 lines of material, with a cost of $106.4 million, may have been ordered in SIMA and may not have been systematically reviewed prior to being recorded.

Because CCAD allowed PCs to order material through SIMA, CCAD did not ensure that PCs ordered material with a DOF of 0.00000 against the appropriate projects and charged the material to the correct customers. Furthermore, cost estimates to overhaul and repair projects, which were based on past ordering patterns and used to set expected costs for future projects, may have been inaccurate because orders for material with a DOF of 0.00000 were inaccurate. This could result in customer mischarges. CCAD should require personnel to use APO when ordering material to ensure that APO systematically reviews all material orders.

Journal Vouchers

Controls over JVs needed improvement to prevent unsupported JVs from being processed in SIFS. We analyzed a judgmental sample of 27 JVs prepared from October 1, 2006, through October 31, 2007, to identify whether they were valid, supported, and properly approved. Of the 27 JVs reviewed, 8 were for labor transfers, 17 were for material transfers, and 2 were for both labor and material cost transfers. In total, the 27 JVs transferred 7,113.5 direct labor hours and approximately $6.9 million of material costs between projects. Most JV documentation supported the proprietary and accuracy of the cost transfers. However, we identified three JVs (two labor JVs and one material JV) for which the documentation did not fully support the cost transfer or the dollar amounts were not clearly and readily identifiable in the supporting documentation. One labor JV and the material JV did not contain documentation to support 12 direct labor hours and $0.1 million of material costs. The other labor JV did not contain documentation that clearly identified the dollar amounts used to support the 216 direct labor hours transferred. In total, the three JVs did not contain sufficient documentation to support the transfer of 228 of the 366 direct labor hours and approximately $0.1 of the $0.7 million of material costs. As a result, funds may have been inappropriately moved between projects, which may have resulted in CCAD mischarging customers. When we performed the JV testing in December 2007, the PM&A Office was drafting guidance to ensure that the JV package contains the appropriate documentation. However, the draft

guidance did not state that the PM&A Office must ensure that the supporting documentation clearly identifies the JV dollar amount. We recommend that the Commander, CCAD establish a policy that requires the PM&A Office to review supporting documentation to ensure that the JV dollar amount is clearly identified in the JV packages.

Conclusion

Effective controls are critical elements to ensure that direct material is recorded correctly. Because CCAD controls did not always operate effectively, CCAD may have recorded direct material incorrectly and may have charged customers inaccurately for cost reimbursable programs. Additionally, CCAD did not always have reliable data to forecast its material requirements or to estimate direct material cost required to support fixed-price programs.

Recommendations, Client Comments, and Our Response

B.   We recommend that the Commander, Corpus Christi Army Depot:

**   1.   Establish a policy that ensures that personnel track direct material usage and order proper quantities of direct material against the proper project. The policy should require that work centers, that keep material in stock, track material usage to specific projects so when personnel replenish material, it can be charged to the project that used it. The policy should specify the requirements for replenishing material used by projects that have been closed.**

Corpus Christi Army Depot Comments

The Commander, Corpus Christi Army Depot (CCAD) agreed and stated that CCAD Command will reemphasize the policies found in CCAD Regulation 725-9, "Parts Requisitioning," July 3, 2007, to track direct material usage and to order proper quantities by project. The regulation requires verifying direct material information on the shop material request form with the information on the Parts Analysis Report, and that the material requested does not exceed the total program requirement. The Commander stated that parts managers, production controllers, and program managers are all involved in the checks and balances to monitor material cost and usage. They discuss material usage reports in weekly meetings and review individual non-bench stock items to resolve any issues with 0.0000 Depot Overhaul Factors. The Commander ensured compliance by January 1, 2009.

Our Response

The Commander's comments are responsive. We were unaware of CCAD Regulation 725-9 at the time of our recommendation. We have since reviewed this regulation and determined that it will meet the intent of our recommendation if fully enforced. No additional comments are required.

2.   Require personnel to use Automated Parts Ordering when ordering material, except for material needed for indirect projects.

Corpus Christi Army Depot Comments

The Commander, CCAD agreed and stated that CCAD will use Automated Parts Ordering when ordering material, except for material used on indirect Production Control Numbers that CCAD must order through the Standard Depot System. The Commander added that CCAD will no longer use Automated Parts Ordering after March 9, 2009, when CCAD implements the Logistics Modernization Program.

Our Response

The Commander's comments are responsive, and no additional comments are required.

3.   Establish a policy on reviewing journal vouchers that requires review of supporting documentation to ensure that the journal voucher dollar amount is clearly identified and included in all journal voucher packages.

Corpus Christi Army Depot Comments

The Commander, CCAD agreed and stated that CCAD Command will reemphasize the policies found in revised CCAD Regulation 37-17, "Maintenance Accounting Reporting Systems Manual," October 9, 2007, for reviews of journal voucher packages by both the Production Program Managers and the Finance and Accounting Office to ensure validity and justification. If the Finance and Accounting Office finds the journal voucher data or documentation insufficient, or does not clearly identify the total dollar amount, it will request supplemental information from the Production Management and Analysis Office or the appropriate work center. The Commander ensured compliance by January 1, 2009.

Our Response

The Commander's comments are responsive. We reviewed the revised CCAD Regulation 37-17 and determined that it will meet the intent of our recommendation if fully enforced. No additional comments are required.

Army Materiel Command Comments

Although not required to comment on the recommendations, the Executive Deputy to the Commanding General, Army Materiel Command endorsed the CCAD comments on the recommendations for finding B.

Our Response

We appreciate the Army Materiel Command comments.

Finding C. Defense Finance and Accounting Service Controls Over Billing Customers and Collecting Revenue

The controls at DFAS-RI did not ensure that SIFS posted accounting transactions to the correct general ledger accounts. Specifically, when DFAS-RI generated a bill or received a collection, SIFS incorrectly posted accounting transactions to Unearned Revenue instead of Accounts Receivable. As a result, the Accounts Receivable and Unearned Revenue general ledger accounts contained inaccurate account balances. DFAS should modify the billing and collection Financial Transaction Accounting Codes (FTACs) in SIFS to comply with the DoD FMR. DFAS should also develop procedures to ensure that SIFS billing and collection accounting transactions properly post to the general ledger.

DFAS-RI Responsibilities

DFAS-RI performed the billing and collection functions for CCAD. DFAS-RI billed and collected payments from CCAD customers for work performed on overhaul and repair projects. DFAS-RI generated bills twice a month that included accumulated costs for the labor, material, and overhead charged to a project. (Collections are payments received for those billings.) DFAS-RI processed bills and collections through either the Operational Data Store or Interdepartmental Payment and Collection system. These systems interfaced with SIFS, and DFAS-RI used them to send bills to customers and to receive collections from customers. When a billing or collection transaction occurred, SIFS posted the accounting transactions to the general ledger. DFAS-RI was responsible for ensuring that SIFS posted billing and collection accounting transactions to the correct general ledger accounts. In FY 2007, DFAS-RI processed bills for 2,299 projects, valued at approximately $1.1 billion, to bill and collect for goods and services that CCAD provided.

General Ledger Transactions

The SIFS general ledger captures financial information useful for decision making and meeting external reporting requirements. The U.S. Government Standard General Ledger Chart of Accounts supports both proprietary and budgetary accounts and classifies them by general ledger account code. FTACs[6] are four-digit codes used within SIFS to automatically post billing and collection transactions to the general ledger accounts. The proprietary accounts used during the billing and collection process were Accounts Receivable, Revenue from Services Provided, Fund Balance with Treasury, and Advances from Others (Unearned Revenue).

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[6] The FTACs used for billing were 3101, 3102, 3105, 3116, 3128, 3142, and 3151. The FTACs used for collections were 3500 and 3520.

Accounts Receivables are claims to cash or other assets against another entity and are established at the time revenue is recognized if payment has not been received in advance. Revenues are amounts earned from normal operations and normally result from the sale of, or reimbursement for, goods and services. Fund Balance with Treasury is the aggregate amount of funds in the entity's accounts with the U.S. Treasury from which the entity is authorized to make expenditures and pay liabilities. The Fund Balance with Treasury of a working capital fund is primarily increased through the receipt of reimbursements from DoD and other entities for work performed on projects. Unearned Revenue is the amount received in advance for goods and services delivered at a future date.

Bill and Collection Posting

DoD FMR, volume 4, chapter 3, "Receivables," April 2007, states that when payment is not received in advance or at the time revenue is recognized, a receivable should be recorded. DoD FMR, volume 11B, chapter 11, "Reimbursements and Revenue Recognition," October 2002, states that the following accounting entry should be made to recognize revenue upon partial completion of work on customer projects accepted without advance payment:

> Debit 1310 Accounts Receivable
> Credit 5200 Revenue from Services Provided

SIFS did not post the correct accounting transactions to the general ledger when DFAS-RI generated bills. We reviewed 46 sample projects, with a total billed value of approximately $966.8 million, and found that SIFS incorrectly posted the entire billed amounts to Unearned Revenue instead of Accounts Receivable. We found that the billing FTACs used for all 46 sample projects generated the following accounting entry:

> Debit 2310 Advances from Others (Unearned Revenue)
> Credit 5200 Revenue from Services Provided

DoD FMR, volume 11B, chapter 11, states that this accounting entry is to be used to recognize revenue upon partial completion of work on customer projects accepted with advance payment. CCAD had not received an advance payment on any of the 46 sample projects; therefore, SIFS should have debited the billed amounts to Accounts Receivable instead of Advances from Others (Unearned Revenue). We reviewed all the FTACs DFAS-RI used for billings and found that SIFS did not populate Accounts Receivable because the billing FTACs were not set up correctly. As a result, DFAS-RI misstated the balances of Unearned Revenue and Accounts Receivable in the general ledger by the amount that DFAS-RI had billed and not collected. As of February 29, 2008, the uncollected billed amount was approximately $52.9 million.

DoD FMR, volume 11B, chapter 4, "Fund Balance with Treasury, Receivables, Advances, and Cash Management," May 2005, states that collections may be caused by advances from outside sources, performance of reimbursable work, collection of receivables, sale of assets, and other sources. DoD FMR, volume 4, chapter 3, states that

the performing entity should ensure that the accounting system records collection vouchers in the month they receive collections. The accounting entry to record a collection of an Accounts Receivable without an advance is:

> Debit 1010 Fund Balance with Treasury
>   Credit 1310 Accounts Receivable

SIFS did not post the correct the accounting transactions to the general ledger when DFAS-RI received a collection. For the 46 sample projects we reviewed, SIFS incorrectly posted the entire collected amount, approximately $966.8 million, to Unearned Revenue instead of Accounts Receivable. On each project, we determined that the collection FTACs generated the following accounting entry:

> Debit 1010 Fund Balance with Treasury
>   Credit 2310 Advances from Others (Unearned Revenue)

DoD FMR, volume 11B, chapter 4, states that this entry is used to record advance payments. DFAS-RI did not receive payments in advance; therefore, SIFS should have credited the collected amounts to Accounts Receivable. This occurred because the collection FTACs were not set up correctly in SIFS. However, because the billing FTAC incorrectly posted the billed amounts to Unearned Revenue, the collections received correctly reduced the amount entered in Unearned Revenue. DFAS needs to modify the SIFS billing and collection FTACs to comply with the DoD FMR.

Financial Reporting

DFAS-RI did not have sufficient controls in place to ensure that it accurately reported SIFS general ledger accounts. For reporting purposes, SIFS systematically transferred the uncollected debit balance in the Unearned Revenue account to Accounts Receivable at month end because the system incorrectly debited the billing transactions and credited the collection transactions to Unearned Revenue. However, SIFS did not transfer the entire amount from Unearned Revenue at the end of each month. For example, on February 29, 2008, SIFS transferred approximately $52.9 million to Accounts Receivable. A credit balance of approximately $3.3 million remained in Unearned Revenue. We reviewed 20 projects that accounted for approximately $3.2 million of the $3.3 million credit balance to determine whether each of these projects received advance funding and should have had a credit balance in Unearned Revenue. We found that the $3.2 million credit balance in Unearned Revenue on these 20 projects did not represent advances from others. Instead, the entire amount represented over collections and credit bills that SIFS should have transferred to Accounts Receivable.[7] This occurred because DFAS-RI did not comply with the DoD FMR and used the Unearned Revenue account instead of Accounts Receivable to record the billings and collections. Therefore, as of

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[7] An over collection occurs when the amount collected is greater than the amount billed. A credit bill is generated when a cost transfer occurs or when authorized funds are reduced and funds previously collected need to be returned to the customer.

February 29, 2008, DFAS-RI misstated the Unearned Revenue and Accounts Receivable balances in the general ledger by $3.2 million. DFAS needs to develop procedures to ensure that SIFS posts over collections and credit bills to Accounts Receivable.

Conclusion

DFAS-RI did not have controls in place to ensure that bills generated and collections received posted to the correct general ledger accounts within SIFS in accordance with the DoD FMR. The billing and collection FTACs that SIFS used to post accounting transactions to the general ledger incorrectly adjusted the Unearned Revenue account instead of the Accounts Receivable account. Although SIFS systematically transferred the debit balance in the Unearned Revenue account to Accounts Receivable, it did not transfer the entire amount from Unearned Revenue at month end. The lack of sufficient controls resulted in misstated general ledger account balances for Accounts Receivable and Unearned Revenue.

Recommendations, Client Comments, and Our Response

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

**   1.   Modify the Standard Industrial Fund System billing and collection Financial Transaction Accounting Codes to comply with the DoD Financial Management Regulation.**

Defense Finance and Accounting Service Comments

The Director, Defense Finance and Accounting Service Columbus (DFAS-CO) disagreed and stated that due to the scheduled migration from the Standard Industrial Fund System to the Logistics Modernization Program (LMP) at Corpus Christi Army Depot (CCAD) in March 2009, DFAS cannot modify the Standard Industrial Fund System billing and collection Financial Transaction Accounting Codes (FTACs). The Director stated that changing the FTACs will create major accounting and reconciliation problems within the Standard Industrial Fund System and in the report preparation process. The logic the system uses to create files for reports would have to be changed and would involve far more than just a simple change to the FTAC account correlations. The Director stated that the current DFAS-CO process is to research remaining balances and post the transactions to the correct general ledger accounts. The Director stated that once CCAD has implemented LMP, the process will be compliant with the DoD Financial Management Regulation.

Our Response

The Director's comments are responsive. Based on further discussions with DFAS personnel about the nature and extent of required system logic changes and the imminent system migration to LMP, we agree that the FTACs should not be modified. The

Director stated that DFAS-CO has a process in place to research remaining balances and post transactions to the correct general ledger accounts until the scheduled migration to LMP.

2. Develop procedures to ensure that Standard Industrial Fund System posts billing and collection accounting transactions to the correct general ledger accounts.

Defense Finance and Accounting Service Comments

The Director, DFAS-CO partially agreed and stated that, because of system limitations, compensating controls are in place to ensure the correct general ledger accounts are updated. Instead of developing new procedures, DFAS-CO currently researches remaining balances and corrects the general ledger accounts with system generated Standard Forms 1080, "Voucher for Transfer Between Appropriations and/or Funds;" manually generated Standard Forms 1081, "Voucher and Schedule of Withdrawals and Credits;" systematic file fixes; and write-offs that CCAD identifies.

Our Response

The Director's comments are partially responsive. The compensating controls in place at DFAS-CO include additional procedures that were not in place at DFAS Rock Island. DFAS-CO monitors and researches transactions that remain in the Unearned Revenue account after the month-end transfer. Over collections are identified and returned to the customer. However, credit bills remain in Unearned Revenue. As a result, the Accounts Receivable and Unearned Revenue general ledger accounts still contain inaccurate account balances. To avoid populating LMP with incorrect general ledger account balances, DFAS-CO needs to ensure that these accounts are accurately reported before the Army further deploys LMP. We request that the Director, DFAS-CO provide comments on the final report by January 16, 2009, stating how DFAS plans to address the credit bills that remain in Unearned Revenue and ensure accurate CCAD account balances in the Unearned Revenue and Accounts Receivable general ledger accounts when the Army migrates from the Standard Industrial Fund System to LMP.

Appendix A. Scope and Methodology

We conducted this performance audit from April 2007 through September 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provided a reasonable basis for our findings and conclusions based on our audit objectives.

Scope of Review

We identified and tested controls over the accumulation of direct labor and direct material costs at CCAD and controls over the billing and collection processes at DFAS-RI. We also used a sample of customer projects at CCAD and DFAS-RI to test the application of controls. We did not trace the cost of direct labor and direct materials to the actual customers because of the significant time and effort it would have taken.

We identified controls at CCAD and DFAS-RI from July to October 2007. We tested these same controls and performed sample tests at CCAD in December 2007 and February 2008. We performed tests of internal controls and sample tests at DFAS-RI in February 2008.

Review of Internal Controls

We identified internal control weaknesses at CCAD and DFAS-RI as defined by DoD Instruction 5010.40, "Managers' Internal Control (MIC) Program Procedures," January 4, 2006. Specifically, CCAD did not have effective internal controls for recording and oversight of direct labor and for ordering direct materials including:

- a standard method of recording and entering employee labor, including employee certifications;
- procedures to ensure that projects were charged for the time worked and time worked was appropriately allocated between projects;
- a policy and instructions on recording and entering contractor labor;
- a policy to ensure that CCAD personnel ordered materials and subsequently charged material against the correct project;
- procedures to ensure that material orders with a DOF of 0.00000 were systematically reviewed; and
- a policy to ensure that CCAD personnel reviewed JVs for supporting documentation included in JV packages.

Additionally, DFAS did not have procedures to ensure that SIFS billing and collection accounting transactions properly posted to the correct general ledger accounts. Because we did not trace the cost of direct labor and direct materials to actual customers, we are uncertain as to the extent of these problems. However, these problems could be material. Implementing Recommendations A.1., A.2., A.3., A.4., B.1., B.2., and B.3. will improve

CCAD labor recording and certification procedures, material ordering procedures, and JV preparation and review procedures. Implementing Recommendations C.1. and C.2. will improve the ability of DFAS to properly record Accounts Receivable and Unearned Revenue.

Audit Sample Selection

The parameters for the universe of CCAD projects from which we drew an audit sample were:

- all projects initiated before October 1, 2005, that were open at any time between October 1, 2005, and April 30, 2007;
- all projects initiated from October 1, 2005, through April 30, 2007, that were still open on April 30, 2007; and
- all projects that were both opened and closed between October 1, 2005, and April 30, 2007.

CCAD personnel provided a universe of 3,883 projects valued at approximately $3.4 billion. We provided this universe to the Quantitative Methods Directorate (QMD), Office of the Deputy Inspector General for Policy and Oversight, which generated a sample size of 249 projects in five strata. The five strata were segregated based on the initial dollar value of each project.

We subsequently reduced the sample size to 50 projects because of the amount of time required to test controls over cost accumulation, billing, and collection. We reviewed the first 50 projects in a sequentially numbered sample list provided by QMD. Each project that we reviewed was in the high dollar value strata. This scope reduction precluded us from projecting audit results. However, it still allowed us to thoroughly test cost accumulation controls at CCAD and billing and collection controls at DFAS-RI.

Tests of Controls

To understand the basis for the billings for work performed at CCAD, we identified and tested how CCAD personnel established and approved projects at the depot, how they recorded direct labor and direct materials charged to projects, and how they prepared and approved JVs to transfer costs from one project to another. At DFAS-RI, we tested how DFAS-RI established bills based on the costs accumulated in SIFS, how they posted accounting entries to the general ledger for billings and collections, and how accountants monitored collections and resolved aged receivables. We also reviewed DoD and local regulations and policies governing proper procedures. We compared the observed practices with prescribed procedures. See Appendix B for a detailed discussion of the control tests we performed.

Tests of the Audit Sample

At CCAD, we tested the application of the identified controls for material ordering against a sample of 50 projects. The 50 projects contained 62,303 material orders. For

the sampled projects, we also tested how DFAS-RI established bills, posted bills and collections, and processed collection receipts. See Appendix B for a detailed discussion of the tests of the audit sample tests we performed.

Use of Computer-Processed Data

We relied on computer-processed data from SIFS to identify the audit universe of customer projects at CCAD. We also used SIFS data to test the application of controls on the audit sample. Assuring ourselves that SIFS processes did not adversely affect the data would have required a comprehensive evaluation of general and application controls. Because the Army will be replacing SIFS with the LMP system at CCAD in March 2009, we did not perform such an audit. Therefore, we recognize and accept the inherent limitations of SIFS and its system controls in ensuring that billing and collection data were accurate and complete. Not evaluating the reliability of SIFS data did not adversely affect our conclusions regarding the CCAD and DFAS-RI controls over billing and collection processes and procedures.

Use of Technical Assistance

QMD provided technical assistance throughout the sample selection process. We provided QMD personnel with the audit universe of CCAD projects from SIFS. QMD used the universe of CCAD projects to select a sample of projects that we used to test controls at CCAD and DFAS-RI. When we decided to deviate from a statistical sample, we coordinated with QMD personnel, and they provided us with a numbered sequential listing of all sample projects that we could use for sample testing and advised us on how to use the listing. We did not project the results of our review of the sample projects to the audit universe.

Prior Coverage

During the last 5 years, the Government Accountability Office (GAO) issued two reports discussing customer billings and revenue collection at Army Working Capital Fund maintenance depots. Unrestricted GAO reports can be accessed over the Internet at http://www.gao.gov.

GAO

GAO-05-441, "Ineffective Oversight of Depot Maintenance Operations and System Implementation Efforts," June 30, 2005

GAO-04-615, "Billions Continue to be Invested with Inadequate Management Oversight and Accountability," May 27, 2004

Appendix B. Control and Sample Testing

CCAD Tests of Controls

To test controls over how projects were established, we observed how CCAD personnel established projects in SIFS and compared what we observed to supporting documentation provided by CCAD personnel. We reviewed the first 16 projects established in FY 2008 to verify whether CCAD personnel established projects correctly in SIFS. We verified that the project numbers contained the correct codes based on local guidance and the authorized funding and accounting information were correctly entered into SIFS.

To test controls over how program managers approved projects, we observed how program managers identified projects needing approval and identified how they verified that the information was accurate and complete. We reviewed the four CCAD projects available for acceptance from December 3, 2007, through December 13, 2007. We verified that the project cost and number of units CCAD would complete agreed with the information in SIFS.

To test controls over direct labor, we judgmentally selected seven work centers that performed direct labor at CCAD. We selected the work centers from the four primary production directorates in order to review a cross-section of CCAD work centers. The selected work centers performed inspection, repair, overhaul, surface treatment, and aircraft and components testing. The table identifies the seven work centers and the four directorates that we reviewed.

Selected Work Centers

Organizational Name	Work Center	Directorate
Cross Service Aircraft Production Branch #2	526C0	Aircraft Production
Weapons/Fire Control Branch	529C0	Aircraft Production
Mechanical Branch	534C0	Components Production
Plating Branch (first shift)	552A0	Manufacturing/Process Production
Engine Test Branch	543B0	Power Train Production
UH-60/AH-64 Transmission Assembly Branch	544D0	Power Train Production
OH-58/AH-1W/UH-1N Transmission/Gear Box Assembly Branch	544J0	Power Train Production

We observed how personnel with timekeeping duties entered the hours worked by CCAD employees into ATAAPS, and we observed how work center supervisors certified the time charges for the work performed. We judgmentally selected 30 CCAD employees from six of the seven work centers and requested documentation to support employee time charges for one of two pay periods. For the 2-week pay periods either ending September 15, 2007, or December 8, 2007, we compared information in the source

documentation, in ATAAPS, and in SIFS on the projects that employees worked on and the hours charged to the projects. We had to limit our analysis of information for five employees from the Cross Service Aircraft Production Branch #2 work center for September 4, 2007, through September 10, 2007, because the supervisor was not able to provide time records for this period. We also were unable to perform an analysis for five additional employees from the Mechanical Branch work center because the supervisor did not have source records for the time that employees worked on projects. We also judgmentally selected eight LSI and seven L-3 Vertex Aerospace contract employees and compared the projects and number of hours from timesheets, combined time records from the Aircraft Production directorate, and data from the Excel workbooks used to prepare the JVs for the same 2-week periods. We were not able to calculate the value of the errors in recording the CCAD employee direct labor, and we did not quantify the impact of the errors upon customer billing. Consequently, we limited our evaluation to the effectiveness of the controls over recording CCAD and contract employees' direct labor.

To test controls over ordering material, we interviewed 12 PCs, representing 11 different work centers, and observed them ordering material. We compared each order with supporting documentation, such as the PAR, to determine the accuracy of the Production Control Number, national stock number, and quantities ordered. We also interviewed and observed two material expeditors receiving material into a material storage area. We compared the material received to the DD Forms 1348, "Issue Release/Receipt Documents," to determine whether the national stock numbers and quantities received were the same as those ordered. Further, we verified that CCAD personnel accurately charged the material received during our observations to projects on the monthly accounting records. We limited our evaluation to the effectiveness of the controls over recording direct material. We were not able to calculate the value of the errors in recording direct material, and we did not quantify the impact of the errors upon customer billing.

To test controls over JVs, we reviewed JVs prepared at CCAD to determine whether they were properly prepared and approved. We judgmentally selected 27 JVs prepared from October 1, 2006, through October 31, 2007. We verified that they were adequately supported and were authorized and approved at the proper level. We also verified that funding was available on the project that the funds were transferred to.

DFAS-RI Tests of Controls

We tested the controls over bills generated for CCAD projects. For the 867 projects billed during the 2-week billing cycle ending February 15, 2008, we verified that the bills were loaded correctly into the DFAS Operational Data Store and the Interdepartmental Payment and Collection system. The DFAS-RI technician and accountant responsible for CCAD projects used these systems to review the bills for accuracy and to provide the customer with the bill. We verified that the technician reviewed the bills for accuracy and the accountant certified the bills for payment in both systems.

To test the controls over posting bills and collections, we reviewed the accounting transactions that SIFS posted to the general ledger when DFAS-RI generated a bill and

received a collection. We judgmentally selected 27 projects billed during the billing cycle ending February 15, 2008, and determined whether the billed amount for each project posted to the correct general ledger accounts. We also determined whether the collected amount for each of the 867 projects posted to the correct general ledger accounts.

We also reviewed how the DFAS-RI accountant responsible for CCAD monitored collections and resolved aged receivables. We reviewed the eight projects that the January 2008 B34M27 Accounts Receivable report identified as delinquent to determine whether DFAS-RI had taken action to resolve the outstanding debt. Additionally, we reviewed the February 28, 2008, B34M27 report and determined whether the delinquent receivables were aged correctly. We also reviewed 20 projects with a credit balance in the Unearned Revenue general ledger account as of February 28, 2008, to determine whether DFAS-RI received payments in advance.

CCAD Tests of the Audit Sample

To determine whether controls over material ordering were operating as designed, we identified all material orders on the monthly accounting reports from October 18, 2004, through November 30, 2007, for each of the sample projects and compared the material orders to what personnel should have ordered based on the project's PAR. Specifically, we determined whether the parts manager listed the ordered material on the project's PAR. If listed on the PAR, we determined whether the quantities ordered were more than 10 units and 10 percent higher than the quantities needed as indicated by the DOF on the PAR. We conducted site visit interviews based on the results of this analysis and attempted to determine the causes of the identified variances.

DFAS-RI Tests of the Audit Sample

For 25 sample projects, we verified that SIFS posted the budget accounting transactions before generating the first bill. We did not perform these two tests on the other 25 sample projects because we did not identify any problems with the first 25 sample projects.

To test controls for bill and collection posting, we reviewed all the accounting transactions from each sample project from project inception through October 31, 2007. We determined whether SIFS posted the accounting transactions to the correct general ledger accounts when DFAS-RI generated a bill or received a collection. Only 46 of the 50 sample projects contained at least one bill and collection during the period.

To test controls for collection receipt, we reviewed the billed and collected amounts recorded in SIFS from project inception through October 31, 2007, for 25 sample projects. We determined whether DFAS-RI collected the billed amounts in full and attributed the collection to the correct project in SIFS. We verified that the monthly

B34M27 Accounts Receivable Report identified any uncollected amounts. We did not perform the test on the final 25 sample projects because we did not identify any problems with the first 25 sample projects.

Appendix C. Control Weaknesses Over Direct Labor

Control activities over direct labor were not always effective at the seven work centers that we reviewed. Control weaknesses existed at each work center in one or more of the following areas. The table summarizes the control weaknesses by work center.

Control Weaknesses by Work Center

Work Center	Areas of Control Weakness				
	Recording employee labor	Employee labor documentation	Segregation of timekeeping duties	Employee time certification	Contract labor approval
Cross Service Aircraft Production Branch #2		X		X	X
Weapons/Fire Control Branch				X	
Mechanical Branch		X		X	
Plating Branch (first shift)	X	X		X	
Engine Test Branch	X	X	X	X	
UH-60/AH-64 Transmission Assembly Branch	X			X	X
OH-58/AH-1W/UH-1N Transmission/ Gear Box Assembly Branch	X			X	X

Corpus Christi Army Depot Comments

DEPARTMENT OF THE ARMY
CORPUS CHRISTI ARMY DEPOT
308 CRECY STREET
CORPUS CHRISTI TX 78419-6211

AMSAM-CC-CO   29 September 2008

MEMORANDUM THRU *HR*

Commander, U.S. Army Aviation and Missile Life Cycle Management Command,
   ATTN: AMSAM-IR, Sparkman Center, Bldg 5302, Redstone Arsenal, AL 35898-5000
Commander, U.S. Army Materiel Command, ATTN: AMCIR, 9301 Chapek Road,
   Fort Belvoir, VA 22060-5527

FOR Inspector General, Department of Defense, 400 Army Navy Drive, Arlington, VA
22202-4704

SUBJECT: Command Reply to DODIG Draft Report on Controls Over Billing Customers and
Collecting Revenue for Work Performed at Corpus Christi Army Depot (Project No. D2007-
D000FI-0164.000)

1. Reference memorandum, DODIG, 29 Aug 08, Subject: Report on Controls Over Billing
Customers and Collecting Revenue for Work Performed at Corpus Christi Army Depot (Project
No. D2007-D000FI-0164.000) (Encl 1).

2. We have reviewed and concur with the facts, conclusions, and recommendations in the draft
report at Encl 1. Our command comments to the draft report are at Encl 2. E-mail from DODIG
granting extension to 14 Oct 08 for command reply is at Encl 3.

3. The POC for this action is Sandra March, DSN 861-2960/2713 or Commercial 361-961-
2960/2713, or e-mail sandra.march@us.army.mil.

3 Encls
as

JOE D. DUNAWAY
COL, AV
Commanding

Command Comments
DODIG Draft Report
Controls Over Billing Customers and Collecting Revenue
for Work Performed at Corpus Christi Army Depot

Finding A. Controls Over Direct Labor

Recommendation A. We recommend that the Commander, Corpus Christi Army Depot, amend Corpus Christi Army Depot Regulation 37-17 or establish new policies and procedures to:

A.1. Establish a standard process to record employee time that segregates the responsibilities of timekeeping personnel and identifies acceptable forms of source documentation. The process should consider those work centers where employees work on multiple projects within the same day.

CCAD Response: Concur. The Corpus Christi Army Depot (CCAD) has taken action to revise CCAD Regulation 37-17, "Maintenance Accounting Reporting Systems Manual" dated 9 October 2007. The revised regulation will require the segregation of timekeeping personnel responsibilities in recording and verifying each employee's labor by project to properly account for direct labor. The internal control known as "Separation of Duties" means that only designated timekeepers should record time to projects because work center supervisors will perform the verification of recorded direct labor hours later in the process to determine if the records are correct and should not review time the same person recorded. In addition, the revised regulation will require the use of a standard format timesheet in all work centers to provide a reliable source document to support recorded direct labor to each project. The CCAD will ensure compliance by 1 January 2009.

A.2. Require employees to certify the time worked on individual projects.

CCAD Response: Concur. The Corpus Christi Army Depot (CCAD) has taken action to revise CCAD Regulation 37-17, "Maintenance Accounting Reporting Systems Manual" dated 9 October 2007. The revised regulation will contain a new requirement to use a standard format timesheet in all work centers. Each employee will sign their timesheet thereby certifying the time worked on individual projects each day. The timesheet will serve as a reliable source document to support automated direct labor project charges. The CCAD will ensure compliance by 1 January 2009.

A.3. Require supervisors to verify that direct labor is recorded correctly.

CCAD Response: Concur. The Corpus Christi Army Depot (CCAD) has taken action to revise CCAD Regulation 37-17, "Maintenance Accounting Reporting Systems Manual" dated 9 October 2007. The revised regulation will require supervisors to verify the number of hours each employee worked on a project through a comparison of the employee's certified timesheet and the detail available in the Automated Time Attendance and Production System (ATAAPS).

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ATAAPS can provide a report by employee name that shows the hours worked daily on each project. The CCAD will ensure compliance by 1 January 2009.

A.4. Record contract labor accurately and require work center supervisors to certify their review and approval of the contract labor charged to projects.

CCAD Response: Concur. The Corpus Christi Army Depot (CCAD) has taken action to revise CCAD Regulation 37-17, "Maintenance Accounting Reporting Systems Manual" dated 9 October 2007. CCAD completed a business process improvement effort in January 2008 that recommended fully automating the time accounting process; limited recording direct labor hours into ATTAPS to designated timekeepers; and standardized the timekeeping process for contractor labor hours. In March 2008 the process was standardized to allow supervisors of contract personnel to download data directly from ATAAPS and prepare journal vouchers to charge the contract labor cost to the specific projects. This recommendation has been fully implemented.

Finding B: Controls Over Direct Material

Recommendation B. We recommend that the Commander, Corpus Christi Army Depot:

B.1. Establish a policy that ensures that personnel track direct material usage and order proper quantities of direct material against the proper project. The policy should require that work centers, that keep material in stock, track material usage to specific projects so when personnel replenish material, it can be charged to the project that used it. The policy should specify the requirements for replenishing material used by projects that have been closed.

CCAD Response: Concur. CCAD Command will reemphasize the policies found in CCAD Regulation 725-9, Parts Requisitioning, dated 3 July 2007 to track direct material usage and order proper quantities by project. The established regulation requires verification of the direct materials information on the shop material request form with the information on the Parts Analysis Report (PAR), and that the material requested does not exceed the total program requirement. Also, CCAD has multiple layers of checks and balances in place to monitor material cost and usage and Parts Managers, Production Controllers, and Program Managers are all involved in this process. Material usage reports are discussed in weekly meetings and non-bench-stock items are also reviewed individually for need, to alleviate any issues with 0.0000 Depot Production Factors. The CCAD will ensure compliance by 1 January 2009.

B.2. Require personnel to use Automated Parts Ordering when ordering material, except for material needed for indirect projects.

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Command Comments
DODIG Draft Report
Controls Over Billing Customers and Collecting Revenue
for Work Performed at Corpus Christi Army Depot

CCAD Response: Concur. CCAD agrees to use the Automated Parts Ordering system when ordering material, except for material used on indirect Production Control Numbers that must continue to be ordered through the Standard Depot System. This recommendation has been fully implemented; however, the Automated Parts Ordering system will no longer be in use after March 9, 2009, when the Logistics Modernization Program is implemented at CCAD.

B.3. Establish a policy on reviewing journal vouchers that requires review of supporting documentation to ensure that the journal voucher dollar amount is clearly identified and included in all journal voucher packages.

CCAD Response: Concur. We acknowledge that some journal vouchers were not properly reviewed, lacked supporting documentation and procedures were not followed as stated in CCAD Regulation 37-17, "Maintenance Accounting Reporting Systems Manual" dated 9 October 2007, Chapter 2, "Accounting Policies and Principals", Section 2-5. "Procedures and Processes", Paragraph o. 1. (a) "Cost Listings, Ledgers, and etc." requires:

"(a) Labor man-hours and cost transactions, which reject due to invalid JO/PCN, work center, operations code, data entry errors, etc., will be referred back to the appropriate work center supervisor for corrections".

CCAD Command will reemphasize the established procedures for reviews of journal voucher packages by both the Production Program Managers and by the Accounting Division to ensure their validity and justification. If the Accounting Division finds the journal voucher data or documentation is insufficient, or does not clearly identify the total dollar amount, Accounting Division will first contact the Production Management and Analysis Office for supplemental information and process the journal voucher if possible. If the required information can not be provided, Accounting Division will return the journal voucher package to the appropriate work center. The CCAD will ensure compliance by 1 January 2009.

Defense Finance and Accounting Service Comments

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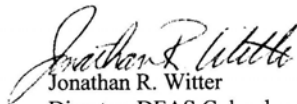P.O. BOX 182317
COLUMBUS, OHIO 43218-2317

DFAS-JBI/CO

OCT 1 4 2008

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL AND DIRECTOR DEFENSE
FINANCIAL AUDITING SERVICE

SUBJECT: Management Comments to the Department of Defense Inspector General
Draft Audit Report, "Controls Over Billing Customers and Collecting
Revenue for Work Performed at Corpus Christi Army Depot," Project Number
D2007-D000FI-0164.000, dated April 5, 2007

In accordance with subject draft audit report, management comments to
Recommendations C.1 and C.2 are attached.

My point of contact for additional information is Ms. Tanitia Brown, DFAS-JBI/CO, at
614-693-0401 or DSN 869-0401.

Jonathan R. Witter
Director, DFAS Columbus

Attachment:
As stated

Management Comments to the Department of Defense Inspector General Draft Audit Report "Controls Over Billing Customers and Collecting Revenue for Work Performed at Corpus Christi Army Depot," Project Number D2007-D000FI-0164.000, dated April 5, 2007

Recommendation C.1: We recommend that the Director, Defense Finance and Accounting Service, modify the Standard Industrial Fund System billing and collection Financial Transaction Accounting Codes to comply with the DoD Financial Management Regulation.

Management Comments: Non-Concur. Due to the system migration to Logistics Modernization Program (LMP), we cannot modify the Standard Industrial Fund System (SIFS) billing and collection Financial Transaction Accounting Codes (FTAC). SIFS is scheduled to migrate to LMP at Corpus Christi Army Depot (CCAD) in March 2009, at which time the process will be compliant with the DoD Financial Management Regulation (FMR). The current report preparation process for SIFS is underlined by the presumption that revenue and collections post to the unearned revenue account and then get transferred to accounts receivable at month end. Changing the FTAC's will create major accounting and reconciliation problems within SIFS and in the report preparation process. The logic the system uses to create files for reports would have to be changed, and would involve far more than just a simple change to the FTAC account correlations. Our current process is to research remaining balances and post the transactions to the correct general ledger accounts, which is an interim compensating control until the scheduled migration to LMP. We consider this recommendation closed.

Estimated Completion Date: This recommendation is considered closed

Recommendation C.2: We recommend that the Director, Defense Finance and Accounting Service, develop procedures to ensure that Standard Industrial Fund System posts billing and collection accounting transactions to the correct general ledger accounts.

Management Comments: Partially Concur. Due to system limitations we have compensating controls in place that ensure the correct general ledger accounts are updated. Standard Industrial Fund System (SIFS) is migrating to Logistics Modernization Program (LMP) in March 2009. In lieu of developing new procedures, the current process is to research remaining balances and correct the general ledger accounts with system generated Standard Form (SF) 1080s, manually generated SF 1081s, systemic file fixes, and write-offs identified by Corpus Christi Army Depot (CCAD). We consider this recommendation closed.

Estimated Completion Date: This recommendation is considered closed

Army Materiel Command Comments

DEPARTMENT OF THE ARMY
HEADQUARTERS, U.S. ARMY MATERIEL COMMAND
9301 CHAPEK ROAD
FORT BELVOIR, VA 22060-5527

REPLY TO
ATTENTION OF:

26 OCT 2008

AMCIR

MEMORANDUM FOR Inspector General, Department of Defense, ATTN: Mr. Stephen Borushko, 400 Army Navy Drive, Arlington, VA 22202-4704

SUBJECT: DODIG Draft Report on Controls over Billing Customers and Collecting revenue for Work Performed at Corpus Christi Army Depot (D2007-D000FI-0164.000) (D0714)

1. The U.S. Army Materiel Command (AMC) has reviewed the subject draft report and the enclosed comments from the Commander, Corpus Christi Army Depot (CCAD). The AMC endorses the CCAD comments.

2. The AMC point of contact is Mr. Tilden Jio, (703) 806-9021/DSN 656-9021 or email: tilden.jio@conus.army.mil.

Encl

KATHRYN A. CONDON
Executive Deputy to the
Commanding General

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